

## **“INDIA’S TRADE RELATIONSHIP WITH SAARC MEMBERS”**

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**ABSTRACT:** The SAARC is an organisation of South Asian Nations, which was established on 8th December 1985 when the government of Bangladesh, Bhutan, India, Maldives, Nepal, Afghanistan, Pakistan and Sri Lanka formally adopted its charter providing for the promotion of economic and social progress, cultural development within South Asian region and also for friendship and cooperation with other developing countries.. The main goal of the SAARC is to accelerate the process of economic and social development in South Asia through joint action in the agreed areas of cooperation. India occupies 70% of the SAARC region, both geographically and economically, and the remaining six nations of the SAARC borders only with India and not with each other. As the biggest, and the most industrialised trading partner among the SAARC countries, India has to recognise that a special responsibility devolves on her and take a lead in making the Regional Economic Cooperation, a reality in South Asia. The implication of this geographical reality is that India has to facilitate the establishment of strong economical linkages with the neighbouring countries. More importantly, India should take initiatives to solve the difficulties, which the partner countries have been experiencing in trade with India on matters relating to border trade and transit facilities. The present study reveals that there are enormous opportunities for establishing closer economic relations among SAARC countries. These opportunities could be fully utilised through the twin processes of trade liberalisation and industrial restructuring which are complementary to each other. The SAARC Preferential Trade Arrangement (SAPTA) is the first step in trade liberalisation. However, the scope of SAPTA has to be sufficiently widened in order to derive substantial benefits from preferential trading agreements. It is suggested that the SAARC countries adopt a combined approach for tariff elimination, tariff reduction and preferential or concessional tariffs. This process will help in moving quickly towards the creation of a Free Trade

Area in the SAARC region. SAARC, as a regional forum, has great potential, but this potential of regional cooperation cannot be realised without strong bilateral linkages. Given the asymmetry inherent in the geographical, economic and strategic dimensions of the eight member countries, meaningful cooperation can materialise only when there is mutual trust and willingness among member countries to resolve and overcome bilateral differences and apprehensions for the greater good of their own people. India has a major responsibility in this respect on account of several factors. Since India has an unbeatable economic, military strength and international influence compared to all 6 members of SAARC, the disparity of power brings in the reluctance from smaller states to work with India. They have fear of dominance from India if they cooperate in order to facilitate faster economic growth. The current paper studies India's Trade Relationship with other SAARC Members.

**Keywords:** SAARC, SAPTA, FTA

## **INTRODUCTION**

SAARC is a manifestation of the determination of the people of South Asia to work together towards finding the solution to their common problems in a spirit of friendship, trust and understanding create an order based on mutual respect, equity and shared benefits. The main goal of the SAARC is to accelerate the process of economic and social development in South Asia through joint action in the agreed areas of cooperation.

Pakistan and Sri Lanka- formed the **South Asian Association for Regional Cooperation (SAARC)** in 1985. One of the major objectives of formation of SAARC forum was to accelerate the process of economic and social development in member States. Subsequently, trade promotion was also actively pursued as an area of economic co-operation. The possibility of Intra-SAARC trade expansion has been investigated using macroeconomic and regional trade link models. It is generally found that inter-country differences in production and consumption patterns, investment behaviour, tax and non-tax structures leave considerable scope for further regional trade expansion. At present, intra-SAARC trade is quite low as compared with that of regional forums such as European Union (EU) and Association of South East Asian Nations (ASEAN). The South Asian region constitutes about 23 per cent of the world's population and has 15 per cent of the world's arable land, but only 6.0 per cent of Purchasing Power Parity (PPP) based global gross domestic product (GDP) and account for around 2.0 per cent of world goods trade, and around 3.0 per cent of

world foreign direct investment. The South Asian region is extraordinarily diverse in terms of country size, economic and social development, geography, political systems, languages, and cultures. Three of the eight countries under South Asian region, viz., Afghanistan, Nepal, and Bhutan, are landlocked and mountainous; while Sri Lanka is an island and the Maldives is an archipelago of low-lying coral islands in the central Indian Ocean.

### **OBJECTIVES OF THE PAPER**

1. To identify India's role in SAARC
2. To find out the role of SAARC in world trade
3. To understand the trading among SAARC countries

### **RESEARCH METHODOLOGY**

This research is a Descriptive Study in nature. The secondary data was collected from various journals, magazines, and websites from Ministry of Commerce and Industry etc.

### **CONTENTS OF THE PAPER**

SAARC, as a regional forum, has great potential, but this potential of regional cooperation cannot be realised without strong bilateral linkages. Given the asymmetry inherent in the geographical, economic and strategic dimensions of the eight member countries, meaningful cooperation can materialise only when there is mutual trust and willingness among member countries to resolve and overcome bilateral differences and apprehensions for the greater good of their own people. India has a major responsibility in this respect on account of several factors. The most important factor is that India is the only country, which shares borders with all the SAARC countries, barring Maldives and Afghanistan. The implication of this geographical reality is that India has to facilitate the establishment of strong economical linkages with the neighbouring countries. More importantly, India should take initiatives to solve the difficulties, which the partner countries have been experiencing in trade with India on matters relating to border trade and transit facilities. While preferential trading arrangements, like SAPTA, would work out to be mutually beneficial for all the partners, it should be realised that India can also derive a lot of benefits through strengthening bilateral relations.

Currently, India runs a huge \$15 billion trade surplus with other SAARC countries, with exports worth \$17.5 billion and imports of just \$2.5 billion. The idea is to correct this skewed figure in a way so that Indian businesses can source more from other SAARC countries and build better value chains. For this, India has to invest more in the region by taking advantage of the arbitrage in wage and electricity rates. From Maldives in the south of India to Bhutan in the north, several SAARC countries are keen to seek Indian investment and expertise. It is estimated that 55% of intra-regional trade potential in South Asia remains untapped.

### **SOUTH ASIAN FREE TRADE AREA**

The SAARC Agreement for Preferential Trading Arrangement (SAPTA) was signed on 11th April 1993, at the Seventh SAARC Summit held in Dhaka. The agreement was signed by all the seven SAARC countries namely; India, Pakistan, Nepal, Bhutan, Bangladesh, Sri Lanka and the Maldives ("Afghanistan" was later added into this group). The agreement has entered into force after completion of the formalities by all the contracting states on 7.12.1995. SAPTA establishes a framework for the exchange of trade concessions among the member countries of SAARC. It provides a mechanism for negotiations in successive stages, for establishing trade preferences, with a view to promote trade and economic Cooperation among the member countries of SAARC. It lays down principles and procedures for conduct of negotiations and for implementation of the results of the negotiations. The coverage of SAPTA extends to arrangements in the area of tariffs, para-tariff and non- tariff measures, direct trade measures including medium and long-term contract and sectoral Agreements.

In the first round negotiations of SAPTA, member countries exchanged tariff concessions on 226 items, India gave concessions ranging from 10% to 100% on 106 tariff lines. The second round, which was more comprehensive, concluded in November, 1996. In this round, 1975 tariff lines were covered, with India giving concessions on 911 tariff lines. The third round concluded on November 23, 1998. In this round, the member States exchanged concessions on 3456 tariff lines, out of which India offered concessions on 1917 tariff lines. Out of the concessions offered by India, only 43 tariff lines are available for nonIDC member countries (Sri Lanka and Pakistan). The final objective of the negotiations under SAPTA is the achievement of the South Asian Free Trade Area or SAPTA. At the SAARC Summit at Male in May 1997, the goal of establishing a South Asian Free Trade Area had been accepted and the importance of achieving this goal by the year 2001 underlined. The

tenth SAARC Summit at Colombo in July 1998, took a concrete decision to transform this goal into a reality. It was decided that a group of experts from all the seven SAARC countries will commence negotiations on an Agreement or Treaty for a South Asian Free Trade Area. This agreement will spell out binding schedules for freeing trade and is expected to be finalised and put in place by 2001.

During the SAARC summit at Colombo in July 1998, an offer was made to all the SAARC member countries, that India would be willing to enter into bilateral Free Trade Agreements with them, to accelerate the pace of economic integration in the region. A positive response was received from Sri Lanka.

After two round of negotiations, a Free Trade Agreement was signed on December 28, 1998, by our Prime Minister and the President of Sri Lanka in New Delhi. Further, during the Summit, the Prime Minister also announced that import restrictions maintained by India for BOP reasons on 2307 items, shall be removed for imports from the SAARC countries. This has come into effect from August 1, 1998. These measures are expected to promote trade and economic cooperation between the SAARC member countries.

### **INDIA AND SAARC**

India has begun to take leadership role in shaping and building regionalism in South Asia and beyond. India's regionalism and sub-regionalism efforts have paid dividends primarily because of improvements in bilateral relations with some neighbouring countries. This is evident from the fact that in its eastern borders where India has improved its bilateral relations with countries such as Bangladesh and Dhaka's own changing perceptions of Islamabad, has enabled sub-regionalism projects to make progress, while in its western border, the protracted conflictual relationship with Pakistan has failed to open up such opportunity. Second, like most rising powers, India's self-interest is the key driver in its regional cooperative initiatives. Third, New Delhi is finding innovative ways of creating alternative mechanisms to address the much-needed regional governance. Fourth, India is today actively contributing to shaping the regional order and there is continuity in the country's foreign policy since the early 1990s.

A broad consensus has emerged on India's approach towards regionalism in South Asia and the Indo-Pacific region. In building „Security Regionalism“, India has employed various policy instruments at its disposals. Naval diplomacy has been the most active both in South Asia and in the

Indo-Pacific region. In building „Development Regionalism“, New Delhi has employed both economic diplomacy and „Techno Diplomacy“ to reach out to the region. India’s idea of building regionalism is governed by an incremental approach and this fits in well with sub-regional initiatives to achieve regional integration. In the political domain, India’s regional stability effort is still a work in progress. India’s financial assistance to SAARC neighbours declined considerably in the past five years. The one exception was the Maldives, to which Indian assistance has been consistently increasing year on year since 2013, despite the dip in bilateral ties.

India must come to the front and initiate measures to encourage nations to prove their mettle and make the SAARC summit a meaningful affair. Appropriate measures should be taken with the intent of maintaining peace and resolving disputes amongst the SAARC member countries. Special Economic Zones (SEZ) and Export Promotion Zones (EPZ) should be created in all member countries to make trading easier and smooth the relations between the South Asian nations.

### **REASON FOR DECLINE IN FINANCIAL ASSISTANCE**

- In Afghanistan, India has shifted to work on small development projects (SDPs) rather than the ambitious highways, dams and big building projects that were started in 2008-09.
- In Bangladesh, the main grant for land acquisition for the Akhara-Agartala rail “last link” project has now been completed.
- In Bhutan, which has always received the largest share of Indian assistance, the assistance required for major hydroelectric power plants like Punatsangchu 1 and 2 and Mangdechu has been disbursed 75-90% while Indian assistance to Bhutan’s 11th five-year plan (2013-2017) has been handed over nearly fully.
- In Sri Lanka, the decline was explained by delays in land acquisition for 15,000 homes to be built by India in the plantation areas, though the work on 45,000 homes in the north and east of the island has been completed.
- India is still completing three main projects in Maldives: a police academy, a coastal radar project, and the refit of MNDF ship Huravee.
- An offer to build a new Defence Ministry building is pending, which explains why the Maldives alone is the outlier to an otherwise declining trend in neighbourhood aid.

### **SAARC WITHOUT PAKISTAN**

- Ever since it was launched in Dhaka with its first meeting in 1985, the platform has been hijacked by the India-Pakistan rivalry.

- It was a multilateral platform with a bilateral agenda.
- Given Pakistan's opposition of any Indian initiative, the grouping never really achieved more than rhetoric.

Examples: Prime Minister Narendra Modi offered to build a SAARC Satellite, a gift from India which would serve all the countries of the group. Pakistan was the only country that declined. Eventually, India decided to go ahead with the project and declared it as a South Asia satellite instead.

Attempts were made to sign a treaty which would ease train and road transshipment among member nations in 2014. Pakistan opposed it and BBIN was signed instead.

### **Advantages for SAARC – Without Pakistan**

1. Pakistan anyways didn't cooperate in SAARC. It only created obstacles.
2. Discussions can now become more multilateral rather than being focused on Indo-Pak rivalry.

### **Disadvantages for SAARC –Without Pakistan**

1. Victim card will be played by Pakistan. It will say that India is using its economic power and size to isolate Pakistan in the region
2. Afghanistan will be at a loss as all routes go through Pakistan

### **Two Problems In South Asian Economic Integration**

- External Politics
- Domestic political ramifications of opening markets to neighbours

### **RECENT ISSUES**

- o India will not take part in SAARC summit in Islamabad due to continuous cross border terrorism.
- o Afghanistan, Bangladesh and Bhutan also declared their reluctance to attend the meeting.
- o Nepal blockage (Due to new constitution; By Madhesis) is not in the spirit of regional cooperation

### **CONCLUSION**

India has begun to take leadership role in shaping and building regionalism in South Asia and beyond. India's regionalism and sub-regionalism efforts have paid dividends primarily because of improvements in bilateral relations with some neighbouring countries. This is evident from the fact that in its eastern borders where India has improved its bilateral relations with countries such as Bangladesh and Dhaka's own changing perceptions of Islamabad, has enabled sub-regionalism projects to make progress, while in its western border, the protracted conflictual relationship with Pakistan has failed to open up such opportunity. Second, like most rising powers, India's self-

interest is the key driver in its regional cooperative initiatives. Third, New Delhi is finding innovative ways of creating alternative mechanisms to address the much-needed regional governance. Fourth, India is today actively contributing to shaping the regional order and there is a continuity in the country's foreign policy since the early 1990s. A broad consensus has emerged on India's approach towards regionalism in South Asia and the Indo-Pacific region. In building „security regionalism“, India has employed various policy instruments at its disposals. Naval diplomacy has been the most active both in South Asia and in the Indo-Pacific region. In building „development regionalism“, New Delhi has employed both economic diplomacy and „techno diplomacy“ to reach out to the region. India's idea of building regionalism is governed by an incremental approach and this fits in well with sub-regional initiatives to achieve regional integration. In the political domain, India's regional stability efforts are still a work in progress.

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