India-Afghanistan Trade Relations

Abstract

Trade between countries is very important as they help reduce trade costs and help economies to collaborate with each other in better ways. It helps in social welfare and economic growth of the nations. In developing nations like India and Afghanistan, regional trade is very essential and plays a vital role helping the countries grow, especially Afghanistan where the Soviet Union invasion followed by Civil war and finally Taliban destruction has immensely hampered the country's economic growth.

This research examines the trade between India-Afghanistan during 2010-2018 and its direct outcome on the nation relations using statistical analysis. This paper aims to throw light on trade as a major reason in establishing country relations.

Introduction

Afghanistan and India share a good trade relationship and this bond has become stronger only with Afghanistan joining SAARC in 2008. After joining SAARC, Afghanistan has accelerated its regional trade to stabilize its economy. Over the recent decades or so, the bilateral relations between these 2 countries has risen only, starting with India-Afghanistan Strategic Partnership Agreement signed in 2011 to building of India-Afghanistan Friendship Dam – "Salma Dam" in 2015. India has provided assistance in many forms, helping Afghanistan keep up its political and economic stability.

The prime focus of this research paper is to evaluate how the regional trade between India and Afghanistan has grown or decreased and how it has changed the bilateral relations between these two nations , thus analyzing the trade compatibility between them as a better way to realize how trade plays a major role in establishing relationship between any two countries.

Background of Study

Throughout history, India and Afghanistan have shared strong and friendly bilateral relations with deep longstanding historical, cultural and civilizational links. Afghanistan is India's natural ally. The friendly alliance between India- Afghanistan began in 1979 during the Soviet Union invasion when India became one of the first non-communist country to recognize Afghanistan's new soviet backed government.

Politically, Afghanistan serves India's security interests, coupled with its competition with China over resources and its need to counter Pakistani influence.

Economically, Afghanistan is rich in minerals with wealth of about $1-3 trillion of Iron ore, Lithium, Chromium, Natural Gas, Petroleum etc. and provides a connecting link between Central Asia and India.

Apart from economic and political ties, India and Afghanistan share good cultural ties as well through Bollywood and cricket with Afghanistan's home cricket ground in greater Noida, India. Many of the popular Indian shows and movies have a large viewership in Afghanistan.

In the recent decades, India has provided assistance to Afghanistan majorly in the form of development projects and other forms of humanitarian assistance.

Review of Literature

Since the whole study focuses on India and Afghanistan relations, a thorough research was conducted in order to understand and recognize the different policies adopted by the countries in question and analyze the major key factors for the same. For the statistical analysis the Indian trade data was taken and data analysis was made by cleaning and transforming the database.

The comparative analysis was made to arrive at the general most relation with trade. Further for better understanding from the point of view of the citizens, to consider how effective the said relations have been among the general public citizen data was explored.

Literature in connection with international trade and cooperation was reviewed from various sources. Through the literature various definitions of the trade were made in different context in India as well as Afghanistan, were studied. Therefore, a separate set of literature was reviewed based on which analysis is performed.

Research Questions

Through this paper, we aim to find answers to some of the questions listed below:

What did India export to Afghanistan the most between 2010-2018?

Which commodity forms a major chunk of trade? Does it conform to theories of international trade? How has the trade between India and Afghanistan grown over time?

What are the products in which India makes profit on making Import and Export?

Is trade directly proportional to defining country relations?

Under different governments, different policies are made which reflect different changes between international relations accordingly. Through this paper I will try to answer such questions by analyzing different trading trends during 2010-2018.

Objectives

- To evaluate the trade Compatibility between Afghanistan and India.
- To analyze the degree of intensity of trade between the two economies.
- The insights which is implemented can be used by the economic experts to get better understanding of trade effects on economy and relations.

The main objective of the present study is to examine the trends in India's exports and import in terms of value and to examine the structural changes in composition of India's exports and import.

Scope

The scope of the study is limited in order to allow the undertaken study to be completed within reasonable time. Since, India-Afghanistan relations is very wide and broad topics, this paper reviews on one perspective.

Hypothesis

Hypothesis helps to draw out possible explanation based on facts and provides direction to research. It directs a researcher to identify the procedure and methods needed in solving the problem. Hence, based on the research questions stated earlier, the hypothesis of the study has been formulated as, "Without expansion of trade between two nations, it is not possible to keep up international relations between two countries"

Our hypothesis is just an assumption initially. The hypothesis is only a tentative statement which aims to show relationship between two or more variables. The hypothesis has been tested only after all the information and data has been analyzed and evaluated to know whether the hypothesis is accepted or rejected.

Methodology

Research methodology is a way to systematically solve the research problem and conclude the hypothesis. It is very important and tells us how research is done. Research methodology includes the study of the various steps done while studying the topic and trying to find the logic behind each problem. The basic steps involved are using specific techniques for data collection and observation, refining and analyzing data and reporting the outcome of research.

This paper contains eight chapters. The first chapter describes the abstract, followed by an introduction, to understand what the paper is about. Next is a narration about the background of the study based on historical context, to understand the reasons for the current situation. The research questions and objectives as well as the hypothesis are also stated which helps to define a clear aim and conduct the research accordingly. An outline of the review of literature is also made for the purpose of the present study. Final step is to analysis the data, to support the facts and figures. The research is then concluded, where the outcomes of the research are noted and hypothesis is tested.
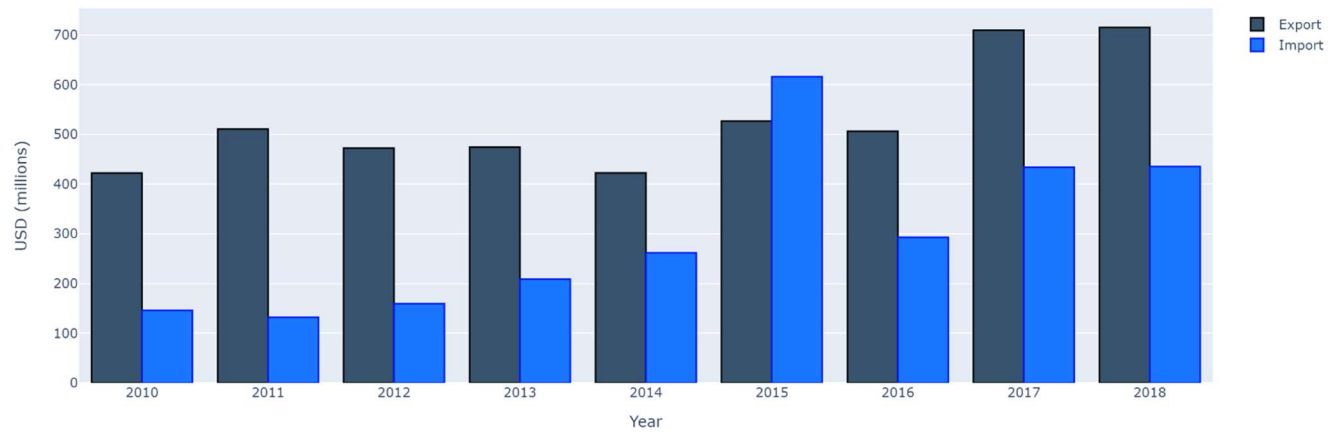
Data Analysis

Data Analysis helps to discover patterns, anomalies and test our hypothesis with the help of statistics and graphical representations. Data analysis help us find new and hidden patterns in the data which can be used by the policy makers and can improve the entire research and prevention process, making sure that relations can be further improved. The dataset used includes the trade data for India with Afghanistan for commodities in the HS2 basket.
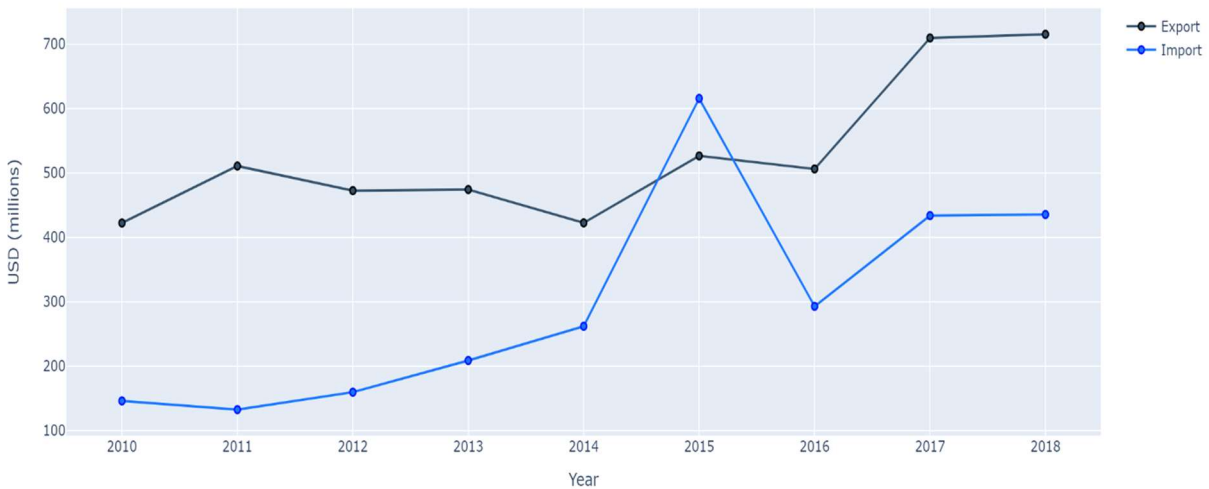
year	Export	Growth Rate(E)	Import	Growth Rate(I)	Trade Deficit
2010	422.31	NaN	146.01	NaN	276.30
2011	510.81	0.209562	132.49	-0.092596	378.32
2012	472.55	-0.074901	159.53	0.204091	313.02
2013	474.26	0.003619	208.76	0.308594	265.50
2014	422.48	-0.109181	261.92	0.254646	160.56
2015	526.51	0.246237	615.80	1.351100	-89.29
2016	506.26	-0.038461	292.90	-0.524359	213.36
2017	709.66	0.401770	433.77	0.480949	275.89
2018	715.35	0.008018	435.44	0.003850	279.91

The table above shows the total trade data between India and Afghanistan, so that we can understand the patterns in import and export growth and trade deficit and analyze the trade compatibility between the nations.

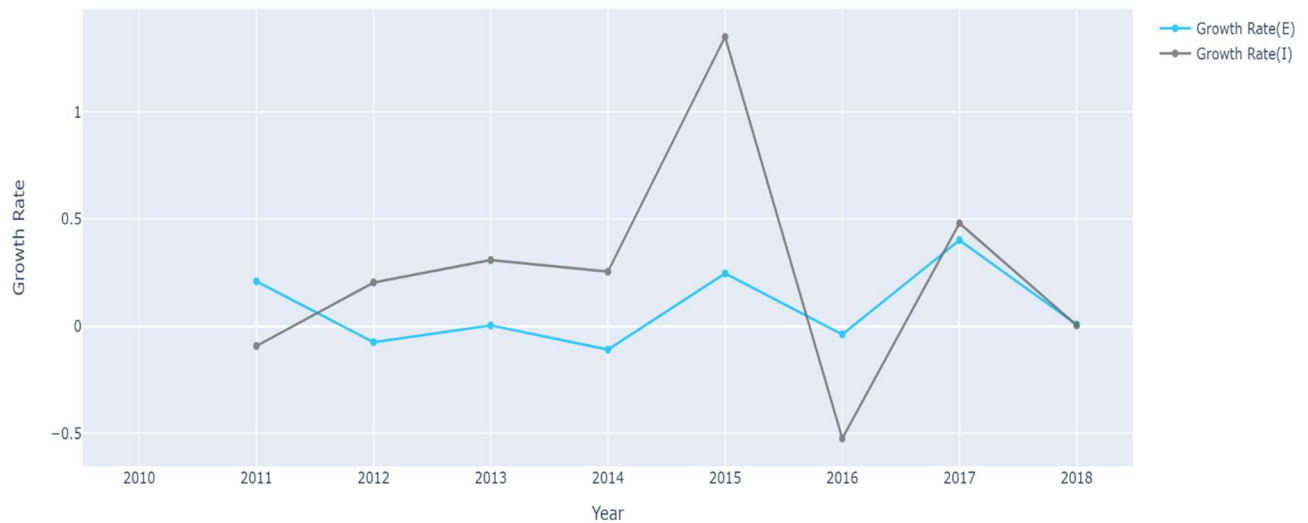Export/Import of Indian Trade to Afghanistan from 2010 to 2018

Export/Import of Indian Trade to Afghanistan from 2010 to 2018

Findings:

- Exports have done well particularly from 2017 to 2018.
- It can be clearly seen that Indian export has been always higher than imports from Afghanistan except for 2015, when import value exceeded the export value.
- It can also be inferred that imports have significantly increased from 2015-2018.
- The difference between exports and imports can be better analyzed from the line graph.
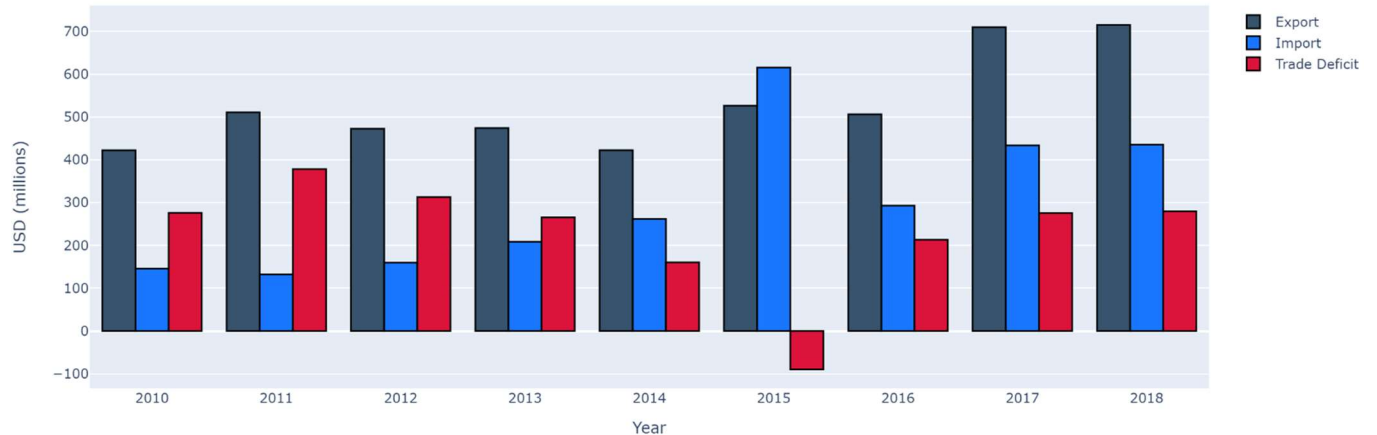
Export/Import Growth Rate of Indian Trade to Afghanistan from 2010 to 2018
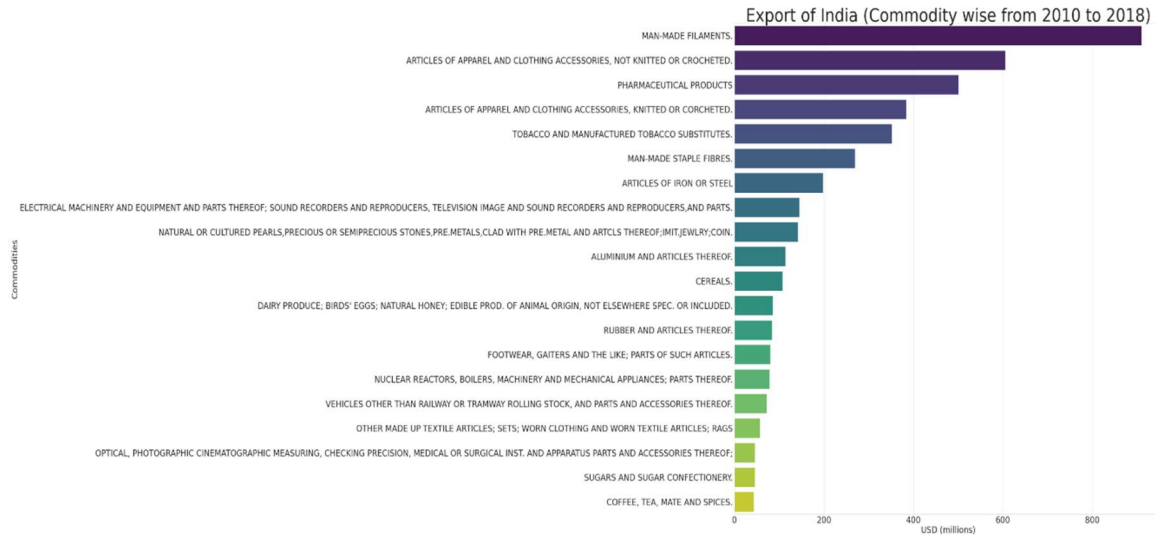

Growth Rate:

Growth rates refer to the percentage change of a specific variable within a specific time period and given a certain context. we calculate the annual growth rate.

Export/Import and Trade Deficit of Indian Trade from 2010 to 2018

Trade Deficit:

A trade deficit is an amount by which the cost of a country's imports exceeds the cost of its exports. It's one way of measuring international trade, and it's also called a negative balance of trade. You can calculate a trade deficit by subtracting the total value of a country's exports from the total value of its imports.

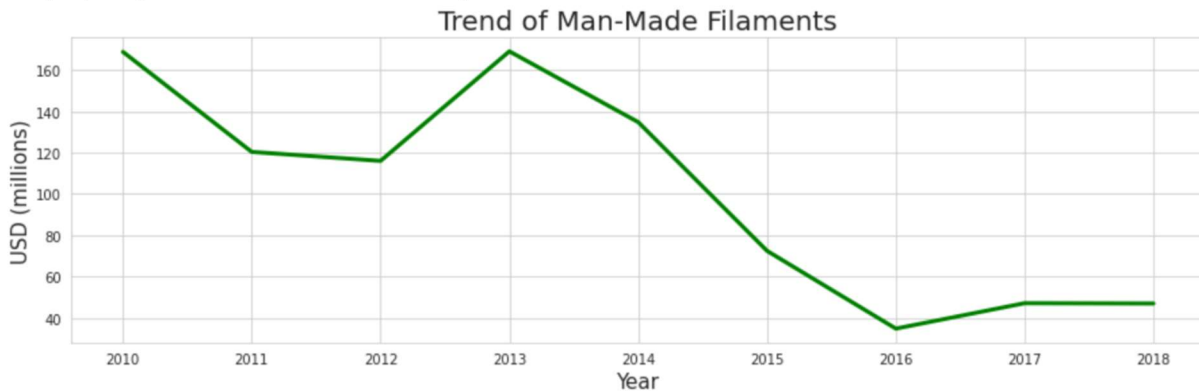Export of India (Commodity wise from 2010 to 2018)

Findings:

- Above graph gives a clearer picture about the export of commodities to Afghanistan.
- It seems that most exporting goods are Man-Made filaments with more than 800 million USD between 2010-2018 followed by Clothing Apparels and Pharmaceutical Products etc.
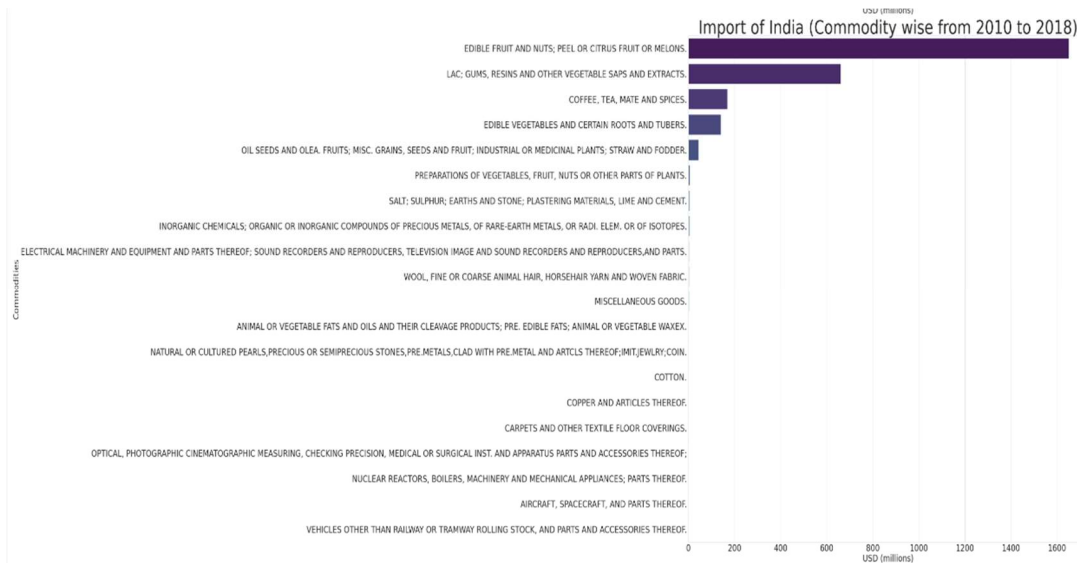
Trend of the Most Exporting Good(In Values) From 2010 to 2018

Text(0.5, 1.0, 'Trend of Man-Made Filaments')

Trend of Man-Made Filaments

Findings:

- The detailed year wise export of man-made filaments can be analyzed from the above graph.
- The trend of man-made products shows a perceptible shift between 2010 to 2018.
- Though the most exported goods are Man-made filaments, they show a major decline 2013 onwards.

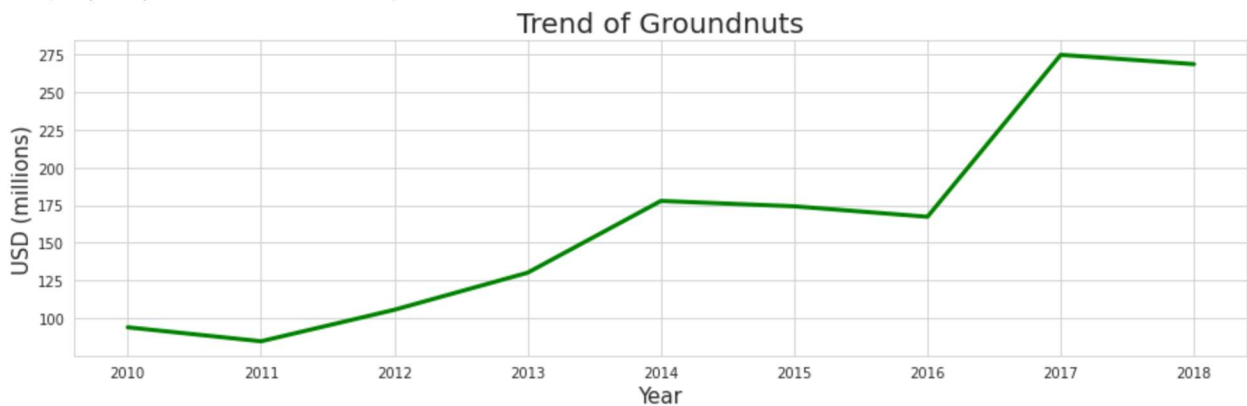Import of India (Commodity wise from 2010 to 2018)

Findings:

- Above graph gives a clearer picture about the import of commodities from Afghanistan.
- It seems that most imported goods are Groundnuts and fruits with more than 1600 million USD between 2010-2018 followed by Gums and Resins etc.

Trend of the Most Importing Goods(In Values) From 2010 to 2018

Text(0.5, 1.0, 'Trend of Groundnuts')

Trend of Groundnuts

Findings:

- The detailed year wise import of groundnuts can be analyzed from the above graph.
- The trend of groundnuts shows a perceptible shift between 2010 to 2018.
- The most imported goods i.e. Groundnuts, show a major boost throughout the timeline

Inference

The primary data analysis shows that trade between Afghanistan and India has significantly increased which in turn has made the nations closer. Although, the trade compatibility between India and Afghanistan is increasingly dependent on factors such as world trade growth, international price changes and development in the competitor countries. Cross currency exchange rates as well as dollar rupee exchange rate movements also get reflected in the performance of nations trade. The data is time series in nature as it is about the exports and imports for Afghanistan and India. In this section we are going to descriptive analysis and graphical representations.

Conclusion

The research aimed at analyzing the nature of India and Afghanistan relations and the change in the scene over a period from 2010 to 2018. The paper has also evaluated the most exported and imported goods index for both countries to examine their intensity in trade. Both the economies are having intense level of trade with each other. It can be concluded that India rules the export market.

There are many possible improvements that could be explored to improve the scalability and accuracy of this statistical analysis as I have developed a generalized system, in future we can use this system for the analysis of different data sets. From the research paper, we can conclude that India shares a multi-layered relationship with Afghanistan and it is directly proportional to the regional trade they share on the basis of which the proposed hypothesis is accepted.

To support my research, various instances can be seen where India has invested in Afghanistan including reconstruction of the Salma dam (now known as the Afghan-India Friendship Dam), the development of Chabahar port project connecting India and Afghanistan with Central Asian countries, and construction of Afghanistan ,etc. All these examples show that Indian Relations with Afghanistan are indeed growing with the trade flow increase.

However, this is just a small instance of the conducted research and further more research can be conducted to correlate the other factors and establish the relations.