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## Reveled comparative advantage is a significant factor for India-ASEAN Trade

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### Abstract

The majority of nations in the world rely on one another, either directly or indirectly, for robust economic growth, demonstrating the significance of international trade through revealed comparative advantage. International trade is crucial for specialisation at the regional and global levels as well as for the abundance of commodities, both of which increase welfare. It expands a nation's output market internationally and could result in higher prices through trade. As a result, the engine of economic expansion is significantly fuelled by international trade. The primary goal of the current article, "India-ASEAN Trade through Reveled Comparative Advantage," is to use Reveled Comparative Advantage to assess the growth rate and significance of international trade. The method of revealed comparative advantage has been used for analysis.

**Keywords:** Economic growth, foreign trade, reveled comparative advantage, self-sufficient

### Introduction

The several national economies in the modern world are interdependent. It is difficult to locate an example of a closed economy these days. Every economy on the planet is now open. However, the level of openness differs from nation to nation. Therefore, no nation is entirely self-sufficient in the modern world.

In this context, self-sufficiency refers to the ratio of a nation's overall output to its consumption of goods and services. However, the level of self-sufficiency differs from nation to nation. The functions of international and regional specialisation are equally significant. In essence, trade is the global exchange of goods, inputs, and technologies that advances welfare in two ways. It expands a nation's output market outside national boundaries and could guarantee higher prices through exports.

By making commodities, inputs, and technologies available through imports that are either unavailable or only available at higher prices, it raises consumer pleasure. The fundamental tenet of international trade, known as "The Law of Comparative Costs," states that a nation's imports and exports are based only on its trading partners' characteristics, not on its own. The consumption potential frontier that foreign trade offers can provide us with more of all products than our own production possibility frontier, claims Samuelson. Foreign trade expansion "will very powerfully contribute to increase the mass of commodities, and therefore, the sum of enjoyments," according to Ricardo. In contemporary parlance, "Trade is a p positive."

Because international trade is vital to their economic development, underdeveloped nations are concerned about their standing in the global economy. This is because they all depend on international trade for their capital, skills, machinery, and implements.

India's economy is among the fastest growing in the world, and it is now becoming a major force behind global expansion. India is a desirable trading and investment partner for many nations due to its quickly expanding middle class market, big pool of inexpensive people resources, and acquired skills in some industries and services. The global trade system is being given a whole new dimension by the three massive accords that are presently being negotiated: the Regional Comprehensive Economic Partnership (RCEP), the Trans-Pacific Partnership, and the Trans-Atlantic Trade and Investment Partnership.

The government must foster an environment that will allow Indian industry to prepare for these difficulties.

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Future bilateral and regional trade interactions between India and other nations will focus on areas and nations that are not just potential markets but also significant providers of vital inputs and have economic complementarities with India. Exporting goods with a higher value addition, providing high-quality inputs for the manufacturing sector in these markets, and minimising applied customs duties on inputs for India's manufacturing sector would be the main goals of India's future trade relations with its traditional markets in the developed world.

One of India's main trading partners is the United States, and with the US's recent economic recovery, prospects for bilateral trade seem promising. To encourage exports to the US market, industries that create jobs, such as textiles, agriculture, leather, and gems and jewellery, will continue to get a lot of attention. Despite being a sizable market for India's IT services, the EU is still underutilised due to restrictions on data security imposed by EU laws.

### Review of literature

Literature Review is the comprehensive summary of previous studies related to a topic. With the help of literature Review, I found the existing work, which has been already carried out and identified the gap available. For this, I reviewed more than 20 research papers which have been collected from various sources such as journals, articles and online publications. Some of very good research papers are before you;

- Das, S.B. (2018)<sup>[1]</sup> in his study he tried to suggest ways and means to improve India's trade with ASEAN, including improving ease of doing business in India, faster registration of businesses, bureaucratic red tape are included. ASEAN-India occupies an important place in the study of economic relations due to global trade turmoil, service sector prospects and people-to-people contact.
- Trung, N. X., Hung, N. D., & Hien, N. T. (2018)<sup>[2]</sup> analyzed Vietnam's bilateral trade and techniques of stochastic frontier estimation for gravity models in their study to estimate their benefits of trade efficiency before and after free trade agreements (FTAs) with China and India. Results based on the time period between 2000 and 2015 showed that AIFTA had a positive effect on Vietnam's bilateral trade flows but had negative effects on Vietnam's exports but not imports after ASEAN-China entered into force. The Free Trade Agreement (ACFTA) and the FTA have reduced trade costs over time, and these effects on imports by Vietnam are much greater than exports made by Vietnam. Therefore, it was observed from the above literature that India's Look East Policy was well calculative and an appropriate step to develop deep and long lasting relations with South East Asia, where China already had It has a strong footprint.
- Bhattacharya and Mandal (2014) studied that AIFTA would show higher impact on intermediate goods (both unfavorable and favorable) than final goods. Other attractive findings include that the major part of the industries are not affected by the tariffs at all and the agreement was of no importance to them. In fact, some products were falling in this group of goods. However, higher fares are levied with the passage of time, so imports have given a mistaken indication for the elasticity of tariffs indicating that tariffs determine their imports and there is no question of adding these products or to the sensitive list.
- Veeramani and Saini (2010), recently performed a quantitative assessment of the impact of ASEAN-India FTA for selected plantation items (coffee, tea and pepper) in India. The author used a partial equilibrium modeling approach (SMART and Gravity Model) to simulate an increase in potential imports of plantation commodities under AIFTA's proposed tariff reduction program. Overall, the results of this study showed that AIFTA would significantly increase the import of plantation items into India. The increase in imports was mostly driven by trade diversion rather than trade creation. The author also estimated the gravity model for each commodity using bilateral trade data for a large number of countries. The result means that a 10% reduction in tariffs would increase imports, in terms of percentage point, by about 5.3% for coffee, 2.5% for tea and 2.9% for pepper. The simulation results based on the gravity model were consistent with the results obtained from the smart model. The study noted that the AIFTA has improved welfare for consumers of plantation goods, as they can buy cheaper goods from countries with lower production costs, such as Vietnam, but increasing new imports adversely affect the livelihoods of farmers engaged in production May have effect of these commodities.
- Prafulla Ketkar (2007) in his article "Northeast as India's Corridor to ASEAN: Problems and Prospects" he has analyzed problems of Northeast India's region in cooperation with ASEAN countries. The major problems like illegal migration, smuggling of arms and drugs and insurgency in Northeast India's region near to Myanmar and the role of China in India-Myanmar relations have been aptly probed.
- Suparna Karnker (2006) analyses the economic scenario in the Asia-pacific region. She takes a macro overview of the potential of an agreement on trade in services between India and the members of ASEAN in the context of the ongoing attempts at multilateral liberalization and the proliferation of bilateral regional comprehensive new age free trade agreements.
- Commodore Rajeev Sawhnty (2006) in his article "Dimensions of India's 'Look East' Policy discusses is India's maritime threats and the ASEAN countries' security related cooperation. It also briefly discusses India's 'Look East' policy and its implications.
- Bharti Chhibber, (2004) in Regional Security and Regional Cooperation: Comparative Study of SAARC and ASEAN have done splendid work on the issues in regional cooperation and their interrelationships both in theory and practice, through a comparative study of ASEAN and SAARC. Taking a comprehensive view of security, it analyses how ASEAN and SAARC have contributed to regional security in Southeast Asia and South Asia. Intra-regional relationships among the member countries have been examined within the broader parameters of the changing international scenario. Lloyd and Maclaren (2004) surveyed the theoretical and empirical aspects of regional integration and showed how member and nonmember countries gain and losses occur due to trade liberalization in goods by forging free trade area or a customs union.

- Mitra P. P. (2003), analyzed the direction of India's trade after the 1990s. The paper was divided into three sections, Volume 1 described the pattern of India's trade flows, Volume 2 predicted the opposite trend ratio and Volume 3 brought out the general conclusion of the paper.

**Objectives of study**

The following goals form the basis of this study:

- To discuss the RCA.
- To use RCA analysis to determine the possibilities for commodity trade between ASEAN and India

**Research methodology**

Research methodology is a way, to systematically solve the research problems. The present study is descriptive and analytical in nature. For this study, secondary data have been collected from various ASEAN-documents including Reports, Charters/Declarations, Joint Press Releases, Foreign Affairs Records, Annual WTO Reports, Statements by Indian Foreign Leaders and relevant websites etc.

**Tools & techniques**

Revealed Comparative Advantage (RCA) Index is used for analyzing the data in this study. It can be defined as the ratio of two shares where the numerator is the share of a

country's total exports of the commodity of interest in its total exports. The denominator is share of world exports of the same commodity in total world exports. Revealed Comparative Advantage is based on the Ricardian comparative advantage concept and used in International economy for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. It is developed by Balassa (1965) and expressed as follows:

$$RCA_{ij} = X_{ij} / X_{wj} \cdot X_i / X_w$$

It can be modified as follows:

$$RCA_{ij} = X_{ij} / X_i \cdot X_w / X_{wj}$$

Where

RCA<sub>ij</sub>= Revealed Comparative Advantage of i Country in j Commodity, X<sub>ij</sub>= i Country's export of Commodity j, X<sub>i</sub>= Total exports of Country i, X<sub>wj</sub>= World Exports of Commodity j, X<sub>w</sub>= Total World Exports

**Data Analysis**

In order to calculate the RCA index, some important commodities have been taken which are as under;

**Table 1:** Comparative advantage of Capital Goods of India and ASEAN (In Percentage)

Country	India	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	Cambodia
2008	0.15	0.04	1.00	1.80	1.77	0.81	0.12	0.01
2010	0.26	0.51	1.80	2.31	1.62	1.26	0.24	0.03
2012	0.31	0.45	1.80	2.35	1.78	1.27	0.29	0.12
2014	0.32	0.47	1.10	2.27	1.43	1.42	0.38	0.07
2016	0.35	0.42	1.55	2.45	1.59	1.38	0.47	0.07
2018	0.34	0.42	1.64	2.17	0.41	0.40	0.02	1.45
2020	0.36	0.40	1.51	2.14	1.41	1.35	0.63	0.16
2022	0.40	0.41	1.55	2.11	1.30	1.43	0.89	0.06

For Capital Goods: Singapore, Malaysia, Philippines and Thailand have been exporting more Capital goods and

showing high RCA while India, Cambodia, Indonesia and Vietnam have low RCA countries in the product group.

**Table 2:** Comparative advantage of Consumer Goods of India and ASEAN (In Percentage)

Country	India	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	Cambodia
2008	1.17	1.35	0.86	0.01	0.98	1.31	0.21	0.01
2010	1.23	1.13	0.65	0.46	0.88	0.95	1.71	3.01
2012	1.29	1.13	0.68	0.46	0.96	0.95	1.69	3.12
2014	1.29	1.07	0.81	0.43	0.99	0.94	1.69	3.10
2016	1.25	1.07	0.96	0.48	1.21	1.02	1.66	3.12
2018	1.20	0.97	0.87	0.49	0.93	0.95	1.74	2.79
2020	1.32	1.04	0.99	0.51	1.15	0.94	1.55	2.99
2022	1.51	1.15	1.05	0.58	1.18	0.97	1.00	3.00

For consumer goods, most of ASEAN countries including India have comparative advantage with high RCA value of consumer goods. The RCA for Animal product during the period of 2008 to 2022 provide the long term trend for each product.

India is currently expanding its export share in its export basket and exporting a variety of chemical products. In the chemical industry, India received a high RCA, whereas every other ASEAN nation received a weak or low RCA. This demonstrates that India can increase chemical product commerce with ASEAN nations. Cambodia, Malaysia, and

Singapore have low RCAs for food items, while Thailand, India, the Philippines, and Indonesia have high RCAs. By exporting to Cambodia, Malaysia, and Singapore, Thailand, the Philippines, Indonesia, and India can enhance their commerce.

**Findings**

The main findings of the study are as follows:

- From 2008 to 2022, India's imports and exports of goods both showed an upward trend. Between 2008 and 2022, India's imports from ASEAN grew from \$7.40

- billion to \$59.00 billion.
2. During the study period, India's exports to ASEAN increased. It demonstrates how well India's exports to ASEAN nations have grown.
  3. India is dealing with an unfavourable trade balance with ASEAN nations as a result of the growth rate of imports exceeding that of exports.
  4. According to the report, India's overall trade increased somewhat between 2008 and 2022, from \$13.25 billion to \$97 billion.
  5. Metals, consumer goods, minerals, stone and glass, animal products, textiles and clothing, chemicals, and food items are among the commodities with the highest revealed comparative advantage.
  6. Fuels, capital goods, transportation equipment, rubber and plastic, machinery and electronics, and wood products are among the commodities with the lowest revealed comparative advantage.

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### Conclusion

The data analysis indicates that there is a great deal of opportunity for trade between ASEAN and India. India should boost its exports of goods that ASEAN depends on from the world's developed nations. In a similar vein, ASEAN ought to boost exports of goods that India depends on wealthy nations for. It is inferred from the data analysis that trade between ASEAN and India has significant potential. India ought to boost its exports of goods that ASEAN depends on the world's rich nations for. In a similar vein, ASEAN ought to boost exports of goods that India depends on wealthy nations for. According to the overall research, there are numerous places where complementarities could be used to maximise economic benefits, even if India and ASEAN countries compete with one another in the sale of their exportable goods. While information technology and infrastructure development are already becoming important areas for collaboration, many other sectors, such as high tech trade, are being investigated gradually. In actuality, political and geostrategic interests have long influenced trade relations between India and ASEAN.

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