

CHAPTER - IINTRODUCTION

While dealing with the fundamental basis of international trade, it is universally acknowledged that the countries are endowed by nature with different elements of productive power. Factor endowments are unevenly distributed among the countries of the world. This is due to geographic facts, physical features and climatic differences. Some countries have the monopoly of certain minerals and some countries are climatically best suited for the production of certain crops. International trade is inevitable when there are marked differences in the countries regarding materials, natural vegetation, climate, soil and other physical and geographical conditions.

International specialisation and geographical division of labour lead to optimum allocation of world resources, making it possible to have the most efficient use of them. Each trading country gains when the total output increase as a result of division of labour and specialisation. These gains are in the form of more aggregate production, greater magnitude of kinds and varieties and greater diversity of qualities of goods that become available for consumption in each country as a result of international trade. With international trade each country is able to concentrate on producing things in which it has an advantage while trading to obtain goods that it can not produce

efficiently itself.¹

The role of international trade in economic development is very much considerable. The classical and neo-classical economists attached so much importance to international trade in a country's development and they regarded it as an "engine of growth". International trade possesses great importance to underdeveloped countries. It provides the urge to develop the knowledge and experience that make development possible and the means to accomplish it.

An underdeveloped country is harmed by the small size of its domestic markets which fails to absorb sufficient volume of output. This leads to low inducement to investment. The size of the market is also small because of low per capita income and of low purchasing power. International trade widens the market and increases the inducement to investment, income and saving through more efficient resource allocation. With a view to enjoying the benefit of wider market, the developing countries have been trying to have closer trade-ties with developed countries. But the maximum gain from trade was enjoyed by the developed countries. Despite the inception of Non-Aligned Movement and the Group-77 culminating into the Caracas Programme of Action adopted by the High-Level Conference on Economic Cooperation among Developing Countries held at Caracas in May, 1981, the developed countries agreed to liberalise trade facilities to a little extent.

1. Richard G. Lipsey, An Introduction to Positive Economics, ELBS, 1985, p/422.

After the failure of North-South dialogue on New International Economic Order (NIEO), the idea of South-South Cooperation was rooted. The Third World countries started realising the fact that the developed countries were not sympathetic to their demand for NIEO. They also understood that without a strong grouping among developing countries it was not possible to create pressure to the industrialised countries in order to minimise their economic sufferings. The Terms of Trade have always been favourable to the developed countries. The financial assistance given by these countries to the developing countries gradually increased the economic burden of the latter as the former increased the rate of interest to debts regularly. Ultimately the countries of the developing world encountered mounting debts crisis and this strained their process of economic growth.

To be released from the economic exploitation of the North, the South should have trade and economic Co-operation among themselves. Some regional groupings such as the Association of South-East Asian Nations (ASEAN), Latin American Free Trade Association (LAFTA), Organisation of African Unity (OAU), Economic Community of West African States (ECOWAS), European Economic Community (EEC), Central American Common Market (CACM), Caribbean Community (CARICOM) and SAARC have already been established in this direction within the framework of South-South Co-operation. But the problem of regional integration is lack of real understanding among the member countries. Uneven level of economic development in the countries of a particular region creates a great

problem on the way to promoting intra-regional trade and economic cooperation. Some of the regional groupings, however, achieved notable progress in some areas despite such difficulties.

South Asia is a small part of the developing world. South Asian Association for Regional Cooperation (SAARC) consisting the countries like Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka emerged as a regional grouping with a motto to create better economic cooperation among the countries in the region. India is fast emerging as a world power with its resources and economic viabilities and the other countries of the SAARC region are far behind. India's trade and economic relations with other South Asian countries (SAARC only) has been very poor compared to its global trade. It is now necessary to investigate and find out why, despite having possibilities, India's trade and economic relations with South Asian countries could not reach to the expected level and what should be the policy measures to promote intra-regional trade and economic cooperation.

Choice of the Topic :

Regional Cooperation among the South Asian countries can be an effective step for the expansion of intra-regional trade. In a particular region, the countries are closer to each other, and hence, the transportation cost for intra-regional trade is relatively less. Moreover, they are familiar with each others' industrial products and development strategies.

India is the largest and the most important country in South Asia region and in a dominant position in trade. Being a leading developing country she can help the other countries of South Asia in Trade, Technology, Investment, Banking, Insurance, Payment problems and also to develop infrastructure facilities necessary for the accelerated economic growth and social progress. But the small countries in this region have not been showing much more interest in practice to promote trade with India.

Hence, the factors responsible for the unsatisfactory growth of India's trade with South Asian countries provide an important scope for research. A deep-rooted study on this issue may also help to derive guidelines for future initiatives. So, the present study is undertaken as a modest attempt in this direction and it mainly investigates the trend, constraints, and future prospects of India's trade and economic relations with South Asian countries (SAARC members only) during 1980s.

Objectives of the Study:

The major objects of the study are as follows :-

- (I) To study the socio-economic condition of South Asian Countries;
- (II) To investigate the export and import trend of South Asian countries to estimate their growth rates during 1980s ;
- (III) To study the composition and growth of India's trade with South Asian countries over the period 1980-89 ;
- (IV) To assess the need of India's aid to South Asian Countries;

- (V) To study the current position and future prospects of India joint ventures in South Asian Countries ;
- (VI) To investigate whether there is any improvement or gain of India's trade with South Asian countries after the formation of SAARC ; and
- (VII) To suggest some measures for the promotion of India's trade and economic relations with South Asian countries.

Collection of Data :

The study is based mainly on the data collected from the international publications such as World Bank, UNCTAD, International Monetary Fund (IMF), ESCAP, Asian Development Bank (ADB), United Nations etc. Data are also collected from the Economic Survey of India, Pakistan, Bangladesh and Nepal. For the components and selected commodities of India's exports to and imports from South Asian countries data are collected from the Monthly Statistics of the Foreign Trade of India, Directorate General of Commercial Intelligence and Statistics (DGCI & S), Calcutta, Government of India and from the Publications of Indian Institute of Foreign Trade of India. Data on Bhutan are not available in most of the cases.

The Present Work:

The trade relations among the South Asian Countries have been deteriorating gradually. Specially India's trade with

Bangladesh, Nepal, Pakistan and Sri Lanka were declining till the end of the 1980s. It is now necessary to find out the economic structures of South Asian countries and to investigate the causes for the low volume of India's exports to and imports from the countries of the region; amount of provision of India's financial aid to South Asian countries and the present level and future prospects of Indian joint ventures in the countries of this region to suggest some practical measures for the promotion of intro-regional trade. It is also important to know whether there is any improvement of India's trade with South Asian Countries after the formation of SAARC in 1985. The present work is a humble effort made in the above direction within the feasible limits of data constraints.

Further, this work will study the trend and growth of India's trade in general and its trade with South Asian Countries in particular during the period of 1980-89. It will also help to identify the potential items for Indian export to and import from South Asian countries during the Eighties.

Chapter Outlines:

The discussions and analyses made in this study have been presented in ten chapters as follows :-

In the first chapter of this thesis, an introduction of the study is given. Here, basis and importance of international trade, need for South-South trade and intra-regional trade among the South Asian countries are discussed in brief. Causes for the choice of the Topic, objectives of the study and sources of Data and information are given in this chapter.

At the end of this chapter some important Literatures are reviewed briefly.

The Second Chapter gives the Economic Structures of South Asian countries which includes the Socio-Economic features, Pattern of economic development in different countries and natural resources available in the region.

In the Third Chapter, Trend in trade of South Asian countries is explained with the help of data on exports, imports and balance of payment, Directions of global and regional trade of all South Asian countries are also discussed here.

The fourth Chapter presents a brief analysis of Foreign Trade of India and the direction of India's exports and imports.

Fifth and Sixth Chapters give the detail analysis of India's exports to and imports from South Asian countries. Major items of India's trade with South Asian countries and various trade agreements to promote India's trade with these countries are also explained.

In the Seventh Chapter a detail discussion on the need and the quantum of India's financial aid to South Asian countries is presented.

The Eighth Chapter explains the importance, present position and future prospects of Indian joint ventures in South Asian countries.

Ninth chapter covers the discussion on the formation of SAARC and its impact on India and the various measures to promote India's trade with South Asian countries.

The tenth chapter gives the Summing-up of the study.

REVIEW OF LITERATURE:

There are ample literature on South Asia, specially on the political aspects of SAARC but very few on SAARC trade. Since the study is related to "India's Trade and Economic Relations with South Asian Countries", some of the important literature connected with the subject have been reviewed briefly in this section:

1. "International Trade and Protection" by Richard G. Lipsey:¹

The author has explained the nature and the scope of international trade in his study. He has discussed how all trading countries gain from international trade and how the small open economy can achieve its gain from trade at the expense of the rest of the world. In his words, "The importance of exports is that they permit imports to be made. The two-way international exchange is valuable because more goods can be imported than could be obtained if the same goods are produced at home."

1. An Introduction to Positive Economics, op., cit.

2. "Promotion of Trade and Economic Relations: Hurdles and possibilities", by R.L.Varshney²:

The main objective of this study is to trace the possibilities of trade and economic cooperation among the countries in South Asia who are related to each other through geographical, cultural, political and historical factors. The time period of this study is 1973-80.

In this work the author has explained the importance, problems and the possibilities of South-South cooperation and intra-regional trade in South Asia. India's trade with South Asian countries and South Asian Countries' share in the total trade of India are also discussed here. Finally he has suggested some specific Policy measures for successful trade and economic cooperation in South Asia.

3. "Regional Economic Integration", by Delbert A.Snider³:

In this book the author has explained the effects of competitive trade, the forms and degrees of economic integration within the countries of a region and dynamic effects of factor movements. He has also highlighted the role of international trade and capital movement in development.

2. Challenges of South-South Cooperation, Asish Publishing House, New Delhi, 1988.

3. Introduction to International Economics, Surjit Publications, Delhi-7, 1987.

4. "Trade Flows in South Asia", by P.R.Bhatt⁴:

This work discusses the problems and possibilities of South Asian trade and makes some suggestions for the promotion of intra-regional trade within the SAARC. The time period of this study is 1973-83.

The author has analysed export and import structures of South Asian countries, balances of their trade and future prospects of regional economic cooperation. He has also presented a brief list of item of exports and imports of South Asian countries. Regarding the promotion of intra-regional trade he has stressed the need for reducing the dependency of South Asian countries on the developed world.

5. "Cooperation for Economic Development", by Dr.T.P.Bhat⁵:

The author has investigated the problems and possibilities of regional cooperation in South Asian region for economic cooperation. He has also studied the hindrances of the regional economic integration and made suggestions for the economic development of the region. His main suggestion in this regard is the "joint initiative" by the countries in the region.

4. India Quarterly. Vol.40, 1984, pp.287-300.

5. South Asia : Stability and Regional Cooperation, Centre for Research in Rural and Industrial Development, Chandigarh, 1984.

6. "Expansion of Trade between India and SAARC Countries".
by Tarlok Singh⁶:

The main objective of the author, in this study, is to find out how India can play a vital role towards greater economic complementarity among the economies of South Asia. How India can extend her markets in the countries of the region, the author has tried to find out this also. He has suggested for an "Intergrated Regional Trade Policy" for South Asian Countries to faciliatate intra-regional trade.

7. "Trade Expansion in SAARC : Liberalisation and Machanism — The case of Sri Lanka", by R.A.M.C. Wanigaratne⁷:

In this article the author has explained the import-export structures, trade channels, method of trade liberalisation and the machanism of SAARC trade. The time period of xthis study is 1980-85. The main intention of this study is to search possible areas for trade cooperation between Sri Lanka and SAARC countries. He has also suggested a programme of trade liberalisation within the SAARC for the interest of the regional trade.

8. "Economic Constraints and Potentialities", by Indra Nath Mukherji⁸:

The primary intention of the author, in this work, is to identify the economic constraints of South Asian trade and to suggest remedies for the removal of those constraints for

6. Monthly Commentary on Indian Economic Condition, The Indian Institute of Public Openion, New Delhi, 1985.

7. South Asia Journal, Vol.1 (3), January-March, 1988, PP.271-98.

the greater interest of SAARC trade and economic cooperation. He has explained: (I) infrastructural linkage among South Asian countries; (II) transfer of technology and industrial collaboration; (III) Cooperation in trade and payments arrangement for the expansion of SAARC trade, etc.

9. "Indian Development Strategy and South Asian Regional Cooperation" by M.L.Qureshi⁹:

The author has explained the relationship between Indian Development strategy and South Asian Regional Cooperation. The measures for the development of Indian economy through the promotion of regional cooperation are also mentioned in this study. Finally he has expressed his views that the Indian development strategy can play a crucial role in the more rapid development of South Asian countries.

10. "Political Economy of South Asian Cooperation", by Rehman Sobhan¹⁰:

The pattern of Economic relationship among South Asian countries and the problems and possibilities of mutual trade expansion for the greater economic cooperation among the countries in the SAARC region have been discussed by the author in this article. He opines that external threat and disputes always affect the programme of economic development in South Asian countries and creation of better understanding among the countries of the region may lead to a greater economic cooperation among them.

8. Regional Cooperation in South Asia: Vikash Publishing House Pvt.Ltd.New Delhi, 1987.

9. India Quarterly, Volume 40, 1984.

10. South Asia Journal, Vol.1(3), January-March, 1988, pp. 237-52.

11. India's Aid to its Neighbouring Countries, by Brajendra Nath Banerjee:¹¹

In this book, the author has highlighted the development of India's resources in the field of science and technology, the capability of India to extent its financial aid to the developing countries in general and to its immediate neighbours in particular. The author has also explained the purposes and the amount of India's financial aid to South Asian countries and gain thereby for the donar and the recipient countries. He expresses his views that both the donar and the donees are benefitted from Indian aid to the countries of South Asia region.

12. Indian Joint Ventures Aboard, by Nabhi:¹²

While providing basic knowledge, prospects and performance of joint ventures/wholly owned subsidiaries aboard, this book prominently highlighted the new guidelines for Indian investment aboard. Here, the author has also included the Government policy for direct investment aboard, rules, regulations and the laws of the host country; quantum of Indian investment in other countries; number of joint ventures aboard; and potential areas for new joint ventures of India in other countries.

11. Select Book Publisher and Distributors, 105 Savitri Building, Greater Kailash-II, New Delhi, 1982.

12. A. Nabhi Publications, P.O. Box No. 37, New Delhi-1, 1993.

13. "Aid and Development Policy in the 1990s", by Arjun Sengupta: ¹³

The author, in this recent article, has explained the objectives of foreign aid and development policies in developing countries. He opines that the main objective of aid and development policies in the new world of the 1990s should be helping the developing countries to integrate into the global mainstream. This would imply assisting them to implement the programme of economic reform that they have launched and to create a trade and investment environment for them so that their development efforts can be sustained through increased resource flows and foreign exchange earnings.

13. Economic and Political Weekly, March 13, 1993.

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