

**CUTS Dossier on Preferential Trade Agreements and India
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1. Japan, UAE conclude free trade negotiations

Japan and the United Arab Emirates have concluded negotiations for a Comprehensive Economic Partnership Agreement (CEPA), marking Japan's first trade pact with a Middle Eastern country. The agreement reflects Japan's strategic push to deepen economic ties with the Gulf region and secure greater access to the UAE's expanding market. A key feature of the pact is the phased elimination of UAE tariffs on Japanese automobiles within seven years, strengthening Japan's competitive position against South Korean automakers, whose own UAE agreement has yet to enter into force.

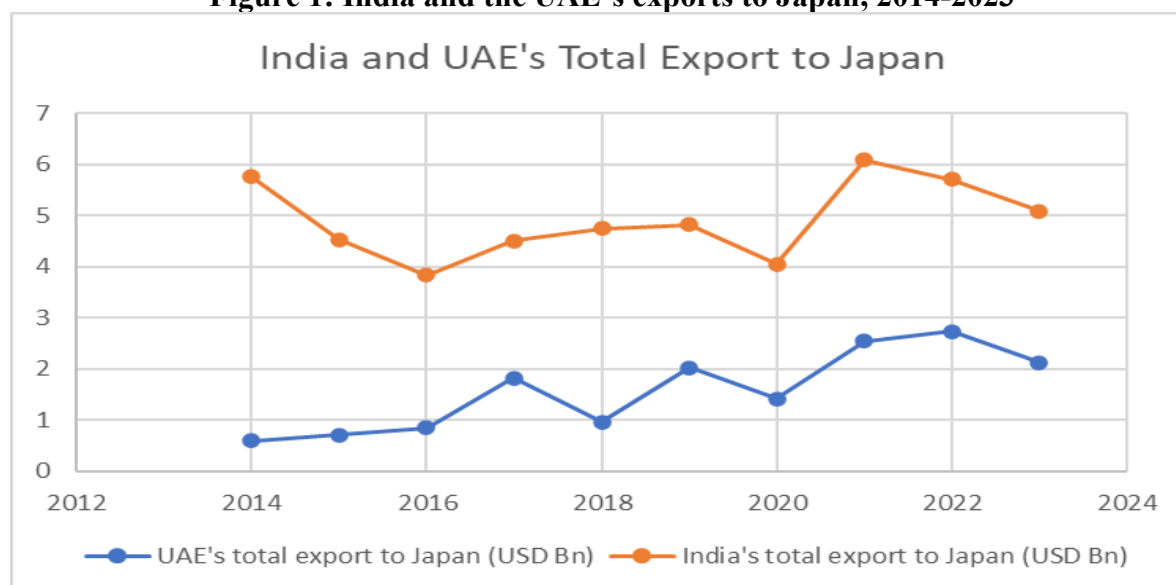
<https://www.bilaterals.org/?japan-uae-conclude-free-trade>

CUTS Comments

a) Impact on India's exports to Japan

India's exports to Japan remained consistently higher than the UAE's during 2014-2023, fluctuating between US\$ 4-6 billion. After a decline until 2016, exports recovered, dipped in 2020 due to the pandemic, and peaked in 2021 before easing slightly. UAE exports, though much lower, showed a gradual upward trend with some fluctuations, peaking around 2022. Overall, India maintained a stronger export position than that of the UAE.

Figure 1: India and the UAE's exports to Japan, 2014-2023



Source: CUTS computations using data from WITS

Petroleum oil and unwrought aluminium are the only two commonly traded export items from the top 10 exports list of both countries to Japan. India's other key export items to Japan include floating or submersible drilling or production platforms, frozen shrimps and prawns, non-industrial diamonds, ferrosilicon manganese, iron ores and concentrates, herbicides, and turbo-jets. Together, they contribute approximately 39 percent of India's total exports to Japan.

UAE’s key exports to Japan include filtering or purifying machinery, motor cars and other motor vehicles, parts and accessories of motor vehicles, copper waste and scrap, and new pneumatic tyres, of rubber, for motor cars, constituting about 73 percent of its total exports to that country.

The impact of this FTA on India’s exports can be better analysed using the Finger-Kreinin Index (FKI) and the Relative Export Competitive Pressure Index (RECPI) (see Annexure I). The FKI measures the similarity in the goods exported by two countries to an importing market. The RECPI measures the degree of competitive pressure faced by one country (exporter) from another country (exporter) when they export their common products to a third market (importer).

Table 1.A shows that India’s FKI value with the UAE in the Japan market increased from 0.156 in 2019 to 0.216 in 2021. It indicates rising competitive overlap between the two countries. However, the index declined slightly after 2021, which suggests some moderation in competition. Table 1.B indicates that RECPI with the UAE rose significantly in the Japanese market, especially after 2020, reaching above 0.5 in 2022 and 2023. This reflects growing export competition between India and the UAE in Chile across similar product categories.

Table 1.A: India’s FKI with UAE in the Japanese Market					
Competitor	2019	2020	2021	2022	2023
UAE	0.156	0.185	0.216	0.204	0.193
Table 1.B: India’s RECPI with UAE in the Japanese Market					
Competitor	2019	2020	2021	2022	2023
UAE	0.217	0.190	0.283	0.542	0.523
<i>Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level</i>					

Our SMART analysis was conducted to check the trade diversion India might face if Japan allows the UAE to export its goods at zero duty under the FTA. This indicated that a number of Indian exports to Japan, such as Black Tea, Tea Extracts, Worn Clothing, and Waterpipe (Shisha) Tobacco, would be adversely affected.

Table 2: Trade Diversion likely to be experienced by India in the Japanese market

Product Code	Description	Trade Diversion (Thousand US\$)
090230	Black Tea	39.90
210120	Tea Extracts, Essences and Concentrates	23.86
630900	Worn Clothing and Other Used Articles	6.65
240311	Waterpipe (Shisha) Tobacco	3.57
150410	Fish Liver Oils and Their Fractions	2.67
390230	Propylene Copolymers	0.83
620342	Men's or Boys' Cotton Trousers and Shorts	0.59
071340	Lentils, Dried Shelled	0.57
391729	Plastic Tubes, Pipes and Hoses (Other)	0.30
071320	Chickpeas (Garbanzo Beans), Dried Shelled	0.26

Source: CUTS computations using WITS SMART analysis tool

Food for Thought

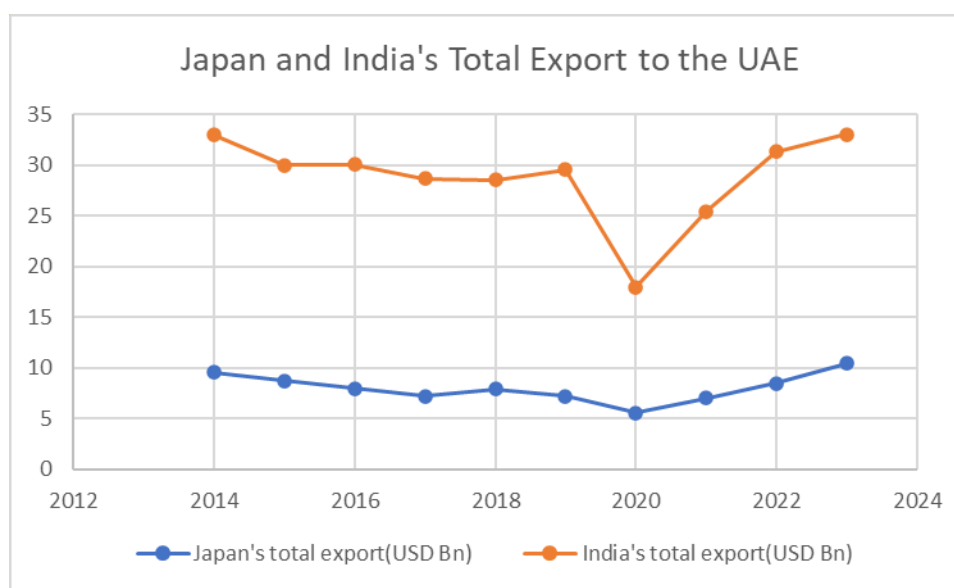
Although India maintains a significantly larger export presence in Japan than the UAE, the Japan-UAE CEPA could intensify competition in product categories where the two countries' export baskets overlap. The rising RECPI values indicate growing competitive pressure from the UAE, while the SMART analysis points to potential trade diversion in products such as black tea, tea extracts, and worn clothing. However, the relatively low FKI values suggest that the overall similarity between the two countries' exports to Japan remains limited.

India already benefits from the India-Japan Comprehensive Economic Partnership Agreement, yet exports to Japan increased only modestly from US\$ 5.6 billion in 2011 to US\$ 6.1 billion in 2021. This shows the challenge of low FTA utilisation by Indian exporters. In light of the preferential access being extended to the UAE, India may need to improve the utilisation of its existing trade agreements, address market-access barriers, and enhance export competitiveness to safeguard and expand its position in the Japanese market.

b) Impact on India's exports to UAE

India consistently exported much more to the UAE than Japan between 2014 and 2023. Both countries experienced a gradual decline in exports until 2018-2019, followed by a sharp drop in 2020 due to the COVID-19 pandemic. However, exports recovered strongly thereafter. India reached a record high of around US\$ 33 billion, and Japan exceeded US\$ 10 billion by 2023. Overall, India maintained a substantially larger export presence in the UAE market.

Figure 2: India and Japan's Exports to the UAE, 2014-2023



Source: CUTS computations using data from WITS

India and Japan do not share any common top exported products in the UAE market. Key exports of India's basket to UAE include articles of jewellery, petroleum oils and oils obtained from bituminous minerals, diamonds, semi-milled or wholly-milled rice, telephones for cellular networks or for other wireless networks, light-vessels, fire-floats, floating cranes and other special purpose vessels. These constitute approximately 54 percent of its total exports to the UAE market.

Japan's key exports also include motor cars and other motor vehicles, goods transport motor vehicles, parts and accessories of motor vehicles, new pneumatic tyres, of rubber, for buses or lorries, parts and accessories of printing machinery, etc., which constitute approximately 52 percent of its total exports to the UAE.

Tables 3.A and 3.B present India's competitive relationship with Japan in the UAE market using the Finger-Kreinin Index (FKI) and the Relative Export Competitive Pressure Index (RECPI). The FKI values remain low, ranging from 0.070 to 0.093 during 2019-2023. It indicates limited overlap between India's and Japan's export baskets in the UAE market. Although the FKI increased slightly in 2020, it remained below 0.10 throughout the period. This trend suggests that the two countries largely export different products to the UAE. Similarly, the RECPI values are extremely low, which implies very weak competitive pressure from Japan on India's exports in the UAE market.

Table 3.A: India's FKI with Japan in the UAE Market					
Competitor	2019	2020	2021	2022	2023
Japan	0.070	0.093	0.085	0.090	0.085

Table 3.B: India's RECPI with Japan in the UAE Market					
Competitor	2019	2020	2021	2022	2023
Japan	0.002	0.005	0.003	0.002	0.003

Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level

Our SMART analysis indicates that if the UAE imports from Japan at zero duties under the FTA, then India is likely to experience trade diversion in the UAE market due to increased competition. The highest potential diversion is seen in motor cars, self-propelled excavators, buses, motor vehicle parts and accessories respectively.

Table 4: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (Thousand US\$)
870322	Motor Cars (1000–1500 cc)	3877.95
870323	Motor Cars (1500–3000 cc)	3664.04
842952	Self-Propelled Excavators	2322.33
870210	Buses	2070.45
870899	Motor Vehicle Parts and Accessories	1724.16
720839	Flat-Rolled Iron or Steel Products	1663.27
870410	Dumpers for Off-Highway Use	917.23
720838	Flat-Rolled Iron or Steel Products	765.82
401120	Bus and Lorry Tyres	682.30
720837	Flat-Rolled Iron or Steel Products	430.48

Source: CUTS computations using WITS SMART analysis tool

Food for Thought

India enjoys a substantially stronger export position in the UAE market than Japan, and the two countries exhibit very limited overlap in their export baskets, as reflected in the consistently low FKI values. The negligible RECPI values further indicate that Japan currently exerts minimal competitive pressure on Indian exports in the UAE market. This suggests that India and Japan largely cater to different segments of UAE demand, reducing the likelihood of broad-based competition.

However, the proposed Japan-UAE CEPA could alter competitive dynamics in specific sectors. The SMART analysis indicates that India may face trade diversion primarily in the automotive and engineering sectors, including motor cars, buses, excavators, vehicle parts, tyres, and steel products, where Japan possesses strong export capabilities.

The India-UAE CEPA, implemented in May 2022, has given a strong boost to bilateral trade in recent years. Since its signing, total trade has almost doubled - from US\$ 43.3 billion in 2020-21 to US\$ 83.7 billion in 2023-24. India's non-oil exports to the UAE rose sharply to US\$ 27.4 billion, with major gains in sectors like smartphones, machinery, and gems and jewellery. While India's overall export presence in the UAE is unlikely to be significantly affected, preferential market access for Japanese products could erode India's market share in these product categories.

2. Mexico, South Korea move closer to bilateral free trade agreement

Mexico and South Korea are accelerating efforts to conclude a bilateral free trade agreement (FTA) aimed at deepening economic cooperation, reducing tariffs, and providing greater certainty for businesses. Momentum has increased following high-level parliamentary discussions in Mexico, with lawmakers pledging support for advancing negotiations. The two countries, which have maintained diplomatic ties since 1962 and a strategic partnership since 2005, currently trade about US\$ 24.5 billion annually. South Korea has urged Mexico to resume FTA talks and support its accession to the Pacific Alliance. Mexican legislators also have expressed strong backing for closer economic and institutional cooperation.

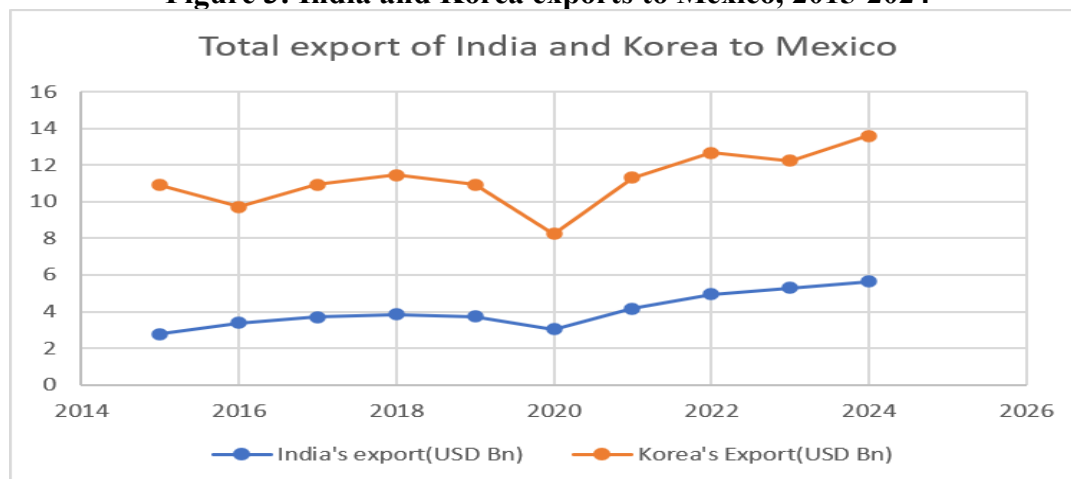
<https://mexicobusiness.news/trade-and-investment/news/mexico-south-korea-move-closer-bilateral-free-trade-agreement>

CUTS Comments

a) Impact on India's exports to Mexico

South Korea's exports to Mexico remained consistently higher than India's during 2014-2023. Exports of both countries, as expected, dipped in 2020 due to the pandemic, and increased thereafter to the highest ever value in 2024. India's exports, though much lower, showed a similar gradual upward trend with some fluctuations. Overall, Korea maintained a stronger export position in Mexico than India.

Figure 3: India and Korea exports to Mexico, 2015-2024



Source: CUTS computations using data from WITS

Motor vehicle parts and accessories, passenger cars, and mobile phones are the most commonly traded export items on the top 10 export lists of both countries to Mexico. India's other key export items to Mexico include aluminium, unwrought (both alloyed and not alloyed), motorcycles, packaged medicaments for retail sale, ceramic flags, paving, hearth or wall tiles (other). Together, they contribute approximately 43.9 percent of India's total exports to Mexico.

South Korea’s key exports to Mexico include parts for transmission, radar, television equipment, optical appliances and instruments (including LCDs), flat-rolled iron/steel, zinc-coated (galvanized), special purpose vessels (dredgers, floating docks/cranes), parts for spark-ignition internal combustion engines, cold-rolled iron/steel (0.5mm to 1mm thickness), motor vehicle body parts and accessories (including cabs) constituting about 27.33 percent of its total exports to that country.

Table 5.A shows that India’s FKI value with South Korea in the Mexican market increased from 0.188 in 2020 to 0.281 in 2024. It implies the export baskets of the two economies are becoming more similar. Table 5.B indicates that RECPI with the South Korea rose significantly in the Mexican market, from 0.291 in 2020, reaching to 0.920 in 2024. This reflects growing strong direct export competition between India and the South Korea in Mexico across similar product categories.

Table 5.A: India’s FKI with South Korea in the Mexican Market					
Competitor	2020	2021	2022	2023	2024
South Korea	0.188	0.204	0.200	0.276	0.281
Table 5.B: India’s RECPI with South Korea in the Mexican Market					
Competitor	2020	2021	2022	2023	2024
South Korea	0.291	0.393	0.342	0.739	0.920
<i>Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level</i>					

Our SMART analysis was conducted to check the trade diversion India might face if Mexico allows South Korea to export its goods at zero duty under the FTA. This indicated that a number of Indian exports to Mexico, such as passenger motor cars, flat-rolled iron/steel products, industrial machines and mechanical appliances, painted/coated flat-rolled steel products, parts for spark-ignition engines, refrigeration and air-conditioning compressors, polyethylene terephthalate (PET) film, and other plastic articles and products would be adversely affected.

Table 6: Trade Diversion likely to be experienced by India in the Mexican market

Product Code	Description	Trade Diversion (Thousand US\$)
870323	Passenger Motor Cars (1500–3000 cc)	6832.13
870322	Passenger Motor Cars (1000–1500 cc)	1462.03
720916	Flat-Rolled Iron/Steel Products (>1 mm)	605.24
720917	Flat-Rolled Iron/Steel Products (<1 mm)	384.72
847989	Industrial Machines & Mechanical Appliances	352.47
721070	Painted/Coated Flat-Rolled Steel Products	217.49
840991	Parts for Spark-Ignition Engines	167.44
841430	Refrigeration & Air-Conditioning Compressors	167.33
392062	Polyethylene Terephthalate (PET) Film	135.38
392690	Other Plastic Articles and Products	125.27
<i>Source: CUTS computations using WITS SMART analysis tool</i>		

Food for Thought

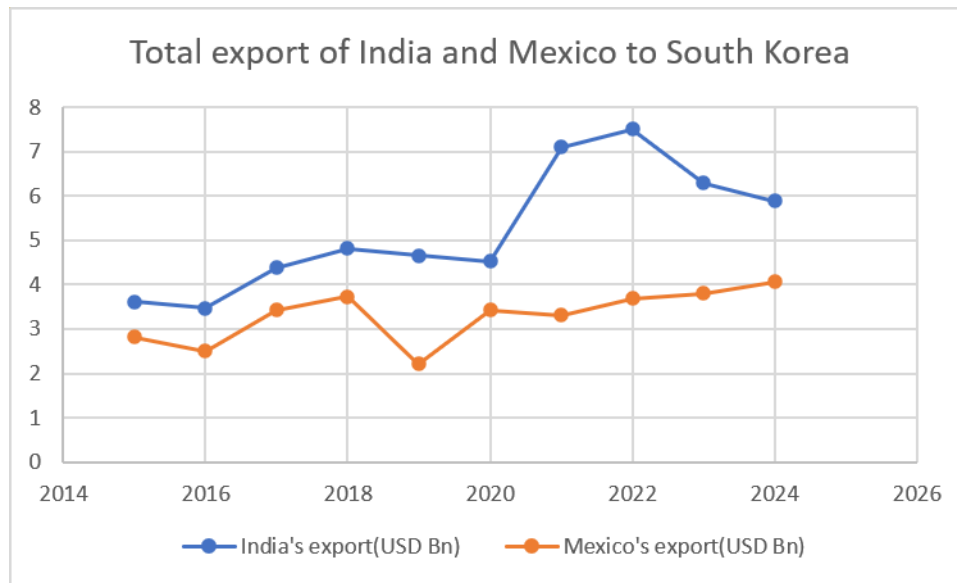
India faces a growing risk of losing market share in Mexico amid two significant developments: Mexico’s decision to impose additional tariffs of up to 50 percent on selected Indian imports from January 2026 and the prospect of a Mexico- South Korea FTA. South Korea already maintains a stronger export presence in Mexico, particularly in automobiles, auto components, machinery, steel products, and other heavy industrial goods. The rising Export Similarity Index (FKI) and RECPI values indicate that India and South Korea are increasingly competing in the same product categories. Consequently, higher tariffs on Indian goods, coupled with preferential market access for South Korean exports, could further erode India’s competitiveness in the Mexican market.

The potential impact is especially significant for automobiles and heavy industrial products. SMART analysis suggests that Indian exports such as passenger vehicles, flat-rolled steel products, industrial machinery, engine parts, compressors, and plastic products are vulnerable to substantial trade diversion if South Korean products receive duty-free access under an FTA. The new Mexican tariffs will further increase the landed cost of Indian exports, putting additional pressure on exporters already facing intense competition. In this context, an India-Mexico FTA could become important for safeguarding India’s market access, offsetting tariff disadvantages, and ensuring a level playing field. Such an agreement would help mitigate potential export losses while strengthening India’s long-term commercial presence in one of Latin America’s most important markets.

b) Impact on India's exports to South Korea

India consistently exported much more to South Korea than Mexico between 2015 and 2024. India faced a sluggish period during 2018-20. Thereafter, it kept increasing till 2022, followed by a decline. On the other hand, Mexico did show a noticeable increase in 2019-20, but growth remained moderate after that. Overall, India maintained a substantially larger export presence in the South Korean market.

Figure 4: India and Mexico's Exports to South Korea, 2015-2024



Source: CUTS computations using data from WITS

India and Mexico share only one common top exported product in the South Korea market - light oils and preparations (motor spirit/gasoline). Key exports of India's basket to the South Korean market include aluminium unwrought, turbo-jets, ferro-chromium, refined lead unwrought, oil-cake and other solid residues of rape or colza seeds, petroleum oils (other than crude); heavy oils and preparations, unwrought zinc, wheat and meslin, refined copper cathodes and sections of cathodes. They constitute approximately 47.50 percent of its total exports to the South Korean market.

Mexico's key exports to the South Korean market include crude petroleum oil, lead ores and concentrates, zinc ores and concentrates, vehicle gearboxes and parts, passenger cars (1500-3000cc), diesel passenger cars (1500-2500cc), gold ores and concentrates, copper scrap, copper ores and concentrates, which constitute approximately 77.27 percent of its total exports to South Korea.

Tables 7A and B present India's competitive relationship with Mexico in the South Korea market using the Finger-Kreinin Index (FKI) and the Relative Export Competitive Pressure Index (RECPI). The FKI values remain low, ranging from 0.045 to 0.047 during 2020-2024. It indicates limited overlap between India's and Mexico's export baskets in the South Korean market. The FKI remained below 0.10 throughout the period. This trend suggests that the two countries largely export different products to the South Korean market.

Similarly, the RECPI values are extremely low. It implies very weak competitive pressure from Japan on India's exports in the UAE market. Overall, the results indicate that India and Mexico are not significant direct competitors in the South Korean market, with only a small degree of export similarity and competitive interaction.

Table 7.A: India's FKI with Mexico in the South Korean Market					
Competitor	2020	2021	2022	2023	2024
Mexico	0.045	0.034	0.035	0.043	0.047
Table 7.B: India's RECPI with Mexico in the South Korean Market					
Competitor	2020	2021	2022	2023	2024
Mexico	0.004	0.001	0.001	0.003	0.007
<i>Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level</i>					

Our SMART analysis indicated that if South Korea imports from Mexico at zero duties under the FTA, then India is likely to experience trade diversion in the Mexican market due to increased competition. The highest potential diversion is seen in plant extracts, essential oil concentrates, salt, motor vehicle parts, vehicle seat belts and engine parts (spark-ignition).

Table 8: Trade Diversion likely to be experienced by India in the South Korean Market

Product Code	Description	Trade Diversion (Thousand US\$)
130219	Vegetable saps and extracts, n.e.s. (other plant extracts)	724.02
330190	Concentrates of essential oils; aqueous distillates and solutions; terpenic by-products	563.51
250100	Salt (including table salt and denatured salt), pure sodium chloride, sea water	425.42
870899	Parts and accessories of motor vehicles, n.e.s.	286.20
870821	Safety seat belts for motor vehicles	236.38
840991	Parts suitable for use solely or principally with spark-ignition internal combustion piston engines	195.75
870840	Gear boxes and parts thereof for motor vehicles	156.42
840734	Spark-ignition reciprocating piston engines, cylinder capacity exceeding 1,000 cc	149.89
320300	Colouring matter of vegetable or animal origin and preparations based thereon	142.73
293410	Compounds containing an unfused thiazole ring (whether or not hydrogenated) in the structure	121.36
<i>Source: CUTS computations using WITS SMART analysis tool</i>		

Food for Thought

India's position in the South Korean market remains relatively strong compared to Mexico, but it is largely based on a narrow set of differentiated industrial and resource-based exports rather than deep structural integration. The overlap between India and Mexico's export baskets in South Korea is still limited, so direct competition has so far been weak. However, this situation is unlikely to remain static if Mexico deepens its trade integration with South Korea through a free trade agreement. Given Mexico's strong global competitiveness in automobiles, machinery, and mineral-linked products, preferential access could gradually shift demand away from Indian suppliers in several overlapping industrial segments.

Therefore, the ongoing negotiations to upgrade India-Korea CEPA become strategically critical. As South Korea expands its network of FTAs, India risks facing relative preference erosion unless it secures stronger and more modernised market access. The proposed focus on digital trade, supply chain cooperation, and industrial collaboration is therefore not just expansionary but defensive in nature. Strengthening CEPA is essential for India to preserve its export foothold in Korea, prevent gradual displacement in key industrial products, and ensure it is not sidelined in a rapidly reconfiguring Asian trade architecture.

3. Philippines to finalize free trade agreement with EU

The Philippines and the EU are expected to conclude negotiations for a Free Trade Agreement (FTA) by June or July 2026, following significant progress in the fifth round of talks held in Brussels. Key areas of advancement include SPS measures, technical barriers to trade, government procurement, intellectual property, digital trade, and competition policy. The next round will focus on market access for goods, services, investments, and procurement. While negotiations may conclude this year, the agreement is expected to be formally signed in 2027 after legal review and translation.

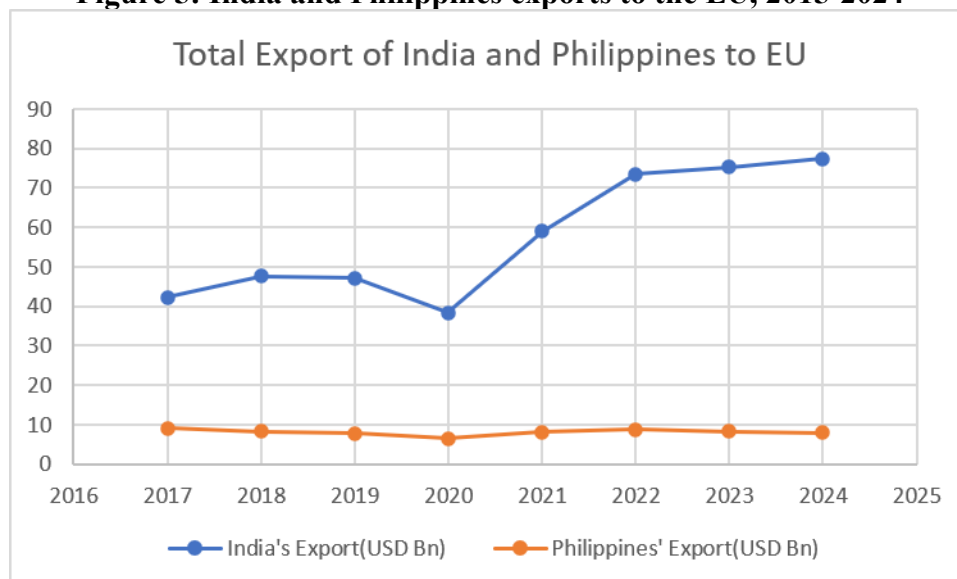
<https://business.inquirer.net/578769/ph-nearing-free-trade-agreement-with-eu>

CUTS Comments

a) Impact on India's Exports to the EU

India's exports to the EU remained substantially higher than those of the Philippines throughout 2017 to 2024. India's exports grew from approximately USD 42 billion in 2017 to nearly US\$ 77 billion in 2024. This shows a strong upward trajectory despite a pandemic-related contraction in 2020. Philippine exports to the EU, by contrast, hovered in the range of USD 6 to 9 billion over the same period, registering a modest peak of approximately US\$ 9 billion in 2017 before declining until 2020 and recovering gradually thereafter. Overall, India maintained a substantially larger export footprint in the EU market compared to the Philippines.

Figure 5: India and Philippines exports to the EU, 2015-2024



Source: CUTS computations using data from WITS

India and the Philippines do not share a significant overlap in their top-exported products to the EU. India's key exports include petroleum oils, non-industrial diamonds, mobile phones, medicaments, turbo-jets, cotton t-shirts, and aluminium, together accounting for approximately 30 percent of its total exports to the EU. Key exports of the Philippines to the EU include electronic integrated circuits, coconut oil, cargo ships, hard drives and storage units, and tuna preparations, constituting a significant share of 59 percent of the total exports.

Table 9.A shows that India’s FKI value with the Philippines in the EU market decreased from 0.084 in 2020 to 0.072 in 2024. It implies that the export baskets of the two economies are becoming relatively more diverse. Table 9.B indicates that RECPI with the Philippines rose significantly in the EU market, from 0.041 in 2020, reaching 0.046 in 2024. This reflects that direct export competition between India and the Philippines in the EU across similar product categories remains moderate throughout the period.

Table 9.A: India’s FKI with the Philippines in the EU Market					
Competitor	2020	2021	2022	2023	2024
Philippines	0.084	0.076	0.075	0.072	0.072
Table 9.B: India’s RECPI with the Philippines in the EU Market					
Competitor	2020	2021	2022	2023	2024
Philippines	0.041	0.052	0.057	0.024	0.046
<i>Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level</i>					

Our SMART analysis was conducted to check the trade diversion India might face if the EU allows the Philippines to export its goods at zero duty under the FTA. This indicated that a small number of Indian exports to the EU, such as frozen shrimp and prawns, protein concentrates and textured protein substances, and parts and accessories of revolvers or pistols, would be adversely affected, but the magnitude remains small.

Table 10: Trade Diversion likely to be experienced by India in the EU market

Product Code	Description	Trade Diversion (Thousand US\$)
030617	Frozen shrimp and prawns	10.87
210610	Protein concentrates and textured protein substances	8.28
930510	Parts and accessories of revolvers or pistols	0.07
930400	Air guns and similar non-firearms	0.04
930700	Swords and similar arms	0.017
930630	Cartridges and parts thereof	0.01
930520	Parts and accessories of shotguns or rifles	0.01
811010	Unwrought antimony	0.004
170220	Maple sugar and maple syrup	0.0002
320190	Vegetable tanning extracts	0.0002

Source: CUTS computations using WITS SMART analysis tool

Food for Thought

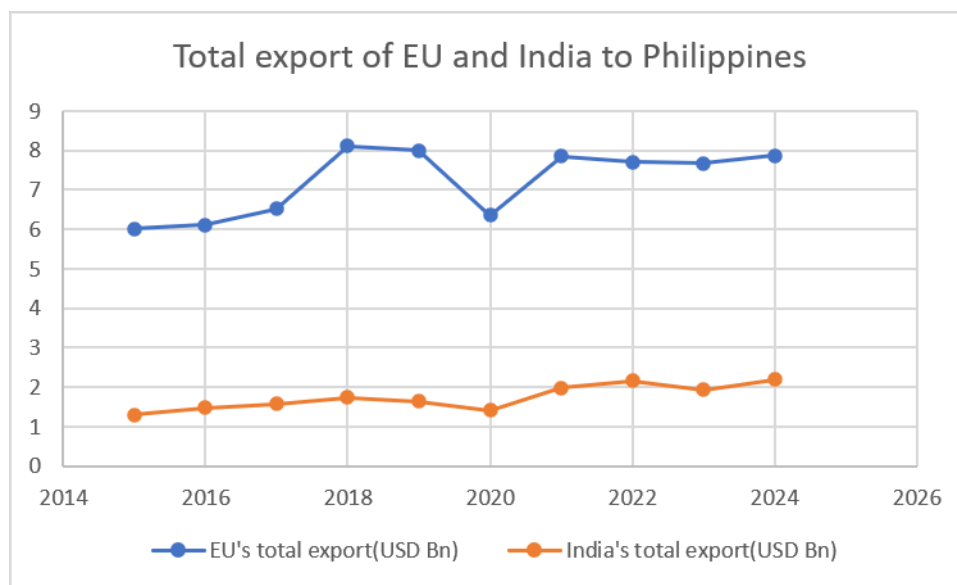
The proposed EU-Philippines FTA is unlikely to have a significant adverse impact on India's exports to the EU. India enjoys a much larger export presence in the EU market, with exports reaching nearly US\$ 77 billion in 2024 compared to the Philippines' exports. Moreover, the export profiles of the two countries are largely complementary rather than competitive. The SMART analysis further suggests that any trade diversion resulting from preferential access for Philippine products would be minimal and confined to a handful of products such as frozen shrimp, protein concentrates, and a few niche items. Overall, the Philippines does not currently pose a substantial competitive challenge to India in the EU market.

At the same time, the recently concluded India-EU FTA fundamentally alters the competitive landscape in Europe by securing duty-free access for over 99 percent of Indian exports, strengthening market access for services, facilitating mobility of professionals, and addressing several non-tariff barriers. The agreement is expected to enhance the competitiveness of key Indian sectors, including textiles, apparel, marine products, engineering goods, automobiles, agriculture, and digital services, through deeper integration into European and global value chains. Consequently, even if the EU concludes an FTA with the Philippines, the comprehensive and far-reaching nature of the India-EU FTA is likely to reinforce India's position in the European market and create opportunities that far outweigh any limited trade diversion effects arising from competing preferential agreements.

b) Impact on India’s exports to the Philippines

The EU consistently exported more to the Philippines than India between 2015 and 2024. EU exports to the Philippines grew from approximately US\$ 6 billion in 2015 to over USD 8 billion in 2018 before contracting in 2020 due to the pandemic and stabilising around US\$ 7.7 to 7.9 billion thereafter. India's exports to the Philippines, though smaller in absolute terms, showed a positive trend, rising from roughly US\$ 1.3 billion in 2015 to approximately US\$ 2.2 billion in 2024, with recoveries following the 2020 dip. Overall, the EU maintained a considerably larger export presence in the Philippines market throughout the period.

Figure 6: India and EU’s Exports to the Philippines, 2015-2024



Source: CUTS computations using data from WITS

India and the EU share two common product among their top exports to the Philippines: allopathic medicines for retail sale and large commercial aircraft. India's other key exports to the Philippines include motorcycles and scooters, frozen boneless bovine meat, semi-finished iron and steel, bus and truck tyres, light petroleum oils, wheat, and small passenger cars, together constituting approximately 40 percent of India's total exports to the Philippines.

EU's key exports include heavy aircraft, electronic integrated circuits, medicaments, frozen pork, processors and controllers, vaccines, and animal feed preparations, comprising around 32 percent of its total exports to the Philippines. Tables 11.A and 11.B present India's competitive relationship with the EU in the Philippines market using the Finger-Kreinin Index (FKI) and the Relative Export Competitive Pressure Index (RECPI).

The FKI values remain low, ranging from 0.207 to 0.241 during 2020-2024. It indicates significant overlap between India's and the EU's export baskets in the Philippines market, and it remains almost the same throughout. India's RECPI vis-a-vis the EU in the Philippines market remained below 1 throughout the period. It indicates a weaker competitive position than the EU. While competitiveness improved in recent years, particularly in 2024, the EU continues to hold a stronger export advantage in the Philippine market.

Table 11.A: India's FKI with the EU in the Philippines Market					
Competitor	2020	2021	2022	2023	2024
EU	0.207	0.189	0.224	0.224	0.241
Table 11.B: India's RECPI with the EU in the Philippines Market					
Competitor	2020	2021	2022	2023	2024
EU	0.124	0.076	0.112	0.109	0.160
<i>Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level</i>					

Our SMART analysis indicated that if the Philippines imports from the EU at zero duties under the FTA, then India is likely to experience trade diversion in the Philippines market due to increased competition. The highest potential diversion is seen in medicaments, frozen potatoes, unmanufactured tobacco, partly or wholly stemmed/stripped, potato flakes, granules and pellets, preparations used in animal feeding and frozen boneless bovine meat.

Table 12: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (Thousand US\$)
300490	Medicaments (other than antibiotics), put up in measured doses	5617.43
200410	Frozen potatoes	1204.50
240120	Unmanufactured tobacco, partly or wholly stemmed/stripped	810.11
300420	Medicaments containing antibiotics	543.22
110520	Potato flakes, granules and pellets	491.97
230990	Preparations used in animal feeding	474.78
020230	Frozen boneless bovine meat	432.32
480257	Uncoated paper and paperboard for writing/printing	290.03
380892	Fungicides	213.91
300410	Medicaments containing penicillins or streptomycins, put up in measured doses	199.57
<i>Source: CUTS computations using WITS SMART analysis tool</i>		

Food for Thought

The EU-Philippines FTA is likely to increase competitive pressure on a number of Indian exports in the Philippine market. While India's exports to the Philippines have grown steadily over the past decade, the EU continues to maintain a significantly larger export presence and stronger competitive position. Although the overlap between India's and the EU's export baskets remains moderate, the EU enjoys a comparative advantage across several product categories. The SMART analysis suggests that preferential tariff access for EU products could divert imports away from India, particularly in pharmaceuticals, processed food products, tobacco, animal feed preparations, and certain agricultural and industrial goods.

However, the potential trade diversion effects should be viewed in the context of India's evolving economic engagement with the Philippines. The recent announcement by both countries to initiate negotiations for a bilateral FTA presents an opportunity for India to secure improved market access, address tariff disadvantages, and strengthen its position in sectors where competitive pressures from the EU are likely to intensify. A comprehensive India-Philippines FTA could help mitigate the adverse effects of the EU-Philippines agreement, deepen bilateral trade ties, and create new opportunities for Indian exporters in one of Southeast Asia's fastest-growing markets.

Annexure I

Finger-Kreinin Index

The Finger-Kreinin (FK) index provides a way of measuring how similar is two sets of numbers. In principle, it can be used to compare the similarity between either the structure of a country's imports or exports with any two partner countries, to indicate how similar is a country's export pattern to its import pattern, whether geographically or by product; or to compare the structure of production in two different countries.

FKI to a Destination Country

This version of the FK Index compares export patterns of two countries into a given market (for example, UK and Japan's exports to the world or to India). Another way of thinking about this is that it compares how similar are the imports of a given country from two different suppliers. This is useful if we want to consider overall similarity of exports of two countries and therefore, their degree of competitiveness/complementarity either with respect to particular markets or with respect to their trade with the rest of world. The formula for the FK Index to a destination country is as follows:

$$FK_{i_1 i_2 j} = \sum_k \left[\left(\frac{x_{i_1 j}^k}{X_{i_1 j}} \right), \left(\frac{x_{i_2 j}^k}{X_{i_2 j}} \right) \right]$$

In the FKI by destination, i_1 and i_2 are two source countries and j is a destination country. X^k refers to trade flow in product k ; X as total trade flow, so $x_{i_1 j}^k / X_{i_1 j}$ is the share of product k in country i_1 's total exports to the destination partner (j). $x_{i_2 j}^k / X_{i_2 j}$ is the share of product k in the comparator country's (i_2) total exports.

Relative Export Competitive Pressure Index

The Relative Export Competitive Pressure Index (RECPI) is about exploring the average degree of competition country i_1 faces in country j 's market from country i_2 , by taking into account both the structure and level of competing countries' trade. Country i_1 will be interested in the value of country i_2 's exports to country j , and also in the extent to which country i_2 's exports are in direct competition with country i_1 's exports. RECPI is defined for exporter i_1 with respect to competitor i_2 in market j as:

$$RECPI = \frac{\sum_k s_{i_2 j}^k x_{i_2 j}^k}{\sum_k s_{i_1 j}^k x_{i_1 j}^k}$$

where k refers to the product, i_1 to the reporting country, i_2 to the competitor country, and the s and x data refer to a given export destination, country j . x_{ij}^k is the value of country i 's exports to country j of good k , and s_i^k gives the share of good k in country i 's exports to country j . The RECPI is a summary measure which aggregates information from across a range of sectors, subsectors or products. Hence, it can be calculated either for all trade, or for particular sectors - in all cases on the basis of more detailed sub-sectoral or product level detail.