

Trend And Magnitude Of India's Trade Performance With SAARC Countries In The Post-Reforms Period

DR. AMITH ROY

Assistant Professor & HOD

Department of Economics,

Lumding College, Lumding, Dist- Hojai, Assam (India)

Email: amithroy2008@gmail.com

ABSTRACT:

The favorable trade volume of a country in the present dynamic world has great significance on the country's economic growth and prosperity. In this direction, the most fabulous step that India has taken is the adoption of economic reforms in 1991. The conservative approaches of India's foreign trade had thrown out and adopted barrier-less approaches to boost the country's external trades. The South Asian Association for Regional Cooperation (SAARC) comprising eight states of the south Asian countries was formed to enhance the volume of trade among the member countries. In this connection, the present paper is an attempt to analyze the changes that occurred due to adoption of new trade policies in India's trade performance with SAARC countries as well as with rest of the world. The secondary data from various sources are collected and used to analyze the India's trade performance with SAARC countries after adoption of economic reforms in 1991. The analysis of the study indicates a positive relationship in India's trade performance and adoption of economic liberalization in 1991. It is also endorses from the analysis of the study that growth of trade with SAARC countries shows a positive trend compare to India's overall trade performance with rest of world.

Key Words: SAARC, Trade, Economic Growth, Economic Reforms, Compound Annual Growth. Paired t test.

JEL: F1, G01, G18.

INTRODUCTION:

India's external trade was endowed with new energy due to adoption of liberal trade policies in 1991. As India had been following a conservative approach of strict economic management, import-substitution and exchange controls policies, which significantly restricted external trade during pre-liberalization period. After adoption of new liberalization policies India's volume of trade reaches a new momentum with its neighboring countries as well as rest of the world.

To promoting the greater regional economic cooperation and trade, the south Asian countries forms South Asian Association for Regional Cooperation (SAARC) comprising seven South Asian countries; Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka was formed in 1985 with the adoption of its Charter at its first Summit in Dhaka, Bangladesh (Hirantha, 2004).

Alam et. al., (2011) pointed out that the eighth country Afghanistan was added on the request of India on November 13th, 2005 and became a member of SAARC on April 3, 2007.

The SAARC countries comprise 3% of the world's area, 21% of the world's population and 4.21% of the global economy, as of 2019. It was created for the purpose of developing trustable and peaceful relationship among the neighboring states, to promote the welfare of the people of south Asia and to improve their quality of life, accelerate economic growth, strengthen collective self-reliance, promote active collaboration etc. Trading is an important way, through trade, SAARC member states able to interact with large population of eight countries. It also helps the member states to take the competitive advantages globally over the trade items of other member states (Alam et al., 2011).

While in the initial years regional cooperation did not cover core issues related to trade and investment, a major initiative promoting greater regional economic cooperation was undertaken in 1991, when it was decided to establish a SAARC Preferential Trading Arrangement (SAPTA) (Nisha Taneja, 2001).

Later, The South Asian Free Trade Area (SAFTA) came into force in 2006. It is the free trade arrangement of the South Asian Association for Regional Cooperation (SAARC). SAFTA is a free trade agreement confined to goods, but excluding all services like information technology. Agreement was signed to reduce customs duties of all traded goods to zero by the year 2016.

The present paper is an attempt to measure the trend and growth India's foreign trade with SAARC countries in comparison with total foreign trade after adopting India's economic reforms (1991). The study is based on secondary data collected from various sources. The data collected are used to analyses the trend and growth of the India's foreign trade with SAARC countries in contest of India's total trade after adopting the liberalization of Indian economy 1991. For analysis of the study, Simple statistical tools like Annual Growth Rate in percentage (AGR %), Compound Annual Growth Rate in percentage (CAGR %), charts/diagrams, calculation of mean, SD, SE, paired t test etc. are used.

Review of Literatures

There are lots of studies conducted on India's trade with SAARC countries and with rest of the world. Here we reviewed some of studies conducted in this field.

The studies of **Maheswari (2017)**, **Harikumar (2014)**, **Sahni (2014)** and **Singh (2014)** found that India's foreign trade has significantly changed in the post reforms period as trade volume rose and the composition of exports has undergone several significant changes. In the study of **Pushpalata Singh (2014)** it was revealed that though the total exports and imports both have increased but the growth rate of imports is more than the growth rate of exports. It is also found that manufactured goods compose major portion of the export goods while petroleum and crude products contribute major portion of the imported goods. According to the **P. Chattopadhyay, (2010)** neighborhood policy is an important aspect of a country's foreign policy and cooperation at the regional level was becoming a necessity for countries to

adjust to the forces of globalization and liberalization. **Patgiri and Hazarika (2016)** argued that the foreign policy of a state which is primarily motivated by its desire to promote national interest.

According to **Hirantha, (2004)** to promote the greater regional economic cooperation and trade, the south Asian countries form South Asian Association for Regional Cooperation (SAARC) in 1985 with the adoption of its Charter at its first Summit in Dhaka, Bangladesh. After a decade's existence, the SAARC launched the South Asian Preferential Trading Agreement (SAPTA) in 1995 as the second step. In July 2006, the South Asian Free Trade Agreement (SAFTA) came into effect after another decade, as the third step towards regional integration (**Nisha Taneja, 2001**), (**Bandara, 2009**).

As **Shyam Saran, (2008)** has argued: South Asia is today the politically correct way to refer to a region once better known as the Indian subcontinent. (**Sharma, 2001**) points out that a universal realization among the third world countries for self-help and collective help in pursuing the goals of economic progress and development impelled the countries of South Asia to forge a regional grouping despite their earlier misgivings and apprehensions.

The studies like (**Alam et al., 2011**), (**Akram et al., 2014**) and (**Sharma, 2001**) highlights that bilateral disputes between India and other members of SAARC, particularly between India and Pakistan continue impede and torment SAARC process. (**Akram et al., 2014**) found in their study, India's trade with the SAFTA members has not been very impressive, even the trade is much below the true potential. **Dhungel (2004)** observed that actual progress and achievement in implementation of SAARC agendas are very insignificant due to presence of relatively high trade barriers. The share of trade originating in the region has increased in the last decade but still lags behind in many similar regional arrangements. This view was supported by **Pitigala (2005)**, he finds that the trade structures of SAARC countries might not facilitate a rapid increase in intraregional trade due to weak trading relations among SAARC countries.

(**Bhattacharya, 2004**) highlights India- Bangladesh trade scenario, he argues that in a free trade regime will be increase in India's exports more than the increase in its imports from Bangladesh. Non-tariff barriers (NTB) are also a major deterrent to Bangladesh's exports to India, as India's NTB coverage ratio is much higher than Bangladesh. **Shrestha (2003)** in this study has made an attempt to analyses some of the key issues related with Indo-Nepal trade relation. He states that Indo-Nepal trade is very important for the economic development of both these countries. **Nisha Taneja (2001)** conducted her study to find out whether the South Asian Free Trade Agreement (SAFTA) leads to a shift of informal trade from the unofficial to the official channel? Her analysis of trade flows in the region reveals that India has a trade surplus with all the south Asian countries on the official trade account.

(**Abdullah, 2000**) Points out that South Asia is a deeply troubled region where each country is struggling to break out of its underdevelopment and out of the vicious nature of internal and inter-state politics.

Significance of the Study:

The economic liberalization of (1991) has completely changed the India's external trade scenario by removing the barriers come in the way of smooth foreign trade. As a result, there was a tremendous growth in India's foreign trade. The growth of external trade has been monitored not only with neighboring countries but also with the rest of the world. The south Asian countries form South Asian Association for Regional Cooperation (SAARC) to promote the greater regional economic cooperation and trade and later they formed South Asian Preferential Trading Agreement (SAPTA) and South Asian Free Trade Agreement (SAFTA) to enhance the formal trade within the SAARC countries. So it is very important know the direction of India's improved external trade and position of India's trade balance with SAARC countries and with rest of the world during post reforms period. In this regard present study is an attempt to measure the trend and growth India's foreign trade with South Asian countries and India's overall foreign trade after adopting economic reforms in 1991.

1. Objective of the Study

The present paper has been conducted to measure the trend and growth India's foreign trade with SAARC countries in comparison with total foreign trade after adopting India's economic reforms (1991). So the broad objectives are:-

- 1) To measure the volume of trade with SAARC countries in context of India's total foreign trade.
- 2) To examine the trend and growth pattern of India's trade with SAARC countries.
- 3) To study the India's trade balance with SAARC countries in comparison with India's overall trade balance.

2. Hypothesis of the Study

The present paper has fixed the following hypothesis(s).

H0: There is no significant improvement in trade balance with SAARC countries in comparison with trade balance of India's total trade after adopting economic reforms (1991).

H1: There is significant improvement in trade balance with SAARC countries in comparison with trade balance of India's total trade after adopting economic reforms (1991).

3. Data and Methodology of the Study

The paper is based on secondary data collected from various issues of Statistical Handbook published by RBI, World Bank database and other published sources. The data collected are used to analyses the trend and growth of the India's foreign trade with SAARC countries in contest of India's total trade after adopting the liberalization of Indian economy 1991. The India's foreign trade data of 29 years from 1990-91 to 2018-19 have been collected and use for the study.

For analysis of the study, Simple statistical tools like Annual Growth Rate in percentage (AGR %), Compound Annual Growth Rate in percentage (CAGR %), charts/diagrams,

calculation of mean, SD, SE etc. are used. The paired t test has been also conducted to see whether there is any significant improvement in trade balance with SAARC countries in comparison with trade balance of India's total trade after adopting economic reforms (1991).

For annual growth rate (in percentage) the following formula has been used.

$$GR_t = \left(\frac{Y_t - Y_{t-1}}{Y_{t-1}} \right) \times 100$$

Whereas GR_t is the growth rate of the tth time period, Y_t and Y_{t-1} are the value of variables at tth and one year back of the tth time period

The compound annual growth rate also estimated in the present study to see the justified annual growth of export, import and total trade during the study period of 29 years. For compound annual growth rate the formula have been used as

$$CAGR = \left(\frac{Y_F}{Y_0} \right)^{1/t} - 1 \quad \text{and} \quad CAGR\% = \left(\frac{Y_F}{Y_0} \right)^{1/t} - 1 \times 100$$

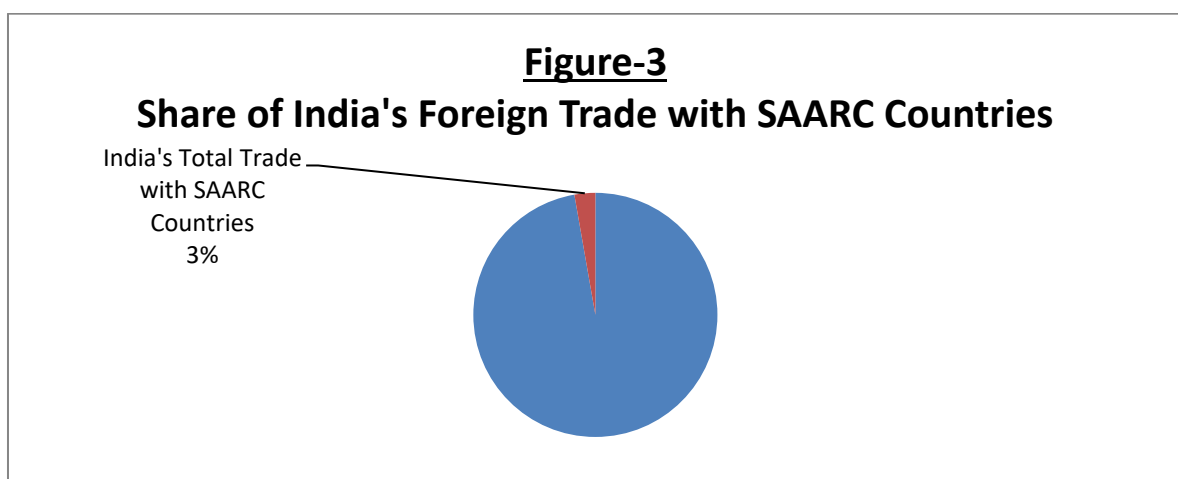
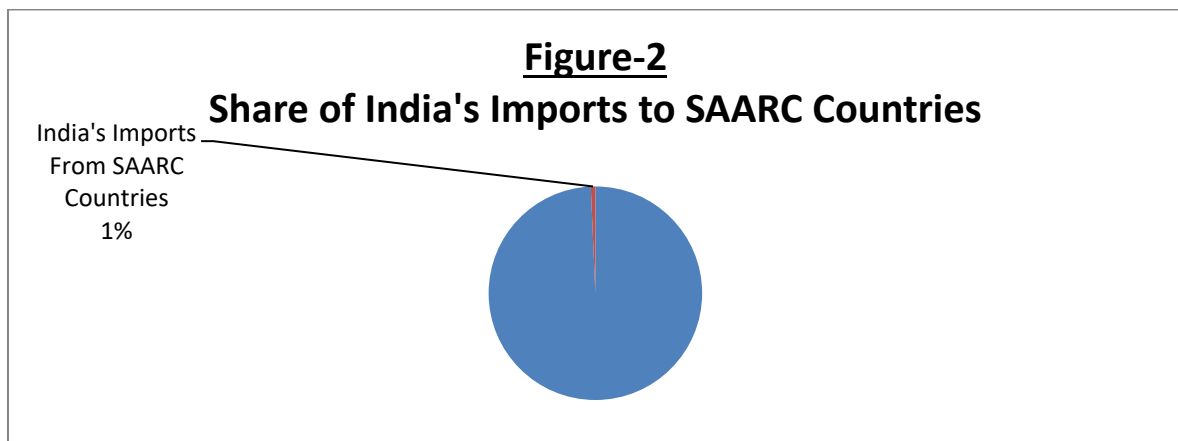
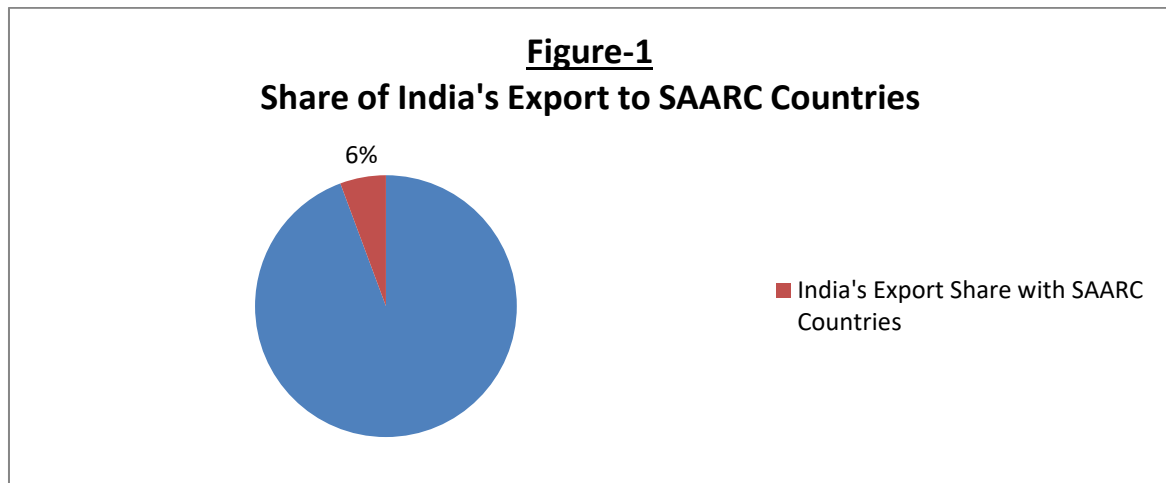
Whereas, CAGR is the compound annual growth rate. Y_F is the final value of the variable Y, Y₀ is the initial value of the variable Y and t is the time in years.

The trade balance (i.e. net export) has been calculated for the study period from row data and paired t test estimated to see the significance level in trade balance with SAARC countries in comparison with trade balance of India's total trade.

4. Results and Discussion

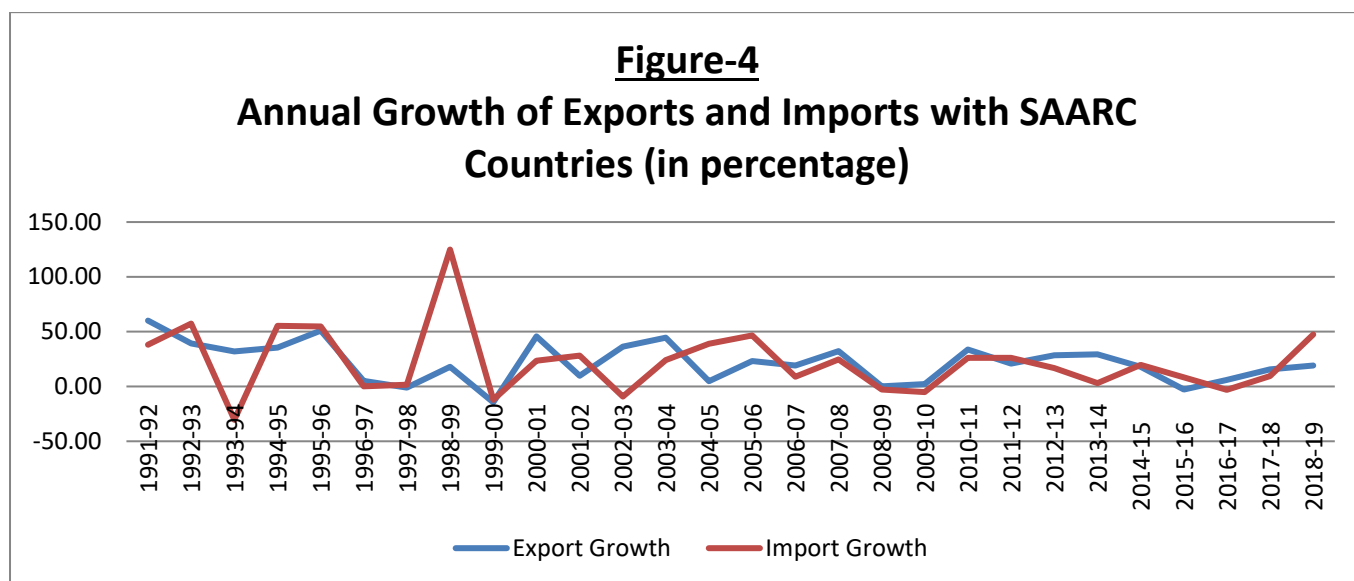
The South Asian Association for Regional Cooperation (SAARC) is a union of states in South Asia, where all the member states came together for promotes economic development and barrier less trade among them. In case of India's perspective SAARC is economically beneficial region where India can achieve trade advantage. Some studies already pointed out that India has positive trade balance with member states of the SAARC union. After adopting the economic reforms in 1991, India has witnessed huge growth in foreign trade. But the volume of foreign trade with SAARC countries is negligible in compare with India's total foreign trade. To find out the share of India's trade with SAARC countries in compare with India's total foreign trade, the mean value of export, import and total trade of the study period has been calculated and represented via following pie diagrams.

Figure-1 highlights that India export only 6% out of its total exports to SAARC countries and import only 1% of its imports from the SAARC countries as shown in the Figure-2. India has only 3% of its total foreign trade with SAARC union (Figure-3). So, the volume of trade with SAARC countries is very low in comparison with India's total foreign trade.



The economic reforms in 1991 removed various administrative control and barriers on India's foreign trade, which results a spectacular improvement on the growth of India's foreign trade. The present study has an objective to see the trend and growth of India's trade with other

SAARC countries during the post reforms period. Figure-4 presents the annual growth trend of India’s exports and imports with SAARC countries.



The annual growth of exports and imports are not uniform during the study period. It has noticed that during 1998-99 the annual import growth was highest i.e. 124.9% and in the year 1993-94 it has recorded highest negative growth of -30.4% from other SAARC countries. Whereas in case of annual export growth to the other SAARC countries, the highest growth recorded as 60.08% in the year 1991-92 and lowest growth recorded as -14.4% in the year 1999-00.

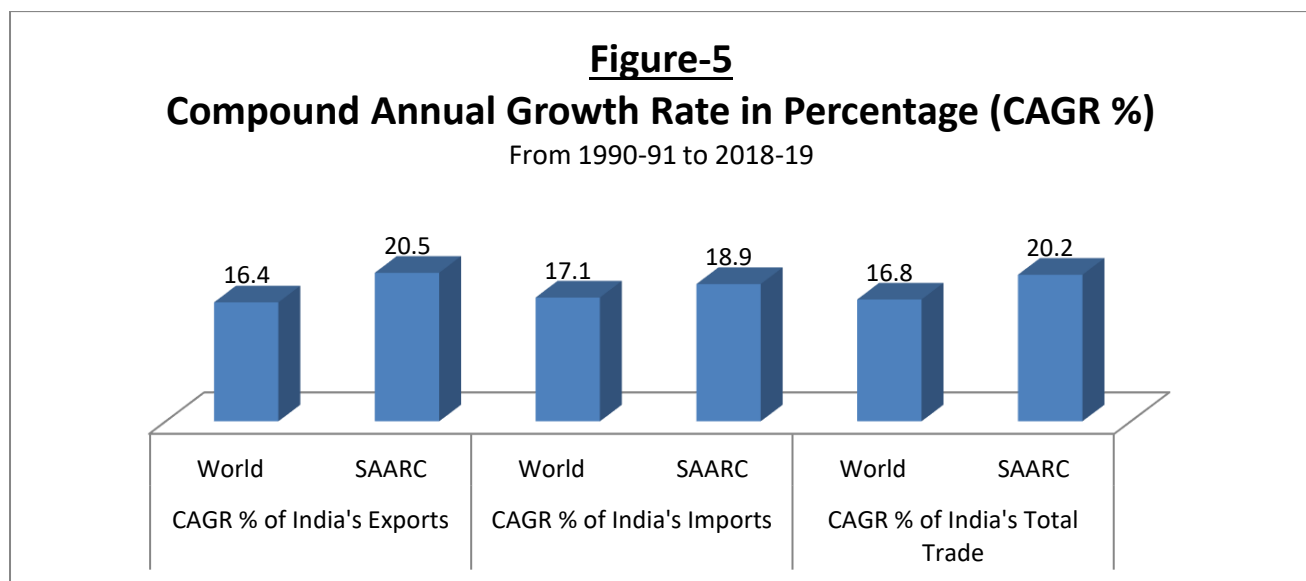


Figure-5 shows a comparative Compound Annual Growth Rate in percentage (CAGR%) of India’s trade between with other SAARC countries and India’s total trade. During the post reforms period, India’s CAGR% of export with other SAARC countries has increased at

20.5% compare to India's total CAGR% export as 16.4%. So, India has experienced higher export growth to the other SAARC countries from its overall export growth to the world. Similarly in case of Compound Annual Growth Rate (CAGR) of import, India's imports from other SAARC countries has increased at the rate of 18.9% and overall imports raised at 17.1% during the post liberalization period. In case of total trade, India's foreign trade with SAARC countries has recorded at CAGR of 20.2% whereas India's total trade with world has increased at CAGR of 16.8%. Hence it is clear that India's foreign trade has improved much higher with SAARC countries compare to India's overall foreign trade performance. The present paper has objectives to examine and measure the trend, growth and share of India's trade with SAARC countries in comparison with India's overall foreign trade. So, the first two objectives of the study are hereby answered by saying that though the share of India's trade with other SAARC countries are negligible but it has been noticed that there is a spectacular growth of India's trade with SAARC countries compare to total trade growth with world after adopting the economic reforms in 1991.

The measurement of trade balance (i.e. net export) helps us to understand whether the foreign trade is favorable for home country or not. The third objective of the paper is to examine the India's trade balance with SAARC countries in comparison with India's overall trade balance. Table-1 demonstrates the descriptive statistics of India's trade balance with SAARC countries and trade balance of India's overall trade.

Table-1					
Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Trade balance of India's overall trade	29	-1286948.4	-3349.6	-355420.243	402561.0042
Trade balance with SAARC countries	29	721.0	146844.2	36955.729	44117.3986
Valid N (listwise)	29				

The mean value of the trade balance of India's overall trade shows negative value i.e. -355420.243. The minimum and maximum values of India's trade balance regarding overall trade recorded as -1286948.4 and -3349.6. Whereas India's mean trade balances with SAARC countries recorded as 36955.729. The minimum and maximum values of India's trade balance with SAARC countries as 721.0 and 146844.2. The mean values of trade balance clearly explain that India has favorable trade balance with SAARC countries and unfavorable trade balance in respect of India's overall trade. So, it is clear that India has better trade balance performance with SAARC countries in comparison with trade balance of India's overall trade.

Table-2							
Paired Samples Test							
		Paired Differences			t	df	P value
		Mean	Std. Deviation	Std. Error Mean			
Pair 1	Trade balance India's overall trade - Trade balance with other SAARC countries	-392375.9718	443876.7599	82425.8450	-4.760	28	.000

*p<0.01

In the present paper, the paired t test also conducted to see whether there is any significant improvement in trade balance with SAARC countries in comparison with trade balance of India's overall trade after adopting economic reforms in 1991. Table-2 shows the result of paired t test, where the value of t statistics is negative (i.e. -4.760) and p value 0.000 is less than the level of significance value $p < 0.01$, indicating that there is significant improvement in trade balance with SAARC countries compare to trade balance of India's overall trade after adopting economic reforms in 1991. Hence the null hypothesis is hereby rejected and alternative hypothesis is accepted. So, the results of the study here fulfill all the objectives and it is clear that economic liberalization in India made better performance in its foreign trade with other SAARC countries in comparison to India's overall foreign trade performance.

CONCLUSION

The economic reforms of 1991 has widened India's concept of external trade. The conservative approach of strict economic management, import-substitution and exchange controls policies has been removed and India's volume of trade reaches a new high with its neighboring countries as well as rest of the world. In the study we attempted to measure the trend and growth of India's foreign trade with South Asian countries and overall foreign trade during the post reforms period.

The study is based on secondary data and for data and for analysis Simple statistical tools like Annual Growth Rate in percentage (AGR %), Compound Annual Growth Rate in percentage (CAGR %), charts/diagrams, calculation of mean, SD, SE, paired t test etc. are used. The study reveals that India has experienced higher trade growth with SAARC countries compare to India's overall trade growth during the post liberalization period. But the volume of trade with SAARC countries is very low in comparison with India's total foreign trade. The results of the study here fulfill all the objectives and it is clear that India made better performance in its foreign trade with other SAARC countries in comparison to India's overall foreign trade performance after adopting the economic reforms in 1991.

REFERENCES:

1. **Abdullah, Sadaf. (2000):** “SAARC Intra-Regional Trade: An Assessment”, Strategic Studies, Published by: *Institute of Strategic Studies Islamabad*. Vol. 20, No. 2/3 (Spring & Summer 2000), pp. 225-239.
2. **Akram, Hafiz. W., Md. Daoud Ciddikie and Prof. (Dr) M. Altaf Khan, (2014):** “India’s Trade Relationship with SAFTA Countries: A Review”, *Journal of Indian Research* (ISSN: 2320-7000) Vol.2, No.1, January-March, 2014, 46-58
3. **Alam, Hassan. Mobeen., Fatima Amin, Ayesha Farooqui and Muhammad Akram (2011):** “Trade Barriers and Facilitations among SAARC Economies”, *International Journal of Business and Social Science Vol. 2 No.10; June 2011*
4. **Bandara, Jayatilleke. S. (2009):** “Playing with Numbers: Critical Evaluation of Quantitative Assessments of South Asian Regional Integration” *Economic and Political Weekly*, November 28-December 4, 2009, Vol. 44, No. 48, pp. 67-75
5. **Bhattacharya, Swapan. K. (2004):** “Does Bangladesh Benefit from Preferential Trade with India? A Gravity Analysis”, *Economic and Political Weekly*, Nov. 27 - Dec. 3, 2004, Vol. 39, No. 48, pp. 5152-5162
6. **Chattopadhyay, Pratip. (2010):** “INDIA'S SOUTH ASIAN NEIGHBOURHOOD: Policy and Politics”, *The Indian Journal of Political Science*, OCT. - DEC., 2010, Vol. 71, No. 4, pp. 1251-1264 Published by: Indian Political Science Association.
7. **Dhungel, D. (2004):** “South Asian Association for Regional Cooperation (SAARC): Prospect for development”, *The Pakistan Development Review*, Vol. 43 (4) Part II, pp.933–941.
8. **Harikumar, A. (2014):** "Changing Phases of the India's International Trade before and after Liberalization Period." *International Journal of Application or Innovation in Engineering & Management*, no. 3 (March 2014): 72-76.
9. **Hirantha, S. W. (2004):** “From SAPTA to SAFTA: Gravity Analysis of South Asian Free Trade.” Paper presented at the European Trade Study Group (ETSG) Programme, Nottingham, September.
10. **Maheswari, T. (2017):** “Growth and Structure of India’s Foreign Trade in the Post reform Period”, *socio - economic voices*, www.indiastat.com February - March, 2017
11. **Patgiri, Rubul. and Obja Borah Hazarika, (2016):** “Locating Northeast in India’s Neighbourhood Policy”, *India Quarterly*, Vol. 72, No. 3 (September 2016), pp. 235-249 Published by: *Sage Publications*, Ltd.
12. **Pitigala, N. (2005):** “What does regional trade in South Asia reveal about future trade integration? Some empirical evidence” (*World Bank Policy Research Working Paper No. 3497*). Washington, DC: The World Bank.
13. **Saran, Shyam. (2008):** “The Challenge of Proximity.” Seminar (New Delhi), No. 584, 14–16, April 2008, available at www.india-seminar.com/2008/584/584_shyam_saran.htm

14. **Sahni, Dr. Priyanka. (2014):** "Trends in India's Exports: A Comparative Study of Pre and Post Reform Period" *IOSR Journal of Economics and Finance (IOSR-JEF)*, Volume 3, Issue 2. Ver. I (Mar. - Apr. 2014), PP 08-18.
15. **Sharma, Suman. (2001):** "INDIA AND SAARC", Published by: *Sage Publications, Ltd.* India Quarterly , April-June, 2001, Vol. 57, No. 2, Special Issue on President Pervez Musharraf's Visit to India 14-16 July, 2001 (April-June, 2001), pp. 99-120
16. **Shrestha, G. R. (2003):** "Nepal- India Bilateral Trade Relations Problems and Prospects." RIS Discussion Papers (P1). New Delhi: *Indian Technical and Economic Cooperation*. OR Retrieved August 12, 2014, from <http://www.ficci-inpf.com/inbtr.pdf>
17. **Singh, A. Pushpalata. (2014):** "Performance of Foreign Trade in India in the Post-Liberalization Era." *International Journal of Humanities Social Sciences and Education* 1, no. 10 (October 2014): 11-17.
18. **Taneja, Nisha. (2001):** "Informal Trade in SAARC Region", *Economic and Political Weekly*, Mar. 17-23, 2001, Vol. 36, No. 11 (Mar. 17-23, 2001), pp. 959-964

Web Sources:

- i. https://en.wikipedia.org/wiki/South_Asian_Association_for_Regional_Cooperation Retrieved May 29, 2021.
- ii. <https://www.un.org/ldcportal/south-asian-free-trade-area/#:~:text=The%20South%20Asian%20Free%20Trade,1993%20SAARC%20Preferential%20Trading%20Arrangement>. Retrieved May 30, 2021.
- iii. <https://www.drishtias.com/important-institutions/drishti-specials-important-institutions-international-institution/south-asian-association-for-regional-cooperation-saarc#:~:text=Cooperation%20within%20the%20framework%20of,other%20States%20and%20mutual%20benefit>. Retrieved May 30, 2021.