

SAARC Moving Towards SAFTA: Prospects of India's Regional Trade

Rajashree Kanungo*

**Rajashree Kanungo is a Research Scholar in School of International Studies, JNU, New Delhi.*

As trade goes global towards the tail end of the twentieth century, a phenomenon has received the sharp focus of governments in various regions of the world. Regional trade blocs are emerging stronger than ever before to enhance their shares in the international markets. The rapidly changing international economic environment of the late 1980s and the early 1990s has encouraged several nations to consider the formation of new regional blocs and strengthening of the existing ones. The regional blocs usually aim at the expansion of intra-regional trade and related forms of intra-regional business. The success story of the European community with its single economic market has served as a model for the emergence and strengthening of the world-wide movement towards regional blocs. The unusually long delays in the successful conclusion of the Uruguay Round of negotiations have brought the relevance of regional blocs into bolder relief, as an alternative to the kind of multilateralism prevailing under the framework of World Trade Organisation (WTO).

All these developments have certainly given a fillip to the endeavours of the SAARC, established 12 years back, to group together the seven states in the South Asian region for intra-regional cooperation[1]. The SAARC member nations, representing 1.2 billion people, home to a fifth of the world's population, are characterised by their vastly asymmetrical economies. With the emergence of new trading blocs across the globe, the South Asian countries are faced with stringent regulatory mechanisms on the export front. While 50% of world trade is confined to the trading blocs and intra-regional trade activity, there has been a constant decline in South Asia's share in the world trade —\$3 billion trade within SAARC region is only three percent of total global imports and four percent of total global exports[2]. Besides the persisting barriers of protectionism against export from developing countries, there is a possibility of developed countries posing threat to the developing countries by erecting new trade barriers in the name of non-trade issues. Hence, optimising regional potential has become the central strategy in many regions of the world and South Asia should not be lagging behind in the dynamic transformation taking place all around the globe.

The South Asian Preferential Trading Arrangement (SAPTA) was conceptualised as part of the efforts of SAARC member nations to work-out a closer and higher form of regional economic integration and evolve possible measures for moving towards a full-fledged free trade area. The present paper has made an attempt to review the salient features of the framework underlying the main provisions of SAPTA and its move towards South Asian Free Trade Area (SAFTA) and to provide an assessment of the likely prospects for Indian trade and exports in the region.

SAPTA Towards SAFTA

The first attempt towards moving into the core areas of trade and economic co-operation was the commissioning by the SAARC Secretariat of a Regional study on Trade, Manufacture and Services, which was completed in 1991. The study outlined a number of recommendations for promoting regional co-operation in the core economic areas. The 1991 SAARC study had, recommended that as a first step all countries in the region should accord to each other at least most favoured nation (MFN) status. Thereafter, the member countries could follow a 'product-by-product' approach for extending tariff concessions on products of mutual trade interest subject to appropriate rule of origin[3]. This was seriously considered at the mid-term review meeting of the SAARC in Colombo in July 1992, and the Inter-Governmental Group (IGG) on Economic Co-operation was directed to draft an agreement on a South Asian Preferential Trading Arrangement (SAPTA). The signing of SAPTA was a landmark achievement of the seventh SAARC Summit held in Dhaka in April 1993. The New Delhi summit held from 2-4 May 1995, formally approved the proposals for preferential trade, worked out by the Inter-Governmental Group (IGG) and later endorsed by the SAARC Foreign Ministers. With all the member countries having ratified the Agreement, the same came into force on December 7, 1995—the date, which marks the end of the first decade of SAARC's existence.

SAPTA takes the form of a contractual agreement among the signatory members providing a fairly well-defined framework of rules and modalities for discriminatory treatment in favour of regional products for incremental and gradual liberalisation and promotion of intra-regional trade among the member states. The Agreement consists of a Preamble, 25 Articles and 3 Annexures that lay down the principles, modalities and mechanisms to achieve the desired objective. The instruments for expansion of intra-SAARC trade under the Agreement are 'exchange of concessions' relating to tariff, para-tariff and non-tariff measures on a preferential basis, and adoption of direct trade measures, such as long and medium-term contracts containing import and supply commitments in respect of specific products, buy-back arrangements, state trading operations, and preferences in procurement by Government and public agencies (Article 4). The Agreement provides for a number of approaches to trade negotiations, such as product-by-product basis, across-the-board tariff reduction, sectoral agreements and direct trade measures (Article 5). It was, however, agreed that at the initial phase negotiations would be conducted on a product-by-product basis.

Article 8 of the Agreement lays down that the concessions agreed to under SAPTA negotiations, except those made exclusively to the least developed countries (LDCs), shall be extended unconditionally to all member states[5]. The Agreement empowers a member state to provisionally suspend the concessions under SAPTA, when it faces serious economic problems including balance of payments difficulties (Article 13). Also, in the event of imports into a country under preferential arrangements cause, or if it threatens to cause, serious injury to domestic industries, the importing country may, as a safeguard measure, suspend provisionally the SAPTA concessions (Article 14). There are, however, clear-cut rules about these balance of payments measures and safeguard actions in order to ensure that these are applied only on genuine grounds and do not unduly affect trade interests of other member states.

SAPTA contains important features such as special and favorable treatment for the LDCs in the region (Bangladesh, Bhutan, Maldives and Nepal), in order to assist them in deriving equitable

benefits from the Agreement (Article 3). Additional measures in favour of the least developed member states are also incorporated in the Agreement to help these countries in promoting their export prospects through technical assistance and cooperation arrangement to increase their production capacities (Article 6 and Annex-I). In addition, the Agreement provides for special treatment for the least developed member states by way of duty-free access, exclusive tariff preferences, or deeper tariff preferences for their export products, and removal of non-tariff and para-tariff barriers (Article 10). It also provides for negotiations of long-term contracts with a view to assisting least developed member states to achieve reasonable levels of sustainable exports of their products. The least developed member states shall be meted out special and favorable treatment in matters of rules of origin as well. Article 16, together with Annex-III of the Agreement, lays down clear rules of origin for products to be eligible for preferential access. The mechanism of negotiation for exchange of concessions has been to exchange request and offer lists of products by member states specifying products of export interest on which concessions will be sought and offered. To avoid any confusion or discrepancies, products have to be properly described by using the standard trade classification and nomenclatures.

India has offered a list of 106 items for duty concessions, which is more than three times as large as the list from Pakistan, which comprises of 35 items. Nepal has offered a list of 14 items, Maldives 17 items, Bhutan 7, Bangladesh 12 items and Sri Lanka 31 items that the seven SAARC countries may trade on preferential rates of duty[7].

The accomplishment of SAPTA within the deadline set by the government leaders has encouraged hope that the SAARC member states can now move towards the creation of a South Asia Free Trade Area (SAFTA). The committee on economic cooperation has set up a group of experts drawn from the member states to frame proposals for the creation of SAFTA, which hopefully would demolish all kinds of barriers to the free flow of goods within the region[8].

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The share of SAARC in world trade as mentioned earlier is very small which indicates that the region has failed to have a genuine share in the benefits of growing world trade in recent years. This reinforces the need for promoting cooperation and expanding trade among the member states themselves. However, intra-regional trade in South Asia at present is also very small, accounting for only 3.4 percent of the region's total trade (Table 1). Intra-SAARC exports accounted for 3.8 percent of SAARC's exports to the world and corresponding share of intra-SAARC imports was even lower at 3.1 percent in 1991. For political reasons, officially, India and Pakistan have the minimum commercial bilateral relations in the SAARC region. And if India were hypothetically excluded from SAARC, intra-SAARC trade would fall to a negligible proportion of world trade indicating that six other countries of SAARC have very little trade with each other.

TABLE – 1

**Percent share of Intraregional Trade in SAARC among its member Countries
in their Total Trade (1987 and 1993)**

Country	Share of Intraregional	Share of Intraregional	Share of intraregional Trade
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	Exports in total Exports		Imports in Total Imports		in total Trade turnover	
	1987	1993	1987	1993	1987	1993
1. Bangladesh	4.1	2.7	4.3	12.0	4.2	8.5
2. Bhutan	98.2	86.6	79.3	78.6	86.8	81.8
3. India	3.5	3.9	0.5	0.4	1.4	2.0
4. Maldives	16.1	18.2	10.2	11.0	11.6	12.7
5. Nepal	3.9	3.2	1.6	1.6	2.6	2.3
6. Pakistan	3.9	3.2	1.6	1.6	2.6	2.3
7. Sri Lanka	4.0	2.4	6.8	8.4	---	---
SAARC Region (1 to 7) total	4.2	3.8	2.1	3.1	2.9	3.4

Source: Computed by S.N. Raghavan, *Regional Economic Co-operation among SAARC Countries*. New Delhi: Economic and Scientific Research Foundation, 1995, p.33. These calculations are based on the data provided in the following two sources: (a) International Monetary Fund, *Direction of Trade Statistics Year Book* (Washington, D.C. IMF, 1994) and (b) World Bank, *Country Economic Memorandum* (Washington, D.C., World Bank November 1994).

The continuing low SAARC intra-regional trade as a proportion of SAARC's total trade has been between 2 to 3 percent for several years. This proportion is the lowest among the active regional groupings engaged in the task of accelerating the rate of growth of intra-regional export and imports as a source of expanding economies of the concerned region. To illustrate, during the period 1980-90, the share of intraregional trade in the region's trade with the world had increased from 52.4 % to 63.4 % in the 12- country European Community, from 31.5% to 37.3% in today's NAFTA and from 33.8 % to 38.4 % in East Asia consisting of Japan, Republic of Korea, Hongkong, Taiwan and the ASEAN countries. These examples show that full-fledged regional free trade has a very high potential for accelerating the rate of growth of intra-regional trade and its proportion in the region's total trade with the world[9].

Recognising the need for developing the region economically, the architects of SAPTA correctly identified the central aim of SAPTA as the promotion and sustainenance of Intra-SAARC trade as well as adopting different measures for intensifying regional economic cooperation. In May 1995, the Inter-governmental committee of SAPTA had concluded an exchange of National Schedule of Concessions, under which the contracting states (CSs) had agreed to preferential imports in respect of 226 commodities. It has been established that the first round of negotiations reflected no more than a symbolic gesture, as the preferential imports constituted no more than about 6 % of intra-regional trade of the CSs. However, CSs are now contemplating to move on a much faster track of regional trade liberalisation with a view to achieving the goal of a free trade area for the region by the end of the century or not later than 2005. This goal appears to be somewhat ambitious, given that the same objective is sought to be achieved by the member states of ASEAN by 2003, NAFTA by 2008, and AIEC by 2020[10].

SAPTA provides a landmark in the history of SAARC as a launching pad for the second phase of regional co-operation in the core economic area of intra-regional trade expansion. India has to play a crucial role in the economic development of South Asia. India has a special responsibility to ensure the success of SAPTA as a confidence-building measure. It would be in India's interest to see that SAPTA operates as a fair and more equitable arrangement for all SAARC members, especially among its lower developing countries (LDCs) members. India can facilitate the progress of SAPTA to SAFTA by taking a lead for forming a unilateral free trade area with all LDC members of SAARC, either at one stroke or incrementally in the coming years, but at the same time, it has to be kept in mind that it does not lead to a lop-sided development[11].

To make SAFTA meaningful, in the second round of negotiations held in June 1996 the member states of SAPTA brought more products for liberalisation. The two approaches which were identified for regional trade liberalisation were: (a) product-by-product approach and (b) across-the-board approach. It was also suggested that a product-by-product approach, in order to be effective, must adopt a trade coverage concept rather than a product coverage approach[12]. Under a trade coverage approach, it has been suggested that the top fifty products, imported by India be liberalised and the same number of products exported by India be liberalised by the other member countries with regards to India. In such an event, two thirds of India's exports within the region and nearly all of its imports would be liberalised. This could provide a fast track approach to liberalisation, even though conducted on a product-by-product basis.

Even though the South Asian market is presently of marginal significance compared to India's global exports, this market is nevertheless increasing in importance as may be observed in the Table -2.

TABLE - 2

India's Exports to South Asia and the World (US \$ Million)

Year	BD	BHU	ML	NPL	PAK	SL	SA	WD	SA% in WD
1990	297	---	5	40	43	102	487	1781	2.73
1991	325	1	5	77	40	175	623	17872	3.48
1992	353	2	8	73	52	231	719	18498	3.88
1993	430	5	6	75	58	247	821	20258	4.05
1994	521	7	18	91	64	313	1002	24150	4.15
1995	960	12	12	107	70	383	1544	30537	5.05

Source: IMF, *Direction of Trade Statistic Year Book*, 1996

During the period 1990-95, the value of India's exports to South Asia has trebled in dollar terms. From a modest share of 2.7 percent in 1990, the share has gone up to over 5% in 1995. There is an impressive increase in India's exports to Bangladesh and Sri Lanka, which also have been termed as India's top emerging markets, as per the assessment made by the commerce Ministry. The significance of South Asian markets is thus also to be viewed in the context of the growing importance of India.

Unlike exports, India's imports from the South Asian region show lack of dynamism, which can be clearly observed in Table 3 below.

TABLE 3
India's Imports from South Asia and the world (US \$ million)

Year	BD	BHU	MLD	NPL	PAK	SL	SA	WD	SA% in WD
1990	15	0	2	15	45	22	99	23990	0.41
1991	6	0	0	19	58	12	95	19509	0.49
1992	9	1	0	22	145	15	192	24206	0.79
1993	13	3	0	19	46	17	98	22493	0.44
1994	34	3	0	14	47	31	130	25529	0.51
1995	79	16	0	27	37	39	198	34456	0.57

Source: IMF: Direction of Trade Statistics Year Book, 1996

It will be observed that during the period 1990-95, India's imports from South Asia nearly doubled. Nevertheless India's imports from the region remained at around half a percent of its global imports. It increased only marginally from 0.51% to 0.57% between 1994 and 1995.

The trends in India's exports and imports clearly reveal the growing trade imbalance between India and other member countries of SAPTA. A somewhat clearer picture of the 'give and take', under SAPTA from the India perspective emerges by analyzing the disaggregated trade data compiled by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), Calcutta. Taking the SAARC region as a whole, India could seek across-the-board tariff concessions in respect of textile and textile products, transport equipment, machinery and base metals which together accounted for nearly 60% of India's exports to the region during 1994-95. On the other hand, across-the-board tariff cuts by India in favour of textiles, chemicals, prepared food stuffs and base metals could liberalise as much as 80% of India's imports from the region[13]. Since India imports more primary commodities but exports relatively more manufactured goods, across-the-board tariff cut in favour of primary products is likely to benefit its neighbouring countries relatively more than the benefit it could receive in return. Thus trade liberalisation in primary products could be a good starting point for sectoral trade liberalization in textiles, chemicals and base metals given the importance of these sectors in India's exports as well as imports.

In order to increase Indian trade in the south Asian region, there is the need for a strategic export trust. Targeting critical products into the South Asian market is called for not only because of its growing importance, but also to take up the opportunity emerging from the opening up of the regional market through the mechanism of SAPTA. With the progress of SAPTA towards SAFTA, the Indian negotiations should be ready with the list of products, which they could put up, and which could provide the best opportunity in case of across-the-board or sectoral trade liberalisation.

References

1. There have been suggestions to include Myanmar and Afghanistan in the organisation.
2. *Direction of Trade Statistics Year Book*, IMF, 1996.
3. See, SAARC, '*Report of the second meeting of Coordinators for finalising the Regional Study on Trade, Manufactures and Services*', SAARC, New Delhi, June 1991, p.87.
4. See Agreement on *SAARC Preferential Trading Arrangement (SAPTA)*, Kathmandu, SAARC Headquarters, 1993.
5. The least developed countries (LDCs) in the SAARC are: Bangladesh, Nepal, Bhutan and Maldives.
6. Bhuyan, Ayubur R. "Regional Cooperation in South Asia: Outlook and Prospects under SAPTA" *South Asian Survey*, vol. 3 No. 1&2 (1996) p.201.
7. A total of 226 products from different member countries were offered for tariff concessions in the first round of trade negotiations held in May, 1995 at New Delhi.
8. 'SAPTA holds out hope' *Rising Nepal* (Kathmandu) 29 October 95.
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13. *Ibid.*, p.5.