Chapter 2

Review of Literature
Chapter - 2

REVIEW OF LITERATURE

In this chapter, the important studies have been reviewed related to the topic. Both theoretical literatures as well as empirical works have reviewed.

2.1 Theoretical Studies

Mishra, P.P. (2001) found that close interaction of India with South-East Asia began from prehistoric times and continued until the beginning of colonial rule. From prehistoric days, India had trade relations with West Asia. After liberalizing its economy, India adopted prolonged strategies to have close bilateral ties with South-East Asia. India's perception was that the volume of trade and investment opportunities would increase by becoming closer to ASEAN. Along with political and strategic improvement of relations, India also tried to strengthen economic partnerships on a bilateral level. India's relations with Indonesia are in upward swing from 1990s. India and Southeast Asia, both are looking at each other in a positive light. Their needs are also mutual. The political, commercial and strategic interaction of both the regions from 1990s is going to usher in a new era. In the new millennium, India is going to play a prominent role in Southeast Asia according to the author.

Naidu (2004) examined that apart from establishing institutional linkages with ASEAN and strengthening bilateral relations with its member states, especially in the field of defense, India has been an enthusiastic participant and supporter of multilateralism in Asia-Pacific. The LEP also gave a tremendous boost to economic ties between India and Southeast Asia. While developing links with ASEAN and other ASEAN-led multilateral institutions, India is also pursuing to qualitatively improve bilateral links with member states. But despite enormous progress made since the enunciation of the policy in the early 1990s, India lags behind other great powers in terms of geopolitical or economic importance. The reason is that although it is claimed that this policy is for whole Asia-Pacific region, it is apparent that much of the emphasis has been on Southeast Asia. But it is also a matter of fact that the LEP is responsible in making India an inalienable part of the Asia-Pacific's strategic discourse. The current status marks the vibrant relationship on the economic, political and strategic fronts. The Look East Policy appears now to be poised for a major take off.
Naidu, G.V.C. (2004) has analyzed the role of Look East Policy in the evolving relationship between India and South-East Asia. Though the Look East Policy was launched with political as well as economic motives but soon it became a multi-faceted approach to develop political, strategic and strong economic bonds with ASEAN. With the help of a number of agreements and other activities with ASEAN member countries, an impressive progress has been covered up on the defense and strategic front also. South-East Asia had a large consensus about India as an economic and strategic partner which would contribute to regional peace, stability and prosperity. This policy was also to exhibit India’s economic potential for investments and trade. It provided an outstanding boost to the economic mechanism between India and ASEAN. The ASEAN-India Joint Cooperation Committee and an ASEAN-India Working Group on Trade and Investment were set up along with the creation of an ASEAN-India fund to promote trade, tourism, science and technology and other activities. The author regards the policy as one of the most successful and comprehensive policies that India has formulated in recent past.

In her book, Lobo, R. (2004) traces the evolution of economies of Malaysia, Thailand and Indonesia and its impact on the Indian economy. The South-East Asian countries adopted some open and liberal economic policies since the middle of 1980s. Such policies included the maintenance of macroeconomic stability through low inflation and low budgetary deficit; giving the export sector a boost through appropriate policy measures; raising the savings and investments through an intensive exercise in resource mobilization, the creation of a favourable environment for attracting Foreign Direct Investment (FDI) and the pursuance of an industrial policy that increased the value addition to industry. The World Bank and International Monetary Fund (IMF) both were very impressed and favoured such policies both directly and indirectly by advocating the economic policies adopted by these economies. Such recommendations reassured the South-East Asian economies that surely they are progressing in the right direction and reassured its foreign investors about the profitability of their investment. But with the occurrence of Asian crisis, starting from July 1997, the miraculous growth turned into the debaculous one and the policies were criticized and considered inappropriate. There were two reasons behind the crisis. First was, in these economies the capital account was fully convertible. This and other favourable policies caused an increase in inflows so these economies used a
tight money policy. This increased inflows especially in the form of short term investment. Secondly, the financial sector exhibited weakness. There were currency mismatches and maturity mismatches. IMF, along with the political problems, corruption and capital cronyism was blamed for the worsening of the economic situation. The IMF’s way of handling the crisis received severe criticism from the international community. After that IMF made the sincere efforts to strengthen the financial standards, principals and guidelines for the betterment of the financial sector and adopting the transparency in its operation. However, India managed to escape from the South-East Asian crisis. Though, the impact was felt on the Indian currency, stock market and exports as well as capital inflows but to a very little extent. According to the author, there are a lot of positive and negative results of the development experience of South East Asian economies and India can learn a lot from the both: the positive aspects as well as by the negativity.

In a combined study Mukul, G.A., Sen, R. and R. Rajan (2004) argue about the current conditions and the future possibilities of ASEAN-India relations. They examine the future of India-ASEAN relations including a discussion of India-ASEAN FTA and various other aspects of international trade flows between both regions. As India demonstrates its economic and technological capacities to compete in the 21st century, it is becoming an important player in shaping the future political and security environment in Asia. As a consequence of pursuing Look East Policy by India, the scope and density of relations between India and the ten member ASEAN has been steadily rising. The study offers a broad overview of the complementary issues between India and ASEAN that are under-exploited. So both the regions reached at one conclusion of establishing the Framework Agreement for fruitful expansion and intensification of economic ties. If ASEAN permits India to be an observer at different technical committees in ASEAN, it will make the negotiations smooth for an India-ASEAN FTA. However, the crucial areas of Rule of Origin (RoO) are still under negotiations. Secondly, the mutual trust is a necessary element to maintain the dynamics of this manifesting economic partnership. An assessment of the economic relations between India and the ASEAN countries leads to the conclusion that there is tremendous scope for expanding economic cooperation among these regions in coming years, especially in the area of investment cooperation including export of Indian technology, consultancy and management and banking services. The expansion
of mutually profitable economic terms between India and ASEAN will require a systematic exploration of emerging economic opportunities between ASEAN and India by ASEAN as an organization as well as by individual ASEAN countries. The paper also stresses the fact that the media and elite class of the Indian society should make efforts to address current information that severely hinder the pace and possibilities of economic cooperation between both the regions. The significantly existing complementarities among ASEAN and India can only be recognized when these ideological and informational hindrances are removed. The valedictory section of the paper flags the future prospects of ASEAN’s economic relations with India by focusing on potential gains at both bilateral and multi-lateral levels.

The Secretary General of ASEAN, Yong, O.K. (2005) observes the need to develop courtship between ASEAN and India so that both could work together to address the opportunities and challenges of globalization. It is favourable for India to forge a closer relationship with ASEAN for a number of reasons. The maintenance of peace and stability, expansion of economic linkages and improvement of critical human capacities are the few main requirements for the enhancement of ASEAN-India partnership. On the other hand, ASEAN is also speedily liberalizing its market opportunities. The hope behind the partnership for ASEAN is that with its dynamic economic growth and excellence in computer software, engineering and sciences, India will act importantly in maintaining peace, stability and prosperity in the region.

The governments of ASEAN and India should come with each other to reform regional conditions to elevate security and stability. The main motive of the paper is to suggest that with widening competition and to move ahead in the present globalised era ASEAN and India must get close to expand and deepen their economic linkages.

Ten points to put forward ASEAN-India people to people partnership have also been suggested to deepen the foundation of ASEAN-India partnership. These points involve exchange programmes among youth, media, academics, business people, government officials and artists and literature.

Gullapalli, S. (2005) states that the process of globalization has thrown up both opportunities and challenges for India in more than one way. It has resulted as an increase in trade, capital movements and investments and people across the borders. The beginning of the process of globalization in India was marked in 1991. The opening up of the economy provided an enlarged scope to rejuvenate India’s relations
with its neighbor nations particularly with the Association of South East Asian Nations (ASEAN) through the Look East Policy. As the globalization has adopted in India as a part of reform process, India tended to make closer economic terms with ASEAN region to give further impetus to the reform process. The priorities of India-ASEAN bilateral relations include poverty eradication, infrastructural development, fiscal consolidation, agriculture and related aspects. The benefits of the globalization were evident in changing trade patterns and capital flows. The author has pointed out that the initiation of globalization for reforms towards a market-oriented economy has helped India in achieving a self-sustaining mechanism and positive results are no doubt a source of encouragement for the policy makers and business groups. This can be said that the actual benefit that the ability of India to compete domestically and internationally is being widely recognized.

Zhang, D. (2006) explained that with reforms, India has gradually liberalized its economy by reducing tariffs and relaxing controls over foreign direct investment. The launching of “Look East Policy” signaled the end of India’s former self-reliant economic development and the start of an era in which India strived to take advantage of new opportunities from international trade and investment. Another message sent from LEP was that the region would no longer be overlooked instead it would be regarded as a source of new business opportunity and inspiration for economic development. The rapid growth in India’s economic relations with East Asia has resulted in the region becoming more important in India’s overall international economic relations, greatly affecting its economic growth, reform and development. In fact, East Asia’s economic success has inspired India’s reforms and shaped India’s regional development strategy. But a few obstacles persist between India and East Asia relations like limited economic integration, inefficient bureaucratic processes, different economic structures and degrees of openness etc. To accelerate the pace of economic integration with East Asia, India needs to overcome institutional obstacles and improve its investment climate.

Ananta, A. and Y.E. Riyanto, (2006) analyzed the economic condition of Indonesia after the crisis that Indonesia faced in 1997. They said that it is debatable whether the crisis was a boon or curse to the Indonesian people. Indonesia got democratic government almost overnight inspite of being very less experienced to handle that. The lack of experience of living in a democratic society may have caused many
Indonesians to become confused on how to behave democratically because Indonesia is a large heterogeneous country with diverse ethnic groups. Within the context of potential political instability, as part of a learning process towards a democratic society, the Indonesian economy is challenged to survive and prosper. The economy of Indonesia was often criticized for not growing rapidly as it should have. The financial crisis of 1997 quickly turned into a social, economic and political crisis. The transition from an authoritarian to a democratic government has not been smooth and easy but some progress has been made. However against all odds, the facts indicate that Indonesia had undergone a remarkable economic transformation. To avoid any macroeconomic instability, the government concentrated on fiscal and monetary policies of the country. The changes that took place in Indonesia have been quite dramatic in nature. Indonesia, as has undergone a transition from an authoritarian government to a democratic one, has very successfully unleashed a multitude of interesting economics, politics and institutional issues and appeared as a golden giant before the world after the crisis.

Shekhar, V. (2007) explains the relationship of India and Indonesia date back a long since the Bandung Afro-Asian Conference, held in 1955, when then Prime Minister Pt. Jawahar Lal Nehru and then President of Indonesia Mr. Sukarno put forward the concerns and interests of Non-Cooperated regions in an effective combined voice. But the relations became harsh when Indonesia supported Pakistan against India not only with weapons but also in arranging a mob-attack on the Indian Embassy in Jakarta. Afterwards the relations improved when India and Indonesia both felt threat from China. India’s Look East Policy provided the ground for this cooperative bilateral relationship. The relations between both countries became more melodious as India became full dialogue partner of ASEAN. Now both countries are enjoying not only economic engagement and trade relationship but are sharing the partnership in the spheres of security and defense, science and technology and cultural terms as well. India and Indonesia signed a bilateral agreement on non-traditional cooperative activities in 2001 against terrorism, maritime piracy etc. India also supplies defense equipments for the Indonesian navy. Both nations also came together to fight the disaster of tsunami. In the area of trade, Indonesia is the second largest trading partner of India in the ASEAN region. During the last decade, both countries have opened themselves to each other in the new areas of science and technology such as remote-
sensing, satellite launching and space technologies. To strengthen cultural relationship between the two countries many bodies like Cultural Engagement Programme (CEP), Indian Council of Cultural Relations (ICCR) etc. have been formed till yet in India and Jakarta who are regularly updating the cultural cooperation. There exist some issues also like lack of transportation between both nations, restrictive visa regimes, Indonesia’s polite heart for Pakistan etc. but still over the years the two countries have assured each other about the bilateral partnership to be continued without being disturbed of the divergences.

One article had been excerpted from the Prime Minister’s address, delivered at the 5th India – ASEAN Summit, Cebu, Philippines on January 14, 2007. In his speech, Dr. Singh announced that India’s Look East Policy had proved nectar for the economic growth of India and economic integration with the ASEAN region. India acknowledges ASEAN’s valuable efforts in being the driving force for this affirmative progress. The Bilateral trade relations between both regions recorded an outstanding growth of 30 percent in 2006. The web of mutually beneficial partnership is being more wide not only in ASEAN region as a whole but in the individual countries also like Malaysia, Indonesia, Thailand and Singapore. Terms are improving day by day.

Working together in the area of science and technology has added much value to the partnership of India and ASEAN. The Technology Summit jointly organized by India and ASEAN in New Delhi in 2008 was an important milestone to prove that both regions should bridge their skills and together add to it to create wealth and improve the living standard of the people of both regions. India’s Look East Policy coincided with the initiating of economic reform process and provided an opportunity to enlarge India’s economic engagement. The bilateral cooperation with ASEAN countries succeeded in fulfilling India’s perspectives. Now the phase has changed. Today, India is also a vibrant market. India also own a productive and profitable investment market. India also would feel happy to facilitate similar campaign in India by ASEAN countries as are going on it in the ASEAN region from India’s side.

According to Shekhar, V. (2007), India is participating in the annual summit with ASEAN since 2002. With the help of Look East Policy, it is articulating its role in the region. The policy was so effective that it resulted in an India-ASEAN trade of US$
31 billion till 2006-07. But the priorities of LEP with which it was established are again demanding attention otherwise the most reliable, effective and outward looking policy of India will be mere a unviable and self-defeating policy. India should address the responsible concerns. India has announced many long-term and short-term policy initiatives, to push the process of cooperation with South-East Asia and strengthen India’s relevance in the region. India must concern the growing gap between announcement and implementation of projects. There are many policies initiatives which have been announced earlier but have been mired in procedural details. The delay will effect India’s bilateral cooperation with ASEAN countries otherwise. There is also growing unwillingness within India against the proposed India-ASEAN FTA.

The major trade deficit with ASEAN due to imports has provided another warning signal for reluctance. India’s Look East Policy served many policy initiatives and opportunities. It is the peak time for India to take powerful steps to implement these initiatives so that the belated programmes can maintain their relevance. Effective attention should be given to the bureaucratic entanglement and political indecisiveness to tackle out. The importance of India’s cooperation with South-East Asian region must be realized as essential and much needed. Except these, three important parts of Look East Policy should also be addressed which include to overcome the limitations of LEP, to explore new spheres for integration and to establish India as an important stakeholder for the ASEAN region.

Prasetyono, E. (2007) wrote that ASEAN got shape in 1967 as a loose regional cooperation. In the past few years with the fundamental changes in international relations, ASEAN member states have decided to establish the ASEAN charter so that the association can get a legal body. ASEAN has been accepted as the most successful regional organization in terms of the promotion of peace and stability. In spite of having a set of norms and values which shape the behavior of its members to realize the goals and objectives of the association, an unexpected war has broken out among ASEAN member states. There exist geopolitical disputes across the region, in particular maritime boundaries and sea-routes. Territories and borders have also become sensitive issues across the regions. The reason, for the rigidness of the member states is their external links with the countries in the region outside the association and the countries outside the region. Along with this, every state is trying to excel in air and naval army. It is a headache for all ASEAN member states from
each other’s side. To overcome the conflicts, the association should take a few steps. First of all, the association should make its conditions strong by developing institutional capacities and mechanism. The mechanism should have effective decision-making process and dispute management mechanism. ASEAN have to make level best efforts to build a strong relevance to address practical issues and provide justifiable interactions in the region. It will help the association in maintaining the management of the organization in the long run.

Sinha, C. and N.H Pradhan (2008) stated that as India adopted globalization, the Indian economy opened its door to the world level opportunities. The trade openness and financial integration of Indian economy was adopted to support cross-border movement of goods, services and factors of production. The motive behind the growth enhancing reforms was to achieve macroeconomics stability, to strengthen the financial sector and to improve the business climate. But due to the exploitation of India’s strengths by East-Asian region it became important for India to indulge in a closer trade relationship and to adopt a proactive role in the ASEAN economies. India is very effectively working in the services sectors specially in software technology. If it would be complemented by the hardware and manufacturing base of ASEAN region then India and ASEAN both can prosper together. This thinking and some other mutual sectors of benefit force both regions to knot the ties. Except that, the South East Asian crisis of 1997, suggested the effective region to go for regional economic integration within the Asian region for generating growth. India, being fastest growing economy, attracted South East Asia for rapid development and to reduce the vulnerability of the region. Both regions have the complementarities in the demand and supply of resources like technology and skilled manpower. Trade and investment promotion through regional integration will accelerate the infrastructural investment in areas such as power, telecommunication, airports, highways and other projects. It will bring prosperity in the region and will improve the living standards of the masses and mutual social, political, economic and cultural linkages within the region. Both regions should explore some other innovative ideas also for the formation of a larger common market in the whole Asian region.

Parthapratim, P. and M. Dasgupta, (2008) examine that to which extent India-ASEAN FTA will be beneficial. Both the regions concluded a Trade in Goods Agreement which would operate the FTA in merchandise trade. India had just crossed the
recession time after facing the trade deficit. According to the data issued by Direction of Trade Statistics (DTS) published by IMF, India had a trade deficit of $14562 million with ASEAN in 2007. As India is very interested in ASEAN's services and investment sector and it is expected that this FTA will work as a milestone in India-ASEAN economic engagement. This accounts for 15 percent of India's total trade deficit. But it is said that India is being interested in the Free Trade Agreement keeping in view that it will help India in overcoming deficit. But it will not work in the short run. It is undoubtedly an effective agreement for India but it will take time to prosper properly. It has an appropriate reason that India had to go through a vast deficit and recession. In this case reduction in tariff rates after signing the FTA can worsen the conditions rather giving them a boost. In agriculture, India will not be able to take much benefit of tariff margin given in the agreement because countries in ASEAN like Vietnam, Indonesia and Malaysia are already very well off in agriculture sector. On the other hand, the tariff rates of manufacturing goods are also quite insignificant and India is not going to get much gain. Another reason is ASEAN's first preference for trading is China not India. In the absence of such synergies between ASEAN and India the trade in goods (TIG) agreement will not bring improvement in trade flows in the short run. It could work if the services also would be included in the agreement along with investment but services are ignored.

Nagoor, B.H. and N.C. Kumar (2009) compared the performance of the Indian tea sector with that of ASEAN countries and found that with huge market for low priced tea and a large export price advantage enjoyed by Vietnam, India is in a disadvantageous position in ASEAN-India Free Trade Agreement. The writers further states that the chances of expanding exports of Indian tea to ASEAN markets seem limited.

Jha, P. (2009) explained that though the two nations have their own ethnic communities, different cultures, multilingual populations but still there is one thing in common which became the foundation for both countries’ bilateral relationship and that is their strong Asian identity and the democratic soul. Indonesia is also seen as boon for India's need for coal and energy. The writer suggests that as the both nations supported cultural links they should also raise political as well as bureaucratic interiority to improve relations. Indonesia has been successfully gaining public support to defeat terrorism and it could be a lesson for India to set in mind how it was
accomplished. Both countries should work to collaborate in the field of agriculture, horticulture, floriculture, mining and exploration performances. Newly decentralized Indonesia should receive a lot of benefit in understanding village level administration from India. Both countries have sibling links in the area of religion and culture but they lack the potential for tourism industries in each country. Building of a bridge between countries after making hydrographic surveys has been suggested. Commercial interests are also being cherished between India and Indonesia. India has shown its interest by investing in Indonesia through Bajaj, TVS, NALCO, Reliance and TATA. On the other hand, Salim Group of Indonesia is doing a fantastic work in the eastern region of India. It provides a reason to believe that others could also meet similar success. Mutual labour from both nations on the concerned sectors must come with good economic and monetary gains for both sides.

The article of Anand, M. (2009) notices the improving economy and increasingly favourable investment climate in Indonesia which has made Indonesia an unignorable entity in the ASEAN region. It further denotes the booming bilateral trade and investment relations between India and Indonesia in ASEAN. At present, Indonesia is India’s second largest trading partner among ASEAN. It mainly imports refined petroleum products, oil seeds, chemicals, and iron and steel products from India. On the other hand, Indonesia exports crude oil and further imports petroleum mining and paper products from India. India’s Investment in Indonesia is quite impressive. There exist more than twenty major joint ventures in Indonesia although Indonesian investment in India is rather low and stands at 36th rank in the FDI inflow to India. The writer has also mentioned some hindrances in the bilateral trade line, like the limited direct flights between the two countries, restrictive visa requirements etc., but makes a trustworthy optimism that despite the issues, there lies impressive potential for trade and tremendous opportunity for investment on both sides.

Harilal, K.N. (2009) assessed the likely impact of ASEAN-India Free Trade Agreement on the economy of Kerala in southern India. It is concluded that the free trade agreement would be detrimental to the interests of tropical commodity producers in Kerala. This is due to the competitive nature of the production structure of Kerala vis-à-vis the ASEAN members. Free trade in tropical commodities under the supervision of ASEAN-India free trade agreement in goods is likely to add to the
already existing problem of severe price instability with regard to these products. Except this, it will pull down the share of the producers in the value chain.

Sinha, T. (2009) reviewed 22 erudite works of diverse scholars about the ASEAN-India relationship and the Free Trade Agreement. The survey of literature is an effort to reveal the complexities in the signing of India-ASEAN FTA. It took nearly a decade to evaluate ASEAN-India relations from sectoral to a full dialogue partnership. Keeping in view the economic potential on both sides, ASEAN and India have recognized the opportunities of bilateral trade and investment and agreed to sign a Free Trade Agreement (FTA) which included goods, services and investments. In the Indian context, ASEAN is emerging as an important trade partner. In terms of trade, India mainly concentrates on Singapore, Malaysia, Indonesia and Thailand. Indian economy is largely complementary (services oriented) to ASEAN’s economic structures (manufacturing oriented) with specific areas of mutual gains. That’s why ASEAN-India FTA is significant as it is the first multilateral FTA that India has negotiated. But almost all the scholars speculate the growing significance of China against India as a regional power. It is not negligible that India has opened its eyes late enough to revive the Look East Policy in response to Chinese regional dominance. The reviewed work succeeded in putting forth certain critical issues covering the ASEAN-India FTA but they fail to mention any future solution that should be implemented. The end result as the signing of India-ASEAN FTA is quite eagerly awaited by both the participant regions so that a history could be created in the arena of multilateral integration.

Sharma, G. (2009) evaluates that India and ASEAN are working for the cooperation in three broad areas namely trade, industry and technical know-how. India’s trade with ASEAN countries, individually as well as collectively, has grown at a high rate. But the current scenario is that India’s exports to ASEAN. It is causing imbalance in the balance of trade. India should take the initiative as there is considerable scope for investment cooperation. The emphasis must be on trade creating joint ventures in industries and services which will increase the level of export earnings of India. Indian entrepreneurs and technicians can find their comparative advantage in Indian machinery, equipments and materials. There can be greater scope for export to ASEAN countries of the services from India like management services and for offshore banking. India can also attract more investment from ASEAN countries
especially from the persons of Indian origin. Finally, India needs to support schemes for expansion of trade and for setting up trade creating joint-ventures.

Dr. Batra, A. (2009) has made a critical analysis of India-ASEAN Free Trade Agreement signed in Bangkok on 13 August, 2009. The agreement that only deals with trade in goods, is India’s first free trade agreement with a trade bloc. According to her, India-ASEAN FTA can be cited in terms of taking India’s “Look East” policy a step forward but the actual goal is yet to achieve as it still lies at a distance. India’s share in ASEAN’s total trade is barely 2% which is obviously fruitless. Though, over the last few years, India’s imports from ASEAN have been increased swiftly but it failed to increase the exports to that extent. The FTA concessions do not contribute any additional gains for India. The author found China as the responsible factor behind the non-achievement of the real destination of the FTA. India-ASEAN FTA took a long time to arrive. China made an easier entry into ASEAN and captured several sectors where the comparative advantage could be in favour of India. It has been suggested that India could have utilize this time in making Indian agriculture more proficient as Indian economy is an agrarian economy. India has to take care that the regional and bilateral trade agreements must be structured with utmost care and prior preparation so that all member nations could acquire potentially.

The report of Anand, M. (2009) focuses on ASEAN and India’s interest towards regionalism and for each other and India-ASEAN trade. The paper also analyses the current status of India-ASEAN integration. India first influenced South East Asian region during the 1950s by the supporting the Indonesian independence struggle and involving in Indo-China crisis in 1960. Despite of signing friendship treaties with Indonesia, Myanmar and the Philippines, India’s relations with ASEAN remained unreliable since 1980s. Then India initiated its Look East Policy and started concentrating on its relations with South-East Asia. ASEAN, too, realized India’s importance as the third largest economy of Asia. Finally, India accepted ASEAN’s sectoral partnership in early 1992 and then became its full dialogue partner in July 1996. India realized the need to change its inward looking growth model after the macroeconomic crisis of 1991. After the Doha round, Indian policy makers have declared the bilateral trade as the key instrument of India’s commercial trade strategy in the future. ASEAN has certainly noted the fact that India has large economic potential. Secondly, India is entering a demographic boon phase with large working
age population that can be a human resource base for East Asia. So ASEAN, to its own benefits, include India in its regional framework so that it could utilize its emerging strengths as there is enormous potential between India and ASEAN in the spheres of trade, investment, science and technology, tourism, human resource and infrastructure development. ASEAN and India also share common interests with regard to regional peace and security. Indian political circles also recognize the economic and strategic usefulness of ASEAN into India’s national interests. On the other hand, ASEAN countries are no doubt a good source for India to attract foreign capital and direct investment. Thus, trade becomes one of the principal channels of India-ASEAN economic integration. With the FTA, now India can hope for a greater market access with better terms of trade and to compete successfully with the other nations in the region. ASEAN-India relations are at the best at present but still there are several aspects that demand considerations for further warmness in the relations.

According to Bhanumathi, M. (2009), India’s foreign trade had been west-ward oriented during the colonial period. But things started changing after independence. Then, the year 1990 marked a watershed in Indian economic policy. As part of the process of economic liberalization and integration with the world economy, India started adopting policy measures and action plans to raise its share of world trade. To fulfill the purpose, the look east policy was launched to enhance mutual relationship with South-east Asia. Southeast Asia and East Asia were regions of high economic growth and burgeoning foreign trade. There were chances for India to gain tremendously by establishing closer cooperation with countries.

Meenakshi, R. (2009) says that the relations between India and ASEAN have been rising as a sectoral dialogue partner in trade, investment, tourism, science and technology. ASEAN offers a growing market to India with a significant role to play. For ASEAN too, India has emerged as an attractive destination for exports of goods, services, technology and capital. Indian economy is an agrarian economy. Biotechnology represents one of the knowledge based new technologies and India is on the threshold of a biotechnology revolution. Promotion of mutual cooperation through the exchange of information amongst scientists, institutions and Indian industries and ASEAN countries has great potential. ASEAN countries have the largest markets for their exports to India to provide the food security in course of their trade. Energy is another promising sector for India-ASEAN partnership. Joint
ventures for animation software exports provide impressive opportunities for India and ASEAN. The Indian pharmaceutical industry has been recognized worldwide due to its high quality and low costs. ASEAN can import them from India or shift its own manufacturing base to India. Infrastructure development, space technology, educational services etc. are other prominent sectors of collaboration. Indian financial services industry is also growing rapidly, so ASEAN investors could find alternative opportunities in personal financial services, insurance and corporate banking. The best part of India-ASEAN collaboration is, ASEAN has considerable strengths in the old economy and ambitions in the new economy and on the other hand, India has needs in the old economy and competence in the new economy.

Singh, A.S. and J. Kaur’s (2009) work is about what should be the matters of concerns in the India-ASEAN Summit. From India’s perspective economic, security and environmental sets of issues are important. India is likely to sign FTA with ASEAN in which tariffs of around 4000 products to be abolished which are being traded between the two sides. Both sides should pay attention to the infrastructural issues. The quality of roads, ports, power and communication should be developed so that greater connectivity through land, sea and air can be provided. ASEAN have become a major source of Foreign Direct Investment for India specially from Malaysia, Singapore and Thailand. India and Indonesia are also consolidating the bilateral economic relations having interaction in various sectors including trade, investment and culture. Second concerned area is security, which include maritime, energy and counter-terrorism. India shares maritime boundaries with South-East Asian states like Indonesia, Myanmar and Thailand. Any disturbance or intervention can be a great threat to India’s national security. Energy has emerged as an important strategic issue in the region. India and ASEAN should work together for exploration of oil, joint ventures for exploration in third countries, India-ASEAN gas grid etc. India and ASEAN both are problem of terrorism. This problem in both regions is territorial and maritime in nature. ASEAN and India must work together and need to strengthen their joint declaration on terrorism. The issue of Myanmar should also be noticed as it is the most important matter. It is the only South-East Asian countries which has a land border with India. Similarly both the regions have great biodiversity. They are prone to the climate change and environmental disasters but it will also be helpful in controlling the economic losses due to maritime pollution. India and
ASEAN both have been luckily impacted less by the global financial crisis than the rest of the world. India and South-East Asia should take advantage of having mutual geographical proximity to improve market share and investment opportunities in a period global recession.

Kumar, S. (2009) states that India shares ASEAN’s view of property through cooperation. India always remains keen to exploit its full dialogue partnership with ASEAN for mutual benefits. The focus of ASEAN-India current cooperative activities is significantly technology based i.e. related advanced materials, biotechnology, space technology and information technology. The main aim behind the signing of the framework agreement on free trade agreement between India and ASEAN is to increase bilateral trade between both regions. With impressively increasing trade patterns and investment relations, there is significant potential for expanding mutually beneficial economic relations between ASEAN and India. According to the author, this requires a systematic exploration of emerging economic opportunities between ASEAN and India- both by ASEAN as an organization as well as by individual ASEAN countries. India needs to review its regulatory policies of trade with ASEAN and its countries. It should also harmonize and standardize its trade facilitations and investment procedures and standards. There is much scope for expanding and deepening of the cooperative agenda because there is much that is common between India’s goals for economic development and those of ASEAN.

Mathad, K. (2010) analyzed India and ASEAN merchandise trade by using the data for the period 2007-08. It was observed that ASEAN trade bloc is more into the intra-trade rather than inter-regional trade. India’s trade with the ASEAN is of negligible share and it seems like India is not so important trading partner to the ASEAN. India has not established close relations with the region likewise China.

Lim, I. and P. Kauppert (2010) try to reveal that whether ASEAN-China Free Trade Agreement (ACFTA) can make a win-win situation possible for Indonesia or not. It is predicted that the ACFTA as the third largest free trade area (after European Union and North-American Free Trade Agreement [NAFTA]), will create an economic region with 1.7 billion consumers, a regional Gross Domestic Product (GDP) of about US$ 2 trillion. Being the largest country of South-East Asian region and having rich resources, Indonesia is of strategic importance for the development of the whole
region. As one of the key member countries of ASEAN, this country can be a major player in promoting ACFTA. But the government of Indonesia asserts that though ACFTA is expected to strengthen bilateral trade and investment across the region but it might cause damage to a high number of Medium Enterprises (SMEs) which play an important role in overall Indonesian business. The political lock-in situation indicates that the government is committed to the agreement and not in mood of breaking it. On the other hand, the Minister of Industry, the business organizations, trade unions and others (who are opposing ACFTA) are showing their worries about the danger of hurting domestic firms specially the labour intensive industries. However, both the supporters and opponents of ACFTA are trying to architect some kind of preventive measures to vope up the future expected negative impacts of ACFTA.

The article published through The Jakarta Globe (2010), with courtesy of a commerce promotion body, reveals the beneficial role of ASEAN-India Free Trade Agreement in trade of crude palm oil with India. It is expected that the volume of exports of crude palm oil to India will raise upto 10 percent in the coming year. According to the deal, signed at ASEAN Economic Ministerial Meeting in Bangkok (2010), India is expected to cut its import duty on crude palm oil from 2010 to 2019 from 80 percent to 37.5 percent. The tariff is also required to cut from 90 percent to 45 percent. India is one of Indonesia’s principal markets for CPO. The demand for food oils from India amounts about 12 million tons annually. As the domestic production consists of only six million tons, India is compelled to get the remainder from abroad. India imports some 6 million to 6.5 million tons of food oils per year which consists of soyabean, food oils and palm oils. Most of this amount, India manages to import from Indonesia and Malaysia. Indonesia’s exports to India have jumped from US$ 2.1 billion in 2004 to US$ 7.06 billion in 2009. After the implementation of India-ASEAN FTA, Indonesia is expected to produce 20.5 million tons of palm oil. After fulfilling the domestic demand with 7 million tons, rest 12 million tons will be exported and India will comprise 10 million tons of this amount expectedly.

Singh, N.T. and J. Singh (2010) find that northeast India has the potential to help in trade and commerce with ASEAN countries to flourish and become a gateway for the success of Look East Policy. The main reason accounts that northeastern region share only 2 percent of the land-border with India and 98 percent of the land border with
Bangladesh, Myanmar, China and Bhutan. The author considered border trade an important part of the policy. It is suggested that the look east policy should act as the basis of developing the northeastern states which are longing concentration for improvement for a long time. To make the region healthy in financial position and for development this is suggested that if the trade with South-East Asia would be via northeastern India, the region can get the opportunities to get efficient enough. Because of sharing a long land boundary the northeastern region have developed strong linkages culturally with South East Asia. This could make economic transaction less costly with a prospect of unique cultural advantage. Trade with South East Asia through northeast India will develop this region in physical and institutional infrastructure, telecommunication, information technology, science, power, agro-processing, tourism, health and education.

According to Palit, A. (2010), the financial crisis and shift in the balance of payments convinced India about making collaboration with East Asia, economically and strategically. India’s look east policy was launched with more than one purposes as the article states. First of all, it aimed to integrate India closely with its Eastern neighbours. Another was to make relations better with those areas of neighbourhood that were receiving insufficient attention during the Cold War. With the implication of look east policy, Southeast Asia and Northeast Asia have emerged as significant trading blocks for India. It has increased cross-border investment flows. Thailand, Malaysia, Singapore and Indonesia are the four main countries in the region. Many formal economic framework agreements with these countries have been signed.

The engagement with ASEAN has also been multiplied in vigorous and constructive manner. According to the author, now India should determine its future approach to the Look East Policy.

Matabadal, A. (2010) stated that India has never been a big player in international trade. Nevertheless, the country started with its LEP in 1991, trying to gain better access to regional markets in Asia and to develop its trade relations. The report says that even though the LEP has had some effect on the diversification of trade, it has taken a long time for the East Asian region to come to terms with their mistrust towards the Soviet-oriented policies of India's past. This is the primary cause for trade negotiations running into trouble and lacking impact when finally concluded.
However, from an economical and political point of view, creating closer ties with regional partner will go well for India’s future.

Gupta, A. (2010) also accepted that India’s growth and development is closely linked with that of its South Asian neighbours. India’s security and progress are closely intertwined with those of its neighbours. Geography makes India both a land as well as a maritime power. India has been linked to many countries of South-Asia by land or through sea. India’s national security strategy has to take into account the rise of China and the unstable conditions prevailing in South Asia. India will have to manage its relations with South-Asia by developing its comprehensive national powers by offering its neighbouring countries’ prospects of beneficial integration. It also has to counter the growing influence of external power particularly China. India should develop a security dialogue with South Asian countries to discuss the common problems which affect the region. Both regions have to contribute to the evolution of Asian security architecture and regional integration. India should ensure that its growth is inclusive and beneficial for its neighbours.

Parameswaran, P. (2010) claims that the cultural and civilisational linkages between South-East Asia and India date back of the prehistoric period. In the late 1980s and early 1990s, the balance of payment crisis, the subsequent globalization and the stagnation of South-Asian Association for Regional Cooperation repelled India’s attention towards South East Asia and ASEAN via adopting the look east policy. The most attracting reason behind the cooperation is the mutual economic interests between both the regions. At the time when India and ASEAN signed free trade agreement in August 2009, both were owning a combined market of about 1.8 billion people and a common GDP of US$ 2.75 billion. Along with the goal of maximizing overall economic gains, India sees the cooperation with ASEAN as way development of its North-Eastern states. The two parties also share a common commitment on non-traditional security challenges which include the areas of climate change and natural disaster relief. In spite of all well-beings and the mushrooming relationship between India and ASEAN, the long term partnership is not assured according to the author. The reason behind this is that only the present enjoyment of mutual economic benefits and growing trade cannot be a base for long term cooperation as it requires other phenomenon also. It will require bold decisions, innovative policies and clever politics on the part of ASEAN and India. It has been suggested that both ASEAN and
Indian leaders must continue to resist protectionism if they wish to flourish and deepen economic cooperation. Only then it would be beneficial not only to India and ASEAN but also to the whole Asia Pacific region and will make a unbreakable partnership to face the challenges of the 21st century.

Borah, R. (2011) talks about when India witnessed the presence of Indonesian President Yudhoyono, as the chief guest at India’s 62nd Republic Day celebrations on January 26, 2011. According to the author, it was an important step to leave a mark not only on India-Indonesia ties but also on the pace of India’s growing terms with broader Southeast Asian region. India’s look east policy and prehistoric cultural linkages played a major part in bridging the gap between the two countries, India and Indonesia. Both the countries recognized their strategic complementarities. India and Indonesia both desires to ensure the safety of sea-lines of communication (SLOC) in the Indian ocean, especially around the Straits of Malacca. Both countries share interest in combating military as well as nonmilitary threats like Sea mines, maritime terrorism and internal conflicts, piracy, accidents and oil spills. Indonesia is important for India in filling its energy requirements. Indonesia compliment almost half of India’s coal imports. There can also be a possibility of procuring natural gas from Indonesia to India. The Indonesian President’s visit to India resulted in the signing of 18 agreements worth $ 15.1 billion in the sectors of mining, infrastructure and manufacturing. An ambitious target of raising bilateral trade from $ 12 billion in 2010 to $ 25 billion by 2015 has also been set. To beat the goal formal conversations have started to make a Comprehensive Economic Cooperation Agreement (CECA). To boost security cooperation, pacts to increase air connectivity, an extradition treaty and a mutual legal assistance treaty have also been produced. Another reason for collaboration accounts China as growing threat for both countries. India is not getting proper response in the Southeast Asian region because of China’s prior entry and influence in the region. On the other hand, Indonesia is having huge trade deficits with China since the Indonesia-China Free Trade Agreement was signed in 2004. As India and Indonesia have common areas of interest and are busy in many joint exercises, both are increasingly being important for each other.

Sharma, N. (2011) stated that until yet, Indonesia was described as a sleeping giant or world’s most unrecognized country. But later it has possessed the position of being an economic golden bird. Indonesia as not a big country but it has been enriched with
natural resources. It is world’s largest producer of palm oil and is also providing tough competition in the production of tin, rubber, cocoa, coffee, copper and nickel. It has just overtaken Australia in becoming world’s largest exporter of thermal coal. India and Indonesia have a shared history, culture and aesthetics, language and civilization. India and Indonesia both are democratic nations. Indonesian democracy has a lot to learn from world’s largest and oldest Indian democracy. Indian investors are welcomed in Indonesia. It is not only for the reason that it will raise employment level in Indonesia but also for the cultural collaboration and their willingness to share technological know-how with the Indonesians. Indonesia praises the frugality of Indian businesses. Indonesia is very strong in areas like construction, food-processing, paper and cosmetics but ironically yet to make a firm decision to invest in India. Indonesians are weak in English speaking. That’s why they feel shy and being interested in India for business and education. But, in spite of having India’s good institutions in choice, the reason accounts that our universities are not appropriately promoted there although they are quite attractive and efficient. Hopefully, the Comprehensive Economic Cooperation Agreement (expected to be signed) will bring much needed people-to-people connectivity by finally opening services sector – tourism, civil aviation, medicine, IT and so on. The concept note of the paper is to point out Indonesia’s competitive approach with India for membership of the Security Council which is assumed to come with better relations.

As India has had dynamic and extensive relations with its eastern neighbours since the first century, Muni, S.D. (2011) has presented India’s substantial engagement with east into four different waves of such engagement namely, historical or pre-colonial, colonial, post-colonial and contemporary. Pt. Nehru, just after independence, articulated the significance of Asian resurgence in India’s world view. Nehru’s vision of a closer union with the East was shaped by the strength of India’s geographical proximity, similarity of historical experiences, cultural identity, economic interests and common strategic concerns in relation to the countries of the East. Accordingly, India’s current LEP has both economic objectives and strategic considerations. Southeast Asia is also very significantly inducing India to have greater involvement with this region.

About the relationship of India-ASEAN, Murthy, G. (2011) says that 8th ASEAN-India Summit held in October 2010 is no doubt the proof of successful broad
economic and strategic cooperation with the dynamic countries of South East Asia. Though, the relations between both the regions have flourished unexpectedly high till yet, the scope for further broadening, strengthening and deepening the cooperative agenda for the economies of ASEAN and India still exist. The India-ASEAN partnership has progressed in the areas of science and technology, IT and electronics, HRD, transport and infrastructure, space technology, tourism and trade and investment. But these spheres are not properly and effectively reflected in trade figures of both the regions. If both the regions develop interest and pay proper attention to these areas it will be more beneficial for both the regions not only economically but technological and scientifically as well. For this purpose, India should joint strategic ties with ‘Guanxi’ (Overseas Chinese Network), which controls and possessed most of the distributive channels of Malaysia, Singapore and to a certain extent in Thailand. Higher education is also an important area to share between India and ASEAN. Except all these sectors, most importantly India has uncomparable experience of building a nation and conducting impartial and peaceful elections periodically. India’s democratic success is pursuable for all the democracies of the world. India has a lot of experience to share with the nascent democracies of South East Asia. Thus, there are still immense possibilities for India-ASEAN engagement and cooperation.

The paper of Agrawal V.K and R. Mukherji (2012) suggested that trade and security reasons are intimately connected. The Asian financial crisis and India’s nuclear tests were drivers for the search for bilateral trade agreements within South-Asia. The attractiveness of the apparently successful East Asian model and the need to find trade opportunities led India to seek closer relations with ASEAN. India is also trying to expand itself in the East Asian region but it is going to be proved a tough task as China already has made a strong position in the region. The writers state that former Prime Minister of India, Mr. Rajeev Gandhi had tried to initiate economic liberalization since 1984 but substantial promotion of competitiveness and exports could not be achieved in the 1980s. During that period, China embraced global economic integration. Same is the case with ASEAN region. Though India and ASEAN trade relations are doing very good but still China is the first choice of ASEAN for trading purposes. Thus, despite significant reform and liberalization in India, problems in implementing the “look east policy” still remain.
2.2 Empirical Studies

Balassa (1977) has undertaken an analysis of the pattern of comparative advantage of industrial countries for the period 1953 to 1971. Based on the standard deviation of the RCA indices for different countries an association is also seen to hold between size and diversification of exports. Balassa’s results show that while the extent of export diversification tends to increase with the degree of technological development a reversal takes place at higher levels.

Yeats (1997) studied the possible distortions in trade patterns on account of discriminatory trade barriers that are characteristic of the RTAs. He uses the index of revealed comparative advantage in conjunction with the changes in the regional orientation of exports to identify any apparent inefficiencies in trade patterns for the MERCUSOR group of countries.

Lim, K.T. (1997) attempted to illuminate the characteristics of North Korean economy by examining her foreign trade. He categorizes goods into “Ricardo”, Heckscher-Ohlin” (H-O) and “Product Cycle” (PC) goods. Based on the RCA index of these three categories, he elucidates the level of development achieved by North Korea. A progress from Ricardo to Heckscher-Ohlin and then to PC goods, is an appropriate indicator of the development of the country. Results suggest that while North-Korea’s comparative advantage had moved up from Ricardo goods, it would be difficult for the country to move into the area of Product Cycle goods, since the economic structure of the country was not being upgraded to produce goods requiring advanced technology.

Richardson and Zhang (1999) have used the Balassa index of RCA for the U.S to analyze the patterns of variation across time, sectors and regions. They find the patterns to differ across different parts of the world, over time as also for different levels of aggregation of the export data. Differentials are accounted for by factors like geographical proximity of trading partners and per capita income with the extent of influence of these factors varying over time and across sectors/sub sectors.

Zarzoso, I.M. (2000) estimates a gravity equation for bilateral trade flows among 47 countries in order to analyze its determinants and to estimate trade potentials for certain economic bloc and countries. The results of the paper indicate that the
traditional variables present the expected signs and highlight the role played by intra-bloc effects. In most cases, the estimated co-efficients presents the expected signs and magnitude. Income elasticities are positively signed and are close to unity. The estimated co-efficient for the exporter population variable is negatively signed. Concerning geographical distance, its coefficient presents a negative sign with elasticities around 1.5. Estimated trade potential through gravity model suggest high expectations for trade for the near future between different countries and regional blocs.

Bender and Li (2002) examined the structural performance and shift of exports and revealed comparative advantage of the East Asian and Latin American regions over the period 1981-1997. It examined, if there is a relation between changes in export pattern among different regions and shifts in comparative advantage between regions. The Vollrath (1991) index that accounts for double counting in world trade has been used for analysis.

Ferti and Hubbard (2002) assess the competitiveness of Hungarian agriculture vis-à-vis EU using four indices of revealed comparative advantage. The four indices are - original Balassa index, relative trade advantage, relative export advantage, logarithm of the relative export advantage (original Balassa index) and relative competitiveness (difference of the log values of relative export and import advantage). A categorization of indices as cardinal (identifies the extent to which a country has comparative advantage/disadvantage), ordinal (provides a ranking of products by degree of comparative advantage), and dichotomous (a binary type demarcation of products based on comparative advantage/disadvantage) has been undertaken in their study. The results show that the indices were less cardinal in identifying whether Hungary has a comparative advantage in a particular product group, but were useful as a binary measure of comparative advantage. Leu’s paper examines the systematic shift of comparative advantage in East Asian economies by computing and comparing revealed comparative advantage indices for ten selected East Asian economies in the U.S market. The results show that conventional wisdom of shifting comparative advantage in accordance with the level of development continues to hold true.

Li, K.W. and S. Bender (2003) argues that instead of complimenting or substituting exports, the change in comparative advantage of the country leads to gain as well as
loss for the country. They studied RCA of manufacture exports over the period 1981-1999 eight country groups incorporating 40 economies and put forth the view that a pattern of relative comparative advantage existed.

Through the paper, Batra, A. (2004) estimated trade potential for India using the gravity model approach. In addition to the basic gravity model equation an augmented gravity model equation has been estimated to analyze international trade flows and the trade potential for India with its trading partners. The author denotes GNP, per capita income, distance, border, common language, colonial links, regional trading arrangements as explanatory variables. The ratio of trade potential predicted by the model and actual trade is used to analyze the future direction of trade for India. Then the value of potential trade and actual trade divides India’s trading partners into two categories that are with which potential for expansion of trade is foreseen and countries with which India has already exceeded its trade potential. According to the paper, history and cultural similarities also impact positively upon bilateral trade. The estimates of the gravity model reveal that the magnitude of trade potential is maximum in Asia-Pacific region followed by Western Europe and North America. Potential for expansion of trade is highest with countries like China, United Kingdom, Italy and France. Among the ASEAN region, high trade potential is indicated for Philippines, Vietnam and Cambodia. The results indicate the possibility of trade potential with Thailand, only with estimates of the model with GNP. The value of the potential trade and actual trade indicates that India has attained its potential with Vietnam. With countries like Malaysia, Indonesia and Singapore, India seems to have exceeded its trade potential.

Widgren, M. (2005) focused on the comparative advantage of a sample of Asian, American and European countries between 1996 and 2002. His study examined the basis of RCA for the sample countries using the harmonized system (HS) classification at the 4 digit level. In his view, the factor content of comparative advantage had some similarity in the Asian countries. While the RCA for US was based on highly skilled labour that of the EU had moved towards use of human as well as physical capital.

Batra, A. and Z. Khan (2005) assessed the RCA index at the 2 and 6 digit level of HS classification. They compared India’s comparative advantage with that of China and
also studied the RCA for each of the country individually. The study constructed the RCA index of India and China for the years 2000 and 2003, thereby enabling it to focus on the changes in the structure of comparative advantage in the latter period. The authors also examined comparative advantage of the two countries according to factor intensity using the Standard International Trade Classification (SITC). This was done with the aim of assessing whether India’s comparative advantage is in labour and resource-intensive items or in technology and science based manufactures. The study does not find any structural change in the comparative advantage of the two countries, except for some sectors within manufacturing. India and China enjoyed a competitive relationship in chemicals and minerals and metal manufactures while a complementary relation was observed in labour and resource intensive items such as textile yarn and apparel.

Chaddha, S.J. and L.G. Burange (2008) attempts to assess India’s revealed comparative advantage in merchandise trade by evaluating the structure of comparative advantage in India and the change in it over a ten year period from 1996 to 2005. It is found through the results that India enjoys comparative advantage in the exports of labour intensive items like textiles and scale intensive items such as chemicals and iron and steel. The paper also attempts to evaluate India’s RCA in exports and imports for Ricardo, Hechscher-Ohlin and Product Cycle goods. The purpose of this analysis is to enable policy-makers to focus on goods where India’s comparative advantage truly lies. In case of items where India enjoys a comparative advantage in imports, it would be beneficial to import them.

Amin, R.M. et el (2009) aims at investigating whether intra-ASEAN trade is trade-creating or trade-diverting for both inter-industry and intra-industry trade. The study adopts the extended gravity model at the total as well as the disaggregated level using the one digit Standard International Trade Classification (SITC) Revision 2. Based on the findings of trade-creation and trade-diversion, it is suggested that the policies to promote growth and development in the region should be maintained. In addition to this, some effective measures should be undertaken to ensure low transportation costs that include improvement of physical infrastructure and efficiency of transportation systems. An emphasized should be placed on factors other than tariff that affect export demand such as product development to improve the quality of exports and to meet the preferences of importing countries.
Firdaus, M. and A.A. Widyasanti (2010) states that Indonesia consists of many provinces like Sumatra, Jawa, Malaku, Bali etc. Inter-provincial trade is very important to support a strong domestic trade which in turn supports the economic growth. There are found a few imbalances in trade flows in Indonesian regions as trade flows are mostly concentrated in Jawa. According to the writer, intra-regional trade in any province are always higher than its inter-regional trade flows which means people prefer to trade in the same island. Jawa and Sumatra are the two islands that have stronger trade linkages as compared to others. The gravity model estimation in the paper is based on regional real GDP, population size, transportation cost and HDI. The results show that the increase in human development index, population size and real regional gross domestic product will raise the flow of trade among provinces in Indonesia. While, the increase in transportation cost will lower the demand for goods and services of host provinces from others. The findings of this paper suggest that the government should focus on reducing cost of transportation and should encourage economic and social development in regional areas in order to improve human development index.

Bhattacharya, R. and A. Mandal (2010) analyzed the likely effect of the India-ASEAN free trade agreement on India’s balance of trade using gravity model framework and estimating tariff and import elasticity. It is found that the impact of the agreement of India’s balance of trade is expected to be negative. India’s import will rise significantly, however, there will be no commensurate rise in India’s export to these days except to Indonesia. There is hardly any study which compares India’s comparative advantage in different products vis-à-vis ASEAN countries at disaggregated level and dynamics of India’s comparative advantage with the growth in world demand.

Chandran, B.P.S. (2010) used trade intensity index (TII) and revealed comparative (RCA) index to see trade complementarity and similarity between India and ASEAN reveal that there are complementary sectors and products available for enhancing trade cooperation between both trading partners. India should focus on the exports of the products where India enjoys advantage. ASEAN countries are in different stages of economic development and India can have trade cooperation with some of them in all products categories.
Using the GTAP database, Nag, B. and C. Sikdar (2011) conducted a number of simulations involving different scenarios of India’s trade liberalization with ASEAN region assess the impact of this liberalization both on economics’ external sector and their domestic macroeconomic variables. It covers issues like change in GDP, export, import, welfare and employment. Change in factor demand and factor prices have been analyzed to comprehend how ASEAN-India free trade agreement is going to have an impact on India. There is a signal that this agreement can increase trade diversion and many countries including China can lose market share in India. The authors argue that in the long run after full trade liberalization, India’s allocative efficiency will increase but terms of trade effect will continuously fall and remain negative. India will have higher benefits only when the agreement will fully get implemented as the India-ASEAN free trade agreement came into effect with respect to Malaysia, Singapore & Thailand only. For the remaining ASEAN members it would come into force after they complete their internal requirements.

Francis, S. (2011) analyzed the pattern and composition of India’s trade with the major ASEAN countries and India’s tariff reduction scenario in different sectors using the data for the period 1995-2008. It was observed that under AIFTAG (ASEAN-India Free Trade Agreement in Goods), the trade bloc’s members will have increased access to the Indian market for semi-processed and processed agriculture sector, Indian small and medium enterprises in food and other agricultural products and close substitutes which could adversely affect the country’s agricultural sector. Indian small and medium enterprises in food and other agriculture related products, intermediate goods and light manufacturing products are also likely to suffer.

Veermani, C. and G.K. Saini (2011) analyzed the likely impact of ASEAN-India Free Trade Agreement in Goods on plantation commodities- coffee, tea and pepper- by using the SMART and gravity model. They find that the agreement may cause a significant increase in India’s import of plantation commodities from the ASEAN countries which are mostly driven by trade creation rather than trade diversion. The proposed tariff reduction may lead to some loss of tariff revenue to the government.

FICCI (2011) investigated the impact of ASEAN-India Free Trade Agreement on the Indian economy in future. It was found that trade with ASEAN will benefit more post implementation of the free trade agreement compared to the perceived gains from
trade that India is likely to experience. The investigation is based on revealed comparative advantage index. The results imply that India stands to gain in sectors of textiles, handicrafts, chemicals and sub-sector the medical and pharmaceutical sector from its trade with the ASEAN economies. In the sector of machinery and appliances and sub-sector electrical equipments, ASEAN economies stand to gain in comparison to India.

Ohalan, R. (2012) quantified India’s trade prospects with ASEAN countries by analyzing the patterns and trends in India’s bilateral merchandise trade with ASEAN countries and their revealed comparative advantage in different products. The results reveal that during last three decades, India’s share in ASEAN countries’ merchandise trade has increased but India runs a large and worsening trade deficit with ASEAN countries. The shift in India-ASEAN trade has been marked more in imports. In the context of competition between ASEAN countries and India, India’s comparative advantage is poorer than ASEAN countries. It is suggested that the tariff elimination under AIFTA is likely to increase import surges in India. India has a comparative advantage in some of the fastest growing sectors of the world demand. It shows signs of India’s potential benefits from multilateral trade liberalization. According to the author, in order to enlarge international trade benefits India should pay attention to pave the way for concluding the multilateral trade liberalization under WTO’s Doha round trade negotiation.

2.3 Research-Gap

Many scholars have analyzed the trade and bilateral relations of both the regions. Many have worked on the expectations related to the Free Trade Agreement between both the regions. A few have also studied India’s past experiences of trade terms with ASEAN and its member countries and also predicted the future of India and ASEAN Trade. Though India and ASEAN are working together in the field of trade for a long time, India is not gaining as per her expectation. The reason can be India is missing something that can lead it to the world of profits.

Apart from these expectations and predictions, the present study focuses on sectors by investing in which India can gain fruitfully. It provides a view of the areas in which India is doing well with ASEAN and enjoying benefits. The study also focuses on India’s trade determinants in the world market. With the help of these determinants,
India should trade with ASEAN accordingly. In the present work we have tried to explore the areas which can be a boon for India in terms of its trade with ASEAN and its member countries.