

ASSESSING INDIA'S EXPORTS POTENTIAL TO THE EUROPEAN UNION

ANINDITA GOLDAR

ASSISTANT PROFESSOR
KAMALA NEHRU COLLEGE
UNIVERSITY OF DELHI
AUGUST KRANTI MARG
NEW DELHI- 110049, INDIA.

ABSTRACT:

The European Union (EU) is India's largest trading partner, accounting for 16.6% of Indian exports. However, India accounts for only a meagre 2.2% out of the total Extra-EU imports. By contrast, China has a share of 16.6% in Extra-EU imports. The implication is that there is a stark disparity in the India-EU trade relationship. India is lagging behind in its exports performance and there is still potential trade gains left untapped from this trade relationship for India. The present study aims to investigate what Indian merchandise trade flows to the EU would be if India could realize its full exports potential to the EU. To estimate India's exports potential, a gravity model has been estimated using stochastic frontier approach for a panel data set of 57 countries for the period 1999-2012. The results of the study show that firstly, the EU integration has strong trade diversionary effects on India's exports and secondly, India's unrealized exports potential to the EU lies at about 33 per cent. India could possibly exploit this trade potential by the timely conclusion of its Broad-based Trade and Investment Agreement (BTIA) with the EU. Also, the Non-Tariff Barriers (NTBs) that Indian exporters face in the EU markets need to be eased. These two steps will go a long way in making India realize the export potential she has in the EU market.

KEYWORDS: European Union, Gravity Model, India, Stochastic Frontier Approach, Trade Potential.

REFERENCES

Agence Europe (2007), 'Council's Green Light to Launch of Negotiations for Bilateral Free Trade Agreements with ASEAN, South Korea and India', April, Brussels.

Aigner, D., Lovell, K. and Schmidt, P. (1977), "Formulation and estimation of stochastic frontier production function models", *Journal of Econometrics*, Vol. 6, pp. 21-37.

Aitken, N.D. (1973), "The Effect of EEC and EFTA on European Trade: A Temporal Cross-sectional Analysis", *American Economic Review*, Vol. 63(5), pp. 881-892.

Anderson, J. E, van Wincoop, E. (2003), 'Gravity with gravitas: a solution to the border puzzle', *American Economic Review*, Vol. 93(1), pp. 170-192.

Armstrong, S., Drysdale, P. and Kalirajan, K.(2008),“Asian trade structures and trade potential: an initial analysis of South and East Asian trade”, *EABER Working Paper Series*No. 32,The Australian National University, Canberra.

Baier, S. L. and Bergstrand, J.H. (2001), “The Growth of World Trade: Tariffs, Transport Costs, and Income Similarity”, *Journal of International Economics*, Elsevier, Vol. 53(1), pp. 1-27.

Batra, A. (2004), “India’s global trade potential: the gravity model approach”, *ICRIER Working Paper No. 151*, New Delhi: Indian Council for Research on International Economic Relations.

Drysdale, P. and Xu, X. (2004), “Taiwan’s role in the economic architecture of East Asia and the Pacific”, *Pacific Economic Papers* No.343.

Drysdale, P., Huang, Y. and Kalirajan, K. (2000), China’s trade efficiency: measurement and determinants, In: Drysdale, P., Zhang, Y. and Song, L. (eds.), *APEC and liberalisation of the Chinese economy*, Asia Pacific Press, Canberra, pp. 259- 271.

ECORYS Research and Consulting, CUTS International and Centre for Trade and Development (2009), Trade Sustainability Impact Assessment for the FTA between the EU and the Republic of India, Report for the DG Trade European Commission, Brussels: European Commission.

Frankel, J. and Wei, S. (1993), “Trading Blocs and Currency Blocs”, *NBER Working Paper No. 4335*, Cambridge, MA: National Bureau of Economic Research.

Frankel, J., Stein, E. and Wei, S. (1995), “Trading blocs and the Americas: the natural, the unnatural and the supernatural?”,*Journal of Development Economics*, Vol. 47, pp. 61-95.

Kalirajan, K. (1999), “Stochastic Varying Coefficients Gravity Model: An Application in Trade Analysis”, *Journal of Applied Statistics*, Vol. 26(2), pp.185–193.

Kalirajan, K. and Findlay, C.(2005),*Estimating Potential Trade Using Gravity Models: A Suggested Methodology*, Foundation for Advanced Studies on International Development, Tokyo.

Kalirajan, K. and Singh, K.(2008),“A comparative analysis of China’s and India’s recent export performances”,*Asian Economic Papers*, Vol. 7(1), pp. 1-30.

Linnemann, H. (1966), *An Econometric Study of International Trade Flows*, Amsterdam: North Holland Publishing Company.

Meeusen, W. and van den Broeck, J.(1977), Efficiency estimation from Cobb-Douglas production functions with composed error, *International Economic Review*, Vol. 18, pp. 435-444.

Polaski, S., A. Ganesh-Kumar, S. McDonald, Panda M.and Robinson S. (2008),*India’s Trade Policy Choices: Managing Diverse Challenges*, Carnegie Endowment for International Peace, United States.

Rose, A. (2000a.), "One Money, One Market: The effect of Common Currencies on Trade", *Economic Policy*, Vol. 15(30), pp. 7-46.

Rose, A. (2000b.), "The Effect of Common Currencies on International Trade: Where Do We Stand", Financial & Special Studies Division, Economics Department, Monetary Authority of Singapore.

Tinbergen, J. (1962), *Shaping the World Economy: Suggestions for an International Economic Policy*, Twentieth Century Fund, New York.

Yamarik, S. and Ghosh S. (2005), "A Sensitivity Analysis of the Gravity Model", *International Trade Journal*, Vol. 19(1), pp. 83-126.