

ASEAN-INDIA FREE TRADE AGREEMENT AND INDIA'S BALANCE OF TRADE IN RUBBER AND RUBBER PRODUCTS: A PRELIMINARY ASSESSMENT

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This pioneering study was conceived to capture the early indicators of the outcomes of ASEAN-India Free Trade Agreement (AIFTA) in rubber and rubber products. The analysis was focused on balance of trade in raw materials, intermediate and finished product segments. In the pre-AIFTA phase, India had a positive trade balance with world, which was on account of its advantageous trade in finished products and intermediate products with countries other than members of ASEAN. In the post-AIFTA phase, though India's favourable balance of trade in finished products registered marked improvements with ASEAN (89.5%) and world (66.5%) the increasing imports of raw materials; especially NR, has nullified India's historically inherited advantages in the external trade in finished products. A detailed analysis of the three selected products *viz.*, (i) Technically specified natural rubber (TSNR), (ii) Thread of vulcanised rubber, not covered elsewhere and (iii) Radial tyres used in motor cars (including station wagons and racing cars) indicated negative balance of trade throughout the ten year period, except for radial tyres used in motor cars during the year 2005-06. The study highlighted the need for identifying the structural infirmities in various segments and to implement interlinked policy measures for raw material, intermediate and finished products segments.

Keywords: ASEAN-India FTA, Balance of trade, External trade, Regional trade agreements, Rubber and rubber products

INTRODUCTION

Perhaps, no other regional trade agreement (RTA) signed by India has evoked sharp responses from the stakeholders as that of the ASEAN-India Free Trade Agreement (AIFTA) at the time of implementation. From India's angle, the implementation of AIFTA had been unique for the products coverage and the number of countries involved compared to its engagement with other

RTAs. Although studies on the tariff policy and tariffs under the AIFTA were reported (Harilal, 2010; George and Joseph, 2014; Pal and Dasgupta, 2008, 2009; Ravenhill, 2010; WTO, 2011) no sector-specific analysis was made on the impacts since its implementation on 1st January, 2010. This paper is an attempt to capture the early indications on India's balance of trade with ASEAN in the case of rubber and rubber products covered under Chapter 40 of the Harmonized System (HS).

An earlier study reported the tariff policy commitments on rubber and rubber products under AIFTA and policy implications of the same (George and Joseph, 2014). Therefore, it would be immensely useful to assess the early trends in India's balance of trade with ASEAN with regard to rubber and rubber products from a policy perspective for two important reasons. (i) India's external trade in rubber and rubber products have been confronted with negative balance of trade since 2007-08 and ASEAN's contribution in the same has been pivotal and (ii) declining fortunes of the hitherto unperturbed status of finished rubber products.

The gravity of the issue is evident from the fact that India's import intensity of external trade in rubber and rubber products with ASEAN had been higher (79.9%) than its total external trade (56.1%) in rubber and rubber products in 2013-14 (GoI, 2014). More precisely, India's burgeoning negative balance of trade in rubber and rubber products at the regional (ASEAN) and aggregate (world) levels is a matter of serious policy concern, given the strategic commercial importance of the rubber sector. Accordingly, the three objectives of the paper are (i) to examine India's balance of trade in rubber and rubber products at the regional and aggregate levels, (ii) analyse the trends in the import of the selected products and (iii) highlight the policy implications.

MATERIALS AND METHODS

The analysis was confined to three selected products representing raw material, intermediate and finished product segments of the rubber sector based on its shares in the total value of imports from ASEAN. The selected products included (i) HS 40012200: Technically specified natural rubber (TSNR), (ii) HS 40070010: Thread of vulcanised

rubber, not covered elsewhere, and (iii) HS 40111010: Radial tyres used in motor cars (including station wagons and racing cars). Data available with the export- import data bank of the Ministry of Commerce and Industry, Government of India and the country wise tariffs schedules of the AIFTA were used for the analysis. Since the agreement was signed on 13th August 2009 and the tariff reductions started on 1st January 2010, the period of analysis (*i.e.*, 2004-05 to 2013-14) is divided into two phases *i.e.* the pre-AIFTA Phase (2004-05 to 2008-09) and post-AIFTA Phase (2009-10 to 2013-14).

RESULTS AND DISCUSSION

The trends in India's balance of trade in rubber and rubber products with ASEAN and World during the 10 year period are summarised in Table 1. At the aggregate level, India's balance of trade with both ASEAN and world had been negative except during the initial three years in the case of world. During the pre-AIFTA phase, India had a positive balance of trade with world whereas it was negative with ASEAN. The positive balance of trade with world is mainly due to a higher balance of trade gained in the external trade in finished products. Conversely, a positive balance of trade in finished products with ASEAN could not nullify the higher negative balance registered in the raw materials. In sum, India's positive balance of trade with world in the pre-AIFTA phase was on account of its advantageous trade in finished products and intermediate products with rest of the world.

In the post-AIFTA phase, there had been an unprecedented surge in the negative balance of trade with world and ASEAN. The observed trend at the aggregate level (world) had been triggered by more than

Table 1. Sector-wise balance of trade (US \$ million)

Year	Raw materials		Intermediate products		Finished products		Total	
	ASEAN	World	ASEAN	World	ASEAN	World	ASEAN	World
2004-05	-109.3	-343.6	-3.4	18.1	34.9	407.5	-77.8	81.9
2005-06	-69.1	-278.3	-2.9	25.9	37.0	546.2	-35.0	293.8
2006-07	-150.8	-484.2	-4.7	34.3	37.1	522.9	-118.4	73.0
2007-08	-167.5	-618.5	-5.6	45.2	43.0	480.2	-130.0	-93.1
2008-09	-163.0	-714.6	-2.1	43.1	32.2	583.4	-132.9	-88.0
Average	-131.9	-487.8	-3.7	33.3	36.8	508.0	-98.8	53.5
2009-10	-304.0	-905.0	1.0	37.7	48.8	391.9	-254.2	-475.5
2010-11	-576.8	-1556.5	-3.4	39.8	44.9	486.2	-535.3	-1030.6
2011-12	-849.9	-2288.7	-0.6	40.2	92.7	1032.2	-757.9	-1216.4
2012-13	-765.2	-2000.0	-3.2	14.2	104.7	1124.8	-663.8	-861.0
2013-14	-901.9	-1947.1	-3.0	3.0	57.9	1193.1	-847.1	-751.0
Average	-679.6	-1739.5	-1.9	26.9	69.8	845.6	-611.6	-866.9
Total	-405.7	-1113.7	-2.8	30.1	53.3	676.8	-355.2	-406.7

Source: Export import data bank, Department of Commerce, Government of India.

threefold increase in the negative balance of trade in raw materials. Similarly, at the regional (ASEAN) level, the magnitude of the increase was mainly contributed by more than fivefold increase in the negative balance of trade in raw materials. During the post-AIFTA phase, the relative shares of natural rubber (NR) in the negative balance of trade in raw materials were 94.3 per cent and 36.6 per cent, respectively for ASEAN and world. In the intermediate products segment while there was a decline in the positive balance of trade with world, the negative balance of trade with ASEAN persisted with a marginal improvement. India's favourable balance of trade in finished products registered marked improvements with ASEAN (89.5%) and world (66.5%) during the post-AIFTA phase. However, the burgeoning imports of raw materials especially NR, has nullified India's historically inherited advantages in the external trade in finished products.

The selection of products representing raw materials, intermediate products and

finished products was made at two levels. First, the product group with largest import share from ASEAN at the four digit level was identified. Accordingly, HS 4001: all forms of natural rubber (91.5%) from the raw material segment, HS 4007: compounded rubber vulcanised in primary forms /in plates sheets/strip (43.0%) from the intermediate products segment and HS 4011: new pneumatic tyres, of rubber (38.0%) under the finished product category have shown highest import shares from ASEAN during the ten year period. At the disaggregate level (eight digit), HS 40012200: TSNR, HS 40070010: thread of vulcanised rubber, not covered elsewhere and HS 40111010: radial tyres used in motor cars were selected based on higher shares in the respective product groups. Relative shares of the selected products were 49.3 per cent, 80.0 per cent and 39.6 per cent respectively. Among the three products, HS 40070010: thread of vulcanised rubber, not covered elsewhere and HS 40111010: radial tyres used in motor cars are categorised

Table 2. India's balance of trade in the selected products with ASEAN (US \$ million)

Year	TSNR (HS 40012200)	Thread of vulcanised rubber, not covered elsewhere (HS 40070010)	Radial tyres used on motor cars (HS 40111010)
2004-05	-8.9	-1.5	-1.0
2005-06	-7.4	-1.1	0.1
2006-07	-40.1	-1.6	-1.4
2007-08	-88.3	-2.4	-0.5
2008-09	-113.6	-3.6	-6.1
Average	-51.7	-2.0	-1.8
2009-10	-132.0	-3.8	-6.3
2010-11	-264.5	-4.4	-13.6
2011-12	-364.1	-3.5	-27.2
2012-13	-413.4	-5.4	-38.0
2013-14	-508.8	-5.1	-22.4
Average	-336.6	-4.5	-21.5

Source: Export import data bank, Department of Commerce, Government of India.

under sensitive track with tariff reduction commitments whereas HS 40012200: TSNR is in the exclusion list which is excluded from any tariff reduction (India will reduce its base rate of duty of 10 per cent (MFN duty during 2007) for HS 40111010: Radial tyres used in motor cars and HS 40070010: Thread of vulcanised rubber, not covered elsewhere to 5 per cent by 01.01.16 for the member countries of ASEAN except Philippines. For Philippines, the duty will be reduced to 5 per cent on 01.01.19). However, all the three selected products exhibited negative balance of trade during the period of analysis except radial tyres used on motor cars during 2005-06. Table 2 shows India's balance of trade with ASEAN in the selected products.

The two important trends evident had been the negative balance of trade in the three products throughout the ten year period (except for HS 40111010: radial tyres used in motor cars during the year 2005-06)

Table 3. Country wise composition of India's imports from ASEAN (%)

Country	HS 40012200: TSNR		HS 40070010: Thread of vulcanised rubber, not covered elsewhere		HS 40111010: Radial tyres used on motor cars	
	Pre-AIFTA phase	Post-AIFTA phase	Pre-AIFTA phase	Post-AIFTA phase	Pre-AIFTA phase	Post-AIFTA phase
Malaysia	5.7	4.6	65.8	69.6	8.0	0.8
Philippines	0.0	0.0	0.0	0.0	2.9	0.4
Thailand	36.6	17.1	32.7	30.3	72.7	89.9
Indonesia	51.5	57.9	0.0	0.0	12.9	8.1
Singapore	0.3	0.1	1.5	0.0	3.6	0.5
Brunei	0.0	0.0	0.0	0.0	0.0	0.0
Cambodia	0.0	0.4	0.0	0.0	0.0	0.0
Laos	0.0	0.0	0.0	0.0	0.0	0.0
Myanmar	0.0	0.0	0.0	0.0	0.0	0.0
Vietnam	5.8	20.0	0.0	0.0	0.0	0.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Export import data bank, Department of Commerce, Government of India.

and the growth in negative balance of trade in the post-AIFTA phase. The magnitude of the negative balance of trade varied from US \$ 4.45 (thread of vulcanised rubber, not covered elsewhere) to US \$ 336.55 million (TSNR). Despite its inclusion in the exclusion list, the highest negative balance of trade observed in the case of TSNR underlined the raw material intensity of India's imports under the AIFTA. Another important feature has been the concentration in the sources of imports and the resultant negative balance of trade in the case of the three products. Table 3 shows the country-wise composition of imports of the selected products during the two phases.

In the case of TSNR, Indonesia retained its status as the major source of imports during both phases and it improved its share (57.9%) during post-AIFTA phase. The other two important sources of imports were Vietnam and Thailand and there had been considerable increase in the share of the former after the implementation of the AIFTA. Similarly, the sources of imports of the selected intermediate product (thread of vulcanised rubber, not covered elsewhere) had been confined to Malaysia and Thailand. The highest concentration in the sources of imports was observed in the case of the selected finished product (radial tyres used in motor cars including station wagons and racing cars) as Thailand improved its share from 72.7 to 89.9 per cent during the post-AIFTA phase. Apparently, the observations are indicative of a trend towards higher concentration in the sources of imports along with the upward movement in the value chain. Another important trend had been the emergence of Vietnam as a major source of import of TSNR compared to the status of intermediate and finished products during the post-AIFTA phase. Given the regional trends in intra-industry and inter-industry trade under the growing influence

of RTAs, the extent of concentration in the sources of imports of intermediate and finished products depends on India's pattern of trade engagements with ASEAN member countries. However, in the backdrop of India's growing import intensity of NR consumption and the emergence of new low cost producers such as Cambodia, Laos and Myanmar along with Vietnam, further dilution in the sources of imports are expected.

CONCLUSION

The study revealed significant growth in India's negative balance of trade in rubber and rubber products during the post-AIFTA phase. The increases in the positive trade balance in value-added rubber products could not nullify the unprecedented surge in imports of raw materials. The import intensity of raw materials in the external trade with ASEAN has been the major contributory factor for the steadily deteriorating balance of trade. The potential policy implications of the observed trends underline the need for initiatives to minimise the dependence on imports of raw materials. The analysis of balance of trade in the case of selected products illustrated worsening balance of trade in all the cases. Among the three products, the highest growth in the negative balance of trade in radial car tyres with highest concentration in the sources of imports requires closer scrutiny. In sum, the early indications on the impacts of AIFTA on rubber and rubber products highlight the need for identifying the structural infirmities in various segments in the context of the growing market integration process and to implement interlinked policy measures for raw material, intermediate and finished products segments to ensure the historically inherited resilience of the Indian rubber sector.

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