

United States' Trade Relations with SAARC Countries

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The recently concluded tenth summit of the South Asian Association for Regional Co-operation (SAARC) held at Colombo primarily focused on the "Role of SAARC in a Changing World" and specifically considered the "South Asian collective response to the global economic changes". Briefing the press before the opening of the tenth summit, the Sri Lankan Foreign Minister, Mr. Lakshman Kadirgamar, stressed the importance of the summit in dealing with the changing global economic issues at the regional level[1]. Certain concerns such as the South East Asian Financial crisis and debt related issues and benefits that are supposed to come from liberalisation and globalisation were taken into consideration in the summit.

Regional co-operation in different parts of the world has made a decisive contribution to economic growth and led to integration of geographically proximate constituent states into economic groupings. SAARC as a regional economic bloc appeared on the global scene in the mid 1980s. The countries belonging to the SAARC have in recent years attached increasing importance to the regional economic co-operation for accelerating the pace of economic development and raising the standards of living of people in the member countries. Besides the intra-regional trade expansion, the SAARC has urged to expand its inter-regional trade with other parts of the world. The overall growth of the world trade, the ups and downs of the economics in the Asia-Pacific region, the advent of World Trade Organisation (WTO), the opening of new regional trade blocs in different parts of the world and the much talked about nuclear explosions by its two major members, India and Pakistan respectively, have their implications on the nature and volume of the economy of the South Asian region. In the midst of all this, the member-states have started assessing the importance of the SAARC as a group in the world at large. In relation to this, SAARC's trade relation with United States is of great importance to this region.

US and South Asian States

American policy towards South Asia after 1947 was the outcome of an attempt to balance Cold War calculations, on the one hand, and recognition of South Asia's special economic, political and even strategic importance on the other[2]. Usually, Cold War consideration predominated, although even at the height of America's alliance strategy there were sustained and expensive efforts to pursue other regional goals, especially economic development. Opinions on the strategic value and economic value of the region for the US were quite varied. However, compared with the interest in West Europe, the Middle East, Asia-Pacific and Latin America, the United States interest in the SAARC region was low.

The cold war had led to a close relationship between the United States and Pakistan, and the latter was seen, as a critical element in an alliance strategy that sought to contain both Soviet and

Chinese power. However, it is surprising to note that Indo-US relations was not all that bad during this period. Given these fundamentally different strategic goals – containment for America, non-alignment for India – the two countries managed a cordial, if not co-operative relationship.

For Pakistan, fearful of its large neighbour (India) was looking for a counterweight that could ensure its security. The two largest countries of the region were, thus, locked in an antagonistic relationship. An external power could hardly do anything about the relationship unless the parties themselves were willing to end their antagonism. By entering into a military alliance with Pakistan, the US acquired an image in India as a friend of Pakistan and opposed to India. The image of the US as an ‘unfriendly friend’ to India has surfaced and resurfaced time and again[3].

The United States’ relations with other member countries of SAARC – Sri Lanka, Nepal, Bhutan, Bangladesh and the Maldives – have been cordial and friendly. The US has provided them with economic aid and other assistance from time to time. Basically, the United States has retained traditional emphasis on American political goals, military security and commercial benefit throughout these years. Notwithstanding, the surfacing of societal concerns for environmental, gender and human rights issues, concepts of ‘comprehensive security’ and co-operation towards that goal have not yet developed in the American South Asian Policy-making circles. This, despite the fact that South Asia is home to approximately 20 percent of the world’s people and that their success or failure in dealing with myriad problems of uneven modernisation facing them will inevitably affect comfort levels in the entire world, including the United States[4]. As officially articulated, however, United States’ interests and objectives in South Asia are mainly to prevent or reduce substantially the proliferation of weapons of mass destruction (nuclear) and missiles; to prevent the outbreak of war between India and Pakistan; to encourage economic reforms towards liberalisation throughout the region and expand trade, access to markets and direct financial investment; to promote democracy and respect for human rights; and to gain co-operation to curb illegal narcotics traffic as well as terrorism. These flow, in the post-cold war era, as before, from the global thrust of American foreign policy, to which South Asia is peripheral rather than the central, and in which India and Pakistan are regarded as more important and more complicated, than the other states[5]. However, the recent nuclear explosions by both India and Pakistan have brought out significant changes in the American policy towards these two respective member countries of SAARC.

Trade Relations

Global economic growth over the past four to five decades has been driven essentially by the economic forces unleashed by the process of international economic integration. From the year 1950 onwards, the growth in the world trade has been consistently higher than the growth in world output, as it is evident from Table-1.

Table 1			
Growth in World Trade & World Output			
Period/Year	World Trade	World GDP	Difference

1950	6.5	4.2	2.3
1990	3.7	2.8	0.9
Source: World Development Report, 1991.			

An interesting aspect of this structural change in world trade is that most countries of the world are now more closely linked through trade than they were two or three decades ago. Moreover, the geographical distribution of trade-based linkages is also considerably wide in scope today which is a reflection of the longer term trend towards a healthy relationship between manufacture and total exports that accompanies economic development. The developing countries have all increased their shares of exports in total exports and more importantly they have also expanded the shares of such exports destined for developed countries[6]. This trend has been partly facilitated by greater intra-regional trade flows. The developing countries in the South Asian region have been quite prominent in accelerating this process.

An important aspect of the economic structure of the SAARC member countries is the relative importance of international trade for the individual economies and the structural changes in their trade. In other words, as the member countries of SAARC oriented themselves more to foreign trade, their exports to the United States increased. The figures for the volume of trade, thus, showed a rise. However, even if the United States loomed large as a trading partner for the South Asian economies, yet, individually and collectively their profile is quite low in the United States market, especially in comparison to the countries in the East and South East Asian regions[7]. The following table (Table 2) illustrates the foreign trade of SAARC member countries with the United States.

<p>Table 2 United States Trade with SAARC Member Countries (Figures are in US\$ millions)</p>
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Country	Exports		Imports		Balance	
	1992	1996	1992	1996	1992	1996
US Total	447,366	622,945	552,599	817,785	105,233	194,840
TI/From						
Asia	74,068	119,906	126,130	199,678	52,062	79,772
Bangladesh	188	210	900	1423	712	1213
Bhutan	N.A.	N.A.	N.A.	N.A.	--	----
India	1,914	3,318	4,066	6,528	2,152	3,210
Maldives	2	2	30	13	28	11
Nepal	5	8	89	131	84	123
Pakistan	877	1277	932	1349	55	72
Sri Lanka	178	211	858	1477	680	1266

Source: IMF, Direction of Trade Statistics Yearbook, 1997

A review of the exports performance in the region reveals that almost all the countries have increased their share of exports with the United States during the 90's, reflecting the increasing importance of external trade in the region, as shown from the Table- 2. Equally important is the fact that as levels of trade rose, the United States is running small negative trade balances with its South Asian trade partners. The United States' import of consumer goods and services from the SAARC member countries has out-numbered its own exports to the region. It is to be noted that, the rise in exports has been much higher than the increase in imports with the result that the ration between exports and imports has shown a perceptible improvement in case of most of the countries. This ratio has substantially increased in respect of Bangladesh, Nepal and Sri Lanka during these years whose export earnings cover now 60 to 70 percent of their import requirements.

American commercial and corporate interests are not new, of course, and the United States preferences for free trade and private investment has deep societal, historical and ideological roots. But the thrust has become more obvious in the South Asian region only in the current decade. Partly because of reciprocal enthusiasm on the part of the slow-growing, government-directed economies of the SAARC member countries and largely because US official development assistance programmes initiated during the cold war have been drastically reduced and no longer overshadow private transactions. Totalling development assistance, food aid, freight assistance and funds for narcotics control, the figures for 1995 reads as follows: Bangladesh \$70,661,000; India \$190,100,000; Nepal \$24,075,000; Pakistan \$11,500,000; Sri Lanka \$11,396,000[8].

The major export items from the SAARC countries to the United States include tea, handicraft goods, textiles etc. Similarly, the countries of the South Asian region heavily depend on the import of technology-based goods and services from the United States. Export of textiles from the SAARC region, especially readymade garments, are now prominent in all the countries. It would, however, be difficult to sustain this growth in the coming years due to the phased removal of the existing quota system under the MFA (Multi-Fibre Agreement) of the GATT (General Agreement on Tariff and Trade) negotiations.

Disputes and Irritants

As the levels of the trade and commerce have gone up between the United States and the SAARC member countries, so have the number of trade disputes and mutual irritants. There have been regular disputes and differences on questions of market access, intellectual property rights, opening financial services to foreign concerns, dumping, non-tariff restrictions on trade, imposition of social clauses such as conditions of trade and so on. Despite fairly frequent threats of invoking sanctions and stopping aid and assistance to the SAARC member countries, the United States and the respective governments in South Asia have endeavoured to narrow their differences, avoid derailing other interchanges, and settle trading disputes within the (WTO) according to its procedures.

However, after the May'98 nuclear explosions by the two major member countries of SAARC there is an entirely new different situation that has emerged in the South Asian region. These nuclear explosions have serious implications on the United States trade relations especially with India and Pakistan. India for the first time has been subjected to the sanctions imposed by the United States, whereas for Pakistan the sanctions are imposed for the second time as it had been imposed earlier in 1979. Although the United States' relations with these two countries had become trade and commerce oriented all throughout these years, but the security concerns still dominated the US thinking, in particular the question of continued pursuit of nuclear weapons and missile development by both countries. CTBT has the most contentious issue between India and Pakistan on the one hand and the United States on the other.

The US administration's non-proliferation efforts with India have so far focused heavily, if unsuccessfully, on gaining New Delhi's concurrence with the CTBT negotiations. The US negotiations remain deeply vexed by Indian defiance. New Delhi's decision has reflected the inescapable trends in Indian politics, as well as India's convictions that assent to the treaty would leave it strategically disadvantaged in Asian geopolitics[9]. Pakistan's response to the CTBT was predictable; it said that it would sign CTBT only if India did so. However, in the meanwhile Pakistan has delinked the CTBT issue from Indian stand on CTBT and declared that it would sign CTBT only after sanctions are lifted. The Indo-US talks (The Jashwant-Talbott talks) behind the closed doors also suggest that the India is negotiating seriously with US for lifting of sanctions, even if it has not made its stand on CTBT too clear.

Sanctions were imposed under the United States' domestic law, which mandates them if a non-nuclear weapon state (as defined in the NPT) carries out a nuclear test. Under the law the sanctions are of indefinite duration.

It is in India's interest to see that they are lifted soon even though it can withstand their negative impact at an affordable cost, which is not the case with Pakistan, whose economy is in a bad shape. In case of India, the impact of the US sanctions goes far beyond the financial values of \$2 billion of current favours and obligations. The Exim bank's pending deals amounting today to \$500 million will be stopped. Multilateral assistance from international financial institutions have been postponed upto \$1.17 billion[10].

However, to India and Pakistan's relief, the United States started realising that sanctions is hurting American business more than coercing foreign countries[11]. The business leaders contended that in the highly competitive global economy, now regulated by an international trade organisation, economic sanctions were ineffective. They would rather hurt US business. The proliferation of sanctions prompted the state department and the Senate to form special panels to review the usefulness of sanctions. The American Senate then voted to empower the President to waive or ease sanctions against India and Pakistan through the Brownback and Glenn Amendment only for a limited period. Another act, the South Asia Sanctions Flexibility Act introduced in the House, allows waivers for the President in such areas as trade financing[12]. The legislation would also clear the way for international financial institutions to resume loan payments to India.

Taking into note their business and strategic interests, the United States as well as the two adversaries of the South Asian region India and Pakistan have started discussions pertaining to CTBT and other irritant issues. This is very much obvious from the four rounds of talks between the Deputy Secretary of State, Mr. Strobe Talbott and the respective counterparts of India and Pakistan. One can only wish them good luck.

End Notes

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6. Raghavan, S.N. *Regional Economic Co-operation among SAARC Countries*, Allied Publishing House, New Delhi, 1995, p.29-40.
7. *Ibid.*, p. 29-40.
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9. "The United States and Asia in 1996" *Asian Survey*, Vol. 38, No. 1 Jan 97, p. 108-109.
10. *The Times of India*, June 24, 1998.
11. *International Herald Tribune*, Singapore, August 1-2, 1998.
12. *The Times of India*, July 18, 1998.