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Trade Potential Of India With Mercosur Countries Using Revealed Comparitive Index Method

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ABSTRACT

Founded in 1991, by signing a treaty of Asuncion among four founder member countries comprising of Argentina, Brazil, Uruguay and Paraguay is an intergovernmental association and was a beginner step to create free trade area. It's been three decades from the establishment, the demise of southern cone common market has been announced several times; may it be Brazilian Devaluation(1999), Argentina Economic Crisis(2001-02), Global Economic Crisis(2008) but still MERCOSUR has survived, deliver democratic stability, increased trade flows and international exposure to its member countries. In this research paper we will analyse the India's trade potential with Mercosur countries for different product lines. This article will firstly review the historical evolution of MERCOSUR, then will discuss the trade potential of Mercosur nations and India and finally explores the challenges that are being faced.

Keywords: MERCOSUR, trade potential, growth and development.

1. INTRODUCTION

On 17th June, 2003 a Framework Agreement had been signed between MERCOSUR and India at Asuncion, Paraguay. As a subsequent follow up to the Framework Agreement, a Preferential Trade Agreement (PTA) was signed in New Delhi on January 25, 2004. The aim of this Preferential Trade Agreement is to expand and strengthen the existing relations between India and MERCOSUR with the ultimate objective of creating a free trade area between the countries. Since 2001, MERCOSUR's major commodities of exports to India are Petroleum oils and crude oil which account for 85.1 percent of the total export trade followed by fixed vegetable fats & oils, crude, refined which sum up to 6.4 percent. The major imports of MERCOSUR from India are Petroleum oils or bituminous minerals of 43.6 percent, Organic/inorganic compounds of 6.3 percent and Textile yarn of 5.4 percent. The top ten commodity group accounts for 96.6 percent of exports and 71.1 percent of imports respectively.

2. REVIEW OF LITERATURE

Lundgren, Sofia (2018) analyzed in their study about the existence of a causal relationship between exports, FDI and economic growth and furthermore to analyse whether the introduction of MERCOSUR has had an effect on the causality. The test was executed between the period from 1975-2014 and the studies shows that the causal relationships and the directions differ regarding what country that is observed. It is further concluded that the causal relationships is not affected to the same extent as emerging economies.

Arya (2013) stated in a study on MERCOSUR Common Market of the South based on its Origins, Organizational Structure, Latest Developments and the Contemporary Trade Patterns. Mercosur and India are regions conscious of social inclusion alongside their development agendas. Substantial scope exists for Mercosur and India to explore complementarities and benefit from increased bilateral trade. Mercosur stands to benefit from India's world class capabilities in software and pharmaceutical industries and export of agricultural products like soybean and corn. On the other hand, India can secure its oil and other natural resource needs by partnering with Mercosur countries. However, there have been hurdles in the bilateral trade relationship like protectionist measures implemented by Argentina for certain goods from India.

Bustos (2011) demonstrated a study on Evidence on the Impact of MERCOSUR on Argentinian Firms focused on Trade Liberalization, Exports, and Technology Upgradation. The study stated that the increase in revenues produced by trade integration can motivate exporters to upgrade technology. It also mentioned that reductions in Brazilian tariffs increase investment in technology. It was also suggested that expanded export opportunities can have a positive effect to performance of the firm. As falling trading partner's tariffs induce firms to take actions that can increase their productivity, it also suggested that the cross-sectional differences between exporters and non-exporters are partly induced by participation in export market along with selection of them productive firms in to the export market.

Grigoli(2011) focused a study on The Impact of Trade Integration on Business Cycle Synchronization for Mercosur Countries. The study concluded that to evaluate empirically the impact of reduced trade barriers and increased trade on the synchronization of business cycles and reduction of the trade barriers may bring about more correlated business cycles because of common demand shocks or intra-industry trade. On the other hand, trade integration could generate an increased industrial specialization by country because of inter industry trade with the associated risk of industry specific shock, and thus more a synchronized output fluctuations. This research aims to test this hypothesis for Mercosur countries. Members of Mercosur increase their trade openness, but regional trade decreases, implying a reorientation of the trade activities to countries other than the Mercosur ones. Both business cycles movements and trade integration indexes seem to be sensitive to the DE trending and the normalization technique respectively.

RESEARCH OBJECTIVE

The main objective of this research is to find out trade potential between MERCOSUR countries and India using Revealed Comparative Index (RCA) method.

3. RESEARCH METHODOLOGY

In this paper, the analysis of the India's trade potential with MERCOSUR countries at HS 2-digit level has been conducted by identifying India's trade potential with MERCOSUR countries for different product lines at HS 2-digit level code, in which India is losing, gaining or maintaining its potential.

To fulfil the purpose of study different 17 sectors has been identified at HS 2-digit level. These are (1) Agriculture products, (2) Fuels and mining, (3) Food, (4) Fuels, (5) Iron and steel, (6) Manufactures, (7) Machinery and transport equipment, (8) Chemicals, (9) Office and telecom equipment's (10) Pharmaceuticals, (11) Textiles, (12) Electronic data processing and office equipment, (13) Telecommunications equipment, (14) Automotive, (15) Integrated circuits and electronic components, (16) Clothing and (17) Transport equipment. RCA for MERCOSUR countries taken together at HS 2-digit level classification from 2001 to 2018 and compared against India.

4. DATA ANALYSIS AND INTERPRETATION

INDIA'S TRADE POTENTIAL TO MERCOSUR COUNTRIES: AGGREGATE ANALYSIS FOR LEADING PRODUCTS

Table no. 1.1 shown the analysis of product categories at 2-digit HS code that leads to interesting observations. The list is dominated by technological (including low, medium and high) and resource intensive production activities, operating at the lower end of the technology spectrum and requiring relatively low technical skills.

Table 1.1: Technological classifications and RCA of India's with MERCOSUR at HS-2 digit level (2018)

HS Code	**Product Categories**	**Technological Classification**	**Argentina**	**Brazil**	**Paraguay**	**Uruguay**	**Venezuela**
01-05	Animal & Animals product	Resource-Intensive	12.62	8.81	2.11	3.14	8.01
06-15	Vegetables products	Resource-Intensive	2.29	62.18	9.36	1.44	2.29
16-24	Food Stuffs	Resource-Intensive	18.46	89.64	12.50	17.14	43.51
25-27	Mineral Products	Resource-Intensive	29.97	21.72	0.58	2.16	0.15
28-38	Chemical & Allied Industry	Medium Technological Intensive	32.67	12.29	1.87	0.56	6.57

39-40	Plastic/ Rubbers	Resource-Intensive	0.56	41.46	0.37	1.40	6.45
41-43	Raw Hides, Skins, leathers & Furs	Low Technological Intensive	10.44	21.55	14.09	20.17	7.43
44-49	Wood & wood products	Labour-Intensive	70.40	23.89	4.96	5.12	7.80
50-63	Textiles	Low Technological Intensive	83.15	32.84	0.43	0.05	4.64
64-67	Footwear/ Headgear	Low Technological Intensive	18.85	27.36	12.06	4.33	5.70
68-71	Stone/ Glass	Resource-Intensive	9.23	3.24	1.75	1.06	0.16
72-83	Metals	Low Technological Intensive	50.95	13.89	3.81	5.57	3.79
84-85	Machinery/ Electrical	High Technological Intensive	2.36	5.54	9.92	0.37	2.11
86-89	Transportation	Medium Technological Intensive	17.61	89.73	3.28	1.71	2.10
90-97	Miscellaneous	High Technological Intensive	5.33	17.07	4.16	1.00	4.68
98-99	Service	Not specified	17.68	5.60	3.95	2.59	1.33

Source: Author development from United Nation Commodity Trade Statistics (COMTRADE) and S. Lall, 2000 (Technological classification)

Table 1.1 also illustrates that 6 product categories out of the 15 Industries, RCA ranking exports in 2018 were resource intensive and 8 product categories out of the 15, RCA ranking exports in 2018 were technological intensive. One Industry (98-99 HS classification) was not specified.

Revealed Comparative Advantage is computed for India and the five MERCOSUR nations specifically Argentina, Brazil, Paraguay, Uruguay and Venezuela for the year 2001-2018 to analyse the trade potential at the HS-2 digits commodity.

Table 1.2: RCA Profile: India's Top ten Commodities as per HS-2 Digit Classification, 2001-2018

Rank	HS Code	Product Description	RCA	Percentage share in India's Exports
1	42	Rice	19.93	4.03
2	26	Cotton	13.91	2.29
3	66	Pearls, precious & semi-precious stones	10.72	9.90
4	07	Spices	10.50	0.38
5	53	Synth. organic colouring matter & colouring lakes	9.41	0.88
6	34	Petroleum	4.60	17.03
7	67	Pearls, precious & semi-precious stones	10.72	8.97
8	87	Jewellery & articles of precious material	5.42	4.80
9	52	Medicaments (incl. veterinary medicaments)	2.78	3.12
10	04	Rice	18.93	2.43

Source: Author development from United Nation Commodity Trade Statistics (UNCOMTRADE)

Table 1.2 reveals that the commodity with the highest RCA for India in the HS-2 digits is Rice (RCA-19.93) with an export share of 4.03 percent, ranking at the fifth position among the top five commodities with the highest export share. The second highest commodity with a high RCA is Cotton with a strong RCA of 13.91 and an export share of 2.29 per cent. Pearls, precious and semi-precious stones rank at the third position with a strong RCA of 10.72 and ranking at the second position with an export share of 9.90 percent. Spices rank at the fourth position with an RCA of 10.50 and Synthetic organic colouring matter and colouring lakes rank at the fifth position with an RCA of 9.41 and an export share of 0.88 percent. The commodity with the highest export share of 17.03 percent is Petroleum has a RCA of 4.60. Followed by Jewellery which ranks at the third position with an export share of 4.80 percent (RCA-5.42). While, Medicaments rank at the fourth place with an export share of 3.12 percent along with a high comparative advantage of 2.78.

5. CONCLUSION

The revealed comparative advantage index has been calculated between India and MERCOSUR and result reveals that the presence of complementary sectors and products available for improving trade cooperation between them. The analysis showed that India has comparative advantage with Venezuela in Manufacture Products, Agricultural Products, Iron and Steel, Food, Chemicals, Textiles and Clothing. For Argentina and Brazil the complementary sectors are Manufacture Products, Chemicals, Textiles and Clothing. MERCOSUR countries are in varying stages of economic development and hence India can have trade with some of them. India exports Rice to MERCOSUR, whereas it can import agricultural commodities from them. India holds an advantage in minerals however they can import Petroleum oils from MERCOSUR. The advantage in manufactured products, Chemicals, Iron and Steel sectors can allow India to export them to MERCOSUR countries. Similarly, MERCOSUR has a comparative advantage in Fuels and mining products and can export them to India. However, in the Textiles and Clothing sector there exists an intense competition between India and MERCOSUR to boost their market share. Indian exports will gain in the medium term through productivity gains and efficiency resulting from tariff reduction though this effect may not be seen in the short term.

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