Growth of India's trade with individual SAARC Countries

Dr. K.Maheswararao, Academic consultant , Dept. of Economics, V.S.U.P.G. Centre, Kavali- SPSR, Nellore District

Abstract:

The present paper explains the growth of India's trade with individual SAARC countries. It focuses   the underlying theoretical philosophy for regional trading arrangements the evolution of the south Asian association for region cooperation (SAARC), SAARC preferential trading arrangement (SAPTA), south Asian free trade area (SAFTA) analyze the level and growth of India's trade with the SAARC region and individual SAARC countries. It is found that the quantum of India's trade with SAARC region and individual SAARC countries is very low in relation to her total world trade. They have been largely depending on Developed countries for both exports and imports. As a result, the intra- regional trade has not tended to grow overtime in an optimum basis among the member countries even after the formation of SAARC.

Key words: SAARC, intra- regional trade, economic growth, political freedom

Introduction

 The south Asian pre trade association (SAFTA) has set out from January 2004 and it is expected to reach full-fledged stage by 2016 .skepticism is expressed over its full operational mainly due to political reasons .hence ,India's trade with the individual SAARC countries are mostly governed by bilateral agreements reached between India and individual SAARC countries from time to time to promote mutual trade . Many Countries in Asia Africa were under the colonial powers of Britain and other Western European Countries during the nineteenth century and early twentieth century. These colonial powers have introduced a sort of one-way free trade to sub-serve the colonial interests. These countries were deliberately made to export raw materials and import manufactured goods. As a result the economic growth in the colonies was subordinated to the needs of the imperial powers. The lopsided economic policies followed by these colonies powers have brought about a very little change in the economic structure of these countries. These countries by and large remained predominately agrarian in nature with nascent manufacturing sector. The political freedom achieved by the colonies had not brought about radical transformation in their manufacturing and trading sectors of these economies for a very long period.

Scope of the present study

South Asian is inherently indo-centric in nature. As a result, regional venture for cooperation and collaboration can be successful only when India does play a Pivotal role. in view of her dominant position in the region in terms of size, population, economic, scientific, technological and military developments, India's relations with SAARC countries assume a great significance. Keeping these aspects and the research gaps mention above, an attempt is made in the present study to analyze growth and structure of India's bilateral export and import trade relations with individual SAARC countries as well as India's international and intra –SAARC trade. Special emphasis is paid to analyze the changing structure of the commodity composition at SITC three digit levels.

Objectives

The following are the specific objectives of the study

1. To understand the underlying theoretical philosophy for regional trading arrangements
2. To trace the evolution of the south Asian association for region cooperation
3. (SAARC), SAARC preferential trading arrangement (SAPTA), south Asian free trade area (SAFTA);
4. To study the profile of the SAARC countries in its various dimensions;
5. To analyze the level and growth of India's trade with the SAARC region and individual SAARC countries;

6. To suggest the appropriate policy measures to boost India's trade with SAARC countries.

Hypotheses

1. Free trade philosophy has seen a renaissance in the world during the late 1980s;
2. The evolution of SAPTA and SAAPTA has been very slow
3. The level of India's trade with the SAARC region is highly insignificant
4. India's trade with SAARC countries grew at significant levels;
5. There are bright prospects for cooperation between India and other SAARC countries.

Data sources

The study is based on secondary data published by various agencies and organizations. The present study makes use of data compiled by the Director General Commercial Intelligence and Statistics (DGCI&S), Calcutta. The data are published

By various agencies including Government of India, Reserve Bank of India and many international organizations and are put in websites. The study culled out data from all such published sources like Economic Surveys of Government of India, RBI Bulletins, Hand book of Statistics on Indian Economy published by RBI and world Development Reports and world Development indicators published by World Bank as well as from relevant websites for the present study.

Period of the study

The present study analysis India's trade with SAARC countries from 1995-96 to 2005-06. The selection of the year 1995-96 is based on two considerations. First, the government of India has introduced far- reaching economic reforms both in internal and external sectors in the year 1991.The Structural Adjustment program me initiated on the domestic front and liberalization of foreign trade, payments and foreign capital regimes on the external front would begin to yield results only after a couple of years. Secondly the long run trends in exports and imports could be clearly visible only when at least 10 to 12 year period is considered for computing trend growth rates. Hence, the study chose the year 1995-96 as the beginning of the study period. Since, the latest year for which final data are available is 2005-05-6, the same is taken as the terminal year for the study.

Tools of Analysis

Simple growth rate (SGR) gives yearly growth rate or percentage increases over the previous year. It is defined as;

$$S.G.R = \frac{Yt - Yt-1}{Yt-1} \times 100$$

In the above equation, Y stands for value of the trade variable in the year t Y_{t-1} refers to the value of the variable in year Y_{t-1}

Trend growth rate has been computed for over a period of time based on the data for all the years. Semi-log trend function was used in the present study. The functional form is Y=ab. After taking logarithms on both sides, the function becomes;

$$Log = log\ a + log\ b$$
$$Y = a* + t\ b*$$

And the ordinary least squares method was used to estimate the values of a* and b*. From the estimated b value, the compound growth rate (C.G.R) was computed using the formula

$$C.G.R. = (anti\text{-}log*\text{-}1)\ X100$$

The significance of the growth rate was tested using student s t test SEE (b*) and r values.

$$t = b*/SEE\ (b*)$$

Significance and Limitations of the Study

Achievement of economic growth through regional economic integration is a widely accepted policy goal today, both in advanced and less developed countries. In deed there is hardly any region in the world. In which bilateral are multi-lateral cooperation and integration arrangements are not either found or are not actively in prospect .The Asian sub-continent is typical example of a bunch of developing countries. Where the potentialities of effective regional economic cooperation and integration, it may be regarded as key to the achievement of economic growth. The study throws light both on progress and prospects in such efforts and also the factors hindering and promoting effective cooperation among SAARC countries. The findings of the study would provide

use full in site in to the problems involved in economic cooperation among developing countries that as pire to develop through mutual cooperation. However the results of the study are subjected to the constraints imposed by the non-availability of data. There is no availability of data forced to limit the study greatly to the analytical aspects rather than going in to the predictive aspects.

India's trade with Nepal

India's trade and economic relations with Nepal is the product of the age old cultural geographical and economic ties that have been persisting between the two countries since the dawn of civilization in the Indian sub-continent. The Indo –Nepal trade relations acquired a new dimension in 1951when the first treaty on trade and commerce, was signed between the two countries. Since Nepal is a land locked country, treaties on trade and transit used to be entered between the governments of two countries almost every five years. The treaties gave provisions for conducting mutual trade in rupees, dismantling basic customs duties as well as quantitative restrictions. Agreements were also reached to promote technical cooperation and diversify trade between the two countries. Table 1. incorporates absolute values of India's exports to and imports from Nepal along with the percentage shares in relation to India's total exports and imports.

Table 1. India's exports to and imports from Nepal and world
(Value in US$ million)

Years	Exports	Imports	Exports to world	Imports from world	2 as %of 4	3 as % of 5	Balance of trade(2-3)
1	2	3	4	5	6	7	8
1995-96	160.0	49.1	31794.9	36675.3	0.50	0.13	110.9
1996-97	165.7	64.1	33469.7	39132.4	0.49	0.16	101.6
1997-98	170.0	95.2	35006.4	41484.5	0.48	0.22	74.8
1998-99	122.4	144.9	33218.7	42388.7	0.36	0.34	-22.5
1999-00	151.2	188.6	36822.4	49670.7	0.41	0.38	-37.4
2000-01	140.8	255.1	44560.3	50536.5	0.31	0.50	-114.3
2001-02	214.5	355.9	43826.7	51413.3	0.49	0.69	-141.4
2002-03	350.4	281.8	52719.4	61412.1	0.66	0.45	68.6
2003-04	669.4	286.0	63842.6	78149.1	1.05	0.36	383.4
2004-05	734.1	345.8	83535.9	111517.4	0.88	0.31	388.3
2005-06	860.0	380.0	105152	157056	0.82	0.24	480.0

Source : Reserve bank of India (2006) ,Hand Book of Statistics on the Indian Economy ;2005-06 Mumbai ;reserve bank of India ,pp ,230-31. Government of India (2008), economic survey -2007-08 New Delhi; Ministry of Finance pp A-94&A-9

It could be seen from the table that India's exports to Nepal soared from US$160.0million to US$ 860.0 million registering more than a five –fold increase in the 11 year period in the value of India's exports to Nepal during the period under study. India's imports from Nepal , occasionally outstripping her exports , rose from US$49.1million to US$380.0 million during the same period. Consequently, the trade balance was negative for some years. However, since 2002-2003 India's exports were consistently higher than her imports from Nepal .Hence, trade balance began to show positive and improved levels.

India's exports to Nepal as a proportion of formers total exports rose from 0.05 percent to the peck level of 1.05 percent in 2003-04 amidst wide fluctuations. In the last year of the study period viz, 2005-06, the proportion of India's exports to Nepal stood at 0.82 percent. India's imports from Nepal constituted a still lesser proportion. It varied from a low of 0.13 percent to a high of 0.69 percent in various years of study period. In the last year of the study period 2005-06 India's imports from Nepal constituted only 0.24 percent of India's total imports from World.

The analysis of the results the growth rate presented in Table 2 clearly indicated spectacular growth of both exports and imports. India's exports to Nepal in terms of compound growth rate recorded to be staggering 27.04 percent per annum during the period 1995-96 to 2005-06 with one of the lowest values of SEE at 0.026

Table 2. Growth rates of India's total exports to and imports from Nepal

Country	variable	Type of growth rate	Value of Growth rate(%)	R^2	SEE of b-value	t- value
	Exports	CGR	27.04	0.90	0.026	9.07
Nepal	imports	CGR	16.55	0.64	0.038	3.99

Note : CGR : Compound growth rate, The choice of between LGR and CGR was based on the value of R^2 and the standard error of estimate (SEE) of b-value, t-critical /table value for n-2=11-2=9d .f. at1 percent probability level is 3.250 :Source: Computed for data in Table 1.

In view of these, India's exports to Nepal were statistically significant at one percent probability level. India's imports from Nepal grew at no less significant levels. The computed compound growth rate of imports was 16.55 percent per annum with R^2 value of 0.64 and SEE value of 0.038. Consequently, the growth of India's imports from Nepal was also statistically significant at one percent probability level. It should be noted that the computed t test statistic values were 9.07 and 3.99 respectively for exports and imports and these were higher than the table or critical or theoretical t values of 3.250.

India's trade with Pakistan

By and large India and Pakistan do not have cordial economic and trade relations mainly due to political reasons.

From 1966-1974, there was absolutely no trade between India and Pakistan due ti Indo-Pak wars of 1965 and 1971. The Simla agreement of 1972 paved the way for normalization of relations between two countries. Nevertheless, mutual trade resumed only after the signing of a trade agreement in 1975 and Pakistan agreed to import select items like textiles, machinery accessories and auto parts from India. The high level talks held in 1977 considered the possibility of further diversification of mutual trade between the two countries. Ever since the SAARC came into being India's trade relations with Pakistan began to improve, but not yet perfectly normalized. Consequently, the full potential of Indo-Pak trade is yet to be realized. Nevertheless Table 1.2 incorporates the data on India's exports to and imports from Pakistan along with the ratios to India's total exports and imports. It could be seen from the table that India's exports to Pakistan in value terms surged from US$76.8 million to

only US$286.9 million between 1995-96 and 2003-04, registering only a threefold rise during the 9 year period. There were also wide fluctuations in the year to year exports to Pakistan. Only in the last two years viz, 2004-05 and 2005-06, India's exports to Pakistan began to show the signs of improvement,.

India's exports to Pakistan nearly doubled between 2003-04 and 2004-05 from US$286.9 million to US $521.1 million and in the next year i.e. 2005-06, India's exports to Pakistan rose by one – third. In the case of imports expect in the terminal year there was near stagnation or only snail movement. For instance , India's imports from Pakistan could double from US $45.1 million to US $95.0 million during the long period of ten years between 1995-96 and 2004-05. Only in the terminal year of the study period , there was a quantum jump in imports from US$95.0 million to US $179.6 million

Table 3. India's exports to and imports from Pakistan and World(V US$ million)

Years	Exports	Imports	Exports to world	Imports from world	2 as %of 4	3 as % of 5	Balance of trade(2-3)
1	2	3	4	5	6	7	8
1995-96	76.8	45.1	31794.9	36675.3	0.24	0.12	31.7
1996-97	157.2	36.2	33469.7	39132.4	0,46	0.09	121.0
1997-98	143.2	44.4	35006.4	41484.5	0.40	0.10	98.8
1998-99	106.1	214.4	33218.7	42388.7	0.32	0.50	-108.3
1999-00	92.9	68.2	36822.4	49670.7	0.25	0.14	24.7
2000-01	186.8	64.0	44560.3	50536.5	0.42	0.12	122.8
2001-02	144.0	64.8	43826.7	51413.3	0.33	0.12	79.2
2002-03	206.2	44.8	52719.4	61412.1	0.39	0.07	161.4
2003-04	286.9	57.6	63842.6	78149.i	0.45	0.07	229.3
2004-05	521.1	95.0	83535.9	111517.4	0.62	0.08	426.1
2005-06	689.2	179.6	105152	157o56	0.66	0.11	509.6

Source: Reserve bank of India (2006) ,Hand Book of Statistics on the Indian Economy ;2005-06 Mumbai ;reserve bank of India ,pp ,230-31. Government of India (2008), economic survey -2007-08 New Delhi; Ministry of Finance pp A-94&A-99

.India's exports to Pakistan as proportion of her total exports has all along been less than one percent. For instance , between 1995-96 and 2005-06, India's imports from Pakistan as a proportion of former total exports rose from paltry 0.24 percent to 0.66 percent. During the same period , India's imports from Pakistan as a proportion of former s total imports actually declined from 0.12 percent to 0.11 percent amidst wide fluctuations . Expect in the one year in 1998-99 in all the years the trade balance with Pakistan was favorable to India and also improving. The inferences of growing trend in exports and the fluctuating trend in imports from Pakistan are broadly reiterated by the results of the compound growth rates presented in Table-4. It could be seen from the table that India's exports to Pakistan grew at the rate of 19.52 percent per annum.

The exports growth was also statistically significant as could be seen from the computed t test value of 5.08. The R^2 value was relatively high at 0.74 and the SEE of b value was relatively low at 0.035 implying goodness of fit of the data to the semi-log function chosen. The growth rates of India's imports from Pakistan was however, not statistically significant as the t test value of 1.46 was less than the critical or theoretical r table t value

Table 4.Growth rates of India's total exports to and imports from Bhutan

Country	variable	Type of growth rate	Value of Growth rate(%)	R^2	SEE of b-value	t- value
	Exports	CGR	19.52	0.74	0.035	5.08
Pakistan	imports	CGR	7.90	0.19	0.052	1.46

Note : CGR : Compound growth rate' the choice of between LGR and CGR was based on the value of R^2 and the standard error of estimate (SEE) of b-value. t-critical /table value for n-2=11-2=9d .f. at1 percent probability level is 3.250 . Source: Computed for data in Table 3

To sum up the quantum of India's trade with SAARC region and individual SAARC countries is very low in relation to her total world trade. Nevertheless the growth rates of india,s trade with the both SAARC region and individual SAARC countries were higher than that of her total trade with the world.

Major Finding of the Study

India's trade with individual SAARC countries was also growing at significant levels as was brought out in the paper

1. India's trade with Nepal though exhibited moderate progress until 2002-03, it gained momentum thereafter. While exports registered a staggering growth of 27 percent per annum, imports grew at no less significant level of about 17 percent per annum. Expect in one year , the share of India's trade with Nepal as a proportion of India's total exports

and imports were less than one percent. The growth of both exports and imports were statistically significant.

2. Pakistan, though an important regional power in SAARC region, next only to India's trade with Pakistan has been insignificant accounting for less than 0.66 percent all through the study period.

3. While the growth of India's exports of 19.52 percent to Pakistan was statistically significant, its import growth of 7.90 percent was not statistically significant..

4. Next to Bangladesh, Srilanka was India's major regional trade partner with the share in exports ranging from 1.26 percent to 2.06 percent during the same period..

5. While growth of exports to Bhutan was statistically significant, the growth of imports was not statistically significant at one percent probability level.

6. India's exports to Sri Lanka registered a growth rate of 16.85 percent, while import registered a spectacular growth of 30.74 percent. Both the growth rates were statistically significant at one percent probability level. In fact , it was the highest Policy Suggestions

On the basis of the analysis and brief presentation of results of the study, the following conclusions and policy suggestions logically emerge.

1. India's exports to SAARC region, more particularly its imports from the SAARC region have been highly insignificant and hence there is a need to boost up India's regional trade with SAARC countries.

2. The growth of India's trade with SAARC region, though, was relatively higher than that of total trade with the world, the growth momentum is not sufficient and needs to be further accelerated.

3. India's trade with Pakistan the second most important regional power in the SAARC region is not in commensurate with the potential. Setting apart political difference, trade relations with Pakistan need to be further improved

4. A further analysis of commodity composition of India's trade with the SAARC region, though not done here, may reveal that there are many agricultural and environmental goods which could be imported from Sri Lanka, Nepal, Bangladesh and Bhutan. The possibility of inclusion of such goods should be identified and trade relations with these countries must be further improved.

5. The new initiative of establishment of SAFTA, though late , is a welcome measure in this direction .The modalities to be fulfilled for the establishment of full-fledged SAFTA are to be completed as scheduled or in advance so that there will be a further boost to regional trade.

6. Since all the SAARC countries are geographically contiguous, the cost of transportation of goods could be greatly minimized giving impetus for trade creation once duty elements are completely dismantled under the proposed SAFTA.

References

1. Gandhi and Gandhi (1977), World Trade and Developing Countries, Foreign Trade Review, July-sep, pp, 137-144

2. Shah, M.(1968), Developing Countries and UNCTAD, New Delhi: vora and Company, p. 28.

3. Rahman, A.(1985).Political Economy of SAARC, New Delhi: Sterling Publishing private Ltd. p.5

4. World Development Report-2005, 2006, and 2007,(World Bank)

5. World Bank (2006), World Development Indicators—2006, Washington D.C.: The World Bank.

6. IMF, International Financial Statistics Year book-2006-07.

7. Myrdhal, G. (1968), Asian Drama; An inquiry into the Poverty of Nations, Vol-1Harmonds North: The Penguin Press

8. Prebisch,R.(1949). The Economic Development of Latin America and its Principal Problems and Development –Latin Americas Great Task, New York: Praeger Publisher.