



Trend and structure of India-ASEAN Trade

Chattan Singh Yadav

Research Scholar, Department of Economics, Banaras Hindu University, Varanasi, India

Article Info

Volume 5, Issue 3

Page Number 186-193

Publication Issue :

May-June-2022

Article History

Accepted : 01 May 2022

Published : 30 May 2022

Abstract- The Association of South East Asian Nations (ASEAN) is an important trading partner for India. Through its Act East Policy, India seeks deeper economic integration with ASEAN. In this article, we investigate the pattern of trade between India and ASEAN, using comparative advantage by country (CAC) and market comparative advantage (MCA) as criteria, which are more appropriate measures for showing comparative advantage in a specific market. These measures indicate some major Indian exports to ASEAN are not competitive. When domestic industries are not competitive, governments protect them through tariffs and non-tariff barriers, which act counter to deeper economic integration. We also identify the sectors in which India has the potential to become competitive but is not because of distortionary domestic policy measures. These domestic constraints prohibit Indian firms from participating in the ASEAN supply chain network, an important factor in developing deeper economic integration. Two such sectors—namely aluminum automotive components and the ready-made garment industry—are examined as case studies. Notwithstanding these distortionary policy measures, India still offers a bigger market to do business. The ability to supply lower cost chemicals and affordable pharmaceutical products at the time of COVID-19 is an added plus.

Keywords - Trend, structure, India, ASEAN, Trade

Introduction- ASEAN (Association of South East Asian Nations) was formed in 1967 and comprises of ten member countries. Today, it is one of the fastest growing economic organizations in Asia. Together all the member countries of ASEAN ranks the third largest economy in Asia and seventh largest economy in the world. India's relation with ASEAN has been growing ever since they entered into partnership. In the past few decades, trade and investment intra-Asian trade has tripled in value, (India ASEAN Trade and Investment Relations: Opportunities and Challenges, 2016). There are tremendous possibilities in future for mutually beneficial economic, political and demographic engagement of India and ASEAN.

One of the major regional trade agreements is Association of South-East Asian Nations (ASEAN) which was aimed at eliminating the trade barriers among member countries through Common Effective Preferential Tariff (CEPT) Scheme. Because of its growing influence in global trade, India formulated "Look East Policy" in 1991 to build strong trade relations with ASEAN. From being a dialogue partner to entering into bilateral economic cooperation, India finally signed Free Trade Agreement with ASEAN in 2010, also known as AIFTA. However, India's increasing trade deficit with ASEAN nations and with its FTA partners became a major concern for the policy makers and thereby Indian policymakers became cautious of further entering into new trade

agreements. This was reflected in India's decision to pull itself out of Asia's largest trade agreement which is Regional Comprehensive Economic Partnership (RCEP). It is an initiative of economic cooperation among 10 ASEAN nations and its 5 FTA partners (Australia, China, Japan, Korea and New Zealand). The importance of India's current relationship with ASEAN and its future potential for mutually beneficial growth will require greater political, economic, and diplomatic engagement with ASEAN. ASEAN's geostrategic importance stems from many factors, including the strategic location of member countries, the large shares of global trade that pass through regional waters. Indo ASEAN economic engagement should not be viewed from a purely merchandise trade perspective, but from the future potential of trade in services and investment flows. Trade is not a negative sum game it brings with it benefits of lower input prices, greater competition and virtuous cycle of rising productivity and growth.

In the light of the above framework, the paper examines India's trade pattern with ASEAN nations over the period 2000-2022 to understand how its trade performance under ASEAN has influenced its participation in RCEP negotiation. The paper begins with analyzing the trends of India's trade variables with ASEAN as a whole and each nation separately at an aggregate and a product level. In addition, it measures India's comparative advantage with respect to each ASEAN nation for standard product groups using RCA approach. Further, it takes the readers through the determinants of trade flows between India and ASEAN in terms of India's export elasticity with respect to ASEAN import demand and India's price competitiveness. Finally, it explores the impact of AFTA on the global economy in terms of trade creation and trade diversion. Apart from studying India's trade flows with ASEAN, the paper investigates 1.the performance of trade between India and ASEAN group countries and 2.The trend and pattern of trade between India and ASEAN over the period of 2000-2021.

REVIEW OF LITERATURE - In the proposed research work, the review of all possible academic literature available in the domain of Indo-ASEAN trade relations has been conducted which facilitated the development of new insight to explore the various facets of the problem.

Indira M. Hapsari and Carlos Mangunsong (2006) investigate the determinants of trade flows of AFTA members, including the impact of creation of AFTA on its intra-regional and extra-regional trade flow by comparing trade patterns of AFTA countries with AFTA members and non-members. The econometric analysis suggested that AFTA may be causing some trade diversion and shifting trade from countries outside the bloc to possibly less efficient countries inside the bloc. It also confirmed that the more complementary the supply and demand of countries, the more they will trade. Since the export and import profiles of ASEAN members have become more complementary to each other over time, the potential for intra-regional trade is great for ASEAN members. Finally, they also found that the similar structure of export between ASEAN members has a positive effect on its bilateral exports.

Amal Sarkar in his paper "**India's trade linkage with ASEAN: An Econometric Study**" aims to find the determinants of India's export flows to individual ASEAN countries. The consideration of individual countries in this study shows that there exist significant differences in export demand elasticity's in the ASEAN countries with different levels of economic development when explaining their behaviour as importers from a common trade partner, India. As regards to the results of trade model, it can be said that it has performed very well in terms of sign and significance of the explanatory variables. Further, the result of this study reveals valuable

insight for policy-makers. The expenditure-effect on India's export to ASEAN has been found to be positive. In other words, the demand for India's exports is influenced positively by the growth of the ASEAN market. The study also shows that India's export is price competitive in the ASEAN market. Therefore, it can be inferred that India's preferential trade agreements with ASEAN countries would be helpful to raise its volume of trade with the region.

Ashok Sengupta in his paper “**Trade and Investment Relations of India & ASEAN countries: Opportunities & Challenges**” make use of Export and Import Trade Intensity Index (TII) in order to study the trade profile of India and ASEAN. The paper found that Trade Intensity Index has been increasing at a constant rate. Export Intensity Index (EII) has grown approximately twice and Import Intensity Index (III) has dropped in 2015-16. Using the econometric analysis, the paper found that 41% of change in India's exports to world is due to changes in total imports by ASEAN. Finally, the paper throws light on reasons for India's trade opportunities with ASEAN such as ASEAN being global hub of consumer demand and well positioned in global trade flows.

B.P. Sarath Chandran (2018) uses the WITS-SMART simulation model to find out the influence of RCEP on India. The simulation exercise showed that India's import from ASEAN plus countries will substantially increase if the FTA comes into existence. China which enjoys a huge trade surplus with India will further improve its trade performance and increase the trade balance. India's advantage will be primarily in the services sector and it is better to complete the comprehensive trade agreement which includes trade, services and investment. Also, protection of sensitive product categories with higher Rules of Origin (RoO) support is necessary. India's experiences with the existing FTAs is not very encouraging. India should ensure its concerns addressed before signing the FTA.

Dr. Veeramani S & Anam (2018) draws attention to growing trade deficit between India and ASEAN. Study suggests that low market access, high non-tariff barriers, cheap imports from ASEAN, Heavy imports of essential commodities and less exports of comparative advantage products of India are some major reasons behind the growing Trade Deficit. The paper uses the RCA and DS-RCA Index to look at the India's comparative advantage in goods and services with respect to a particular destination. To deal this gap with positive trade policies and action, actions must be taken by the government through making required changes in the policies like putting barriers on cheap imports from ASEAN, encouraging exports in commodity categories in which DS-RCA analysis has indicated comparative advantage separately for each ASEAN member nation, work for improved market access of Indian goods through removal of non-tariff barriers through progressive and constant consultation with ASEAN members.

OBJECTIVES OF THE STUDY- Objectives spell out the basic philosophy of the whole study. In the present study, following objectives have been undertaken:

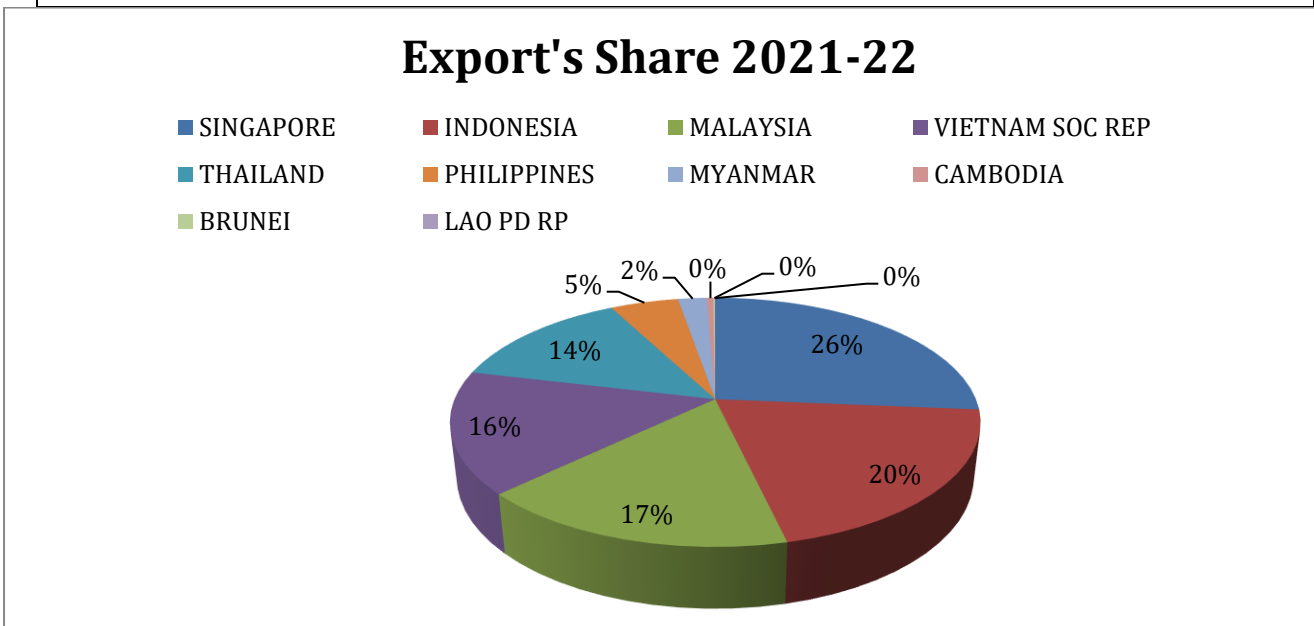
1. To analyze the trade performance (exports, imports and trade Balance) between India and ASEAN group country wise of all product year 2021-22.
2. To examine trade patterns (exports, imports and trade Balance) between India and ASEAN nations at an aggregate product level over the time period 2000-01 to 2021-22.

Data Source and Methodology- The present study is fundamentally based on secondary sources of information. In order to accomplish the objective of the study, the bilateral trade data for the period 2001-2021 (in US\$) has been obtained from *Department of commerce, ministry of commerce and industry, Government of India*

‘Database. We collected data from the International Trade Centre (ITC). Data are collected for India and other ASEAN countries on exports and imports. The data collected cover the time period between 2001 and 2021. Although India announced its ‘Look East Policy’ during 1991, it was only during the second phase, starting from 2004 that the ‘Look East Policy’ was expanded. The rationale for choosing the time period between 2001 and 2018 is that most of the policy-level changes for the betterment of India–ASEAN trade relations started happening since early 2000. To maintain uniformity of our results, we collected data based on ITC HS Codes, which are provided by International Trade Centre.

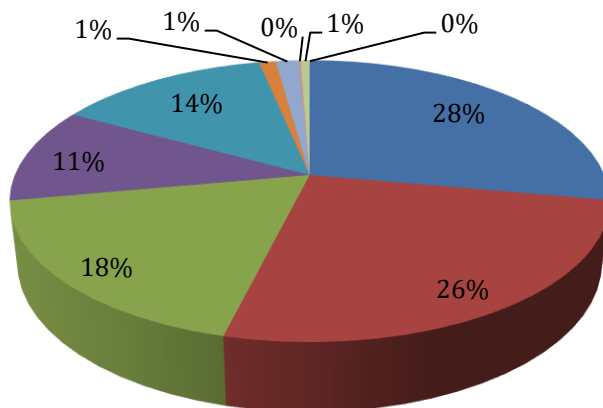
INDIA'S TRADE PATTERN WITH ASEAN: COUNTRY-WISE (USD Million)- 2021-22			
ASEAN Country	Exports	Imports	Trade Balance
SINGAPORE	11,150.61	18,962.19	-7,811.58
INDONESIA	8,471.51	17,702.83	-9,231.31
MALAYSIA	6,995.04	12,424.25	-5429.16
VIETNAM SOC REP	6,702.67	7,438.52	-735.85
THAILAND	5,751.30	9,332.59	-3581.29
PHILIPPINES	2107.24	729.12	1378.12
MYANMAR	893.03	1001.87	-108.84
CAMBODIA	198.37	94.88	103.49
BRUNEI	43.16	394.44	-351.28
LAO PD RP	14.65	0.8	13.85
Total Trade with ASEAN	42327.58	68081.43	-25753.85
%Share	10.03	11.10	13.48

Source: Department of commerce, ministry of commerce and industry, Government of India.



Import's Share 2021-22

- SINGAPORE
- INDONESIA
- MALAYSIA
- VIETNAM SOC REP
- THAILAND
- PHILIPPINES
- MYANMAR
- CAMBODIA
- BRUNEI
- LAO PD RP



India- ASEAN trade relations have been growing over the time with ASEAN becoming India’s fourth largest trading partner. The total trade between the two regions amounted to 110408 million USD, in which exports and imports to ASEAN amounted to 42327 million USD and 68081.43 million USD respectively in 2021-22. The Table shows that India runs huge trade deficit with 6 out of 10 ASEAN countries – Brunei, Indonesia, Malaysia, Singapore, Thailand and Vietnam in the year 2020, the highest with Indonesia and Singapore. Figure presents India’s export and import share with each of ASEAN countries. India’s top three major Export destinations are Singapore, Indonesia, Malaysia and Vietnam; whereas India’s top three major import sources are Singapore, Indonesia and Malaysia for the year 2021-22.

India ASEAN Merchandise Trade (U.S. \$ Billion)				
Year	India’s Exports to ASEAN	India’s Imports from ASEAN	Trade Balance	Total Trade
2000-01	2.91	4.15	-1.24	7.06
2005-06	10.41	10.88	-0.47	21.29
2006-07	12.61	18.11	-5.50	30.72
2007-08	16.41	22.67	-6.26	39.08
2008-09	19.14	26.20	-7.06	45.34
2009-10	18.11	25.80	-7.69	43.91
2010-11	25.63	30.61	-4.98	56.24
2011-12	36.74	42.16	-5.42	78.9

2012-13	33.00	42.87	-9.87	75.87
2013-14	33.13	41.28	-8.15	74.41
2014-15	31.81	44.71	-12.90	76.52
2015-16	25.20	39.84	-14.64	65.04
2016-17	31.00	40.61	-9.61	71.61
2017-18	34.20	47.13	-12.93	81.33
2018-19	37.48	59.32	-21.85	96.810
2019-20	31.55	55.36	-23.81	86.91
2020-21	31.49	47.42	-15.93	78.91
2021-22	42.32	68.08	-25.76	110.08

Source: Import Export Data Bank, Government of India, Department of Commerce.



India's exports to ASEAN increased from U.S. \$ 10.41 billion in 2005-06 and U.S. \$ 25.20 billion in 2015-16 to 42.32 U.S. \$ in 2021-22 and imports over the same period quadrupled from U.S. \$ 10.81 billion in 2005-06 and U.S. \$ 39.84 billion in 2015-16 to U.S. \$ 68.08. This reflects a compound annual growth rate (CAGR) of about 10 per cent in exports to the ASEAN region and close to 15.5 per cent per annum growth in imports during 2005-06 to 2015-16. Concomitantly, India's trade deficit with the ASEAN surged from US\$0.5 billion in 2005-06 and US\$14.6 billion in 2015 to US\$ 25.76 in 2021-22. In terms of market share, share of imports in India's total imports from ASEAN went up from 7.3 % in 2005-06 and 10.5 % in 2015-16 to 11.10% in 2021-22 over

the same period share of exports to ASEAN in India's total exports fell from 10.1 % and 9.6% and increase in 2021-22 with 10.04%.

Conclusion- Trade relations between India and ASEAN have a promising future. With the backdrop of strong complementarities between India and ASEAN economies, the merchandise trade between the two regions stands at USD 97 billion during 2018-19 and is expected to double to USD 200 billion by 2025. Going forward, strong economic linkages and complementarities between India and ASEAN economies will lead to greater economic integration to the mutual benefit of all, (India's Trade and Investment Opportunities with ASEAN Economies, 2019). The major objective behind the formation of partnership was to explore all avenues for better exploitation of geographical proximity and natural endowments among themselves and to devise a means of escape from dependence on the more prosperous global markets. There has been an increase in India-ASEAN merchandise trade post-AIFTA (ASEAN India Free Trade Area), agreement. The 'Act East Policy' which is now also called as 'Act Asia Pacific', also gives importance in promoting Indo-ASEAN mutual co-operation. Moreover, there is tremendous possibility of diversification of India's export basket in the top 20 commodities to the ASEAN economies because India's export to ASEAN is quite high with a share of 85 %. There are also huge investment and trade opportunities between India and ASEAN in some selected sectors like the ecommerce, education, health and pharmaceuticals sectors. Trade and investment in these promising sectors will provide additional gains especially after the pandemic situation. ASEAN demonstrates that countries with different cultures, traditions, languages, political Systems and levels of economic development can act in concert to expand their collective Potential. In recent years, trade and investment relations between India and ASEAN have continued to improve. Total bilateral trade increased more than threefold from US\$21 billion in 2005-06 to US\$110.408 billion in 2021-22. The compound annual growth rate (CAGR) of exports over the period stood at 10 %, while that of imports stood close to 15.5%. Together, this led to a trade deficit of US\$25.753 billion for India with ASEAN in 2021-22.

References

1. Chandran, D. (2018). India in the regional comprehensive economic partnership (RCEP)—need for caution.
2. Sengupta, A. (2021). Trade and Investment Relations of India & ASEAN Countries: Opportunities & Challenges.
3. Sen, R., Asher, M. G., & Rajan, R. S. (2004). ASEAN-India economic relations: current status and future prospects. *Economic and Political Weekly*, 3297-3308.
4. India ASEAN Trade and Investment Relations: Opportunities and Challenges (2016), The Associated Chambers of Commerce and Industry of India.
5. ASEAN: Market Profile, 17 March 2016.
6. Tyagi, R., Bansal, A., Kaul, V., & De, D. (2017). INDIA-ASEAN FTA: Analysis of Cooperation in Transportation Sector. *Procedia computer science*, 122, 759-766.
7. Kanoria, S, (2016), India-ASEAN Trade Relations: Opportunities and challenges, The Associated.

8. Bhogal, P. (2018), India-ASEAN Economic Relations: Examining Future Possibilities. ORF Issue Brief, Issue No.221.
9. Mukherjee, D. (2016). India-ASEAN trade in intermediates and final products: A study of selected sectors. Global Economy Journal, 16(4), 721–743.