Journal of Economics and Sustainable Development
ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online)
Vol.3, No.7, 2012

Marine Product Exports of Kerala in the ASEAN India Free Trade Area: Possibilities and Challenges

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Abstract

In the backdrop of issues encountered by the marine product exports from Kerala in the traditional strongholds of the European Union and the United States, there is a need to target newer markets. The ASEAN India Trade in Goods Agreement (TIGA) though proposes to liberalize trade between India and the ASEAN member nations, fails to deliver greater market access for our marine products in the markets of the ASEAN nations. This can be attributed to factors such as the lower prevailing MFN base rate in the ASEAN nations, tariff reduction commitments reciprocated by them being lesser than India's offers, inclusion of our prominent items of export in the restrictive lists of most of the ASEAN nations etc. Export forecast suggests that this is a market to be reckoned, which in turn stipulates the need to secure greater concessions and preferential treatment for our marine product exports in the ASEAN nations to capitalize on the gains that have been made.

Keywords: food safety standards, marine products export, tariff, preferential treatment, seasonality

1. Introduction

Kerala, endowed with 10 percent of the coastline with a population of about 2.7 percent of India, has risen to the status of a key player in the global fish supply chain. Kerala accounts for 107183 metric tonnes (16 percent) in terms of quantity by fetching a value of Rs.1668.49 (17 percent) of the marine products export from India. Historically, Kerala's marine product exports targeted the markets of the EU, the US and Japan. But there has been strengthening of food safety standards and regulations in these markets since the mid 1990s. The marine product exports from India encountered a ban in the EU, though for a period of 5 months in 1997 owing to quality issues, while the shrimp exports to the US were subject to the anti-dumping duties in the early 2000s. These issues forced the marine product exports from Kerala to focus new markets. This brings out the importance of the South East Asia (SEA) as an emerging market for the marine product exports of Kerala. In the context of India's thrust on 'Look East Policy' since the 1990s, the move to the formation of ASEAN India Free Trade Area (AIFTA) has far reaching implications for trade in the region. The ASEAN India Trade in Goods Agreement (AITIGA) that came into force on January 1, 2010 proposes to liberalize trade between India and ASEAN member nations.

The key provisions as per the agreement, fish and fishery products for which tariff reduction commitments have been accepted by India fall in 3 categories: normal track (NT), sensitive track (ST) and exclusion list (EL). Tariffs on fish and fishery products included in NT1 will be completely eliminated by December 31, 2013. Items included in NT2 are subject to tariff elimination requirement only by December 31, 2016. Tariff imposed on items in the sensitive track (ST) should be reduced to a low of 5 percent by December 31, 2016. No tariff reduction commitments exist for items mentioned in the EL. However the items in the EL are subject to review as the agreement proposes to enhance market access and boost trade in the region. India has offered to undertake tariff reduction or elimination commitments for 142 tariff lines with respect to fish and fishery products. ASEAN nations reciprocate following tariff reduction or elimination commitments with respect to fish and fishery products vis-à-vis India.

Table 1 about here

But tariff reduction commitments offered by the ASEAN nations for fish and fishery products are comparatively limited. Besides, the major items of India's marine product exports figure in the restrictive lists of most of the ASEAN nations. The frozen shrimp that happens to be a prominent export item from Kerala falls in the restrictive lists such as ST, EL, Highly Sensitive List (HSL) B and HSLC in most of these nations (Note 1). Frozen tuna figures in the restrictive lists such as EL, HSL C, and ST in the tariff reduction commitment schedules of nations such as Vietnam, Indonesia, Myanmar and Philippines (see Table 1). Frozen mackerel,

which is an important item of export, is also included in the restrictive lists of EL and HSL B in ASEAN nations such as Thailand, Vietnam and Philippines.

Further, India cannot expect to expand its fish and fishery product exports to the ASEAN markets despite tariff reductions as the prevailing MFN base rate in 2007 is found to be low for most of these nations with respect to fish and fishery products. Another provision in the FTA relevant for the marine product sector of India is the one pertaining to Rules of Origin. As per the ASEAN Agreement, a product is considered to be originating from a country if 35 percent value addition takes place within that nation. Since the ASEAN nations have free trade agreements with China, it is likely that fish and fishery products from China will reach India through the ASEAN member nations.

1.1 Materials and Methods

The concept of Free Trade Area is a typical case of a compromise between free trade and protection. One of the lowest degrees of economic integration, the parties to the FTA reduces the trade barriers among themselves retaining the restrictive trade policy to the rest of the world. The implications of FTA for its members can be both trade creating and trade diverting as Viner (1950) puts forth in his theory of Customs Union. In the context of the Asean India FTA, a host of literature examines the probable gains and losses accruing to both the parties (Harilal, 2010; Francis, 2011; Sikdar and Nag, 2011; Veeramani and Saini, 2011; Chandran and Sudarsan, 2012)

Marine product exports from Kerala to the South East Asia (SEA) market for the period 1995-2010 constitute the data source. ARIMA model seems to be the best fitting one explaining the underlying structure of the quantity and value of marine product exports from the state to the SEA. The model makes a forecast of marine product exports from Kerala to the SEA for the quarters of 2010-13.

1.1.1 Results and Discussions

In the late 1980s, the major export markets for the marine products of Kerala were Japan, the US and the EU. Together these markets accounted for 91 percent and 87 percent of the marine product exports from the state in terms of quantity and value respectively. But the mid 1990s witnessed greater degree of market diversification as the share of the newer markets such as the SEA, the Middle East Asia (MEA), China, Turkey, Tunisia, etc improved both in terms of quantity and value. The share of the SEA in the marine product exports of Kerala rose from 7 percent to 16 percent in terms of quantity and from 5 percent to 8 percent in terms of value during 1995-96 to 2009-10. The importance of the SEA market for the marine product exports of Kerala is reflected in the compound annual growth rate recorded during the period 1995-96 to 2009-10 (see Table 2). The compound annual growth rate of marine product exports to the SEA was significantly higher than those registered for traditional markets.

Table 2 about here

Figure 1 about here

The quantity of marine product exports from Kerala (Figure 1a) registered an increase from 5163 tonnes in 1995-96 to a high of 17425 tonnes in 2009-10. In terms of value (Figure 1b), the exports of marine fish and fishery products from Kerala to the ASEAN nations increased from Rs. 3920.74 lakh in 1995-96 to Rs. 14030.69 lakh in 2009-10 (Note 2).

Table 3 about here

The prospects of the SEA for marine product exports of Kerala are assessed through models of best fit. Quantity of marine product exports from Kerala to the SEA during the period is found to be simple seasonal. As the t value is significantly related at 0.001 levels, it can be concluded that the quantity of marine product exports from

Kerala to the SEA during the given period is influenced by seasonality. However, the value of marine product exports to the SEA from Kerala during the period is ARIMA (0, 0, 0) (0, 1, 1), is statistically significant at 0 .001 level suggesting the marked influence of seasonal random error term on the series (see Table 3). This is further used to forecast quantity and value of marine product exports from Kerala to the SEA for all the quarters during 2010-13.

Table 4 about here

(3)

The forecast numbers given in Table 4 clearly exhibit the influence of seasonality for quantity, while the forecast numbers are not free from the influence of the current and lagged values of seasonal random error terms for value. The quantity and value of marine product exports to the SEA peaked during the II and III quarters of every year which coincide with the periods of peak activity in the marine sector of the state. A decline is observed in quarters I and IV, which also coincides with the dull phase of activity in the marine sector of Kerala. When the harvest season comes and the seafood export units are working to their optimal capacity, the quantity and value of marine product exports moving to the SEA definitely picks up. This suggests that the SEA is a promising market for our marine product exports especially in terms of quantity as it is not possible to overlook the influences of irregular variations on the value of exports.

2. Conclusion

The provisions in the TIGA between India and ASEAN nations pertaining to fish and fishery products are biased in favour of the SEA. The tariff reduction or elimination commitments on imports of fish and fishery products offered by India are definitely greater than that it has received from the ASEAN member nations. Besides, tariff reductions in ASEAN nations in line with TIGA may not benefit India's fish and fishery product exports as expected because most of the ASEAN nations have a low MFN base rate. Further, the ASEAN nations have included most of the prominent items of India's fish and fishery product exports such as frozen shrimp, frozen tuna, frozen mackerel in their restrictive list such as EL, ST, HSL B and HSL C. However, the exports of marine fish and fishery products from Kerala to the SEA have increased since the mid 1990s. This is evident from the rise in the share of the SEA in the marine product exports of Kerala in terms of quantity and value from 1995-96 onwards. The compound annual growth rate of marine product exports from Kerala to this market too is higher compared to the traditional markets. This is relevant as the marine product exports from Kerala had to face several challenges in its traditional markets such as the EU, the US and Japan owing to the strengthening of food safety standards and technical regulations in the post WTO phase in the wake of the SPS and TBT agreements.

In this context, India can capitalize the opportunity to make further inroads into the South East Asian nations, only if the ASEAN nations open up their markets further by giving greater access to fish and fishery products such as frozen shrimp, frozen tuna etc. in which India has a comparative advantage. The AIFTA in the present framework does not offer much prospects for our marine product exports in the SEA market. It calls for further liberalization and preferential treatment for the marine product exports of India so that we can capitalize on the gains that have already been made.

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Notes

Note 1. HSLB and HSLC calls for reduction of MFN rates by 50 percent and 25 percent respectively.
Note 2. Lakh = 0.1 million

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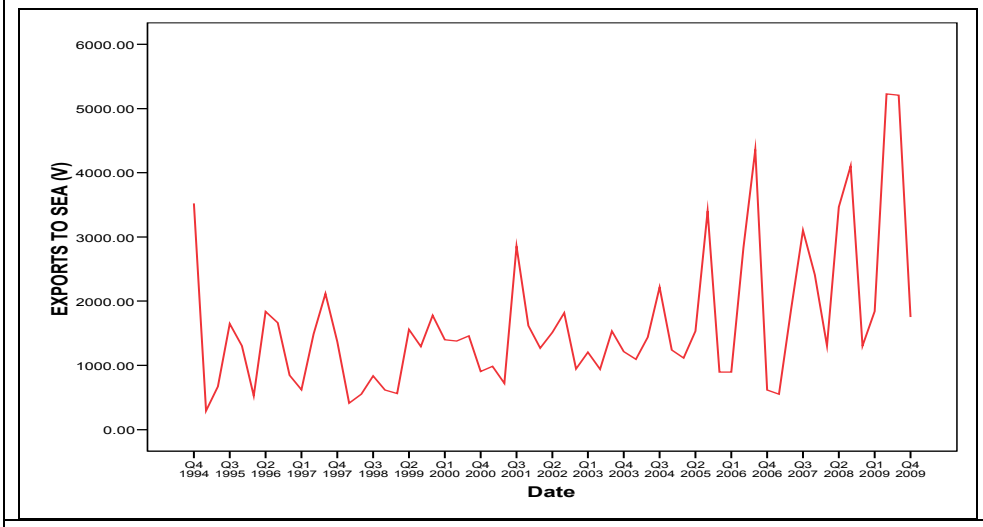
1(a) Q-quantity in tonnes



1(b) V-value in Rs. Lakhs

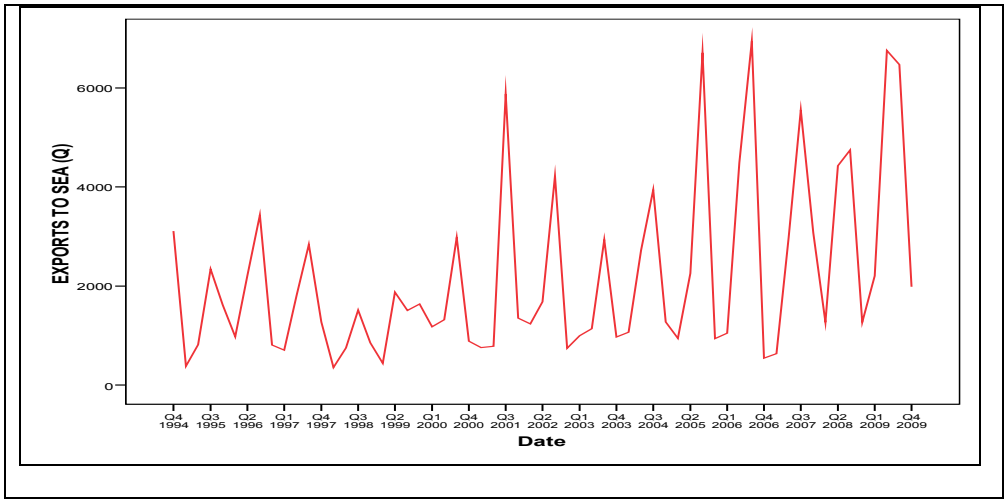


Figure 1 Marine Product Exports from Kerala to the SEA during 1995-2010
Source: computed from MPEDA data (1996- 2010)

Table 1 Number of tariff lines under tariff reduction/elimination category of ASEAN vis-à-vis India

Country	NT1	NT2	ST	HSL			EL	NT2/ SL	NT1/ NT2	Total
				A	B	C				
Brunei Darussalam	94	-	-	-	-	-	-	-	-	94
Cambodia	96	-	9	-	-	-	1	-	-	106
Indonesia	-	62	4	-	-	19	17	4	-	106
Lao PDR	100	-	5	-	-	-	-	1	-	106
Malaysia	106	-	-	-	-	-	-	-	-	106
Myanmar	64	-	7	-	-	-	23	-	-	94
Philippines	45	15	5	-	-	-	39	1	1	106
Thailand	68	-	17	-	-	-	21	-	-	106
Singapore	-	-	-	-	-	-	-	-	-	-
Vietnam	9	63	-	-	-	-	22	-	-	94

Source: Ministry of Commerce, Govt. of India (2011)

Table 2 Export Growth Rate from Kerala to Various Markets in the Period 1995-96 to 2009-10

Market	Compound annual growth rate (Quantity)	Compound annual growth rate (Value)
The EU	18.21	5.698
The US	6.38	-5.87
Japan	-6.69	-5.52
The SEA	23.92	8.69

Source: computed from MPEDA data (1996- 2010)

Table 3 Best Fit Models for Quantity and Value of Marine Product Exports to the SEA

Marine Product Exports	Best Fitting Models	Model Parameters	Estimate	T value	Level of significance
Quantity	Simple seasonal	Level Season	0.085 0.433	1.114 3.477	0.270 0.001
Value	ARIMA(0,0,0) (0,1,1)	Seasonal MA (1)	0.475	3.398	0.001

Source: Computed from MPEDA Data (1995-2010)

Table 4 The Forecast of Quantity and Value of Marine Product Exports from Kerala to the SEA

			(Quantity in Tonnes)	
Period	**2010**	**2011**	**2012**	**2013**
Q1	1969	1969	1969	1969
Q2	5276	5276	5276	5276
Q3	6071	6071	6071	6071
Q4	2012	2012	2012	2012
			(Value in Rs. **Lakhs)**	
Period	**2010**	**2011**	**2012**	**2013**
Q1	1761.16	1761.16	1761.16	1761.16
Q2	4356.31	4356.31	4356.31	4356.31
Q3	4806.61	4806.61	4806.61	4806.61
Q4	1760.11	1760.11	1760.11	1760.11

Source: Computed from Table 3