

# An Analysis upon India's Trade and Trade Relationship with SAFTA Countries

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**Abstract – The South Asian Free Trade Area (SAFTA) is an agreement between the members of SAARC nations specifically India, Pakistan, Bangladesh, Bhutan, Sri Lanka, Afghanistan, Nepal and Maldives which was come to on 6 January 2004 at the twelfth SAARC summit in Islamabad. It made a free trade area of 1.8 billion individuals in the region. The seven remote pastors of the region consented to a system arrangement on SAFTA to diminish traditions obligations of all traded merchandise to zero constantly 2016. However, SAFTA is an underlying advance in the development of the SAARC as a regional trade alliance and an economic association. There is much theory about its good impact on intraregional trade. As the greatest, and the most industrialized trading accomplice among the SAARC countries, India needs to take a lead in making the Regional Economic Cooperation a reality in South Asia. This investigation features India's trade and trade relationship with SAFTA everywhere and with every member of the trade coalition specifically. The investigation additionally features the macroeconomic diagram of the region refering to a few markers.**

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## INTRODUCTION

During the previous two decades, intraregional trade has accepted a great deal of significance – with intraregional trade developing quickly in a few regions, for example, the Association of Southeast Asian Nations (ASEAN), North American Free Trade Agreement (NAFTA) and the European Union. Notwithstanding, intraregional trade in South Asia has not seen quick development regardless of the institutional estimates taken by the South Asian countries through the South Asian Preferential Trade Agreement (SAPTA) and the South Asian Free Trade Agreement (SAFTA).

Economic cooperation among the South Asian countries had been very constrained until the South Asian Association for Regional Cooperation (SAARC) advanced into the second cycle of cooperation; the region had remained profoundly secured until the late 1980s because of the all-inclusive utilization of import-substitution policies and prohibitive trade systems pursued by the vast majority of its member countries. During the 1990s, when the powers of trade progression and globalization began spreading over the world, the South Asian countries likewise confronted the chances and difficulties introduced by these new developments. The countries in South Asia perceived the basic significance of venturing up intraregional cooperation so as to advance continued development and development of the member countries just as counteract the underestimation of

South Asia's trade advantages in the bigger worldwide situation.

Thus, since the mid 1990s, South Asia has gained impressive ground in deregulation and trade progression, which has expanded the region's coordination with the world economy. At first, these trade advancement endeavors had generally been one-sided. Be that as it may, as of late, South Asia has made endeavors to advance intraregional trade through a progression of respective agreements, essentially among India and its neighbors, just as multilateral agreements. In 1995, the seven South Asian countries – Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka – started a multilateral structure for region-wide coordination under SAPTA. Along these lines, the members of SAPTA began moving towards SAFTA. The procedure of SAFTA was detailed in January 2004 at the twelfth SAARC summit held in Pakistan. Be that as it may, SAFTA ended up successful in July 2006, with full usage to be finished somewhere in the range of 2009 and 2013. The SAFTA agreement's goal is the demanding of zero traditions obligation for trading any item between the members by 2012.

In any case, the result of these multilateral measures as far as extension of intraregional trade has been dreary. Notwithstanding SAPTA, intraregional trade in SAARC countries has not surpassed 4 percent of the absolute trade inside the region. Indeed, even in the SAFTA stage, the development of intraregional trade in South Asia

has not been noteworthy. In 2006, intraregional trades by SAARC countries added up to simply 5.6 percent of their complete worldwide fares, though it was 25 percent in ASEAN region, 53.8 percent in NAFTA and 67.6 percent for the European Union. This raises various worries as South Asia, with as much as 24 percent of the world's populace, has small offers in world trade and world (GDP) – its offer in world trade is under 2 percent while a lot of world GDP is just around 2 percent.

An ongoing report by the Asian Development Bank and the United Nations Conference on Trade and Development (UNCTAD) (2008) gathered that SAFTA would build the volume of intraregional trade in South Asia, and that while a few divisions would lose and a few parts gain in every country, the net impact on the economy of individual countries of the region would be certain. The investigation set that a lot higher additions for the region could be verified if SAFTA was all the while actualized with measures to lessen exchange costs and make progressively productive regional transportation and foundation systems. The examination additionally proposed that expanding the degree for intraregional trade in vitality, improving street, rail and air connects inside the region, building present day outskirt traditions intersections and creating modern broadcast communications connections would be critical to such an exertion.

Trade is the exchange of responsibility for and administrations starting with one individual or substance then onto the next by getting something in return from the purchaser. Trade is some of the time called business or money related exchange or deal. The first type of trade was deal, the immediate trade of merchandise and enterprises. Afterward, one side of the bargain were the metals, valuable metals (posts, coins), bill, and paper cash. Present day traders rather for the most part consult through a mechanism of trade, for example, cash. Thus, purchasing can be isolated from selling, or gaining. The development of cash (and later credit, paper cash and non-physical cash) extraordinarily rearranged and advanced trade. Trade between two traders is called reciprocal trade, while trade between multiple traders is called multilateral trade and trade between nations is called remote trade/global trade or outside trade.

Trade influences development in three essential ways. (1) Trade supports the progression of assets from the low-profitable divisions to high-beneficial areas which thusly prompts a general increment in yield. Fare development may influence all out efficiency development through powerful overflow consequences for the remainder of the economy. The potential wellsprings of this positive unique overflow incorporate progressively proficient administration shies, better types of organization, work preparing and information about innovation and worldwide markets (Chuang, 1998). (2) An expansion

in fare potential customers to a general extension underway and a fall in the joblessness rate. As generation expands in light of economies of scale (increments in the size of operations), firms become increasingly proficient. (3) International trade additionally empowers for the buy of capital products from remote countries and opens an economy to the innovative advances of the created countries. Ongoing hypothetical work proposes that capital merchandise imported from innovatively propelled countries may expand efficiency and in this manner development, since learning and innovation are epitomized in hardware and apparatus and consequently moved through global trade (Chuang, 1998).

As indicated by the hypothesis of comparative cost, every country should focus on the creation of those merchandise for which it is most appropriate, considering its normal assets, atmosphere, work supply, specialized expertise and the degree of development. Every country has some expertise in the generation of those products which it can deliver at the most reduced expense when contrasted with different countries which prompts universal specialization and division of work. This lessens the expense of generation everywhere throughout the world and improves the way of life of the general population in different countries.

Worldwide trade improves the welfare of a country by permitting larger amounts of utilization and speculation. In a country like India where work is a surplus factor, universal trade helps in producing higher business and higher compensation rates with positive ramifications for money appropriation and destitution, in this way raising the degree of social welfare. It is generally concurred that remote trade assumes a significant job in the development of an economy.

In the course of recent years, world trade has become essentially because of extending economic joining. Intra-regional trade development is the most immediate type of regional economic cooperation. Bigger markets and complete usage of generation capacities, move of innovations, comparative advantage, economies of scale because of development in the market, better usage of pioneering abilities, labor and characteristic assets with which the accomplice nations bend enriched in differing degrees circular segment a portion of the advantages of intra-regional trade development. To accomplish these advantages of economic reconciliation inside South Asia, Bangladesh proposed a regional helpful collection of South Asian pioneers in 1980, which at that point prompted the foundation of the South Asian Association for Regional Cooperation (SAARC) in the year 1985, the reception 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 come to on 6 January 2004 at the twelfth SAARC Summit in Islamabad, Pakistan which made a system for the foundation of a free trade area (FTA) covering 1.4 billion individuals around then. This agreement came into power on 1 January 2006. SAFTA requires the creating countries in South Asia (India, Pakistan and Sri Lanka) to bring their obligations down to 20 percent in the main period of the two year time frame finishing in 2007.

Later on the 20 percent obligation was to be diminished to/cro in a progression of yearly cuts in the last five year stage finishing 2012.. The least created nations in South Asia (Nepal, Bhutan, Bangladesh, Afghanistan and Maldives) have an extra three years to diminish tariffs to zero.

SAARC had a moderate begin, however picked up energy with the dispatch of SAPTA in the mid-1990s. Since the execution of SAFTA toward the start of the new thousand years, it has started to perform powerfully (Mohanty and Chaturvedi,2006). On the opposite, Madhusoodanan (2010) states that South Asia joins a low degree of regional reconciliation and the nearness of relatively high trade obstructions. In spite of the fact that the extent of trade starting in the region has expanded in the most recent decade, despite everything it lingers behind numerous comparable regional plans. Anyway SAFTA is an underlying advance in the development of the SAARC as a regional trade coalition and an economic association. There is much theory about its ideal impact on intraregional trade. This investigation features India's trade and trade relationship with SAFTA everywhere and with every member of the trade coalition specifically. The examination likewise features the macroeconomic outline of the region referring to a few pointers.

## **SAFTA: GENERAL OVERVIEW**

The SAFTA agreement came into power on 1 January 2006 and is operational after the endorsement of the agreement by the member countries. The member countries have consented to advance and improve shared trade and economic cooperation among Contracting States by the accompanying destinations. The destinations incorporate dispensing with obstructions to trade and business, encouraging the cross-fringe development of products between the regions of the contracting states; advancing states of reasonable challenge in the free trade area, guaranteeing benefits in fair way to all contracting states, making viable component for the execution and utilization of this agreement, joint organization and the goals of questions; building up a system for further regional cooperation to grow and upgrade the common advantages of this agreement.

## **Principles of Safta-**

SAFTA is governed as per the accompanying principles:

- a) Principles of Governance: SAFTA is governed by the arrangements of this Agreement and furthermore by the guidelines and guidelines, understandings, choices, and conventions to be settled upon inside its system by the Contracting States;
- b) Principles of Obligation: The Contracting nations recognize their current rights and commitments concerning each other under Marrakesh Agreement Establishing the World Trade Organization and different Treaties/Agreements to which such Contracting States are signatories;
- c) Principles of Reciprocity and Mutuality: SAFTA is put together and connected with respect to the principles of in general correspondence and commonality of advantages so as to profit impartially all Contracting States in this way considering degrees of economic and mechanical development of the member countries,
- d) Principles of Removal of Trade Barriers: SAFTA includes the free development of merchandise between the member countries through, entomb alia, the end of tariffs, and non-tariff hindrances, and some other equal measures; and
- e) Principle of Facilitation and Harmonization: SAFTA entail reception of trade help and different measures, and the dynamic harmonization of enactments by the Contracting States in the applicable areas.

## **Instruments for Administration of the Protocol-**

Following are the instrument associated with SAFTA:-

- a) Trade Liberalization Program
- b) Rules of Origin
- c) Institutional Arrangements
- d) Consultations and Dispute Settlement Procedures
- e) Safeguard Measures
- f) Any other instrument that might be settled upon

## SIGNIFICANCE OF TRADE RELATIONSHIP WITH SAFTA COUNTRIES

Because of the developing political disturbance in Europe, Middle East, protectionist propensities in the worldwide market and the expanding rivalry among providers, chieftain in the developing world, the need to advance attainable strategies for regional economic co-operation in South Asia is increasingly obvious. This is confirmed by the ongoing rhythm of exercises in such manner in the South Asian region. Expanded regional economic co-operation would help decrease the economic reliance of the South Asian countries on the created countries later on. Given the likelihood that trade with the remainder of the world does not offer exceptionally upbeat prospects later on, intra regional trade could encourage development and development of the South Asian countries based on the regional independence. Such regional economic cooperation is viewed as achievable in light of the fact that intra regional, authentic, social, topographical and developmental shared traits are a lot more grounded than intra regional contrasts in political and economic structures and points of view. Additionally, the sub mainland economy of the South Asian region offers possibly immense and undeveloped markets to be tapped, and it is honored with tremendous blessings of material and HR.

## PROGRESSION OF TARIFFS UNDER SAFTA AND INDIA'S BILATERAL FTAS

In accordance with SAFTA arrangements, India offered tariff concessions independently to NLDCs and LDCs. India likewise kept up discrete principles of inception and delicate records for postulations two gatherings of countries. In any case, concessions offered to NLDCs are relevant just to Pakistan, since India has a FTA with Sri Lanka and any concessions appropriate to LDCs are material just to Bangladesh, since it is the main LDC member under SAFTA with which India does not have a FTA. (Maldives is excessively little and records for just 0.1 percent of the GDP of SAARC Member countries).

Along these lines, from India's outlook, all tariff progression endeavors with its SAARC members are done reciprocally. The exchanges with Sri Lanka, Nepal and Afghanistan happen under the separate respective trade courses of action. With Pakistan the tariff exchanges are done under SAFTA for NLDCs - and with Bangladesh these happen under SAFTA for LDCs.

India Pakistan - Under the Tariff Liberalization Program (TLP) in SAFTA, India had resolved to decrease tariffs to 20 percent in the initial two years and further to the 0-5 percent range by 2013 for NLDC members. Be that as it may, India's delicate rundown for NLDCs keeps on being very huge, particularly when contrasted with that kept up by

India for LDCs under SAFTA and under a reciprocal trade agreement with Sri Lanka.

Respectively, India and Pakistan did not have typical trade relations for quite a while. Starting with the period following the parcel of India and Pakistan in 1947 until the arrangement of the World Trade Organization (WTO) in 1995, the two countries traded in a set number of things. In 1996, India concurred MFN status to Pakistan. Notwithstanding, Pakistan kept on following "the positive rundown approach" for imports from India in spite of the fact that, since 2000, it had been step by step expanding the positive rundown. Indeed, even with the initiation of SAFTA in 2006, Pakistan did not concede MFN status to India. Over the most recent couple of decades, the positive rundown approach has had a few trade twisting impacts, despite the fact that the rundown of things admissible to be imported from India was bit by bit expanded from 600 things in 2000 to 1,934 out of 2009. The positive rundown approach needed straightforwardness, made vulnerabilities for traders and prompted high exchange costs. A different positive rundown of just 14 things was planned explicitly for trade between the two countries by the street course. A well-reported effect of the positive rundown approach was that it has prompted enormous casual trade streams, for the most part in things avoided from the rundown. Around 90 percent of the casual trade is directed through third countries, for the most part Dubai. Evaluations recommend that casual trade was nearly as huge as formal trade yet were unaccounted for, showing a colossal respective trade potential. At last, Pakistan's government bureau chose to allow MFN status to India as of late in November 2011. In March 2012, Pakistan moved to a negative rundown with 1,209 things that can't be traded with India and is required eliminate to the rundown to officially accord the MFN status to India.

India - Bangladesh - Under SAFTA, India resolved to decrease its tariffs to 20% for LDCs in two years after the initiation of SAFTA and in the second stage a decrease to 0-5% must be done in the following five years. India evacuated all obligations for LDCs in December 2007, in front of the time stipulated under the tariff progression program for NLDCs. Another critical measure taken by India was the evacuation of explicit obligations.

Colossal advancement has been made on tariff concessions offered to LDCs by India under SAFTA to permit them expanded market access to the Indian market. Bangladesh has been the greatest recipient of the decrease in India's touchy rundown from 744 things in 2006 to the present rundown of 25 things. The first delicate rundown had included 158 attire items, which structure the significant piece of Bangladesh's worldwide fares.



India-Nepal - Indo-Nepal economic relations have been governed by the respective bargains of Trade and Transit and Agreement for Co-operation to Control Unauthorized Trademarked. The guidelines of starting point criteria have assumed a significant job in deciding the course of India Nepal trade. The 1971 bargain permitted obligation free access to things made in Nepal gave they utilized 90 percent Nepalese/Indian material substance for fare to India. This necessity was thusly decreased to 50 percent in 1993. The Indo-Nepal trade bargain of 1996 was a milestone in Indo-Nepal two-sided trade, as India gave obligation free access to all items fabricated in Nepal based on an authentication of birthplace issued by the Nepali experts with no base necessity of local worth expansion. Just three items were on the delicate rundown to be specific, alcoholic mixers, aromas and beautifying agents and cigarettes and tobacco. The 2002 bargain re-presented the worth option standard of 30 percent with an extra prerequisite of an adjustment in characterization at the four-digit level of the Harmonized Commodities Description and Coding System to fit the bill for preferential access to the Indian market. A tariff rate quantity was forced on four things i.e., vegetable ghee, acrylic yarn, copper items and zinc oxide, under which obligation free access was permitted uniquely up to a predefined limit.

India-Sri Lanka - India and Sri Lanka marked a FTA in 2000, six years in front of the marking of SAFTA. The India-Sri Lanka FTA stipulated that India diminished tariffs to focus in a time of 3 years and Sri Lanka in 8 years. India, be that as it may, forced a tariff quantity on articles of clothing (8 million pieces) and tea (15 million kg) and determined ports of section for these things to meet all requirements for preferential tariffs. India likewise included the condition that for Sri Lanka would need to source texture for 6 of the 8 million bits of attire articles from India to fit the bill for preferential tariff.

Now and again, Sri Lankan exporters thought that it was hard to meet the principles of beginning criteria. The Rules of Origin (ROO) prerequisite of a 35 percent nearby worth expansion for mixed tea and a 25 percent neighborhood esteem expansion for mixed tea with Indian tea were prohibitive. Subsequently, short of what one percent of Ceylon tea entered the Indian market, adding up to a simple 2.7 percent use of Sri Lanka's quantity limit under the FTA.

## CONCLUSION

However, the pace of trade has grabbed, there is have to consider measurement of casual trade in the trade trades. The issue of casual trade occurring in the region is assessed to be more than that of authority trade. Connection between nations ought to fortify. Improvement of Indo-Pak ties is vital. It isn't that lone India and Pakistan have issues. India and Bangladesh have a few issues to settle. Same is the

situation with Nepal and Bhutan. Pakistan and Afghanistan additionally don't linger behind on this score. There is still no South Asian ideological bond that joins the general population of eight countries.

Given the size of the Indian economy and its land situating at the focal point of the region, the achievement of trade activities in the SAFTA region is significantly reliant on India. To make SAFTA a significant alliance and a solid economic square, solid advancement towards its economic joining is significant. SAFTA countries need to take advantages of their nearness to build their trade and venture streams. The complementarities on various measurements should be investigated with the goal that the whole region advances and the advantages circular segment adjusted. India, being the biggest economy in SAARC, its job is broadly viewed as pivotal in deciding the viability of SAFTA; along these lines, it should play a proactive and driving job in illustration the future plan or the guide of SAFTA.

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