



INDIA'S TRADE WITH SAARC COUNTRIES

Dr. K. MAHESWARA RAO

Academic Consultant, Department of Economics,
V.S.U.P.G.Centre, Kavali -524201,SPSR Nellore Dt.

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 SAAR 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 (SAARC), SAARC preferential trading arrangement (SAPTA), south Asian free Trade area (SAFTA);
3. To study the profile of the SAARC countries in its various dimensions;
4. To analyze the level and growth of India's trade with the SAARC region and Individual SAARC countries;
5. 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 Requirement and 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 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:

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

$$S.G.R = \frac{Y_t - Y_{t-1}}{Y_{t-1}}$$

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:

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;

$$\begin{aligned}\text{Log } Y &= \log a + \log b \\ Y &= a^{*t} b^{*}\end{aligned}$$

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

$$\text{C.G.R.} = (\text{anti-log}^{*-1}) \times 100$$

The significance of the growth rate was tested using student's t test SEE (b^{*}) and r values.

$$t = b^{*}/\text{SEE} (b^{*})$$

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 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. The no availability of data forced to limit the study greatly to the analytical aspects rather than going in to the predictive aspects.

India has greatly liberalized her external trade, payments and investments ever since the introduction of new economic policy in 1991. This policy popularly known as liberalization, privation and globalization (LPG) has largely resulted in increased growth of exports and imports, easing of balance of payments situation and surging of foreign exchange inflows particularly through foreign direct and portfolio investments. Along with overall increase in trade and investments, there has been a sea change in direction of foreign trade also. The shares of developed countries like U.S.A, U.K. and other western European countries dwindled sharply and that of developing countries particularly those of SAARC and ASEAN surged remarkably. Accordingly an attempt is made in the present paper to analyze the growth of India's trade with SAARC region and individual SAARC countries in absolute terms and in relation with India's total trade.



Growth of Indians Overall Trade with World

As noted above, both India's exports and imports have been showing an impressive growth since the introduction of new economic policy in 1991 particularly since 1995-96. The relevant data are furnished in Table-1.1. As could be seen from the Table, India's total exports at current prices have grown from US \$ 31,794.9 million in 1995-96 to US \$, 1,05,152 million in 2005-06. In other words, there was threefold increase in the volume of exports during the 11 year period. The rate of growth was more pronounced during the second half of the study period as compared to the first half of the study period. During the period under study the imports grow at a higher rate than exports. As could be seen from the table, the imports were up from US\$36,675.3 million to US\$1, 57, 056 showing more than a four –fold rise during the 11 year period. One distinguishing feature of Indians overall trade during the period was negative and rising trade balance all through the period. During the first eight year period from 1995-96, the negative trade balance was fluctuating but during the last two years the trade deficit was nearly doubling. This could be due to rising import bill on account of sharp increase in the international crude oil prices from the year 2004.

Table-1.1: India's Exports to and imports from World and Balance of Trade

(Value in U.S.\$Million)

| Years | India's Exports to world | India's Imports From World | Balance of Trade |
|----------|--------------------------|----------------------------|------------------|
| 1995-96 | 31794.9 | 36675.3 | -4880.4 |
| 1996-97 | 33469.7 | 39132.4 | -5662.7 |
| 1997-98 | 35006.4 | 41484.5 | -6478.1 |
| 1998-99 | 33218.7 | 42388.7 | -9170.0 |
| 1999-00 | 36822.4 | 49670.7 | -12848.3 |
| 2000 -01 | 44560.3 | 50536.5 | -5976.2 |
| 2001-02 | 43826.7 | 51413.3 | -7586.6 |
| 2002-03 | 52719.4 | 61412.1 | -8692.7 |
| 2003-04 | 63842.6 | 78149.1 | -14306.5 |
| 2004-05 | 83535.9 | 111517.4 | -27981.5 |
| 2005-06 | 105152.0 | 157056.0 | -5190.0 |

Source:1. Reserve Bank of India (2006), Hand book of Statistics on the Indian economy 2005-06, Mumbai: Reserve Bank of India, pp.230-31

2. Government of India(2008), Economic Survey-2007-08, New Delhi: Ministry of Finance, pp A-94&A-99

In order to understand the precise rate at which India's exports and imports were growing during period 1995-96 to 2005-06, both linear and comp fitted the data well as judged from high R^2 and low standard error when compared to the linear growth rate. Hence the results of compound growth rate are presented in Table-1.1A. As could be observed from the table India's exports during the period from 1995-96 to 2005-06 grew at an average annual growth rate of 12.07 percent.

When compared to exports, imports grew at a higher growth rate of 13.71 percent per annum. Both the growth rates were statistically significant at one



percent probability levels revealed by the computed t values of 8.04 and 7.07 respectively.

Table 1.1A: Growth Rates of India's total exports to and Imports from World

| Variable | Type of Growth Rate | Value of Growth Rate(%) | R ² | SEE of b-value | t-value |
|----------|---------------------|-------------------------|----------------|----------------|---------|
| Exports | CGR | 12.07 | 0.88 | 0.014 | 8.04 |
| Imports | CGR | 13.07 | 0.85 | 0.018 | 7.07 |

Note: 1.CGR: Compound Growth Rate

2. The choice of between LGR and CGR was based on the value of R² and the Standard Error of Estimate (SEE) of b-value

3. t-critical/table value for n-2=11-2=9 d.f.at one percent probability level is 3.250

Source: Computed for data in Table 1.1

These were higher than the critical or table value of 3.250 for (n-2=11-2)9 degrees of freedom. In other words, both exports and imports were growing at the statistically significant levels during the period under study.

As noted already India's exports to and imports the SAARC region was also growing significantly particularly after 1991 liberalization. Table-1.2. incorporates the relevant data. As could be seen from the table India's exports to SAARC region consisting of six countries, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka grew from US\$1720.5 million to US\$5405.1 million registering more than 3fold rise in the exports during the 11 year period .During the same period , India's imports from the region surged from US\$256.4 million to US\$1355.1million registering more than a five-fold increase during the 11 year period. Nevertheless, both the volume of exports and imports were very low. Another distinguishing feature of India's trade with the SAARC region was the positive trade balance that it has been enjoying all through the years. The positive trade balance that was US\$1464.1 million in the year 1995-96 has been growing over the years amidst minor fluctuations and touched the all time peak level of US\$4050 million in the year 2005-06.

The relatively impressive growth rate of India's trade with the SAARC region is amply brought out by the computed compound growth rates .As could be seen from the table 1.2A, India's exports to the SAARC region grew by whopping 13.30 percent per annum .Imports from the region were also galloping year by year by registering a spectacular growth rate of 17.34 percent per annum. Both the growth rates were statistically significant at one percent probability level as is clear from the computed "t" statistic values.



Table-1.2: Growth of India's Trade with SAARC Region (Value in million \$)

| Years | India's Total Exports to SAARC Region | India's Total Imports from SAARC Region | Total Trade Turnover | Balance of Trade |
|---------|---------------------------------------|---|----------------------|------------------|
| 1995-96 | 1720.5 | 256.4 | 1976.9 | 1464.1 |
| 1996-97 | 1701.7 | 241.7 | 1943.4 | 1460.0 |
| 1997-98 | 1610.9 | 234.2 | 1845.1 | 1376.7 |
| 1998-99 | 1679.2 | 465.6 | 2144.8 | 1213.6 |
| 1999-00 | 1394.6 | 397.6 | 1792.2 | 997.0 |
| 2000-01 | 1928.4 | 465.8 | 2394.2 | 1462.6 |
| 2001-02 | 2026.1 | 571.5 | 2597.6 | 1454.6 |
| 2002-03 | 2724.2 | 512.0 | 3236.2 | 2212.2 |
| 2003-04 | 4148.0 | 688.7 | 4836.7 | 3459.3 |
| 2004-05 | 4431.7 | 950.2 | 5381.9 | 3481.5 |
| 2005-06 | 5405.7 | 1355.1 | 6760.2 | 4050.0 |

Source: 1. Reserve Bank of India (2006), Hand book of Statistics on the Indian Economy; 2005-06, Mumbai: Reserve Bank of India, pp.230-31

2. Government of India (2008), Economic survey -2007-08, New Delhi: Ministry of Finance, pp.A-94&A-99.

Table 1.2A: Growth Rates of India's total Exports to and imports to SAARC Region

| Country | Variable | Type of Growth Rate | Value of Growth Rate(%) | R ² | SEE OF b-value | t-value |
|-------------|----------|---------------------|-------------------------|----------------|----------------|---------|
| Total SAARC | Exports | CGR | 13.30 | 0.77 | 0.023 | 5.46 |
| | Imports | CGR | 17.34 | 0.90 | 0.018 | 9.01 |

Note: 1. CGR: Compound Growth Rate

2. The choice of between LGR and CGR was based on the value of R² and the Standard error of estimate(SEE) of b-value.

3. t-critical/table value for n-2=11-2=9 d.f. at one percent probability levels 3.250

Source: Computed for Table 1.2

These values were higher than the critical or theoretical value of 3.250 at one percent probability level. The relatively higher and impressive growth rates of India's trade with the SAARC region as against India's overall trade clearly indicate the growing importance of India's trade with the SAARC region. Nevertheless, the share of SAARC trade in India's overall trade has been awfully low and fluctuating. Table-1.3 incorporates the statistics relating to the proportion of India's exports to and imports from the SAARC region in relation to her overall world exports and imports.

It is seen from the table that India's exports to SAARC region as a proportion of her total world exports accounted for barely 5.41 percent in the year 1995-96. There were wide fluctuations in the shares at times reaching to as low as 3.78 percent in the year 1999-2000. The proportion touched the all time high level of 6.49 percent in the year 2003-04 and since then falling steadily to reach 5.14 percent in the year 2005-06. The analysis of shares of India's imports from the SAARC region presents still disappointing picture. Except for two years in all through the 11



year period, the share of India's imports from the SAARC region was less than one percent. It is pathetic to note that in the year 1999-2000, India's imports from the SAARC region as a proportion of her total imports touched the rock bottom level of 0.08 percent.

This might be due to the fact that in certain years India's imports from the rest of the world registered higher growth rates than imports from the SAARC region. Such erratic fluctuations occurred during the years when imports bill was rising sharply due to sudden rise in the prices of petroleum products.

Table-1.3: Percentage Share of India's Trade with SAARC Region

| Years | Percentage Share of India's Exports to SAARC in India's Total World Exports | Percentage Share of India's Imports from SAARC in India's Total World Imports | Percentage Share of India's Total Trade Turnover with SAARC in India's Total Trade Turnover with world |
|---------|---|---|--|
| 1995-96 | 5.41 | 0.69 | 2.88 |
| 1996-97 | 5.08 | 0.61 | 2.67 |
| 1997-98 | 4.60 | 0.56 | 2.41 |
| 1998-99 | 5.05 | 1.09 | 2.83 |
| 1999-00 | 3.78 | 0.08 | 2.07 |
| 2000-01 | 4.32 | 0.92 | 2.51 |
| 2001-02 | 4.62 | 1.11 | 2.72 |
| 2002-03 | 5.16 | 0.83 | 2.83 |
| 2003-04 | 6.49 | 0.88 | 3.40 |
| 2004-05 | 5.30 | 0.85 | 2.75 |
| 2005-06 | 5.14 | 0.86 | 2.57 |

Source: 1. Reserve Bank of India (2006), Hand book of Statistics on the Indian Economy: 2005-06, Mumbai: Reserve Bank of India, pp.230-31.

2. Government of India (2008), Economic Survey-2007-08, New Delhi: Ministry of Finance, pp.A-94&A-99

To sum up the quantum of India's trade with SAARC region is very low in relation to her total trade. Nevertheless, the growth rates of India's trade with the SAARC region were higher than that of her total trade with the world. This is because the countries in South Asia have been basically competitive rather than complementary to each other in promoting intra-SAARC trade as well as economic co-operation within the region. 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 in 1985. If the present growth momentum is sustained, the quantum and shares of India's trade with the SAARC region is sure to surge in the years to come.



Major Findings of the Study

The analysis of India's total trade with SAARC region as presented in the paper indicated several important findings of far reaching policy implications.

- India's total exports (or exports to world) rose from US\$31,795 million to US\$1,05,152 million showing more than a threefold increase during the period 1995-96 to 2005-06. The average annual growth rate of exports during this period was 12.07.
- India's imports during this period surged greatly exhibiting more than a fourfold increase. The imports registered a still higher growth rate of 13.71 percent annum. Both the export and import growth rates were statistically significant.
- India's exports to SAARC region also showed a threefold increase from about US\$1.721 million to US\$5,405 million. The exports registered an average annual growth rate of about 13.3 percent that was higher than the growth of India's total exports.
- India's imports from the SAARC region though lower in magnitude than exports exhibited a fivefold increase from US\$256 million to US\$1.355 million between 1995-96 and 2005-06. India's imports from SAARC region registered a spectacular growth of 17.34 percent per annum even at low levels.
- The share of India's exports to SAARC region as a proportion of total exports was low and varied between 3.78 and 6.49 percent during various years under study.
- The share of India's imports from the SAARC region as a proportion of India's total imports constituted a still lower proportion varying from 0.08 percent to 1.11 percent during various years under study.
- In short India's trade with SAARC region (both exports and imports), even though insignificant, has been growing at a higher rate than India's total trade with the world.

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 its total trade with the world, the growth momentum is not sufficient and needs to be further accelerated.
3. 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 .

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