India's Look East To Act East: Did It Make A Difference?

***Bhawna Pandey**
Associate Professor, Dyal Singh Evening College, University of Delhi, India.

***Correspondence:** b10pandey@gmail.com

Received: Mar 12, 2022; Revised: Mar 26, 2022; Accepted: Mar 28, 2022; Published: Mar 30, 2022

CITATION: Pandey B. 2022. India's Look East To Act East: Did It Make A Difference? Management and Economics Research Journal, 8(1): 1-6, Article ID 9900069. DOI: 10.18639/MERJ.2022.9900069

ABSTRACT
The purpose of this paper is to investigate the export performance of India with ASEAN countries using the Constant Market Share method for the period 2001-2019. India's trade with ASEAN and its members is analyzed by using HS-2 digit data. The evaluation of India's export performance is based on the "market share effect", "commodity composition effect", and "commodity adaptation effect". The results reveal that the increase in India's export performance stemmed mostly from a positive "market share effect" and least from the "commodity composition effect". The "commodity adaptation effect" has improved during the same period. These findings lead us to conclude that India has an opportunity to find new trading partners within ASEAN and enhance its exports to those nations. It is through taking the benefits of the FTA, India can reduce its trade deficit.

KEYWORDS: ASEAN, Competitiveness, Market Share.

1. INTRODUCTION

International trade changed unexpectedly after the establishment of the World Trade Organization (WTO). A dramatic boom in regional trade agreements became visible thereafter. The proponents believed that it may lead to sustainable economic growth (Philip and Alappatt, 2015).

Developing countries largely rely on the developed nations for the disposal of about -thirds of their total exports (Kaur and Sarin, 2017). India also wanted to exploit the potential of growth lying with the East Asian nations. To focus in this direction, India and the Association of Southeast Asian Nations (ASEAN) tried to bolster their trading relation which acquired momentum after the adoption of the "look East policy" using India in 1991. ASEAN comprises 10 economies viz. Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

However, India faces major challenges and competition from other Asian nations for numerous products in the international market. Only through the reduction in tariffs rates quotas, could not help them compete in the global market. They still face barriers like poor infrastructure, logistics, inefficiencies, coordination failures which prevent them from exploiting the advantages of trade.

2. LITERATURE REVIEW

The impact of bilateralism and regionalism on international trade flows of goods have been explained in detail by trade theorists. The first work on the theory of regional integration was presented by Viner (1950) in his seminal work "The question of the Customs Union" 1950. Later, Meade (1955) made significant improvements to the theory of regional integration. Economic theory suggests that the most desirable trade bloc is the one that generates the most trade, and that bloc is global. This bloc includes countries with the most diverse range of comparative advantages, offering the best scope for trade creation and the least scope for trade diversion (Schott, 1991).

Nag and Sikdar (2011) said that India will reap benefits when the Free Trade Agreement (FTA) with ASEAN will be fully implemented. India's import demand has been high and will remain high. ASEAN will have the advantage to supply these at lower prices than average import prices prevailing in India. Poramacom (2002) applied the Constant Market Share (CMS) model to study the natural rubber industry of Thailand and found that there is no competitiveness effect and only a standard growth effect and market effect. Veeramani and Saini (2010) study the impact of India and the ASEAN Regional Trade Agreement (RTA) on plantation commodities and found that the agreement may cause an increase in India's imports from ASEAN countries in plantation commodities. However, there will be a loss of tariff revenue but there will be a gain in consumer surplus and India will have a net welfare gain. Jagdambe (2016) studies India's trade intensity as well as revealed the comparative advantage of the agricultural sector for trade with ASEAN. The study suggested promoting products like meat, fruits, cereals which have a

comparative advantage in exports. Fetscherin and Pillania (2012) analyzed the Indian industry export competitiveness of Indian industries and found that the majority of Indian industries are growing faster than the world export growth. Fathim *et al*. (2006) investigated the growth pattern and competitiveness of Indian shrimp exports. It found that Indian shrimp exports registered less growth across the world and other shrimp exporting countries had grown in volume and value. Kapur (1991) examined the significance of structural factors in explaining India's exports to developed market economies by using CMS analysis.

It has been observed that the studies conducted so far did not cover the pre and post-FTA era in terms of competitiveness analysis. The Market share model is applied to measure the factors associated with the growth of India's trade with ASEAN. Analyzing India's trade with ASEAN and comparing the pre-FTA trade with the post-FTA from the "Look East" era to "Act East" times provides a better understanding of the trade dynamics.

The study focuses on the following objectives.

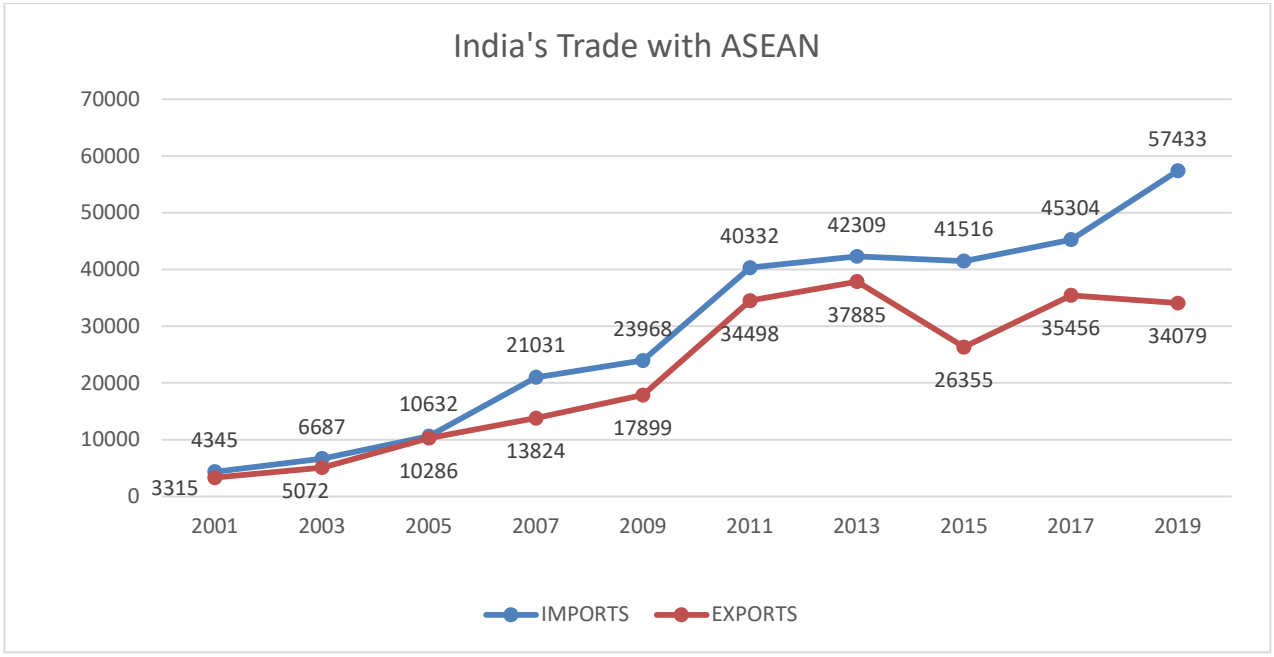
- Examining the trade across all commodities will identify the competitiveness, market size, and diversification in a particular ASEAN member nation
- Determining the overall picture of India's trade with ASEAN.
- Focusing on Country-specific analysis will help to identify the comparative advantage in a particular country.

The present study uses a market share model that can be applied to compare the 2 time periods. The averaging has been used to mitigate the bias in comparing the 2 particular years. As imperative from the diagrams the trade deficit has continuously risen post FTA, so the annual average of all the years has been considered. This is done in comparison to the annual average of pre FTA period to reduce the disaggregation bias.

3. INDIA-ASEAN TRADE RELATIONSHIP

The exports did rise but lesser than the imports. Subsequently, the trade deficit worsened. It can be seen in Figure 1.

Figure 1: India's Trade with ASEAN from 2001-2019.



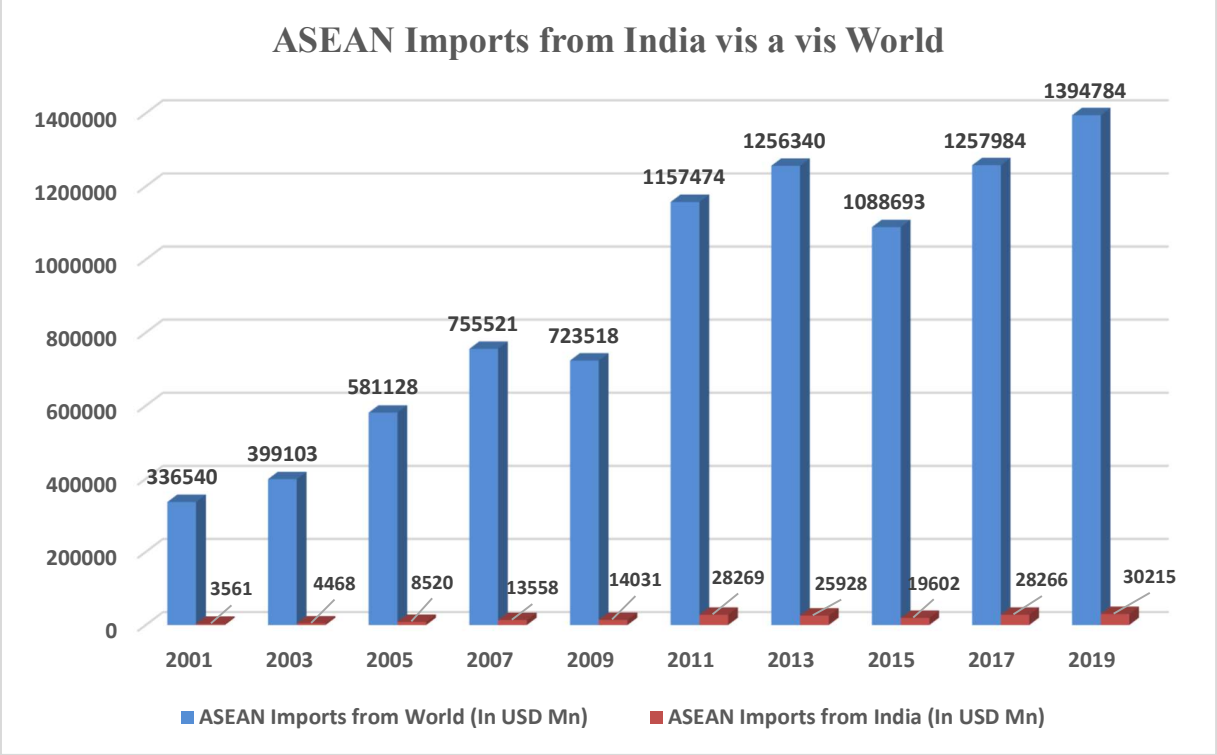
Sources: ITC Trade Map Database of United Nations.

The total trade between India and ASEAN grew from $7.65 billion in 2001 to $91.5 billion in 2019. The Indian exports increased from $3.31 billion in 2001 to $17.89 billion in 2009 and from $22.95 billion in 2010 to $34.07 billion in 2019. The imports increased from $4.34 billion in 2001 to $23.96 billion in 2009 and from $29.64 billion in 2010 to $57.43 billion in 2019.

The trade deficit has risen substantially from $6.06 billion in 2009 in the pre-FTA period to $23.35 billion in 2019 in the post-FTA period.

ASEAN is well-positioned in global trade flows: ASEAN is the fourth-largest exporting region in the world, trailing only the European Union, North America, and China/Hong Kong.

Figure 2: ASEAN Imports from India and the Rest of the World from 2001-2019.



Sources: ITC Trade Map Database of United Nations.

From the above Figure, it can be easily seen, that ASEAN imports and their overall trade from the rest of the world have increased significantly as compared to trade with India. India could not become competitive in the majority of the products, however, due to reduced tariffs, the imports of India increased significantly.

4. METHODOLOGY, DATA, AND PERIOD OF STUDY

To understand the increasing imports of ASEAN from the rest of the world and not from India, the CMS model has been applied. It will show the country-specific analysis of India's exports to ASEAN nations. Empirically it will show across the countries how the trade shares have emerged in the pre and post-FTA period. It will help to identify the nations where India has opportunities.

This study uses 8 ASEAN nations (excludes Laos and Myanmar) as samples for which data is available. CMS analysis is used to identify 3 components of export performance: the dimensions of the market effect, the effect of market composition, and competitive impact. For this study, India's exports in the duration 2010-2019 (annual average) have been analyzed in comparison to the base period 2001-2009.

The study is primarily based on secondary statistics at harmonized system code 2 digit levels. The data on trade statistics in quantity and value in US $ to every country is accrued from the World Integrated Trade Solution (WITS-TRAINS), United Nations Commodity Trade Statistics (UN COMTRADE), international business development of International Trade Centre (ITC trade MAP). The study period is from 2001-2019.

Constant market share analysis is an accounting approach that permits the ex-post distribution of adjustments over the years in the total market shares of a given country The method is split into two stages. Firstly, to identify the countries based on the availability of data. In the 2nd stage, the model concentrates on the dynamics of export growth in shortlisted countries. The constant market share analysis compares the actual growth performance of a country with the performance that could have

been achieved if the country has maintained its exports relative to some standard. The 'constant-market share norm' is attributed to the following three factors:
1. The effects of a general increase in demand for imports in the given market (Import growth effect).
2. Composition of the Commodity (market effect).
3. Changes in competitiveness.

The model described below shows the competitiveness either in negative or positive terms while adjusting the actual change in market share.

$$X(t) - X(0) = m\,X(0) + \sum\big((m_i - m)X_i(0)\big) + \sum(X_i(t) - X_i(0) - m_i X_i(0)) \ldots (1)$$

where
X: Country A's total export to country B
X_i: Commodity *i* exports of country A to country B
m: Percentage increase in country B's total imports from period 0 to period *t*
m_i: Percentage increase in country B's imports of commodity *i* between period 0 to period *t*

The right hand side can be divided into three components which show the parameters which are to be estimated
(a) The general rise in country B's total imports.
(b) The commodity composition of country A's exports to B in periods 0, and
(c) An unexplained residual indicating the difference between country A's actual exports increase to country B and the hypothetical increase if country A maintained its share of exports of each commodity group in country B.

The CMS model considers that the sum of these three effects is always 100 and competitiveness reflected through residual is always adjusted accordingly. This is because of the fact the model by force brings down the market share to a constant level and measures the net change.

5. EMPIRICAL RESULTS

Considering the effect of the India-ASEAN FTA (2010), the period is divided into 2 sub-groups (2001-2009 and 2010-2019).

Table 1: Constant Market Share Analysis Of India's Exports To ASEAN

ANNUAL AVERAGE
2001-2009 compared to 2010-2019

INDIA'S TRADE PARTNER	MARKET SHARE EFFECT	COMMODITY COMPOSITION EFFECT	COMMODITY ADAPTATION EFFECT	TOTAL EFFECT
	General Increase In Import Demand	Diversification Of India's Export Composition	India's Export Competitiveness	Total Gain
ASEAN (in Mn $)	10212	2636	3172	16021
ASEAN (in%)	63.75	16.45	19.80	100

The columns in Table 1 represent respectively the "market share effect", the "commodity composition effect", and the "commodity adaptation effect". The last columns show the total effect of the changes between these 2 sub-periods. Table 1 shows India's export performance for ASEAN as a whole. There is an increase in the "market share effect" which dominates the combined effect of "commodity composition" and "commodity adaptation effect".

In this period (2010-19), India experienced a rise in import demand in ASEAN countries by $10212 Mn (63.75%) out of the total effect of $16021 Mn. The increase in exports from India to ASEAN due to diversification of exports i.e. "commodity composition effect" is a mere $2636 Mn out of a total of $16021 Mn which is just 16.45%. The competitiveness i.e. "commodity adaptation effect" is also $3172 Mn which is also 19.80%. This shows that India's post-FTA rise in exports to ASEAN nations was driven mainly because of the rise in import demand of member countries and not because of India's competitiveness.

If India would have gained competitiveness, it could have exported a higher amount as compared to other nations. ASEAN's import from the rest of the world has been huge and India could not contribute to its import much which is visible in Figure 2.

Table 2: Constant Market Share Analysis Of India's Exports To ASEAN Nations				
ANNUAL AVERAGE 2001-2009 compared to 2010-2019				
INDIA'S TRADE PARTNER	**MARKET SHARE EFFECT**	**COMMODITY COMPOSITION EFFECT**	**COMMODITY ADAPTATION EFFECT**	**TOTAL EFFECT**
	General Increase In Import Demand	Diversification Of India's Export Composition	India's Export Competitiveness	Total Gain
BRUNEI	12485.58	32799.75	66513.19	111798.52
	11.17	29.34	59.49	
CAMBODIA	51571.91	17285.95	11766.31	80624.17
	63.97	21.44	14.59	
INDONESIA	2598848.00	-436098.00	609833.00	2772583.00
	93.73	-15.73	22.00	
SINGAPORE	3284087.00	1241081.00	1925444.20	6450612.20
	50.91	19.24	29.85	
THAILAND	1215812.57	347852.16	682183.16	2245847.89
	54.14	15.49	30.38	
PHILLIPINES	332634.50	336166.80	188981.99	857783.29
	38.78	39.19	22.03	
VIETNAM	2436389.00	743905.60	1322167.77	4502462.37
	54.11	16.52	29.37	
MALAYSIA	1108235.00	493637.10	1676617.00	3278489.10
	33.80	15.06	51.14	

Source: Authors calculations and trademap.org
Data for 2 ASEAN nations' viz. Laos and Myanmar are not available before 2009.

Table 2 shows India's export performance in ASEAN member states individually. It has improved in the period 2009-2019 as compared to 2001-2009 and all the three factors viz. "market share effect", "commodity composition effect", and "commodity adaptation effect" contribute positively except Indonesia. India's export performance to Brunei shows a very low "market share effect". The competitiveness effect dominates the other two effects. Though India's exports to Brunei are low as compared to major ASEAN nations, the competitiveness of Indian Products is the highest in Brunei (59.49%). This shows the high potential for India to capture the Brunei market. The diversification effect is also 29.34% which is much higher than the "market share effect". The "market share effect" dominates the majority of the countries, i.e. Cambodia, Indonesia, Singapore, Thailand, and Vietnam. The "commodity composition effect" is the lowest among the 3 effects for all countries except Cambodia, Brunei, and the Philippines. The above results show that the diversification of exports to ASEAN nations could not pick up in the last decade and the export category has been the same as it used to be 2 decades before or has improved inconsiderably.

In the case of Indonesia which is a major trade partner among all ASEAN nations, the "market share effect" is significantly high going up to 93.73%. The "commodity composition effect" has turned negative which means India's diversification in its exports to Indonesia has reduced. However, the competitiveness effect is contributing positively which is a good indicator. The above result shows India still has a lot of opportunities in ASEAN member states. Specifically, it is time to explore new partners where Indian Products are competitive. Those countries are importing from the rest of the world. For example, in Brunei, Malaysia, and Thailand where the competitiveness effect is significant, there lies an opportunity for India. The study provides the analysis that the export growth in selected sectors is not because of competitiveness and diversification but due to the rise in import demand. The ASEAN growth itself pulls up the import demand and India is a beneficiary of that.

6. CONCLUSION

ASEAN's international trade has almost tripled over the last decade. The CMS analysis has been used and shows that India's post-FTA rise in exports to ASEAN nations was driven mainly because of the rise in import demand of member countries and not because of India's competitiveness.

CONFLICT OF INTEREST

None.

REFERENCES

Fathima KB, Biradar RS, Shyam SS, 2006. Growth pattern and competitiveness of Indian shrimp export trade. Fishery Technology, 43(1), 99-106.

Fetscherin M, Alon I, Johnson JP, Pillania RK, 2012. Export competitiveness patterns in Indian industries. Competitiveness Review: An International Business Journal, 22(3), 188-206. DOI: 10.1108/10595421211229637

Jagdambe S, 2016. Analysis of export competitiveness of Indian agricultural products with ASEAN countries. Institute for Social and Economic Change, Bangalore. Working Paper 356, 1-20. ISBN 978-81-7791-212-8

Kapur SN, 1991. The structure and competitiveness of India's exports. Indian Economic Review, 26(2), 221-237.

Kaur N, Sarin V, 2017. Comparative advantages and competitiveness of Indian agricultural products' exports to ASEAN in context of India's look east policy. International Journal of Agricultural and Statistical Sciences, 13(1), 159-167.

Meade JE, 1955. The theory of customs unions. Amsterdam: North Holland Publishing Company, pp. 121.

Nag B, Sikdar C, 2011. Welfare implication of India-ASEAN FTA: An analysis using GTAP model. Indian Institute of Foreign Trade, Working Paper No. EC-11-06.

Philip AP, Alappatt M, 2015. Trade interaction between India and ASEAN countries: an empirical study. International Journal of Procurement Management, 8(5), 534-545.

Poramacom N, 2002. Revealed comparative advantage (RCA) and constant market share model (CMS) on Thai natural rubber. Kasetsart Journal (Soc. Sci), 23, 54-60.

Schott JJ, 1991. Trading blocs and the world trading system. World Economy, 14(1), 1-18.

Viner J, Oslington P, 1950. The Customs Union Issue. Publisher: New York: Oxford University Press. ISBN: 9780199756124

Veeramani C, Saini GD, 2010. Impact of ASEAN-India Preferential trade agreement on plantation commodities: a simulation analysis. Mumbai: Indira Gandhi Institute of Development Research, Working Paper WP-2010-004.