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TRADE BETWEEN AFGHANISTAN AND SAARC COUNTRIES: (CASE STUDY OF AFGHANISTAN & INDIA)

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ABSTRACT

In order to expedite the flow of trade the number of regional trade agreements has grown among the countries since the globalization has started. The dramatic changes are quiet visible as these RTA are lucrative and attractive for the countries to manage their trade. Afghanistan started its regional trade with neighboring countries after joining SAARC in 2008. The study period is covering 8 years data from 2008-2015 by employing SITC Revision III classification. The prime focus of this article is to evaluate the trade compatibility between Afghanistan and India by employing Revealed Compara- tive Advantage (RCA) and Trade Intensity Index (TII). From the results it is quite clear that the trade between two countries is proceeding in India's favor. Afghanistan enjoys comparative advantage in just one product category and for the rest of the products the values of RCA are less than 1. India enjoys RCA in four product categories. The paper concludes with this recommendation that it will be better for both countries to keep promoting the export of the products which has the RCA > 1. India is leading the existing export market because of its strong export base. Both countries should strive to improve their export potential products, in order to gain the market and to be compatible and competitive partners with one another.

Keywords: Afghanistan, India, Trade Policy

INTRODUCTION

To throw light on the possibilities and limits of meaningful coalitions among emerging coun- tries, this study focuses on Afghanistan and India trade relations. The study evaluates the structure of comparative advantage for Afghanistan and India trade and the change in the economic scenario over a period of 8-year period from 2008 to 2015. The study attempted to evaluate Afghanistan–India trade using Revealed Comparative Advantage (RCA) and Trade Intensity Index (TII). Although Afghanistan has made momentous progress over the past decade despite continuing security challenges: GDP per capita increased more than threefold between 2003 and 2013, rising from $198 to $678 (World Bank Development Indicators, 2014).

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METHODOLOGY

The main idea of internationalization of economies is based on the escalation of international trade. It is because of increasing trade and regional integration, there is a possibility in managing a successful transition in any economy especially in case of Afghanistan. In common parlance, the reim- bursements from following regional integration are abundant and thus include economies of scale, in- crease local supply capacity and improve access to markets and regional infrastructure and much more.

Table 1: Afghanistan's Export Growth Rate

Year	2008	2009	2010	2011	2012	2013	2014	2015
Growth Per-entage	0.0068	0.0065	0.0051	0.0042	0.0047	0.0055	0.0061	0.0073

Source: Calculation based on data from UN COMTRADE database SITC

For a landlocked country such as Afghanistan, regional integration is exclusively imperious as it leads not only in trade promotional activities but encourages increased trade and connectivity within the regions followed by the global economy. The regional integration between Afghanistan and India is thus not a supernumerary for amalgamation with the rest of the world. Rather, it must be bolstered with wider economic assimilation that makes the most of the region's comparative advantages.

Table 2: India's export Growth Rate

Year	2008	2009	2010	2011	2012	2013	2014	2015
Growth Percent-age	1.16	1.44	1.47	1.69	1.62	1.82	1.72	1.70

Source: Calculation based on data from UN COMTRADE database SITC Revision III

From Table 1 and 2, there is a lot of divergence in the export growth of both the countries. Looking at the digits of growth of exports in Afghanistan perspective, the values are minuscule and thus present that Afghan economy is still lingering in its export sector, whereas in case of India a growth of 1.16 per cent in 2008 is quiet good sign of economic health. The process of growth continued and hasgrown in the next years.

The type of research data is secondary, collected from UNCOMTRADE. The data is time series in nature as it is about the exports and imports for Afghanistan and

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India. The trading classification is SITC Revision 3 in 10 sectors encompassing 64 broad commodities.

In this study Trade Intensity Index (TII) and Revealed Comparative Advantage (RCA) Index has been used to see trade compatibility between Afghanistan and India. The trade intensity index (TII) is used to determine whether the value of trade between two countries is greater or smaller than would be expected on the basis of their importance in world trade and is defined as:

Trade intensity index (TII) = (XIA/ XIT) / (XWA/ XWT)

Where XIA and XWA are the values of country I's exports and world exports to country A's and XIT and XWT are Country I's total export and total world export respectively. An index values greater than 1 indicate an "intense" trade relationship (as used by Batra et al (2005) and Raghuramapatruni (2009).

Revealed Comparative Advantage Index shows how competitive is a product in countries export compared to the products share in world trade and was introduced by Balassa in 1965 (Balassa 1965, 1977). A product with high RCA is competitive and can be exported to countries with low RCA. The measures of Revealed Comparative Advantage (RCA) have been used to help assess a country's export potential. The RCA index of country I for product J is often measured by the product's share in the country's exports in relation to its share in world trade

Revealed Comparative Advantage (RCAij) = (XIJ/ XIT) / (XWJ/ XWT)

Where Xij and Xwj are the values of country I's exports of product J and world exports of prod- uct J and where XIT and XWT refer to the country's total exports and world total exports. A value of less than unity implies that the country has a revealed comparative. A value of less than unity implies that the country has a revealed comparative disadvantage in the product.

RESULTS AND DISCUSSION

The mean Revealed Comparative Advantage (RCA) of India and Afghanistan for the period 2008 to 2015 for 10 product categories according to SITC Rev III codes of products is presented in the following table 3 and 4.

Table 3: Mean RCA for Afghanistan and India from 2008-2015.

Division name	Commodity name	SITC code	RCA value
0 - Food and live animals			
	05 - Vegetables and fruit	5	0.485

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	07 - Coffee, tea, cocoa, spices, and manufactures thereof	7	0.527
	08 - Feeding stuff for animals (not including un-milled cereals)	8	0.455

Source: Calculation based on data from UN COM TRADE database SITC Revision III.

From the above table 3, the mean RCA for Crude animal and vegetable materials, n.e.s. (29) is greater than one, thus implying that Afghanistan has a revealed comparative advantage in exporting this product to India. The products under (6-69) stands for Manufactured goods classified chiefly by material, which (65) is the code for Textile yarn, fabrics, made-up articles, n.e.s., And related products. And (66) for Non-metallic mineral manufactures, n.e.s. The mean RCA for these products is less than One, Afghanistan has better advantage for exporting these products. The products codes (83), for Travel goods, handbags and similar containers and (89), for Miscellaneous manufactured articles, n.e.s. Are the products which have a Mean RCA less than One, Afghanistan gains no advantage in exporting these products to India. The products under (9-99) codes stands for Commodities and transactions not classi- fied elsewhere in the SITC, in which Afghanistan exports only the products under code of (93), Special transactions and commodities not classified according to kind. The Mean RCA for these products is less than one; it is no advantage in exporting these products to India.

Table 4: Mean RCA for India and Afghanistan from 2008-2015

Division name	Commodity name	SITC code	RCA value
0 - Food and live animals			
	00 - Live animals other than animals of division	0	0.0055
	43 - Animal or vegetable fats and oils, processed; waxes of animal or vegetable origin; inedible mixtures or preparations of animal or vegetable fats or oils,	43	0.0000
5 - Chemicals and related products,			

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Source: Calculation based on data from Uncomtrade database SITC Revision III.

The commodities with product category SITC codes 54, 65 and 68 are beneficial ones, as for these India is getting benefit in exporting these products to Afghanistan as the values are greater than 1 and rest commodities do have the value below 1, thus no trade latency. Now looking at the paradigm of trade intensity, the two nations are getting too close in trade relations with every passing year. The figures in the table 5 are ample proof that the trade relations between the nations is increasing. Although from the Indian perspective, the pace of linkage is fast, but Afghanistan is also not leaving any stone unturned to show its presence in the Indian trade structure.

Table 5: Trade Intensity Index between Afghanistan and India

Year	Trade Intensity Index between Afghanistan and India	Trade Intensity Index between. India and Afghanistan
2008	5.57	8.37
2009	4.34	5.65
2010	2.34	4.54
2011	2.14	4.97
2012	2.67	4.11
2013	2.79	5.62
2014	3.02	7.79
2015	6.74	9.56

Source: Calculation based on data from UN COMTRADE database SITC Revision III.

CONCLUSION AND RECOMMENDATIONS

The study aimed at assessing the structure of comparative advantage in Afghanistan and India and the change in the scene over a period from 2008 to 2015. Afghanistan and India has a good trade relationship since past centuries, this relation has become stronger when Afghanistan join SAARC in 2008. It is obvious that Afghanistan accelerates its exports and trade relations and meets better opportunities after joining SAARC.

Afghanistan exports in total 9 products to India, from which Afghanistan has comparative advan- tage only in one commodity with product code (29) namely

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tanning, dyeing extracts, tannins, derives, pigments. Moreover, India exports 57 products to Afghanistan from which India has good competitive advantage in three product categories namely Medicinal and pharmaceutical products (68), Non-ferrous metals and two other products with high level of competitive advantage are products with codes of (65), Textile yarn, fabrics, made-up articles, n.e.s., And related products and Nuclear reactors, boilers, ma- chinery (84). it is quite clear that India gain more advantage in exporting these products to Afghanistan. The paper has also evaluated the trade intensity index for both countries to examine their intensity in trade. Both the economies are having intense level of trade latency with each other. The trade intensity of India is better than Afghanistan, as India rules the export market. The export health of the Afghan- istan is not that good, even it is worse. Afghanistan exports only 9 products to India. It gives a policy implication that Afghanistan needs to take the advantage of the geographical location to expand and diversify its export base and India should effort to capture Afghan market and replace the countries with whom Afghanistan import from like Pakistan, China, Iran etc.

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