CUTS Dossier on Preferential Trade Agreements and India

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Contents

1. China, South Africa agree to seek balanced trade, more investments

On September 3, 2024, China and South Africa signed several cooperation agreements in Beijing, focusing on expanding trade and increasing two-way investments. The agreements include various sectors such as the application of satellite navigation systems, housing and settlement projects, and export requirements for South African products like dairy and raw wool to China. Both nations are encouraging their business communities to engage more actively in mutual investment opportunities.

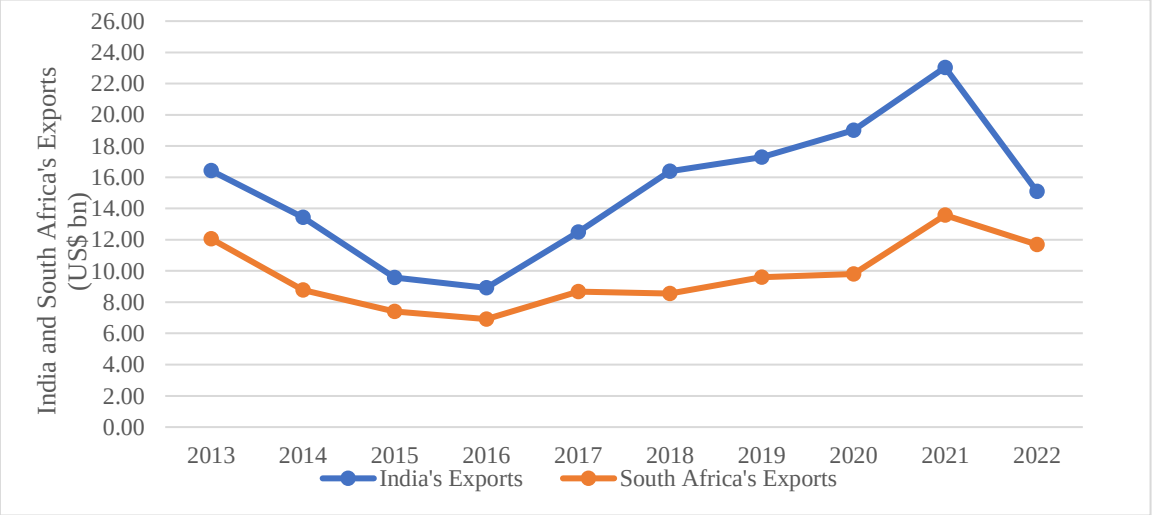
(https://www.reuters.com/markets/china-south-africa-sign-cooperation-documents-trade-more-investments-2024-09-03/)

CUTS Comments

a) Impact on India's exports to China

India's exports to China are larger than that of South Africa's to China. Even though both India and South Africa's exports to China had improved since 2016, India experienced a steady growth as compared to South Africa. After six years of steady growth, both India and South Africa, experienced a negative growth in 2021, with India experiencing a sharper decline as compared to South Africa. Therefore, the gap between India and South Africa's exports to China had reduced, with South Africa's exports reducing to US$ 11.69 billion, while India's exports reducing to US$ 15.08 billion.

Figure 1: India and South Africa's exports to China, 2013-2022



Source: CUTS computations using data from WITS

Among the top ten exports from India and South Africa to China, iron ores and concentrates and ferro-chromium are the only common items exported. India's other key exports include light oils and preparations, shrimps and prawns, broken rice, castor oil and its fractions, human hair, all types of sulphur and granite. These products contribute approximately 42.18 percent of India's total exports to China.

South Africa's key exports to China include natural resource-based products, constituting approximately 79.12 percent of South Africa's total exports to China. Among them, products like iron ores, classified under 260112, 260111, manganese ores, chromium ores, zinc ores and

zirconium ores, constitute approximately 61 percent. Other products like platinum, ferro alloys, unrefined copper and chemical wood pulp, constitute approximately 18.58 percent.

To better understand the respective FTA's impact on India's exports, we use two indices, namely, 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 the two source countries to a specific destination country. The RECPI measures whether a country faces competitive pressure from another country while exporting common items to a third country.

Table 2.A portray that The FKI values have been consistently decreasing since 2020, indicating that either the export baskets of India and South Africa to China share only a few common items, or the contribution of these common items to their total exports to China is relatively low. The RECPI values in Table 2.B indicate that India's value of exports to China is significantly larger than that of South Africa's. As a result, India is unlikely to experience substantial competition from South Africa in the export of common items to China.

Table 2.A: India's FKI with South Africa in the Chinese Market					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
South Africa	0.103	0.157	0.227	0.198	0.127
Table 2.B: India's RECPI with South Africa in the Chinese Market					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
South Africa	0.150	0.387	0.533	0.574	0.344
Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level					

A SMART analysis was conducted to evaluate the potential negative impact on India's exports to the Chinese market due to this FTA. The results suggest that India could face substantial export losses in natural resource-based products such as diamonds and ferro-alloys. Additionally, among the other common products, copper alloys, aluminium alloys, granite, and gemstones like rubies, sapphires, and emeralds might also experience export losses.

Table 3: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (Thousand US$)
710239	Non-industrial diamonds that are worked, but not mounted or set	40747.29
720241	Ferro-alloys that contain more than 4% carbon by weight	5190.50
740319	Refined copper and copper alloys that are unwrought	345.30
760120	Aluminium alloys	251.19
740200	Unrefined copper and copper anodes for electrolytic refining	194.03
251611	Granite, crude or roughly trimmed	168.05
382370	Industrial fatty alcohol	150.90
710391	Rubies, sapphires and emeralds	88.44
740321	Copper-zinc base alloys (brass), unwrought	65.80
251612	Granite, merely cut into blocks or slabs of rectangular or square shape	44.46
Source: CUTS computations using WITS SMART analysis tool		

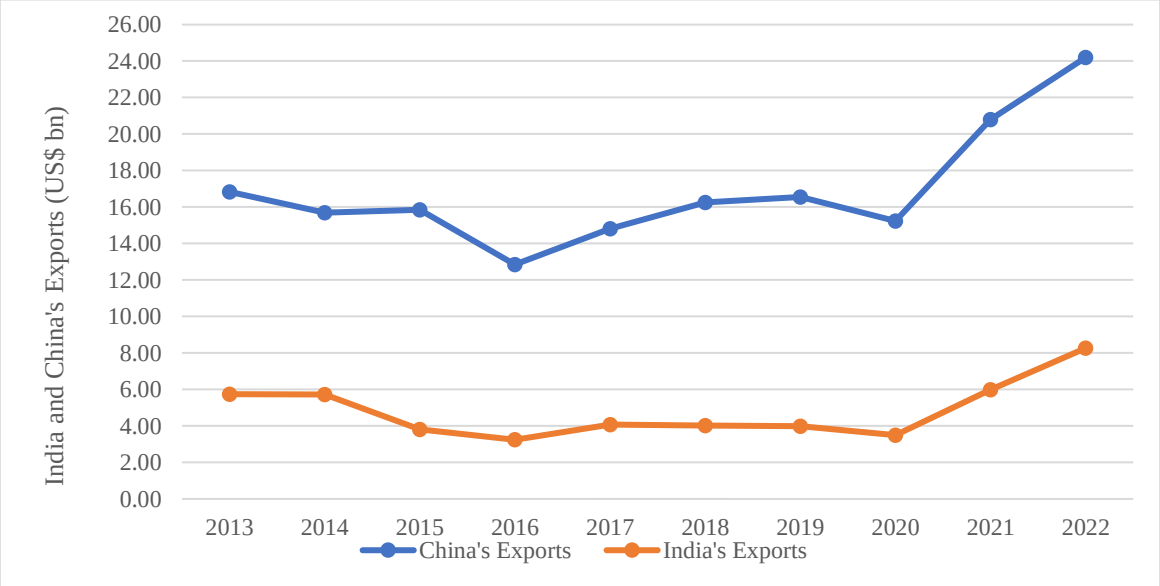
Food for Thought

Overall, India's exports to China are significantly larger than those of South Africa's. While South Africa's export basket is primarily composed of natural resource-based commodities, India's exports to China are more diversified, with minimal common products between India and South Africa's exports to China. South Africa is unlikely to capture India's share of exports to China, as indicated by the FKI and RECPI values. However, there could be a potential challenge from increased competition from the South African products, particularly in case of the natural resource-based items like diamonds, metallic ores and concentrates, like ferro alloys, copper alloys, aluminium alloys, entering the Chinese market. India should carefully assess the potential impact on its affected sectors.

b) Impact on India's exports to South Africa

The value of exports to South Africa from China and India showed a significant disparity over the decade from 2013 to 2022. This gap widened notably during 2016-2019, when China's exports experienced steady and substantial growth. While India's exports also improved slightly during this period, the increase was not as pronounced as China's. Following the COVID-19 pandemic, China's exports to South Africa surged even more dramatically, further widening the export gap between India and China.

Figure 4: India and China's exports to South Africa, 2013-2022



Source: CUTS computations using data from WITS

India's exports to South Africa are dominated by petroleum oils, classified under HS codes 271012 and 271019. In 2022, these petroleum products alone accounted for nearly half (43%) of India's total exports to the country. Other key export items from India include motor cars and vehicles, medicines, electrical machinery and equipment, and non-industrial diamonds.

China's key export items to South Africa share some similarities with India's, including mobile telephones, motor cars, and petroleum oils. However, the composition and volume of these exports differ. In 2022, while India dominated in petroleum oil exports and had relatively larger exports of motor cars, China excelled in mobile phone exports. Other significant Chinese exports to South Africa include various electric machinery and equipment, readymade garments, and toys.

Table 5.A represents the Finger-Kreinin Index (FKI) values between India and China, ranging between 0.201 to 0.184. It indicates that either the number of common items in the export baskets of these two countries to South Africa is very low, or the value-addition of the common items to the total value of exports of either of the countries is significantly low.

Table 5.B showcases the Relative Export Competitive Pressure Index (RECPI) values, which indicate that India's export value-share of common items are much larger than that of China.

Table 5.A: India's FKI with China in the South African Market					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
China	0.205	0.231	0.206	0.184	0.201
Table 5.B: India's RECPI with China in the South African Market					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
China	0.205	0.299	0.131	0.088	0.197
Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level					

Findings from SMART analysis reveal that if South Africa offers zero duty to all imports from China, then Indian exports of motor vehicles and their parts, chemical products, apparel and other items, appliances, and certain industrial engineering products will face trade diversion.

Table 6: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (Thousand US$)
870322	Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars.	45163.34
870323	Passenger motor vehicles with spark-ignition internal combustion reciprocating piston engine, cylinder capacity over 1,500 cc	5943.27
281512	Sodium hydroxide (caustic soda) in aqueous solution	2756.96
870421	Motor vehicles for goods transport others, with compression-ignition internal combustion piston engine (diesel), gvw not over 5 metric tons	2445.24
610990	T-shirts, singlets and other vests, knitted or crocheted -of other textile materials: of synthetic fibres	1882.47
620442	Women's or girls' dresses of cotton, not knitted or crocheted.	1625.15
848180	Taps, cocks, valves, and similar appliances for pipes, vats, boiler shells, tanks, and the like	941.26
630710	Floorcloths, dishcloths, dusters and similar cleaning cloths.	910.99
870829	Parts and accessories of bodies (including cabs) for motor vehicles	873.60
830241	Base metal mountings, fittings, and similar products that are suitable for building	807.69
Source: CUTS computations using WITS SMART analysis tool		

Food for Thought

South Africa was the first African country to sign a Memorandum of Understanding with China for its strategic Belt and Road Initiative. This initiative aims to connect Asia with Europe and Africa via land and maritime transport, with the objective of strengthening regional integration through trade and investment and achieving sustained growth. The resulting balanced trade pact between China and South Africa is a natural outcome of China's geopolitical strategy. China's growing dominance in the South African market is already evident in trade data.

Our analysis suggests that India's exports in the automobile sector are most at risk, followed closely by the electronics sector. Indian exporters are likely to face stiff competition from China in these areas. India has not remained passive in response to China's Belt and Road Initiative. It has taken various countermeasures, including extending more grants and investments to Africa. Specifically in trade, India is poised to begin Free Trade Agreement (FTA) negotiations with South Africa. This proactive approach offers hope that India can implement remedial measures to stabilize its expected export losses in the automobile and electronics sectors.

It's worth noting that while India is exploring renewed negotiations with South Africa for new FTA deals, the outcome of these talks and their potential impact on trade dynamics remain to be seen. These negotiations could potentially provide India with opportunities to strengthen its position in the South African market and mitigate some of the competitive pressures from China.

2. S. Korea, Malaysia resume free trade talks after 5-year hiatus

South Korea resumes negotiations with Malaysia to secure a bilateral free trade agreement (FTA) after a four-year pause. With this fourth round of talks taking place in Kuala Lumpur, it aims to deepen economic ties through discussions on services, investment, and collaboration in digital, green, and bio industries. While South Korea already has an FTA with ASEAN, it seeks individual trade deals with member countries to strengthen trade and investment ties under a mutually beneficial system.

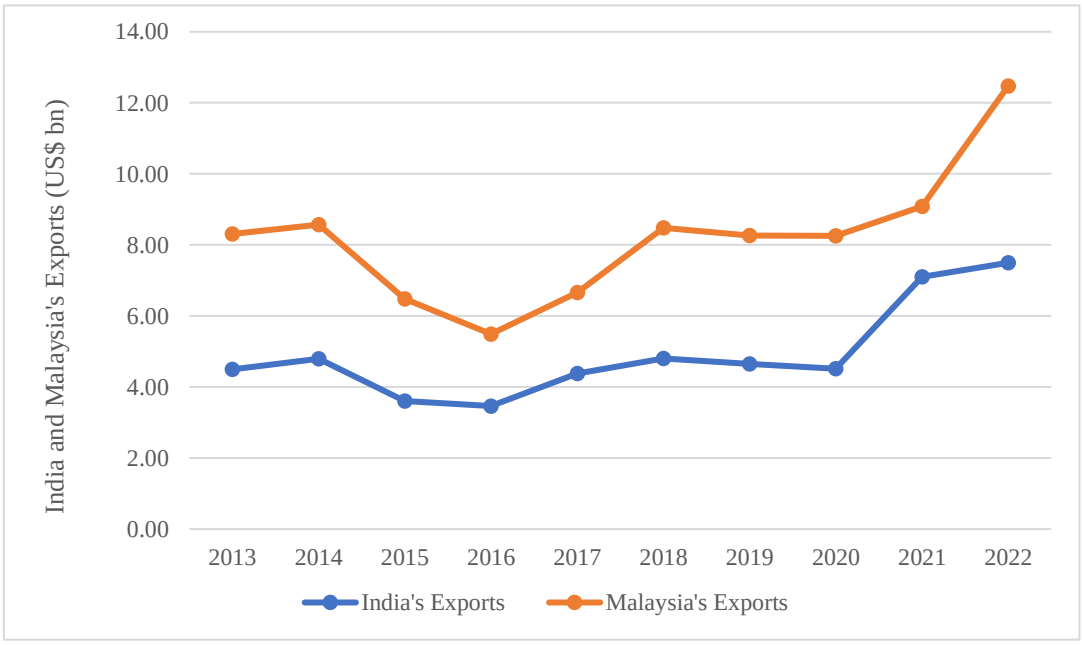
(*https://en.yna.co.kr/view/AEN20240820001300320*)

CUTS Comments

a) Impact on India's exports to South Korea

Malaysia's exports to South Korea have consistently exceeded than India's exports to South Korea, with the gap widening after 2021. In 2022, India's exports to South Korea reached $7.50 billion, while Malaysia's trade with South Korea amounted to $12.48 billion. This highlights a significant disparity in trade volumes between the two countries in relation to the South Korean market.

Figure 7: India and Malaysia's exports to South Korea, 2013-2022



Source: CUTS calculations using data from WITS

Among the top ten exports of India and the Malaysia to South Korea, non-alloyed unwrought aluminium and petroleum oils are the only common item. India's key export items to South Korea include ferro-chromium alloys, non-alloyed unwrought aluminium, petroleum oils, refined lead, amongst many. These products collectively account for 40% of India's exports to South Korea.

In contrast, Malaysia's key export products to South Korea include liquefied natural gas (LNG), electronic integrated circuits and its parts, non-alloyed unwrought aluminium and petroleum oils, amongst many. These items constitute 46% of Malaysia's total exports to South Korea.

Table 8.A list the Finger-Kreinin Index (FKI) values of India in the South Korean market over five years, with Malaysia as the competitor. The FKI values are low, hence either there are a few common products in India and Malaysia's export baskets to the South Korea, or the contribution of these common items in either country's export baskets is significantly low. Therefore, India will not face significant export loss in the South Korean market due to this Free Trade Agreement (FTA).

Moreover, the Table 8.B lists Relative Export Competitive Pressure Index (RECPI) values decreasing from 2018 to 2022, indicating that on average, India's export value-share and export levels of common items are considerably higher than Malaysia's. This implies that Malaysia does not pose a major competitive threat to India in the South Korean market.

Table 8.A: India's FKI with Malaysia in the South Korean Market					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
Malaysia	0.144	0.120	0.102	0.109	0.094
Table 8.B: India's RECPI with Malaysia in the South Korean Market					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
Malaysia	0.322	0.269	0.178	0.117	0.113
Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level					

A SMART analysis was conducted to assess the potential negative impact on India's exports to South Korea. This analysis simulates a scenario where South Korea offers zero-duty access to all Malaysian products under their Free Trade Agreement (FTA). The findings indicate that certain metal alloys like aluminium, iron, shrimps, fatty acids and acid oils, vegetable oils are likely to be the most affected sectors for India's exports to the South Korea under this scenario.

Table 9: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (Thousand US$)
760110	Aluminium alloys	2946.20
720230	Ferrosilicon manganese, a ferro-alloy	869.59
030617	Shrimps and prawns	458.35
382319	Industrial monocarboxylic fatty acids, acid oils from refining, and other industrial fatty alcohols	394.04
293090	Organo-sulphur compounds	175.78
848060	Molds for mineral materials	169.95
151620	Vegetable fats and oils and their fractions	153.53
210410	Soups and broths and preparations therefor	148.34
210690	Food preparations	99.08
382370	Industrial fatty alcohols, industrial monocarboxylic fatty acids, and acid oils from refining	96.39
Source: CUTS computations using WITS SMART analysis tool		

Food for Thought

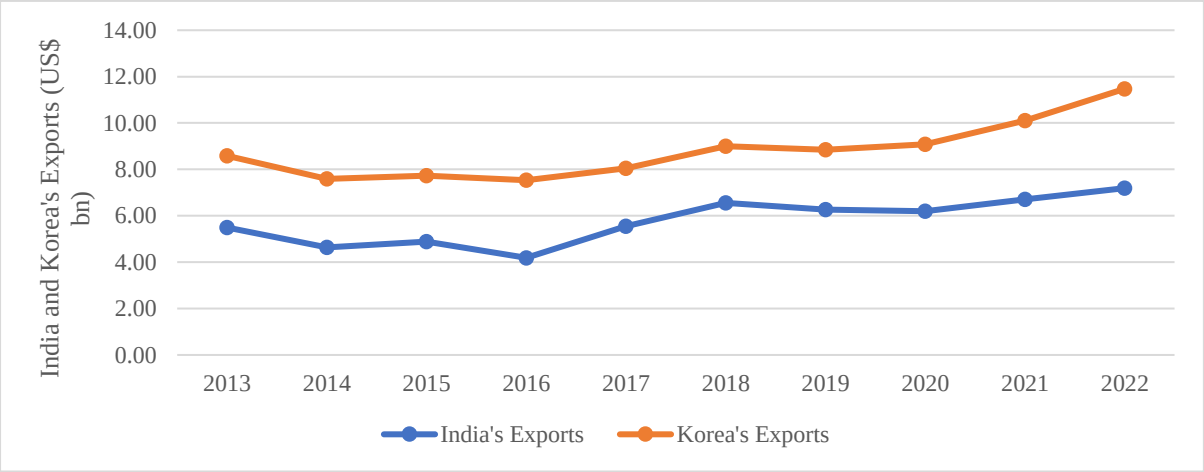
The competitive pressure from Malaysia is comparatively very low for India in the South Korean market, with certain products like metallic alloys and seafood items may experience export losses in this market.

The India-Korea Comprehensive Economic Partnership Agreement (CEPA) should boost India's exports of the existing items to South Korea. Along with that, Indian exporters can potentially expand their market share in South Korea, even in the specific sectors where competition from Malaysia is arising.

a) Impact on India's exports to Malaysia

Since 2013, both India and South Korea have steadily increased their exports to Malaysia, with South Korea maintaining a slight lead over India, following a similar growth trajectory. By 2022, India's exports to Malaysia reached $7.19 billion, while South Korea's exports stood at $11.49 billion. This reflects comparatively stronger presence of South Korea's in the Malaysian market as compared to India.

Figure 10: India and the South Korea's exports to Malaysia, 2013-2022



Source: CUTS calculations using data from WITS

Among the top ten exports of India and South Korea to Malaysia, the common products are petroleum oils and other oils from bituminous minerals, chemical wood pulp, soda, non-coniferous and semi-bleached or bleached sulphate and light-vessels, fire-floats, dredgers, floating cranes. Anong the top 10 common items exported, petroleum oils and other oils from bituminous minerals are the most exported item by both India and South Korea to Malaysia.

Furthermore, India's unique top exports to Malaysia include non-alloyed unwrought aluminium, boneless meat from bovine animals, p-xylene, a cyclic hydrocarbon, floating or submersible drilling or production platforms. These products constitute approximately 40% of India's total exports to Malaysia.

On the other hand, South Korea's unique top exports to Malaysia include light vessels, fire floats, dredgers, floating cranes, electronic integrated circuits, processors, and controllers, light oils and preparations, latex made from acrylonitrile-butadiene rubber. These items account for about 36% of South Korea's total exports to Malaysia.

Table 11.A presents the FKI values for the past five years from 2018-2022 for India in the Malaysian market when South Korea is the competitor. They indicate that either there is a small number of common items between India and South Korea's export baskets to Malaysia or the contribution of those common items to the total value of exports is small for either of the countries.

RECPI values (see Table 11.B below) indicate that until 2021, the values were low, inferencing that on average India's level of exports and export value-share of common items was comparatively larger than that of South Korea's. In 2022, the RECPI value was quite significant, implying that the export volume or the export value-share of the common items has become almost equal between India and South Korea, exporting to Malaysia. It implies that there is a possibility of a reduction of India's exports to Malaysia as a result of this FTA.

Table 11.A: India's FKI with South Korea in the Malaysian Market					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
South Korea	0.258	0.271	0.233	0.196	0.266
Table 11.B: India's RECPI with South Korea in the Malaysian Market					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
South Korea	0.429	0.490	0.375	0.435	0.926
Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level					

Our SMART analysis anticipates the adverse effect on India's exports to Malaysia, which may be realized if the exports from South Korea to Malaysia are allowed duty-free under this FTA. The findings from the SMART analysis indicate that several products such as lead batteries, tubes and pipes, paper, clays, amongst many may be affected slightly due to the FTA.

Table 12: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (Thousand US$)
850710	Lead-acid storage batteries used to start piston engines	706.27
730511	Tubes and pipes, having circular cross-sections, the external diameter of which exceeds 406.4 mm, made of iron or steel	650.97
720917	Flat- rolled products of iron or non-alloy steel, of a width of 600 mm or more	632.30
481092	Paper and paperboard	493.26
150290	Fats from bovine animals, sheep, or goats	357.76
854460	Insulated electric conductors	238.78
721391	Hot-rolled bars and rods of iron or non-alloy steel	201.86
720838	Flat-rolled products of iron or non-alloy steel that are hot-rolled, not clad, plated, or coated, and are at least 600 mm wide	133.18
250840	Clays (andalusite, kyanite and sillimanite, whether or not calcined; mullite; chamotte or dinas earths)	116.87
780191	Unwrought lead that contains antimony by weight as its main other element	110.12
Source: CUTS computations using WITS SMART analysis tool		

Food for Thought

Like a majority of the FTAs, the agreement may have some negative impact on India. The recent RECPI value being close to 1 throws light upon the fact that the exports volume and the value share of India and South Korea to Malaysia is almost the same. To mitigate potential negative effects and enhance trade relations, India should consider re-negotiating the Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA), signed in 2011, further strengthening India's trade with Malaysia.

3. Kenya, US in rush to conclude free trade pact as Biden leaves

Kenya and the U.S. are speeding up to finalize a free trade agreement (FTA) under the Strategic Trade and Investment Partnership (STIP) before President Biden leaves office. Initially started during Trump's administration, the talks aim to boost investment, economic growth, and reduce Chinese influence in East Africa. The FTA would be the first between the U.S. and a sub-Saharan African country. Both nations hope to complete it before the African Growth and Opportunity Act (AGOA) expires in 2025.

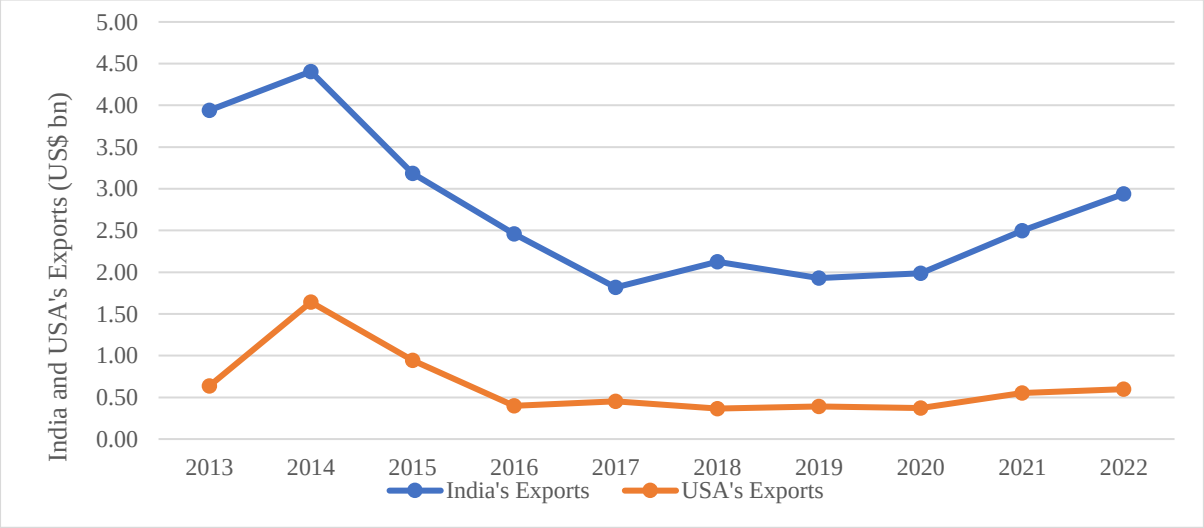
(*https://www.standardmedia.co.ke/business/business/article/2001500583/kenya-us-in-rush-to-conclude-free-trade-pact-as-biden-leaves*)

CUTS Comments

a) Impact on India's exports to Kenya

India's exports to Kenya are considerably larger than USA's merchandise exports to Kenya. In 2022 India's exports to Kenya were valued at US$ 2.94 billion, while USA's exports to Kenya were below the one-billion-dollar mark, amounting to just US$ 0.60 billion.

Figure 13: India and USA's exports to Kenya, 2013-2022



Source: CUTS calculations using data from WITS

Among the top 10 exported commodities by India and the USA to Kenya, the common one is human medicinal vaccines. India's top 10 export items to Kenya include petroleum oils, medicaments, motorcycles and cycles with auxiliary motor, semi-finished products of iron or non-alloy steel, amongst many. These products constitute approximately 52% of India's total exports to Kenya.

USA's top 10 export items to Kenya include liquefied butanes, human medicinal vaccines, helicopters and other aircraft, liquified propane, wheat and meslin, amongst many. These products constitute approximately 27% of the USA's total exports to Kenya.

Table 14.A presents the FKI values for the past five years from 2018-2022 for India in the Kenyan market, if the USA is the competitor. They indicate that either there is a small number

of common items between India and USA's export baskets to Kenya or the contribution of those common items to the total value of exports is small for either of the countries.

RECPI values (see Table 14.B below) indicate that on average India's level of exports and export value-share of common items to Kenya is significantly larger than that of the USA. It implies that there is not much possibility of a reduction of India's exports to Kenya as a result of this FTA.

Table 14.A: India's FKI with the USA in the Kenyan Market					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
USA	0.152	0.156	0.125	0.132	0.093
Table 14.B: India's RECPI with the USA in the Kenyan Market					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
USA	0.005	0.007	0.004	0.016	0.006
Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level					

A SMART analysis has been conducted to anticipate the potential adverse effects on India's exports to Kenya, which may arise if Kenya offers zero-duty access on all products to USA in case the FTA is implemented. The findings of our analysis suggest that India's sectors like food preparation, air and vacuum pumps, self-adhesive plates, lead-acid storage batteries, amongst will be slightly affected.

Table 15: Trade Diversion likely to be experienced by India

Product Code	**Description**	**Trade Diversion (Thousand US$)**
210690	Food preparations that are not otherwise specified or included	156.77
853710	Boards, panels, consoles, desks, cabinets, and other bases	99.67
841480	Air or vacuum pumps, air or other gas compressors, and fans, as well as ventilating or recycling hoods	85.84
220830	Bourbon whiskey in containers holding 2 ltr or less	58.33
391990	Self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls	43.90
850720	Lead-acid storage batteries	37.56
820719	Lead-acid batteries used in starting generators	36.01
841459	Air or vacuum pumps, air or other gas compressors, fans, and ventilating or recycling hoods with a fan	35.15
854430	Insulated ignition wiring sets and other wiring sets for vehicles, aircraft, and ships	30.29
841590	Parts for air conditioning machines	28.38
Source: CUTS computations using WITS SMART analysis tool		

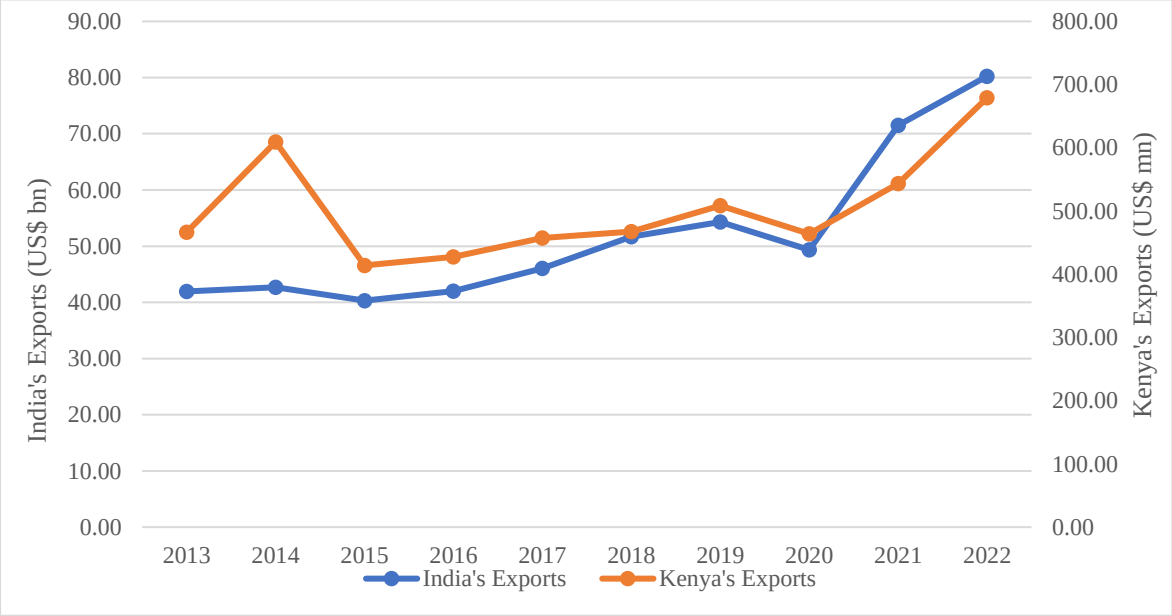
Food for Thought

The FKI and RECPI values prove that India and the USA does not have much commonality in their export baskets to Kenya. Even the export share or volume of the common products are so low that it is not acting as a threat to India's market share in Kenya. For products like food preparation, boards, panels, consoles might face slight trade diversion. India had signed a trade agreement with Kenya in 1981. But there is a need for an FTA between the two nations to boost their trade and improve it further.

b) Impact on India's exports to USA

India's exports to the USA are remarkably higher than that of Kenya's exports, even though since 2020 the exports by both the countries to the USA had increased steeply. USA being the biggest export destination for India, India's exports to the USA reached US$ 80.23 billion in 2022. In contrast, Kenya's exports to the USA have increased to US$ 678.98 million in 2022.

Figure 16: India and Kenya's Exports to USA, 2013-2022



Source: CUTS calculations using data from WITS

The key items exported by India to the USA include diamonds, medicaments, petroleum oils, jewellery made of precious metals, frozen shrimps, among many. These products are constituting approximately 35% of India's total exports to the USA.

On the other hand, Kenya's key export items to the USA include men's or boys' clothing items made of cotton, green coffee beans, women's or girls' trousers, macadamia nuts, titanium ores and concentrates, among many. These products are constituting about 42% of Kenya's total exports to the USA.

The following table presents India's FKI (Finger-Kreinin Index) values over five years in the American market, with Kenya as the competitor market. FKI values are not significant. This implies either that there are limited common items between India and Kenya's export baskets to the USA, or that the value-addition of those common items in the export baskets of either

country is relatively low. Consequently, this suggests that India does not face a high risk of substantial export loss in the American market.

The RECPI (Revealed Export Competitive Pressure Index) values, approaching zero, further support this conclusion. On average, Kenya's export value of these common products is significantly smaller than that of India.

Table 17.A: India's FKI with Kenya in the USA Market					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
Thailand	0.062	0.064	0.055	0.065	0.058
Table 17.B: India's RECPI with Kenya in the USA Market					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
Thailand	0.0002	0.0004	0.0003	0.0003	0.0004
Source: CUTS Computations using TradeSift software and data from WITS at HS 6-digit level					

To anticipate the potential adverse effects on India's exports to the USA, which may occur if USA offers zero-duty access on all products to Kenya under this FTA, a SMART analysis has been conducted. Our findings from the SMART analysis indicate that certain products in sectors, such as tobacco, essences, trunks, suitcases, food preparations, bedding articles may be impacted, but considering the trade diversion values it seems that it is unlikely to impact in the Indian economy.

Table 18: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (Thousand US$)
210120	Extracts, essences and concentrates, of tea or mate, and pre-parathions with a basis of these extracts, essences or concentrates or with a basis of tea or mate	60.96
240110	Tobacco, not stemmed or stripped	1.26
420292	Container bags, boxes, cases and satchels, with outer surface of sheeting of plastics or of textile materials	0.58
420222	Trunks, suitcases, vanity cases, executive cases, brief cases, school satchels, spectacle cases, binocular cases, camera cases, and musical instrument cases	0.37
210690	Food Preparations	0.20
40590	Dairy products, such as butter oil and ghee	0.12
940490	Articles of bedding and similar furnishings (except mattresses and sleeping bags), fitted or stuffed etc., including quilts, pillows and cushions	0.09
71290	Vegetables and vegetable mixtures	0.08
210390	Sauces, preparations, mixed condiments, and mixed seasonings	0.05
640520	Footwear others, with uppers of textile materials	0.01
Source: CUTS computations using WITS SMART analysis tool		

Food for Thought

India’s economy is significantly larger than Kenya's. An analysis of FKI and RECPI values reveals that there are very few common products in the export baskets of both countries. The data indicates that India holds a stronger position than Kenya in the American market. However, there is a possibility of minor trade diversion for products such as food preparations, tobacco, and luggage items like trunks and suitcases. To mitigate potential negative impacts and enhance trade relations, India should consider negotiating its own FTA with the USA, a key trade partner. Such a strategy could further bolster India’s trade relationship with the USA.

Annexure I

Finger-Kreinin Index

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

FKI to a Destination Country

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

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

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