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## Session 4 – Opportunities in Asia for the Pacific

*Presentation*

# India and Pacific Islands: Trends and opportunities in Trade and Business

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# India and Pacific Islands: Trends and opportunities in Trade and Business

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## Background

- Combined size of Pacific Island Economies (PIEs) both in terms of GDP and population is less than 1%.
- However, the average per capita income for PIEs as a whole is higher than India
- Compared to India, most of PIEs show higher dependence on trade. Export and import to GDP ratios are higher for PIEs.
- Import to GDP ratios are higher than export GDP ratios for PIEs.
- Import tariff rates in general are lower for PIEs.
- FDI as per cent of GDP is higher for PIEs as compared to developing country average.

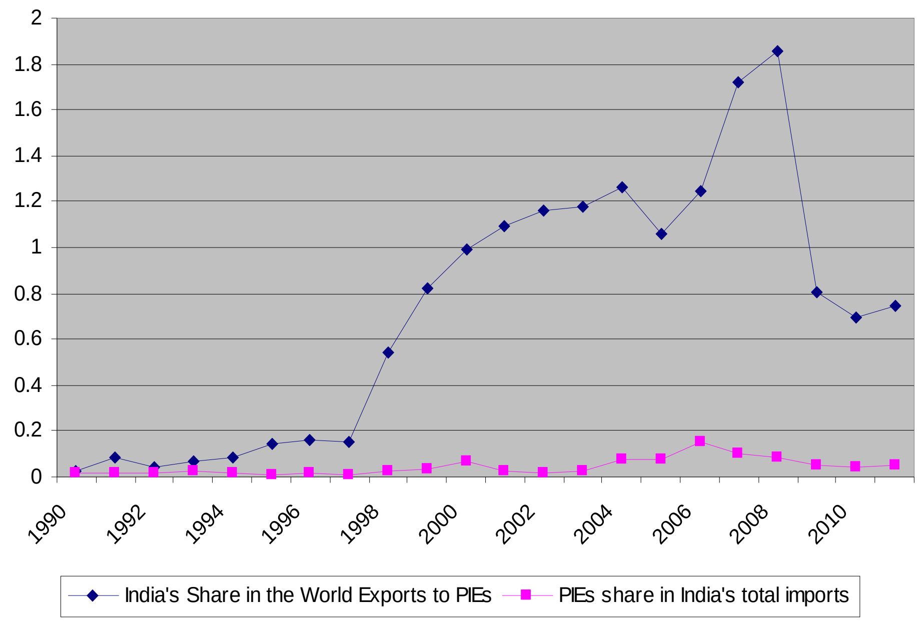
## Trends of India’s exports to PIEs

- During 1990-97, India’s exports to PIEs was very low. It increased significantly during 1998 to 2008. Exports declined to PIE declined again during the global financial crisis 2009 to 2011.
- These trends can also be noticed for India’s share in the total world exports to the PIEs.
- India’s export basket to PIEs is diversified: capital intensive and labour intensive. Fiji accounts the largest share followed by Papua New Guinea
- In order to assess India’s unexploited export potential in the PIEs: remained below 1 during 1990-97; above 1 during 1999-2008; below 1 during 2009-11.

## Table 1: India's Shares in the World Exports to Pacific

| | | 1998 | 2008 | 2011 |
|---|---|---|---|---|
| 0 | Food & live animals | 0.14 | 2.57 | 0.30 |
| 1 | Beverages & tobacco | 0.32 | 0.22 | 0.00 |
| 2 | Crude materials, inedible | 0.12 | 1.40 | 0.91 |
| 3 | Mineral fuels & lubricants | 0.00 | 1.96 | 0.02 |
| 4 | Animal & vegetable oils and fats | 0.04 | 0.00 | 0.02 |
| 5 | Chemicals | 2.30 | 3.34 | 4.13 |
| 6 | Manufactured goods classified chiefly by material | 0.93 | 1.66 | 1.20 |
| 7 | Machinery & transport equipment | 0.20 | 1.49 | 0.51 |
| 8 | Miscellaneous manufactured articles | 3.52 | 4.45 | 3.62 |
| 9 | Commodities & transacts not classified according to kind | 0.12 | 13.99 | 0.04 |

**Fig 2: Shares in Trade**



## Table 2: Composition of India's Trade with the PIEs (% shares)

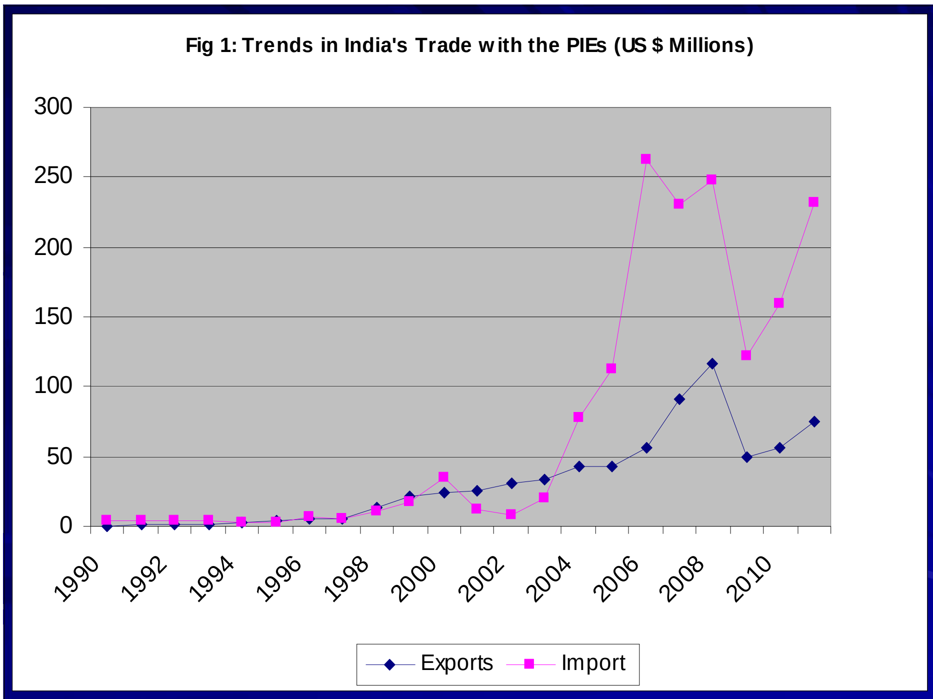
| | | Exports | | | Imports | | |
|---|---|---|---|---|---|---|---|
| | | 1998 | 2008 | 2011 | 1998 | 2008 | 2011 |
| 0 | Food & live animals | 2.4 | 11.7 | 3.5 | 0.0 | 0.2 | 0.1 |
| 1 | Beverages & tobacco | 0.6 | 0.1 | 0.0 | 0.0 | 0.0 | 0 |
| 2 | Crude materials, inedible | 0.2 | 0.5 | 1.0 | 99.4 | 95.8 | 97.3 |
| 3 | Mineral fuels & lubricants | 0.0 | 16.2 | 0.5 | 0.0 | 0.1 | 0 |
| 4 | Animal & vegetable oils and fats | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0 |
| 5 | Chemicals | 19.2 | 8.4 | 27.3 | 0.0 | 0.1 | 0.2 |
| 6 | Manufactured goods classified chiefly by material | 25.1 | 8.7 | 23.3 | 0.5 | 0.8 | 1.8 |
| 7 | Machinery & transport equipment | 9.7 | 17.5 | 21.2 | 0.0 | 2.8 | 0.4 |
| 8 | Miscellaneous manufactured articles | 41.3 | 9.6 | 22.8 | 0.0 | 0.2 | 0.1 |
| 9 | Commodities & transacts not classified according to kind | 1.4 | 27.4 | 0.2 | 0.0 | 0.0 | 0.1 |

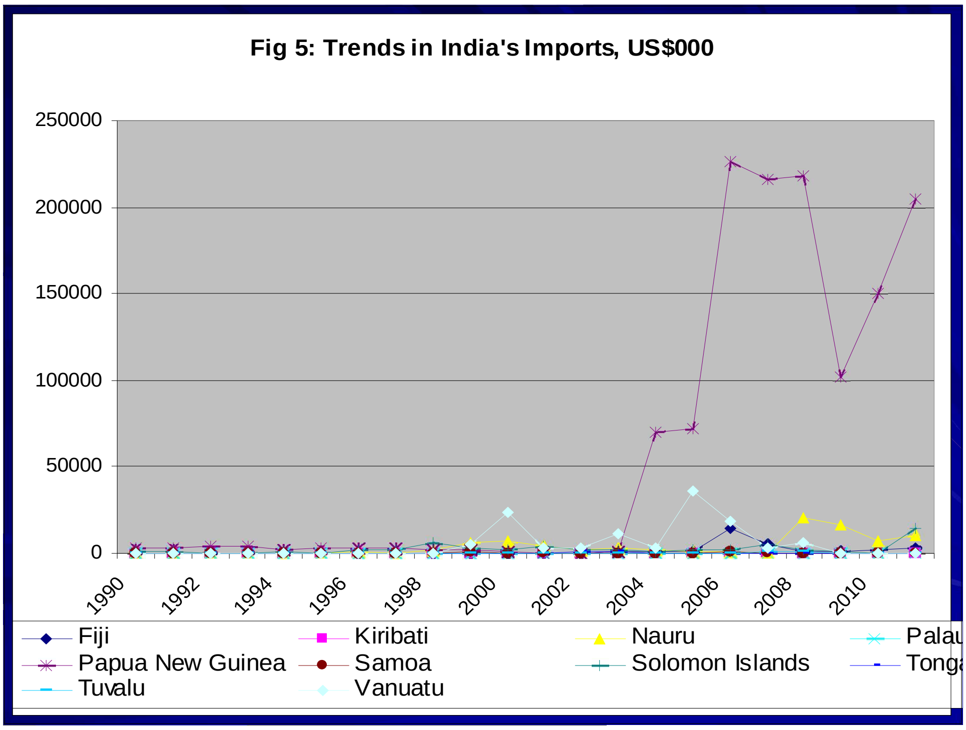
## Trends in India's imports from PIEs

- At the aggregate level, India's imports from the PIEs show similar trend to that of exports.
- Since 2004, the value of India's imports has been much higher than value of exports to PIEs.
- In 2011, the value of imports were three times to exports
- However, India's import basket is extremely concentrated in single commodity category : "crude materials, inedible" accounts for nearly 100%
- At highly disaggregate level, India's major import items include gold, copper ores, timber, copra, marine products, coffee, vanilla and cocoa.

# India’s imports from PIE

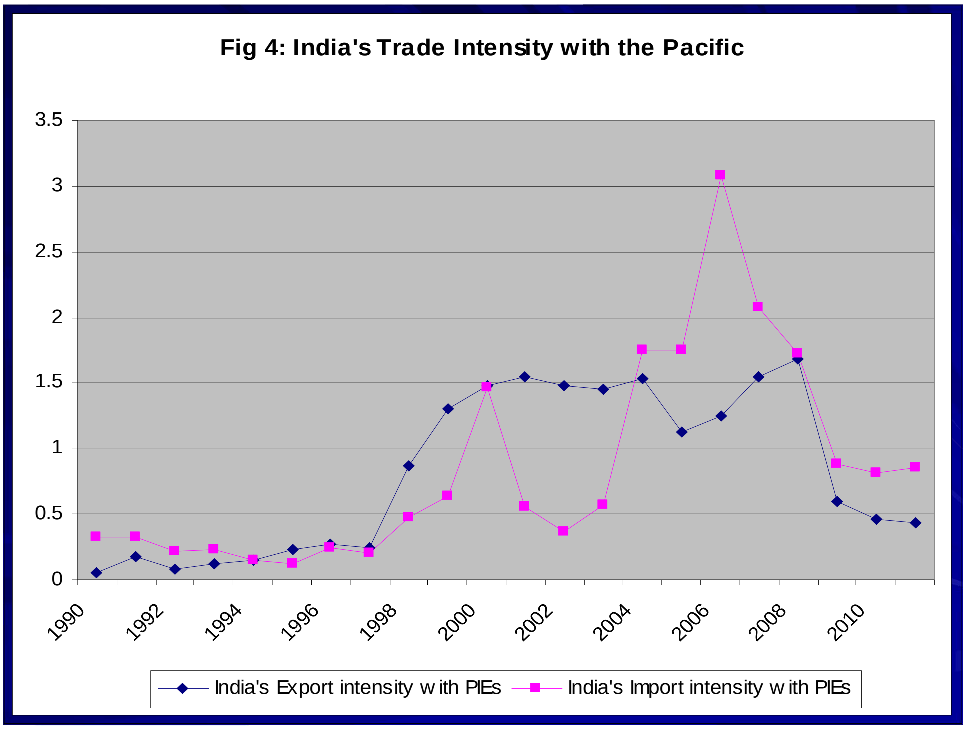
- Most of the imports are sourced from Papua New Guinea
- Import intensity index shows the same trends like exports
- During 1998-2008, MI values were high for five countries.
- Clearly there exists scope for India to increase its current import intensity with the PIEs.
- Revealed comparative advantage index (national export structure/world export structure)
- It shows that generally PIEs have comparative advantage for agriculture and natural resource intensive. Disadvantage in manufa. products






## Table 3: India's Average Trade Intensity with Pacific

| | Export Intensity (EI) | | | Import Intensity (MI) | | |
|---|---|---|---|---|---|---|
| | 1990-97 | 1998-2008 | 2009-2011 | 1990-97 | 1998-2008 | 2009-2011 |
| Fiji | 0.03 | 2.87 | 1.33 | 0.00 | 0.18 | 0.09 |
| Kiribati | 0.10 | 0.89 | 0.14 | 0.05 | 0.10 | 0.24 |
| Nauru | 0.86 | 0.81 | 0.19 | 0.39 | 11.50 | 6.70 |
| Papua New Guinea | 0.11 | 0.60 | 0.32 | 0.25 | 1.14 | 0.96 |
| Samoa | 0.64 | 0.36 | 0.26 | 0.06 | 0.21 | 0.03 |
| Solomon Islands | 0.41 | 1.87 | 0.20 | 0.89 | 2.17 | 0.39 |
| Tonga | 0.51 | 0.55 | 0.21 | 0.00 | 0.70 | 0.20 |
| Tuvalu | 0.17 | 2.04 | 0.07 | 0.00 | 1.85 | 0.65 |
| Vanuatu | 0.51 | 1.58 | 0.44 | 0.00 | 8.47 | 0.00 |




## Table 4: Composition of India's Imports within 'crude materials, inedible' (SITC 2)

| | | 1998 | 2008 | 2011 |
|---|---|---|---|---|
| 24 | Wood, lumber and cork | 82.8 | 14.9 | 34.5 |
| 25 | Pulp and paper | 0 | 0 | 0 |
| 27 | Crude fertilizers and crude minerals | 17.2 | 8.2 | 4.2 |
| 28 | Metalliferous ores and metal scrap | 0 | 76.6 | 61.3 |
| 29 | Crude animal and vegetable material | 0 | 0.2 | 0 |
| | Total | 100 | 100 | 100 |

## Table 5: Index of Revealed Comparative Advantage across Commodity Groups, 2011

| SITC | Fiji | Kiribati | Nauru | Palau | Papua New Ginea | Samoa | Solomon Islands | Tonga | Tuvalu | Vaauatu | **India** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 0 | 10.70 | 15.63 | 0.35 | 17.67 | 2.85 | 1.25 | 3.23 | 10.40 | 16.22 | 7.84 | **1.13** |
| 1 | 18.96 | 0.00 | 0.00 | 1.44 | 0.01 | 0.86 | 0.00 | 3.12 | 0.00 | 0.00 | **0.46** |
| 2 | 1.42 | 0.08 | 19.18 | 0.72 | 7.65 | 0.40 | 14.89 | 5.05 | 0.25 | 0.50 | **1.53** |
| 3 | 0.11 | 0.00 | 0.00 | 0.00 | 1.17 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | **0.89** |
| 4 | 0.98 | 14.89 | 0.03 | 0.00 | 31.98 | 3.20 | 16.10 | 0.00 | 4.41 | 3.53 | **1.10** |
| 5 | 0.18 | 0.01 | 0.02 | 0.01 | 0.00 | 0.21 | 0.00 | 0.14 | 0.06 | 0.01 | **1.24** |
| 6 | 0.44 | 0.07 | 0.04 | 0.01 | 0.51 | 0.28 | 0.06 | 0.50 | 0.17 | 0.01 | **2.10** |
| 7 | 0.03 | 0.20 | 0.10 | 0.03 | 0.03 | 2.07 | 0.01 | 0.14 | 0.20 | 1.67 | **0.43** |
| 8 | 1.03 | 0.12 | 0.08 | 0.00 | 0.02 | 1.46 | 0.02 | 0.11 | 0.15 | 0.01 | **1.24** |
| 9 | 0.48 | 0.19 | 0.01 | 0.53 | 0.04 | 0.24 | 0.23 | 2.02 | 0.01 | 0.07 | **0.45** |

## Business Opportunities and cooperation possibilities

- There are many areas PIEs and India can have liberal trade and investment relationship.
- India should provide greater market access to the PIEs in commodity groups (agri and natural resources)
- Indian tariff rates in these commodities. Duty free access to these commodities
- Similarly PIEs can utilize India's capabilities in manufacturing and services by attracting Indian companies.
- India has been engaging with PIEs to provide develop assistance in the form of training, capacity building and aid.

## Trade and Business Opportunities

- Indian Businesses have also been investing in the PIEs.
- India made commitment to assist Fiji in developing ICT industry. Also helped reform plan for sugar industry.
- Negotiations on India-Fiji double taxation avoidance agreement were completed in Oct. 2011
- Indian companies are interested in investment opportunities in gas, non ferrous metals/ores and infrastructure development.

## India Macro policies

- Fiscal, monetary and exchange rate policies for trade and investments
- Fiscal policies: There was an impressive period of fiscal consolidation during 2002-08.
- During the financial crisis, India followed stimulation policies and that helped recovering investments and growth.
- But, now India's fiscal deficit is high due to earlier fiscal stimulus started in 2008 and rise in subsidies.
- Exp. on subsidies including rose from 1.3% of GDP in 2005-06 to 2.4% of GDP. Oil subsidies.

## Macro Policies

- Recent reforms on diesel prices etc., disinvestment should lead to fiscal consolidation.
- India is also planning to move towards GST (goods and services tax)
- Monetary policy: during 2008-09, India has reduced interest rates. But, once inflation increased India started tight monetary policy and increased interest rates 13 times since 2010.
- Although inflation is more due to supply side, Reserve Bank of India (Central Bank) says monetary policy plays a role in containing demand and price expectations.

## Macro Policies

- Exchange Rate Policy: RBI does not intervene
- There was Depreciation of rupee of about 19 per cent between June 2011 and June 2012 against US $
- RBI intervenes to reduce exchange rate volatility to ensure macroeconomic stability.
- Export and import policy: India has five year EXIM policy 2009-14. But every year it provides measures for promoting exports and remove restrictions for imports.
- India aiming for second generation reforms to improve investments in infrastructure and other sectors and to improve economic growth.
- On Regional cooperation, India has bilateral and regional agreements on trade and investments in Asia and Pacific region.

THANK YOU