

# INDIA'S TRADE RELATIONSHIP WITH SAFTA COUNTRIES: A REVIEW

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## ABSTRACT

*The South Asian Free Trade Area (SAFTA) is an agreement between the members of SAARC nations namely India, Pakistan, Bangladesh, Bhutan, Sri Lanka, Afghanistan, Nepal and Maldives which was reached on 6 January 2004 at the 12th SAARC summit in Islamabad. It created a free trade area of 1.8 billion people in the region. The seven foreign ministers of the region signed a framework agreement on SAFTA to reduce customs duties of all traded goods to zero by the year 2016. However, SAFTA is an initial step in the evolution of the SAARC as a regional trade bloc and an economic union. There is much speculation about its favourable effect on intraregional trade. As the biggest, and the most industrialised trading partner among the SAARC countries, India has to take a lead in making the Regional Economic Cooperation a reality in South Asia. This study highlights India's trade and trade relationship with SAFTA at large and with each members of the trade bloc in particular. The study also highlights the macroeconomic overview of the region citing several indicators.*

**Keywords:** Customs Duty, MoU, Regional Economic Cooperation, SAARC, SAFTA, SAPTA, South Asia, Tariff Elimination, Trade, Trade liberalisation.

## INTRODUCTION

Trade is the transfer of ownership of goods and services from one person or entity to another by getting something in exchange from the buyer. Trade is sometimes called commerce or financial transaction or barter. The original form of trade was barter, the direct exchange of goods and services. Later, one side of the barter were the metals, precious metals (poles, coins), bill, and paper money. Modern traders instead generally negotiate through a medium of exchange, such as money. As a result, buying can be separated from selling, or earning. The invention of money (and later credit, paper money and non-physical money) greatly simplified and promoted trade. Trade between two traders is called bilateral trade, while trade between more than two traders is called multilateral trade and trade between nations is called foreign trade/ international trade or external trade.

Trade affects growth in three primary ways. (1) Trade encourages the flow of resources from the low-productive sectors to high-productive sectors which in turn leads to an overall increase in output. Export growth may affect total productivity growth through dynamic spillover effects on the rest of the economy (Feder, 1983). The possible sources of

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this positive dynamic spillover include more efficient management styles, better forms of organisation, labour training and knowledge about technology and international markets (Chuang,1998). (2) An increase in export sales leads to an overall expansion in production and a fall in the unemployment rate. As production increases because of economies of scale (increases in the scale of operations), firms become more efficient (*Helpman and Krugman, 1985*). (3) International trade also enables for the purchase of capital goods from foreign countries and exposes an economy to the technological advances of the developed countries. Recent theoretical work suggests that capital goods imported from technologically advanced countries may increase productivity and thereby growth, since knowledge and technology are embodied in equipment and machinery and therefore transferred through international trade (*Chuang, 1998*).

According to the theory of comparative cost, each country should concentrate on the production of those goods for which it is best suited, taking into account its natural resources, climate, labour supply, technical know-how and the level of development. Each country specializes in the production of those goods which it can produce at the lowest cost as compared to other countries which leads to international specialization and division of labour. This reduces the cost of production all over the world and improves the standard of living of the people in various countries.

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

Over the past 25 years, world trade has grown significantly due to deepening economic integration. Intra-regional trade expansion is the most direct form of regional economic cooperation. Larger markets and complete utilisation of production capabilities, transfer of technologies, comparative advantage, economies of scale due to expansion in the market, better utilisation of entrepreneurial capabilities, manpower and natural resources with which the partner nations are endowed in varying degrees are some of the benefits of intra-regional trade expansion. To achieve these benefits of economic integration within South Asia, Bangladesh proposed a regional cooperative body of South Asian leaders in 1980, which then led to the establishment of the South Asian Association for Regional Cooperation (SAARC) in the year 1985, the adoption of the SAARC Preferential Trading Arrangement (SAPTA) eight years after in 1993, and the agreement on the South Asian Free Trade Area (SAFTA) in 2004.

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

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

## 2. REVIEW OF LITERATURE

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

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

According to a study conducted by *Nag and Nandi(2006)*, the presence of Regional Trading Arrangements in today's

multilateral trade has become a common phenomenon. India in its efforts to embrace this phenomenon became an important constituent of SAARC. *Mehta and Kumar* (2004) argued that signing of SAFTA agreement was a landmark in the evolution of SAARC since its formation in 1985. SAARC would benefit from regionalism if its cooperation would extend beyond formal trade. *Dhungel* (2004) notes that actual progress and achievement in implementation of SAARC agendas were considered very insignificant. *Jhamb* (2006) has supported *Dhungel's* view and argued that it was primarily due to the tenuous political relations between India and Pakistan and a general environment of mistrust among member countries. However, *Rahman et al.* (2006) by using a gravity model, showed that elimination of trade barriers and structural rigidities originating from adverse political relationship could lead to substantial increase in intra-SAARC trade.

*Pitigala* (2005) has found that the trade structures of SAARC countries might not facilitate a rapid increase in intra-regional trade due to weak trading relations among SAARC countries. This view was supported by *Baysan et al.* (2006). They argue that the economic cases for SAFTA are relatively weak. They state that from an economic standpoint, neither a qualitative argument nor a quantitative assessment was available to give one reason in order to feel enthusiastic about the arrangement. They further state that compared to the rest of the world, this region is tiny both in terms of economic size as measured by GDP, per capita income and the share in the world total trade. Therefore, trade preferences to the regional partners would likely be leading to a consequence of trade diversion rather than trade creation. *Das* (2007) argues that evidence of trade complementarity in South Asia is mixed, so preferential trading initiative was based on a weak proposition. *Pierola* (2007) finds that the arrangements of preferential trading in South Asia including SAFTA fell short of their potential because of special arrangements for selected products, product exemptions, and restrictive rules for point of origin.

*Rahman* (2008) examines the macroeconomic structure of SAFTA countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka and possibility of trade expansion among these countries by examining the macroeconomic and regional trade link models based on time series data of 28 years. He finds that there are inter-country differences in production and consumption, investment behaviour, tax and non-tax structures in the SAARC countries. So there is huge scope for trade expansion among the SAFTA countries. He further finds that unlike EU, EFTA, NAFTA, MERCOSUR, ASEAN and APEC, SAFTA has never been an important player in the international market because of its policy of inward orientation. The share of the SAFTA member countries (SMCs) in world trade has been hovering at around 1%, which is much less compared to other regional trading blocs. Even the share of trade is remarkably lower than the share of SAARC in world output.

*Kaur and Nanda*, (2010) has calculated India's export potential to other SAARC nations (Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka) with the help of gravity model of exports using panel data methodology (such as fixed effect model, pooled model, and random effect model) by taking the time period 1981–2005. The study indicates that among SAARC countries, export potential of India exists for Bhutan, Pakistan, Maldives, and Nepal. India is the only SAARC member that shares land border with four members and sea border with two. No other SAARC country has a common border with each other. India is a source of potential investment and technology and a major market for products from all other SAARC members countries. Therefore, it is essentially in India's interest to put her weight behind SAARC.

*Shrestha* (2003) in this study has made an attempt to analyse some of the key issues related with Indo-Nepal trade relation and scope for improving trade relationship between these countries in the future. He states that Indo-Nepal trade is very important for the economic development of both these countries. Trade relation with India is rather crucial to Nepal particularly due to her geographic characteristics. Trade statistics presented by *Shrestha* shows an increasing trend of trade in both the exports and imports. However, it is worth noting that the trade balance is not in favour of Nepal. Nepal's trade with India is likely to play further a key role in trade and industrial fronts in the future as well. Trade and transit treaties held between the two countries are continuously reflecting the fact. *Perera*, (2009) states the next stage of the SAFTA is transforming the SAFTA very fast into the South Asian Customs Union (SACU), which is already a component of the agreement.

*Hossain* 2005 in his research has analysed the impact of SAFTA on Bangladesh in terms of export generation within member countries. He has used standard gravity model to analyse Bangladesh's export potential using cross-section data. From the result, it is observed that Bangladesh has huge export potential to SAFTA in general and India in particular. If SAFTA Charter is properly implemented, Bangladesh's exports within this region would be much higher than the estimated potential export. He finds that Bangladesh has exceeded its potential level in imports. Therefore, the expected increase in import by Bangladesh from SAFTA member countries might not be as large as the expected increase in export.

### 3. METHODOLOGY

The SAFTA is an economic and political organisation of eight countries in Southern Asia namely Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. The paper presents the brief profile and macro-economic overview of SAFTA countries. The study examines the emergence of SAFTA as a trade bloc and analyses India's trade relationship with SAFTA countries. The study also examines the trends in India's trade with them in the form of table. The data consists of India's trade with seven of the SAFTA members. The time period under study spans from 2006 to 2012. Data on India's exports and imports have been compiled from the Website of Department of Commerce GOI, GGCI&S. India's balance of trade with SAFTA countries has also been analysed.

### 4. SAFTA: MACROECONOMIC OVERVIEW

The SAFTA region constitute about 23 percent of the population of the world, 15 percent of the total arable land and only 6.0 percent of the *Purchasing Power Parity* (PPP) based (GDP) global domestic product. The region accounts for around 2.0 percent of the world's goods trade, and around 3.0 percent of the foreign direct investment. The SAFTA region is very much diverse as far as the country size, economic and social development, geography and political system are concerned. The region comprises eight countries and three of them viz., Afghanistan, Nepal, and Bhutan are mountainous. Sri Lanka is an island and the Maldives is an archipelago.

The position of the region has changed from being the slowest during 1960s and the 1970s to one of the fastest growing regions in the world since the 1980s. As far as the GDP growth rate is concerned, South Asia has performed robust growth over the years among the low income countries. According to the World Bank database, during the 1960s, GDP growth in the region was placed at 4.2 percent as compared to 5.4 % 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 remained sustained at an average of 5.4 % during 1980-1999 followed by higher average growth of 6.8 percent during 2000-08. The average growth rate of SAFTA countries was 6.73 % in 2012.

The South Asian region also reflects growing savings. The gross capital formation of South Asian economies doubled from 15.1 % during the 1960s to 32 % during 2008 as against a decline from 23.1 % to 21.5 % during the same period at the world level. The gross capital formation of SAFTA region in 2012 was 32.4% as against the global figure of 21 % in the year 2012. It is a matter of concern that some economies of the region, viz., Afghanistan, Nepal, Bhutan and Bangladesh still depend on foreign savings/aid for financing their resource gaps.

So far as the fiscal position of the SAFTA region is concerned, at present all countries have cash deficit. Some of the economies of the region are highly sensitive to external and natural shocks. The cash deficit of India was 3.7 % in 2011. The cash deficit for Maldives was at 16.3 % in 2010. The cash position of Bhutan is also quite sensitive to project-specific revenues and expenditure of the government. The cash deficit was at 3.2 % of GDP in 2010. In Pakistan, in spite of overall improved revenue position, a sharp increase in current expenditures kept the fiscal deficit at 7.8 % of GDP in 2012. 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 6.4 % of GDP in 2012 as compared with 6.8 % in 2008, 8.9 % in 2010 and 7.2 % in 2011, respectively. The case of Bangladesh is quite different wherein revenue collection slipped but the spending was contained by a reduction in outlays for the annual development program, which brought it a cash surplus of 0.9 % of GDP in 2012. The cash deficit of Bangladesh in the year 2010 and 2011 were at 1.7, and 0.9 % respectively. The cash deficit of Nepal remained steady between 1-2% of GDP. The cash deficit of Nepal for the previous three years 2010, 2011, and 2012 was at 1.4%, 1.0%, and 1.7 %, respectively. The fiscal position in India was undergoing consolidation till the outbreak of the recent financial crisis. The gross fiscal deficit (GFD) and revenue deficit (RD) of Central Government for 2008-09 were placed higher at 6.0 % and 4.5 % of GDP. As per the report published in "*The Indian Express*" dated 31<sup>st</sup> May 2013, India's fiscal deficit for 2012-13 has narrowed to 4.9% of GDP.

All SAFTA countries, except Nepal, Bangladesh, and Afghanistan have largely suffered current account deficit (CAD). CAD as a ratio to GDP is highest in Maldives at 27.16 % in 2012 despite a net surplus in services trade, most of which comes from tourism. Although, tourism earnings recovered to exceed the pre-tsunami level, huge services payments and the expansion in imports meant that net services covered only about 41 % of the trade deficit. The CAD in Maldives had reached an alarming level of 51.4 % of GDP in 2008 but it had improved a lot since then. In Afghanistan, the current account surplus was at 3.93 % of GDP in 2012, whereas the current account surplus in Bangladesh was at 0.67 % for the above period. The current account balance was highest for Nepal at 4.79 % of GDP in 2012 according to UN Report, 2012. Nepal had this surplus on account of narrowing trade deficit and higher remittance inflows. The trend

of strong remittance growth in Sri Lanka since 2004 reversed in 2008 due to global financial crisis. In 2008, the CAD as a ratio to GDP reached an alarming level to 9.4 % of GDP. The CAD has since then improved and stood at 6.59 % in 2012. In India and Pakistan, the current account deficit is under pressure because of higher oil import bill, deteriorating income and services accounts, and inflationary pressure despite moderate growth in exports and continued strong receipts of workers' remittances. During 2012, CAD as a ratio to GDP stood at 4.79 % in India and 2.07 % in Pakistan.

## 5. SAFTA: GENERAL OVERVIEW

The SAFTA agreement came into force on 1 January 2006 and is operational following the ratification of the agreement by the member countries. The member countries have agreed to promote and enhance mutual trade and economic cooperation among Contracting States by the following objectives. The objectives include eliminating barriers to trade & commerce, facilitating the cross-border movement of goods between the territories of the contracting states; promoting conditions of fair competition in the free trade area, ensuring benefits in equitable manner to all contracting states, creating effective mechanism for the implementation and application of this agreement, joint administration and the resolution of disputes; establishing a framework for further regional cooperation to expand and enhance the mutual benefits of this agreement.

### 5.1 PRINCIPLES OF SAFTA

SAFTA is governed in accordance with the following principles:

- a) **Principles of Governance:** SAFTA is governed by the provisions of this Agreement and also by the rules & regulations, understandings, decisions, and protocols to be agreed upon within its framework by the Contracting States;
- b) **Principles of Obligation:** The Contracting nations acknowledge their existing rights and obligations with respect to each other under Marrakesh Agreement Establishing the World Trade Organization and other Treaties/Agreements to which such Contracting States are signatories;
- c) **Principles of Reciprocity and Mutuality:** SAFTA is based and applied on the principles of overall reciprocity and mutuality of advantages in such a way as to benefit equitably all Contracting States thereby taking into account levels of economic and industrial development of the member countries,
- d) **Principles of Removal of Trade Barriers:** SAFTA involves the free movement of goods between the member countries through, inter alia, the elimination of tariffs, and non-tariff barriers, and any other equivalent measures; and
- e) **Principle of Facilitation and Harmonisation:** SAFTA entails adoption of trade facilitation and other measures, and the progressive harmonization of legislations by the Contracting States in the relevant areas.

### 5.2 INSTRUMENTS FOR ADMINISTRATION OF THE PROTOCOL

Following are the instrument involved in SAFTA:-

- a) Trade Liberalisation Programme
- b) Rules of Origin
- c) Institutional Arrangements
- d) Consultations and Dispute Settlement Procedures
- e) Safeguard Measures
- f) Any other instrument that may be agreed upon

## 6. IMPORTANCE OF TRADE RELATIONSHIP WITH SAFTA COUNTRIES

Due to the growing political turmoil in Europe, Middle East, protectionist tendencies in the international market and the increasing competition among suppliers, chiefly in the developing world, the need to evolve feasible strategies for regional economic co-operation in South Asia is more and more apparent. This is evidenced by the recent tempo of activities in this regard in the South Asian region. Increased regional economic co-operation would help reduce the economic dependence of the South Asian countries on the developed countries in the future. Given the possibility that trade with the rest of the world does not offer very happy prospects in the future, intra regional trade could

facilitate growth and development of the South Asian countries on the basis of the regional self-reliance. Such regional economic cooperation is considered feasible because intra regional, historical, cultural, geographical and developmental commonalities are much stronger than intra regional differences in political and economic structures and perspectives. Besides, the sub continental economy of the South Asian region offers potentially vast and undeveloped markets to be tapped, and it is blessed with huge endowments of material and human resources.

## 7. INDIA'S TRADE AND TRADE RELATIONSHIP WITH SAFTA

India's trade with the SAFTA members has not been very impressive, both in terms of volume and as a percentage of its global trade. India's trade with SAFTA countries is approximately 2.6 percent of her total trade, with India's exports to SAARC countries have been below 5 percent of its total exports since 2008-2009 except 2012-13 which is 5.03%. The export share of India in the SAARC region has been 4.6% from 2008-2009 to 2010-2011, it further declined to 4.34% in 2011-12 but rose to 5.03% in 2012-13. It is worth noting that the growth rate of India's export in SAARC region had been in the negative since 2008-2009. India's imports from the SAARC countries have been only 0.8414, 0.5986, 0.5747, 0.5878, 0.516 & 0.546 in percentage point for the years 2007-08, 08-09, 09-10, 10-11, 11-12 & 12-13, respectively. Even the trade is much below the true potential. Given the size of the Indian economy and its geographical positioning at the centre of the region, the success of trade initiatives taken in the SAARC region greatly depends on India and therefore, India needs to play a greater role in ensuring that the goals of SAFTA are achieved. India's trade with the SAARC countries is shown in Tables showing bilateral trade as evident from tables, while India has a favourable balance of trade with all countries in the South Asian region; it has a huge trade surplus with Bangladesh, Pakistan, Sri Lanka, and Nepal. However, it is important to note here that the official accounts of South Asia's international trade statistics are flawed by the high incidence of informal trade between India and its neighbours. The data merely captures the formal trade which takes place among the neighbouring countries.

**TABLE 1: India's Trade with SAFTA**

(Values in US\$ Million)

	2007-08		2008-09		2009-10	
	Volume	Growth (%)	Volume	Growth (%)	Volume	Growth (%)
<b>India's export to SAARC</b>	9,637.76	48.87	8,567.12	-11.11	8,567.12	-2.06
<b>India's total export</b>	163,132.18	29.05	185,295.36	13.59	178,751.43	-3.53
<b>% share</b>	5.9079		4.6235		4.6941	
<b>India's import from SAARC</b>	2,117.35	40.46	1,817.89	-14.14	1,657.34	-8.83
<b>India's total imports</b>	251,654.01	35.49	303,696.31	20.68	288,372.88	-5.05
<b>% share</b>	0.8414		0.5986		0.5747	
	2010-11		2011-12		2012-13	
	Volume	Growth (%)	Volume	Growth (%)	Volume	Growth (%)
<b>India's export to SAARC</b>	11,659.14	38.95	13296.47	14.04	15,110.70	13.64
<b>India's total export</b>	251,136.19	40.49	305,963.92	21.83	300400.68	-1.82
<b>% share</b>	4.6426		4.345		5.03	
<b>India's import from SAARC</b>	2,173.37	31.14	2524.74	16.17	2679.95	1.06
<b>India's total imports</b>	369,769.13	28.23	489319.49	32.33	490,736.65	0.29
<b>% share</b>	0.5878		0.516		0.5461	

**Source:** Government of India, Ministry of Commerce.

## 7.1 INDIA'S TRADE WITH SRI LANKA

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

They have agreed to take forward the process of signing a comprehensive agreement for economic cooperation. India's trade with Sri Lanka has shown marked increase from US\$ 2728.63 million in 2006-07 to US\$ 4609.68 million in 2012-13.

The trend in India's trade with Sri Lanka is given below:

**TABLE 2: India's Bilateral Trade with Sri Lanka**

(Value in US \$ million)

Year	Exports	Imports	Total Trade	Balance of Trade
2006-07	2258.30	470.33	2728.63	+1787.97
2007-08	2830.43	634.96	3465.39	+2195.47
2008-09	2425.92	356.57	2782.49	+2069.35
2009-10	2188.01	392.19	2580.20	+1795.82
2010-11	3510.05	501.73	4011.78	+3008.33
2011-12	4378.79	637.43	5016.23	+3741.36
2012-13	3983.87	625.81	4609.68	+3358.06

**Source:** Government of India, Ministry of Commerce.

## 7.2 INDIA'S TRADE WITH PAKISTAN

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

During the recent meeting of Commerce Ministers' of India and Pakistan held in New Delhi on 28<sup>th</sup> September 2011, they agreed that their countries would cooperate for a high ambition of preferential trade relations under the framework of South Asian Free Trade Agreement (SAFTA). They noted with satisfaction the joint and collaborative efforts already being made by India and Pakistan to liberalize trade in goods and services under SAFTA. In the meeting it was agreed that all mutual obligations contracted under SAFTA would be implemented with full sincerity. India's trade with Pakistan has increased substantially from US\$1673.71 million in 2006-07 to US\$ 2606.66 million in 2012-13.

**TABLE 3: India's Bilateral Trade with Pakistan**

(Value in US \$ million)

Year	Exports	Imports	Total Trade	Balance of Trade
2006-07	1350.09	323.62	1673.71	+1026.47
2007-08	1950.53	287.97	2238.50	+1662.56
2008-09	1439.88	370.17	1810.05	+1069.71
2009-10	1573.32	275.94	1849.26	+1297.38
2010-11	2039.53	332.51	2372.05	+1707.02
2011-12	1541.56	397.66	1939.21	+1143.90
2012-13	2064.79	541.87	2606.66	+1522.92

**Source:** Government of India, Ministry of Commerce.

### 7.3 INDIA'S TRADE WITH AFGHANISTAN

India & Afghanistan signed the Preferential Trade Agreement on 6<sup>th</sup> of March 2003 in New Delhi. This agreement will remain in force till either party gives to the other a notice for its termination. India, as per the Agreement, has granted preferential tariff for 38 products from Afghanistan such as dry fruits, fresh fruits, raisins, and spices whereas Afghanistan granted preferential tariff to 8 items from India such as medicines, refined sugar, tea, cement clinkers and white cement. Afghanistan became the eighth member of SAARC during the Fourteenth SAARC Summit held in New Delhi on 3-4 April 2007. The provisions of Trade Liberalization Programme (TLP) are applicable to Afghanistan with effect from 7th August, 2011. MOU between the Government of Afghanistan and Government of India on the co-operation in the field of Cement sector was signed on 12th January 2012 at Hyderabad. India's trade with Afghanistan has increased substantially from US\$ 216.48 million in 2006-07 to US\$ 632.18 million in 2012-13. The trend in trade between India and Afghanistan is given in Table below:

**TABLE 4: India's Bilateral Trade with Afghanistan**

(Value in US \$ million)

Year	Exports	Imports	Total Trade	Balance of Trade
2006-07	182.11	34.37	216.48	+147.74
2007-08	249.21	109.97	359.18	+139.24
2008-09	394.23	126.24	520.47	+267.99
2009-10	463.55	125.19	588.74	+338.36
2010-11	422.41	146.03	568.44	+276.38
2011-12	510.90	132.50	643.41	+378.40
2012-13	472.63	159.55	632.18	+313.7

**Source:** Government of India, Ministry of Commerce.

### 7.4 INDIA'S TRADE WITH BANGLADESH

The Bilateral Trade Agreement between India and Bangladesh has been renewed from time to time for expansion of trade and commerce. With Bangladesh, relations have improved significantly over the last few years. The dialogue has yielded benefits for both countries in favour of trade & commerce, connectivity, easier transit, development, enhancement

of mutual security cooperation against insurgency and terrorism. There is enhanced mutual trust and confidence that is oxygenating relationship between India and Bangladesh. Under SAFTA Agreement, India remained committed to reduce its tariffs to 20% for LDCs in two years after the commencement of SAFTA. India had removed all duties for LDCs in December 2007, prior to the time stipulated under the tariff liberalisation programme for NLDCs.

Bangladesh was the biggest beneficiary country of the reduction in India's sensitive list from 744 items in 2006 to the current list of just 25 items. To benefit Bangladesh's textile exports, India introduced in 2008 the provision of allowing 164 textile items from Bangladesh to enter its market at zero duty up to a limit of 8 million pieces per year. This step was taken ahead of the concessions that India offered to all LDCs in October 2008. The limit of 8 million pieces was increased further to 10 million pieces in 2011. Bangladesh was further benefited when Prime Minister Manmohan Singh made a visit to Dhaka. Sixty-one items figuring on India's sensitive list for LDCs were allowed duty free access without any quota restrictions. Bangladesh benefited too much because 46 items out of the 61 hailed from the textiles category (*Taneja and Kaushal*, 2011). In other words India removed all 46 items which were of interest to Bangladesh. Further more in (November) 2011, India reduced the sensitive list for LDC countries to just 25 items.

Both sides are working on several projects to improve trade infrastructure and connectivity. Several agreement between India and Bangladesh are MoU on Renewable Energy Cooperation, MoU on Conservation of the Sundarbans, MoU (on Cooperation) in the field of Fisheries, MoU on Mutual Broadcast of Television Programmes, MoU between Jawaharlal Nehru University and Dhaka University, MoU on Cooperation in Academic Related Matters between National Institute of Fashion Technology (NIFT), India and BGMEA Institute of Fashion and Technology (BIFT), Bangladesh.

India's trade with Bangladesh has increased substantially from US\$1857 million in 2006-07 to US\$ 5784 million in 2012-13. The trend in trade between India and Bangladesh is given in Table below:

**TABLE 5: India's Bilateral Trade with Bangladesh**

Value in US \$ million

Year	Exports	Imports	Total Trade	Balance of Trade
2006-07	1629.57	228.00	1857.57	+1401.57
2007-08	2923.72	257.02	3180.74	+2666.7
2008-09	2497.87	313.11	2810.98	+2184.76
2009-10	2433.77	254.66	2688.43	+2179.11
2010-11	3242.90	446.75	3689.66	+2796.15
2011-12	3789.20	585.73	4374.93	+3203.47
2012-13	5144.99	639.33	5784.31	+4505.66

*Source:* Government of India, Ministry of Commerce.

## 7.5 INDIA'S TRADE WITH NEPAL

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

Another important agreement are the Treaty of Trade and the Agreement of Cooperation which were signed between the two countries on 27th October, 2009 at (Kathmandu) Nepal. The Treaty aims at improving bilateral trade between the two countries by increasing the mutually agreed points of trade. An Inter-Governmental Committee (IGC) meeting on matters of Trade, Transit and Cooperation to control unauthorised and illegal trade was held in December 2011. Both sides had a detailed discussion on various bilateral issues. Nepalese request for waiver of Additional Duty of Customs (ADC) on all export items to India was also considered. Provisions of Treaty of Trade signed in October 2009 for replacement of Duty Refund Procedure (DRP) has been implemented vide Notifications 24-29/2011-Central Excise (N.T.) dated 5.12.2011. Double Taxation Avoidance Agreement (DTAA) with Nepal was signed on 27th November 2011 to help exporters and investors of both the countries in improving mutual business engagements. India's trade with Nepal has increased substantially from US\$ 1233.42 million in 2006-07 to US\$ 3634.94 million in 2012-13.

The trend in trade between India and Nepal is given in Table 6:

**TABLE 6: India's Bilateral Trade with Nepal**  
(Value in US \$ million)

Year	Exports	Imports	Total Trade	Balance of Trade
2006-07	927.40	306.02	1233.42	+621.38
2007-08	1507.42	628.56	2135.98	+878.86
2008-09	1570.15	496.04	2066.19	+1074.11
2009-10	1533.31	452.61	1985.92	+1080.70
2010-11	2186.06	513.40	2681.47	+1654.66
2011-12	2721.57	549.97	3271.54	+2171.59
2012-13	3088.84	543.10	3631.94	+2545.73

**Source:** Government of India, Ministry of Commerce.

## 7.6 INDIA'S TRADE WITH MALDIVES

India established diplomatic relations with the Maldives as far back as 1956 when it gained independence and the two settled their maritime border in 1976. Although the bilateral relations in the beginning were limited, bilateral relations took their first major step forward when India intervened to crush a coup against the Maldivian government in 1988. Since then, India has given considerable economic assistance and training to the Maldives in diverse fields such as health, disaster relief, telecommunications, civil society development, and infrastructure development. The Bilateral Trade Agreement was signed between India and Maldives on 31st March, 1981. It will remain in force until it is modified or terminated by either country. Even after three decades of bilateral agreement, bilateral trade is not commensurate with its true potential.

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

**TABLE 7: India's Bilateral Trade with Maldives**

(Value in US \$ million)

Year	Exports	Imports	Total Trade	Balance of Trade
2006-07	68.68	3.05	71.73	+65.63
2007-08	89.72	4.15	93.87	+85.57
2008-09	127.91	3.97	131.88	+123.94
2009-10	79.86	3.63	83.49	+76.23
2010-11	100.14	31.38	131.52	+68.76
2011-12	124.60	18.89	143.49	+105.71
2012-13	122.36	6.29	128.65	+116.07

**Source:** Government of India, Ministry of Commerce.

## 7.7 INDIA'S TRADE WITH BHUTAN

The current India - Bhutan Friendship Treaty was held in 2007 which provides for strengthening of bilateral trade relations between both the nations on matters of trade and commerce. India is the leading trade partner of Bhutan. A free trade exists between India and Bhutan. The major items of exports from Bhutan to India are electricity, alcoholic beverages, chemicals, cement, timber and wood products, base metals and articles, minerals, vegetable fat and oils, cardamom, fruit products, potatoes, oranges and apples, raw silk, plastic and rubber products etc. Major items of exports from India to Bhutan are petroleum products, mineral products, vegetable, spices, processed food and animal products, base metals and articles, machinery, chemicals, automobiles & spares, wood, plastic and rubber etc. Under the Agreement on Trade and Commerce, there is a provision for duty free transit of Bhutanese merchandise for trade with third countries. India's trade with Bhutan has increased substantially from US\$199.71million in 2006-07 to US\$ 397.22 million in 2012-13.

The trade trend between India and Bhutan is given in Table below:

**TABLE 8: India's Bilateral Trade with Bhutan**

(Value in US \$ million)

Year	Exports	Imports	Total Trade	Balance of Trade
2006-07	57.66	142.05	199.71	-84.39
2007-08	86.74	194.72	281.64	-107.98
2008-09	111.15	151.79	262.94	-39.93
2009-10	118.86	153.11	271.97	-32.93
2010-11	176.03	201.57	377.60	-25.54
2011-12	229.86	222.55	432.41	+27.30
2012-13	233.22	164	397.22	+69.22

**Source:** Government of India, Ministry of Commerce.

## HIGHLIGHTS OF TRADE WITH SAFTA COUNTRIES

- During 2012-13, Bangladesh was the largest trading partner of India in SAARC region.
- During 2012-13, India has recorded a negative growth rate of exports with Sri Lanka, Afghanistan and Maldives in SAARC region.
- During 2012-13, the lowest decline in growth of exports was recorded for Maldives.

- Except for Bhutan, India runs a trade surplus with all other trading partners.

## CONCLUSION & RECOMMENDATIONS

Though, the pace of trade has picked up, there is need to consider dimension of informal trade in the trade exchanges. The problem of informal trade taking place in the region is estimated to be more than that of official trade. Relation between nations should strengthen. Improvement of Indo–Pak ties is crucial. It is not that only India and Pakistan have problems. India and Bangladesh have some issues to settle. Same is the case with Nepal and Bhutan. Pakistan and Afghanistan also do not lag behind on this score. There is still no South Asian ideological bond that unites the people of eight countries.

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

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