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India’s Trade Ties with SAARC Nations

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INTRODUCTION

South Asia constitutes an ideal grouping for economic integration as it is a huge contiguous land mass crises-crossed by mighty rivers, with a wealth of natural resources, a variety of climatic conditions, and a common history and heritage, as also shared languages, literatures, and religions. The Indian sub-continent which constitutes the bulk of the region, has also inherited from the colonial period common institutional and legal infrastructures and a common physical infrastructure of roads, railways and inland waterways. These got disrupted disconnected at places, because of prolonged neglect, disuse and even deliberate destruction during periods of conflict. They can be resorted without much cost. South Asia has a market consisting of 1.3 billion consumers with rising incomes. And lastly, over the last two decades, there has been a convergence of the macro-economic policies of these countries and also diversification of their economies along similar lines. In spite of this, South Asia is latecomer in the arena of regional integration. The first wave of regionalism triggered, above all, by the signing of the Treaty of Rome in 1957, totally bypassed the region. Institutionalized regional cooperation began as late as in 1985 when the South Asian Association for Regional Cooperation (SAARC) was established. SAARC, by a political choice, shunned cooperation’s in the hard core economic areas of money, finance, trade and manufactures, until 1995, when after the completion of the first round of negotiations, the South Asian Preferential Trading Agreement (SAPTA) was launched. For almost a decade, SAPTA meandered along the unproductive course of commodity-by-commodity negotiations for reducing tariffs. Then came the South Asian Free Trade Agreement (SAFTA) at the end of Islamabad SAARC summit in January 2004 (Dubey, 2007).

As regionalism is regaining its momentum in different parts of the world, South Asian countries are increasingly becoming interested in regional cooperation to achieve expanded trade and economic growth in the region. The Seven South Asian Nations, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka formed the South Asian Association for Regional cooperation (SAARC) at 8 December, 1985 to promote regional cooperation (Govindan, 1996). It is evident that South Asia compares reasonably well with other regions in terms of GNI purchasing power parity (PPP) and per cent rate of growth over 2002-03. South Asia has the third largest GNI in PPP terms after East Asia and Latin America and has registered the second highest growth rate next only to East Asia. Given its growing economic strength, South Asia hasthe potential to form a regional economic grouping. Intra-Regional trade in South Asia has however been very low. Among all regions, South Asia is the least integrated when measured as a share of GDP (Batra, 2007).

Historical Perspective of Indian Trade

India is the world's second most populous country (after China) and the seventh largest in area. With a land area of 32, 87, 263 sq. km, India is about 3,000 km(1,875 mile) long and 3,000 km wide and has, because of its projecting shape, shore line of about 7,000 km(4,400 mile) along the Bay of Bengal on the east and the Arabian Sea on the west. The land border of about 5,700 km(3,600 mile) is shared with Pakistan on the west- by China (mostly Tibet), Nepal and Bhutan on the north and by Bangladesh and Myanmar (Burma) on the east. The Indian island groups of Lakshadweep are off the western coast and the Andaman and Nicobar Islands are situated in the eastern part of the Bay of Bengal. India has a rich and varied minerals-resource base. Coal and iron ore are rich and located close to each other in the Chita Nagpur Plateau in the eastern peninsula. Manganese, lignite, copper bauxite, kyanize, fire clays, mica, and lime grits are found in large numbers. India is centrally located in the Indian subcontinent, sharing land borders with four of the SAARC countries, namely Pakistan, Nepal, Bhutan and Bangladesh while the latter do not share common borders with each other. This

187

ISSN:0971-1260
Vol-22-Special-Issue-27-December-2019

naturally makes South Asia an Indo-centric region. India's projecting regional position is also patent in its population size over one billion population, its being the fourth largest economy in the world with over 8 percent economic growth rate (2005-2006) and a difficult military power with a large pool of technical and technical manpower as well as its impressive information technology (lT), space and defense based abilities.(jain2007)

INDIAN APPROACH TO THE SAARC

India has always adopted a low-profile in the SAARC set up so that wrong signals do not go out to other member countries that it desires to dominate the region as a hegemon. This is evident from institutional arrangements at SAARC. For example, New Delhi did not come in the way of setting up of the SAARC Secretariat in Kathmandu despite the fact that India possessed far better infrastructural facilities, better communication and transportation means and more animated media and intellectual environment. Also India did not express its desire to have its first Secretary General to SAARC, rather preferring his appointment in an alphabetic order to avoid any misunderstanding among member nations about India. It is also significant to note that despite being a leading country in agriculture science, India allowed the establishment of SAARC Agricultural Information Centre (SAIC) at Dhakainl988. India has been consistently endeavoring to make South Asia a prosperous region economically and also to make it a stable and peaceful region by addressing common problems and threats facing all member nations. This apart, India has emphasized on the imperative of people-to-people contact including the role of NGOs in order to boost government efforts for regional cooperation. In his speech at the second SAARC summit, as a chairperson, at Bangalore India in 1986, Rajiv Gandhi pointed out Regional cooperation cannot merely emerge from the fiats of leaders. It has to grow from contacts between professionals at all levels. Indian perceptions were shared by other members. Consequently, regional apex bodies of professionals like SAARC Chamber of Commerce and Industry (SCCI), SAARCLAW, an association of South Asia's legal communities, and Association of SAARC Speakers and Parliamentarians, have been set up under SAARC.

OVERVIEW OF SAARC COUNTRIES

The South Asian region (as defined by SAARC) constitutes about 23 per cent of the world's population and has 15 per cent of the world's arable land, but only 6.0 per cent of Purchasing Power Parity (PPP) based global gross domestic product (GDP) and account for around 2.0 per cent of world goods trade, and around 3.0 per cent of world foreign direct investment. The South Asian region is extraordinarily diverse in terms of country size, economic and social development, geography, political systems, languages, and cultures. Three of the eight countries under South Asian region, viz., 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.

The region translated itself from a position of slowest growing region during the 1960s and the 1970s to one of the fastest growing regions in the world since the 1980s. In terms of GDP growth, the South Asia has performed robust growth over the years among the low income countries. As per the World Bank database, during the 1960s, GDP growth in the region was placed at 4.2 per cent as compared to 5.4 per cent at the global level. Except during the 1960s and 1970s, the GDP growth in South Asia was higher than those of the world output growth till 2008. The growth in South Asia had been sustained at an average of 5.4 per cent during 1980-1999 followed by higher average growth of 6.8 per cent during 2000-08.

Reflecting growing savings, the gross capital formation of South Asian economies almost doubled from 15.1 per cent during the 1960s to 29.1 per cent during 2008 as against a decline from 23.1 per cent to 21.5 per cent during the same period at the world level. However, some economies of the region, viz., Afghanistan, Nepal, Bhutan and Bangladesh still depend on foreign savings/aid for financing their resource gaps.

As regards fiscal position of the South Asian region, at present, all countries have fiscal deficit. Some of the economies of the region are highly sensitive to external and natural shocks. For instance, the deteriorating fiscal balance on account of reconstruction projects undertaken in the aftermath of tsunami in recent years was a major concern in Maldives. The fiscal deficit for Maldives was at 15.7 per cent of GDP in 2008. Similarly, it has been noted that fiscal position of Bhutan is quite sensitive to project-specific revenues and expenditure of the

188

ISSN:0971-1260
Vol-22-Special-Issue-27-December-2019

government. The budget deficit was at 3.2 per cent of GDP in 2008. In Pakistan, despite overall improved revenue position, a sharp increase in current expenditures led by interest payments and continued expansion in development spending kept the fiscal deficit at 7.4 per cent of GDP in 2008. Continued modernisation of revenue administration broadened the tax base in Sri Lanka, which along with lower than expected expenditure, contributed to some reduction of the fiscal deficit to 6.8 per cent of GDP in 2008 as compared with the previous year. In Bangladesh, revenue collection slipped and total spending was contained by a reduction in outlays for the annual development program, which kept the fiscal deficit at 4.7 per cent of GDP in 2008. The budget deficit remained steady at 2.0 per cent of GDP in Nepal during 2008 despite increase in expenditures during the year. The fiscal position in India, both at Centre and States, was undergoing consolidation (till the outbreak of the recent financial crisis) in terms of targeted reduction in fiscal deficit indicators under the Fiscal Responsibility and Budget Management (FRBM) Act. As per the revised estimates, the gross fiscal deficit (GFD) and revenue deficit (RD) of Central Government for 2008-09 were placed higher at 6.0 per cent and 4.5 per cent of GDP, respectively, mainly on account of the recent fiscal stimulus and the 6th Central Pay Commission awards.

All South Asian countries, except Nepal, Bangladesh have largely incurred current account deficit (CAD). CAD as a ratio to GDP is highest in Maldives despite a net surplus in services trade, most of which comes from tourism that had financed the trade deficit until 2004. Even though tourism earnings recovered to exceed the pretsunami level in 2007, larger services payments and the expansion in imports meant that net services covered only about 40 per cent of the trade deficit. The CAD in Maldives, therefore, widened further to 51.4 per cent of GDP in 2008. In Afghanistan, the current account deficit was at 1.6 per cent of GDP in 2008. The current account surplus in Bangladesh increased to 1.9 per cent of GDP in 2008 resulting from narrowing trade deficit and higher remittance inflows. In Nepal, the current account turned into surplus at 2.7 per cent of GDP in 2008 on account of narrowing trade deficit and higher remittance inflows. In Pakistan, the current account deficit is under pressure because of higher oil import bill and deteriorating income and services accounts, despite moderate growth in exports and continued strong receipts of workers' remittances. During 2008, CAD as rates to GDP stood at 8.4 per cent in Pakistan. The trend of strong remittance growth in Sri Lanka since 2004 reversed in 2008 on account of global financial crisis. In 2008, the CAD as a ratio to GDP widened to 9.4 per cent of GDP in Sri Lanka. In India, although the trade deficit widened during 2008-09, it was offset by a steady inflow of remittances and a higher surplus from exports of services such as software and business services, though their expansion in earnings was reduced from the rapid rates seen in previous years. During 2008-09, the widening of the trade deficit mainly led by imports resulted in a higher level of CAD which stood at US$ 28.7 billion or 2.4 per cent of GDP (US$ 17.0 billion or 1.5 per cent of GDP in 2007-08).

Despite a number of substantial reforms undertaken in South Asian economies in recent period, the region remained one of the poorest in terms of per capita income. Furthermore, the region has significantly lagged behind in the field of infrastructure, social provisions and working of the institutional set-up. Only the Sri Lankan economy is exceptional. Sri Lanka is exceptional not only in South Asia, but in the developing world. It has achieved high literacy and low infant and adult mortality rates and continues to provide universal health and education coverage and in its commitment to gender equality and social development. Its current levels of human development indicators are comparable to those of high-income countries (Srinivasan, 2004).

Table 1: Macroeconomic Indicators of SAARC Economies:

Items	**AFG**	**BD**	**BT**	**IND**	**MALD**	**NEP**	**PAK**	**SRL**
1	2	3	4	5	6	7	8	9
Real GDP Growth, %	3.4	6.0	5.0	6.7	6.3	5.3	2.0	6.0
GDP Per Capita (Current Prices US$)	419	522	1789	1020	3653	455	1022	1972
GDP (PPP) % of World Total	0.03	0.3	0.005	4.7	0.002	0.05	0.6	0.1
CPI Inflation, Average, %	26.7	7.7	8.3	8.4$	12.3	7.7	12.0	22.6

189

ISSN:0971-1260

Vol-22-Special-Issue-27-December-2019

Fiscal Balance, % of GDP, FY Basis	-4.1	-4.7	-3.2	-6.0	-15.7	-2.0	-7.4	-6.8
Merchandise Export, % Growth	18.9	17.4	4.4	13.7	45.2	9.3	18.2	6.5
Merchandise Import, % Growth	12.1	25.6	27.4	19.4	26.6	24.1	31.2	24.0
Current Account Balance (US$ Billion)	-0.2	1.9	-0.03	-28.7	-0.6	0.3	-13.9	-3.7
Current Account Balance, % of Gujarat	-1.6	1.9	-2.2	-2.4	-51.4	2.7	-8.4	-9.4
Debt Service Ratio, % of Exports	1.2	3.2	18.5	4.4	5.1	10.1	12.2	14.3
Reserves (Excluding Gold), US$ Billion, End-Period	3.5	6.1	0.6	242	0.2	2.5	8.6	1.8

Source: World Economic Outlook, International Financial Statistics, IMF and Asian Development Outlook, ADB.

This paper examines the bilateral trade relations between India and SAARC countries taken cumulatively, with emphasis to the recent trends and progress. The aim is to ascertain their trade growth, composition and potentialities and how it compares with the South Asian regions' trade. In recent years the India-SAARC economic relation has taken a new direction not seen in their old age historical relations since the immediate post- independence era. This led to a number of researches on India-SAARC trade. However less attention was given to evaluate the actual trade potentialities existing between them and this research is attempted explore the magnitude to which trade could exist between the two trading partners.

Objectives of the Study:

The present study focus on the performance of SAARC trade relation with India. The main objective of the study is to analyze the India's exports and import to SAARC nations.

REVIEW OF LITERATURE

Taneja, Pohit, Sarvanthan analyzed about free trade between India and srilanka and characterizes of formal and informal trading between India and Srilanka. the study shows that transaction costs informal trade could enhance trade between the two countries.. Formal trade between India and Srilanka could be enhanced by lower transaction cost through lower market information and search costs, reduction of tariffs, improvements in the transacting environment of formal trade.

Noor, Shah, Khan, Ali describe 15th SAARC summit was held in Sri Lanka capital Colombo with the 8 other member states, Afghanistan , Bangladesh , Bhutan ,India, Maldives ,Nepal and Sri Lanka. They focused on terrorism, food security, energy and other issue like human trafficking, poverty reduction and to establish better cultural and trade relation. Indian prime minister Manmohan Singh urged the member countries to jointly fight against the menace of terrorism, which he had described is the single biggest threat to stabling in the region and discommend the previous month's bomb attack at the Indian embassy in Kabul Afghanistan, is a result of which some be people had been killed, the leaders of the SAARC member states reaffirmed their commitment to

190

ISSN:0971-1260
Vol-22-Special-Issue-27-December-2019

be principals and objective enshrined in the SAARC charters. They pledged to continue effect to boast economic growth, social program and cultural development .which would promote the welfare of the people of south Asia and improve .their quality of life, there by contribution to peace, stably, amity and program in the regions. Besides ,it covered areas of regional cooperation's, partnership for growth ,connectivity ,energy ,environment ,water recourses ,poverty alleviation ,SAARC development fund ,transport, information at communication technology development SAFTA and trade facilitation tourism, and other social cultural issues.

Jain, report regarding 4th SAARC summit which declared at Islamabad in Pakistan 29-31 December 1988 and the head of Gov. .The Heads of the State or Government expressed their deep satisfaction at the progress achieved by the Association since the last Summit. They reiterated their commitment to the SAARC Charter and renewed their determination to cooperate in promoting the welfare of the peoples of South Asia and to improve their quality of life by eradicating poverty, hunger, disease, illiteracy, unemployment and environmental degradation. And they welcomed the establishment of the SAARC Agricultural Information Centre (SAIC), as well as the steps being taken for the establishment of other regional institutions. Government reviewed the progress on the Situation of Children in SAARC countries. Especially for girl child that's why they decided to declare 1990 as the "SAARC Year of the Girl Child". And they give concrete basically to the objectives of SAARC. In this context they emphasized the need to progressively carry out SAARC activities within a broad framework long-term perspective and to harmonize their efforts to ensure tangible benefits to the peoples of South Asia as a whole. In last for conclusion in the Geneva Conference on Disarmament of a Comprehensive Test Ban Treaty and a Convention to Ban Chemical Weapons. They decal- red their intention to continue their efforts to contribute to the realization of the objective of halting the nuclear arms race and eliminating nuclear weapons. They declared their resolve to support every effort to conclude a treaty prohibiting vertical and horizontal proliferation of nuclear weapons.

Dash, outlines the possible reasons for the failure of the SAARC to rise beyond a mere platform for annual talks and meetings between its members. The highlights of the book, which is centered on comprehending the problematic of multilateral cooperation in a region beset by mutual antagonism and hostility, are expressed in great detail in eight chapters. Dash has argued that the failure of SAARC to cooperate on institutional lines is due to India-Pakistan political rivalry. One, the motive behind the constitution of the SAARC as a regional forum a lead that was taken by Bangladesh, Nepal and Sri Lanka in the early 1980, to create a buffer, the logic of entrapment to check the rise of India as a regional hegemon. Two the India-Pakistan axis a relationship based on structural asymmetry national security and 'security complex' which is creating greater conditions of instability in the region. And India gropes with the 'Kashmir' factor with Pakistan it has conflict with Bangladesh over the sharing of the Ganges, Moor Island, refugee influx and 'provocative' nature of border patrolling. The book highlights interesting facets notably the role of China, USA in the SAARC region the band was going against India by Sri Lanka, Bangladesh and Nepal, seeking local hegemon to receive economic assistance and military capability in the context of a general decline in India's hegemony to dominate South Asian region. Dash suggests that SAARC can yet remain purposeful if one recognizes Indian leadership in the region solve Kashmir issue create CBM's between India and Pakistan address the asymmetrical equation of security in the region and India to forge an extra regional security to build bridges of trust and cooperation to address common concerns such as drug trafficking, terrorism, human trafficking, nuclear security etc.

Ali, D.K focus on region accounts for a very insignificant share of world trade but persistent high levels of tariff barriers. Thus, preferential trade liberalization is more likely to bring about trade diversion than trade creation leading to more gains for large countries and more losses for small countries. Further, trade policies of individual countries are shaped more by political considerations than economic factors Therefore, implementation of a free trade area and deriving benefits from it will be challenging. And they have found that except India, all other major SAARC countries like Bangladesh, Pakistan and Sri Lanka show a low and declining trend of trade intensity index. India shows higher intra-SAARC trade intensity in 1994 than that in 1985. They argue that increase in this index for India seems to be due to trade reforms as part of economic reform resulting in the increase in economic growth. It is argued that large countries like India and Pakistan have relatively high levels of trade with the rest of the world and their import demands are relatively elastic and therefore they gain more from trade creation than they lose from trade diversion. Small countries like Bangladesh and Sri Lanka lose because of relatively low level of trade creation and diversion capability. The other three countries Bhutan, Maldives and Nepal have very insignificant influence over intra-regional trade due

191

ISSN:0971-1260
Vol-22-Special-Issue-27-December-2019

to their very small size of their economy. In the last he judge South Asia is a large regional bloc with huge potential but achievement in regional economic integration is insignificant so far. In a static sense, small countries may lose and large countries may gain from a free trade area. The static welfare effects should not be the sole criterion for judging a discriminatory trading area.

Hassan, Antoine, Mehanna, Basher estimated a gravity model of international trade to examine whether intra SAARC is lower or higher than what is predicted by economic model. This gives an idea about the structure of comparative advantage in the SAARC countries that help us to explain why intra SAARC trade is low and how trade among them can be increased. It also helps us to understand the possibility of trade creation and trade diversion effect resulting from SAPTA among SAARC countries. The study will have important implications for policy making about the future course in economic cooperation among the SAARC countries the usual presumption is that the national goal is to maximize national economic welfare, most conveniently measured by GNP. Economists continue to believe that worldwide free trade is the first-best strategy. Arguments are made that in the presence of imperfect competition, increasing returns to scale, and endogenous technology, an individual country can theoretically raise economic welfare by imposing just the right tariffs or subsidies. The rise of regionalism has understandably raised the specter of exclusionary blocs and concern over the danger of trade diversion. This paper has asked whether there are grounds for drawing such inferences from the history of regionalism in the SAARC countries. A striking feature of the SAARC economies is that the volume of intra-regional trade is very low and the dependence on the industrialized countries considerable. And estimate TC between SAARC partners and TD as a result of SAPTA is partial equilibrium.

Tahir, written on the South Asian Association for Regional Cooperation (SAARC) In newspapers and Journals, there have been hardly any books published on the evolution, organization, structure and the problems facing this regional arrangement which was launched in 1980. circumstances, the formation of SAARC is therefore a great step forward towards overcoming Intra- regional hostilities and rivalries and for the betterment of the lot of the masses in the region through economic, technological and cultural co- operation . India to further develop its hegemonistic ambitions in the region, the latest examples of these ambitions being the Indian military intervention in Sri Lanka and the Maldives - both countries belonging to the SAARC .The disputes between India and the other countries of SAARC - Pakistan, Bangladesh, Sri Lanka, Bhutan, Nepal and the Maldives and expresses the hope that India realizing the implications of military intervention in its neighboring South Asian countries, would henceforth adopt a policy of non-intervention in their affairs so that the SAARC spirit could be kept alive. Author says that it is understandable that India being the largest country in the region expects to be regarded as the leader of the South Asian group not only in the SAARC but in other international forums as well, including the Non- Aligned Movement. The author emphasizes that the most important and primary objective before SAARC is to make genuine progress towards the creation of good- will and understanding amongst member states. This would in turn lead to "the process of enhancement of overall stability" and bear positive results in economic, social, scientific and other fields.

Moktan, focus on further trade integration among SAARC member nation, clearly signalized by the positive impact of trig seen in the past –SAPTA period. The scope of this paper was solely to determine the impacts of some specific variable of interest and evidencing result from within the SAARC bloc. SAARC should take a more holistic and forward –looking approach to attain the goal of outshining post-SAFTA benefit by including deeper forms of integration in other trade facilitation measure, such as service, energy institution and infrastructure development and investment cooperation. south Asian association for regional cooperation SAARC was conceived with the primary aim of strengthening regional cooperation, promoting political stability, accelerating economic growth and reduce poverty although the developing nation in the bloc has been taking painstaking endeavors to implementing reforms and enhancing intra- regional trade through bilateral trade agreement, however, researchers argue that these objectives remain as elusive as it two decades ago. While the focus of this paper was mainly to see the impact of trade agreements on exports, other fitting macroeconomic variable affecting human development, such as education, health, gender issue, environment, etc. could well be considered. This is only a beginning for further problem.

Hassan, describe synopsis of Bangladesh trade with the south Asian association for regional cooperation SAARC countries and of its policies regarding bilateral and global trade. It nil also examine .the trade policies of Bangladesh with special reference to both normal and effective tariff .levels and non – traffic barrier that hinder the growth of Bangladesh global trade with its neighboring countries. and in the area of exports, for a

192

ISSN:0971-1260

Vol-22-Special-Issue-27-December-2019

number of commodities SAARC member .countries compete intensely with one another in the international market ever among .non-oil producing developing countries .the trade share of SAARC countries is no. more 4% to5% .The level of regional investment by the SAARC countries has been very low. But the SAARC countries compete with each other for similar type of foreign investment .the lack of internally generated foreign exchange in many of the SAARC countries means that most of the funds needed to finance imports must be obtained abroad trade .in the region is also inhibited by structural rigidities created by political .the SAARC can open up some profitable intraregional trouble channels .a major problem with the countries trade is the narrow export base ,and also concentration of exports in a few .developed country markets .in order to reduce the huge trade deficit with India Bangladesh should ,among other things ,devalue its currency further, stop border smuggling ,seek reduction .in tariff and non -tariff barriers on Bangladesh exports to India, encourage more Indian investment in Bangladesh and make the SAPTA more meaningful and Operational.

Batra,The article propose India as an anchor economy that can connect south Asia with east Asia to form an axis a-wide free trade arrangement it suggest a review of the existing agreement like the Bangkok agreement and the bay of Bengal initiative for multi- sectorial technical and economic cooperation in team of membership AND SECTORAL cover is these can act as potent instrument in facilitating the south Asian-east Asia economic integration . to achieve its stated objective of strengthening intra- SAARC economic cooperation and restriction of the regions potential for trade and development of their people however the scope of the SAFTA agreement needs to be enlarged to include investment . Facilitation and provisions for liberation of services. At the sub-regional test, the major initiative is BIMSTEC, BIMSTEC. Comprises both SAARC and ASEAN and in fact act as a bridge between the two ,it can emerge as a bridge between the more inward oriented south –east and east Asia. Through this route India , followed- by SAARC can reach out to the south-east Asian region and beyond to the Asia-pacific community .the BIMSTEC draft FTA agreement provides for inter alia a two –track tariff reeducation ‘elimation programmed , liberation of trade in service , investment and cooperation in identified sector of technology , transportation and communication , energy , forum and fisherman , the time line for negotiation for tariff reeducation and investment and service has been pre-specified. The BIMSTEC agreement therefore, holds prospects for a much larger pan –Asian economic cooperation in the long run.

Hooy and Choong (2010) investigated the impact of exchange rate instability between fourmembers of South Asian Association for Regional Cooperation (SAARC),Bangladesh, India, Pakistan and Sri-Lanka. The study found strong evidence of a significant long run relationship between export flows, and the explanation variables in the export demand functions. Trade in South Asian countries world income, relative price, real exchange rate and real exchange rate volatility play. significant roles in influencing exports decisions by produces in the SAARCregion and the world income was significant and positively related to real export and estimated relative price and real exchange rate variable provide price and real exchange rate variable provide mixed result and were significant in the most case.

Tanwa and Pohit (2002) described the characteristic of India in formal trade with Nepal. The study carried out on the basis of an extensive survey conducted in India and Nepal .the survey revealed that goods to trade from India to Nepal were procured by and large from India states ’Bihar, Uttar Pradesh ,and West Bengal and bordering Nepal .on the other hand, goods traded informally from Nepal to India were by enlarge goods originality in third countries the most important ones being China, Japan, Thailand, Hong Kong and Singapore revealed that informal traders in India and Nepal had developed efficient mechanisms for contracts enforcement, information flows, risk sharing and risk mitigation, further informal traders preferred to trade through the informal channel because the transaction cost of trading in the informal channel were significantly lower implying that informal trade took place due to the inefficient institutional setup in the formal channel

Jain (2005) investigated India had undertaken moderate policy initiatives with respect to SAARC activities and pursed accommodative policy to inspire confidence among its neighbor in order to help fulfill SAARC’s cherished goods, India had however not achieved the desired outcome in its endeavors the success of SAARC will hinge on an enduring peace between the two major powers, India and Pakistan, in the region as well as determination of the leader to strengthen the SAARC in promoting shared regional interest. India had therefore, advocated such cooperation extending into regional economic integration in order eliminate poverty, raise people living standard and uses in regional prosperity.

193

ISSN:0971-1260

Vol-22-Special-Issue-27-December-2019

Monhanan (1990) examined without common political orientation and threat perception, functionally oriented regional forum could be established without much trouble. SAARC had become an exciting innovation in the realm of regionalism. What with remarkable and unique model function association in a unique region, the broad consensus existing over a few issues in international political and economic relations, notwithstanding the fact of political- strategic divergence. However, institutional mechanism resembling the ASEAN structure should not be connected at this juncture should .prior to the formalization of external relation, informal personal consultations. At the higher levels and periodic meeting of officials and ministers of SAARC states required to be encouraged .the relaxed atmosphere interest informal contents would help develop personal report of the personalities involved in the process of community building. In short, community formation in SAARC's external relations was certainly an uphill task.

Pillai (1989) described the power that participated in these conference agreed that the new organization should be give unquestionable authority to deal with the issue of war and peace right form the begin the SAARC has been plagued by tension from within these tension existed before, during and after the formation of SAARC several factor, political, economic religion and ethic contributed to these tension .like a shadow the tensions followed SAARC at its summits at Dhaka, Bangalore and kathmandu reducing its deliberation to mere paper declaration .the give three reason of conflicts first there are the legacies of colonialism second conflicts which arose as the newly independent countries of the sub-continent sought to develop their national identities and strengthens their security thirdly the fact that the lack of an adequate conflict mechanism allowed disputes between states to escalate one of the main reason they give geographical imbalance no other geographically region is influenced by a single power as much as South Asian is by India. The latter is not only the largest strongest and must developed country in South Asia, it's also constitutes the core of the region and ethnic tension like Hindu-Muslim riots or Bengali-Urdu dictator which lead eventually to the breakup of Pakistan.

Taneja and Aawhney (2007) described India should take the lead in revitalizing SAARC trade since the only other option for member countries is to live with the inadequacies of the trade liberalization process in SAARC summit, the opportunity to take appropriate measure to rejuvenate intra SAARC trade since India was perceived as a country that imposes the maximum non-tariff barriers in the region a nation shared by government of SAARC countries industry bodies and academic studies, the country establish a new image in the region by addressing the barriers to goods liberalization, India could region the trust of other member countries a precondition for any further widening and deepening of the integration process in South Asia. Since most countries in the regional was unilaterally liberalizing tariffs at a much faster rate than is envisaged under safta the focus would had to be on the removal of pure- tariffs and other non-tariffs barrier for any substantial gain in intra- regional.

Jain (1997) examined Japan's overall influence on the nation of South Asia and broadly considers its relationship with the region in the postwar period, with an emphasis on development since the end of the cold war .South Asia comprises those nation that was member of the South Asian association of regional cooperation SAARC. Japan's relation with the South Asian region had undergone portentous change in recent decades because japan, had become a global economic super power, with the world's second largest economy when one break Asia down into sub-region Japan's economic influence in South Asia was nowhere near as strong as in the south sub region. in finding this article all Japan's relation with South Asian countries could be compared to two acquaintance whose friendship was limited to an exchange of holidays greeting .at this japan and South Asia have ignored each other because of the more immediate importance of their relationships with third nation, with whom they already have well establish and supportive connection that serve their own interests am matters of trade,aid or in diplomatic and political areas. there had been renewed interest on both sides now that japan was an accepted economic super power and South Asian are opening up their economics, the economics relationship was likely to strengthen the more the business environment improve in South Asia the greater will be the chances for attracting Japanese business.

Taneja (2001) described informal trade in SAARC region and India a trade surplus with all the South Asian countries on the official trade account it had surplus with Bangladesh,Pakistan and Bhutan, a deficit with Nepal and an almost balanced. Trade with Sri-Lanka. Due to the high tariff with in the SAARC region encouraged informal trade across border .high tariff rate create a strong incentive to avoid the formal channel in order to evade tariff. Tariff on both primary and manufactured goods werehigh for India, Bangladesh and Pakistan. On the other side low performance of intra-SAARC trade was not due to high tariff alone, but due to the presence of

194

ISSN:0971-1260

Vol-22-Special-Issue-27-December-2019

non-tariff barrier mostly in the form of quantitative restoration that why the informal trade flow take place due to tariff and non-tariff barrier one way to do so would be to relax the rules of origin so that trade that takes place through flouting of such rules shift to official channels the absence of synchronized fiscal policies and the presence to make informal trade remunerative countries in the region will have to make a concerted effort. Towards synchoruisy both trade and domestic polices in order to convert informal trade flows to formal flows.

Taneja,(2005) investigated two key facts of informal trade and its magnitude and factors determining such trade this article analysis the implication of informal trade for fats. Informal trade between India and Pakistan believed to be the largest is a subject area where not much information exists. India and Nepal have a long history of bilateral fetas signed since 1961, but these agreements have focused only on unauthorized trade in third country goods with clear reference to flow of goods informal from Nepal to India.The implementation of safta and other bilateral trading arrangement would lead to a reduction in informal trade flows in the last they say while the most recent estimate on the magnitude of informal trade indicate that informal trade has declined, further reduction of tariffs, improvement in the transacting environment of formal trade, improving aberrance and education levels and improving information dissemination would lead to a decline in informal trade is unlikely to be totally eliminate because ethic trading networks between trading partners would continue to facility informal trade by reducing transaction cost through minimization of risk cost, market information and search cost.

Amjad and Zia Khan (2004) described the scope and promise of economic comparison between theSAARC region countries. Descriptive statistics was used to provide the evidence for the argument that very high share of trade in the ump of the region's economic exposed them to external shocks in a potentially rainfall manner,and these countries ought to be paying greater in region to inerrancy the size of their economies. In order to determine the importance of the external sector in the economies of the regions, a simultaneous equation motel in formulated and estimated .the coefficients of two of the three external sector variables included in the model, namely, export earnings and trade balance turn out to be significant providing the evidence on the importance of the external sector in the economic growth of the SAARC region countries. the agreement was substantive with the help of inferential statistics, providing the evidence that exports to SAARCcountrieswere positively related with the economic growth of Pakistan .the simulation output also show that increasing and diverting the country's exports to the SAARC region had positive impact in terms of growth projection by estimating and simulating another model, it was inferred that in the short run, diverting exports to both the SAARC and ASEAN region countries appear to be a viable strategy to help Pakistan move towards greater integration within the SAARC region and that the SAARC forums must make meaningful progress in term of delivering concrete result.

Database and Research Methodology

TRADE INTENSITY INDEX (TII)

The trade intensity index (TII) is used to determine whether the value of trade between two countries is greater or smaller than would be expected on the basis of their importance in world trade. It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the, partner. It is calculated as:-

$$\boldsymbol{T_{ij}} = \frac{\boldsymbol{X_{ij}} / \boldsymbol{X_{it}}}{\boldsymbol{X_{wj}} / \boldsymbol{X_{wt}}}$$

Where:-

Xij and Xwj are the values of country i's exports and of world exports to country j

195

ISSN:0971-1260

Vol-22-Special-Issue-27-December-2019

X it and Xwt, are country i's total exports and total world exports respectively.

An index of more than one indicates a bilateral trade flow that is larger than expected whereas index of less than one indicates a bilateral trade flow that is smaller than expected, given the partner country's importance in world trade.

REVEALED COMPARATIVE ADVANTAGE

Revealed Comparative Advantage Index shows how comparative is a product in countries export compared to the products share in world trade. A product with high RCA is competitive and can be exported to countries with low RCA. Measures of Revealed Comparative Advantage (RCA) have been used to help assess a country's export potential. The RCA indicates whether a country is in the process of extending the products in which it has a trade potential, as opposed to situations in which the number of products that can be competitively exported is static. It can also provide useful information about potential trade prospects with new partners. Countries with similar RCA profiles are unlikely to have high bilateral trade intensities unless intra-industry trade is involved. RCA measures, if estimated at high levels of product disaggregation, can focus attention on other non-traditional products that might be successfully exported The RCA index of country `i' for product j is often measured by the product's share in the country's exports in relation to its share in world trade:

$$\boldsymbol{T_{ij}} = \frac{\boldsymbol{X_{ij}} / \boldsymbol{X_{it}}}{\boldsymbol{X_{wj}} / \boldsymbol{X_{wt}}}$$

Where Xij and Xwj are the values of country i's exports of product j and world exports of product j and where Xit and Xwt refer to the country's total exports and world total exports. A value of less than unity implies that the country has a revealed comparative disadvantage in the product. Similarly, if the index exceeds unity, the country is said tohave a revealed comparative advantage in the product.

The present study is based on merchandise exports between India and SAARC using various methodologies.

Table 4.1: Intra Industry Trade:

Year	**India's exports to SAARC**	**India's import fromSAARC**	**Intra Industry Trade**
2005	5399782665	1379696489	0.407
2006	6232731865	1499051477	0.388
2007	7848397822	1712901989	0.358
2008	10130441472	2180010396	0.354
2009	7373574102	1515493962	0.341
2010	11114203454	2063704449	0.313
2011	12937534635	2501198169	0.324
2012	13738379329	2297013291	0.286
2013	16899973703	2156246075	0.226

Source: UNCOMTRADE

Table 4.1 shows the Index of Intra Industry Trade. An index of more than one indicates a bilateral trade flow that is larger than expected whereas index of less than one indicates a bilateral trade flow that is smaller than expected, given the partner country's importance in world trade. In 2005, index was less than one (>1), which shows that bilateral trade flow is smaller than expected. In 2013, again index was less than one (>1), which shows that there was continuous decrease in bilateral trade flow.

196

ISSN:0971-1260

Vol-22-Special-Issue-27-December-2019

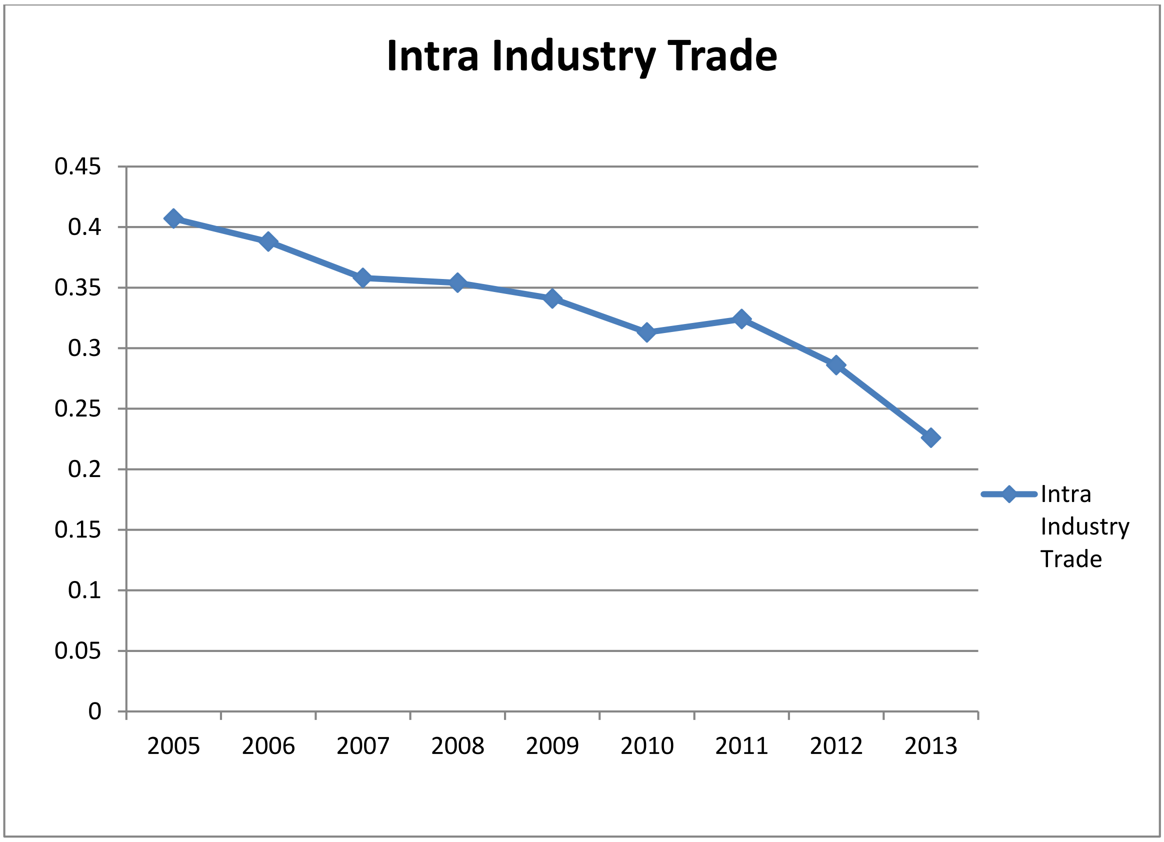


Figure- 4.1

On the basis of Intra Industry Trade methodology used, it is clearly visible that the India has low or less than 1value of IIT (Intra Industry Trade) values with SAARC nations, which ultimately reveals the lower bilateral trade flows between India and SAARC. There may be any reason behind the continuous falling of IIT rates from 2005 to 2013, shown in the diagram. The reasons may be due to political, regional, economical issues or geographical conditions. Now the trade potential between India and SAARC nations can be more deeply study with another methodology called RCA (Revealed Comparative Advantage).

Table 3: India's Export Values in terms of RCA

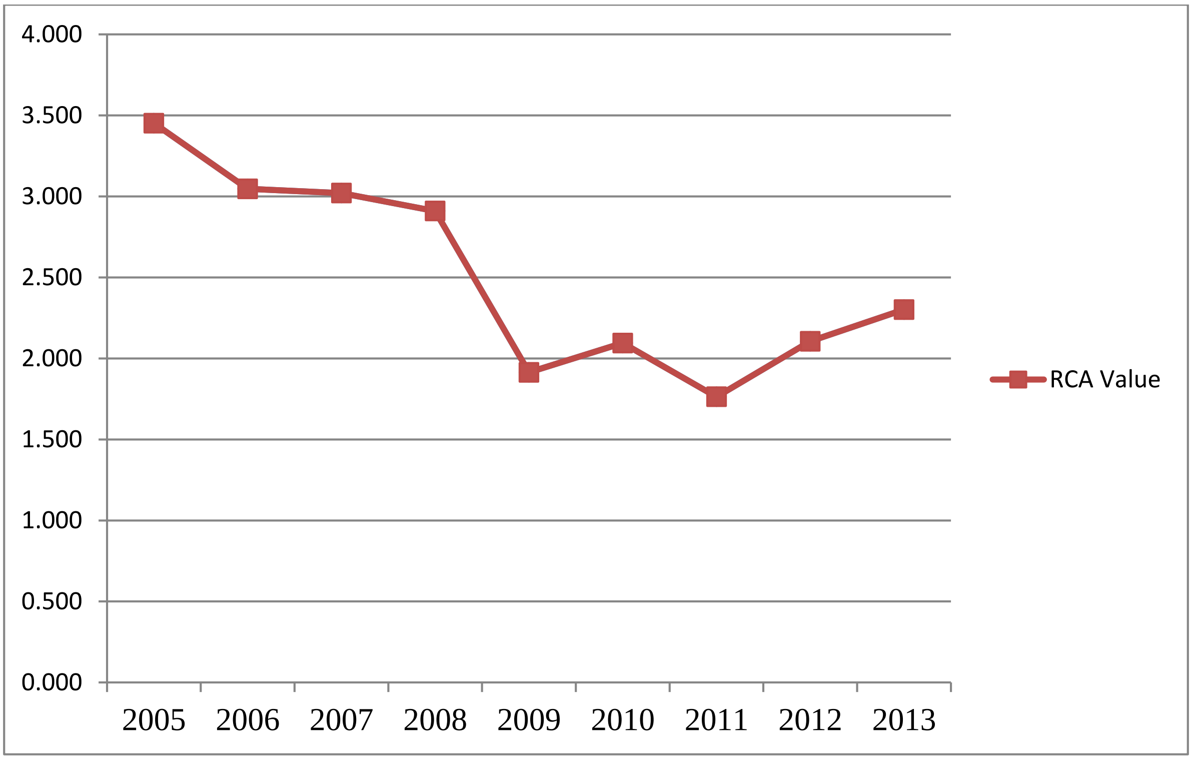
Year	RCA values
2005	3.452
2006	3.047
2007	3.020
2008	2.910
2009	1.914

197

ISSN:0971-1260
Vol-22-Special-Issue-27-December-2019

2010	2.095
2011	1.763
2012	2.106
2013	2.301

The above table represents the different RCA values of India towards SAARC nations. As Revealed Comparative Advantage Index shows how comparative is a product in countries export compared to the products share in world trade. A product with high RCA is competitive and can be exported to countries with low RCA. Measures of Revealed Comparative Advantage (RCA) have been used to help assess a country's export potential. The RCA indicates whether a country is in the process of extending the products in which it has a trade potential, as opposed to situations in which the number of products that can be competitively exported is static. It can also provide useful information about potential trade prospects with new partners.



It is clearly visible that India has more RCA value than one i.e., (RCA>1), the calculations were made covering the 2005-2013 time periods. Table 4.1 reveals the results for India's RCA on the selected commodities. The commodities for which the country has RCA above 1 for most of the years are include mineral fuels, pearls and precious stones, pharmaceutical products, organic chemicals, iron and steel, article of iron and steels, ores, copper, articles of apparel This shows that India exports more of these products (RCA greater than 1) than do the rest of the world taken to gather, when expressed as a proportion of total exports of the country and total

198

ISSN:0971-1260

Vol-22-Special-Issue-27-December-2019

world exports respectively. Therefore we can equally conclude that India has comparative advantage in the production and exportation of those commodities and thus it can export more of these commodities to the SAARC regions. It's noteworthy to mention again that India has enjoyed a rather cordial relation with the South Asian Association Co-operation (SAARC) Countries.

Conclusions

This paper is an attempt to study the India bilateral trade relations with SAARC countries. The study seeks to find out the trends in India-SAARC trade, its growth and existing potentialities taking into account the position of India and SAARC position in global trade. In order to assess the trade potentialities between India and SAARC, the technique of Revealed Comparative Advantage index (RCA) is used to identify commodities in which India has competitive advantage. Other results show high trade intensity index between SAARC and India for all the years under study. The results reveal opportunity for increasing trading activity to a much high volume as each of the partners has comparative advantage in the production of certain commodities.

A number of limitations were encountered throughout the research. The limited nature of the time allocated for the research, inadequate for the SAARC countries might affect the findings of the research. The findings of this study reveal that there are trade potentialities between India and SAARC. But more concerted efforts are required from both government and private sectors of both countries to carry the trade relation to its potential levels.

Policy Implications

Trade among countries is seen as a major factor that boosts economic growth and development. This is argued upon the fact that it allows countries to acquire commodities from other countries at affordable rates, which will otherwise be produced locally at a much? Higher cost thus allowing the countries to save resources for other activities. International trade is very important in creating new business opportunities for domestic firms in foreign countries, thus stimulating expansion, specialization and economies of scale.

It may be recommended that more efforts are required from both parts to stimulate trade to its full potentials. Given the friendly relation they shared with each other, building and implementing a more proactive and inclusive trade relations is within easy reach and trade levels can be improved to a much higher volumes than currently recorded under the present settings. Reduction in impediments to trade such as inefficient custom clearance procedures, poor working conditions in sea-ports, and improvement in the business environment especially in the SAARC region could help facilitate business deals between India and SAARC countries.

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199

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Source: UNcomtrade

200