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## AN ANALYSIS OF INDIA'S TRADE RELATIONS WITH THAILAND

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## ABSTRACT

The cultural and civilisation connection between India and Thailand in the past and the common interest that both the countries share today means that there is significant potential for the development of a strong partnership for tomorrow. Thailand is an important trade partner for India with bilateral trade volume US \$ 86.6 million in 2014, with approximately US \$ 56.2 million imports from Thailand and US \$ 30.4 million exports to Thailand. This study is an attempt to analyse the India-Thailand trade pattern. The study is based on secondary data taken from UNCTAD Trade Statistics and UN Comtrade Database for the period 1991 to 2014. The data has analysed with some statistical tools i.e. Compound Annual Growth Rate (CAGR), Year to Year Growth, Index Growth, Trade Intensity Index and Revealed Comparative Advantage Index. It is examined that during the study period India-Thailand trade has increased, especially after the Free Trade Agreement (FTA) came into effect from 1 January, 2010.

## KEYWORDS

free trade agreement, revealed comparative advantage, trade intensity, compound annual growth rate and UN COMTRADE.

## INTRODUCTION

India and Thailand are among the fastest growing economies. Both the countries are geographically proximate neighbours. Both countries shared historical and cultural relations now are active in building strong economic relationship. India and Thailand celebrated 67 years of diplomatic relations in 2014. The visits by Thai Prime Minister Chatchai Choonhavan in March 1989 to India and in April 1993 Indian Prime Minister Narshima Rao to Thailand were important milestone in bilateral relations. To expand trade and investment in the growing economies of Southeast Asia and Thailand, Indian Prime Minister Narshima Rao initiated 'Look East policy'. Indian's economic liberalisation and 1991 reforms promoted India to look for trading partners in Southeast Asia. India's 'Look East policy' (since 1993) and Thailand's 'Look West policy' (since 1996) have been complementary in consolidating bilateral relations including economic and commercial linkages (Ministry of Commerce, Govt. of India).

An analysis of foreign collaborations and Foreign Direct Investment (FDI) approved by government of India after the announcement of new industrial policy since August 1991 shows that amount of investment from Thailand has risen substantially. Aquaculture, auto part, coal mining, electronic parts and banking are the main areas of Thai investment in India. On the other hand, India invested in manufacturing and services in Thailand. India and Thailand are developing countries with some similarities and dissimilarities in their economies. It is noticed that trade and investment linkages between the two countries, a Joint Working Group (JWG) was set up on behalf of Prime Ministers of both the countries to study the feasibility of establishing a Thai-India Free Trade Area. The ministry of commerce of both the countries signed as the framework agreement on October 9, 2003, the aim of which was to establish a Thailand-India Free Trade in goods, services, investment and economic cooperation. An Early Harvest Scheme (EHS), covering 82 products under the proposed India-Thailand FTA, in place since September 2004, has already resulted in phenomenal growth in India-Thailand trade (Santhosh & Bindu, 2012).

Currently, Thai goods have benefited from tax reduction under ASEAN-India Free Trade Agreement in goods, which came into effect from 1 January, 2010 and resulted to the flow of more goods into Indian markets. Bilateral trade between India and Thailand in 2014 was US \$ 8.66 billion, with approximately US \$ 5062 billion imports from Thailand to India and US \$ 3.04 billion exports to Thailand, both the countries are expected to gain considering in the long term due to inclusion of services into the FTA and investment commitments from Thailand.

## LITERATURE REVIEW

Thailand is among the major markets for Indian exports and import destinations within ASEAN countries. Accordingly, studies in the literature have focused on this aspect. A study Chishty (2013) examined the trade relation between India and Thailand after signing the Free Trade Agreement (FTA). The average growth rate of trade between India and Thailand shows an increasing trade after FTA. India has ample opportunities to increase its exports to Thailand because of the capacity to export the commodities of Thailand's imports demand. Choudhary (2013) analysed that since 1980, Thailand is one of the major markets and major import destinations among ASEAN countries. It is concluded that there are greater possibilities to explore the future growth of India-Thailand trade. Santhosh and Susheel (2012) compared the India-Thailand trade volumes during the Framework Agreement period (2003-2011) with the period prior to the agreement. They revealed that in Framework Agreement period the growth in India's exports is less than the growth in India's imports from Thailand. Chandran (2010) analysed the trade complementarities and similarities between India and ASEAN countries in the context of the Regional Trade Agreement. India's import intensity was small with Thailand for many years but improved strongly after signing the bilateral trade agreement. Mohan and Nandwa (2009) examined the interest rate linkages among India and ASEAN-5 countries, Thailand is one of them. They revealed the higher causality between interest rates of India and Thailand with the help of Granger causality test. Sudswad and Mongswad (2007) investigated the trade potential gains and economic impacts of Free Trade Agreement between India and ASEAN-5 (Thailand, Indonesia, Malaysia, Philippines and Singapore). Thailand has welfare gains from this FTA in terms of higher GDP growth.

## OBJECTIVES OF THE STUDY

The present study is an attempt to examine India's trade prospects with Thailand. The specific objectives of the study are:

1. To examine the pattern of existing bilateral trade between India and Thailand.
2. To assess the complementarities and similarities of trade between India and Thailand.

## RESEARCH METHODOLOGY

The study is based on secondary data. The data have been taken from Ministry of Commerce, Govt. of India, UNCTAD International Trade Statistics Yearbook, UN COMTRADE Statistics and World Development Indicators, World Bank. The study is made for the period 1991 to 2014 for which latest data at hand and also at the respective sources.

The various aspects of India-Thailand trade have been examined by using year to year growth, CAGR, Trade Intensity Index and Revealed Comparative Advantage Index. Index growth in exports to Thailand and imports from Thailand is also computed to interpret the data. A brief introduction of these methods is in order:

1.1 The annual compound growth rate is computed by employing following formula:

$$Y = ab^t$$

By using logarithm, it may be written as:

$$\log y = \log a + t \log b$$

$$Y^* = a^* \cdot t \cdot b^*$$



where  $\log y = Y^*$ ,  $\log a = a^*$  and  $\log b = b^*$

The value of  $b^*$  is computed by using OLS-method. Further the value of CAGR can be calculated by using following method:

$$\text{CAGR} = (\text{Antilog } b^* - 1) * 100$$

1.2 The index growth is computed by following formula:

$$\text{Index Growth} = \text{Current Year's Value} / \text{Base Year's Value} * 100$$

1.3 The Export Intensity Index (EII) and Import Intensity Index (III) are defined as follows:

$$\text{EII} = X_{ij} / X_i / M_j / (M_w - M_i)$$

$$\text{III} = M_{ij} / M_i / X_j / (X_w - X_i)$$

Where

$X_{ij}$  = Exports of country i to trading partner j.

$X_i$  = Total exports of country i.

$M_j$  = Total imports of country j.

$M_w$  = Total world imports.

$M_i$  = Total imports of country i.

$M_{ij}$  = Imports of country i from trading partner j.

$X_j$  = Total exports of country j.

$X_w$  = Total world exports.

i, j = India and Thailand

1.4 The Index for Revealed Comparative Advantage (RCA) is defined as:

$$\text{RCA}_{ij} = X_{ij} / X_i / X_{wj} / X_w$$

Where

$X_{ij}$  = i<sup>th</sup> country's exports of commodity j.

$X_i$  = Total exports of country i.

$X_{wj}$  = World exports of commodity j.

$X_w$  = Total world exports.

The value of index is greater than unity indicates strong comparative advantage while a lower value would mean that the specified commodity is not particularly competitive in the world market.

## RESULTS AND DISCUSSION

India has trade relations with Thailand since independence. Thailand is an important trading partner of India. Two-way trade in 2014 was US \$ 8.66 billion with about US \$ 5.62 billion imports from Thailand to India and US \$ 3.04 billion exports to Thailand. The irreversible nature of economic liberalisation has enabled both nations to integrate with the world economy while analysing the existing pattern of their trade and sectoral complementarities for further economic integration, the comparative advantage is examined.

## MERCHANDISE TRADE RELATION

The data for merchandise trade for the period 1991 to 2014 are summarised in Table 1 and Table 2.

TABLE NO. 1: TRENDS IN INDIA'S MERCHANDISE EXPORTS TO THAILAND (In Million US \$)

Year	Exports to Thailand	Total Exports of India	% Share in Total Exports	Year to Year Growth Rate	Index Growth
1991	198.98	17727	1.12	89.08	100
1992	283.37	19628	1.044	69.26	142.40
1993	357.22	21572	1.65	60.38	179.52
1994	406.57	25022	1.62	61.54	204.32
1995	471.47	30630	1.53	64.96	236.93
1996	447.04	33015	1.35	74.05	224.66
1997	342.97	35008	0.97	102.07	172.35
1998	320.87	33437	0.95	104.20	161.25
1999	452.08	35667	1.26	78.89	227.18
2000	525.28	42379	1.23	80.68	263.95
2001	598.29	43361	1.37	72.47	300.66
2002	741.18	49250	1.24	66.44	372.47
2003	731.77	58963	1.11	80.57	367.74
2004	856.82	76649	1.06	89.45	430.59
2005	1059.27	99616	1.10	94.04	532.32
2006	1350.99	121808	1.11	90.16	678.92
2007	1673.34	150159	1.02	89.73	840.92
2008	2005.28	194828	1.03	97.15	1007.74
2009	1710.81	164909	0.94	96.39	859.75
2010	2139.58	226351	0.91	105.79	1075.23
2011	2767.92	302905	1.16	109.43	1390.99
2012	3454.13	296808	1.34	85.92	1735.84
2013	4203.81	313235	1.08	74.51	2112.59
2014	3438.52	317380	1.05	92.30	1728.00
CAGR	13.19	12.17			

Source: UN COMTRADE Statistics

In Table-1 trends of India's merchandise exports to Thailand have been shown for the time period 1991 to 2014. The analysis revealed that India's merchandise exports to Thailand have been more than 17 times about US \$ 198.98 million in 1991 to US \$ 3438.52 million in 2014. India's exports to Thailand as percentage share of India's Total global exports have decreased between 1995-98, but have increasing trends afterwards, except 2008-09 due to global financial crisis. Altogether the period reports a compound annual growth rate of 13.19 percent in exports. The percentage growth in India's exports to Thailand shows a fluctuating scenario with no consistency in growth. The export volume reports a highest growth of 109.43 percent in 2011 and a lowest rate of 60.38 percent in 1993.

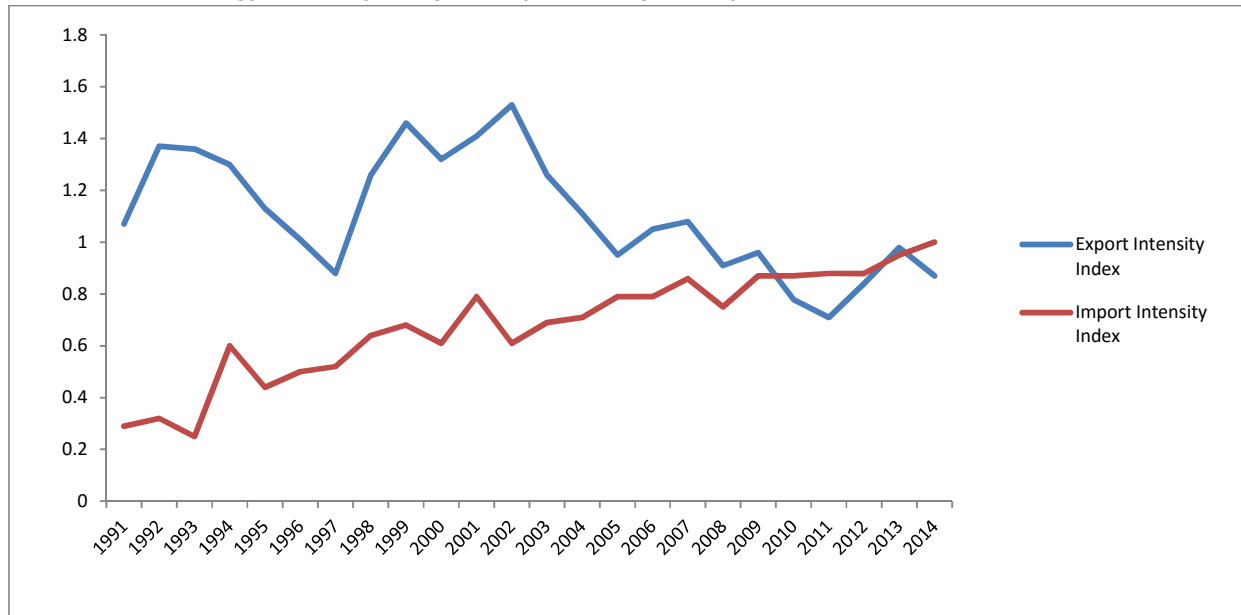
TABLE NO. 2: TRENDS IN INDIA'S MERCHANDISE IMPORTS FROM THAILAND (In Million US \$)

Year	Imports from Thailand	Total Imports of India	% Share in Total Imports	Year to Year Growth Rate	Index Growth
1991	48.73	20448	0.23	419.54	100
1992	65.15	23579	0.27	361.91	133.67
1993	57.19	22788	0.25	398.44	117.34
1994	171.60	26843	0.63	156.42	352.09
1995	169.30	34707	0.48	205.00	347.36
1996	197.08	37942	0.51	192.51	404.36
1997	226.24	41432	0.54	183.12	464.20
1998	273.33	42980	0.63	157.24	560.83
1999	329.54	46979	0.70	142.55	676.16
2000	339.21	51523	0.65	151.88	695.99
2001	424.58	50392	0.84	118.68	871.16
2002	365.08	56571	0.64	154.95	749.08
2003	539.08	72558	0.74	134.55	1106.41
2004	750.16	99775	0.75	133.00	1539.17
2005	1196.60	142870	0.83	119.39	2455.16
2006	1550.81	178410	0.86	115.04	3181.93
2007	2192.37	229370	0.95	104.62	4498.27
2008	2664.79	321032	0.83	120.47	5467.58
2009	2775.89	257202	1.07	92.65	5695.52
2010	3940.80	350233	1.12	88.87	8085.72
2011	5055.57	464462	1.08	91.87	10372.94
2012	5499.27	488591	0.11	88.84	11283.34
2013	5475.44	466042	1.17	85.11	11234.45
2014	5680.94	460412	1.23	81.04	11656.08
CAGR	22.98	13.86			

Source: UN COMTRADE Statistics

Table-2 shows the trends in India's merchandise imports from Thailand for the time period 1991 to 2014. It reveals that India's imports from Thailand was 48.73 million US \$ in 1991 (0.23 percent of its total imports) and increased up to 5680.94 million US \$ in 2014 (1.23 percent of its total imports). It is revealed from the table that the value of India's imports from Thailand till 2004. It shows that India always had significant trade surplus with Thailand, but after 2004 the situation was reversed. There is rapid increase in the volume of India's imports from Thailand with an index growth of 11656.08. The compound annual growth of imports from Thailand (22.98 percent) is considerably higher than that of CAGR of India's exports (13.19 percent). Thus, Thailand is more important for India as import sources than as export market. The percentage growth in India's imports from Thailand shows the decreasing trends with the highest value (419.54 percent) in 1991 and lowest value (81.04 percent) in 2014.

FIGURE 1: TRENDS IN EXPORT INTENSITY AND IMPORT INTENSITY BETWEEN INDIA AND THAILAND



Source: UN COMTRADE Statistics

In the above figure, India's export intensity and import intensity with Thailand have shown. It is revealed that, the values of export intensity indices have increasing till 2008 except 1997 (due to Asian Crisis), but after that the values of export intensity indices declined due to global slowdown. However, India's import intensity with Thailand has been increasing continuously but less than values of export intensity indices. Therefore, it is concluded that Thailand's imports demand is high and India is capable to meet this demand.

**REVEALED COMPARATIVE ADVANTAGE**

This portion specifically examines the structure of comparative advantage enjoyed by India in the global market. For this purpose, RCA indices have been computed for India by using the data at 5-digit HS commodity classification. The data have been collected from UN Commodity Trade Statistics. For the comparative analysis, RCA indices have been calculated for the years 1991, 2001, 2011 and 2014.

TABLE NO. 3: TOP TEN COMMODITIES WITH HIGHEST VALUE OF RCA IN 1991

Rank	HS Code	Commodities	RCA
1	67641	Piezo-electric quartz	20.36
2	66731	Prec/semi-p stone shaped	2.15
3	51462	Amino-phenols/ derivative	1.47
4	66729	Diamonds, worked, unmountd	1.29
5	66739	Pre/semi-p stone worked	1.17
6	53115	Vat dyes/preparations	0.96
7	74434	Tower cranes	0.59
8	54213	Penicillin/strept retail	0.50
9	51699	Other organic compounds	0.48
10	65222	Woven cotton unbl >200 g/m2	0.45

Source: World Integrated Trade Solution, World Bank

Table-3 shows India's top ten commodities on the basis of RCA Index in 1991. India enjoyed maximum comparative advantage in piezo-electric quartz (i.e. 20.36) in this year India enjoyed RCA > 1 in five commodities.

TABLE NO. 4: TOP TEN COMMODITIES WITH HIGHEST VALUE OF RCA IN 2001

Rank	HS Code	Commodities	RCA
1	26142	Silk Waste uncarded	29.73
2	51699	Other organic compounds	2.20
3	67351	Hot roll steel nes w . 600	1.53
4	51138	Multi-halog derives ac hc	1.22
5	51462	Amino-phenols/ derivative	1.21
6	67829	Alloy steel wire nes	1.05
7	59841	Mixed alkybenzenes nes	0.89
8	54131	Penicillins and Derivs	0.79
9	53121	Synth brightening agents	0.39
10	67121	Pig iron, Phosph max 0.5 %	0.29

Source: World Integrated Trade Solution, World Bank

Table-4 shows that India enjoyed RCA > 1 in six commodities. India had maximum RCA in silk waste uncarded (i.e. 29.73) followed by other organic compounds (i.e. 2.20) with a very sharp decline.

TABLE NO. 5: TOP TEN COMMODITIES WITH HIGHEST VALUE OF RCA IN 2011

Rank	HS Code	Commodities	RCA
1	79328	Passenger ships/boats	5.18
2	22212	Groundnuts shelled	1.07
3	67152	Ferro-silico-manganese	0.59
4	54131	Penicillins and derivs	0.56
5	67121	Pig iron, Phosph max 0.5 %	0.52
6	71111	Steam boilers exc cent-h	0.50
7	66739	Prec/ semi-p stone worked	0.40
8	59841	Mixed alkybenzenes nes	0.37
9	66969	Iron/ steel articles nes	0.21
10	53117	Synth org pigments/ preps	0.16

Source: World Integrated Trade Solution, World Bank

In Table-5, it is revealed that India had RCA > 1 in two commodities only, namely passenger ships/boats and ground nuts shelled with the value 5018 and 1.07 respectively.

TABLE NO. 6: TOP TEN COMMODITIES WITH HIGHEST VALUE OF RCA IN 2014

Rank	HS Code	Commodities	RCA
1	65811	Jute etc sacks/bags	9.98
2	53116	Reactive dyes/ Preparatns	1.22
3	67152	Ferro-silico-manganese	0.92
4	67321	Coil-steel-2 w> 600t> 4.75	0.83
5	67121	Pig iron, Phosph max 0.5 %	0.79
6	67269	Iron, sample stl shapes nes	0.77
7	67729	Diamonds, worked, unmountd	0.54
8	22212	Groundnuts shelled	0.47
9	51113	Butyenes/ butadienes etc	0.47
10	71191	Pts nes of boilers 711.1	0.43

Source: World Integrated Trade Solution, World Bank

Table-6 shows that in 2014, there was also two commodity groups in which India had enjoyed RCA > 1 i.e. Jute etc sacks/bags and reactive dyes with the value 9.98 and 1.22 respectively.

On the basis of above tables, it can be concluded that India's revealed comparative advantage was highest for silk, electric quartz, jute and passenger boats/ships etc. To increase the complementarities with Thailand, there is more need to diversify the export basket towards technologically advanced products.

## CONCLUSION

An analysis of India-Thailand Trade indicates that India and Thailand have enjoyed a close and long historical relationship with geographical approximate neighbour. Trends in total merchandise trade show the continuous increment except in 2009. This decrease in 2009 in trade occurs because of the global slowdown in international market. In 1991, India's exports to Thailand were US \$ 198.98 million which was increased in 2014 by US \$ 3438.52 million and imports value was US \$ 48.73 million in 1991 which was increased up to US \$ 5680.94 million in 2014. India-Thailand trade volume is very low. However, after signing the Free Trade Agreement, trade relations between both the countries become deep and closer. It is examined that India's RCA was highest for piezo-electric quartz in 1991, for silk in 2001 and for jute & passenger boats/ships etc in 2014. Thailand's imports demand are high India is capable to meet export supply for a large number of products of Thailand's imports demand.

The above analysis reveals that after 2004, India's trade with Thailand has increased with decreasing growth rate in its exports and imports from Thailand. It is also clear that changing pattern of trade between both the countries might be a result of the Free Trade Agreement. It is concluded that Thailand is an important trade partner for India to liberalise its economy. India's North-East region is a resource rich region and there is lot of opportunities for Thailand to increase bilateral cooperation with India. Thailand is keen to increase its engagement with India. Both the countries should liberalise and eliminate trade barriers and facilitate the cross-border movements of goods and services between two countries, for a beneficial outcome.

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