

CHAPTER I

INTRODUCTION

1.1: THE STATEMENT OF THE PROBLEM

South Asian Association for Regional Cooperation (SAARC) was formed in December 1985 with seven member countries of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka to accelerate the process of economic and social development. Afghanistan also joined SAARC in 2007.

SAARC is Indo-centric which means that India is the centre of the region which shares common border with almost all the countries while almost none of them share border with each other. These countries account about 21% of world population and 3.5% of total land area. However, their share in world output is a mere 1.3 per cent. Further, their share in world merchandise trade is about 1.0 percent. About half of the world poor inhabits this part of the world (Ghuman and Madaan, 1999).

The basic objective of SAARC is to promote intra-regional trade among the member countries and thereby economic cooperation and development. One aspect of RTAs much relevant for SAARC countries is that there is a possibility of marginalization of those countries, which are outside the group. Individual countries don't possess enough bargaining clout at multilateral forums. Group effort and cooperation on negotiating table will undoubtedly enhance the Bargaining strength. Issues like labour or environmental standards or rules like anti-dumping and anti-subsidy investigation are areas where SAARC can stand together (Abdullah, 2000).

The most crucial need is to promote legal trade in the region. High tariffs and restrictions have led to informal channels of trade, which according to a UNCTAD 2002 report exceeds \$3 billion. India's informal trade with Pakistan is almost double the formal trade and with Nepal and Bangladesh it is almost as large as the formal trade. If informal trade is brought within the ambit of official trade, it would substantially benefit the economy of the entire region.

Pakistan is the largest importer of bulk drugs and buys from all over the world except India, the largest exporter. A strip of Zintacs tablets in Karachi costs Rs90 in local currency .But the same when smuggled from India is at Rs10. Similarly, Pakistan buys about 70% of its tea from UK and Kenya, although its neighbours India and Sri Lanka are the leading exporters of the product. It is estimated that Pakistan incurs an extra cost of \$50 million every year because of this long distance import.

These two examples indicate the untapped potential of intra-SAARC regional trade, provided right measures are put in place. Trade relationship among the SAARC nations has not flourished because of troubled bilateral ties and most of them have their largest trading partners outside the region.

Due to typical diplomatic relation with Nepal and Bhutan, citizens of these countries don't require any visa to enter into the territories. As a result of that cross border informal trade between India-Nepal and between India-Bhutan affects its total formal trade. Dr. D. Mukherjee in his study has shown that presence of illegal Bhutanese currency in Indian territory increased the velocity of circulation of money in Indo-Bhutan border area and which also affects the formal trade between these two countries.

The World Bank has said trade in the SAARC region can be doubled if appropriate regional agreements on road, rail, air and shipping are put in place enabling seamless movement. The WB also observed that South Asia was the least integrated region in the world in terms of intra-regional trade in goods, capital and ideas. The SAARC component in world trade was at 5% in 2006, according to Confederation of Indian Industries (CII). On the other hand, according to World Bank, cost trading across borders in South Asia, is one of the highest in the world. It takes on an average over 33 days to export from South Asian states compared with 12 days from OECD countries. It also consumes 46 days to import compared with 14 days for OECD. Further, the WB suggesting that lowering of external trade barriers is necessary to generate classical gains.

Countries in the region like Nepal and Bhutan have considerable untapped potential for generating hydro-power and Pakistan and Bangladesh have gas reserves that could be supplied to neighboring countries. Through proper policy change and resource development, the region can harness the vast untapped energy potential.

While goods from Afghanistan may come to India via Pakistan (Through Land Route) Indian goods are not allowed into Afghanistan via Pakistan. Similarly, Pakistani goods are not allowed to go to Bangladesh or Nepal via India. Only Nepal and Bhutan have got transit facilities from India for their trade with Bangladesh. Intra-SAARC trade can easily multiply if seamless movement of goods and services across the region is ensured.

Further, complex rules of origin make it difficult to benefit from SAFTA duty preference. Many a time, exporters, especially SMES, forego preferential duty access because of the difficulties associated with compliance in terms of time and cost.

Intra-regional trade accounts for roughly 65 per cent of European Union's total trade; it is 51% in the North American Free Trade Agreement (NAFTA) area, 25 percent in the Association of South East Asian Nations (ASEAN) and 16 per cent in the Latin American trade bloc, MERCOSUR. However, this ratio is just 5 per cent in the South Asian Free Trade Area (SAFTA) despite the existence of logistical advantages (Singh, 2012).

1.2: SAARC SUMMITS

The first summit was held in Dhaka, Bangladesh on 6–8 December 1985. The Heads of State signed the SAARC Charter on 8 December 1985, thereby establishing the regional association, and established study groups on the problems of terrorism and drug trafficking, as well as planning a ministerial-level meeting about GATT, and a ministerial-level conference on increasing the participation of women at the regional level. The summit also agreed to establish a SAARC secretariat and adopted an official SAARC emblem.

The second summit was held in November 16–17 Bengaluru, India in 1986. The Heads of State or Government welcomed the signing of the Memorandum of Understanding on the establishment of the SAARC Secretariat by the Council of Ministers and their decision to locate the Secretariat in Kathmandu and appoint Ambassador Abul Ahsan of Bangladesh as the first Secretary-General of south Asian association of regional cooperation.

The third summit was held in Kathmandu, Nepal from 2–4 November 1987. The foreign ministers of the member states signed the SAARC Regional Convention on Suppression of Terrorism and an agreement to establish a South Asian Food Reserve.

The fourth summit was held in Islamabad, Pakistan on 29–31 December 1988. The summit discussed the coup attempt on 3 November 1988, declared 1989 to be the "SAARC Year Against Drug Abuse", declared 1990 to be the "SAARC Year of the Girl Child", set up a technical committee on education, and launched a regional plan called "SAARC-2000-A Basic Needs Perspective" to meet specific targets by the end of the twentieth century in areas such as food, shelter, education and environmental protection. It was also agreed to hold regular "South Asian Festivals" with the first being hosted by India.

The fifth summit was held in Male, Maldives on 21–23 November 1990. The leaders signed the SAARC Convention on Narcotic Drugs and Psychotropic Substances, launched the Special SAARC Travel Document (providing visa-exemptions for national judges, parliamentarians and academics and their immediate families), declared various SAARC years (1991-2000 AD) to be the "SAARC Decade of the Girl Child", 1991 to be the "SAARC Year of Shelter", 1992 to be the "SAARC Year of the Environment", 1993 to be the "SAARC Year of Disabled Persons".

The sixth summit was held in Colombo, Sri Lanka on 21 December 1991. The Summit decided to set up an independent South Asian Commission.

The seventh summit was held in Dhaka, on 10–11 April 1993. The Council of Ministers of SAARC countries agreed for South Asian Preferential Trade Agreement (SAPTA) to usher a new era of economic cooperation in South Asia by liberalizing intra-regional trade and they expressed general desire to implement it by 1995.

The eighth summit was held in New Delhi, on 2–4 May 1995. The member countries decided to declare 1995 as the 'SAARC year of Poverty Eradication' and 1996 as the 'SAARC year of Literacy'.

The ninth summit was held in Male, on 12–14 May 1997. The Heads of State recognised the importance of achieving a free trade area by the year 2001AD and decided to redesignate 1997 as the 'SAARC Year of Participatory Governance'.

The tenth summit was held in Colombo, on 29–31 July 1998. SAARC countries stressed for eradicating poverty and promoting joint collaboration.

The eleventh summit was held in Kathmandu, on 4–6 January 2002.

The twelfth summit was held in Islamabad, on 4–6 January 2004. In this Summit, the signing of the framework agreement on SAFTA was a milestone. To promote tourism within South Asia and to commemorate the twentieth year of the establishment of SAARC, the year 2005 is designated as 'South Asia Tourism Year'.

The thirteenth summit was held in Dhaka, on 12–13 November 2005. The Heads of State stressed the importance of the entry into force of the SAFTA agreement as the scheduled date i.e 1st January, 2006. This would mark an important milestone on the road to a South Asian Economic Union.

The fourteenth summit of SAARC was held in New Delhi, India on 3rd-4th April 2007. Under this, Afghanistan was welcomed as a new member of SAARC and People's Republic of China, Japan, European Union, Republic of Korea, Islamic Republic of Iran and United States of America were associated as observers to SAARC.

The fifteenth summit of SAARC was held in Colombo, Sri Lanka on 1–3 August 2008. The issues discussed were regional cooperation, partnership for growth for the peoples of South Asia, connectivity, energy, the environment, water resources, poverty alleviation, the SAARC Development Fund, transport, information and communications technology development, science and technology, tourism, culture, the South Asian Free Trade Area, the SAARC Social Charter, women and children, education, combating terrorism, and the admission of Australia and Myanmar as observers.

The sixteenth summit was held in Thimpu, Bhutan on 28–29 April 2010. Bhutan hosted the SAARC summit for the first time. This was marked the silver jubilee celebration of SAARC that was formed in Bangladesh in December 1985. Climate change was the central issue of the summit with summit's theme "Towards a Green and Happy South Asia".

The Seventeenth Summit was held from 10-11 of November 2011 in Addu City, Maldives. In this Meeting, the Foreign Ministers of the respective Member States signed four agreements:

- SAARC Agreement on Rapid Response to Natural Disasters
- SAARC Agreement on Multilateral Arrangement on Recognition of Conformity Assessment
- SAARC Agreement on Implementation of Regional Standards
- SAARC Seed Bank Agreement

The eighteenth summit of 'South Asian Association of Regional Cooperation' (SAARC) was held in Kathmandu, the capital of Federal Democratic Republic of Nepal during 26–27 November 2014. The theme of the summit was *Deeper Integration for Peace and Prosperity*, focused on enhancing connectivity between the member states for easier transit-transport across the region. Sushil Koirala, the then Nepalese Prime Minister, was the main host of the event which took place in Rastriya Sabha Griha Sanandan Raj, Nepal. The summit took place after an interval of three years as the previous summit was held in 2011 in Maldives.

Foreign Ministers of the eight member states signed an agreement on energy cooperation namely 'SAARC Framework Agreement for Energy Cooperation (Electricity)' in the presence of their heads of state and government during the concluding ceremony of the 18th SAARC Summit on 27 November. Although Pakistan stalled, citing insufficient internal preparations, signing of two other agreements on Vehicular Traffic and Railways respectively. Although Nepalese Prime Minister Sushil Koirala, current SAARC Chair, expressed his hope that the 'Regulation of Passenger and Cargo Vehicular Traffic amongst SAARC Member States', and 'SAARC Regional Agreement on Railways' would be signed later after the Transport Ministers of these countries reviewed them. It was also decided that Pakistan will host the next summit in 2016. (https://en.wikipedia.org/wiki/18th_SAARC_summit)

Pakistan scheduled to host the 19th summit of South Asian Association for Regional Cooperation (SAARC) in Islamabad on 15 to 16 November 2016. India including Afghanistan, Bhutan, Bangladesh, Sri Lanka and Maldives did not attend SAARC SUMMIT due to 2016 Uri attack. Pakistan postponed the SAARC summit and announced that new dates would be released soon, but it did not happen.

1.3: OBJECTIVES OF THE STUDY

The objectives of the study are to analyze the characteristics of Indo-SAARC trade, the changes in Indo-SAARC trade, the changes in commodity composition of Indo-SAARC trade since its inception, the nature of Terms of Trade of Indo-SAARC trade and the nature of instability of Indo-SAARC trade. All these aspects of study will be done in the context of globalization; as the globalization drive, in different parts of the world brought about some basic changes in international trade.

1.4: RESEARCH QUESTIONS AND HYPOTHESES

RESEARCH QUESTIONS:

- 1) What are the characteristics of Indo-SAARC trade?
- 2) What changes have been occurred in Indo-SAARC trade due to globalization?
- 3) What types of changes in commodity composition of Indo-SAARC trade have been occurred since its inception?
- 4) What is the nature of the Terms of Trade of Indo-SAARC trade?
- 5) What is the nature of instability in Indo-SAARC trade?
- 6) What is the possibility of success of SAPTA and SAFTA?

HYPOTHESES:

- 1) Indo-SAARC trade is unstable and it is very low in spite of the implementation of SAPTA and SAFTA
- 2) India's Terms of Trade with other SAARC countries is favourable and India is a net gainer from its trade with SAARC countries during post globalization period.
- 3) Globalization drive has changed the Indo-SAARC trade.
- 4) India's informal trade with some of the SAARC countries affects the Indo-SAARC trade.

1.5: PLAN OF THE STUDY

The study has been divided into nine chapters including the present one. Second chapter explains theoretical framework of regional cooperation and globalization. Third chapter explains methodology of the thesis and review of literature. Fourth chapter analyses Indo-SAARC trade in different time frame especially before and after the globalization drive. Fifth chapter identifies commodity composition of Indo-SAARC trade and weightage of factors and weightage of commodities that influence Indo-SAARC trade. Sixth chapter explains terms of trade of Indo-SAARC trade. Seventh chapter analyses nature of instability in Indo-SAARC trade. Eighth chapter explains the role of WTO in Indo-SAARC trade and the last chapter summarizes the findings, makes conclusions and gives suggestions.

1.6: REFERENCES

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