

INDIA'S TRADE WITH SAARC COUNTRIES: AN ANALYSIS



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Abstract:

SAARC countries are a large regional block with huge potential but achievement in regional cooperation so far is insignificant. The results show that the region is engaged in trade with the outside world and not within the economies of the region. India's trade with SAARC countries is not very impressive. SAARC countries need to have adequate physical infrastructure. Trade policy of SAARC countries, need to ensure that SAFTA ensures trade creation rather than trade diversion from the region as observed by many researchers. It is also noticed that while trade promotes growth, GDP growth also attract more participation in international trade.

Introduction:

International trade has often been referred as the “engine of growth” that enhanced the development of today's economically advanced countries during the nineteenth and early twentieth centuries. The developing countries pursued on import substitution and industrialization strategy from 1950's but failed to achieve rapid economic growth and eradicate poverty (Venables, 2001). A few developing countries, especially in East-Asia, which undertook trade policy reforms had adopted and export oriented growth strategy specifically in line with regional integration (Association of South East Asian Nations, Asia-Pacific Economic Co-operation) Succeeded in achieving rapid economic growth and industrial development (Wilson, 2002).

During the economic reforms, trade liberalization has increased with the rise of regionalism. It is argued that trade liberalization and regional economic co-operation can help a region to increase inter-regional trade by exploring the size of the markets. This may in turn yield efficiency and bring benefits not only by exploration of economies of scale but also by dynamic and upward shifts in production function. The domestic firms become more

competitive and develop the confidence to enter into global competition after exposure to a regional market. Driven towards integration by the pressure of socio-economic interests of the region, seven South Asian countries namely Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka formed the South Asian Association for Regional Co-operation (SAARC) in 1985. They also formed the SAARC Preferential Trading Agreement (SAPTA) in 1993 and transformed it into South Asian Free Trade Area (SAFTA) in 2004 with a view to enhancing their productive capacity and region's trading interests. As a eighth member, Afghanistan joined the organization in 2005. However, since the establishment of SAARC, the achievement has been considered insignificant and the level of intra-regional trade among SAARC Countries is still very low. With the present low level of intra-regional trade and the perceived competitiveness among the SAARC Countries, a question arises whether regionalism would benefit in this region.

To accelerate the process of socio-economic development in member countries is one of the major objectives of formation of SAARC forum. Thereafter, trade promotion was also pursued as an area of economic Co-operation. It is in this context, the present study has been undertaken to study the India's trade with SAARC countries from 2000-01 to 2011-12.

Data and Methodology:

To study this topic secondary data were collected from RBI, Handbook of Statistics, World Development Indicators and UNCTAD.

Table-1
Socio-economic Development indicators in the SAARC Countries:2000

Particulars	India	Pakistan	Sri Lanka	Nepal	Bangladesh	Bhutan	Maldives
Life expectancy at birth (years)	62.9	64.4	73.3	57.8	58.6	61.2	65.0
Adult literacy rate (% age 15 and above)	55.7	44.0	91.1	39.2	40.1	42.0	96.0
Gross enrolment ratio (%) (includes primary, secondary and tertiary)	54.0	43.0	66.0	61.0	36.0	33.0	75.0
Human Development Index (HDI) value	0.563	0.522	0.733	0.474	0.461	0.483	0.725
GDP per capita (US \$)	444	511	802	217	348	493	1247

Source: UNCTAD : 2000

Table-2
Share of India's Exports and Imports to SAARC Countries (US \$ million)

Year	Exports		% Share of SAARC countries in India's Total Exports	Imports		% Share of SAARC countries in India's Total Exports
	India	SAARC		India	SAARC	
2000-01	44560.3	1928.5	4.33	50536.5	465.8	0.92
2001-02	43826.7	2026.0	4.62	51413.3	571.5	1.11

2002-03	52719.4	2724.1	5.17	61412.1	512.0	0.83
2003-04	63842.6	4148.1	6.50	78149.1	668.8	0.86
2004-05	83535.9	4440.7	5.32	111517.4	950.2	0.85
2005-06	103090.5	5547.6	5.38	149165.7	1413.3	0.95
2006-07	126414.1	6469.5	5.12	185735.2	1507.2	0.81
2007-08	162904.2	9617.2	5.90	251439.2	2111.4	0.84
2008-09	185295.0	8440.5	4.56	303696.0	1796.9	0.59
2009-10	178751.4	8356.5	4.67	288373.7	1651.8	0.57
2010-11	251136.0	11636.5	4.63	369769.1	2170.2	0.59
2011-12	305963.9	13084.8	4.28	489319.5	2487.2	0.51

Results and Discussion

The SAARC region being the most populated part of the world (1.47 billion) is characterized by greater inequality in distribution of income with 43 per cent of its people living below the poverty line. South Asia's economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries and a multitude of support services. SAARC, is the world's only region, which has failed to tap the potential for social-cultural exchange and economic co-operation, with the continuation of war (Asian Development Bank, 2005) and cold war in the region between India and Pakistan. Intra-SAARC trade is dismally as low as 4 per cent and the collective share of the region in world trade was just one per cent. However, recently South Asia's fastest growth in exports has been predicted by a report published by the World Bank. But according to a recent World Bank report "South Asia's integration into the Global economy", predicts South Asia will have the World's fastest growth in exports by 2028.

The trade among any group of countries always depends on the level of its socio-economic development. In case the various indicators of socio-economic development are dismal, the volume of trade and many other businesses will also be low and vice-versa.

The data presented in Table-1 show that in the SAARC countries, the Human Development Index (HDI) was the highest in Sri Lanka (0.733) followed by Maldives (0.725), India (0.563), Pakistan (0.522), Bhutan (0.483), Nepal (0.474) and Bangladesh (0.461). India and Pakistan are the two big nations of SAARC region. As far as per capita income is concerned, Maldives comes first followed by Sri Lanka, Pakistan, Bhutan, India, Bangladesh and Nepal. The per capita income of Maldives and Sri Lanka was high. This was mainly due to the size of these countries. In addition to this, the inflow of tourists was more in these countries due to locational factors. Nepal and Bangladesh had low per capita income as compared to other SAARC countries.

India's Exports to SAARC Countries:

The data relating to India's exports to the SAARC countries is given in Table-2. This table shows that India's total exports to all countries of the world had increased from US \$ 44.56 billion in 2000-01 to US \$ 305.96 billion in 2011-12. Similarly the exports to the SAARC countries had increased from \$1.93 billion to \$ 13.08 in the corresponding period. In percentage terms, the exports had declined to the SAARC countries from 4.33 in 2000-01 to 4.28 per cent in 2011-12. This decline in percentage share of exports may be attributed to a number of economic and non-economic factors. In the recent period, the Indian exports

related to Information Technology (IT) have increased very fast to the developed and developing countries. In India, the Information Technology sector is creating wealth worth more than Rs.60,000. But the SAARC countries expect India has limited scope to absorb the IT due to low level of industrial development and infra-structural facilities.

India's Imports

The data regarding India's imports from other SAARC countries has been included in Table-2. India's total imports from all over the world had increased from \$50.54 billion in 2000-01 to \$489.32 billion in 2011-12. During the corresponding period, the imports from SAARC countries had increased from \$ 0.47 billion to \$2.49 billion. India's exports to the SAARC countries exceeded very little. In percentage terms, India's imports from SAARC countries remained less than one per cent in most of the years.

Conclusion and Suggestion

SAARC countries are a large regional block with huge potential but achievement in regional co-operation so far is insignificant. The results show that the region is engaged in trade with the outside world and not within the economies of the region. India's trade with SAARC countries is not very impressive. SAARC countries need to have adequate physical infra-structure. Trade policy of SAARC countries, need to ensure that SAFTA ensures trade creation rather than trade diversion from the region as observed by many researchers. It is also noticed that while trade promotes growth, GDP growth also attract more participation in international trade. GDP is the driving force behind the movement in trade inflows and outflows, once growth is enhanced, foreign trade can be improved.

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