



IMPACT OF INDIA- THAILAND TRADE AGREEMENT ON THE PERFORMANCE OF PLANTATION SECTOR IN INDIA

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ABSTRACT

Trade Agreements play a significant role in enhancing international trade. They liberalize the trade between the countries through tariff reduction and other measures. This study is conducted to know whether there is any increase in export and import of the plantation sector due to India-Thailand Free Trade Agreement 2003. For the purpose of the study the pre and post export-import data of plantation sector are analysed. The data of five plantation products viz; tea, coffee, rubber, cardamom and pepper for a period of 14 years (1996-2010) are used. The data collected are analysed using % Growth Rate, CAGR and t test. The study found that there is no significant improvement in the export and import volume and value of plantation crops to Thailand after signing the trade agreement.

Key words: Trade Agreement, India- Thailand Trade Agreement, Trade creation, Trade Diversion, Welfare effect.

I. INTRODUCTION

Trade Agreements play an important role in foreign trade. They are one of the tools to improve trade between countries and also one of the instruments of trade policy of the contracting nations. Trade agreements may be either bilateral or multilateral trade agreements.

The main objectives of a trade agreement are:

1. To have economic cooperation between the countries.
2. To increase the foreign trade between the countries.
3. To reduce the tariff barriers between the contracting nations.
4. To improve the balance of trade of the countries.
5. To have access to goods which are not available in the domestic country.
6. To have access to services of experts and technology between foreign countries.

India and Thailand signed the Framework agreement on 9th October 2003. Its objective is to have a comprehensive economic cooperation between the two countries and to provide tariff reduction in trade of goods, services and investment.

The study is about the impact of India- Thailand Framework Agreement on the performance of export and import of the selected five plantation crops viz. tea, coffee, rubber, cardamom and pepper during the pre and post trade agreement period.

II. STATEMENT OF THE PROBLEM

One of the main issues in the foreign trade of contracting countries is the change in the export and import between the countries after signing of the trade agreement. For example. After the Central American Free Trade Agreement (CAFTA)¹ which was signed in August 2004, the US import of sugar from the Central American Countries increased and the production of sugar within the country decreased.

Another problem identified is the trade creation, trade diversion and welfare effect because of the trade agreement. Trade creation effect means the trade flows will be directed to a particular country because of a trade agreement. Trade diversion effect means the trade flows are diverted to other countries because of a free trade agreement or customs union between two countries. ie. negative effect. The trade will be directed from the more efficient exporter to the less efficient nation who signed the trade agreement. With the implementation of a Comprehensive Economic

¹ The Central American Free Trade Agreement is an agreement between the United States and Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic which was signed in August, 2004 to liberalise trade between the Central American Countries.

Cooperation Agreement between two countries the economic welfare of the countries may improve. The welfare effect means the production and consumption efficiency of a country. For example, as a result of the regional economic integration in SAARC countries there is welfare effect and trade creation rather than trade diversion to SAARC Countries.

III. REVIEW OF LITERATURE

Suresh (2007) in his study on the impact of trade agreements and regional economic integration in SAARC Countries found that there is welfare effect and trade creation rather than trade diversion to SAARC countries with the implementation of trade agreements and regional economic integration.

Dhami and Nabi (2013) analysed India's agriculture export performance in pre and post WTO Regime and found that the annual growth of agriculture exports on an average increased to 9.5% during the post WTO Period which was -2.8 % during the pre WTO Period.

Varma and Chowdhary(2013) analysed the trade creation and trade diversion effect of India Sri Lanka Trade Agreement and found that the trade agreement leads to trade creation among the member countries than the trade diversion among the non- member countries.

Harikumar (2014) in his study on the changing phases of India's International trade before and after the liberalization period found that with the liberalization, India's exports and imports have increased.

Sahni (2014) analysed the trends in India's exports during the pre and post reform period and found that there is increase in India's exports during the post reform period and there is change in structure, composition and direction of India's exports to foreign countries.

IV. OBJECTIVE

To know whether the trade agreement leads to increase in export and import volume and value of contracting countries after signing of the trade agreement.

V. HYPOTHESES

Trade Agreement leads to increase in export and import volume and value of the contracting countries after signing of the trade agreement.

Ho 1. There is no significant difference between the mean of export value of pre and post trade agreement period.

Ho 2. There is no significant difference between the mean of import value of pre and post trade agreement period

Ho 3. There is no significant difference between the mean of export quantity of pre and post trade agreement period.

Ho 4. There is no significant difference between the mean of import quantity of pre and post trade agreement period.

VI METHODOLOGY

The study is analytical in nature and secondary data is used. The export import data of five plantation products viz. tea, coffee, rubber, cardamom and pepper are collected. The data of five plantation products are collected separately and aggregated. The aggregate effect on all plantation crops together are only studied. For the purpose of the study the 14 years export import data (1996-2010) from India to Thailand are collected. The data of plantation crops are collected from the Export- Import Data Bank, Department of Commerce, Government of India website <http://www.commerce.nic.in/eidb/>

The data collected are analysed with % Growth rate and Compound Annual Growth Rate.

1. The **straight line method** is used to find the % Growth rate

% Growth rate= (Current year-Base Year)/ Base Year X 100

2. **CAGR** = (Antilog b1-1) X 100

B1= In (1+r)

3. **t test** is conducted for testing of the significance of the finding.

t test= Mean1 –Mean2/ SE

VII ANALYSIS

The table No.1 and 2 shows the performance of plantation items export and import during the pre and post trade agreement period to Thailand.

Table No.1 Export of Plantation items to Thailand in US Million\$

Year	Pre TA	% Growth rate	Year	Post TA	% Growth rate
1996-1997	0.6		2003-2004	3.87	41.75
1997-1998	0.9	50	2004-2005	3.2	-17.31
1998-1999	1.34	48.89	2005-2006	4.68	46.25
1999-2000	1.1	-17.91	2006-2007	6.6	41.03
2000-2001	1.42	29.09	2007-2008	8.08	22.42
2001-2002	2.09	47.18	2008-2009	10.94	35.40
2002-2003	2.73	30.62	2009-2010	11.37	3.93
CAGR		24.17%			16.64%
Mean		31.317			24.8
SD		25.838			23.6
T value		.476			
P Value		.64			

Table value of t at 5% level of significance

(Source: Department of Commerce, Export Import Data Bank, Govt. of India)

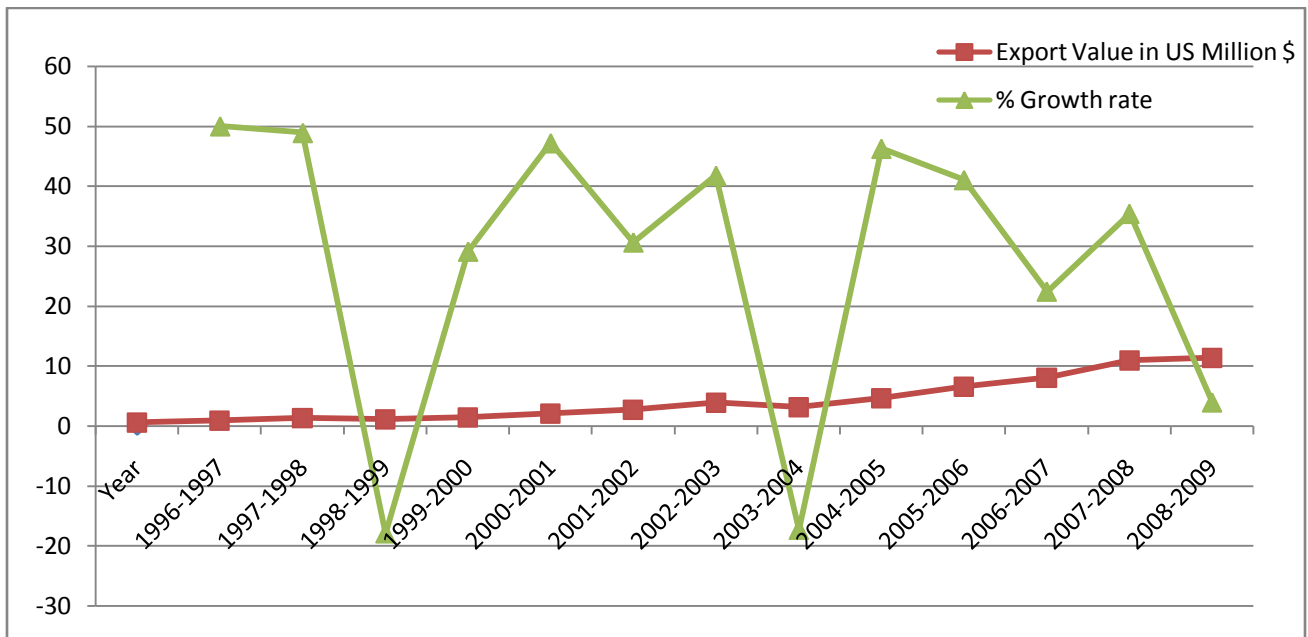
Table No.1 shows that the CAGR during the pre trade agreement period is 24.17% and it decreased to 16.64% during the post trade agreement period. The average growth rate during the pre trade agreement period was 31.32 and it decreased to 24.8 during the post trade agreement period. The significance of difference is tested by conducting a 't' test taking the null hypothesis that:

Ho 1 There is no significant difference between the mean of export value of pre and post trade agreement period.

Since the p value is .64 which is greater than the level of significance .05 accepted the null hypothesis

Thus it is concluded that there is no significant difference in the mean of export of plantation crops after signing of the trade agreement.

Graph No.1 Pre and post trade Agreement export and % Growth rate



From the graph no.1 it is clear that the pre trade agreement plantation export to Thailand is showing a fluctuating trend. The % growth rate also shows a fluctuating trend and decreases after the trade agreement and becomes down during 2009.

Table No.2 Import of Plantation items from Thailand in US Million\$

Year	Pre TA	% Growth rate	Year	Post TA	% Growth rate
1996-1997	10.27		2003-2004	33.24	53.75
1997-1998	15.98	55.60	2004-2005	65.39	96.72
1998-1999	12.58	-21.28	2005-2006	45.74	-30.05
1999-2000	10.14	-19.40	2006-2007	97.86	113.95
2000-2001	14.15	39.55	2007-2008	123.22	25.91
2001-2002	21.36	50.95	2008-2009	165.14	34.02
2002-2003	21.62	1.22	2009-2010	198.78	20.37
CAGR		11.22%			29.11%
Mean		17.8			45
SD		35.2			48.7
T Value		1.13			
P value		.28			
Level of Significance .05					

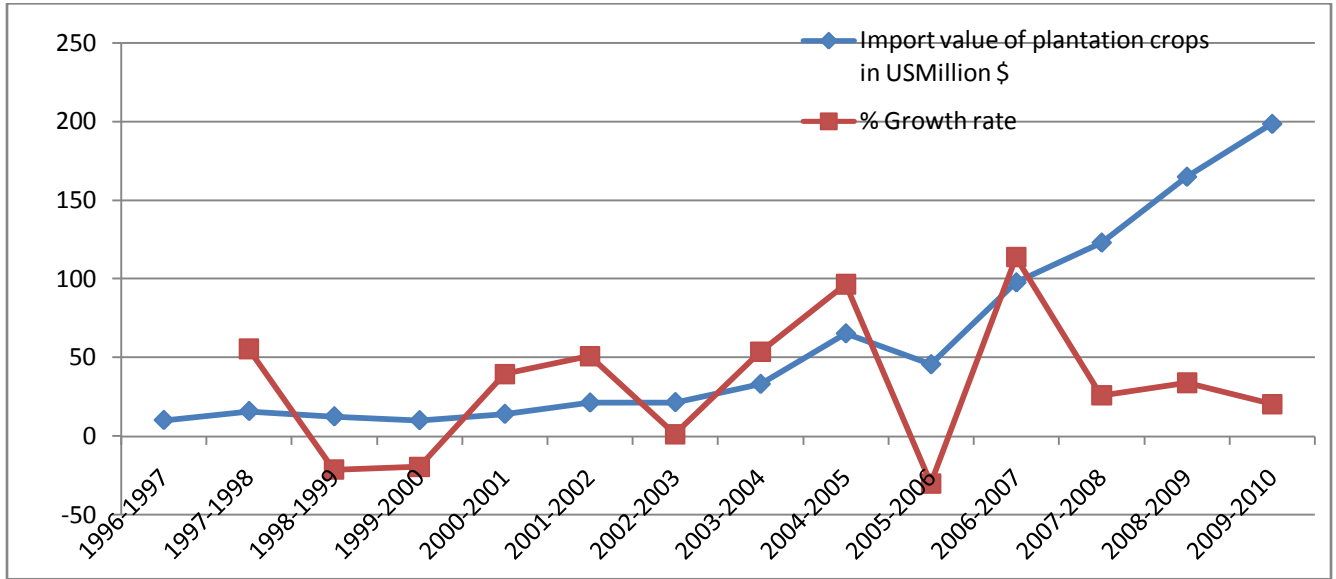
(Source: Department of Commerce, Export Import Data Bank, Govt. of India)

Table No.2 shows that the CAGR during the pre trade agreement period was 11.22% and it increased to 29.11% during the post trade agreement period. The average growth rate during the pre trade agreement was 17.8 and increased to 45 during the post trade agreement. The significance of difference is tested using the t test by taking the null hypothesis;

Ho 2: There is no significant difference between mean of import value during pre and post trade agreement period.

Since p value is .28 which is greater than the level of significance .05 accepted the null hypothesis. Thus it is concluded that there is no significant increase in import of plantation crops after signing of the trade agreement.

Graph No.2 Import value of plantation crops during pre and post trade agreement period and % growth rate.



From Graph No. 2 it is clear that the Import value of plantation crops are less during the pre trade agreement period and shows an increasing trend after the signing of the trade agreement. But the % growth rate of import value of plantation crops also shows a fluctuating and downward trend.

Table No.3 Export of Plantation crops during pre and post trade agreement period in Volume Million tonnes.

Year	Pre TA	% Growth rate	Year	Post TA	% Growth rate
1996-1997	146.45		2003-2004	1645.58	89.36
1997-1998	182.42	24.56	2004-2005	1325.22	-19.47
1998-1999	260.61	42.86	2005-2006	1532.68	15.65
1999-2000	280.97	7.81	2006-2007	1730.24	12.89
2000-2001	510.46	81.68	2007-2008	2217.07	28.14
2001-2002	1578.45	209.22	2008-2009	2991.93	34.95
2002-2003	869.83	-44.89	2009-2010	3588.1	19.93
CAGR		29.98%			11.78%
Mean		53.5			25.9
SD		86.9			32.9
T Value		.783			
P value		.45			
Level of significance is .05					

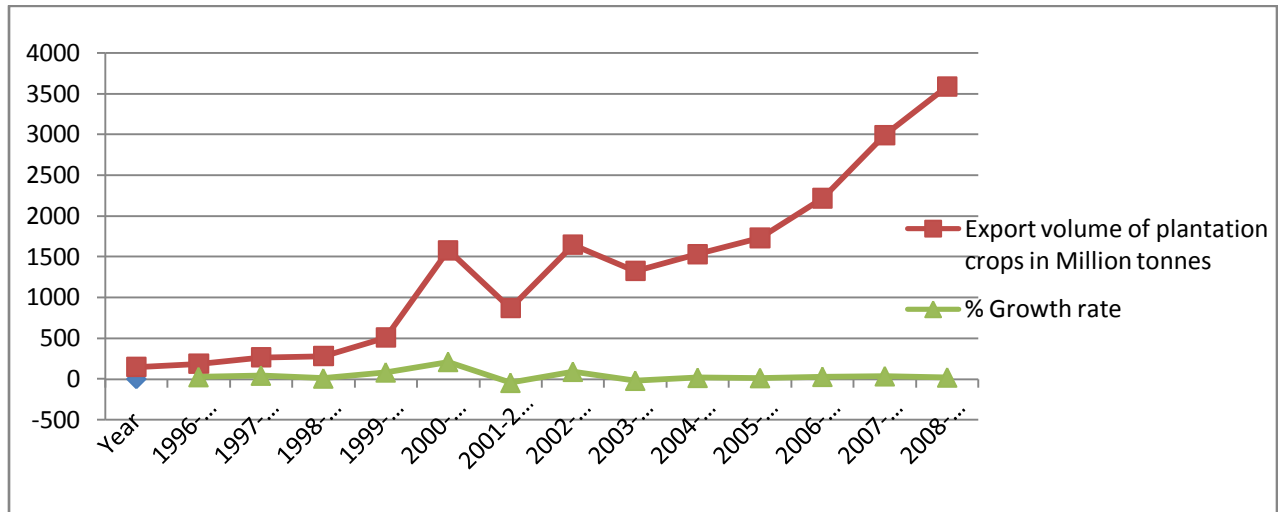
(Source: Export Import Data Bank, Department of Commerce, Govt. of India)

Table No.3 shows that the CAGR during the pre trade agreement was 29.98% and it decreased to 11.78% during the post trade agreement period. The average growth rate was 53.5 and it decreased to 25.9 during the post trade agreement period.

Ho 3: There is no significant difference between mean of export quantity during pre and post trade agreement period.

Since the p value is .45 which is greater than the level of significance .05 accepted the null hypothesis. So it is concluded that there is no significant increase in Export quantity of plantation crops after signing of the trade agreement.

Graph No.3 Export volume of plantation crops to Thailand in US Million \$ and % Growth rate



From the above graph it is clear that there is a fluctuating trend in export volume of plantation crops during the pre trade agreement period and it starts increasing after signing of the trade agreement in 2003. The % growth rate also shows a fluctuating trend and downward trend after signing of the trade agreement.

Table No.4 Import quantity of plantation crops during the pre and post trade agreement in million tonnes.

Year	Pre TA	% Growth rate	Year	Post TA	% Growth rate
1996-1997	6774.15		2003-2004	26521.37	29.37
1997-1998	15587.94	130.11	2004-2005	42600.04	60.63
1998-1999	15129.18	-2.94	2005-2006	25433.5	-40.30
1999-2000	12063.39	-20.26	2006-2007	44138.58	73.55
2000-2001	11880.92	-1.51	2007-2008	41667.79	-5.60
2001-2002	26151.72	120.12	2008-2009	53533.61	28.48
2002-2003	20500.86	-21.61	2009-2010	87267.55	63.01
CAGR		17.14%			18.55%
Mean		34			29.9
SD		71.2			41.1
T Value		.130			
P value		.90			
Level of Significance is .05					

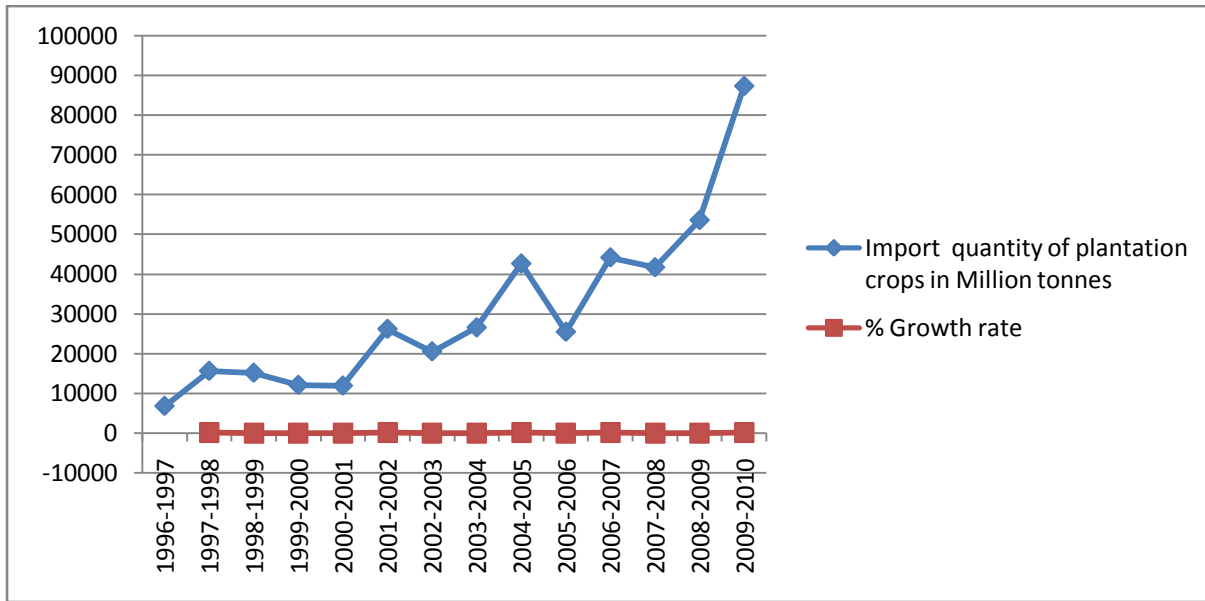
(Source: Export Import Data Bank, Department of Commerce, Govt. of India)

Table No.4 shows that the CAGR during the pre trade agreement period was 17.14% and increased to 18.55% during the post trade agreement. And the average growth rate was 34 and it decreased to 29.9 during the post trade agreement period. The significance of difference is tested using the t test by taking the null hypothesis;

Ho 4: There is no significant difference between the mean of import quantity during the pre and post trade agreement period.

Since the p value is .90 which is greater than the level of significance .05 accepted the null hypothesis. Thus it is concluded that there is no significant increase in mean of import of plantation crops after signing of the trade agreement.

Graph No.4 Import quantity of plantation crops from Thailand in million tonnes and % Growth rate.



From the above graph No.4 it is clear that the import quantity of plantation crops shows an increasing trend from 2003 but the % growth rate of import also shows a fluctuating trend.

VIII. LIMITATIONS OF THE STUDY

1. The export import value and volume of five plantation crops tea, coffee, rubber, cardamom and pepper are only used for the study.
2. The separate effects of the India-Thailand trade agreement on each plantation crop are not studied.

IX. FINDING

It is found that there is no significant increase in percentage growth rate of export and import value and volume of plantation crops after signing the India Thailand trade agreement. Thus it can be concluded that trade agreements lead to no increase in export and import both volume and value.

X. CONCLUSION

Trade Agreements act as a measure to improve the foreign trade between the countries. With the implementation of trade liberalization like tariff reduction and tariff exemption increases the foreign trade. By analyzing the export and import value and volume of plantation crops of India and Thailand, found that due to tariff reduction the export and import volume and value shows no significant increase after signing of the India and Thailand Trade Agreement.

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