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Growth of SAARC'S foreign trade in a comparative perspective

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Abstract

The objective of this article is analyse the growth, and trend of South Asia foreign trade with World foreign trade. SAARC is not only an important exporter but also a significant importer. Today SAARC is exporting and importing several products, i.e. capital goods, consumers good, raw materials and intermediate products for boosting the manufacturing and export sectors. This study finds the very low export and imports share of South Asia in World trade during the study period 2000 to 2019. However, India is the highest contributor in the exports and imports to South Asia. India is also the largest economy in the region, having the highest population and the highest GDP growth rate. With other high growth economies such as Bangladesh and Sri Lanka in South Asia, the region is economically important from India's trade perspective.

Keywords: Foreign trade, export, import, balance of trade, SAARC

1. Introduction

The South Asian region is extraordinarily diverse in terms of country size, economic and social development, geography, political systems, languages, and cultures. Afghanistan, Nepal, and Bhutan, are landlocked and mountainous, while Sri Lanka is an island and the Maldives is an archipelago of low-lying coral islands in the central Indian Ocean. South Asia is Indo- centric region. India is the biggest economy in the region in terms of size of population, area, economic growth and GNP. On the other extreme, countries like Bhutan and Maldives are very small and their size of population, area and GNP are rather negligible. Historically South Asia has been one of the least urbanized regions in the world.

South Asia comprising of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka is one of the most dynamic regions in the world. As per World Bank data, South Asia showed a GDP growth rate of 7.4% in 2015, which is highest among different regions of the world. Being one of the most populous regions with a population, even with highest GDP growth rate, the GDP per capita in South Asia is among the lowest in the world, more than only the region comprising of Central African countries.

In 1995, the seven South Asian countries Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka turned over a new leaf in regional trade relations by initiating a multilateral framework for region-wide integration under the South Asian Preferential Trade Agreement (SAPTA). In a recent initiative, members agreed that SAPTA would begin the transformation into a South Asian Free Trade Area (SAFTA) by the beginning of 2006, with full implementation completed between 2009 and 2013. The initiatives for SAPTA and SAFTA are a departure from previous accords that had narrower mandates to increase regional trade and protracted negotiations on the removal of barriers to trade. The South Asian Free Trade Area (SAFTA) framework agreement visualizes the creation of a free trade area encompassing the seven member countries of the South Asian Association for regional cooperation (SAARC). The following table present the trade agreements of SAARC countries:

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Table 1: Trade Agreements of SAARC countries

Trade Agreements	Countries
India-Afghanistan PTA	Afghanistan
Strategic Partnership Agreement between Afghanistan and India	Afghanistan
Trade agreement between India and Bangladesh	Bangladesh
Agreement on Trade, Commerce and Transit with Bhutan	Bhutan
India-Maldives Trade Agreement with Maldives	Maldives
Treaty of Trade with Nepal	Nepal
India-Sri Lanka Free Trade Agreement	Sri Lanka
South Asian Free Trade Agreement (SAFTA) with SAARC countries	India, Afghanistan, Bangladesh, Bhutan, Maldives, Sri Lanka, Nepal, Pakistan

2. Review of Literature

Aggarwa & Mukharji (2007) observed that the shift in India's trade policy from import substitution toward trade promotion. External shocks such as the end of Cold War created a situation where India could not depend on the security benefits derived from the Cold War balance of power. External shocks have helped changed the strategic and economic context. The changed international and domestic context first pushed India toward trade promotion with the U.S. and countries friendly to the U.S. Subsequently, when the multilateral system seemed inadequate for India's trade promotion, it pushed for bilateral and minilateral agreements. Chandran (2013) ^[1] examined the volume and composition of trade by the SAARC countries for the year 2012. This study also examined the direction of individual member countries of SAARC and identified top ten trade partners with them. It was found that intra-regional trade among SAARC countries is low compared to other regional groupings in Asia and rest of the world. It remained stagnant for the entire period of its existence ranging from 4 to 6 percent. This shows that SAARC has not made significant strides in regional integration and continues as a shallow integration for a long period of time. Ahmad *et al.* (2016) ^[2] India's current account deficit is higher because import of goods is higher than its export of goods. The reason behind it firstly, being negative or slow growth rate of manufacturing sectors and secondly, the item exported from India is mainly agriculture items. Further it was also analysed India's trade relationship with developed countries and found that it was unfavourable and requirement of import are increasing day by day because of high demand of population. In case of SAARC nations the India's trade favourable and its export is higher than import. Kumar (2009) ^[5] the potential political-economic and strategic gains from SAARC for all member countries have increased significantly. As the largest

economy of the region, it is imperative and an opportune time for India to take a lead in building an environment of trust among SAARC members, which would encourage greater commitment to regional integration by all. India stands to gain substantially from greater economic integration in the region, in terms of both economic and noneconomic or strategic payoffs. Taneja (2004) ^[6] mentioned in her study that South Asia is the least integrated region in comparison to other regions like Europe, Latin America, East Asia. On the other hand, the share of India in total regional trade has increased over the years, which shows that if India and Pakistan can tap more potential, SAARC intraregional trade would reach newer heights.

3. Objective of the Study

The main objective of the study is to analyse the growth of SAARC Asian countries and the relationship of the India's foreign trade with south Asian countries.

4. Research Methodology

The study is based on secondary data. To identifying the growth trend of SAARC countries, data have been collected from the UN comtrade database, SAARCSTAT, and Ministry of Commerce, Government of India.

4.1 Growth of South Asia Foreign Trade

As we know, foreign trade has very important role in the economic development of a nation. It is the trade of a country in which goods and services exchange from one to another country. The foreign trade of South Asia has expanded rapidly with the world and the volume of trade has also increased. South Asia trade has been studied into two parts namely export and import. Table 1 provides the information of south Asian countries exports share in world export during 2006 to 2019.

Table 2: Growth of South Asia Foreign Trade

Year	Exports	Export Annual growth	Imports	Import Annual growth	Export/Import Ratio	Balance of Trade
2006	236331	24.89	281881.3	18.99	83.84	-45550.3
2007	279147.3	18.11	344564.1	22.23	81.01	-65416.8
2008	354972.7	27.16	467114.6	35.56	75.99	-112142
2009	285580.5	-19.54	380733.5	-18.49	75.00	-95153
2010	378956.5	32.69	507008.7	33.16	74.74	-128052
2011	497279.3	31.22	641514.5	26.52	77.51	-144235
2012	466433.1	-6.20	662133.9	3.21	70.44	-195701
2013	472323.7	1.26	629470.6	-4.93	75.03	-157147
2014	486631.2	3.02	644384.9	2.36	75.51	-157754
2015	405321.6	-16.70	561549.6	-12.85	72.17	-156228
2016	405097.5	-0.05	534126.9	-4.88	75.84	-129029
2017	463199	14.34	652300.2	22.12	71.01	-189101
2018	505382.5	9.10	730749.1	12.02	69.15	-225367
2019	467476.5	-7.50	680805.2	-6.83	68.66	-213329

Source: Data is compiled from UNCTAD Stat Database.

Table 2 shows the growth trend of foreign Trade since the year 2006-2019. Foreign trade in South Asia by observing the trend of exports, it can be said that the South Asian countries has emerged as dynamic in terms of trade. If we see the trend of exports, it is consistently increasing over the years.

In five year (2009, 2012, 2015, 2016, 2019) annual growth rate showed negative growth rate of exports having -19.54 percent, -6.20 percent, -16.70 percent, -0.05 percent and -7.50 percent respectively. Thus, total South Asia export growth rate was 24.89 percent in 2006 and declined by -7.50 percent in 2019.

As regards to imports growth rate, in five year (2009, 2013, 2015, 2016, 2019) annual growth rate showed negative growth rate of imports having -18.49 percent, -4.93 percent, -12.85 percent, -4.88 percent and -6.83 percent respectively. Thus, total South Asia import growth rate was 18.99 percent in 2006 and declined by -6.83 percent in 2019.

4.2 SAARC Trade share in world trade

Relative share in world export is one of the important determinant of measuring the competitive performance and strength of a nation. Table 03 shows SAARC's share in world exports during 2000 to 2019.

Table 3: Share of SAARC countries in World Exports (Value in Percentage)

Year	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	Afghanistan	Total SAARC
2000	0.002	0.099	0.001	0.656	0.001	0.012	0.139	0.084	0.998
2001	0.001	0.098	0.001	0.699	0.001	0.011	0.149	0.077	1.041
2002	0.001	0.094	0.001	0.757	0.002	0.008	0.152	0.072	1.091
2003	0.001	0.092	0.001	0.776	0.002	0.008	0.157	0.067	1.108
2004	0.003	0.090	0.001	0.830	0.001	0.008	0.145	0.062	1.144
2005	0.003	0.088	0.002	0.948	0.001	0.008	0.152	0.060	1.266
2006	0.003	0.097	0.003	1.004	0.001	0.006	0.139	0.056	1.314
2007	0.003	0.088	0.004	1.070	0.001	0.006	0.127	0.055	1.358
2008	0.003	0.095	0.003	1.206	0.002	0.005	0.125	0.052	1.494
2009	0.003	0.120	0.003	1.313	0.001	0.006	0.139	0.058	1.647
2010	0.002	0.125	0.004	1.479	0.001	0.005	0.139	0.056	1.814
2011	0.002	0.133	0.003	1.651	0.001	0.005	0.138	0.055	1.992
2012	0.002	0.135	0.002	1.603	0.001	0.004	0.132	0.050	1.934
2013	0.002	0.153	0.002	1.661	0.001	0.004	0.132	0.053	2.013
2014	0.003	0.159	0.003	1.697	0.001	0.004	0.130	0.059	2.06
2015	0.003	0.195	0.003	1.618	0.001	0.004	0.133	0.063	2.024
2016	0.003	0.217	0.003	1.648	0.001	0.004	0.126	0.064	2.071
2017	0.004	0.202	0.003	1.686	0.001	0.004	0.121	0.064	2.088
2018	0.004	0.201	0.003	1.667	0.001	0.004	0.120	0.061	2.064
2019	0.005	0.207	0.003	1.712	0.001	0.005	0.123	0.063	2.122

Source: Data is compiled from UNCTAD Stat Database.

As table shows the trend in the share of SAARC countries in the world export, it is evident from the table that the SAARC share in the world export has improved in the recent years. However, there has been a gradual pickup in share in total world exports but still lower share of SAARC

countries in total world exports. SAARC's share in world export varied between .99 in 2000 to the highest rate of 2.12 percent in 2019.

Similarly, the share of SAARC countries in total world imports picked up in recent years.

Table 4: Share of SAARC countries in World Imports (Value in Percentage)

Year	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	Afghanistan	Total SAARC
2000	0.017	0.133	0.002	0.774	0.005	0.023	0.163	0.094	1.215
2001	0.026	0.140	0.002	0.785	0.006	0.022	0.158	0.093	1.237
2002	0.036	0.128	0.002	0.848	0.005	0.021	0.168	0.091	1.304
2003	0.027	0.134	0.003	0.932	0.006	0.022	0.167	0.085	1.379
2004	0.022	0.126	0.004	1.052	0.006	0.020	0.189	0.084	1.508
2005	0.022	0.128	0.003	1.325	0.006	0.021	0.235	0.081	1.826
2006	0.022	0.129	0.003	1.443	0.007	0.020	0.241	0.083	1.951
2007	0.021	0.130	0.003	1.611	0.007	0.021	0.229	0.079	2.106
2008	0.018	0.144	0.003	1.949	0.008	0.021	0.257	0.084	2.488
2009	0.026	0.172	0.004	2.026	0.007	0.034	0.249	0.079	2.6
2010	0.033	0.180	0.005	2.271	0.007	0.033	0.245	0.087	2.864
2011	0.035	0.196	0.005	2.518	0.007	0.031	0.238	0.109	3.144
2012	0.048	0.183	0.005	2.624	0.008	0.032	0.236	0.102	3.242
2013	0.045	0.195	0.004	2.453	0.009	0.034	0.235	0.094	3.073
2014	0.040	0.215	0.004	2.429	0.010	0.039	0.249	0.101	3.092
2015	0.046	0.251	0.006	2.356	0.011	0.039	0.264	0.113	3.089
2016	0.040	0.276	0.006	2.232	0.013	0.055	0.289	0.118	3.031
2017	0.042	0.293	0.005	2.502	0.013	0.057	0.321	0.116	3.353
2018	0.037	0.305	0.005	2.594	0.014	0.064	0.303	0.112	3.437
2019	0.038	0.306	0.005	2.523	0.014	0.064	0.261	0.103	3.317

Source: Data is compiled from UNCTAD Stat Database.

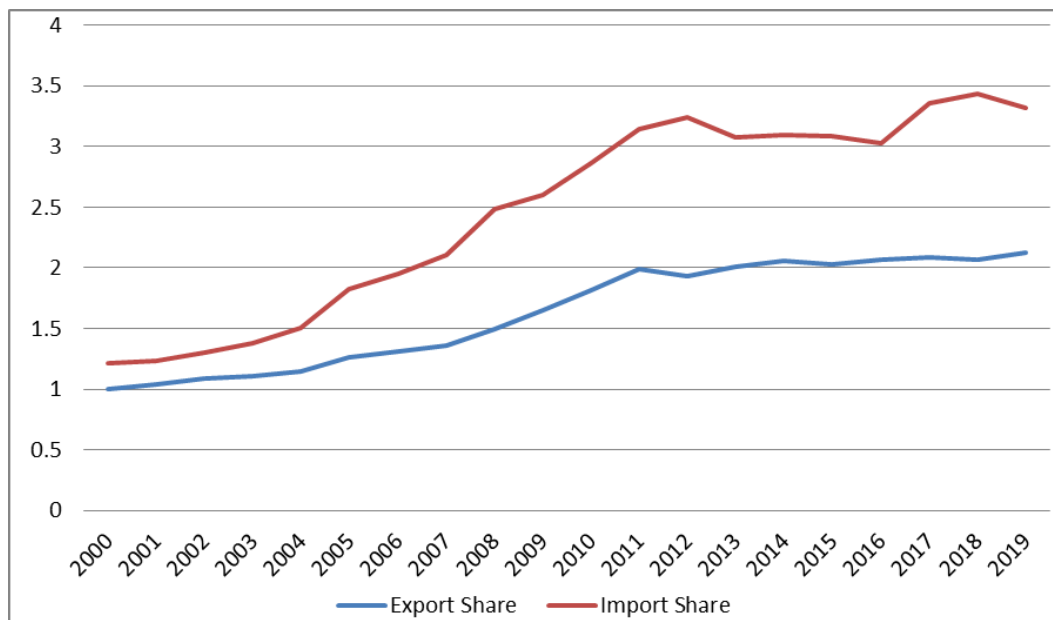


Fig 1: SAARC Trade Share In World Trade

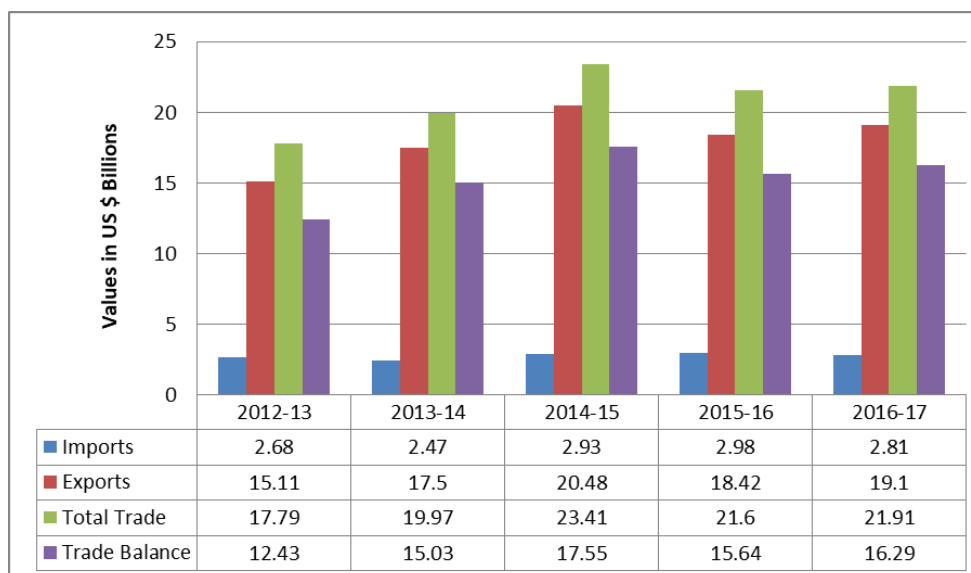
4.3 India's Trade Relationship within South Asia

Within South Asia, India is the most dominant country. Out of total imports of USD 510 billion, imports into India (from outside the region) were USD 391 billion, thereby accounting for 77% of the total imports into South Asia. Similarly, with total exports of USD 264 billion (to outside the region), India contributed 80% of the total exports of USD 329 billion from South Asia.

In addition to being the highest contributor to the exports

and imports to/from South Asia, India is also the largest economy in the region, having the highest population and the highest GDP growth rate. With other high growth economies such as Bangladesh and Sri Lanka in South Asia, the region is economically important from India's trade perspective.

India-South Asia trade in the last 5 years is summarised in the figure and table below:



Source: Directorate General of Foreign Trade, Ministry of Commerce, Government of India.

Fig 2: Trend of India and South Asia Trade

Table 5: Growth rate of India-South Asia Trade

Growth Rate (in percentage)				
	2013-14	2014-15	2015-16	2016-17
Imports	-8%	19%	2%	-6%
Exports	16%	17%	-9%	3%
Total Trade	12%	17%	-8%	1%
Trade Balance	21%	17%	-11%	4%

Source: Directorate General of Foreign Trade, Ministry of Commerce, Government of India.

4.4 Trend of India South Asia trade over the years

1. The imports into India from South Asia have not shown any substantial increase, except in 2014-15 when imports increased by around 19%.
2. On the other hand, the exports to South Asia have shown a consistent increase, except in 2015-16 where there was a decline in the quantum of exports by 9%, probably due to global factors.
3. Consequently, the bilateral trade jumped by 12% in

- 2013-14 and 17% in 2014-15, but declined by 8% in 2015-16.
4. The total trade between India and South Asia has increased slightly from USD 21.60 billion in 2015-16 to USD 21.91 billion in 2016-17.
 5. Imports declined marginally to USD 2.81 billion in 2016-17 from USD 2.98 billion in 2015-16.
 6. Exports increased from USD 18.62 billion in 2015-16 to USD 19.1 billion in 2016-17.
 7. The favourable trade balance increased from USD 15.64 billion in 2015-16 to USD 16.29 billion in 2016-17.
 8. India has consistently maintained a substantial trade surplus with South Asia over the period.

5. Conclusion

Enhancing trade in the South Asian region is not only economically beneficial, it is also strategically important in order to integrate India with the global economy. Regional integration in South Asia requires addressing several Non-Tariff Barriers to ensure the effectiveness of trade agreements. Furthermore, good practices from other regions must be tailored to the South Asian context to facilitate the resolution of reported barriers to trade. For India and her neighbors, a stronger political will is required to combat barriers to trade in the region, especially after the COVID-19 crisis, which may result in unleashing a new wave of protectionist measures.

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