

## India-ASEAN Trade in Agriculture: Retrospect and Prospect

P Shinoj

### Introduction

The Association of South East Asian Nations (ASEAN) was constituted in 1961 with the objective of fostering intra-regional cooperation in Southeast Asia. Being the first regional organization in Asia and thus time-tested, it has contributed immensely to peace, stability and economic progress of the region (Sosaestro, 2003). India and ASEAN members are natural partners in trade and the ties date back to hundreds of years. India's recent attempts to integrate with the world economy through a number of trade policy reforms and specific steps to forge closer links with the Southeast Asian neighbours have worked towards strengthening of the historical ties. India's partnership with the ASEAN members began with India becoming a sectoral dialogue partner at ASEAN meet in 1992 as an initial step towards India's 'Look East' policy. The efforts got momentum when India was invited to become a full dialogue partner at the fifth ASEAN summit held at Bangkok in 1995 and subsequently a member of the ASEAN Regional Forum (ARF) in 1996. Though the financial crisis of 1997 and the developments in south Asia affected the dialogic relations, both the parties entered into a strategic partnership with the signing of a joint declaration in November, 2004 and adoption of an action plan for a forward looking relationship at the ASEAN-India Summit at Vientiane, Laos (Yong, 2005). The process led to the signing of a pact in August, 2008, according to which a new free trade area would be created covering 11 countries - India and the ten countries of ASEAN. The latest developments could be regarded as a milestone in the emerging broader economic cooperation in Asia, leading to building of an Asian Economic Community in a phased manner.

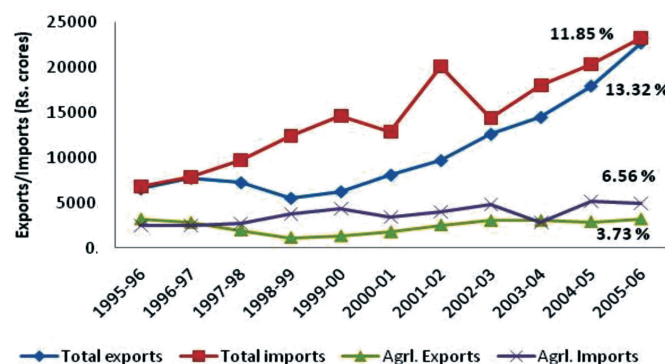
Amongst several commodities moving across India-ASEAN borders, agricultural commodities acclaim an irrefutable importance. Today, agricultural trade is a major pillar of India's external trade with its Southeast Asian partners. Therefore, the present study has delved into the status, composition, distribution and intensity of India's agricultural trade with the ASEAN members during the previous decade.

### India-ASEAN trade: Total merchandise vs. agricultural trade

In pursuance of India's 'Look East' policy, focus on trade between India and South-east and East Asia has heightened

during the previous decade. Alongside, successive governments in New Delhi have sought to develop closer institutional links with the region (EPW, 2004). It is estimated that India exported merchandise goods worth Rs 44235 crore to countries of ASEAN 2005-06, while its imports were pegged at Rs 45318 crore (UNCTAD, 2006). The trade basket comprised a variety of items ranging from machinery and electrical appliances to, minerals, chemicals, textiles and apparels, plastics and processed food san agricultural and vegetable products. The total merchandise trade over the timeline has revealed that both exports and imports have grown in double digit percentage during the decade 1995-96 to 2005-06. While the real value of exports grew at an average annual rate of 13.32 per cent, the imports grew at 11.85 per cent in terms of real prices (Figure 1). Imports out-valued exports throughout this period and hence the trade balance has been in favour of the ASEAN. However, the performance of agricultural commodities in trade has been found declining. Their exports and imports were nearly stagnant with the estimated annual growth of 3.73 per cent and 6.56 per cent, respectively. It led to gradual reduction in share of agricultural exports in total exports from 49.4 per cent to a mere 14.2 per cent during this period of 10 years. The share of agricultural imports has also declined from 36.1 per cent to 21.3 per cent during this decade. The estimates suggest that India-ASEAN trade in the agricultural front has been quite disappointing with the agricultural sector being outpaced by other sectors. The fruits of various favourable policies have failed to get manifested in to India's agricultural trade with the region.

Figure 1. India's total merchandise as well as agricultural exports/ imports (at 1993-94 prices) with ASEAN: 1995-96 to 2005-06

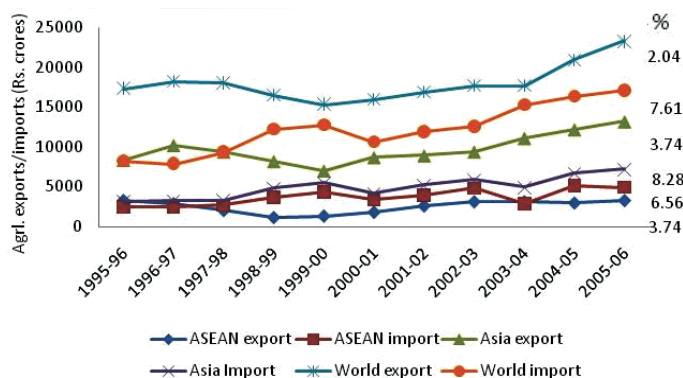


Source: UNCTAD (various years), Geneva; DGCI&S (various years), Kolkata

## India's agricultural trade with ASEAN vis-à-vis Asia and world

India's declining performance in agricultural exports to the ASEAN can be read in line with its lack-luster show in the total external trade in agriculture. The total agricultural exports from India to rest of the world grew at a snail's pace (2.04 per cent) during the period 1995-96 to 2005-06 (Figure 2). The growth in imports was relatively higher (7.61 per cent), leading to a reduction in the trade balance. The growth in exports to Asia as a whole was estimated to be 3.74 per cent and matched with that to the ASEAN members. The imports have grown at a relatively higher rate (8.28 per cent), owing to higher imports from China, during this period.

**Figure 2. India's agricultural exports/imports (at 1993-94 prices) with ASEAN, Asia and world: 1995-96 to 2005-06**



Source: DGCI&S (various years), Kolkata

The agricultural trade of India with the ASEAN as a proportion of that with Asia and world for the period 1995-96 to 2005-06 is presented in Table 1. It was observed that in the year 1995-96, out of the total exports to Asia, around 39 per cent was destined to various ASEAN members. It gradually decreased to 24.5 per cent over the years. The lower shares of exports during 1998-99 and 1999-00 can be attributed to the reduced economic activity in the region as a result of the Asian financial crisis which had adversely affected most of the ASEAN economies, it regained soon afterwards. The gradual reduction in the share of both exports and imports over the years hints towards a shift in focus to Asian countries other than ASEAN members, mainly China. However, the importance of ASEAN as a major source of India's agricultural imports cannot be understated. It is of particular importance that nearly three-fourths of India's total agricultural imports sourced from Asia were from the ASEAN member countries. It is still more worthy to note that ASEAN countries remained as the major suppliers of agricultural commodities to India even when India's total agricultural imports from the world as a whole, were taken into consideration.

## Commodity composition

A snapshot on the commodity composition of India's exports to and imports from ASEAN has been presented in Table 2 to understand the finer details of farm products trade between the two major markets. In the year 2005-06, The biggest component of the export basket comprised prepared food stuff, beverages

**Table 1. India's agricultural trade with ASEAN countries vis-a-vis Asia and world Year India's agricultural trade with ASEAN as a share of that with**

	Asia (%)		World (%)	
	Exports	Imports	Exports	Imports
1995-96	38.73	79.74	18.63	30.02
1996-97	27.92	78.36	15.61	31.65
1997-98	21.39	82.04	11.08	28.78
1998-99	13.99	77.04	6.94	30.35
1999-00	19.08	79.47	8.69	34.22
2000-01	20.67	81.65	11.25	32.02
2001-02	28.89	76.49	15.23	33.17
2002-03	32.75	82.20	17.35	38.28
2003-04	27.77	58.27	17.38	18.70
2004-05	24.04	77.02	14.00	31.49
2005-06	24.45	68.58	13.83	28.88

Source: DGCI&S (various years), Kolkata

and tobacco and it was worth Rs 2822.44 crore (Table 2). It reveals the fact that there was a higher demand for value-added food products from the ASEAN trade partners in comparison to primary agricultural products. Among various animal products exported, meat and meat products and fish, crustaceans and mollusks contributed the maximum. Their values were Rs. 854.13 crore and Rs. 431.43 crore respectively. A total of Rs. 1368.15 crore worth of vegetable products were exported, the important groups being vegetables, roots and tubers, tea, coffee and spices. Non-edible agricultural products like wool, cotton, jute, wood and paper products also found place in India's exports to the ASEAN member countries.

**Table 2. Commodity composition of India's trade with ASEAN countries: 2005-06**

Commodity	Exports (in crore Rs.)	Imports (in crore Rs.)
<b>I. Animal products</b>	1351.19	15.73
1. Live animals	0.11	0.01
2. Meat and meat products	854.13	0.37
3. Dairy products	62.81	0.17
4. Fish, crustaceans and molluscs	431.43	11.86
5. Other products of animal origin	2.71	3.32
<b>II. Vegetable products</b>	1368.15	1968.92
1. Cereals	189.32	0.08
2. Vegetables, roots and tubers	255.06	1125.00
3. Fruits and nuts	80.58	329.31
4. Tea, coffee and spices	222.45	386.94
5. Miscellaneous products	620.74	127.59
<b>III. Animal and vegetable fats and oils</b>	118.24	4987.42
<b>IV. Prepared food stuff, beverages and tobacco</b>	2822.44	211.94
<b>V. Other non-edible agricultural products</b>	629.32	2466.38
<b>Total</b>	<b>6289.34</b>	<b>9650.39</b>

Source: DGCI&S (2006), Kolkata

Among various farm products imported from the ASEAN, animal and vegetable fats and oils dominated in the period under consideration. The total import value of this group was Rs. 4987.42 crore and it constituted more than half of the total agricultural imports from the region. This is in consistence with India's total agricultural imports from the world, where in, more than three-fourths share was comprised of animal and vegetable fats and oils. A substantial quantity of non-edible agricultural products and vegetable products were also imported to the country from its ASEAN counterparts.

### Country-wise distribution

The country-wise flow of agricultural trade between India and ASEAN was analyzed and is presented has been Table 3. Indonesia was found to be the largest trade partner with India in terms of total agricultural trade during the year 2005-06. India imported substantial quantities of farm products from Indonesia which were valued Rs. 4783.34 crore. A deep perusal into the composition of trade flow suggests that the animal and vegetable fats and oils and edible fruits and nuts were the major commodities which dominated in India's agricultural imports from Indonesia. In return, India exported raw cotton, oilseeds, food preparations, etc. to Indonesia. India's farm trade with Malaysia has also been found to be substantial. During the year under consideration, India exported agricultural commodities worth Rs. 1488.84 crore to Malaysia and imported products worth Rs. 2146.18 crore. As from Indonesia, fats and oils, particularly palm oil were the major constituents of India's imports from Malaysia. Yet another major trade partner of India was Myanmar from where India sourced considerable amounts of edible vegetables, pulses, and wood products. However, India's exports to Myanmar were negligible. Vietnam, Thailand, Singapore and Philippines were other ASEAN members with which India maintained good trade relations.

**Table 3. Country-wise distribution of India's agricultural trade with ASEAN: 2005-06**

Country	Exports (in crore Rs.)	Imports (in crore Rs.)
Brunei	10.05	0.09
Cambodia	20.33	2.58
Indonesia	1265.66	4783.34
Lao PDR	0.07	0.24
Malaysia	1488.84	2146.18
Myanmar	30.87	2289.20
Philippines	574.64	16.35
Singapore	768.23	55.27
Thailand	727.69	113.29
Vietnam	1402.96	243.84
Total ASEAN	6289.35	9650.39

Source: DGCI&S (2006), Kolkata

### Trade intensity indices

The absolute values or share of exports and imports do not provide any indication as to the extent to which two countries

prefer to trade amongst themselves, relative to their other trading partners in the rest of the world. For this reason, bilateral trade intensity indices are often considered as more useful tool for analysing bilateral trade linkages (Asher and Sen, 2005). The indices of export intensity and import intensity capture the extent to which the home country prefers to export to/import from its trading partners in comparison to the rest of the world . The values of indices higher than unity imply higher concentration of export/import with the trading partner.

The export intensity indices (EII) and import intensity indices (III) of India with respect to all the ASEAN member countries for the year 2005 were computed using the data obtained from the International Trade Statistics (ITS) published by World Trade Organization (WTO) and have been presented in Table 4. It is evident from the overall EII and III estimates that the intensity with which India trades with ASEAN member countries is higher than that of rest of the world. India considered Vietnam as the best partner for its exports of agricultural commodities in comparison to other ASEAN countries. With export intensity value of 10.77, Vietnam emerged as the most preferred export destination. Partners like Singapore, Malaysia, Indonesia, Philippines have also been rated high in the list. Brunei, Cambodia and Laos are the only countries with lower than unity EII values. It suggests that, in general, India showed a higher preference for its agri-exports to ASEAN countries than rest of the world, a fact that is corroborated from the overall EII of 3.80 for the ASEAN as a whole. Six out of the total ten member countries in ASEAN have been found as India's favoured sources of agricultural imports, with Myanmar topping the list. Indonesia, Malaysia, Vietnam and Cambodia are other countries from which India sourced agricultural commodities at a higher intensity in comparison to rest of the world.<sup>1</sup> The overall value of import intensity index for ASEAN as a whole has been found to be 4.39, which further underscore its position as a preferred trade partner.

**Table 4. India's agricultural export intensity and import intensity indices with respect to ASEAN member countries: 2005**

Country	Export intensity index	Import intensity index
Brunei	0.63	1.64
Cambodia	0.89	1.72
Indonesia	3.52	8.39
Laos	0.01	0.28
Malaysia	3.80	4.03
Myanmar	1.36	17.05
Philippines	2.76	0.15
Singapore	3.80	0.74
Thailand	1.89	0.16
Vietnam	10.77	1.34
ASEAN	3.80	4.39

Source: Computed by the author using data from ITS, WTO (2006)

<sup>1</sup>See Asher and Sen (2005) for more details on the indices.



## Policy implications

The evolving partnership between India and ASEAN can be viewed as a significant development towards maintaining peace and stability in the Southeast Asia region, besides having wide range of economic ramifications. The trade in goods and services between these two natural partners has escalated over the past one decade. However, the present analysis has brought out the fact that, in spite of pursuing favourable economic policies by both the parties, trade in agriculture has lagged behind other sectors as is evident from the low rates of growth and plummeting share of agricultural exports and imports in the total. Therefore it is important to note that agricultural trade being one of the key drivers of rural prosperity and economic well-being, should not be left behind while deciding priorities in international economic relations. Presently, the applied tariff rates on agricultural commodities prevailing in all member countries of the ASEAN are much lower than those prevailing in India. In this context, it is important for India to identify the commodities which has maximum takers in the export market.

The above analysis has shown that prepared food stuff, beverages, tobacco and other value-added products claim the largest demand. Therefore it is important to encourage value addition of the primary agricultural products to realise higher foreign exchange earnings. Meat and meat products, fishery products, vegetables, tea, coffee and spices also command a high preference from the Southeast Asian consumers. A recent study by Shinoj and Mathur (2008) on India's comparative advantage in major agricultural commodities exported to Asia in relation to other major Asian competitors has provided insights into the possible commodity choices for expansion in agricultural trade. Identifying niche markets for these commodities should also be the priority of the policy makers. Even though Indonesia, Malaysia and Vietnam are the largest destinations of India's farm products presently, the scope of intensifying trade with other countries like Philippines, Singapore, Thailand, Cambodia, Brunei etc should also be exploited in the light of the new pact.

It is also vital to adhere to strict food safety and quality standards to retain the existing markets intact as the global consumers are increasingly becoming aware of the food quality specifications. India should also take appropriate measures to

tackle possible excessive imports under a free trade regime which may adversely affect the domestic producers. In this regard, it is rather wise to resort to an import substitution policy for sensitive crops by encouraging its domestic production than leaving it to the mercy of market forces. In nutshell, informed decision-making on the commodity choices and markets would indeed help the Indian farmers and agri-traders in realising better fruits for their efforts.

## References

- Asher, M.G. and Sen R. (2005). India-East Asia integration: A win-win for Asia. *Economic and Political Weekly*, Vol. XL(36): 3932-3940.
- DGCI&S (2006). *Monthly Statistics of Foreign Trade of India*, Vol.1 (Exports including re-exports) & Vol. 2 (Imports), Directorate General of Commercial Intelligence and Statistics, Kolkata.
- DGCIS&S (Various years). *Monthly Statistics of Foreign Trade of India*, Vol.1 (Exports including re-exports) & Vol. 2 (Imports), Directorate General of Commercial Intelligence and Statistics, Kolkata.
- EPW (2004). India and ASEAN-Getting closer. Editorial, *Economic and Political Weekly*, Vol. XXXIX(49): 5189.
- WTO (2006). *International Trade Statistics*, World Trade Organization, Geneva, Switzerland.
- Shinoj, P. and V.C. Mathur (2008). Comparative advantage of India in agricultural exports vis-à-vis Asia: A post-reform analysis. *Agricultural Economics Research Review*, Vol. 21: 60-66.
- Sosaestro, H. (2003). ASEAN: Regional Economic Cooperation and its Institutionalization. Working Paper No. 071, Centre for Strategic and International Studies, Jakarta.
- UNCTAD (various years). *UNCTAD Handbook of Statistics*. United Nations Conference on Trade and Development, Geneva, Switzerland.
- Yong, Ong Kenk (2005). *Advancing the ASEAN-India Partnership in the New Millennium*. Discussion Paper No. 96. Research and Information System for the Non-Aligned and other Developing Countries, New Delhi.

February 2009

P Shinoj is scientist at National Centre for Agricultural Economics and Policy Research (NCAP), New Delhi. Correspondence email: pshinoj@ncap.res.in. The author is grateful to P K Joshi, Ramesh Chand, Suresh Pal and P Adhiguru for providing valuable suggestions in improving the content and presentation. Usual disclaimer applies.

NCAP has been established by the Indian Council of Agricultural Research (ICAR) with a view to upgrading agricultural economics research through the integration of economics input in planning, designing and evaluation of agricultural research programmes and strengthening the competence in agricultural policy analysis within the Council.

NCAP Policy Briefs are intended to contribute to debates on important agricultural policy issues. Opinions expressed are those of the authors and do not necessarily reflect the views of the Centre.