



## TRADE BETWEEN INDIA AND NEW ZEALAND

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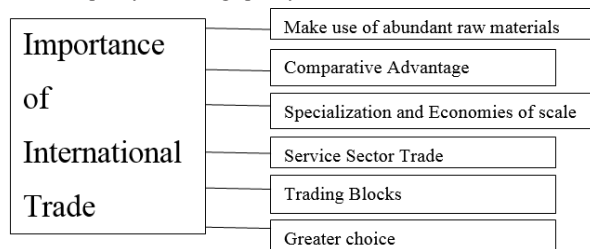
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**ABSTRACT** Foreign Trade and Investment is considered as an instrument of international economic integration as it brings a package of assets including capital, technology, managerial skills and capacity and access to foreign markets. Trade among different countries gives the opportunity to consumers and countries to be exposed to goods and services, capital and technology not available in their own countries. India has very good trade relations among different countries but New Zealand's trade relationship with India has been strong and growing rapidly. According to the latest data, India was the 14<sup>th</sup> largest export destination for New Zealand's merchandise exports, and the 16<sup>th</sup> largest source for its merchandise imports. The paper has examined the strength of New Zealand's trade relations with India by analyzing trade data. The findings of this study are relevant to future bilateral trade, economic relations, technology transfer and cultural exchange between New Zealand and India.

**KEYWORDS :** Economic Growth, Exports, Technology, Merchandise and Bilateral Trade.

## INTRODUCTION

Nation's progress and prosperity is reflected by the pace of its sustained economic growth and development. Trade and Investment provides the base and pre-requisite to economic growth and development. Foreign trade and investment is considered as an instrument of international economic integration as it brings a package of assets including capital, technology, managerial skills and capacity and access to foreign markets. Trade among different countries gives the opportunity to consumers and countries to be exposed to goods and services, capital and technology not available in their own countries. The whole impact of foreign trade depends upon the country's domestic policy and foreign policy.



Major turning point came in India in 1991, when the country made many changes in the economy and started increasingly integrating into the world economy and have come a long way after L.P.G. model. After 1991, FDI has helped the Indian economy to grow and the government continuous making efforts to encourage more investments under many government schemes. There have been several multi-billion dollar acquisitions by Indian companies to trade in global markets. The M&A activities has also increased in last few year due to dynamic government policies, corporate investments in industries, economic stability, ready to experiment, attitude of Indian industrialists, large growing economy, largely untapped domestic market, availability of domestic skills sets and technology access. In more recent years India has become one of the power houses in the global economy. India's interest also extends to the pacific island states and in 2003 India became a dialogue partner of the pacific forum. New Zealand has a longstanding, dynamic and friendly relationship with India. In 1986, a trade agreement between India and New Zealand was signed which provided for the establishment of a joint business council & a joint trade committee to optimize trade turnover and to create an environment conducive to trade expansion and to inject dynamism to trade relations. In 2010, both the countries have free trade agreements.

New Zealand - developed country in the South – Pacific Ocean, has a number of significant natural resources including natural gas, Iron Ore, sand, Coal, Timber, Hydro- power, Gold and Limestone. New Zealand - a member of the WTO has regional and bilateral trade agreements are with Singapore, Chile, Brunei, China, Australia, Malaysia, Hong Kong, Thailand and so many and other countries.

The top exports of New Zealand are concentrated milk , sheep and goat meat , frozen bovine meat , butter and rough wood. Its top imports are cars , crude petroleum , refined petroleum , planes, helicopters, and spacecraft and delivery trucks. The top export destinations of New Zealand are China , Australia , the United States , Japan and the United Kingdom . The top import origins are China , Australia , the United States, Japan and Germany. New Zealand's share in global trade is 0.20 percent, whereas India's share in global trade is 1.6 percent. New Zealand exported \$35.8B and imported \$35.7B, resulting in a positive trade balance of \$71.8M in 2015.

## Literature Review

“Trade is the engine of economic growth” was stated by D. H. Robert Morrison. The international trade literature has a long history back to Adam Smith and David Ricardo. The classical school of economics believed that foreign trade promotes economic growth by improving the optimal distribution of resources and productivity and by getting raw materials and equipments which it could not produce. The twentieth century brought important theoretical and empirical advances with import contribution from the eminent economists like Heckscher, Ohlin (Carbough, 2013), Bhagwati (1964), Krugman (1979), Verdoorn (1960) and others. 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. On India-New Zealand FTA agreement Joint Study Report 2009 by Department of Commerce, India and Ministry of Foreign Affairs and Trade, New Zealand showed the positive impact of FTA on both the nations.

## Objectives

The main objectives of this paper are

- To analyses the evolution of trade relations between New Zealand and India.
- To find out the relative importance of each country as a trading partner by calculating trade intensities.
- To find out opportunities and challenges in bi-lateral trade of these two countries.

## Methodology

This study is based on secondary data. Data on trade between India and New Zealand are taken from Annual report of Ministry of Commerce & Industry, Department of Commerce 2016-17 and annual publication of RBI Press statistics and Trade Map (ITC). Trade intensities are calculated to study the strength of trade ties. Export and Import intensity indexes are calculated as follow:

$$\text{Export Intensity Index} \\ XII = (X_{ij} / X_{iw}) / (M_{jw} / (M_w - M_{iw}))$$

ii. Import Intensity Index

$$MIII = Mij / Miw / (Xjw / (Xw - Xiw))$$

Where:  $XII_i$  represents the export intensity index for country  $i$ ,  
 $MIII$  represents the import intensity index for country  $i$ ,  
 $Xij$  represents the value of country  $i$ 's exports to country  $j$ ,

$Xiw$  represents the value of country  $i$ 's total exports to the world,  $Mjw$  represents the total value of imports from the world into country  $j$ ,

$Mw$  represents the value of total world imports,  
 $Miw$  represents the total value of imports from the world into country  $i$ ,  
 $Mij$  represents the value of imports from country  $j$  into country  $i$ ,  
 $Xjw$  represents the total value of country  $j$ 's exports to the world,  
 $Xw$  represents the total value of world exports

$i$ = India  
 $j$ = New Zealand

A value greater than one indicates that the relationship between the home country and the trading partner is greater than expected given the trading partner's share of the world trade, while a value less than one indicates the strength of the trading relationship is less than is expected.

**Trade Relationships**

New Zealand's trade relationship with India has been strong and growing rapidly. Bilateral relations were established in 1952 between these two countries. New Zealand has identified India as a priority country in its "Opening Doors to India" policy notified in October 2011. India remained the 14<sup>th</sup> largest export destination for New Zealand's merchandise exports, and the 16<sup>th</sup> largest source for its merchandise imports.

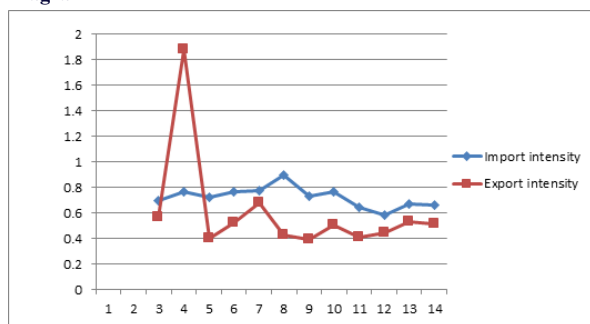
Table indicates that for the year 2016, India was New Zealand's 7<sup>th</sup> largest trading partners based on total trade in goods and services, with a two-way total trade valued at \$ 2.6 billion, out of which exports were worth \$1.7 billion.

**Table-4**

Year	Import of India from World (miw)	Total Export of India (xiw)	Total World import (MW)	Total world expjort (XW)	Import from New Zealand into India (Mij)	India's Export to New Zealand (Xij)	Imports of New Zealand from World (Mjw)	Total Export of NZ to world (Xjw)	Import Intensity	Export Intensity
2005	140,861,667	100,352,637	10,605,079,596	10,343,304,171	206,485	141,740	26,232,049	21,728,544	0.691019	0.56342771
2006	178,212,440	121,200,606	12,239,256,587	11,953,414,096	257,335	498,466	26,424,356	22,409,180	0.762432	1.87720302
2007	218,645,294	145,898,053	14,098,715,861	13,777,542,915	312,624	129,219	30,890,415	26,930,933	0.723734	0.39796494
2008	315,712,106	181,860,898	16,345,271,437	15,972,677,606	468,291	203,235	34,367,335	30,577,985	0.765985	0.52123659
2009	266,401,553	176,765,036	12,609,807,746	12,317,210,483	421,470	248,018	25,565,851	24,932,601	0.770366	0.6774256
2010	350,029,387	220,408,496	15,316,480,231	15,064,930,203	651,371	188,762	30,157,848	30,931,878	0.893067	0.42501545
2011	462,402,791	301,483,250	18,316,795,697	18,073,112,271	715,951	239,083	36,111,257	37,633,151	0.731172	0.39209201
2012	488,976,378	289,564,769	18,600,846,111	18,459,234,570	764,429	305,191	38,242,731	37,304,685	0.761435	0.4991607
2013	466,045,567	336,611,389	18,978,611,019	18,957,098,844	634,389	296,203	39,619,182	39,443,578	0.642602	0.41117031
2014	459,369,464	317,544,642	18,989,386,393	18,969,800,644	598,477	320,314	42,497,740	41,635,623	0.583649	0.43982622
2015	390,744,731	264,381,004	16,656,047,690	16,508,463,885	549,843	313,898	36,528,298	34,357,359	0.665305	0.52867774
2016	356,704,792	260,326,912	16,062,472,839	15,862,397,780	508,744	308,684	36,213,018	33,869,936	0.656989	0.51426801

Sources: ITC calculations based on UN COMTRADE statistics

**Diagram-1**



**Opportunities and Challenges**

New Zealand and India already enjoy a strong relationship. The innovative, market-focused product development services are typical of New Zealand capability to create a cost effective solutions that

**Table-1**

Trading partners	Total Exports NZ\$(million)	Total Imports NZ\$(million)	Trade balance NZ\$(million)
Australia	12,849	11,231	1,618
China	12,299	10,493	1,806
United States of America	8,077	8,045	32
India	1,750	814	936
Singapore	1,516	2,539	-1,023

Source: Compiled from statistics New Zealand Goods and Services Trade by Country, Yearend December2016

The top five goods exported from New Zealand to India in 2016 constituted nearly three-fourths of New Zealand's total exports to India. Logs and Forestry Products was the largest individually valued commodity exported to India. Confidential items have been the second largest value of exports to India. Wool has been the third largest valued commodity. Edible Fruits and Nuts has been the fourth largest valued of exports to India. The top 5 goods imported by New Zealand from India in 2016 constituted only a third of New Zealand's total imports from India. In terms of change in value of imports from India, the largest increase were noted Pharmaceuticals/Medications, Textiles, Precious Metals and Gems and Non Knitted Apparel and Coffee/Tea/Spices. Bilateral trade in commercial services between these two countries has been increasing at a much faster pace than its imports.

**Trade Intensity**

From 1990 to 2014, trade intensity of exports and imports tended to fluctuate but remains at a value of less than unity both as a source of imports and as an export market for New Zealand. The low intensities may reflect the fact that the bilateral trade between the two countries is less than the average level between New Zealand and the rest of the world. For studying the strength of trade ties export and import intensity indexes are shown in the Table:

enable Indian companies to identify and create relationships with complimentary New Zealand companies. India's rapidly changing markets offered good opportunities for New Zealand companies in a wide range of sectors. These sectors are telecommunications, infrastructure, services, manufacturing, defence, medical, retail, internet, government participation projects and agriculture. India is increasingly becoming an important market for New Zealand especially with regards to the IT software, defence, and security and telecommunication equipments. Other potential areas of mutual interest between the two markets include biotechnology, wood processing, ICT, Infrastructure developments, where New Zealand companies expertise is considered by the Indian government. However, despite promising opportunities, New Zealand companies still struggle to gain stability and growth in the Indian market. The data presents little information about the trade activities/patterns, which exist, between the two markets, which make research in this area imperative.

On the other hand the small size of the New Zealand market makes for it more compulsory, to find and explore exporting and international investment opportunities.

A tremendous potential is still unexplored in many areas like food industry, film, sports and television industry. Currently the exports are in a few primary products. The forward looking economic outlook of India focusing on domestic growth and international integration offers tremendous trade and economic opportunities for New Zealand.

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