

CHAPTER 6: FINDINGS AND CONCLUSION

6. Findings and Conclusions

An impact of AIFTA in promoting IIT for 12 years from 2005 to 2016 and diversification in the pattern of trade for ASEAN and India reflects useful findings for India and ASEAN trade relations for coming years. The findings are based on the data analysis and interpretations.

6.1. Does regionalism significantly promote IIT

- Regionalism does have larger effects as compare to multilateralism. The numbers of regional trading arrangements between nations are growing at a faster rate due to its easy rules and negotiations between parties. The case of ASEAN and India relations are widening not only in trade in goods but also in services, investments and economic cooperation. Recently, RCEP negotiations are showing the importance of mega-regionalism in the world with high degree of interdependence.
- Since 2000, the ASEAN and India rising trade relations in the form of CECA, RCEP, ASEAN-India Free Trade Agreement (AIFTA) in goods in 2010, recently signed ASEAN-India Free Trade Agreement in services and investments in 2013 are also an example of these regional arrangements. If trade in goods agreement would not been successful then AIFTA in services, investments and economic cooperation would not been the part of regional arrangements.
- ASEAN is a growing bloc than other blocs as EU and NAFTA. The best part of ASEAN is its member countries and combination of fastest developing countries like China, India, South Korea and Japan which are in the phases of fastest developing, developing and least developed, so trading and joining hands with ASEAN will have larger positive effects than any other bloc.
- The member nations of ASEAN and India are benefiting from the formation of regionalism due to its impact in the form of growing trade volumes, increase in intra-industry trade share, diversification of trade in goods basket, reaping economies of scale with specialization, changed consumer preferences and lastly interdependence of countries in resources and market access through tariff liberalization. All these above effects are direct effects of Regional Trading Arrangements between ASEAN and India.

- From 2000 to 2016, ASEAN trade share to the world improved significantly. And within world, the share of Asian countries has the highest contribution in the share of ASEAN.
- Two-way trade does not reflect the direction of trade, though the study observed ASEAN exports and imports with India from 2005 to 2016. India has trade deficit with Singapore, Malaysia, Indonesia and Thailand and on the other hand, trade surplus with Vietnam, Philippines and Cambodia.
- The importance of ASEAN is not only be realized by India but other Asian countries as well. In the years of 2005 – 2016, ASEAN did sign many comprehensive trade agreements with China, Japan, South Korea, Australia and New Zealand. Therefore, Asian countries today became the hub of manufacturing, assembling, and a part of integrated international supply chain due to its adjustments costs, dynamism and a movement towards a common interest.
- There are indirect effects of regionalism which are supporting ASEAN and India in growing competitiveness, restructuring of industrial base which suits the shifting trade patterns within countries, setting up of foreign affiliates in the form of foreign direct investments in that sector whose trade volumes and share in total trade had increased after an agreement, easy access and availability of qualitative parts and components which supports domestic industries in turn and finally the creation of employment and income back in the growing and emerging sectors of respective member countries. All the indirect effects making this arrangement different from other regional arrangements which are supporting ASEAN and India in its future commitments.
- Therefore, these direct and indirect effects of regionalism do create and motivate nations to accept regionalism widely as compare to multilateralism.

6.2.Does RTAs promote IIT index

- The nature of two-way trade reflects similarity in factor endowments, similar taste and preferences and similar structure of countries. This is largely been seen in the case of ASEAN and India two way trade at 4 digit level, depicting potential of growth in those sectors whose IIT is high but the trade volume is low sectors like
- Findings based on chapter 4 and 5; the study examined the higher IIT in the regime of AIFTA. Especially post-AIFTA, the volume of trade, share of specific identified sectors,

share of IIT in the overall trade volume and direction of trade also indicated the role of regionalism in promoting trade – two way trade.

- Another observation states that the IIT index is very high for developed country like for Singapore. Though at 2 digit and 4 digit HS level, Singapore showing declining trend in IIT and in overall trade volume with India in post-AIFTA. The basket of commodities traded with Singapore is skewed in nature. It means at 4 digit HS level, only few commodities were showing high volume of two way trade.
- On the other hand, Malaysia, Thailand, and Vietnam are showing huge potential in IIT in various commodities in post-AIFTA period in terms of rising trade volume. Especially Vietnam have shown phenomenal rise in terms of its trade volume, share of IIT in total trade and diversified pattern of goods are an indication of rising relation of Vietnam with India. This is one of the reasons that recently Vietnam became India's top ten trading partner in 2016.
- The total trade volume between ASEAN and India, the share of Singapore is the highest followed by Thailand, Malaysia, Vietnam, Indonesia, Philippines and Cambodia.
- After analyzing trade volume, study analyzed potential sectors in which ASEAN and India has its two way trade advantage. After considering 4 digit HS classification of level, study found identifies sectors in which the share IIT with its volume is significant. The sectors are Chapter 27 – Minerals oils etc., 29 – Organic Chemicals, 71 – Natural pearls and precious stones etc., 72 – Iron and Steel, 84 – Nuclear Reactors etc., 85 – Electrical machinery etc. and 87 – Vehicles other than railway and tramway etc.
- The results from the regression analysis show that the FTA has a positive and significant impact in promoting IIT between ASEAN and India. This reflects that AIFTA agreement has significant impact on promoting IIT between ASEAN and India.

6.3.Determinants impacting IIT between ASEAN and India

- The results from Regression and Tobit model explain that the coefficient for GDP difference is expected to come positive and significant. This means the positive impact of FTA on IIT can be seen for countries with similar levels of development. ASEAN is a set of member countries whose structure of economy and development is in the stage of India's economic development. Countries like Thailand, Indonesia, Philippines and

Vietnam are at the stage of similar levels of development which is one of the reasons of IIT growth.

- The negative coefficient for per capita income difference confirms the hypothesis that the level of IIT is inversely related to difference in per capita income. This reflects on the development stages in ASEAN are at different level, therefore the income distribution is not symmetrical within ASEAN and India. The difference in per capita income measures the extent of variation in demand for differentiated products across ASEAN and India. IIT would be more intense, if the demand and income pattern of both countries are same. But would be different, if the demand and income of countries are not same. Singapore, Malaysia, Thailand, Indonesia, and Philippines per capita income is higher than India but lower for countries like Vietnam and Cambodia.
- The coefficient of FDI is negative and significant in results in the model. It states that in higher IIT, FDI does not have any role between ASEAN and India. This is due to nature of AIFTA commitment which is in Trade in Goods not in investments. This shows higher IIT is due to exports and imports of commodities rather than foreign affiliates set up and benefitting from exports and imports profile of each other.
- The coefficient of Trade Openness has come positive and significant. The results show lowering tariff barriers and improved market access in the regime of AIFTA agreement has led to higher share of IIT between ASEAN and India.
- The coefficient of distance is negative as per given literature on gravity model which states closer geographic proximity of trading partners, higher is the IIT amongst them. Due to lower adjustments costs and lower transportation costs and information costs facilitates IIT within regional blocs.

6.4.Direction and Composition of Two-Way Trade in pre and post AIFTA

- The results of IIT at 4 digit HS classification level portrays major 7 sectors averaged at 2 digit for reporting purpose which have shown higher IIT and composition of two-way trade has also changed post-AIFTA agreement.
- The 7 sectors with 4 digit sub-headings with higher share of IIT across all ASEAN member countries and India in post-AIFTA period were as follows (for details, refer chapter 5-section 5.2.2):

- Chapter 27 – the composition of trade remained as it is in 2016 with two-way trade with Singapore only in commodity 2710. The share of average IIT has declined in 2016 of 2710. The direction of trade has also not changed in post-AIFTA period, still remained with Singapore.
- Chapter 29 – the major share of average IIT in this chapter is in commodity 2902 both in pre and post-AIFTA period. The expansion in the composition of two-way trade is realized. Post-AIFTA period, the direction of two-trade also changed from Singapore towards Indonesia and Thailand. This chapter has huge scope for India to increase its IIT with ASEAN members. In post-AIFTA, Singapore exports 2902 to India; and further India exports 2902 to Indonesia. There is a rise in the commodities two-way trade of India with ASEAN members.
- Chapter 71 – this chapter is restricted to only Singapore and Thailand in pre and post AIFTA. This chapter has huge potential of two-way trade but still the direction has not changed. Though the composition of two-way trade with Singapore and Thailand has seen new commodities in 2016. But this chapter has huge potential especially for India to take an advantage of resources and economies of scale.
- Chapter 72 – India is known for its iron and steel across Asia but the two-way trade is not predicting the same picture. The major ruling commodity is 7202 in pre and post agreement period made towards Singapore and Thailand. In post-AIFTA period, the share of IIT has increased for Indonesia and Malaysia but declined for Singapore. Even the pattern of composition of two-way trade also remained consistent in pre and post-AIFTA agreement. In two-way trade the volume is higher for ASEAN member countries than India's contribution towards chapter 72.
- Chapter 84 – this is the chapter which has gained momentum in post-AIFTA agreement. The changed composition and direction of trade in post-AIFTA period suggests that India being into trade deficit in 2010 has changed to trade surplus in all sub commodities of chapter 84. All the trading partners' requirement for chapter 84 is different in post-AIFTA period. Though the pattern of composition is not similar in pre and post-AIFTA period.

- Chapter 85 – the major share of average IIT in this sector is a contribution of commodities like 8504 and 8517 in pre and post-AIFTA agreement. The basket of commodities has increased in post-AIFTA with two-way trade with Singapore, Malaysia, Thailand and Vietnam. The overall two-way trade volume has shown declining value in 2016.
- Chapter 87 – the chapter 87 depicted high share of IIT with Thailand in pre and post agreement period in commodity 8708. The direction of trade has changed from Singapore towards Indonesia and Vietnam. The composition of trade has also not changed much but some new commodities have taken away the rising share of Singapore and diversified towards Thailand, Indonesia and Vietnam.
- The identified sectors like chapter 29, 72, 84 and 85 are those sectors in which highest IIT is been registered in 2016. These sectors sub-headings are also very wide and broad. In 2016, the major 4 digit top traded commodities are also from these sectors including chapter 27 on minerals and oils and chapter 71 due to its unit value price.
- The direction of IIT is also moving from Singapore towards Thailand, Vietnam, Malaysia and Indonesia. These countries have shown very high share of trade-weighted average in identified commodities at 4 digit in post AIFTA phase. The share of Singapore and India is showing declining demand saturation in the developed nations rather than developing nations. Singapore has also signed many other bilateral FTAs with other Asian nations which are giving competition to Indian products. The share of Philippines and Cambodia is still very small for understanding actual impact.

6.5.The impact of AIFTA on IIT index at 2 digit and 4 digit – Tariff Liberalization

Various studies in review of literature do support tariff liberalization which affects exports and imports between member nations after an agreement. The Tariff liberalization in AIFTA is divided into five groups of products namely Normal track 1 and 2 (NT-1/2), Sensitive Track (ST), Special Products (SP), Highly Sensitive list (HSL) and Exclusion list (EL).

India's tariffs were relatively higher than the tariffs of ASEAN countries; the expected benefit from AIFTA has been gained more by ASEAN than India. As per the scheduled tariff commitments for India (Table 6.1 below), all tariffs in NT-1 non-agricultural goods will be zero and NT-2 will drop by another 4% by 2013.

The findings clearly indicate that chapter 27, 29, 72, 84 and 85 are more liberalized till 2016 than sectors like 71 and 87. The study calculated the average tariff rate due to the availability of tariff lines at 6 digit HS classification level. For understanding purpose and to know the rate of tariff liberalization in AIFTA, the average tariff would give some glimpse of liberalization in AIFTA. The most liberal sectors in all the chapters are chapter 84 and 85 in which mostly commodities are kept in NT1 and NT2.

In chapter 87, there are many 6 digit commodities which come under sensitive track and in exclusion list. Even to protect industries in chapter 71, some of the 6 digit products been kept under exclusion list.

Table 6.1: India's tariff reduction scenario in major sectors involved in Two-way trade with ASEAN

S. No.	2 digit	Name of the Chapter	Average tariff
1	27	Minerals and oils	0.06
2	29	Organic Chemicals	0.07
3	71	Natural Pearls and precious	0.11
4	72	Iron and Steel	0.06
5	84	Nuclear Reactors	0.07
6	85	Electrical Machinery	0.07
7	87	Vehicles parts	0.46

Source: Author's compilation by using Customs Effective Rate till 2016

Note: Average Tariff is calculated based on 6 digit tariff lines.

6.6. Conclusion

Regional Trading Agreements design and functioning is crucial. Agreement that has been designed to complement a general program of economic reform has been most effective in raising trade. RTAs offers low trade barriers with all global partners with whom the agreement is been signed. The agreements which provide minimum excluded products enlarge the scope of positive net benefits through competition and trade creation.

The regional integration encourages elimination of tariffs and non-tariff barriers which would lead to more efficient economic structure within the region through greater competition. International trade is traditionally thought to consist of each country exporting the goods most suited to its factor endowment, technology, and climatic conditions while importing the goods least suited for its national characteristics. Such trade is called inter-industry trade because export and import the products of different industries. But the trend is now shifted towards IIT which arises if a country simultaneously export and import similar type of goods or services. For many

industrialized countries and emerging economies IIT accounts for more than half of their total bilateral trade flows. Developed and East Asian countries display the largest values, meaning that the relative importance of intra-industry trade in their trade profile is the maximum. Regionalism provides greater opportunities to member nations than multilateralism.

The IIT is high with those countries who share similar market size, similar factor of endowments, scope of FDI and high Trade openness with its near proximity with signing more and more FTAs. FTAs should be seen in totality, only signing Trade in goods agreement does not define the potential gains in future. This is due to mutual interest of each countries for example India has its competitiveness in service sector and Vietnam has in manufacturing but signing goods agreement by default benefit more to Vietnam than India. Therefore, comprehensive approach towards international regional arrangements is required rather than covering only one aspect.

ASEAN and India composition and volume of two-way trade do indicate gains from AIFTA but the actual potential will only be seen, if exporters and importers understand, make them aware with government current schemes of regionalism and incentives, utilize these arrangements for their benefits.

Exporter and importers of ASEAN and India should also focus on the standards of commodities, its technical requirements and conformity assessment is also an integral part of higher growth of IIT. As the countries are becoming dependent on each other, the substitution effect towards good quality of products cannot be overlooked. Therefore, it is advisable for governments to take initiative for spreading awareness amongst exporters and importers.

The overall two-way trade in a case of AIFTA is very limited to few sectors. The higher IIT promote many structural changes in the economy in terms of inclusion of small and medium enterprises to be a part of this share and international supply chain, secondly higher IIT is also a part of growing Global Value Chains which are emerging in Asia at rapid pace.

The chapters 84, 85, 72 and 29 are showing huge potential for Indian exporters and domestic firms to gear up and gain maximum from international supply chain.