

# Trend and Direction of Indian Trade Relation with SAARC Countries within SAFTA during 2008 – 09 to 2016 – 17

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**ABSTRACT:** The South Asian Free Trade Area (SAFTA) is an agreement between the members of SAARC nations namely 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 1.8 billion people in the region. The seven foreign ministers of the region signed a framework agreement on SAFTA to reduce customs duties of all traded goods to zero by the year 2016. However, SAFTA is an initial step in the evolution of the SAARC as a regional trade bloc and an economic union. There is much speculation about its favourable effect on intraregional trade. As the biggest, and the most industrialised trading partner among the SAARC countries, India has to take a lead in making the Regional Economic Cooperation a reality in South Asia. This study highlights India's trade and trade relationship with SAFTA at large and with each member of the trade bloc in particular. The study also highlights the macroeconomic overview of the region citing several indicators.

**Key words:** BOT, Export, Free Trade Area, Import, SAARC, SAFTA, Trade bloc

## I. INTRODUCTION

Trade is the transfer of ownership of goods and services from one person or entity to another by getting something in exchange from the buyer. The original form of trade was barter, the direct exchange of goods and services. Later, one side of the barter were the metals, precious metals (poles, coins), bill, and paper money. Modern traders instead generally negotiate through a medium of exchange, such as money. As a result, buying can be separated from selling, or earning. The invention of money (and later credit, paper money and non-physical money) greatly simplified and promoted trade. Trade between two traders are called bilateral trade, while trade between more than two traders is called multilateral trade and trade between nations is called foreign trade/ international trade or external trade. Trade affects growth in 3 primary ways. (1) Trade encourages flow of resources from low productive sectors to high-productive sectors which in turn leads to an overall increase in output. Export growth may affect total productivity growth through dynamic spill over effects on the rest of the economy (Feder, 1983). The possible sources of this positive dynamic spill over include more efficient management styles, better forms of organisation, labour training and knowledge about technology and international markets (Chuang, 1998). (2) An increase in export sales leads to an overall expansion in production and a fall in the unemployment rate. As production increases because of economies of scales, firms become more efficient (Helpman and Krugman, 1985). (3) International trade also enables for

the purchase of capital goods from foreign countries and exposes an economy to the technological advances of the developed countries. Recent theoretical work suggests that capital goods imported from technologically advanced countries may increase productivity and thereby growth, since knowledge and technology are embodied in equipment and machinery and therefore transferred through international trade (Chuang, 1998). According to the theory of comparative cost, each country should concentrate on the production of those goods for which it is best suited, taking into account its natural resources, climate, labour supply, technical know-how and the level of development. Each country specializes in the production of those goods which it can produce at the lowest cost as compared to other countries which leads to international specialization and division of labour. This reduces the cost of production all over the world and improves the standard of living of the people in various countries.

International trade improves the welfare of a country by allowing higher levels of consumption and investment. In a country like India where labour is a surplus factor, international trade helps in generating higher employment and higher wage rates with positive implications for income distribution and poverty, thereby raising the level of social welfare. It is universally agreed that foreign trade plays an important role in the development of an economy.

Over the past 25 years, world trade has grown significantly due to deepening economic integration. Intra-regional trade expansion is the most direct form of regional

economic cooperation. Larger markets and complete utilisation of production capabilities, transfer of technologies, comparative advantage, economies of scale due to expansion in the market, better utilisation of entrepreneurial capabilities, manpower and natural resources with which the partner nations are endowed in varying degrees are some of the benefits of intra-regional trade expansion. To achieve these benefits of economic integration within South Asia, Bangladesh proposed a regional cooperative body of South Asian leaders in 1980, which then led to the establishment of the South Asian Association for Regional Cooperation (SAARC) in the year 1985, the adoption of the SAARC Preferential Trading Arrangement (SAPTA) eight years after in 1993, and the agreement on the South Asian Free Trade Area (SAFTA) in 2004.

Under the SAFTA agreement which was reached on 6 January 2004 at the 12th SAARC Summit in Islamabad, Pakistan which created a framework for the establishment of a free trade area (FTA) covering 1.4 billion people at that time. This agreement came into force on 1 January 2006. SAFTA requires the developing countries in South Asia (India, Pakistan, Sri Lanka) to bring their duties down to 20 percent in the first phase of the two year period ending in 2007. Later on the 20 percent duty was to be reduced to zero in a series of annual cuts in the final five year phase ending 2012. The least developed nations in South Asia (Nepal, Bhutan, Bangladesh, Afghanistan and Maldives) have an additional three years to reduce tariffs to zero.

SAARC had a slow start, but gained momentum with the launch of SAPTA in the mid-1990s. Since the implementation of SAFTA at the beginning of the new millennium, it has begun to perform robustly (*Mohanty and Chaturvedi, 2006*). On the contrary, *Madhusoodanan (2010)* states that South Asia combines a low level of regional integration and the presence of relatively high trade barriers. Though the proportion of trade originating in the region has increased in the last decade, it still lags behind many similar regional arrangements. However SAFTA is an initial step in the evolution of the SAARC as a regional trade bloc and an economic union. There is much speculation about its favourable effect on intraregional trade. The study also highlights the macroeconomic overview of the region citing several indicators.

## II. OBJECTIVES OF STUDY

The study about the India's trade with SAFTA nations has been conducted with the following objectives:

1. To identify the percentage share of India's export and import to SAARC nations among our total trade.
2. To study about the pattern of growth/decline of exports and imports with SAARC- SAFTA nations and analyse the movement of balance of trade of India.
3. To study trends in India's trade with SAFTA countries.

4. To identify India's trade relation with SAFTA countries and to evaluate the movement of trade balance with each country during the period of study.

## III. METHODOLOGY

The present study is purely based on secondary data regarding India's trade relation with SAARC nations, which depicts its trend and direction. For the purpose of this study Secondary data about the trade of India from 2008-09 to 2016-17 has been analysed. The SAFTA is an economic and political organisation of eight countries in Southern Asia namely Afghanistan, Bangladesh, India, Bhutan, Sri Lanka, Maldives, Nepal and Pakistan. This paper gives brief profile and macro-economic review of overview of SAFTA countries. The study examines the emergence of SAFTA as a trade bloc and analyses India's trade relationship with SAFTA countries and also evaluates the movement of trade balance with each country during the period of study. The study also examines the trends in India's trade with them in the form of table. The data consists of India's trade with seven of the SAFTA members. Data on India's exports and imports have been compiled from the Website of Department of Commerce, GOI. The data have been also collected from the publications of RBI, The Press information bureau, Government of India, Government of India Ministry of Commerce and Industry, Department of Commerce- Export Import Data Bank and The Directorate General of Commercial Intelligence and Statistics. India's balance of trade with SAFTA countries has also been analysed. Collected data are tabulated for better presentation. Graphs and diagrams are also used along with statistical measures like averages and percentages for share and growth.

## IV. LIMITATIONS OF STUDY

First of all this study about Indian trade direction, trends and impacts with SAARC (SAFTA) nations is a wide topic which is not an easy task to analysis and comment each and every part of the work.

This study is purely based on secondary data only, published from various sources and central government websites. Analyzing time series data is a very complex affair and hence complicated tools of analysis were not used.

International trade of an economy is being influenced by many macro- economic variables. An in depth analysis of all the macro economic data to reveal the under currents of exports and imports is not attempted in this study.

## V. REVIEW OF LITERATURE

Although enormous literature is available on intra-SAFTA trade and India's trade with SAFTA region, we are giving some of findings of researchers.

**Shrestha (2003)** in this study has made an attempt to analyse some of the key issues related with Indo-Nepal trade relation and scope for improving trade relationship between these countries in the future. He states that Indo-Nepal trade is very important for the economic development of both these countries. Trade relation with India is rather crucial to Nepal particularly due to her geographic characteristics. Trade statistics presented by Shrestha shows an increasing trend of trade in both the exports and imports. However, it is worth noting that the trade balance is not in favour of Nepal. Nepal's trade with India is likely to play further a key role in trade and industrial fronts in the future as well.

**Mehta and Kumar (2004)** argued that signing of SAFTA agreement was a landmark in the evolution of SAARC since its formation in 1985. SAARC would benefit from regionalism if its cooperation would extend beyond formal trade.

**Dhungel (2004)** notes that actual progress and achievement in implementation of SAARC agendas were considered very insignificant.

**Pitigala (2005)** has found that the trade structures of SAARC countries might not facilitate a rapid increase in intraregional trade due to weak trading relations among SAARC countries.

This view was supported by **Baysan et al. (2006)**. They argue that the economic cases for SAFTA are relatively weak. They state that from an economic standpoint, neither a qualitative argument nor a quantitative assessment was available to give one reason in order to feel enthusiastic about the arrangement. They further state that compared to the rest of the world, this region is tiny both in terms of economic size as measured by GDP, per capita income and the share in the world total trade. Therefore, trade preferences to the regional partners would likely be leading to a consequence of trade diversion rather than trade creation.

According to a study conducted by **Nag and Nandi (2006)**, the presence of Regional Trading Arrangements in today's multilateral trade has become a common phenomenon. India in its efforts to embrace this phenomenon became an important constituent of SAARC.

**Das (2007)** argues that evidence of trade complementarity in South Asia is mixed, so preferential trading initiative was based on a weak proposition.

**Pierola (2007)** finds that arrangements of preferential trading in south Asia including SAFTA fall short of their potential because of special arrangements for selected products, product exemptions, and restrictive rules for point of origin.

**Perera, (2009)** states the next stage of the SAFTA is transforming the SAFTA very fast into the South Asian

Customs Union (SACU), which is already a component of the agreement.

**Madhusoodanan (2010)** states that South Asia has a low level of regional integration and the presence of relatively high trade barriers. The share of trade originating in the region has increased in the last decade but still lags behind in many similar regional arrangements.

**Kaur and Nanda, (2010)** has calculated India's export potential to other SAARC nations (Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka) with the help of gravity model of exports using panel data methodology. The study indicates that among SAARC countries, export potential of India exists for Bhutan, Pakistan, Maldives, and Nepal. India is the only SAARC member that shares land border with four members and sea border with two. No other SAARC country has a common border with each other.

## VI. DATA ANALYSIS AND INTERPRETATION

**Table: 1 India's Export with SAFTA (US\$ Million)**

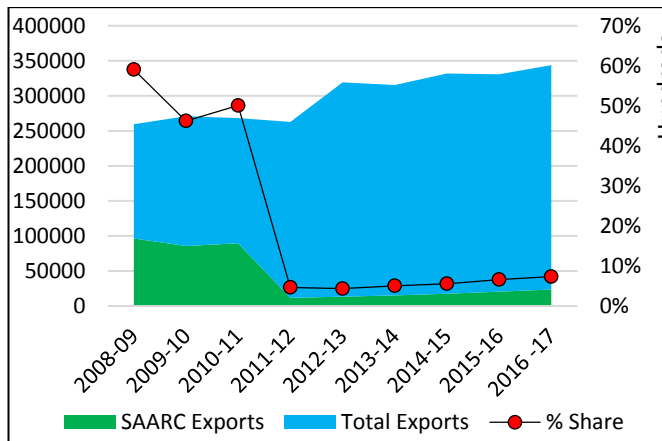
Year	India's export to SAARC		India's total export		% share
	Volume	Growth (%)	Volume	Growth (%)	
2008-09	96377.61	—	163132.18	—	59.07
2009-10	85671.25	(11.10)	185295.36	13.58	46.23
2010-11	89567.12	4.54	178751.43	(3.53)	50.10
2011-12	11659.14	(86.98)	251136.19	40.49	4.64
2012-13	13296.47	14.04	305963.92	21.83	4.34
2013-14	15110.70	13.64	300400.68	(1.81)	5.03
2014-15	17503.84	15.83	314405.30	4.66	5.56
2015-16	20480.02	17.00	310338.48	(1.29)	6.59
2016 -17	23540.58	14.94	320336.43	3.22	7.34

Source: Government of India, Ministry of Commerce

The above table exhibits India's export trade with SAARC nations and its percentage share among the country's total export. The overall share among total exports are fluctuating but makes some progress towards the last comparing years. The percentage growth of exports with SAARC is negative during the years 2009-10, 2011-12 and is highest as favourable in 2015-16 at 17 percent. The percentage share is lowest at 4.34 percentage during 2012-13. While it is the highest at 59.07 percentage during 2008-09. Exports to SAARC marks the highest at 96377.61 US Million during 2008-09 and is lowest during 2011-12 at 11659.14 US Million.



**Figure: 1 Trend in India's export share with SAFTA**



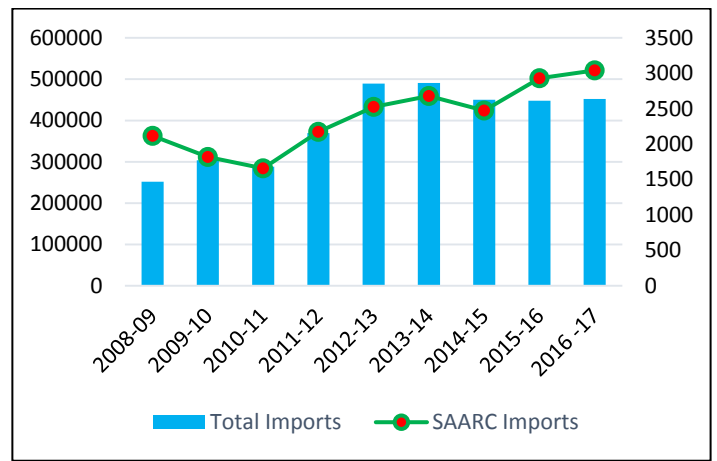
**Table: 2 India's Import with SAFTA (US \$Million)**

Year	India's import from SAARC		India's total import		% share
	Volume	Growth (%)	Volume	Growth (%)	
2008-09	2117.35	—	251654.01	—	0.84
2009-10	1817.89	(14.14)	303696.31	20.68	0.59
2010-11	1657.34	(8.83)	288372.88	(5.04)	0.57
2011-12	2173.37	31.13	369769.13	28.22	0.58
2012-13	2524.74	16.16	489319.49	32.33	0.51
2013-14	2679.95	6.14	490736.49	0.28	0.54
2014-15	2472.98	(7.72)	450199.79	(8.26)	0.54
2015-16	2930.85	18.51	448033.41	(0.48)	0.65
2016-17	3040.83	3.75	452253.31	0.94	0.67

Source: Government of India, Ministry of Commerce

The above table depicts India's import trade with SAFTA members and percent share among our world imports. Import from SAARC- SAFTA regions as a percentage growth makes some negative figures during 2009-10, 2010-11 and 2014-15 and is also resulting into a decline in 2016-17 as compared to the previous year. The overall percentage share is at the highest in 2008 -09 but is negligible during all the years. The percentage share is lowest at 0.51 percent during 2012-13 and is highest at 0.84 percentage during 2008-09. Imports from SAARC can be stated as highest during 2016-17 at 3040.83 US Million and is marked as lowest at 1657.34 US Million during the year 2010-11.

**Figure: 2 Trend in India's SAFTA imports with total imports**



## INDIA'S BILATERAL TRADE WITH SAARC – SAFTA NATIONS

### 1. INDIA'S TRADE WITH SRI LANKA

Sri Lanka has traditionally been an important export market for India. India-Sri Lanka Free Trade Agreement (ISFTA) was signed on 28th December, 1998. This agreement is in operation since 1st March, 2000. Under this Agreement both nations agreed to phase out trade tariffs from each other within a fixed frame except for those items in the Negative List of each other. A Joint Study Group (JSG) was set up in April, 2003 in order to widen the ambit of ISLFTA to go beyond Trade in Goods to include Services and to facilitate greater investment flows between the two countries. They have agreed to take forward the process of signing a comprehensive agreement for economic cooperation. The trend in India's trade with Sri Lanka is given below:

**Table 3: India's Bilateral Trade with Sri Lanka (Value in US \$ million)**

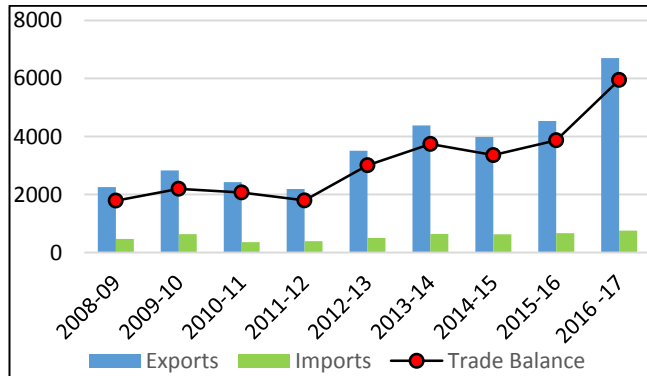
Year	Exports	Imports	Total trade	Balance of trade
2008-09	2258.30	470.33	2728.63	+1787.97
2009-10	2830.43	634.96	3465.39	+2195.47
2010-11	2425.92	356.57	2782.49	+2069.35
2011-12	2188.01	392.19	2580.20	+1795.82
2012-13	3510.05	501.73	4011.78	+3008.33
2013-14	4378.79	637.43	5016.23	+3741.36
2014-15	3983.87	625.81	4609.68	+3358.06
2015-16	4534.35	666.93	5201.28	+3867.42
2016-17	6703.72	756.17	7459.89	+5947.55

Source: Government of India, Ministry of Commerce

The table above depicts Indian trade relation with Sri Lanka. The volume of total trade in imports and exports makes unpredictable changes during the comparing years, but shows some progress during 2015-2017. Balance of

trade position makes remarkable positive rise in last year 2016-17. Balance of trade with Sri Lanka was at the lowest during 2011-12 and is clear from the fall in total volume of trade in imports and exports. While the trade balance has marked the highest during 2016-17 because of significant rise in total trade volume.

**Figure: 3 Trend in India’s Bilateral Trade with Sri Lanka**



## 2. INDIA’S TRADE WITH PAKISTAN

India and Pakistan have no formal trade agreement. India granted the Most Favoured Nation (MFN) status to Pakistan way back in 1995-96 but Pakistan is yet to reciprocate. Although recently, a decision was taken in this regard in the Cabinet meeting of Pakistan which was communicated through the Press Release of Pakistan Government on 2nd November 2011, stating that “the Pakistan Cabinet gave Ministry of Commerce the mandate to take the process of normalization of trade forward, which would culminate in the observance of Most Favoured Nation (MFN). It is lamenting that the statement was later denied. Bilateral trade and commerce talks were held between Commerce Secretaries of India and Pakistan on 27-28 April 2011, in Islamabad. Both nations inter-alia, agreed for the improvement in trade infrastructure and expansion of trade through Attari-Wagha land route. They agreed to set up a Working Group to address and resolve clearly identified sector- specific trade barriers. Both India and Pakistan agreed to undertake new initiatives to enable trade in electricity and petroleum products. They expressed agreement that cooperation in Information Technology sector would be encouraged through the private sector. Both of them agreed to facilitate grant of Business Visas to encourage expansion of trade.

During the meeting of Commerce Ministers’ of India and Pakistan held in New Delhi on 28th September 2011, they agreed that their countries would cooperate for a high ambition of preferential trade relations under the framework of South Asian Free Trade Agreement (SAFTA). They noted with satisfaction the joint and collaborative efforts already being made by India and Pakistan to liberalize trade in goods and services under SAFTA. In the meeting it was

agreed that all mutual obligations contracted under SAFTA would be implemented with full sincerity.

**Table 4: India’s Bilateral Trade with Pakistan (Value in US \$ million)**

Year	Exports	Imports	Total trade	Balance of trade
2008-09	1350.09	323.62	1673.71	+1026.47
2009-10	1950.53	287.97	2238.50	+1662.56
2010-11	1439.88	370.17	1810.05	+1069.71
2011-12	1573.32	275.94	1849.26	+1297.38
2012-13	2039.53	332.51	2372.05	+1707.02
2013-14	1541.56	397.66	1939.21	+1143.90
2014-15	2064.79	541.87	2606.66	+1522.92
2015-16	2274.26	426.88	2701.14	+1847.38
2016-17	1857.18	497.31	2354.49	+1359.87

Source: Government of India, Ministry of Commerce

The previous table describes our trade relation with Pakistan and it is clear that the total trade volume is unfavourable and unpredictable, with its wide fluctuations. Even though balance of trade is positive, it declines during the year 2016-17 along with total trade volume.

**Figure: 4 Trend in India’s Bilateral Trade with Pakistan**



## 3. INDIA’S TRADE WITH AFGHANISTAN

India & Afghanistan signed the Preferential Trade Agreement on 6th of March 2003 in New Delhi. This agreement will remain in force till either party gives to the other a notice for its termination. India, as per the Agreement, has granted preferential tariff for 38 products from Afghanistan such as dry fruits, fresh fruits, raisins, and spices whereas Afghanistan granted preferential tariff to 8 items from India such as medicines. Refined sugar, tea, cement clinkers and white cement. Afghanistan became the eighth member of SAARC during the Fourteenth SAARC Summit held in New Delhi on 3-4 April 2007. The provisions of Trade Liberalization Programme (TLP) are

applicable to Afghanistan with effect from 7<sup>th</sup> aug 2011. MOU between Gov. of India and Gov. of Afghanistan on the cooperation in the field of Cement sector was signed on 12th January 2012 at Hyderabad.

**Table 5: India’s Bilateral Trade with Afghanistan**  
(Value in US \$ million)

Year	Exports	Imports	Total trade	Balance of trade
2008-09	182.11	34.37	216.48	+147.74
2009-10	249.21	109.97	359.18	+139.24
2010-11	394.23	126.24	520.47	+267.99
2011-12	463.55	125.19	588.74	+338.36
2012-13	422.41	146.03	568.44	+276.38
2013-14	510.90	132.50	643.41	+378.40
2014-15	472.63	159.55	632.18	+313.7
2015-16	474.34	208.77	683.11	+265.57
2016 -17	422.56	261.91	684.47	+160.65

Source: Government of India, Ministry of Commerce

From the above table showing the bilateral trade with Afghanistan, it is concluded that total trade volume in imports and exports is showing improvement towards the last year 2016-17 and but the trade balance figure makes sudden decline during the last year 2016-17.

**Figure: 5 Trend in India’s Bilateral Trade with Afghanistan**



**4. INDIA’S TRADE WITH BANGLADESH**

The Bilateral Trade Agreement between India and Bangladesh has been renewed from time to time for expansion of trade and commerce. Bangladesh was the biggest beneficiary country of the reduction in India’s sensitive list from 744 items in 2006 to the current list of just 25 items. To benefit Bangladesh’s textile exports, India introduced in 2008 the provision of allowing 164 textile items from Bangladesh to enter its market at zero duty up to a limit of 8 million pieces per year. This step was taken

ahead of the concessions that India offered to all LDCs in October 2008. The limit of 8 million pieces was increased further to 10 million pieces in 2011. Bangladesh further benefited when PM Manmohan Singh made a visit to Dhaka. Sixty one items figuring on India’s sensitive list for LDC’s were allowed duty free access without any quota restrictions. Bangladesh benefited too much because 46 items out of 61 hailed from the textiles category. (Taneja and Kaushal, 2011). In other words India removed all 46 items which were of interest to Bangladesh. Furthermore in (November) 2011, India reduced the sensitive list for LDC countries to just 25 items. Both sides are working on several projects to improve trade infrastructure and connectivity. Several agreement between India and Bangladesh are MOU on Renewable Energy Cooperation, MOU on Conservation of the Sundarbans, MOU in field of fisheries, MOU on mutual Broad cast of television programmes, MOU between Jawaharlal Nehru University and Dhaka University, MOU on Cooperation in Academic Related Matters between National Institute of Fashion Technology (NIFT), India and BGMEA Institute of Fashion and Technology (BIFT), Bangladesh.

**Table 6: India’s Bilateral Trade with Bangladesh**  
(Value in US \$ million)

Year	Exports	Imports	Total trade	Balance of trade
2008-09	1629.57	228.00	1857.57	+1401.57
2009-10	2923.72	257.02	3180.74	+2666.7
2010-11	2497.87	313.11	2810.98	+2184.76
2011-12	2433.77	254.66	2688.43	+2179.11
2012-13	3242.90	446.75	3689.66	+2796.15
2013-14	3789.20	585.73	4374.93	+3203.47
2014-15	5144.99	639.33	5784.31	+4505.66
2015-16	6166.93	484.34	6651.27	+5682.59
2016 -17	6451.47	621.37	7072.54	+5830.1

Source: Government of India, Ministry of Commerce

The table shows our trade with Bangladesh and it may be stated that volume of total trade seems to be constantly improving towards the last years and is same in the case of balance of trade, which keeps surplus and positive figures.

**Figure: 6 Trend in India’s Bilateral Trade with Bangladesh**





### 5. INDIA'S TRADE WITH NEPAL

Indo-Nepal trade relations is governed by the bilateral treaties of Trade and Transit & Agreement for Co-operation to Control Unauthorised Trade signed in the year 1971, 1978, 1996, 2002 and 2009, respectively. The Indo-Nepal trade treaty which took place in 1996 was a landmark breakthrough in Indo-Nepal bilateral trade. Under this agreement India provided duty free access to all products which were manufactured in Nepal on the basis of a Certificate of Origin issued by the Nepali authorities with no minimum requirement of domestic value addition. Under the agreement no value added criteria were needed for products manufactured in Nepal to qualify for tariff concessions on entry in the Indian market. As a result of this Nepal's trade with India thrived because it was benefited by the (1) low rate that Nepal had imposed on raw material import compared to the prevailing tariff rate on raw materials in India and (2) tariff free offer on all products which were imported from Nepal by India under the provision of Indo-Nepal Free Trade Agreement. (Taneja et. al, 2011).

Another important agreement are the Treaty of Trade and the Agreement of Cooperation which were signed between the two countries on 27th October, 2009 at (Kathmandu) Nepal. The Treaty aims at improving bilateral trade between the two countries by increasing the mutually agreed points of trade. An Inter-Governmental Committee (IGC) meeting on matters of Trade, Transit and Cooperation to control unauthorised and illegal trade was held in December 2011.

Both sides had a detailed discussion on various bilateral issues. Nepalese request for waiver of Additional Duty of Customs (ADC) on all export items to India was also considered. Double Taxation Avoidance Agreement (DTAA) with Nepal was signed on 27th November 2011 to help exporters and investors of both the countries in improving mutual business engagements.

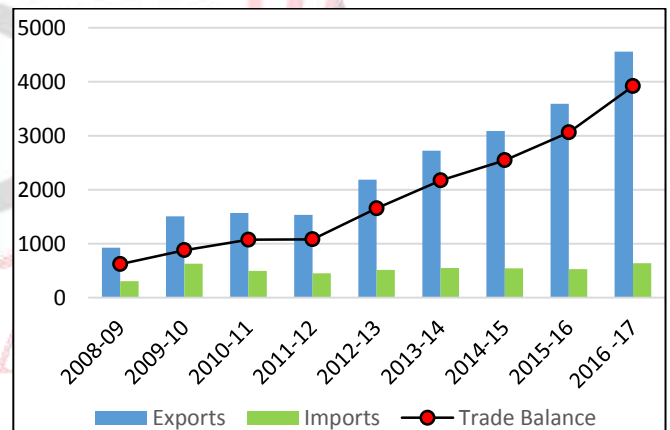
**Table 7: India's Bilateral Trade with Nepal**  
(Value in US \$ million)

Year	Exports	Imports	Total trade	Balance of trade
2008-09	927.40	306.02	1233.42	+621.38
2009-10	1507.42	628.56	2135.98	+878.86
2010-11	1570.15	496.04	2066.19	+1074.11
2011-12	1533.31	452.61	1985.92	+1080.70
2012-13	2186.06	513.40	2681.47	+1654.66
2013-14	2721.57	549.97	3271.54	+2171.59
2014-15	3088.84	543.10	3631.94	+2545.73
2015-16	3592.30	529.93	4122.23	+3062.37
2016-17	4558.77	639.91	5198.68	+3918.86

Source: Government of India, Ministry of Commerce

The above table reveals Indian trade relation with Nepal. It is clear that our total volume in exports and imports is showing better increasing trend towards the last years of comparison and trade balance is making remarkable progress during the successive years.

**Figure: 7 Trend in India's Bilateral Trade with Nepal**



### 6. INDIA'S TRADE WITH MALDIVES

India established diplomatic relations with the Maldives as far back as 1956 when it gained independence and the two settled their maritime border in 1976. Although the bilateral relations in the beginning were limited, bilateral relations took their first major step forward when India intervened to crush a coup against the Maldivian Government in 198. Since then, India has given considerable economic assistance and training to the Maldives in diverse fields such as health, disaster relief, telecommunications, civil society development, and infrastructure development. The Bilateral Trade Agreement was signed between India and Maldives on 31st March 1981. It will remain in force until it is modified or terminated by either country. Even after three decades of bilateral agreement, bilateral trade is not commensurate with its true potential.

However, since the early 2005 Indian exports to the Maldives have been growing at a fast rate. In the Indian fiscal year 2006-07, bilateral trade was valued at \$72 million. As of 2012-13, the total trade volume between the two countries stood at \$129 million. Although Indian exports have increased substantially, Maldivian exports to India have not, thereby leaving a bilateral trade deficit of almost US\$116 million. India is the Maldives' third largest trading partner. Maldives' exports primarily scrap metals to India, while India exports agricultural and poultry produce, pharmaceuticals, textiles, and a variety of engineering and industrial products to the Maldives.

**Table 8: India's Bilateral Trade with Maldives**  
(Value in US \$ million)

Year	Exports	Imports	Total trade	Balance of trade
2008-09	68.68	3.05	71.73	+65.63
2009-10	89.72	4.15	93.87	+85.57
2010-11	127.91	3.97	131.88	+123.94
2011-12	79.86	3.63	83.49	+76.23
2012-13	100.14	31.38	131.52	+68.76
2013-14	124.60	18.89	143.49	+105.71
2014-15	122.36	6.29	128.65	+116.07
2015-16	106.07	3.97	110.04	+102.1
2016 -17	152.38	4.32	156.7	+148.06

Source: Government of India, Ministry of Commerce

The table above depicts Indian trade status with Maldives. Our overall trade volume is showing frequent fluctuations and is not keeping any noticeable pattern, but has increased towards the last year of comparison during 2016-17. The balance of trade position is also similar towards following trend of total volume of trade.

**Figure: 8 Trend in India's Bilateral Trade with Maldives**



## 7. INDIA'S TRADE WITH BHUTAN

The current India - Bhutan Friendship Treaty was held in 2007 which provides for strengthening of bilateral trade relations between both the nations on matters of trade and commerce. India is the leading trade partner of Bhutan. A free trade exists between India and Bhutan. The major items of exports from Bhutan to India are electricity, alcoholic beverages, chemicals, cement, timber and wood products, base metals and articles, minerals, vegetable fat and oils, cardamom, fruit products, potatoes, oranges and apples, raw silk, plastic and rubber products etc. Major items of exports from India to Bhutan are petroleum products, mineral products, vegetable, spices, processed food and animal products, base metals and articles, machinery, chemicals, automobiles & spares, wood, plastic and rubber etc. Under the Agreement on Trade and Commerce, there is a provision for duty free transit of Bhutanese merchandise for trade with third countries.

**TABLE 9: India's Bilateral Trade with Bhutan**  
(Value in US \$ million)

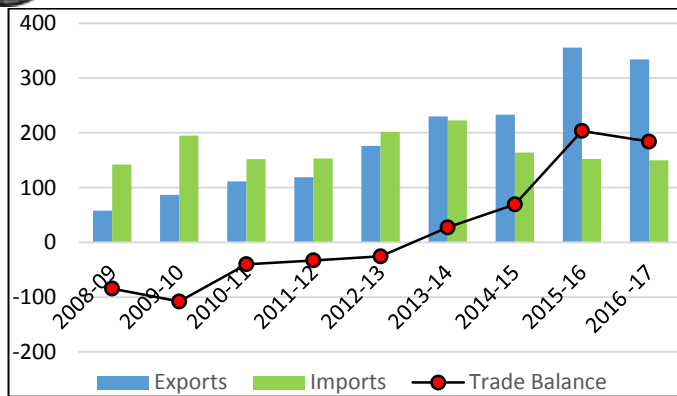
Year	Exports	Imports	Total trade	Balance of trade
2008-09	57.66	142.05	199.71	-84.39
2009-10	86.74	194.72	281.64	-107.98
2010-11	111.15	151.79	262.94	-39.93
2011-12	118.86	153.11	271.97	-32.93
2012-13	176.03	201.57	377.60	-25.54
2013-14	229.86	222.57	432.41	+27.30
2014-15	233.22	164	397.22	+69.22
2015-16	355.60	152.17	507.77	+203.43
2016 -17	333.94	149.87	483.81	+183.97

Source: Government of India, Ministry of Commerce

From the above table of Indian trade relation with Bhutan, it is very clear that trade volume in exports and imports are not favourable and has decreased during the last phase of comparison during 2016-17 and the situation is similar in case of our balance of trade.

**Figure: 9 Trend in India's Bilateral Trade with Bhutan**





## VII. FINDINGS OF STUDY

- Trend and direction of India's export with SAFTA nations shows gradual progress from 2011-12 to 2016-17. But the percentage growth direction is negative during 2009-10 and 2011-12.
- Direction and trends in India's percentage share of trade with SAARC among the total export volume makes slight improvement from 2013-14 to 2016-17.
- Trend and direction of India's import from SAFTA nations is making some unpredictable fluctuations during the comparing years.
- Pattern and trend in India's percentage share of trade with SAFTA among the total import volume is showing slight improvement in last four years of comparison.
- India's bilateral trade with Sri Lanka is making progressive trend during the last phase in terms of volume of trade and trade balance.
- Direction of India's trade with Pakistan and Afghanistan shows a slight decline in 2016-17 as compared to the previous years.
- Bilateral trade with Bangladesh and Nepal keeps significant progressive trend during all years form 2008-09.
- Even though trade trend with Maldives shows increase during 2016-17 as compared to the previous year, direction of total trade and trade balance makes unforeseen fluctuations during every years.
- Even though direction and trend of India's trade with Bhutan is in progressive stage with respect to total trade volume expect in 2016-17, balance of trade is depicting negative status.
- During 2016-17, Sri Lanka was the largest trading partner of India in SAARC region.
- The percentage share of India's export to SAFTA within total exports was its highest in 2008- 09 at 59.07 percent.
- The percentage share of India's import from SAFTA within total imports was its highest in 2008- 09 at 0.84 percent.
- India's trade proportion of its aggregate imports and exports with SAARC – SAFTA region was positive

and progressive in nature compared to the previous years of comparison.

- India's export with SAARC regions has made a diminishing negative growth during 2009-10 and 2011-12.
- India's import with SAARC regions has made a diminishing negative growth during 2009-10, 2010-11 and 2014-15.
- The percentage growth rate of India's export to SAARC- SAFTA was the highest at 17 percent during 2015-16.
- The percentage growth rate of India's import from SAARC- SAFTA was the highest at 31.13 percent during 2011-12.
- During 2016-17, the lowest decline in growth of exports was recorded for Maldives.
- Except for Bhutan, India runs a trade surplus with all other trading partners in all the comparing years.

## VIII. CONCLUSION & SUGGESTIONS

India's import from SAARC – SAFTA region in 2016-17 was 0.67 percent of our total imports. India's export to SAARC – SAFTA region in 2016-17 was 7.34 percentage share among the total exports from our country, which shows a progressive trend as compared with 2015-16 year. Though, the pace of trade has picked up, there is need to consider dimension of informal trade in the trade exchanges. The problem of informal trade taking place in the region is estimated to be more than that of official trade. Relation between nations should strengthen. Improvement of Indo-Pak ties is crucial. It is not that only India and Pakistan have problems. India and Bangladesh have some issues to settle. Same is the case with Nepal and Bhutan. Pakistan and Afghanistan also do not lag behind on this score. During 2016-17, India has recorded a diminishing growth rate of exports and trade balance with Pakistan, Afghanistan and Bhutan in SAARC region. There is still no South Asian ideological bond that unites the people of eight countries.

Given the size of the Indian economy and its geographical positioning at the centre of the region, the success of trade initiatives in the SAFTA region is greatly dependent on India. To make SAFTA a meaningful coalition and a strong economic block, strong progress towards its economic integration is very important. SAFTA countries need to take advantage of their close proximity to increase their trade and investment flows. India being the largest economy in SAARC, its role is widely regarded as crucial in determining the effectiveness of SAFTA; therefore, it will have to play a proactive and leading role in drawing the future agenda or the road map of SAFTA.

As a suggestion India may primarily focus on the trend and pattern in trade balance figures which are negative with some countries especially with Bhutan. Our country should

make immediate steps and measures to solve excessive import trends with some economies and the percentage growth in exports should be gradually increased. Remedies can also be initiated with those economies where the direction and trend in total trade volume and balance of trade position showed decline and negative during the very last year of 2016-17 to make it progressive and regain back to normal. As our trade trends and direction has declined and diminished with Pakistan, Afghanistan and Bhutan suitable vital actions shall be implemented to solve the issue. Another situation to make some rebuilding is regarding trade direction with Maldives during 2016-17 which recorded the lowest.

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