CUTS Dossier on Preferential Trade Agreements and India

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1. India takes cautionary stance amid Bangladesh-China trade bloc negotiations

Bangladesh largely depends on Indian products and is India's seventh largest export market. Hence, the trade balance is tilted massively in favour of India. On the other hand, China is Bangladesh's largest import partner, followed by India.

However, Bangladesh is willing to join China-backed trade bloc Regional Comprehensive and Economic Partnership (RCEP) has made India wary, with New Delhi evaluating the possible implications before starting free-trade agreement (FTA) talks with Dhaka. India is expressing reservations regarding Bangladesh's expressed interest in joining the Regional Comprehensive Economic Partnership (RCEP), a trade agreement led by China.

(*https://www.dhakatribune.com/bangladesh/foreign-affairs/335214/india-takes-cautionary-stance-amid*)

CUTS Comments

a) Impact on India's Exports to Bangladesh

Bangladesh is India's fourth largest export destination. In 2022, the value of India's exports to Bangladesh was US$ 13.31bn, while that of China to Bangladesh was US$ 26.81bn. Among the major export items of India and China to Bangladesh, only one is common - mineral fuels, oils, and distillation products.

India's key export items to Bangladesh include vegetables and cereals, vegetable oil, various types of cotton yarn and fabrics, ferrous products, motorcycles, and pebbles for aggregate. In 2022, they constituted 42.75 per cent of India's total exports to Bangladesh.

China's key export items to Bangladesh include cotton, mineral fuels, oils, and distillation products, knitted or crocheted fabric, manmade staple fibres, etc. In 2022, they constituted 20.5 per cent of China's total exports to Bangladesh.

In order to understand the impact of such trade agreements on India's exports two indices are to be considered. 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 Bangladeshi market with China 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 China's export baskets to the Bangladeshi market. On the other hand, if the average value of exports of China 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, India's average value of exports is much larger than that of China. Thus, India does not face any competitive pressure from China in the export of common items to Bangladesh.

Table 1.A: India's FKI with China in Bangladesh					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
China	0.303	0.303	0.282	0.262	0.297
Table 1.B: India's RECPI with China in Bangladesh					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
China	0.529	0.489	0.356	0.227	0.636
Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database					

Furthermore, for better understanding of possible trade diversion, which is likely to be faced by India from China in the Bangladeshi market as a result of this trade agreement, a SMART analysis has been carried out. As shown in Table 2, cotton fabrics, yarn, motorcycles (including mopeds) parts and accessories, polyester staple fibre, rubber tyres, insecticides, and fruits are likely to be negatively affected export items of India. Also, the magnitude of export loss may be significant.

Table 2: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (Thousand US$)
521142	Woven fabrics of cotton or denim cotton	-30276.6
540233	Synthetic Filament Yarn	-23051.2
871410	Motorcycles (including mopeds) parts and accessories	-20915.2
520942	Yarn denim	-18816.4
551511	Woven Fabrics of Polyester Staple Fibers	-16228.2
540772	Woven Fabrics of Synthetic Filaments	-15888.8
401120	Pneumatic tyres of rubber	-13736.9
380891	Insecticides	-13167.8
520932	Woven Fabrics of Cotton	-12435.0
080610	Fresh grapes	-12254.1
Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6- digit database		

Food for Thought

India and China are engaged in significant competition to gain access to the Bangladeshi market. At present, China's total export to Bangladesh surpasses that of India. There is a concern that India's exports to Bangladesh could be adversely affected by factors such as this proposed FTA or the inclusion of Bangladesh in the RCEP.

Both India and China excel in the production of various apparel products, leveraging their low-cost labour markets for cutting, sewing, and manufacturing in the textile and apparel value chain. This is coupled with the importation of a substantial volume of raw materials and machinery from other countries.

Also, India holds a competitive edge in producing raw cotton, cotton yarn, man-made fabrics, and other textile and apparel industry raw materials. As a result of this FTA, there may be a significant trade diversion in the Bangladeshi market, impacting India's exports in this sector. Moreover, other key export items of India in the Bangladeshi market, including automobile ancillary industries, rubber tyres, and insecticides, might experience a substantial decline.

Here, it is important to note that India has already entered into a Preferential Trade Agreement (PTA) with Bangladesh in 2004. Addressing these concerns through a Comprehensive Economic Cooperation Agreement is crucial to enhance India's export performance in this market.

b) Impact on India's Exports to China

China is India's third largest export destination. In 2022, India's exports to China were at US$ 15.08bn. China's imports from Bangladesh were small and valued at US$ 981.51mn in the same year. There is no common product found to be in India and Bangladesh's key export items to China.

Major export items of India to China include petroleum products, cotton yarn, organic synthetic substances, and, iron metal. Similarly, Bangladesh's exports to China include articles of apparel and clothing accessories, fisheries products, jute yarn, plastics waste.

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 Bangladesh is ranging between 0.031 to 0.095. It indicates a small number of similar products in the export baskets of India and Bangladesh. However, RECPI values (as shown in Table 3.B) indicate that Bangladesh's total value-share of those common export items was lower than that of India. Thus, India does not face any competitive pressure from Bangladesh in exports of common items to China.

Table 3.A: India's FKI with Bangladesh in China					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
Bangladesh	0.034	0.043	0.061	0.095	0.074
Table 3.A: India's RECPI with Bangladesh in China					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
Bangladesh	0.001	0.002	0.001	0.005	0.005
Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database					

In order to better understand possible trade diversion, which is likely to be faced by India from Bangladesh in the Chinese market as a result of either bilateral FTA or RCEP, a SMART analysis is to be carried out. However, due to the unavailability and inconsistency of data, it is not done.

Food for Thought

It may not be possible for Bangladesh, a small economy, to capture India's market in China. However, Bangladesh is keen to get into the RCEP. Getting into free trade pacts with its trade partners is a possible way for Bangladesh to continue enjoying preferential access into those markets even after gaining developing country status. Therefore, there may be potential challenge of increased competition from Bangladeshi products entering the Chinese market, particularly textiles and apparel products. India must assess potential impact in the affected sectors.

2. Australia pursues trade deal with UAE after EU failure

As of December 12, 2023, Trade Minister of Australia, Don Farrell has announced Australia's pursuit of a trade deal with the United Arab Emirates (UAE) to strengthen bilateral relations. The proposed agreement not only aims to open new avenues for Australian exporters but also seeks to deepen collaboration on the journey towards achieving net-zero emissions.

The Australian government is firmly committed to finalising this trade agreement, emphasising its potential to drive exports, stimulate economic growth, and generate employment opportunities. Minister Farrell further underscored the government's dedication to assisting Australian businesses in diversifying their trade partnerships.

Australia, recognised as a highly globalised economy, has already established 18 Free Trade Agreements (FTAs) with various countries, including major partners such as the United States, China, Korea, Japan, and Singapore. Additionally, Australia actively participates in regional economic frameworks such as the Asia-Pacific Economic Cooperation (APEC), the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), and the Regional Comprehensive Economic Partnership (RCEP).

(*https://www.canberratimes.com.au/story/8458918/australia-pursues-trade-deal-with-uae-after-eu-failure/*)

CUTS Comments

a) Impact on India's Exports to Australia

In 2022, the value of India's exports to Australia was US$8.21bn, while that of UAE's export to Australia was US$908.46mn. Jewellery of precious metals is a common export item of both India and UAE in Australia's market.

Other key export items of India to Australia include mineral fuels, oils, and distillation products, pearls, precious stones, metals, and coins, pharmaceutical products, machinery, semi-milled or wholly-milled rice. Similarly, other key export items of the UAE to Australia include pearls, precious stones, metals, coins, copper, essential oils and resinoids, plastics and articles thereof.

FKI values over the past five years (as shown in Table 4.A) indicate that the total value-share of common export items between India and the UAE is ranging between 11 to 17.3 per cent. Such FKI values are low and more or less same over time. They indicate that a small number of similar products in the export baskets of India and the UAE in Australia's market. Also, RECPI values (as shown in Table 4.B) indicate that UAE's total value-share of those common export items is lower than that of India. Thus, India does not face any competitive pressure from the UAE in exports of common items to Australia.

Table 4.A: India's FKI with the UAE in Australia					
Competitor	2018	2019	2020	2021	2022
UAE	0.134	0.173	0.166	0.11	0.115
Table 4.B: India's RECPI with the UAE in Australia					
Competitor	2018	2019	2020	2021	2022
UAE	0.011	0.041	0.02	0.005	0.004
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 export loss in jewellery products, carpets and other textile products, fabrics, electric conductors, iron, steel, metal products, glass products (Table 5).

Table 5: Trade diversion likely to be experienced by India

Product Code	Description	Trade Diversion (Thousand US$)
711319	Precious Metal Other Than Silver	-1504.1
570330	Tuffed Carpets and Other Floor covering Textiles (made of manmade textile materials)	-164.865
854460	Insulated electric conductors; for a voltage exceeding 1000 volts	-104.351
540720	woven fabrics of synthetic textile materials	-74.133
850720	lead-acid storage batteries	-46.83
730630	Iron or Non-Alloy Steel	-43.992
700510	Non-wired Glass	-35.447
570241	Woven carpets and Other Floor covering Textiles	-32.946
940310	Furniture; metal, for office use	-29.844
722220	Stainless steels	-27.483
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 in Australia's market the UAE has some common export items with India. However, RECPI values indicate India has on an average larger export share in those common products than the UAE. Also, India's value of total exports to Australia is larger than that of the UAE. However, our findings from SMART analysis have identified some key affected products for which India's exports to Australia may be reduce due to this trade deal. India has entered into an FTA with Australia and it may increase its scope and coverage,

particularly keeping in mind those items of India's export interests in Australia, which may be negatively impacted by this and other FTAs that Australia may enter in future.

b) Impact on India's Exports to the UAE

The UAE is the second-largest export destination of India. Total value of India's exports to the UAE is much larger than that of Australia. In 2022, India's value of export to the UAE was US$ 31.32bn, while that of Australia was US$ 3.03bn. There is no common product found to be in India and Australia's key export items to the UAE.

Major export items of India to the UAE include diamonds, light petroleum distillates, light vessels, fire floats, floating cranes and other vessels, etc. Similarly, Australia's key exports to the UAE include nuclear reactors and boilers, meat and edible meat officials, edible vegetables and certain roots and tubers, vehicles other than railway or tramway rolling-stock, and parts and accessories thereof, etc.

Table 6.A depicts the FKI values for India over a period of five years in the market of the UAE with Australia as its competitor. FKI values for last five years are stagnant, indicating very few common products with negligible importance in the export baskets of India and its competitor, Australia, in the UAE's market.

India's RECPI values over a period of five years in the UAE's market, with Australia as a competitor, are shown in Table 6.B. They indicate that Australia's total value-share of those common export items is much lower than that of India. It means that on an average India's value of exports of such common items is larger than that of Australia.

Table 6.A: India's FKI with Australia in the UAE

Competitor	2018	2019	2020	2021	2022
Australia	0.099	0.137	0.132	0.12	0.113

Table 6.B: India's RECPI with Australia in the UAE

Competitor	2018	2019	2020	2021	2022
Australia	0.002	0.003	0.007	0.007	0.009

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

Our findings from the SMART analysis show that India may face loss in exports of various types of aluminium oxide, zinc, jewellery, diamonds, bovine meat, vegetables products. (Table 7)

Table 7: Trade diversion likely to be experienced by India

Product Code	Description	Trade Diversion (Thousand US$)
281820	Aluminium oxide	-11509.3
790111	Unwrought or not alloyed Zinc	-3854.98
710239	Diamonds	-3420.29
251320	Pumice Stones	-2030.73
020230	Meat of Bovine Animals	-842.121
711319	Precious Metal Other Than Silver	-666.227
270119	Not agglomerated Coal	-601.377
071320	Chickpeas	-581.842
630900	Clothing; worn, and other worn articles	-303.97
392020	Polymers propylene Products	-189.718

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

Food for Thought

The UAE is one of the largest trading partners of India. Our findings from FKI indicate that common export items of India and Australia have a moderately low value-share in their total exports to the UAE. Furthermore, RECPI values also indicate that India's value-share in those common items is relatively larger than that of Australia. Hence, India may not face significant competitive pressure from Australia in the UAE's market as a result of this FTA.

On the other hand, our findings from the SMART analysis indicate that India's exports of some products such as aluminium oxide, zinc, jewellery, diamonds, bovine meat, vegetables products may face a export loss in the UAE's market. The India-UAE CEPA, which entered into force on February 18, 2022, may mitigate some negative impacts on India's products to the UAE. At the same time, Indian exporters of those specific products to the UAE should be more alert.

3. Indonesia, Japan to implement amended economic partnership agreement

Minister Retno Marsudi, Minister for Foreign Affairs of Indonesia, expressed optimism that the revised Indonesia-Japan Economic Partnership Agreement (IJEPA) would be put into effect by the first quarter of 2024. However, formal signing and ratification by the respective parliaments are still pending, subject to legal checks.

Indonesia's Foreign Minister announced that Indonesia and Japan have reached an agreement to eliminate additional trade barriers. The negotiations focused on protocols aimed at enhancing their bilateral economic agreements. As part of the agreement, Japan will grant increased access to Indonesian products, which includes the elimination of tariffs on processed fishery items. Additionally, both nations will enhance cooperation in the banking sector.

The primary objective of the Indonesia-Japan Economic Partnership Agreement (IJEPA) is to foster the liberalisation and facilitation of trade and investment between Indonesia and Japan. The agreement seeks to invigorate the economies of both nations by establishing a mutually beneficial economic partnership across various fields.

(*https://www.reuters.com/world/asia-pacific/indonesia-japan-agree-removing-more-trade-barriers-2023-12-16/*)

CUTS Comments

a) Impact on India's Exports to Indonesia

In 2022, India's exports to Indonesia increased by more than 21.97 per cent from that in 2021, while Japan's exports to Indonesia increased by 12.73 per cent from the previous year. India exported goods worth US$9.87 bn to Indonesia, while that of Japan was US$15.05bn. Among key export items of both India and Japan to Indonesia, dumpers (dump trucks) and motor vehicles parts and accessories were found to be common.

Other key export items of India to Indonesia include bituminous minerals, light vessels, meat of bovine animals, groundnuts and raw cane sugar. On the other hand, Japan's other key export items to Indonesia include printers' accessories, parts of cranes, work trucks, shovels, construction machine, parts for spark ignition engines except aircraft, pneumatic tyres of rubber, drive axles for motor vehicles.

As shown in Table 8.A, FKI values are low and more or less same over time. They indicate a very small degree of homogeneity in the composition of exports of India and its competitor Japan in the Indonesian market. RECPI values (Table 8.B) confirm that India's average level of exports to Indonesia in those common products is comparatively larger than that of Japan.

Table 8.A: India's FKI with Japan in Indonesia					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
Japan	0.192	0.174	0.137	0.132	0.142
Table 8.B: India's RECPI with Japan in Indonesia					
Competitor	**2018**	**2019**	**2020**	**2021**	**2022**
Japan	0.416	0.13	0.039	0.023	0.013
Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database					

In order to understand possible trade diversion, which is likely to be faced by India from Japan in the Indonesian market as a result of the proposed agreement, a SMART analysis has been carried out. As shown in Table 9, India may face trade diversion in motor cars and other similar vehicles, and transport equipment, iron or steel components, meat products.

Table 9: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (Thousand US$)
870410	Dumpers for off-highway use	-3437.7
870322	Motor cars and other Vehicles	-641.202
731815	Bolts screws	-331.228
730630	iron or non-alloy steel	-226.124
020230	Meat of bovine animals	-194.739
732020	Helical springs	-169.063
731816	Nuts, Threaded, of Iron or Steel	-133.065
731829	Nonthreaded articles of iron or steel	-129.694
210690	Soft drink concentrates	-110.797
330190	Oleoresin	-89.988
Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database		

Food for Thought

India's trade with Indonesia is continuously improving. In 2022, Indonesia was India's 10th largest export destination. At the same time, Japan is another large source of imports for Indonesia. Hence, this agreement 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 automobile and automobile ancillary industries, metal, and livestock sector may significantly

reduce. Hence, Indian exporters of these sectors should remain alert about this agreement and the government should think about possible remedial measures.

b) Impact on India's Exports to Japan

Japan is at 26th position among India's top export destinations. India's exports to Japan were worth US$ 5.70bn in 2022. Indonesia's exports to Japan were close to five times of that of India in 2022 and was valued at US$ 24.85bn in 2022. There is no common product in India and Indonesia's key export items to Japan.

India's exports to Japan comprise of light oils and preparations, shrimps and prawns, nonindustrial diamonds, concentrated and non-agglomerated iron ores, ferrosilicon manganese, aluminium, herbicides, ferrochromium, fresh cashew, soybean oilcake and residue from soyabean oil. Indonesia's export to Japan comprises of natural gas, bituminous coal, copper ores, silver waste and scrap, natural rubber, ignition other wiring sets for vehicles aircraft ship, nickel, crude petroleum oils, coal, plywood.

FKI values (Table 10.A) over the past five years indicate that the total value-share of common export items between India and Indonesia to the Japanese market was ranging between 10.6 per cent to 13.2 per cent. FKI values for last five years are stagnant, indicating very few common products with negligible importance in the export baskets of India and its competitor Indonesia in the Japanese market.

India's RECPI values over a period of five years in the Japanese market, with Indonesia as a competitor, are shown in Table 10.B. Low RECPI values indicate that India's average level of exports in those limited common items was larger than that of Indonesia.

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

Competitor	2018	2019	2020	2021	2022
Indonesia	0.106	0.119	0.132	0.119	0.108

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

Competitor	2018	2019	2020	2021	2022
Indonesia	0.252	0.241	0.376	0.145	0.320

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

In order to better understand possible trade diversion, which is likely to be faced by India from Indonesia in the Japan market, a SMART analysis has been carried out. As shown in Table 11, only footwear products, some fish and agricultural products to be the negatively affected export items. However, the magnitude of the export loss of footwear is significant. But other sectors may not be significant.

Table 11: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (Thousand US$)
640399	Footwear (not covering the ankle)	-1202.34
030499	Fish and crustaceans, molluscs, and other aquatic invertebrates	-196.577
640391	Footwear (covering the ankle)	-149.137
160521	Shrimps and prawns	-60.104
640610	Footwear, gaiters, and parts of such articles	-43.54
411200	Processed leather	-39.715
090240	Fermented black tea	-30.945
210111	Extracts, essences, and concentrates	-19.306
200899	Fruit, edible plants	-18.628
190590	Bread, pastry, cakes, biscuits, and other baked products	-14.272

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

Food for Thought

The India-Japan Comprehensive Economic Partnership Agreement (CEPA) signed on February 16, 2011, aimed at eliminating tariffs on 97 per cent of export from India to Japan, including agricultural and fisheries products, until 2021. It is important to note that, among the major items in Japan's import basket, India has achieved a relatively healthy share (of more than 3 percent) in Japan's global imports of only three product categories, viz. organic chemicals, natural or cultured pearls, precious or semi-precious stones, and fish and other aquatic invertebrates. In other leading items of Japan's import basket, India's share is still marginal.

Taking note of this lopsided growth in bilateral trade, India has recently called for reviewing the CEPA with Japan so as to take stock of reasons behind increase in bilateral trade deficit. Indian exports to Japan are presently affected by a number of issues, which include both tariff and non-tariff measures on account of Sanitary and Phyto-Sanitary reasons and Technical Barriers to Trade. Therefore, it is necessary to address such concerns of Japan through domestic regulatory reforms in India for improve our export performance.

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:

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

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. The Relative Export Competitive Pressure Index (RECPI) is defined for exporter i_1 with respect to competitor i_2 in market j as:

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

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 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.