



Trade Liberalisation and Economic Growth: A Case Study of Selected SAARC Member Countries

Dr. Khalid Mahmood



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A Case Study of Selected SAARC Member Countries

Policy Research Institute of Market Economy (PRIME)
Islamabad Pakistan

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STIFTUNG **FÜR DIE FREIHEIT**

PRIME is an economic policy think tank working for an open, free and prosperous Pakistan by creating and expanding a constituency for protective function of the state and freedom of the market.

The study titled “Trade Liberalisation and Economic Growth:A Case Study of Selected SAARC Member Countries” by Dr. Khalid Mahmood, This study empirically analyses the impact of trade liberalization on economic prosperity in selected SAARC countries. To probe the nature of relationships between trade liberalization and economic prosperity especially in less develop countries, research carried out across five SAARC member countries i.e. Pakistan, India, Nepal, Bangladesh and Sri Lanka. The study demonstrate that trade liberalization is conducive for economic prosperity in selected SAARC countries.

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Abstract

This study empirically analyses the impact of trade liberalization on economic prosperity in selected SAARC countries. To probe the nature of relationships between trade liberalization and economic prosperity especially in less developed countries, research carried out across five SAARC member countries i.e. Pakistan, India, Nepal, Bangladesh and Sri Lanka. For this purpose study used the Fraser Trade Freedom Indices (FTFI) along with export of goods and services growth (XGSG) and import of goods and services growth (MGSG) as deputy of trade liberalization. To strengthen the research three different growth proxies, Gross Domestic Product Growth (GDPG), Gross Domestic Product Per capita Growth (GDPCG) and Gross National Income Growth (GNIG) are employed. For the time frame 2000 to 2012 with five cross a well appropriate panel data estimation technique Generalized Method of Moments/ Dynamic Panel Data (GMM/DPD) is employed to probe the outcomes. Results demonstrate that trade liberalization is conducive for economic prosperity in selected SAARC countries.

Key Words: *Trade liberalisation; Economic Growth; SAARC, SAPTA, SAFTA, APTA*

1. Introduction

Interest in the detection of determinants of economic growth and discovery of their nature of relationships with economic growth has been long standing. This is imperative that higher economic activity leads towards higher level of national output and improved living standards. But with the induction of new thoughts aged controversies went away, while indeed some new crept in. Topical research pinpoints the trade liberalization as a critical factor for economic well-being. What are the outcomes? Either positive or negative but accrual of trade obstruction is becoming a matter of concern with global implications. International trade has its unique importance, because protectionism and relaxation on trade directly or indirectly affects the global economy and occasionally generates the world economic crisis. It is observed that trade problems are born before the universal crises struck, so one cannot deny the unmatched significance of commercial policy for economic growth in any economy. In spite of lot of controversies selection of appropriate trade strategy is considered one of the core objectives of any administration. In this era of globalization, world has shrunk into a global village and business activities of a country directly and indirectly depend upon rest of world for survival and economic strength.

Trade liberalisation has not lived up to its promises. But the basic logic of trade — it's potential to make most, if not all, better off— remains. Trade is not a zero-sum game in which those who win do so at the cost of others; it is, or at least can be, a positive-sum game, in which everybody is a winner. If that potential is to be realised, first we must reject two of the long-standing premises of trade liberalisation: that trade liberalisation automatically leads to more trade and growth, and that growth will automatically “trickle down” to benefit all. Neither is consistent with economic theory or historical experience.

(Stiglitz, 2006)

As far as the matter of issues of impact of trade liberalization on economic growth is concerned, the debate of significance of international trade for economic growth has been continuing since years. Since last decade of twentieth century, issues of trade liberalization and economic prosperity have been gaining notable attention of economists and policy makers. The link between these two variables is not unidirectional and crystal clear. It is multifarious and not as simple as is the common perception. Research literature has robustly shown that a strong correlation exists among trade liberalization and economic well-being. There is sufficient availability of empirical confirmations in favour and against the impact of trade liberalization on economic growth but overall conclusion draws home this point that trade liberalization is considered very advantageous for economic prosperity. The international financial institutions International Monetary Fund and World Bank also give support to the believe that trade liberalization is more compatible with welfare gain and economic growth. In this contemporary age, innovation and inventions have their own importance for economic growth. If it is true, and the engine of economic prosperity is introduction of modern techniques and inputs then the versatility of international trade cannot be denied. Particularly less developed countries through access to the international market can attain the consistent and sustained economic growth via international trade. In 1990, 96 countries signed the General Agreement on Tariff and Trade, and since that time there is marvellous improvement in the volume of international trade. World merchandise trade volume grew by 5.0 percent per annum on average in last 20 years from 1991 to 2011, and world merchandise trade volume growth recorded 13.8% in 2010. In 2011 a notable rise of 5.6% in exports of developing countries and 2% per annum in developed countries exports is recorded (World Trade Organization WT/TPR/OV/6, 2012).

Figure 1.1: Volume of word merchandise exports and gross domestic product, 1950-2010

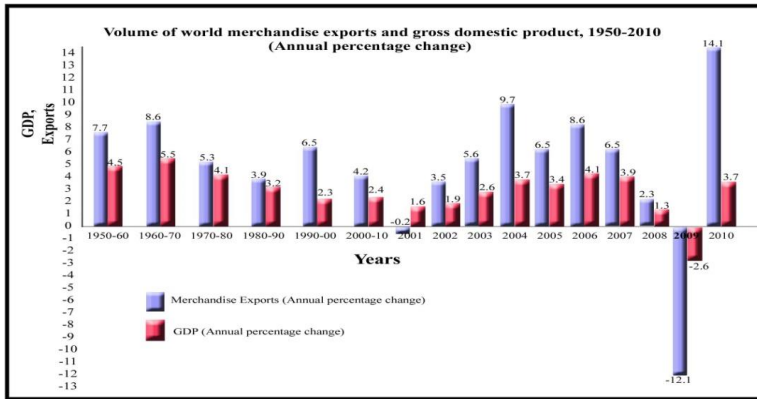


Figure 1.1 is reflecting the world merchandise exports and gross domestic product annual percentage change from 1950 to 2010. From the history of last 60 years, it is very apparent that higher the merchandise trade in world leads towards higher world GDP growth. This consistent and sustained growth in world trade unambiguously is reflecting the worth of international trade for economic growth.

As mentioned earlier, substantial theoretical literature is available which focuses on the relationships between trade liberalization and economic prosperity. What has been the impact of trade liberalisation on economic conditions of a specific economy and ultimately on the growth of living standards? It requires comprehensive empirical investigation. Notwithstanding the extensive and rich discussion on the subject in rest of the world, but empirical evidences with reference to SAARC countries are not sufficient about the impact of trade liberalization on economic prosperity. This attempt challenges this consensus and tries to understand the nature of paradoxical associations between openness and economic growth in SAARC region on statistical grounds.

As far as the matter of rationale of study, on factual and historical grounds research investigates that whether trade liberalization is conducive for economic growth in targeted SAARC countries or not? And if yes then brief explanation regarding the nature and direction of relationship is primary objective of this study. It is hoped that this empirical analysis will prove helpful in decision making regarding trade and

commerce policies in selected countries.

This research is organized as follows. Section 2 presents the philosophy of trade significance, Pros and Cons of trade liberalization are given in section 3, a brief account of historical trends of trade liberalization and economic growth in SAARC region is given in section 4; in section 5 this study presents the review of literature. Section 6 touches upon the issues of research design. Section 7 reports the empirical results of concerned regressions and discussions. Last section which is section 8 elaborates conclusions and policy recommendations.



2. Philosophy of Trade Significance

Imagine a house in a village that makes a decision to isolate itself economically and socially from rest of village. In order to survive, the residents of that house would need to produce each and every thing. No matter, how much they are perfect and self reliant, but that house cannot produce doctors, engineers, technicians, other desired professional and all required consumer goods. On many occasions they need help, financially and socially, from other peoples of village for their technical, economical and moral survival. In other words, we may say that in this modern era, isolated life is little bit impossible. In the same way a country in this global village almost cannot survive without relationships with rest of world. Countries having economical (especially trade) and social relations with other nations make a nation well off. The residents of all nations can get benefits from international trade, they can enjoy the variety of goods and services which they cannot produce domestically or if they can produce, the cost is comparatively very high. With the decision of trade liberalization, its citizens would enjoy more consumer and producer surplus through the economies of scale or specialization. And ultimately they will live a better life. Now question is: can each and every nation take benefits from trade liberalization or might is right? The answer of this paradoxical question should be simple; it is true that gain from trade is a matter of efficiency and abundance of resources, but it always is a positive sum game. Exporter will enjoy through economies of scale and broader market access (producer surplus) and importer can enjoy through cheaper availability of goods and services (consumer surplus) than domestic production. Trade restrictions or tariffs directly have an effect on consumer welfare through

lesser consumption of goods and services at higher prices than actually desired. On the other hand, heavy tariff strictly affects the producer through limited and dearer productions.

As there are micro impacts of trade liberalization on economic activity, there are also some macro impacts of trade liberalization on economic well-being. Developed nations always receive handsome amount of foreign remittances through positive trade balance and strong economic, political and social relationships with rest of world which ultimately enhances their economic prosperity and employment. Developing nations approximately suffer through adverse balance of trade but it is observed that the imports of developing nations are usually lesser elastic (petroleum products, machinery, medicine, pesticides and some other necessary raw material) which are considered very essential for their industry and economic survival. So through trade liberalization developing nations can enhance their economic activity and employment opportunity via import of some necessary raw material. It generates the employment, supply of goods and services and stabilizes the prices in local economy. Conversely, adverse balance of trade (imports are greater than exports in monetary terms) and balance of payments some time leads to a rise in demand for foreign exchange and hence a depreciation of local currency.

3. Pros and Cons of Trade Liberalization

It is generally believed that higher the trade freedom, the better is allocation of resources to the most efficient sectors of the economy. An open economy will always open the door for new foreign direct investment. As a result, it will enhance the capital formation, technical knowhow, employment, innovations & inventions and ultimately the economic growth. Economist and analysts pinpoints the following gains from free trade.

- **Better Utilization of Resources**

One of the fundamental gains from trade liberalization is that through frequent trade, developing countries can raise their output and national income up to the potential level. Developing countries can utilize their scarce resources efficiently through exchange of ideas, better technology, entrepreneurial skills, inventions and innovations and with financial and technical support of allies' countries. This will help to close the income gap between developed and developing nations (Barro, 1991).

- **Consumer Surplus**

In most of developing nations, deprived domestic industries shielded from foreign competition usually charge higher prices of the low quality products. In the absence of foreign competition they never try to do their best to reduce the undue charges and to improve the quality of goods and services. Too much money chases too few goods and services and ultimately there is a loss of consumer surplus. Trade eliminates the lethargic and inefficient commercial deeds, and introduces the healthy and beneficial environment in domestic markets through

introducing the superior competition into sheltered domestic markets. Consequently consumer enjoys better quality product at cheaper cost and enhances his consumer surplus.

- **Higher Rewards with Job Security**

From the very beginning of the 21st century, it is observed that countries having pro trade commercial policy facilitate their firms remarkably. The workers receive higher rewards with job security. In the U.S., trade oriented firms generate fourfold jobs than overall other private industry. Studies proved that export oriented industry in the U.S. pay approximately 14% higher wages than firms do not export their products (Richardson and Rindal, 1995). Therefore it is generally observed that export oriented firms generate more jobs with better compensations.

- **Productivity Effects**

It is general perception that higher trade liberalization attains the productivity gains through better allocation of resources. Dynamic productivity gains ultimately enhance the economic prosperity in economy. Healthy and positive competition among national and international firms introduces the innovations and modern techniques of productions. Such advancement in pro trade industry enhances the productivity of factor of production, which is one of the basic conditions of economies of scale. Empirical analysis from OECD countries recommends that productivity growth in export oriented firms is much better than those are in protections.¹

- **Increasing Real Income**

On one side, trade liberalization generates the foreign exchange through exports, higher foreign reserves helps the country in import of raw material which is considered very necessary for local industry. Ultimately there is better supply of consumer goods and stable pricing in home town. It also helps the poor and consumers on other side by lowering the prices of consumer goods and services produced domestically and imported from abroad through healthy competition. These lowering

¹ OECD (Organisation for Economic Co-operation and Development) 2003, *The Sources of Economic Growth in OECD Countries*, OECD Economics Department, Paris and id., 2005, *Trade and Structural Adjustment: Embracing Globalisation*, Paris; and references there in. Frankel, J.A. and Romer, D. 1999, 'Does trade cause growth?', *American Economic Review*, vol. 89, no. 3, pp. 379–99, provides evidence on the links between trade and productivity growth for developing countries.

pricing environments increase the real incomes of common persons.

- **Lowering the Tax Revenue**

In broader spectrum, it is common perception that free trade may lead towards a loss of public revenues collected as boarder duty or customs charges. In order to maintain the public expenditure then governments sometimes cut their social expenditure or impose new taxes on common person which could have an effect on common people. It is true that trade liberalization affects the government revenues but such downfall in revenues can be tackled if government seriously takes some positive steps and perform remedial measures against tariff peaks and customs exemptions. On one side if people suffered from other taxes if imposed, then on the other side they also enjoy the lowering pricing of consumer goods and services which may compensate their lowering income loss. In this respect we may say that trade liberalization can affect the economy positively or remains neutral, and if tax cuts suffered the economy adversely then country management should take some appropriate steps which are considered suitable for running circumstances because macroeconomic indicators stability is more important than maintenance of social expenditure.

4. Historical Trends of Trade Liberalization and Economic Growth in SAARC

4.1 What is SAARC?

An economic and geopolitical cooperation among eight nations of South Asia Pakistan, India, Bangladesh, Sri Lanka, Maldives, Nepal, Bhutan and Afghanistan is known as South Asian Association for Regional Cooperation (SAARC). In 1980, late Bangladeshi president Zia ur Rehman formally proposed the idea of SAARC and it was established on December 08, 1985. At that time Pakistan, India, Bangladesh, Bhutan, Maldives, Sri Lanka and Nepal were the members' nations. Afghanistan as the eighth country was included in SAARC on April 03, 2007 on the appeal of India. It is the biggest Asian economic and political cooperation which is established to provide mutual economic and political cooperation within members' states.

4.2 Economies and Economic Growth

So far as the matter of economic position of SAARC member countries, table number 4.1 is reflecting the some economic indicators of SAARC nations.

Table 4.1: SAARC Countries Economic Indicators 2013

Indicator	AFG	BGD	NPL	IND	PAK	LKA	SA	World
Population(million)	30.55	156.6	28.80	1252	182.1	20.48	1680	7125
GDP (billion US\$)	20.72	129.9	19.19	1877	236.6	67.18	2390	74900
GDPG % 2013	4.00%	6.00%	4.00%	5.00%	6.00%	7.00%	4.86 ₍₂₀₁₂₎	3.00 ₍₂₀₁₂₎
GDPG % (Last 10 years average)	8.9%	6.2%	4.2%	7.5%	4.5%	6.5%	5.8%	*
Exports % GDP	5.51	23.17	10.07	23.99	12.33	22.83	22.54	30.26
Imports %GDP	39.14	32.12	33.58	30.73	20.26	36.49	30.00	30.31
GDP per capita (Current US\$)	687	750	699	1503	1256	2921	1396	10351
Income level	Low income countries			Lower Middle Income countries				

Source: World Bank (2014) (WDI indicators)

Here GDPG: Gross Domestic Product Growth, SA: South Asia, GDP: Gross Domestic Product, AFG: Afghanistan, BGD: Bangladesh, NPL: Nepal, IND: India, PAK: Pakistan, LKA: Sri Lanka,

According to Table 4.1, 23.54% of world population is living in South Asian region while sharing only around 3.20% of world income with a very low purchasing power. According to World Bank classification, only three out of eight nations i.e. Pakistan, India and Sri Lanka are falling in lower middle income countries and remaining all five are low income countries. In the third quarter of 20th century economic growth of SAARC region was not admirable but since 1980 GDP growth in South Asian region has been remarkable, and sometimes it has grown higher than world output growth. An average of 5.4% GDP growth was recorded during 1980 to 1999 and in last 10 years from 2004 to 2013, SAARC region outperformed with on average of 5.8% per annum GDP growth, while the world output growth was recorded 3.00% in 2012. Despite of low incomes and poor infrastructure, South Asian countries contribute positively toward world trade, SAARC region exports were recorded at 22.54% while imports were 30.00% of GDP in 2013. Even though, 30.26 % and 30.31% exports as a percentage of worlds output and imports as percentage of world output are recorded respectively. So in the presence of geographical and ethnic conflicts, political and economical instability, comparatively poor technology, fiscal deficit, institutional backwardness and being poorest in terms of per capita income, South Asia is fighting to increase its share in trade with rest of world.

4.3 Objective of SAARC

Increase in velocity of economic, social and political solutions within members' states is one of the core objectives of this organization. Development of economic integration and political goodwill which in turn will strengthen geographical politics and economic positions of SAARC member nations in rest of world is other prominent goal of development of this regional cooperation.

4.4 Intra-SAARC trade agreements

World Trade Organization facilitates the member nations in regional trade, but it encounters several challenges like domestic industrial sickness, outflows of national incomes, tariff retaliations, consumer privileges and environmental drawback etc. both within developed (industrialized) and developing nations. After the restless efforts of World Trade Organization some regional trade agreement were established in world. South Asian nations also signed following intra-SAARC trade agreements.

4.4.1 South Asian Preferential Trading Arrangement (SAPTA)

Establishment of an inter Governmental Group (IGG) was approved by SAARC members countries in sixth SAARC summit held in Colombo on December 1991. The basic purpose of this organization was to establish preferential Trading Arrangement between SAARC members' countries till the end of 1997. Consequently, South Asian Preferential Trading Agreement (SAPTA) was signed between SAARC member countries on April 11, 1993. SAPTA was active on December 07, 1995. According to SAPTA doctrine, member nations will take equal advantage from trade, and its proceeding, negotiations and improvements will be held gradually according to requirements. In case of special need of any member developing country, SAPTA would try at level best for solution of focused issue. All member states can do unilateral and bilateral trade in primary, intermediate and final goods. Contracting nations will take tariff, nontariff and direct trade measures under this agreement.

4.4.2 South Asian Free Trade Area (SAFTA)

SAARC also took some other positive steps for trade liberalization within region. South Asian Free Trade Area (SAFTA) is an encourag-

ing step in this cooperation to enhance the trade activities within the member countries which was signed on January 06, 2004 in Islamabad during 12th SAARC summit. According to agreements SAFTA would have been active on January 01, 2006 but SAFTA started working on July 01, 2006. Under this deal, member nations have to abolish their boarder duties down to 2 % till end of 2009 and will improve the volume of trade within SAARC region. This contract is actual advancement of SAPTA and it is decided that the tariff concessions are signed under all four rounds of SAPTA shall remain operative.

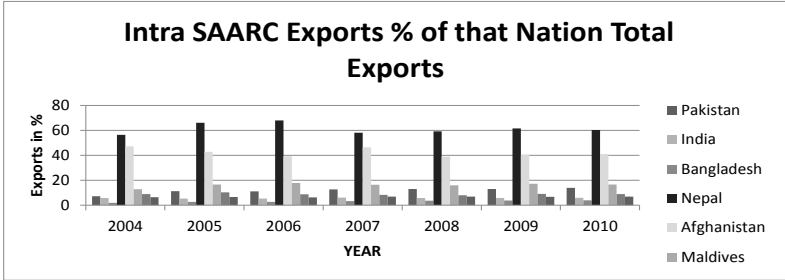
4.4.3 Afghan-Pakistan Transit Trade Agreement (APTTA)

Afghanistan Pakistan Transit Trade Agreement (APTTA) was signed between Afghanistan and Pakistan on October 28, 2010 and came into force on June 12, 2011. Through APTTA Afghanistan transports will carry the Afghan products to India through Wagah Boarder. Apart from this, Pakistan will provide the transit route to Afghanistan transport if necessary. Afghan trucks could receive their imports through the seaports of Karachi, Port Qasim and Gwadar. In this respect, one can say that APTTA will play an essential role in regional as well as Afghanistan economic growth.

4.4.4 SAARC Agreement on Trade in Services (SATIS)

In third Ministerial Council meeting of SAARC countries held in New Delhi India in 2008, members agreed on development of Draft of SAARC Framework Agreement on Trade in Services. Then with passage of time, to enlarge the trade especially trade in services and economic integration within the region, SAARC countries signed an agreement commonly known as SAARC Agreement on Trade in Services (SATIS) during the Sixteenth SAARC Summit held in Thimphu Bhutan on April 2010. This agreement came into force on November 29, 2012. Liberalization of trade in services within SAARC region is the main objective of this agreement. This agreement is done according to condition of Article V of General Agreement on Trade in Services (GATS). In the line with this agreement, WTO member nations can establish any agreement subject to some conditions for improvement and liberalization of trade in services.

Figure 4.1: Intra SAARC Exports % of that Nation Total Exports



Source: Direction of Trade Statistics Yearbook, International Monetary Fund.

As shown in Table 4.2, the intra-regional Exports of SAARC nations to SAARC countries did not see any drastic increase as percentage of SAARC total exports and has remained consistent over the years. Pakistan, Nepal, Maldives and Bangladesh have positive export trends. The level and percentage of exports in total exports of these countries are increasing. Although exports from India and Sri Lanka to SAARC region have also increased yet it remains low and persistent as a percentage of both countries’ total exports while Afghanistan’s exports to SAARC region shows a declining trend. The table 4.2 also shows that the more under-developed countries have increased dependency on intra-regional SAARC trade.

Table 4.2: Intra Regional Exports of SAARC Nations (Million US \$)

Exports from Afghanistan to SAARC			Exports from Bangladesh to SAARC		
Year	Exports	% of AFG Total Exports	Year	Exports	% of Bangladesh Total Exports
2004	87.42	47.2	2004	126.5	1.9
2005	102.15	42.8	2005	187.31	2.6
2006	99.68	39.2	2006	238	2.6
2007	160.6	46.3	2007	326	3.2
2008	179.97	39.1	2008	429	3.6
2009	185.43	40.2	2009	489.31	3.7
2010	199.43	40.9	2010	521.43	3.9

Exports from India to SAARC			Exports from Maldives to SAARC		
Year	Exports	% of India Total Exports	Year	Exports	% of Maldives Total Exports
2004	4416	5.8	2004	15.6	12.7
2005	5273	5.3	2005	17.2	16.6
2006	120966	5.2	2006	24	17.7
2007	146910	6	2007	17.6	16.3
2008	176868	5.8	2008	20.1	15.9
2009	195285.41	5.7	2009	22.1	17.1
2010	215483	5.9	2010	23.4	16.6
Exports from Nepal to SAARC			Exports from Pakistan to SAARC		
Year	Exports	% of Nepal Total Exports	Year	Exports	% of PAK Total Exports
2004	426.6	56.4	2004	959	7.2
2005	547.4	66	2005	1797	11.2
2006	569.1	67.9	2006	1871	11.1
2007	516	58.1	2007	2252	12.6
2008	651.2	59.2	2008	2636	13
2009	689.23	61.5	2009	2885	12.9
2010	722.45	60.2	2010	3023	13.8
Exports from Sri Lanka to SAARC			SAARC Region exports to SAARC		
Year	Exports	% of S. Lankan Total Exports	Year	Exports	% of SAARC Total exports
2004	507.9	8.8	2004	6538.99	6.3
2005	655.5	10.3	2005	8579.47	6.6
2006	600.4	8.7	2006	9632.15	6.2
2007	644.5	8.3	2007	12747.74	6.9
2008	667.3	8	2008	14883.52	6.8
2009	702.5	9.1	2009	15745.61	6.7
2010	771.2	8.9	2010	17321.45	6.9

Source: Direction of Trade Statistics Yearbook, International Monetary Fund.

4.5 Trade Liberalization and GDP Growth in SAARC

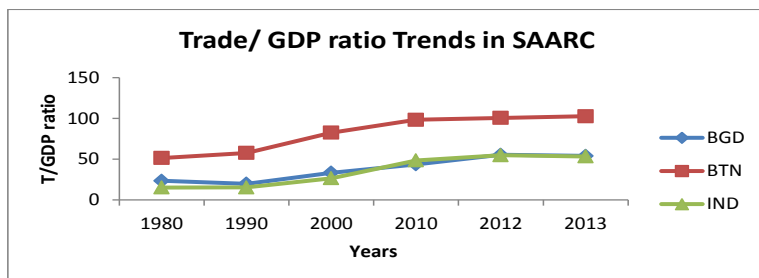
Table 4.7 demonstrates the level of international trade in the region in term of trade to GDP ratio and historical trend of economic growth therein. It also suggests a possible relationship between trade liberalization and gross domestic product growth in SAARC nations.

Table 4.7: SAARC countries Trade/ GDP ratio and GDP Growth

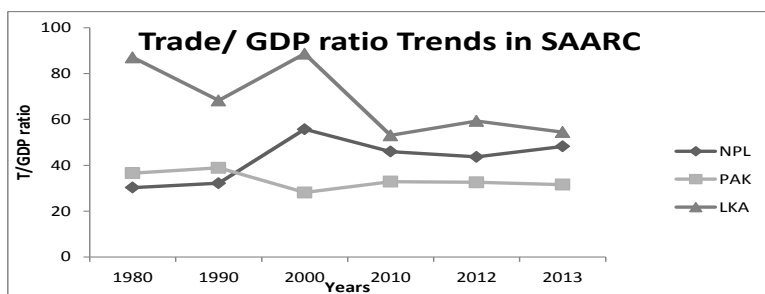
	1980		1990		2000		2010		1012		2013	
	T/GDP	GDPG	T/GDP	GDPG	T/GDP	GDPG	T/GDP	GDPG	T/GDP	GDPG	T/GDP	GDPG
	%	%	%	%	%	%	%	%	%	%	%	%
AFG	*	*	*	*	*	*	55	8.43	44.65%	14.43	53.46	
BGD	23.73	0.82	19.65	5.94	33.2	5.94	43.42	6.06	55.29	6.23	53.83	6.03
BHU			57.48	10.87	82.46	6.93	98.23	11.73	100.52	4.6	102.64	5
IND	15.11	6.73	15.23	5.53	26.43	3.84	48.3	10.25	54.73	4.73	53.22	5.01
NPL	30.27	-2.31	32.18	4.63	55.71	6.2	45.98	4.82	43.65	4.85	48.21	3.78
PAK	36.58	10.21	38.9	4.45	28.12	4.26	32.86	1.6	32.59	4.01	31.56	6.06
LKA	87.01	5.84	68.24	6.4	88.63	6	53.06	8.01	59.33	6.34	54.47	7.25

Source: World Bank (2013) (WDI indicators)

Here trade to GDP ratio is representative of trade openness because higher the trade to GDP ratio means superior volume of international trade in the selected economy. Unquestionably like rest of world SAARC also recognized the significance of trade for economic prosperity. In Bangladesh trade to GDP ratio was 23.73% in 1980 but now in 2013 it rose up to 53.83%, in India from 15.53% to 53.22%, Bhutan improved it up to 100%.

Figure 4.2: Trade/ GDP ratio Trends in SAARC


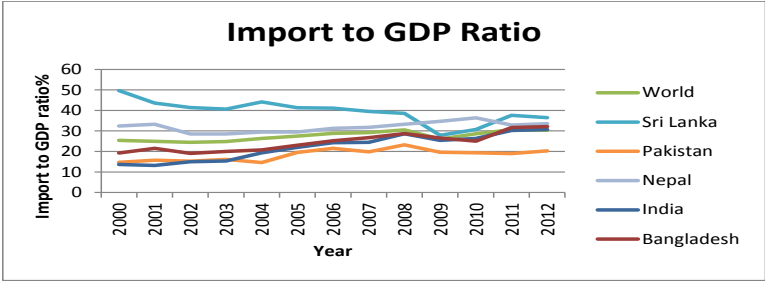
Source: World Bank (2013) (WDI indicators)

Figure 4.3: Trade/ GDP ratio Trends in SAARC


Source: World Bank (2013)

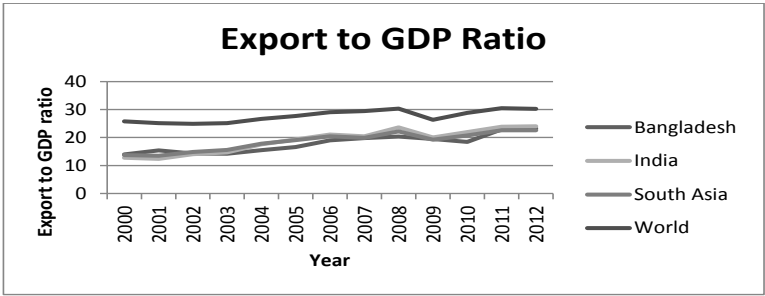
Nepal lifts up its trade to GDP ratio from 30.27% to 48.21% during the same period. That is encouraging. Comparatively speaking, Pakistan's trade to GDP ratio has hovered around 35% without any significant deviations in past thirty years. Pakistan's export to GDP ratio has remained just above the 10% (Figure 4.6, 4.8) and import to GDP ratio is just touching the 20% in 2012 (Figure 4.4). Conversely, world and almost all other SAARC countries are approaching to or sustaining 30% of import to GDP ratio (Figure 4.4). India, Bangladesh, and South Asia are maintaining their export to GDP ratio something like 25% and world export to GDP ratio is just above the 30% (Figure 4.5), while Nepal, Sri Lanka and Pakistan are losing their export to GDP ratio continuously due to disregarding the problem of trade restriction and domestic issues (Figure 4.6).

Figure 4.4: Import to GDP Ratio



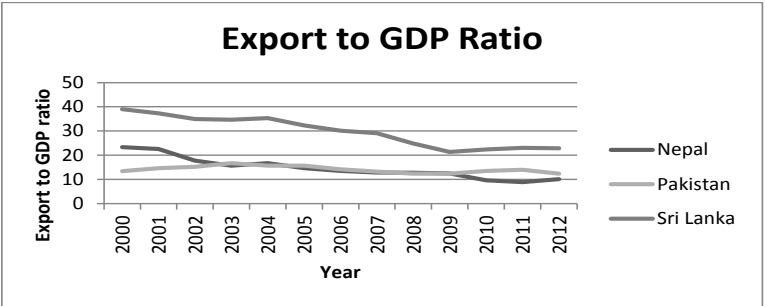
Source: World Bank (2013)

Figure 4.5: Export to GDP Ratio

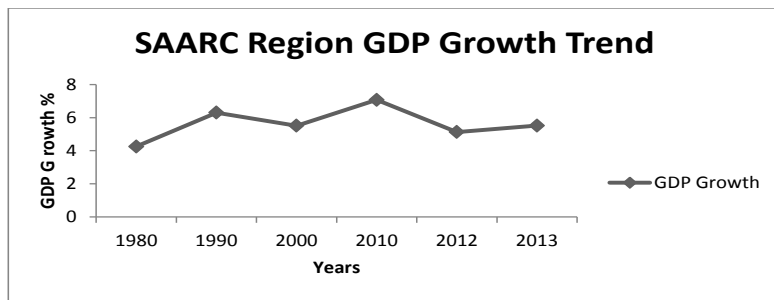


Source: World Bank (2013)

Figure 4.6: Export to GDP Ratio



Source: World Bank (2013)

Figure 4.7: SAARC Region GDP Growth Trend

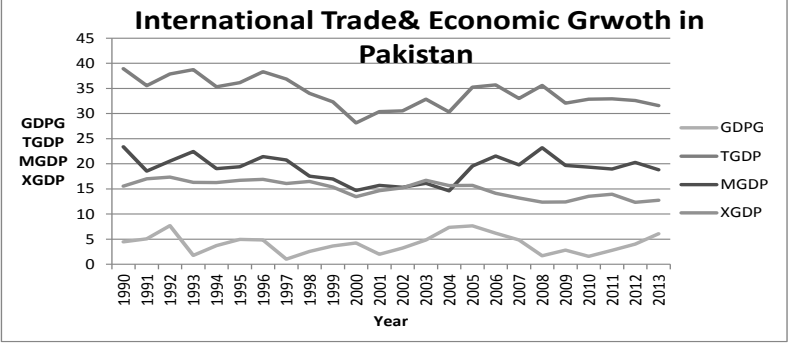
Source: World Bank (2013)

On the other hand GDP growth pattern in SAARC during last three decades is marvellous, which is indicating the commendable significance of trade liberalization for economic growth. Overall SAARC behaviour toward trade openness is remarkable but if we compare it with other emerging developing countries then this region trade is comparatively lesser liberalized. This requires some positive measures which ultimately will boost the trade liberalization in SAARC.

4.6.1 International Trade Trends in Pakistan

Pakistan and Sri Lanka are not yet more open economies, it is not surprising because if we observe the above given history of trade agreements, it is very obvious that except Pakistan and Sri Lanka each country tried its best to improve trade volume and signed a number of intra and inter-SAARC trade agreements. Pakistan and Sri Lanka have not done enough for their trade liberalization due to some domestic problems because except SAARC agreement they signed very few trade agreements with rest of world. In so far as the issue of declining trade to GDP ratio in Pakistan is concerned, for this issue study firstly probe that either exports volumes from Pakistan are unsatisfactory or imports of goods and services is comparatively sluggish. Figure 4.8 is reflecting the Pakistan's trade and economic growth experience since 1990.

Figure 4.8: International Trade & Economic Growth in Pakistan



Source: world Bank (2014)

Figure 4.8 enlightens the following points: **firstly**, imports play an important role in shaping the Pakistan’s trade pattern, because trade to GDP (TGDP) and imports to GDP (MGDP) ratios are almost identical in last 24 years. Pakistani imports, mainly concentrated on machinery, petroleum products, chemicals, vehicles, fertilizer, iron & steel products and food items. Most of these imports are considered compulsory (lesser elastic) for survival of economy. So, imports dominate in trade and set the trade trend.

Secondly, with passage of time, Pakistani exports are shrinking instead of gradual and consistent increase in exports volumes. Pakistani exports are highly concentrated in cotton & textile products, leather, rice, sports goods and synthetic textiles. USA, Germany, Japan, UK, Hong Kong, Dubai and Saudi Arabia are major importers of Pakistani exports. So, this narrow outreach and limited items exports can never play significant role in economic growth of any nation. Apart from this, poor quality, use of obsolete machinery & technology, costlier output, limited outreach, political instability or trade barriers may be blamed for this deterioration. In this respect broad based steps need to be undertaken. Heavy concentration on few products and limited market access can lead to export instability. Exports diversification, elimination of trade restrictions and access to other international markets can play important role in export promotion. Beside these issues, better quality at cheaper price, export promotion efforts like more spending on research, use of modern marketing techniques, and government role as

facilitator needs to be addressed.

Thirdly, figure 4.8 represents the declining trend of trade to GDP ratio during 1990 to 2013. Few reasons of these stumpy international trade volumes of Pakistan are as follow:

- India is prominent country and also very busy in trade within region, due to India- Pakistan political issues trade with India is very limited. Very tight security checks in India, Visa and travelling constraints, deferment of land routes (Ganda Singh Wala, Wagha, and Khokrapar), and lesser financial markets problems are some key factors which affect the Pakistani trade volume significantly during this session.
- Pakistan strictly exercises the import prevention policies mainly on religious, security, and environmental grounds. Alcoholic beverages a prominent import item is banned in Pakistan due to religious issues.
- Developing nations some time place a heavy boarder duty on imports to protect their infant industries from foreign products and to provide security to domestic industrialists from dumping. Ad valorem tariff is Pakistan's key commercial policy instrument and is based on different rates. Concerning authorities increased tariff rates on more than 600 items in 2006-07 and in 2007-08 to protect the domestic industry (WTO Trade Policy Review, 2013).
- Complex tax system for imports including up to 5% withholding tax, partial relaxation and sometime concessions in tax on imports, different rates of capital value tax on imports of vehicles, regulatory duties on some exporters, 0.25% of f.o.b. as development surcharges on exporters are some factors which significantly affect the trade volume in Pakistan.
- Since 1990s fragmented democracies severely hampered the economic activities in Pakistan, significant decline in investment due to energy crises (electricity and gas), heavy cost of productions, inconsistency of monetary policy, investment and capital outflow, ethnic conflicts are some core factors which hindered the national output and then international trade volume in Pakistan.

Finally, from 1990 to 2005 trade to GDP and gross domestic product growth (GDPG) are reflecting approximately similar patterns (figure 4.8). As mentioned above after 2006 political instability, internal clashes, war against terrorism, severely hampered the pace of economic prosperity in Pakistan. The historical tendencies of trade and growth representatives during 1990 to 2005 are points of thoughts. This trend advocates the significance of international trade for economic growth. So country's growth can be improved through trade expansion. Pakistan can improve the trade to GDP ratio via exports based trade diversification; well spread trading relations with rest of world, and better quality cheaper exports. Then ultimately Pakistan will reap the crop of economic prosperity.

4.6 Nature and Direction of Trade

In so far as, the matter of nature and direction of trade in South Asian countries is concerned, all these are developing countries and for the most part of their trade is based on food items, chemicals and drugs, petroleum products, textile & and garments items, paper products, glass & rubber products etc. India is one of major countries in SAARC region as its exports are based on both primary (food items and minerals) products and manufactured goods (leather, chemicals, pharmaceuticals, plastic, rubber, paints and glass products). In the mean while it also exports the textile and petroleum products. On the other hand it also imports edible oils, pulses, sugar, fertilizers, non ferrous metals, manufactured metals and machinery, crude rubber and paper products, medical and pharmaceutical products, textile yarn, and fabrics gold & silver according to requirements.²

Pakistan another prominent country of this region mainly imports food items, machinery, vehicles, petroleum products, fiber and artificial silk yarn, fertilizers, insecticides, medical and metal products. Its major exports are primary food products, raw cotton, yarn, manufactured textile & garments products, leather items & surgical instruments, pharmaceutical products, jewelry and molasses.³ Raw jute and jute products, tea, leather, frozen fish, garments, fertilizers and knitwear products are major exports of Bangladesh. Meanwhile

² Reserve Bank of India, Hank Book of Statistics on Indian Economy.

³ Bureau of Statistics Govt. of Pakistan.

Bangladesh imports the food grain and other food items, chemicals, crude petroleum, raw cotton, yarn, plastic and rubber articles, machinery and capital goods etc.⁴ As far as the matter of Sri Lanka exports, Sri Lanka mainly exports the textile & garments products, petroleum products, rubber & leather items, and primary agri products. On the other hand imports the food & drink item, vehicles, rubber and tyres products, medical & pharmaceuticals products, petroleum products, fertilizers, textiles products and machinery & equipments.⁵ Nepal the other SAARC member country simultaneously exports and imports the food and live animals, chemicals & drugs and manufactured goods mainly.⁶

Major Imports and Exports of SAARC

1	Bangladesh
Imports	Crude Oil and Petroleum Products, Edible Oil and Dairy Products, Raw cotton and Textile items, Cement, Automobiles, Industrial Raw Material and Machinery, Construction Material, Chemicals, Minerals, Iron and Steel Products etc.
Exports	Fresh food items and vegetables, Sea Food, Spices, Human Resources, Leather and its products, Jute and Products, Tea and Garments items.
Source:	Statistics Department Bangladesh Bank
2	Bhutan
Imports	Machinery, Edible Oil, Petroleum Products, Food items, Rubber and Tyres, Automobiles, Pesticides, Fertilizer and other agri equipments.
Exports	Timber and Products, Spices Gypsum, Dolomite, Cement, Calcium Carbide, Fruits and Juices, Beverages and Minerals.
Source:	The Royal Monetary Authority of Bhutan
3	India
Imports	Raw Petroleum Products, Industrial Machinery, Iron and Steel products, Chemical Products, Edible Oils, Pest Killers and Fertilizers pearls and other Precious and semi Precious Stones.

⁴ Statistics Department Bangladesh Bank

⁵ Central Bank of Sri Lanka.

⁶ Nepal Restra Bank.

Exports	Petroleum Products, Jewelry, Garments, Machinery, Metal Items, Computer Software , Pharmaceuticals, Tea, Pearls and Stones, Leather items, Iron Products and Cotton Products
Source:	Reserve Bank of India, Hank Book of Statistics on Indian Economy.
4	Maldives
Imports	Food items (Beverages, Sugar and Wheat, Rice) Paper, Petroleum Products, Industrial Machinery and Vehicles, Consumer and Manufactured Products
Exports	Fresh, Frozen and Canned Fish, Fish Oil, Clothing and Garments Accessories and Skipjack,
Source:	Central Bank of the Republic of Maldives
5	Nepal
Imports	Animals, Food items, Pharmaceuticals, Chemicals and Fertilizer, Petroleum Products, Raw wool, Automobiles, vehicles, Garments Products, Edible Oil, Cement and Construction Material, Industrial Raw Material and Manufactured items.
Exports	Garments, woolen Items and Carpets, Oil Seeds, Niger Seeds, Jute and Products, Handicrafts, tea, Leather Products, Paper Items, Silver Jewellery , Soap and Tooth Paste, Polyester and Pashmina Products.
Source:	Nepal Restra Bank
6	Pakistan
Imports	Tea, Chemicals and Fertilizer, Petroleum and its Products, Electrical and non electrical goods, Steel and Iron Products.
Exports	Cotton Yarn, Cloth, Garments, Hosiery and Footwear, Carpets, Handicrafts, Leather and its Products and Sea Foods,
Source:	Bureau of Statistics Govt. of Pakistan
7	Sri Lanka
Imports	Machinery, Drugs and Chemicals, Petroleum Products, Paper Items, Food and Dairy Products, Fertilizer and Iron & Steel Items.
Exports	Coconuts Oil and Products, Fresh & Durable foods items, Tea, Species, Rubber and Garments items.
Source:	Central Bank of Sri Lanka

Precisely, we may conclude that SAARC countries mainly export the primary agri products, food items, textile and allied products, rubber, paper & leather items, tea, chemicals & drugs, jute and jute manufactures. In contrast Petroleum products, industrial machinery, food items, fertilizer, pesticides, chemical, medical and pharmaceutical products,

non ferrous metals products, electronic goods, raw cotton, yarn and transport equipments are major imports of SAARC region.

Due to geographical & political conflicts and protectionist trade intra-regional trade remains very low. India Pakistan two major neighbours of the SAARC involved in discriminated trade occasionally through more trade barriers and restricted transportation. Since 90s of 20th century some positive moves have attempted to enhance the intra regional trade. South Asian Preferential Trade Area (SAPTA) and South Asian Free Trade Area (SAFTA) Agreement are two prominent attempts. According to SAFTA agreement member countries have to cut their border tariff down to 20% till end of 2009 for their partner countries. Apart from these there some bilateral FTA were signed. India and Sri Lanka signed the memorandum in 1998 and it became operational in 2000. In the same token Pakistan, India and Bangladesh are conscious and doing efforts for free trade area with some other south Asian nations.

Although SAARC countries made significant efforts to develop the better trade relation with the world by reducing trade restriction. In this respect efforts of SAARC steps are valuable but till now SAARC trade is limited to China, Japan, African countries, Middle East, European Union and developing Asia. As far as the matter of SAARC exports European Union, Middle East, USA and China are the prominent importers of this region exports. On the other hand SAARC mainly rely on developing Asia, European Union, Middle East, USA and UK for its imports.

5. Review of literature

Evidently, the debate on the connection between economic prosperity and trade liberalization attained new heights. No doubt economic and political issues, ethnic conflicts, geographical reservation, unprecedented surges in oil prices internationally, and variation in nature and in measurement of proxies of trade liberalization are some factors which are considered partially responsible for dissimilar conclusions regarding the relationships between trade liberalization and economic growth. Instead of this, a number of economists, policy makers and thinkers endorse the view that countries have liberalized international trade policies economically outperformed than those countries have restricted and limited trade environments.

Harrison (1996) probes the nature of relationships between openness and economic growth, and used trade share (import plus export) as percentage of GDP as key determinant of trade liberalization and found positive significant impact of openness on economic prosperity. Rodrik et al. (2002) investigates the determinants of economic growth, author used trade share, geographical factor, and institutional quality variables as key explanatory variables for economic well-being and found except trade share all other variables have insignificant crashes on economic growth but trade share significantly and positively affects the economic performance of economies. (Sachs and Warner, 1995; Sachs and Warner, 1997a; 1997b) supports the belief that higher densities of free trade are more conducive for economic growth through more international contacts.

Lee (1993), Edwards (1998) and Wacziarg (2001) suggest that more openness have indeed experience faster productivity growth. Green-

away et al. (2002) discovers that trade liberalized countries have faster economic growth than countries have restricted trade relation with rest of the world. In last few decades a number of research studies inquire the relationships between growth and average tariff rate. Yanikkaya (2003) makes use of export taxes and total taxes on international trade as proxy of trade restriction but found the positive but insignificant impact of total taxes on international trade. Author used the export taxes and total taxes on international trade as proxy of trade restriction. Edwards (1992) observes significant adverse impact of average tariff on economic growth.

But opponents of this school of thought also argued that trade liberalization is not compulsory for economic growth of economies, it depends on circumstances. Clemens and Williamson (2001) conclude that the relationship between average tariff and economic growth are not noteworthy. Dollar (1992), Ben-David (1993) and Frankel and David (1999) conclude that there is negative association between economic growth and trade liberalization. Rodriguez and Rodrik (2001) points out that outcomes of some studies are not reliable because some papers used inappropriate methods in measurement of trade liberalization indices and some hired inappropriate functional forms of econometric equations during estimation of relationships between targeted variables. Therefore, denial of results strengthens the view of pro trade policies for economic prosperity.

McCulloch et al. (2001) conclude that trade liberalization positively affects the economic well-being through lower prices, advanced technologies, and latest information. But growth also requires something more like higher & skilled education, development of infrastructure, and appropriate macro policies. So for better economic growth a perfect mixture of trade and other economic and social policies are needed depending on concerning country circumstances.

Chowdhury (2005) investigates the impact of trade liberalization on SAARC countries and found that Bangladesh pick better gains from trade liberalization, while Pakistan and Sri Lanka did not receive much better impact of trade liberalization on their international trade volume. Alam et al. (2011) examines the impact of intra-SAARC trade agreements on international trade volumes of members' countries and concludes that intra-SAARC trade contracts SAPTA, SAFTA, and APTA play vital role in promotion of international trade in South Asia.

Ali and Talukder (2009) examine intra-SAARC trade relationships and finds that instead of a big regional coalition the level of mutual trade is still not at deserving stage, SAARC countries engaged in inter regional trade and as a result these developing economies are not gaining according to existing potential. SAPTA and SAFTA can assist the regional economies by enlarging the regional trade and improving their terms of trade with their trading allies in world through better bargaining power.

Rahman et al. (2006) points up that elimination of trade barriers within region could lead a significant increase in intra- SAARC trade volume. Pitigala (2005) observes that trade structure which is existing within region might not assist the worthy increase in intra-regional trade due to poor neighbouring relationships. Lee (2005) employs panel co-integration and error correction equation for empirical investigation of causality relationship between energy consumption and economic growth in a panel of 18 countries. Lee and Chang (2008) used fully modified OLS technique to investigate the causal relationship between energy consumption and GDP growth for a panel of sixteen Asian countries.

6. Research Design

6.1 Data

Annual statistics of GDPG, GDPCG, GNIG, FTFI, XGSG and MSGS covering time period of 2000 to 2012 of five SAARC countries i.e. Pakistan, India, Bangladesh, Nepal and Sri Lanka were derived to probe the impact of trade liberalization on economic growth in SAARC region. Bhutan, Maldives and Afghanistan are not included in study due to unavailability of required statistics. To investigate that either trade liberalization affects the economic prosperity of selected SAARC countries or not study employed three different trade liberalization proxies: FTFI, XGSG and MSGS as independent variable, while three different economic growth proxies GDPG, GNIG and GDPCG are one by one dependent on trade liberalization variables for consistent and reliable outcomes. The immaculate representatives of trade liberalization in study are FTFI, XGSG and MSGS.

Fraser Trade Freedom Index (FTFI) is the prime trade liberalization indicator of study which has been developed by the Fraser Institute Canada. As part of its measurement of economic freedom, Fraser also measures the Trade freedom Index of world economies on a scale from Zero to Ten. Zero mean international trade is 100% restricted and vice versa. This index contains number of variables: few from these are (i) International trade tax revenues % of trade, (ii) Mean tariff rate, (iii) Standard deviation of tariff rate, (iv) Regulatory trade barriers and non tariff barriers, and (v) Days required for an Import Export Process.

Export of Goods and Services Growth (XGSG) is the second free and freer trade deputy. The two key components of trade are Exports and

Imports. Export of goods and services is occasionally restricted subject to maintain the domestic demand and some other factors. Openness of exports leads toward increase in exports magnitudes and ultimately there will be better annual export volumes, exports to GDP ratio and exports growth ratio. Thus higher exports growth means lesser trade restriction. Last representative of trade liberalization is **Import of Goods and Services Growth (MGSG)**. Just like exports, sometime home country restricts her imports due to various factors (to generate revenues, to protect sick and infant industry, due to retaliation, on religious and moral grounds etc.). Restrictions on imports directly hamper the imports growth. So better import growth means liberalized trade internationally. As far as the matter of economic growth proxies, to capture the factual image study employed three different indicators as economic growth proxies GDPG, GNIG and GDPCG. **Gross Domestic Product Growth rate in % (GDPG)** measures how speedy the economy is growing. It does this simply by comparing one year output with previous year in percentage. One of the best suitable proxies of national income growth which is frequently used in research is gross domestic product growth. **Gross National Income Growth (GNIG)** is second deputy of economic growth. GNI is defined as the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. Its annual growth in percentage is treated here as Gross National Income Growth. It is also utilized economic growth proxy. **Gross Domestic Product per capita Growth (GDPCG)** is another variable which is used here as economic growth indicator. GDP per capita is gross domestic product divided by midyear population. Its growth is measured by proportional relationship between current year GDP per capita to preceding year in percentage.

In so far as the matter of sources of used statistics, Fraser Trade Freedom Index (FTFI) is taken from Economic Freedom of the World rating compiled by The Fraser Institute Canada. While statistics of all other variables GDPG, GNIG, GDPCG, MGSG, and XGSG are taken from the site of World Bank (2014).

6.2 Methodological Framework

The order of empirical analysis is as follow: Firstly, the unit root investigation is explored by way of “im, Pesaran, Shin” IPS unit root

test" for unit root analysis. There are different unit root tests available in literature which include Breitung (2000), Hadri (2000), Choi (2001), Levin et al. (2002), Im et al. (2003) and Carrion-i-Silvestre et al. (2005). Im et al. (2003) is considered more appropriate test for panel data unit root analysis. It suggests substitute hypothesis for heterogeneous autoregressive unit root investigation. Secondly, to investigate that either long run relationship among targeted variables exists or not study used Pedroni (2004) co- integration method. Conventional approach of co-integration investigation is disregarded because it does not care that either there is unit root variable in focused series or not. Co-integration test probes that either our in-variant statistics of given variables are correlated in long span of time or not. Hence co-integrations investigations demonstrate the true picture of long run relationship among focused variables. This study uses the Pedroni (2004) co integration test to probe the existence of long run relationship. This test allows cross section interdependence with individual effects. In this study Pedroni co- integration test will proceed as follow:

$$Y_{it} = a_{i0} + a_{i1}(FTFI)_{it} + a_{i2}(XGSG)_{it} + a_{i3}(MGSG)_{it} + u_{it} \text{-----}(1)$$

Where $i=N$ stands for number of cross section in this sample of panel data and t stands for time period. The a_{i0} shows the fixed effect of specified SAARC countries, and u_{it} stands for stochastic error term. a shows the coefficient values of respective independent variable. To check the co-integration hypothesis among targeted vectors the following residual based test is conducted.

$$\mu_{it} = \gamma \mu_{it-1} + \lambda_{it}$$

Here $H_0: \gamma_i = 1$ is the null hypothesis of no co integration. Pedroni proposed two kinds residual based test for investigation of long run robustness, Within Dimension test and Between Dimension test. Within Dimension approach is based on the following four test: a) Panel v - statistics, b) Panel ρ - rho statistic, c) Panel PP - statistics and d) Panel ADF statistics. While for the Between Dimension approach subsequent three tests are suggested: a) Group ρ - statistics, b) Group PP-statistics and c) Group ADF statistics.

Thirdly, through generalized method of moments/ dynamic panel data GMM/DPD estimation techniques is used to estimate the long run results. GMM/DPD method is one of the latest empirical estimation techniques for panel data long run coefficients estimation.

7. Estimation

7.1 Unit Root Test

Like other data this study statistics also exhibit the regular characteristics associated with most economic variables. First of all unit root test has been used in order to know the order of integration of each variable. Unit root test results are reported in table 7.1. According to unit root test results, except GDPCG and FTFI all remaining four variables are stationary at level while GDPCG and FTFI are stationary at first difference. Thus results confirm that these variables are integrated at level and first difference.

Table 7.1: Unit Root Test

Im, Pesaran and Shin Unit Root Test

Variable	I(0)		I(1)	
	Intercept	Intercept &Trend	Intercept	Intercept &Trend
GDPG	-2.55*	-2.14*	-4.16*	-2.56*
GDPCG	-0.93	-1.11	-3.49*	-2.22*
GNIG	-2.12**	-0.84	-3.10*	-1.98**
FTFI	-0.71	0.22	-1.96**	-0.88
XGSG	-2.38*	-1.88**	-4.75*	-2.92*
MGSG	-2.02**	-1.07	3.42*	-1.57**

Where *, **, *** indicate the ratio is significant at 1%, 5%, and at 10% respectively.

Table 7.2: Co-integration Analysis**Pedroni Panel co- integration tests**

Within Dimension Test		Between Dimension Test	
1. Panel v - statistics	-1.25	1. Group ρ -statistic	2.25
2. Panel ρ -statistic	1.43	2. Group PP-statistic	-15.54*
3. Panel PP-Statistic	-7.91*	3. Group ADF-statistic	-3.77*
4. Panel ADF-Statistic	-3.38*		
Where *, **, *** indicate the ratio is significant at 1%, 5%, and at 10% respectively.			

Table 7.2 shows the outcomes of Pedroni both Within Dimension and Between the Dimension co integration tests statistics. Panel PP-Statistics, Panel ADF Statistics, Group PP- Statistics and Group ADF Statistics; strongly recommend the existence of long run relationship between given variables. It means four out of seven tests statistics rejected the null hypothesis of no co integration, and long run relationship exist between GDPG, GNIG, GDPCG, FTFI, MGSG and XGSG.

Different statistical tests were applied in co-integration analysis to find if economic freedom, growth in exports and imports of goods and services affect economic growth over the years. The results suggest that in the long-run economic freedom, growth in exports and imports have a significant relationship with economic growth.

7.2 Long Run Results

Long run coefficients are attained through generalized method of moments/ dynamic panel data GMM/DPD econometrics estimation technique. Three different economic growth proxies GDPG, GNIG and GDPCG are employed as dependent variable in three different equations to probe the robustness of outcomes. Results are reported in table 7.3.

Table 7.3 Generalized Method of Moments/ Dynamic Panel Data long run Results

	Model #1	Model #2	Model #3
D. Vari. →	GDPG	GNIG	GDPGCG
Constant	-2.65	-1.76	-7.68*
FTFI	1.20*	1.05*	1.83*
XGSG	0.05***	0.07*	0.05
MGS	0.06**	0.05***	0.05**
R²	0.37	0.37	0.43
DW	1.84	1.8	1.7
Where *, **, *** indicate the ratio is significant at 1%, 5%, and at 10% respectively.			

Outcomes of long run estimation reflect that all deputy economic growth proxies are positively related to export of goods and services growth, import of goods and services growth and with Fraser trade freedom index. Fraser trade freedom index is statistically significant in all three models even at 1% significance level. Another trade liberalization deputy import of goods and services growth reveals the positive significant impact on economic growth in SAARC countries. While third trade liberalization proxy exports of goods and services growth accelerates the process of economic prosperity in SAARC region except GDPGCG. On the whole, long run results suggest that trade liberalization can play vital role in economic growth of SAARC region.

After confirmation of existence of co-integration among vectors through Pedroni (2004) and long run relationships through MMD/PDP estimations technique this study summarize that trade liberalization will be significantly beneficial for economic well-being of SAARC countries. Study outcomes are consistent with trade lead growth school of thought vision (Rodrik et al. 2002; Sachs and Warner, 1995; Edwards 1998; and Greenaway et al. 2002).

Since co-integration analysis suggested an existence of long-run relationship between growth of exports and imports, level of economic freedom and economic growth. Further tests were applied to check the nature of the relationship and the results suggests that growth of ex-

ports and imports and level of economic freedom has positive significant impacts on all three types of proxies used in the study i.e. Gross Domestic Product Growth rate in % (GDPG), Gross Domestic Product per capita Growth (GDPCG), Gross National Income Growth (GNIG). A healthy increase in growth of exports, imports and level of economic freedom will significantly boost up economic growth.

8. Conclusions and Action Agenda

SAARC countries have exhibited their unique potential in terms of social and economic growth. Instead of bold steps which should have been taken by SAARC nations for freer trade, the both intra - regional and trade with rest of world did not experience the desired potential. Intra - regional trade did not match the deserving level due to economic dissimilarity and instability, mutual conflicts and political distrust among SAARC nations. While the international trade is also partially restricted due to some precautionary steps have taken by the member nations to protect their infant industries, unemployment problem and some other domestic issues. As far as the matter of relationships between trade liberalization and economic growth in SAARC countries, results reflect that in South Asia trade liberalization accelerates the process of economic growth. Evidences are consistent with belief that in the long run pro trade strategies support the economic prosperity (Rodrik et al. 2002; Sachs and Warner, 1995; Edwards 1998; and Greenaway et al. 2002). So what is the message that can be learnt from this study, results advise that higher the import & export growth and lesser trade restriction in region will prove beneficial for regional economic growth in future. Removing restrictions on the import of raw materials for industries, and imports of modern ideas and technologies, will definitely experience an expansion in domestic product and economic prosperity in region.

SAARC needs an active and tactical trade alliance especially for intra SAARC trade. This joint venture may in fact be more profitable for South Asian countries. India, Pakistan and Bangladesh can play an im-

portant role in region through better trade relations within region. It is observed that India -Pakistan, and Bangladesh-India trade relation are on the rise in recent years but need some more attention. Pakistan needs some positive steps especially to develop better trade relation with India and Sri Lanka. Pakistan-Sri Lankan and Pakistan-India trade activities are far below potential. SAARC exports have vulnerable access in international markets due to comparatively higher cost and lower quality. In these circumstances organized and co operative regional trade integration is demand of SAARC nations, because intra-regional trade development would facilitate the SAARC to switch in global market through economies of scale. This prevalent access in global markets will allow the region to meet desire development objectives.

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SAARC exports have vulnerable access in international markets due to comparatively higher cost and lower quality. In these circumstances organized and co-operative regional trade integration is demand of SAARC nations, because intra-regional trade development would facilitate the SAARC to switch in global market through economies of scale. This prevalent access in global markets will allow the region to meet desire development objectives.

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