Chapter 6

India’s Trade and Development Strategies With BRCS, EAC, and SCO in the Era of Globalization

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ABSTRACT

India’s trade with the major economic groups BRCS, EAC, and SCO revealed that there exists a long-run equilibrium relation between BRCS and SCO group of countries trade with India’s economic growth, whereas EAO group of countries does not show any long-run equilibrium relation. It is concluded that 1% change in imports from BRCS countries causes the economic growth to increase by about 0.84% meaning that in the long run, imports from BRCS countries tend to have a significant impact on economic growth, similarly a 1% change in exports to BRCS countries causes the economic growth to decrease by about 0.53%, meaning that in the long run, exports to BRCS countries tend to have a significant impact on economic growth. Similar to BRCS co-integration model, the SCO group of countries’ imports are positively affecting, whereas exports are negatively affecting economic growth. The exported items to SCO countries are negatively affecting the economy meaning that exports are not contributing.

INTRODUCTION

The relationship between foreign trade and economic growth in developing countries has continued to dominate the debate in trade and development economics. The results to examine the nature of a causal relationship between foreign trade and economic growths are also mixed. Some researchers have found a positive association between foreign trade and economic growth while others saw opposite conclusions.

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Van den Berg and Schmidt (1994) presented that there is a positive relationship between export growth and aggregate economic growth over time for the majority of the 17 Latin American economies, while Abhayaratne (1996) rejected the hypothesis that foreign trade stimulates economic growth in Sri Lanka.

It is well known that foreign trade has accelerated under globalization, and developing countries have captured a growing share of that trade, including by trading more with each other. The share of BRICS in global output increased from 5.4% in 1990 to 22.2% in 2016. Excluding China, the aggregated share of Russia, Brazil, India, and South Africa in global output went up from 3.7% to around 7.4% – an increase, but not a spectacular one. This is mirrored in global export shares, where China significantly outpaces the others in the group. Indeed, in most of the developing countries outside East and Southeast Asia, export shares remained roughly constant and in some cases even declined, other than during the rising phase of the commodity price super-cycle, when major commodity exporters registered a temporary increase of their market shares (United Nations Conference on Trade and Development [UNCTAD], 2018).

Since the topic impact of foreign trade on economic growth remained a key subject of debate in research and policy discourses, this chapter studies causal relationship between India’s foreign trade with the four remaining member countries of BRICS (referred to as BRCS (Brazil, Russia, China, and South Africa) in this study), East African Community (EAC), and Shanghai Cooperation Organization (SCO).

BACKGROUND

The increase of reciprocal trade agreements between pairs and groups of countries over the past few decades has resulted in a plethora of literature addressing the causes of regionalism, their effects of members and non-members, as well as their effects towards promoting global free trade. This study makes a contribution to the literature with reference to investigate the relationship between foreign trade of India with three groups of countries namely BRCS, EAC, and SCO and its impact on India’s economic growth.

Fajana (1979) analyzed the impact of trade on Nigeria’s economic growth. Using a two-gap model, it estimates the relationships between exports, foreign capital, and economic growth. The results of the analysis provided empirical support for the hypothesis that trade has been an important engine of growth in Nigeria.

Feder (1983) investigated the sources of growth in the period of 1964-1973 for a group of semi-industrialized less developed countries. The result found that growth could be generated not only by increases in the aggregate levels of labor and capital but also by the reallocation of existing resources from the less efficient non-export sector to the higher productive export sector.

Kavoussi (1984) examined the relationship between export expansion and economic growth in a sample of 73 developing countries using data for the period of 1960-1978. The study highlighted that in both groups of low- and middle-income countries, export expansion was associated with better economic performance and that an important cause of that association was the favorable impact of exports on total factor productivity. Kavoussi (1984) also demonstrated that the effect of commodity composition of exports on the relationship between export expansion and economic growth was substantial in more advanced developing economies.

Jung and Marshall (1985) performed causality tests between exports and growth for 37 developing countries. The results cast considerable doubt on the validity of the export promotion hypothesis.
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