



A Study on the Trend Analysis of India's Trade Relations with SAFTA Nations: A Review

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Abstract

Countries participating in a regional trading arrangement (RTA) are typically heterogeneous, as evidenced by their variations in geographic size, population, gross national product (GNP), economic systems – reflected in the various types of commodities and services manufactured when traded – and the policy instruments employed through monetary, financial, and trade-related measures that affect national production and trade activities. The diverse attributes of the South Asian Free Trade Area (SAFTA) members significantly impact their benefits from a Regional Trade Agreement (RTA). The South Asian nations within the SAFTA distinctly illustrate their intrinsic disparities while also highlighting an unsettling situation about the inequitable distribution of prospective benefits from through regional collaboration initiative. Although the members of SAFTA members have low-income and the nations are developing, among these – Bhutan, Bangladesh, Nepal and Maldives, – are classified as least developed countries (LDCs) due to many significant challenges that impede their business expansion and development. Thus, the extent to which these issues may impact the SAFTA agreement and the measures India must implement is a crucial inquiry, which serves as the primary purpose of this article.

This research also considers the influence among the SAARC members. Analysis of data from several pertinent sources covering the period from 2016-17 to 2022-23 reveals that commerce among SAFTA members has not expanded as considerably as anticipated. The statistical analysis conducted validates the suspicions of numerous scholars, indicating that the SAFTA countries are not genuine trading partners; instead, they frequently compete by exporting identical product categories. Given that this context renders significant growth in mutual trade improbable, the paper finishes with views on enhancing India's regional commerce.

Key Words: Trade Liberalisation, Export, Import, SAFTA, SAARC, Trade.

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1. INTRODUCTION

In a country like India, a labor surplus combined with heightened consumption and investment from foreign trade not only results in elevated wage rates but also positively impacts income inequality and poverty levels. Both domestic and foreign trade contributes to a nation's GDP. A prominent outcome of regional economic collaboration is an increase within the regional trade. Previously, eight nations in South Asia established an economic and diplomatic organization known as the South Asian Alliance for Regional Cooperation (SAARC), which includes Bangladesh, Afghanistan, Bhutan, the Maldives, Nepal, Pakistan, Sri Lanka, and India. All members accepted tariff reductions within the SAARC region during the summit convened in Dhaka in 1985. The countries named here are proximate neighbors and share significant religious and cultural commonalities. Indian trade policies have become more liberalized, and conversely, the enhancement of commerce within a region exemplifies the most prominent and potent indicator of regional collaboration. Each nation should prioritize the manufacturing of goods with the least comparative manufacturing costs that align with its environmental resources, climate, labor supply, technological proficiency, and degree of development. In summary, the eight nations of the South Asian Association for Regional Cooperation (SAARC) united to establish a regional organization aimed at enhancing collaboration and accelerating the economic and social advancement of their individual countries. Numerous studies indicate significant potential for regional trade expansion owing to inequalities in production and consumption trends within nations. Since the initiation of reforms in the early 1990s, most South Asian countries have decreased their tariffs and have made considerable progress in liberalizing trade policies. The governments have moreover enacted comprehensive essential changes, encompassing the liberalisation of critical industries. Public and private entities recognize that the economic growth and poverty reduction is essential through robust exports.

The central priority of each member nation is export oriented growth. Furthermore, export-oriented growth has emerged as a central priority in each member nation. The significant decline in commodities trade evidences that every member nation is progressively assimilated within the global economic system. This study analyses the India's economic relationship with the South Asian Association for Regional Cooperation (SAARC) nations: Bangladesh, Pakistan, Afghanistan, Bhutan, Maldives, Nepal, and Sri Lanka.

2. LITERATURE REVIEW

We present some findings from studies on trade within SAFTA and between India and the SAFTA region.

Nag and Nandi (2006) asserted that Regional Trading Arrangements are becoming prevalent in contemporary multilateral commerce. Consequently, India's efforts to engage in this trend have rendered it an essential component of SAARC. If SAARC's cooperation extended beyond mere formal trade among the countries, the region would genuinely gain from regionalism. Dhungel (2004) asserted that the actual outcomes of SAARC objectives were considered minimal. Pitigala (2013) found that inadequate commercial connections among SAARC states may obstruct the trade frameworks of the SAARC members, hindering swift advancement in intra-regional trade. Baysan et al. corroborated this notion (2006). They assert that the economic advantages of SAFTA

are exaggerated. They assert that, from an economic perspective, there was nothing to be enthusiastic about due to the absence of qualitative arguments or quantitative assessments available. They assert that the region's GDP, per capita income, and share of global trade are all insignificant in comparison to the rest of the world. Consequently, favoring regional trading partners is more likely to inadvertently redirect trade rather than enhance it. Das (2007) asserts that the preferential trading initiative was established on unstable foundations. Pierola (2007) revealed that preferential trade arrangements in South Asia, such as SAFTA, were ineffectual. Rahman (2008) examined the macroeconomic framework and regional trade linkage models of the South Asian Free Trade Area (SAFTA) nations (Bangladesh, India, Nepal, Pakistan, and Sri Lanka) utilizing 28 years of time series data. He identifies differences in investment patterns, tax policies, and regulatory environments among the SAARC members. Consequently, there exists substantial potential for cultivating new commercial links among the SAFTA states. In comparison to other regional trading blocs, the share of SAFTA member countries (SMCs) in world trade has remained relatively consistent at approximately 1%. SAARC's contribution to global output significantly exceeds its share of global trade. Kaur and Nanda (2010) examined the export potential of India to the other SAARC nations (Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka). From 1981 to 2005 employing the panel data methodology alongside a gravity model for exports. The report indicates that export potential is available for India in the SAARC nations of Bhutan, Pakistan, the Maldives, and Nepal. India is distinctive among SAARC members in - EPRA International Journal of Economic and Business Review, it shares terrestrial and maritime borders with four more nations. There is only India among all SAARC countries which have land boundary with other SAARC member countries and it is not merely a potential source of investment and advanced technologies. Consequently, India would gain by supporting SAARC. Shrestha (2003) assessed the obstacles inherent in the Indo-Nepal economic relationship and the potential for enhancing this relationship moving forward. He stated that trading with India and Nepal is crucial for the economic prosperity of both nations. Due to its geographical characteristics, Nepal is significantly dependent on its trading contacts with India. Recent data indicates an increase in both exports and imports. Although the trade balance with Nepal is presently negative, the significance of trade amid Nepal and India is anticipated to increase over the next coming years in both commercial and manufacturing sectors. This is clearly demonstrated by the frequent modifications made to the bilateral agreements. Perera (2009) elucidated that the South Asian Customs Union (SACU), an integral component of SAFTA, represents the forthcoming advancement in the evolution of SAFTA.

Hossain (2009) examined the impact of SAFTA on Bangladesh's exports to other member nations. In his study, the export prospects of Bangladesh were assessed utilizing cross-sectional data and a conventional gravity model. The results of this study indicate that the overall market of SAFTA members, and the Indian market specifically, possess significant potential for Bangladeshi exporters. Exports from Bangladesh to this region would increase substantially more than initially projected if the SAFTA Charter were effectively executed. Bangladesh's volume of imports, he finds, exceeds what it potentially may be. Consequently, Bangladesh may not be able to augment its imports from SAFTA nations to the same extent as it grows its exports. Maqbool and Mushtaq (2012) examined various characteristics of open repositories and endeavored to elucidate their overall evolution

throughout the SAARC region. We examined the research output and potential of the area to emerge as a leader in the open access movement, and deliberated on the several activities required to enhance the quantity and quality of depositories in the region. Saeed, Ahmad, and Zaman (2012) assessed the financial implications of VAT in the SAARC region to ascertain its efficacy as a tax system. Research indicates that SAARC countries have adopted tax innovations such as VAT and enhancements.

The effectiveness of their government has resulted in an increase in their tax percentage. The research findings indicate favorable aspects for VAT implementation, with the tax system serving as an effective mechanism for tax collection and revenue augmentation. The majority of SAARC nations that have introduced VAT have enhanced their GDP-to-revenue ratio as a consequence. Zaheer (2013) examined the impact of free trade on economies from 1985 to 2006. This study aims to elucidate the factors driving and the evolution of enhanced economic integration in South Asia. In his 2013 essay titled "South Asian Association for Regional Cooperation (SAARC): Its Role, Hurdles, and Prospects," Shaheen conducted a comprehensive evaluation of SAARC's origins, evolution, and achievements. This paper analyzes the function of SAARC. The factors hindering SAARC's advancement to the level of more sophisticated organizations, such as the European Union, have been severely examined. Rather and Gupta (2014) analyzed the commercial relationship, agreements, facilitation measures, difficulties, and opportunities between Bangladesh and India from 2007 to 2011. They concluded that enhanced trade and economic collaboration necessitated investment and cooperation among economies. They advocate for the expedited enhancement of transportation infrastructure, encompassing tariff and non-tariff rates as well as facilities such as roads, trains, inland waterways, seaports, and airports. Wijayatunga, Chattopadhyay, and Fernando (2015) delineated the economic and reliable benefits of energy commerce across South Asian countries (Afghanistan, Bangladesh, Bhutan, India, Nepal, Pakistan, and Sri Lanka). Trading electricity in this manner would enable utilities to optimize their assets, satisfying demand throughout the entire sub-region. The Maldives have not been examined by researchers due to their distance from South Asia and the difficulties associated with creating an energy transmission connection connecting the islands. The concept of power trade in the Central Asian region The SAFTA agreement possesses considerable potential to enhance regional trade and economic integration in South Asia. Nonetheless, the advancement is gradual and inconsistent, hindered by political, institutional, and regulatory obstacles. Enhanced political commitment, economic confidence, and institutional reform are essential to transform SAFTA into a genuinely functional regional trade organization. In the absence of such initiatives, SAFTA may persist as a mere symbolic accord rather than a transformational economic instrument.

3. OBJECTIVE OF THE STUDY

- (i). To what extent these problems can effect SAFTA agreement and what policies India must undertake is an important question, which is the principal objective of the study.
- (ii). To analyse over riding problems that constrain their economic growth and development and India's trade relations with other SAARC Nations from 2016-17 to 2022-23.

4. RESEARCH METHODOLOGY

He has assessed the export potential of Bangladesh utilizing cross-sectional data and a conventional gravity model. The results indicate that the SAFTA market overall, and the Indian market specifically, possess significant potential for Bangladeshi exporters. Exports from Bangladesh to this region would increase substantially more than initially projected if the SAFTA Charter were effectively executed. Bangladesh's volume of imports, he finds, exceeds what it potentially may be. Consequently, Bangladesh may not be able to augment its imports from SAFTA nations to the same extent as it grows its exports. Maqbool and Mushtaq (2012) examined various characteristics of open repositories and endeavored to elucidate their overall evolution throughout the SAARC region. We examined the research output and potential of the area to emerge as a leader in the open access movement, and deliberated on the several activities required to enhance the quantity and quality of repositories in the region. Saeed, Ahmad, and Zaman (2012) assessed the financial implications of VAT in the SAARC region to ascertain its efficacy as a tax system. Research indicates that SAARC countries have adopted tax innovations such as VAT and enhancements.

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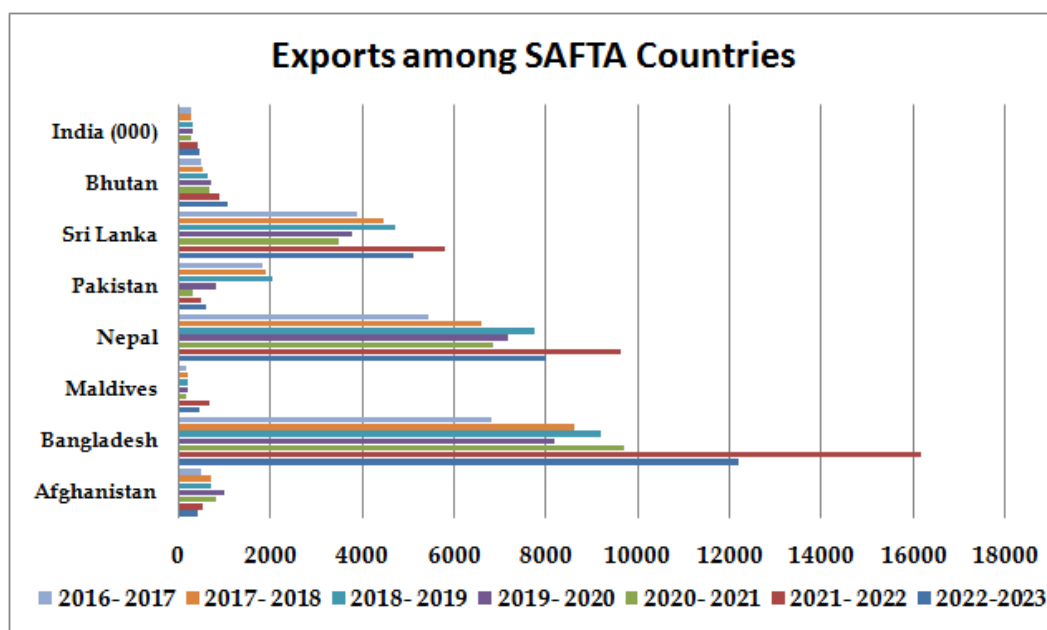
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5. DATA ANALYSIS

SAARC is an area with significant commercial potential among Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. This section provides a thorough examination of trade patterns across SAARC countries, specifically concentrating on four main aspects: exports, imports, total trade, and trade balance. The objective is to promote economic development among member states and to identify patterns, discrepancies, and potential areas for policy action.

Table 1: Exports among SAFTA Countries

	2022-2023	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017
Afghanistan	437.05	554.47	825.78	997.58	715.44	709.75	506.34
Bangladesh	12203.96	16,156.43	9,691.71	8,200.85	9,210.32	8,614.52	6,820.13
Maldives	476.75	670.4	195.88	226.57	223.02	217.00	197.79
Nepal	8,015.99	9,645.75	6,838.46	7,160.35	7,766.20	6,612.96	5,453.59
Pakistan	627.10	513.85	326.87	816.64	2,066.63	1,924.31	1,821.88
Sri Lanka	5,111.59	5,802.18	3,498.30	3,800.91	4,710.21	4,476.46	3,913.15
Bhutan	1,070.37	885.81	701.02	738.60	657.33	546.12	509.28
India	4,50,958.43	4,22,004.40	2,91,808.48	3,13,361.04	3,30,078.09	3,03,526.16	2,75,852.43

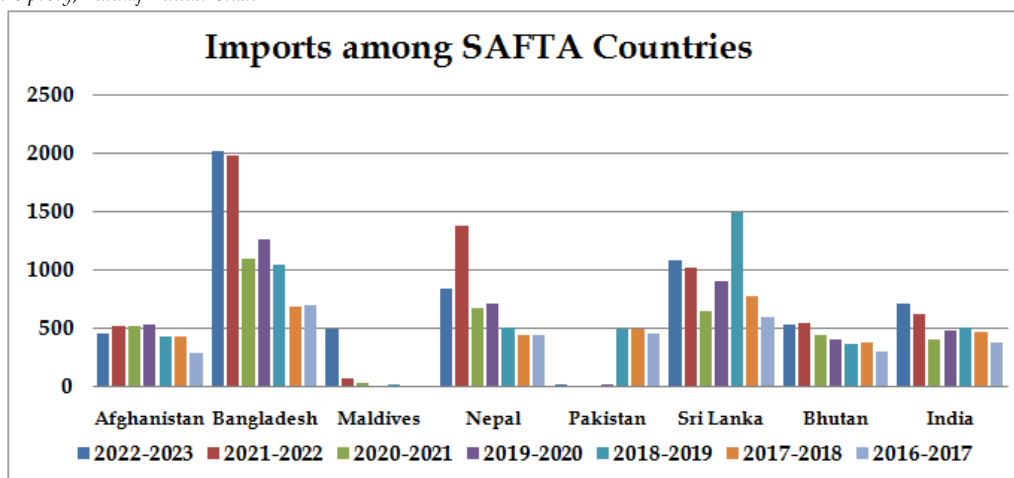


(*The Data of India is shown in '000(thousands) for better graphical representation)

There was an overall upward trend in exports with a momentary dip during 2019-2021 probably due to Covid-19. The highest exports is in the financial year 2022-2023 of Rs. 4,50,958.43 Cr. Bangladesh is the largest SAFTA trade partners with a steady and strong growth which was highest in 2021-2022 of Rs. 16,156.43 Cr and the data is showing a constant demand of Indian goods till 2022-2023 with strong bilateral ties. Nepal during this time is the second highest recipient. During this time Sri Lanka has shown a fluctuating trend and also a dip in 2020- 2021 due to its economic crisis but further trend is in recovery. With Bhutan the trade had been stable, whereas the Maldives had been the smallest partner. It had been seen inconsistency with Pakistan due to politically sensitive trade, and in 2022-2023 it was just Rs. 627.1 Cr, which reflects tensed diplomatic relations and policy barriers. The exports with Afghanistan had been fluctuating and it was only Rs. 437.05 Cr. in 2022-2023 due to Taliban regime change and various sanctions. Hence we can say that India has shown strong export performance in SAFTA region, especially with Bangladesh, Nepal and Sri Lanka. The enhancement in the infrastructure, strategic diplomacy, and directed trade policies can strengthen the regional integration and boost the South Asian economic growth.

Table 2: Imports among SAFTA Countries

	2022-2023	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017
Afghanistan	452.81	510.93	509.49	529.84	435.44	433.78	292.9
Bangladesh	2,021.24	1,977.93	1,091.66	1,264.74	1,044.80	685.65	701.68
Maldives	496.62	68.93	24.49	6.00	20.41	5.68	9.17
Nepal	839.62	1,371.04	673.16	711.61	508.14	438.38	445.13
Pakistan	20.11	2.54	2.39	13.97	494.87	488.56	454.49
Sri Lanka	1,078.14	1,009.99	642.94	903.69	1,488.67	772.63	602.2
Bhutan	535.61	545.04	433	405.73	370.96	377.99	307.82
India	7,14,042.45	6,13,052.05	3,94,435.88	4,74,709.28	5,14,078.42	4,65,580.99	3,84,357.03

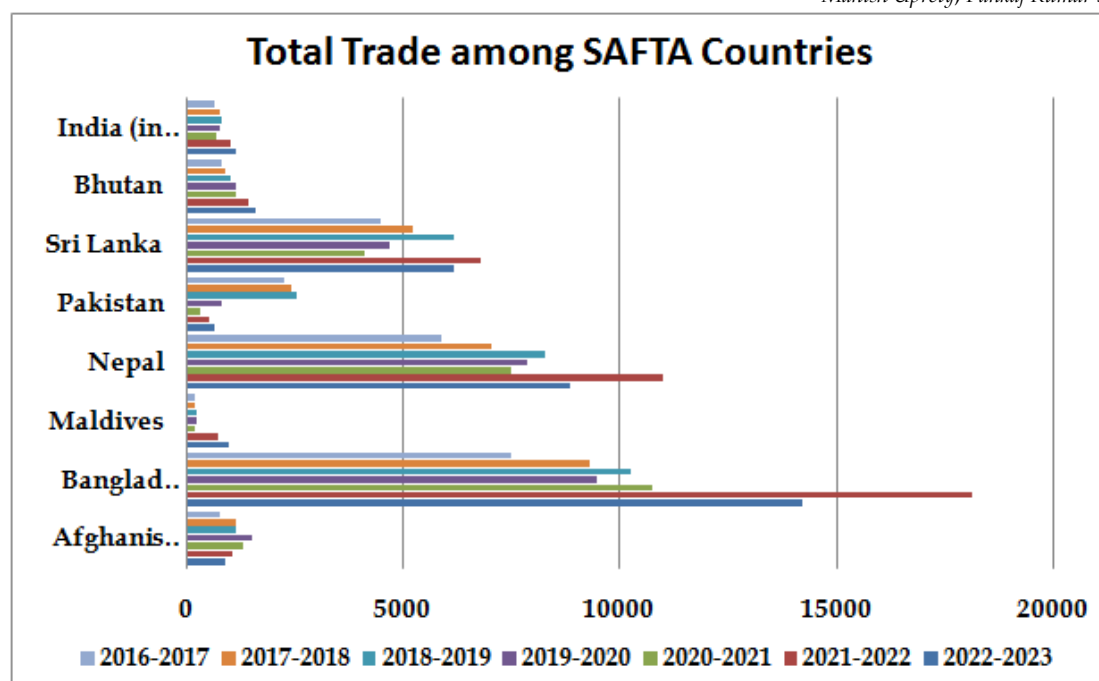


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The data from 2016 to 2023 is showing India's strong growth in imports especially post-covid, which has shown almost arise of 85%. Imports from Nepal has heaved from Rs. 445.13 Cr. (2016-17) to Rs. 1,371.04 Cr. (2021-22), it reflects deepening economic integration and a few fluctuations might be due to logistical or seasonal factors. With Sri Lanka it had peaked in 2018-2019, and fell during COVID, but rebounded in 2022-2023 which is mainly driven by tea, spices, rubber, etc. Bhutan during the same time has shown a stable growth which is especially in hydroelectricity and minerals. The Maldives had shown a sudden increase in 2022-2023 which might be due to some sudden requirement. The Afghanistan had shown a steadiness in the imports till 2019-2020, but post-Taliban transition there is a slight decline. The trade with Pakistan had been up and down and the imports had collapsed to just Rs. 20.11 Cr. in 2022-2023 due to diplomatic freeze and trade restriction post Pulwama attack. Hence we can say that the trade with SAFTA countries have grown strongly, showing the possibilities of deeper economic ties. With the perfect combination of diplomacy, facilitation in trade, and sector focused, Indian can make more balanced trade with SAFTA.

Table 3: Total Trade among SAFTA Countries

	2022-2023	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017
Afghanistan	889.85	1,065.40	1,335.27	1,527.42	1,150.89	1,143.53	799.24
Bangladesh	14,225.2	18,134.36	10,783.37	9,465.60	10,255.12	9,300.17	7,521.82
Maldives	973.37	739.33	220.36	232.57	243.43	222.68	206.97
Nepal	8,855.61	11,016.79	7,511.62	7,871.95	8,274.34	7,051.34	5,898.72
Pakistan	647.21	516.38	329.26	830.6	2,561.50	2,412.87	2,276.37
Sri Lanka	6,189.73	6,812.17	4,141.25	4,704.61	6,198.88	5,249.09	4,515.36
Bhutan	1,605.17	1,430.84	1,134.02	1,144.33	1,028.29	924.11	817.1
India	11,65,000.88	10,35,056.45	6,86,244.36	7,88,070.32	8,44,156.51	7,69,107.15	6,60,209.46



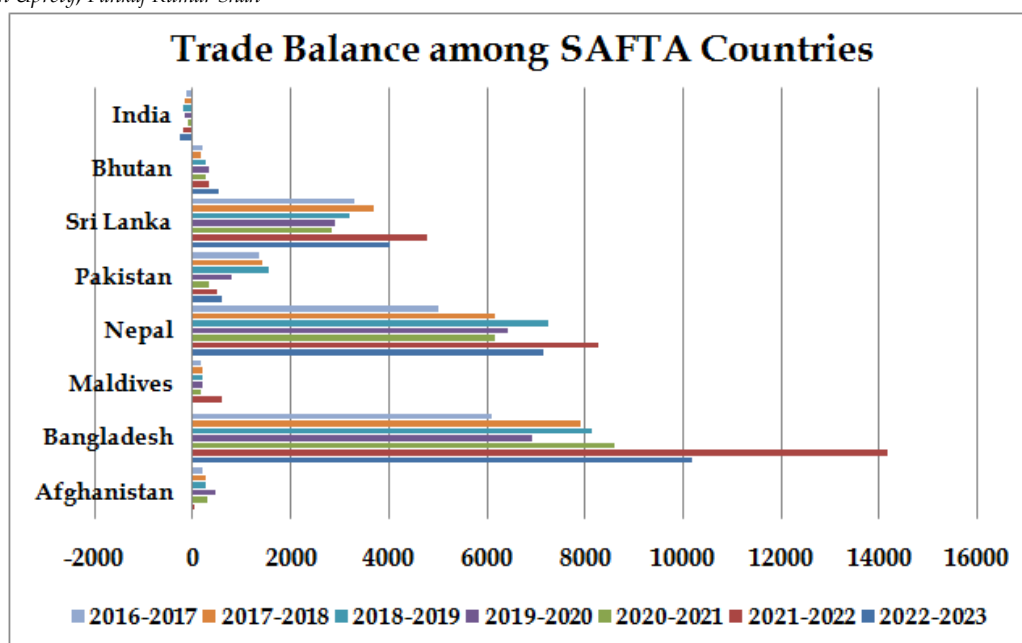
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The total trade of India improved by almost 76% from 2016 to 2023, and there have been a sharp increase seen after COVID-19 in 2020. In 2022-2023 there was a highest trade in SAFTA region. Bangladesh had been the largest trading partner among SAFTA countries and Nepal the second largest. The Sri Lankan trade dipped during their economic crisis in 2022-2023.

Bhutan have been a stable and strong partner, the trade with Maldives have multiplied since 2020-2021, the trade with Afghanistan persists despite uncertainties, but risks remained, the trade with Pakistan reflected complete diplomatic freeze.

Table 4: Trade Balance among SAFTA Countries

	2022-2023	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017
Afghanistan	-15.76	43.54	316.29	467.74	280	275.97	213.44
Bangladesh	10,182.68	14,178.51	8,600.05	6,936.11	8,165.52	7,928.87	6,118.45
Maldives	-19.87	601.47	171.39	220.58	202.61	211.33	188.62
Nepal	7,176.37	8,274.70	6,165.31	6,448.74	7,258.06	6,174.57	5,008.46
Pakistan	606.99	511.31	324.48	802.67	1,571.76	1,435.75	1,367.40
Sri Lanka	4,033.45	4,792.20	2,855.36	2,897.22	3,221.54	3,703.83	3,310.95
Bhutan	534.76	340.77	268.02	332.87	286.37	168.13	201.46
India	- 2,63,084.02	- 1,91,047.65	- 1,02,627.40	- 1,61,348.24	- 1,84,000.33	- 1,62,054.83	- 1,08,504.60



(*The Data of India is shown in '000'(thousands) for better graphical representation of other countries data)

In SAFTA region India had a constantly enormously trade deficit which had worsened peaking at Rs. 2.63 lakh crore in 2022-23 the primary cause is India's high imports of raw materials, fuel, and essential goods. The largest trade surplus among SAFTA is from Bangladesh, following Nepal, Sri Lanka, Bhutan, and Pakistan. The Afghanistan's balance varied during this time. During this time India has upheld a robust bilateral trade surplus with utmost SAFTA nations, still the cumulative trade deficit has amplified due to non-SAFTA imports. The trade deficit can be reduced through intensive policy modifications on export development, import validation and regional incorporation in South Asia.

6. FINDINGS OF STUDY

The overall export trend of India witnesses an upward trajectory and there was a 63.5% growth over the seven years between 2016-2017 to 2022-2023. There was a decline during 2019-2020 due to the impact of COVID-19, but post - pandemic there was a strong rebound which showcases the India's resilience in its trade ecosystem and improvement in economic integration.

During this time Bangladesh was the largest export destination of India, Nepal saw a growth of 47% showcasing a constant bilateral demand, and Sri Lanka experienced ups and downs due to its economic crisis and pandemic. There were smaller volumes of exports with Bhutan and Maldives but there was almost a double growth which reflects the growing trade partnership. There was a sharp decline due to geopolitical and political instability with Pakistan and Afghanistan.

The Imports from SAFTA nations were increased by 85.8% between 2016-2017 and 2022- 2023

and Maldives saw a surge of almost 620% likely due to infrastructure and energy demands. During this time Bangladesh saw more than double growth in its exports which suggests a mutual advantageous trade structure, Nepal, Bhutan, and Afghanistan exhibited consistent growth in its import and there was a trade freeze with Pakistan post 2019.

Despite of surplus trade balance surplus with Bangladesh, Nepal, and Sri Lanka the inclusive trade balance remains negative for India.

India has positions itself as a regional trade anchor among the SAFTA countries and the performances of trade reflects the political stability of it. Even though there are surpluses still the growing trade short falls proposes potential reasons such as anomalies in data classification, re-exports with in region or dependencies on non-SAFTA being calculated in collective SAFTA figures.

The overall trade growth is strong but there are few actions required by India such as there must be control in deficits by substituting the goods of high value, the exports can be expanded to Maldives, Bhutan and Sri Lanka, there is requirement to enhance infrastructure, logistics and trade simplification, the INR trade agreements can be promoted to relax forex pressure and revive the trade relations with Afghanistan and especially with Pakistan through humanitarian corridors.

7. CONCLUSION

The study of India's trade move with SAFTA countries showcases a growth trajectory; flexibility and changing regional inter dependency. India's position in South Asia has strengthened as an economic anchor with overall increase in exports by almost 63% and total trade almost by 76%. Bangladesh, Sri Lanka and Nepal have unfailingly supported this momentum, and smaller economies like Bhutan and Maldives have showcased themselves as a promising trade allies. Although there are positive trends, but the increase in trade deficit signals the requirement of structural changes. The asymmetric trade values have off sited the bilateral superfluous with most SAFTA countries. To convert the trade possibilities into sustainable prosperity in the region Indian must adjust its approach by improved trade diplomacy. Facilitating trade in local currencies, reducing non- tariff obstacles and fostering values chains across SAFTA countries will be essential. As India steers the regional economic discussion with a focus on stability, inclusivity, and policy alignment will determine the trade integration in South Asia.

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