CUTS Dossier on Preferential Trade Agreements and India
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1. Thailand, EU close two-thirds of free trade agreement chapters

Thailand and the European Union concluded the ninth round of their Free Trade Agreement negotiations in Brussels on 22-30 June 2026, closing four more chapters (competition and subsidies, state-owned enterprises, dispute settlement, and agreement administration) along with several annexes and a customs mutual administrative assistance protocol. With 15 of 24 chapters now closed, Thailand's Commerce Minister said that about two-thirds of the agreement is settled. The remaining third covers agricultural and industrial goods, government procurement, energy and raw materials, digital trade, services and investment, and regulatory areas including intellectual property. Ministers from both sides want the talks concluded as soon as possible, and the tenth round is scheduled to be held in Thailand in late September 2026. The EU was Thailand's fourth-largest trading partner in 2025, with two-way trade of US$ 45.03 billion, of which Thai exports were US$ 26.45 billion.

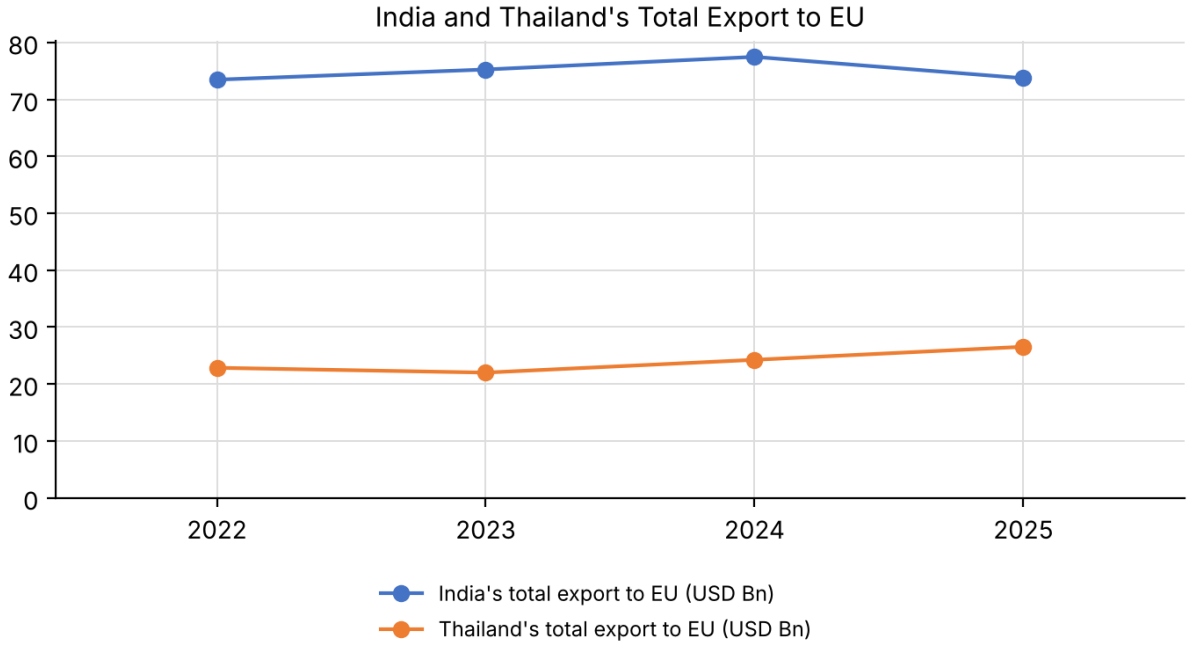
(*https://www.nationthailand.com/news/policy/40068313*)

CUTS Comments

a) Impact on India's exports to the EU

India's exports to the EU have remained roughly three times those of Thailand over 2022-2025, although the gap has narrowed. India's exports rose from US$ 73.5bn in 2022 to a peak of US$ 77.5bn in 2024 before easing to US$ 73.7bn in 2025. Thailand's exports to the EU, by contrast, dipped to US$ 22.0bn in 2023 and then grew steadily to US$ 26.5bn in 2025, the highest level in the series.

Figure 1: India and Thailand's Total Exports to the EU, 2022-2025



Source: CUTS computations using data from WITS

India and Thailand do not share any common products among their respective top 10 exports to the EU, indicating that the two countries' export baskets to this market are largely complementary rather than directly competing. India's key exports to the EU include petroleum oils (HS 271019), smartphones, medicaments, non-industrial diamonds, unwrought aluminium, motor vehicle parts, turbo-jets, coffee, new pneumatic tyres for agricultural and forestry vehicles, and frozen shrimp. Together, these top 10 items contribute approximately 38 percent of India's total exports to the EU, with petroleum oils alone accounting for about 21 percent.

Thailand's key exports to the EU are dominated by electronics and machinery: computer storage units, electrical static converters, electronic integrated circuits, communication and switching apparatus, printing and copying machines, air conditioners, silver jewellery, reversible heat pumps, spectacle lenses and portable computers. Together, these top 10 items constitute approximately 29 percent of Thailand's total exports to the EU, with no single product accounting for more than about 5 percent - a more evenly spread basket than India's.

The impact of the proposed Thailand-EU 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 with Thailand in the EU market has declined over the decade, from 0.209 in 2016 to a low of 0.153 in 2024, before rising to 0.177 in 2025. This indicates a moderate overlap between the two export baskets, which has weakened over time but began to strengthen again in the latest year.

Table 1.A: India's FKI with Thailand in the EU Market

Competitor	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Thailand	0.209	0.206	0.195	0.207	0.200	0.183	0.177	0.164	0.153	0.177

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

Table 1.B indicates that India's RECPI with Thailand in the EU market ranged between 0.17 and 0.32 over 2016-2025. After ranging between 0.17 and 0.24 until 2021, it jumped to 0.315 in 2022 and peaked at 0.318 in 2023, before easing to 0.229 in 2024 and 0.205 in 2025. The index has thus remained at relatively high levels, suggesting that competitive pressure between the two suppliers' export baskets in the EU market is not negligible.

Table 1.B: India's RECPI with Thailand in the EU Market

Competitor	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Thailand	0.236	0.213	0.205	0.223	0.174	0.190	0.315	0.318	0.229	0.205

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

A quantitative WITS SMART simulation of the trade diversion India could face if the EU grants Thailand zero-duty access under the proposed FTA was conducted. The result indicates that the estimated diversion is modest in absolute terms - about US$ 26.6mn against US$ 54.2bn of Indian exports covered by the simulation (roughly 0.05 percent). The most exposed lines are motorcycles of 250-800cc, spectacle lenses, silver and other precious-metal jewellery, and leather-upper footwear, which together with processed fruit, flexible bulk containers and fish preparations make up the top 10 and account for about 43 percent of the estimated diversion.

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

Product Code	Description	Trade Diversion (Thousand US$)
871130	Motorcycles, spark-ignition piston engine, cylinder capacity >250cc but ≤500cc	2,378.68
900150	Spectacle lenses of materials other than glass, unmounted	2,057.65
711311	Jewellery of silver, and parts thereof	1,623.01
200899	Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, other	1,215.59
640399	Footwear, outer soles of rubber, plastics or composition leather, uppers of leather, other	1,196.56
711319	Jewellery of precious metal (excl. silver), and parts thereof	788.67
871140	Motorcycles, spark-ignition piston engine, cylinder capacity >500cc but ≤800cc	629.32
630532	Flexible intermediate bulk containers (sacks and bags) of man-made textile materials	577.77
160420	Fish preparations, prepared or preserved, other	531.81
731815	Iron or steel threaded screws and bolts, other	453.88

Source: CUTS computations using WITS SMART analysis tool

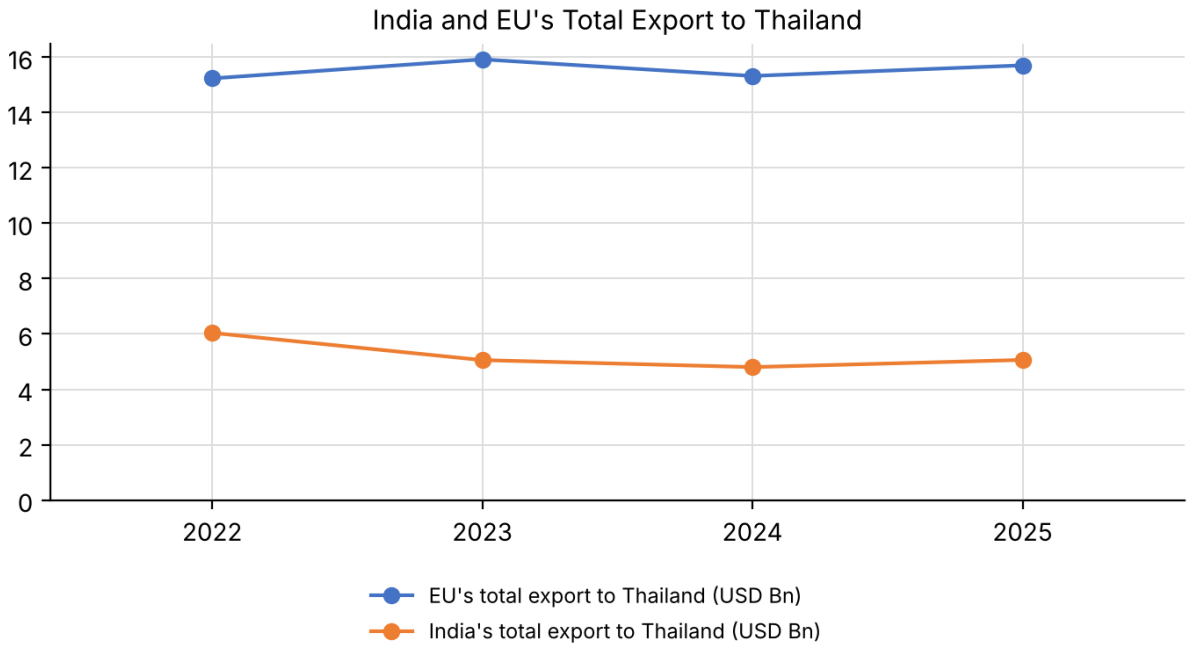
Food for Thought

India remains the larger supplier to the EU by a wide margin, but its lead has narrowed as Thailand's exports reached a series high of US$ 26.5bn in 2025 while India's slipped. The two top-10 baskets do not overlap, and the FKI has eased from 0.21 to 0.15-0.18 in recent years; yet the jump in the RECPI to 0.32 in 2022-2023 shows that competitive pressure in overlapping product lines can build quickly. The SMART simulation points to modest diversion, concentrated in motorcycles, jewellery, spectacle lenses, footwear and processed food - the light-manufacturing lines where Thai and Indian exporters meet. India's own FTA with the EU, whose negotiations were concluded in January 2026 and which is moving towards signing and ratification, is the main counterweight. Timely ratification, and preparing Indian exporters in these lines to claim the preferences, will matter more for India's EU exports than the Thailand-EU agreement itself.

b) Impact on India's exports to Thailand

The EU's exports to Thailand have remained considerably larger than India's throughout 2022-2025, holding steady at US$ 15.2-15.9bn a year. India's exports to Thailand, by contrast, fell from US$ 6.0bn in 2022 to US$ 4.8bn in 2024 - a decline of about 20 percent - before recovering to US$ 5.1bn in 2025.

Figure 2: India and the EU's Total Exports to Thailand, 2022-2025



Source: CUTS computations using data from WITS

India and the EU share one common product among their respective top 10 exports to Thailand: medicaments (HS 300490), which ranks fifth in India's basket and second in the EU's. Beyond this, the two baskets are distinct. India's key exports to Thailand include non-industrial diamonds, diesel engines (for vehicles and for other uses), unwrought aluminium, medicaments, frozen fish, dried chillies, frozen squid and cuttlefish, oil-cake, and coal-tar oils. Together, these top 10 items contribute approximately 35 percent of India's total exports to Thailand, with diamonds alone accounting for about 11 percent.

The EU's key exports to Thailand include electronic integrated circuits (including processors and controllers), medicaments, commodities not specified by kind, gas-turbine parts, aluminium waste and scrap, vaccines, aircraft, mink furskins and communication apparatus. Together, these top 10 items constitute approximately 19 percent of the EU's total exports to Thailand, reflecting a comparatively diversified basket.

Tables 3.A and 3.B present India's competitive relationship with the EU in the Thai market using the FKI and RECPI.

Table 3.A shows that India's FKI with the EU in the Thai market has remained broadly stable at 0.22-0.26 over 2016-2025, the highest level of similarity among the country pairs examined in this edition. After easing to 0.219 in 2022, it has risen back to 0.254 in 2025.

Table 3.A: India's FKI with the EU in Thailand

Competitor	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU	0.253	0.237	0.234	0.236	0.246	0.234	0.219	0.238	0.256	0.254

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

Table 3.B shows that India's RECPI with the EU in the Thai market was lowest in 2017 (0.051), rose to a peak of 0.152 in 2022, and has since eased to 0.098 in 2025. This suggests that the relative competitive pressure between the two suppliers has moderated from its 2022 high and is now close to its level at the start of the series.

Table 3.B: India's RECPI with the EU in Thailand

Competitor	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
EU	0.107	0.051	0.092	0.118	0.141	0.123	0.152	0.103	0.112	0.098

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

The SMART simulation output for the Thai market scenario shows zero values across the Trade Creation, Trade Diversion, and Total Trade Effect columns for all HS 6-digit product lines. This is because the 'New Duty Rate' field in the exported dataset mirrors the 'Applied Duty Rate' field exactly, row for row, indicating that no effective tariff change was captured. This appears to be a data issue specific to this country pair.

Food for Thought

The EU's exports to Thailand are about three times India's, and the FKI of 0.22-0.26 is the highest among the pairs examined here. That similarity is not, however, driven by head-to-head overlap in the leading products: only medicaments are common to both top-10 baskets, and the RECPI has eased from its 2022 peak. India's exports to Thailand fell by about a fifth between 2022 and 2024 and have recovered only partly. Since the SMART simulation could not be used for this market, the size of any diversion cannot be quantified, but India should watch pharmaceuticals closely as the EU seeks improved access, and use the ongoing review of the ASEAN-India Trade in Goods Agreement to secure better terms for its own diamonds, engines, aluminium and marine products.

2. China, South Korea make progress in second-phase FTA talks

China and South Korea held the 16th round of second-phase negotiations to upgrade their free trade agreement in Beijing from 31 August to 4 September 2026. China's Ministry of Commerce reported "positive progress" on cross-border services trade and negative-list market access, and both sides agreed to accelerate the remaining negotiations and strive for an early conclusion. The original agreement was signed in June 2015 and entered into force on 20 December 2015; second-phase talks on services and investment have been under way since December 2017, and twelve rounds of tariff reductions had been implemented by June 2026. China is South Korea's largest trading partner and Korea is China's second-largest, with two-way trade of US$ 331.24 billion in 2025, up 1.2 percent year on year.

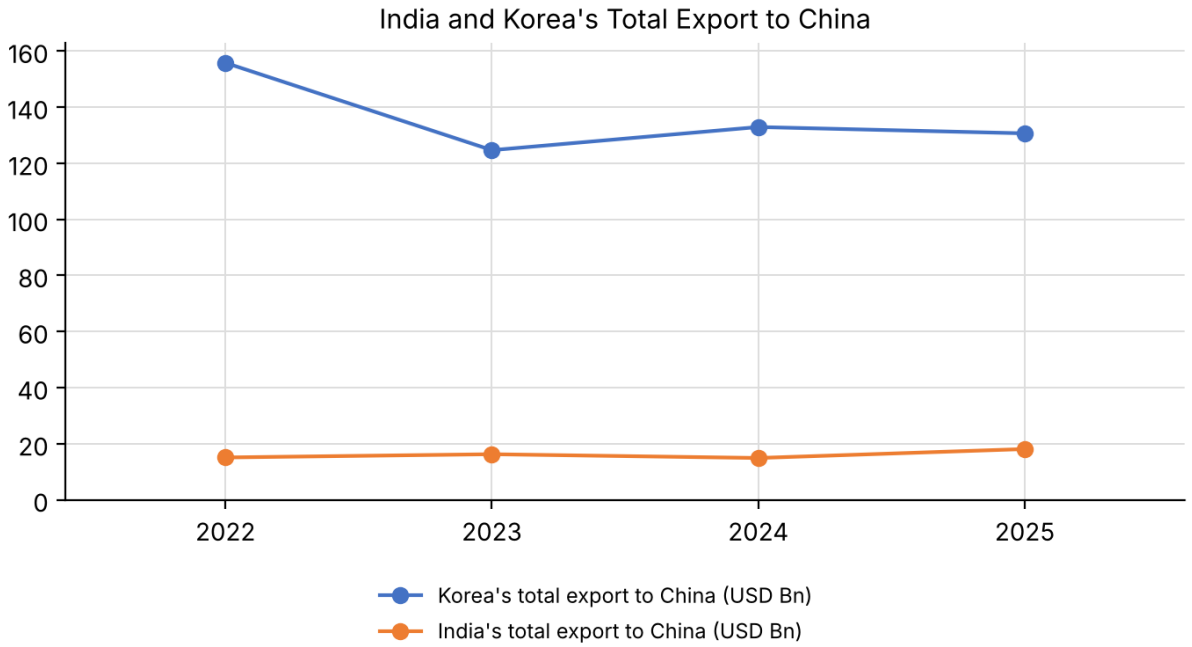
(*https://news.cgtn.com/news/2026-09-09/China-South-Korea-make-positive-progress-in-second-phase-FTA-talks-1QixfWb8y08/p.html*)

CUTS Comments

a) Impact on India's exports to China

Korea's exports to China have been many times larger than India's throughout 2022-2025, at US$ 125-156bn a year against US$ 15-18bn for India. Korea's exports fell from US$ 155.8bn in 2022 to US$ 124.7bn in 2023 before recovering partially to US$ 132.9bn in 2024 and easing to US$ 130.6bn in 2025. India's exports, by contrast, rose by about 20 percent over the period, from US$ 15.1bn in 2022 to a series high of US$ 18.1bn in 2025.

Figure 3: India and Korea's Total Exports to China, 2022-2025



Source: CUTS computations using data from WITS

India and Korea do not share any common products among their respective top 10 exports to China, indicating that the two countries cater to different segments of Chinese import demand. India's key exports to China include petroleum oils (light oils), iron ore (agglomerated and non-agglomerated), frozen shrimp and prawns, parts of communication apparatus, castor oil, dressed human hair, dried chillies, ferro-chromium and crude granite. Together, these top 10 items contribute approximately 44 percent of India's total exports to China, with petroleum oils and iron ore together accounting for about 23 percent.

Korea's key exports to China are dominated by semiconductors and electronics: memory integrated circuits, processors and controllers, parts of reception and transmission apparatus, p-xylene, inorganic salts, other integrated circuits, skin-care cosmetics, computer parts, OLED display modules and benzene. Together, these top 10 items constitute approximately 46 percent of Korea's total exports to China, with semiconductors alone accounting for over 30 percent - an export basket structurally very different from India's.

Table 4.A shows that India's FKI with Korea in the China market has been low throughout, rising from 0.140 in 2016 to a peak of 0.195 in 2018 and then drifting down to 0.127 in 2023, with a partial uptick to 0.147 in 2024 and 0.139 in 2025. The overall similarity between the two export baskets to China has thus remained limited.

Table 4.A: India's FKI with Korea in the China Market

Competitor	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Korea	0.140	0.172	0.195	0.188	0.153	0.158	0.132	0.127	0.147	0.139

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

Table 4.B indicates that India's RECPI with Korea in the China market has remained extremely low, never exceeding 0.02 and peaking at 0.017 in 2019. By 2024 it had eased to 0.004 and stood at 0.005 in 2025. This indicates negligible competitive pressure between the two suppliers in the Chinese market, consistent with the very limited overlap in their export baskets.

Table 4.B: India's RECPI with Korea in the China Market

Competitor	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Korea	0.005	0.007	0.010	0.017	0.006	0.007	0.004	0.005	0.004	0.005

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

A quantitative WITS SMART simulation of the trade diversion India could face if China grants Korea zero-duty access was conducted. The estimated diversion is small in absolute terms - about US$ 19.1mn against US$ 17.4bn of Indian exports covered by the simulation (roughly 0.1 percent) - but it is highly concentrated: sugar (chemically pure sucrose) alone accounts for over half of the total, reflecting its high applied duty of 32.5 percent. Polypropylene, polyisobutylene and polyethylene together account for about 10 percent, with smaller effects on paper, frozen fish, diesel engines, benzene, p-xylene and valves.

Table 5: Trade Diversion likely to be experienced by India in China

Product Code	Description	Trade Diversion (Thousand US$)
170199	Sucrose, chemically pure, in solid form (sugar), other	10,010.86
390210	Polypropylene, in primary forms	964.36
390220	Polyisobutylene, in primary forms	517.16
480519	Fluting paper and paperboard, uncoated, other	482.44
030389	Fish, frozen, other (excl. fillets and edible offal)	470.92
390120	Polyethylene in primary forms, specific gravity of 0.94 or more	417.12
840890	Compression-ignition (diesel) engines, other	322.56
290220	Cyclic hydrocarbons: benzene	320.97
290243	Cyclic hydrocarbons: p-xylene	236.37
848180	Taps, cocks, valves and similar appliances, other	205.17

Source: CUTS computations using WITS SMART analysis tool

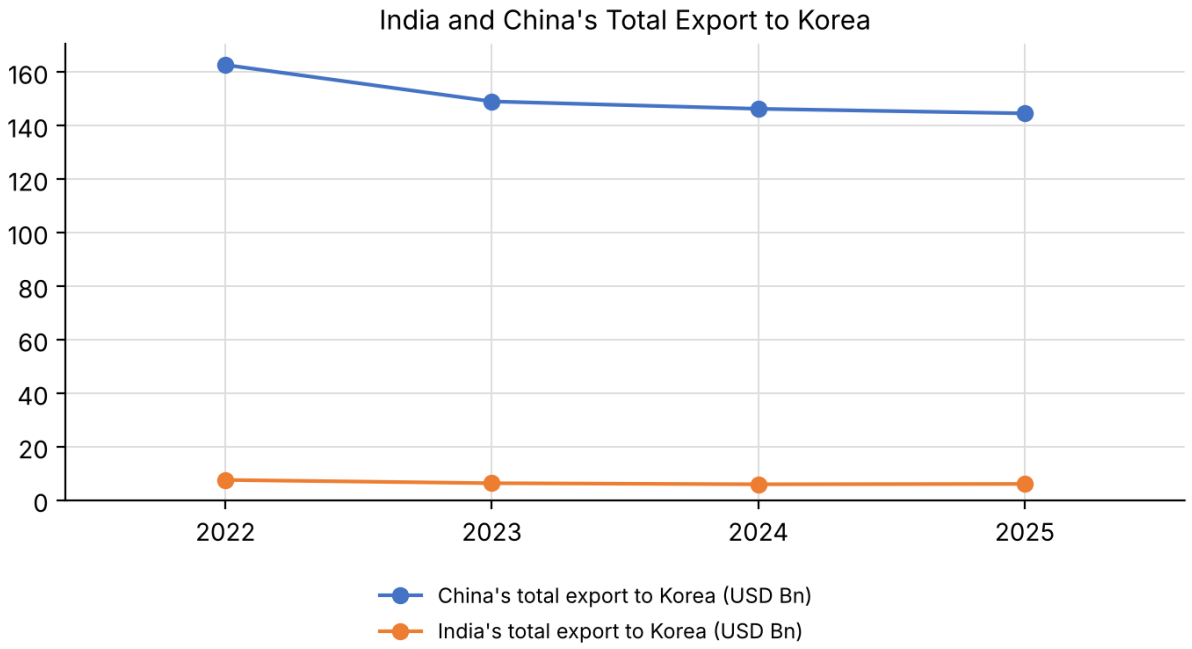
Food for Thought

Korea's exports to China are seven to ten times India's and the two baskets could hardly be more different: semiconductors account for over 30 percent of Korea's exports, while India sells primary commodities, marine products and intermediates. The FKI is low and the RECPI has stayed below 0.02 throughout, so competitive pressure between the two suppliers is negligible. With India's exports to China at a series high of US$ 18.1bn in 2025, the main risk from a deeper China-Korea agreement is not broad-based diversion but specific, high-tariff lines - sugar above all, and to a lesser extent petrochemical polymers. Because the second-phase talks centre on services and investment rather than fresh tariff cuts, the near-term risk is limited, but India should track any goods commitments that emerge.

b) Impact on India's exports to Korea

China's exports to Korea have been more than twenty times India's throughout 2022-2025. China's exports declined from US$ 162.6bn in 2022 to US$ 144.5bn in 2025, a fall of about 11 percent. India's exports to Korea fell more sharply, by about 22 percent, from US$ 7.5bn in 2022 to US$ 5.9bn in 2024, and recovered marginally to US$ 6.0bn in 2025.

Figure 4: India and China's Total Exports to Korea, 2022-2025



Source: CUTS computations using data from WITS.

India and China do not share any common products among their respective top 10 exports to Korea, indicating that the two countries' baskets are largely complementary rather than competing. India's key exports to Korea include petroleum oils (light oils), unwrought aluminium, turbo-jets, unwrought lead, ferro-chromium, oil-cake, wheat, refined copper, aluminium alloys and motor vehicle parts. Together, these top 10 items contribute approximately 51 percent of India's total exports to Korea - a high degree of concentration, with petroleum oils alone accounting for over 22 percent.

China's key exports to Korea include memory integrated circuits, lithium-ion batteries, commodities not specified by kind, lithium oxide and hydroxide, computer parts, inorganic chemicals, portable computers, smartphones and granite articles. Together, these top 10 items constitute approximately 26 percent of China's total exports to Korea, reflecting a comparatively diversified basket.

Tables 6.A and 6.B present India's competitive relationship with China in the Korean market using the FKI and RECPI. The FKI values remain low and stable throughout 2016-2025, ranging from 0.112 to 0.152. After a trough of 0.112 in 2022, the index has risen to 0.152 in 2024 and 0.151 in 2025, its highest levels in the series, suggesting that the two export baskets to Korea have become somewhat more similar in recent years, though from a low base.

Table 6.A: India's FKI with China in Korea

Competitor	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
China	0.125	0.133	0.133	0.142	0.137	0.125	0.112	0.136	0.152	0.151

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

Table 6.B shows that India's RECPI with China in the Korean market has remained extremely low, never exceeding 0.003. This indicates that the competitive pressure between the two suppliers in Korea is negligible, a reflection of the very different scale of their exports (China's are more than twenty times India's) and the limited overlap in their baskets.

Table 6.B: India's RECPI with China in Korea

Competitor	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
China	0.0012	0.0018	0.0028	0.0027	0.0012	0.0018	0.0010	0.0026	0.0016	0.0013

Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level. Values are shown to four decimal places because of their small magnitude.

A quantitative WITS SMART simulation of the trade diversion India could face if Korea grants China zero-duty access was conducted. The estimated diversion is the largest of the markets simulated in this edition - about US$ 29.9mn against US$ 4.9bn of Indian exports covered (roughly 0.6 percent). Vegetable saps and extracts alone account for about 19 percent of the total, driven by an applied duty of over 126 percent. The remaining top-10 lines are a mix of essential-oil derivatives, automotive parts (airbags and steering systems), textured polyester yarn, medicinal plant products, salt, granite articles and frozen shrimp; together the top 10 account for about 44 percent of the estimated diversion.

Table 7: Trade Diversion likely to be experienced by India in Korea

Product Code	Description	Trade Diversion (Thousand US$)
130219	Vegetable saps and extracts, other	5,697.21
330190	Essential-oil concentrates, terpenic by-products, aqueous distillates and solutions, other	1,327.34
870895	Safety airbags with inflater system, and parts thereof	1,108.63
540233	Textured polyester filament yarn (<67 decitex), not for retail sale	1,028.56
121190	Plants and plant parts used in perfumery, pharmacy or for insecticidal purposes, other	793.07
250100	Salt (including table salt) and pure sodium chloride; sea water	698.86
870899	Motor vehicle parts and accessories, other	671.43
680293	Granite articles, worked (other than simply cut or sawn)	599.85
030617	Frozen shrimps and prawns, other	560.36
870894	Steering wheels, steering columns, steering boxes and parts thereof	549.22

Source: CUTS computations using WITS SMART analysis tool

Food for Thought

China's exports to Korea dwarf India's, and the two baskets barely overlap: India sells petroleum, metals and aircraft engines, while China sells electronics and battery materials. The RECPI below 0.003 confirms negligible direct competitive pressure. The SMART simulation nevertheless estimates the largest diversion of the markets simulated in this edition (about 0.6 percent of covered exports), concentrated in a handful of high-duty or processed lines - vegetable extracts, essential-oil derivatives, auto parts and yarn. With India's exports to Korea down by about a fifth since 2022, India should use the upgrade of the India-Korea CEPA to secure improved access in these lines and to raise the utilisation of its existing preferences.

3. Indonesia, Sri Lanka push on with preferential trade agreement talks

Indonesia's Trade Minister Budi Santoso has urged continued negotiations on the Indonesia-Sri Lanka Preferential Trade Agreement (ISL-PTA), after meeting Sri Lanka's Minister of Labour and Deputy Minister of Finance and Planning, Anil Jayantha Fernando, as reported on 17 September 2026. Mr Fernando said Sri Lanka is conducting an internal review of the proposed agreement and hopes it will be completed quickly so that the agreement can take effect. Talks were launched on 14 March 2024, with the first round held online in April 2024 and the second in Colombo in July 2024; a third round is being prepared. Indonesia sees the PTA as a way to open the Sri Lankan market and expand its exports to South Asia. Bilateral trade was US$ 530.2 million in 2025, of which Indonesian exports were US$ 476.7 million, and US$ 266 million in January-July 2026.

(*https://investortrust.id/business/116613/mendag-dorong-kelanjutan-pta-ri-sri-lanka-bidik-perluasan-ekspor-ke-asia-selatan*)

CUTS Comments

a) Impact on India's exports to Indonesia

India's exports to Indonesia have been far larger than Sri Lanka's, but they have contracted sharply over 2022-2025: from US$ 9.9bn in 2022 to US$ 7.4bn in 2023, US$ 5.4bn in 2024 and US$ 4.3bn in 2025, a fall of about 56 percent. Sri Lanka's exports to Indonesia are marginal, at US$ 53-63mn a year in 2023-2025 (its 2022 value is not available in the dataset), equivalent to only about 1-1.5 percent of India's exports to the market. Sri Lanka's exports reached US$ 63mn in 2025, the highest level in the available series.

Figure 5: India and Sri Lanka's Total Exports to Indonesia, 2022-2025



Source: CUTS computations using data from WITS. Note: Sri Lanka is plotted on the right-hand scale; its 2022 value is not available in the dataset.

India and Sri Lanka share two common products among their respective top 10 exports to Indonesia: other petroleum oils (HS 271019), which ranks eighth in India's basket and tenth in Sri Lanka's, and stripped tobacco (HS 240120), which ranks tenth in India's and eighth in Sri Lanka's. India's key exports to Indonesia include petroleum oils (light and other), wheat, frozen boneless bovine meat, groundnuts, special-purpose vessels, raw cane sugar, dumpers, p-xylene and stripped tobacco. Together, these top 10 items contribute approximately 46 percent of India's total exports to Indonesia, with light petroleum oils alone accounting for about 21 percent.

Sri Lanka's key exports to Indonesia are dominated by textile fabrics and tobacco-related machinery: parts of tobacco-making machinery, tobacco-making machinery, knitted and warp-knit fabrics (cotton, elastomeric and other), chemical products, food preparations, stripped tobacco and petroleum oils. Together, these top 10 items constitute approximately 46 percent of Sri Lanka's total exports to Indonesia, with knitted fabrics accounting for over 23 percent.

Tables 8.A and 8.B present India's competitive relationship with Sri Lanka in the Indonesian market using the FKI and RECPI.

Table 8.A shows that India's FKI with Sri Lanka in the Indonesian market has been very low throughout, between 0.019 and 0.072. After dipping to 0.024 in 2022, it rose to 0.057 in 2023 and 0.058 in 2024, and reached 0.072 in 2025, the highest level in the series. This indicates very limited overlap between the two baskets, though the overlap has been rising from a low base.

Table 8.A: India's FKI with Sri Lanka in the Indonesia Market

Competitor	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Sri Lanka	0.019	0.055	n.a.	0.049	0.042	0.040	0.024	0.057	0.058	0.072

Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level. Note: 2018 values are not available in the dataset.

Table 8.B indicates that India's RECPI with Sri Lanka in the Indonesian market has been negligible throughout, never exceeding 0.002. It rose from under 0.0001 in 2022 to 0.0004 in 2024 and 0.0019 in 2025, its highest level in the series. This reflects the very small scale of Sri Lanka's exports relative to India's, and the small, if growing, overlap in the two baskets.

Table 8.B: India's RECPI with Sri Lanka in the Indonesia Market

Competitor	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Sri Lanka	0.0001	0.0014	n.a.	0.0005	0.0004	0.0001	<0.0001	0.0001	0.0004	0.0019

Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level. Note: 2018 values are not available in the dataset. Values are shown to four decimal places because of their small magnitude.

A quantitative WITS SMART simulation of the trade diversion India could face if Indonesia grants Sri Lanka zero-duty access under the ISL-PTA was conducted. The estimated diversion is negligible: about US$ 0.16mn against US$ 5.5bn of Indian exports covered by the simulation. Cotton apparel (men's shirts, women's blouses, T-shirts, pyjamas, trousers and babies' garments), which attracts applied duties of around 24-25 percent, accounts for about 44 percent of the total, with men's cotton shirts alone accounting for 27 percent; the rest of the top 10 is made up of tyres, tobacco machinery, essential-oil derivatives and preserved cucumbers.

Table 9: Trade Diversion likely to be experienced by India in Indonesia

Product Code	Description	Trade Diversion (Thousand US$)
620520	Men's or boys' shirts, of cotton (not knitted)	43.16
401290	Tyres, tyre treads and flaps, other (heading 4012)	10.51
620630	Women's or girls' blouses and shirts, of cotton (not knitted)	9.10
610910	T-shirts, singlets and other vests, of cotton, knitted	6.69
847810	Machinery for preparing or making up tobacco, n.e.s.	6.22
610721	Men's or boys' nightshirts and pyjamas, of cotton, knitted	4.59
620462	Women's or girls' trousers, overalls, breeches and shorts, of cotton (not knitted)	3.86
330190	Essential-oil concentrates, terpenic by-products, aqueous distillates and solutions, other	3.72
200110	Cucumbers and gherkins, prepared or preserved by vinegar or acetic acid	3.61
620920	Babies' garments and clothing accessories, of cotton (not knitted)	3.44

Source: CUTS computations using WITS SMART analysis tool

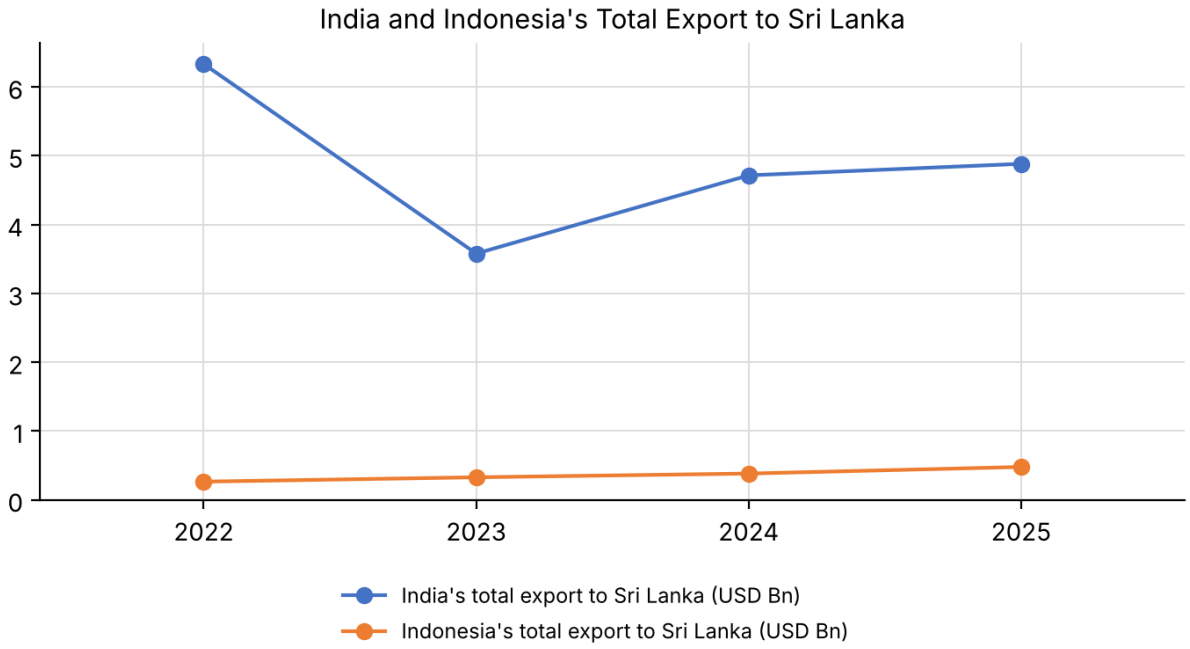
Food for Thought

India's exports to Indonesia have fallen by more than half since 2022, a decline far larger than anything the ISL-PTA could cause. Sri Lanka is a marginal supplier to Indonesia, with exports of only about 1-1.5 percent of India's, and the FKI and RECPI, although rising to series highs in 2025, remain very low; the SMART simulation estimates diversion at only about US$ 0.16mn. The one area to watch is cotton apparel, where Indonesia's applied duties of around 24-25 percent would give Sri Lankan garment makers a margin. The more consequential story for India is the sharp contraction in its own exports to Indonesia, whose drivers lie outside this PTA and merit separate examination, together with the utilisation of India's preferences under the ASEAN-India Trade in Goods Agreement.

b) Impact on India's exports to Sri Lanka

India's exports to Sri Lanka have remained many times larger than Indonesia's over 2022-2025, though the gap has narrowed. India's exports fell by about 44 percent from US$ 6.3bn in 2022 to US$ 3.6bn in 2023, before recovering to US$ 4.7bn in 2024 and US$ 4.9bn in 2025 - still about 23 percent below the 2022 level. Indonesia's exports to Sri Lanka, from a much smaller base, rose every year, from US$ 0.26bn in 2022 to US$ 0.48bn in 2025, an increase of about 81 percent. India's lead over Indonesia in the Sri Lankan market has accordingly narrowed from about 24-to-1 in 2022 to about 10-to-1 in 2025.

Figure 6: India and Indonesia's Total Exports to Sri Lanka, 2022-2025



Source: CUTS computations using data from WITS.

India and Indonesia share one common product among their respective top 10 exports to Sri Lanka: light petroleum oils (HS 271012), which ranks second in India's basket and fourth in Indonesia's. India's key exports to Sri Lanka include petroleum oils (other and light), medicaments, refined sugar, floating drilling or production platforms, special-purpose vessels, rice, tankers, wheat and dried chillies. Together, these top 10 items contribute approximately 40 percent of India's total exports to Sri Lanka, with petroleum oils alone accounting for about 22 percent.

Indonesia's key exports to Sri Lanka include coconut oil, small passenger cars (up to 1000cc), semi-finished iron and steel products, light petroleum oils, urea, palm kernel oil, technically specified natural rubber, unstripped tobacco, crude coconut oil and industrial fatty acids. Together, these top 10 items constitute approximately 57 percent of Indonesia's total exports to Sri Lanka - a notably higher degree of concentration than India's - with coconut and palm-kernel oils together accounting for over 17 percent. Tables 10.A and 10.B present India's competitive relationship with Indonesia in the Sri Lankan market using the FKI and RECPI.

Table 10.A shows that India's FKI with Indonesia in the Sri Lankan market has been volatile, ranging from 0.090 to 0.206. It peaked at 0.206 in 2021, fell to 0.090 in 2022, rebounded to 0.159 in 2023, dropped again to 0.091 in 2024 and stood at 0.121 in 2025. There is no clear trend, though the index has stayed within a low-to-moderate range.

Table 10.A: India's FKI with Indonesia in Sri Lanka

Competitor	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Indonesia	0.146	0.152	0.136	0.124	0.134	0.206	0.090	0.159	0.091	0.121

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

Table 10.B shows that India's RECPI with Indonesia in the Sri Lankan market has also been highly volatile, swinging between 0.001 (2022) and 0.050 (2023). It rose sharply to 0.030 in 2021, collapsed to 0.001 in 2022, spiked to 0.050 in 2023, fell back to 0.002 in 2024 and rose to 0.022 in 2025. All values remain low in absolute terms, but the year-to-year swings suggest that competitive pressure in particular product lines can change quickly.

Table 10.B: India's RECPI with Indonesia in Sri Lanka

Competitor	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Indonesia	0.008	0.006	0.006	0.004	0.008	0.030	0.001	0.050	0.002	0.022

Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level. ***Note:*** *Sri Lanka market trade-divergence dataset cannot be added because of unavailability of dataset.*

Food for Thought

India's exports to Sri Lanka remain several times Indonesia's, but the gap has narrowed from about 24-to-1 to 10-to-1 in three years as Indonesia's exports grew by more than 80 percent while India's are still below their 2022 level. Light petroleum oils are common to both top-10 baskets, and the volatile FKI and RECPI suggest that overlap in specific lines - notably fuels - can shift quickly. India's basket is also more dependent on petroleum, with about a fifth of the market in that one category. As the ISL PTA moves forward, India should use its existing preferences under the India-Sri Lanka Free Trade Agreement more fully and keep a close watch on the lines where Indonesia is gaining ground.

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 rest of world. The formula for the FK Index to a destination country is as follows:

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

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^k_{i1j}/X_{i1j} is the share of product k in country i_1's total exports to the destination partner (j). x^k_{i2j}/X_{i2j} 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:

$$RECPI = \frac{\sum_k s^k_{i2j} x^k_{i_2 j}}{\sum_k s^k_{i_1 j} x^k_{i_1 j}}$$

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^k_{ij} is the value of country i's exports to country j of good k, and s^k_i gives the share of good k in country i's exports to 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.