

FEASIBILITY OF INDIA'S TRADE WITH SOUTH ASIA ASSOCIATION FOR REGIONAL COOPERATION (SAARC)

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ABSTRACT

India occupies 70% of the SAARC region both geographically and economically. It (India) is the most powerful and largest trading partner among SAARC countries and also has potential to develop the whole region. It is in this context, the present study attempts to explore feasibility of India's trade with SAARC bloc by using revealed comparative advantage (RCA) and trade intensity index (TII). Its trade with this bloc went to increase. Results of RCA reveal that India has trade specialisation in (export to/import from SAARC) many products. This specialization will help to boost its trade relation with SAARC. The value of TII is also greater than 1 except 2011. The value EII is greater than III that shows India is a net exporter to SAARC. India is a significant trading partner of SAARC. $RCA > 1$, and $TII > 1$ showed that India has sustainable and strong feasibility of trade with SAARC.

Keywords: Bloc, Partner, Potential, Products, Trade.

INTRODUCTION

One of the most striking developments in the world trading system since mid 1990s is a surge in regional trade agreements¹. It has occurred due to large number of members and slow progress of WTO trade negotiations, dominance of developed countries in decision making process at multilateral trade liberalization within WTO force underdeveloped and developing countries to interact at regional level. Like other developing countries, India initially adopted a very cautious approach towards it and was engaged in only a few bilateral and preferential trade agreements (PTAs). But after growing the importance and rise in number of regional agreements at global level, as a result of countries willingness to boost and foster trade relations with other nations, also developed intention in India to integrate with these blocs. The interactions have ranged from bilateralism to sub-regional to regionalism. In this context, the present paper attempts to explore feasibility of India's trade with South Asian Association for Regional Cooperation (SAARC) bloc.

South Asian countries (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) formed South Asian Association of Regional Cooperation (SAARC) on December 8, 1985 in Dhaka after efforts made by Zia-ur-Rehman, President of Bangladesh. It (SAARC) is set up for the purpose of holding periodic regional consultations on the matters of mutual interest and to accelerate the pace of socio-economic and cultural development through collective action in agreed areas of cooperation (Walikar, 2014). After a decade, countries wanted to enhance the level of cooperation i.e., South Asia Preferential Trade Agreement (SAPTA). SAPTA was signed in 1993 and came to operation in 1995. Member countries' further upgraded SAPTA to SAFTA in 2004 in order to boost trade and free movement of goods and services in the region that came to effect on 1 January 2006. Afghanistan became its eighth members in 2007 during the fourteenth SAARC Summit held in Delhi (India) (Jain, 2005; Kher, 2012; Lawrence, 2012).

Among SAARC countries, India is the most developed, industrialized trading partner, strong centre geographical location and large in size. It shares land and sea boarder with all South Asian countries except Afghanistan. It has potential to develop the whole region by proper utilisation of natural as well as human resources. India's exports to and imports from SAARC bloc continued to increase as shown in table-1. India is a net exporter to SAARC. Its exports to SAARC increased to US\$ 19,836,415 (2014) from US\$ 577,811.3 in 1990s. No doubt, imports from SAARC also increased but at very slow rate. However, percentage wise, share of trade also tended to increase. Except trade, India from time to time has also supported its member countries' developmental effort. India has become the largest trading as well as development partner of this bloc. Only India can help to sought out all bilateral

¹ A regional trade agreement is an economic agreement between two or more nations to facilitate trade among member countries by reducing tariff and non-tariff barriers (NTBs) on selected products. These agreements could be mutually beneficial to both countries, liberalise trade and set higher benchmarks for the multilateralism.

tensions and conflicts between member countries and exploit the potential. India has signed bilateral trade agreements with every SAARC members i.e., India-Afghanistan Preferential Trade Agreement (PTA), India-Bangladesh, India-Bhutan FTA, India-Maldives PTA, India-Nepal PTA, India-Pakistan and India-Sri Lanka Free Trade Agreement (ISFTA).

Share of SAARC's Trade with India as a Proportion of Total India Trade with World

Table-1 (US\$ thousand)

Year	Export from India to SAARC	Import of India from SAARC	Export to SAARC as % age of India's Export to world	Import from SAARC as % age of India's Import from World
1990	5,77,811.3	1,12,925.7	3.22	0.47
1991	6,40,620	1,05,426.1	3.57	0.54
1992	8,63,707	1,95,512	4.17	0.79
1993	9,19,651.7	1,17,210.1	4.13	0.50
1994	12,30,563	1,80,602.7	4.67	0.63
1995	17,34,681	2,59,042	5.47	0.70
1996	17,24,254	2,42,169.7	5.15	0.62
1997	16,32,504	2,44,658.6	4.69	0.59
1998	16,91,336	4,94,216.7	5.09	1.16
1999	14,36,134	4,20,964	3.88	0.84
2000	17,19,206	5,01,119.7	4.05	0.94
2001	20,92,223	5,89,265.9	4.76	1.16
2002	26,97,278	4,91,614.2	5.38	0.85
2003	38,75,186	6,34,333.5	6.52	0.87
2004	45,79,675	9,26,089.9	6.03	0.93
2005	53,99,783	13,79,697	5.38	0.97
2006	62,32,732	14,99,051	5.14	0.84
2007	78,48,398	16,52,902	5.37	0.75
2008	1,01,30,381	21,80,010	5.57	0.69
2009	73,73,574	15,15,494	4.17	0.56
2010	1,11,14,203	20,63,704	5.04	0.59
2011	1,29,37,535	25,01,198	4.29	0.54
2012	1,37,38,379	22,97,013	4.74	0.46
2013	1,68,99,974	21,56,246	5.02	0.46
2014	1,98,36,415	25,92,419	6.24	0.56

Source: World Integrated Trade Solution (wits)

OBJECTIVE OF THE STUDY

- To explore the feasibility of India's trade with SAARC bloc as a whole.

RESEARCH METHODOLOGY

In order to achieve the above stated objective, the analytical tools used for the study are:

- ❖ Balassa's (1965) Revealed Comparative Advantage (RCA) for exports and imports by India to/from bloc in order to explore potential areas of further cooperation. It helps to find to out which product India should export to/import from SAARC.
- ❖ Koijma's (1964) Trade Intensity Index (TII) for exports, imports and total trade between India and SAARC members tells us explore trade prospects us about India's trade prospects with SAARC.

SOURCES OF DATA COLLECTION

Secondary data at 2digit SITC revision-2 is collected from international trade centre (ITC), Geneva and world integrated trade solution (wits).

RESULTS

a. RESULTS OF REVEALED COMPARATIVE ADVANTAGE FOR EXPORTS (RCAX): Table-2 shows in which product India has comparative advantage ($RCA > 1$) in the export of product to SAARC bloc. Value greater than 1 for RCAX indicates that India should export that particular product to SAARC bloc and vice-versa.

Table-2 Products with Value of RCA Greater than 1 for Exports to SAARC by India

Serial No	Product Code ²	RCA Characteristics ³
1	1	India has sustainable and very strong RCA in this product since 2001. The trend of RCA is on increasing mode
2	2	Except for 2006, there is no trade specialization in this product
3	4	The product is having strong comparative advantage since 2001
4	7	India has strong RCA in the export of this product to SAARC since 2001. The trend of RCA is on increasing mode. The value of RCA was 11.09 2009
5	8	RCA was greater than 1 since 2006 but could not maintain it. India lost advantage in this product and regained it in 2011. This comparative advantage remained only for 2 years i.e. from 2011 to 2012 and lost after.
6	9	India has sustainable RCA in this product since 2006
7	10	The product is having strong comparative advantage
8	11	India has sustainable trade specialization in this product since 2001
9	12	There is sustainable comparative advantage in the export of this product to SAARC since 2004
10	14	The product is having trade specialization. the value of RCA is greater than 1 throughout the year
11	17	India has strong comparative advantage in this product
12	18	RCA is very strong in this product. The trend of RCA is on increasing mode
13	19	There is trade specialization in the export of this product since 2001
14	21	There was no comparative advantage in this product but started to gain in 2012. This advantage continued to remain
15	22	Except from 2001 to 2005, there is no RCA in the export of this product
16	23	India has sustainable and strong RCA in this product since 2001
17	24	There was trade specialization in this product but lost it
18	25	India has sustainable and strong RCA in this product since 2001
19	28	Except for 2010, the product is having strong comparative advantage
20	30	India had RCA in this product since 2001 to 2011 and lost thereafter
21	32	India has trade specialization in this product since 2001
22	33	There is RCA in this product since 2001
23	34	India has sustainable and strong RCA in this product since 2001
24	35	India has RCA in this product
25	36	RCA in this product started to develop since 2011
26	37	The product is having sustainable and average RCA since 2001
27	38	India has trade specialization in this product since 2007
28	39	The product is having comparative advantage in the export of this product to SAARC since 2001
29	40	There is sustainable comparative advantage since 2001
30	44	The product is having sustainable and strong RCA since 2001
31	47	Except for 2004 to 2006, India has no trade specialisation in this product since 2002
32	48	RCA is sustainable and strong in this product since 2001
33	49	India has trade specialization in this product since 2001
34	52	The product is having strong comparative advantage since 2001

² Annexure-1

³ Annexure-2

35	54	Except for 2001 and 2003, there is strong RCA in this product
36	55	India has sustainable RCA since 2001. The trend of RCA is on increasing mode
37	58	Except for 2011 to 2013, India has no trade specialization in this product since 2001
38	59	India had trade specialization since 2001 and sustained from 2001 to 2002. The product lost comparative advantage and remained for a long time. In 2011, RCA started to develop and remained
39	60	India has sustainable RCA in this product since 2001. The trend of RCA is on increasing mode
40	65	Except for 2006, there is no comparative advantage in this product
41	66	India has very strong RCA in this product since 2001. RCA was maximum in 2006 i.e. 10.8
42	69	There is RCA in this product since 2001 (except for 2007 and 2008)
43	70	Except for 2007 and 2008, India has comparative advantage in the export of this product to SAARC
44	72	The product is having sustainable RCA since 2001
45	73	Except for 2001, 2003 and 2004, India has no trade specialization in this product
46	76	India has sustainable comparative advantage in this product since 2001
47	78	Except from 2010 to 2012, the product is having strong RCA in this product since 2001
48	79	RCA in this product started to develop in 2007 and sustained.
49	80	There was RCA in this product from 2002 to 2012 and lost thereafter
50	81	The product was having trade specialization since 2001 but could not maintain it. India again gained RCA in the last years
51	83	India has trade specialization in this product since 2005
52	84	India has comparative advantage in the export of this product to SAARC
53	85	There was trade specialization in this product but could not keep it. After 2005, India lost comparative advantage and never regained it
54	86	India has strong RCA in this product since 2001 except from 2005 to 2008
55	88	The product had no trade specialization since 2001 but started to gain in 2013. India has very strong RCA in this product since 2013.
56	89	The product is having RCA since 2012, the trend of RCA is on increasing mode
57	91	There was no comparative advantage in this product but started to develop since 2006. RCA continued to maintain till 2011. Thereafter, India lost its specialization in this product and never gain it again
58	92	India has no trade specialization in this product except 2011
59	93	RCA was 0 in 2001 but started to develop thereafter. This trade specialization remained for three years and lost it.
60	94	Except for 2001, RCA is not greater than 1 in this product
61	96	India has trade specialization in this product since 2002 except from 2003 and 2005.

- As is seen in table-2, India has sustainable and strong RCA ($RCA > 1$) in the export to these products with code 1, 4, 7, 9, 10, 11, 12, 14, 17, 18, 19, 23, 28, 32, 33, 34, 35, 37, 38, 39, 40, 44, 48, 49, 52, 54, 55, 60, 66, 69, 70, 76, 78, 79, 84, 86, 89 and 96 to SAARC bloc (See annexure-2).
- There is no trade specialization in products with code 2, 22, 47, 58, 73, 85, 91, 92 and 94 i.e. RCA is less than 1 as seen from annexure-2.
- Product with code 21 started to gain RCA in 2012. Similarly products with code 36, 83 and 88 have RCA since 2011, 2005 and 2013.

b. RESULTS OF REVEALED COMPARATIVE ADVANTAGE FOR IMPORTS (RCAM): Table-3 shows which products India has to import from SAARC.

Table-3 Products with Value of RCA Greater than 1 for Imports by India from SAARC

Serial No	Product Code ⁴	RCA Characteristics ⁵
1	1	There was strong RCA in this product since 2001. RCA tended to increase in the 2002 i.e.

⁴ See Annexure-1

⁵ See Annexure-3

		RCA=11.04 thereafter tended to decrease. Even RCA became 0 in 2006 and remained 0.
2	3	India has sustainable and very strong RCA in this product since 2001. The trend of RCA is on increasing mode. RCA was 82.84 in 2012. India has extreme comparative advantage in the import of this product from SAARC
3	4	Except for 2003, the product is not having any RCA since 2001
4	5	RCA is sustainable and strong in this product since 2001. The trend of RCA is a mixture of fall and down but RCA greater than 1 forever.
5	6	India has no trade specialization in this product since 2001 (except from 2010 to 2012)
6	7	The product was having strong RCA since 2001 and remained it till 2006. Thereafter, RCA lost but started to gain in 2010. However, in the following year RCA lost and could not attain it.
7	8	RCA is sustainable and strong in this product since 2001. The trend of RCA is on increasing mode. The highest level of RCA was in 2013 i.e. 36.05. India has comparative advantage in the import of this product from SAARC instead of producing it domestically
8	9	India has sustainable trade specialization in this product since 2001
9	11	Except for 2008 to 2011, India has trade specialization in this product
10	12	There is comparative advantage in the import of this product from SAARC instead of producing it domestically
11	13	RCA is very strong in this product since 2001 and tended to increase in the successive years
12	14	India has trade specialization in this product since 2001
13	15	There was RCA in this product. RCA initially decreased but greater than 1 and thereafter tended to increase to 2007. Thereafter, RCA lost in this product
14	16	India has trade specialization in this product since 2005 and continued to increase.
15	17	There is no RCA in this product since 2002 except for 2004, 2005 and 2013
16	18	Except from 2008 to 2012, India has no trade specialization in this product
17	19	The product is having RCA in this product since 2001 and maintained throughout.
18	20	There is sustainable comparative advantage in this product since 2001. RCA was at the greatest level in 2002 i.e. 31.3. the trend of RCA is on decreasing mode
19	21	India has sustainable RCA in this product since 2004 except for 2006.
20	22	India has strong comparative advantage in this product since 2001. The trend of RCA is on increasing mode
21	23	The product is having very strong RCA in this product
22	25	RCA started to develop in his product since 2006 and maintained it
23	26	Except for 2011, India has no trade specialization in this product
24	28	India has sustainable and strong RCA in this products since 2001
25	29	Except for 2006, there no comparative advantage in the import of this product from SAARC since 2001
26	30	India has no RCA in this product since 2005
27	31	Except 2006 and 2007, there is no RCA in this product
28	32	There was no RCA in this product since 2001 but started to gain in 2006. This trade specialization retained from 2006 to 2001 and lost thereafter.
29	33	India has very RCA in this product since 2001. The trend of RCA is on increasing mode
30	34	India had trade specialization in this product since 2001 and remained till 2012. However, RCA lost thereafter.
31	37	Except for 2005 and 2007, India has no comparative in the import of this product from SAARC
32	38	The product is not having any RCA except for 2006 and 2007
33	39	There is sustainable trade specialization in this product since 2001
34	40	RCA was less than 1 in this product since 2001 but started to gain in 2006. Thereafter, product maintained its hold on this product
35	41	India has sustainable and strong RCA in this product since 2001. The trend of RCA is on increasing mode.
36	42	There was RCA in this product since 2002 and retained it till 2007. Thereafter lost RCA and regained it in 2014
37	44	India has sustainable comparative advantage in this product since 2001
38	45	Except for 2003 and 2004, RCA is equal to 0 in almost all years
39	46	RCA was greater than 1 in 2001 i.e. 2.74 but became 0 in the next year. Thereafter, RCA started to gain again and remained it till 2010. In RCA was 0 and lost trade specialisation
40	47	India has sustainable trade specialization in this product since 2002=3. The trend of RCA is on increasing mode

41	48	Except for 2002, the product is not having any RCA
42	49	India has no trade specialization in this product since 2001 (except from 2009 to 2011)
43	50	Except 2001, there is no comparative advantage in the import of this product from SAARC
44	51	India has trade specialisation in this product since 2006
45	52	There was no comparative advantage in this product but started to gain in 2005. India maintained its hold n this product.
46	53	RCA is very strong in this product since 2001. 82.67 is the highest level of RCA in 2011. The trend of RCA is on increasing mode.
47	54	India had trade specialization in this product since 2001 and maintained it from 2001 to 2011. Thereafter, India lost its specialization in this product
48	55	There is sustainable RCA in this product since 2001
49	56	India has sustainable and strong RCA in this product since 2001. The trend of RCA is on increasing mode. RCA was greatest in 2010. Thereafter, the trend is on decreasing mode but maintained its specialization on this product
50	57	RCA is greater than 1 since 2001. RCA followed a decreasing mode but remained greater than 1
51	58	There is trade specialization in this product since 2005
52	60	Since 2002, India has sustainable comparative advantage in this product
53	61	There is sustainable RCA in this product. India has comparative advantage in the import of this product from SAARC
54	62	India has sustainable and strong RCA in this product. RCA continued to increase in the following years
55	63	The product is having very strong RCA since 2001. RCA was 44.1 in 2008 and remained RCA in this product forever
56	64	India has sustainable and strong RCA in this product since 2001. The trend of RCA is on increasing mode
57	65	RCA was 0 since 2001 but started to develop in 2004. The trend of RCA was on increasing mode. After 2012, India lost RCA and never gain it again
58	66	Except for 2004, there is no comparative advantage in this product. Even RCA was 0 in 2001 and 2002
59	67	India has no trade specialization in this product (except for 2003 to 2005, 2013)
60	68	The product is having sustainable comparative advantage in this product since 2001
61	69	Except for 2004, 2006 and 2010, India has no trade specialization in this product
62	70	There was no RCA in this product but developed in 2007. Thereafter, RCA remained greater than 1. RCA was 5.24 in 2009
63	72	India has sustainable RCA in this product since 2001
64	73	Except for 2006, India has sustainable trade specialization in this product
65	74	India has sustainable and strong RCA in this product since 2001. RCA was maximum in 2004 i.e. 31.0
66	76	Except from 2002 to 2008, there is no RCA in this product
67	78	India has strong comparative advantage in this product since 2002
68	79	India has sustainable RCA in this product since 2002
69	80	From 2002 to 2006, India has strong RCA in this product but could not maintain it thereafter. the product could not regain RCA in this product
70	83	Except for 2002 and 2003, India has no trade specialization in this product
71	89	India had no RCA in the import of this product from SAARC from 2001 to 2007. Thereafter, RCA started to gain and continued. RCA showed a increasing trend since 2008
72	92	The product is not having any RCA since 2001. Even RCA was 0 in 2003. RCA was greater than 1 only in 2004.
73	94	India has sustainable and strong RCA in this product since 2001
74	95	There was no RCA in this product since 2001 but started to develop in 2010. RCA remained constant
75	96	Except for 2002, India has no trade specialization in this product
76	97	RCA was sustainable and strong in this product since 2001. The trend of RCA was on increasing mode but could not keep it. India lost RCA in the last i.e. 2013

- Above table-3 shows that India has no trade specialization in the exports of products with code 4, 6, 17, 18, 26, 29, 30, 31, 32, 37, 39, 45, 48, 49, 50, 67, 69, 76, 83, 96 to SAARC bloc since 2001 (Annexure-3).
- India has sustainable and strong RCA ($RCA > 1$) in products with code 3, 8, 9, 11, 12, 13, 14, 16, 19, 20, 21, 22, 23, 28, 33, 34, 41, 44, 47, 51, 53, 55, 56, 57, 58, 60, 61, 62, 63, 64, 68, 72, 74, 78, 79, 94 since 2001 as seen from annexure-3.
- Product with code 79 has sustainable RCA since 2002. India has started to gain RCA in products with code 73 since 2002.

c. RESULTS OF TRADE INTENSITY INDEX (TII): TII index is used to calculate India's trade prospects with SAARC (table-4). A unitary value i.e., $TII=1$, shows that there is no difference in importance to a nation i in supplying imports to nation j. Trade intensity index with a value greater than one ($TII > 1$) indicates higher bilateral trade than can be expected on the basis of their share in world trade. When the value of intensity is high between two countries, it shows that both have more potential of trade with each other.

Table-4 Intensity of Trade Index of India with SAARC

Year	TII for Total Trade between India and SAARC	TII for Exports by India to SAARC	TII for Imports by India from SAARC
1990	1.8499	1.4439	0.3018
1991	2.1672	2.7574	0.4754
1992	2.7163	3.3110	0.7764
1993	2.2903	3.9125	0.5172
1994	2.7448	5.2758	0.7877
1995	2.9923	6.1778	0.9381
1996	2.7497	5.8344	0.8306
1997	2.5247	5.3237	0.8014
1998	2.9555	5.4269	1.5815
1999	2.1009	3.8911	1.0966
2000	2.1422	3.9019	1.2403
2001	2.6027	4.6888	1.4638
2002	2.5741	4.8135	1.0201
2003	2.7011	4.8903	0.8863
2004	2.3918	4.1391	0.9252
2005	1.8855	3.0154	0.8525
2006	1.7649	2.6697	0.7152
2007	1.5576	2.6775	0.6484
2008	1.3778	2.2358	0.5327
2009	1.0051	1.5212	0.3568
2010	1.0644	1.7129	0.3610
2011	0.9055	1.4143	0.2945
2012	1.0293	1.4624	0.2812
2013	1.2165	1.6373	0.2485
2014	1.4346	1.8762	0.2486

Above table-3 shows that India has strong and sustainable trade prospects with SAARC bloc since 1990s. TII was greater than 2 from 1991 to 2004 and decreased thereafter but greater than 1 (Table-4). During the entire period, India continued to maintain its TII with SAARC. The value of EII is also very strong since 1990s. India has full exports prospects with this bloc. The rate of export intensity was at its highest level in 1995 i.e. 6.1778 but went on decrease thereafter but greater than 1. India's imports intensity is less than 1. TII was greater than 1 only from 1999 to 2002. There are no prospects that India will import more from SAARC. India always remains net exporter to SAARC. Overall India has strong feasibility of full trade with SAARC.

DISCUSSION AND CONCLUSION

From above analysis, it can be concluded that India has full feasibility of trade with SAARC. India has sustainable and strong RCA in the exports of these products with code 1 (annexure-1), 4, 7, 9, 10, 11, 12, 14, 17, 18, 19, 23, 28, 32, 33, 34, 35, 37, 38, 39, 40, 44, 48, 49, 52, 54, 55, 60, 66, 69, 70, 76, 78, 79, 84, 86, 89 and 96 to SAARC. On the other hand, India has strong RCA in the imports of products with code 3, 8, 9, 11, 12, 13, 14, 16, 19, 20, 21, 22, 23, 28, 33, 34, 41, 44, 47, 51, 53, 55, 56, 57, 58, 60, 61, 62, 63, 64, 68, 72, 74, 78, 79, 94 since 2001. Among SAARC, India plays a leading role. India's trade intensity is greater than 1 that shows its full feasibility of trade with SAARC. Among SAARC, India is the most powerful and active trading partner. It has potential to develop to the region. India has to play a lead role in making the regional integration reality in South-Asia. Success of SAARC bloc entirely depends upon India.

Acknowledgements

Author is thankful to University Grants Commission for providing financial assistance in the form of Senior Research Fellowship to her.

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