

CHAPTER - IXFORMATION OF SAARC AND IMPACT ON INDIAIX.1. Introduction:

Regional cooperation through a common platform has been increasing significantly, specially in the developing countries. In a particular region, the countries are nearer to each other and, moreover, they are familiar with each other's culture, natural resources and industrial and economic developments. Naturally, a regional grouping can be a useful forum for the developing countries to discuss their political and economic problems and to take necessary steps to remove the constraints on the way to promoting political and economic relations.

A Regional Economic Cooperation (REC) combines the elements of strategies for the developing countries to promote industrialisation more efficiently, overcome the limitations of the narrow markets in their countries and accelerate their pace of economic development. UNCTAD-V points out that RES is a key element in the strategy of collective self-reliance and an essential instrument to promote structural changes contributing to a balanced and equitable progress of economic development wherein the developing countries will enhance cooperation with each other's capabilities and to meet their development needs.¹

1. UN, UNCTAD-V, Edn. Session, Manila, p/23.

Thus if the South Asian countries can form a regional grouping like ASEAN, LAFTA, OAU, ECOWAS, EEC and CACM for the promotion of regional cooperation, they can aim at a better economic and trade cooperation among the countries in South Asian region.

II.2 Need for South Asian Association for Regional Cooperation (SAARC)

Economic and technical cooperation on a regional basis is now accepted by the developing countries as a desirable and necessary strategy within the frame-work of ECDC and TCDC². For the success of South-South cooperation, it is important to form regional organisation and to have a region-wise (intra-regional) cooperation.

The most important agreement in favour of SAARC is that it is only through regional cohesion that South Asia can hope to have an effective voice in UN, UNCTAD and in international forums.³ Further, the countries of the region would be able to take advantages from the joint marketing of their common products in the global markets.

For economic cooperation and co-ordination some of the regional economic groupings could not show good progress in the past but some showed well concentrated efforts in trade and payment cooperation--- such as in the Andean Group and Central American Common Market (CACM), Caribbean community (CARICOM) and Economic community of West African States (ECOWAS). A systematic study is required to find out more avenues for greater regional economic cooperation.⁴

2. A Paper on the Proposal for Regional Cooperation in South Asia by President Ziaur Rahman of Bangladesh in November, 1980 in SARC to SAARC, Published by The SAARC Secretariat, Nepal, 1988, p/2

3. Ibid.

4. Ibid.p/121.

The countries of South Asia region have come closer to each other forming a regional grouping----SAARC--- with an intention to promote intra-regional cooperation among themselves. Because, they realised that without a strong grouping, they can not save themselves from the economic exploitation of developed countries.

IX.3. Formation of SAARC :

During his visit to Nepal, India, Pakistan and Sri Lanka in the period 1977-80, President Ziaur Rahman of the peoples' Republic of Bangladesh explained the possibilities of organising regional co-operation for the common good of the people of South Asia region. The scope of such a regional grouping was analysed in the following meeting of foreign Ministers of South Asian Countries : (i) First Meeting of Foreign Ministers, New Delhi, India in August, 1983 (ii) Second Meeting of Foreign Ministers, Male, Maldives, 7- 8 July, 1984 and (iii) Third meeting of Foreign Ministers, Thimpu, Bhutan, 10-11 May, 1985. Finally in December 1985 the SAARC (South Asian Association for Regional Co-operation) was formed in Dhaka (Bangladesh) in the first summit of Heads of States/Governments. Seven Countries namely, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka attended the Summit and resolved for the greater regional co-operation among the countries of the region.

IX.4. Objectives of SAARC,

The main objectives of the South Asian Association for Regional Co-operation (SAARC) are : (i) to promote the welfare of the people of South Asia, (ii) to improve their quality of life and (iii) to accelerate their economic growth.

In Article 1 of SAARC Charter,⁵ specific objectives of the Association have been mentioned. They are as follows :

(a) to promote the welfare of the peoples of South Asia and to improve their quality of life ;

(b) to accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realise their full potentials ;

(c) to promote and strengthen collective self-reliance among the countries of South Asia ;

(d) to contribute to mutual trust, understanding and appreciation of one another's problems ;

(e) to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields ;

(f) to strengthen cooperation among themselves in international forums on matters of common interests ; and

(g) to co-operate with international and regional organisations with similar aims and purposes.

IX.5. Progress of SAARC.

After the formation of SAARC in December 1985, four summits of Heads of States or Governments have been held. These are, Second SAARC Summit in 1986 in Bangalore (India); Third SAARC Summit in Kathmandu (Nepal) in 1987; Fourth SAARC Summit

5. "Charter of the South Asian Association for the Regional Co-operation" SARC to SAARC, op., cit, pp/96-97.

in Colombo (Sri Lanka) in 1988 and the Fifth SAARC Summit in Islamabad (Pakistan) in 1989. Since 1986 the SAARC has been made satisfactory progress in various sectors namely, Agriculture, Health and Population Activities, Meteorology, Postal Services, Prevention of Drug Trafficking and Drug Abuse, Rural development, Science and Technology, Sports, Arts and Culture, Telecommunications and Women in Development. A number of training programmes, seminars, workshops and conferences have been arranged in all member countries on various subjects to realise the objectives of the Association.⁶

An important landmark of SAARC was the Ministerial Meeting on International Economic issues at Islamabad in 1986. The meeting resulted in complete agreement among the seven South Asian Countries on their priority objectives so far as international economic issues are concerned. These include enlarged concessional assistance, the doubling in three years of the financial flows for the development of developing countries, amelioration of Official debts, trade liberalisation, specifically in textiles and agriculture, commodity price stabilisation, transfer of technology and special treatment for least developed SAARC countries.⁷

The Bangalore Summit have specified the following five new areas for regional co-operation: (1) promotion of tourism in South Asia, (2) setting up of a South Asian Broad casting

6. See "Updated Calender of Activities" of SAARC countries op.cit PP.316-32.

7. Bimal Prasad, Regional Cooperation in South Asia : Problems and Prospects, Vikash Publishing House (P) Ltd., New Delhi 1988, P.8.

programme, (3) establishment of SAARC documentation Centre, (4) foundation of SAARC Chairs, Fellowship and Scholarship at selected Universities in South Asia and (5) gearing up of a SAARC Youth Volunteers Programme.⁸

The most important achievement of the SAARC is the Headquarter Agreement Between His Majesty's Govt. of Nepal and the Secretarial of the South Asian Association for Regional Co-operation (SAARC).⁹ An agreement was signed on November 17, 1986 by the Foreign Ministers of the Association to establish the Secretarial of SAARC. Now the SAARC has its Headquarter in Kathmandu (Nepal).

IX.6. Economic Cooperation in other areas :

Regional economic co-operation is being advocated as an important aspect of economic development in the developing countries of Asia, Africa and Latin America. Out of total 34 regional economic and intergration groupings in the developing world, 19 have formed in Africa, 11 in Latin America and the Caribbean region and 4 in Asia. 35th regional grouping comprising seven South Asian nations was born in December 1985 with the formation of a formal organisation popularly known as SAARC (South Asian Association for Regional Cooperation) with a view to have more active economic cooperation among the countries in South Asia.

8. Bimal Prasad, *op, cit.*.

9. "Headquarters Agreement between His Majesty's Government of Nepal and the Secretariate of SAARC". SARC to SAARC, *op.cit.*, PP.304-308.

It is now necessary to examine the economic limitations involved in the attainment of some important objectives of SAARC, the progress achieved so far and the possibilities of future achievements. The main areas of economic cooperation among SAARC countries are ----(a) transfer of technology and industrial collaboration (b) infrastructural linkages and (c) Cooperation in trade and payment arrangements.

(a) Transfer of Technology and Industrial Collaboration:

The countries of South Asia are dependent with the West for advanced technological assistance. It has been stated that as late comers they are in a position to use technologies without having to go through the difficult and costly process of developing them. However, technology developed elsewhere need to be absorbed, assimilated according to local requirements and local resources.

In some areas the resources of the region may be jointly pooled to develop regional capabilities for producing certain technology items. The joint efforts of the region in selectively developing mutually ~~compen~~ complementary capabilities are more likely to succeed than the individual efforts of any single nation.¹⁰

In developing countries transfer of technology from India has been taking place through joint venture (JV). In July 1982, there were 134 Indian JVs in operation of which

10. I.N.Mukherjee, "Economic Constraints And Potentialities", Regional Cooperation in South Asia: Problems and Prospects, Vikash Publishing House Private Ltd.576, Masjid Road, Jangpuria, New Delhi-14, P.105.

only 9 had been functioning in South Asia. Out of 94 Indian JVs under implementation, 18 are in South Asia which accounts 13 per cent of the equity. It may be noted now that the new India JVs are shifting their placement from South East Asia to South Asia, Africa and West Asia.¹¹

The Indian Joint Ventures have been contributing significantly to the development of SAARC member countries industrial sectors in textiles, food processing industries, pulp and paper, light engineering goods, chemicals and pharmaceuticals, cement, iron and steel products and commercial vehicles. In case of projects under implementation, we can see that the pattern of investment has transferred in favour of chemicals and pharmaceuticals and non-manufacturing sectors like hotels and restaurants, engineering, construction and consultancy.¹²

To build up the foundation of scientific, technological and economic cooperation, SAARC has taken number of steps. Every member of SAARC should try to impliment the attempts which is made for mutual interest. The member countries should also build up useful regional institutions and undertake joint investment projects to accelerate their economic growth.

(b) Infrastructural Linkages :

All the South Asian countries are nearer to each other and they have common boundaries also. These geographical advantages could have helped the countries in the region to

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11. Federation of Indian Chamber of Commerce and Industry, Workshop on Indian Joint Ventures Abroad and Project Exports, New Delhi, 1982.
 12. Indian Investment Centre, Indian Joint Ventures Abroad- An Assessment (New Delhi 1983).

establish an infrastructural linkages among the countries in South Asia. But inspite of possibility for creating greater infrastructural linkages for the benefit of the economic development of SAARC Countries, these countries could not avail the advantage due to absence of utmost initiative by the member countries. Whatever transport linkage existed under the unified administrative set up at the time of British rule now fell into cessation of use with the partition of the Indian Sub-continent.

Absence of any through transportation between the countries of South Asia is the main weakness of the present transport linkage. Trade between Pakistan and Bangladesh, for instance, has to move by the longer and devious sea route all the way from Karachi by rail or Road, then by sea to chittagong, and then from Chittagong to destination by rail or road. Similar is the case with trade between Pakistan and Nepal. In the absence of facility for direct transportation through Wagah Border, goods traded between India and Pakistan are routed through Bombay---- Karachi Ports in-curring higher cost and involving delays. Similarly goods between West Bengal and other North-Eastern States have to move through long and devious routes when direct movement through Bangladesh territory by means of rail is impossible.¹³

Like the inter-connected sub-regional rail net work, an integrated river transport net work is urgently need for greater economic cooperation among the SAARC countries as the

13. I.N.Mukherjee, op.cit.

countries in the region are inter-connected with the sea and rivers. In a through chain of international multi-modal transport, marine transport through the river system of Bangladesh, West Bengal and Assam can be interlinked with Chalna, Chittagang and Haldia acting as the inlets/outlets for over-seas cargo movement. These cargo can move in sealed containers from the production centre to the consumption or distribution points.¹⁴

Communication linkages are also poor among the countries in South Asia like transport linkages. The SAARC Technical Committee on Telecommunications that the inter-country telecommunication links which are already under implementation and technical details such as standerdisation of triff structure and signalling should be expedited. The member countries have agreed to extent their full cooperation in (a) the establishment of a Regional Software Centre ; (b) setting up of a Regional Setellite System ; (c) Cooperation in the field of Research and Development and (d) setting up of a Regional Data Bank.¹⁵

Development of infrastructure is the pre-condition of industrial development and industrial development leads to the economic development of a country. Untill infrastructural likages between the countries in South Asia is established the economic cooperation among the SAARC countries will not be possible. Recently some initiatives have been taken through SAARC Technical Committee to expedite infrastructural linkages among the

14. Jagjit Singh, "Transport Linkages in South Asia" India Quarterly July- December, 1984, P.284.

15. Report of the Technical Committee on Telecommunication SAARC/SC/9, PP.20-21.

member countries. We can hope that in near future the SAARC countries will have a better infrastructural linkages to promote economic cooperation in South Asia.

(a) Co-operation in Trade and Payment Arrangements :

The SAARC member countries have to overcome a number of difficulties at both political and economic level to promote intra-regional Trade. Developed countries are well equipped to offer more liberal credits for which trade divergence at the intra-regional level are facing obstacles. It has revealed from the previous chapter that intra-regional trade in South Asia is not only small in relation to the world trade, it had been declining sometimes during 1980s. The main reason is that the countries in the region are seriously pre-occupied with the adverse balances of payments problem and the developed countries are not ready to reduce trade barriers.

The South Asian countries can cooperate in trade at various levels. These are (a) bilateral trade agreements (b) preferential trading (c) establishment of a free trade Zone and (d) formation of custom union.

The countries in South Asia should extend the areas of their bilateral trading agreements so that intra-regional trade would be increased. Various studies have identified the products of mutual interest to South Asian countries and

indicated that the further expansion is possible. The smaller SAARC countries have the fear about the dominance of bigger countries in trade. But with free mind a heart to heart discussion can remove the fears and both side acceptable bilateral agreement can increase the volume of intra-regional trade.

Preferential Trading Arrangements (PTA) seem to be most feasible under a multilateral frame-work. According to the need of member countries, PTA exchange of tariff preferences on a wide range of manufactured products under the Bangkok Agreement within the frame-work of the ESCAP. Both Sri Lanka and India have been able to promote their mutual trade in a honourably balanced manner the agreement was implimented.¹⁶

Creation of free trade zone in South Asia in another important factor for the promotion of intra-regional trade. The member countries would be getting different external tariff under this system. The countries who have lower tariff and more liberal import procedures would have cheaper admittance to imported raw materials from out side the region than others. Naturally, there would be the requirement for fixing the rules of origin criteria for allowing duty-free import from member countries for mutual trading interest.

Establishment of a customs Union can be of great beneficial to the SAARC Countries. The result of a customs union depends on whether trade creation exceeds trade diversion. For getting

16. I.N.Mukherjee, "The Bangkok Agreement Operational Constraints and prospects of preferential Trading Agreement in Asia" Problems of Non-Alignment. New Delhi, Vol.2, No.2, July-Aug.1984.

better result from creating a custom union, tariff rates should be reduced reasonably. In Bangladesh, India and Sri Lanka tariff rates and other restrictions are high at present whereas these are relatively low in Nepal and Sri Lanka. Hence, a custom union will lead to trade restriction for Sri Lanka and Nepal if the post-union, common tariff exceed the existing tariffs of the two countries.¹⁷

The aim of the formation of SAARC is the creation of an institution through which the member countries would be coming closer to each other with a view to have greater understanding and to have maximum common benefits. India having economic Viability and being leading industrialised country among the nations in South Asia has to play significant role for her own benefit. In the following section we look into the impacts of the formation of SAARC on India.

IX.7. India's Benefits from SAARC Formation :

The main benefit which India has gained after the formation of SAARC is the minimisation of hostile attitude of the neighbouring countries on various issues and the bilateral relations between India and other SAARC members countries have been promoted to a great extent. All the countries in the South Asia region have come closer to each other and agreed to cooperate in the various fields.

17. M.Akhlaqur Rahman et.al-, "The Trade Effects of a South Asian Custom Union : An Expository Study" in Pakistan Development Review, (Islamabad) Spring, 1981.

Political impact of the formation of SAARC from India's view point is very significant. Unresolved bilateral issues are now discussed and resolved in the SAARC Summit. India's political relation with Pakistan Sri Lanka, Bangladesh and Nepal have been promoted after the formation of SAARC. Tension on some of the bilateral issues have reduced and an environment for preaceful co-existance has been created.

India's trade with South Asian countries has increased as a whole after the formation of SAARC although not upto the expected level. The countries in the region are given special preferences by India. As a result, India's exports to SAARC countries has increased considerably. At the same time India's imports from these countries has also promoted despite limited items for Indian imports.

A favourable environment for Indian Joint Venture in South Asian countries has been created through the formation of SAARC. Indian companies are now trying to set up more joint ventures in SAARC countries. A number of joint ventures have already been established in South Asian Countries after the formation of SAARC in 1985.

As a whole, not only India, the other countries are also benefited from SAARC formation. The countries in the region have got their own platform to discuss various issues and to resolve their problems. Now we give a brief account of the developments in ASEAN which had taken place before the formation of SAARC in 1985.

IX.8. Co-operation in other regions - ASEAN :

The success of EEC in promoting economic integration and providing assistance for fast economic recovery and industrial resilience in Western Europe popularised the regional approach to the economic cooperation in the Third World countries. Regionalism has become a viable policy alternative among the countries of the developing world day by day. The creation of LAFTA, OAU, ECOWAS, CACM and ASEAN in the various region increased the interest in regional cooperation for development.

The emergence of ASEAN in the late sixties and its recent development is the result of Socio-political changes in Indo-China. The founding members of the ASEAN were Indonesia, Malaysia, the Philippines, Singapore and Thailand. In January 1984 Brunei became the sixth member of the ASEAN though the ASEAN was established in August 1967 in Bangkok (Thailand). After 18 years of ASEAN declaration it has identified some areas of economic cooperation. The main objectives of the ASEAN were to promote economic, social and cultural cooperation among the members. The four "Specified objectives"¹⁸ of the Asean were as follows :-

- (1) To accelerate the economic growth, social progress and the cultural development in the region.
- (2) To promote active collaboration and mutual assistance among the members ;
- (3) To collaborate more effectively for greater utilisation of agriculture industries and expansion of trade.

18. V.L.Rao, "South Asian Regional Cooperation, Problems and Prospects", South-South Economic Cooperation, Radiant Publisher, E-155, Kalkaji, New Delhi- 19, 1987, P.120.

(4) To maintain close and beneficial cooperation among the existing international and regional organisations.

The Standing Committee of the ASEAN meets regularly to find out the ways of implimenting the objectives. On the basis of the Kansu Report in 1971 the Committee identified some areas of economic cooperation. These areas are :

- (a) Economic Cooperation on basic commodity, Particular-ly on Food and Energy ;
- (b) Industrial cooperation;
- (c) Co-operation on trade ;
- (d) Joint approach to international commodity problems and other world economic issues .

Some regional committees are established headed by the various member countries for the smoth conduct of the ASEAN economic cooperation :

- i) COTT (ASEAN Committee on Trade and Tourism) Headed by Singapore ;
- ii) Indonesia Chairs the committee on Food, Agricul-ture and Forest (COFAF)
- iii) Thailand Chairs the Committee on Finance and Banking (COFAB)
- iv) Committee on Transport and communication (COTAC) headed by Malayaia.
- v) Committee on Industry, Minerals and Energy (COIME) headed by Philipines .

These committees meet at regular interval to take decision on their respective matters. The main achievement of these committees are the formation of (a) ASEAN Security Reserve to meet the acute shortage of food in the member countries. (b) Under Trade Agreement and PTA (Preferential Trade Arrangement) the performances are (i) Exchange of Tariff Preference (ii) Purchase Finance Support (iii) Long term quantity contacts (iv) Preference in Procurement by Govt. entities and (v) Liberalisation of Non-Tariff measures (c) ASEAN Custom Code of Conduct. (d) Cheap ASEAN Circle Fare (e) ASEAN Industrial Projects (AIP) Scheme in 1981 (f) ASEAN Industrial Joint Venture (AIJV) Scheme in 1983 (g) ASEAN Chamber of Commerce and Industries (ASEAN-CCI) 1972 (h) Business Reply Service (i) Inter-Country Remittance and (j) Policy Framework of ASEAN in International Economic Relations.

Like ASEAN other regional groupings in Africa and in Latin America have achieved notable economic and social development within the countries with the help of the joint initiatives. EFTA (European Free Trade Association), CARIFTA (Caribbean Free Trade Area), EAC (East African Community), ACM (Arab Common Market), NAFTA (New Zealand- Australia Free Trade Area) and ESCAP (Economic and social Commission for Asia and Pacific) all these regional groupings have earned commendable achievements in their respective regions. Hence, an active regional grouping in South Asian region also can be of great assistance to the countries in the region. After forming a regional organisation in South Asia the member countries can come to a common platform to discuss and to solve their developmental

problems. They can also take effective initiatives like other regional grouping for the benefit of their mutual interest.

IX.9. Comparison between ASEAN and SAARC :

It is observed that ASEAN is bigger than SAARC in all respects. The ASEAN was established in 1967 and the SAARC in 1985. The main economic power of ASEAN region are--- Indonesia, Malaysia, Singapore and Thailand whereas in SAARC India is the only country who can assist the others in their economic development. Had India been the member of ASEAN, she would have, I think, got more benefits than SAARC as the countries of the former have similar economic viabilities like India. Moreover it would have enjoyed the facilities of already established grouping. In both imports and exports India would have got more wider market for its products. Its meaning is not so, that the SAARC is not at all important for India. To resolve regional problems the SAARC has been proved to be an important forum for India. But if we consider the economic benefits, the ASEAN is more profitable to India than SAARC.

ASEAN was established as a regional organisation for economic, social and cultural cooperation in 1967. Indonesia, Malaysia, Singapore and Thailand are the main economic power in this grouping. It has closely followed the developments in ECDC, especially as the South-South Dialogue is becoming increasingly important in global economic affairs. ASEAN has achieved a remarkable progress in joint approach to international commodity problems and other economic problems. It has also made considerable achievements in the cooperation on trade,

tourism, industrial joint venture and cooperation on basic commodities, particularly on food and energy.

SAARC, on the other hand, has not been able to make expected progress after even seven years of its establishment (1985). The obstacles to a rapid pace of SAARC economic integration can be best illustrated by the difficulties experienced with regard to intra-SAARC trade liberalisation. Though it conceived in 1980 and finally borned in 1985, the initiatives for trade liberalisation have taken only in 1993 when South Asian Preferential Trade Agreement (SAPTA) was signed by the member countries in Dhaka Summit on 11-12 April, 1993.

IX.10. India's Overall Trade and Trade with South Asian Countries Before and after the Formation of SAARC :

South Asian Association for Regional Cooperation (SAARC) was formed officially in 1985. India's global trade and trade with South Asian Countries before and after the formation of SAARC need to be analysed to find out whether the SAARC is beneficial to India and to the other member countries as a whole. With this intention, India's average global EXIM and average EXIM with South Asian Countries before and after the formation of SAARC have been analysed and India's EXIM with South Asian Countries in terms of share are also discussed in this section.

Table IX.1. presents the overall trade and trade with South Asian Countries before and after the formation of SAARC and the percentage increase in trade after SAARC have also been presented in the same table. It reveals from the table that

Table-IX.1

INDIA'S OVERALL TRADE AND TRADE WITH SOUTH ASIAN COUNTRIES BEFORE AND AFTER SAARC

Y e a r	Overall Exports Million US \$	Overall Imports Million US \$	Average Export to SAARC Million US \$	Average Import from SAARC Million US \$	Column 4 as % to column 2	Column 5 as % to column 3
1	2	3	4	5		
Before SAARC (1980-84)	9060.6	14698.0	247.8	156.4	2.73	1.06
After SAARC (1985-89)	11801.6	17541.6	339.8	222.6	2.88	1.27
Percentage Increase After SAARC	30.3	19.3	37.1	42.3		

Source: Collected and Computed from :-

1. UN, Statistical Yearbook for Asia and Pacific, 1989;
2. IMF, Direction of Trade Statistics, Yearbook, 1990; and
3. IMF, International Financial Statistics, Yearbook, 1991.

India's average overall export was increased from 9060.6 million US \$ before SAARC (1980-84) to 11801.6 million US \$ after the formation of SAARC (1985-89) and registered an increase of 30.3 per cent after SAARC. In the case of import it is increased to 17541.6 million US \$ after SAARC from 14698.0 million US \$ before SAARC and it was increased by 19.3 per cent after SAARC formation.

Average India's exports and imports to and from SAARC countries have been increased by 37.1 per cent and 42.3 per cent respectively. There is an important point to note that India's average exports and average imports from SAARC Countries have been increased in higher rates than the increase of overall India's export and imports after the formation of SAARC. When global exports increased 30.3 per cent, exports to SAARC countries increased 37.1 per cent. Likewise, while global import increased 19.3 per cent, imports from SAARC countries increased 42.3 per cent (more than double). Naturally, we can say that the formation of SAARC has been highly beneficial to India and to other member countries also. A country-wise analysis is given in the following sections :

IX.10.1. India's Imports from South Asian Countries before and after the formation of SAARC:

It can be observed from the table-IX.2 that India's imports from all the South Asian Countries have promoted significantly except from Bangladesh after the formation of SAARC. The highest increase was registered in the case of Nepal.

Table-IX.2

INDIA'S IMPORTS FROM SOUTH ASIAN COUNTRIES BEFORE AND AFTER SAARC

(In Million US Dollar)

Country	Before SAARC	After SAARC	Percentage increase after SAARC
	Average for 5 years(1980-84)	Average for 5 years(1985-89)	
Bangladesh	16.4	16.2	- 1.22
Bhutan	-	-	-
Maldives	-	-	-
Nepal	29.6	53.4	80.40
Pakistan	71.2	89.0	25.00
Sri Lanka	39.4	64.0	62.44
SAARC TOTAL	156.4	222.6	42.33

Source: Same as in Table IX.1.

The average India's imports from Nepal before SAARC was 29.6 million US \$ and it increased to 53.4 million US \$ after SAARC formation establishing 80.40 per cent increase after SAARC. Sri Lanka comes to the Second position in terms of increase (62.44 per cent) of India's import from this country after SAARC and the lowest increase (25.00 per cent) was registered by Pakistan. It is interesting to note that India's imports from Bangladesh slightly declined (1.22 percent) after the formation of SAARC though all other countries show reasonable increase. This decline may be for non-availability of some of Indian requirement after the formation of SAARC.

IX.10.2 India's Exports to South Asian Countries Before and after the formation of SAARC :

India's exports to all the South Asian Countries have increased after SAARC formation except Maldives as evident in Table-IX.3. The highest increase was in the case of Pakistan, 76.47 per cent, i.e. from 3.4 million US \$ before SAARC to 6.0 million on US \$ after SAARC followed by Nepal 45.96 per cent (94.0 million US \$ to 137.2 million US \$), Sri Lanka 34.30 per cent (82.8 millions US \$ to 111.2 million US \$) and Bangladesh 27.49 per cent (66.2 million US \$ to 84.4 million US \$). India's exports to Maldives have declined to US \$ 1.0 million after SAARC from US \$ 1.4 million before SAARC which has registered 28.57 per cent decline after SAARC formation.

Table-IX.3

INDIA'S EXPORTS TO SOUTH ASIAN COUNTRIES BEFORE AND AFTER SAARC

(In Million US Dollar)

Country	Before SAARC	After SAARC	Percentage increase after SAARC
	Average for 5 years(1980-84)	Average for 5 years(1985-89)	
Bangladesh	66.2	84.4	27.49
Bhutan	-	-	-
Maldives	1.4	1.0	- 28.57
Nepal	94.0	137.2	45.96
Pakistan	3.4	6.0	76.47
Sri Lanka	82.8	111.2	34.30
TOTAL (SAARC)	247.8	339.8	37.13

Source : Same as in Table IX.1.

Both before and after SAARC India's average exports were of the highest amount i.e. 94.0 million US \$ and 137.2 million US \$ respectively followed by Sri Lanka, Bangladesh and Pakistan. Regarding the total average exports to South Asian countries India exported US \$ 247.8 million before SAARC and US \$ 339.8 million after SAARC which resulted 37.13 per cent increase after SAARC.

After the formation of SAARC in 1985 both exports and imports of India to and from South Asian countries have increased notably. Naturally, formation of SAARC has been beneficial to a great extent to India and to the other member countries.

IX.10.3. India's Share in the Import of South Asian Countries before and After SAARC :

Shares of India in the total imports of South Asian Countries in per cent are presented in table-IX.4. It reveals from the table that the percentage shares of India in the total imports of South Asian Countries are very low except Nepal. While India's shares in the import of other countries are in between around 1 per cent and 5 per cent, the same in the import of Nepal is exceptionally higher i.e. 23.73 per cent before SAARC and 27.11 per cent after SAARC. It means Nepal is more dependent to India than the other countries in the region.

Table-IX.4INDIA'S SHARE IN THE IMPORTS OF SOUTH ASIAN COUNTRIES BEFORE AND AFTER SAARC FORMATION

(In per cent)

Country	Before SAARC	After SAARC	Percentage increase after SAARC
	Average for 5 years (1980-84)	Average for 5 years (1985-89)	
Bangladesh	2.63	2.87	0.24
Bhutan	-	-	-
Maldives	3.91	1.21	- 2.70
Nepal	23.73	27.11	3.38
Pakistan	0.06	0.09	0.03
Sri Lanka	4.39	5.40	1.01

Source: Computed from Table - V.2

As regards to the percentage increase of India's share in the import of South Asian countries after SAARC, Nepal stands in the first place (3.38 per cent) followed by Sri Lanka 1.01 per cent, Bangladesh 0.24 per cent and Pakistan 0.03 per cent. India's share in the total imports of Maldives declined 2.70 per cent (from 3.91 per cent before SAARC to 1.21 per cent) after the formation of SAARC.

IX.10.4. India's share in the Exports of South Asian Countries before and after the SAARC formation :

It is evident from the table IX.5 that like imports India's share in the global exports of Nepal is notably higher (28.59 per cent before SAARC and 29.78 per cent after SAARC) than the other countries in South Asia. Before and after SAARC the percentage shares of India in the global exports of other countries are--- Sri Lanka 3.42 per cent and 4.61 per cent, Pakistan 2.87 per cent and 2.35 per cent and Bangladesh 2.08 per cent and 1.53 per cent respectively.

India's share in the total exports increased 1.19 per cent in the case of both Nepal and Sri Lanka. But the share of India in the global exports of Bangladesh and Pakistan have declined to 0.55 per cent and 0.52 per cent respectively after the formation of SAARC. It means Bangladesh and Pakistan increased their exports in higher rate to the other countries instead of India.

From the foregoing analysis it reveals that India's trade with South Asian Countries has increased in higher rate than its

Table-IX.5

INDIA'S SHARE IN THE EXPORTS OF SOUTH ASIAN COUNTRIES BEFORE AND AFTER SAARC FORMATION

(In per cent)

COUNTRY	Before SAARC	After SAARC	Percentage increase after SAARC
	Average for 5 years (1980-84)	Average for 5 years (1985-89)	
Bangladesh	2.08	1.53	- 0.55
Bhutan	-	-	-
Maldives	-	-	-
Nepal	28.59	29.78	1.19
Pakistan	2.87	2.35	- 0.52
Sri Lanka	3.42	4.61	1.19

Source: Computed from Table VI.2.

trade with other countries after the formation of SAARC with a very few exception over the period of 1980s. Hence, we may come to the conclusion that formation of SAARC in 1985 has taken a significant improvement in the trade relations among the member countries. India being leading country has been able to increase its EXIM with the other countries of SAARC. The countries in this region should take more effective steps to make the platform of the SAARC stronger with a view to have a maximum benefit from this regional grouping.

IX.11. Measures to promote India's trade with SAARC Countries :

At the beginning of 20th century most of the South Asian Countries were under the British rule. Because of their dependence on Britain, these countries had a close trade-tie with Britain and with other European countries. Moreover, all the countries in SAARC region are not in a same stage of development and therefore, sharing of benefits of trade equally among the members of SAARC is very difficult. Tariff and non-tariff barriers are another two important problems due to which India's trade with South Asian Countries has not been expanded as expected. The measures, however, need to be initiated to remove the barriers on the way to promote India's trade with SAARC member countries are discussed in the following sections :

IX.11.1. Preferential Trading Arrangement,

There should be a preferential trading arrangement among the members of the SAARC to promote intra-regional trade."While it should be too early to think of a free trade area or a common market, a beginning could be made by preferential tariff arrangements. It may be mentioned here that GATT(Article 24) permits

preferential arrangement among countries contiguous to each other as is in the case with South Asian Countries"¹⁹

A good beginning has already been made in this respect by the conclusion of Seventh SAARC Summit at Dhaka, Bangladesh on 10-11 April 1993. SAARC Preferential Trading Arrangement (SAPTA) was signed by the member countries to promote and sustain mutual trade and the economic co-operation among the contracting States. More practical steps to be taken to negotiate tariff preferences initially on a product by product basis.

IX.11.2. Relaxation of Non-Tariff Barriers :

Very often non-tariff barriers are liable to reduce the volume of trade then the tariff barriers. The most important non-tariff barrier adopted by the SAARC Countries is the fixation of Quotas. The suggestion here, is not to remove all non-tariff barriers. To the government of Maldives, Bangladesh, Nepal and Sri Lanka these non-tariff barriers are the main source of their revenue. It is possible to adopt an item by item approach to identify the products for which trade among small and industrially backward South Asian Countries should be made completely free from non-tariff barrier. This kind of initiatives can open the possibilities of additional exports by the other SAARC Countries to pay for the imports from India.

19. R.L.Varshney, "Promotion of Trade and Economic Relation: Hurdles and Possibilities", Challenges of South-South cooperation Part-I, Ashish Publishing House, New Delhi (1988), P.359.

IX.11.3. Financial Cooperation and Payment Arrangement :

Trade among the SAARC countries still being conducted mostly in terms of dollars or sterling. Free foreign exchange continues to be a problem of trade among South Asian Countries. An institutional system should be developed which will minimise the use of such foreign exchange for the settlement of accounts for trade among the countries in this region. The establishment of South Asian Bank for Trade Arrangement may facilitate the payment problems of the SAARC trade.

IX.11.4. Joint Marketing :

SAARC member countries are competing with each other for the disposal of their common products in the international market which has indirectly been affecting the intra-regional trade in South Asia. Tea is the common export of India, Bangladesh and Sri Lanka and jute and leather for Bangladesh India and Nepal. Instead of competing to market their products, these countries may pool their common products and can develop a "generic market promotion programme" where it is possible.

IX.11.5. Sacrifice by India for SAARC Trade :

India is the largest and the only industrially developed country in South Asia region. It has a strong economic base and has the capacity to fulfil all sorts of requirements of other members of SAARC. All the SAARC countries (except Pakistan) have been facing serious balance of payment problem with India. It means, India's exports have been more to South Asian Countries than its imports from these countries.

Giving some preferential treatment, India should allow some products of SAARC countries to enter into its market for the interest of its own exports to SAARC region. This may also help India to remove the fear of small SAARC countries about the domination of Indian goods in their markets.

IX.11.6. Adequate information about the products of India and of other Countries in the Region :

For the expansion of SAARC trade, one of the major hindrances is lack of adequate information regarding the relative capability and the availability of exports and imports potential in the countries of the region. Frequent Trade Fairs Exhibitions can be organised to supply information to the traders and businessmen of the SAARC member countries and also to provide information regarding price, quality and availability of goods and services. Thus India can promote its trade with SAARC countries.

IX.11.7. India's Credit Facilities to Small Member States of SAARC:

Industrialised countries have been providing credit facilities to the small and economically weak South Asian countries to increase their volume of exports to these countries. India, having economic viability to extent its financial support, can also provide aid and credits to its neighbouring states with a view to promote its exports to SAARC Countries.

IX.11.8. Joint Ventures :

Being a more developed and industrialised country in the SAARC region, India can undertake some mutually beneficial

joint ventures in the less developed countries of South Asia with a buy-back arrangement. India has set up some joint venture in Bangladesh, Sri Lanka and Nepal but it has no joint venture in Pakistan, Bhutan and Maldives. Establishing new joint ventures with the latter countries and increasing the number of joint ventures in the former countries, India can play an important role for the expansion of SAARC trade as well as for the promotion of its own exports.

IX.11.9. Research and Information System :

To have greater economic cooperation and collective self-reliance among the SAARC countries, procurement and distribution of data and information within the countries of the region in various aspects such as trade, industrialisation, finance, energy, raw materials, transfer of technology are essentially required. These should be collected and supplied in such a form and manner so that a unified position and approach to the SAARC countries can be brought. Of course, a Research and Information System (RIS) for the Non-Aligned and other Developing Countries, an autonomous body has been set up in New Delhi (India) with the financial support of Government of India. A RIS specially for the SAARC countries will be an added advantage for the countries in the region and for the intra-regional trade as a whole.

IX.11.10. Counter-Trade :

Due to shortage of foreign exchange and trade restrictions imposed by the developed countries for their imports from developing countries, Counter-trade has been increasing among

the Third World Countries. There are three forms of counter-trade ; (a) Counter-purchase, by which some or all of the exports receipts of X by sale to Y, be spent on purchase of goods from Y ; (b) Buy-back deals, through which a country established a plant to another country and agrees to buy the output of the same plant fully or partly; and (c) pure barter system.²⁰ With a view to have expanded India's trade with SAARC countries, efforts should be made by India through all the three methods of counter-trade.

No country in the world is self-sufficient. The countries of the SAARC region are also dependent on each other for one thing or another. India's dependency on other SAARC countries is very less. Its trade with South Asian Countries has not been increasing significantly even after the formation of SAARC. Hence, as a dominant power in this region, India should take initiatives to promote intra-regional trade and thereby its own trade.

20. V.L.Rao, "South Asian Regional Cooperation: Problems and Prospects". South-South Economic Cooperation of RIS, Radiant Publishers, New Delhi (1987) P.124.