

Economic Analysis of Bilateral Trade: A Case Study of India-Mongolia

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Abstract

India has enormous potential for bilateral relations with Mongolia (strategically important East Asian country) that shares its borders with China and Russia. The two countries also agreed to explore the possibility of launching direct air connectivity between New Delhi and Ulaanbataar of Mongolia. Mongolia initiated the construction of its first strategically important oil refinery, financed by India in the province of Dornogovi, in the south. The volume of trade between India and Mongolia has also grown at a faster pace in recent years. However, compared to its limited potential, the current economic commitment is limited to the mineral trade only. The paper analyses the structural dimensions of India's bilateral trade with Mongolia, India's trade balance with Mongolia, as well as providing new areas of India's trade with Mongolia.

Keywords: India, Mongolia, Trade, Potentials, Balance of trade.

Introduction

Bilateral trade between India and Mongolia has expanded drastically in recent years. The historical and cultural ties of the two countries have been pushed with the aid of Gangs Khan's dynasty, followed through Buddhism after which through the Silk Route of Asian countries. India mounted diplomatic members of the family on 24 December 1995. India becomes the first country outside the Soviet bloc to establish diplomatic relations with Mongolia seeing that then, there had been treaties of mutual friendship and cooperation between two countries in 1973, 1994, 2001 & 2004. The manner of discussion initiated by the governments of the two countries on the factor of time turned into pretty beneficial in figuring out the commonplace trade pursuits. Efforts had been undertaken to make the most in the economic strengths that allow them to also the monetary relations among India and Mongolia. In the year 1984, India Mongolia entered into the settlement on exchange and financial cooperation, which furnished for MFN reputation to each different in recognise of customs responsibilities and all various taxes on imports and exports. Being desirous to broaden trade and monetary cooperation between the two international locations on standards of equality and mutual provisions of the treaty on pleasant members of the family and collaboration between the Republic of India and Mongolia signed on twenty-second Feb 1994 (8 articles have been shaped). In 2001, two countries signed a “funding AND safety settlement”. In December 2016 Mongolia became included into the ASIA- PACIFIC change agreement (APTA), formerly called BANGKOK agreement, becoming a member of Bangladesh, India China, South Korea, Sri Lanka, and Laos as members and

elevating the possibility of multiplied alternate with South Asian international locations. As a part of this settlement, India decreases responsibility prices on over 3000 gadgets. Mongolia, which joined the world change employer in 1997, seeks to enlarge its participation and integration into Asian political monetary and trade regimes. After the disintegration, the former Soviet Union, Mongolians began to pursue an independent and nonaligned foreign policy. India and Mongolia, joined by using the common thread of Buddhism are spiritual buddies. The relationship was developed to a strategic partnership in 2015. In the course of the visit of PM Modi visit, which coincided with the sixtieth anniversary of the status quo of diplomatic family members among the two nations. India has supported Mongolia in getting the UNITED nations, and NAM both the countries additionally share not a great difficulty on terrorism. The financial relationship among the two international locations is taken into consideration to be one of the most fabulous bilateral family members inside the contemporary worldwide economic situation, and this fashion is anticipated to keep inside the future years.

Literature Review

Shahnawaz Alam (2015), In today's developed world, economic openness is the reality. The asymmetrical distribution of resources and production factors has required the social scientists and economist for interaction, which is mutual and trade cooperation for the development of the economy. The economic and trade agreement between the two countries is more important these days because of the essential for formulating and beneficial feasible strategy for the development of both countries

Prabir and Serya (2017), the extent of India-Mongolia trade has been developing at a quicker tempo since last decade. However, its miles underperformed than its capacity degree. India and Mongolia have robust trade potential in petroleum products, iron, and steal merchandise, cement, minerals. India has the potentiality to spend money on diversified areas of trade and social sectors.

Bolor Lkhaajav (2018), Mongolia, land-locked among politically, economically, and militarily

powerful nations - Russia and China - frequently have to balance its overseas and security guidelines with its pals and countries beyond. The studies essay concludes that Mongolia's overseas and safety rules are effective, timely, efficient in facing both traditional and non-traditional threats.

Sharad K. Soni (2006), the critical thing to making sure long term security and stable equilibrium in Asia lie in the collective potential of Asian countries to build mutual financial stakes. China has grown to be a catalyst in shaping this new order in Asia wherein essential sub-regions (Northeast Asia, Southeast Asia, South Asia, central Asia, and Oceania) have now come to be more and more interactive and entangled in a developing net of interdependence. China is the maximum crucial actor inside the context of nearby cooperation and integration. However, the increasing normative impact of ASEAN is a tremendous using pressure in East Asian regional integration. India's bilateral relationships with China, Japan, and South Korea have been growing and are probably to continue. ASEAN is a critical group and has considerable geo-strategic value for it to be an entity with which all of the elemental powers could interact. Presently, ASEAN holds separate annual summit conferences with China, Japan, and Korea (ASEAN plus 3); and with India (ASEAN plus One). It might be beneficial and additionally a welcoming step if these two summits are merged to create an annual summit of ASEAN Plus four.

Tsengunjav & Gochoo (2015), Mongolian foreign alternate has been turning into more based on a single country, a unique product, and there is no structural shift. In other words, the maximum a part of Mongolian export items consists of the products which have low demand elasticity and low value-added and primarily based on natural resources. Additionally, the diversification of export goods basket is harmful, or even no specific products are included in the basket.

Shahnawaz Alam (2015), economic openness is the reality developed world. The asymmetrical distribution of assets and factor of production has required the economist and social scientists for mutual interaction and change cooperation for the improvement of the global economy. The trade and

financial cooperation among the two countries (India and Mongolia) is extra vital in recent times due to the crucial for formulating a feasible and useful strategy for the development of both nations

Objectives

The study is based on the following purposes:

- To assess the structural dimensions of India's bilateral trade with Mongolia.
- To explore the nature of India's balance of trade with Mongolia.
- Identify the further scopes of India's trade with Mongolia.

Sources of Data

The study is based on secondary sources of data like published papers, journals, magazines, official websites etc.

Methodology

Regression Analysis (OLS Method)

The regression analysis is used to estimate Future projection of Mongolia's trade share in Indian trade markets as under

$$Y = a + T + u_t$$

Y = the value of the dependent variable
(Total Trade)

a = intercept coefficient

= coefficient of the independent variable

T = Independent Variable (in our case it is time)

u_t = the error of prediction

Growth Rate

The growth rate between two periods is determined by the following equation

$$\frac{Y_t - Y_{t-1}}{Y_{t-1}}$$

Where Y_t trade volume at current is the period T and Y_{t-1} is trade volume at the previous period.

India's Exports to Mongolia

India's exports to Mongolia is meagre as can be seen in table 1. As compared to total exports to the world. The share of Mongolia in total exports of India is almost less than one per cent. As shown in the below table. It was merely 0.002% in 2001 and 0.008

% in 2018. Most of the said time, the growth rate of exports were negative, as shown in the below table. During the year 2001, India exports 1095 billion US dollars, and it went 28469 billion US dollars that are 125 per cent increase.

Table 1 India's Exports with Mongolia (in Billion US dollars), Share and Growth Rate

Time	India's Exports to Mongolia	India's Exports to the World	India's Export Share with Mongolia	Growth Rate
2001	1095	43878489	0.002495528	-----
2002	743	50097958	0.001483094	-0.32146
2003	655	59360659	0.001103424	-0.11844
2004	1306	75904200	0.00172059	0.993893
2005	1121	100352637	0.001117061	-0.14165
2006	2133	121200606	0.001759892	0.902765
2007	1939	145898053	0.00132901	-0.09095
2008	15688	181860898	0.008626373	7.090768
2009	8783	176765036	0.004968743	-0.44015
2010	19521	220408496	0.008856737	1.222589
2011	19898	301483250	0.006600035	0.019313
2012	41267	289564769	0.014251388	1.073927
2013	15851	336611389	0.004708991	-0.61589
2014	7916	317544642	0.002492878	-0.5006
2015	8225	264381004	0.00311104	0.039035
2016	9756	260326912	0.003747596	0.18614
2017	13852	295846887	0.004682152	0.419844
2018	28469	323056409	0.008812393	1.055227

Source: Calculations based on UN COMTRADE

India's Imports from Mongolia

India's imports from Mongolia is very low as compared the imports from the rest of the world. It was merely 5 billion during 2001 and 843 billion in 2018. The share of imports from Mongolia as compared with the rest of society. The growth rate imports were harmful during all the years to expect 2008 and 2009

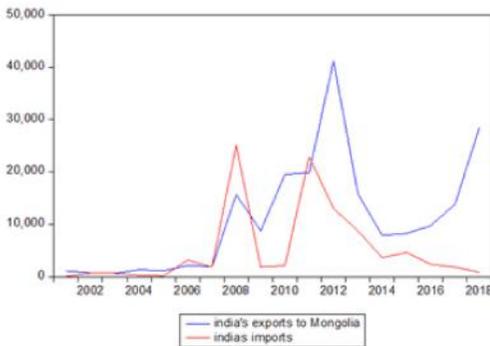
Table 2 India Imports from Mongolia (in Billion Dollars), Share and Growth Rate

Time	India's Imports from Mongolia	India's World Imports	Imports Share from Mongolia	Growth Rate
2001	5	50671106.00	9.86756E-06	
2002	650	57453469.00	0.00113135	129
2003	621	72430524.00	0.000857373	-0.04462
2004	274	98981129.00	0.00027682	-0.55878
2005	141	140861667.00	0.000100098	-0.4854
2006	3,168	178212440.00	0.001777654	21.46809
2007	1,836	218645294.00	0.000839716	-0.42045
2008	25,150	315712106.00	0.007966118	12.69826
2009	1,860	266401553.00	0.000698194	-0.92604
2010	2,096	350029387.00	0.000598807	0.126882
2011	22,875	462402791.00	0.004946986	9.913645
2012	13,023	488976378.00	0.002663319	-0.43069
2013	8,764	466045567.00	0.001880503	-0.32704
2014	3,652	459369464.00	0.000795003	-0.5833
2015	4,618	390744731.00	0.001181846	0.264513
2016	2,353	356704792.00	0.000659649	-0.49047
2017	1,820	444052638.00	0.000409861	-0.22652
2018	843	507580001.00	0.000166082	-0.53681

Source: Calculations based on UN COMTRADE

India and Mongolia Trade Balances

India's trade was surplus during almost all the years of the study period. However it was a deficit during 2006 and 2008 as can be shown from below figure.it can be demonstrated from the chart that from 2011 exports are growing slowly as compared to imports from Mongolia. It can be shown imports in recent years are showing a negative trend while exports are showing a positive direction.



India's Trade with Mongolia: Future Projection

To estimate the trend values, we use the following equations

$$Y = a + T + u_t$$

Y = the value of the dependent variable (Total Trade)

a = intercept coefficient

= coefficient of the independent variable

T = Independent Variable (in our case it is time)

u_t = the error of prediction

we use the following equations

$$Y = n + T^2 (2)$$

$$TY = n a + T^2 (3)$$

By using Eviews and cross-checking it within Stata software, we get the following trend equation results as.

Table 3 Trend Regression Results

Dependent Variable: LOG_TRADE				
Method: Least Squares				
Sample: 2001 2018				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-383.5012	81.54328	-4.703039	0.0002***
TIME	0.195335	0.040579	4.813714	0.0002***

*** Significant at 1% level of significance.

From the trend equation we get = -383.5 and = 0.19

Therefore estimated trend equation is

$$\hat{y} = -383.5 + 0.19T$$

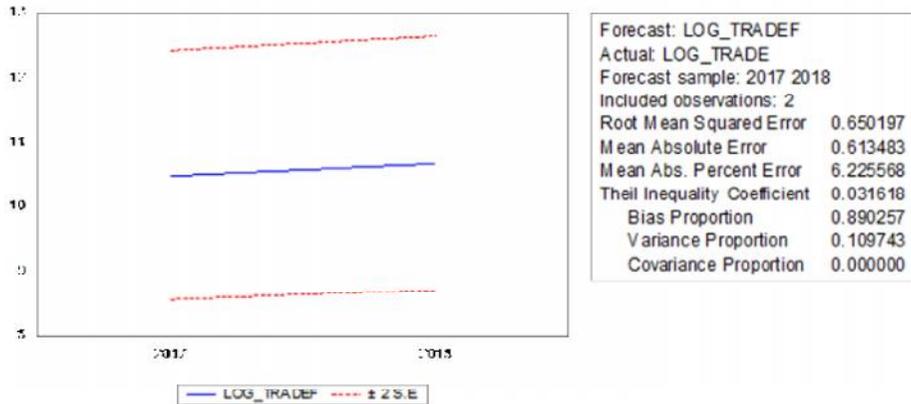
Estimated Projection of India's trade with Mongolia for the year 2020 is

$$y(2021) = -383.5 + 0.19(2021)$$

= 0.49 Per cent

The estimated Mongolia Trade share at 0.49 per cent in India's total trade indicates little potentials for India's Trade with Nepal by the year 2021. The forecasting graph from 2017 to 2021 is as

Graph 2 Forecasting results from 2017 to 2021



Conclusion and Policy Recommendations

India has enormous potential for bilateral relations with Mongolia (strategically important East Asian country) that shares its borders with China and Russia. The two countries also agreed to explore the possibility of launching direct air connectivity between New Delhi and Ulaanbaatar of Mongolia. Mongolia has begun the construction of its first strategically important oil refinery, financed by India in the southern Dornogovi province. The refinery will be capable of processing 1.5 million tons of crude oil per year, equivalent to nearly 30,000 barrels per day. It is scheduled to be completed by the end of 2022. Once it is completed, it will meet all the demands of gasoline, diesel and nations. LPG aviation fuel. India extends a billion dollar line of credit (loc) to Mongolia to develop institutions, infrastructure and human resources in Mongolia. The place was expanded as part of the announcement made by Prime Minister Narendra Modi during his visit to Mongolia in MAY 2015. The site was announced for infrastructure development and economic expansion. Mongolia is a landlocked country that relies heavily on foreign trade and investment. China and Russia represent a large part of Mongolia's trade and investment. The volume of trade between India and Mongolia has also grown at a faster pace in recent years. However, compared to its limited potential, the current economic commitment is limited to the mineral trade only. India and Mongolia have strong commercial potential in petroleum products, iron and steel products, pharmaceutical cement, minerals, etc. India has the potential to invest in diversified areas of commerce and social sectors. India's line of credit

includes a loan of \$ 700 million for the oil refinery and \$ 264 million for oil pipelines. The strategically important oil refinery will make Mongolia independent of energy imports and stabilise the prices of fuels and which are raw in its domestic markets. It is expected to increase Mongolia's GDP by 10%. The vast reserves of Mongolian oil are made by Saudi Arabia from Central Asia. Mongolia is a new producer in the global oil and gas industry with proven reserves of 2.3 billion barrels of oil instead. Compared with export, Indian imports from Mongolia have been driven primarily by wool, which had a 93% share, in total Indian imports from Mongolia in 2015-2016. Imports of other products have been very insignificant against popular belief; India has not yet been the destination of Mongolia's primary copper, gold, mining industry exports, in collaboration with the coal, oil and oil resources of India's IT and information communication technology. Mongolia has a strong dependence on its base. India could build IT parks, creating special economic zones (SEZs) in Mongolia. India can consider playing a crucial role in supporting the infrastructure and institutions of Mongolia, especially in trade and education. Indian investment in social infrastructure, such as health and skills development, can help foster partnership between the two countries. With the deep-rooted history of the interactions, India and Mongolia could record their relationship through greater cooperation in the economic, social, political, cultural and security areas. The relationship between security areas. The relationship between them could attempt to untapped regional accessibility through stronger dynamic cooperation.

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