

2014

**REVIEWED INTERNATIONAL JOURNAL**

**VOL III Issues IV**

**Electronic International  
Interdisciplinary  
Research Journal (EIJR) )**

**ISSN : 2277-8721)**

**Impact factor:0.987**

**Bi-Monthly**

**Chief-Editor: Ubale Amol Baban**



**A STUDY ON TRENDS IN INDIA'S MERCHANDISE TRADE WITH SAARC NATIONS**

***Economics***

**Fasalurahman.P.K.Patterkadavan,**

**Assistant Professor,**

Department of Economics,

Central University of Kashmir, Sonwar, Srinagar(J&K)-190004

***Abstract***

*The South Asian Association for Regional Cooperation (SAARC) is an economic and geopolitical cooperation among eight member nations that are primarily located in South Asia continent. Its secretariat is headquartered in Kathmandu, Nepal. The SAARC policies aim to promote welfare economics, collective self-reliance among the countries of South Asia, and to accelerate socio-cultural development in the region. The SAARC has developed a role in external relations around the world. The study entitled 'a study on trends in India's merchandise trade with SAARC nations' highlights India's merchandise trade relationship with SAARC at large and with each members of the trade bloc in particular. The study has objectives like to find out trends in India's Export and import in general and particular, to find out growth rate in export and import, to know India's trade balance with SAARC nations, to know share of export and import in SAARC, etc. The study period was 2001-02 to 2013-14 (April-March). Study primarily depend upon secondary data in which data obtained from ministry of commerce and industry, government of India, RBI publications, World Bank Development report, ADB working papers and report, etc. Data compiled, analysed and interpreted for the purpose and is found out that India has a prominent role in outh Asia and India's biggest trade partners are Bangladesh and srilanka. It also concluded that India has always*



*positive trade balance with SAARC nations growth rate in export and import is increasing even it is slow. In India's world trade, SAARC constitute around 5% in export and around 0.5% in import. The study has neither separately analysed the trends in trade after the introduction of SAPTA/SAFTA nor it focused on a single or particular country, rather it is a general study based on secondary data.*

**Keywords:** *Customs Duty, MoU, Regional Economic Cooperation, SAARC, SAFTA, SAPTA, South Asia, Trade liberalisation.*

## **INTRODUCTION**

A nation's economy, its industries, service sectors, levels of income and employment and living standards are linked to the economies of its trading partners. The benefits of international trade accrue in the forms of lower domestic prices, development of more efficient methods and new products and a greater range of consumption choices. In an open trading system, a country will import those commodities that it produces relatively at a higher cost. Since resources are channelled from uses of low productivity to that of high productivity, gains from trade are attained permitting higher levels of consumption and investment. Over the past 20 years, world trade has grown twice as fast as real GDP deepening economic integration and raising living standards. The role of foreign trade in economic development is considerable and both are intimately connected. Trade can stimulate growth if exports are tending to increase faster than imports or be a brake on growth if imports are tending to increase faster than exports. The dramatic growth of cross-border investment and international trade over the past two decades combined with explosive growth in global communications and technology.

India has formal diplomatic relations with most nations; it is the world's second most populous country, the world's most-populous democracy and one of the fastest growing major economies. With the world's eighth largest military expenditure, third largest armed force, tenth largest economy by nominal rates and third largest economy in terms of purchasing power parity, India is a regional power, a nascent great power and a potential superpower. India's growing international influence gives it a prominent voice in global affairs. The Economist magazine argues, however, that underinvestment in diplomacy and a lack of strategic vision have minimised India's influence in the world.

India is a newly industrialised country; it has a long history of collaboration with several countries and is considered one of the leaders of the developing world along with China, Brazil, Russia and South Africa (the BRICS countries). India was one of the founding members of several international organisations, most notably the United Nations, the Asian Development Bank, G20 industrial nations and the founder of the Non-aligned movement. India has also played an important and influential role in other international organisations like East Asia Summit, World Trade Organisation, International Monetary Fund (IMF), G8+5 and IBSA Dialogue Forum. Regionally, India is a part of SAARC and BIMSTEC. India has taken part in several UN peacekeeping missions and in 2007; it was the second-largest troop



contributor to the United Nations. India is currently seeking a permanent seat in the UN Security Council, along with the G4 nations.

The SAARC region constitute about 23 percent of the population of the world, 15 percent of the total arable land and only 6.0 percent of the Purchasing Power Parity (PPP)based (GDP) global domestic product. The region accounts for around 2.0 percent of the world's goods trade, and around 3.0 percent of the foreign direct investment. The SAARC region is very much diverse as far as the country size, economic and social development, geography and political system are concerned. The region comprises eight countries and three of them viz., Afghanistan, Nepal, and Bhutan are mountainous. Sri Lanka is an island and the Maldives is an archipelago.

The position of the region has changed from being the slowest during 1960s and the 1970s to one of the fastest growing regions in the world since the 1980s. As far as the GDP growth rate is concerned, South Asia has performed robust growth over the years among the low income countries. According to the World Bank database, during the 1960s, GDP growth in the region was placed at 4.2 percent as compared to 5.4 % at the global level. Except during the 1960s and 1970s, the GDP growth in South Asia was higher than those of the world output growth till 2008. The growth in South Asia remained sustained at an average of 5.4 % during 1980-1999 followed by higher average growth of 6.8 percent during 2000-08. The average growth rate of SAARC countries was 6.73 % in 2012.

#### **SIGNIFICANCE OF THE STUDY:**

Foreign Trade assumes significance because they form the core component of the process of country's growth and employment generation. Therefore it becomes a matter of paramount importance to study the various options for improving the Foreign Trade relationship with various countries and developing countries in particular. Our experience with European Union market for Indian exports and various rigidities in terms of newer trade barriers makes us to think of the possibilities of improving and diversifying trade to the countries closer to us. An enquiry into the trends in India's trade within SAARC countries is relevant in this context.

#### **OBJECTIVES OF THE STUDY:**

Following are the Objectives of the present study:

1. To analyse the trends in India's aggregate and individual exports with SAARC nations for the period 2000-01 to 2013-14.
2. To analyse the trends in India's aggregate and individual imports with SAARC nations for the period 2000-01 to 2013-14.
3. To find out leading trade partners of India among SAARC nations.
4. To find out who contribute more to India's export and import from SAARC countries.



5. To analyse the trend in export and import growth rate of India in SAARC during the period 2000-01 to 2013-14
6. To find out India's overall trade balance with SAARC nations during the period 2007-008 to 2013-14.
7. To know the share of SAARC in India's export and import.

#### **METHODOLOGY:**

The study examines the emergence of SAARC as a trade bloc and analyses India's trade relationship with SAFTA countries. The study also examines the trends in India's trade with them in the form of table. The data consists of India's trade with seven of the SAARC members. The time period under study spans from 2001-02 to 2013-14. Data on India's exports and imports have been compiled from the Website of Department of Commerce GOI, GGCI&S. India's balance of trade with SAARC countries has also been analysed. The methodology followed in this study is a broad analytical framework. Various Journals, Books, Working Papers etc., also form the sources of Secondary data. The Data collected were edited, processed and analysed using appropriate statistical tools. On the basis of analysis, conclusions are drawn and recommendations are made. The study is confined within limited period. The study period is 2001-02 to 2013-14 (April-March).

#### **REVIEW OF LITERATURE**

Although enormous literature is available on intra-SAARC trade and India's trade with SAFTA region, here I am giving few of them. Madhusoodanan (2010) states that South Asia has a low level of regional integration and the presence of relatively high trade barriers. The share of trade originating in the region has increased in the last decade but still lags behind in many similar regional arrangements. According to a study conducted by Nag and Nandi (2006), the presence of Regional Trading Arrangements in today's multilateral trade has become a common phenomenon. India in its efforts to embrace this phenomenon became an important constituent of SAARC. Mehta and Kumar (2004) argued that signing of SAFTA agreement was a landmark would extend beyond formal trade. Dhungel (2004) notes that actual progress and achievement in implementation of Jhamb (2006) has supported Dhungel's view and argued that it was primarily due to the tenuous political relations between India and Pakistan and a general environment of mistrust among member countries. However, Rahman et al. (2006) by using a gravity model, showed that elimination of trade barriers and structural rigidities originating from adverse political relationship could lead to substantial increase in intra-SAARC trade.

Pitigala (2005) has found that the trade structures of SAARC countries might not facilitate a rapid increase in intra- regional trade due to weak trading relations among SAARC countries. This view was supported by Baysan et al. (2006). They argue that the economic cases for SAFTA are relatively weak. They state that from an economic standpoint, neither a qualitative argument nor a quantitative assessment was available to give one reason in order to feel enthusiastic about the arrangement. They further state that compared to the rest of the world, this region is tiny both in terms of economic size as measured by GDP, per capita income and the share in the world total trade. Therefore, trade preferences to the regional partners would likely be leading to a consequence of trade diversion rather than trade creation. Das (2007)



argues that evidence of trade complementarity in South Asia is mixed, so preferential trading initiative was based on a weak proposition. Rahman (2008) examines the macroeconomic structure of SAFTA countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka and possibility of trade expansion among these countries by examining the macroeconomic production and consumption, investment behaviour, tax and non-tax structures in the SAARC countries.

Kaur and Nanda, (2010) has calculated India's export potential to other SAARC nations (Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka) with the help of gravity model of exports using panel data methodology. Shrestha(2003) in this study has made an attempt to analyse some of the key issues related with Indo-Nepal trade relation and scope for improving trade relationship between these countries in the future. He states that Indo-Nepal trade is very important for the economic development of both these countries. Trade relation with India is rather crucial to Nepal particularly due to her geographic characteristics. Trade statistics presented by Shrestha shows an increasing trend of trade in both the exports and imports. However, it is worth noting that the trade balance is not in favour of Nepal. Nepal's trade with India is likely to play further a key role in trade and industrial fronts in the future as well. Trade and Perera, (2009) states the next stage of the SAFTA is transforming the SAFTA very fast into the South Asian Customs Union (SACU), which is already a component of the agreement.

Prabirjit Sarkar' examines the patterns of trade movements of inter-regional terms of trade between the developing and developed market economies for the period 1950-80. He comes to the conclusion that the post-second world war period saw a tremendous growth in world trade in merchandise. During the three decades (1950-80), world exports and imports (of visible) rose at an abnormal growth rate of about 11 percent. Over the three decades the rates of growth accelerated from 6.4 percent during 1950-60 to above 9 percent during 1960-70 and further to above 10 percent in the last decade, 1970-80. Indra Nath Mukherji" analyses the preferential trading arrangement. He points out that preferential trading arrangement is the mildest form of integrative arrangement among participating states since it implies neither the function of a free trade area nor the establishment of Customs Union. The proposal for South Asian Preferential Trading Arrangement (SAPTA) seeks to establish formal and full-fledged preferential trading arrangement within the institutional framework of SAARC in a phased out manner by progressive, across the board reduction in all tariffs and complete standstill and roll back of all non-tariff barriers to the expansion of intra-regional trade. One of the foremost objectives of SAPTA should be to eliminate discriminatory trade practices among members.

### **SAARC - AN OVERVIEW**

The South Asia Association for Regional Co-operation (SAARC) comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. The basic aim of the Association is to accelerate the process of economic and social development in member states through joint action in the agreed areas of co-operation. SAARC is a manifestation of the determination of the peoples of South Asia to cooperate regionally and to work together towards



finding solutions to their common problems in a spirit of friendship; trust and understanding based on mutual respect, equity and shared benefits.

**SAARC's Aims and Objectives:**

- To promote the welfare of the people of South Asia and to improve their quality of life.
- To accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potential.
- To promote and strengthen collective self-reliance among the countries of South Asia.
- To contribute to mutual trust, understanding and appreciations of one another problem.
- To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields.
- To strengthen cooperation with other developing countries.
- To strengthen cooperation among themselves in International forums on matters of common interest.
- To cooperate with International and regional organizations with similar aims and purposes.

**South Asian Preferential Trading Arrangement (SAPTA):**

In December 1991, the Sixth Summit held in Colombo approved the establishment of an Inter-Governmental Group (IGG) to formulate an agreement to establish a SAARC Preferential Arrangement (SAPTA) by 1997. Given the consensus within SAARC, the Agreement on SAPTA was signed on 11 April 1993 and entered into force on 7 December 1995 well in advance of the date stipulated by the Colombo Summit. The Agreement reflected the desire of the Member States to promote and sustain mutual trade and economic cooperation within the SAARC region through the exchange of concessions.

**The basic principles underlying SAPTA are:**

- a) Overall reciprocity and mutuality of advantages so as to benefit equitably all Contracting States, taking into account their respective level of economic and industrial development, the pattern of their external trade, and trade and tariff policies and systems;
- b) Negotiation of tariff reform step by step, improved and extended in successive stages through periodic reviews;
- c) Recognition of the special needs of the Least Developed Contracting States and agreement on concrete preferential measures in their favour; and
- d) Inclusion of all products, manufactures and commodities in their raw, semi-processed and processed forms.



### **South Asia Free Trade Agreement (SAFTA)**

The Agreement on the South Asian Free Trade Area is an agreement reached at the 12th South Asian Association for Regional Cooperation (SAARC) summit at Islamabad, capital of Pakistan on 6 January 2004. It creates a framework for the creation of a free trade zone covering 1.4 billion people in India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and the Maldives. The seven foreign ministers of the region signed a framework agreement on SAFTA with zero customs duty on the trade of practically all products in the region by end 2016.

### **SAARC Economies:**

SAARC economies are basically rural in nature. Agriculture plays a vital role in SAARC region. Except for Pakistan and Sri Lanka, where service sector play a major role than agriculture, in all the other countries, the contribution of agriculture to GDP is the highest. However, over the last few decades, it can also be observed that there is a fall in the relative importance of agricultural contribution to GDP in SAARC members, except for that of Nepal where agriculture's role has not changed significantly. It is accepted that economic development entails an expansion of the secondary sector of the economy. SAARC partners have adopted various strategies for the expansion of their industrial sectors, or the diversification of their economies, from production of primary products, to that of manufactured goods. As far as Bangladesh, Bhutan and India are concerned, industrial sector and services sector have gained at the loss of agriculture. But, in the case of Nepal and Pakistan, role of industry has improved at the cost of agriculture and services sectors. The prominent trading and commerce activities in Sri Lanka have made the service sector vital than the agricultural and industrial sectors of its economy. SAARC countries are low-income developing economies. The relevant economic question of the hour for these nations is whether agricultural development or industrial development is the appropriate strategy for accelerating their economic development. SAARC nations lean or tend to lean more towards industrial development than agricultural development, because of the belief that rich countries are believed to be rich because they are industrialised; and poor countries are believed to be poor because they are primary-producing. Thus, SAARC nations are keen in expanding and developing the industrial sectors of their economies.

### **Overview of SAARC's Trade:**

The acceleration of economic growth is a Charter objective of SAARC but there are various problems facing the countries in the SAARC region that hinders the economic and trade development in the region. Perhaps the root of all these varied problems is overpopulation. Total population of SAARC region as on 2004 was recorded to be more than 1.4 billion, which constitutes 23.2% of the total population of the world. The SAARC countries statistically form 50% of the world's poor, with a similarly large number of people earning less than the UN classification of 'one US dollar per day'. Clearly, the population levels of these countries exceed the resources present. With the world's largest population, total GDP volume of SAARC region was determined to be approximately US \$ 2992.2 billion in 2006.



**Indicators**

Total Population (Million),	1432.1 in 2004
GDP (US \$ bn),	2992.2 in 2006
Average GDP per capita (US\$)	988
Total Imports (US\$ bn)	186.04
% Share in World Import	1.73%
Total Exports (US\$ bn)	123.05
% Share in World Exports	1.18%
Total Trade (US \$ bn)	309.089
Total Share in World Trade	1.46%

Although the SAARC region constitutes about one fourth of the total population of the world but its share in total world trade is less than 1.5%. Total volume of exports of the whole region in 2006 was registered only about US \$ 123 billion. India and Pakistan are two major economies in the region that constitute 77% and 11% respectively in the total exports of the region.

**INDIA'S TRADE RELATION WITH SAARC NATIONS**

This session can be discussed under two headings.

1. India's Export relation with SAARC nations
2. India's import relation with SAARC nations

**India's export relation with SAARC nations**

Being a strong economy in third world nation India has considerable trade relation within SAARC region. India plays a prominent role in trade with all other member nations in SAARC with preferential trade negotiations. India has become trade surplus with all the South Asian countries, besides registering a 12.2% annual increase in overall Intra-SAARC trade at \$15.5 billion in 2011-12. While India's exports with its SAARC partners increased 11.78%, imports rose 14.96%, according to provisional figures obtained from the commerce ministry. New Delhi used to enjoy a surplus in trade with all the SAARC countries except Bhutan for the four years preceding 2011-12. Last year, it posted a surplus with the neighbouring kingdom as well by \$1.08 million.

Sri Lanka is India's largest trading partner in the SAARC followed by Bangladesh, Nepal and Pakistan. India has a free-trade pact with Sri Lanka, while Nepal enjoys duty-free access to Indian markets. Trade with other SAARC



countries, namely Bhutan, Afghanistan and Maldives, is bolstered with the least developed country (LDC) status. The potential of trade among SAARC nations is set to multiply with the increased focus of these countries to tap Asian markets more aggressively in the wake of the continuing global crisis that the resultant slump in trade with Europe and the US.

India has signed a Preferential Trade Agreement (PTA) on March 6, 2003 with the Afghanistan, according to which preferential tariff is granted by the Government of Afghanistan on eight items exported from India including tea, medicines, sugar, cement.

Bangladesh is one of the largest export markets for Indian trade. The bilateral trade between the two nations is carried out as per guidelines given in the Bangladesh Trade Agreement which provides beneficial arrangement for the use of waterways, railways and roadways passage of goods between two places in one country through the territory of the other. Major items exported from India to Bangladesh include wheat other cereals, dairy products, oils meals, cotton yarn, fabrics, made ups, petroleum crude and products, plastic and linoleum products rice machinery and instruments and primary and semi-finished iron and steel, pulses transport equipment drugs pharmaceuticals and fine chemicals processed mineral manmade yarn, fabrics, made ups manufactures of metal and fresh fruits and vegetables.

The Free Trade Agreement between India and Bhutan provides for free trade between the two countries. Under this agreement India also provides shipment facilities through Indian Territory for Bhutan's Trade with third countries. All the export transactions are carried out in Indian Rupees and Bhutanese Ngultrum. Major items exported from India to Bangladesh include metals machinery and instruments, machine tools transport equipment, electronics goods rice (other than basmati), spirit and beverages, miscellaneous processed items primary and semi-finished iron and steel and cereals.

Trade between India and Maldives is governed by the rules as mentioned in the Indo-Maldives Trade Agreement signed on 31st March 1981. Under this agreement Indian major exports items to Maldives include rice other than basmati, sugar, fresh vegetables, miscellaneous processed item, drugs, pharmaceuticals and fine chemicals plastic and linoleum products, manufactures of metals and machinery equipment. India and Maldives also shares the status of "Most Favoured Nation" with each other.

No trade agreement has been signed between India and Pakistan till 2007. Although India has granted the status of "Most Favoured Nation" to Pakistan since 1996 but Pakistan has yet to reciprocate by granting this status to India. Indian



exports to Pakistan are restricted to a list 773 items known as Positive List and include rice other than basmati, spices, oil meals, iron ore, drugs, pharmaceuticals and fine chemicals rubber manufactured products except footwear, plastic and linoleum products, manufactures of metals and petroleum crude and products. To sum up India's major exporting items in SAARC constitute Pearls, Jewellery, Clothing, Machinery, Vehicles, Metal Products, Tea, Mate, Iron Ore, Cotton Products, Petroleum, Precious Stones, Handicrafts, Pharmaceuticals, Leather & Products, Software, etc.

**Table: 1- India's Export with SAARC: country-wise (in Million US \$)**

Country/Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Afghanistan	25.86	24.37	60.77	145.47	165.44	142.67	182.11
Bangladesh	935.04	1002.18	1,176.00	1,740.74	1631.12	1664.36	1629.57
Bhutan	1.08	7.60	39.05	89.49	84.58	99.17	57.66
Maldives	24.61	26.88	31.59	42.34	47.61	67.58	68.68
Nepal	140.84	214.46	350.36	669.35	743.14	859.97	927.40
Pakistan	186.83	144.01	206.16	286.94	521.05	689.23	1350.09
Srilanka	640.14	630.89	920.98	1,319.20	1413.18	2024.67	2258.30
Total	1,954.41	2,050.38	2784.90	4,293.52	4606.14	5547.65	6473.81

Country/Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Afghanistan	249.21	394.23	463.55	422.41	510.90	472.63	351.11
Bangladesh	2923.72	2497.87	2433.77	3242.90	3789.20	5144.99	4221.03
Bhutan	86.74	111.15	118.86	176.03	229.86	233.22	222.49
Maldives	89.72	127.91	79.86	100.14	124.60	122.36	79.57
Nepal	1507.42	1570.15	1533.32	2168.06	2721.57	3088.84	2399.54
Pakistan	1950.53	1439.88	1573.3	2039.53	1541.56	2064.79	1514.44
Srilanka	2830.43	2425.92	2188.01	3510.05	4378.79	3983.87	3829.48
Total	9637.76	8567.12	8390.69	11,659.14	13,296.47	15,110.70	12,617.67

Source: Ministry of Commerce and Industry, GOI

Table 1 shows, among SAARC nations, Bangladesh stood at first in India's export from 2000-01 to 2004-05. In 2000-01 its share was 935.04 US \$. It increased till 2003-04. Srilanka is the second prominent nation with a share of 640.14 in 2000-01 and continued to be in second till 2004-05 and took over first by replacing Bangladesh in 2005-06 with



a share of 2024.67 US \$. Another 3 digit Export share was with nations Pakistan and Nepal but is stagnant during the year 2000-01 to 2004-05. After this year there is considerable increase in exports to Pakistan and as far as Nepal is concerned India's export increased considerably after 2010-11. Bhutan falls on the bottom of side in 2000-01 data with a share of 1.08 million US \$ but India's export to Bhutan increase recently (233.42 million US\$ in 2012-13). Latest data (2012-13) shows that major share of India's exports goes to Bangladesh (5144.99 million US\$) and Srilanka (3983.87 million US\$) and least share to Bhutan (233.22 million US\$) and Maldives (122.36 million US\$).

**Table 2- India's Export Growth rate- country-wise (2001-01 to 2012-13)**

Country	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Afghanistan	-5.7	149.36	139.38	13.73	-13.76	27.64
Bangladesh	7.18	17.34	48.02	-6.3	2.04	-2.09
Bhutan	605.40	413.83	129.20	-5.48	17.24	-41.85
Maldives	9.20	17.53	34.04	12.46	41.93	1.64
Nepal	52.28	63.37	91.05	11.02	15.72	7.84
Pakistan	-22.92	43.16	39.18	81.59	32.28	95.88
Srilanka	-1.45	45.98	43.24	7.12	43.27	11.54
Total	4.91	35.82	54.17	7.28	20.44	16.69

Country	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Afghanistan	36.85	58.20	17.58	-8.88	20.95	-7.49
Bangladesh	79.42	-14.57	-2.57	33.25	16.85	35.78
Bhutan	50.42	28.15	6.94	48.10	30.578	1.46
Maldives	30.62	42.56	-37.56	25.40	24.42	-1.79
Nepal	62.54	4.16	-2.35	41.60	25.53	13.49
Pakistan	44.47	-26.18	9.27	29.63	-24.42	33.94
Srilanka	25.33	-14.29	-9.81	60.42	24.75	-9.02
Total	48.87	-11.11	-2.06	38.95	14.04	13.64

Source: Ministry of Commerce and Industry, GOI



During 2001-02 India's export growth rate were 4.91 in 2001-02 and 13.64 in 2012-13 and an average growth rate of export with SAARC nations is 20.14 during the period (2001-02 to 2012-13). Bhutan has highest growth rate (605.40) and Pakistan has highest negative growth rate (-22.92) in 2001-02 (due to the military standing off and other uncongenial political circumstances during the year). During 2004-05 the scenario changed and export growth rate with Bhutan was negative and highest positive growth rate with Pakistan due to congenial bilateral trade negotiations of UPA government. Average growth rate in export during the study period were in the position of Bhutan (106.99), Afghanistan (35.65), Nepal (32.19), Pakistan (27.99), Srilanka (18.92), Bangladesh (17.86) and Maldives (16.70) respectively. Recent data (2012-13) shows that export growth rate with Bangladesh (35.78) and Pakistan (33.94) are highest and Afghanistan (-7.49) and SriLanka (-9.02) are Lowest. India's total export growth rate with SAARC nations is 13.64 in 2012-13.

Table 3- India's share of export in SAARC

Year	% Share of export
2005-06	5.38
2006-07	5.12
2007-08	5.90
2008-09	4.61
2009-10	4.67
2010-11	4.64
2011-12	4.37
2012-13	5.03
2013-14	5.50

Source: Ministry of Commerce & Industry, GOI

Table: 3 shows, out of India's total world export; share of SAARC was 5.38% during 2005-06 that has slightly decreased due to greater trade relation with EU and NAFTA till 2011-12. But recently, even though it is minor, India's export share to SAARC nations increasing (5.50 in 2013-14).

### **India's import relation with SAARC**

Given the size of the Indian economy and its geographical positioning at the centre of the region, the success of trade initiatives taken in the SAARC region greatly depends on India and therefore, India needs to play a greater role in ensuring that the goals of SAARC/SAFTA are achieved. India has a favourable balance of trade with all countries in the South Asian region; it has a huge trade surplus with Bangladesh, Pakistan, Sri Lanka, and Nepal. India's imports from the



SAARC countries have been only 0.5878, 0.516 & 0.546 in percentage point for the years 2010-11, 2011-12 & 2012-13, respectively. Trends in India's import in actual volume (table 4) and in percentage growth (table 5) is depicted in the following tables.

**Table 4- India's import with SAARC (Million US\$)**

Country/Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Afghanistan	26.59	17.52	18.46	40.51	47.01	58.42	34.37
Bangladesh	80.51	59.12	62.05	77.63	59.37	127.03	228
Bhutan	21.09	23.92	32.15	52.37	71	88.77	142.05
Maldives	0.19	0.4	0.33	0.37	0.61	1.98	3.05
Nepal	255.08	355.94	281.76	286.04	345.83	379.85	306.02
Pakistan	64.03	64.76	44.85	57.65	94.97	179.56	323.62
Srilanka	45.01	67.38	90.83	194.74	378.4	577.7	470.33
<b>Total</b>	<b>492.49</b>	<b>589.03</b>	<b>530.43</b>	<b>709.31</b>	<b>997.19</b>	<b>1,413.31</b>	<b>1,507.45</b>

Country/Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Afghanistan	109.97	126.24	125.19	146.03	132.5	159.55	151.84
Bangladesh	257.02	313.11	254.66	446.75	585.73	639.33	345.44
Bhutan	194.72	151.79	153.11	201.57	202.55	164	110.87
Maldives	4.15	3.97	3.63	31.38	18.89	6.29	2.65
Nepal	628.56	496.04	452.61	513.4	549.97	543.1	400
Pakistan	287.97	370.17	275.94	332.51	397.66	541.87	281.65
Srilanka	634.96	356.57	392.19	501.73	637.43	625.81	550.24
<b>Total</b>	<b>2,117.35</b>	<b>1,817.89</b>	<b>1,657.34</b>	<b>2,173.37</b>	<b>2,524.74</b>	<b>2,679.95</b>	<b>1,842.69</b>

Source: Ministry of Commerce and Industry, GOI

At early years of India's import mostly confined to Nepal and Bangladesh. But scenario changed during 2004-05. Import from Srilanka was 378.4 Million US\$. Nepal stood at Second position. This trend continued throughout. There is considerable increase in imports from Pakistan and Bhutan, especially after the formation of SAFTA in 2006. Import from Bangladesh shows mixture of trends. It was 80.51 Million US\$ in 2001-02 but declined to 59.37 Million US\$ in 2004-05 but increased in next year to 127.03 Million US\$ and considerably increased thereafter and stood at 639.33 Million US\$ in 2012-13. Maldives place bottom side in the row. Import from Maldives was just 0.19 Million US\$ in 2001-02. It was 31.38



Million US\$ in 2010-11 but only 2.9 Million US\$ in till April 2014. In total import from SAARC has increased from 492.49 Million US\$ in 2001-02 to 1507.45 Million US\$ in 2006-07 and further 2679.95 Million US\$ in 2012-13.

**Table 5- India's Import Growth rate (2001-01 to 2012-13)**

Country	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Afghanistan	-34.1	5.33	119.5	16.03	24.29	-41.16
Bangladesh	-26.57	4.96	25.1	-23.52	113.96	79.49
Bhutan	13.42	34.41	62.88	35.58	25.02	60.02
Maldives	108.75	-16.01	12.63	63.35	223.47	54.18
Nepal	39.54	-20.84	1.52	20.9	9.84	-19.44
Pakistan	1.14	-30.74	28.54	64.75	89.06	80.23
Srilanka	49.71	34.8	114.41	94.31	52.67	-18.59
Total	<b>19.6</b>	<b>-9.95</b>	<b>33.72</b>	<b>40.59</b>	<b>41.73</b>	<b>6.66</b>

Country	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Afghanistan	219.92	14.8	-0.83	16.64	-9.26	20.42
Bangladesh	12.73	21.82	-18.67	75.43	31.11	9.15
Bhutan	37.08	-22.05	0.87	31.65	0.49	-19.03
Maldives	35.87	-4.19	-8.71	765.2	-39.79	-66.73
Nepal	105.4	-21.08	-8.75	13.43	7.12	-1.25
Pakistan	-11.02	28.54	-25.45	20.5	19.59	36.26
Srilanka	35	-43.84	9.99	27.93	27.05	-1.82
Total	<b>40.46</b>	<b>-14.14</b>	<b>-8.83</b>	<b>31.14</b>	<b>16.17</b>	<b>6.15</b>

Source: Ministry of Commerce and Industry, GOI

Table 5 shows India's import growth rate. As far as Afghanistan is concerned highest growth rate is shown in the year 2007-08 with 219.19% growth rate and least growth rate in the year 2006-07 (-41.16%). In case of Bangladesh, highest growth rate is in 2005-06 (113.96%) and lowest in 2001-02 (-26.57%). Bhutan's, highest growth rate is in 2003-04 and lowest in 2008-09. Maldives highest growth rate is in 2010-11 and lowest growth rate in 2012-13. Nepal's highest growth rate is in 2007-08 and lowest in 2008-09. In case of Pakistan growth rate was highest in 2005-06 (89.06%) and lowest in 2002-03 (-30.74%). Import growth rate of Srilanka was ever time high in 2003-04 (114.41%) and low in 2008-09 (-43.84%).



Table 6- India's Trade balance with SAARC nations

Country	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Afghanistan	139.24	267.99	338.36	276.38	378.4	313.08
Bangladesh	2666.7	2184.76	2179.11	2796.15	3203.47	4505.66
Bhutan	-107.98	-40.64	-34.25	-25.54	27.31	69.22
Maldives	85.57	123.94	76.23	68.76	105.71	116.07
Nepal	878.86	1074.11	1080.71	1654.66	2171.6	2545.74
Pakistan	1662.56	1069.71	1297.36	1707.02	1143.9	1522.92
Srilanka	2195.47	2069.35	1795.82	3008.32	3741.36	3358.06
Total	<b>7520.41</b>	<b>6749.23</b>	<b>6733.35</b>	<b>9485.77</b>	<b>10,771.73</b>	<b>12,430.75</b>

**Primary data**

Table 6 shows India's trade balance with South Asia from 2007-08 to 2012-13. It is clear from the table that India has throughout surplus with the entire nations except Bhutan in which there was negative balance till 2010-11 that also became positive in 2011-12. India has highest positive trade balance with Bangladesh, Srilanka and Nepal and lowest balance with Bhutan in all the six years. India's trade balance is maximum in 2012-13 with 12,430.75 million US\$ in which Bangladesh share is more than 30%. It is also noteworthy that India has surplus with the SAARC nation in 2011-12 and 2012-13 that again reiterating India's leading and prominence in trade in SAARC.

Table 7- India's share of import in SAARC

Year	% Share of import
2005-06	0.95
2006-07	0.81
2007-08	0.84
2008-09	0.60
2009-10	0.57
2010-11	0.59
2011-12	0.52
2012-13	0.55
2013-14	0.54



Table 7 shows India's share of SAARC out of India's total imports from 2005 to 2013-14. Data shows the share is decreasing and it is also clear from the table that we have highest share received during 2005-06 and lowest share in 2011-12. It means India's import from SAARC nations are nominal.

### **SUMMARY**

International trade improves the welfare of a country by allowing higher levels of consumption and investment. In a country like India where labour is a surplus factor, international trade helps in generating higher employment and higher wage rates with positive implications for income distribution and poverty, thereby raising the level of social welfare. It is universally agreed that foreign trade plays an important role in the development of an economy. Intra-regional trade expansion is the most direct form of regional economic cooperation. Larger markets and complete utilisation of production capabilities, transfer of technologies, comparative advantage, economies of scale due to expansion in the market, better utilisation of entrepreneurial capabilities, manpower and natural resources with which the partner nations varies are few of the benefits of regional economic co-operation. In order to achieve economic integration within South Asia, Bangladesh proposed a regional cooperative body of South Asian leaders in 1980, which then led to the establishment of the South Asian Association for Regional Cooperation (SAARC) in the year 1985, the adoption of the SAARC Preferential Trading Arrangement (SAPTA) eight years after in 1993, and the agreement on the South Asian Free Trade Area (SAFTA) in 2004. Being geographically strategic and economically prominent in South Asia India has a prime role in trade expansion and trade liberalisation in SAARC region.

### **FINDINGS**

Regional Economic Co-operation is increasingly being viewed as a vehicle for expediting the process of economic development not because of the problems in global market access and the higher transaction costs of producing for the world market. It is widely believed that the expansion of trade on a regional level yields gains in production specialization, efficiency and improved quality of exports, all of which benefit the countries participating in the regional co-operation initiatives. In view of these considerations, there has been a growing interest in promoting intra-regional trade in South Asia as well. Against this backdrop, the objective of this study has been to examine the trends in India's trade in the region with a view to ascertaining whether or not the regional trading arrangements such as SAARC, SAPTA and SAFTA can be instrumental in promoting intra-regional trade. The present study carried out to evaluate the trends of India's foreign trade relationship with SAARC countries and the major findings of the study are given below:-

1. India's role in SAARC region is crucial.
2. India's Export with SAARC countries is showing an increasing trend. It was 1,954.41 million US\$ in 2001-02, 5547.65 million US\$ in 2005-06, 11,659.14 million US\$ in 2010-11 and 15,110.70 million US\$ in 2012-13.
3. Among SAARC nations India's best export destination is Bangladesh and India Exports very little to Maldives.



4. India's export growth rate shows a mixture of both positive and negative trend during the period 2001-02 to 2013-14. The highest growth rate in Export shown in the year 2007-08 and the lowest growth rate in 2008-09.
5. In 2012-13, India has a negative growth rate in export with Afghanistan, Maldives and Srilanka.
6. Share of SAARC in India's export is almost stagnant or slightly decreasing during the period 2005-06 to 2012-13.
7. There is an increasing trend in import volume from SAARC in India during 2001-02 (492.49 million US\$) 2007-08 (2,117.35).
8. The highest volume of import comes from SAARC in the year 2012-13 (2,679.95million US\$)
9. Highest individual country import is marked by Bangladesh during the year 2012-13 (639.33 million US\$) and the lowest by Maldives in the year 2001-02 (0.19 million US\$) during the study period 2001-02 to 2013-14.
10. India has negative import growth rate with SAARC nations during the years 2002-03, 2008-09 and 2009-10.
11. Highest import growth rate marked in the year 2005-06 (41.73) and lowest in 2008-09 (-14.14).
12. Highest individual country import growth rate is marked by the country Maldives in 2005-06 (223.47%) and lowest by Srilanka in 2008-09 (-43.84%).
13. India has highest trade balance with SAARC nations in the year 2012-13 (12,435.75 million US\$) and lowest in the year 2009-10 (6733.35 million US\$).
14. India has highest trade balance with Bangladesh in 2012-13 (4505.66 million US\$) and lowest with Bhutan in 2007-08 (-107.98 million US\$).
15. Import share from SAARC in India is decreasing during the period 2005-06 to 2011-12.

#### **CONCLUSIONS:**

Given the size of the Indian economy and its geographical positioning at the centre of the region, the success of trade initiatives in the SAARC/SAAPTA/SAFTA region is greatly dependent on India. To make SAARC a meaningful coalition and a strong economic block, strong progress towards its economic integration is very important. Though, the pace of trade has picked up, there is need to consider dimension of informal trade in the trade exchanges between nations should strengthen. Improvement of Indo-Pak ties is crucial. It is not that only India and Pakistan have problems. India and Bangladesh have some issues to settle. Same is the case with Nepal, Afghanistan and Bhutan. These opportunities could be fully utilized through the twin processes of trade liberalization and industrial restructuring which are complementary to each other. The SAARC Preferential

Trade Arrangement (SAPTA) is the first step in trade liberalization. However, the scope of SAPTA has to be sufficiently widened in order to derive substantial benefits from preferential trading arrangements. It is suggested that the SAARC countries adopt a combined approach for tariff elimination, tariff reduction and preferential or concessional tariffs. This process will help in moving quickly towards the creation of a Free Trade Area in the SAARC region. It is necessary to emphasise that, in any regional organization, smaller countries may feel that greater trade co-operation with their larger neighbors may result in larger countries taking over their economies. India occupies seventy percent of the SAARC region,



both geographically and economically, and the remaining six nations of SAARC have borders only with India and not with each other. As the biggest, and the most industrialized trading partner among the SAARC countries, India has to recognize that a special responsibility devolves on her and take a lead in making the Regional Economic Co-operation a reality in South Asia.

#### **Reference**

1. Asian Development Bank (2005). Regional Cooperation Strategy and Programme, South Asia (2006-08), ADB.
2. Asian Development Bank (2008). Asian Development Outlook 2008.
3. Bagchi, "Trade Development in South Asia", Foreign Trade Review 1975.
4. Baysan, T., Panagariya, A. and Pitigala, N. (2006) "Preferential trading in South Asia", World Bank Policy Research Working Paper 3813, Washington, DC: The World Bank.
5. Behera, N.C. (2008). 'SAARC and Beyond: Civil Society and Regional Integration in South Asia', SACEPS Paper No. 19, South Asia Centre for Policy Studies (SACEPS).
6. Bhabani Sen Gupta "SAARC : Asian Prospect and Problems of Intra- regional Co-operation", South Asia Publishers, New Delhi 1993.
7. Bhagawati J.N. and Srinivasan T.N:"Foreign Trade Regimes and Economic Development - India", New York, NBER 1986.
8. Bhargava, "SAARC at Male retrospect and prospect", South Asia Journal, January-March 1994.
9. Bhargava, "South Asia the way ahead", South Asia Journal, April- June 1992.
10. Bhattacharya, S.K. (2001). 'Interface between trade and sustainability in South Asia', South Asian Survey, Vol. 8(1):37-65.
11. Bibek Debroy, "Intra-regional trade In the SAARC region", Foreign Trade Review 1999.
12. Chaturvedi, Sachin (2007). "Trade Facilitation Measures in South Asian FTAs: An Overview of Initiatives and Policy Approaches", RIS Discussion Paper No.118.
13. Chuang, C. (1998). 'Learning by doing, the technology gap, and growth', International Economic Review, Vol. 39, pp.697-721.
14. Dhungel, D. (2004). 'South Asian Association for Regional Cooperation (SAARC): Prospect for development', The Pakistan Development Review, Vol. 43 (4) Part II, pp.933-941.
15. Feder, G. (1983). 'On exports and economic growth', Journal of Development Economics, Vol. 12, pp.59-73.
16. Government of India. Indian Economic Survey (Various Issues)
17. Govindan, K. (1996). 'A South Asian preferential trading arrangement: implications for regional trade in food commodities', Journal of Economic Integration, Vol. 11( 4):478-491.
18. Hassan, M.K. (2000) 'Trade relations with SAARC countries and trade policies of Bangladesh', Journal of Economic Cooperation among Islamic Countries, Vol. 21(3):99-151.



19. Hassan, M.K. (2001). 'Is SAARC a viable economic block? Evidence from gravity model', Journal of Asian Economics, Vol. 12( 2):263–290.
20. International Monetary Fund (2011). Direction of Trade Statistics, December 2011 Online Database.
21. International Monetary Fund (2011). International Financial Statistics, December 2011 Online Database.
22. Modwel, "South Asian-Asian Trade", Foreign Trade Review January- March 1997.
23. Mohanty, S.K. and Chaturvedi, S. (2006). 'Impact of SAFTA on trade in environmentally sensitive goods in South Asia: emerging challenges and policy options', Investment Review, Vol. 2( 2):1–3.
24. Nag, B. and Nandi, A. (2006). 'Analysing India's trade dynamics vis-a-vis SAARC members using the gravity model', South Asia Economic Journal, Vol. 7(1):83–98.
25. Naqvi, S.N.H., Ahmed, A.M. and Khan, A.H. (1988). 'Possibilities of regional trade expansion: a link model for Pakistan, India, Bangladesh and Sri Lanka', in (eds.), Challenges of South-South Cooperation (Part II), New Delhi: Asia Publishing House.
26. Rahman, M., Shadat, W.B. and Das, N.C. (2006). Trade Potential in SAFTA: An Application of Augmented Gravity Model. Dhaka: Centre for Policy Dialogue.
27. Rahman, M.M. (2008). 'Macro-economic and trade link models of SAARC countries: An investigation for regional trade expansion', , Vol. 13(1):50–62.
28. Sawhney, A. and Kumar, R. (2008). 'Rejuvenating SAARC: the strategic payoffs for India', Global Economy Journal, Vol. 8(2).
29. Todaro M.P, "Economic Development in third world", Longman, Newyork 1978.
30. Wadhava C.D. "Some Problems of India's Economic Policy", Tata McGraw-Hill 1990.
31. [www.rbi.org.in](http://www.rbi.org.in)
32. [www.commerce.nic.in](http://www.commerce.nic.in)
33. [www.unctad.org](http://www.unctad.org)
34. [www.adb.org](http://www.adb.org)
35. [www.worldbank.org](http://www.worldbank.org)

