
UNIT 19 ASEAN AND SAARC

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19.0 OBJECTIVES

After studying this Unit, you should be able to:

- describe objectives of ASEAN & SAARC
- discuss the economic cooperation among members of ASEAN and SAARC
- discuss the developments in ASEAN & SAARC
- discuss external relations of ASEAN & SAARC
- describe economic outlook of ASEAN & SAARC
- explain the trends in ASEAN & SAARC trade
- explain India-ASEAN trade and India-SAARC trade
- discuss the Prospects of India-ASEAN trade and India-SAARC trade

19.1 INTRODUCTION

The Association of South East Asian Nations (ASEAN) and South Asian Association for Regional Cooperation (SAARC) are two important economic groupings in Asia. ASEAN was established on 8 August 1967 in Bangkok, Thailand, with the signing of the Bangkok Declaration by the five original Member Countries namely Indonesia, Malaysia, Philippines, Singapore and Thailand. Brunei Darussalam joined the Association on 8 January 1984. Vietnam became the seventh member of ASEAN on 28th July 1995. Laos and Myanmar were admitted into ASEAN on 23rd July 1997. SAARC was formed in December, 1985 and seven countries of South Asia region, viz. Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka are members of this regional grouping. ASEAN Secretariat is based in Indonesia and SAARC Secretariat is based in Bangladesh. In this unit you will learn the objectives, economic cooperation and various summits of ASEAN. You will further learn India ASEAN

19.2 OBJECTIVES OF ASEAN

The Bangkok Declaration united the ASEAN member countries in a joint effort to promote economic cooperation and the welfare of the people in the region. The Bangkok Declaration set out guidelines for ASEAN's activities and defined the aims of the organisations. The ASEAN nations came together with the following three main objectives in mind:

- i) to promote the economic, social and cultural development of the region through cooperative programmes;
- ii) to safeguard the political and economic stability of the region against big power rivalry; and
- iii) to serve as a forum for the resolution of intra-regional differences.

The First Summit Meeting was held in Bali, Indonesia in February 1976, during which, the five member countries signed the Treaty of Amity and Cooperation in Southeast Asia and the Declaration of ASEAN Concord. Both documents signified ASEAN's aims towards ensuring regional peace and stability and to foster economic and social growth and enhancing the need for cooperation with all peace-loving nations. At this meeting, a small permanent secretariat was also established in Jakarta to provide administrative support and to help in coordination of ASEAN activities. So far, six Summit Meetings have been held. The Fourth Summit Meeting which was held in Singapore in January 1992, established ASEAN Free Trade Area.

19.3 ECONOMIC COOPERATION

Although a stated goal of the Bangkok Declaration and many of the succeeding ASEAN pronouncements was to accelerate economic growth and promote active collaboration & mutual assistance in the field of common interest, little concrete action was taken to promote economic cooperation. Its first attempt at economic cooperation, the Preferential Trading Arrangement (PTA) introduced in 1977, had minimal impact. Because the short term adjustment costs associated with preferential trade liberalisation were considered too risky, ASEAN governments diluted the effectiveness of the scheme while maintaining an image of dedication to the pursuit of market sharing. Consequently, though the PTA included 15,752 items by 1991, intra-regional trade under the PTA made up less than one per cent of total ASEAN trade that year.

Starting with a degree of cooperation which was initially limited to only a few economic activities in the 1960s, ASEAN economic cooperation has not only deepened but also widened in the last five years. This is evidence of the ASEAN member countries' strong commitment to making the region a strong and dynamic economic force.

Economic cooperation in ASEAN does not entail only trade liberalisation measures but also trade facilitation, non-border measures and investment promotion activities. New areas of cooperation, such as in services and intellectual property rights are being implemented. Bold decisions have also been made to elevate and strengthen ASEAN industrial cooperation through a new scheme which will take into account present industrial needs and economic situation in ASEAN. Cooperation in private sector development, small and medium size enterprises, infrastructural development and regional investment promotion measures have also made considerable progress.

The thrusts of ASEAN economic cooperation in the 1990s include the following:

- i) to fully implement the ASEAN Free Trade Area;

- ii) to develop the region into a global base for the manufacture of value added and technologically sophisticated products geared towards servicing the region and world markets;
- iii) to enhance the industrial efficiency of the region through exploiting complementary location advantages based on the principles of market sharing and resource pooling;
- iv) to enhance the attractiveness of the region for investment and as a tourist destination;
- v) to cooperate in enhancing greater infrastructural development which will contribute more efficient business environment; and
- vi) to ensure that the rich resources (mineral, energy, forestry and others) of the region are exploited effectively and efficiently.

The success of ASEAN Economic Cooperation, seen as a possible model for regional cooperation among developing countries, is very much the result of the wisdom, foresight and bold decisions of the Bangkok Declaration of 1967 and the past Summits' guidance. ASEAN economic cooperation was first stressed in the Bangkok Declaration of 1967 which laid the foundation for economic cooperation. The Declaration emphasised among other things, the following aims and purposes:

- i) to accelerate economic growth, social progress and cultural development in the region;
- ii) to promote active collaboration and mutual assistance of matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
- iii) to collaborate more effectively for the greater utilisation of the region's agriculture and industries, the expansion of trade, including the study of the problems of international commodity trade, the improvement of its transportation and communications facilities and the raising of the living standards of its peoples.

19.4 ASEAN SUMMITS

ASEAN economic cooperation was subsequently guided further by the decisions of the subsequent ASEAN Summits. The First ASEAN Summit, held in Bali in 1976, called for intensifying cooperation in economic and social development and taking cooperative action in national and regional development programmes, utilising as far as possible the resources available in the ASEAN region to broaden the complementarity of respective economies.

The Second ASEAN Summit held in Kuala Lumpur in 1977, stressed, among others, that efforts should be intensified and that the pace of economic cooperation accelerated with greater vigour, the private sector should intensify efforts towards the implementation of industrial complementation schemes and projects and industrial development in the region. Measures be taken to stimulate the flow of technology, know-how and private investment among the member countries.

The Third ASEAN Summit, held in Manila in 1987, emphasised that ASEAN regionalism founded upon political, economic and cultural cohesion is more vital than ever for the future of Southeast Asia; member states should strengthen intra-ASEAN economic cooperation to maximise the realisation of the region's potential in trade and development. It was further stressed to increase ASEAN's efficacy in combating protectionism and countering its effects as well as to promote an environment in which the private sector can play an increasing role in economic development and in intra-ASEAN cooperation.

The Fourth ASEAN Summit, held in Singapore in 1992 reiterated that ASEAN accelerate efforts enhancing intra-ASEAN economic cooperation and adopt appropriate new economic measures as contained in the Framework Agreement on Enhancing ASEAN Economic Cooperation. The Summit decision was directed towards sustaining ASEAN growth and development which are essential to the stability and prosperity of the region.

The Fifth ASEAN Summit, held in Bangkok in 1995 focussed on the theme, "Greater ASEAN Economic Cooperation" and decided on the acceleration and deepening of the commitments under the ASEAN Free Trade Area, expansion of ASEAN economic cooperation in new sectors, in particular, services and intellectual property, endorsed a new ASEAN Industrial Cooperation Scheme, (AICO) and a proposal to create an ASEAN Investment Area (AIA). AICO will replace Brand-to-Brand Complementation (BBC) and the ASEAN Industrial Joint Venture (AIJV) Schemes while the AIA encouraged more investment into the region. The Summit also discussed how ASEAN might participate in the economic development of Mekong Basin and agreed on the implementation of the following plans of action: Infrastructure Development, Transport and Communication, Energy and Small and Medium Enterprise (SME) Development.

19.5 ASEAN COOPERATION WITH DIALOGUE PARTNERS

ASEAN's commitment to develop its external relations was enunciated at the First Meeting of the ASEAN Heads of Government in 1976 which "expressed ASEAN's readiness to develop fruitful relations and mutually beneficial cooperation with other countries in the region". The Second Summit in 1977 also reiterated that economic cooperation with third countries or group of countries be further intensified and expanded.

The first group of countries which ASEAN's external relations centred on were the major trading partners of ASEAN. ASEAN formally established full dialogue relations with Australia, Japan, New Zealand and the UNDP in 1976; the United States in 1977; the European Union in 1980; Canada in 1981; Republic of Korea in 1991. India which was a Sectoral Dialogue Partner of ASEAN since 1993 was elevated to a Dialogue Partner in 1995. China and Russia, which began consultative relations with ASEAN in 1991, were accorded Dialogue status in 1996. Pakistan has also established Sectoral Dialogue relations with ASEAN in 1997.

ASEAN's dialogue relations have promoted trade and investment, facilitated the transfer of technology and know-how and improved access of ASEAN products into the markets of its dialogue partners. It has also served as an avenue for ASEAN to engage in dialogue on regional and global issues with some of the most important countries of the world and to secure development and technical assistance. Economic cooperation has become the most important area of cooperation of ASEAN's relations with its dialogue partners, in particular trade and investment. Apart from trade and investment, ASEAN's economic cooperation with its dialogue partners extend to industrial development, transfer of technology, energy, communications, transport and tourism.

ASEAN's development cooperation with dialogue partners is increasingly being linked to the economic interests of both sides and many of the development cooperation programmes and projects are now designed to enhance this objective. Moreover, the nature of development cooperation has also changed with the emphasis being on partnership and shared thematic programming instead of project specific financing. The main areas of development cooperation are in the fields of science and technology, human resource development, environment, social and cultural development and narcotics control.

ASEAN's development cooperation stems from both its collective national efforts and assistance from its Dialogue Partners. Recognising the critical importance of prudent aid management to maximise the benefits of external assistance, the 22nd Annual Ministerial Meeting agreed to the formation of an ASEAN Cooperation Unit (ACU). This Unit, since established in a restructured Secretariat, is responsible for all aspects of project appraisal and funding management, in close cooperation with Dialogue Partners.

19.6 INDIA AND ASEAN DIALOGUE PARTNERSHIP

India first expressed its interest to cooperate with ASEAN as a dialogue partner in 1978. However the issue remained dormant for a long time. The Summit meeting of the ASEAN in

January 1992 emphasised the importance of intra-regional as well as inter-regional economic cooperation. The summit took note of the fruitfulness of its dialogue partnership with the USA, the European Union, Japan, Australia, New Zealand, Canada and the Republic of Korea and approved India as a sectoral dialogue partner of the ASEAN.

ASEAN and India agreed to begin active cooperation in the areas of trade, investment, tourism and science and technology at the First ASEAN-India Joint Sectoral Cooperation Committee (AIJSC) meeting held in Bali during 7-8 January, 1994. This meeting was a follow-up to the meeting to establish ASEAN-Indian Sectoral Dialogue Relations which was held in March 1993 in New Delhi. The progress in achieving the limited goals has been extremely slow and the private sector is not fully involved. Consequently, the ASEAN-New Delhi Committee consisting of the Heads of Diplomatic Missions of ASEAN Member Countries in New Delhi has been formed to facilitate the sectoral dialogue relations.

The second meeting of the ASEAN-India Joint Sectoral Cooperation Committee was held in New Delhi from 13 to 17 February, 1995, where it was decided to convene the first ASEAN-India Round Table Conference in the third quarter of 1995 for providing a forum for exchange of information on trade and investment promotion and business match making. The Round Table Conference involved industry and government policy-makers from both sides.

The meeting also reviewed the implementation of decisions of the first AIJSC discussions and worked out the programme for future cooperation in the four agreed areas of trade, investment, science & technology and tourism. It was recognised that the policy environment was now more favourable to trade and investment expansion in the immediate as well as the long-term. The second meeting of the AIJSC was termed as a "very substantive" exercise which has taken the ASEAN-India Sectoral Dialogue to a higher plan of cooperation.

In 1996, after two years, during which period India was a sectoral dialogue partner focussing on economic issues, India has finally become a full dialogue partner of ASEAN. The decision of the ASEAN to admit India as a full dialogue partner of the organisation is a recognition of India's good beginning with economic reforms and its immense potential. It will be wrong to presume that sustained lobbying by India alone has persuaded the initially reluctant ASEAN to give it this status. One of the representative of ASEAN mentioned at the Bangkok Summit held during December, 1995 that the organisation has looked north, east and south, and it was time it looked westward. The status that India has secured in principle is now enjoyed by a select band - Australia, New Zealand, the US, Canada, Japan, South Korea and the European Union. The notable absentees include China and Russia, although they are engaged by ASEAN in security-related discussions. It is possible that fears of economic dominance have made ASEAN to deny China such a status. There can be no such fears as far as India is concerned, at least in the foreseeable future. Now India can prove to be a fertile ground for investment particularly by Singapore, Malaysia and Thailand, and evolve as a useful investor in Vietnam and in Laos and Myanmar because they have also become full ASEAN members. An area where India particularly stands to benefit is in interacting with ASEAN when the latter puts in place the Free Trade Area, an arrangement which has been advanced by five years to 2003 AD. The status as dialogue partner of ASEAN takes India effectively close to the league in the Asia-Pacific region which is set to dominate much of the world economy and trade, and which has been designated as the approaching "Pacific century". As a full dialogue partner, India would become eligible to participate in following area:

- i) Many more sectors other than trade, investment, science & technology and tourism in which it was eligible even as a sectoral dialogue partner.
- ii) Considering the economic structures of India and the member-countries of ASEAN, there are three more sectors which may be included to begin with. These are infrastructure, financial services, civil aviation and computer software.
- iii) India has also become eligible to be invited to participate in the Post Ministerial Meetings.

- iv) India has also become eligible to participate in ASEAN Regional Forum (ARF) - an annual security meeting attended by 17 country leaders including US, China, Russia, Japan, South Korea, Australia, New Zealand, Canada, EU, Cambodia, Laos and Papua New Guinea.

This elevation of status with the ASEAN is certainly expected to give a very big boost to the trade and investment ties of India with the seven ASEAN countries.

19.7 INDO-ASEAN TRADE AND ECONOMIC RELATIONS

The trade and economic relations between India and countries of the ASEAN region though quite old were not quantitatively significant.

In 1970-71, India's total trade with the world was of the order of Rs. 3106 crore of which ASEAN accounted for 1.87 per cent only. ASEAN's share in India's exports and imports during that year was 2.65 and 1.12 per cent respectively. The trade balance, though not very significant, was in favour of India and continued to be so till 1976-77. In 1977-78 ASEAN's share in India's exports and imports went up to 3.76 per cent and 5.02 per cent respectively, turning the trade balance against India from that year. Again, the trade deficit was not very large but India continued to have adverse balance of trade with ASEAN till 1991-92. The position in 1992-93 once again changed and ASEAN's share in India's exports and imports went up to 6.61 per cent and 5.33 per cent respectively. As a consequence, the balance of trade turned in favour of India in 1992-93 and continued to be so in 1993-94. In 1994-95, India again had adverse balance of trade with ASEAN which turned in favour of India in 1995-96. In 1995-96 ASEAN's share in India's exports and imports went up to 8.51 per cent and 7.32 per cent respectively. In 1996-97 while ASEAN's share in India's exports continued at the same level but ASEAN's share in India's imports went up marginally. In 1996-97, India again had adverse balance of trade. The imports from ASEAN countries have been growing further. In the year 1999-2000, India has a negative trade balance of 2748.52 \$ million.

Table 19.1: India's trade with ASEAN

(US \$ million)

Year	Export	Import	Trade Balance
1993-94	1675.55	1101.67	573.88
1994-95	1901.99	1940.10	38.11
1995-96	2710.01	2688.06	21.95
1996-97	2857.68	2921.16	-63.48
1997-98	2421.84	3382.30	-960.46
1998-99	1592.48	4142.64	-2550.16
1999-00	2200.87	4949.39	-2748.52

Source: CMIE, July 2000.

Look at Table 19.1 which shows India's trade with ASEAN. The exports and imports both have been growing. The exports have increased from \$ 1675.55 million in 1993-94 to \$ 2200.87 million in 1999-2000. Similarly imports have increased from \$ 1101.67 million in 1993-94 to \$ 4949.39 million in 1999-2000. The growth in imports have been faster than the export growth. The growing imports have given higher negative trade balance.

The major products that are currently being exported by India to ASEAN region as a whole include: Oil meals; Manufactures of metals; Machinery & instruments; Primary & semi-finished iron and steel; Cotton raw including waste; Cotton yarn, fabrics, madeups; Meat & preparations; Gems & jewellery; Transport equipments; Dyes/intermediates & coal tar chemicals; Electronic goods; Spices; Drugs, pharmaceuticals & fine chemicals; Inorganic/organic/agro chemicals; Fruits & vegetables; Marine products; Groundnut; Processed minerals; Iron ore; Leather & manufactures; Rubber manufactured products; Cashew;

Aluminium; Manmade yarn, fabric, madeups; Plastic & linoleum products; Paints/enamels/varnishes etc.; Other ores & minerals; Iron & steel bar/rod; Residual chemical & allied products; Processed fruits & juices; Paper/wood products; Cosmetics/toiletries; RMG cotton including accessories; Natural silk yarn, fabrics, madeups; Mica; Glass/glassware/ceramics/refracts/cmnt; RMG manmade fibres; Footwear of leather; Other cereals; Sports goods and Shellac.

It may be observed from the above that India exports mainly primary commodities that do not have much value-addition. The non-traditional items are being exported to these countries for obvious reasons that the ASEAN countries are India's competitors in those items.

Similarly, India's imports from the ASEAN countries are largely confined to primary products which include Electrical machinery; Machinery except electrical and machine tools; Wood & wood products; Organic chemicals; Natural rubber; Pearls precious, semiprecious stones; Vegetable oils fixed (edible); Professional instruments, optical goods etc.; Cashew nuts; Non-ferrous metals; Textile yarn, fabrics, madeup articles; Inorganic chemicals; Metalliferous ores & metal scrap; Artificial resins, plastic material etc.; Coal, coke & briquettes etc.; Pulp and waste paper; Non-metallic mineral mfrs. excluding pearls; Synthetic & regenerated fibres; Medicinal & pharmaceutical products; Dyeing, tanning, colouring material; Chemical material & products; Printed books, newspaper, journals etc.; Project goods; Transport equipments; Fertilizers manufactured; Paper board & manufactures; Manufactures of metals; Iron & steel; Leather; Pulses; and Synthetic & reclaimed rubber.

There are a few items which India exports to and imports from ASEAN countries. They are: Cashew nuts, Transport equipment, Drugs, pharmaceuticals and fine chemicals, Gems and jewellery, Organic chemicals, Inorganic chemicals, Primary and semi-finished iron and steel. The explanation for such trade follows the normal logic for intra-industry trade. With increased industrialisation and liberalised trade policy framework both in India and ASEAN, the volume of such trade should increase in coming years.

19.8 INDIA-ASEAN TRADE PROSPECTS

India's trade with ASEAN has picked up but not fast enough. The ASEAN region is important to India for several reasons. As mentioned in the beginning all projections show that this is the region which has registered the highest growth in the past and is expected to maintain this growth in the years to come. Further, the world trading system is in the process of splintering into trade blocs inspite of the successful conclusion of the Uruguay Round of Multilateral Trade Negotiations. No trading bloc in South Asia is likely to have enough of an economic clout to counteract this phenomenon of trading blocs causing a market entry problem to a country like India. This calls for a closer relationship with regional trading blocs on a bilateral basis. Thus a closer relationship with ASEAN is a pre-requisite for India.

The trends in trade flows in various countries show that it is investment flows that drive trade flows, particularly when the largest increases in trade flows take place in the form of intra-industry or intra-firm trade. The key to greater economic relationship with ASEAN thus lies in increasing mutual flows of investment.

Whatever its global importance, AFTA could have a significant impact on countries like India. The rate of growth of Indian exports to East Asia in 1993 outstripped export growth to all other regions. ASEAN member states will reduce intra-regional tariffs and remove non-tariff barriers over a period of ten years starting from 1 January 1993. According to the accelerated schedule, duties on agricultural and manufactured products among ASEAN members would be lowered to a maximum of 5 per cent by 2003. This scheme provides that ASEAN member states shall have common effective tariffs among themselves within AFTA, but the level of tariffs with non-ASEAN countries shall continue to be determined individually. If AFTA develops into a discriminatory trading bloc, Indian producers could find their access to the most dynamic region in the world severely restricted. Even without discrimination, lower intra-regional tariffs in the ASEAN would reduce the competitiveness of Indian

products. Moreover, in order to become eligible to lower duties, exporters will have to abide by local content requirements.

The Indian producers in the fifteen manufacturing sectors, viz. vegetable oils, cement, chemicals, fertilizer, pharmaceuticals, plastics, rubber products, leather products, pulp, textiles, ceramic and glass products, gems and jewellery, copper cathodes, electronics, wooden and rattan furniture are going to be affected gradually over the next few years.

To overcome the problem, it is advisable for Indian companies to establish joint ventures in the South East Asian countries to be able to take advantage of the reduced tariffs, though there are local content requirements which would have to be met to be eligible to lower duties. Second, at the policy level, it is important for Indian policy makers to increase both formal and informal interaction with the ASEAN to ensure that the interests of Indian exporters are furthered. At the very least, this implies systematic gathering and speedy dissemination of relevant information relating to ASEAN decisions and policies to Indian companies as well as timely intervention to influence ASEAN policies which affect Indian interests, wherever possible.

If ASEAN Free Trade Area (AFTA) develops into a discriminatory trading bloc, Indian producers could find their access to the most dynamic region in the world severely restricted. Even without discrimination, lower intra-regional tariffs in the ASEAN would reduce the competitiveness of Indian products. This is why closer links with the ASEAN should be forged now, before the regional integration process gets fully under way. AFTA is expected to be a reality by the year 2003. By then, if Indian import duties are reduced substantially it may be possible to establish a special relationship with AFTA. This needs to be actively pursued finally leading to India becoming member of Asia Pacific Economic Cooperation.

There is possibility of substantial expansion of trade and investment between India and ASEAN countries, provided there are focussed programmes and projects covering trade liberalisation, facilitation and promotion. Moreover, trade can grow when there are complementarities and also when there are mutually acknowledged areas of comparative advantages. The task has to begin with identification of possible areas of cooperation, based on the principles of mutual advantages and economic benefits.

Check Your Progress A

- 1) What were the main objectives of the formation of ASEAN.

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- 2) Enumerate 5 major India's exports item to ASEAN.

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- 3) State whether the following statements are **True** or **False**.

- i) There were six members at the time of formation of ASEAN.
- ii) USA and Japan are the major trading partners of ASEAN.

- iii) During nineties, ASEAN region had been facing trade deficits.
- iv) India has favourable trade balance with ASEAN.
- v) India's imports from ASEAN are largely confined to primary products.

19.9 OBJECTIVES OF SAARC

South Asia Region comprises of seven countries - India, Pakistan, Bangladesh, Nepal, Bhutan, Sri Lanka and Maldives. These countries differ not only in size and stages of economic development but also in their political framework and economic objective. The countries have neither equal per-capita income nor equal growth rate in industrial and agricultural sectors. However, in terms of geographical proximity, historical experiences and the ties of language, art, culture and religion, they are more close to each other than the member countries of many regional organisations like European Union and Association of South East Asian Nations. Besides all of them share a common concern for economic development and face the problems of poverty, illiteracy, mal-nutrition and unemployment. The growing population and the continuous depletion of natural resources have brought about tremendous strains in these economies. The nature and magnitude of the problems are such that they call for collective response to tackle them effectively. It is the commonality of these factors that provided these countries a distinct regional identity which ultimately led to the formation of South Asian Association of Regional Cooperation (SAARC) in Dhaka in December 1985.

The idea of SAARC was initiated by the then President of Bangladesh in 1980. This gained momentum in the form of a series of consultative meetings at the Foreign Secretaries level. In April, 1981 the first meeting of Foreign Secretaries of the seven nations was held in Colombo, Sri Lanka which set the stage for further comprehensive deliberations by planning a course of action for regional cooperation. After this, a series of meetings were held - Nepal (Kathmandu, November 1981), Pakistan (Islamabad, August, 1982), Bangladesh (Dhaka, March 1983) and India (Delhi, July 1983). These meetings proved a solid ground in formulating the conceptual framework for regional cooperation. An integrated programme of action was launched when the South Asian Foreign Ministers met at New Delhi in August, 1983 and signed a declaration. This declaration proved a milestone and gave a much needed boost to the South Asian Association for Regional Cooperation. According to this declaration, the following objectives were set for SAARC:

- (a) to promote the welfare of the people of the South-Asia and to improve their quality of life,
- (b) to accelerate economic growth,
- (c) to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields,
- (d) to strengthen cooperation among themselves in international forums and with other developing countries,
- (e) to promote and strengthen collective self-reliance among the countries of South-Asia,
- (f) to strengthen cooperation with other developing countries,
- (g) to contribute to mutual trust, understanding and appreciation of one another's problems, and
- (h) to cooperate with international and regional organisations.

19.10 SAARC SUMMITS

The South Asian Association for Regional Cooperation completed its existence of 10 years in December, 1995. The establishment of SAARC on 8 December 1985 was seen as a clear manifestation of the peoples of South Asia, to cooperate with each other in the search for

solutions to their common problems. It has often been a point held out against SAARC that after its most encouraging launching more than a decade ago, SAARC activities have stagnated and have failed to promote cooperation in the core economic areas on any significant scale.

However, after a decade of cooperation, it is gratifying that even on this key concern, some useful ground has been broken. Significantly enough, the Sixth SAARC Summit in Colombo in 1991 decided to establish a SAARC Preferential Trading Arrangement (SAPTA), which laid the foundation of cooperation in the vital area of trade. The Agreement was subsequently signed in Dhaka in April 1993 during the Seventh SAARC Summit, which provides an umbrella framework of rules providing for step-by-step liberalisation of intra-regional trade and envisages periodic rounds of trade negotiations for exchange of trade concessions on tariff, para-tariff and non-tariff measures. SAPTA also contains provisions giving special and favourable treatment to the Least Developed Countries in the SAARC region. Provisions for safeguard action and balance of payments measures are also incorporated in the Agreement to protect the interest of member states during critical economic circumstances. The first consolidated schedules of concessions to be agreed upon under the Agreement have been finalised and approved, thus completing the first phase of trade negotiations among the member countries. The parallel process of ratifying the Agreement has been completed by member states and the agreement has come into effect on 7 December 1995.

Following the Sixth and Seventh SAARC Summits, SAARC's attention has also been focussed on the key concern of poverty alleviation. Eradication of poverty has been and remains the most formidable concern for the majority within SAARC countries. A staggering 400 million people in the region live under the poverty line, calling for immediate and urgent action. Happily the SAARC process has provided member countries a unique forum to address this great challenge in a collective manner. The Sixth SAARC Summit at Colombo commissioned the Independent South Asian Commission on Poverty Alleviation to address the various aspects of this most formidable problem. The report of the Commission was presented on the eve of the Seventh SAARC Summit and it agreed on a South Asian consensus on poverty eradication through this consensus. The SAARC leaders have committed to accord a high priority and pledged to overcome this challenge through the implementation of an Agenda of Action which would inter-alia, include a strategy of social mobilisation, policy of decentralised agricultural and human development. The leaders also agreed to follow-up on the subject through formulation, at the national level, of pro-poor plans to be harmonised with the open economy and structural adjustment strategies pursued by member countries.

The Heads of State or Government at their Eighth SAARC Summit noted with satisfaction that the first round of trade negotiations under SAPTA has been completed. They reiterated their firm belief that the operationalisation of SAPTA will herald the beginning of a new and significant process of regional cooperation and would lend strength to SAARC as an institution for promoting the welfare of the peoples of South Asia.

19.11 SAARC ECONOMIC OUTLOOK AND EXTERNAL RELATIONS

SAARC has seven countries of South Asia as its members i.e. India, Pakistan, Bangladesh, Nepal, Bhutan, Sri Lanka and Maldives. These countries differ not only in size and stages of economic development but also in their political framework and economic objective. The countries have neither equal per-capita income nor equal growth rate in industrial and agricultural sectors. However, in terms of geographical proximity, historical experiences and the ties of language, art, culture and religion, they are more close to each other than the member countries of many regional organisations like Economic Union and Association of South East Asian Nations. Besides all of them share a common concern for economic development and face the problems of poverty, illiteracy, mal-nutrition and unemployment. The growing population and the continuous depletion of natural resources have brought about tremendous strains in these economies.

SAARC has entered into agreements of cooperation with international and other regional organisations. A Memorandum of Understanding has been signed by SAARC and United Nations Conference on Trade and Development (UNCTAD) under which UNCTAD provides SAARC updated versions of its software viz. Trade Analysis and Information System (TRAINS) which is a computerised information system containing latest information on trade control measures prevailing in fifty developed and developing countries of the world. Similarly, a Framework Agreement for cooperation with Economic and Social Commission for Asia and Pacific (ESCAP) and a Memorandum of Understanding with the Asia Pacific Telecommunity have also been signed for mutual cooperation.

Along the lines of the ASEAN Dialogue Partner relationship, although on a much more limited scale, a SAARC-Japan Special Fund was established through a memorandum signed by SAARC and Japan. Established with contributions from the Government of Japan, the Fund consists of two components intended to finance selected SAARC activities and intellectual exchanges between SAARC member countries and Japan.

By negotiating as one, the Member States of the SAARC can achieve far more success in promoting trade & economic relations with different regional economic groupings of the world. In this process, they can open many markets for their companies and secure many jobs for their people. The SAARC is an economic grouping with the largest population in the world.

19.12 INDIA-SAARC TRADE

India's exports to SAARC have been increasing. In the year 1993-94 the export was to the tune of 897.25 \$ million and reached to 1722.68 \$ million in 1995-96. It marginally reduced in the year 1996-97 and marginally decreased in 1997-98 and slightly increased in 1998-99. Further, it was down to 1414.28 \$ million in the year 1998-2000. The imports have been also witnessing the same pattern. The value of import was 113.57 \$ million in 1993-94 and went up to 256.80 \$ million in 1995-96. It marginally reduced in 1996-97 and 1997-98. The imports increased to \$ 465.45 million in 1998-99 and again reduced to \$325.60 million in 1999-2000. India's trade balance with SAARC has been positive. The trade balance was 783.68 \$ million in 1993-94 and went up to 1465.88 \$ million in 1995-96. The trade balance reduced to 1088.68 \$ million in the year 1999-2000. Look at Table 19.2 which shows India's trade with SAARC.

India's major items of exports to SAARC include: cotton yarn fab. made ups, transport equipment, non-basmati rice, drugs, pharma & fine chemicals, machinery & instruments, prim & semi fin. iron & steel, pulses, manufactures of metals, glass, etc, paper/wood products, spices etc. India's major items of imports are Jute raw, textiles yarn fab, made ups, inorganic chemicals, fruits and nuts, essential oil & cosmetic prepn, sugar, petroleum crude & products, metaliferrous ores & metal scrap, iron & steel, spices, etc.

Table 19.2: India's Trade with SAARC

(US \$ million)

Year	Exports	Imports	Trade Balances
1993-94	897.25	113.57	783.68
1994-95	1215.37	176.80	1038.57
1995-96	1722.68	256.80	1465.88
1996-97	1703.08	241.78	1461.30
1997-98	1612.91	234.58	1378.33
1998-99	1678.79	465.45	1213.34
1999-2000	1414.28	325.60	1088.68

Source: CMIE, July 2000.

There are a number of industries and areas where substantial scope exists for individual member countries for promoting industrial development through regional cooperation. This potential has so far remained unexploited due to several factors among which the constraints to trade expansion within the region have been quite prominent. A number of studies have identified these constraints. These include — (a) restrictive trade policies, including tariff and non-tariff barriers; (b) imbalances in trade; (c) inadequate transport network; (d) inadequate communication and banking facilities; (e) resource constraints; (f) inadequacy of trade and transit facilities; (g) lack of information, business and trade contacts; and (h) lack of standardisation of trade documentation procedures.

Inadequacy of physical infrastructure such as power supply, telecommunications and transport (roads, railways and ports) is the major impediment to economic growth in the SAARC region. It would be really very difficult to expand trade and investment opportunities among the member countries without improving infrastructural facilities. The development of infrastructural facilities in the member countries could play a very significant role in enhancing the level of regional economic cooperation.

Trading relations amongst the SAARC countries are affected to a great extent by high levels of tariffs and a variety of non-tariff barriers including quantitative restrictions and discriminatory practices. One of the main reasons for the low intra-SAARC trade and the large adverse trade deficit of member countries with India is the existing high levels of tariffs and a variety of non-tariff barriers, including quantitative restriction and discriminatory practices.

Tariff rates in India, Pakistan and Bangladesh are generally higher as compared to those in Sri Lanka, Nepal, Bhutan and Maldives. There is some variation across the sectors in terms of average tariff rates, e.g. generally high tariffs on beverages and tobacco and low tariffs on mineral fuel across all the SAARC countries. Among the widespread non-tariff barriers in SAARC countries are fiscal taxes, quantitative restrictions, prohibitions and canalisation through State Trading Organisations. Import licensing restrictions are placed on nearly 18 per cent of imports of Bangladesh, India and Sri Lanka and 40 per cent of imports of Pakistan. While Pakistan and Bangladesh have quota restrictions, India prohibits the import of some of the products that are of interest to intra-SAARC trade (e.g. consumer goods). Also, in all the four countries, major bulk imports have been reserved for State Trading Organisations. The most significant non-tariff barrier to imports in India has been the system of licensing for the import of goods. This has greatly constrained expansion of trade from the rest of the world and specifically with member countries of SAARC.

All the SAARC countries have implemented substantial reduction in tariffs and also modified their tariff structures as part of the on-going economic policy reforms. These changes have been carried out with a view to improving the efficiency of domestic industries. This process in itself should help the expansion of intra-regional trade. But the presence of non-tariff barriers in different forms are acting as constraints to realise the potential for trade expansion.

Bangladesh has offered 10 per cent tariff preference in respect of all the products both to non-LDCs and to LDCs. Bhutan has offered tariff preference ranging from 10-15 per cent. India has offered the highest tariff preference ranging mostly from 50-100 per cent. Only in case of five products the tariff preference is 10 per cent. In case of Sri Lanka the tariff preference ranges from 10-30 per cent. The preferential margin in case of Pakistan varies from 10-15 per cent. The existing MFN tariff rates in Maldives, Nepal, Sri Lanka and Bangladesh are quite low. Hence a large preferential reduction by India will bring down the preferential tariff closer to those prevailing in the aforementioned countries. Pakistan, which maintains peak tariff rates higher than India, has not offered similar concessions.

In fact the prospects and possibilities of trade expansion at the regional level among SAARC member countries can be rightly assessed only after analysing the existing structure of trade of the member countries in terms of their commodity composition. As is well known, most of the SAARC countries export similar goods either as primary commodities or in processed form.

19.14 SAARC PREFERENTIAL TRADING ARRANGEMENT

Following the initiative taken during the Sixth SAARC Summit (Colombo, 1991) to establish SAPTA for increasing intra-regional trade, a Framework Agreement on SAARC Preferential Trading Arrangement (SAPTA) was finalised by the Committee on Economic Cooperation based on a draft prepared by the Inter-Governmental Group (IGG) on Trade Liberalisation. The Foreign Ministers of all the SAARC member countries signed the Agreement on 11th April 1993 during the Seventh SAARC Summit in Dhaka. This Agreement is an important landmark in the history of SAARC as it is expected to go a long way in promoting intra-regional trade and in gradually removing trade barriers presently existing among the member countries. SAPTA would benefit member countries due to the following reasons:

- i) The countries can substantially reduce the transport and transit cost because of geographical contiguity among the members.
- ii) Capital goods produced within the region may be more compatible to the factor endowment of member states than those imported from developed countries.
- iii) The increasing competition among the member states would result in technical efficiency in existing industry as marginal firms might be forced to reduce their cost. Resources will be reallocated away from less efficient firms and monopolies protected by the tariff wall will no longer be in a sheltered position.
- iv) As economic ties get stronger and countries become committed to common economic goals, political problems will gradually recede. When economic benefits gain significance, amicable environment may evolve for dissolving political problems.
- v) Regional cooperation may also pave the way for regional banks or corporation which might be influential in promoting regional investment in larger projects.

19.15 FORMATION OF SAPTA AND JOURNEY TOWARDS SAFTA

The world economy is poised to enter an important phase of structural change with the ushering in of the new century. The transition towards this change is being driven by the economic forces of greater global interdependence on the one hand and the integration of regional markets on the other. The current phase of transition is firstly characterised by globalisation of production based on increasing intra-industry trade and especially intra-firm trade among the Transnational Corporations. Globalisation represents global competition leading to the emergence of global firms which consider the entire world as their market place for taking decisions on aspects such as sourcing of raw materials, splitting the production stages and processes of manufacturing as well as marketing and distribution of products.

There is a huge difference between a free trade area and a preferential trade area. So one should not be carried away by the notion that South Asian Preferential Trade Agreement will lead in due course to South Asian Free Trade Area. SAPTA opens the doors of trade. The seven countries have exchanged limited lists of goods on which they will offer some duty cut. In this regime, every country retains sovereignty over its tariff and non-tariff regime - there is no need to harmonise the regime of different countries. But a free trade area implies that all customs barriers will be removed, so that countries surrender sovereignty to a harmonised import regime covering the whole region. In the absence of this — if, for instance, India has a 10 per cent duty on steel and Pakistan has a 20 per cent duty — then no Pakistani will import steel directly, and instead get steel imported by India and shipped across. Thus, the lowest import tariff in the region will become the effective tariff for all countries, subject only to minor variations on account of transport costs. So, even if countries formally retain sovereignty over import controls, this will constitute sheer tokenism since the controls cannot apply to goods flooding in from other SAARC countries, thus rendering such sovereignty meaningless. So it makes much more sense for the countries to agree on a common external tariff.

A number of economists both within and outside the region have expressed apprehensions about the journey from Preferential Trading Area to Free Trade Area. These apprehensions are based on their perceptions about economic and political constraints facing the member countries of SAARC region. The historical experience relating to regional economic cooperation in many parts of the world shows that preferential trading arrangements among a group of nations generally become the first step towards the establishment of free trade areas which subsequently lead to higher levels of economic cooperation. In the light of this experience, it is expected that SAPTA would also pave the way for the creation of SAARC Free Trade Area (SAFTA). It may be pertinent to mention here that there may be some economic and political constraints that the member countries may face in the formation of a free trade area. It is often argued that the nations with large differences in terms of size, population, levels of development and natural resource endowment find it difficult to come together to establish a free trade area particularly because the smaller countries are expected to share the burden of adjustments to a greater extent than the bigger nations. However, the experience of regional trading blocs shows that such apprehensions are totally unfounded. It may be worthwhile to quote the example of European Union, in which a small country like Luxembourg with a population of just 392,000 because of its equal status in the trading bloc with all other big member countries, enjoys perhaps more sovereignty than in the earlier times. Differences in size and per capita income levels do not matter if there is a common perception of economic interest. The ASEAN countries have also proved that countries of varying size can work together for their common goal by creating confidence and establishing institutions that subserve common ends. In fact two important parameters in this regard are — (i) every member states should be accepted and treated as a full member of the free trade area with the same rights and obligations as all other members regardless of its geographical size, population, GNP, etc.; and (ii) in all the meetings of the trading bloc, representatives of the small nations should have the same decision-making and voting rights as those from the big nations.

Optimists argue that small beginnings can lead to great events in due course. However, for realising the goal of a SAARC Free Trade Area, the member countries will be required to take a number of initiatives so as to expedite the whole process without any major hurdles.

Check Your Progress B

- 1) Write three objectives of SAARC.

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- 2) Enumerate five major items of exports to SAARC.

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- 3) State whether the following statements are **True** or **False**.

- i) South Asia region comprises of seven countries.
- ii) SAARC countries donot share a common concern for economic development.
- iii) SAARC - Japan special fund was established through a memorandum signed by SAARC - Japan.

- iv) India's trade balances have been favourable with SAARC.
- v) India's imports from SAARC have increased in 1999-2000.

19.16 LET US SUM UP

ASEAN and SAARC are two important regional economic groupings in Asia. India is a member of SAARC and is not a member of ASEAN. However, India is a dialogue partner of ASEAN. Currently there are nine members of ASEAN, SAARC has seven members. ASEAN is very important as a trading partner for India since it accounts for around 8 per cent of India's total trade. On the other hand SAARC accounts for only about two per cent of India's total trade. ASEAN countries have formed a Free Trade Area while SAARC has formed Preferential Trading Arrangement and are on their way to form a Free Trade Area.

19.17 KEY WORDS

Intra-regional Trade: Trade among the member countries of a particular economic grouping.

Preferential Trading Arrangement: In a trading arrangement when the member countries lower the barriers for imports among the members of the group in relation to those for non-members it is called Preferential Trading Arrangement.

Free Trade Area: In a free trade area the member countries do not have barriers among themselves, but they have separate laws for trade barriers for non-members.

19.18 ANSWERS TO CHECK YOUR PROGRESS

A 3 i) False ii) True iii) True iv) False v) True.

B 3 i) True ii) False iii) True iv) True v) False

19.19 TERMINAL QUESTIONS

1. What are the objectives of ASEAN? Explain the approach of economic cooperation and various summits of ASEAN.
2. Describe the dialogue of partnership between India and ASEAN.
3. Describe Indo-ASEAN trade and economic relations.
4. What are the trade prospects between India and ASEAN in the years to come.
5. How SAARC was formed and how does its member differ.
6. Keeping in view India's trade relations with SAARC, do you think it is an important economic grouping for India.
7. Describe briefly the formation of SAPTA and the hurdles that the members may face in the formation of a Free Trade Area.
8. Write briefly about the composition of India's trade with SAARC member countries.