

INDIA- NEW ZEALAND TRADE RELATION: COMPARATIVE ANALYSIS

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Abstract

India-New Zealand FTA agreement negotiations are underway and with its signing it is expected that both the countries will reap the benefitted. The benefits will not only in the form of increased merchandise trade but also the trade in services and capital flows will increase.

India has emerged as one of the major trading partner with New Zealand in recent times. Trade between two nations has been growing constantly and it is expected that in future India will be among top five exporting and importing nation for New Zealand. Trade between India-New Zealand has grown constantly. India's ranking has improved from 20th in 2004 to 8th in 2011 and in terms of imports the rank has been around 20. With respect to India New Zealand, its rank came down from 54th in 1996-97 to 70th in 2012-13.

Objectives

1. The relative importance of each country as a trading partner.
2. Importance of India-New Zealand in World Trade
3. Finding Current trade patterns

Methodology

The study will be based on secondary data. Data on India and New Zealand' macroeconomic indicators are taken from World Development Indicators, an annual publication of the World Bank. Bilateral Trade statistics are collected from UNCTAD International Trade Statistics Yearbook and WITS. India and New Zealand tariff rates are compiled from the World Tariff Profile, an annual publication of the WTO. Data on composition and direction of New Zealand foreign trade are taken from Statistics, New Zealand and for India from the Ministry of Commerce. This study covers period of sixteen years i.e. from 1997- till 2013.

Keywords: Free Trade Area, Growth, Liberalisation, Development

Introduction

Trade has been regarded as the engine of growth and more so with the liberalisation of the economies that have taken place all over the world brought to the forefront the importance of the trade. International trade assumes a great significance in economic development of both developed and developing countries. In the last two decades most of the countries have liberalized their trade as a part of economic reforms adopted by them and facilitated by the WTO policies. One of the most significant developments in the area of international trade is the emergence of regional groupings especially bilateral trade relations in the every part of World trading system.

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Literature Review

Large number of studies has been done to evaluate the FTA/PTA and bilateral trade relation between India and its trading partners. Most of the studies have concluded that these agreements generally result in trade creation and economic welfare of the country and on the other hand with respect to bilateral trade relation the studies have focused on relative comparative advantage.

There are studies on measuring the bilateral and trilateral free trade agreement. Study on AUSFTA(Australia-U.S FTA) by CIE 2004 concluded that the signing of FTA will lift the economic growth and there will be an increase in GDP with 0.7 % apart from it there will be welfare gain also. The study uses G-Cubed and GTAP models to arrive at the conclusion.

In one of the study conducted by the World Bank, Policy Research Paper with respect to India-Bangladesh Trade-Unlocking Potential and the Way Forward -2012, it has been seen that the FTA between India and Bangladesh would result in the increase in exports from India by 134% and that of Bangladesh by 182% and it would be 300% if transaction cost are reduced through improved connectivity. The study uses GTAP and trade complementarity and IIT index for measuring the impact of agreement on the two economies.

Study by Ramphul Ohlan on ASEAN-India FTA concluded although India is not benefited from the agreement but it tells the way in which it can improve its trade relation and be more competitive in the ASEAN market. This study also uses RCA, Trade Intensity and changing pattern of foreign trade specialization.

Some studies have been conducted to find out the impact of trilateral FTA on the economy and one such study is by Srinivasa Madhur on China-Japan-Korea FTA. The study concludes that “.....a CJK FTA will not only have large benefits to all the three member countries but it also has the potential to become the building block for the broader multilateral trade and investment liberalization both at the regional and trans-regional levels”. The methodology used to arrive at the conclusion is CGEmodel. Another study by Hyungdo et.al on the same implied RCA to arrive at the conclusion.

In one of the study by PHD-CII, Research bureau on evaluation India-Pakistan FTA, the conclusion was reached that both the nations will be benefitted by FTA. Study on India-Korea trade relation by ICRIER by Pravakhar Sahoo et.al 2009 concluded that although Korea is doing well in terms of trade by there is still much potential left for India and the methodology applied was RCA, IIT and TI index.

Thus from the above literature review reveals that the countries that are the part of FTA are being benefitted and there is a push in the economic activity to all the nations involved. Most of the studies that have been done generally apply RCA and CGE models and most of the studies are on the FTA that are already signed. On India-New Zealand FTA agreement there is Joint Study Report 2009 by Department of Commerce, India and Ministry of Foreign Affairs and Trade, New Zealand. The study shows the positive impact of FTA on both the nations.

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India: Analysis

Table 1.1 shows the India export to the world and New Zealand. Export to the New Zealand and World has increased drastically. New Exports increased five times whereas as world export increased by 10 times for the period under study. From just 65.7 US\$ million in 1997 it has reached 302.06

U.S \$ million. Exports to New Zealand have grown annually at 10% from 1997-2013. With respect to total exports they increased from just 33469.95 U.S \$ million in 1997 to 300400.7, hundred percent increased for the period with the annual growth rate of 14.7. Thus it is clear the exports to the New Zealand had increased annually but not at the same pace as in the case of country export to the world.

Whether the share of New Zealand in total export of India has increased/decreased, it can be seen that for the period under study share of New Zealand in total export has come down from .19% in 1997 to .10% for the year 2013. Between 1997-2013 the share was maximum for the year 2007 which is .39% and corresponding to this the minimum is for the year 2011 which stands at .075. Taking into account the annual growth rate in export to New Zealand, growth rate does not follow any trend there are ups and down in the annual growth rate of exports to New Zealand. With 9.48 % growth for 1998, the maximum was reached for the year 2007 with the growth rate of 249% and the following year had the least growth rate i.e. in negative -67.95%, for the year 2013 the growth rate is 20.04%. Considering the growth of export to the world for the same year the growth rate is 3.93% with the maximum growth rate for the year 2011 followed by 2005 which stands at 40.49% and 30.85% respectively. Minimum growth is for the year 1999 followed by 2010 which stands at -4.50% and 3.53% respectively.

After applying the test of correlation, it has been found that there exist very low degree of positive correlation between growth in India's export to world and New Zealand. The value of $r = .028$ and the r -square is .007.

Table 1.2 show the India's import from the world and New Zealand, import from the world as well as from New Zealand has shown increasing trend. Import from New Zealand increased at 14.53% annually and import from the world increased at 17.1% annually. Considering the annual growth in imports, the maximum is for the year 2006 followed by 2005 and 2012, the value is 69.29 followed by 62.20 and 31.59 respectively.

Taking into account the share of New Zealand import to total import it can be seen that the share has been coming down from .20% in 1997 it came down to .14% for the year 2013.

So far the growth in world imports is considered it can be seen that no set pattern is followed the maximum growth rate is for the year 2005 followed by 2008 with growth rate of 42.69 and 32.33% respectively.

Going for the test of correlation it can be seen that there is high degree of positive correlation between the growth in world and New Zealand imports. The value of $r = .7276$ and the value of r -square is 52.97.

New Zealand-Analysis

Table 1.3 shows New Zealand export to India and total exports for the period 2000-2013 i.e. covering a period of 14 years. Column three of the table shows the share of New Zealand export to India and it can be seen that over the period of study India share in export of New Zealand had increased from just .59% in 2000 to 1.39%. For the period under study the maximum share was for the year 2010 which stands at 2.07% corresponding to this the minimum share is for the year 2001 which comes out to be .50%.

Column five of table 1.3 shows the annual growth rate of export to world. Maximum growth rate was achieved for the year 2005 followed by 2001 and corresponding to this years of low growth rate were 2003 followed by 2009 for which growth was negative at -8.49% and -7.72%. With respect to growth rate of export to India is concerned it can be seen that the annual growth rate has been tremendous with reaching as high as 48% for 2008 followed by 43% for 2006 and 2010 respectively.

The years of low growth rate are 2013 followed by 2001 for which the growth rate is negative at -14.92 and -5.55% respectively. Looking at the compound annual growth rate of New Zealand export to world and India the value are 3.8 and 10.87% respectively.

The test of correlation between the total growth in export and India export shows the high degree of positive correlation with value of $r=.54881$ and that of $r\text{-square} .301$. Table 1.4 shows the New Zealand imports from the world and India. Total import to New Zealand had increased from 30735.64 U.S\$ million in 2000 to 48364.51 U.S \$ million, with the compound annual growth rate of 3.54%. On yearly basis the growth rate had been fluctuating with the maximum growth rate for the year 2008 which comes out to be 15.87% followed by 2011 with 10.70%. New Zealand import from India which were 174.49% in 2000 grown to 423.18 U.S\$ million for the same period and compound annual growth rate comes to 7.05%. On year-on-year basis maximum growth occurred in the year 2008 with 22.39% followed by 2006 and 2004 with 12.48 and 12.19% respectively.

So far the share of India import in total import is concerned it had increased from .56% in 2000 to .87% in 2013. The test of correlation between growth in total imports to New Zealand and growth in India import show that there is positive relation between and the value of $r=.433$ and that of $r\text{-square}$ is .188.

Table 1.6 shows the top five destinations of New Zealand exports for the period 2004-2011. Top five destinations of exports for New Zealand are Australia, U.S China, Japan and Singapore. Australia had enjoyed the top position for five years i.e. from 2004 to 2008 thereafter U.S had been at first place. With respect to India, its position had improved a lot from 20th position in 2004 it improved to 14th in 2009 and then it reached the single digit i.e. 8th for the year 2011.

Table 1.6 shows the top five importing countries to New Zealand. In case of imports also the countries are same as in exports and the top slot is occupied by Australia for all the years except for 2009 and 2010. So far the case of India is considered its position had deteriorated from 20th rank in 2004 to 21st for next three years and then improved for the next two years i.e. 2009 and 2010 and finally again deteriorated to 22nd in 2011.

Conclusion

Following conclusion have been reached after detailed analysis of the data,

1. India trade with New Zealand has increased over the period of study; not only the export but also imports have shown a considerable increase. Same is same for New Zealand also trade has increased with India.
2. In case of India the growth in total export and import are more than the growth in the export to and import from New Zealand. But in case of New Zealand the growth in total export and import are less than the export to and import from India.
3. New Zealand ranking as a trading partner with India has deteriorated with India but the same does not hold in India trade ranking with New Zealand, it had improved a lot.
4. Overall trade with the world shows that India ranking in world trade has improved a lot but the same is not true with respect to New Zealand.

Thus the major task lies in finding out why New Zealand ranking as trading partner with India is coming down even though India is among top 10 as trading partner with New Zealand.

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