

A Brief Analysis on India's Trade with SAARC Countries: Recent Trends

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Received: 14 December 2013 Accepted: 31 December 2013 Published: 15 January 2014

Abstract

The analysis of trade between the countries is an interesting phenomenon in international trade. Analyzing the trend is some more interesting. In this study an analysis is made between India and SAARC. An analysis is made about the recent trends in India's trade relation with SAARC countries. Out of the eight members of SAARC three were selected for the analysis, namely Bangladesh, Pakistan and Sri Lanka. For these three countries India's exports to and imports from were taken and analysis were made. The trend shows that in general both imports and exports were increasing over time. This trend exhibits for all the three trading countries. However, depending up on the economic and political conditions of the trading countries the researcher could find the fluctuation in the trade relation. All the three nations exhibit a characteristic trend unique to their own country in trading with India.

Index terms— SAARC, grant in aid, tariff, liberalization, bilateral trade, WTO, economic meltdown.

1 Introduction

Generally it can be stated that the formation of South Asian Association for Regional Cooperation (SAARC) as a regional organization is to accelerate the process of economic and social development in member states and to have a greater cooperation with in the eight members of SAARC. It is generally found that intra-country differences in production and consumption patterns leave considerable scope for further regional trade expansion. South Asia has made good progress in liberalizing trade regimes and slashing tariffs since the early 1990s when most of the countries in South Asia started with reforms. The countries have also undertaken considerable industrial deregulation and other structural reforms. The governments and the private sector recognize that strong exports are critical for overall economic growth and poverty reduction. Moreover export-led growth has become a key thrust in each member country. Each member country has been integrating with the global economy, as evidenced by the significant increases in the merchandise trade. In this paper India's trade with SAARC countries like Bangladesh, Pakistan and Sri Lanka were taken and these countries trade relation with India were analyzed and results were produced.

2 II.

3 Methodology

The trend analysis between India and selected members of SAARC Countries has been done. In this analysis Bangladesh, Pakistan and Sri Lanka was selected for the analysis. As these three countries are having a high level of trade with India in terms of Value and Volume. The time period for the analysis is from 1996 to 2013. The analysis starts with the Asian financial crisis and end up with recent available data. Most of the data were collected from Department of Commerce, Government of India and Development Initiatives based on OECD DAC and UN OCHA FTS. Here Ordinary Least Square (OLS) method has been used to derive the results. This data was regressed using OLS independently, with the time as dependent variable. The Conclusions were made based on the Co-efficient which has been derived.

4 III.

5 India's Trade with SAARC Countries

In India, the external sector has exhibited a marked transformation since the balance of payments crisis in 1991. The crisis was overcome by a series of stringent measures with an overriding objective to honor all external obligations without resorting to rescheduling of any external payment obligation. While successfully dealing with the crisis through an adjustment programme, it was decided to launch simultaneously a comprehensive programme of structural reforms in which the external sector was accorded a special emphasis. The major trade policy changes in the post-1991 period included simplification of procedures, removal of quantitative restrictions, and substantial reduction in the tariff rates. Various steps were also taken to promote exports through multilateral and bilateral initiatives, including identification of thrust areas and regions. The policy stance marked a move from the provision of direct export subsidy to indirect promotional measures. India also took several policy initiatives at the multilateral levels for introducing new tariffs. Here in this paper a purposive selection is made in India's trade with SAARC countries. Out of eight countries in the SAARC group only three countries were selected for the analysis because these three countries were found to be trading with India comparatively on a higher trade volume and value. Source: Department of Commerce, Govt. of India.

IV.

6 India's Trade with Bangladesh

In recent years, Bangladesh has adopted an outward-oriented growth strategy which aims at reducing the anti-export bias prevalent in the economy and improving competitiveness while keeping in view medium-term imperatives and long-term development agenda. Bangladesh's trade policy objectives keep pace with globalization and the gradual development of a free market economy under the World Trade Organization (WTO) rules; facilitate imports of technology and to expand use of modern technology; ease imports for export industries. Calibrating trade policy reform to support small and medium sized enterprises development is another priority (WTO, 2006).

The objectives stated in the Export Policy 2003-2006, which stresses the need for product-based and sector-based development.

India's trade with Bangladesh is given in the table 1, from the data table it can be clearly understood that the overall exports of India to Bangladesh has increased over time. However, fluctuations are found on a year to year basis. The author believes that this fluctuation is due to some external factors like USA's economic melt down and its impact on the world economy. To conform this view from the table 2, it can be understood that the USA's Aid to Bangladesh during the study period has taken a downturn. The author believes that, this has resulted in the reduction of Bangladesh's ability to import from India. In the table 1 which shows that India's export to Bangladesh has taken a dip from the year 2007 to 2010. In other words the capacity of Bangladesh to import has taken a hit. India's imports from Bangladesh in general seems to be increasing but the total value is seems to be comparatively at a low level. Here too, the trend of Bangladesh exports exhibits the pattern of Bangladesh's imports. In simple terms in the year between 2007 and 2010 India's imports from Bangladesh remain stagnant, this could possibly be the same reason cited for India's exports to Bangladesh.

The results of OLS estimates too depicts that the coefficient of India's exports to Bangladesh is 0.901 and it is significant at one percent level. The test of goodness of fit value is high. With regard to India's imports from Bangladesh the estimated coefficient are at 0.867 and this is significant at one percent level. From this it can be stated that India's exports to Bangladesh India's exports to Pakistan data is given in the Table 1.

From the table it can be understood that India's overall exports to Pakistan has increased over time. After a strong perusal of the data one can understand that in the years like 1999 and 2000 India's exports to Pakistan has taken a dip. This is mainly due to the fact that India and Pakistan had a skirmish over the Kargil issue. Again there is another dip in the year 2011. This is due to American economic slowdown. In other words Pakistan is unable to buy from India.

In case of regression estimates the coefficient for India's exports to Pakistan stands at 0.927 with one percent level of significance. A look into India's imports from Pakistan presents many interesting features. First of all the value of goods imported by India from Pakistan is less. Since 1999 and till 2003 the value of India's imports has drastically gone down mainly due to Kargil crisis. After 2005 India's import from Pakistan increases over time but it is a marginal in nature. The coefficient of the OLS estimates is 0.857 with one percent level of significance. It can be stated that compared to India's exports to Pakistan, India's imports from Pakistan is marked at a lower level. The cause for lower level of India's import from Pakistan, other than the political imbroglio the real reason could be that Pakistan is not producing goods that can be successfully marketed in India.

Sri Lanka began economic liberalization in 1997 with a move away from socialism. Sri Lanka's export-oriented policies have seen a shift from a reliance on agricultural exports to an increasing emphasis on the services and manufacturing sectors. The service sector accounts for over 55 per cent of Gross Domestic Product (GDP). Manufacturing, the fastest growing sector, is dominated by the garment industry. The agriculture sector, though decreasing in importance to the economy, nevertheless accounts for around 18 per cent of national output and employs more than one third of the workforce. The public sector remains large, with the state continuing to dominate in the financial, utilities, health and education sectors.

India's export to Sri Lanka is given in the Table 1, from the table it can be deduced that the overall export to Sri Lanka has increased significantly. However, there exists some fluctuation with in the study period.

Here the highlight is that during the year 2009-10 there is a marked fall in the India's exports to Sri Lanka this may be due to the civil war in Sri Lanka during the time period. For India's exports to Sri Lanka the regression coefficient is at 0.943 with significance at one percent level, and the R squared value is 0.889. In considering the imports from Sri Lanka, nothing significant was found, because the value of imports is comparatively lower than the exports. The import value was \$42 million in 1996 and \$625 million in 2012. Similar to the exports India's imports from Sri Lanka also taken a dip in the year 2009 for the very same reason given above for exports. Though the coefficients value is significant at one percent level, the values for imports are actually lower than the exports.

7 Conclusion

In the recent times India's trade with the selected SAARC countries witness a general increase in the overall trade. Though there is a general increase India's exports to and from individual SAARC countries, there exist a difference in trade relation with India and individual member countries. In simple terms it is proved that in recent time the general trend is that India do more exports and imports with Bangladesh followed by Sri Lanka and Pakistan comes the third in terms of value. When the same data is analyzed with the OLS estimator, when the value of coefficient and goodness of fit is taken into consideration, there seem to be an interesting turnaround, where Sri Lanka comes first followed by Pakistan and then comes Bangladesh. This trend of India's trade with the select SAARC countries reflects the present period of time, but this may change over time.



Figure 1:

1

(US\$ Million)

Figure 2: Table 1 :

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²(E)

2

(US\$ million)

Figure 3: Table 2 :

3

India and Bangladesh	Co-efficient	R Squared
Exports	0.901*	0.799
Imports	0.867*	0.751
India and Pakistan	Co-efficient	R Squared
Exports	0.927*	0.859
Imports	0.857*	0.734
India and Sri Lanka	Co-efficient	R Squared
Exports	0.943*	0.889
Imports	0.894*	0.798

[Note: Source: Computed by the Author, *Significant at 1% level.]

Figure 4: Table 3 :

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