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Impact of Global Economic Crisis on India's Trade with SAARC Countries

ASHISH JAISWAL*[1] AND ANUP KUMAR[2]
Research Scholar and Assistant Professor
Department of Economics, University of Allahabad, Prayagraj (U.P.) India

ABSTRACT

The SAARC comprises eight countries of south Asia is a manifestation of the determination of their people of south Asia to work together towards finding solutions to their common problem in a spirit of friendship, trust and understanding and to create an order based on mutual respect, equity and share benefits. The primary objective of the association is the acceleration of the process of economic and social development in member states, through collective action in agreed areas cooperation. The SAARC policy aims to promote welfare, collective self-reliance among the countries of South Asia and to accelerate socio-economic-cultural development in the region. Such regional economic cooperation is considered feasible because intra-regional, historical, cultural, geographical and developmental commonalities are much stronger than intra-regional differences in political and economic structures and prospective. The main objective of this paper is to analyze the impact of global economic crisis on India-SAARC Trade performance. Data is analyzed with the OLS estimator and the value of coefficient and goodness of fit is taken into consideration, researcher comes to this conclusion that the CAGR of 2000-01 to 2006-07 periods is 21.4%, 9% in 2007-08 to 2013-14 and 4% in 2014-15 to 2020-21. This figure shows that global economic crises has badly impacted bilateral Indian trade with SAARC.

Key Words : SAARC, Global Economic Crisis, Indian Trade

INTRODUCTION

In today's world no nation exists in economic isolation. A nation's economy, it's in duties, service sectors, levels of income and employment and living standards are linked to the economies of its trading partners. The benefits of international trade are accruing the forms of lower domestic prices, development of snore efficient methods and new products. In an open trading system, a country will import those commodities that it produces relatively at a higher cost since resources are channeled from uses of low productivity to that of high productivity, gains from trade are attend permitting higher levels of consumption and investment Although free trade is often strongly advocated, many countries believe that the expansion in trade is best accomplished through the establishment of regional economic association/ integration. However, the emerging WTO regime has in no way undermined the process of regionalism. It has wide ranging implications for the global economy.

After seeing the enormous response of ASEAN, an inter-regional cooperation group came into existence in the form of SAARC in 1985. The SAARC comprises eight countries of south Asia is a manifestation of the determination of their people of south Asia to work together towards finding solutions to their common problem in a spirit of friendship, trust and understanding and to create an order based on mutual respect, equity and share benefits. The primary objective of the association is the acceleration of the process of economic and social development in member states, through collective action in agreed areas cooperation (Farhat *et al.,* 2012).

The SAARC policy aims to promote welfare,

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Table 1: Profile of SAARC member countries

Country	Population (2021)	Nominal GDP USD million 2022	Area Square Km	Nominal GDP per capital 2022
Afghanistan	40,099,462	$18,734	653000	$499
Bangladesh	169,356,251	$419,764	148000	$2,719
Bhutan	777,486	$2,842	38000	$3,423
India	1,407,563,842	$3,049,704	3287000	$2,191
Maldives	521,457	$5,786	300	$15,563
Nepal	30,034,989	$29,813	147000	$1,115
Pakistan	231,402,117	$284,214	796000	$1,357
Sri Lanka	21,773,441	$86,556	66000	$3,698
Total	1,901,529,045	3,897,413		30,565

Source: https://www.worlddata.info/trade-agreements/saarc.php#:~:text=The%20SAARC %20is%20a% 20trade,and% 20about%201.88%20billion%20people.

collective self-reliance among the countries of South Asia and to accelerate socio-economic-cultural development in the region (Table 1).

The region suffers from massive BOP burden, mass unemployment, high population growth rates, large concentration of poverty, low rate of economic growth, constant food shortage, worsening terms of trade, largely illiterate, considerable mall nourished, and also the least gender sensitive region of the globe.

Due to the growing protectionist tendencies in the international market and the increasing competition among suppliers, particularly in the developing world, the need to evolve feasible strategies for regional economic cooperation in South Asia is becoming more and more apparent. This is evidenced by the recent tempo of activities in this regard in the South Asian region. Increased regional economic cooperation would help to reduce the regional economic cooperation of South Asian countries on the developed countries in the future. Given the possibility that trade with the rest of the world does not offer very happy prospects in the future intra-regional trade could facilitate growth and development of the South Asian countries on the basis of the regional self-reliance. Such regional economic cooperation is considered feasible because intra-regional, historical, cultural, geographical and developmental commonalities are much stronger than intra-regional differences in political and economic structures and prospective.

Pradhan and Shastry (2013) Indian economic development and Indian foreign trade ventures are following a growth trajectory. Indian foreign trade has come a long way in terms of export value since independence in 1947. The total value of India's merchandise exports increased from US $ 1.3 billion in 1950-51 to US $ 63.8 billion in 2003-04 at a compound rate of 7.6 per cent. Trade growth has picked up the pace post liberalization of 1991. The composition of trade is now dominated by manufactured goods and services. There is huge untapped potential for Indian foreign trade in years to come. The auto industry in India is the ninth largest in the world. After Japan, South Korea and Thailand, in 2009, India emerged as the fourth largest exporter of automobiles. Several Indian automobile manufacturers have spread their operations globally. Indian auto industry, which is currently growing at the pace of around 18 % per annum, has become a hot destination for global auto players like Volvo, General Motors and Ford. The Indian automobile industry is going through a phase of rapid change and high growth. With new projects coming up on a regular basis, the industry is undergoing technological change. The major players are expanding their plants focusing on mass customization and mass production.

Akram *et al.* (2014) told that The South Asian Free Trade Area (SAFTA) is an agreement between the members of SAARC nations namely India, Pakistan, Bangladesh, Bhutan, Sri Lanka, Afghanistan, Nepal, and Maldives which was reached on 6 January 2004 at the 12th SAARC summit in Islamabad. It created a free trade area of 1.8 billion people in the region. The seven foreign ministers of the region signed a framework agreement on SAFTA to reduce customs duties of all traded goods to zero by the year 2016. However, SAFTA is an initial step in the evolution of the SAARC as a regional trade bloc and an economic union. There is much speculation about its favorable effect on intraregional trade. As the biggest, and the most industrialized trading partner among the SAARC countries, India has to take a lead in making the Regional Economic Cooperation a reality in South Asia. This study highlights India's trade and trade

relationship with SAFTA at large and with each member of the trade bloc in particular. The study also points out the macroeconomic overview of the region citing several indicators.

Khandare and Babar (2019) analyzed that Sri Lanka has the largest market, accounting for 35 per cent of India's total exports in the SAARC region during 2006-07, followed by Bangladesh (25 %), Pakistan (21 %) and Nepal (14 %) amongst the SAARC members. The India's imports from SAARC countries during 2002-03 to 2007-08 India's imports from the SAARC region have also risen from US$ 531.5 mn in 2002-03 to US$ 1506 million in 2006-07, depicting almost a three-fold rise during the period. Sri Lanka is again the leading partner, accounting for 31 per cent of India's total imports from the region during 2006-07, followed by Pakistan (21 %), Nepal (20 %), Bangladesh (15 %) and Bhutan (9 %). India generally maintains a positive trade balance with the other SAARC member countries with the surplus having risen from US$2.3 billion in 2002-03 to US$ 5.0 billion in 2006-07.

Sinha and Sareen (2020) concluded that enhancing trade in the South Asian region is not only economically beneficial, it is also strategically important in order to integrate India with the global economy. Regional integration in South Asia requires addressing several NTBs and further reduction of the "sensitive lists" maintained by countries to ensure the effectiveness of trade agreements. Furthermore, good practices from other regions must be tailored to the South Asian context to facilitate the resolution of reported barriers to trade. For instance, Sub-Saharan Africa has addressed NTBs by way of an online mechanism that consists of national monitoring committees in each country to facilitate the resolution of reported trade barriers. For India and her neighbors, a stronger political will is required to combat barriers to trade in the region, especially after the COVID-19 crisis, which may result in unleashing a new wave of protectionist measures.

Objectives of the study:

– To analyze the impact of global economic crisis on India-SAARC Trade performance.

Hypothesis:

Ho- There is no significant impact of global economic crisis on India- SAARC trade performance.

Ha- There is statistically significant impact of global economic crisis on India- SAARC trade performance.

METHODOLOGY

To reach the objective of the study, secondary data is used from the Comtrade website to find growth rate with the help of semi log model by E-Views software application.

RESULTS AND DISCUSSION

Impact of Global Economic Crisis:

The global economic crisis takes place in 2007–08**.** It was the most serious financial crisis since the great depression (1929). In 2012, article in the journal Japan and the World Economy, Andrew K. Rose and Mark M. Spiegel used a Multiple Indicator Multiple Cause (MIMIC) model on a cross-section of 107 countries to evaluate potential causes of the 2008 crisis. The authors examined various economic indicators, ignoring contagion effects across countries. The authors concluded: "We include over sixty potential causes of the crisis, covering such categories as: financial system policies and conditions; asset price appreciation in real estate and equity markets; international imbalances and foreign reserve adequacy; macroeconomic policies; and institutional and geographic features. Despite the fact that we use a wide number of possible causes in a flexible statistical framework, we are unable to link most of the commonly cited causes of the crisis to its incidence across countries. This negative finding in the cross-section makes us skeptical of the accuracy of 'early warning' systems of potential crisis, which must also predict their timing.

The global economic crisis is an exogenous shock for developing countries that affects them in different ways and through different transmission channels. World trade is experiencing its largest decline in generations. Foreign Direct Investment (FDI) and other private flows are also declining, and remittances are expected to drop significantly. Developing countries are, therefore, not in a strong position to address the consequences of the current economic crisis (https://en.wikipedia.org).

When the same data is analyzed with the OLS estimator and the value of coefficient and goodness of fit is taken into consideration, researcher comes to this conclusion that the CAGR of 2000-01 to 2006-07 periods is 21.4%, 9% in 2007-08 to 2013-14 and 4% in 2014-15 to 2020-21. This Fig. 1-3 show that global economic crises has badly impacted on bilateral trade with SAARC while

Table 2: Results of Growth Rate in different periods

Variables	Coefficient	SE	t-Statistics	p value	$_R2$	F-Statistics	p value
IBTWS=0.22*t – 427.29 - 0.20 IBTWSt-1 2000-01 to 2006-07							
t	0.22	0.02	14.74	0.00			
C	-427.29	29.57	-14.46	0.00	0.97	38.46	0.00
AR (1)	-0.20	0.46	-0.43	0.70			
IBTWS=0.09*t – 164.07 2007-08 to 2013-14							
t	0.09	0.01	10.24	0.00	0.89	0104.76	0.00
C	-164.50	17.03	-9.67	0.00			
IBTWS=0.13*t - 253.07 + 0.72 IBTWSt-1 2014-15 to 2020-21							
t	0.04	0.02	2.81	0.04	0.57	7.87	0.04
C	-69.55	28.40	-2.45	0.05			

Sources: Calculated by Researcher

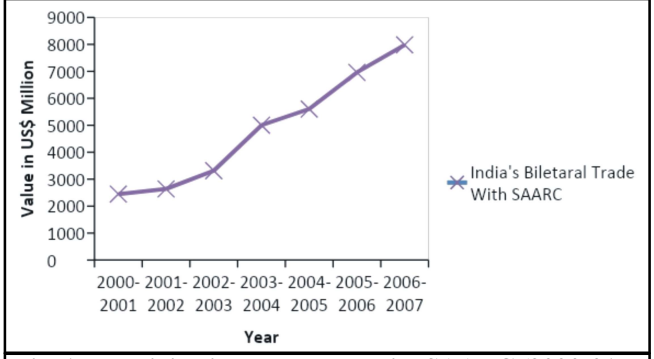

Fig. 1 : India's Bilateral Trade With SAARC (2000-01 to 2006-07)

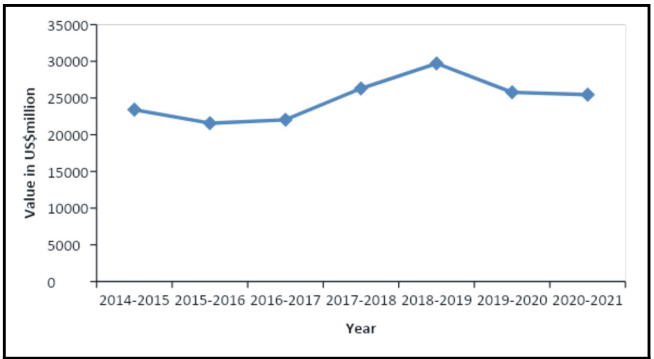

Fig. 3 : India's Bilateral Trade With SAARC (2014-15 to 2020-21)

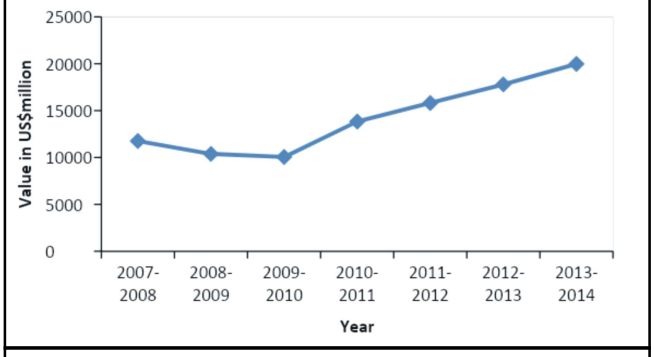

Fig. 2 : India's Bilateral Trade With SAARC (2007-08 to 2013-14)

overall data, share and growth rate seems very attractive but actually last seven years, it increased with low rate. From 2000-01 to 2006-07, bilateral trade has been increasing trend but after that it has fluctuated many times such that 2008 to 2010, 2015-16 and 2019-2022 (Table 2).

Conclusion and Suggestions:

India has formal diplomatic relations with most of the nations; it is the world's second most populous country, the world's most-populous democracy and one of the fastest growing major economies. With the world's eighth military expenditure, third largest armed forces, seventh largest economy by nominal rates and third largest economy in terms of purchasing power parity, India is a regional power, a nascent global power, and a potential superpower. India has a growing international influence and a prominent voice in global affairs.

To sum up, the growth of intra-regional trade has remained subdued due to considerations other than economic issues. In ensuring stability and growth in intra-regional trade, the Indo-Pak bilateral relationship plays a very crucial role. Apart from this, SAARC countries need to put in place the adequate physical infrastructure in place which hampers their global competitiveness even in those sectors where they have revealed comparative advantages. Although major SAARC countries are better synchronized in terms of their GDP cycles, trade integration continues to be low due to high level of

protectionism existing among the SAARC countries than the rest of world. SAARC countries will need to take concrete steps for harmonization of customs and other procedures, mutual recognition of certificates and standards and trade facilitation measures (Mahendraprabu *et al.,* 2021; Ratna, 2012; www.rbi.org.in).

In the recent times India's trade with the selected SAARC countries witnessed a general increase in the overall trade. Though there is a general increase India's export to and from individual SAARC countries, there exists 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 does more exports and imports with Bangladesh followed by Nepal and Sri Lanka comes the third in terms of value, there seem to be an interesting turnaround from 2000-01, where Bangladesh (Export) while Nepal (Import) comes first followed by Sri Lanka (Export) while Bangladesh (Import) and then comes Pakistan (both). This trend of India's trade with the select SAARC countries reflects the present period of time, but this may change over time (Vetrivel and Kumar, 2012; Manju and Sarath Chandran, 2012; www.saarc-sec.org).

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