Chapter-7

SUMMARY AND CONCLUSIONS AND POLICY PRESCRIPTIONS
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Concept of regional cooperation has acquired world wide acceptance as it is considered to be prime instrument of economic growth. South Asia is the least developed among the Asian Countries but is not lacking in natural endowments but in development and exploitation of its resources. Regional economic cooperation is essential to eliminate poverty and to improve the quality of lives of the people of the region. Emergence of SAARC comprising seven countries namely Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, is a step in that direction. Various economists and social scientists have conducted number of studies about various aspects of economics cooperation in South Asian region and almost all are optimistic about the outcome of this arrangement in this part of the world.

The present study also attempts to analyse India's Trade Relations with other SAARC Countries. The main objective of studying the existing pattern of economic cooperation in South Asia and India's trade scenario with these countries and scope of its further improvement. Use of data in the study restricts the definitiveness of results to the extent, problems are experienced in their collection but divergence being small they can safely be relied upon to conduct valid analysis. This study is primarily based on secondary data collected from various sources such
as official non-official mainly published, and unpublished from different libraries and institutions and relate to the period from 1995 to 2005.

The development in the SAARC courtiers, surveyed in the preceding chapters, provide the necessary backdrop against which the SAARC — level regional integration process could be assessed. As has been noticed, SAARC countries have initiated a variety of economic reforms in various spheres of economic activities and their performance in terms of the major determinates of growth, such as stability in macroeconomic indicators, trade expansion and human resource development, etc. has improved in recent times. This progress, in terms of improved policy environment and renewed economic strength, provides for a conducive base for more intensive economic integration within the South Asian regions as well as between SAARC and other regional groupings across the globe SAARC is all set to embark upon a new era of regional cooperation.

Given the variety of constraints that the region is facing, the initiatives that have been launched to strengthen the economic linkages among the SMCs are noteworthy. However, the SAARC regional integration process needs consolidation of various institutional efforts made so far and intensification of the process through more innovative instrumentalities. The latter could include widening the scope of cooperation itself as well as effecting certain policy-shifts. In this regard, cooperation in various domains, such as production, trade, investment,
technology and labour markets would have to be evolved in an integrated frameworks.

It would be useful to have an overview of the policy initiatives taken so far within the SAARC in order to envision its future path of progress. The first section of this chapter thus dwells upon the past and the subsequent one on the future in the background of the analysis contained in earlier chapters.

**PROGRESS IN THE PAST**

The objectivities of the SAARC, as embodied in its Charter, include promotion of the welfare of the people of South Asia, improvement in their quality of life acceleration of economic growth, social progress and cultural development in the region and strengthening collective self-reliance among the countries of South Asia. The main principles on the basis of which such cooperation is sought include, inter alia, sovereign equality, territorial integrity, political independence, non - interference in the internal affairs of other states, and mutual benefits.

Several institutionalised efforts have been made to achieve these objectives which include, inter-alia launching of the Integrated Programme of Action, three-tier mechanism for Poverty Education, People-to-People Contact Programme, Trade and Economic Cooperation, establishment of SAARC Regional Institutions and
SAARC Funds, etc. Progress made in some of these initiatives is briefly presented below.

INTEGRATED PROGRAMME OF ACTION (IPA)

In the SAARC region most of the countries are beset with common problems. Solving these problems through common efforts at the regional level was one of the main objectives of the IPA. The IPA was launched in 1983 with the adoption of the Declaration on South Asian Regional cooperation (SAARC). Under this Programme various areas of cooperation have been identified and for each area there is a Technical Committee (TC) designated. These Technical committees have been operational in the areas of agriculture, communications, education, culture and sports, environment and meteorology, health and population activities, prevention of drug trafficking and drug abuse, rural development, science and technology, tourism, transport and women in development. Efforts are on to consolidate and streamline the IPA in order to make it more result-oriented.

POVERTY ERADICATION

The sixth SAARC Summit (1995) brought poverty eradication to the centre-stage an Independent South Asian Commission on Poverty Alleviation (ISACPA). The subsequent Summit (2003) emphasised on poverty eradication from this region by the year 2002 through an agenda of action based upon the strategy of social mobilisation, policy
of decentralised agricultural development and small-scale labour-intensive industrialisation and human development.

The eighth SAARC Summit (2005) endorsed the recommendations of the Finance/Planning Ministers to establish a three-tier mechanism for exchanging information on poverty eradication. The first-tier is constituted of the secretaries to the respective SAARC government in different Ministries/departments concerned with poverty eradication and social development. The second-tier is formed by the Finance and Planning Secretaries of the member countries. At the third-tier, Finance and Planning Ministers of the countries meet to review the developments at the first and second tiers. The various meetings at these different tiers have underscored the need to give a distinct status and top priority to pro-poor schemes in member countries. They have emphasised that poverty eradication should be viewed in the overall context of the development strategy.

**PROMOTING PEOPLE-TO-PEOPLE CONTACT**

The SAARC has emphasised the need for building people-to-people contact in the region. This has been sought with the help of several initiatives like the SAARC Audio Visual Exchange (SAVE) Programme, SAARC, Scheme for Promotion of Organised Tourism, SAARC Youth Volunteers Programmes (SYVOP), etc. These Programmes have helped forging different cultural and social linkages among the people of the region.
SAARC REGIONAL INSTITUTIONS

To intensify the overall cooperation process various regional-level SAARC institutions have been created, such as SAARC Agricultural Information Centre (SAIC) in Bangladesh, SAARC Tuberculosis Centre (STC) in Nepal, SAARC Meteorological Research Centre (SMRC) in Bangladesh and SAARC Documentation Centre (SDC) in India. There have been a large number of non-governmental initiatives for strengthening the institutional framework in the SAARC region. Mention may be made of the institutions like Independent Group of South Asian Cooperation (IGSAC), SAARC Economic Association, Coalition for Action on South Asian Cooperation (CASAC) and Indian Council for South Asian Cooperation.

SAARC FUNDS

There have been efforts to establish various SAARC – level funds, of which significant ones are the SAARC – Japan Special Fund and the South Asian Development Fund (SADF). The SADF is a three-window fund with the merger of SAARC Fund for Regional Projects and the SAARC Regional Fund and a third window for social development and infrastructure development.
TRADE AND ECONOMIC COOPERATION

Economic cooperation is the key to any successful regional grouping. The process of economic cooperation in the framework of SAARC gained momentum with the preparation of national – level studies by the member countries which culminated into a synthesis report of the SAARC Secretariat (2001) – now commonly know as the TMS (Trade, Manufactures, Services) study on cooperation. The national – level study for India was prepared by the RIS in 2000 & 2005 which served as a vital input to the synthesis report of the SAARC Secretariat. The RIS study made a number of policy recommendations to foster the SAARC economic cooperation process. These included, inter-alia, setting up of a Project Development Facility, SAARC Council of Development Finance Institutions, launching of a SAARC Preferential Trading Arrangement (SAARC - PTA) and formation of a SAARC Chamber of Commerce and Industry.

A brief profile of some of the more recent policy decisions and ongoing negotiations in the realm of trade and economic cooperation is given below. This includes developments under SAPTA, transition to South Asian Free Trade Area (SAFTA), rules of origin framework and customs cooperation.
SAPTA

Intra-regional trade cooperation serves as a strategic instrument in bringing about development in the region. In this sense, the institutionalisation of a preferential system in the form of SAPTA, entering into force in 2005 - two years ahead of the time schedule envisaged initially – should be considered as one major step forward in the area of trade cooperation. The first round of SAPTA negotiations (2005) resulted in 2260 items at which tariff concessions were offered by the member states. It should be noted that India offered tariff concessions to the maximum number of products (1080).

At the conclusion of the second round of trade liberalisation under SAPTA (2006), around 2000 products were covered, of which India has offered tariff concessions on almost half of the total number of products. The second round included reduction of non-tariff barriers as well. Presently, the third round of trade negotiations is in progress with a view to expanding the basket of items under concessions and depending the tariff concessions on products already covered by the previous round. In order to facilitate the process of trade and economic cooperation a SAARC Committee of Participants (COP) meets and deliberates upon evolving a regional approach.
TRANSMITION TO SAFTA

Negotiations have begun on the transition from SAPTA to SAFTA by the Inter-Governmental Expert Group (IGEG) which was set up for this purpose. The broad terms of reference of the IGEG include conducting an in-depth regional study on the subject focusing upon benefits of the free trade area, impacts of non-tariff barriers and discriminatory practices, implications of revenue losses and trade imbalances. Special attention would be given to the needs of the smaller and Least Developed Member countries of the SAARC.

RULES OF ORIGIN

The SAARC Committee of Participants (COP) is examining the issue of adequate revisions in the existing rules of origin system under SAPTA. This is being done with a view to facilitate intra-SAARC trade flows as stringent origin norms could be impeding them. In doing so, the development role of rules of origin is also being given due emphasis.

EUROPEAN UNION'S RULES OF ORIGIN UNDER GSP

SAARC trade cooperation is crucial also from the point of view of enhancing the member countries' capability to export globally. The recent decision taken by the SAARC Committee on Economic Cooperation (CEC) to approach the European Union for extending to
SMCs the regional, cumulation facility under its Generalised System of Preferences (GSP) scheme is a case in point. As per this facility, inputs sourced by the SMCs from within the SAARC region for the production of exports targeting the EU market, would not be considered as imports when subjected to the European Union's rules of origin under its GSP scheme.

CUSTOMS COOPERATION

There have been concomitant efforts to harmonise trade and tariff classification systems as well as customs valuation methods which are crucial for further trade expansion. It is worth noting that the SAARC Group on Customs Cooperation has agreed that member countries should take a coordinated stand at the World Customs Organisation (WCO) on matters of common concern.

Summing up, it may be started that SAARC as a regional grouping has come a long way in institutionalising regional cooperation in the region at various levels of economic, social and cultural linkages. More importantly, given the realities of this region in terms of poverty – levels, infrastructural bottlenecks, shortage of resources, insignificant export – supply capabilities and lack of trade complementarities in some sectors, the strides made in the spheres of trade and economic cooperation and IPA, could be deemed as preparation of a base on which building up of stronger regional economic ties would be possible in future.
VISION FOR FUTURE

To strengthen and speed up the SAARC economic cooperation process further what is required evolving a more dynamic approach and identification of niche areas for cooperation backed by visionary perspectives. Realising the need to give a fresh impetus to the SAARC economic cooperation process, the SAARC Council of Ministers gave a mandate to conduct a tripartite study with the participation of experts from the academic, government and business sectors. Consequently, a SAARC Expert Group (SEG) was get up with one expert nominated from each member country. The Report of the SEG lays down a visionary agenda for the SAARC economic cooperation process and gives an inventory of several new areas that need to be studied in depth so as to intensify cooperation in the region. The recommendations of the SEG are under consideration among the SMCs and prioritisation of studies, as suggested by the SEG, is underway. The recommendations are being taken into account by the IEGE, examining transition to SAFTA, and also by the experts exploring into investment cooperation in the SAARC.

As mandated by the Ninth SAARC Summit (1997) a Group of Eminent Persons (GEP) has been constituted to further study, inter alia, ways and means of enhancing the effectiveness of the SAARC in achieving ite objectives.
VISIONARY PERSPECTIVES OF COOPERATION

Presently, in the realm of SAARC trade and economic cooperation we have a time – frame or so to say a kind of vision of cooperation only in terms of the target for SAFTA to be realised in the year 2005. What we need is a medium to long term goal, a mandate and a vision under SAARC to put cooperation efforts on a faster track. The SAARC Expert Group (SEG) on SAARC Tripartite Study has envisaged that at one end of the spectrum, a medium to long term visionary goal for the region should be one of establishing a South Asian Economic Union in a period of 20 to 25 years. A relatively more modest perspective could focus on evolving a South Asian Economic Area with emphasis on the establishment of an integrated market for free flow of goods, services, capital, technology and personnel. It is viewed that such an integrate market would contribute towards optimum utilisation of regional resources, thereby improving the welfare of the common people of the region as visioned in the SAARC Charter.

The target for completion of the South Asian market integration process could be set by the year 2010. The mechanics of achieving this goal would have to be based on a step-by-step approach such as the following:

(a) establishing a free trade area by eliminating all the tariff and non-tariff barriers to trade.
(b) facilitating freer flow of financial and physical capital as also
streamlining the movement of personnel in the region.

(c) targeted enlistment of the production and export base of the
weaker economies in the region, and

(d) establishing South Asian identity in terms of brand names, quality,
standards, investment regime, etc.

Each step would involve launching of a phased programme of action. Aiming at the South Asian integrated market would mean enhancement of effective market access for the goods and services of one member
country vis-a-vis other partners. This could also require some kind of
systemic harmonisation of institutional and policy framework of the
SAARC member economies. Such regional integration initiatives could
have to place due emphasis on the national and regional economic
interests consistent with the imperatives of global integration.

PROSPECTIVE AREAS OF COOPERATION

As highlighted in the earlier section there have been a whole host of
initiatives be taken to make substantial progress. There have been a
number of issues that have researched extensively. Nevertheless, in
order to provide the SAARC economic cooperation process a catalytic
push, with the objective of developing a South Asian integrated market,
in-depth analysis in several areas would be required. As identified by
the SEG, these would include, inter-alia, studying the SAPTA process,
its transition to SAFTA, impact of non-tariff barriers and discriminatory practices trade imbalance issue, cooperation for sub-regional development, consultations on global issues, investment integration, challenges of new technologies, enhancing global competitiveness of different sectors, industrial integration etc.

In has been highlighted that the overall SAARC economic cooperation programme would require three kinds of shifts in policy-emphasis. Instead of focusing merely on the intra-SAARC market, the global market should be targeted and this would entail some kind of shift in the existing policy-orientation. The focus of cooperation would have to be on enhancing the global competitiveness of sectors. This would be possible by shifting the focus from effecting just trade policy changes to taking policy initiatives in other realms like evolving regional investment regime and strengthening intra-regional technological linkages. These need to be supplemented with a shift away from concentrating only on the inter-industry type of trade flows to intra-industry variety.

Against this background, what follows is an inventory of issues that require detailed analysis for developing a policy-design aimed at achieving the goal of a more integrated network of production, trade, investment and technology in the SAARC region. In this regard, various intensive studies would have to be launched on issues pertaining to transition to SAFTA, rules of origin, creation of a SAARC Investment Area, technological partnership, industrial integration, and cooperation for sub-regional development.
SAPTA TO SAFTA

SAFTA should be realised by the year 2008. Annual targets should be set by each member country in terms of the proportion of total trade that it would liberalise in a phased manner till the year 2008. The extent of tariff concessions should also be determined against different broad categories of sectors. Possibilities of India's unilateral initiatives in the form of setting aside certain proportion of its surplus generated in its favour from intra-SAARC trade should be studied for conducting feasibility studies and franking different trade-creating joint-venture projects in the region.

The transition from SAPTA to SAFTA could be facilitated with the help of analysing different dimensions of trade cooperation. The magnitude of benefits from SAFTA and their distribution among the member counties needs to be examined. The implications of SAFTA for different member countries should be judged in terms of its income and employment effects, balance of payments implications, income distribution, etc. A detailed empirical analysis of product-wise comparative advantage of each member country vis-a-vis other SAARC countries should be carried out. This would enable a particular country to maximise the gains arising out of the additional market excess that it gets in partner countries under the SAPTA and the proposed SAFTA regimes.
RULES OF ORIGIN

The framework and modalities of implementation of the rules of origin system under the present SAPTA needs to be suitably modified and a new framework should be evolved for SAFTA. The new framework should take into account different stages of development of SMCs as this often determines the ability of a particular country in adhering to origin rules. However, the developmental role of rules of origin in the country of manufacturing should be given the place of primacy. Several policy initiatives are essential for making the existing system more transparent, easy-to-implement and streamlined. In this context, revisions in the existing rules of origin system and evolving a SAFTA rules of origin framework should be studied in detail. More specifically, different modalities of determining products origin such as percentage test change in tariff heading and specific process test need to be studied in a comprehensive manner by analysing their different implications. Added to these, ways and means of making a more optimal use of the regional copulation facility should also be examined.

SAARC INVESTMENT AREA

In order to promote investment flows on a regional basis as well as to make the SAARC region as one common base for global FDI, establishing a SAARC Investment Area would be essential. This would also facilitate technological production and trade integration within the
region. Different policy steps would be required to evolve the SAARC Investment Area which may include studying various aspects of investment integration such as trade-investment linkage possibilities of establishing trade-creating joint-ventures, investment facilitation measures and trilateral investment participation in which two SAARC countries could collaborate with a country from extra-SAARC region. Scope for evolving a more favourable rules of origin framework for imports utilised in regional joint-ventures projects should also be examined.

**REGIONAL TECHNOLOGICAL COOPERATION.**

There is an urgent need to effect intensive technological cooperation within the SAARC region as in recent times technology has emerged as a major determining force in generating trade flows. The SMCs must try jointly to meet the challenges of emerging technologies. In this regard, different dimensions of this challenge need to be studied as identification of sectors in which technological upgradation is essential for want of enhancing global competitiveness, modalities to build technological capabilities and the task of meeting the global standards of technology in different fields. It is in the context that regional technological cooperation could be evolved by exploring the possibilities of cooperation in sectors such as textile and clothing, bio-technology, paper and paper products, information technology, etc. An important issue is balancing the objectives of technological upgradation on the
one hand and employment generation on the other. This is yet another area which required more extensive investigation.

**VERTICAL INTEGRATION OF PRODUCTION AND EXPORTING IN SAARC**

Developing integrated production networks and joint-export activities would be crucial for the success of regional economic cooperation. In this regard, possibilities of evolving a value-addition chain in a particular sector could be examined, whereby different countries specialise at different stages of production. Vertical integration of production process would facilitate intra-industry trade. Therefore, modalities for evolving regional integrated sectors in areas such as textile and clothing, automobiles, leather manufactures, etc. need to be studied. In-depth empirical exercise would be required to determine which country should specialise in which phase or stage of production process given its comparative advantage, resource base, labour skills, etc. Since the integrated production cartels would require industrial restructuring, inter-sectoral mobility of labourers would have to be facilitated through devising appropriate labour market policies. Similarly, vertical integration of export activities among SMCs should also be studied. Different countries could specialise in different stage of exporting a product. This could imply specialising in conducting market surveys, manufacturing, trading, providing export credits and bank guarantees, export marketing and distribution, etc.
GROWTH ZONES APPROACH

A multidisciplinary team needs to be set up to evolve a framework of cooperation for sub-regional development in the following growth zones as suggested by the SEG: (a) North-eastern sub-region consisting of parts of Bangladesh, Bhutan, India and Nepal; (b) Southern sub-region consisting of parts of India, Maldives and Sri Lanka; and (c) North-western sub-region consisting of parts of India and Pakistan. There are many sectors in which trade and production complementarities exist in different growth zones. For instance, in the North-eastern sub-region of SAARC resource-based joint ventures could be launched in mineral manufactures, wood-based products pulp and paper products, processed foods, pharmaceutical and herbal 23, medicines, horticulture, bio-diversity conservation, manpower training, education and health facilities, etc. Different techno-economic studies need to be launched to study the feasibility of establishing joint-ventures in these areas. Studies would be required for developing modalities towards eliminating some of the infrastructural constraints that come in the way of development.

LONG TERM VIEW

In relation to South Asia, India should follow a long term. Perspective Plan by ignoring short term costs and benefits. To bring diversification to SAARC economies, a coordinated approach may be undertaken to facilitate their industrialisation. By vacating a few consumer and manufacturing industries for its neighbours. India can help instill
confidence in them about its approach to fellow economies, which may ultimately enhance the spirit of cooperation and fulfill the larger interests of each country.

IMPORT - EXPORT POLICY

It may be better for India if it confirms its interest in neighbouring markets mainly to the export of capital and intermediate goods, transport equipment, chemicals, drugs and pharmaceuticals etc. for which it has sound production capability and capacity to meet the enhanced requirements of its neighbours and relax its import policy to accommodate all those products which are of export interest to its neighbours. Since almost all the economies of South Asia are predominantly agricultural and their trade is dominated chiefly by food products and classified manufactures, efforts be made to strengthen their agricultural base and joint action programmes be undertaken to boost up agricultural products and create conditions wherein they find it convenient to market their products within the region. Specific complementarities in trade need to be looked into within these broad product groupings and India should become a major market for agricultural and industrial products of these countries.

TRADE EXPANSION

For expanding trade, member governments be encouraged to develop the trading organisations, channels of trade should be strengthened
both in public and private sector, regular flow of information regarding trade opportunities that exist among the SAARC countries be ensured, a mutual trade target to be achieved be fixed, trade fairs be organised, credit be extended; idle capacities be utilised; communications be improved and production process be geared to meet the requirements of other South Asian countries and new system of economic and industrial collaboration need to be devised with long term perspective.

MISGIVINGS SHOULD BE REMOVED

Despite all best intentions, India should move with caution in SAARC deliberations so that other South Asian countries may not nurture the misgivings that are being nurtured by some of them, for so many years. Within SAARC let others extract concessions from India rather than the other way round. This policy may help in gradually removing the apprehensions of member countries about Indian domination of their economies and pave the way for increased economic cooperation.

OVERVIEW

Economic considerations are of paramount importance to all the countries of the region. Once concerted efforts are made for strengthening economic bonds, the gains accrued from such relations are certain of better the lot of the people of the region. Improvement in economic conditions may bring healthy change in perceptions of the people in political and social arena also. It may generate the desired
political will for cooperation and accelerate social contacts and relations among the people of the region. This may altogether bring positive attitudinal change in economic, political, social cultural and other related spheres.