

Envisioning India 2.0

PROSPECTS & CHALLENGES

Editors

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Collaborative Efforts in the Context of Trading between India and South East Asian Countries

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ABSTRACT

South Asia has the biggest concentration of poor people in the world with approximately more than 500 million people still living in extreme poverty. Many more people, especially women and those working in the informal sector, live just above the poverty line and are vulnerable to economic and environmental shocks and disasters. In the past two decades, around over 50 per cent of South Asians (more than 800 million people) have been affected by at least one disaster. There is increased momentum for regional cooperation particularly in the eastern part of the region, where the borders of India, Bangladesh, Nepal and Bhutan converge. India's relationship with SOUTH EAST ASIAN is a key pillar of our foreign policy and the foundation of our Act East Policy. The up-gradation of the relationship into a Strategic Partnership in 2012 was a natural progression to the ground covered since India became a Sectoral Partner of the SOUTH EAST ASIAN in 1992. There are, in total, 30 Dialogue Mechanisms between India and SOUTH EAST ASIAN, cutting across various sectors. The paper emphasised on the trade potential of India with other south East Asian countries. Study includes revealed comparative advantages, intra-industry trade and trade potential indices. It access and analyse challenges and recommendation to overcome those challenges.

Keywords: Collaborative, Intra Industry Trade & International Trade.

INTRODUCTION

India's trade relationship with Southeast Asia has numerous components. Traditionally, trade between India's coastal kingdoms of Orissa and Southern India and countries in Southeast Asia such as Thailand, Malaysia and Cambodia are well documented. Additional, Buddhism and Hinduism, both Indic religions, maintain a strong sway in Southeast Asia, with epics like the Mahabharata and Ramayana being part of the ethos of Southeast Asia.

Apart from the Non-Alignment Movement, communism also influenced India's relations with the region. During the Vietnam conflict, India supported North Vietnam due to its strong opposition at that time to the United States. While the cold war period influenced India's ties with Southeast Asia, given its closeness to the Soviet Union, India also had reasonable ties with Malaysia and was amongst the first countries to grant diplomatic status to Singapore in 1965. In the early 1990's,

two major transformations influenced India's ties with the outside world, including Southeast Asia. First, after the dissolution of the Soviet Union, the Cold War order ended. This led to a major shift in Indian foreign policy towards the US, where ideological blinkers gave way to pragmatism.

Second, this period ushered in economic reforms carried out by India in 1991, ensuring that Non Alignment was no longer the cornerstone of India's Foreign Policy not only towards the West, but other parts of the world also. India's Prime Minister during that period, PV Narasimha Rao, along with then-Finance Minister and current Prime Minister Dr. Manmohan Singh framed the Look East Policy in 1992. This policy represents India's efforts to cultivate economic and strategic relations with Asia.

In the same year, India also became a dialogue partner with SOUTH EAST ASIAN. Rao's main aim was to integrate India's economy with a region with which India had historical and cultural links. It was with this in mind, that channels were also opened with Myanmar's dictatorship in the mid-1990.

ECONOMIC OVERVIEW

The Association of South-East Asian Nations (SOUTH EAST ASIAN) comprises of Indonesia, Singapore, Philippines, Malaysia, Brunei, Thailand, Cambodia, Lao PDR, Myanmar and Vietnam. India's focus on a strengthened and multi-faceted relationship with SOUTH EAST ASIAN is an outcome of the significant changes in the world's political and economic scenario since the early 1990s and India's own march towards economic liberalisation. India's search for economic space resulted in the 'Look East Policy'. The Look East Policy has today matured into a dynamic and action oriented 'Act East Policy. PM at the 12th SOUTH EAST ASIAN India Summit and the 9th East Asia Summit held in Nay Pyi Taw, Myanmar, in November, 2014, formally enunciated the Act East Policy. India's relationship with SOUTH EAST ASIAN is a key pillar of our foreign policy and the foundation of our Act East Policy. The up-gradation of the relationship into a Strategic Partnership in 2012 was a natural progression to the ground covered since India became a Sectoral Partner of the SOUTH EAST ASIAN in 1992, Dialogue Partner in 1996 and Summit Level Partner in 2002. There are, in total, 30 Dialogue Mechanisms between India and SOUTH EAST ASIAN, cutting across various sectors.

SOUTH EAST ASIAN ECONOMIC & COMMERCIAL RELATIONS OVERVIEW

- Thailand is the second largest economy in the Association of Southeast Asian Nations (SOUTH EAST ASIAN) and the Greater Mekong Subregion (GMS). It is an upper middle income country with a Gross Domestic Product (GDP) of US\$ 397.6 billion in 2016. The growth of GDP in Thailand has averaged between 3% to 4% in the last decade.
- India's economic and commercial relations with Thailand are rooted in

history, age-old socio-cultural interactions and extensive people to people contacts. India and Thailand are celebrating 70 years of diplomatic relations in 2017. India's 'Look East' policy (since 1993) and Thailand's 'Look West' policy (since 1996) which has now metamorphosed into India's 'Act East' and Thailand's 'Act West' are strongly contributing in consolidating bilateral relations including economic & commercial linkages.

- Two-way trade in 2016 totaled US \$ 7.72 billion, with about US \$5.15 billion in Thai exports to India and US \$ 2.57 billion in Indian exports to Thailand. In the SOUTH EAST ASIAN region, Thailand ranks as India's 4th largest trading partner after Singapore, Indonesia and Malaysia. The growing ties between the two countries have come at a time when the AEC is expected to bring greater integration among member countries be it in the form of physical connectivity, economic links, cultural and educational ties.
- The fast growing Indian market remains attractive for Thai investors, given the vast opportunities available in infrastructure sector, tourism and retail industries. India continues to remain an interesting market for export of goods from Thailand. Currently, Thai goods have benefited from tax reduction under SOUTH EAST ASIAN-India FTA in Goods, which came into effect from 01 January, 2010 and resulted to the flow of more goods into Indian market. An Early Harvest Scheme (EHS), covering 82 products (now 83 products) under the proposed India-Thailand FTA, in place since September 2004, has already resulted in phenomenal growth in our bilateral trade.
- Major imports from India are in the following sectors : Chemicals, Jewelry including silver bars and gold, Machinery and parts, Parts and accessories of vehicles, Fresh aquatic animals, chilled, frozen, processed and instant, Electrical machinery and parts, Medicinal and pharmaceutical products, Coffee, tea and spices, other metal ores, metal waste scrap, and products, Vegetables and vegetable products, Iron, steel and products, Yarn and fibers, Fabrics, Metal manufactures and Fertilizer and pesticide., etc.
- Major exports to India are in the following sectors: Polymers of ethylene, propylene, etc. in primary forms, chemical products, Air conditioning machine and parts thereof, Precious stones and jewelry, Motor cars, parts and accessories, Parts of aircraft and accessories thereof, Iron and steel and their products, Machinery and parts thereof, Copper and articles thereof, Radio-broadcast receivers, television receiver and parts, Automatic data processing machines and parts thereof, Spark-ignition reciprocating internal combustion piston, and Rubber products etc.

Table 1: Size of the South East Asian Economies

| | Population | Area | Gross National Income \$ | Per capita income | | |
|-------------------------------|---------------|---------------|--------------------------|-------------------|-------|-------|
| | 2014 | | Billions (2014) | (2014) | | |
| | Million | Sqkm | CER | PPP | CER | PPP |
| 1. Brunei | 0.4 | 5.8 | 15.1 | 29.3 | 37320 | 72190 |
| 2. Cambodia | 15.3 | 181.0 | 15.6 | 47.2 | 1020 | 3080 |
| 3. Indonesia | 254.5 | 1910.9 | 923.7 | 2592.3 | 3630 | 10190 |
| 4. Laos | 6.7 | 236.8 | 11.1 | 33.8 | 1660 | 5060 |
| 5. Malaysia | 29.9 | 330.8 | 332.5 | 740.8 | 11120 | 24770 |
| 6. Myanmar | 53.4 | 676.6 | 68.1 | 204.3e | 1270 | |
| 7. Philippines | 99.1 | 300.0 | 347.5 | 837.6 | 3500 | 8450 |
| 8. Singapore | 5.5 | 0.7 | 301.6 | 439.0 | 55150 | 80270 |
| 9. Thailand | 67.7 | 513.1 | 391.7 | 1006.9 | 5780 | 14870 |
| 10. Vietnam | 90.7 | 331.0 | 171.9 | 485.2 | 1890 | 5350 |
| 11. India | 1295.3 | 3287.3 | 2028 | 7292.8 | 1570 | 5630 |
| Total SOUTH EAST ASIAN | 623.2 | 4486.7 | 2578.8 | 6416.4 | | |
| | (8.6%) | (3.3%) | (3.3) | (5.9%) | | |

Source: Table 1. Size of the Economy, World Development Indicators 2016; GNI-gross national income; CER-current exchange rate; PPP-purchasing power parity; e-estimate; Th.-thousand Figures within parenthesis indicate share of SOUTH EAST ASIAN in relevant global totals and modified by author

LITERATURE REVIEW

Kojima K (1964) first used the trade intensity index measures, the share of one country's trade with the another country. The formula is used to calculate the trade intensity index by Kojima(1964); rani (2007); Agrawal Pandey (1965), Bano (2012). Rupa Chanda and G. Sasidaran's (2008) examines the reasons underlying India's growing interest in framing various kinds of regional and bilateral agreements with Asian economies. The study concludes by looking at the prospects for future Preferential Trade Agreements by India and the various issues and interests that should shape India's future regional initiatives to assure the realization of its long term economic, strategic, and geopolitical objectives.

Razeen Sally and Rahul Sen (2005), analyze the trade policies in Southeast Asian countries in their wider Asian and global contexts. The paper concludes that for SOUTH EAST ASIAN countries the engine of liberalization and regulatory reform has to be home-driven, with governments taking unilateral measures in response to internal and external conditions. Suparna Karmakar (2005), analyses the economic scenario in the Asia-Pacific region. This paper is an analysis of the economic scenario in the Asia-Pacific region and a macro overview of the trade

creation potential of an agreement on trade in services among members of SOUTH EAST ASIAN and India. Mukul Asher and Amitendu Palit (2008) explore India's Look East Policy. India's economic engagement with Southeast Asia has expanded rapidly since the early 1990s. Merchandise trade between India and SOUTH EAST ASIAN has grown from US\$2.3 billion in 1991-92 to US\$38.4 billion in 2007-08. Bilateral trade has diversified in terms of commodity composition. This further suggests that acceleration in India-SOUTH EAST ASIAN trade coincided with the onset of a robust period of expansion for the global as well as the Indian economy.

Laurence Henry (2007) suggests that the development of trade and economic arrangements between India and Southeast Asia must be rooted within the larger processes of economic and diplomatic exchanges in Asia. The article further highlights SOUTH EAST ASIAN as a successful model of regional cooperation that started its revolutionary growth in the 1990's. According to the author, a major reason for the evolution of the SOUTH EAST ASIAN-India entente is the perceived hegemony of China in Asia. Southeast Asian States are very interested in balancing Chinese power through India, in the region. The association between India and Southeast Asia, in particular SOUTH EAST ASIAN and its member states, reflects the overall tendencies of the emerging regional infrastructure of East Asia.

RESEARCH METHODOLOGY

Since the study is descriptive in nature therefore it is based upon secondary source of data like WTO data bank, IMF, Foreign Trade Statistics Yearbook and SOUTH EAST ASIAN Merchandise Trade Statistics Database. The statistical tools such as Trade Intensity Index, correlation, Coefficients, regression analysis have been used to achieve the objectives of the paper.

OBJECTIVES OF RESEARCH

To analyse the export-import trade relations of India and SOUTH EAST ASIAN countries in quantitative terms.

To find out the current position of trade relations between India and SOUTH EAST ASIAN countries.

DATA ANALYSIS AND INTERPRETATION

Trade Intensity Index

The trade intensity index (TII) is used to determine whether the value of trade between two countries is greater or smaller than would be expected on the basis of their importance in world trade. It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner. It is calculated as,

$$T_{ij} = (x_{ij}/x_{it}) / (x_{wj}/x_{wt})$$

Where x_{ij} and x_{wj} are the values of country i 's exports and of world exports to country j and where x_{it} and x_{wt} , are country's i 's total exports and total world

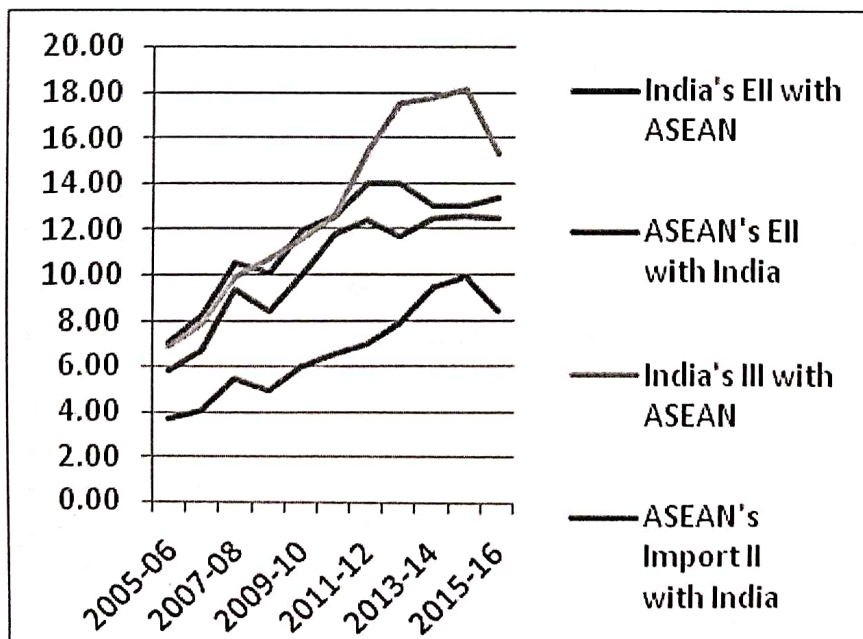
exports respectively. An index of more (less) than one indicates a bilateral trade flow that is larger (smaller) than expected, given the partner country's importance in world trade.

Trade Intensity Index is further divided in to Export Intensity Index (EII) and Import Intensity Index (III) for looking the pattern of exports and Imports.

Table 1

| Year | INDIA EXPORT TO WORLD | India's EII with SOUTH EAST ASIAN | SOUTH EAST ASIAN's EII with India | India's III with SOUTH EAST ASIAN | SOUTH EAST ASIAN's Import II with India |
|---------|-----------------------|-----------------------------------|-----------------------------------|-----------------------------------|---|
| 2005-06 | 10.1 | 5.86 | 7.06 | 6.92 | 3.72 |
| 2006-07 | 10 | 6.78 | 8.17 | 7.88 | 4.06 |
| 2007-08 | 10.1 | 9.38 | 10.49 | 9.89 | 5.45 |
| 2008-09 | 10.3 | 8.39 | 10.09 | 10.68 | 4.95 |
| 2009-10 | 10.1 | 10.02 | 11.93 | 11.60 | 6.00 |
| 2010-11 | 10.3 | 11.81 | 12.55 | 12.53 | 6.57 |
| 2011-12 | 12 | 12.43 | 13.97 | 15.35 | 7.01 |
| 2012-13 | 11 | 11.72 | 13.93 | 17.47 | 7.86 |
| 2013-14 | 10.5 | 12.44 | 12.96 | 17.73 | 9.49 |
| 2014-15 | 10.2 | 12.57 | 13.00 | 18.12 | 9.93 |
| 2015-16 | 9.6 | 12.48 | 13.39 | 15.27 | 8.45 |

Source: Author's calculation by using WTO database



According to the above table trade intensity of India in term of SOUTH EAST ASIAN countries has been increasing with a constant rate EII of India in 2005-06 was 5.86 which was grown approx twice to 12.48 in 2015-16. Moreover, there also has been an increasing rate of III of India with South East Countries

DESCRIPTIVE STATISTIC

Table 2: Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|------------------------------------|----|----------|----------|------------|----------------|
| WORLD IMPORT | 11 | 37275.20 | 52375.80 | 45021.2000 | 4737.70132 |
| WORLD EXPORT | 11 | 30138.05 | 52460.84 | 39254.5214 | 8028.97819 |
| SOUTH EAST ASIAN EXPORT TO WORLD | 11 | 6488.39 | 12939.88 | 10314.5684 | 2345.22487 |
| SOUTH EAST ASIAN IMPORT FROM WORLD | 11 | 5774.17 | 12546.53 | 9601.8837 | 2513.17369 |
| INDIA EXPORT TO WORLD | 11 | 9.60 | 12.00 | 10.3818 | .63690 |
| INDIAN IMPORT FROM WORLD | 11 | 7.30 | 10.50 | 8.9818 | .87042 |
| SOUTH EAST ASIAN EXPORT TO INDIA | 11 | 10.88 | 44.71 | 31.3755 | 11.51637 |
| INDIAN EXPORT TO SOUTH EAST ASIAN | 11 | 10.41 | 36.74 | 23.8355 | 9.06532 |
| Valid N (listwise) | 11 | | | | |

(Table created by Author by using secondary data sources)

The above table shows the India's average import to world from 2005 to 2015 is around \$8.98 billion and has positive deviation of .87. On the other hand India's import from SOUTH EAST ASIAN is \$31.37 million. Similarly, India's export to SOUTH EAST ASIAN is average \$23.83 million in last 10 years. This indicates that India and SOUTH EAST ASIAN has a good trade relation. Both foreign policies are interdependent to each other.

REGRESSION ANALYSIS

India's Export to world = X

SOUTH EAST ASIAN import from India = Y

Table 3

| Model Summary | | | | | | | | | |
|---------------|-------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | |
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .643a | .414 | .349 | .51399 | .414 | 6.354 | 1 | 9 | .033 |

a. Predictors: (Constant), SOUTH EAST ASIAN IMPORT FROM INDIA

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | 95.0% Confidence Interval for B | | Correlations | | | | |
|-------|------------------------------------|------------|---------------------------|------|------|---------------------------------|------------|--------------|--------|------|------|------|
| | B | Std. Error | | | | Beta | Zero-order | Partial | Part | | | |
| 1 | (Constant) | | 9.305 | .455 | | 20.468 | .000 | 8.276 | 10.333 | | | |
| | SOUTH EAST ASIAN IMPORT FROM INDIA | | .045 | .018 | .643 | 2.521 | .033 | .005 | .086 | .643 | .643 | .643 |

In the above table 3, there is positive and high correlation (0.643) between total India's export to world and total import by SOUTH EAST ASIAN countries from India. Moreover R square is 0.414 which means approx 41.4% changes in India export to world are due to changes in the total imports by SOUTH EAST ASIAN countries.

TRADE OPPORTUNITIES

- SOUTH EAST ASIAN is a monolithic market. - The SOUTH EAST ASIAN with a combined GDP of more than \$2.5 trillion would rank as the third largest economy in Asia and seventh largest in the world.
- SOUTH EAST ASIAN is a growing hub of consumer demand- SOUTH EAST ASIAN, estimated to be around 150 million or one-quarter of the SOUTH EAST ASIAN population, has been fuelling consumer spending and retail sales in the organised channels.
- SOUTH EAST ASIAN is well positioned in global trade flows- SOUTH EAST ASIAN is the fourth-largest exporting region in the world, Indian exports to SOUTH EAST ASIAN grew from U.S. \$ 10.4 billion in 2005-06 to U.S. \$ 25.2 billion in 2015-16 and have grown by compound annual growth of 9.2 %
- Launch of SOUTH EAST ASIAN Economic Community (AEC)- AEC was officially launched on 31st December 2015 to create a single market to enable an easier movement of goods, services, investment, capital and people across the region.

- (e) Intraregional trade within SOUTH EAST ASIAN likely to surge with implementation of the AEC: Some 25 percent of the region's exports of goods go to other SOUTH EAST ASIAN partners, a share that has remained roughly constant since 2003.
- (f) The removal of tariffs throughout the AEC presents a significant advantage for Indian companies in two ways. First, companies that manufacture in the region will be able to take advantage of the free flow of goods through the AEC when exporting finished goods. Second, Indian companies that rely on SOUTH EAST ASIAN nations for intermediate goods in their supply chain will benefit from reduced costs not only in goods, but also in simplifying the 'paperwork' necessary to move goods through the region.

CHALLENGES

A stronger trade is contingent upon improved transport network i.e. national railway networks, construction of all weather roads to allow movement of large trucks across the region and efficient ports for the facilitation of sea trade; and harmonization of technical specifications of rolling stock (wagons, vehicles, etc) and infrastructure (rail and roads) to permit interoperability. Only a small proportion of India's trade with SOUTH EAST ASIAN, viz, Myanmar is conducted through land frontier. A major problem in conducting trade with and through Myanmar with Thailand and other countries in the South East Asia with respect to road connectivity is that there are many missing highway links besides poor condition of roads in some countries which do not facilitate movement of large trucks for trade.

LIMITATION

The research paper also have some limitation, author only focus on trade relation between India and SOUTH EAST ASIAN from India's point of view. The paper has a scope to find out more relevant information from SOUTH EAST ASIAN countries point of view, their trade intensity with their prospective.

CONCLUSION

Trade relation between two counties or between two regions always create win-win situations. In this paper author found that India economics development is equally dependent on SOUTH EAST ASIAN counties as it is with western counties. Important factor is that India is a developing country and does extremely well in last 20-25 years to grow. Trade intensity index represent clearly about the positive outcomes. The researcher use correlation and regression analysis to find out the relationship and dependency. India and SOUTH EAST ASIAN countries have an opportunity for development as there is a high demandable market. Counties have to improve their logistic connectivity and information technology to enhance for future.

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