A STUDY OF INDIA'S TRADE RELATIONS
WITH SAARC NATIONS FOR OPTIMUM GROWTH

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ABSTRACT

This research paper attempts to examine the India's trade prospects with SAARC countries at large while considering the impact of SAFTA (South Asian Free Trade Area) agreement. The study is analytical in nature and calculations are based on secondary data collected over the period of 28 years (1991 - 2019). To analyse the India's trade structure and intensity of trade relations with SAARC member countries some macroeconomic indicators of intra trade practices such as trend, direction of export and import of India with SAARC countries and rest of world and trade intensity are also addressed in the study. Trade intensity index is used to identify how vigorously India is trading with member countries. The Study reveals that despite of increase in trade between India and SAARC countries; trade intensity among these South Asian countries is below the optimum level showing the scope for further strengthen and enhance their trade relations.

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***Keywords:** Regional Trade Agreement, SAARC, SAFTA, Trade Intensity, Macroeconomic Indicators.*

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Introduction

Over the decades, it has been witnessed that RTAs (Regional Trade Agreements) are proliferated in different regions of the world (Pangariya , 2000) and multilateral trade agreements are shifting towards regional economic cooperation strategy (ADB,2006).

With the growing strength of this trend, a large number of states from different parts of the world constitute themselves into regions to give encouragement to a wide variety of co-operative ventures based on regionalism (Harshe, 1999). Nowadays all the countries are members of regional trading block and many belong to more than one (Schiff and Winters, 2003). Though the patterns of regional integration differ across regions, reducing barriers to trade between member countries remains the primary objective. Many go beyond removing intra-regional tariffs on trade in goods to removing non-tariff barriers (Kayathwal, 1992). Most of countries also give priority to free trade agreements under RTA; it is also true for South Asian Region.

While South Asian countries succeeded in making significant progress in integrating with the global economy, integration within the region remained limited, yet to the beneficial effects of common cultural cohesion, common geography, and the harness proximity advantage within the region (Rahman, Hossain, et.al.,2011).

In order to know India's potential export and import expansion to SAARC (South Asian Association for Regional Cooperation) countries, it is instructive to analyse trade structure and trade intensity. The main objective of this study is to examine India's trade prospect with SAARC Countries, while taking SAFTA (South Asian Free Trade Agreements) into consideration. To assess the possibility of expansion of India's trade with SAARC Countries following objectives are taken.

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Objectives of the Study

- To examine the Trade pattern and structure of India with SAARC Countries during the period 1991-2019.
- To examine trade intensity of India with SAARC countries to identify the prospects of trade expansion.

Data Collection and Research Methodology

The study is analytical in nature *based on the availability of secondary data which collected from various sources such as* UNCOMTRADE (United Nations International Trade Statistics Database) and WITS (World Integrated Trade solution Database) over the period of 28 years (1991-2019). To achieve the above objectives, this research paper addresses various dimensions of Intra-trade practices among SAARC countries such as trend, directions and India's Trade intensity with SAARC members.

- **India's Export /Import Trade Pattern (1991-2019)**

Table 1: India's Foreign Trade with SAARC and other Countries (US $ Million)

Year	Total Export	Export With SAARC	Export With Rest of world	Total Import	Import With SAARC	Import With Rest of world
1991	17,726.80	640.6	17,086.20	20,447.80	105.4	20,342.40
1992	19,627.50	863.7	18,763.80	23,578.60	195.5	23,383.10
1993	21,571.60	919.7	20,652.00	22,788.40	117.2	22,671.20
1994	25,021.80	1,230.60	23,791.20	26,842.70	180.6	26,662.10
1995	30,630.00	1,734.70	28,895.30	34,706.90	259	34,447.90
1996	33,105.10	1,724.30	31,380.90	37,942.20	242.2	37,700.00
1997	35,008.10	1,632.50	33,375.60	41,431.90	244.7	41,187.20
1998	33,437.00	1,691.30	31,745.70	42,979.90	494.1	42,485.80
1999	35,666.70	1,436.10	34,230.60	46,979.20	421	46,558.20
2000	42,379.30	1,719.20	40,660.10	51,522.90	501.1	51,021.80
2001	43,361.10	2,092.20	41,268.90	50,392.30	589.3	49,803.00
2002	50,372.00	2,415.20	47,956.80	56,516.80	491.6	56,025.20
2003	58,962.90	3,875.20	55,087.70	72,557.80	634.3	71,923.50
2004	76,648.60	4,579.70	72,068.90	99,775.40	926.1	98,849.30
2005	99,619.60	5,399.80	94,219.80	142,841.80	1,379.70	141,462.10
2006	121,805.60	6,232.70	115,572.90	178,474.00	1,499.10	176,975.00
2007	149,950.80	7,848.40	142,102.40	228,686.10	1,712.90	226,973.20
2008	194,531.10	10,130.40	184,400.70	320,785.40	2,180.00	318,605.40
2009	164,920.90	7,373.60	157,547.30	257,187.00	1,515.50	255,671.50
2010	226,392.40	11,114.20	215,278.20	350,097.70	2,063.70	348,034.00
2011	302,965.40	12,937.50	290,027.90	464,426.60	2,501.20	461,925.40
2012	296,797.60	13,738.40	283,059.20	489,710.30	2,297.00	487,413.30
2013	314,716.50	16,900.00	297,816.50	465,542.10	2,156.20	463,385.90
2014	322,467.70	19,836.40	302,631.30	462,911.90	2,592.40	460,319.50
2015	267,502.20	17,257.50	250,244.70	393,297.00	2,952.40	390,344.60
2016	260326.91	16933.20	243393.70	356704.8	2571.6	354133.2
2017	294364.49	20183.92	274180.57	444052.35	2766.15	441286.2
2018	322291.56	24644.72	297646.84	617945.60	4569.52	613376.08
2019	323250.72	22576.47	300674.25	478883.72	36745.11	442138.61

Source: Calculation based on WITS Database**.**

Table 1 presents India's merchandise trade with SAARC countries and the rest of the world over a period of 28 years (1991-2019). India's export to SAARC countries was US $ 640.6 million as against US $17086.2 million with rest of the world in 1991which increased to US $ 6232.7 million and US $115572.9 million in 2006 respectively with SAARC countries and rest of the world US $7373.6 million. However, after SAFTA in place in 2006, India's export showed increasing trend with some fluctuations and India's export increased to US $ 22576.47 million with SAARC nations and to US $ 300674.25 million with the rest of the rest in 2019.Similarly, import pattern with SAARC countries witnessed a phenomenal increase from just US $105.4 million in 1991 to US $ 1499 million in 2006 and again to US $ 36745.11 million in 2019; and with rest of the world from US $ 20,342.40 million in 1991 to US $ 176975.00 million in 2006 and to US $ 442138.61 million in 2019.

- **India Foreign Trade Growth Rate**

Table 2: Growth Rate of India's Foreign Trade
with SAARC Countries and Rest of World (1991-2019)

	Export	Before SAFTA	After SAFTA	Import	Before SAFTA	After SAFTA
World	11.35	6.60	3.68	7.46	7.46	3.72
SAARC	14.10	8.21	4.88	24.21	9.90	12.57
Rest of world	11.20	6.53	3.60	12.08	7.44	3.44

Source: calculation based on Table 1

Based on the strength of Table 1 given above, India's Foreign Trade Growth Rate works out to around 14.10 percent export with SAARC nations and 24.21 percent import correspondingly; while with the rest of the world, India's export growth rate remained at 11.20 percent and import growth rate at 12.08 percent. So, above table is showing that percentage growth is more in India's import as compared to export with SAARC countries after existence of SAFTA but somewhere export and import of India with rest of world declined after SAFTA means India is focussing more on regional trading with SAARC member nations.

- **Trade Interdependence of India with SAARC Countries**

The India trade interdependence is measures by trade intensity Index with SAARC Countries. Trade intensity index is calculated by using econometric tool suggested by UN Comtrade, World bank. Trade intensity index (TII) is calculated as:

$TII = (X_{ip}/X_{it}) / (X_{wp}/X_{wt})$

X_{ij} = India's export to partner country

X_{it} = India's total export

X_{wp} = World export to partner country

X_{wt} = World total export

Value of trade intensity index ranges from 0 to 1(Kojima,K. 1964). If value is 1representing higher trade relations with partner country and 0 (zero) means no trade relations among them.

Table 3: India's Trade Intensity Index with SAARC's Nations

Year	Afghanistan	Bangladesh	Bhutan	Maldives	Nepal	Pakistan	Sri Lanka
1991	9.01	12.44	2.49	3.63	24.87	1.22	6.95
1992	8.07	11.11	14.22	5.29	20.80	2.22	7.47
1993	4.70	12.40	45.40	4.16	18.61	1.16	7.20
1994	6.03	12.54	58.98	8.75	17.64	1.13	8.04
1995	6.62	16.39	91.55	5.26	20.12	0.90	7.55
1996	5.17	13.61	103.31	16.62	31.82	1.41	8.79
1997	6.26	11.39	97.87	3.06	32.46	1.45	7.79
1998	9.48	12.51	71.59	2.62	30.58	2.43	7.01
1999	12.00	9.42	64.76	1.79	30.36	1.55	7.06
2000	10.32	9.50	59.03	4.35	33.42	1.65	7.70
2001	9.17	10.11	62.59	6.17	48.79	1.62	8.83
2002	8.11	10.32	78.10	6.49	53.35	1.36	11.03
2003	10.63	11.46	83.80	7.45	57.75	1.42	13.44
2004	11.22	8.72	47.54	5.70	57.01	1.71	12.67
2005	6.22	6.79	62.02	6.84	51.56	1.78	13.53
2006	5.33	5.45	52.39	5.77	46.74	2.54	12.30
2007	6.10	6.69	47.58	5.36	43.56	2.95	12.20
2008	5.77	5.46	52.37	5.68	42.19	2.24	9.42
2009	4.52	4.02	44.99	6.19	34.32	2.03	7.06
2010	2.91	3.82	39.10	5.52	29.94	2.25	9.16
2011	2.34	3.44	34.65	4.07	26.34	1.32	8.64
2012	2.98	4.40	33.12	3.62	24.01	1.46	7.87
2013	3.78	4.51	37.08	3.07	24.47	1.68	7.93
2014	3.72	4.63	38.42	3.57	26.81	1.68	10.20
2015	4.85	4.21	37.34	4.82	30.11	1.69	10.05
2016	4.79	4.22	44.74	4.61	35.43	1.48	8.32
2017	4.52	4.25	45.02	4.85	36.30	1.24	8.45
2018	3.92	9.03	47.54	6.51	42.20	2.57	13.65
2019	7.08	8.17	48.81	5.82	39.43	1.42	13.31

Source: calculations based on IMF Directions of Trade Statistics, ADB

Table 3 shows India's trade intensity with SAARC member countries for 1991 to 2019 clearly stating that value of India's Trade intensity index is more than unity over the study period with all member countries indicating that India's Trade (Export and Import) is more intense with SAARC countries as compared to other countries of World.

India's TII to Afghanistan in 1991 was 9.1 which increased to 12 in 1999 and in 2019, it further reduced to 7.08. India's TII to Bangladesh in 1991 was 12.44 and 5.45 in 2006 when SAFTA came into existence but it further increased to 8.17 in 2019. It seems that trade intensity of India with Bangladesh has been reduced over the years with some betterment from 2018. India's TII with Bhutan was 2.49 in 1991 showing increasing trend up to 1996 and in 2019 it increased to 48.81. In case of Maldives, India's TII was 3.63 in 1991 and rose to 16.62 in 1996 showing highest intensity and in 2019 it declined to 5.82.

India's trade intensity index with Nepal was 24.87 in 1991 and increased to 46.74 in 2006 and in 2019 it was 39.43. India's TII with Pakistan was 1.22 in 1991 and 2.54 and 2.95 in 2006 and 2007 respectively and fell down to 1.42 in 2019. India's trade intensity index with Sri Lanka in 1991 was 6.95 and increased to 12.30 in 2006 and in 2019 it was 13.31. So, the study reveals that trade intensity of India with SAARC countries is more than one but intensity of trade is smaller than expected especially with Pakistan and Bangladesh showing the smaller trade flow than expected.

In nutshell, it is visible from above tables that despite of increase in trade between India and SAARC countries, trade intensity among these South Asian countries is below the optimum level. This means export and import of India are not intense with SAARC countries as compared to trade pattern of rest of the world.

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