



REVIEW ARTICLE

**GROWTH RATE OF INDIA'S TRADE IN TEXTILE AND CLOTHING WITH
SAARC COUNTRIES FROM 1972 TO 2011**

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ABSTRACT

The objectives of this paper is study the Growth Rate of India's Trade in Textile and Clothing with SAARC Countries from 1972 to 2011. Regional Trade Agreements have become increasingly prevalent since the early 1990s. India's relations with SAARC countries are entrenched deeply. In addition to an overlapped cultural and religious heritage, the SAARC countries share a common vision on many regional and international affairs. Textile and clothing sector plays a major role in SAARC region for promoting regional trade; it is a major source of foreign exchange and largest industrial sector of SAARC region and contributes towards employment of skilled and unskilled labor in the region. The contribution of textile and clothing towards the GDP and international trade of SAARC countries is very high, and therefore, any problem in the textile and clothing sectors has macroeconomic national implications. In our study we found that the growth rate of India's exports of textile and clothing items started improving after the establishment of SAARC in 1985, experienced high growth since 2002 after the implementation of SAPTA as well as many bilateral agreements between India and other SAARC nations. This increase, however, was not uniform for all the nations and the exports to Maldives and up to some extent Bhutan had lower growth compared to other nations. On the other hand, exports of textile and clothing to Sri Lanka, Bangladesh and Pakistan experienced high growth,

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INTRODUCTION

A regional trade agreement (RTA) refers to free trade among different nations in a specified area or region. Regional Trade Agreements have become increasingly prevalent since the early 1990s. These agreements account for 55% of total globe trade (Babili, 2008). According to world trade organizations as on 15 January 2012, 511 notifications of Regional Trade Agreements have been received by the GATT/WTO, of which 319 were actually in force. Some of such successful trading groups are NAFTA (North America Free Trade Agreement) in North America, APEC (Asia-Pacific Economic Co-operation) of Latin America, European Union, ASEAN (Association of South East Asian Nations) of South-East Asia and SAARC (South Asian Association for Regional Co-operation) of South Asia. Foreign trade is one of the most important factors of economic development of a nation. India's relations with SAARC countries are entrenched deeply. In addition to an overlapped cultural and religious heritage, the countries share a common vision on many regional and international affairs. Textile and clothing sector plays a major role in SAARC region for promoting regional trade; it is a major source of

foreign exchange and largest industrial sector of SAARC region and contributes towards employment of skilled and unskilled labor in the region. For example, the sector collectively employed over 55 million directly and nearly 90 million indirectly in 2005. Furthermore, South Asia's share in global trade in textile and clothing rose from 1.5% in 2002 to 4.4 % in 2007 and the regions share in global exports of textile and clothing increased from 2.2% in 2002 to 7.7% in 2007 according to UNCTAD and common wealth secretariat. The contribution of textile and clothing towards the GDP and international trade of SAARC countries is very high, and therefore, any problem in the textile and clothing sectors has macroeconomic national implications. India, Sri Lanka, Pakistan, Bangladesh and Nepal are main traders of textile and clothing in the SAARC region and are also competing with each other in the global market. Many studies show that intra regional trade of textile and clothing in SAARC region is low as compared to its potential. All the major SAARC countries are competing with each other in the exports of ready-made garments in the markets of the developed countries (Hassan, 2000). South Asian countries perform their trade mainly with non-Asian countries particularly with European Union and United States (Ali and Talukder, 2009).

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Amongst the SAARC member, only Bhutan and Nepal conduct their international trade within SAARC regions. The regional trade amongst the South Asian countries is very less, which is around 3-4% of their total trade. The rise in the intra-regional trade mostly during the nineties occurred due to significant growth in India's trade with Bangladesh and Sri Lanka (Bhattacharyya and Katti, 1996). Trade performance of South Asian countries over the past two decades has been poor relative to other South Asia (Wilson and Otski, 2007). According to international trade statistics, total exports in clothing and textile products of SAARC countries are increasing steadily over the last few years, particularly after 2004 when textile exports quota were discontinued. Textile and clothing industry forms a major part of manufacturing sector of India, Pakistan, Sri Lanka, Bangladesh and Nepal, and contributed enormously to the country's economic development. For example, in 2007, India exported 45.8% of their total trade of textile and clothing to the SAARC region, followed by Bangladesh (23.32%), Sri Lanka (7%) and Pakistan (23.47%). On the imports side, in 2007 all these four countries, India, Pakistan, Bangladesh and Sri Lanka, imported 4.5%, 17.3%, 29.7% and 28.9% of their total global imports in textile and clothing, respectively. It shows that the textile and clothing sector plays an important role in GDP growth and international trade of SAARC member countries, but intraregional trade in textile and clothing amongst SAARC member countries is low as compared with their potential as mentioned above.

The SAARC was established in the end of 1985, with a view to promote regional co-operation. With the establishment of South Asian Preferential Trade Agreements (SAPTA) in 1995, SAARC entered into a new phase of economic co-operation. The other major step, South Asian Free Trade Agreements (SAFTA), for further development of this economic co-operation was delayed due to political reasons. This delay in implementation of SAFTA results in many bilateral agreements between nations (Ministry of Commerce and Industry Government of India, 2013). India entered into Free Trade Agreements (FTA) with Sri Lanka, Bangladesh and Bhutan in 2000, 2006 and 2006, respectively. India also signed Foreign Treaty of Trade Agreement with Nepal in 2002, and a Preferential Trade Agreement with Afghanistan in 2003. The timing of these bilateral agreements coincides with the major shift in level of trade which started in 2002-03. Textile and clothing being an important sector for SAARC countries, these significant developments in SAARC region requires detailed analysis of trend and pattern of textile and clothing. Against the above background, the present study discusses the trends and patterns of India's trade of textile and clothing with SAARC member countries from 1972 to 2011. The paper is divided into five sections, after the introduction second section discusses the data and method. The third section analyzes the trend and patterns of India's trade with SAARC countries. The growth rate of India's trade with aftermath of the establishment of SAARC and trade agreement is discussed in section four. The last section summarizes the findings.

Data

The data on the exports and imports were collected from the United Nation Commodity Trade (UNCOMTRADE) data source. For this purpose, we have extracted the UNCOMTRADE data by using the World Integrated Trade Solution (WITS) software of World Bank.

WITS were developed by the World Bank in close collaboration with the United Nation Conference on Trade and Development (UNCTAD). UNCOMTRADE provides data in different classifications such as STANDARD INTERNATIONAL TRADE CLASSIFICATION (SITC) REV.1 (which provides the data from 1962); SITC REV.2 (which provides the data from 1976); SITC REV.3 (which provides the data from 1986); HARMONIZED SYSTEM (HS) 1988/1992 VERSION (which provides the data from 1988), HARMONIZED SYSTEM (HS) 1996 VERSION (which provides the data from 1996); HARMONIZED SYSTEM (HS) 2002 VERSION (which provides the data from 2002) and HARMONIZED SYSTEM (HS) 2007 VERSION (which provides the data from 2007). For the present study we have used the STANDARD INTERNATIONAL TRADE CLASSIFICATION (SITC) REV.1 data in our study, because it provides us data from 1962 to 2012.

METHODS

The growth is calculated using equation $y_t = y_0(1+r)^t$ where y_t and y_0 is imports and exports at time t and time 1. t is time period and r is growth rate. To calculate the trend growth rate equation is first converted into log form taking natural log both side. So the equation will change to $\ln y_t = \ln y_0 + t \ln(1+r)$. The equation can be rewrite as $\ln y_t = b_0 + b_1 t$ where $b_0 = \ln y_0$, $b_1 = \ln(1+r)$. The value of b_1 is calculated taking $\ln y_t$ as dependent and t as independent variable. The value of r is calculated from b_1 (i.e. $\ln(1+r)$). The standard error of the growth rate r is calculated using formula $SE(r) = \frac{100b_1}{0.43429} * SE(b_1)$.

RESULT AND DISCUSSION

Growth of India's Imports of Textile and Clothing

Table 1 provides the data on growth of India's imports of textile fibers (not manufactured) from SAARC nations. Table shows that during the first period (1972 to 1985) growth rate of India's imports of textile fibers (not manufactured) from Nepal accounted positive and statistically insignificant growth (11.96 percent). Growth rate of India's imports of same item from Bangladesh was negative and insignificant (-16.13) and the total imports from SAARC countries were also found to be insignificant and negative. During the second period (1985 to 2002) Imports growth rate from Bangladesh registered positive and significant growth (18.41 percent). Overall, growth rates of India's imports from SAARC countries grew at a positive rate and were significant (8.87). During the third period (20002-2011) India's imports from Pakistan, Bangladesh and Sri Lanka had significant positive growth rate ((29.82 percent, 16.88 and 36.20 percent, respectively). Growth rate of Nepal exports to India was positive but not significant in same period. Above that, total imports of textile fibers (not manufactured) from SAARC countries grew significantly positive at 17.93 percent during the same period. During the first period (1972 to 1985) growth rate of India's imports of textile yarn, fabrics, made up article had positive and significant (41.48 percent) with Nepal (Table 2). Overall, growth rate of India's imports from SAARC countries was positive and significant (40.07 percent) during the same period.

Table 1. Annual Compound Growth Rate of India's Imports of Textile Fibers not manufactured from SAARC Countries

Country Name	Period I (1972 to 1985)#	Period II 1985 to 2002##	Period III 2002 to 2011###
Pakistan	No Imports	-5.63	29.82***
Bangladesh	-16.13	18.41***	16.88**
Sri Lanka	No Imports	17.93	36.20*
Afghanistan	No Imports	No Imports	No Imports
Bhutan	No Imports	No Imports	No Imports
Maldives	No Imports	No Imports	No Imports
Nepal	11.96	9.19	7.35
All SAARC Countries	-7.13	8.87**	17.93***

Note= *** significant at 1%, ** significant at 5%, * significant at 10%.

No Imports -India did not have any imports in above products during the period.

Source- UNCOMTRADE

Table 2. Annual Compound Growth Rate of India's Imports of Textile Yarn, Fabrics, Made up Article from SAARC Countries

Country Name	Period I 1972 to 1985#	Period II 1985 to 2002##	Period III 2002 to 2011###
Pakistan	No Imports	-3.92	29.046**
Bangladesh	-4.68	92.51***	54.49***
Sri Lanka	No Imports	62.58***	36.20***
Afghanistan	No Imports	No Imports	28.40***
Bhutan	No Imports	No Imports	-35.98**
Maldives	No Imports	No Imports	No Imports
Nepal	41.48**	26.49**	11.85***
All SAARC Countries	40.07*	15.83***	21.53***

Note: *** significant at 1%, ** significant at 5%, * significant at 10%.

No Imports -India did not have any imports in above products during the period.

Source- UNCOMTRADE

Table 3. Annual Compound Growth Rate of India's Imports of Clothing from SAARC Countries

Country Name	Period I 1972 to 1985#	Period II 1985 to 2002##	Period III 2002 to 2011###
Pakistan	No Imports	No Imports	63.23***
Bangladesh	No Imports	No Imports	35.93***
Sri Lanka	No Imports	85.15***	62.25***
Afghanistan	No Imports	No Imports	No Imports
Bhutan	No Imports	No Imports	No Imports
Maldives	No Imports	No Imports	No Imports
Nepal	No Imports	21.53***	5.97
All SAARC Countries	-2.17	76.29***	29.04***

Note= *** significant at 1%, ** significant at 5%, * significant at 10%.

No Imports -India did not have any imports in above products during the period.

Source- UNCOMTRADE

Table 4. Annual Compound Growth Rate of India's Imports of Textile and Clothing from SAARC Countries

Country Name	Period I 1972 to 1985#	Period II 1985 to 2002##	Period III 2002 to 2011###
Pakistan	8.32	-7.13	29.56***
Bangladesh	-11.75	23.12***	29.95***
Sri Lanka	No Imports	49.03***	44.19***
Afghanistan	No Imports	No Imports	20.68***
Bhutan	No Imports	No Imports	-35.98**
Maldives	No Imports	No Imports	No Imports
Nepal	19.24	25.48**	11.07***
All SAARC Countries	-2.76	11.96***	21.16***

Note= *** significant at 1%, ** significant at 5%, * significant at 10%.

No Imports -India did not have any imports in above products during the period.

Source- UNCOMTRADE

During the second period (1985 to 2002) India's imports of textile yarn, fabrics, made up article showed positive and significant growth rate from Bangladesh, Sri Lanka and Nepal (92.51 percent, 62.58 percent and 26.49 percent, respectively). While Imports from Pakistan were negative and insignificant, the growth rate of overall imports from SAARC countries decreased to 15.83 percent compared to 40.07 percent growth rate of first period.

During the third period the growth rate of India's imports from Bangladesh, Sri Lanka and Nepal was positive and significant, but decreased to (54.49 percent, 36.20 percent and 11.85 percent, respectively) as compared to second period. During the third period (2002 to 2011) except Bhutan and Maldives, India's imports of textile yarn, fabrics, made up article from other SAARC countries registered positive statistically significant growth.

The growth rate of overall imports from SAARC countries grew at the rate of 21.53 percent per annum during the same period. Table 3 provides data on the growth of India's imports of clothing from SAARC nations. The table reveals that during the first period (1972-1985) India did not have continuous imports from SAARC countries and therefore, growth rate was not calculated for this period. Furthermore, India's imports from Sri Lanka along with Nepal showed a positive and significant growth rate (85.15 percent and 21.53 percent, respectively) during the second period (1985-2002). However, the total imports from SAARC countries also showed a significant positive growth (76.29 percent) in same period. During the third period (2002 to 2011) growth rate of India's imports of clothing recorded a significant positive improvement in the imports from Pakistan, Sri Lanka and Bangladesh (63.23 percent, 62.25 percent and 35.93 percent). Moreover, imports from Nepal showed insignificant positive growth, and total imports from SAARC countries experienced the significant positive growth rate (29.04 percent) for same period.

Table 4 shows that during the first period (1972-1985) growth rate of India's imports of textile and clothing from Pakistan and Nepal showed insignificant positive growth (8.32 percent and 19.24 percent, respectively). Overall, growth rate of India's imports from SAARC countries was significantly negative (-2.76 percent) in the same period. There was a large improvement in the growth rate in the imports from Bangladesh, Sri Lanka and Nepal during the second period (1985-2002) and experienced significant positive growth rate for all these three countries (23.12 percent, 49.03 percent and 25.48 percent, respectively). Overall, imports textile and clothing from SAARC countries experienced significant positive growth rate (11.96 percent) in same period. The third period experienced a remarkable change in the growth rate with Indian imports from five out of seven countries showed significant growth. The imports from five countries with significant growth namely, Pakistan, Bangladesh, Sri Lanka, Afghanistan and Nepal, grew at 29.56 percent, 29.95 percent, 44.19 percent, 20.68 percent and 11.07 percent, respectively. The growth rate of India's imports from Bhutan was significantly negative (-35.98) in the same period. However, the total imports from SAARC nations had significantly positive growth rate (21.16 percent) during the third period. Above analysis shows that growth rate of Indian imports of textile and clothing from SAARC countries was negligible till 1985. After 1985, Indian imports of textile and clothing from Nepal, Bangladesh and Sri Lanka started increasing. But there were no changes in the Indian imports from other SAARC countries during this period. After 2002, there was sharp increase in the India's imports of textile and clothing from SAARC countries except Bhutan and Maldives. Its shows that, implementation of SAPTA and Indian bilateral trade agreements with SAARC countries registered high growth in the Indian imports of textile and clothing from SAARC countries.

Summary

The paper found that India's trade in textile and clothing with SAARC countries was very low till 1985. The trade with Bangladesh, Sri Lanka and Nepal, which was relatively better, was also not showing any major improvement before the establishment of SAARC. The trade with Sri Lanka, Bangladesh, Nepal, Pakistan and Maldives started showing

some improvement after 1985. The second phase of co-operation among SAARC countries started with the implementation of SAPTA in 1995. However, the sharp increase in India's trade of textile and clothing with all SAARC countries was observed after 2002, the time of which corresponds with India's bilateral agreements with other SAARC nations in early 2000s. Despite the fact that much of the improvement after 2002 was the result of bilateral agreements, the improvement in India's trade could be seen for almost all countries.

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