

CUTS Dossier on Preferential Trade Agreements and India

July-September, 2022
(Volume XVI, No. 3)

Contents

1.	Bangladesh, Cambodia to boost bilateral trade	2
	CUTS Comments	2
	Food for Thought	4
	Food for Thought	5
2.	UAE aims to finalise free trade deal with Turkey in coming weeks	6
	CUTS Comments	6
	a) Impact on India’s Exports to Turkey	6
	Food for Thought	7
	b) Impact on India’s Exports to UAE	8
	Food for Thought	9
3.	UAE, Kenya to commence talks over comprehensive economic partnership	9
	CUTS Comments	9
	a) Impact on India’s Exports to Kenya	9
	Food for Thought	10
	b) Impact on India’s Exports to UAE	11
	Food for Thought	11
	Annexure I	12
	Finger-Kreinin Index	12
	RECPI	12

1. Bangladesh, Cambodia to boost bilateral trade

Bangladesh and Cambodia are likely to sign a Free Trade Agreement (FTA) to boost bilateral trade between the two Asian countries.

Sheikh Hasina and Hun Sen, the Prime Ministers of Bangladesh and Cambodia respectively, agreed to consider the matter to further expand trade cooperation.

<https://www.dhakatribune.com/foreign-affairs/2022/09/23/bangladesh-cambodia-likely-to-sign-fta>

CUTS Comments

a) Impact of India's Exports to Bangladesh

Bangladesh is India's fourth largest export destination. In 2020, the value of India's exports to Bangladesh was US\$ 7.91 billion, while that of Cambodia to Bangladesh was just US\$ 9.2 million.

India's key export items to Bangladesh include vegetables and cereals, vegetable oil, petroleum oils, various types of cotton yarn and fabrics, ferrous products, motorcycles, and pebbles for aggregate. In 2020, these key export items constituted 41 per cent of India's total exports to Bangladesh.

Cambodia's key export items to Bangladesh include variety of textile raw materials and machinery, and bicycle parts (rims and spokes). In 2020, these key export items constituted 96 per cent of Cambodia's total exports to Bangladesh.

In order to understand the overall impact of this proposed FTA on India's exports to Bangladesh, two indices have been computed. They are the Finger-Kreinin Index (FKI) and the Relative Export Competitive Pressure Index (RECPI) (see Annexure I). The FKI measures the degree of homogeneity between the export baskets of two source countries to a specific destination country. The RECPI, on the other hand, measures whether a country is facing competitive pressure from another country while exporting common export items to a third country.

Table 1.A shows FKI values for India over a period of past five years in the Bangladesh market while Cambodia as one of its competitors. As shown in Table 1.A, the FKI values are very low and they remained more or less same over the time. It indicates very small homogeneity in the composition of exports of India and its competitor Cambodia to the Bangladesh market.

On the other hand, if Cambodia's average level of exports in common items is higher than that of India, the RECPI value will be greater than one. It means that India will face significant competitive pressure from Cambodia in exports of selected common items to Bangladesh.

However, as shown in Table 1.B, India’s average level of exports to Bangladesh in common items is much higher than that of Cambodia. Thus, India does not face any competitive pressure from Cambodia in exports of common items to Bangladesh.

Table 1.A: India’s FKI with Cambodia in Bangladesh					
Competitor	2016	2017	2018	2019	2020¹
Cambodia	0.03	0.1	0.06	0.04	0.05

Table 1.B: India’s RECPI with Cambodia in Bangladesh					
Competitor	2016	2017	2018	2019	2020*
Cambodia	0.000008	0.0019	0.00006	0.00003	0.00008

Source: CUTS calculations using TradeSift software and 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 Cambodia in Bangladesh market as a result of the proposed FTA, a SMART analysis has been carried out. The findings of this analysis show that India may face some trade diversion in a limited number of only 32 products and that may not be significant to affect India’s trade with Bangladesh.

As shown in Table 2, India’s exports of bicycle parts such as wheel rims and spokes to Bangladesh may be affected most. However, the magnitude of trade diversion may not be high. Other than this product, exports of a various range of raw materials of the textile industry may be negatively affected.

Table 2: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
871492	Bicycle wheel rims and spokes	-117.52
600490	Knitted crocheted fabrics of a width greater than 30cm	-9.01
600522	Warp knit fabrics	-8.004
600690	Knitted crocheted fabrics	-7.72
521142	Denim cotton	-5.67

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

¹ In WITS, the year 2020 is the latest available year of Cambodia’s export data, and Bangladesh has no export data for the years 2016 to 2020. As a remedy, Cambodia’s imports from Bangladesh were considered as a replacement for Bangladesh’s exports to Cambodia.

Food for Thought

Overall, it is found that India's exports to Bangladesh will not be hampered much due to this FTA. Both Bangladesh and Cambodia are competitive in the production of various apparel products. Due to their low-cost labour markets, they are specialising in cutting, sewing, and manufacturing of apparel items in the textile and apparel value chain, while importing a large volume of raw materials and machineries from other countries.

India is competitive in the production of raw cotton, cotton yarn, man-made fabrics, and other raw materials of the textile and apparel industry. A strong industrial complementary in the textile and apparel industry is there between India and these two countries. Hence, there are no worries about the Indian exporters losing their share of these raw materials in Bangladesh market.

However, in case of some products of the textile and apparel industry, we have found common interest of Indian and Cambodian exporters to access Bangladesh market. For those products, the value of India's exports to Bangladesh is very large than that of Cambodia. Cambodia doesn't have much capacity to produce them in large volume and hence, there is hardly any scope for the Cambodian exporters to capture a large portion of India's high market share in those products in Bangladesh market.

b) Impact on India's Exports to Cambodia

Levels of exports of both India and Bangladesh to Cambodia are low. In 2020, the value of India's exports to Cambodia was US\$ 144 million, while that of Bangladesh was US\$ 11.2 million. Among key export items of both India and Bangladesh to Cambodia, only exports of medicaments are found to be common.

Other major exports items of India to Cambodia include pharmaceutical products like antibiotics, vaccines, penicillin, etc., textile raw materials like woven fabrics of cotton and polyester, and textile machinery, parts and vehicles of the automobile industry, leather product, meat of bovine animals, and vegetable oil cake. In 2020, they constituted 61.87 per cent of India's total exports to Cambodia.

Other than some medicines, Bangladesh's key exports to Cambodia include different types of raw materials of textile and apparel industry such as denim cotton and woven fabric and some final apparel products such as T-shirts and singlets of cotton and other materials, cotton skirts, processed food products of vegetables, soyabean oil cake, hydrogen peroxide, leather and its associated products, screws and slide fasteners. In 2020, they constituted 93.4 per cent of Bangladesh's total exports to Cambodia.

As shown in Table 3.A, the FKI values are quite low, which indicate that there are a few common products in India's export basket that Bangladesh also exports to Cambodia. Also, the

RECPI values suggest that India’s average level of exports to Cambodia in those common products is comparatively higher than that of Bangladesh.

Table 3.A: India’s FKI with Bangladesh in Cambodia					
Competitor	2016	2017	2018	2019	2020
Bangladesh	0.39	0.41	0.29	0.27	0.35

Table 3.B: India’s RECPI with Bangladesh in Cambodia					
Competitor	2016	2017	2018	2019	2020
Bangladesh	0.04	0.06	0.03	0.04	0.1

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

As shown in Table 4, our findings from SMART analysis reveal that as a result of this proposed FTA between Bangladesh and Cambodia, India’s exports may be declined marginally in a limited number of only 50 products in the Cambodian market. India’s exports of some raw materials and final apparel items of textile and apparel industry may get affected negatively.

Table 4: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
620451	Women/girl’s skirts, of wool or hair, not knit	-3.26
610910	T-shirts, singlets and other vests, of cotton, knitted or crocheted	-2.15
410449	Tanned crust hides and skins of bovine (incl. buffalo) equine animals	-0.82
610343	Men/boy’s trousers, shorts, of synthetic fibres, kni	-0.45
521142	Denim cotton	-0.36

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

Food for Thought

India’s key export items to Cambodia are from textile and apparel industry, pharmaceuticals and automobiles, while those from Bangladesh are highly concentrated in products from textile and apparel industry, leather, food processing, and some light engineering industry. We found that some Indian products from the textile and apparel industry will be affected in the Cambodian market due to this FTA. However, this loss in export of Indian products may be very low in magnitude as India’s value of exports to Cambodia in these products is much larger than that of Bangladesh.

2. UAE aims to finalise free trade deal with Turkey in coming weeks

The United Arab Emirates (UAE) aims to finalise a free trade agreement with Turkey in the coming weeks, announced by the UAE Trade Minister on August 31, 2022.

Minister of State for Foreign Trade Thani Al Zeyoudi also wrote on Twitter their aim to finalize the UAE-Turkey CEPA in the coming weeks, and build deeper, more meaningful trade and investment ties with one of the region's most important economies.

<https://www.reuters.com/world/middle-east/uae-aims-finalise-free-trade-deal-with-turkey-coming-weeks-official-says-2022-09-01/>

CUTS Comments

a) Impact on India's Exports to Turkey

In 2021, India's exports to Turkey doubled after recovering from a massive downturn the previous year, while UAE's exports to Turkey became almost half of their exports that happened last year. India exported goods of worth US\$ 7.26 billion to Turkey, while that of the UAE was US\$ 3.92 billion. Products such as mineral fuels and oil, articles of aluminum, machinery and mechanical appliances are found to be common among their export baskets to Turkey.

Other key export items of India to Turkey include iron and steel, motor vehicles, organic chemicals, and man-made filaments. Similarly, key export items of the UAE to Turkey include natural or curled pearls, precious and semi-precious stones, plastic items, and articles of copper.

India's FKI values over a period of the last five years while the UAE as a competitor in the Turkish market are listed in Table 5.A. Our findings indicate very low similarity between India and the UAE's export baskets to Turkey. Similarly, RECPI values are found to be very low over time, except in the year 2020. In 2020, the value of the UAE's exports to Turkey was larger than that of India. A high RECPI value in the year 2020 indicates that UAE's average level of exports in very limited common products were also larger than India in that year.

Table 5.A: India's FKI with the UAE in Turkey					
Competitor	2017	2018	2019	2020	2021
UAE	0.06	0.06	0.11	0.1	0.1

Table 5.B: India's RECPI with UAE in Turkey					
Competitor	2017	2018	2019	2020	2021
UAE	0.02	0.02	0.08	1.69	0.04

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

Our findings from the SMART analysis show that India may face a significant trade diversion in some of its major export products to Turkey such as articles of precious metals and aluminum articles of both alloyed and not alloyed. Among the affected export items, the trade diversion effect on articles of precious metal is the largest, which is greater than one million US dollars. Other products in which India's exports to Turkey may get affected negatively include polypropylene, polyethylene and unsaturated polyesters.

Table 6: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ thousands)
711319	Articles of Precious Metal	-1333.6
760120	Aluminium Alloys	-408.46
390210	Polypropylene	-245.75
760110	Aluminium-Not Alloyed	-221.23
390110	Polythylene with Specific Gravity below 0.94	-87.92
390120	Polythylene with Specific Gravity more than 0.94	-13.22
390791	Unsaturated Polyesters	-12.47

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

Food for Thought

Turkey is India's thirteen largest export destination. At the same time, the UAE is one of the largest trading partners of Turkey. There is significant competition between India and the UAE in accessing Turkey's market. In 2015 and 2016, the value of India's exports to Turkey was larger than that of the UAE. However, in 2017, the value of the UAE's exports to Turkey was larger than that of India. In 2018, it was reversed and that continued in 2019. Again, in 2020, the scenario was changed, where the value of the UAE's exports to Turkey was more than 2 billion US dollars than that of India. In 2021, India was able to re-capture its market share in Turkey. The value of India's exports to Turkey was more than 3 billion US dollars than that of the UAE.

Moreover, in 2021, India's exports of both mineral Fuel and oils and articles of aluminum constituted a large (32%) share of its total exports to Turkey, while these products are also among the key export items of the UAE to Turkey, constituting a significantly large share of the UAE's total exports to Turkey.

Furthermore, our findings from the SMART analysis indicate that India's exports of articles of aluminum, both alloy and not-alloy, may experience a significantly large trade diversion in the Turkish market. Also, another key export item of India, that is articles of precious metal, may decline quite largely due to this FTA.

b) Impact on India's Exports to the UAE

UAE is India's second-largest export destination. In 2021, the value of India's exports to the UAE was US\$ 25.45 billion, while that of Turkey was almost one-fifth of this amount. Natural or curled pearls and plastic products are common key export items of India and Turkey to the UAE. India's other highly traded export items to the UAE include iron and steel, ships and boats, copper items. Turkey's other key exports to the UAE include precious and semi-precious stones, aluminum, and machinery. As shown in Table 7.A, the FKI values are ranging between 0.3 and 0.4 over the past five years, which indicate a steady homogeneity in export baskets of India and Turkey to the UAE. However, very low RECPI values indicate that India is not facing any significant competitive pressure from Turkey in UAE's market.

Table 7.A: India's FKI with Turkey in the UAE					
Competitor	2017	2018	2019	2020	2021
Turkey	0.38	0.43	0.45	0.32	0.25
Table 7.B: India's RECPI with Turkey in the UAE					
Competitor	2017	2018	2019	2020	2021
Turkey	0.46	0.08	0.1	0.09	0.15

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

Major findings from our SMART analysis reveal that India's exports of articles of precious metals may experience a larger hit. Among other items, exports of a large variety of apparel products, chemicals, diamonds, bars and rods of iron, and electric conductors may face a relatively larger negative impact.

Table 8: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
711319	Articles of Precious Metal	-44959.3
610910	Cotton T-Shirts	-800.9
330290	Mixtures of Aromatic Chemicals	-266.03
710239	Diamonds	-158.85
721499	Bars and Rods of Iron	-157.81
620520	Cotton Shirts	-141.45
630260	Toilet and Kitchen Linen	-137.46
611120	Babies Garments of Cotton	-131.7
620443	Dresses of Synthetic Fibres	-121.72
610831	Nightdresses and Pyjamas of Cotton	-115.24
611020	Jerseys of Cotton	-108.61
854449	Electric Conductors less than 1000V	-105.62

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

Food for Thought

UAE is India's second-largest export destination, while Turkey's exports to the UAE are relatively low. In 2019, India's exports to UAE declined by 39 per cent as compared to the previous year. However, in 2021, India's exports to the UAE grew by 42 per cent. A Comprehensive Economic Partnership Agreement (CEPA) has been signed between India and the UAE in February this year, and that came into effect in May. Following the implementation of this CEPA, India's exports to the UAE increased by 16.22 per cent to US\$ 837.14 million in May-June 2022 as compared to the same period last year. Hence, this FTA may not hamper much of the business of Indian exporters in the UAE.

However, in some specific export items such as articles of precious metals and a variety of apparel products, India's exports to the UAE may fall significantly due to this FTA. India's textile and apparel industry and that of precious metals should be aware of this trade diversion and should find solutions as per provisions of the India-UAE CEPA.

3. UAE, Kenya to commence talks over comprehensive economic partnership

Dr. Thani bin Ahmed Al Zeyoudi, Minister of State for Foreign Trade of UAE, and Betty Maina, Cabinet Secretary, Ministry of Industrialisation, Trade and Enterprise Development of Kenya, signed a Joint Statement in Nairobi announcing the intention to begin negotiations towards a Comprehensive Economic Partnership Agreement (CEPA) between the UAE and Kenya.

Through the CEPA, the UAE and Kenya aim to remove trade barriers on a wide range of goods and services, creating new opportunities for imports and exporters in both countries, and enabling Kenyan companies to leverage the value of the UAE's geographic and logistical position.

<https://www.zawya.com/en/economy/gcc/uae-kenya-to-commence-talks-over-comprehensive-economic-partnership-f0qql9w0>

CUTS Comments

a) Impact on India's Exports to Kenya

In 2021, the value of India's exports to Kenya was US\$ 2.5 billion, while that of the UAE to Kenya was US\$ 1.83 billion. Several products such as mineral oil and fuels, iron and steel, and motor vehicles are found to be common in their export baskets to Kenya.

Other key export items of India to Kenya include pharmaceutical products, machinery and mechanical appliances, articles of plastics and cereal items. Key export items of the UAE to Kenya include copper, aluminum and other chemical products.

India's FKI values over a period of last five years with the UAE as a competitor in Kenya are shown in Table 9.A. These values are more or less constant and low over time. It indicates very low similarity between the export baskets of India and the UAE in the Kenyan market. Also, very low RECPI values (see Table 9.B) indicate that India is facing negligible competition from the UAE in its common export items to Kenya.

Table 9.A: India's FKI with the UAE in Kenya					
Competitor	2017	2018	2019	2020	2021
UAE	0.15	0.15	0.12	0.15	0.16
Table 9.B: India's RECPI with the UAE in Kenya					
Competitor	2017	2018	2019	2020	2021
UAE	0.09	0.07	0.06	0.07	0.08
<i>Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database</i>					

Findings from our SMART analysis reveal that India's exports of several plastic products to Kenya may be affected due to this FTA. However, the magnitude of loss in exports may not be large.

Table 10: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
392119	Sheet etc, cellular of plastics	-114.85
761290	Aluminium Casks	-73.81
701090	Bottles, Flasks, Jars etc. of Glass	-73.56
392390	Plastic Articles for Packing of Goods	-71.45
392190	Plastic sheet, film, foil or strip	-69.29
390791	Unsaturated Polyesters	-65.49
481910	Cartons, Boxes of Paper	-62.46
392049	Plates, Sheets of Plastic Polymers	-61.74
<i>Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database</i>		

Food for Thought

Levels of exports of both India and the UAE to Kenya are more or less similar. However, our findings of FKI and RECPI analysis indicate that export compositions of these two trading partners are mostly different with very limited similarity. Moreover, our findings from the SMART analysis indicate no significant market loss for Indian exporters. However, there are some common items of interest of Indian and UAE exporters in the Kenyan market, which is one of the largest in Africa. Like the UAE, India should consider signing a regional CEPA with Kenya and other member countries of the East African Community.

b) Impact on India's Exports to the UAE

Kenya's exports to the UAE are very negligible as compared to India's high penetration in that market. In 2021, the value of Kenya's total exports to the UAE was US\$ 315 million, while that of India's was US\$ 25.45 billion. Mineral Fuels and oils are found to be common in their export baskets to the UAE.

Other largely traded export items of India to the UAE include natural or curled pearl, electrical machinery, iron and steel and apparel products. Similarly, key export items of Kenya to the UAE include coffee, tea, spices, meat items, edible fruits and nuts.

Our findings from FKI analysis are presented in Table 11.A. Very low values of FKI indicate that there is hardly any homogeneity between the export baskets of India and Kenya to the UAE. Furthermore, very low RECPI values (see Table 11.B) indicate that India is highly competitive as compared to Kenya in very limited common export items in the UAE's market.

Table 11.A: India's FKI with Kenya in the UAE					
Competitor	2017	2018	2019	2020	2021
Kenya	0.001	0.002	0.002	0.009	0.005
Table 11.B: India's RECPI with Kenya in the UAE					
Competitor	2017	2018	2019	2020	2021
Kenya	0.05	0.07	0.06	0.07	0.07

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

Our findings from SMART analysis reveal that few export items of India in the UAE's market may be negatively affected. However, the magnitudes of such trade diversion will be very low. Mainly horticulture and apparel products are in the affected product list.

Table 12: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
60319	cut flowers	-51.39
60311	Roses	-20.25
610711	underpants and briefs of cotton	-12.16

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

Food for Thought

UAE is India's second-largest export destination, while Kenya has negligible exports to the UAE. In addition to this, bilateral trade between India and the UAE has improved significantly after the commencement of their CEPA in May this year. There is not much capacity of Kenyan exporters to capture India's large market share in the UAE's market.

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:

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

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 . $x_{i j}^k$ 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.