

## Foreign Trade and Economic Reforms in South Asia

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### Abstract

As the world economy has undergone through various changes so as the countries of South Asia (SA). After following growth retarding policies for a long period of time individual countries in the region have adopted various reform measures to encourage foreign trade. This paper examines various aspects of foreign trade in major South Asian countries namely Bangladesh, India, Pakistan and Sri Lanka. Basic trends of export and import in these countries are analyzed using recent data. A panel random effect estimation is conducted using a data set ranging from 1991 to 2012 to measure the impact of economic liberalization reforms on foreign trade of SA. The empirical results of this study suggest positive and significant association between various liberalization reforms and trade development for the countries. This study advances that most of the countries in SA need to broaden their export markets to reap maximum benefit from various reform initiatives.

**Keywords:** foreign trade, economic liberalization reforms, South Asia and panel random effect model

### Introduction

The economies of South Asia (SA) are growing faster than most other developing countries with an annual average growth rate of 7 percent or more since the early 2000s. But still the region is featured as one of the poorest in the world because about 40 percent of world's poor are living here with more than a quarter of the region's total population earn less than \$1 a day. UNCTAD (2008) reported that the share of SA in global total income is only a mere 3 percent while it is a home to 25 percent of the total world population. SA has a negligible share in total world's exports too. In 2007, SA accounted for only 1.9 percent in total exports of the world where that of East Asia was 15.8 percent. Hence, data shows that much works need to done in order to explore the untapped trade opportunities of the region (ADB 2009).

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 have been 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 started to exploit their economies of scale. Furthermore, now-a-days liberalization of trade started to boost growth of the productive sectors of the countries in SA.

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, a 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 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 by the random effect technique. The final section concludes the paper.

### Foreign Trade of Bangladesh

Since the last decade Bangladesh has achieved substantial progress in its external sector. Major trade partners of the country for export are USA, UK, Germany, Belgium, Italy, Netherlands, Canada and Japan. Now-a-days the country export 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 tradition has been changed. Now the major share of export income comes from selling of ready-made garments (RMG). On the other side, Bangladesh imports mainly primary commodities such as rice, wheat, raw jute, 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 have been significantly better during the last two decades.

Table 1: Bangladesh Exports to Major Countries (1972-73 to 2011-12, 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
2007-08	3590.56	1374.03	2174.74	953.13	488.39	579.23	653.88	564.43	172.56	3591.31	14110.80
2008-09	4052.00	1501.20	2269.70	1031.05	409.80	651.51	970.80	663.20	202.60	3849.33	15565.19
2009-10	3950.47	1508.54	2187.35	1025.88	390.54	623.92	1016.9	666.83	330.56	4503.68	16204.65
2010-11	5107.52	2065.38	3438.70	1537.98	666.24	866.42	1107.1	944.67	434.12	6760.06	22928.22
2011-12	5100.91	2888.57	3688.98	1380.37	741.96	977.41	691.30	993.67	600.53	7667.96	24287.66

Source: Bangladesh Economic Review, Bangladesh Ministry of Finance (2012)

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.

On the other hand, import composition of the Bangladesh economy shows 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. The next table shows commodity-wise imports in Bangladesh. 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\$ 1448 million representing 18.06 percent of total import. These figures decreased to US\$ 980 million and US\$ 1098 million (11.66 percent and 11.73 percent) in FY 1999-2000 and FY2000-01 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 of total) in FY2008-09 and US\$ 4957 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 (GOB 2008).

Table 2: Bangladesh's Value of Imports by Major Commodities (In Million US\$)

Commodity	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<b>a) Major Primary Goods</b>	<b>812</b>	<b>1133</b>	<b>1339</b>	<b>1676</b>	<b>1854</b>	<b>2069</b>	<b>3455</b>	<b>2916</b>	<b>2940</b>	<b>5626</b>	<b>4148</b>
Rice	15	211	144	262	117	180	874	239	75	830	288
Wheat	171	198	287	312	301	401	537	643	761	1081	613
Oilseeds	72	64	73	86	90	106	136	159	130	103	177
Crude petroleum	242	267	252	350	604	524	695	584	535	923	987
Raw cotton	312	393	583	666	742	858	1213	1291	1439	2689	2083
<b>b) Major Intermediate Goods</b>	<b>1311</b>	<b>1548</b>	<b>1910</b>	<b>2662</b>	<b>3001</b>	<b>3569</b>	<b>4844</b>	<b>5035</b>	<b>4957</b>	<b>7511</b>	<b>9263</b>
Edible oil	251	364	471	440	473	583	1006	865	1050	1067	1644
Petroleum products	481	620	770	1252	1400	1709	2058	1997	2021	3186	3922
Fertilizer	107	109	150	332	342	357	632	955	717	1241	1381
Clinker	150	144	139	170	210	240	347	314	333	446	504
Staple fiber Yarn	39	41	57	75	76	97	110	112	118	180	428
<b>c) Capital Machinery</b>	<b>283</b>	<b>270</b>	<b>323</b>	<b>393</b>	<b>501</b>	<b>582</b>	<b>691</b>	<b>792</b>	<b>718</b>	<b>1391</b>	<b>1384</b>
<b>d) Other Goods</b>	<b>554</b>	<b>548</b>	<b>729</b>	<b>1115</b>	<b>1458</b>	<b>1929</b>	<b>1664</b>	<b>1420</b>	<b>1595</b>	<b>2325</b>	<b>2005</b>
<b>Total Imports (a+b+c+d)</b>	<b>8540</b>	<b>9658</b>	<b>10903</b>	<b>13147</b>	<b>14746</b>	<b>17157</b>	<b>21629</b>	<b>22507</b>	<b>23738</b>	<b>33658</b>	<b>35516</b>
<b>Annual Change (%)</b>	<b>-8.5</b>	<b>13.1</b>	<b>12.9</b>	<b>20.6</b>	<b>12.2</b>	<b>16.4</b>	<b>26.1</b>	<b>4.1</b>	<b>5.5</b>	<b>41.8</b>	<b>5.5</b>

Source: BD Economic Review, Government of Bangladesh (2012)

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. India, on the other hand, has exported US\$ 4755 million to Bangladesh in 2012. The next table summarizes country-wise imports of Bangladesh since FY1989-90.

Table 3: Bangladesh's Country-wise Imports (In Million US\$)

FY	India	China	Singapore	Japan	Hong Kong	Taiwan	S. Korea	USA	Malaysia	Others	Total
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: BD Economic Review, Government of Bangladesh (2012)

### Foreign Trade of India

As indicated in the next table below during 1950s through 1970s, India had on an average a small share of GDP from foreign trade. Both export earnings and import expenses were comparatively smaller in amount. Since the 1980s, foreign trade has been increasing because of a series of reform measures in the economy. In 1980-81, exports of India were US\$8486 while imports were 15869 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 US\$18143 million and US\$24075 million respectively. Till 2011-12, India never had a trade surplus and the country's exports and imports were counted as US\$44076 million and US\$49975 million in 2000-01, US\$185295 million and US\$303696 million in 2008-09, US\$178751 million and US\$288373 million in 2009-10, US\$251136 million and US\$369769 million in 2010-11 and US\$304624 million and US\$489181 million in 2011-12 fiscal years.

Table 4: Export and Import Composition of India Since FY1950-51(in million US dollar)

	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2008-09	2009-10	2010-11	2011-12
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 by the Planning Commission, GOI

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.

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. The next figures show country-wise and commodity-wise exports and imports of India.

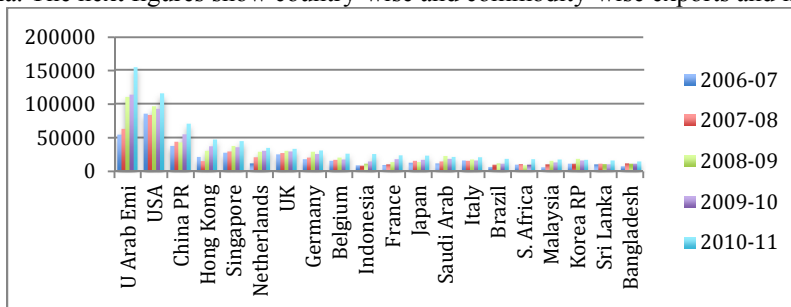


Figure 1: India's Export and Import by countries (Value in Rs. Crores)  
 Source: Panning Commission, GOI (2013)

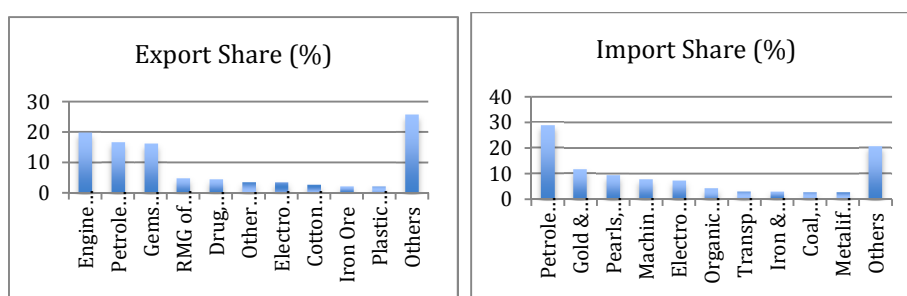


Figure 2: Share of Major Export and Import Commodities in 2010-11(percent of total values)  
 Source: Panning Commission, GOI (2013)

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. 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 negative 2 percentage points in both the years of 1996 and 2009. The following figure explains the phenomena.

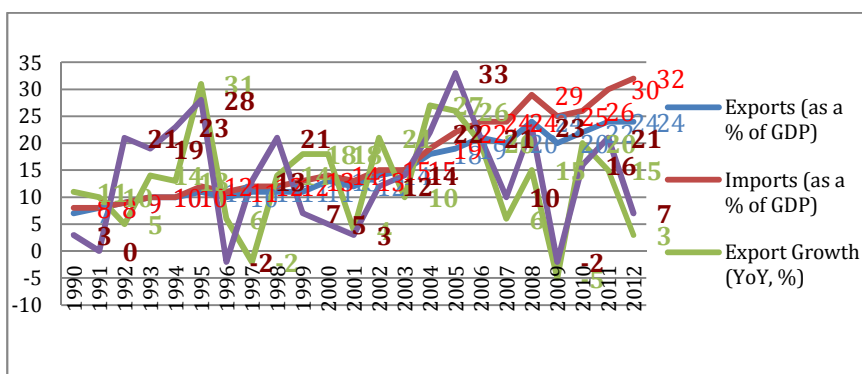


Figure 3: Exports and Imports as a share of GDP in India Since 1990  
 Source: World Development Indicators, World Bank (2013)

### 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, SAFTA and the China-Pakistan Free Trade Agreement etc.) with many countries and international organizations. In the next sections foreign trade of Pakistan is described briefly. Total exports and imports of Pakistan in million US\$ are presented in the table below.

Table 5: 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

In the following table exports of Pakistan by various economic categories have been presented. Although Pakistan's exports continue to be dominated by cotton textiles and apparel only, its export earnings increased greatly. The country exports mainly rice, 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 and various engineering goods.

Table 6: Pakistan's Exports by Economic Categories (In Million Pakistani Rupees)

Year	Month	Total	Primary Commodities	Semi-manufactured goods	Manufactured goods
2008-09		1383717.5	224873.2	130693.0	1028151.4
2009-10		1617457.6	287490.6	170608.5	1159358.5
2010-11		2120846.7	377535.8	274500.4	1468810.5
2011-12		2110605.5	362404.4	261831.4	1486369.7
2012-13		2366477.8	364127.0	391151.3	1611199.5
	2012 Oct.	192115.2	26123.0	27054.2	138938.0
	Nov.	181960.3	25040.7	32153.6	124766.0
	Dec.	191390.7	31467.3	32814.0	127109.4
	2013 Jan.	197186.6	43247.3	28670.4	125268.9
	Feb.	179747.0	34191.4	29574.3	115981.3
	Mar.	209240.8	39834.7	39414.0	129992.1
	Apr.	209142.2	35727.3	40321.9	133093.0
	May.	210829.2	31596.2	38581.9	140651.1
	Jun.	214326.5	29186.0	38006.7	147133.8
	Jul.	210465.3	29584.3	35086.5	145794.6
	Aug.	204136.9	25828.4	31334.8	146973.7
	Sep.	275482.9	33398.8	34272.0	207812.1
	Oct*	197939.6	27225.9	29689.6	141024.1

Source: Federal Bureau of Statistics, Government of Pakistan

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 import 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 countries include: Malaysia, Japan, India and United States. In the next table imports of Pakistan by various economic categories are shown. The figures explain country-wise export and import shares of Pakistan.

Table 7: Pakistan's Imports by Economic Categories (In Million Rupees)

Year	Month	Total	Total Consumer goods	Raw materials		Capital goods
				Consumer goods	Capital goods	
2008-09		2723569.9	348657.1	133986.1	246599.8	790326.9
2009-10		2910975.3	380826.6	1509081.1	209051.4	812016.2
2010-11		3455285.6	560512.2	1826243.4	239525.0	829005.0
2011-12		4009093.0	543010.8	2292309.1	262211.7	911561.4
2012-13		4349879.5	652553.3	2353818.1	293733.6	1049774.5
	2012 Oct.	361404.7	48490.8	197750.6	32819.3	82344.0
	Nov.	346228.9	49175.3	183929.7	24034.2	89089.7
	Dec.	356898.7	54619.8	189408.2	24323.2	88547.5
	2013 Jan.	366822.6	54515.4	206825.4	23898.2	81583.6
	Feb.	331464.7	51978.8	169258.5	20454.5	89772.9
	Mar.	361585.0	69119.3	189502.4	23227.1	79736.2
	Apr.	384227.2	59178.0	197496.2	24694.0	102909.0
	May	427530.9	65849.9	221666.5	27027.3	112987.2
	Jun.	388358.4	62762.5	198998.4	24267.1	102330.4
	Jul.	383244.9	53168.9	201953.0	26745.7	101377.3
	Aug.	367645.0	61538.9	208163.2	24123.1	73819.8
	Sep.	399041.6	64145.2	234234.5	21539.6	79122.3
	Oct*	348471.0	57420.3	190642.1	22097.5	78311.1

Source: Federal Bureau of Statistics, Government of Pakistan

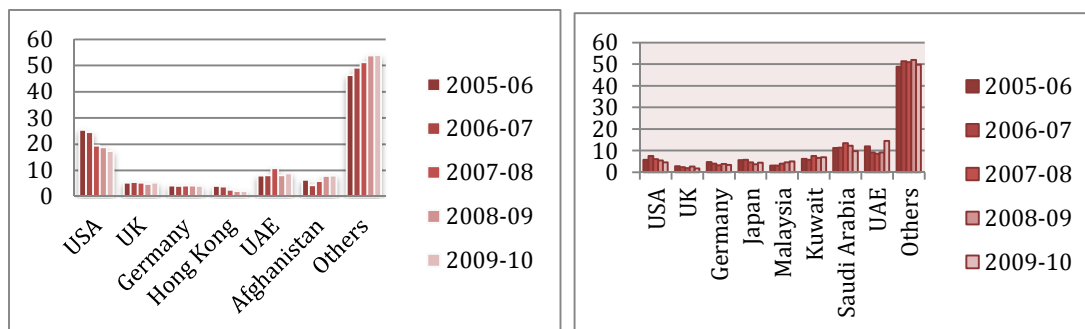


Figure 4: Pakistan's Exports by Country (Left graph) and Imports by Country (Right graph) in percentage share  
 Source: Federal Bureau of Statistics, Government of Pakistan

### Foreign Trade of Sri Lanka

Understanding basic facts about Sri Lanka's foreign trade requires shading some lights on its balance of payments account. 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 magnitude 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 a 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 Sri Lanka from 1977. The figure below explains some aspects of balance of payments of Sri Lanka.

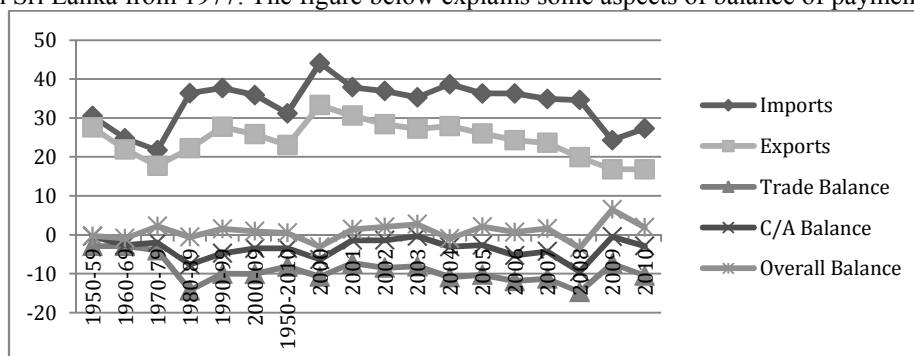


Figure 5: Sri Lanka's Balance of Payments Account from 1950-2010 (% of GDP)  
 Source: Source: Ministry of Industry and Commerce, Government of Sri Lanka

Sri Lanka's export 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 percent for all years but the maximum was in 2000 when the country recorded an export share of 39.02 percent of GDP. The highest annual growth rate of export was estimated in 1975 with a value of 20.05 percent. 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 percent while the total amount of exports was 13643.53 million in current US\$, which was about 23.06 percent of Sri Lanka's GDP.

Table 8: Sri Lanka's Exports of Goods and Services

Year	Current US \$ (million)	Annual growth (%)	% of GDP
1960	422.30	n.a	29.75
1961	400.49	3.89	27.54
1962	405.39	5.56	27.79
1963	319.74	-3.44	25.76
1964	325.38	0.05	24.62
1965	439.92	6.04	25.9
1966	391.81	-5.91	22.37
1967	380.45	6.21	20.46
1968	371.43	0.07	20.62
1969	361.51	-0.58	18.39
1970	584.54	4.29	25.45
1971	583.14	-3.19	24.61
1972	570.18	-2.04	22.33
1973	700.16	1.16	24.35
1974	944.81	-13.34	26.43
1975	1,042.23	20.04	27.49
1976	1,043.16	2.25	29.05
1977	1,387.94	-13.28	33.81
1978	950.35	9.47	34.77
1979	1134.23	13.8	33.71
1980	1296.67	3.6	32.22
1981	1345.04	10.01	30.46
1982	1304.57	4.53	27.36
1983	1360.65	n.a	26.33
1984	1740.76	n.a	28.8
1985	1555.12	5	26.01
1986	1,519.20	12.97	23.72
1987	1,683.39	0.52	25.19
1988	1819.71	7.15	26.08
1989	1904.74	6.69	27.26
1990	2424.29	6.7	30.18
1991	2586.80	6.7	28.74
1992	3082.68	6.7	31.77
1993	3494.58	13.2	33.8
1994	3962.06	13.1	33.81
1995	4638.26	2.9	35.6
1996	4860.50	3.9	34.97
1997	5514.31	11.69	36.54
1998	5724.70	0.97	36.24
1999	5555.45	3.99	35.48
2000	6371.58	17.99	39.02
2001	5878.26	-5.27	37.33
2002	5971.10	6.26	34.91
2003	6543.19	3.36	34.65
2004	7300.26	7.74	35.33
2005	7892.07	6.65	32.34
2006	8516.55	3.84	30.13
2007	9419.05	7.33	29.12
2008	10114.27	0.39	24.84
2009	8972.41	-12.31	21.33
2010	11091.64	8.76	22.38
2011	13643.53	11	23.06

(Note: n.a is for no data available)

Sources: World Bank national accounts data and OECD National Accounts data files in Index Mundi Data downloaded from <http://www.indexmundi.com/facts/sri-lanka/imports-of-goods-and-services>.



Sri Lanka's imports of goods and services since 1960 are tabled below. Total import value, annual growth rate and import as a share of GDP are shown in different columns. Similar to export, import as a share of GDP in Sri Lanka is also high and the highest record of 49.62 percent 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 percent and import as a share of GDP was 37.61 percent in the same year.

Table 9: Sri Lanka's Imports of Goods and Services

Year	Current US \$ (million)	Annual growth (%)	% of GDP
1960	464.03	n.a	32.69
1961	414.28	-9.88	28.49
1962	425.93	11.65	29.2
1963	341.29	-11.2	27.49
1964	353.22	0.43	26.72
1965	432.98	-2.26	25.49
1966	452.73	4.77	25.85
1967	433.33	-4.37	23.3
1968	424.87	11.01	23.59
1969	483.87	7.1	24.62
1970	656.81	-5.91	28.6
1971	630.52	-9.83	26.61
1972	610.39	-7.76	23.9
1973	735.00	-2.55	25.56
1974	1211.73	-2.39	33.9
1975	1325.39	-0.83	34.96
1976	1126.99	13.6	31.38
1977	1237.77	-5.69	30.16
1978	1080.85	36.92	39.55
1979	1539.44	18.95	45.75
1980	2205.45	19.25	54.8
1981	2054.96	-6.97	46.54
1982	2205.91	14.65	46.26
1983	2141.14	n.a	41.43
1984	2099.73	n.a	34.74
1985	2269.74	-6.49	37.97
1986	2262.92	7.68	35.33
1987	2385.29	-0.27	35.7
1988	2570.61	-2	36.84
1989	2568.29	-2	36.76
1990	3057.44	7.9	38.06
1991	3497.08	7.9	38.85
1992	3981.47	7.9	41.03
1993	4481.46	14.5	43.35
1994	5345.33	14.2	45.62
1995	5998.54	1	46.04
1996	6101.19	2.8	43.9
1997	6580.00	10.47	43.6
1998	6673.56	11.49	42.25
1999	6774.15	7.01	43.27
2000	8103.47	14.89	49.62
2001	6860.23	-9.53	43.57
2002	7084.22	11.22	41.42
2003	7681.62	11.25	40.68
2004	9122.93	9.01	44.15
2005	10071.56	2.69	41.27
2006	11627.13	6.94	41.13
2007	12775.97	3.73	39.49
2008	15686.59	4.01	38.53
2009	11703.64	-9.59	27.82
2010	15209.67	12.65	30.68
2011	22255.86	20	37.61

(Note: n.a is for no data available)

Sources: World Bank national accounts data and OECD National Accounts data files in Index Mundi Data downloaded from <http://www.indexmundi.com/facts/sri-lanka/imports-of-goods-and-services>.

Sector-wise export of Sri Lanka from 2003 to 2010 is summarized below. The table 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 as US\$ 8307.1 million of which industrial exports accounted for US\$ 6172.8 million, mineral exports US\$ 92.6 million and agricultural exports US\$ 2041.4 million.

Table 10: Sector-wise Exports (Goods) of Sri Lanka (In Million US\$)

	2003	2004	2005	2006	2007	2008	2009	2010
<b>1. Industrial Exports</b>	<b>3976.0</b>	<b>4506.1</b>	<b>4948.4</b>	<b>5383.4</b>	<b>5967.5</b>	<b>6159.6</b>	<b>5305.4</b>	<b>6172.8</b>
1.1 Food Beverage & Tobacco	145.0	175.1	318.2	363.9	513.5	458.3	406.1	503.4
1.2 Textiles & Garments	2575.0	2808.9	2894.5	3080.3	3339.6	3468.7	3274.2	3504.1
1.3 Petroleum Products	65.0	99.6	130.9	187.2	168.9	254.8	134.7	216.3
1.4 Rubber Products	231.0	282.9	394.4	427.5	482.5	541.9	384.7	567.6
1.5 Ceramic Products	42.0	46.8	47.1	47.4	47.1	49.0	36.4	39.1
1.6 Leather, Travel Goods & Footwear	58.0	42.6	43.8	40.6	22.9	16.7	13.6	17.1
1.7 Machinery & Equipment	290.0	385.7	329.9	394.3	542.2	461.0	330.3	487.8
1.8 Diamond & Jewellery	233.0	265.3	277.9	327.0	367.2	436.1	329.8	334.7
1.9 Other Industrial Exports	337.0	399.2	511.7	515.2	483.6	473.1	395.6	502.7
<b>2. Mineral Exports</b>	<b>84.0</b>	<b>120.0</b>	<b>143.3</b>	<b>136.2</b>	<b>127.8</b>	<b>122.4</b>	<b>88.7</b>	<b>92.6</b>
<b>3. Total Industrial &amp; Mineral Exports</b>	<b>4060.0</b>	<b>4626.1</b>	<b>5091.7</b>	<b>5519.6</b>	<b>6095.3</b>	<b>6282.0</b>	<b>5394.1</b>	<b>6265.4</b>
<b>4. Agricultural Exports</b>	<b>965.0</b>	<b>1065.2</b>	<b>1153.8</b>	<b>1292.7</b>	<b>1507.3</b>	<b>1854.9</b>	<b>1690.3</b>	<b>2041.4</b>
4.1 Tea, Rubber & Coconut	815.0	903.3	970.4	1098.1	1275.8	1567.6	1449.9	1719.4
4.2 Other Agricultural Products	150.0	161.9	183.4	194.6	231.5	287.3	240.4	322.0
<b>5. Unclassified</b>	<b>108.0</b>	<b>66.0</b>	<b>101.2</b>	<b>70.4</b>	<b>37.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.3</b>
<b>5. Total Exports</b>	<b>5133.0</b>	<b>5757.3</b>	<b>6346.7</b>	<b>6882.7</b>	<b>7640.2</b>	<b>8136.9</b>	<b>7084.4</b>	<b>8307.1</b>

Source: Ministry of Industry and Commerce, Government of Sri Lanka

In the next table commodity-wise import of goods from 2003 to 2010 in Sri Lanka is shown. 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 & Equipments, 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 13511.7 million US\$ among which Intermediate Goods constitutes US\$7495.9 million, the share of Consumer Goods was US\$ 2870.3 million and Investments Goods captured US\$ 2969.6 million.

Table 11: Commodity-wise Imports (Goods) of Sri Lanka (In Million US\$)

	2003	2004	2005	2006	2007	2008	2009	2010
<b>1. Consumer Goods</b>	1481.0	1623.5	1644.0	1980.2	2001.8	2559.6	1971.9	2870.3
(a) Food & Beverages	701.0	779.1	752.6	956.0	1064.7	1513.0	1246.3	1641.8
(i) Rice	8.0	59.4	15.6	5.5	38.7	44.3	22.9	59.0
(ii) Sugar	116.0	111.4	132.3	223.7	154.1	206.4	218.7	363.3
(iii) Wheat	137.0	183.1	141.4	198.6	233.9	375.5	259.3	257.2
(iv) Other	440.0	425.2	463.3	528.2	638.0	886.8	745.4	962.3
(b) Other Consumer Goods	780.0	844.4	891.4	1024.2	937.1	1046.6	725.6	1228.5
<b>2. Intermediate Goods</b>	3811.0	4645.4	5317.2	5962.4	6513.4	8344.3	5669.1	7495.9
(i) Petroleum	838.0	1209.3	1655.3	2070.3	2496.8	3368.2	2166.6	3018.7
(ii) Fertilizer	88.0	106.7	135.0	164.1	192.5	576.6	193.4	240.5
(iii) Chemicals	170.0	205.9	248.6	260.8	281.4	361.4	312.5	389.9
(iv) Garments & Textiles	1372.0	1514.1	1531.0	1546.2	1632.2	1702.0	1442.0	1732.3
(v) Other	1343.0	1609.4	1747.3	1921.0	1910.5	2336.1	1554.6	2114.5
<b>3. Investments Goods</b>	1320.0	1669.9	1815.0	2245.7	2685.1	3048.0	2450.9	2969.6
(i) Machinery & Equipments	698.0	857.4	806.4	1065.4	1246.7	1330.7	1012.8	1205.9
(ii) Transport Equipment	206.0	256.6	325.3	364.5	364.5	438.8	436.3	642.2
(iii) Building Materials	328.0	402.0	507.0	546.2	780.3	942.6	714.5	809.6
(iv) Other	88.0	153.9	176.3	269.6	293.6	335.9	287.3	311.9
<b>4. Unclassified Imports</b>	60.0	61.1	32.6	65.4	100.2	139.4	114.8	175.9
<b>5. Total Imports</b>	6672.0	7999.9	8808.8	10253.7	11300.5	14091.3	10206.7	13511.7

Source: Ministry of Industry and Commerce, Government of Sri Lanka

Sri Lanka's major export partners are USA, UK, Italy, India, Belgium-Luxemburg, Germany, Singapore, UAE,

Russia and Japan. In 2011, USA holds the maximum of about 20.3 percent of total exports of Sri Lanka. Other countries such as UK, Italy, Belgium-Luxemburg and India had contributed 10.5 percent, 5.8 percent, 5.4 percent and 4.9 percent respectively. On the other hand, major sources of imports for Sri Lanka are India, Singapore, China, Iran and Japan. Similar to other SA countries Sri Lanka rely on India for the largest share of its imports. In 2011, India alone accounted for 21.9 percent of imports in the country. Other major import sources are Singapore, China, Iran and Japan with import shares of 10.5 percent, 10.3 percent, 7.9 percent and 5.1 percent of Sri Lanka's imports. The following two tables explain about export and import shares of Sri Lanka's major trade partners.

Table 12: Sri Lanka's Major Export Destination  
(Values are in Million Sri Lankan Rupees and shares are in % of total imports)

Country	2007		2008		2009		2010		2011	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
U.S.A	217925	25.8	202510	23.0	181154	22.2	192348	19.7	237142	20.3
U.K	112618	13.3	118125	13.4	117655	14.4	111903	11.5	122969	10.5
Italy	43683	5.2	48215	5.5	50286	6.2	52689	5.4	67453	5.8
Belgium-Luxembourg	44276	5.2	46085	5.2	41799	5.1	42594	4.4	62516	5.4
India	57002	6.7	45320	5.2	37004	4.5	53587	5.5	57388	4.9
Germany	48437	5.7	43903	5.0	39869	4.9	45244	4.6	56387	4.8
Singapore	8871	1.0	8189	0.9	9943	1.2	57788	5.9	45206	3.9
UAE	23139	2.7	27370	3.1	24294	3.0	32536	3.3	32972	2.8
Russia	22412	2.7	23913	2.7	22116	2.7	27504	2.8	31119	2.7
Japan	17660	2.1	17225	2.0	16008	2.0	19329	2.0	24653	2.1

Central Bank of Sri Lanka (2013)

Table 13: Major Sources of Imports for Sri Lanka (Values are in Million Sri Lankan Rupees and shares are in % of total imports)

Country	2007		2008		2009		2010		2011	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
India	288742	23.1	373449	24.5	209179	17.8	290523	19.1	489882	21.9
Singapore	123736	9.9	134952	8.8	1224861	10.4	177133	11.6	234834	10.5
China	102195	8.2	120737	7.9	118268	10.1	140210	9.2	231309	10.3
Iran	93388	7.5	129381	8.5	103106	8.8	102475	6.7	177170	7.9
Japan	45706	3.7	46147	3.0	25739	2.2	66042	4.3	113285	5.1
Malaysia	31359	2.5	38842	2.5	33083	2.8	43487	2.9	75683	3.4
Switzerland	19326	1.5	16961	1.1	13861	1.2	17329	1.1	74552	3.3
UAE	36862	2.9	46273	3.0	46909	4.0	55851	3.7	72534	3.2
Hong Kong	80181	6.4	75248	4.9	59448	5.1	65539	4.3	69871	3.1
Thailand	25533	2.0	32353	2.1	31107	2.7	35676	2.3	53273	2.4

Source: Central Bank of Sri Lanka (2013)

### 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 International Monetary Fund (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 etc. (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). The nations of the region 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 export and import as a share of GDP has grown significantly. Both export and import shares have been increased notably after trade reform initiatives were implemented.

**Financial Reforms.** Removing distortions from the economy imposed by regulatory authorities was the background of the financial sector reform programs in the region. For an example, some of the governments created the comprehensive ‘Financial Sector Reform Programme (FSRP)’ in early 1990s and mandated the authority to design policy that 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 (Bahar, 2009). Financial reform is very important in SA because capital markets are yet to be expanded and flourished in almost all member 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 towards improvement of the productivity of domestic capital in these economies has been acting as a crucial factor of trade and development (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 at the same time 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.

**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 independence of these countries, majority of the government expenditure was put in reconstruction and rehabilitation works. 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 fiscal 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. 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 vulnerable people were also emphasized in government fiscal policies (Bahar 2009).

### Model Specification and Empirical Findings

After about three decades of the reform measures have been adopted, one question arises in general: are reform initiatives to liberalize the economy became 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:

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

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 estimate 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 percent and 1 percent 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 percent and 5 percent level respectively.

The economies in SA have achieved a great expansion in international trade as they were opened and liberalized gradually since the 1980s. 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. The impact of FDI and Market Capital are also very important determinants for trade development in the countries of SA.

Table 14: Results of Random-effects Regression for Impact of Reforms on Foreign Trade in SA (Dependent Variable: Total Trade as a share of GDP)

Variables	Explanation	(1) lnopn	(2) lnopn	(3) lnopn	(4) lnopn	(5) lnopn
lnpcy	Per capita GDP	0.0392 (0.0468)	-0.00248 (0.0338)	-0.00500 (0.0343)	0.00402 (0.0363)	-0.0201 (0.0349)
lnfdiy	Foreign Direct Investment (FDI) as percentage of GDP	0.449*** (0.0724)	0.0863 (0.0550)	0.0913 (0.0562)	0.103 (0.0581)	0.156** (0.0567)
lnlagopn	Lag values of Openness Indicator		0.885*** (0.0397)	0.884*** (0.0400)	0.877*** (0.0411)	0.744*** (0.0522)
lnrir	Real Interest Rate			-0.0276 (0.0564)	-0.0458 (0.0612)	-0.0161 (0.0745)
lnmcy	Market Capital as percentage of GDP				-0.0156 (0.0200)	-0.0273 (0.0211)
lnntaxy	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*** (0.307)	0.403 (0.210)	0.493 (0.279)	0.545 (0.288)	-4.529* (1.881)
Observations		109	109	109	109	109
R-squared						
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

## Conclusion

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.

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