



A Study on the Role of AIFTA Between India and ASEAN Countries

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ABSTRACT

ASEAN India Free Trade Agreement (AIFTA) was signed on October 8, 2003 among its member countries and India with the aim of protecting investment to reduce unethical trade practices. This study aims to find the dependency of India's overall trade to India's trade to ASEAN countries. This study makes use of trend analysis to predict the future trade of India to ASEAN countries. Also, regression analysis is used to find the dependency of the two variables with respect to both imports as well as exports. The main findings of this study indicates that AIFTA was a beneficial step for India as trade with ASEAN countries directly affects 8%-10% of India's overall trade of India.

Keywords: ASEAN, AIFTA, India-ASEAN Trade, Southeast ASIA

Introduction

Foreign trade is crucial for the development of any economy in various aspects such as improved level of production, generating employment, increase in inflow of foreign exchange and enhancing economic relations globally.

Since Independence, India's international trade has seen a lot of changes over time. These changes occurred due to shifts in objectives and strategies which were formulated at different points of time keeping the economic condition of the country in mind. The rise in demand and the growing global population offer significant opportunities for international trade. Nations have embraced international trade as a means to export excess goods produced to meet the insatiable demand for those specific products in other countries.

The origin of India's foreign trade traces to the time of the Indus Valley civilisation. However, its growth gained momentum and popularity during the British rule. During this period also the composition and direction of India's trade had undergone some important changes. It's a matter of fact that India's foreign trade has really

come a long way. The values of exports as well as imports have increased multi-fold over the same period. The value of exports increased from Rs. 606 crores in 1950-51 to Rs. 1,06465 crores in 1995-96. The value of imports, however, increased from Rs. 608 crores to Rs. 1,21647 crores. Only 1971-72 and 1976-77 were the years where value of exports was higher than the value of imports. Hence, India has been a trade deficit country.

India used to follow government policies that restricted foreign for a long period of time, but then gradually became open to it. At present, trade accounts for 45.3% of the country's GDP. Petroleum oils (13.7%), diamonds (6.3%), medicaments (4.3%), articles of jewellery (2.7%), and rice (2.4%) are the main products that the country exports, while it imports petroleum oils (18.7%), gold (9.8%), diamonds (4.6%), coal and similar solid fuels (4.5%). The volume of exports of goods as well as services increased by 3.9% in 2022 and is expected to increase in 2023, reaching 4.9%. Whereas the volume of imports increased by 10.1% in 2022 and is further expected to increase by 7.2% in 2023.

India's main partners are Bangladesh, US, UAE, Switzerland, China, Saudi Arabia. The country has also signed various agreements with South Korea & ASEAN, and has entered into negotiations with EU, Australia, New Zealand and South Africa.

The Association of Southeast Asian Nations (ASEAN) is a regional grouping which aims at promoting trade cooperation among its members: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Asia-Pacific region has become a hotspot for growth, political instability and also social tensions. The region continues to face challenges and threats.

ASEAN-India relations have grown speedily from a sectoral partnership to a full partnership in December 1995. The relationship was again brought up with the assembling of the ASEAN-India Summit in 2002 in Cambodia. Since then, the ASEAN-India Summit is held annually.

Association of South-East Asian Nations (ASEAN) is One of the major regional trade agreements which aimed at eliminating the trade barriers amongst member countries through a scheme called Common Effective Preferential Tariff (CEPT). ASEAN had a great influence globally because of which India proposed "Look East Policy" in 1991 to build a strong trade relation with ASEAN. India signed Free Trade Agreement with ASEAN in 2010 which is also known as AIFTA. However, India's trade deficit with ASEAN nations increased and became a major issue for the policy makers and therefore Indian policymakers became alert of further entering into such trade agreements.

India and ASEAN share a common interest in maintaining peace and stability within the region. They have signed a Joint Declaration relating to defence, which can further guide their future partnership. India has always been a beneficial partner to ASEAN. It has been helping ASEAN countries in so many areas.

there is a lot of potential in the relationship between India and ASEAN, both sides still must work to make it stronger. Creating that bond between ASEAN and India will need steps toward mutual trust that is missing in the relationship. Ultimately, both of them must work to create a partnership that is stable.

Literature Review

Shouvik Kishore Majumdar, Angana Parashar Sarma and Srishti Majumdar in their research paper “**E-commerce and Digital Connectivity: Unleashing the Potential for Greater India–ASEAN Integration**” found that India and ASEAN should collaborate to use the allocated funds for developing policies and frameworks for e-commerce platform. This would be self-sustainable and would be able to address the key issues faced by SMEs. This would help in objectifying India-ASEAN partnership by helping SMEs to become competitive and to globalize.

Nehginpao Kipgen in his research paper “**India–ASEAN relations: the initiatives, successes, and challenges**” found that the leaders of India and ASEAN agreed upon to improve their maritime cooperation and decided to consider new measures. Including the enhancement of the blue economy. Some of the decisions taken in the India ASEAN meeting were to improve the connectivity between them, proposal of setting up of digital villages in ASEAN countries and welcomed the contract for ERIA study on trilateral highway.

HARSH V PANT AND AVANTIKA DEB in their research paper “**India-ASEAN Partnership at 25**” concluded that India is less efficient in proving itself a credible strategic partner of ASEAN. India and ASEAN are running towards common goals of peaceful and prosperous regional security architecture. Both the parties should equally put efforts into enhancing this relationship to realize the full potential of this relationship.

Ahmed, Shahid in his research paper “**India-ASEAN Free Trade Agreement: A Sectoral Analysis**” found that the present FTA is not fully liberalized, some of the trade lines are blocked by non-tariff barriers and hence the FTA is not materialized. Moreover, the study indicates that India might incur revenue losses which would affect the domestic development of the country.

PREETY BHOGAL in her research paper “**India-ASEAN Economic Relations: Examining Future Possibilities**” found that Improving the Regional Comprehensive Economic Partnership Agreement between India and ASEAN member countries would also improve the trade and investment. This should be done quickly in order to visualize future growth between the two.

Suparna Karmakar in her research paper “**India ASEAN cooperation in services proved ASEAN to be an imperfect integration because it shows a regular dependency over US and EU for getting export markets. Also, ASEAN is working towards establishing ASEAN Economic Community (AEC) allowing free flow of goods, services, investment, capital, and labour between the member countries.**

Ranajoy Bhattacharyya in his research paper “**India–ASEAN Free Trade Agreement: An ex-post evaluation**” found that ASEAN is at more profitable side than India as far as tariff concessions are concerned and due to the weak connection between tariff reforms and trade expansion India’s BOT has declined with ASEAN. Moreover, a decline is seen in the imports of both the parties from the outside world due to global slowdown.

Smitha Francis in her research paper “A Sectoral Impact Analysis of the ASEAN-India Free Trade Agreement” found India is less interested in following production network-driven export-growth strategies instead its trade is more directed towards the FDI-driven production networks centered on ASEAN.

RAMPHUL Ohlan in his research paper “ASEAN-INDIA FREE TRADE AGREEMENT IN GOODS: AN ASSESSMENT” found that there is a growth seen in the India’s share in merchandise trade with ASEAN countries, since last 30 years but it still remains less than Japan and China whereas on the other hand India’s overall trade intensity has sharply declined in ASEAN countries.

In the research paper “Reassessing the Impact of the ASEAN-India Free Trade Agreement” it was found that AIFTA aims at strengthening closer economic ties between India and the ASEAN member countries. Moreover, reduction in tariff barriers would increase the Indian imports of ASEAN manufactured goods and its impact would be relatively smaller than the impact of other variables in the model.

Objectives

- To study the impact of AIFTA between India and ASEAN countries.
- To study the position of India after signing of AIFTA.
- To study the impact on India’s international trade.

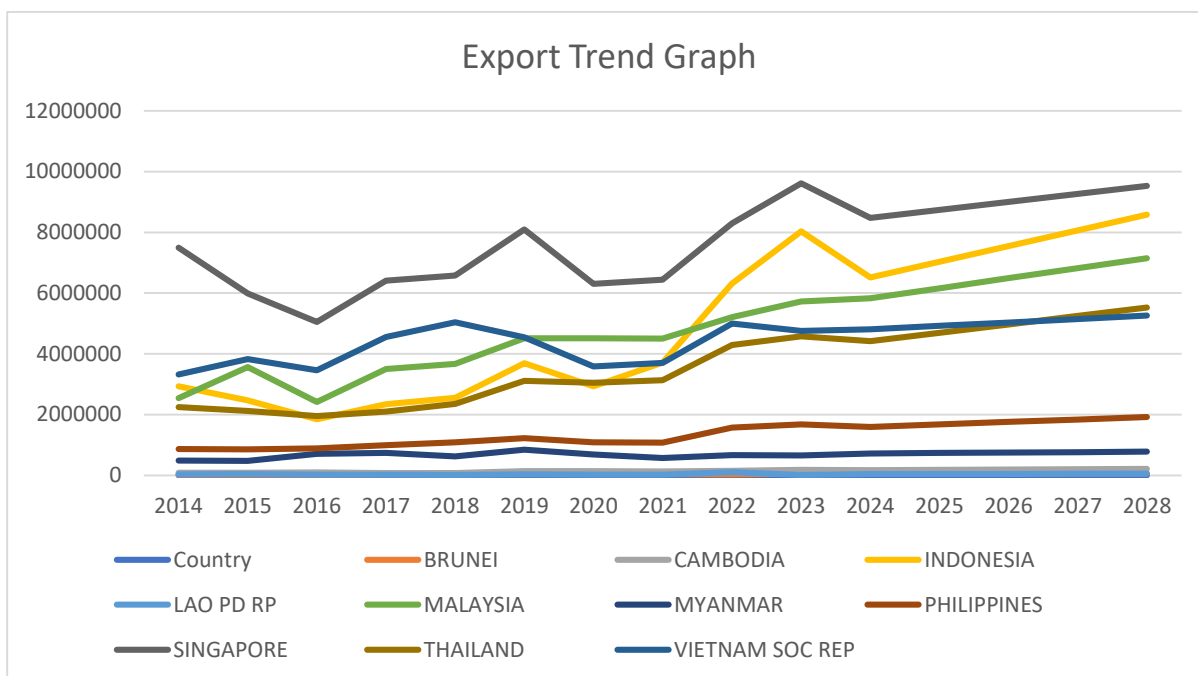
Hypothesis

H0= There is no significant impact of AIFTA on India and ASEAN

H1= There is a significant impact of AIFTA on India and ASEAN

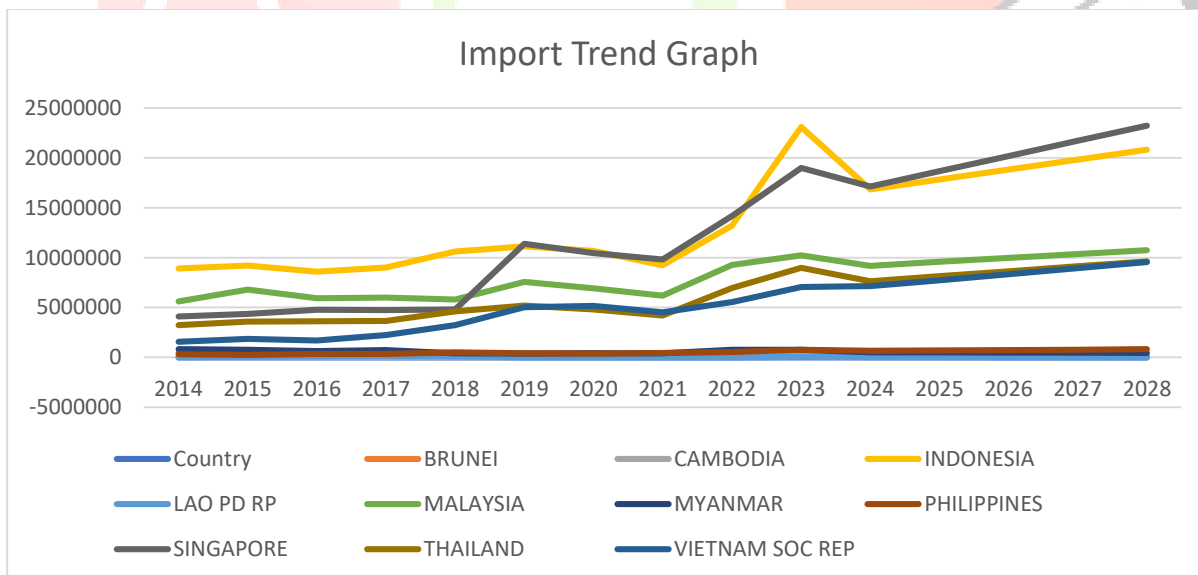
Trend Analysis

1) EXPORTS from India to ASEAN (ANNEXTURE- 1)



In the above graph it can be observed that exports for all the countries have increased over the period of time. Consistently, Singapore was the one with highest exports from India amongst others. Indonesia, Malaysia, and Thailand also have considerable number of exports. Export data for some countries is affected by COVID-19. The trend analysis for 2024 to 2028 suggests increased exports for most of the countries. Every country has different set of goods and services which contribute to its exports.

2) IMPORTS to India from ASEAN (ANNEXTURE- 2)



From the graph, it can be seen that imports to India from majority of countries have increased recommending a rise in demand for goods and services. Singapore has recorded the highest import figures amongst all. Indonesia, Thailand, and Malaysia also have significant import numbers. Trend analysis for future years suggest a growth in imports for most of the countries. Import composition of each country may differ according to various parameters.

Regression Analysis

1) EXPORT

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|----------|-------------------|----------------------------|---------------|
| 1 | .976 ^a | .952 | .946 | 14412829.860 | 1.689 |

a. Predictors: (Constant), India_Export_to_ASEAN

b. Dependent Variable: Total_India_Exports

R-squared (R^2): The R-squared value is 0.952, which means that approximately 95.2% of the variance in the dependent variable "Total_India_Exports" is explained by the independent variable(s) included in the model. This suggests a strong relationship between the variables.

ANOVA (Analysis of Variance)

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|---------------------------|----|---------------------------|---------|-------------------|
| 1 | Regression | 329730021605 40920.000 | 1 | 329730021605 40920.000 | 158.730 | .000 ^b |
| | Residual | 166183731661 4068.000 | 8 | 207729664576 758.500 | | |
| | Total | 346348394771 54988.000 | 9 | | | |

a. Dependent Variable: Total_India_Exports

b. Predictors: (Constant), India_Export_to_ASEAN

The ANOVA table indicates the following:

The regression model is statistically significant ($p < 0.001$), as shown by the F-statistic of 158.730. The model's ability to predict the dependent variable is significantly better than a model with no independent variables. The sum of squares due to regression is much larger than the sum of squares due to residual error.

Coefficients

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-----------------------|-----------------------------|--------------|---------------------------|--------|------|
| | B | Std. Error | Beta | | |
| 1 | | | | | |
| (Constant) | -21338152.198 | 20291588.722 | | -1.052 | .324 |
| India_Export_to_ASEAN | 10.491 | .833 | .976 | 12.599 | .000 |

The coefficients table provides information about the regression equation: The intercept (Constant) is -21,338,152.198. The coefficient for "India_Export_to_ASEAN" is 10.491. This coefficient represents the change in the dependent variable for a one-unit change in the independent variable. The p-value for this coefficient is < 0.001, indicating that it is statistically significant.

2) IMPORT

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .923 ^a | .852 | .833 | 43652144.125 64038 |

a. Predictors: (Constant), Total_Import_from_Asean

R-squared (R^2): The R-squared value is 0.852, which means that approximately 85.2% of the variance in the dependent variable "Total_India_Imports" is explained by the independent variable "Total_Import_from_Asean." This suggests a reasonably strong relationship between the variables.

ANOVA (Analysis of Variance)

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|--------------|----------------------------|----|---------------------------|--------|-------------------|
| 1 Regression | 874416771612 82608.000 | 1 | 874416771612 82608.000 | 45.889 | .000 ^b |
| 1 Residual | 152440774941 25438.000 | 8 | 190550968676 5679.800 | | |
| 1 Total | 102685754655 408048.000 | 9 | | | |

a. Dependent Variable: Total_India_Imports

b. Predictors: (Constant), Total_Import_from_Asean

The ANOVA table indicates the following:

The regression model is statistically significant ($p < 0.001$), as shown by the F-statistic of 45.889. The model's ability to predict the dependent variable is significantly better than a model with no independent variables. The sum of squares due to regression is much larger than the sum of squares due to residual error.

Coefficients

| Model | Unstandardized Coefficients | | Standardized Coefficients | t |
|---------------------------|-----------------------------|--------------|---------------------------|-------|
| | B | Std. Error | Beta | |
| 1 (Constant) | 67704049.892 | 40537473.741 | | 1.670 |
| 1 Total_Import_from_Asean | 6.925 | 1.022 | .923 | 6.774 |

The coefficients table provides information about the regression equation: The intercept (Constant) is 67,704,049.892. The coefficient for "Total_Import_from_Asean" is 6.925. This coefficient represents the change in the dependent variable for a one-unit change in the independent variable. The p-value for this coefficient is < 0.001 , indicating that it is statistically significant.

Conclusion

Our analysis therefore suggests that trade between India and ASEAN countries have a strong impact over India's overall international trade. In our study we found that India's total trade is directly proportional to India's total trade to ASEAN countries.

The empirical findings of the study shows that India and ASEAN's trade has grown after the signing of AIFTA. The Framework Agreement on Comprehensive Economic Cooperation between ASEAN and India was signed in October 2003 and served as legal basis to conclude further agreements, including Trade in Goods Agreement, Trade in Services Agreement, and Investment Agreement that form the ASEAN-Indian Free Trade Area (AIFTA). Among the ASEAN countries Singapore was the largest importer as well as exporter of India.

The trend analysis applied on the previous year's data of trade between India and ASEAN depicts that the exports and imports are expected to rise in the next five years.

With the help of regression analysis, it can be concluded that there is a high dependency between the independent variables ("Total_India_Exports" and "Total_India_Imports") and the dependent (predictors) variables ("Total_Export_to_ASEAN" and "Total_Import_from_ASEAN" respectively). Therefore, H_0 = There is no significant impact of AIFTA on India and ASEAN stands rejected.

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