

CUTS Dossier on Preferential Trade Agreements
July-September 2021
(Volume XV, No. 3)

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1. Bangkok keen to sign FTA with Dhaka

Thailand is interested to sign a free trade agreement (FTA) with Bangladesh to increase bilateral trade as tariff and non-tariff barriers stand in the way of promoting business potentials between the two countries.

Thai trade counselor in Dhaka Khemathat Archawathamrong said that high tariffs on Thai products are stifling exports to Bangladesh to the desired level in spite of high demand.

Meanwhile, Dhaka requested Bangkok to expand duty and quota-free market or DFQF access facility to include more Bangladeshi products having export potential to Thailand.

[*Bangkok keen to sign FTA with Dhaka / Dhaka Tribune*](#)

1.1 CUTS Comments

a) Impact on India's export to Bangladesh

India enjoys huge trade surplus with Bangladesh. In 2020, India's exports to Bangladesh were valued at US\$ 7.91 billion. In the same year, Thailand's exports to Bangladesh were US\$ 0.85 billion. The key common products in their export basket to Bangladesh are light petroleum distillates and denim cotton.

Other key exports from India to Bangladesh are cotton, cotton yarn, electrical energy, maize, vehicles and dyes. Similarly, key exports from Thailand to Bangladesh are cement clinkers, textured yarn, containers for compressed liquefied gas, animal feed preparations, Polypropylene and polyvinyl chloride in primary forms.

In order to understand the overall impact on India's exports to Bangladesh, two Indices have been computed: FKI (Finger Kreinin Index) and RECPI (Relative Export Competitive Pressure Index) (see Annexure I).

The FKI analysis measures the degree of similarity between product baskets of two source countries in their exports of goods to a given destination country. Table 1.A shows FKI values for India over a period of past five years in Bangladesh's market while Thailand as a competitor. As shown in Table 1.A, FKI values are more or less, hovers around 0.3 over the years, and the value is not so high. It is suggesting a very small degree of similarity between export baskets of India and its competitor Thailand in Bangladesh.

The RECPI analysis compares the degree of competitiveness between India and its competitor country (in this case Thailand) in exporting common products to a particular destination market (Bangladesh). Table 1.B below presents findings of RECPI analysis of India in Bangladesh market with Sri Lanka as a competitor. As shown in Table 1.B, in this particular case, RECPI values of India are low indicating India is not facing any heavy competitive pressure from Thailand in their common export products to Bangladesh market.

Table 1: India's FKI and RECPI with Thailand in Bangladesh's Market

1.A. India's FKI with Thailand in Bangladesh's Market					
Competitor	2016	2017	2018	2019	2020
Thailand	0.29	0.33	0.29	0.32	0.29
1.B India's RECPI with Thailand in Bangladesh's Market					
Competitor	2016	2017	2018	2019	2020
Thailand	0.03	0.08	0.02	0.03	0.03

Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database

In order to better understand possible trade diversion affecting India's exports to Bangladesh, a SMART analysis was conducted. The analysis shows that significant number of products will be affected. Major ten affected products are listed in Table 1 below. Textured yarn, diesel powered trucks, denim cotton, pneumatic tyres, sheet film of non-cellular polyethylene terephthalate and polymers of vinyl chloride, beauty preparations, preparations for washing the skin, parts of freezing equipment, animal feed preparations are the products for which India's exports can reduce significantly.

Table 2: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ thousand)
540233	Textured yarn of polyester filaments	-4951.756
870421	Diesel powered trucks	-3181.293
520942	Denim cotton	-2835.54
401120	Pneumatic tyres new of rubber for buses or lorries	-2111.867
392062	Sheet film of non cellular polyethylene terephthalate	-886.85
330499	Beauty, makeup and suntan preparations	-764.263
340130	Organic surface active products and preparations for washing the skin	-598.026
392049	Plates, sheets, film, foil and strip, of polymers of vinyl chloride	-575.318
841899	Parts of refrigerating or freezing equipment	-441.661
230990	Animal feed preparations	-429.092

Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using WITS SMART analysis tool

Food for Thought

Our analysis confirms that India is well positioned in Bangladesh market and Thailand cannot take that position. However, Thailand is the one of leading economies of Southeast Asia and growing faster than India. This FTA can open the market for Thai investors to invest in Bangladesh and Indian investors will face tough competition from them.

Exports of many Indian textile raw materials, which has huge demand in Bangladesh's highly developed garments industry, will be negatively impacted as Thailand also has similar comparative advantage. Other manufacturing items from automobiles, chemicals, and electronics industries will also be negatively impacted.

b) Impact on India's export to Thailand

In 2020, India's exports to Thailand were worth US\$ 3.78 billion. Bangladesh's exports to Thailand were just US\$ 0.05 billion. The items primarily exported from India to Thailand are diamonds, diesel engines, semi-finished iron or non-alloy steel; medicaments; fish, crustaceans, molluscs and other aquatic invertebrates, squid (frozen and dried); dried capsicum (peppers) Or Pimenta (allspice); motor vehicle parts; and P xylene.

Bangladesh primarily export textile products to Thailand such as knitted cotton Tshirts, singlets and others vests; non knitted cotton men's, boys' trousers and shorts; non knitted cotton women's, girls' trousers and shorts; both knitted and non-knitted cotton men's, boys' shirts; knitted cotton pullovers, cardigans etc. Other key export items are non-frozen crabs; sesamum seeds; mounted lenses, prisms, mirror, optical elements; copper waste or scrap. FKI values are shown in Table 3. There is very less similarity between the exports of India and Bangladesh in the Sri Lankan market. The RECPI (Table 3.B) values are not high either, even negligible.

Table 3: India's FKI and RECPI with Bangladesh in Thailand

3.A. India's FKI with Bangladesh in Thailand's Market					
Competitor	2016	2017	2018	2019	2020
Bangladesh	0.05	0.06	0.05	0.08	0.04
3.B India's RECPI with Bangladesh in Thailand's Market					
Competitor	2016	2017	2018	2019	2020
Bangladesh	0.001	0.001	0.001	0.003	0.000

Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database

As before, in order to have a better understanding about possible trade diversion from India to Bangladesh in the Thailand market owing to favourable duties as a result of this FTA, a SMART analysis was carried out. A list of affected top five products is presented in Table 2 below. Among them, knitted and non-knitted cotton fabrics, crabs, shrimps, prawns are found to be highly affected products.

Table 4: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ thousand)
610910	Knitted cotton T shirts, singlets and other vests	-44.141
30624	Crabs (not frozen)	-43.279
620342	Non knitted cotton men's/ boys' trousers and shorts	-31.135
30617	Other shrimps and prawns	-27.046
620630	Non knitted cotton women's/ girls' blouses and shirts	-22.127

Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using WITS SMART analysis tool

Food for Thought

It is found that Bangladesh is not a competitor of India in Thailand's market. A small number of export products are found common between them and India's exports to Thailand in those products are very large as compared to Bangladesh. However, India's readymade garments and horticulture industries will be majorly affected due to this FTA. These two industries are well developed in Bangladesh. Bangladesh is already among major competitors of India in exports of readymade garments and marine products. This FTA may further intensify this competition. Emerging economy Thailand has huge demand of readymade garments, and marine products with other final consumable items. This FTA may help Bangladeshi exporters of these two industries to capture this market with their highly competitive products.

2. Dhaka to start feasibility study on PTA or FTA with Singapore

Dhaka has started the process to conduct a feasibility study on signing either a PTA or FTA with Singapore, aiming to further strengthen economic and trade ties with the Southeast Asian country, officials said.

Singapore is one of the important trade partners of Bangladesh. Singaporean firms have invested US\$ 8.0 billion in the country since last year.

The feasibility study will find out which deal - PTA or FTA - with Singapore will benefit Bangladesh, a senior official of the commerce ministry said. After that, the authorities concerned will enter into negotiations to ink the deal, he added.

*[Dhaka to start feasibility study on PTA or FTA with Singapore
\(thefinancialexpress.com.bd\)](http://thefinancialexpress.com.bd)*

2.1 CUTS Comments

a) Impact on India's exports to Bangladesh

In 2020, Singapore's exports to Bangladesh were valued at US\$ 2.38 billion and major products in its export basket include Cotton, not carded or combed; Electrical energy; two types of cotton yarn; Maize except seed corn; Vehicles other than railway or tramway rolling stock, and parts and accessories; Coffee, tea, maté and spices Pepper; and Denim cotton. Only two products Light petroleum distillates nes, and Reactive dyes and preparations based thereon are found to be common among key export products of both India and Singapore to Bangladesh.

Our FKI analysis for this FTA is shown in Table 5.A. The index values from 2016 to 2020 highlight very little homogeneity in the export baskets of India and Singapore to Bangladesh. FKI values were more or less same over the past five years. Values are hovering around 0.2. Table 5.B shows the computed values of RECPI over a period of five years. In 2016, RECPI value were very low. It is now in increasing momentum. However, values are not so high for Indian exporters to be concerned.

Table 5: India's FKI and RECPI with Singapore in Bangladesh Market

5.A India's FKI with Singapore in Bangladesh Market					
Competitor	2016	2017	2018	2019	2020
Singapore	0.19	0.21	0.22	0.21	0.22
5.B India's RECPI with Singapore in Bangladesh Market					
Competitor	2016	2017	2018	2019	2020
Singapore	0.09	0.20	0.34	0.29	0.24

Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database

However, in order to identify specific products for which Indian producers may face market loss after the implementation of this TIFA, a SMART analysis has been carried out. Findings of this analysis are presented in Table 6 below. It is observed that the most affected export products will be the one of common top export products reactive dyes and preparations based thereon, followed by Mixed odoriferous substances industrial use nes, and Aluminium unwrought, not alloyed. Other most affected products are another kind of Mixed odoriferous substances; bicycle parts; insecticides; food preparations; printing ink; beauty, makeup and suntan preparations; and polyethylene.

Table 6: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ thousands)
320416	Reactive dyes and preparations based thereon	-2631.75
330290	Mixed odoriferous substances industrial use nes	-2378.38
760110	Aluminium unwrought, not alloyed	-1381.23
330210	Mixed odoriferous substances food and drink industrie	-1337.52
871499	Bicycle parts nes	-1224.11
380891	Insecticides	-1089.21
210690	Food preparations nes	-712.83
321519	Printing ink	-588.18
330499	Beauty, makeup and suntan preparations nes	-546.11
390110	Polyethylene	-520.16

Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using WITS SMART analysis tool

Food for Thought

If PTA is signed between them, there is no worried about Indian exporters to access Bangladesh market because Singapore will not get any preferential treatment from Bangladesh. However, if FTA is signed, India may face mild competitive pressure from Singapore. from SMART analysis, it has been observed that India will experience a significant reduction in its exports of a number of raw industrial use products used for mostly in textile and food processing industries. India should take care of this fact seriously as Bangladesh is the India's ninth largest export destination.

Singapore is fastest growing countries and well positioned in GVCs networks of automobiles, electronics, textile and clothing, and processed food. Bangladesh is very much competitive in textile and clothing, and processed food products. This FTA may further improve the trade and investment flows between them and help to develop a value chain network. As a close competitor, India may suffer lot.

b) Impact on India's exports to Singapore

In 2020, India's exports to Singapore were valued at US\$ 8.3 billion. While that of Bangladesh to Singapore was US\$ 0.16 billion. Only one product Light petroleum distillates nes is found common in their top export products to Singapore.

India's other major exports to Singapore include Petroleum spirit for motor vehicles; Floating docks, special function vessels nes; Tankers; Aluminium unwrought, not alloyed; Jewellery and parts of precious metal except silver; Coal tar distillation products nes; Tugs and pusher craft; Turbo jet engines of a thrust; and Zinc, not alloyed, unwrought.

Bangladesh's major export products to Singapore include various types of garments products of knitted and non-knitted cotton such as T shirts, singlets and other vests, men and boys' trousers, shorts, and shirts; women and girls' trousers and shorts; T-shirts, singlets and other vests; babies' garments, and clothing accessories.

FKI values are presented in Table 7.A. They reflect that very less number of common export products are there between the exports of India and Bangladesh to Singapore. This is further corroborated by the RECPI values, which are insignificant.

Table 7: India's FKI and RECPI with Bangladesh in Singapore Market

7.A India's FKI with the Bangladesh in Singapore Market					
Competitor	2016	2017	2018	2019	2020
Bangladesh	0.04	0.10	0.03	0.06	0.17
7.B India's RECPI with the Bangladesh in Singapore Market					
Competitor	2016	2017	2018	2019	2020
Bangladesh	0.000	0.003	0.000	0.001	0.005

Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database

Indian exporters are already getting duty free market access in Singapore under India-Singapore CECA and India-ASEAN Free Trade Area. Hence, from the SMART analysis, we are not getting any single product that is likely to be affected due to this FTA.

Food for Thought

It came out from our analysis that there will not be much competition that India may face from Bangladesh in Singapore's market. However, it's natural that the Bangladesh's exports to Singapore will increase further due to this FTA and that increased export will be at the cost of reduction of exports of other countries. India may suffer some market access in Singapore as it is India's fifth largest export destination globally. Specifically, India may suffer lot in similar comparative advantageous sectors.

3. Thailand and EU resume free trade agreement negotiations

Thailand and the European Union (EU) have agreed to resume negotiations on a free trade agreement (FTA) seven years after the collapse of negotiations in 2014 after a military coup in Thailand.

FTAs will facilitate EU access to trade and investment in Southeast Asia's second-largest economy, and Thai exporters will benefit from lower tariffs. Still, while FTA momentum is recovering, the EU and Thai governments need to resolve some open issues in order to reach an agreement.

Many EU companies have Southeast Asian production in Thailand. This is because it is located in that region and is the second largest economy in ASEAN after Indonesia. Establishing an FTA will ease trade and investment barriers for EU companies and make Thailand an even more attractive regional base.

[*Thailand and EU resume free trade agreement negotiations - Illinois News Today*](#)

3.1 CUTS Comments

a) Impact on India's exports to the EU

In 2020, India's exports to the EU were worth US\$ 38.44 billion. Thailand's exports to the EU were less than half of that of India. It was US\$ 17.84 billion in the year 2019. Jewellery and parts of precious metal is the only one product found to be a common export of both India and Thailand to the EU. The items that India majorly exports to the EU are light petroleum, two types of diamonds (worked and unworked used to make jewellery items), medicaments, turbo jet engines, cotton T-shirts, singlets and other vests, boots (sole rubber or plastic upper leather), motor vehicle parts, and different kind of fish.

Thailand's key exports to the EU consist mostly products of the electronic sector and some products are from agriculture, pharmaceutical, and automobile sectors. Those key export products are storage units (used for electricity purpose), fowl's meat and meat offal, different types of air conditioners, diesel powered trucks, electronic integrated circuits (other than amplifiers memories processors and controllers), machines which perform two or more of the functions of printing, copying, facsimile transmission, and spectacle lenses.

Our FKI analysis is shown in Table 8.A, which reflects that there is having little similarity between the exports of India and Thailand in the EU's market. Index values are more or less same, moving around 0.3. This is further confirmed by the values of RECPI (see Table 5.B), which show that India faces limited competition from Thailand in the EU's market.

Table 8: India's FKI and RECPI with Thailand in the EU's Market

8.A India's FKI with Thailand in the EU Market					
Competitor	2016	2017	2018	2019	2020
Thailand	0.30	0.29	0.29	0.30	0.30
8.B India's RECPI with Thailand in EU's Market					
Competitor	2016	2017	2018	2019	2020
Thailand	0.14	0.13	0.07	0.05	0.13

Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database

In order to better understand possible trade diversion, which is likely to be faced by India from Thailand in the EU's market, a SMART analysis has been carried out. Findings of this analysis are presented in Table 9 below. It is observed that exports of some products of India's automobile, pharmaceutical, jewellery, textile, footwear, and agriculture sectors are likely to be reduced by more than US\$ one million.

Table 9: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ thousands)
900150	Spectacle lenses	-2286.85
711311	Jewellery and parts, silver, including plated silver	-2280.57
871130	Motorcycles, spark ignition engine	-1955.49
870421	Diesel powered trucks	-1463.03
200899	Fruit, edible plants	-1326.46
871140	Motorcycles, spark ignition engine of 500 800 cc	-1257.49
640399	Footwear, sole rubber, plastics uppers of leather	-1256.17

Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using WITS SMART analysis tool

Food for Thought

The 15th India-EU Summit was held on 15th July, 2020. The main agenda was to discuss trade and investment relations. Positive talks about the necessity of a trade agreement, requirement of cooperation and solidarity to protect human lives and to mitigate socio- economic disruption in consequence of the Covid-19 pandemic were discussed. Also, it was agreed that a regular High-Level Dialogue at the ministerial level to provide guidance to the bilateral trade and investment relations will be held.¹ On 8th May, 2021 both the EU and Indian leaders agreed to resume negotiation talk on India-EU Broad Based Trade and Investment Agreement (BTIA). Both sides are now engaged in internal preparations to take these various strands of work forward.²

It is observed from our SMART analysis that India's exports of a number of products from a mix of industries such as automobile, footwear, textile, jewellery, pharmaceutical, and agriculture to the EU may be reduced significantly. The Indian government should request the EU for lowering of import tariffs as well as non-tariff measures (NTMs) on those products at the time of negotiation.

¹ Joint Statement of the 15th India-EU Summit (July 15, 2020): https://www.mea.gov.in/bilateral-documents.htm?dtl/32827/Joint_Statement_of_the_15th_IndiaEU_Summit_July_15_2020

² <https://ec.europa.eu/trade/policy/countries-and-regions/countries/india/>

b) Impact on India's exports to Thailand

In 2020, India's exports to Thailand were worth US\$ 3.78 billion. The EU's exports to Thailand were USD 12.6 billion. Medicaments are the only one common product which both India and the EU exports heavily to Thailand. Other primary export items exported by India to the EU are diamonds, two types of diesel engine, light petroleum, cuttlefish, non- alloyed unwrought aluminium, motor vehicle parts and p-xylene. Other primary export items of the EU to Thailand are electronic integrated circuits (other than amplifiers memories processors and controllers).

Our FKI analysis (see Table 10.A) over a period of last five years shows that there is hardly any common product in the export baskets of India and the EU to Thailand. For these very few common products, RECPI (see Table 10.B) values Indicate that Indian exporters are facing significant competitive pressure from EU exporters in Thailand market.

Table 10: India's FKI and RECPI with EU in Thailand Market

10.A India's FKI with the EU in Thailand's Market					
Competitor	2016	2017	2018	2019	2020
EU	0.35	0.32	0.32	0.32	0.33
10.B India's RECPI with the EU in Thailand's Market					
Competitor	2016	2017	2018	2019	2020
EU	4.47	4.19	3.53	3.42	3.34

Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database

Our SMART analysis reveals that India's exports to Thailand of certain products, which are mostly from pharmaceutical and automobile sectors, could be affected. Most affected export products are listed in the table below. These products include two types of medicaments; penicillin and streptomycin; motor vehicle parts, transmission and accessories; fungicides; air or gas compressors; and electric generating sets.

Table 11: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ thousands)
300490	Medicaments nes	-4697.94
870899	Motor vehicle parts nes	-1337.91
870829	Parts and accessories of bodies nes for motor vehicle	-929.15
380892	Fungicides	-809.12
870840	Transmissions for motor vehicles	-558.13

Product Code	Description	Trade Diversion (US\$ thousands)
841480	Air or gas compressors	-471.82
871410	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	-456.89
850239	Electric generating sets	-362.27
300390	Medicaments nes, formulated	-342.72
300410	Penicillins and streptomycins	-312.57

Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using WITS SMART analysis tool

Food for Thought

It has been observed that India's high potential products from pharmaceutical industry could be affected more in Thailand by this FTA. Second most affected product is parts of motor vehicles. Exports of many other products of the automobile sector could also be affected significantly. Bilateral discussions between India and Thailand are needed to mitigate such impacts. The Indian government should demand lower import tariffs as well as removal of NTMs faced by Indian exporters on these particular products. We understand that many Indian companies, particularly those from pharmaceuticals and automobile sectors, would benefit from their trade with Thailand in the coming years by the ASEAN Economic Community Blueprint, 2025.³

³ [India-Thailand trade up 60 percent in 2 years: Will this continue? | Business Standard News \(business-standard.com\)](http://www.business-standard.com)

Annexure I

FK 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:

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

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.

RECPI

The Relative Export Competitive Pressure Index (RECPI) is about exploring 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.

The Relative Export Competitive Pressure Index (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 . $x_{i_2 j}^k$ is the value of country i_2 's exports to country j of good k , and $s_{i_2 j}^k$ gives the share of good k in country i_2 '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.