

Indo-ASEAN Trade: Trend And Reasons For India's Experience Of Persistent Deficit In Her Trade Balance With ASEAN-4

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INTRODUCTION

This is widely acknowledged that India's links and connections with the countries of South East Asian nations is age old, ancient and civilizational. But India's relation with these countries has not been steady and stable. Beginning with the Portuguese, followed by the Dutch and then by the British and French, the maritime dominated by the Europeans and India's independent links with the region revived only after her attainment of independence and the decline of colonial power in both the region. India's first Prime Minister, Pandit Jawahar Lal Nehru played a major and decisive role in independence movement of some of the South-East Asian countries. Indonesia is one of them.

India's economic relation with the countries of ASEAN witnessed a significant development with co-operation in trade. But this trade relation received a jolt during the period of cold war. India's mini sculled trade with ASEAN countries and indifferent attitude towards each other were the order of days during the cold war era. The situation stared changing after the demise of the cold war. India, in particular, has understood the hard reality that it can no longer afford to ignore its close door neighbor, the ASEAN. India, therefore, in 1991 formulated the “ Look East” policy, which has been well thought out and properly calculated. Secondly, India's decision to move for comprehensive economic reforms in 1991 has been another factor that has contributed enormously towards improved trade relations with the countries of ASEAN. ASEAN countries, on the other hand, have responded positively and the ASEAN's invitation to India to become sectoral partners is the reflection of their positive gesture. India became a sectoral partner in 1992, then she became full dialogue partner in 1996. India was also made member of ASEAN Regional Forum in 1996. India was thus incorporated within the political, economic and security orbit of ASEAN.

(Note: ASEAN-4 means four countries of ASEAN such as Indonesia, Malaysia, Singapore and Thailand. India's trade relation with these four countries has been on the rise. To ensure furtherance and of trade with these countries, attempt has been made to study the nature and extent of trade relations with these four ASEAN countries).

SURVEY OF LITERATURE

Available literature with rich body of information has helped the researcher a lot in developing an insight into the problems that have been studied and explained here.

1)Prakash Shri, Dr.V Ray and Dr. S Ambatkar's (eds)(1996) observed that the spectacular economic performance in South-East Asian countries has been able to enthuse and motivate many developing countries including India to develop economic ties with ASEAN countries. The authors also opine that launching of economic reforms in 1991 and introduction of “ Look East Policy” is the reflection of India's sincerity of initiating closer economic ties with ASEAN.

2) Bhatia R. Chander (2000), observes that the economies of South-East Asian countries have virtually become power houses and have been able to grow very fast. The author opines that the economies of the region have gained muscle and maturity now. India should exhibit its sincerity and prove its bona fide. Since the introduction of “Look East Policy” in 1992, things have started changing for India.

3)Kumar N., R. Sen and M. Asher (eds) note that India is a full dialogue partner of ASEAN and the two are negotiating for a formal Comprehensive Economic Cooperation Agreement. The time, therefore, is opportune to examine ways in which the existing partnership between India and ASEAN can be taken forward for mutual benefit.

4) Sarma A. and P. K. Mehta(2002) note that the nineties of the last century witnessed a rapid expansion of India's

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trade and investment relations with ASEAN states, as also several engagements towards laying institutional foundation for strengthening the economic ties. The authors also note the severe blow the east Asian countries have to experience due to financial crisis. The crisis has had its impact on ASEAN trade in general and Indo-ASEAN trade in particular.

5) Behl R. and L. D. Mago (1996) hope that there is a distinct possibility of substantial expansion of trade and investment between India and ASEAN countries, provided that there are focused policies, programmes and fine tuned initiatives covering trade liberalization, facilitation and promotion.

6) Devare Sudhir (2006) opined that regional cooperation in trade and economic relation can create a sense of interdependence and security which does not remain confined to state players, but percolates and permeates to the people to people level. The author concludes that both India and South-East Asian countries are seized of this reality and are tailoring their trade and economic policies accordingly.

7) Bhavani P. Dhungana (2006) opines that economic platforms need to be created at the sub-regional, regional and global levels where economies, regardless of their size, level of development and political ideologies, could play an effective role and remain integrated in the whole process of globalization and global production networks.

8) ADB's working paper(2007) underlines the fact that global and regional arrangements suggest an increased interest in regional trade and investment cooperation and could weave Asia's economies together into a closely integrated regional market that is a more attractive platform for MNCs' global production networks.

Survey of available literature clearly suggests that there is an urgency to undertake serious study in the area. Some kind of consensus is there among the authors on some issues. These are 1) ASEAN region's performance in the form of increased growth rate would have an impact on the world and regional economy in the coming days. 2) India's hesitant approach in the matter of developing closer economic relation with the countries of ASEAN before the demise of cold war and the country's march towards globalization before 1991. But the author has been unable to put emphasis on the fact that : 1) India needs to move very fast in the matter of developing closer economic ties with ASEAN-4. 2) The reasons for India's experience of unfavourable balance of trade with ASEAN-4.

It is for the aforementioned reasons that an attempt has been made to undertake such a study.

OBJECTIVES OF THE STUDY

Here, an attempt is made to throw light on several aspects of Indo-ASEAN Trade Relations. The objectives of the study are as follows:

- 1) To examine the trend of India's exports to ASEAN countries during the period from 1991-92 to 2007-08.
- 2) To examine the trend of India's imports from ASEAN countries during the above mentioned period.
- 3) To identify and analyze the major causes or reasons for unfavorable balance of trade that India has been experiencing with ASEAN- 4.
- 4) To suggest measures for removing the causes for India's experience of deficit in her trade balance with ASEAN -4.

METHODOLOGY AND DATA

The study has based itself mainly on secondary data.

- 1) As per the demand of the specific objective of the study, detailed information has been collected on such aspects as the volume and trend of Indo-ASEAN trade(covering imports, exports, and balance of trade).
- 2) For collecting the aforesaid information,the author has relied primarily on the information and statistics brought out by the concerned department of the Govt of India, also the reports and bulletins brought out by World Bank, UNCTAD among others.
- 3) A good deal of information are also available in books, journals, periodicals and current as well as back issues of financial newspapers. These have been consulted.
- 4) The collected data has been processed and analyzed by means of such statistical technique as time series trend analysis.

VOLUME, ACCOUNT OF INDIA'S TRADE BALANCE WITH ASEAN-4 AND TREND ANALYSIS

Enhanced trade relation with the countries of ASEAN in general and ASEAN-4 such as Indonesia, Malaysia, Singapore and Thailand in particular bears testimony to this new found improved trade and economic relation between India and ASEAN-4. Thus, India's trade with ASEAN -4 increased from ₹ 557.5 million in 1970-71 to ₹ 1387356 million in 2007-08(RBI-2008, Ramesh Bhell and L.D.Mago-1996). The following table shows India's exports to and imports from ASEAN-4 during the last sixteen years, i.e from 1991-1992 to 2007-08 and also India's trade balance with ASEAN-4 during the period.

Table 1: India- ASEAN Balance of Trade(₹ Million)

Year	India's Total Export to ASEAN -4	Percentage Growth in Exports	India's Total Import from ASEAN -4	Percentage Growth in Imports	Balance of Trade
1991-92	23088		29692		-6604
1992-93	33901		33488		413
1993-94	49919		33049		16870
1994-95	54669	9.52	59109	78.85	-4440
1995-96	81287	48.69	87821	48.57	-6534
1996-97	90136	10.89	105317	19.92	-15181
1997-98	76223	-15.44	124194	17.92	-47971
1998-99	56606	-25.74	172269	38.71	-115663
1999-00	82113	45.06	209947	21.87	-95458
2000-01	110333	34.37	177661	-15.38	- 67328
2001-02	138919	25.91	185882	4.63	-46963
2002-03	179460	29.18	225527	21.33	-46067
2003-04	228677	27.43	315367	39.84	-86690
2004-05	328838	43.80	378953	20.16	-50115
2005-06	400351	21.75	442251	16.70	-41900
2006-07	490761	22.58	755625	70.86	-264864
2007-08	533156	8.64	855200	13.18	-322044

Source: RBI (2008) and Behl Ramesh and L.D. Mago(1996)

The above Table 1 shows that India's trade with ASEAN countries has increased manifold. Growth in both India's exports to and imports from ASEAN-4 has been outstanding. But the growth in India's imports from ASEAN-4 has been more than India's exports to ASEAN-4. Incase of India's exports, growth rates have been negative in two successive years. The growth rates were -15.44 and 25.74 percent in 1997-98 and 1998-99 respectively. Negative growth rates in India's exports might be due to Asian financial crisis, which has been pointed out above while listing the possible causes of India's experience of deficit in balance of trade with ASEAN-4. Growth rate of 48.69 percent in India's exports to ASEAN-4 in 1995-96 was the highest. Growth rate of 8.64 in exports in 2007-08 has been the modest of all these years presented in the table. In case of imports, there were negative growth rates of -1.31 and -15.38 percent also in 1993-94 and 2000-01 respectively. Growth rate of 78.85 percent in 1994-95 has been the highest and 4.63 percent import growth in 2001-02 has been modest. Thus, there have been ups and downs, both in export to and imports from ASEAN-4. In other words, growth in exports and imports has not been steady. The trend is erratic.

TREND EQUATION (FIGURE 1)

$$Y = 21829e^{0.1966x}$$

x represents time

y represents exports to ASEAN-4 in ₹ million

$R^2 = 0.9322$ gives an indication of good fit as 93 percent of variation in y is explained by time using this equation.

The fitted trend

$$Y = 21829e^{0.1966x}$$

Where $b = 0.1966$ indicates that the rate of growth of exports to ASEAN-4 in ₹ million is by a factor of 0.1966 in a year.

Figure 1

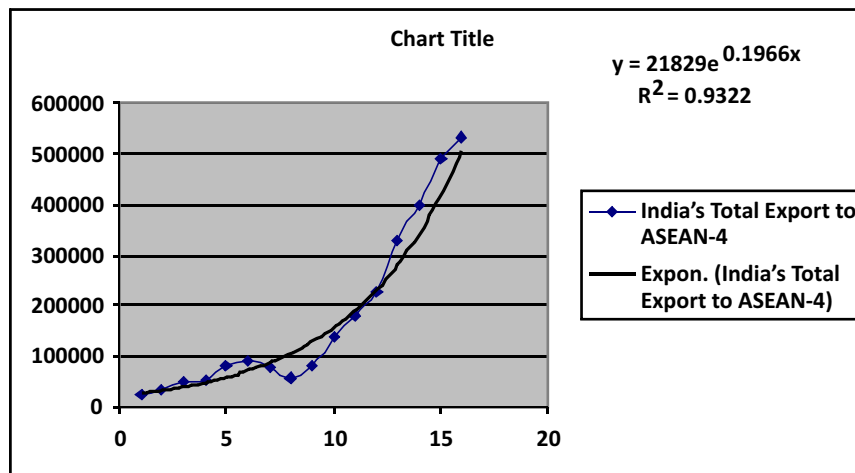
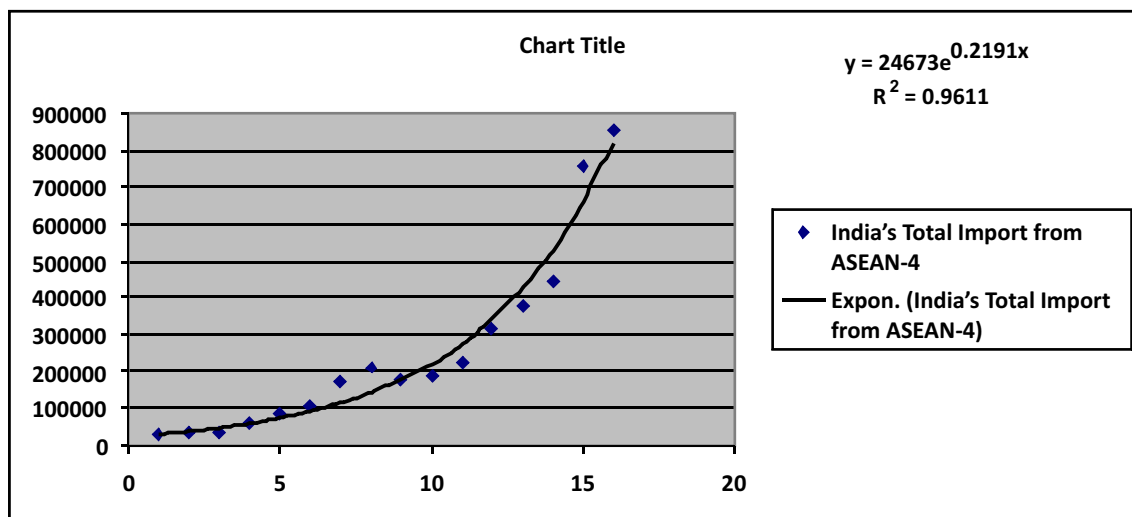


Figure 2



TREND EQUATION (FIGURE 2)

$$Y = 24673e^{0.2191x}$$

X represents time

Y represents imports from ASEAN-4 in ₹ million.

$R^2 = 0.9611$ gives an indication of good fit as 96 percent of variation in y is explained by time using this equation.

The fitted trend

$$Y = 24673e^{0.2191x}$$

Where $b = 0.2191$ indicates that the rate of growth of imports from ASEAN-4 in ₹ million is by a factor of 0.2191 in a year.

Another issue that needs to be discussed putting due emphasis is the fact that India has been experiencing deficit in its trade balance with ASEAN-4 persistently during the period and this has been well reflected in the Table 1. In the Table 1, it is noticed that other than in 1992-93 and 1993-94, India's trade balance with ASEAN-4 has been unfavourable all along. It is, therefore, extremely important to find out and identify the reasons or causes for India's experience of such unfavourable balance of trade with ASEAN-4.

REASONS FOR INDIA'S EXPERIENCE OF PERSISTENT DEFICIT IN HER TRADE BALANCE WITH THE COUNTRIES OF ASEAN

1) The process of structural transformation in ASEAN economies marked its beginning in the 1980s. As a result, share of primary sector to GDP has gone down and the share of secondary sector, i.e. industry has improved in ASEAN-4 such as Indonesia, Malaysia, Singapore and Thailand. On the other hand, agriculture in India is still a predominant sector. Thus, if we notice the share of industry to GDP, then it can be observed that all the four ASEAN countries' share of industry to GDP has improved, from 14% in 1960 to 46 percent in 2004 in case of Indonesia, from 18 percent in 1960 to 48 percent in 2004 in case of Malaysia, 18 percent in 1960 to 35 percent in 2004 in case of Singapore and 19 percent in 1960 to 44 percent in 2004 in case of Thailand. Whereas, the share of India's industry to GDP increased marginally from 20 percent in 1960 to 26 percent in 2004 (World Development Report-2007). This clearly speaks of the strength of industrial sector of ASEAN-4 relative to India. It is with this strength that ASEAN countries have been able to produce commodities at a comparatively lower cost and can win over Indian market. India finds ASEAN products relatively cheaper than they are in her traditional import market. In other words, ASEAN countries can offer some of the industrial products at a relatively cheaper price than even the developed countries which happen to be India's traditional import market. India, on the other hand, cannot export products of its comparative advantage to ASEAN countries because of its weak industrial base relative to ASEAN-4. Naturally, India has no other way but to depend on ASEAN countries for their products and, therefore, it is quite natural that India's balance of trade with ASEAN countries will move against her. Again, the structure of the manufacturing sector has been found to have tilted in favor of high tech capital intensive products- capital goods in ASEAN. Thus, the share of exports of products of high technology in case of Indonesia has been 16 percent, 55 percent in case of Malaysia, 59 percent in case of Singapore, 30 percent in case of Thailand in 2004. In case of India, share of exports of products of high technology has been only 5 percent in 2004 (World Development Report-2007). Therefore, for import of high tech products, India's dependence on ASEAN countries is obvious. This also clearly demonstrates ASEAN country's strength in industrial sector. In other words, this also indicates how broad based and diversified industrial structure ASEAN countries have built and developed over the years relative to its most powerful South Asian counterparts like India and finally, this alone speaks of ASEAN country's dominance and favourable position over India in their trade balance.

2) Increasing globalization has created ample opportunities before ASEAN countries for promoting industrial complementarities and positioned themselves well in regional and global production networks. Thus, countries which are capable of strengthening their national competitive advantages by upgrading factor conditions among others while maintaining political and economic stability are likely to benefit from investment expansion. There is no doubt that South-East Asian countries are much ahead of India in this regard. Large scale production in these countries can take place because of their strong positioning in international production network. As a result, these countries can also take the advantage of economies of scale. Unfortunately, India cannot position itself in such international production network. Thus, the expansion of trade in electrical machinery between Singapore and Malaysia has been phenomenal. Intra-regional trade is facilitated by the fact that tariffs are generally low. Non-tariff barriers are also non-existent. In contrast, South Asia and particularly India, is yet to play a major role in intra-regional trade and investment in electrical machinery. This is partly because in India, electrical machinery is protected by high tariffs and quite a few products are also subject to non-tariff barriers. India would also need to provide TNCs with various types of infrastructure services, including power, water, transport and import-export facilities, which India cannot extend up to the expectation of TNCs. Therefore, India will have to depend on these ASEAN countries for import of electrical machinery. Again, consumer electronics such as Samsung, Honda, Toyota, Sony, Matsushita, Motorola and AT & T

have launched operations in South-East Asia, usually centered in Singapore, which serves as a business hub where multinational companies locate their regional headquarters to take advantage of their excellent infrastructure, open economy and highly skilled workforce. Production activities, however, are spread across the region according to each location's comparative advantage of the excellent infrastructure, open economy and highly skilled workforce. For example, more labor-intensive activities are carried out in nearby Riau province of Indonesia or in Johore, Malaysia as firms take advantage of the SUORI(Singapore-Johore-Riau) growth triangle. Hence, a production network has evolved with vendors from Japan, NIEs and local firms supplying parts, components and services to large multinational companies. This production originally was aimed at exporting to the large United States and European markets. However, Indian markets are also becoming increasingly attractive. Naturally, India's balance of trade with ASEAN countries will be unfavorable.

3)The fluctuation in Indo-ASEAN trade can be attributed to the Asian economic crisis. The Asian economic crisis cast a shadow on Indo-ASEAN trade relations, hurting particularly the two way trade and investment flows. As the Economic Survey of the Ministry of Finance, Government of India, (1999) noted, “ *The economic contraction in the East Asian countries resulted in a sharp decline in import demand.....Since Asia accounts for about one fifth of India's exports, India could not escape the fallout from such import compression. Indian exports to ASEAN countries shrunk remarkably because of this infamous Asian financial crisis. Thus, Indian exports to ASEAN countries have come down to ₹ 76223 million in 1997-98 from ₹ 90436 million in 1996-97 and then to ₹ 56606 million in 1998-99, whereas, imports from ASEAN to India have increased from ₹ 105317 in 1996-97 to ₹ 172269 in 1997-98 and then increased further to ₹ 209947 in 1998-99. Thus, clearly, Indian exports have been the victim of Asian financial crisis*”. Experts opine that currencies of the major economies of ASEAN have depreciated severely. In other words, value of major currencies of ASEAN countries have got reduced drastically and as a result, the price of ASEAN imports from India and other nations have become costly. This has led to tremendous cut in import demands from ASEAN countries. India, on the other hand, had to suffer for a disease for which in no way she could be held responsible. Thus, this Asian financial crisis is one of the important reasons for which the country has to experience unfavorable balance of trade with ASEAN-4.

4) Another reason for India's unfavorable balance of trade with ASEAN countries has been due to the fact that India's import demands from ASEAN region are relatively less elastic in nature. This contention can be corroborated if one looks at the picture of Indo- ASEAN trade during the period of Asian financial crisis. Indian exports came down but imports from ASEAN to India could maintain its previous trend. This means that ASEAN country's imports to India have been more important than India's exports to ASEAN countries. In other words, it is the production structure of both the parties that matters. Production structure of ASEAN is composed of such products that meet the demand for India's essential items. On the other hand, India cannot design its production structure that can suit ASEAN country's demand structure.

STATEMENT OF COMPOSITION OF INDIA'S IMPORT TRADE WITH ASEAN-4 FROM 1991-2008

This statement (Table2) is a reflection of India's item wise import trade with ASEAN-4 . This statement is prepared taking clues from the composition of India's imports from ASEAN-4 for the period-1991 to 2008. The figure presented in the statement against each country is the aggregate of India's import of particular commodity from 1991 to 2008.

The statement (Table 2) reveals the following :

1)From the statement of composition (Table 2) of India's imports from ASEAN-4, it becomes crystal clear that ASEAN-4's growth in manufactured export as a proportion of total merchandise exports has been phenomenal. Thus, Indonesia had a spectacular rise in manufactured exports as a share of total merchandise exports from just 2 percent in 1980 to over 50 percent in 1995 and 1996. Manufactured exports became dominant in the export of Malaysia(76 percent), Singapore(84 percent) and Thailand(73 percent) by the mid 1990s. However, from 1996, export growth rates fell substantially in most of these countries. In 1998, many even experienced negative growth rates in their exports. In 1999, export performance began picking up again.(Bhavani P. Dhungana, p-77, 2002). Again, a high degree of intra-industry trade in electronic and electrical goods and machineries already exist in South-East Asian

countries. Thus, ASEAN-4 today is a name in international arena in the matter of production of parts and components. The value of ASEAN-4's exports of electronic goods of 17887.80 \$ million to India bears testimony to this fact. Not only this, in case of auto components and transport equipment, although India has started emerging as an important player, but the country is still behind ASEAN-4. In case of exports of electrical goods, ASEAN-4 has clearly emerged as a much stronger player than India. The products on which ASEAN-4 clearly maintains an edge over India, in addition to those mentioned above are : (1) vegetable oil, (2) coal, coke and briquettes, (3) metaliferrous ores and metal scrap, (4) organic chemicals, (5) pulp and waste paper, (6) natural rubber, (7) iron and steel, (8) gold, (9) fertilizer manufactured, (10) wood and wood products (11) non-electric machinery, (12) artificial resins, plastic materials, (13) inorganic chemicals, (14) printed books, news papers etc, (15) professional instruments, optical goods, (16) chemical material and products, (17) computer software, (18) machine tool, (19) other text, yarn fab made-up, (20) pearls, precious and semiprecious stones (21) non-metallic minerals manufactures etc. Thus, out of 24 items that ASEAN-4 exports to India, only six items are the products of traditional agricultural and mining sectors. These six items include vegetable oil, although it is a product of agro based industry, natural rubber, coal, coke and briquettes, natural rubber, gold and pearls, precious and semi precious stones. Rest 18 items that ASEAN-4 exports are the products of industrial sector. The statement also reveals the fact that the value of industrial products that ASEAN-4 export is 41803.56 \$ million and this is much higher than the value of products of traditional agricultural and mining sector, which is only 29581.5 \$ million.

2) The statement (Table 2) justifies the fact that ASEAN-4's emphasis on export orientation of their economies have been on the rise and they have not deviated from the path even after experiencing the shock and onslaught of the infamous Asian financial crisis for a very short stint in the latter part of 1990s. Rather, they are firm in their commitment to liberalize their economy further in order to reap the benefit of globalization. This is why it can be noticed that after a gap of very short period of one or two years, MNCs have started investing and making these South-East Asian countries as their production bases in order to take advantage of improved infrastructure that they have build over the years. The myth that inflow of FDI in ASEAN-4 has declined after the financial crisis is now over. MNCs such as Toyota, Honda, Samsung, Ford, Phillips have decided either to expand the capacity of their existing plants or they have decided to set up production plant there afresh after the crisis that is in the new millennium and to be more precise and specific, during the period from 2000 to 2005 and thereafter too. Thus, Samsung has launched production of 300mm wafers in Singapore with Siltronic in June 2008. Infact, Samsung has three production plants in Malaysia, two in Singapore and Indonesia and one production plant in Thailand (2008, Samsung Electronics, Annual Report, p-22). Honda started its production plant in Bangkok, Thailand in 1967. In 2000, Honda's decision to set up another plant had been materialized. In Indonesia, Honda begun its production plant in two places in 2002 and 2003. In Malaysia also Honda decided to set up production plant in 2003. In Indonesia, P.T Astra Honda Motor, an affiliate introduced a version of the Fit X equipped with desk brakes in August 2007.

Table 2: Statement of Composition

Particulars	Amount	Amount
1) India's Import Of Vegetable Oil From ASEAN-4		
i) Imports From Indonesia	8626.14	15203.05
ii) Imports From Malaysia.	6576.91	
2) India's Import Of Coal, Coke And Briquettes From ASEAN-4		
i) Imports From Indonesia	4431.79	4431.79
3) India's Import Of Metaliferrous Ores And Metal Scrap From ASEAN-4		
i) Imports From Indonesia	2053.69	2618.39
ii) Imports From Malaysia	392.30	
iii) Imports From Thailand	172.40	

**Table 2:
Statement
of Composi-
tion
(Contd.)**

Particulars	Amount	Amount
4) India's Import Of Organic Chemicals From ASEAN-4		
i) Imports From Indonesia	873.99	5762.33
ii) Imports From Malaysia	1610.98	
iii) Imports From Singapore	2978.06	
iv) Imports From Thailand	299.30	
5) India's Import Of Pulp And Waste Papers Oil From ASEAN-4		
i) Imports From Indonesia .	566.18	
6) India's Import Of Natural Rubber From ASEAN-4 Countries		
i) Imports From Indonesia	223.73	539.38
ii) Imports From Thailand	315.65	
7) India's Import Of Electronic Goods From ASEAN-4		
i) Imports From Indonesia	427.65	17887.80
ii) Imports From Malaysia	5554.86	
iii) Imports From Singapore	10232.12	
iv) Imports From Thailand	1673.17	
	595.49	2726.06
	2130.57	
8) India's Import Of Transport Equipment From ASEAN-4		
i) Imports From Indonesia	198.38	3493.73
ii) Imports From Malaysia	440.86	
iii) Imports From Singapore	2532.22	
iv) Imports From Thailand	322.27	
9) India's Import Of Iron And Steel From ASEAN-4		
i) Imports From Indonesia	271.28	1430.43
ii) Imports From Malaysia	299.36	
iii) Imports From Singapore	348.51	
iv) Imports From Thailand	511.28	
10) India's Import Of Gold From ASEAN-4		
i) Imports From Indonesia	137.68	137.68
11) India's Import Of Fertilizer Manufactured From ASEAN-4		
i) Import From Indonesia	130.89	130.89
12) India's Import Of Wood And Wood Products From ASEAN-4		
i) Imports From Malaysia	2762.04	2762.04
13) India's Import Of Non Electric Machinery From ASEAN-4		
i) Import From Malaysia	507.92	4536.96
ii) Import From Singapore	2755.38	
iii) Import From Thailand	1273.66	
14) India's Import Of Non Ferrous Metal From ASEAN-4		
i) Imports From Malaysia	567.04	1305.07
ii) Imports From Singapore	413.59	
iii) Imports From Thailand	324.44	
15) India's Import Of Artificial Resins Plastic Materials Etc From ASEAN-4		
i) imports From Malaysia	318.93	

Table 2: Statement of Composition (Contd.)

Particulars	Amount	Amount
ii) Imports From Singapore	1005.69	2176.71
iii) Imports From Thailand	852.09	
16) India's Import Of Manufacture Of Metals To ASEAN-4		
ii) Import From Malaysia	148.07	709.62
ii) Imports From Singapore	339.95	
iii) Imports From Thailand	221.60	
17) India's Import Of In-organic Chemicals From ASEAN-4		
i) Imports From Malaysia	259.89	259.89
18) India's Import Of Electrical Machinery		
i) Imports From Singapore	879.82	1216.44
ii) Imports From Thailand	336.62	
19) India's Import Of Printed Books, News Papers Etc From ASEAN-4		
i)Imports From Singapore	1568.03	1568.03
20) India's Import Of Professional Inst, Optical Goods From ASEAN-4		
i)Imports From Singapore	777.05	777.05
21) India's Import Chemical Material And Products From ASEAN-4		
i)Imports From Singapore	456.48	456.48
22) India's Import Of Computer Of Software From ASEAN-4		
i) Imports From Singapore	438.24	438.24
23) India's Import Of Machine Tools From ASEAN-4		
i) Imports From Singapore	161.96	161.96
24) India's Import Of Text, Yarn, Fab, Madeups Articles From ASEAN -4		
i) Imports From Thailand	316.19	316.19
25) India's Import Of Pearls And Precious And Semi Precious, Stones From ASEAN-4		
i) Imports From Thailand	263.65	263.65
26) India's Import Of Non-metallic Minerals Mnfs From ASEAN - 4		
i) Imports From Thailand.	112.14	112.14
Source: CMIE		

Honda started construction of a third plant in Thailand in July 2007 and finally, Honda also planned to introduce 100cc- class models in Thailand in the first half of fiscal 2009(Honda Motor Company , Ltd. Annual Report-2008, p-25). Toyota has its two production plants in Indonesia. These plants started their operation in 1970 and 2004. In Malaysia, two production plants become operative in 1968 and 2005 and in Thailand, Toyota has four production plants which started their operation in 1964, 1979, 1988 and 1989 (Annual Report of Toyota-2008). It is because of all these MNC's investment that ASEAN-4 have emerged so strong in the automobile sector. MNC's investment in auto mobile sector has contributed towards a flurry of auto parts and transport equipment exports from ASEAN-4. The statement of composition (Table 2) of India's imports shows that India is an attractive market for ASEAN-4 automobile industry.

Thus, the statement of composition (Table 2) of India's imports from ASEAN-4 serves the very purpose of substantiating the contentions or hypothesis or the possible causes of India's experience of persistent trade deficit with ASEAN-4.

SUGGESTIONS FOR REMOVING THE CAUSES OR REASONS FOR INDIA'S UNFAVORABLE BALANCE OF TRADE WITH ASEAN -4

India's trade relation with the countries of ASEAN-4 requires to be enhanced further. In this era of regionalization of international economy, India has to position itself strongly in such processes of regional trade groupings. At the same time, it is also important to ensure that India stands competitive in its trade with different trade groupings. In other words, India's trade with ASEAN-4 should result in furtherance of India's welfare and should be of mutual benefit for both India and ASEAN. This is indispensable for the sake of long term, sustained and durable trade relations with ASEAN-4. Removal of India's deficit in trade balance with ASEAN-4 is the need of the hour. These are some suggestions that can address the problems to some extent:

- 1) India should realize fast that there is no alternative for rapid industrialization. Industrial sector's contribution to GDP should be substantial. It was merely 25-28 percent in 2005 and thereafter too (World development Report-2007).
- 2) Adequate measures for massive investment in the infrastructure sector is extremely important. Development of infrastructure is a pre-requisite for industrial development.
- 3) Immediate measures should be taken for identifying the complementarities in the production structure of both the regions. Developing countries that are still dependent on primary production or are at an early stage of industrial development or in other words, are having similar production structures which are competitive, can benefit less from regional integration with partners at similar stages of development than those that have already achieved a more diversified production structure. There is no denying the fact that India is still a primary producing country. In other words, agriculture in India is the predominant sector. This is evident from this sector's contribution to GDP which has been above 20 percent in 2005 and in recent times, this sector's contribution has been less than 10 percent in ASEAN-4 excepting Indonesia, where its share is 14 percent and in case of Singapore, agriculture's share to GDP has been zero (World Development Report, 2007). Again, complementarities of production structure is a pre-requisite for developing trade relations between countries and for expanding the basket of exportables of countries. Therefore, identification of complementarities in the production structure has got special relevance for India for the country needs to expand its basket for exportables to the ASEAN-4 in order to improve its relative position in her trade with ASEAN-4.
- 4) MNCs are now one of the principal sources through which investments are routed in different developing countries of the world. In fact, MNCs have developed a network of their subsidiaries throughout the world. They consider different countries as locations of their subsidiaries in order to take advantages of different factors that are available at economic price in these countries. Sometimes, they prefer some countries for availability of cheap labour there. Sometimes for taking advantage of excellent infrastructure of host countries, they prefer these countries. Host countries are benefitted because of inflow of huge investment. Investment in the form of capital, technology, expertise- all of which are scarce in the host countries. This way, MNCs develop regional and eventually international production network and reap the benefit of economy of scale. South-East Asian countries and to be precise, ASEAN-4 such as Singapore, Malaysia, Thailand and Indonesia have been able to position themselves well in such a network. These MNCs have contributed enormously towards industrial development of ASEAN-4. ASEAN-4 have developed their infrastructure, they have made their labour policy investor and MNC friendly. They have committed themselves to further liberalization after Asian financial crisis and finally, they have been able to keep tariff and non-tariff barrier at the minimum level. India will have to work on all these. As per world Bank's global ranking on the ease of doing business for one of the South Asian countries i.e India and four ASEAN countries viz Singapore, Malaysia, Thailand and Indonesia for 2008 and 2009, Singapore ranked the most business-friendly country in both 2008 and 2009 throughout the world. India is the least business friendly country among the five countries referred to (South Asia Economic Report on Foreign Direct Investment in South Asia, p-16, an ADB Publication www.adb.org/publications-2009).

These deteriorating rankings are considered to derive from foreign investor perceptions of poor infrastructure, restrictive labor policy, and labour unrest, political uncertainties, and civil conflicts, weak regulatory systems, and rampant corruptions. India will have to be watchful and prepared to address all these problems in order to be able to be considered as one of the sought after destination of MNCs. Today, MNCs account for about 25 percent of world output, and intrafirm trade is estimated to be about one third of total world trade in manufacturing (Dominick

Salvatore, p-406). Thus, no country that wants industrial development at fast pace can ignore MNCs.

MNCs today are means for furtherance of industrial development in a country like India and industrially developed India will be able to expand her basket of her exportables consisting of industrial products . Only then India will be able to get rid of unfavourable balance of trade and can turn the balance of trade with ASEAN-4 in her favour.

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