Chapter 6

Conclusion
Chapter - 6

SUMMARY AND CONCLUSION

More than a half century after Nehru (the first Prime Minister of India) who first attempted to build a regional identity that would bind a new and emerging states of India and South-East Asia, that vision has experienced fruition. Nehru’s dream, built on idealism, hopes and aspirations for a form of regionalism by nearly wrecked by geopolitical realities created by Cold-War considerations. His non-alignment policy, which still exists as a statement of policy, was for many years a mirage. It outlived the Cold-War and the forces of globalization and trans-national challenges have made Asian regionalism (based on non-alignment) possible again. It has been evident that the closeness that Nehru had sought in the 1950s for India and South-East Asia, occurred through a convergence of interests and needs after almost forty years in the 1990s when India opted for its ‘Look East Policy’. The LEP was unveiled as a part of liberalization reforms in 1991. The policy marked India’s attention to establish close ties with a part of its neighbourhood that had received insufficient attention during the Cold-War. The LEP sent a strong signal that East Asia would not be overlooked but would be regarded as a great source of new business opportunity and inspiration for economic development. In approaching East-Asia, India initially chose to focus on the Association of South-East Asian Nations (ASEAN). This was because ASEAN members were the first ones to respond favourably to the LEP. India soon found Thailand and Singapore the most receptive countries among the ASEAN members to India’s approach for economic cooperation. As the driving force of economic and trade liberalization and cooperation in the region, the engagement of ASEAN and India likely to be a model for cooperation throughout the region. India would do well to become a more intimate and integral part of ASEAN because of the latter’s trade and export oriented experience and because it is a gateway to north-east Asia and to the world economy in general. As part of economic reforms process, India became an ASEAN Sectoral Dialogue Partner in 1992 and a full Dialogue Partner in 1996, encouraged by the United States and Japan which were interested in the process of India’s further liberalization. Since 2002, with the very first India-ASEAN Summit, a new phase of multifaceted policy was launched. India was, then, presented as one of the major partners of ASEAN and as a counterbalance to China’s power in the region.
At the 2003 India-ASEAN Summit, the Heads of States agreed on a plan to make the creation of a regional trade as a long term objective. India also expressed its support for the ASEAN initiative for regional economic integration. More than the future constitution of a free trade area, the 2003 signing of the framework agreement on Comprehensive Economic Cooperation (ASEAN-India CECA) has a broader strategic and political significance. Nevertheless, the first objective of the CECA between the two parties was to strengthen trade and economic cooperation to create a free trade area in goods to liberalize trade in services and to establish a free and transparent investment regime in the zone. The trade liberalization process is considered sufficiently flexible to favour sensitive sectors and the interests of ASEAN's new members. Furthermore, two areas of economic cooperation should come in alongside it which are trade facilitation measures and different sectors of cooperation such as agriculture, fisheries and forestry, mining and energy services, science and technology, transport and infrastructure, manufacturing, human resource development etc. But trade in goods was the primary concern, particularly through the reduction or elimination of customs tariffs. The system was based on the principle of the negative list which nevertheless permits numerous expectations. Finally on 13 August, 2009, ASEAN-India Trade-in-Goods Agreement (AITIGA) was signed after six years of negotiations.

The implementation negotiation tend to show that trade between India and South-East Asia is much more valuable to the former and emphasizes the fact that India is ASEAN's partner at least from a commercial point of view. Simply put close ties have brought mutual benefits. The possibilities for functional cooperation between India and ASEAN are limitless. India is hopeful that the enthusiasm and efforts of both regions will result in tangible gains for all of us. Parts of South-East Asia are socially and ecologically linked to north-east India and this connection offers India the immense possibilities of an east through north-east approach. Several ASEAN countries have become important investment and joint venture destinations for Indian businesses while at the same time an important source of commodities to feed India's economic growth. ASEAN is an important source of supply of timber, coal, oil and natural gas which could meet India's resources and energy needs. Investment flows from ASEAN have also increased significantly in recent years. India's trade with ASEAN accounts for more than 10 percent of India's total external trade. Indonesia
and Malaysia are strategically important as they control the sea-lanes stretching from the straits of Malacca. The rise of an economically powerful and stable India, with close ties to the US and confident in its dealings with China, adds immeasurably to the stability of the region. South-East Asia stands to be transformed by the rise of China and India and this strategic triangular relationship is set to determine the future of the Asia-Pacific region.

While there are a lot of expectations with India-ASEAN engagement and with the TIGFTA, there is a concern in India that the agreement will have several negative impacts on the economy. First of all, the signing of FTA was done after a long period of six years of negotiations. A reason for the delay in the India-ASEAN trade agreement negotiations is that the ASEAN countries have had a hard time letting go of viewing India from a Cold-War perspective. Another reason behind the delay of the region to come to terms is the mistrust towards the Soviet-oriented policies of India’s past. These became the foundation causes for trade negotiations running into trouble and lacking impact when finally concluded. The two regions aim to reduce their tariff on a majority of their traded goods. This will allow them to increase the market access of their products. It is criticized that India will not experience as great an increase in market access to ASEAN countries as ASEAN will in India. The economies of ASEAN countries are largely export driven, maintaining high export to GDP ratios. Considering this, as well as the global financial crisis and India’s expensive domestic market, the ASEAN countries will eagerly look towards India as a home for its exports. Before the agreement was signed, the Chief Minister of Kerala led a delegation to the Indian Prime Minister protesting against the FTA. The state of Kerala is an important exporter in the national export of plantation products. It fears that cheap imports of rubber, coffee and fish would lower domestic production, adversely affecting farmers and ultimately its economy. Kerala has already experienced a flooding of its market with inexpensive imports under the South-East Asia Free Trade Agreement of 2006. Cheap coconuts from Sri Lanka and palm oil from Malaysia have adversely affected Kerala’s coconut cultivation.

Chapter three investigated the determinants of international trade flows in India through gravity model approach. In the empirical analysis, 163 countries have been considered. Results show that quantitative variables such as gross domestic products of the trading countries, per capita income and distance between the trading countries
are the main determinants of trade flows in India. There are some significant qualitative variables such as border, common languages, colonial relationship, landlocked countries and regional trading agreements among the trading partners which affect international trade flows of India. The identification of these trade determinants can help India to promote bilateral trade terms with ASEAN and its member countries. Most of the ASEAN countries are geographically close to India. Having a common border can be beneficial in terms of increasing trade. India share common official language with ASEAN and most of its member countries. It can be another determinant of ASEAN-India trade. Some other significant qualitative variables such as colonial relationships and regional trading agreements among the trading partners which affect India’s trade flows to ASEAN.

Since the early 2000s, India has had an increasing trade deficit with ASEAN with imports exceeding exports. The balance of trade continuously shows negativity during the period 2001-02 to 2012-13. The balance of trade deficit widened from US$ 7,586.57 million in 2001-02 to US$ 190,335.97 million in 2012-13. In 2011-12, import from ASEAN grew at an annual growth rate of 32.33 per cent while exports grew at an annual per cent growth of 21.83 during the same period. The CAGR of India’s export to ASEAN is 20.11 per cent for the period 2001-02 to 2012-13 while import is at 24.02 per cent. The AAGR for the same period for imports is 23.60 per cent while export is at 19.11 per cent.

Export and import with Brunei Darussalam have increased from US$ 2.86 million in 2001-02 to US$ 814.8 million in 2012-13 and from US$ 0.36 million in 2001-02 to US$ 40.02 million in 2012-13 respectively. The compound annual growth rate (CAGR) is 56.06 per cent if export, 115.00 per cent of import and 81.35 per cent of total trade. Similarly, the average annual growth rate (AAGR) of export is 391.41 per cent, of import is 2962.71 per cent and of total trade is 166.05 per cent. Balance of trade was in surplus in the year 2012-13 with US$ 774.78 million. India’s total trade with Cambodia has increased from US$ 12.41 million in 2001-02 to US$ 124.88 million in 2012-13. The balance of trade throughout remains positive which indicate that trading with Cambodia is extremely beneficial for India. The average annual growth rate (AAGR) and the compound annual growth rate (CAGR) of export during the period 2001-02 to 2012-13 has been 28.40 per cent and 21.24 per cent respectively. Similarly, the AAGR of imports and total trade has been 43.07 per cent.
and 27.97 per cent respectively and the CAGR of imports and total trade has been 37.13 per cent and 21.98 per cent.

The trade statistics show a continuous increase in the trade between India and Malaysia. There has been a sharp rise in the total trade since 2001-02 to 2008-09. A decline in total trade as well as export and import both is noticed by 24.47 per cent, 17.09 per cent and 27.98 per cent respectively in 2009-10. The economists blame global financial crisis for this decline but the spirit of collaboration and mutual trade was not affected at all from both sides. The AAGR for export, import and total trade is measured 20.63 per cent, 26.11 per cent and 22.71 per cent respectively. The CAGR for export, import and total trade is calculated 20.56 per cent, 21.77 per cent and 22.71 per cent. Though total trade is vigorously increasing between both the nations but the most significant fact is that balance of trade is continuously negative as imports exceed exports. Malaysia is taking more benefit of mutual trade in comparison to India. Since the year 2001-02, the figures showing India-Myanmar trade are quite impressive. Export improved from US$ 60.89 million in 2001-02 to US$ 544.66 million in 2012-13. Import increased from US$ 374.43 million in 2001-02 to US$ 1412.69 million in 2012-13. Total trade also increased from US$ 1870.20 million in 2011-12 to US$ 1957.35 million in 2012-13. Total trade grew at 16.75 per cent of Comparative Average Growth Rate and 15.85 per cent of Average Annual Growth Rate. Similarly, export and import grew at an AAGR of 23.88 per cent and 14.71 per cent respectively and at a CAGR of 21.86 per cent and 15.35 per cent respectively. India-Laos trade patterns show very dramatic changes since the year 2001-02 to 2012-13. Balance of trade shows highest negativity US$ 109.73 million in 2012-13 over the period 2001-02 to 2012-13. Export grew at an AAGR of 73.55 per cent and CAGR of 32.39 per cent. Imports grew at a CAGR of 90.74 per cent and AAGR of 4,099.80 per cent. Similarly, total trade grew at 129.80 per cent of AAGR and 51.17 per cent of CAGR. As import is growing at a higher pace as compared to exports, trading with Laos is not so beneficial for India.

India and Singapore share very impressive and broader economic ties. Singapore is India’s largest trading partner among ASEAN. The balance of trade shows negativity only in two years; in 2001-02 by US$ 331.78 million and in 2007-08 by US$ 743.43 million. India enjoys a gain of worth US$ 8,257.42 million in 2011-12. Export and import both are increasing very sharply year by year. Export is growing at an
average annual growth rate of 30.68 percent and CAGR of 26.43 per cent. While import and total trade are growing at an AAGR of 19.76 per cent and 24.80 per cent respectively and CAGR of 19.63 per cent and 23.34 per cent respectively. As exports are rising higher than imports, India-Singapore trade is totally in India’s favour. Vietnam is also a beneficial trading partner as the balance of payment has been in India’s favour. Since the year 2001-02, India is exporting more and importing less from Vietnam. The compound annual growth rate of export, import and total trade is measured 30.36 per cent, 55.11 per cent and 34.60 per cent respectively. Similarly, the average annual growth rate for export, import and total trade is measured 31.54 per cent, 60.14 per cent and 35.68 per cent respectively.

On the other hand, India-Thailand trade is increasing continuously, balance of trade is showing negativity since the year 2005-06. The CAGR of export, import and total trade is 17.50 per cent, 29.62 per cent and 23.49 per cent respectively. Similarly, AAGR of export, import and total trade is measured 18.73 per cent, 27.75 per cent and 22.51 per cent respectively (Table 4.37). As the bilateral trade statistics show, India is exporting less to Thailand and importing more from there comparatively, thus balance of trade is negative. Philippines and India share very strong trade relations. The trade profile shows that trading with Philippines is truly beneficial for India as the balance of trade exhibits very strong positivity throughout the period 2001-02 to 2012-13. The compound annual growth rate of export, import and total trade is recorded 13.12 per cent, 15.78 per cent and 13.83 per cent respectively. Likewise, the average annual growth rate of export, import and total trade is 18.32 per cent, 18.46 per cent and 17.83 per cent respectively.

In case of Indonesia, India is being extremely interested and attracted towards Indonesia’s greatly growing economy. India and Indonesia are poised to reshape their ties at the economic and strategic level. India-Indonesia bilateral trade is targeted to reach 20 billion $ by 2015. India could potentially invest in rail and port construction and in the palm oil and food processing industries in Indonesia. Indonesia and India share common interests in WTO. The possibility of cooperation exists in the field of energy including nuclear energy. Indonesia is the largest and most influential member of the ASEAN. As the political challenges facing the two countries are similar. Indonesia is interested in learning about the working of India’s National Human Rights Commission (NHRC), National Disaster Management Authority (NDMA) and
the Election Commission (EC). But in spite of all this, India is facing balance of trade deficit in India-Indonesia bilateral trade. Since the year 2001-02, India is facing deficit as import is increasing at greater pace than export. The balance of trade has increased from US$ 503.10 million to in 2001-02 to US$ 9,548.19 million in 2012-13. The CAGR of India-Indonesia export has been measured 24.29 per cent while of import has been calculated 27.66 per cent. Similarly, the AAGR of export is 26.85 per cent and of import is 28.30 per cent which is greater than export. Thus, it is proved that changes have been noticed in the pattern and composition of India’s trade with ASEAN. So, we reject the null hypothesis and accept the alternative one.

It is feared that a gradual liberalization of tariffs and a rise in imported goods into India will threaten several sectors of the economy, specifically the plantation sector, some manufacturing industries and the marine product industry. As a dominant exporter of light manufacturing products ASEAN has competitive tariff rates that make it different for India to gain access to the industry market in ASEAN countries as there is variations in bilateral relation of India with that of different ASEAN countries, Trade Intensity Index (including Export Intensity Index and Import Intensity Index) has been calculated in the fourth chapter of the study. The results show that ASEAN’s EII is higher than III as it exports more to India compared to its imports from India and thus leaving India in a deficit situation. The analyses reveal India’s trade intensity with ASEAN member countries by clarifying to which countries and to what extent India’s trade is getting intense and India may take benefit of that. Similarly, RCA analyses done in Chapter five considers the intrinsic advantage of a particular export commodity and is consistent with changes in an economy’s relative factor endowment and productivity for India and Indonesia. India’s comparative advantage is focused in sectors like organic chemicals, cotton iron and steel, articles of apparel accessories, not knit or crochet etc. The commodity with the maximum comparative advantage is identified as Lac, gums, resins, vegetable saps and extracts nes. The maximum numbers of commodities with comparative advantage in the Indonesian market from India are concentrated in sectors like Boilers, machinery, nuclear reactors etc; Organic Chemicals; Iron and Steel; Articles of Iron and Steel; Electrical, electronic equipments; Optical, photo, technical, medical etc apparatus etc. Indonesia’s comparative advantage is focused in sectors like tin and articles thereof; animal, vegetable fats and oils, cleavage products
etc; musical instruments, parts and accessories; manmade staple fibre; rubber and articles thereof etc. The commodity with the maximum comparative advantage is identified as tin and articles thereof both in 2007 and 2011. The maximum numbers of commodities with comparative advantage in the Indian market from Indonesia are concentrated in sectors like Boilers, machinery, nuclear reactors etc; Electrical, electronic equipments; Articles of apparels, accessories, knit or crochet; Articles of Apparels, accessories, not knit or crochet etc. So it is suggested that India and Indonesia both should export the commodities in which they are enjoying comparative advantage and import the commodities in which they face comparative disadvantage to each other. Through this both, India and Indonesia, will be able to enjoy surplus and would not clash each other in the world market in terms of trade commodities. Thus, it is proved that changes have been noticed in the pattern of commodity trade of India with respect to the world and Indonesia in the year 2007 and 2011 at HS-2 digit level. Likewise, there are noticeable changes in the pattern of India’s commodity trade with respect to world and Indonesia in 2011 and 2012 at HS-6 digit level. So, we reject the null hypothesis and accept the alternative one.

There persists a trend in Asia where the regional partners are looking towards a balance of power between China and India in the region. To reduce the China’s influence on ASEAN countries, India has to work on the tactic weapons to exhibit India’s competitiveness and export orientation before the South-East Asia. Some scholars have suggested that to alleviate the losses that arise from the initial stages of trade, the government of India must be able to effectively redistribute some of the wealth to those industries who suffer from the increased competition with ASEAN markets. This way total welfare gains in India would increase and India would ultimately benefit from trade with ASEAN. And also by following this way, the recently signed FTA could reinforce the exponential trend of trade between India and Indonesia. However, from an economical and political point of view creating closer ties with regional partners bodes well for India’s future.

**Future Agenda**

Since impact of tariff reduction on trade flows is not measured in the present study, it can be an area of future research. Capital inflows are important in any study related to international trade. The present study does not include the capital inflow both from
India to ASEAN and its member countries and from ASEAN and its member countries to India. This can be another area for further research.