India's Trade Relation with Neighbouring South Asian Nations With Special Reference to Tourism

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ABSTRACT

A Trade relation among nations is an important part of modern global economy. India’s role in international trade especially in south Asia is noteworthy which shows an impressive amount of import from and export to other countries. Here in this paper we will try to put an effort to analyse the impacts, trends and mutual benefits of trade between India and three major economies of South Asia viz. Nepal, Sri Lanka and Afghanistan. Moreover, India’s role in boosting tourism such as medical and religious tourism will be discussed under the banner of ‘trade in services’. We will also try to throw light into each country’s prevailing economic conditions which play a vital role in facilitating international trade practices.

Trade is no longer an option but a necessity of today’s world. It is vested with the power to transform a nation in every aspect.

INTRODUCTION

International trade that gives rise to world economy can be described as the exchange of goods and services across international borders or territories. Here the players can be both government of the respective countries or private firms or individuals. International trade allows us to expand our markets for both goods and services that otherwise may not have been available to us. In other words, international trade allows consumers to choose from a wide variety of products, some of which are not native to their home countries. This expansion of market or easier flow of goods and services across countries affect the global economy as the prices, supply and demand of goods and services primarily depend upon the conditions under which factors of production flourish e.g. Labour laws, custom laws etc. Increase in labour opportunities, change in foreign exchange reserve, or increase or decrease in global output can be some examples of affect of international trade on individual country or global economy.

Here in this paper we will basically discuss India’s trade relation with three south Asian countries namely Nepal, Sri Lanka and Afghanistan.

Nepal having a liberal relation with India since mid 20th century is also having a cordial trade relation with India where around 65% of Nepal’s external trade takes place with India with respect to rice and other food grains like oil seeds, timber, ghee etc.

Sri Lanka, though completely opened its domestic market to India towards the end of 20th century under Free Trade Agreement with India, its trade relation with India dates back to centuries ago. In present era India is Sri Lanka’s largest trade partner.

Since the period of Indus Valley Civilization India’s relationship with Afghanistan has showed a harmony in conflict. This is also true for these two countries’ trade relation. In present times both the countries are trying their best to take this trade relation to new feats.

OBJECTIVE AND METHODOLOGY

The primary objective of the present paper is to look into the trade practices between India and other three south Asian emerging economies namely Nepal, Sri Lanka and Afghanistan. In this paper we will examine the mutual benefits and challenges being faced and overall impact on economic development of the mentioned nations. Moreover, efforts have been made to throw some light on tourism as a special reference as it is one of the important means of trade dealing of these countries with India.

The present paper is analytical in nature and the data produced here and used to develop the discussion are secondary in nature. The data are collected from various authentic sources which are clearly stated along with.

FINDINGS

AN OVERVIEW OF INDIA’S ECONOMIC SCENARIO POST 1991

India after changing her perception towards international trade, completely opened up its domestic market for external trade in 1991 through various significant changes in policies relating to India’s foreign trade. Prior to 1991, though Indian export was somewhat liberal, imports were regulated by high tariff and quotas primarily to protect infant domestic industries. But, in 1990’s India’s huge trade deficit made India realize that it cannot achieve considerable growth on existing foreign trade policies and as a result it completely liberalized, privatized and globalized its economy in second phase of economic reforms in 1991. To overcome the above mentioned Balance of Payment crisis India undertook following steps under the reform:

- Rationalization of tariff structure
- De-canalization of goods
- Devaluation and convertibility of rupee on current account
- Setting up special economic zones
- Emphasis on export of services
- Setting up agriculture export zones
- Easing licensing procedures etc.

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Thus, India undertook some tough measures and removed many barriers and restrictions to overcome the currency crisis of 1991. Two and half decades have passed since then with many positive changes. Notable among them are increase in foreign exchange reserve by manifold from mere $1.2 billion to $353.65 billion in August 2015; increase in domestic savings rate from 11% of Gross Domestic Product (GDP) in 1991 to 31% of GDP in 2015; increase in GDP growth rate and Foreign Direct Investment (FDI).

Apart from these positive impacts of reform, India’s trade relation with neighbouring countries also improved in last couple of decades. Here in this paper we will analyse the trade relationship of India and three south Asian countries namely Nepal, Sri Lanka and Afghanistan. The tourism scenario will also be discussed under trade in services in these countries.

**TRADE BETWEEN INDIA AND NEPAL**

India and Nepal have historic relationship which attained its peak with signing of ‘treaty of peace and friendship’ of 1950 by both the countries which formed the bedrock of the special relationship between India and Nepal. This treaty has allowed Nepal to overcome the disadvantage of a land lock country which made economic relation unique as lack of international boundary facilitates freer and easier movement of labour and goods and services. This commercial relation is important for both the countries and is more important for Nepal as India is the largest trading partner of Nepal with whom Nepal carries out 2/3rd of its international trade. This bilateral trade has significantly increased since signing of the ‘Trade Treaty’ in 1996 and received further impetus after the signing of the ‘Revised Treaty’ in 2009. Nepal’s basket of export to India comprises mainly textile, chemical, rubber, plastic, food products, minerals, medicinal herbs, leather, metal etc. Whereas import basket from India comprises rice, petroleum, coal products, machinery, motor vehicles etc. Trade statistics show an increasing trend of trade in these items which is discussed in the following table.

**Nepal’s annual trade with India in last decade:**

![Graph: Nepal’s annual trade with India in last decade](image)


As we can see in the bar graph the trade volume between India and Nepal was 10951.63 Nepali rupees in 2003-04, increase to around 15779.9 Nepali rupees in 2006-07 which in turn increased to reach 25710.31 in 2009-10. Thus, this graph shows a huge amount of trade transaction between India and Nepal which kept on increasing in the given period.

From the table it is seen that though considerable amount of trade transaction takes place between India and Nepal, Nepal lacks behind India in terms of export. This is probably due to Nepal’s inability to use its economic and natural resources efficiently and probably due to lack of technical knowhow. India can help Nepal providing with technical knowhow and labour force to attain efficiency in production thereby increasing national output to increase export. The trade relation is beneficial for both the countries as it strengthens the historical ties between India and Nepal which is strategically important in international political arena.

**TOURISM RELATION BETWEEN THE TWO NATIONS**

People to people kinship and cultural relation between India and Nepal promote intra tourism in these two countries. Ancient monuments, places of historical and religious importance in both the countries boost tourism. Kathmandu valley and Nagarkot are most visited tourist attractions of Nepal by Indians. Notably, 40% tourist from Nepal to Indian happens to be pilgrimage. In case of pilgrimage, Lumbini the birth place of Siddharta Gautam Buddha attracts Indian pilgrim and Bodh Gaya in India attracts huge number of Nepali Pilgrimage. Moreover, open border also promotes tourism by allowing freer movement of people and people from India can reside freely in Nepal and serve Nepal and same goes for India. The health and educational sector also contributes towards tourism. Better health service provided in India attracts health tourist from Nepal. Again comparatively better service in educational sector also brings students from Nepal to India.
TRADE BETWEEN INDIA AND SRI LANKA

India’s trade relation with Sri Lanka dates back to centuries ago. Sri Lanka undertakes a robust amount of trade with India. Sri Lanka liberalized its economy in 1977. In enhanced the trade relation with India which further got improvised by signing of the ‘Free Trade Agreement’ (FTA) in 1998 which came into effect in March 2000 by these two countries which made India the largest trading partner of Sri Lanka globally and Sri Lanka the largest partner of India in south Asia. These two countries also undertake trade in services. To cite one example is the port of Colombo that handles around 70% of total transhipment cargo from India.

Like trade relation of India with Nepal, here also we can see the huge volumes of trade transaction over the years that took place between Indian and Sri Lanka. It remained steady during the first part of the table as we can see the trade volume revolved around $2600 million in three year span from 2006 to 2009 but increased tremendously 2009 afterwards where trade volume went past $4500 million from 2009 to 2013. This increase came as a positive effect of end of civil war in Sri Lanka in 2009.

However, various issues like Tamil in Sri Lankan Northern Province, Indian fishermen fishing in Sri Lankan water, growing Chinese presence in Sri Lanka, dispute over Katchativu Island are some important issues that affect the international ties between these two countries and these calls for immediate solution for these issues to keep the historical ties and the trade relation stronger. Having a harmonized relation is beneficial for both the countries as it will enhance the collective bargaining power of both in international forums like World Trade Organization and United Nations since both the countries enjoy the tag of ‘good international citizen’.

 TOURISM RELATION BETWEEN THE TWO COUNTRIES

India has cultural and religious relation with Sri Lanka and as a result India has emerged as Sri Lanka’s biggest market for tourist. According to annual statistical report of Sri Lanka, during 2002-2007 flow of India’s tourist to Sri Lanka increased by 20% per annum. It was further supported by unilateral visa liberalization by Sri Lanka. On the other hand, according to the statistics of ministry of tourism, government of India, Sri Lanka is India’s fifth largest tourism mainly due to pilgrimage. However in absolute number tourist from Sri Lanka to India outnumber tourist from India to Sri Lanka. The trade in health and educational services between Sri Lanka and India has also developed but in a one way transaction where Sri Lankans are travelling India for availing better educational and low cost quality health services but India is not reciprocating.

TRADE BETWEEN INDIA AND AFGHANISTAN

Indian and Afghanistan have a strong relationship based on historical and cultural links. This relationship is also present in external trade of these two Asian countries where Afghanistan’s one of the major export destination is India. The main items in the basket of export from India to Afghanistan are manmade staple fibres, cereals, tobacco, electrical...
machinery, dairy products, eggs, honey, rubber, pharmaceuticals, clothing accessories, boilers and machineries where as import basket mainly comprise dry fruits, fresh fruits, raisins, vegetables, oil seeds, precious stones etc. To enhance this trade relation India and Afghanistan signed ‘Preferential Trade Agreement’ (PTA) in 2003. As a result of PTA the total volume of trade increased by around 200% to 9 Billion in 2014. The trend of bilateral trade is discussed below (in US $ million)

![Source: Dept Of Commerce, Govt Of India](http://example.com/image)

The trade volume here shows an increasing trend which was around $170 million in 2005-06 increased to cross $350 million mark in 2007-08 and then went to cross $550 million mark in 2009-10. Notably the import from Afghanistan shows a mixed trend where as the import by Afghanistan kept on increasing.

The trade relation between India and Afghanistan faces some challenges due to political and socio-economic instability in Afghanistan in recent past. Moreover the huge trade deficit of Afghanistan with India as also an issue. But these shortcomings can be overcome by Better Corporation between these two countries where India can use its experience and economic resources to help Afghanistan restore political and socio-economic stability. On the other hand the trade relation is beneficial for India considering Afghanistan as one of the gateways of resource rich central Asia and is also beneficial for Afghanistan considering India as a weapon country and a potential international trading partner.

TOURISM RELATION BETWEEN THE TWO COUNTRIES

India plays an important role in Afghanistan’s steady progress in institutionalizing peace, pluralism and prosperity. Since ancient times the people of Afghanistan and India are attracted to each other through trade and commerce, peaceful coexistence on the basis of their shared cultural values and commodities. Public opinion polls in Afghanistan confirm that Afghani people feel at home in India. But this tourism relation is not rosy. Because there if inflow of afghan tourist to India, they are mainly health tourist and educational tourist. Again India is not reciprocating i.e. Indian outflow of tourist to Afghanistan is negligible probably due to various conditions such as terrorism prevailing in Afghanistan. So to make the tourism relation stronger there are sufficient grounds where both the countries can work on.

CONCLUSION

While analysing India’s trade relation with the three south Asian countries we found that the trade relation is strong enough to continue in future with tremendous scope remaining for all the countries to improve the trade relation. The trade relation not only will improve the economic ties but will also improve the other relations such as social, cultural relations as these countries have various ethnic similarities. Moreover we saw some problems such as trade deficit of smaller countries like Nepal and Sri Lanka. All countries must, thus, must join hands to overcome these issues which might stand as barriers in trade relations in future.

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