Chapter-1

INTRODUCTORY
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INTRODUCTION

We live in an age which is trying to transcend both time and space. Man has not only set foot on the moon, but has since crossed many new frontiers in search of other solar systems, unexplored signs of life and much more. On our own planet, the revolution of telecommunications has cut distances to naught. Man now shuttles into space with the facility of a walk. However, in the midst of light, there are patches of darkness; in the midst of prosperity, vast areas of poverty, and in the midst of growth, backwardness in the form of illiteracy, disease and discrimination-social, economic, and political. Science that has given us newer and newer instruments to preserve, promote and modify life like bio-technology has also given us unprecedented instruments of devastation. The battle for survival, and, in parts of the globe, for sheer existence, continues. Man keeps grappling with problems confronting him at the local, national, regional and global planes in his external search for solutions.

In man's search for peace, development and excellence, regional cooperation is fast becoming the key link. Countries with different size, geographical features and natural resources, countries speaking different languages; countries with diverse religious, social complexions
and political systems and countries at various levels of growth and development are finding ways of building up regional cooperation.

A new strong wind of regionalisation of trade and other economic relations has been blowing in the world. There has been a widespread recognition among nations that under the present conditions, joining regional cooperative groupings is an appropriate transitional strategic response to the intensification of the ongoing process of globalisation and transnationalisation of international business. Regionalisation of trade is generally regarded as a pragmatic step towards the ultimate objective of ushering global free trade. Many countries have become members of two or more regional economic organisation with overlapping privileges and obligations.

The dimensions of this development go much beyond the economic necessities. In the recent past, several regional grouping have emerged. In the wake of the Second world war and after the founding of United Nations in 1945, a number of regional organisations have been established, such as the European Union (EU), North American Free Trade Association (NAFTA), Latin America Free Trade Association (LAFTA), Economic Community of West Asian Nations (ECOWAN).

Association of South East Asian Nations (ASEAN) and South Asian Association for Regional Cooperation (SAARC), to mention just a few. Regional Cooperation is a demand of our times, and one that will play
an increasingly important role in building a better and more secure future for mankind.

The idea to establish a regional grouping in South Asia can be traced back to the year 1977. On the official level, the late President of Bangladesh, Ziaur Rahman, discussed the issue with regional leaders. His initiative was supported at an informal level by South Asian intellectuals who used their personal linkage with like-minded colleagues in the neighbouring countries. Yet the first concrete step was not taken until May 1980.

The idea of regional co-operation was first spelled out by Bangladesh in May 1980. A series of informal consultations amongst the member countries culminated in the first Foreign Secretaries meeting in Colombo, in April 1981. It recognised the need for regional co-operation in a number of areas and decided to set up five study groups in the field of agriculture, rural development, telecommunication, meteorology, Health and population. The study groups were given the task of exploring the feasibility of regional co-operation in these areas and consequently to do a cost-benefit analysis of such projects. Subsequently, three more areas were incorporated in the list of study groups, namely, transport, postal services and scientific and technological co-operation during the Foreign Ministers meeting held in Kathmandu in November 1981. In August 1983, Foreign Ministers of the seven states met in New Delhi and formally adopted the Declaration on South Asian Association for Regional Cooperation (SAARC) and
launched the Integrated Programme of Action (IPA) to cooperate in sectoral programmes.

On 7-8 December 1985, the charter was adopted by the regional actors formally establishing the South Asian Association of Regional Cooperation (SAARC) with seven countries in South Asia as members, namely-India, Bhutan, Bangladesh, Maldives, Nepal, Pakistan and Sri Lanka. It is one of the youngest regional economic groupings in the world. With 1.24 billion people, the SAARC region accounts for 22 per cent of the world population.

The seven member countries accorded primacy to IPA, which could help in promoting regional interdependence while cooperating in the agreed areas of the programme. This would help in evaluating regional economic complementarity rather than competitiveness with each other. The agreed areas were: agriculture, communication, education, culture and sports, environment and meteorology, population and health activities, prevention of drug trafficking and drug abuse, rural development, science and technology, tourism, transport and women development.

The role of media was recognised as a medium for fostering cultural consciousness and greater understanding among the people of the region. In 1986 the SAARC AUDIO VISUAL EXCHANGE (SAVE) programme was launched which decided to telecast regular Television and Radio programme concerning the social and cultural heritage of the
member countries. The SAARC visa exemption scheme was introduced in 1992 to encourage people to travel within the region. In order to provide information on technical, scientific and development matters amongst academics and researchers on South Asia, the SAARC DOCUMENTATION CENTRE was set up at New Delhi in 1994. Similarly, to promote greater exchange of ideas amongst the students, scholars and academicians in the region, SAARC Chairs, Fellowships and Scholarship have been instituted. In 1991, the SAARC Fund for Regional Projects was established to make finances available for the identification and development of regional projects. In 1992, the SAARC Tuberculosis centre was set up in Kathmandu to coordinate the activities of national Tuberculosis control programmes of the member states. The SAARC Meteorological Research Centre set up in 1995 at Dhaka deals with research on weather forecasting. SAARC Regional convention on suppression of terrorism was signed in November 1987 and was ratified on 22 August 1988 under which the member states agreed to prevent the entry of terrorists and their activities on their soil and to extradite or prosecute them on receiving information to combat terrorism regionally. Hence, the SAARC Regional Convention on Narcotic Drugs and psychotropic substances was signed in November 1990 at Male. A decade after the establishment of SAARC, the idea of Trade Cooperation was concretised in the form of the South Asian preferential Trading Agreement (SAPTA). Sri Lanka, Bangladesh and other small and less developed nations of SAARC played a major role in persuading Pakistan to accept the terms of the agreement. The first round of selective tariff cuts became effective on January 1, 1996. The
implementation of SAPTA has been slow but incrementally positive. All SAARC members have unanimously agreed to transform SAPTA to a SAARC FREE TRADE AREA (SAFTA) by 2003. All the member states have recently agreed to hasten the process and make SAFTA (without any tariff or non-tariff barriers) operational by the year 2001. If this happen by 2001 (or even 2003), it would be a singularly unique achievement.

Several members of SAARC are also members of two recently launched regional economic organisations namely, Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) and the Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMSTEC). The SAARC Secretariat can reasonably be expected to establish official communication channels with these two organisations in the near future. Four SAARC countries, which account for a major portion of SAARC’s global trade, have been selected to make their exercise more manageable. These four countries, viz. Bangladesh, India, Pakistan and Sri Lanka, will be referred to as the "SAARC-4" countries.

Private sector entrepreneurs in SAARC countries should change their mind-set of operating in an overprotected domestic economy. They should increasingly treat the world and regional markets as their domain of business. The Asia Pacific Economic Cooperation (APEC) forum presently consisting of 19 member countries has recently adopted a new model of Regional Free Trade Area termed as 'Open Regionalism.' APEC plans to transform its targeted free trade Area to be fully
operationalised by 2020 by letting any country of the world join in subject to its fulfilment of the conditions laid down for all its members.

The fundamental objective of improving the quality of life of the peoples of South Asia warrants equal priority for social development in the region. There has not been enough focus on this equally important area of cooperation. The social development in the region must proceed side by side with pruely economic cooperation.

There must be a host or reasons why the pace of development in South Asia has been slow, but one of them is obvious i.e. cooperation among countries of South Asia as a region has yet to gather steam. In the human development index of the countries of the world, Sri Lanka stands serially at No. 76, Maldives at-99, Pakistan at-120, India at-121, Nepal at-140 and Bhutan at-147 (UNDP : Human Development Report 1992). As compared to the average per captia GNP of the North-that of India, Pakistan, Maldives and Sri Lanka is 3% thereof, whereas that of Bangladesh, Bhutan and Nepal only 1% (UNDP-Human Development Report-1991). According to World Banks statistics, over the period 1982-89 the percentage change in the GNP of South Asian nations was Bhutan 7.8%, Maldives 3.2%, Pakistan 2.1%, Sri Lanka 2.4%, Nepal 2.1%, and Bangladesh only 0.7%. These rates are some of the lowest and much lower than the GNP percentage change in ASEAN countries during the same period. South Asian countries where no such organisation existed till 1985 remained inward-looking and vigorously pursued an import substitution countries of ADB, the ratio of exports to
GDP in the case of ASEAN countries during the period 1973-85 was much higher than that of South Asian Countries: Sri Lanka 26.8%, Pakistan 12.9%, India 6.6% and Bangladesh 5.6%.

The SAARC region faces mounting challenges in the next century due to rapid population growth. The population of the SAARC region was estimated to be about 1.3 billion in 1998. According to international experts, it will be 2.3 billion in 2050 and 2.6 billion by the end of the twenty-first century. The population pressure will increase as a result of a relatively slow pace of economic growth. With the past history of economic domination and exploitation, the South Asian Countries also suffer from identical economic problems of poverty in the countries of the SAARC region. It is estimated that of the 1.15 billion poor people in the developing countries of the world 520 million poor are in the South Asian region and most of them (81%) are concentrated in India. Among the SAARC countries the proportion of people in absolute poverty is much higher in Bangladesh (78%), followed by Nepal (60%). In India and Sri Lanka nearly 40% of the people live in absolute poverty, while in Pakistan it is 28%. The concentration of poverty is much higher in the rural than in the urban areas. In Bangladesh 80% of the urban people are in absolute poverty and in Bhutan it is little higher 90%. In Nepal the proportion of the poor in rural population is 61%, while in India and in Maldives and Sri Lanka it is in the range of 40 to 46 percent. In Pakistan it is about 29 percent.
Education and human resource development are vital to meet the economic and social challenges in South Asia today. The ability of SAARC to promote meaningful regional cooperation in this critical area remains fundamental to the promotion of sustainable development in South Asia. Adult literacy programmes and the universalisation of primary education should continue to remain a high priority area in the national agenda of the member-stats and to SAARC as a whole. The member countries should agree to set up a target day say-2010 to attain universal compulsory education.

The vast majority of women who constitute half of the total population of the SAARC countries, face common socio-economic problems. Women should be made equal partners in the process of development and the empowerment of women must include political, economic and social empowerment. In South-Asian Countries, female illiteracy is as high as 60-70 per cent and in rural areas 80-85 per cent Qualified women should be appointed at the policy and decision-making levels of the governments of the SAARC member countries.

Many critical health issues face by the SAARC countries are closely interlinked and have remarkable similarities. Intra-SAARC cooperation is of fundamental importance to combat epidemics, HIV/AIDS, drug addiction and so forth. The single most important target for the health sector, with profound implications for changes and the quality of life of the peoples of the region would be the reduction of infant mortality to below 50 per thousand live births by the year 2008.
Science and technology turn the wheels of a nation or a region. Further, SAARC activities should focus on basic research on strategic frontiers of knowledge, a wide diffusion of scientific knowledge and expertise. National and regional institutions with an established capacity for undertaking research should be developed.

The edifice of a South Asian community must rest on triple pillars — political, economic and social. Political and security issues must be placed on the agenda of SAARC. At the Ninth SAARC Summit, the leaders of the seven SAARC countries recognised that regional integration can gain momentum only from mutual trust and understanding among its members. The environment for regional cooperation and integration is often vitiated by unresolved and unsettled problems. The SAARC leaders further recognised that the aims of promoting peace, stability and amity, and accelerated socio-economic cooperation is best achieved by fostering good neighbourly relations, relieving tensions and building confidence.

In order to be an engine of growth and development, SAARC has to move forward fast in core areas of trade, transport, industry, finance and technology to come anywhere near the successful performance of regional organisations like ASEAN and EEC. Regional Cooperation among South Asian nations is imperative from which there is no escape. The region has to cooperate, and cooperate intensively and extensively, in order to meet the challenges of a new world that is growing at a fast pace to ensure that its people are not subjected to
exploitation again and to achieve economies of scale and provide its mean of commerce and industry an expanded market and its people new horizons of: growth and development in a ferociously competitive world. The recent liberalisation of the economics of the countries of South Asia is indeed a welcome step. However, this alone will not do what is needed is the development of a cohesive and a collective thrust to make a significant impact on the world economy.

REVIEW OF LITERATURE

Various economics and social scientist have conducted a number of studies on different dimensions of Economic and Cultural Cooperation in South Asian Region and India trade with SAARC countries, and they have used different yardsticks in their studies. Main findings of these studies have been discussed in the following paragraphs.

Tarlok Singh\(^1\) referred to the possibilities of Intra-industries trade and also of production cooperation and the need to devise ways and means of integrating nationalistic and regional perspective.

Mishra\(^2\) focused on various areas of trade and cooperation such as promotion of trade links, extention of payment arrangements, provision of technical assistance and training facilities.

Agarwal\(^3\) concluded that economic cooperation among South Asian Countries is essential for effectively realising the development potential of South Asia. It has to be an evolutionary process based on mutuality rather than reciprocity.

Ahuja\(^4\) emphasized that large market exists in the SAARC-ASEAN region in respect of a number of products, which could make regional import substitution in these areas a feasible proposition.

Emajuddin\(^5\) depicted that the cooperative frame work in South Asia is likely to benefit India more than any other nation on account of its locational advantages and size.

Panchmukhi\(^6\), et.al. reviewed the pattern of India's trade, joint ventures and technology transfers with the SAARC countries. They highlighted that the exploitation of the immense potential of Intra SAARC countries cooperation in trade and joint ventures in various branches of manufacturing and services is hampered by a number of constraints.

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\(^3\) Agarwal, C.R., South Asian South Asian Economic Cooperation, Radiant Publisher, New Delhi, 1987.


SAARC secretariat\textsuperscript{7} conducted a study on trade manufactures and services in the SAARC region and concluded, that foreign trade plays an important role in the economic development of all SAARC countries.

Coudhary\textsuperscript{8} revealed that the DHAKA summit offers an opportunity to edge closer to where they belong centrestage of the process.

Pradhan\textsuperscript{9} depicted that be agreeing to the South Asian preferencial trade agreement frame work the summitteers underscored the need to liberalise trade as fairly as possible to the benefits of the member countries.

Bahadur\textsuperscript{10} highlighted that though there are many points of conflict among the member countries, but India Pakistan relations constitute the central axis on which regional cooperation hinge.

Sabharwal\textsuperscript{11} depicted that India has been playing an immense role in SAARC countries for steering the seven nation community away from dangers and towards greater goals.

Bhargava\textsuperscript{12} concludes with the remark, SAARC is going through a period of trial but it is also the time of ploughing and sowing.

\textsuperscript{7} SAARC Region Study on Trade Manufactures and Services, SAARC Secretariat, Kathmandu, 1991.
\textsuperscript{8} Choudhary, Maya; SAARC and South Asian Child, Mainstream, Feb. 27, 1993.
\textsuperscript{9} Pradhan, Bansidhar; The Dhaka SAARC submit: Assessment Link, April 13, 1993.
\textsuperscript{10} Bahadur, Kamil; Pakistan and SAARC, World Focus, July 1993.
\textsuperscript{11} Sabharwal, O.P.; India and SAARC, World Focus, July 1993.
Joly\textsuperscript{13} pointed out that analysis of India's trade with SAARC countries exhibits that there exists a high degree of instability and commodity concentration. A broad trade policy is required to improve the trade among the countries of the region.

Raghwan\textsuperscript{14} feels that there are various technical requirements concerning the implementation of Uruguay round of agreements. Many member countries of SAARC do not have the necessary resources to assess these requirements and adopt suitable measures for taking advantage of the new trading arrangement on the one hand and for avoiding the negative results arising from the agreements. The SAARC countries can cooperate among themselves in this area with a view to maximise the gains out of the new multilateral trading arrangements.

Rieger\textsuperscript{15} concludes that the gains from trade could be quite inequality distributed among the various in the society.

Tilakaratna\textsuperscript{16} opines that South Asia have now come to accept SAARC as a crucial instrument for closer regional cooperation that would eventually help the well being and prosperity of our people. Therefore, despite some obstacles to the dramatic achievement of SAARC goals, one should not be pessimistic.

\textsuperscript{14} Raghwan, S.N.; Regional Economic Cooperation Among SAARC Countries, Allied Publishers, New Delhi, 1995.
\textsuperscript{15} Rieger, H.C.; Ed. SAARC 2000 AND BEYOND, Omega Scientific Publisher, New Delhi, 1995.
Mehrotra\textsuperscript{17} reveals that in order to be an engine of growth and development, SAARC has to move forward fast in core areas of trade, transport, industry, finance, and technology to come anywhere near the successful performance of regional organisations like ASEAN and EEC. Regional cooperation among South Asian nations is an imperative from which there is no escape.

Arora\textsuperscript{18} concluded that the journey from SAPTA to SAFTA is a difficult task. The negotiations for tariff reduction are continuing.

Roy\textsuperscript{19} revealed that Bhutan keeps a good relation with India and the most favourite country of India is now Bhutan among the SAARC countries.

Mahapatra\textsuperscript{20} depicted that the internal political economic and socio-cultural differences will continue to stay in South Asia for fairly long time to come.

Accordingly, the progress of SAARC programme will also continue to be slow and halting. But this fact should not underline the importance of SAARC as a positive Development in South Asia.

\textsuperscript{17} Mehrotra, L.L.; Why Regional Cooperation? Edt. Mehrotra et.al., SAARC 2000 AND BEYOND, Pbo.: Omega Scientific Publisher, New Delhi, 1995.

\textsuperscript{18} Arora, D.S.; SAPTA to SAFTA a difficult task, Paper presented at the Seminar on Towards SAFTA, ON 3\textsuperscript{rd} December, 2005 at Indian Institute of Foreign Trade, New Delhi.


Rao and Sanjeev Kumar\textsuperscript{21} indicated that though there is a narrow range of trade among these countries there appears sufficient possibilities for trade expansion in the region.

Rehman\textsuperscript{22} opines that, a South Asia made up of national border without boundaries demands not just statesmanship by India but considerable courage and self-confidence from its neighbours so that they could indeed build up their economics to avail of the access to the Indian market. Lakshman\textsuperscript{23} revealed that although progress in many areas has been limited, South Asia has demonstrated a capacity to simultaneously manage both conflict and cooperation. I do not have the temerity to forecast the precise point in the twenty-first century when South Asia will finally put behind the difference that have bedevilled intra-regional relations in the post-colonial era. Mahendra\textsuperscript{24} depicted that the national sectoral focal points are the real channels of regional cooperation. The effective involvement of other public and private institutions to support the existing focal points would go a long way in supplementing their efforts. Wadhva\textsuperscript{25} concluded that India has rightly supported the SAPTA as it is likely to benefit all member countries of SAARC and improve the welfare of their people. India as a more industrialised country within

\textsuperscript{22} Rehman, S; Regional Cooperation in South Asia : A quest for Identity, South Asia Survey, Jan-June 1998, Sage Publication; New Delhi.
\textsuperscript{23} Lakshman, K; South Asian Cooperation in 21 century; South Asian Survey, Jan-June 1998, Sage Publication, New Delhi.
\textsuperscript{25} Wadhva C.D.; Assessing the Saarc Preferential Trading Arrangement; An Indian Perspective ; The Dynamics South Asia Regional of Cooperation and SAARC : Edt. Erie. G. and Jetly, N : Sage Pub; New Delhi, 1991
SAARC has been relatively more generous in its offer for providing benefits of greater market access to the fellow SAARC countries. Saman\textsuperscript{26} opines that a call has been given for the setting up of a South Asian free trade Zone (SAFTA) by the year 2009. However, this will be possible only if SAPTA becomes fully effective and provides a foundation for further trade liberalisation in the region.

Cheema\textsuperscript{27} suggested that time has come to revamp the SAARC structure with a view to making it an effective multilateral regional organisation. The challenge of transforming the incumbent conflict situations into one of complimentarity of interests require concerted efforts and deserves sincere cooperation of both the governments as well as of the people. Bimal\textsuperscript{28} depicted taking a long range view, we have to concentrate on changing people’s attitudes in all countries of South Asia, including our own, so that the atmosphere conducive to the growth of political cooperation may in due course emerge. Citha\textsuperscript{29} revealed that all South Asian Countries have to pay their due role in determining whether the region will remain locked in conflictual relations or progress towards regional cooperation. For almost fifty years now, the still volatile Indo-Pakistan antagonism is the major obstacle. Yet, in view of India’s preeminent position in the region, its attitude is the most


important determinant of South Asia's future. Ross 30 has stated that, since relations between states are inexplicable mix of political and economic issues, and since SAARC has perforce had to operate under the limitations and inhibitions arising from an artificial division of the two, a necessary condition of making it into a truly dynamic and functional regional organisation is the wholehearted engagement of the peoples of South Asia in support of its objectives. This would only be forthcoming if the Governments of the member states muster the political will to resolve their disputes and difference equitably and amicably and thus promote a climate of confidence for collective and socio-economic endeavour.

Khosla 31 suggested that it serves India's interest to promote the civilisational-cultural dimension of regional cooperation, but actual implementation has been slow. There should be increasing use of and funding of alternative channels, as a supplement to government channels. The expansion of civil society in South Asia, is one aim of this exercise. NGOs can organise exchanges in the academic and cultural fields as well as in the audio-visual media. Based on concepts of cultural commonality, training courses for civil servants should be initiated. Courses should include a special SAARC vision orientation, and can be supplemented by seminars and workshops, increased visits and study fellowships from one country to more than one other, and the


eventual setting up of a SOUTH ASIAN INSTITUTE for public administration. Academic exchanges need to be increased, and India should allot more resource earmarked for SAARC in this field. Sangeeta\textsuperscript{32} expressed the view that it is very important for south Asia Countries to ensure that the trend of cooperation continues and adequate momentum of regional cooperation gets generated. A beginning can be made at sub-regional level in specific areas like inland water-ways between basin countries, which will in turn improve the transport infrastructure in the wider regional framework. Mukherji\textsuperscript{33} indicated that India's large size in the regional grouping of SAARC has been generally considered to be an inimical factor in regional cooperation. It is precisely its size which could also provide a window of opportunity to member states of SAARC. Given India's Size and industrial base, the pace of trade liberalisation has been lower than other countries of this region. This has in some measure contributed to the growing trade imbalance between India and its neighbours.

Husain\textsuperscript{34} observed about the future of SAARC. First, to be effective the SAARC process has to be consolidated from below it has to be based on the people, ensuring their involvement in the Process. Second, SAARC cannot and will not make any headway until is blessed with the

\textsuperscript{32} Sangeeta, Thapliyal; Potential for Cooperation In South Asia : The Need For A Sub-regional Approach; South Asia Survey, Jan-June 1999. Sage Publication India Ltd., New Delhi.

\textsuperscript{33} Mukherji, I.N.; South Asian Preferencial Trading Arrangement ; India's Role; South Asian Survey, Jan-June 1999, Sage Pub. India Ltd.; New Delhi.

\textsuperscript{34} Husain, S.A.; The Road Ahead For SAARC; South Asian Survey, July Dec. 1999; Sage Pub. India Ltd., New Delhi.
political commitment of South Asians as a whole. Baral\textsuperscript{35} stated that despite emphasis laid on the cooperative dimensions of regionalism the South Asian States, unlike the members of the European Community, prefer to be aggressively nationalistic. SAARC is clearly a long way from developing its institutions that would require a willing surrender of various aspects of Sovereignty. Kelegama\textsuperscript{36} noticed that Economic cooperation among SAARC countries cannot be accelerated without the regulatory and institutional structure in place to support trade and investment, if economic cooperation is accelerated without paying due regard to this structure, the outcome will be lop-sided distribution of benefits of free trade and thus a strong reaction in member countries – especially small countries – against SAFTA. The current institutional framework governing SAARC economic cooperation compels SAARC to follow the incremental approach to economic cooperation. A number of building blocks have to be in place before SAARC moves towards a community. It is important to note that Europe took a long a time to achieve its present advanced stage of economic cooperation and there are important lessons to be learnt from the European experience.

DE SILVA\textsuperscript{37} suggested that the most challenging task of the twenty first century for diplomats of the SAARC nations is to devise ways and means to overcome this formidable problem. It is here that the

\textsuperscript{35} Baral, I.R.; The Problem of Becoming A Community; South Asian Survey, July-Dec. 1999; Sage Publication India Ltd., New Delhi.

\textsuperscript{36} Kelegama, S.; SAARC – From Association to Community; A small Country Economic Perspective; South Asian Survey, July-Dec. 1999; Sage Publications India Ltd.; New Delhi.

\textsuperscript{37} DE SILVA K.M.; The European Community and Aseam; Lessons for SAARC; South Aseam Survey, July-Dec. 1999; Sage Pub. India Ltd.; New Delhi.
processes of moving towards the status of a community in the European community and ASEAN will provide examples and clues for those committed to the successful establishments of SAARC as a genuine community of South Asian States.

KELEGAMA\textsuperscript{38} observed that the Free Trade Agreement is actually not a free trade agreement as it has not removed non-tariff barriers. In its present form it is unlikely, to promote Sri Lanka’s exports to India but is certain to flood the Sir Lankan market with Indian goods and undermine domestic agriculture and industry. Further, it provides little hope of increase in foreign investment – Indian or non-Indian to generate new exports for the Indian Markets.

NAIK\textsuperscript{39} suggested that the fundamental objective of improving the quality of life of the people of South Asia warrants equal priority for social development in the region. There has not been enough focus on this equally important area of cooperation. The social development in the region must proceed side by side with purely economic cooperation. The social problems of the SAARC region remain the most formidable both in terms of number and their intensity.

\textsuperscript{38} Kelegama, J.B.; Indo-Sri Lanka Free Trade Agreement; South Asian Survey; July-Dec. 1999; Sage Pub. India Ltd.; New Delhi.

WADHVA\textsuperscript{40} concluded that while the achievements of SAARC are not insignificant, it has a long way to go towards strengthening itself as a credible regional economic organisation. The member countries must work towards the fastest possible implementation of a genuine SAARC Free Trade Area and SAARC Free Investment Area followed by SAARC Freer mobility of persons – especially skilled persons. A tripartite partnership among the business leaders, academicians and experts, and Government representatives would provide the foundation which would enable SAARC to receive full benefit of regional and inter-regional cooperation.

PANCHAMUKHI\textsuperscript{41} reveals that South Asia and its eastern neighbours would derive significant benefits by cooperating with each other in the development of the infrastructural sectors. We should make a distinction between the infrastructural sector at the international sector at the national level and the infrastructural at the international level. Development of the national level infrastructural sector is essential for realising the optimum pace of development in production and service activities. The infrastructural sector at the international level consists of communication, and information inflows among countries of the region also need to be strengthened. The SAARC SURVEY\textsuperscript{42} conducted by Research and Information System for the Non-Aligned and other

\textsuperscript{40} Wadhva, C.D.; Role of Inter-Regional Cooperation in the SAARC Region; South Asia and Its Eastern Neighbours, Edt. by Dubey, M. & Jetly, N. Konark Pub. Pvt. Ltd. Delhi, 1999


\textsuperscript{42} SAARC Survey of Development and Cooperation conducted by RIS; Published in 1999, P. 140.
developing countries indicates that, the regional integration process among the SAARC MEMBER COUNTRIES (SMCs) has been spread over a large number of areas. It has been backed by creation of various institutional mechanisms. Moreover, SMCs have experience some sort of growth momentum, trade dynamism and macroeconomic stability in their economics in recent years. They have effected wide-ranging policy reforms in different realms of economic activities. These together make the region conducive for more intensive and speedier regional economic cooperation on a broadened canvass. Regional economic cooperation initiatives taken hitherto need to be consolidated. Developing more integrated approach of economic cooperation encompassing production, trade, investment and technology appears inevitable.

MUTTUKRISHNA\textsuperscript{43} states that the Indo-Sri Lanka Free Trade Agreement (ISLFTA or FTA) signed on Dec. 28, 1998; may fail to achieve its aim because policy – making in neither country involves the main stakeholders. The agreement is less than free and includes some elements of irrational protectionism.

**OBJECTIVES OF THE STUDY**

Main objectives of this study are as follows:

\textsuperscript{43} Muttukrishan, S.; Indo-Sri Lanka Free Trade, Economic and Political Weekly, April 1, 2000: P-1157 & 1158.
(1) To analyses the development of economic activities of SAARC countries during the period 1995 to 2005 and their relationship with foreign trade of these countries.

(2) To study various terms of trade among SAARC countries and assess their backward and forward linkages and their suitability for foreign trade in these member countries.

(3) To examine the development of India's trade and analyse her economic relations with other member countries.

(4) To analyse the factors responsible for strengthening foreign trade and economic relations among SAARC countries.

(5) To suggest measures for the development of foreign trade including India's trade amongst SAARC countries and strengthen their economic relations.

HYPOTHESIS OF THE STUDY

In this study, an attempt will be made to test the following hypothesis:

(1) The terms of trade play an immense role for strengthening foreign trade with SAARC countries.

(2) The foreign trade plays an important role for economic development of SAARC Countries.
(3) Social relations are also important for economic cooperation.

LIMITATIONS OF THE STUDY

Since the present study deals with certain factor which sometimes are not amenable to control, the analysis gets affected in definitiveness to that extent. The major drawback pertains to comparability of available statistical data in certain fields of this study. The main limitations experienced are as follows:

(i) Materials collected from different sources under the same authority reflect variations. Official statistical data published in different volumes not only differ for the same year but at times final figures from the same source form one volume to other in the same series of publications too, differs. Such a situation baffles the researcher and sometimes he has no choice but resort to his discretion intelligently.

(ii) Countries in the region do not follow the same pattern while collecting data. Sri Lanka and Maldives follow calender year while others follow their respective fiscal years. As such last year of data availability differed from country to country alongwith reference period. Fiscal year for Bangladesh and Pakistan is 1st July to 30th June, for Nepal from 16th July to 15th July and for India 1st April to 31st March.
(iii) Commodity classification available in official publications also
uniformity. Sri Lanka uses BTN classification whereas Nepalese
publications were available in 3 digit SITC only. Limitations
inherent in the formation of index numbers also influence the
analysis. As no appropriate deflaters were available for different
regions at official level, a common deflater (unit value of indices of
exports and imports) was used for estimating the real direction of
trade for analysing the foreign trade structure of SAARC countries
on a comparable basis figures in US Dollars as presented in
reports of world bodies like IMF and World Bank etc. were
applied, supplementing the country studies. The study deals
mainly in the economic issues of trade whereas political and
social issues also play significant roles in determining size,
composition and direction of trade. The influence of other factors
is very difficult to measure.

It is also pertinent to note that analysis is limited by the insufficiency or
non availability of published data on account of any internal policy or
perception followed by respective governments. However, it is to be
borne in mind that in the face of huge comparability problems that would
arise if data were to be brought to exact comparability and the fact that
divergence in data is usually small, they can safely be relied upon to
conduct valid analysis of course, by resorting to intelligent arbitrariness
as and when required.