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A STUDY OF INDIA'S TRADE TRENDS WITH SAARC NATIONS PRE-SAFTA AND POST-SAFTA

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ABSTRACT

The SAARC nations have embarked on reforms and have undertaken measures to liberalize trade in the last three decades. As a result, these countries are far more open today than they have ever been in the past. The share of trade in GDP is increasing continuously under SAFTA. So, this paper tries to examine the trends in India's trade with other SAARC countries during Pre- SAFTA and post-SAFTA period. The yearbook "Direction of Trade Statistics" which was published by IMF, "World Development Indicators, World Bank and the Directorate General of Commercial Intelligence and Statistics, Ministry of Commerce (DGCI&S), India", has been examined to evaluate total trade of India with its neighboring member nations in the SAARC region. The empirical evidence shows that this has led to an increased trade openness of these countries. Surprisingly, though the trade between India-SAARC has not grown substantially, there has been a change in the significance of India's trading partners over time.

Introduction

The SAARC nations have embarked on reforms and have undertaken measures to liberalize trade in the last three decades. As a result, these countries are far more open today than they have ever been in the past. The share of trade in GDP increased from 46.44% in 2001 to 51.71% in 2006. Thereafter, the trade to GDP ratio ranged between 42.28% and 51.18% and it was 46.30% in 2014. However, India-SAARC trade has continued to be abysmal. During 1992 and 2004, the percentage share of trade between India and other SAARC nations in India's total trade with the rest of the world ranged between 2.26% and 3.39%. Thereafter, this ratio declined to 2.98% in 2014. From 1992 to 2014, the percentage share of imports of India from other SAARC nations in India's total imports from the rest of the world was lower than India-SAARC exports. In fact, in the same time span, India-SAARC imports as a percentage share of India's total imports from the rest of the world have ranged between 0.48% and 1.02% while India-SAARC exports have ranged between 4.06% and 6.45% (Table 1.1).

Literature Review

Following studies have been taken in to account to find out the research gap for the current study-

Sharma, Roopali (2002) analyzed intra-regional cooperation primarily in trade among 'South Asian countries' in the era of liberalization and globalization. As India was a dominant country in South Asia, the focus of her analysis was on India and its trade relations with other SAARC nations. The data was taken for the period 1990-91 to 1999-2000 was analyzed. She founded that trade between India and other SAARC nations was low and secularly declining. The mutual suspicion and untrust among SAARC countries were the main reasons for low trade. In order to overcome the artificial barriers and to reap the fruits of regional economic cooperation, the study recommended a speedier process of harmonizing the policies and practices.

Din, Muslesh-ud, and Shahbaz Nasir (2004) emphasized the need for regional 'economic cooperation and integration in the South Asian region'. They identified the various factors which acted as constrained in intra-regional trade. These factors included restrictive trade policies and transit systems, lack of regional transport network, lack of complementarities, Identical Comparative Advantage, and political problems. In order to increase 'economic integration' in the SAARC region, the study suggested various measures such as the effective implementation of SAFTA, 'reduction in trade barriers, improving transparency of trade and investment policies', harmonization of

customs procedures and tariff structures, and collectivism. According to the study, all these measures would strengthen economic relations and also promote economic development and prosperity in South Asia.

Velde, Dirk William Te (2011) analyzed how regional integration was important for convergence and growth in developing nations. The used panel data and studied 100 counties over the period 1970-2004. They made use of various analytical techniques both at the micro and macro levels. Among these techniques were 'Regional Integration Index, and β and σ -convergence tests'. The study found that regional integration did not lead to rapid growth at the macro level. But, it had positive effects on trade and investment in developing countries. The study recommended that regional integration was essential for the growth of member countries as it led to increased trade and investment.

Akram and Mahmood (2012) analyzed country-specific as well as industry-specific intra-industry trade determinants of Pakistan and other SAARC nations. They made use of panel data set having two dimensions: country and time, 3 country pairs and 3 years: 1990-91, 1990-95, and 2000-01 were used. The study concluded that 'country-specific variables' were more suitable in explaining intra-industry trade than 'industry-specific variables'.

Forhad, Md. Abdur Rahman (2012) analyzed the possibility of forming a Common Currency Area among the SAARC nations. The requisite data was taken from the publications of the World Bank and the IMF. A variable autoregression (VAR) model was made use of in order to test the 'symmetry of five types of shocks, namely external global and regional, domestic supply, interest rate, and exchange rate shocks'. The findings of the study revealed that the SAARC member nations would be gain if they followed independent monetary policy. Due to the lesser factor mobility, political conflicts, and low level of world trade, a common currency area was not viable. Therefore, the study suggested that the policymakers in the SAARC countries must follow the policy of strengthening regional economical and political integration on a priority basis.

Gaps in Literature

From the review of the studies which have been done in the above section. It has been found that most of the studies were focusing on India's Trade trend with other South Asian countries during the SAPTA period.

So, the present study tries to fill this gap and will focus on the study of India's trade trend with other SAARC Nations during the Pre-SAFTA and Post-SAFTA period.

India's Trade Trend with other SAARC Countries

The yearbook “Direction of Trade Statistics” which was published by IMF, “World Development Indicators, World Bank and the Directorate General of Commercial Intelligence and Statistics, Ministry of Commerce (DGCI&S), India”, has been examined to evaluate total trade of India with its neighboring member nations in the SAARC region. Table 1.2 and figure 1.1 indicates that total exports of India to other SAARC nations increased by 17.57% at an annual average growth rate during 1992 and 2014, imports grew at 15.85 % and total trade with these countries increased by 17.07% at an annual average rate under the same time span. The importance of India's trading partners has also changed over time (Table 1.3A& 1.3B and fig 1.2). In fact, three important changes emerged out of the close inspection of the total trade of India with other SAARC nations during 2004-2014 indicates. First, there has been an increase in Nepal's share from 19.62% to 21.61% during 2004 and 2014. Second, there has been a marginal decline in Bangladesh's share from 31.77% to 30.80 % during 2004 to 2014. Still, Bangladesh is the biggest member of India since 2012. Third, perhaps the most important is the increase in Pakistan's percentage share in the total trade of India with other SAARC nations from 10.12% to 11.7% during 2004 to 2014. In fact, in 2014, Pakistan has been the fourth biggest trading nation of India.

Table 1.1: India-SAARC Trade and India's Trade with World (1992-2014)

Year	Trade between India and other SAARC nations (USDM)			Trade of India with World (USDM)			Share of India-SAARC Trade in India's Trade with World (%)		
	X	M	X+M	X	M	X+M	X	M	X+M
1992	751	200	951	18,500	23,227	41,727	4.06	0.86	2.28
1993	852	102	954	20,989	21,269	42,258	4.06	0.48	2.26
1994	1037	131	1168	24,196	25,486	49,682	4.29	0.51	2.35
1995	1559	206	1765	30,537	34,484	65,021	5.11	0.60	2.71
1996	1670	202	1872	32,323	36,052	68,375	5.17	0.56	2.74
1997	1613	245	1858	34,620	40,896	75,516	4.66	0.60	2.46
1998	1676	432	2108	33,663	42,162	75,825	4.98	1.02	2.78

1999	1494	438	1932	35,922	47,901	83,823	4.16	0.91	2.30
2000	1822	473	2295	42,626	50,336	92,962	4.27	0.94	2.47
2001	2067	531	2598	45,513	59,151	104,664	4.54	0.90	2.48
2002	2598	544	3142	50,522	58,912	109,434	5.14	0.92	2.87
2003	3918	664	4582	61,130	74,078	135,208	6.41	0.90	3.39
2004	4416	891	5307	75,387	99,838	175,225	5.86	0.89	3.03
2005	5313	1306	6619	98,212	139,888	238,100	5.41	0.93	2.78
2006	6239	1782	8021	120,532	176,601	297,133	5.18	1.01	2.70
2007	8831	1961	10792	153,768	235,016	388,784	5.74	0.83	2.78
2008	8735	1872	10607	177,698	281,466	459,164	4.92	0.67	2.31
2009	7465	1529	8994	165,184	257,658	422,842	4.52	0.59	2.13
2010	11148	2070	13218	222,922	350,783	573,705	5.00	0.59	2.30
2011	13776	2548	16324	307,071	465,076	772,147	4.49	0.55	2.11
2012	14850	2716	17566	297,261	490,413	787,674	5.00	0.55	2.23
2013	16506	2468	18974	315,127	467,950	783,077	5.24	0.53	2.42
2014	20486	2685	23171	317,733	460,512	778,245	6.45	0.58	2.98

Source: Direction of Trade Statistics Yearbook, IMF various issues

Note: X, M and X+M denote Exports, Imports and Total Trade respectively.

Table 1.2: India's Trade with SAARC (1992 to 2014)

Year	India's Exports to SAARC	India's Imports from SAARC	India's total trade with SAARC	India's trade balance with SAARC	Share of India's Trade Balance to Total Trade with SAARC
	US\$ million				
1992	751	200	951	551	57.93

1993	852	102	918.45	750	78.61
1994	1037	131	1218.14	906	77.57
1995	1559	206	1872.59	1353	76.65
1996	1670	202	1877.26	1468	78.41
1997	1613	245	1875.88	1368	73.62
1998	1676	432	2188.23	1244	59.01
1999	1494	438	1922.53	1056	54.65
2000	1822	473	2324.94	1349	58.78
2001	2067	531	2623.71	1536	59.12
2002	2598	544	3170.18	2054	65.37
2003	3918	664	4654.9	3254	71.02
2004	4416	891	5354.96	3525	66.42
2005	5313	1306	6685.89	4007	60.54
2006	6239	1782	8074.88	4457	55.57
2007	8831	1961	10843.59	6870	63.66
2008	8735	1872	10601.41	6863	64.7
2009	7465	1529	8961.14	5936	66
2010	11148	2070	13302.72	9078	68.68
2011	13776	2548	16370.66	11228	68.78
2012	14850	2716	17580.39	12134	69.08
2013	16506	2468	18976.02	14038	73.99
2014	20486	2685	23203.9	17801	76.82
	Annual Average Growth (percent)				Average
	(1992 to 2014)				

	17.57	15.85	17.07	19.02	67.17
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Source: Direction of Trade Statistics Yearbook, IMF, Various issues

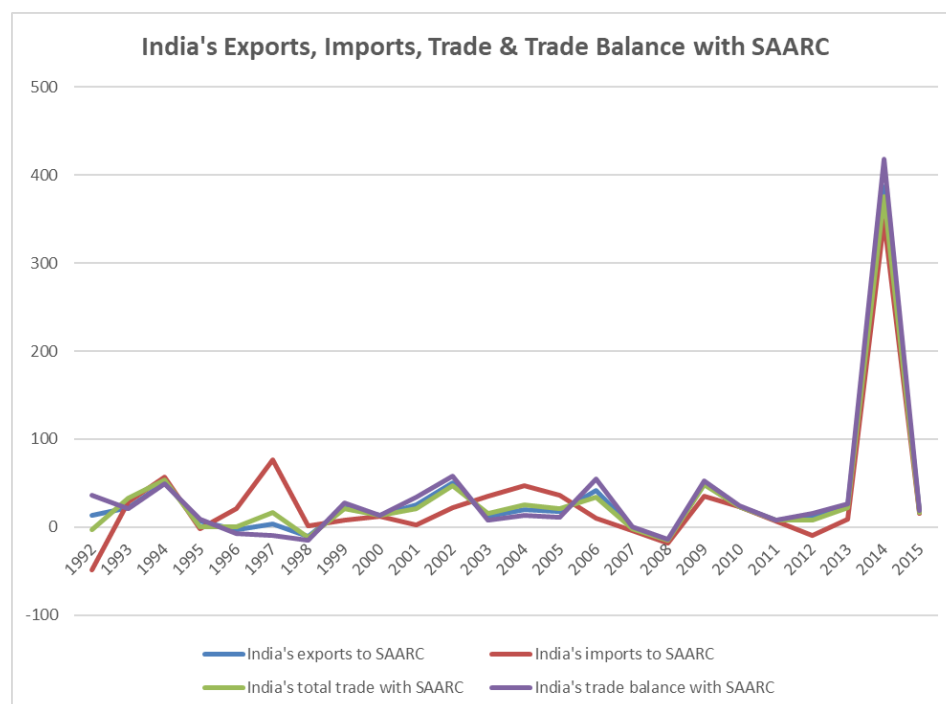


Fig 1.1: India's Exports, Imports Trade and Trade Balance with SAARC (1992 to 2014)

Table 1.3A: Share in India's Trade with SAARC Countries (2004 to 2014)

Year Country	Share in India's trade with SAARC (percent)										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Afghanistan	3.71	3.08	2.75	3	4.55	6.56	4.07	3.81	3.58	3.6	2.96
Bangladesh	31.77	26.67	23.83	26.36	27.07	26.86	25.59	26.64	31.97	33.01	30.8
Bhutan	2.56	2.72	2.54	2.41	2.51	2.77	2.61	2.61	2.35	2.35	1.99
Maldives	0.81	0.98	0.92	0.82	1.16	1.23	1	0.84	0.74	0.6	0.62
Nepal	19.62	18.15	16	17.69	19.48	20.5	18.26	19.76	20.64	20.79	21.61
Pakistan	10.12	12.16	19.06	19.39	17.85	19.16	19.46	12.49	13.21	13.82	11.7
Sri Lanka	31.41	36.24	34.9	30.33	27.38	22.92	29.01	33.85	27.51	25.83	30.32
India's Total Trade	100	100	100	100	100	100	100	100	100	100	100

with SAARC											
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Source: Direction of Trade Statistics, IMF

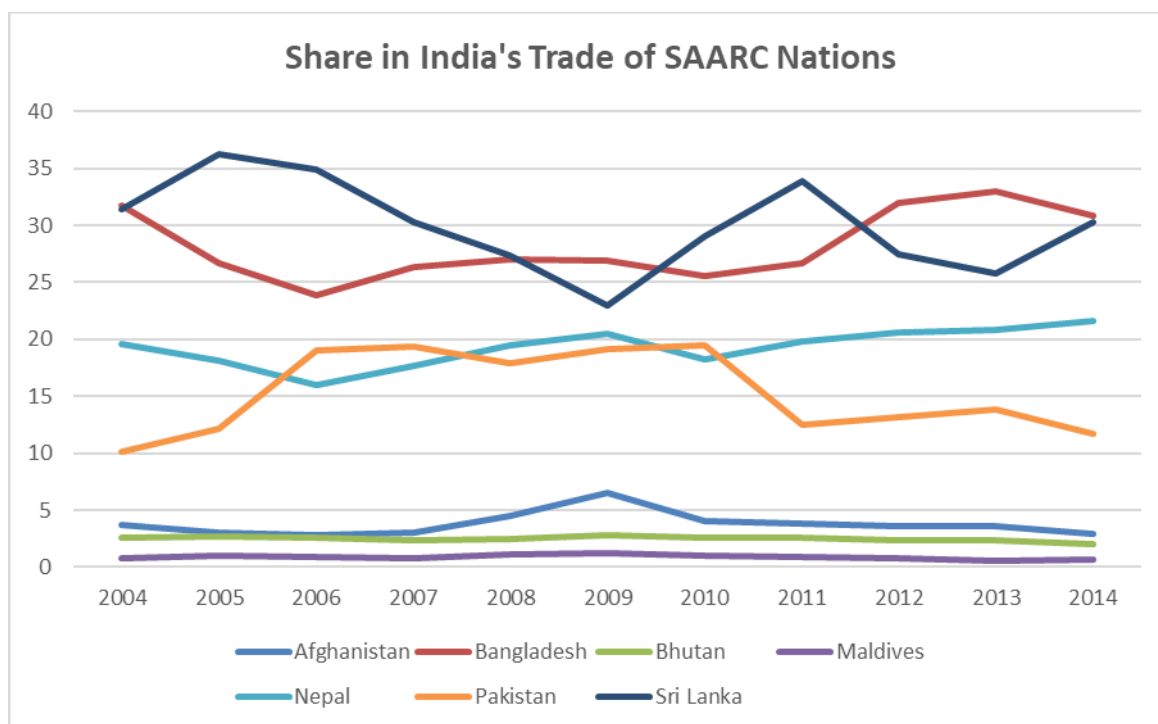


Fig 1.2: Share in India's Trade of SAARC nations

Table 1.3B: India's Trade with SAARC Countries (2004 to 2014)

Year Country	Trade with India (US\$ million)										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Afghanistan	197	204	212	323	483	590	538	622	629	684	685
Bangladesh	1686	1766	1840	2845	2871	2416	3383	4348	5615	6264	7137
Bhutan	136	180	196	260	266	249	345	426	412	446	462
Maldives	43	65	71	88	123	111	132	137	130	114	144
Nepal	1041	1202	1235	1909	2066	1844	2414	3226	3626	3944	5007
Pakistan	537	805	1472	2093	1893	1723	2572	2039	2321	2622	2711

Sri Lanka	1667	2400	2695	3274	2904	2061	3834	5526	4833	4900	7025
India's Total Trade with SAARC	5307	6622	7721	10792	10606	8994	13218	16324	17566	18974	23171

Source: Direction of Trade Statistics, IMF

India has had a growing trade surplus with its other SAARC trading members during the years from 1992 to 2014. During this period, the trade surplus grew at 19.2 %. The ratio of trade surplus of India with other SAARC nations to its total trade averaged 67.17 % over the same period. However, this ratio has been fluctuating over the years. It was the highest in 1996 at 78.41%, lowest at 54.65 % in 1999 and in 2014 it stood at 76.82 % (Table 1.2 and fig 1.2).

Summary and Conclusion

The South Asian countries have undertaken reforms and measures of trade liberalization in the last three decades. The empirical evidence shows that this has led to an increased trade openness of these countries. Surprisingly, though the trade between India-SAARC has not grown substantially, there has been a change in the significance of India's trading partners over time. The three major changes which have taken place are a) India's trade share with Nepal has increased from 19.62% to 21.61% during 2004-2014; b) There has been a marginal decrease in Bangladesh's share from 31.77% to 30.80 % during 2004-2014. Despite that, it is still India's largest trading partner since 2012; c) There has been an increase in Pakistan's share in India's total trade from 10.12% to 11.7% during 2004-2014. India's trade surplus with its SAARC trading partners has increased during 1992-2014.

Future areas of research: Researchers should focus on the service sector in intra-regional trade as and when data will be available.

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