

# CUTS Dossier on Preferential Trade Agreements and India

July-September, 2023  
(Volume XVIII, No. 3)

## Contents

<b>1. Mercosur and EU to resume negotiations in October .....</b>	<b>2</b>
<b>CUTS Comments.....</b>	<b>2</b>
<b>a) Impact on India's Exports to Mercosur .....</b>	<b>2</b>
<b>Food for thought .....</b>	<b>4</b>
<b>b) Impact on India's Exports to EU .....</b>	<b>4</b>
<b>Food for thought .....</b>	<b>5</b>
<b>2. Sri Lanka seeks bilateral trade agreement with South Korea.....</b>	<b>6</b>
<b>CUTS Comments.....</b>	<b>6</b>
<b>a) Impact on India's Exports to Sri Lanka .....</b>	<b>6</b>
<b>Food for Thought.....</b>	<b>7</b>
<b>b) Impact on India's Exports to South Korea.....</b>	<b>8</b>
<b>Food for Thought.....</b>	<b>9</b>
<b>3. Türkiye to broaden free trade agreement with UK.....</b>	<b>9</b>
<b>CUTS Comments.....</b>	<b>10</b>
<b>a) Impact on India's Exports to Turkey .....</b>	<b>10</b>
<b>Food for Thought.....</b>	<b>11</b>
<b>b) Impact on India's Exports to UK .....</b>	<b>11</b>
<b>Food for Thought.....</b>	<b>12</b>
<b>Annexure I.....</b>	<b>13</b>
<b>Finger-Kreinin Index .....</b>	<b>13</b>
<b>Relative Export Competitive Pressure Index .....</b>	<b>13</b>

## 1. Mercosur and EU to resume negotiations in October

On 28 June 2019, the European Union (EU) and the Mercosur countries (Brazil, Argentina, Paraguay and Uruguay) reached an agreement on a free trade agreement (FTA). However, the ratification process has encountered roadblock for to implement the FTA.

The agreement has been on hold since 2019 largely due to European concerns over Amazon deforestation and Mercosur's slow response to an EU addendum proposing environmental safeguards. In this regard, negotiators from the European Union and Mercosur met in Brazil on October, 2023 in the hopes of making possible the ratification of a free-trade agreement between the two blocs. After discussion on October, 2023, both the parties agreed to continue working at a faster pace.

[\(https://www.reuters.com/world/eu-mercocur-trade-talks-intensify-weekly-pace-sources-2023-10-05/\)](https://www.reuters.com/world/eu-mercocur-trade-talks-intensify-weekly-pace-sources-2023-10-05/)

### CUTS Comments

#### **a) Impact on India's Exports to Mercosur**

India's exports to Mercosur experienced a massive hike of 43.67 per cent in 2022, when it reached US\$11.22bn. In the same year, the value of the EU's exports to Mercosur was US\$55.17bn. Among the major export items of India and the EU to Mercosur, only two products - medicaments (in dosage) and light petroleum distillate (kerosene oil) - are common.

Other key export items of India to Mercosur include insecticides, herbicides, fungicides, parts and accessories for motor vehicles, organic compounds, wheeled tractors, new pneumatic tyres, and yarn. Those of the EU to Mercosur include petroleum products, vaccines for human use, antisera and other blood fractions, potassium chloride, parts and accessories for motor vehicles, fixed-wing aircraft, and heterocyclic compounds.

Two indices have been computed to understand the overall impact of this proposed trade agreement on India's exports to Mercosur. They are the Finger-Kreinin Index (FKI) and the Relative Export Competitive Pressure Index (RECPI) (see Annexure I). FKI measures the degree of homogeneity between the export baskets of two source countries to a specific destination country. 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 represents India's FKI values over five years in the Mercosur market with the EU as one of its competitors. Such FKI values are low and more or less same over time. They indicate a small number of similar products in India and the EU's export baskets to the Mercosur market. On the other hand, if the average value of exports of the EU in those similar products is more significant than that of India, the RECPI value will be greater than one.

As shown in Table 1.B, the average value of exports of the EU in those similar products is larger than that of India till 2020. Since 2020, India's average value of exports to Mercosur in those items is much larger than that of the EU. This means, over time, India's value-shares in similar items of export interests improved and became larger than those of EU.

<b>Table 1.A: India's FKI with the EU in Mercosur</b>					
<b>Competitor</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>EU</b>	0.300	0.304	0.319	0.299	0.257
<b>Table 1.B: India's RECPI with the EU in Mercosur</b>					
<b>Competitor</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>EU</b>	2.43	1.296	1.481	0.906	0.244
<i>Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database</i>					

For better understanding possible trade diversion, which is likely to be faced by India from the EU in the Mercosur market as a result of this trade agreement, a SMART analysis has been carried out. As shown in Table 2, medicaments, fungicides, gearing, ball screws, speed changers, torque converters, parts for diesel and semi-diesel engines, automobile parts, heterocyclic compounds, rolling stock and heterocyclic compounds are likely to be the negatively affected export items. However, the magnitude of their export loss may be significant.

**Table 2: Trade Diversion likely to be experienced by India**

<b>Product Code</b>	<b>Description</b>	<b>Trade Diversion (Thousand US\$)</b>
300490	Medicaments	-73787.95
380892	Fungicides	-19868.41
848340	Gearing, ball screws, speed changers, torque converter	-18147.83
840999	Parts for diesel and semi diesel engines	-13311.31
870829	Parts and accessories for motor vehicles	-11030.33
293399	Heterocyclic compounds with nitrogen hetero-atom(s) only	-10010.36
870850	Drive axles with differential for Motor Vehicles.	-8574.90
940190	Parts of seats (except parts of medical, dentist, barbers and Similar Seats)	-8340.36
870899	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof.	-7540.60
293339	Heterocyclic compounds with unfused pyridine ring	-6909.24
<i>Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database</i>		

## **Food for Thought**

There is significant competition between India and the EU in accessing the Mercosur market. The total export value of the EU to Mercosur is relatively larger than India.

Our findings from FKI indicate that the EU has some common export items with India to Mercosur. The values of RECPI indicate that India has an average larger export in those common products than EU till 2020. In 2021, it was reversed and continued in 2022, where the value of the India's exports to Mercosur was larger than that of the EU in those common products. Additionally, our SMART analysis results showed that several industries may suffer significant losses due to this FTA.

India has already signed a PTA with Mercosur in 2004. Furthermore, India and the Mercosur group of Latin American countries are discussing to expand their preferential trade agreement.<sup>1</sup> Therefore, it is necessary to address all the concerns to improve our export performance to these countries.

### **b) Impact on India's Exports to EU**

The EU is the second-largest destination for Indian exports after the USA. The total value of India's exports to the EU is larger than that of Mercosur. In 2022, India's value of exports to the EU was \$73.46bn. Among key export items of India and Mercosur to the EU - light petroleum distillate (kerosene oil) - is common for both. Other major export items of India to the EU include mobile phones, diamonds, medicaments, unwrought aluminum, turbo-jets, parts and accessories for Motor Vehicle, frozen shrimps and prawns, clothing, and new pneumatic tyres. Similarly, Mercosur's key exports to the EU include petroleum oils, soya bean oil cake, coffee, corn (maize), chem wood pulp, biodiesel, and mineral products.

FKI values over the past five years (as shown in Table 3.A) indicate that the total value-share of common export items between India and Mercosur is ranging between 12.2 to 14.7 per cent. Such FKI values are low and more or less same over time. It indicates a small number of similar products in the export baskets of India and Mercosur.

However, RECPI values (as shown in Table 3.B) indicate that Mercosur's total value-share of those common export items is lower than that of India till 2020. Thus, India does not face any competitive pressure from the Mercosur in exports of common items to EU.

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<sup>1</sup> <https://www.livemint.com/news/world/india-in-talks-to-expand-preferential-trade-agreement-with-mercocur-bloc-in-latin-america-boosting-economic-ties-with-a-combined-gdp-of-1-9tn-and-295mn-people-india-mercocur-tradeagreement-economicdiplomacy-11681408281748.html>

<b>Table 3.A: India's FKI with Mercosur in the EU</b>					
<b>Competitor</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Mercosur</b>	0.144	0.147	0.138	0.122	0.126

  

<b>Table 3.B: India's RECPI with Mercosur in the EU</b>					
<b>Competitor</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Mersocur</b>	0.173	0.143	0.254	0.131	0.131

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

As shown in Table 4, our findings from the SMART analysis reveal that India may face large trade diversion in frozen shrimps and prawns, grapes, leather products, food additives (lecithin and other phosphoaminolipids), engine parts, carboxylic acids, heterocyclic compounds, coffee extract, footwear, fruits and edible plants.

**Table 4: Trade Diversion likely to be experienced by India**

<b>Product Code</b>	<b>Description</b>	<b>Trade Diversion (Thousand US\$)</b>
30617	Frozen Other shrimps and prawns	-42582.80
80610	Fresh grapes	-7729.56
410712	Whole Hides & Skins of Leather	-4699.00
292320	Lecithin and other phosphoaminolipids	-4242.47
840999	Parts for diesel and semi diesel engines	-3457.27
291819	Carboxylic acids (alcohol function only), derivatives	-2456.81
293339	Heterocyclic compounds with unfused pyridine ring	-2090.01
210111	Coffee extracts and essence	-1805.44
640399	Footwear	-1622.42
200899	Fruit And Other Edible Parts Of Plants	-831.02

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

### **Food for Thought**

Our findings from FKI indicate that Mercosur has some common export items with India. However, RECPI values indicate India has an average more significant export in those common products than Mercosur. Also, India's total export value to EU is larger than Mercosur. Our findings from SMART analysis have identified some of the sectors of India that may face significant losses due to this FTA. However, India is negotiating a bilateral trade and investment agreement with the EU.<sup>2</sup> Even if there is any negative impact that India's exports may face in the EU market from Mercosur countries, this agreement may neutralise it.

<sup>2</sup> <https://www.europarl.europa.eu/legislative-train/theme-a-stronger-europe-in-the-world/file-eu-india-fta-bit-and-gi-agreement#:~:text=The%20fifth%20round%20took%20place,by%20the%20end%20of%20July>

## 2. Sri Lanka seeks bilateral trade agreement with South Korea

There is a significant important decision on economic policy framework has been taken by the newly formed government of Sri Lanka, which is centered on increasing investment and exports, integration in global value chains, and developing a knowledge economy.

In this regard, South Korea intends to look into the possibility of creating a future PTA or FTA between the two countries. However, a preliminary joint research that examined the potential for trade and investment was initiated in 2015 and is now being carried out.

The Joint Working Group between Sri Lanka and Korea has been suggested in order to look into innovative ways to strengthen their bilateral economic cooperation. Some important issues, such as customs cooperation, technology transfer, removing market obstacles like regulatory requirements on imports, and initiatives to promote trade, investment, and tourism, might be considered within such a forum.

([https://www.koreatimes.co.kr/www/world/2023/10/501\\_197283.html](https://www.koreatimes.co.kr/www/world/2023/10/501_197283.html))

### **CUTS Comments**

#### **a) Impact on India's Exports to Sri Lanka**

In 2022, the value of India's exports to Sri Lanka was US\$7.5bn, while that of South Korea's export to Sri Lanka was US\$0.19bn. Light petroleum distillates (kerosene oil) and knitted crocheted fabrics are common export items of both India and South Korea in Sri Lanka's market.

Other key export items of India to Sri Lanka include Petroleum spirit, floating docks, milled rice, medicaments, refined sugar, fruits, wheat and meslin. Similarly, other key export items of South Korea to Sri Lanka include natural rubber, aluminum alloy, woven polyester, yarn, polyethers and plastics.

As shown in Table 5.A, FKI values are in the range of 0.199 to 0.228. It indicates that there are some common export items that both India and Thailand exports to Sri Lanka and the value of those common items contribute at least approximately 20 per cent to respective countries' total exports to Sri Lanka. It is also observed from very low RECPI values that on an average India have larger value of exports in those common items than South Korea (table 5.B).

<b>Table 5.A: India's FKI with South Korea in Sri Lanka</b>					
<b>Competitor</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>South Korea</b>	0.201	0.203	0.228	0.221	0.199

  

<b>Table 5.B: India's RECPI with South Korea in Sri Lanka</b>					
<b>Competitor</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>South Korea</b>	0.021	0.014	0.02	0.017	0.007

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

Our findings from the SMART analysis indicate that India may face loss in rubber for motor vehicles, non-cellular styrene polymers sheets, paper and paperboard, parts for air conditioners, two door refrigerator or freezers, monofilament, electric conductors (Table 6).

**Table 6: Trade Diversion likely to be experienced by India**

<b>Product Code</b>	<b>Description</b>	<b>Trade Diversion (Thousand US\$)</b>
401310	Rubber for motor vehicles	-253.71
392030	Non-cellular styrene polymers sheets	-153.96
481019	Paper and paperboard of a kind used for writing printing	-91.17
841590	Parts for air conditioners	-75.59
841810	Combined refrigerator freezers, two doors	-61.39
391690	Monofilament (greater than 1mm), rods, not ethylene or vinyl polymer	-58.87
854449	Electric conductors	-53.52
730890	Structures and parts of structures, iron or steel,	-44.52
210690	Food preparations	-43.89
481159	Paper and paperboard, coated impregnated covered with plastics	-43.06

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

### **Food for Thought**

Our findings from FKI indicate that South Korea has some common export items with India. However, RECPI values indicate India has an average larger export in those common products than South Korea Also; India's value of total exports to Sri Lanka is quite larger than South Korea.

However, our findings from SMART analysis identify some key affected products for which India's exports to Sri Lanka may reduce due to this PTA.

India has an FTA with Sri Lanka and it may revive negotiations to increase its scope and coverage, particularly keeping in mind those items of India's export interests in India which may be negatively impacted by this and other PTAs that Sri Lanka may enter in future.

## b) Impact on India's Exports to South Korea

In 2022, while India's exports to South Korea experienced a growth of more than 50 per cent that of the Sri Lanka was also significantly low. In 2022, the value of India's exports to South Korea was US\$7.50bn that of the Sri Lanka was US\$0.09bn. No common products are found as key export items of both India and Sri Lanka to South Korea.

The key export items of India to South Korea include mineral items such as petroleum spirit, aluminum, wheat and meslin, lead, iron ores and concentrates. In 2022, they constituted half of India's total exports to South Korea. Similarly, key export items of Sri Lanka to South Korea include coconut, gloves, activated carbon, t-shirts, tyres, women or girl's clothes, etc. In 2022, they constituted 40 per cent of Sri Lanka's total exports to South Korea.

Both India's FKI and RECPI values over a period of the last four years (see Table 7.A and 7.B) are very low. Overall, there are a limited number of common products of export interests of India and Sri Lanka to South Korea and the average level of India's exports to South Korea in those common products is much larger than that of the Sri Lanka.

<b>Table 7.A: India's FKI with Sri Lanka in South Korea</b>					
<b>Competitor</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Sri Lanka</b>	NA	0.039	0.029	0.024	0.028
<b>Table 7.B: India's RECPI with Sri Lanka in South Korea</b>					
<b>Competitor</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Sri Lanka</b>	NA	0.0004	0.0003	0.0001	0.0001
<i>Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database</i>					

Our findings from the SMART analysis show that India may face loss in exports of various types of vegetables products, black tea, garments, activated carbon and quartz. However, the magnitude of the loss will be small (see Table 8).



**Table 8: Trade Diversion likely to be experienced by India**

<b>Product Code</b>	<b>Description</b>	<b>Trade Diversion (Thousand US\$)</b>
140490	Vegetable products	-575.17
90240	Black tea (packaging of a content exceeding 3 kg)	-72.64
610711	Men's Or Boys' short	-49.41
380210	Activated carbon	-46.37
620520	Men's, boy's shirts	-36.57
620630	Womens, girls shirts	-17.39
620342	Mens, boys trousers and shorts, of cotton, not knit	-17.39
250610	Quartz	-16.06
90230	Black tea (packaging of a content not exceeding 3 kg)	-15.70
610910	T shirts, singlets and other vests	-14.37

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

### **Food for Thought**

More than a decade has passed since a CEPA (Comprehensive Economic Partnership Agreement) was signed between India and South Korea. India is concerned about its continuously widening trade deficit with South Korea.

Massive export growth in the recent past has helped India to fill some of this trade deficit. Both India and South Korea realised the importance of upgrading their CEPA. For that, India has asked South Korea to renegotiate their free-trade agreements (FTAs) with the South Asian nation to make it 'more balanced and equitable'.<sup>3</sup>

Our findings indicate that as a result of this FTA India may retain little in exports to South Korea. On the other hand, This FTA may not harm India's to access the South Korean market. In addition, some favorable treatments in the upgraded CEPA may help India to avoid the expected loss.

### **3. Türkiye to broaden free trade agreement with UK**

The UK and Turkey have announced plans to begin discussion on an updated free trade agreement (FTA) in July, 2023. The announcement follows a call between UK Business and Trade Secretary Kemi Badenoch and Turkish Minister for Trade Ömer Bolat, where they committed to negotiating a new deal and deepening the trade relationship between the two countries.

<sup>3</sup> <https://www.reuters.com/world/asia-pacific/india-asking-renegotiation-ftas-with-japan-skorea-trade-minister-2023-07-27/>

The deal would replace the existing UK-Turkey FTA, which was rolled over from when the UK left the European Union and doesn't cover key areas of the UK economy like services, digital and data. A new deal could boost trade and help UK companies maximise opportunities in this area, driving economic growth – one of the Prime Minister's priorities. The new FTA is an opportunity to strike a 21st century deal that is better suited to the modern economies of both the UK and Turkey, covering areas such as digital trade and services.

<https://www.gov.uk/government/news/uk-and-turkey-to-negotiate-new-trade-deal#:~:text=UK%20and%20Turkey%20announce%20intention,%C2%A323.5%20billion%20in%202022>

## CUTS Comments

### a) Impact on India's Exports to Turkey

In 2022, India's exports to Turkey increased by more than 30 per cent from 2021, after recovering from a massive downturn in 2021, while UK's exports to Turkey increased almost 28 per cent from the previous year. India exported goods of worth US\$10.01bn to Turkey, while that of the UK was US\$7.99bn. No products are found to be common among their export baskets to Turkey.

Key export items of India to Turkey include light petroleum products, aluminum, flat coils, jewelry and parts and accessories for motor vehicles. Similarly, key export items of the UK to Turkey include gold, silver, engines for the propulsion of vehicles, waste or scrap ferrous, turbojets, and automobile products, and medicaments.

India's FKI values over a period of the last five years while the UK as a competitor in the Turkish market are listed in Table 5.A. Our findings indicate very low similarity between India and the UK's export baskets to Turkey. Similarly, RECPI values are found to be very low over time. However, very low RECPI values indicate that India is not facing any significant competitive pressure from the UK in the Turkish market.

<b>Table 9.A: India's FKI with UK in Turkey</b>					
<b>Competitor</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>UK</b>	0.134	0.153	0.163	0.135	0.126
<b>Table 9.B: India's RECPI with UK in Turkey</b>					
<b>Competitor</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>UK</b>	0.059	0.061	0.348	0.028	0.009
<i>Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database</i>					

Major findings from our SMART analysis reveal that India's exports automobile products may experience a larger hit. Among other items, exports of Liquefied petroleum gases (LPG) or compressed natural gas (CNG), polytetrafluoroethylene (PTEE), flat coil, ethyl acetate and yarn products may face a relatively larger negative impact.

**Table 10: Trade Diversion likely to be experienced by India**

<b>Product Code</b>	<b>Description</b>	<b>Trade Diversion (Thousand US\$)</b>
840734	Engines, spark ignition reciprocating, over 1000 cc	-2749.67
840820	Engines of a kind used for the propulsion of vehicles	-2253.99
840890	Engines, diesel except motor vehicle marine	-715.36
870322	Liquefied petroleum gases (LPG) or compressed natural gas (CNG)	-689.75
720839	Flat -Rolled Products coils greater than 3mm	-496.70
870840	Transmissions for motor vehicles	-443.11
390461	Polytetrafluoroethylene (PTFE)	-369.39
291531	Ethyl acetate.	-324.73
720838	Flatt-rolled products of iron or non-alloy steel	-267.10
540244	Elastomeric Yarn	-261.93

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

### **Food for Thought**

Turkey is India's thirteenth most prominent export destinations. At the same time, the UK is also one of the largest trading partners of Turkey. There is significant competition between India and the UK in accessing Turkey's market. From 2018 to 2020, the value of UK's exports to Turkey was larger than that of India. In 2021, it was reversed and that continued in 2022, where the value of the India's exports to Turkey was larger than that of the UK.

Major exported items from India to Turkey include petroleum products, iron and steel, manmade yarn, fabrics and made ups, auto components/ parts, telecom instruments, industrial machinery for dairy etc., cotton yarn etc. On the other some of the products are common for UK's export to Turkey, vis-à-vis, machinery, mechanical appliances, iron and steel, etc. Furthermore, our findings from the SMART analysis indicate that India's exports of auto component exports may experience a significantly large trade diversion in the Turkish market.

### **b) Impact on India's Exports to UK**

The UK is India's one of the key export destinations. In 2022, while the value of India's exports to the UK was US\$11.24bn, that of Turkey was US\$13.01bn. Light petroleum distillates (Kerosin) is found to be common export items of India and Turkey to the UK.

India's other major export items to the UK include mobile phones, jewellery, medicaments, rubber products, turbojets, machinery products and floating docks. Turkey's other key exports

to the UK include vehicles, textiles, and electronic products. FKI values (see Table 11.A) over the past five years indicate that the total value-share of common export items between India and Turkey to the UK market is ranging in between 23 per cent to 24.8 per cent. Therefore, it indicates that the value is more or less same over time. Moreover, low RECPI values (see table 11.B) indicate that India's average level of exports in those limited common items was larger than that of Turkey.

<b>Table 11.A: India's FKI with Turkey in UK</b>					
<b>Competitor</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Turkey</b>	0.236	0.238	0.212	0.23	0.248
<b>Table 11.B: India's RECPI with Turkey in UK</b>					
<b>Competitor</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Turkey</b>	0.227	0.231	0.18	0.194	0.198
<i>Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database</i>					

In order to better understand possible trade diversion, which is likely to be faced by India from Turkey in the UK market, a SMART analysis has been carried out. As shown in Table 2, some agricultural products are likely to be the negatively affected.

<b>Product Code</b>	<b>Description</b>	<b>Trade Diversion (Thousand US\$)</b>
80610	Fresh Grapes	-16.45
70999	Edible vegetables and certain roots and tubers	-3.60
70993	Other vegetables, fresh or chilled	-2.80
70310	Onions and shallots, fresh or chilled	-2.16
<i>Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database</i>		

### **Food for Thought**

We concluded from our analysis that Turkey is India's rival in the UK market. Turkey exports more to the UK than India does. The UK is India's eighth-largest trading partner, nonetheless. Previously, there were many ups and downs in India's export to the UK. However, since 2020, India's exports to the UK have significantly increased.

However, India and the UK appear to be close to concluding the free trade agreement (FTA) that has been in the works since January, 2021.<sup>4</sup> This FTA focus should be on negotiating special tariff lines on products that are likely to get adversely impacted by other trade agreements of the UK.

<sup>4</sup> <https://www.businesstoday.in/magazine/the-buzz/story/india-uk-free-trade-agreement-heres-how-close-the-two-countries-are-to-signing-the-landmark-agreement-394711-2023-08-18>

## 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.

### Relative Export Competitive Pressure Index

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.