

Chapter 2

Estimating Export Potential of India to Southeast Asian Countries: Panel Gravity Model Approach

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ABSTRACT

It is crucial to estimate the export potential of countries in order to determine new export markets and increase their share of export markets. The chapter aims to determine the potential Southeast Asian export market for India by comparing the potential export level with the actual export from India to Southeast Asian countries. The frequency of the variables is annual and belongs to the period between 1996 and 2018. As a result of the analyses, it has been determined that Indian exports to Myanmar, Vietnam, and Singapore are slightly above its export potential, while its exports to Indonesia, Malaysia, and the Philippines are far above its export potential. In addition to this, it is determined that India has a high export potential to Brunei, Cambodia, and Thailand amongst Southeast Asian countries.

INTRODUCTION

Nowadays, the international trade is the driving force of economic development for countries. In this direction, countries aim to accelerate economic development processes by increasing their trade volumes with each other. It is seen that especially developing and underdeveloped countries tend to create economic cooperation among each other in order to increase their international trade volumes.

Conjunction with the globalization process, the free movement of labor, capital, goods and services between countries has increased and this condition has incremented the volume of international trade. The export volumes of the countries integrated into the global economy increase more and the economic growth levels of the countries raise faster than other countries due to the positive effects arising from

DOI: 10.4018/978-1-7998-5774-7.ch002

the national economy via exports (Dollar, 1992). Together with the integration of underdeveloped and developing countries into the global economy, it is seen that it makes important contributions to the economic development of countries by means of their positive effects of increasing technology investments (Borensztein et al., 1998).

In company with the inception of globalization of the world economy and markets, tendency of countries towards regional economic integration has increased and important economic integrations have been realized in the related process. Although the liberalization of international trade is seen to act in accordance with the principles of the World Trade Organization (WTO), the idea of establishing economic integrations as the main strategy for the expansion of international trade between both developed and underdeveloped countries has come forward (Tumbarello, 2005, p. 3). Almost all of the economic integrations established include socio-economic and political structures as well as countries with many similarities such as cultural formations, geographical proximity and mutual interests.

Trade reforms constituted a part of the extensive programme of structural reforms started in India in the early of 1990s. These reforms have ensured to noticeable changes in the performance of the international trade sector in India (Batra, 2006, p. 327). This change is seen clearly from the increment in trade openness ratio of India according to WTO database. Trade openness ratio raised from 16% a pre-reform ratio (1990) to 40% after the period of reforms (in the 2019). Moreover, India's export share of world exports increased from 0.57% in the 1990 to 2.3% in the 2019. On the other hand, India's trade share in world is still very low and seems underwhelming compared to other Asian countries such as China and Korea. It is clear shown that there is a need to increase India's trade volumes, especially Southeast Asian countries.

In this study, it is aimed to determine the Southeast Asian countries that have the potential export market for India by comparing the potential export levels and real exports. In order to establish the export model between India and Southeast Asian countries, India's exports to Southeast Asian countries, gross domestic product per capita of the countries, distance between India and Southeast Asian countries, average tariff rates of countries, exchange rates of India and Southeast Asian countries, the historical relation between India and Southeast Asian countries, trade openness of Southeast Asian countries and the 2008 global crisis will be used as variables.

The chapter is structured as follows. Background section reviews the literature on trade structure of India and Southeast Asian countries. Next section describes the main focus of the chapter with the statistics. Empirical analysis section presents the econometric model, definitions of variables, data sources and estimation results. Later, export potential of India to Southeast Asian countries are propounded in the solutions and recommendations section. It is aimed to be guided future researchers in future research directions section. Lastly, conclusion section puts forward possible policy implications.

BACKGROUND LITERATURE

Globalization has gained an important impetus in the face of regionalization especially after the Second World War (Sahasrabudde, 2012). While South Asia was in a single state structure before the Second World War, many new states emerged after the war and these states were separated culturally, politically and economically. The fusion of various races in the region has brought important diversity to South Asia such as religion, language and culture. Due to the failure of the attempts to establish cooperation between the states, the adverse situation has affected the poor in the region more than other segment

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