

AN ANALYSIS OF INDIA'S TRADE PERFORMANCE AMONG SAARC COUNTRIES

Sneha Chaudhry¹
Anoushka Goel²

ABSTRACT

The South Asian Association for Regional Cooperation (SAARC) was formed to promote regional prosperity. SAARC was unable to make the expected development due to little trade among its members. SAARC's intra-regional trade share has been low and stagnant for a long time. Unless and until the SAARC's major economies significantly boost their trade volume and remove barriers, the SAARC will remain a phantom for many years. This research tries to present an overview of India's SAARC trade and to examine intra-SAARC trade changes in South Asian countries.

Keywords: Foreign trade, India, Regional trade agreement, SAARC, Trade performance

INTRODUCTION

India's Foreign Trade:

Foreign Trade has a vital role to play in the economic development of any country. It has assumed enormous importance and significance in modern days because of the growing specialization and territorial division of labour. Exports trade plays a dynamic role in converting domestic resources into more productive forms of capital and machinery and thereby helps capital formation quickly. The process of capital formation will be direct and immediate if the import bills are paid from current export earnings. In terms of economic development, foreign trade is a potentially effective engine of growth.

It is wrong to presume that India's foreign trade had its genesis only with the coming of the British to India. Even before the advent of foreigners, India had a well-established system of trade and commerce with foreign countries through sea voyage. The advent of Industrial Revolution in England and opening of the Suez Canal reduced the sea route between the East and the West.

India's policy was deliberately designed to make India a convenient source of raw materials and a market for Western manufactures. During the pre-independence period, India depended upon import of clothing and miscellaneous manufactures. The partition led to a shortage of food and basic raw materials, like jute and cotton. The inauguration of planning required increased imports of machinery and materials for the country's development. Balance of trade became unsatisfactory and a source of considerable economic worries.

Regional Trade Agreement: SAARC

South Asian Association for Regional Cooperation (SAARC) was formed in the year 1985 by seven countries of South Asia. The total trade of SAARC countries for the year 2012 is 1688

billion where the export from the region constitutes 729.21 billion and import in to the region was 958.79 billion. India is a bigger player in SAARC compared with other members of the SAARC. Intra-regional trade is an indicator which shows how an RTA integrates itself to meet its desired objectives. SAARC has not made significant strides in regional integration and continues as a shallow integration for a long period of time. South Asian countries share similar socio economic conditions and they produce similar products and consume similar commodities, making trade possibilities limited.

South Asian Association for Regional Cooperation (SAARC) members includes Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka. Afghanistan became the organization's eighth member at the 18th SAARC Summit in November 2014. India is a regional power, a budding global power, and a prospective superpower, with the world's eighth highest military spending, third largest armed force, sixth largest economy by nominal rates, and third largest economy by purchasing power parity. The South Asian Free Trade Agreement (SAFTA) was signed during the Twelfth SAARC Summit in Islamabad in January 2004, and it entered into force on January 1, 2006. SAFTA calls for a phased Tariff Liberalization Program in which all member countries drop their tariffs from the current rate in effect in January 2006 to zero to five percent within ten years of the agreement's entry into force.

Relationship among member countries:

India was the second country to recognise Bangladesh as a separate and independent state. In 1971, India fought alongside Bangladeshis to liberate Bangladesh from West Pakistan. Bhutan and India signed a friendship pact in 1949, under which India agreed to help Bhutan with its external affairs. Relationships between India and Nepal are complicated by border disputes, geography, and other issues. Since India's split in 1947, relations between India and Pakistan have been marred by years of mistrust and hostility. Indian Prime Minister

¹ Assistant Professor, Gitarattan International Business School

² Student, Gitarattan International Business School

Narendra Modi visited Nepal in 2014, the first visit by an Indian Prime Minister in nearly 17 years. Relations between Sri Lanka and India have been generally good, but have been hampered by the Sri Lankan civil war, Indian engagement during the civil war, and India's support for Tamil Tiger insurgents. India has significant sway over Maldives foreign policy and provides massive security cooperation.

OBJECTIVES

To review briefly India's trade among SAARC countries and to analyse intra-SAARC trade developments in South Asian countries

LITERATURE REVIEW

Boughanmi et al (2003) assess the export potential of food and agricultural items from South Asian Association for Regional Cooperation (SAARC) countries to Gulf Cooperation Council (GCC) countries. SAARC supplied more than 30% of the import requirement of product groups categorized under HS 3,9,14 and 10 in 2012. Only India and Pakistan are among the top 5 exporters of any of the top 10 agricultural imports of GCC. There is a tendency for more trade between SAARC-GCC countries.

Salunke (2006) in her paper, reviewed various studies related to the subject. No such earlier works were found in her search. The researcher feels that the area in which she is hunting is probably a new original one. This is likely to be her original contribution to the existing fund of knowledge on India's trade relations with SAARC countries.

Ali and Talukder (2009) analysed that the gains from free trade arrangements in this region are likely to be minimal. The region accounts for a very insignificant share of world trade but persistent high levels of tariff barriers. Preferential trade liberalisation is more likely to bring about trade diversion than trade creation leading to more gains for large countries and more losses for small countries.

Subhani and Kumar (2009) in their research paper offer a selective survey of gravity equation in the International Trade. The data was taken from the SAARC countries to evaluate the factors affecting the bilateral trade volume. Transport Cost, Inflation, Exchange Rate, GDP, Population, Tariff and distance were examined by using multiple linear regressions. Results showed that transport cost, inflation, exchange rate, GDP and distance have significant impact on the bilateral trade.

Rashid et al (2012) analyzed in their study that the Exports and investment have positive and significant effects on economic growth for all countries except the Nepalese economy where export has negative but insignificant effect on its economic growth. Export instability has deleterious effects for these four countries on economic growth and its magnitude is higher for Sri Lanka economy. Most important policy implications for these countries are that they should diversify their exports horizontally and liberalize their foreign exchange

markets and capital accounts to control the instability in exports.

Zaheer (2013) in his paper attempts to examine the The data set consists of a 21 years (1985-2006) time series data of trade variables of four countries of SAARC namely as Pakistan, India, Bangladesh, Sri Lanka and Sri Lanka. The data provides the substantial evidence, which shows the benefits of intra regional trade expansion: larger markets and fuller utilization of production capabilities, transfer of suitable production technologies, comparative advantage and complementarities. In addition to that such an arrangement is expected to foster closer economic ties among member countries and enhance their bargaining power with respect to other countries and economic blocs.

Ciddikie and Khan (2014) opined that The South Asian Free Trade Agreement (SAFTA) is an agreement between India, Pakistan, Bangladesh, Bhutan, Sri Lanka, Afghanistan, Nepal and Maldives which was reached on 6 January 2004 at the 12th SAARC summit in Islamabad. It created a free trade area of 1.8billionpeople in the region. SAFTA is an initial step in the evolution of the SAARC as a regional trade bloc and an economic union.

RESEARCH METHODOLOGY

The descriptive study is used for analysis since it is more specialized than the explanatory research. The secondary data about the Foreign Trade statistics have been collected through various sources like data released by the Directorate General of Commercial Intelligence and Statistics (DGCIS), Kolkata; Economic Survey Reports of various years issued by the Ministry of Finance, Government of India; data collected from articles, blogs, research papers, and other published materials on the internet.

Economic analysis

The Indian economy depends heavily on international trade. India's tariffs remain high despite the country's economy gradually becoming more open. This essay makes an effort to analyse the significant changes in India's international trade's volume, character, and direction.

The annual supplement to the New Foreign Trade Policy for 2004-09 addressed the exporters' long-standing desire for decreased export transaction costs. The primary objective of the NFTP is to raise India's export share from 0.82 percent to above 2 percent by 2010. Exports of non-ferrous metals, guar gum meal, computer software in physical form, rice, dairy products all recorded a growth surpassing 50 percent. In the early stages of development, a country needs to import real capital (machines), which often entails borrowing in a foreign currency. Exports allow countries to earn more foreign exchange and so to import the products, services and technologies they need to raise productivity and living standards. Risk in the export market evolves a longer time scale of payment, which may be 90 or 180 days or even some years.

Product launch in an overseas market is more costly and complex in comparison with a domestic launch. International Price Disbursement Scheme: This was introduced to make available raw materials at international prices. In the case of raw materials, the difference between the international prices as notified by the government and the domestic price is reimbursed to the exporters.

India's trade and external sector had a significant impact on the GDP growth and expansion in per capita income. India's overall exports (Merchandise and Services combined) in April-March 2021-22 are estimated to be US\$ 669.7 billion. India's merchandise exports and imports rebounded strongly and surpassed pre-COVID levels during the current financial year. Net capital flows were higher at US\$ 65.6 billion in the first half of 2021-22 because of revival in net external commercial borrowings, and continued inflow of foreign investment. India's external trade recovered strongly in 2021-22 after the pandemic-induced collapse of the previous year. Strong capital flows into India, leading to a rapid accumulation of foreign exchange reserves. Resilience of India's external sector augurs well for growth revival in the economy. In May 2021, Shahi Litchi, the season's first consignment from Bihar was exported to the UK. In June 2021, the Export-Import Bank of India (Exim Bank) announced that it extended a line of credit (LOC) worth US\$ 100 million to Sri Lanka.

Trade performance

Maldives is highly dependent on external sector with 161 per cent trade openness ratio (Trade-GDP ratio) while Pakistan is least open country in the SAARC region. India has a huge domestic market, hence trade forms a substantially smaller percentage of GDP, especially when compared with East Asian economies, that are small and essentially require trade for growth. The South Asian economies continued to remain least open relative to other groups of emerging and developing economies. Pakistan had the highest export growth in the 1980s at 10.7 per cent followed by Sri Lanka at 6.3 per cent and India at 4.8 per cent. India and Bangladesh recorded robust export growth, respectively, at 12.0 per cent and 12.6 per cent in the 1990s. In 2007, exports from South Asia have been to the extent of 27.4 per cent to developing Asia (7.2 per cent to China), followed by EU (23.9 per cent) and USA (16.3 per cent).

Direction of trade among SAARC Countries:

More than 95 percent of SAARC trade is taking place with countries outside the subcontinent and play an important role in the overall trade performance of the SAARC countries. Extra regional trade also shows diverse pattern among SAARC countries. Pakistan's strongest trading partners are the US, China and the Middle east countries. Nepal and Sri Lanka have historic trade relations with India.

India's export share with SAARC countries is (4.89 percent) the three important export partners of India in SAARC are Bangladesh (1.69 percent), Sri Lanka (1.31 percent) and Nepal

(1.02 percent). The largest export partner for Sri Lanka in the region is India (5.79 percent) and limited trade with Pakistan, Maldives and Bangladesh. While the import shares of smaller economies are relatively high, the two big economies of SAARC namely India and Pakistan are having small import share from the region. Vast majority of these imports are coming from India as India is a dominant player in the region, structure of the region and export similarity and import similarity. Until and unless India and Pakistan open up their trade for the members and start importing more from the region, intra SAARC trade will remain at the undesirable low levels.

The percent share of Bangladesh trade with its partners shows the major import source is China (13.89 percent), India (11.24 percent) and Japan (9.64 percent). From the SAARC region, apart from India, Pakistan also figures as the important import partner for Bangladesh. US (26.24 percent), Germany (16.82), UK (11.46 percent) and France (7.59 percent) are the major export destination for Bangladesh in the year 2004. Bangladesh export Clothing and Textiles to these countries.

In SAARC region India and Pakistan are the important export destination for Bangladesh. India is improving its trade relations with China and East Asian countries in the recent past. China (11.06 percent), US (4.92 percent) Switzerland (5.86 percent) and Germany (3.02) are the important countries through which India source its non-oil import. Petroleum products are the single most important item of India's import. India's important petroleum import partners are Saudi Arabia (6.70 percent) and UAE (12.16 percent).

Major export destinations for India are US (12.64 percent), UAE (12.16), China (5.01) and Singapore (4.61).Maldives import for the year 2012 is mainly from UAE (29.93 percent), Singapore (18.16 percent), and India (9.50 percent). Other import sources are Sri Lanka, Malaysia, Thailand and China. The major export destinations of Maldives are Thailand (14.11 percent), France (8.51 percent), Italy (3.95 percent), UK (3.82 percent) and Sri Lanka (3.71percent).More than half of the Nepal's import and export is with its neighbor India. This is mainly because of the bilateral trade and Investment Treaty India signed with Nepal.

Apart from India other export destinations for Nepal are US (7.74 percent) and Germany (4.51 percent).Pakistan's Import is not concentrated on one country. Pakistan's oil requirements are met by importing from UAE (16.33 percent), Saudi Arabia (9.70 percent) and Kuwait (9.53 percent). United States is the important export destination to Pakistan. In 2012, 14.91 percent of the Pakistan's export went to US alone. From the SAARC region, Bangladesh, and Afghanistan figure in the export destination of Pakistan. India enjoys important trade relations with Sri Lanka in the recent past particularly after signing the FTA agreement.

India is the largest exporter and third largest importer from Sri Lanka in the year 2012. Major Sri Lankan import also coming from China (13.39 percent), UAE (6.74 percent), Singapore

(6.71 percent) and Iran (3.45 percent). Largest share of Sri Lankan export is going to United States (22.55 percent) followed by UK (11.28 percent) and India (6.04 percent). Maldives and Pakistan are the other SAARC countries having trade with Sri Lanka.

CONCLUSION:

The proportion of trade in SAARC region increased markedly from 15.1 per cent during the 1970s to 51.8 per cent in 2008. Share of exports from South Asia increased significantly to developing Asia (particularly China), Africa, Western Hemisphere and Middle-East while that to EU and UK declined over the years. However, import dependence on US, UK and EU seems to have declined. India's exports is more than imports of total global exports- export of SAARC countries during 2000-2006. The growth rate of intra SAARC exports increased from 8.8 percent in 2001 to 27.1 per cent in 2006. Sri Lanka is again the leading partner, accounting for 31 percent of India's total imports from the region during 2006-07.

BIBLIOGRAPHY:

1. Ershad Ali, E. & Talukder D.K. "Preferential Trade among the SAARC Countries: Prospects and Challenges of Regional Integration in South Asia", JOAAG, (2009) Vol. 4. No. 1.
2. Farhat Rashid and Sami Ullah, Bedi-uz-Zaman "Effects of Exports Instability on Economic Growth in SAARC Region Countries" Pak. J. Commer. Soc. Sci. 2012 Vol. 6 (1), pp 97-120.
3. Houcine Boughanmi, Sarath Kodithuwakku and Jeevika Weerahewa., Food and Agricultural Trade in the GCC: An Opportunity for South Asia. 2003.
4. M. I. Subhani and Rajnesh Kumar "Bilateral Trade A Study on SAARC Countries" South Asian Journal of Management Sciences Vol. 3, No. 2, (Fall 2009) pp 15 – 21.
5. Md. Daoud Ciddikie and Prof. (Dr) M Altaf Khan "India's Trade Relationship With SAFTA Countries: A Review", journal of Indian research (ISSN: 2320-7000) vol.2, no.1, January-March, 2014 pp-46-58
6. Ministry of Commerce & Industry (MOCI), Government of India, 2007. Direction of Trade Statistics Year Book 2007, IMF
7. Rummana Zaheer "The Economic Performance of SAARC Member Countries" Research on Humanities and Social Sciences ISSN 2222-1719 (Paper) ISSN 2222-2863 (Online) Vol.3, No.5, 2013.
8. Srinivasan, T.N. and Tendulkar, S.D. (2003), Reintegrating India with World Economy, Oxford University Press, and New Delhi.
9. Usha Salunke., Review Of Literature On "India's Trade