European Journal of Business and Management www.iiste.org
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.7, No.4, 2015

Foreign Trade and Economic Reforms in South Asia

Mohammad Imran Hossain
APU, Japan.

Introduction

After suffering from long lasting economic stagnation until the end of 1980s, individual SA countries started to embrace new growth-stimulating policy reforms through gradual opening up of their economies to the world. Following the already advanced East Asian example, these countries have adopted an export-led growth model that focuses on selling various final goods in the overseas markets, especially in the US and Europe. Through these initiatives, they are trying to bring dynamism to their economies. After a long period of struggling with economic stagnation, these countries got an access to large markets of the developed world and very recently they started to exploit their economies of scale. Furthermore, now-a-days, liberalization of trade started to boost growth of the productive sectors in these countries.

The purpose of this paper is to trace the trends and patterns of international trade in four South Asian countries namely Bangladesh, India, Pakistan and Sri Lanka. The impact of major economic liberalization reforms on foreign trade (i.e. export and import) will also be analyzed at the end. In this paper, panel data estimation is conducted in the empirical analysis of impact of economic reforms on foreign trade in SA.

The paper is organized as it follows: in the first part, basic trends and patterns of foreign trade for four major economies in SA such as Bangladesh, India, Pakistan and Sri Lanka will be discussed. In the second section, economic liberalization reforms and their impact on foreign trade of the above South Asian nations plus Nepal will be examined using panel data estimation. The final section concludes the paper.

Foreign Trade of Bangladesh

Bangladesh's major trade partners for export are USA, UK, Germany, Belgium, Italy, Netherlands, Canada, and Japan. Recently the country is exporting mainly woven garments, knitwear, leather and leather goods, frozen foods and chemical products etc. In the past jute and products made from jute were the main export items but the trend has been changed. Now the major share of export income comes from ready-made garments (RMG). On the other side, Bangladesh imports mainly primary commodities such as rice, wheat, raw jute, and crude petroleum etc., intermediate goods like petroleum, fertilizer, edible oil, clinker etc. and capital machinery. Export earnings performance of some of the major sectors including woven-RMG, knit-RMG, frozen foods, and leather goods was significantly better during the last two decades. However, Bangladesh's export trade is continued to be featured by the dominance of a few commodities in a narrow market and unavailability of mentionable breakthrough in the performance of the said sector.

In describing the import composition of the Bangladesh economy, it can be observed that the import share of 'Principal Primary Commodities' showed a declining trend in the later half of 1990s but started to rise again in recent years. On the other hand, the combined shares of 'Major Industrial goods and Capital Goods' reported a continuous increase during the same period. The import payment for principal primary commodities in FY1998-99 was US$ 1,448 million representing 18.06 percent of total import. These figures decreased to US$ 980 million and $ 1,098 million (11.66 percent and 11.73 percent) in FY 1999-2000 and 2000-01 respectively (Rahman and Yusuf, 2010). However, since FY2002-03 and after that an overall increasing trend was observed in the nation's import sector.

In the category of major intermediate goods, import has been increasing continuously from US$1037 million (12.95 percent of total imports) in FY1998-99 to US$5035 million (22.37 percent) in FY2008-09 and US4957 million (20.88 percent) in FY2009-10. Import of capital machinery also was in the rising trend. Bangladesh imports a large volume of other goods in addition to the above three mentioned categories and the category of 'Other Goods' comprises around slightly more than 50 percent of total imports of the country. For an instance, in FY2010-11, it was reported that total payment for other goods was US$ 6427 million out of US$ 9335 million of total imports (MOF, 2008).

Major import sources of Bangladesh are India, China, Singapore, Japan, Hong Kong, Malaysia, Taiwan, South Korea and the United States of America. According to the data presented in next table, India and China are two largest sources for imports of Bangladesh. In 2012, these two countries together accounted for about 30% of total imports. China as a single largest exporter to Bangladesh sold US$ 6455 million worth of products and India has exported US$ 4755 million.

Table 1: Bangladesh Exports to Major Countries (1972-73 to 2006-07, in million US$)

FY	U.S.A	U.K	Germany	France	Belgium	Italy	Netherlands	Canada	Japan	Others	Total
1972-73	71.39	26.55	10.54	8.74	22.99	14.36	8.14	7.03	6.70	171.98	348.42
1973-74	60.04	25.16	5.14	8.05	15.83	11.05	8.90	6.29	14.25	217.05	371.76
1974-75	56.91	23.55	7.10	4.84	11.63	12.40	9.06	6.27	5.74	245.18	382.68
1975-76	61.92	29.48	7.37	8.89	17.25	23.24	8.16	6.08	9.22	208.86	380.47
1976-77	53.44	40.69	9.31	9.42	15.98	23.60	9.03	6.30	10.65	238.59	417.01
1977-78	64.92	40.98	8.54	6.22	15.95	18.58	8.97	5.84	15.13	308.61	493.74
1978-79	83.22	45.71	13.82	6.10	18.46	43.41	9.64	6.65	33.25	358.56	618.82
1979-80	87.51	48.80	16.35	7.65	26.02	31.59	15.35	9.04	34.27	472.86	749.44
1980-81	83.52	24.75	9.65	5.43	14.30	27.36	11.42	6.06	19.34	508.02	709.85
1981-82	50.43	28.36	1.22	7.26	15.89	31.40	13.30	3.66	27.64	446.73	625.89
1982-83	78.86	30.96	13.75	7.26	30.29	32.14	12.79	6.68	45.01	428.86	686.60
1983-84	111.14	42.62	13.30	10.93	47.02	69.13	16.96	7.37	43.14	449.38	810.99
1984-85	165.97	43.75	18.15	11.56	72.66	51.79	16.45	12.05	65.27	476.78	934.43
1985-86	173.22	46.13	21.44	6.96	34.39	36.28	15.41	15.08	61.18	409.12	819.21
1986-87	321.43	59.99	37.67	10.01	41.87	99.67	21.83	16.33	66.30	398.67	1073.77
1987-88	356.46	73.03	61.40	26.53	42.06	115.95	27.42	24.21	57.09	446.85	1231.20
1988-89	346.08	75.70	69.85	35.04	53.17	105.67	29.17	16.66	55.02	505.2	1291.56
1989-90	444.58	97.14	83.56	62.37	62.64	131.37	38.12	22.24	55.60	526.09	1523.71
1990-91	507.29	136.90	164.91	86.40	83.55	115.94	61.86	30.25	41.26	489.19	1717.55
1991-92	673.81	130.40	180.34	116.10	82.08	147.29	81.33	27.64	40.60	514.33	1993.92
1992-93	822.51	183.42	216.21	127.36	83.14	137.40	85.80	44.38	53.31	629.36	2382.89
1993-94	734.82	259.26	275.21	157.72	98.41	170.61	104.90	57.23	61.02	614.72	2533.90
1994-95	1184.28	318.31	300.26	192.93	128.58	211.26	136.66	69.38	99.65	831.26	3472.57
1995-96	1197.54	417.70	369.18	272.88	186.93	207.10	183.22	69.09	120.80	857.98	3882.42
1996-97	1432.15	437.69	428.29	312.65	210.57	203.62	208.59	69.12	114.05	1001.55	4418.28
1997-98	1929.21	440.00	510.93	369.07	210.07	270.47	236.08	106.84	112.00	976.53	5161.20
1998-99	1968.46	491.34	625.13	345.36	227.62	270.01	251.61	104.91	92.76	935.66	5312.86
1999-2k	2273.76	499.99	658.71	367.37	225.89	248.28	282.77	110.63	97.64	987.16	5752.20
2000-01	2500.42	594.18	789.88	365.99	253.91	295.73	327.96	125.66	107.58	1105.99	6467.30
2001-02	2218.79	647.96	681.44	413.69	211.39	262.31	283.36	109.85	96.13	1061.17	5986.09
2002-03	2155.45	778.25	820.72	418.51	289.48	258.99	277.95	170.26	108.03	1270.8	6548.44
2003-04	1971.59	898.65	1298.57	553.50	326.71	316.28	290.47	284.69	118.33	1544.20	7602.99
2004-05	2418.67	1351.06	944.18	625.51	327.80	369.78	290.92	335.25	122.53	1868.82	8654.52
2005-06	3039.77	1053.74	1763.38	678.94	359.33	427.89	327.20	406.97	138.45	2330.49	10526.16
2006-07	3453.52	1176.63	1956.77	731.88	435.75	516.17	459.25	458.14	147.94	2841.81	12177.86

Source: Bangladesh Bureau of Statistics

Table 2: Bangladesh Country-wise Imports

(In Million US$)

FY	India	China	Singap-ore	Japan	Hong Kong	Taiwan	S. Korea	USA	Malaysia	Others	Total
1988-89	104	110	186	445	116	-	103	325	50	1936	3375
1989-90	145	132	323	475	157	-	126	208	41	2152	3759
1990-91	181	133	334	336	184	-	165	181	32	1964	3510
1991-92	231	149	275	286	247	-	181	230	42	1885	3526
1992-93	342	248	211	365	299	-	258	207	53	2088	4071
1993-94	414	223	200	498	331	-	284	202	57	1982	4191
1994-95	689	420	275	587	399	118	340	274	41	2691	5834
1995-96	1100	707	343	695	390	216	366	330	69	2715	6931
1996-97	922	575	297	647	409	300	360	302	197	3143	7152
1997-98	934	593	321	483	443	353	381	311	172	3529	7520
1998-99	1235	560	553	494	452	361	287	301	131	3632	8006
1999-2K	833	568	701	685	455	386	319	325	108	3994	8374
2000-01	1184	709	824	846	478	412	411	248	148	4075	9335
2001-02	1019	878	871	655	441	312	346	261	145	3612	8540
2002-03	1358	938	1000	605	433	328	333	223	169	4271	9658
2003-04	1602	1198	911	552	433	377	420	226	255	4929	10903
2004-05	2030	1642	888	559	565	439	426	329	276	5993	13147
2005-06	1868	2079	849	651	625	473	489	345	332	7064	14746
2006-07	2268	2571	1035	690	747	473	553	380	334	8106	17157
2007-08	3393	3137	1273	832	821	477	621	490	451	10134	21629
2008-09	2868	3452	1768	1015	851	498	864	461	703	10031	22507
2009-10	3214	3819	1550	1046	788	542	839	469	1232	10239	23738
2010-11	4569	5918	1294	1308	777	731	1124	677	1760	15500	33658
2011-12	4755	6455	1711	1456	704	739	1551	710	1407	15974	35516

Source: Bangladesh Bank Statistics Department

Bangladesh's external sectors have experienced robust growth in recent years, thanks to the Export Policy of 1997-2002, which has been designed in order to maximize export growth and narrow down the gap between import payments and export earnings. However, during the later part of 1990s the export-oriented industry was featured by some fluctuating fortunes. Growth rates in FY1997 and FY1998 were a robust 13.8 percent and 16.8

percent, only to subsequently come down to 2.9 percent in FY1999. In FY2000 export sector was able to make some rebound and posted a growth record of 8.3 percent. The rate was 12.43 percent in the corresponding next year. During the FY2001-02 the sector was shaken by some domestic political turmoil to be recorded for a growth rate as low as -7.44 percent. After that export growth in Bangladesh was seen to be continuously positive and a double digit growth rate was posted thereafter until FY2010-11 except FY2009-10.

Foreign Trade of India

In 1950s, 60s and 70s, India had a small share of GDP from foreign trades. Both export earnings and import expenses were comparatively smaller in amount. In the 1980s, foreign trade has been increasing because of a series of reform measures in the economy. In 1980-81, exports of India were 8,486 US dollar while imports were 15,869 indicating a large trade deficit. Later both exports and imports had increased but increase in exports was higher than that of imports. In 1990-91, India's exports and imports were recorded as 18,143 million and 24,075 million US dollar respectively. Till 2011-12, India never had a trade surplus and the country's exports and imports were counted as US$44,076 million and 49,975 million in 2000-01, US$185,295 million and US$303,696 million in 2008-09, US$178,751 million and US$288,373 million in 2009-10, US$251,136 million and US$369,769 million in 2010-11, and US$304,624 million and US$489,181 million in 2011-12 fiscal years. India's major export destinations are the United Arab Emirates (UAE), USA, China, Hong Kong, Singapore, Netherland, UK, Germany, Belgium, Indonesia, France, Japan, Saudi Arabia, Italy, Brazil, South Africa, Malaysia, South Korea, Sri Lanka, and Bangladesh. India exports mostly engineering goods, petroleum products, gems and jewelry, RMG of all textiles, drug/pharmaceutics and fine chemls, other basic chemicals, electronic goods, cotton yarn/made-up handloom products, iron ore, plastic and linoleum, and a number of other goods like tea, coffee, leather and leather manufactures etc.

Table 3: Export and Import Composition of India (in million US dollar)

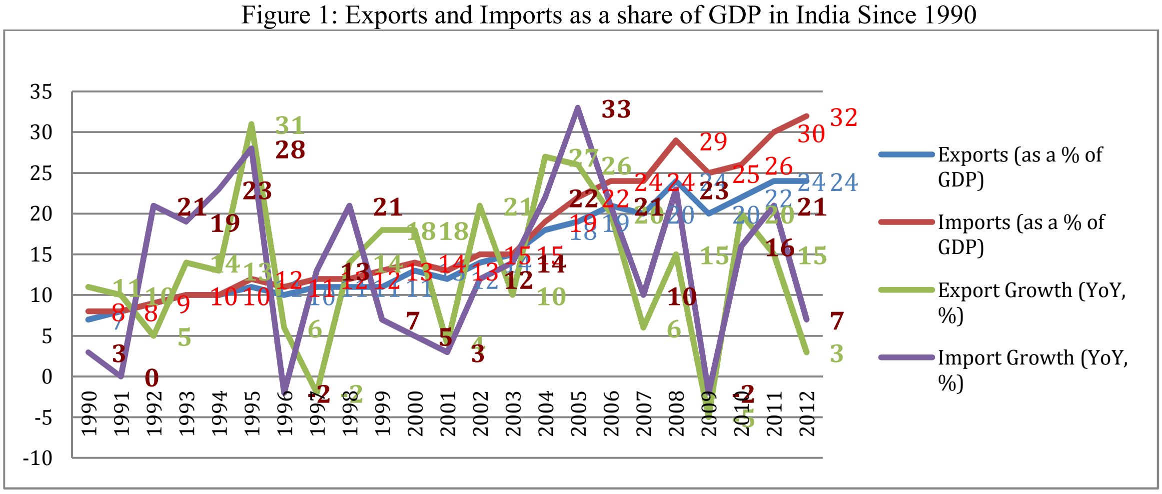
	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2008-09	2009-10	2010-11	2011-12
1	2	3	4	5	6	7	8	9	10	11
Exports	1,269	1,346	2,031	8,486	18,143	44,076	185,295	178,751	251,136	304,624
Imports	1,273	2,353	2,162	15,869	24,075	49,975	303,696	288,373	369,769	489,181

Source: Economic Survey 2012-13, Planning Commission, GOI

On the other hand, India imports mainly petroleum, crude & related products, gold & silver, pearls, precious & semi-precious stones, machinery, electrical & non-electrical, electronic goods, organic & inorganic chemicals, transport equipment, iron & steel, coal, coke & briquettes, metaliferrous ores & metal scrap, and a number of other goods. Major trading partners for imports are China, UAE, Switzerland, Saudi Arab, USA, Germany, Iran, Australia, Nigeria, South Korea, Kuwait, Indonesia, Hong Kong, Iraq, Japan, Belgium, Singapore, South Africa, Qatar, and Malaysia.

India's exports and imports as a percentage of GDP have been rising year after year since independence. The following figure indicates data of shares in GDP since 1990. The graph shows that in 1990, exports as a share of GDP was only 7 percent and that of imports was also as low as 8 percent. In the ending year of 2012, the same shares were 24 percent and 32 percent respectively.

Figure 1: Exports and Imports as a share of GDP in India Since 1990



Source: World Development Indicators, World Bank (2013)

Growth of exports and imports in a year on year basis also shifted since 1990. According to the following data, India's growth rates in shares of exports and imports were 11 percent and 3 percent respectively in 1990. However, in 2012 the growth rates were recorded as 3 percent and 7 percent. These rates have been fluctuating a lot in the said period. The highest growth rate of export earnings was seen in 1995 while the lowest was -2 percent in 1997 and -5 percent 2009. On the other hand, highest growth rate in import expenses was posted as 33 percentage points in 2005 while the lowest figure was counted as -2 percentage points in both the years of 1996 and 2009.

Foreign Trade of Pakistan

Pakistan's foreign trade has played a crucial role in its economic development. The nation is a member of the World Trade Organization (WTO) and it maintains various bilateral and multilateral agreements of trade (such as the South Asian Free Trade Area and the China-Pakistan Free Trade Agreement etc.) with many countries and international organizations.

Although Pakistan's exports continue to be dominated by cotton textiles and apparel only, its exports increased greatly. The country exports rice, kinnows, mangoes, furniture, cotton fiber, cement, tiles, marble, textiles, clothing, leather goods, sports goods, cutlery, surgical instruments, electrical appliances, software, carpets, rugs, ice cream, livestock meat, chicken, powdered milk, wheat, seafood, vegetables, processed food items, Pakistani-assembled Suzuki, defense equipment, salt, onyx, engineering goods, and many other items.

Export in Pakistan was recorded at an average of 31461.80 million Pakistani Rupees (PKR) for the period from 1957 until 2014. In this span of time, the maximum was reported as 275917 million PKR in September of 2013 and the lowest figure was estimated as 51 million PKR in April of 1958 (Pakistan Bureau of Statistics, 2014). Pakistan's main export partners are United States, United Arab Emirates, Afghanistan, China, United Kingdom and Germany.

On the other hand, from 1957 until 2014, import value of Pakistan has reached to an average of 51989.67 million PKR. The highest imports expense was recorded at 435995 million PKR in January of 2014 and the lowest figure was found to be 96 million PKR in April of 1959. The country imports mainly fuel, machinery and transport equipment, chemicals, food and oils, and manufactured goods. The principal import partners are United Arab Emirates, China, Saudi Arabia, Kuwait, Japan, USA, India, UK and Malaysia. Others include: Malaysia, Japan, India and United States.

Table 4: Exports and Imports of Pakistan

(Value in Million US$)

FY	Exports	Imports
1985-86	3070	5634
1986-87	3686	5380
1987-88	4455	6391
1988-89	4661	7034
1989-90	4954	6935
1990-91	6131	7619
1991-92	6904	9252
1992-93	6813	9941
1993-94	6803	8564
1994-95	8137	10394
1995-96	8707	11805
1996-97	8320	11894
1997-98	8628	10118
1998-99	7779	9432
1999-2000	8569	10309
2000-01	9202	10729
2001-02	9135	10340
2002-03	11160	12220
2003-04	12313	15592
2004-05	14391	20598
2005-06	16451	28581
2006-07	16976	30540
2007-08	19052	39966
2008-09	17688	34822
2009-10	19290	34710
2010-11	24810	40414
2011-12	23624	44912
2012-13	24460	44950

Source: Federal Bureau of Statistics, Pakistan

Foreign Trade of Sri Lanka

A comparison with the nineties, Sri Lanka got a decline in both exports and imports as a percent of GDP in the last decades. The shares were recorded at 25.8 and 35.9 percent in the last decades while these were reported at 27.7 and 37.7 percent respectively in the 1990s. The trade balance, however, was almost unchanged because of the quite similar magnitudes of the declines. The trade balance was estimated at about -10.0 percent of GDP both in the last decade and the nineties and Sri Lankan economy followed a double digit trade deficit for most of the years since 2004. Current account balance, however, improved from -4.8 percent of GDP in the 1990s to -3.5 percent in the last decade, thanks to increased inflow of foreign remittances.

The overall balance declined from 1.5 percent of GDP in the nineties to 0.9 percent in the last decade. The total share of exports and imports as a percent of GDP in the last decade also has fallen down to 61.7 percent from 65.4 percent in the 1990s. In 1950, Sri Lanka's total trade was about 70.6 percent of its GDP and it was 0.49 percent of the world trade. This high ratio of trade to GDP indicates the high degree of openness of the trade regime that governed the sector in the 1950s. However, in the face of deteriorating terms of trade in that period the nation started to implement and emphasize import substitution industrialization policies in the later part of 1950s. Hence, Sri Lanka followed an inward looking trade policy regime from 1960 until 1977, except a tiny period of partial liberalization in the late 1960s. As a consequence of such policies, trade share declined sharply to touch 37.7 percent of GDP in 1977. In the 1970s, the economy experienced its lowest trade share in the history. Later on, economic policy reforms, which promoted export promotion industrialization strategies, were started to implement in 1977.

Sri Lanka's export and import of goods and services since 1960 are shown in table below. It is indicated that the nation's export as a percentage of GDP has been high since the last decades. Similarly, annual growth rate shows gradual increase except some years. In 1960s, the export share of GDP was more than 20% for all years but the maximum was in 2000 when the country recorded an export share of 39.02% of GDP. The highest annual growth rate of export was estimated in 1975 with a value of 20.05%. Growth rate of export in Sri Lanka has been fluctuating since 1960 until recently. In its latest records, in 2011 the growth rate of export for goods and services was measured as 11% while the total amount of exports was 13643.53 million in current US$, which was about 23.06% of Sri Lanka's GDP. Similar to export, import as a share of GDP in Sri Lanka is also high and the highest record of 49.62% was seen in 2000. Annual growth of import has been fluctuating since the 1960s. The latest value of import of goods and services in Sri Lanka was estimated as 22,255.86 million USD in 2011 while the growth rate was 20% and import as a share of GDP was 37.61% in the same year.

Sector-wise export and commodity import data of Sri Lanka from 2003 to indicates that industrial export builds the major part of exports. Among industrial exports, 'Food Beverage & Tobacco' and 'Textiles & Garments' are the two major components. Agricultural sector is another good contributor of export in Sri Lanka. As it is indicated in the data table 'tea, rubber & coconut' is the largest agriculture export sub-sector in Sri Lanka. From the latest data available from the website of Sri Lankan Ministry of Industry and Commerce, in 2010 total exports of goods was estimated at US$ 8,307.1 million of which industrial Exports accounted for US$ 6,172.8 million, mineral exports US$ 92.6 million, and agricultural exports US$ 2,041.4 million.

Intermediate goods such as petroleum, fertilizer, chemicals, garments & textiles etc. compose the major share of Sri Lankan imports. Consumer goods such as food & beverages, rice, sugar, and wheat etc. and investment goods such as Machinery & Equipment, Transport Equipment and Building Materials also contribute greatly to goods imports of Sri Lanka. For an example, in 2010 the total import volume was recorded as 13,511.7 million US$ among which Intermediate Goods constitutes US$7,495.9 million, the share of Consumer Goods was US$ 2,870.3 million and Investments Goods captured US$ 2,969.6 million.

Table 5: Sri Lanka's Exports and Imports of Goods and Services

Year	Current US $ (million)	Annual growth (%)	% of GDP	Current US $ (million)	Annual growth (%)	% of GDP
1960	422.30	n.a	29.75	464.03	n.a	32.69
1961	400.49	3.89	27.54	414.28	-9.88	28.49
1962	405.39	5.56	27.79	425.93	11.65	29.2
1963	319.74	-3.44	25.76	341.29	-11.2	27.49
1964	325.38	0.05	24.62	353.22	0.43	26.72
1965	439.92	6.04	25.9	432.98	-2.26	25.49
1966	391.81	-5.91	22.37	452.73	4.77	25.85
1967	380.45	6.21	20.46	433.33	-4.37	23.3
1968	371.43	0.07	20.62	424.87	11.01	23.59
1969	361.51	-0.58	18.39	483.87	7.1	24.62
1970	584.54	4.29	25.45	656.81	-5.91	28.6
1971	583.14	-3.19	24.61	630.52	-9.83	26.61
1972	570.18	-2.04	22.33	610.39	-7.76	23.9
1973	700.16	1.16	24.35	735.00	-2.55	25.56
1974	944.81	-13.34	26.43	1,211.73	-2.39	33.9
1975	1,042.23	20.04	27.49	1,325.39	-0.83	34.96
1976	1,043.16	2.25	29.05	1,126.99	13.6	31.38
1977	1,387.94	-13.28	33.81	1,237.77	-5.69	30.16
1978	950.35	9.47	34.77	1,080.85	36.92	39.55
1979	1,134.23	13.8	33.71	1,539.44	18.95	45.75
1980	1,296.67	3.6	32.22	2,205.45	19.25	54.8
1981	1,345.04	10.01	30.46	2,054.96	-6.97	46.54
1982	1,304.57	4.53	27.36	2,205.91	14.65	46.26
1983	1,360.65	n.a	26.33	2,141.14	n.a	41.43
1984	1,740.76	n.a	28.8	2,099.73	n.a	34.74
1985	1,555.12	5	26.01	2,269.74	-6.49	37.97
1986	1,519.20	12.97	23.72	2,262.92	7.68	35.33
1987	1,683.39	0.52	25.19	2,385.29	-0.27	35.7
1988	1,819.71	7.15	26.08	2,570.61	-2	36.84
1989	1,904.74	6.69	27.26	2,568.29	-2	36.76
1990	2,424.29	6.7	30.18	3,057.44	7.9	38.06
1991	2,586.80	6.7	28.74	3,497.08	7.9	38.85
1992	3,082.68	6.7	31.77	3,981.47	7.9	41.03
1993	3,494.58	13.2	33.8	4,481.46	14.5	43.35
1994	3,962.06	13.1	33.81	5,345.33	14.2	45.62
1995	4,638.26	2.9	35.6	5,998.54	1	46.04
1996	4,860.50	3.9	34.97	6,101.19	2.8	43.9
1997	5,514.31	11.69	36.54	6,580.00	10.47	43.6
1998	5,724.70	0.97	36.24	6,673.56	11.49	42.25
1999	5,555.45	3.99	35.48	6,774.15	7.01	43.27
2000	6,371.58	17.99	39.02	8,103.47	14.89	49.62
2001	5,878.26	-5.27	37.33	6,860.23	-9.53	43.57
2002	5,971.10	6.26	34.91	7,084.22	11.22	41.42
2003	6,543.19	3.36	34.65	7,681.62	11.25	40.68
2004	7,300.26	7.74	35.33	9,122.93	9.01	44.15
2005	7,892.07	6.65	32.34	10,071.56	2.69	41.27
2006	8,516.55	3.84	30.13	11,627.13	6.94	41.13
2007	9,419.05	7.33	29.12	12,775.97	3.73	39.49
2008	10,114.27	0.39	24.84	15,686.59	4.01	38.53
2009	8,972.41	-12.31	21.33	11,703.64	-9.59	27.82
2010	11,091.64	8.76	22.38	15,209.67	12.65	30.68
2011	13,643.53	11	23.06	22,255.86	20	37.61

Sources: World Bank national accounts data, and OECD National Accounts data files.

Economic Reforms and Their Impact on Foreign Trade in SA

Economic reform initiatives in SA in the 1980s and early 1990s came out as implementation of a package of Structural Adjustment Policies (SAP) under the support of the World Bank and the IMF. Some examples include World Bank's Structural and Sectoral Adjustment Loans (SAL and SECLs) in 1980s. Reform programs include trade liberalization, agricultural reforms, privatization, financial sector reforms, and fiscal reforms (Bashar & Khan, 2007).

Trade Liberalization: SA countries exercised a logical sequence in reform activities towards trade liberalization by initiating the relaxation and withdrawal of import quota restrictions along with the unification of the exchange rate and devaluation of the domestic currency. Starting from the mid-1980s tariff and non-tariff barriers were reduced substantially—the un-weighted average import duty rate declined enormously. However, cuts in custom duties were offset by other protective measures like Para-tariffs (World Bank, 2004)[1]. The nations reduced protection to make import less costly and helped the export sector to demonstrate stellar performance. As a result, economies in SA have achieved a great expansion in international trade as they opened and liberalized gradually. Therefore, total volume of exports and imports as a share of GDP has grown significantly. Consistent with international trade theories, expansion of trade is an important objective of economic reforms in SA. As a result, both exports and imports shares have been increased notably after trade reform initiatives were implemented.

Financial Reform: Removing distortions from the economy imposed by regulatory authorities was the theoretical background of the Financial Sector Reform Programs in the region. For an example, some of the governments in the region created the comprehensive Financial Sector Reform Programme (FSRP) in early 1990s and mandated the authority to design policy aimed at liberalizing the economy through bringing indirect control in monetary policy, enhancing efficiency of financial institutions especially the banking sector, and restoring order in the financial sector. To bring all of these policy measures in reality some countries of SA put into operation *"National Commission on Money, Banking and Credit"* with the assistance of the World Bank (Bahar, 2009). The Financial Sector Adjustment Credit (FSAC) was also contracted simultaneously with the help of World Bank at the same time (Bhattacharya & Chowdhury, 2003). Financial reform is important in SA because Capital markets are yet to be expanded and flourished in almost all SA countries. Like other developing countries banks and other financial institutions act as key intermediaries to provide necessary funds for businesses. Thus the contribution of financial liberalization reform to improvement of the productivity of domestic capital (growth) in these economies appeared as a crucial factor (King & Levine, 1993; Hallwood & MacDonald, 1994).

Capital Market Liberalization: Most of the countries in South Asia including Bangladesh, India and Pakistan opened their doors for foreign entrepreneurs during 1980s and the early 1990s in order to reap the benefit of overseas capital and investment. The countries built up Board of Investment (BOI), lifted restriction on capital and profit repatriation, and opened the industrial sector for FDI. Other measures that were also added were: Tax exemptions for investors in some key industries such as power generation, withdrawal of import duties from export oriented machineries, offering tax holiday schemes for investment in priority and less developed sectors, reducing restriction on entry and exit, and lowering bureaucratic barriers in getting approvals of foreign projects. According to neo-classical growth advocates, in capital shortage economies, the marginal productivity of investment is increased if additional capital is injected in the form of long-run investment like FDI (Adhikary, 2011). On the other hand, endogenous growth economists postulate that such increased efficiency of investment which is achieved through more foreign capital investment is capable of providing comparative advantage (Romer, 1986). Moreover, in low-income countries FDI and foreign capital act as a source of fund in order to fill up the gap between existing level in resources and the amount needed in the development endeavor. Such funds stimulate productivity through complementing scarce domestic resources, by easing foreign exchange constraints, through inviting modern technologies and managerial skills, and also in facilitating easy access to foreign markets.

Fiscal Reform: Fiscal policy in various South Asian countries includes earning and spending activities carried out by the State to allocate resources in various sectors in order to provide services while ensuring optimum efficiency of the economic units. In the early stage of development majority of the government expenditure was put in reconstruction and rehabilitation works in most of the countries. Notwithstanding, the situation changed gradually to improve the fiscal front—a number of fiscal reforms were undertaken in accordance with the IMF's Enhanced Structural Adjustment Facility (ESAF). For an instance, the introduction of Value Added Tax (VAT) that largely replaced the earlier version of differentiated sales tax in Bangladesh was one of the most important measures for the country's reform policies. On the expenditure side, vis-à-vis, increased emphasis was given on human resource development and poverty alleviation programs in most of the economies of SA. The governments of the individual countries have given top priority on the education sector to improve quality and coverage. The provision of health and family planning services and social safety net programs to serve the

[1] World Bank (2004).World Bank Trade Policies in South Asia: An Overview. Report no 29949, September 7, 2004. Volume 4: Bangladesh's trade policies.

vulnerable people were also emphasized in government fiscal policies (Bahar, 2009).

After about three decades of the reform measures have been adopted, one question arises in general: did reform initiatives to liberalize the economy become effective to promote trade in SA? By utilizing an empirical estimation we try to find out the answer. More clearly, we will make an effort to empirically test whether the marginal impacts of reform measures are effectively lifting foreign trade for SA countries. We use the following equation:

$$Ln(OPN_{i,t}) = \mu_0 + \mu_1 Ln(PCY_{i,t}) + \mu_2 Ln(FDI_{i,t}) + \mu_3 Ln(OPN_{i,t-1}) + \mu_4 Ln(RIR_{i,t}) + \mu_5 Ln(MCY_{i,t}) + \mu_6 \ln(TAXRY_{i,t}) + \mu_7 Ln(GNEXY_{i,t}) + U_{i,t}$$

For the above equation, *PCY* represents per capita GDP; *FDI* implies net inflow of foreign direct investment; the variable *OPN* represents the trade openness indicator in the form of total volume of export and import as a share of GDP, *RIR* stands for real rate of interest which is the financial openness indicator; *MCY* is Market capital as a share of GDP— it acts as a capital account openness indicator, *TAXRY* is Tax Revenue as a percentage of GDP, *GNEXY* is Government Expenditure as a share of GDP. *TAXRY* and *GNEXY* are proxy variables for fiscal reforms. *U* is for error terms. To perform regression of the above equation, we utilize panel random effects estimation technique. We use data of 5 countries from South Asia such as Bangladesh, India, Nepal, Pakistan and Sri Lanka. We do not include Afghanistan, Bhutan and Maldives in our estimation because of data unavailability. The time horizon for the data is from 1991 to 2012. Data are collected from the World Development Indicators of the World Bank, the Asian Development Data Source and the United Nations Conference on Trade and Development (UN Comtrade Database)

The results are summarized in the table below. According to the study's findings, *per capita GDP* was negatively affecting foreign trade in South Asian countries. *FDI as a percentage of GDP* and *lag values of trade openness* become significantly positive at 5% and 1% level respectively, *Real interest rate* which represents financial sector liberalization reforms and *market capital as a percentage of GDP* which is proxy for capital market liberalization have negative effect on trade. *Tax revenue* and *gross national expenditure* which are fiscal reform proxies appeared as significantly positive at 10% and 5% level respectively.

Table 6: Results of Random-effects Regression for Impact of Reforms on Foreign Trade in SA (Dependent Variable: Openness Indicator i.e. Total Trade as a share of GDP)

		(1)	(2)	(3)	(4)	(5)
Variables	**Explanation**	**lnopn**	**lnopn**	**lnopn**	**lnopn**	**lnopn**
lnpcy	Per capita GDP	0.0392	-0.00248	-0.00500	0.00402	-0.0201
		(0.0468)	(0.0338)	(0.0343)	(0.0363)	(0.0349)
lnfdiy	Foreign Direct Investment (FDI) as percentage of GDP	0.449***	0.0863	0.0913	0.103	0.156**
		(0.0724)	(0.0550)	(0.0562)	(0.0581)	(0.0567)
lnlagopn	Lag values of Openness Indicator		0.885***	0.884***	0.877***	0.744***
			(0.0397)	(0.0400)	(0.0411)	(0.0522)
lnrir	Real Interest Rate			-0.0276	-0.0458	-0.0161
				(0.0564)	(0.0612)	(0.0745)
lnmcy	Market Capital as percentage of GDP				-0.0156	-0.0273
					(0.0200)	(0.0211)
lntaxry	Tax Revenue as percentage of GDP					0.177*
						(0.0837)
lngnexy	Gross national expenditure as percentage of GDP					1.120**
						(0.399)
Constant		3.217***	0.403	0.493	0.545	-4.529*
		(0.307)	(0.210)	(0.279)	(0.288)	(1.881)
Observations		109	109	109	109	109
Number of Panels		5	5	5	5	5
rmse		0.187	0.152	0.152	0.153	0.144

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Source: Author's Estimation

Policy Conclusion

The economies in SA have achieved a great expansion in international trade as they were opened and liberalized gradually since the1980s. Therefore, total volume of export and import has grown enormously. Being factor driven economies, capital markets are yet to be expanded and flourished. Like other developing countries banks and other financial institutions act as key intermediaries to provide necessary funds for businesses. Although the contribution of financial liberalization reform to improvement of trade is not significant enough but it is a crucial factor for the economies in the region (King & Levine, 1993; Hallwood & MacDonald, 1994). The impact of *FDI* and *Market Capital* that act as proxy variables for capital market liberalization reforms are also very important determinants for trade development in the countries of SA.

The implications of these findings are simple. First, the verification of a positive relationship hypothesis between trade and the factors considered in this study indicates the credibility of SA's robust growth in the external sector in recent years. Throughout the 2000s, export growth in SA was seen to be continuously positive. Moreover, export earnings performance of some of the major sectors including woven-RMG, knit-RMG, frozen foods, and leather goods has experienced significant improvement since the last two decades. Furthermore, industry leaders were able to undertake timely measures for production of exportable goods at a competitive price, thanks to increase in volumes rather than that of price of SA’s export products. Nevertheless, in some countries in SA export trade is continued to be featured by the dominance of a few commodities in a narrow market and no visibility of mentionable breakthrough in the performance of the thrust sectors. It is, therefore, necessary to remove those impediments in order to maintain a sustainable external sector.

References (Incomplete)

Asian Development Bank (2009). Study on Intraregional Trade and Investment in South Asia: Asian Development Bank, Philippines.

Adhikary, B.K. (2011). FDI, Trade Openness, Capital Formation, and Economic Growth in Bangladesh: A Linkage Analysis. *International Journal of Business and Management 6*(1): 16-28

Bahar, H. (2009). Financial Liberalization and Reforms in Bangladesh. Paper Presented in the National Workshop on Strengthening the Response to the Global Financial Crisis in Asia-Pacific: The Role of Monetary, Fiscal and External Debt Policies, Thimphu, Bhutan, December 9-11, 2009.

Bashar, K.M. & Khan, H. (2007). Liberalisation and Growth in Bangladesh: An Empirical Investigation. *The Bangladesh Development Studies*, *32*(1), 61-76

Bhattacharya, D. & Chowdhury, T. A. (2003). Financial Sector Reforms in Bangladesh: The Next Round. *CPD Occasional Paper Series*. Dhaka: Centre for Policy Dialogue.

Hallwood, P. and MacDonald, R. (1994). The Order of Liberalization in Developing Countries. In *International Money and Finance*, (p.338-350). Malden: Blackwell Publishing.

King, R. G. and Levine, R. (1993). Finance and Growth: Schumpeter Might be Right. *Quarterly Journal of Economics*, *108*(3), 717-737.

Ministry of Finance (2008). Bangladesh Economic Review 2008 [In English]. Dhaka: Government of Bangladesh.

Rahman, J. and Yusuf, A., (2010). Economic Growth in Bangladesh: Experience and Policy Priorities. *Journal of Bangladesh Studies*, *12*(1).

Romer, P. M. (1986a). Increasing returns and long-run growth. *Journal of Political Economy*, *95*(5), 1002-1037.

World Bank (2004).*World Bank Trade Policies in South Asia: an Overview*. Washington, D.C.: The World Bank Office.