

India's Trade Linkage with SAARC Countries

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ABSTRACT

This study attempts to analysis the trade evolution between India and other SAARC member countries out the total share of India's trade with the world from the financial year of 1996-97 to 2017-18. Elementary tools for calculating compound growth rate of India's import and export to world and SAARC region and growth trends, are applied. Our general result being that there is an increase in net exports with all the member SAARC countries, a colossal amount of increase in export from India and relatively negligible increase in imports. Bangladesh is being the top member in the region trading with trade in terms of value. In addition it's found that there are sudden changes in the trend due to the economical and political situations of the respective countries. Consequently, the study reckons how SAARC, especially India, is becoming the fastest growing region in the world.

KEYWORD: SAARC, World trade, India-SAARC trade, Bi-lateral trade.

INTRODUCTION

Regionalism has become important in today's world as the strength and development of an economy is not just measured in terms of military and defense capacity but in terms of economy's trade relations via economic integration within the region and globally (Tonnesson, 2004). Since beginning of the nineteenth century, the mantra provided for overall growth of an economy was that of export-led growth, and attempts were made to transform from an agrarian to a manufacturing economy. On the same lines, the increasing importance of regionalism in South Asia can be seen in the emergence of a significant organization like ASEA in 1967, SAARC (South Asian Association for Regional cooperation) in 1985, ECO (Economic Cooperation Organisation) in 1985, BIMSTEC in 1997, MGC (Mekong Ganga Cooperation) in 2000, TC (Turkic Council) in 2009, etc. The purpose of setting up an intergovernmental organization, SAARC was to accelerate economic and social development and growth of the member countries, via having greater cooperation, collaboration and compliance like successful trade regions such as European Union (EU) and NAFTA, to correct the historical injustice done by the colonial powers and get freed of the growth via being subordinated to the need of the imperial powers. While this organization's overall development is affected by internal disputes, but still by its establishment and sense of regional integration, it has provided prospect for future progress (Shaheen, 2013). SAARC was formed during its first submit in Dhaka in December 1985. Initially there were only seven member states, namely India, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Srilanka. In 2005, Afghanistan also became a member of SAARC. South Asian countries open up their economies to the world trade most at the

same time (early 1990s) when India liberalized its economy in 1991. The study analyzes both international and intra trade relation of India with all the 8 members of SAARC countries, as India has turned out to a dominant player in the region due to its size, in geographical and economical terms along with being the fastest growing economy of the world.

Even though there is general increase in the India's trade with other member countries, India's trade relation with the member countries varies significantly. India's exports to Bangladesh, Pakistan and Sri-Lanka has increased significantly over time period of 16 years (from 1996 to 2012), though there are fluctuation within this period. The volume of imports from the three countries has been increased as well but the value of imports is extremely low. With respect to India's imports from Pakistan, there is a drastic increase during the Kargil war crisis from 199- 2003, but only a marginal increase 2004 onwards (Ambrose and Sundarraaj, 2014). From 1995-96 to 2005-06, India's Export to the world has increased threefold and imports from the world has increased fourfold. The average annual growth rate of India's total exports to world has been 12.07 per cent, which is lower than imports which grew at average annual growth rate of 13.71 per cent. During the same period of ten years, India's exports to the SAARC region increased by three-fold at 13.3 per cent annually, higher than the growth rate of India's total export. And India's import from the SAARC region registered a fivefold increase with average annual growth rate of 17.34 per cent per annum from US\$ 256.4 million to US\$ 1355.1 million, which is a lower magnitude as compared to India's total import from the world. Although the trade of India with the SAARC region is negligible, it is increasing more rapidly than the total trade of India with the world (Rao, 2015). In 2013, Rummana tried to understand the incentives for and progress towards greater economic integration in South Asia. In the study he focused only on four main countries named as Pakistan, India, Bangladesh and Srilanka out of the seven which comprises of South Asian sub-region and also members of members of SAARC, using data for a longer period from 1985 to 2006.

The existing literature has either captured a smaller time frame or lesser countries to analyse the trade pattern. The study analyses the trend over longer period of time. The time period for our study is 21 years and growth rate and trade trend is found in relation to each individual member countries of the SAARC. The study extends to the evaluation of trade over time and finding out the political or economical reasons for fluctuation in trade with the member countries.

Therefore, the main purpose of the study is to evaluate Indian trade rate and development with the SAARC region as well as trade evolution between India and other SAARC member countries out the total share of India's trade with the world.

METHODOLOGY

To fulfill the purpose of study, data from various authentic sources such as Director General Commercial Intelligence and Statistics (DGCI&S), Calcutta, Ministry of External Affairs, GOI & Hand Book of Statistics on Indian Economy published by RBI, RBI Bulletins is used.

The period of the study is from year 1996-97 to the past financial year that is 2017-18. The year 1996 is peculiar to be taken into consideration as the result of Government of India introduction of LPG policies in the year 1991 takes couple of year to yield results. The advantage of taking 21 years of period of study is that we can infer results about long term trends in trade. Hence, the study has chosen 1996 as the beginning of the study period and data available till the latest financial period, 2017 as the terminal year. Compound Annual Growth Rate has been calculated to compare India's total trade from World and SAARC Region. Where the Compound Growth Rate has been calculated using following formula:

$$\text{CAGR} = ((\text{End value}/\text{Initial value})^{1/n-1}) * 100$$

OVERLOOK OF INDIA'S TRADE GROWTH WITH THE WORLD

With the onset of globalization, countries are more fascinated towards foreign trade. This not only helps them to get exposed to variety of good & services, but also helps in achieving efficiency in production. After new economic policies were introduced in 1991, India has seen a significant growth in its international trade. As could be seen from table 1 below, there has been a significant improvement in both exports & imports. The total exports and total imports of India at current price has grown up from US\$ 33470.0 & 39,132.4million in 1996-97 to US\$ 303526.2 & 465580.9 million in 2017-18 respectively.

Table 1: India's Trade with World and SAARC Region over a period from 1996-97 to 2017-18.

Period	Total Indian exports to World	Total Indian imports from World	Trade Balance	Indian Exports to SAARC Region	Indian Imports from SAARC Region	Trade Balance
1996-97	33470.0	39,132.4	-5,662.5	1,724.39	242.31	1,482.08
1997-98	34785.0	41,484.5	-6,699.5	1,632.20	245	1,387.20
1998-99	33218.7	42388.7	-9,170.0	1,692.02	493.7	1,198.32
1999-00	36822.5	49738.1	-12,915.6	1,427.83	418.7	1,009.13
2000-01	44560.3	50536.4	-5,976.1	1,954.41	492.49	1,461.92
2001-02	43826.7	51413.3	-7,586.6	1,954.41	589.03	1,365.38
2002-03	52719.4	61412.1	-8,692.7	2,784.90	530.43	2,254.47
2003-04	63842.6	78149.1	-14,306.6	4,293.52	709.31	3,584.21
2004-05	83535.9	111517.4	-27,981.5	4,606.14	997.19	3,608.95

2005-06	103090.5	149165.7	-46,075.2	5,547.65	1,413.31	4,134.34
2006-07	126414.1	185735.2	-59,321.2	6,473.81	1,507.45	4,966.36
2007-08	163132.2	251654.2	-88,522.0	9,637.76	2,117.35	7,520.41
2008-09	185295.4	303696.3	-1,18,400.9	8,567.12	1817.89	6,749.23
2009-10	178751.4	288372.9	-1,09,621.5	8,390.69	1657.34	6,733.35
2010-11	249815.6	369769.1	-1,19,953.6	11,656.59	2,173.37	9,483.22
2011-12	305963.3	489319.5	-1,83,356.2	13,296.47	2,524.70	10,771.77
2012-13	300400.6	490736.7	-1,90,336.1	15,110.70	2,679.95	12,430.75
2013-14	314405.3	450199.8	-1,35,794.5	17,503.84	2,472.98	15,030.86
2014-15	310338.5	448033.4	-1,37,694.9	20,480.02	2,930.85	17,549.17
2015-16	262290.1	381007.7	-1,18,717.6	18,594.18	2,975.01	15,619.17
2016-17	275852.4	384357.1	-1,08,504.7	19,222.14	2,813.40	16,408.74
2017-18	303526.2	465580.9	-1,62,054.7	23,100.90	3,202.66	19,898.24

Source: Directorate General of Commercial Intelligence and Statistic, Ministry of External Affairs

An improvement in balance of trade has been seen during 2000-01, but after that a continuous and huge downfall in India's trade balance (increase in trade deficit) with World till 2012-13. In 2012-11 the balance of trade is US\$-1, 19,953.6million which reduced to US\$ -1,83,356.2 in 2011-12 & further to US\$ - 1,90,336.1 in 2012-13. In 2013-14 a huge fall of around US\$ 40,536.9 million in imports has been recorded making a tremendous improvement of US\$ 54541.6 million in balance of trade. In the 2013-14 period, weakening of the rupee and growth of trading economies contributed to India's export growth. In 2013, Indian imports have moderated mainly because of the decline in gold imports and less non-oil non-gold imports, which contributed to a reduction in the trade deficit in India in 2013-14.

An interesting feature of Indian trade with World is that balance of trade was negative and raising over the whole period implying that the imports grow at a unprecedented pace than exports. In table 2 below Compound Growth Rate of India's trade with World and SAARC has been calculated. Based on the CGR, exports in India grew by 11.07 per cent annually on an average from 1996-91 to 2017-18. Imports grew at 12.52 per cent annually in comparison to exports.

Table2: Compounded Growth Rates of India's total trade with the World and SAARC (1996-97 to 2017-18)

Variable	Value of Growth Rate- World (%)	Value of Growth Rate- SAARC (%)
Imports	12.52	13.15
Exports	11.07	13.08

Source: Author's calculations based on Ministry of Ministry of External Affairs, GOI

OVERLOOK OF INDIA'S TRADE GROWTH WITH THE SAARC REGION

In the SAARC region, India plays a key role. It contributes to SAARC's diplomatic workforce, political relevance and economic progress. In terms of geography, population, economy, science, technology and military growth, it also occupies a dominant position. India's trade in the SAARC Region is deemed to be very necessary to continue with this hegemony and cooperation with other SAARC countries.

Due to the various ongoing conflicts in the region, continued peace and prosperity in South Asia was elusive. Political dialog is often held on the margins of SAARC conferences, which refrain from intervening in its Member States ' internal affairs (Michael, 2013). At SAARC 12th and 13th, greater co-operation between the members of the SAARC in the fight against terrorism was highlighted (Jhawar, Shiv 2004). The 19th SAARC meeting scheduled in Pakistan was cancelled as India, Bangladesh, Bhutan and Afghanistan decided to boycott it. Four member countries boycotted the SAARC summit for the first time and it was thus cancelled.

India has taken different measures to facilitate exports to the SAARC region following liberalization. So India's trade from the region of SAARC increased considerably after globalization. The table 2 includes all export and import data of SAARC from India. Indian exports increased from 1,724.39 dollars in 1996-97 to 23,100.90 dollars in 2017-18, as can be shown from the table, with some fluctuations, indicating a sizeable growth of exportations over the entire period. The same period saw a rise in imports from India from the region of 242,31 to US\$ 3202,66 million from US\$ 242,31 million, which accounts for over 13 times as much. In relation to India's trade with world as illustrated above, the volume of trade with SAARC countries were extremely low.

The positive balance of trade that India has enjoyed all the years has been another characteristic feature of Indian trade with the SAARC region. Over the years 1996-97, the positive trade balance of US \$1,482,08 million grew in small fluctuations and hit the peak at all times of US\$ 19,898,24 million in 2017-18. Based on the CGR calculated in Table 2, exports of India to SAARC grew by 13.15 per cent annually. In addition, imports from the region increased by a spectacular 13.08 per cent annual growth rate every year.

INDIA'S TRADE WITH SAARC REGION TO TOTAL TRADE WITH WORLD-

The tables below incorporated data on per centage share of India's trade of SAARC Region to total trade with World. It is clearly visible that the proportion of both exports & imports are very low in compared to World. In 1996-97 exports to the SAARC region accounted for barely 5.15 per cent of India's total exports to the world, which dropped further in the following years. Experiencing wide fluctuations in share during whole period, touching to lowest value of 3.88 per cent in 1999-2000, this proportion grew up to 7.67 per cent in recent year of 2017-18. In the years 2004-05, 2008-09 & 2011-12, this proportion again lowered from subsequent periods to 5.51 per cent, 4.62 per cent & 4.35 per cent respectively.

Table 3: Percentage Share of India's Trade with SAARC Region (1996-97 to 2006-07)

Period	% share of SAARC Exports to Total World Exports of India	% share of SAARC Exports to Total World Imports of India
1996-97	5.15	0.62
1997-98	4.69	0.59
1998-99	5.09	1.16
1999-00	3.88	0.84
2000-01	4.39	0.97
2001-02	4.46	1.15
2002-03	5.28	0.86
2003-04	6.73	0.91
2004-05	5.51	0.89
2005-06	5.38	0.95
2006-07	5.12	0.81
2007-08	5.91	0.84
2008-09	4.62	0.60
2009-10	4.69	0.57
2010-11	4.67	0.59
2011-12	4.35	0.52
2012-13	5.03	0.55
2013-14	5.57	0.55
2014-15	6.60	0.65
2015-16	7.09	0.78
2016-17	6.97	0.73
2017-18	7.61	0.69

Source: Author's calculations based on Ministry of Ministry of External Affairs, GOI

CONCLUSION

The study reveals that although there is an overall increase in the trade of India with the individual SAARC countries, there exists a different unique pattern with all. It is proved with usage of above mentioned methodology that Bangladesh, Sri-Lanka and Pakistan do the most trade respectively with India in that order, in terms of value of exports and imports. This in turn has led to acceleration in the process of economic and social development in the member states. On the other hand, in respective to trade with rest of the world has also been increasing but imports growing more than exports and hence leaving us with a negative balance of trade over the whole range of the study. The problem is not the balance of trade but the increasing trend of the deficit that needs to be addressed.

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APPENDIX-

Following are the graphs of the trade trend of each individual country with India-





