

CUTS Dossier on Preferential Trade Agreements and India
October-December, 2022
(Volume XVI, No. 4)

Contents

1. Indonesia, EU to expedite IEU-CEPA negotiations	2
CUTS Comments	2
a) Impact on India's Exports to Indonesia	2
Food for Thought	3
b) Impact on India's Exports to the EU	4
Food for Thought	5
2. Britain begins preparations for South Korea trade talks.....	6
CUTS Comments	6
a) Impact on India's Exports to South Korea.....	6
Food for Thought	7
b) Impact on India's Exports to the UK.....	7
Food for Thought	8
3. Cambodia-Korea FTA came into force from 1st December 2021	9
CUTS Comments	9
a) Impact on India's Exports to South Korea.....	9
Food for Thought	10
b) Impact on India's Exports to the Cambodia	10
Food for Thought	11
Annexure I	12
Finger-Kreinin Index	12
RECPI	12

1. Indonesia, EU to expedite IEU-CEPA negotiations

The Indonesian and EU delegations are committed to accelerating negotiations according to instructions from the presidents of the two countries," the Indonesian Trade Ministry's Director of Bilateral Negotiations, Johni Martha, noted in a statement.

Indonesia and EU made progress in discussing various issues in their 12th round of the IEU-CEPA. This round discussed 15 negotiating issues: trade in goods; terms of origin of goods; trade security instruments; trade technical barriers; excise and trade facilitation; and trade in services; investment; investment dispute resolution; government procurement; trade and sustainable development; transparency and good regulatory practice; mutual administrative assistance; dispute resolution; institutional provisions; and economic cooperation and capacity building.

<https://en.antaranews.com/news/266490/indonesia-eu-to-expedite-ieu-cepa-negotiations>

CUTS Comments

a) Impact on India's Exports to Indonesia

India's exports to Indonesia got a massive hike of 85 per cent in 2021, when it reached US\$ 8.09 billion. The value of the EU's exports to Indonesia was US\$ 9.97 billion in the same year. Not much commonality was found among the key export items of India and the EU to Indonesia. Only one type of motor vehicles (used for transportation of goods) is found to be common as key export items.

India's other key export items to Indonesia include bituminous minerals, light vessels, meat of Bovine animals, groundnuts and raw cane sugar. On the other hand, the EU's other key export items to Indonesia include vaccines, powered aircrafts like helicopters and aero planes.

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

Table 1.A presents FKI values for India over a period of five years in the Indonesian market with the EU as one of its competitors. As shown in Table 1.A, the FKI values are low and more or less same over time. It indicates a very small degree of homogeneity in the composition of exports of India and its competitor, the EU, in the Indonesian market.

On the other hand, if the EU's average level of exports in common items are higher than that of India, the RECPI value will be greater than one. It means that India will face significant competitive pressure from the EU in its exports of selected common items to Indonesia. However, as shown in Table 1.B, India's average level of exports to Indonesia in common items is much larger than that of the EU. Thus, India does not face any competitive pressure from the EU in exports of common items to Indonesia.

Table 1.A: India's FKI with EU in Indonesia					
Competitor	2017	2018	2019	2021	2021
EU	0.19	0.19	0.19	0.20	0.17
Table 1.B: India's RECPI with EU in Indonesia					
Competitor	2017	2018	2019	2021	2021
EU	0.03	0.07	0.02	0.10	0.11
<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 the EU in the Indonesian market as a result of the proposed FTA, a SMART analysis has been carried out. As shown in Table 2, India may face significant trade diversion in motor cars and other similar vehicles, and transport equipment. Apart from them, exports of various medicinal products and vegetables may also be negatively affected.

Table 2: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
870410	Dumpers for off-highway use	-6925.32
870322	Motor cars and other Vehicles	-3730
300490	Ayurvedic medicines	-2188.39
870423	Vehicles exceeding gross weight of 20 tonnes	-1297.83
300220	Vaccines for human medicines	-743.35
70190	Fresh or chilled potatoes	-543.10
<i>Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database</i>		

Food for Thought

India's trade with Indonesia is continuously improving. In 2019, Indonesia was India's 20th largest export destination. As per recently published DGCI&S trade data, in the April-October, 2022 period, India's value of exports to Indonesia was 10th largest relative to its other destinations.

The EU is another large source of imports for Indonesia. Hence, this FTA may cause a significant impact on India's exports to Indonesia. However, our findings from the FKI and RECPI analyses indicate that there is less similarity in the nature of exports of both India and the EU to Indonesia.

Moreover, our findings from the SMART analysis indicate that India's exports from some specific sectors such as automobiles, transport, and pharmaceuticals may significantly reduce. Hence, Indian exporters of these sectors should be kept alert of this FTA and the government should think about any remedial measures.

b) Impact on India's Exports to the EU

After North America, the EU is the second largest export destination of India. India's level of total exports to the EU is much larger than that of Indonesia. In 2021, while India's exports to the EU was US\$ 69.4 billion, that of Indonesia was US\$ 19.5 billion. Among key export items of both India and Indonesia to the EU, various types of footwears and furniture are found to be common.

Other major export items of India to the EU include petroleum oils, diamonds, medicines and mobile phones. Similarly, Indonesia's key exports to the EU include palm oil, fatty Acids, metal, copper ores and sports footwear.

FKI values over the past five years (as shown in Table 3.A) indicate that there is very less similarity in the export baskets of India and Indonesia to the EU. The RECPI values (as shown in Table 3.B) indicate that Indonesia's average level of exports in those common export items is much lower than that of India.

Table 3.A: India's FKI with Indonesia in EU					
Competitor	2017	2018	2019	2020	2021
Indonesia	0.18	0.17	0.19	0.18	0.17

Table 3.B: India's RECPI with Indonesia in EU					
Competitor	2017	2018	2019	2020	2021
Indonesia	0.04	0.02	0.03	0.04	0.02

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 exports of a variety of Indian footwears along with some textiles and apparel items such as cotton shirts, blouses, and jerseys, dresses of synthetic and artificial fibers may be negatively affected.

Table 4: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
640399	Leather Sandals	-2749.61
620640	Blouses and Shirts of Man-made Fibres	-1585.91
640391	Leather footwear	-1055.78
620443	Dresses of Synthetic Fibres	-1030.98
620444	Dresses of Artificial Fibres	-1010.12
610462	Shirts, Trousers of Cotton	-943.29
640411	Sports Footwear	-919.95
151620	Vegetable Fats and oil	-766.32
620630	Blouses and Shirts of Cotton	-611.31
611020	Cotton Jerseys	-592.32
620442	Dresses of Cotton	-565.19
620520	Men's or Boys Shirts of Cotton	-534.21
630533	Bags of Polyethylene	-517.85

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

Food for Thought

Our findings from the SMART analysis indicate that India's exports of textiles and apparel, and footwear to the EU may get negatively affected. Overall, Indian textiles and apparel exports have larger penetration in the EU market than that of Indonesia. In 2021, while India's contribution to the EU's textiles and apparel imports was 3.2 per cent, that of Indonesia was 0.76 per cent.

However, India's textiles and apparel exports of some specific tariff lines, as identified by the SMART analysis, may significantly reduce. In case of footwear, both India and Indonesia have more or less same contribution to the EU's imports. In 2021, while India's contribution to the EU's footwear imports was 2.03 per cent, that of Indonesia was 2.59 pe cent.

Within a couple of years, a comprehensive FTA between India and the EU is likely to be signed. Indian negotiators should take into account this expected impact and demand preferential treatments for these specific products and industries from the EU.

2. Britain begins preparations for South Korea trade talks

Britain began preparations for trade talks with South Korea, starting a consultation with businesses and individuals about what they want to see in a future free trade agreement as it looks to expand the 14.3 billion pound (\$17.5 billion) bilateral trading relationship.

The negotiation of trade deals around the world is a main plank of Britain's vision for itself after leaving the European Union, and London is seeking to build ties with Asian countries as part of an Indo-Pacific tilt in its foreign policy.

Britain has signed free trade agreements with Australia and New Zealand since leaving the EU, and is in talks for trade deals with the likes of India, Mexico and Canada. Britain also wants to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

<https://www.reuters.com/world/britain-begins-preparations-skorea-trade-talks-2022-12-09/>

CUTS Comments

a) Impact on India's Exports to South Korea

In 2021, while India's exports to South Korea experienced a high growth of more than 50 per cent, that of the UK was also significantly high - above 30 per cent. In 2021, the value of India's exports to South Korea was US\$ 7.10 billion, that of the UK was US\$ 6.46 billion. Petroleum oil is found to be the only common key export items of both India and the UK to South Korea.

The key export items of India to South Korea include mineral items such as aluminum, lead, ferro-alloys and agglomerated iron ores and concentrates. In 2021, they constituted half of India's total exports to South Korea. Similarly, key export items of the UK to South Korea include rhodium, turbojets, palladium, motor cars and motor vehicles. In 2021, they constituted 40 per cent of the UK's total exports to South Korea.

Both India's FKI and RECPI values over a period of the last five years (see Table 5.A and 5.B) are very low. Overall, there is a limited number of common products of export interests of India and South Korea to the UK and the average level of India's exports to South Korea in those common products is much larger than that of the UK.

Table 5.A: India's FKI with the UK in South Korea					
Competitor	2017	2018	2019	2020	2021
UK	0.07	0.07	0.09	0.09	0.08
Table 5.B: India's RECPI with UK in South Korea					
Competitor	2017	2018	2019	2020	2021
UK	0.007	0.007	0.012	0.004	0.002
<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 food items and beverages. However, the magnitude of the loss will be small (see Table 6).

Table 6: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
130219	Vegetable Extracts	-29.40
190190	Food Preparations	-15.14
330190	Oleoresin	-12.64
210690	Soft drink Concentrates	-3.34
190120	Mixes and doughs for the preparation of bakers	-2.77
<i>Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database</i>		

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. A 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, renegotiations have started and a 9th Round of talks had been concluded in the first week of November, 2022.¹

Our findings indicate that as a result of this FTA India may not loss much in exports to South Korea. In addition, some favorable treatments in the upgraded CEPA may help India to avoid the expected loss.

b) Impact on India's Exports to the UK

The UK is India's eighth largest export destination. In 2021, while the value of India's exports to the UK was US\$ 10.37 billion, that of South Korea was US\$ 5.96 billion. Mobile and telephone sets, and machinery parts are found to be common export items of India and South Korea to the UK.

India's other major export items to the UK include ayurvedic and homeopathic medicines, articles of jewelry, semi-manufactured silver and turbojets. South Korea's other key exports to the UK include motor vehicles with only electric motor, and vehicles with both spark-ignition internal combustion piston engine and electric motor. In 2021, these export items constituted one-third of South Korea's total exports to the UK.

FKI values (see Table 7.A) over the past five years indicate that there a limited number of common items in India and South Korea's export baskets to the UK. Moreover, low RECPI

¹ India raises concerns over growing trade deficit with South Korea; India News; Nov 06, 2022. <https://www.hindustantimes.com/india-news/india-raises-concerns-over-growing-trade-deficit-with-south-korea-101667674287156.html>

values (see Table 7.B) indicate that India’s average level of exports in those limited common items was larger than that of South Korea.

Table 7.A: India’s FKI with South Korea in the UK					
Competitor	2017	2018	2019	2020	2021
South Korea	0.14	0.16	0.16	0.19	0.19
Table 7.B: India’s RECPI with South Korea in the UK					
Competitor	2017	2018	2019	2020	2021
South Korea	0.28	0.25	0.22	0.22	0.27
<i>Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database</i>					

Our findings from the SMART analysis reveal that India may loss in exports of a limited number of products, but the magnitude of such loss is negligible. Polymers of ethylene in primary forms, electric motors and generators, direction finding compasses, and persimmons are such negatively affected products.

Table 8: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
390190	Polymers of Ethylene in Primary Forms	-0.10
850131	Electric Motors and Generators with 75W limit	-0.006
901410	Direction finding compasses	-0.006
81070	Persimmons	-0.001
<i>Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database</i>		

Food for Thought

Level of exports of India to the UK is very large than that of South Korea. Our findings from FKI and RECPI indicate a very limited number of common products in India and South Korea’s export baskets to the UK and average level of India’s exports in those common products is much larger than that of South Korea. Furthermore, our findings from SMART analysis indicate that as a result of this FTA there is a limited number of products in which India may experience loss in exports to the UK. However, the magnitude of this loss will be negligible.

Hence, while aiming for more market access in the UK, Indian exporters may not be much concerned about this FTA. Moreover, negotiations to sign a trade deal between India and the UK has made a significant progress and it is aimed at doubling their bilateral trade to US\$ 100 billion by 2030.² This trade deal is expected to signed soon and even Indian exporters of contested export items are likely to benefit from it.

² India, UK start FTA negotiations to double bilateral trade by 2030; Business Standard; 13th January, 2022; https://www.business-standard.com/article/economy-policy/india-uk-start-fta-negotiations-to-double-bilateral-trade-by-2030-122011301239_1.html

3. Cambodia-Korea FTA came into force from 1st December 2021

The Cambodia-Korea Free Trade Agreement or CKFTA came into force from 1st December 2021 and will be used by two parties to encourage more investors from The Republic of South Korea to invest in the Kingdom and export products to the Korean counterpart and third countries, according to a senior official of the Ministry of Commerce (MoC).

Under CKFTA, Cambodia is expected to receive over 95 percent of the total tariff lines from the Republic of Korea to export 92 percent of all of its goods to the latter at zero percent of customs duty immediately after the agreement is entered into.

CKFTA is expected to foster Cambodia's exports to the Republic of Korea such as garments, textiles, foot wears, bags, accessories, electronic devices, rubbers and agricultural products, according to the statement, adding that CKFTA is the second bilateral free trade agreement for Cambodia following the bilateral free trade agreement between the Kingdom and China that was enforced in January 2021.

<https://www.khmertimeskh.com/501194186/Cambodia-korea-fta-comes-into-force-today/>

CUTS Comments

a) Impact on India's Exports to South Korea

In 2021, while the value of India's exports to South Korea was US\$ 7.10 billion, that of Cambodia was just US\$ 194.09 million. Key export items of India to South Korea include mineral items such as petroleum oils, aluminum, lead, ferro-Alloys and agglomerated iron ores and concentrates. In 2021, these key export items constituted half of India's total exports to South Korea. Similarly, major export items of Cambodia to South Korea include electric conductors of less than 1000 voltage, different types of footwear, and waste and scrap of aluminum. In 2021, they constituted more than one-third of Cambodia's total exports to South Korea.

India's FKI values over a period of last five years with Cambodia as a competitor in South Korea are presented in Table 9.A. They indicate a very low similarity in export items of India and Cambodia to South Korea. RECPI values (see Table 9.B) confirm that India's average level of exports to South Korea in those common products is comparatively large than that of Cambodia.

Table 9.A: India's FKI with the Cambodia in South Korea					
Competitor	2017	2018	2019	2020	2021
Cambodia	0.021	0.024	0.023	0.018	0.024

Table 9.B: India's RECPI with the Cambodia in South Korea					
Competitor	2017	2018	2019	2020	2021
Cambodia	0.20	0.19	0.15	0.11	0.46

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

Findings from our SMART analysis (as shown in Table 10) reveal that India’s exports in some processed food products may reduce. Those products are pastries, cakes, roasted cereals, tea, and juices. However, the magnitude of such a loss is negligible.

Table 10: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
190490	Foods prepared by Roasting of Cereals	-0.15
170290	Sugar Syrup	-0.12
200899	Squash	-0.04
210120	Extracts, essences and concentrates, of tea	-0.04
200989	Mango and other Juices	-0.03
190590	Pastries, Cakes and Biscuits	-0.02

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

Food for Thought

India’s economic size is almost ten-times larger than Cambodia. Hence, it would be difficult for Cambodia to capture India’s market in South Korea. Our findings from FKI and RECPI analyses show that there is very low similarity in export items of India and Cambodia in South Korea and India’s average level of exports in common items was much larger than that of Cambodia. Though Cambodia’s market access to South Korea in some specific sectors such as textiles and readymade garments, footwear, electronics, and agriculture may increase due to this FTA, that may not affect much of India’s export of these items to South Korea.

b) Impact on India’s Exports to the Cambodia

The level of South Korea’s exports to Cambodia is larger than India. In 2021, while the value of India’s exports to Cambodia was US\$193.79 million, that of South Korea was US\$ 623.63 million. Vaccines and different types of motor vehicles used for transportation purposes are found to be common in their export baskets to Cambodia.

Other largely traded export items of India to Cambodia include ayurvedic and homeopathic medicines, meat of bovine animals, tractors. In 2021, they constituted 44 per cent of India’s total exports to Cambodia. Other key export items of South Korea to Cambodia include mineral and aerated water, grain splits, immunological products, and knitted or crocheted fabrics. In 2021, they constituted 34 per cent of South Korea’s total exports to Cambodia.

Low FKI values (see Table 11.A) indicate that there are a few common items in India and South Korea’s export baskets to Cambodia. However, low RECPI values (see Table 11.B) indicate that India is highly competitive as compared to South Korea in those common export items.

Table 11.A: India's FKI with South Korea in Cambodia					
Competitor	2017	2018	2019	2020	2021
South Korea	0.10	0.10	0.12	0.12	0.09
Table 11.B: India's RECPI with South Korea in Cambodia					
Competitor	2017	2018	2019	2020	2021
South Korea	0.46	0.25	0.24	0.32	0.16
<i>Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database</i>					

Our findings from the SMART analysis reveal that India's exports of vehicles used for transportation such as motor cars and other similar variant may experience a larger hit. Other than exports of motor vehicles, India's exports of some textiles and livestock products to Cambodia may be reduced.

Table 12: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
870321	Motor Cars and Vehicles with cylinder capacity not exceeding 1000cc	-1766.39
870410	Dumpers for Highway use	-86.72
870423	Motor Vehicles with gross weight exceeding 20 tonnes	-38.10
410449	Skins of Bovine and Equine Animals	-29.38
870422	Motor Vehicles with gross weight 5 to 20 tonnes	-20.66
630900	Worn Clothing and other worn Articles	-19.42
842952	Machinery with a 360 degrees revolving superstructure	-17.35
411510	Leather or Leather Fibre	-14.13
<i>Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database</i>		

Food for Thought

As compared to India, South Korea has larger market share in Cambodia. Its exports to Cambodia will increase due to this FTA. Our findings from the SMART analysis and the nature of key exports of India and South Korea to Cambodia indicate that there is some degree of similarity in export items of automobile, textiles and readymade garments, and livestock. Hence, Indian exporters of these sectors have to become more competitive to retain their share in Cambodia.

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 's total exports to the destination partner (j). $x_{i_2 j}^k/X_{i_2 j}$ is the share of product k in the comparator country's (i_2) total exports.

RECPI

The Relative Export Competitive Pressure Index (RECPI) is about exploring average degree of competition country i_1 faces in country j 's market from country i_2 , by taking into account both the structure and level of competing countries' trade. Country i_1 will be interested in the value of country i_2 's exports to country j , and also in the extent to which country i_2 's exports are in direct competition with country i_1 's exports. The Relative Export Competitive Pressure Index (RECPI) is defined for exporter i_1 with respect to competitor i_2 in market j as:

$$RECPI = \frac{\sum_k s_{i_2 j}^k x_{i_2 j}^k}{\sum_k s_{i_1 j}^k x_{i_1 j}^k}$$

where k refers to the product, i_1 to the reporting country, i_2 to the competitor country, and the s and x data refer to a given export destination, country j . $x_{i j}^k$ is the value of country i 's exports to country j of good k , and s_i^k gives the share of good k in country i 's exports to country j .

The RECPI is a summary measure which aggregates information from across a range of sectors, subsectors or products. Hence, it can be calculated either for all trade, or for particular sectors - in all cases on the basis of more detailed sub-sectoral or product level detail.