CHAPTER – 5

CRITICAL APPRAISAL AND SUMMARY, FINDINGS
CHAPTER 5

SUMMARY AND FINDINGS

The formation of the SAARC in 1985 created euphoria among the participating member countries of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka as it was seen as a first step in bringing the region from international isolation. The avowed objectives of collective approach to mutual development have not resulted in moulding SAARC a viable trading bloc. However, member countries are relentless in their efforts for the accelerated economic growth of the region.

The principal purpose of this Chapter is to appraise critically the various aspects of development of Indo-SAARC trade that have received attention in the earlier chapters. The pertinent suggestions/solutions are revealed in the form of conclusions rather findings as given below:

Foreign trade is vital for the economic development: Foreign trade plays a vital role in the Indian economy. As the country need to import diverse product so foreign trade is extremely important to country. India exports vast number of products and also imports an equal amount of other products.

Today no country in the world is self-sufficient in the sense that it does possess facilities for economical production of all goods and services that are consumed by its people. Countries are interdependent in meeting the needs of each other nation.

Thus, it is obvious that no country in the world can exist without any sort of trade relations. In fact, no country can hope to become self-sufficient by producing all types of goods since factor
endowments and availability of technical skills vary between the countries.

Higher import and lower export result in negative balance of trade and results in more outflows of the country’s precious resources and fewer earnings in real terms. Therefore, for accelerating the pace of growth the balance of foreign trade needs to be reversed. These needs bolstering the manufacturing sector because only high quality domestically manufactured products that too at internationally competitive cost can reduce imports and increase export of finished goods.

**Glorious history of India’s foreign trade:** India has a glorious history of international trade stretching as far back as 3000 B.C. since the Indus valley period. Manufacturers from the Indus cities reached even the markets on the Tigris and Euphrates. During the fifth century B.C, there was a colony of Indian merchants living at Memphis in Egypt, as revealed by the discovery of the modeled heads of Indians, probably there was trade also between India and the islands of South East Asia.

**Colonial rule forced India as a raw material exporter:** Prior to independence, India’s foreign trade was typical of a colonial and agricultural economy. Exports consisted mainly of raw materials and plantation crops, while imports composed of light consumer goods and other manufactures. The structure of India’s foreign trade reflected the systematic exploitation of the country by the foreign rulers. The raw materials were exported from India and finished products imported from the U.K. The production of final products was discouraged.

**Era of economic reforms liberalized trading regime:** A major programme of economic reform and liberalization was introduced
in 1991 with an emphasis on external sector. The new trade policy reversed the direction followed for decades. The tariff protection reduced, relaxed and simplified the restrictive import licensing regime. Import licensing was totally abolished with respect to imports of most machinery, equipment and manufactured intermediate products. Internal reforms included reduced control over locational restrictions and industrial licensing.

**India’s share in global trade is still lowest:** Exports are the main thrust of the India’s trade policy. It is a core sector in the economic growth of the country. Today the challenge for India is to achieve a share in world trade commensurate with its size. India still has a very low percentage contribution in world trade. The second fastest growing country in GDP terms ranks 20\(^{th}\) in merchandise export and 13\(^{th}\) in merchandise imports with only 1.44 percent share in total world export while import stands as 2.12 per cent. Despite making some great strides in its export growth with 20 percent plus growth continuously from 2002-03 to 2007-08 onwards, India has not made much progress in terms of the share in world trade.

In 1990 shares in world exports of China and India were 1.8 per cent and 0.5 percent respectively and in 2009, their respective shares stood at 9.7 per cent and 1.3 per cent respectively. If India can attain at least half of China’s share in world exports, the impact on its employment and manufacturing activity will be enormous. If India has to achieve a substantial share in world exports, a big push will be needed in the form of shift in focus to some markets and some products, trade facilitation, tariff reforms, etc.
While India has diversified its export basket as well as export market over the years, substantial diversification in tune with world demand has not taken place. There are many items in the top 100 imports of the world where India’s presence is negligible.

**Reduction in trade barriers:** An FTA facilitates enforcement of legally binding commitments made by its member nations, either to sequentially reduce or completely eliminate various types of trade barriers facing each other, but keep those facing non-member nations intact. Thus, FTA members gain an advantage in accessing each other’s markets compared to non-members.

**India’s proven resilience in foreign trade despite global slowdown:** Though every country in the world was hit by one way or another of this world crisis, Indian authorities converted the challenge of the crisis into an opportunity to wean itself away from traditional markets and traditional products to experiment with the boldest policy initiative that it put in place in the five-year Foreign Trade Policy (FTP) for 2009-14.

As a corollary to the paradigm shift in foreign trade policy, exports in 2010-11 logged an unprecedented growth rate of 37.5 per cent over the previous year. The export target of $200 billion for that year was far exceeded with exports fetching $245.86 billion, crossing way ahead of the target for the first time. Imports in that year stood at $350.3 billion. Trade deficit which was $118.40 billion in 2008-09 and $109.62 billion in 2009-10 had come down to $104.2 billion in 2010-11.

**Export as a percentage of GDP is impressive:** It is noteworthy that India’s exports as a percentage of her GDP sustained the double digit value since 2001-02. Exports as percentage of GDP rose from a humble level of 3.9 per cent in 1960s to 5.0 per cent in
80s and gradually but consistently increased up to 9.9 per cent 1995-96 and thereafter it never looked back and it reached the peak 16.0 per cent in 2008-09, however it declined to 13.79 per cent in 2009-10 (see table 1.1a)

**Import substitution efforts led to rise in current account deficit:** The import substituting firms were dependent on raw materials, intermediate goods and capital goods in order to produce many of the import substituting products and also to expand capacity. Even in these cases, the government struggles to issue licenses to industrial users. The rapid growth of demand for imports has led to chronic current account deficit.

**India’s region wise trade:**

**Adverse trade balance with OECD countries:** The study reveals that India has always had trade deficit with the OECD countries. India’s imports from OECD were more than that of exports to except during 1994-95 and from 2001-02 to 2003-04 (see table 1.2).

The deceleration in annual growth rate of exports, recorded during this period was 60.56 in 2010-11 and increase in growth rate of imports which was around 62.03, in 2010-11 is evident from the study.

When we observe the percentage share of export trade with OECD in India’s global exports, it was at 58.65 per cent in 1994-95. Since then, the percentage share exhibited declining trend. The percentage share came down to 57.31 per cent in 1999-2000 and further to 44.46 per cent in 2005.06. The percentage share further declined to 33.3 per cent 2010.11.

**Trade with OPEC:** The balance of trade with the OPEC was negative throughout study period, except from 2000-01 to 2005-06.
Both the exports and imports were more than doubled between 1994-95 and 1999-2000. At the same time compound growth rate of exports did not grow on par with the growth rate of imports. The compound growth rate of exports was recorded at 121.38 per cent in 1999-2000 over 1994-95, while the compound growth rate of imports was registered at 193.13 per cent during the same period, thus far exceeding the quantum growth in exports.

**Trade with the EU:** The study reveals that the India’s balance of trade with the EU was adverse except in 2010-11, throughout the study period (see table 1.4). The study also makes it clear that both the exports and imports in respect of EU were doubled between 1994-95 and 2000-01. The growth rate of exports was recorded at 115.45 per cent in 2000-01 while that of the growth rate of imports was around 115.90 per cent in 2000-01 when compared to 1994-95 (see table 1.4). Favorable balance of trade had been noticed to the extent of Rs. 20,085 crores in 2010-11.

**Trade with SAARC group:** It is evident from the study that India’s trade with SAARC, in which India a member, was not as encouraging as had been registered in respect of OECD, OPEC and E.U.

India’s exports to SAARC were more than doubled between 1994-95 and 2000-01. During this period the exports were increased by 130.93 per cent. Between 2001-02 and 2005-06, the compound growth rate of exports was substantial with 154.19 per cent in 2005-06 over 2001-02. Between 2006-07 and 2010-11, the compound growth rate of exports in respect of SAARC nations, was registered at 97.76 per cent in 2010-11 over the period 2006-07 (see table 1.5).
India’s imports from the SAARC were erratic while several times rising and declining in some years. During the period from 1994-95 to 2000-01, the compound growth rate of import was recorded remarkably at 283.49 per cent in 2000-01 over 1994-95. However, during 2001-02 and 2006-07, the compound growth rate of imports was not as high as had been recorded in earlier period. It was recorded at 150.23 per cent in 2006-07 over 2000-01. Between 2007-08 and 2010-11, the compound growth rate of imports was very low in respect of SAARC nations. The growth rate of imports was registered at 8.17 per cent in 2010-11 over the period of 2007-08 (see table 1.5).

Over the years several attempts have been made to increase intra-regional trade through preferential trading arrangements. The agreement covering South Asian Free Trade Area (SAPTA), which became operational on January 1, 2006, is the most important among all such attempts.

Unfavorable trade with East Europe: The balance of trade between India in the East Europe had been unfavorable. When we observe the trends, the balance of trade has been widening since 2004-05. The trade deficit was very high in 2008-09 to the extent of Rs. 21,153.8 crores.

During 2006-07 and 2010-11, the compound growth rate of exports was recorded at 92.64 per cent in 2010-11 over 2006-07. Between 2000-01 and 2005-06, there was a tremendous increase in the growth rate of imports from the East Europe. The compound growth rate of imports was recorded at 332.44 per cent in 2005-06 over 2000-2001 (see table 1.)

Share of East Europe in India’s exports declining: When we consider the percentage share of Eastern Europe in India’s exports,
it exhibited a declining trend throughout the study period. The highest percentage share of exports to East Europe in India’s exports was recorded at 4.21 per cent in 1995-96 and the lowest one was recorded at 1.01 per cent in 2009-10 (see table 1.4). With regard to imports, the highest percentage share was recorded at 4.56 per cent in 1995-96 and the lowest one at 1.51 per cent in 2007-08.

**Trade with developing countries:** The study reveals that there is substantial growth in exports to developing countries between 2001-06. During 2006-07 and 2010-11, the compound growth rate of exports to developing countries was recorded at 111.08 per cent in 2010-11 over 2006-07. Between 2006-07 and 2010-11, the compound growth rate of imports was not as high as had been recorded in the earlier two occasions. Thus the growth rate of imports was registered at 96 per cent in 2010-11 over 2006-07.

**Positive balance of trade with Asia:** It was observed that India’s trade with Asia, as a whole, had exhibited a positive balance of trade excepting 1998-99, 1999-2000 and also from 2006-07 to 2010-11. Between 2006-07 and 2010-11, the compound growth of exports was recorded at 110.28 per cent in 2010-11 over 2006-07. With regard to imports from Asia, it was noticed that there was a tremendous growth in the compound growth rate of imports.

During this period, the compound growth rate of imports was recorded at 249 per cent in 2005-06 over 2000-2001. During 2006-07 and 2010-11, the growth rate of imports from Asia countries was registered at 100.23 per cent in 2010-11 over 2006-07.
The percentage share of Asia in India’s imports was impressive. The highest percentage share was recorded at 26.73 in 2010-11 in respect of imports. (see table 1.8)

The percentage share of Asia in India’s exports was at 24.30 per cent in 1996-97. The highest percentage share was registered at 31.59 per cent in 2007-08. This stood at 30.92 per cent in 2010-11

Trade balance with Africa: The study reveals that balance of trade has been in deficit with except a few instances. But, it is noteworthy that the highest favorable balance of trade was witnessed in 2010-11 at Rs. 18,840 crores.

Positive Trade balance with North America: The study reveals that India’s trade with North America has been positive excepting during 2007-08. Negative balance of trade was recorded to the extent of Rs. 4083.2 crores in 2007-08. Between 2000-01 and 2005-06, the compound growth rate of exports was recorded at 78.76 in 2005-06 over 2000-01. During 2006-07 and 2010-11, the compound growth rate of exports was not as high as has been noticed in the earlier two instances. The compound growth rate of exports was recorded at 35.83 per cent in 2010-11 over 2006-07.

When we observe the import front, they are erratic with frequent ups and downs. During 2000-01 and 2005-06, the imports from North America had been growing rapidly. During 2006-07 and 2010-11, the growth of imports was not as high as had been recorded in the earlier two occasions. The growth rate of imports was recorded at 52.47 per cent in 2010-11 over 2006-07

Composition of India’s Foreign Trade: The composition of foreign trade of a country helps us to understand to what extent the
economy is progressing and what kind of structural changes are taking place.

**India’s trading basket comprises agricultural and industrial items:** In the pre-planning period in India, the main exports were primary goods like jute, tea, cotton, hides and skins, manganese ore, mica etc., while imports consisted of manufactured products. The advent of planning which hastened the process of industrialization and economic development brought a number changes in the composition of India’s foreign trade.

Between 2005-06 and 2010-11, the growth rate of exports in respect of primary products was recorded at 122 per cent over 2005-06, whereas the growth rate recorded in respect of the manufactured goods during the same period was 138 per cent. This implies that gradually, India is becoming less and less a primary goods exporting country (see table 1.11).

**Agricultural items still dominate:** Being a critical sector of the economy, agriculture and allied sector contribute about 17 per cent to GDP and about 25 per cent of India’s cumulative exports belong to agricultural products category.

**Petroleum product exports:** The next product category, in the composition of India’s trade was petroleum products. Petroleum products, which were Rs. 1309 crores in 1994-95, increased remarkably to Rs. 8541.7 crores in 2000-01, reflecting a compound growth at 552 per cent. Another remarkable growth rate was recorded at 503 per cent in 2005-06 over 2000-01. Unlike the earlier two growth rates, recorded previously, a lower growth rate of exports was recorded at 270 per cent in 2010-11 over 2005-06.
Substantial increase in the value of agricultural items: The product group, Agriculture & allied group comprises the commodities namely tea, coffee, rice, wheat, cotton raw including waste, tobacco, cashew (including cashew nut shell liquid), spices, oil seeds, fruits and vegetables, processed fruits, juices, marine products, sugar and molasses, meat and meat preparations. Between 1994-95 and 2000-01, the total exports of agricultural products were doubled with compound growth rate of exports being registered at 106 per cent in 2000-01 over 1994-95 (see table 1.12).

The exports of agricultural products, which amounted Rs. 45,220 crores in 2005-06, went up substantially to Rs. 1,12,522 crores in 2010-11, representing the compound growth rate at 149 per cent in 2010-11 over 2005-06 (see table 1.12).

Basmati rice: One of the key factors of growth in exports from the APEDA basket during last one decade is Basmati rice, aromatic premium rice mainly grown in Punjab, Haryana and Uttar Pradesh. The rise in exports of this item was mainly because of initiative taken by the government for its brand promotion in key markets such as Gulf countries mainly Saudi Arabia and Iran, Europe and United States. The volume of exports of Basmati rice has gone up to 2 million tonne during 2010-11 from a level of half a million tonne a decade back.

Spices exports have registered substantial growth during the last five years, registering an annual average growth rate of 21 per cent in value and 8 per cent in volume. During the year 2010-11, spices exports from India have registered an all time high both in terms of quantity and value. India commands a formidable positive in the world spices trade with 48 per cent share in volume and 44 per cent in value.9
Engineering exports hold a commendable share: Engineering product group comprises of iron and steel, manufacture of metals, machinery and instruments, transport equipment, electronic goods and other engineering goods. Among those products, stated above, the product, whose percentage share recorded at 21.99 in 1994-95, was transport equipment. But, this share came down to 14.54 per cent in 2000-01. However, it went up to 19.90 in 2005-06 and further to 26.82 per cent occupying first place in India’s export basket of engineering goods.

The next item of export which occupied second place among engineering goods was machinery and instruments. The percentage share of this product, which was recorded at 20.71 per cent in 1994-95 increased to 23.17 per cent in 2000-01 and further slightly to 23.38 per cent in 2005-06. But, it came down to 17.23 per cent in 2010-11.

The next item of export, whose percentage share, registered at 20.13 per cent in 1994-95 was manufacture of metals.

But, this compound growth rate came down to 160.02 per cent in 2005-06 over 2000-01 and further to 130.22 per cent in 2010-11 over 2005-06.

The next item of export, whose percentage share recorded at 11.74 per cent in 1994-95, was electronic goods. But, this share went up to 15.41 per cent in 2000-01. However, it comes down to 10.01 per cent in 2005-06. Ultimately it increased to 12.94 per cent in 2010-11, occupying fourth place among the engineering goods in respect of exports. The exports of this item were doubled between 2000-01 and 2005-06,
This growth rate increased substantially to 321.61 per cent in 2010-11 over 2005-06.

**Textile and textile products:** The next product group, which exhibits remarkable performance among manufactured goods, was textile and textile products. This product group comprises cotton yarn fabrics, Natural silk, yarn, manmade yarn fabrics, man-made staple fibre, woolen yarn fabrics, readymade garments, jute and jute manufactures coir and coir manufactures and carpets.

However, the export growth of these items as a whole rate came down substantially to 44.35 per cent in 2005-06 over 2000-01 and further to 42.73 per cent in 2010-11 over 2005-06.

Readymade garments occupies first place among these aforesaid items of exports in respect of percentage share was readymade garments. Between 2005-06 and 2010-11, the compound growth rate in respect of readymade garments was registered at 33.79 in 2010-11 over 2005-06.

**Cotton yarn fabrics:** The next item of export basket of India among textile products, which occupied second place in terms of percentage share was cotton yarn fabrics. However, the study reveals that this percentage share slightly declined to 30.66 per cent in 2000-01 and further to 23.46 per cent and again reduced sharply to 23.29 per cent in 2010-11.

With regard to growth rate in respect or cotton yarn fabrics, the exports of cotton yarn fabrics were more than doubled with compound growth rate being registered at 125.41 per cent in 2000-01 over 1994-95. During 2005-06 and 2010-11, the compound growth rate of cotton yarn fabrics was registered at 41.68 per cent in 2010-11 over 2005-06.
Man-made yarn fabrics: The next item of export among textile products, which exhibited an encouraging performance, was manmade yarn fabrics. The percentage share of this product in India’s exports in 1994-95 was recorded at 8.63 per cent. The percentage share went up to 9.38 per cent in 2000-01 and further to 11.64 per cent in 2005-06 and again increased to 18 per cent occupying third place among the exports of textile products (see table 1.14).

The other items of exports of textile products, which registered a merge share in India’s exports in 2010-11, included the carpets (4.22 per cent), jute and jute manufacture (1.95 per cent, man-made staple fiber (1.88%). mustard silk yarn fabrics (1.50%), coin and coin manufactures (0.65%) and woolen yarn fabrics (0.45%). (see table 1.14).

Capital goods imports: Through the passage of time, significant changes have taken place in this product group. The percentage share of capital goods in India’s imports was recorded at 17.69 per cent in 2000-01. In 2010-11, the percentage share went up to 20.33, occupying 4th place in the total India’s imports in that period. Capital goods imports became necessary since India adopted import substitution policy to become self sufficient in industrial production.

The next product group, by name, “other bulk items” occupied 6th place in India’s imports in 2010-11 with the percentage share being recorded at 10.13 per cent in that period (see table 1.15).

The other products, machinery except electrical and electronics with 6.61 percentage share and electronic goods with
6.09 per cent occupied 8th and 9th places respectively in India’s imports in 2010-11.

With regard to growth rate in respect of the imports of the export related items, the compound growth rate of imports was recorded at 172 per cent in 2000-01 over 1994-95. Between 2000-01 and 2005-06, the compound growth rate recorded, was not as high as had been recorded during the earlier period. It was recorded at 124 per cent. The compound growth rate of imports, which was recorded during 2010-11 over 2005-06, was higher than the earlier two growth rates of imports registered between 1994-95 and 2000-01 and also between 2000-01 and 2005-06. It was recorded at 174 per cent in 2010-11 over 2005-06. (See table 1.15).

**Gold and silver imports**: The next item of import of this product category, whose share increased substantially from 2.48 per cent in 1994-95 to 9.17 per cent 2000-01 and further to 10.11 per cent in 2010-11 was gold and silver.

With regard to growth rate of gold imports, there was a spectacular growth in 2000-01 by 846 per cent over 1994-95. Between 2000-01 and 2005-06, there was no such remarkable growth as had been recorded during the earlier period, i.e., 1994-95 and 2000-01 but more than doubled with 137 per cent in 2005-06 over 2000-01. Between 2005-06 and 2010-11, there was a substantial growth rate of imports at 224 per cent in 2010-11 over 2005-06. (see table 1.15).

Among those aforesaid product groups, the product group, which registered an impressive share in India’s imports, was petroleum, crude products. The share of petroleum, crude and products in India’s imports in 1994-95 stood at 20.69 per cent
Petroleum and crude oil holds major share in imports: According to the analysis arrived at, as per the table 1.15, the product group which exhibited impressive performance in India’s imports was petroleum and crude products. The percentage share of petroleum and crude in India’s imports was registered at 20.69 per cent in 1994-95. The percentage share of this product in India’s imports increased to 30.96 per cent in 2000-01. This sharp increase in India’s imports was due to hike in oil prices in the international market. It fell sharply to 30.07 per cent in 2010-11, occupying 3rd place in the total India’s imports.

The period from 2000-01 to 2005-06 was marked by substantial increase in domestic production, on one hand, and a softening of international prices on the other hand. As a result, the growth rate of bulk imports was not as high as had been registered in earlier case. During this period of study the growth rate of imports was registered at 172 per cent in 2005-06 over 2000-01. In 2010-11, the compound growth rate of imports was recorded at 148 per cent in 2010-11 over 2005-06.

Trade prospects for India: WTO economists said the weak import demand from the Europe and US would adversely affect the emerging and developing countries like India. The outlook for world trade darkened in recent months as the euro sovereign debt crisis threatened to undermine global growth. The agreement on a debt restructuring plan for Greece has provided some respite for governments, but at least a mild recession in the EU is an unavoidable happening.

The US and European Union together account for nearly 35 per cent of India’s exports of US$245.9 billion in 2010-11, as per India’s trade data.
India is among the fastest growing markets for exports from LDCs. The LDCs comprise about 12 per cent of the world’s population, but account for less than 2 per cent of world’s GDP and about 1 per cent of global trade in products. India’s trade with Africa, a continent which comprises maximum number of LDCs, has increased to $16.28 billion in 2010-11 from $10.3 billion in 2009-10.

**Strategies for improving India’s export performance:** The following strategies are required to step up India’s export performance. 1) Focusing on raising product and project exports to markets with a socio-economic profile similar to India’s and moving up the value chain. The stress on value addition seems timely with export of petroleum products and gems and jewellery accounting for more than a third of our exports, 2) Creating a fiscal and regulatory policy environment conducive for export, facilitating this by reducing transaction costs and creating an industry-government strategy to penetrate global markets are priorities.

CII wants an interest subsidy, freight subsidy, market development fund, special assistance to improve innovation, fiscal benefits for investment in new and more efficient plant and technology to reduce costs and to improve the quality, a stable export policy for farm produce, simpler laws and easier availability of finance and so on.

Maharashtra (22%) and Gujarat (24.6%) together contribute to 46 per cent of exports. With Tamil Nadu (9.3 per cent), Karnataka (5.4 percent and Andhra Pradesh (5 per cent together contributing another 19.7 per cent, all other states contribute to less than a third of the total.
India should look at new markets or concentrate on existing markets that still contribute to the lion’s share of global imports to provide a substantial boost to export performance. According to FIEO study to sustain a 30-40 per cent growth in exports it would be necessary to continue building strength in conventional markets of the developed world, while at the same time identifying and tapping new markets. Both these strategies have to coexist.

While India has diversified its export basket as well as export market over the years, substantial diversification in tune with word demand has not taken place. There are many items in the top 100 imports of the world where India’s presence is negligible. India has become an active player in world trade negotiations and shaper of world trade policy; it is still a small player in world trade. While India is trying to gain markets and increase competitiveness in new areas it is losing markets in some traditional areas. To sum up while the potential for India in trade is great, the challenges are many.

**Obligating SEZs for the compulsory performance:** The existing rules, which only require SEZ companies to have positive net foreign exchange earnings over a period of five years, are insufficient and have diluted the primary objective of the SEZ Act. There is no mandatory requirement of undertaking exports in the SEZ legislation for those units which do not import any raw material or capital goods

**Regional approach to development is the order of the day:** The rapid emergence of regional organizations in different parts of the world amply indicates the growing awareness of regionalism as an effective approach.
Emergence of era of regional cooperation: International trade benefits the national economy by enabling a country to specialize in the production of those goods and services, which she is best suited to produce, looking to its endowment of natural resources, labour and capital. Countries are grouping themselves as trading blocs or groups region wise to derive the advantages of trade.

By enlarging the size of the market and the scope of specialization, international trade makes a greater use of machinery, encourages inventions and innovations, raises labor productivity, lowers costs and leads to economic development.

Emergence of Free Trading Areas (FTAs): Countries are looking for opportunities to expand their export markets through free trade agreements. This has gathered momentum over the last two decades. The urgency for improving the economic fortunes of domestic stakeholders, whether producers, consumers or intermediaries, is stronger in the developing world, as their trade liberalization policies are becoming more and linked with economic growth and poverty reduction strategies. As of November 2011, the number of FTAs notified under the World Trade Organization has reached 505.

India’s assumption of larger role in regional prosperity: India has shown the high level of commitment and maturity in its trade negotiations and in striking a balance between economic and non-economic objectives to enhance regional prosperity.

Moreover, a higher degree of employment of economic diplomacy in its neighborhood is now evident. Continuing bilateral trade talks with Bangladesh, Nepal and Pakistan and initiatives to rejuvenate the South Asian Free Trade Agreement are all
positive signals indicating India’s readiness to assume a larger role in regional prosperity.

**Phase-wise development PTAs in India:** India’s engagement in Preferential Trade Agreements (PTAs) can be broadly divided into two phases. The first phase entails the formation of PTAs as a result of various political considerations and the prevailing international setting. Agreements that were formed on this basis include the India-Bhutan Treaty of 1949, the India-Nepal Friendship Treaty of 1950 and the Bangkok Agreement of 1975.

The second phase, starting from South Asian Preferential Trading Agreement in 1993, saw more focused decisions on FTAs through a domestic consultation process with due consideration of potential economic gains.

India’s first new generation FTA, the India-Sri Lanka FTA, was signed in December 1998. Another important agreement is the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation. It is an important element in India’s ‘Look East’ policy and was signed in February 2004.

**Contiguity of the region:** Location also determines the contiguity of the region. In South Asia, Nepal, Bhutan, Bangladesh, and Pakistan have common borders with India, while India has a common border with five states. Sri Lanka is treated as a border state. This proximity as well as strategic location as a whole can have many political implications for regional cooperation as well as for conflict.

**Geographical bigness of India:** India occupies 3,288,000 sq kms as compared to 144,000 sq kms of Bangladesh; 47,000 sq kms of
Bhutan; 141,000 sq kms of Nepal; 796,000 sq kms of Pakistan; 66,000 sq kms of Sri Lanka and 298 sq kms of Maldives. Evidently, India accounts for 73 per cent of the total land of the region. South Asia, which occupies a total of 5 million sq kms, thus becomes an important area for regional study on the basis of size alone.

**Saar’s distinct geographical character and high degree of homogeneity:** South Asia has a distinct geographical character; the people in the region, irrespective of their religion nationality and language, share common history, tradition and culture and possess considerable degree of homogeneity. Therefore, it is obvious that the regional cooperation for development in South Asia has great potentialities and that if pursued earnestly, it would prove to be mutually beneficial to all member countries.

**Geographical proximity fosters cooperation:** The geographical closeness between the Saarc member countries does play an important role in maintaining cooperation and avoiding conflict in the region. Reconciliation on boundary questions between these countries is far more compelling to foster regional cooperation.

**SAARC is an act of faith and a conscious effort for mutual development:** The South Asian Association for Regional Cooperation (SAARC) comprising seven countries, namely, India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan and the Maldives, was formally launched in December 1985. History was created in Asia when seven neighbors had come together in an act of faith. SAARC is a conscious effort to remain outside the vortex of tensions and conflicts which pose a serious threat to their progress and prosperity.

The seven countries committed themselves to sovereign equality, territorial integrity, national independence, non-use of
force and non-interference in the internal affairs of other states and peaceful settlement of all disputes.

**Era of Reforms**: In tune with the WTO, WB and IMF conditionalities, the SAARC countries have undertaken more or less simultaneously the economic policy reforms since nineties. These reforms included lowering of tariff slabs, tariff rates, quantitative restrictions (QRs), setting up export processing zones (EPZs) for FDI, joint venture arrangements, fiscal and financial incentives to industry and currency convertibility. These reforms have contributed in large measure to the growth of trade between the SAARC with the other advanced nations.

**Dominant position of India to be viewed as an asset**: The dominant position of India, by the virtue of its resource endowments and impressive developments in many fields, should, however, be considered as an asset, instead of ill-conceived by others. Border disputes, ethnic issues, etc, often create problems. India has both the advantages and disadvantages of all other members being its neighbors.

Although India too suffers from a number of economic problem, it is in a position to help other countries, particularly the least developed and tiny ones, of the SAARC association. India should consistently show the required political, emotional and diplomatic maturity and cooperative drive.

**Prospective areas of cooperation**: There is also need for cooperation in education, training and research, while India could offer a lot of assistance to others in these areas, India could also benefit by joint project in research and development and by mutual exchange of scientists and other experts. Indigenous medicine and system of treatment is an area with considerable scope for
cooperation in research and development, and also practical application.

**SAARC should view foreign trade as a priority for mutual progress:** The SAARC countries should assume foreign trade as priority sector under the rapid globalization of their economies. They must have co-ordination of their technical knowhow and scientific research with mutual help for industrial growth and development. They have to redesign their tariff and non-tariff structure under a liberalized trade policy. They must build up a system for a common information pool to take advantage in global market. The member countries of the SAARC would benefit themselves through co-operation in supply of inputs for production and a market for outputs.

**SAARC’s export strength derived from collective production strengthen:** Of great importance to South Asian countries are the commercial or plantation crops which are grown around Assam, northern Bangladesh, and the hills of South India and Sri Lanka. The collective exports of common products to outside the region and the import of products within the region, instead from outside world, can inculcate spirit of regionalism.

**SAARC Objectives have universal appeal:** The study reveals the various salient objectives of the SAARC regional cooperation that are worth emulating by similar regional arrangements. Promotion of welfare and self-reliance of the people of South Asia, improvement of quality of life, paving the way to realize their full potential of the region, contribution to mutual trust, understanding and appreciation of one another’s problems, promotion of active collaboration and mutual assistance in the economic, social, cultural technical and scientific fields and to strengthen
cooperation with other developing countries and thereby contribute to peace, stability, amity and progress in the region. Poverty alleviation, climate justice, timely provision of relief in humanitarian emergencies is some more SAARC Development Goals (SDGs).

**Ample scope for furtherance of SAARC cooperation:** The prospects of trade and cooperation among the SAARC countries will further improve in the years to come as shown by empirical evidence. There is also need for cooperation in education, training and research, while India could offer a lot of assistance to others in these areas, India could also benefit by joint project in research and development and by mutual exchange of scientists and other experts.

**Countries should ignore political differences:** The countries should ignore their political differences for the sake of regional cooperation and common welfare. The SAARC summits intend to address some of the problems of the most troubled and non-stable neighborhoods. Political reasons are especially the most notable hurdle in making the SAARC body stronger. Besides, there are more intra-state and inter-state conflicts in South Asia as compared to any other regional bloc in the world.

**Emotional closeness – still a myth:** The SAARC members are yet to become emotionally closer to realize the objectives faster. India being the elder brother in the SAARC group with a potential to play a leading role should consistently show the required political, emotional and diplomatic maturity and cooperative drive. Since the establishment of SAARC, more often than not the nations fail to reach a consensus on many issues and most agreements are signed on a bilateral basis. Many observers have also pointed out
that the rivalry between India and Pakistan and the longstanding dispute over Kashmir casts a shadow over the camaraderie and effectiveness of the entire exercise.

**Trade with SAARC not substantial:**

India’s trade with SAARC countries was not substantial during the last decade and the position also did not have substantial change in the post-SAARC period. The exports to SAARC countries were never above 5 per cent of the total exports of India. It was perceived that SAARC through accelerated economic growth and social development programmes, would promote and strengthen the collective self-reliance of the region, thereby contributing to mutual trust and appreciation. The economic well being of the member nations has not been much impacted by the operations of SAARC. The less than impressive performance of SAARC calls for a closer inspection of the economic characteristics and political dynamics its member countries.

**Low intra-SAARC regional trade:** SAARC’s non cooperation is best reflected by the fact that intra-regional trade of SAARC is still said to be only approximately 5.5 per cent of the total trade of the member countries. In negotiations it is more a focus on the differences rather than the similarities that hold sway. Although the member countries finalized a framework agreement on SAPTA in 1993, intra-regional trade continues to constitute a negligible proportion of the region’s overall trade changes in the international economic situation, such as the rapid movement. However, trade grew between some member countries, especially between India, and Bangladesh, and Sri Lanka.

**SAARC— an arrangement to challenge the common problems:**
The leaders considered SAARC to be a tangible manifestation of
their determination to cooperate regionally, to work together towards finding solutions towards their common problems like poverty, underdevelopment, low per capita income, malnutrition, etc., in a spirit of friendship, trust and mutual understanding and to the creation of an order based on mutual respect, equality and shared benefits.

**Bilateral issues barred:** Notwithstanding that countries should not raise the bilateral issues during SAARC summits, several times Pakistan raised the border disputes and Pakistan and Bangladesh to get her on Ayodya issue and other water sharing issues. These attempts several times became the deterrents to the objectives of the SAARC.

**SUMMITS’ UNIQUE CONTRIBUTION:** The summary of unique contributions by various SAARC Summits is given below:

**First Summit:** The inaugural Dhaka Summit set the precedents for procedures and modalities to be followed in future and further endorsed the decision of the Foreign Ministers to submit the question of regional cooperation in combating drug trafficking and terrorism to an Expert Committee. The declaration issued at the end of the Summit was a pious document of laudable objectives, principles and great platitudes.

**The Second Summit** commenced with a reiteration of some of the noble assertion of the first summit. The Heads of State or Government reiterated their desire of promoting peace, stability, amity and progress in the region through strict adherence to the principles of the UN Charter and Non-Alignment, particularly in respect of the principles of sovereign equality, territorial integrity, national independence, non-use of force and non-interference in
the internal affairs of other States and peaceful settlement of disputes.

Prevention of drug trafficking, launching of South Asian Broadcasting Programme, exchange of scholars, etc., were some of the developments, denunciation of all forms of terrorist activities, coordination of global macro-economic policies, establishment of SAARC Food Security Reserve and expression of concern over degradation of the environment including extensive destruction of forest in the region were the important outcome of the Second Summit.

**The Third Summit** focused on establishment of SAARC Food Security Reserve, setting up of a commission to study on environmental protection, a common strategy to combat natural diseases through collective efforts. India mainly pleaded to keep bilateral political issues out of the SAARC agenda so that the intentions of SAARC would not be disturbed.

**The Forth Summit** recognized that no more debates but actions were required in respect of the problems such as food, clothing, shelter, education, primary health care, population, environmental protection commonly encountered by the SAARC countries. During the summit, India clarified that it would not seek to secure unfair advantage at the expense of any partner.

The **Fifth summit** focused on setting up a Fund for regional projects and the joint venture and observed 1993 as SAARC Year of Shelter. India highlighted the slow progress of SAARC in the core economic areas having observed the limited impact of SAARC activities on the lives of the peoples with the intra-regional tensions caused primarily because of strained Indo-Pak relations.
Sixth Summit: Before the start of 6th Summit, a very favorable circumstances were evident in the form of improvement in Indo-Nepal relations in 1991, the victory of democratic movements in Nepal and Bangladesh. A few significant decisions were also taken during the summit to promote cooperation especially in respect of setting up a regional fund, elimination of the evil of terrorism and environmental concerns of the region besides an emphasis on trade and economic cooperation. India mainly stressed on the removal of internal barriers on the free movement of goods, capital and people throughout the region.

This Seventh Summit which started at the End of super powers composition and the dawn of new perspectives stressed that all the SAARC nations have to adjust to transformed equations in terms of economic influence, political and military power and strategic perceptions which have emerged with the disappearance of Super Power competition and monolithic ideological confrontations. Therefore, SAARC as a group evolve meaningful policy approaches to deal with the world wide trends in regional cooperation, economic groupings and trading blocs as witnessed in Western Europe, North and South America, ASEAN and the Asia-Pacific region.

At the start of Eight Summit the political virus continued in the form of differences between India and Pakistan which delayed the scheduling of the Summit. It was decided to take steps for ratification by the SAARC member countries and operationalise SAPTA by the end of 1995 and also the green signal was given for the establishment of SAFTA as early as possible. The commitment to work for realization of right to food, work, shelter, health, education and information was reiterated. India pleaded for
collective self-interest should be the primary base of regional cooperation.

**Ninth summit** noted that Regional Centers have an important role to play in harnessing the resources and capabilities within the SAARC region in addressing specific and shared concerns of Member States. The Summit discussed emerging issues related to copyright, patents and marketing franchise, including on food grains, plants and herbs indigenous to South Asia, which require firm collective responses to preserve these bio-resources from unregulated commercial exploitation by extra-regional interests.

**Tenth SAARC Summit** is also known as the economic summit of SAARC discussed a wide-range of issues including the position of SAARC in the changing international economic environment. The leaders recognized the importance of initiation of links between SAARC and other economic unions and trading groups that were emerging in the wake of globalization and liberalization and considered how best relationships of mutual benefit could be established. Countries also agreed for informal political consultations would prove useful to promote peace stability, amity and accelerated socio-economic cooperation.

Issues related to copyright, patents and marketing franchise, including on food grains, plants and herbs indigenous to South Asia, preservation of bio-resources from unregulated commercial exploitation by collective responses and engagement of the private sector in regional economic cooperation were discussed.

At the threshold of **Eleventh summit**, there was a severe crisis in Indo-Pak relations with India severed its diplomatic ties due to outbreak of Kargil war and doubts were raised about the
future of SAARC. However, there was smoothening in the relations paving the way for the belated summit in January 2002.

The Summit called for ensuring equitable distribution of benefits of trade to all states, mechanisms for compensation of revenue loss, early realization of a rule based non discriminatory world trade regime, gearing up regional inputs for result oriented programs.

The Twelfth Summit started with a hope that the SAARC would finally lay the path to real peace and economic cooperation by wiping of the mistrust that has prevailed among the member countries for so long and relate the regional cooperation to the people. Various momentous declarations and agreements like signing Social Charter to establish a people-central framework for the social development and build a culture of cooperation, preparation of a fine blueprint for the future economic development and integration of the region through SAFTA, strengthening of transportation, transit and communication links across the region and also it requires joint tacking of smuggling, drug trafficking, money laundering which flourished across the borders due to mutual rivalries and inadequate cooperation.

The Thirteenth summit provided a unique opportunity to consolidate the gains made in regional cooperation during its first two decades and to chart a forward-looking strategy to promote effective cooperation at all levels to realize the objectives and principles set out in the Charter of the Association.

At this juncture India attained a new role and significance in the light of economic policy liberalization and the phenomenon of globalization and further poised to play a greater role in promoting regionalism in South Asia
The notable decision at the Summit is the establishment of a ‘SAARC Poverty Alleviation Fund’ (SPAF) with contributions both voluntary and/or, assessed, as may be agreed. They agreed that the SPAF shall function within the South Asian Development Fund (SADF) to be reconstituted, as SAARC Development Fund (SDF), to serve as the umbrella financial institution for all SAARC Projects and Programmes India called for SAARC to enable collective resources and wisdom for the development of the region.

The **Fourteenth Summit** saw the new member Afghanistan an joining it. The Summit emphasized that the SAARC move away from declaratory to implementation phase. The members stressed the need for ensuring effective market access through smooth implementation of trade liberalization programme and directed the SAFTA bodies to review the progress on a regular basis. They emphasized that SAFTA should be implemented in letter and spirit.

India incidentally being the host country for the summit welcomed the membership of Afghanistan

**Fifteenth Summit** focused on collective action to overcome food and energy problems in the region and also controlling of prices of food and energy.

The **Sixteenth SAARC summit** proposed a ‘South Asia Forum’ which consists of important personalities of different backgrounds to provide inputs, based on a comprehensive understanding. The leaders agreed that the scope and substance of cooperation had expanded to diverse fields, providing in a firm basis for genuine partnership.

The leaders emphasized on a greater focus to pursue people-centric development with due emphasis on socio-cultural progress
and upholding traditions and values in the context of protection of environment, importance of adoption of eco-friendly approaches and technologies and making South Asia a world leader in low-carbon technology and renewable energies.

**Seventeenth Summit** generated an idea to supplement each other member country in the context of common security, create a potential environment for building bridges where relations are strained and uneven economic development noticed.

It should be proved that these summits are not mere occasions for the 8 leaders to get ready for a photo opportunity, nothing else; instead the meetings should provide logical response to the common problems of the region.

**SUGGESTIONS:**

**Poverty removal is still elusive of proper actions:** The SAARC countries during the summits no doubt met to discuss issues including trade, imbalance, poverty, food crisis, price-rise, climate change and terrorism. But so far the various summit meetings did not properly concentrate on poverty alleviation in the region. Thus SAARC region has one third of the world’s population reeling under poverty, and, therefore, urgently in need of initiating necessary anti-poverty measures.

**Concentration on bilateral issues:** The discussions terrorism has taken front seat instead of dwelling on joint economic enterprises. There is a criticism that India and Pakistan slam each other on the issue of Kashmir as a routine matter to evade any serious business in SAARC Make every possible effort to make SAARC function effectively and efficiently for the overall benefit of the region, instead of diverting the issues on political grounds. All member
countries shall make concerted efforts to bring about changes in the region in the common pursuit of the partnership for growth of our people in the region.

Keeping bilateral issues out of SAARC purview: Bilateral issues were kept out of SAARC’s purview to prevent political tensions between since they have become a major concern for member states. Realizing the negative impact of political tensions on trade arrangements in the region, some analysts have called for a regional institutional mechanism to contain conflict among members. Member states, particularly Pakistan and India, must find means outside of the SAARC arrangement to resolve their differences.

**Emergence of SAFTA:** The 15th SAARC summit gave birth to SAFTA by adopting a resolution by issuing directives for removing trade barriers and giving special consideration to LDCs in the Bloc. SAFTA has to facilitate and enhance trade under the free trading regime stipulated in the now-dormant SAFTA.

**SAARC Food Bank to be expedited:** The SAARC member countries are more concerned to forge cooperation by ensuring food availability and nutrition security and South Asia. It is also suggested to rope in here the international community to achieve the said purpose.

People centered regional strategy with more collaborative projects that would lead to more trading operations as well as increase in food production, investment in agricultural and agro-based industries, sharing of agricultural technologies, sharing of best practices in procurement and distribution.
Collective efforts towards poverty alleviation: The SAARC countries emphasized undertaking sustained efforts, including developing and implementing regional and sub-regional projects towards the attainment of SAARC Development Goals (SDGs).

Country wise summary/findings are given below in respect of Indo-SAARC trade relations.

**INDIA AND BANGLADESH:**

**Prospects of cooperation are bright:** Bangladesh is in need of stepping up its food production owing to its growing population. India can help by offering its excess stocks. Certain areas of food production can be specialized and thus both countries can derive the benefits of division of labour. Since both countries have embarked upon new economic reforms in support of deregulating measures, there is a vast scope for cooperation between the private partners of both the countries. Both countries can share experiences and India can guide Bangladesh as to how to launch and proceed for successful implementation of disinvestment process so as to free their respective economies from out of clutches of inefficient public sector undertakings (PSUs).

India being stronger in industrial output can support Bangla infrastructure in respective of transportation, communications, energy supply, etc. The relatively available abundant water and substantial reserves of natural gas can be items of exchange among the SAARC countries.

**Trade continues to be on the rise:** In spite of certain misgivings on water sharing at Farakka Barrage and India’s proposed river linking project and occasional firing between the two countries, India’s trade with Bangla continues to be on the rising stride.
Improving relations with India became a priority with the return of Awami League government in January 2009. A system of balanced trade and payment arrangement and MFN treatment to both the countries has been permeated by the Treaty of Friendship Cooperation signed in 1972.

**Indo-Bangla trade holds the major share:** The study reveals that Bangladesh holds the largest share in Indo-SAARC trade. The percentage share of India’s exports to Bangladesh in the overall Indo-SAARC trade which reached as high as 61.32 per cent in 1995-96, of course came down to around 28 per cent by 2010-11 rather varying consistently between 28% to 30% between 2007-2011(see Table 4.2). The annual growth rate was very high during 2007-08(59.4%) and 2012—11(40.99%) when compared to their previous years respectively. In most of the years of study (see table 4.2), the annual growth rate in India’s exports to Bangladesh were recorded at higher rates when compared to that of India’s overall exports to SAARC countries.

It is evident from table 4.3 that annual growth in imports from Bangladesh into India was around 55.85 per cent with 40.42 per cent in the overall India’s imports from SAARC.

**Surplus trade with Bangladesh:** The balance of trade gap has been very much huge with India’s exports to Bangladesh far exceeding its imports to that country. The overall annual growth rates in India’s trade with Bangladesh are found to be higher than that of India’s overall trade with Bangladesh (see Table 4.5)

**INDIA AND SRI LANKA:**

**India and Sri Lanka – Multi-linguistic in character:** Like India, Sri Lanka has diverse character ethnically, linguistically and
religiously with Indian ancestors having lived on the island for centuries. About 5 per cent of Sri Lanka’s population comprises Indian Tamils.

**Differences in development indicators:** Sri Lanka is ahead of India with 91 per cent literacy rates and 75 years as life expectancy rate while India is ahead with high economic growth rate. India has wider prospects to participate in the 10 year long-term development framework to accelerate growth through strengthening Sri Lanka’s infrastructure.

Implementation of economic reforms: Both countries have shifted a little away from socialist orientation having launched new economic reforms since nineties. Like India, Sri Lanka is not for complete deregulation of the economy as it retains all strategic enterprises under its government’s control.

**Similar trends in GDP composition:** Both countries have similar trends in respect of the shares held in their respective GDPs by the three main sectors in their economies. Like in India, the share of agriculture in GDP has reduced about 12 percent and share of services increased to 60 per cent and with 30 per cent share in respect of industry sector.

**Sri Lanka – India’ second largest trading partner:** Sri Lanka has traditionally been an important export market for India and is the second largest trading partner in the region after Bangladesh (See table 4.22). The bilateral trade is carried out in accordance with the provisions of the Trade Agreement signed in 1961. The trade is in freely convertible currencies and on MFN basis. Both the countries are the signatories of WTO, SAARC and Bangkok Agreement. Within the frame work of SAARC Preferential Trading Agreement
and the Bangkok Agreement, mutual preferential trade concessions are extended to each other.

**Accommodation of tariff reductions:** India and Sri Lanka have signed a Free Trade Agreement on 28\textsuperscript{th} December, 1998 under which tariff on a large number of items would be phased out within an agreed time frame. While India would reduce the tariff to zero in three years, Sri Lanka would do so in eight years. Two sides will maintain negative Lists of items on which no duty concessions are given, where protection to local industry in considered necessary.

**Increase in volume and quality of trade:** India - Sri Lanka relations have undergone a qualitative and quantitative transformation in the recent past. Political relations are close, trade and investments have increased dramatically, structural linkages are constantly being augmented, defense collaboration has increased and there is a general, broad-based improvement across all sectors of bilateral cooperation.

The study reveals that there was remarkable growth in the compound growth rate of exports with 206.5 per cent and 178.8 per cent in 2005 over 2000-01 (see Table 4.6).

The study reveals continuous increase in the volume of India’s exports to Sri Lanka. A consistent overall share of less than 30 per cent in Indo-SAARC exports on account of India’s exports was witnessed during the study period.

High annual growth rates 35.17 percent in 2000-01, 48.13 percent in 2002-03 and 78.55 per cent in 2010-11 could be noticed from the study (Table 4.6) in respect of India’s exports to Sri Lanka, far exceeding the overall annual growth rates of Indo-SAARC export trade. Whereas same is not the trend in respect of annual growth
rates or percentage share of India’s imports from Sri Lanka in the overall import trade with SAARC countries (see Table 4.7).

**Favorable balance of trade:** The study also reveals the balance of trade in favor of India continuously almost consistently during the study period. The highest value of trade surplus was registered at Rs 16,363 crores during 2010-11 by India with Sri Lanka (see table 4.8).

**INDO –NEPAL TRADE:**

**Complementarities:** Nepal has made progress towards sustainable economic growth since it entered the modern era in 1951. A major portion of country’s GDP i.e. 34 per cent of items come from agriculture. Since India is also an agrarian country having experimented various agricultural technologies, both countries can collaborate by way of which Nepal can be benefitted by the experiences of the bigger partner i.e. India.

**Scope for tourism development:** There is a large scope for collaboration in forging tourism ventures either between these two countries or these countries jointly can exploit the tourism potential in the Himalayan region. Possible areas of cooperation are mountaineering, trekking, hotel and aviation industries. Nepal has eight of the world’s ten highest peaks including Mount Everest with 8848 m (29,000 feet).

**Cooperation in power generation:** Several perennial rivers flowing South through the Himalayas have enormous massive hydroelectric potential which can be planned for exploitation to India’s advantage as there is a growing demand from India for power needs.
Foreign relations firmly founded: India and Nepal have very strong traditional relations. In spite of India’s security concerns over Nepal’s relations with China, India and Nepal restored trade relations in 1990 and also because of strong cultural, religious, linguistic and economic ties between the counties.

Growing Trade relations: Trade relations between these two countries go beyond the economic reason and specially influenced by the social-ethical norms and values. Both the countries have comparative cost advantages in trading which can be exploited to the mutual advantage. Nepal has the problem of a growing deficit in trade and balance of payment and India has come to the aid of Nepal by providing substantial amounts.

Economies in transport costs: Worldwide energy costs are rising resulting in high transport costs. But because of geographical proximity between India and Nepal, the transport costs become economical and it would increase the potential for trade between the two countries. The cultural ties and non-existence of visa system have facilitated for the conduction of free trade between the two countries.

Nepal vis-a-vis India in economic reforms: Like India, Nepal also opened its economy in the early nineties covering trade and investment, fiscal and monetary policies, financial and capital markets. A new bilateral trade treaty signed with India in 1996 supported the trade reform programme of Nepal.

Third largest trading partner: The study reveals that Nepal has emerged as the third largest trading partner of India after Bangladesh and Sri Lanka. Indo-Nepal relations in trade and other related matters are governed by the bilateral treaties of trade and transit. Both countries are accommodating each other in opening
more transit routes. The percentage share of exports to Nepal as a proportion of exports to SAARC countries was significant. This was 9.9 per cent in 1994-95 increased to 17 per cent on an average between 2004-05 and 2010-11. However, the annual growth rate in exports to Nepal was very erratic with a volatility ranging from 34 per cent in 2010-11 to 81.4 per cent in 2003-04.

India’s imports from Nepal have also been rising and it holds as high as 62 per cent of Indo-SAARC imports in 2001-02; however the share fell to 24 per cent by the end of 2010-11 (see Table 4.11).

**INDO-BHUTAN TRADE:**

**India laid foundation for Bhutan’ progress:** Bhutan is one of the smallest and least developed countries among the SAARC nations. The focused area of Bhutan’s 10th Five Year Plan (2008-13) i.e. rural, regional and private sector can be further developed with India’s pledge to support, plan and promise to double the amount of aid that would definitely open a new chapter in Indo-Bhutan relations. Ever since the establishment of diplomatic relations in 1968, free trade and commerce between both the countries has been improving. Agreements and MOUs were also signed during 2009 in areas of hydropower, IT, health/medicine, narcotics, and aviation, agriculture and environment. Exploitation of hydro power resources in Bhutan would be to the advantage of India in the coming years.

**India is Bhutan’s largest trade partner:** India continues to be the largest trade and development partner of Bhutan. India has been extending financial assistance to Bhutan’s five year plans. The Indo-Bhutan Trade and Commerce Agreement which expired in March 2005 has been renewed for a period of 10 years. Commercial transactions are carried out in Indian rupees and
India provides unhindered transit facilities to landlocked Bhutan to facilitate trade with third countries.

**Bhutan’s imports from India are not substantial:** The study reveals that India’s exports to Bhutan were very insignificant and less substantial. Between 1994-95 and 2001-02, India’s exports to Bhutan were just around Rs 30 to Rs 40 crore; however, later on from 2003-04 onwards there was a high growth to the extent of Rs 714 crores. The annual growth in India’s exports to Bhutan was found to be negative in the early years of study period became positive towards the end of 2010-11. Similarly, India also stepped up its imports from Bhutan from a mere value of Rs 57.4 crores to Rs 917 crores with 9.97 per cent in the overall Indo-SAARC imports. The balance of trade with Bhutan had been negative for India throughout the period of study (see table 4.14) excepting a few years. In a way India has been generous in accommodating Bhutan gods in Indian market under its market support strategy for its tiny neighbors.

**INDO – PAKISTAN TRADE:**

**Volatile and tense relations:** The study reveals that Pakistan has had a very complicated and volatile relation with India. Before and just after independence, both countries were highly dependent on each other for exchange of goods. The political bickering as a result of border disputes have erupted after division also led to closer of certain trade routes in the border areas.

**Low impact of SAARC formation on trade:** These developments led to drastic reduction in the movement of goods and services between the countries. When everybody became hopeful of improved relations between the two countries after the formation of the SAARC, differences reached further galore and the existence of
SAARC is now under threat of its survival in the event of the two important bigger members not being able to see face to face each other. In spite of enormous scope, the two countries have their trade pace much below their potential.

**Loss of trade advantage:** Imposition of imposed official embargo by Pakistan on her trade with India after the two wars in 1965 and 1971 forced both countries to import many items from the world market at much higher prices. The same could have been imported from each other at much lower prices. The study reveals that though the trade relations were resumed by signing of bilateral trade agreements on January 23, 1975 but the flow of trade was restricted to government levels.

**Pakistan’s discriminatory policy:** India’s trade with Pakistan is constrained by the discriminatory policy adopted by Pakistan against imports from India. Though India accorded MFN treatment to imports from Pakistan, Pak allowed only some selected items. Foreign trade registered a phenomenal increase in Indo-Pak trade towards the end of 2010-11 to the extent of Rs 10,516 crores from a meager figure of Rs 179 crores in 1994-95. This might be due to continuous dialogue between the countries for normalization of relations in spite of persistent problems.

**Increase in percentage share of exports:** The percentage share of India’s exports to Pakistan as a proportion of Indo-SAARC export trade which was in single digits in the later period from 2004-05 onwards and settled at 18.2 percent by the end of 2010-11 (see table 4.25). Whereas India’s imports from Pak as a percentage of Indo-SAARC import trade was always in double digits right from 1994-95 till 2010-11 (see table 4.26).
**Surplus trade with Pakistan:** The study reveals that India had always surplus trade with Pakistan. India’s positive trade balance with Pakistan rose from Rs 14.1 crores in 1994-95 to Rs 8997 crores in 2010-11 (see table 4.17).

**Land routes are suggested as trade routes:** At present major portion of trade between India and Pakistan is through the Karachi and Mumbai ports which prove to be very uneconomical when the two countries have a large common land border. There is an immediate need to revive Wagah/Attari, Hussainwala check posts and other land routes in Gujarat, Rajasthan and Kashmir to greatly facilitate the movement of bulk cargo. Instant clearance of customs at all border check posts will smoothen speedy trade of agricultural and perishable goods.

**Pakistan should recognize ‘cost advantage’:** India has a cost advantage over Pakistan in various engineering goods. Various engineering goods like tyres, machinery, plastics can be imported from India. Whereas Pakistan imports most of the agricultural and industrial items at 20 per cent to 40 percent higher cost from US, UK, Russia, etc. India can meet one fifth tea requirements by Pak imposes 49 per cent excess duty on the import of Indian tea.

**Presence of unofficial trade:** Pakistan has placed several restrictions on imports from India though India has not imposed any restrictions on import of Pakistan goods. The proximity of borders and economical route passages have indirectly promoted unofficial trade. The high volume of unofficial annual trade to the extent of US $2 billion – speaks of trade potential between the countries.

**Comparative cost advantage to be exploited:** Both countries can supplement and supplant their mutual needs as the prices of
various items which they can import from each other are either competitive or lower than the prices in the foreign market. The two countries can identify such items which can meet each others’ requirement and exploit the comparative cost advantage.

**Trade to be seen as a separate object:** The Indo-Pakistan political disputes should be kept above the trade subject on the lines of China-Taiwanese whose mutual trade flourished despite the unresolved issues between them. The shadows of issues of Kashmir and terrorism should not fall on the trade issues between India and Pakistan.

**Positivism to be generated:** Direct exports from India to Pakistan will cut down the cost and will benefit consumers in Pakistan, adding that the move will gradually pave the way for Most Favored Nation status to India. Pakistan intends to grant MFN treatment to India by end of 2012. India’s unilateral grant of preferential access to an additional 30 percent items from Pakistan and opening of Attari-Wagah border will help speed up improvement in trade ties.

**SAARC future lies in easing out Indo-Pak tensions:** India and Pakistan are two major countries of SAARC. India accounts for about 76.6 per cent of the total population and 73.3 per cent of the total area of SAARC. Pakistan accounts for about 10.7 per cent of the total population and 17.7 per cent of the total area of SAARC. Hence both account for about 87.3 per cent of total population and 91 per cent of the total area of SAARC. Both are the less developed countries of the world. Thus, the development of trade relations between India and Pakistan can make a positive contribution to the SAARC.

**Rivalries to be mitigated at the earliest:** Many observers have also pointed out that the rivalry between India and Pakistan and
the longstanding dispute over Kashmir casts a shadow over the camaraderie and effectiveness of the entire exercise.

**Unnecessary costs to be eliminated:** In the context of Indo-Pak trade, most of these goods are imported by Pakistan at a high cost; instead Pakistan could import all these items from India and thereby could save much cost. It is gainful to India and Pakistan to promote mutual trade as both are neighboring countries and can have trade by land route, which would have a lot in terms of transportation and transshipment costs.

**Some recent moves to improve Indo-Pakistan trade:** Both countries have agreed to removal of obstructions to bilateral investments, liberalization of business visa arrangements during 2012, according MFN status to India, forming of grid connectivity between Amritsar and Lahore with 500MW of power, speedy completion of infrastructure connection for trade through Attari-Wagah land route – all these measures help in normalisation of bilateral trade relations.

**Pakistan shift to negative list regime – a welcome move:** Pakistan’s move in recent times to negative list regime means that earlier items mentioned in negative list cannot be traded with India; whereas now Pakistan shortened negative list and expanded the positive list. With this, India is now permitted to export around 6800 items instead of only about 1950 items from India. Now almost 90 per cent items can be traded as opposed to 17 per cent earlier, since Pakistan shifted to negative list regime.

**INDO-MALDIVES:**

**Maldives – a tourism potential economy:** In recent years, Maldives has successfully marketed its natural assets for tourism
like beautiful picturesque, unpolluted beaches on small coral islands, diving in blue waters abundant with tropical fish, and glorious sunsets. Tourism now brings in about $600 million a year.

**India guides Maldives in many respects:** India extends guidance in various aspects of Maldives concerns in respect of security, foreign policy, infra development.

**Large scope for improvement in Trade relations:** Trade between India and Maldives is guided by the terms of bilateral trade agreement signed in 1981. The study reveals that export to Maldives have not been up to the mark while there is a large scope for improvement. In some years negative compound growth in exports was registered (see table 4.18).

The share of India’s exports to Maldives as a percentage of Indo-SAARC exports had been hovering around 1 per cent or less than 1 per cent during the study period (table 4.18). Similarly the share of India’s imports from Maldives was also fluctuating around 1 per cent. However, when compared to 2005-06 when India's imports from Maldives were just 0.14 per cent of total Indo-SAARC import trade, the same could be increased to 1.57 per cent by the end of 2010-11 with a total import value of Rs 144.5 crores from Maldives. The study also reveals the balance of trade was in favor of India.

**INDO-AFGHANISTAN TRADE:**

**Friendly relations and timely help:** The study reveals that there have been very strong and friendly relations between India and Afghanistan. India helped Afghanistan during the Taliban civil war strife and provided necessary aid and in overthrowing Taliban government. India provides humanitarian and reconstruction aid
to Afghanistan. India is the largest regional investor and committed to US $2.2 billion for reconstructions.

**Exploitation of resources for the common good:** Both Afghanistan and India are agrarian countries. Afghanistan also possesses extensive deposits of natural gas. These resources can be a further explored and exploited by India for the mutual benefits of both the countries. Earlier Soviet Union was tapping the natural gas resources of Afghanistan.

**Exports to Afghanistan:** Exports to Afghanistan could be restored from 2005-06 onwards with Rs 631 crores which amount increased to more than Rs 1837 crores. Fluctuations could be noticed in the annual growth rates in India’s exports to Afghanistan. The trade data is shown since 2005-06 only because Afghanistan was not a member of SAARC prior to 2005 (see table 4.21). India was having trade surplus with Afghanistan throughout the study period (see table 4.22).

**Other findings:**

**Composition of Export Items to SAARC countries:**

The export basket of India for SAARC countries is filled with varied items ranging from agricultural and industrial items. Transport equipment, cotton yarn fabrics, iron and steel, machinery and instruments, glass and glassware, ceramics and cement; petroleum and crude products, drugs, pharma and fine chemicals; plastic linoleum products, paper wood products, coal, tobacco unmanufactured, spices, paints, non-ferrous metals, enamels, rubber products, marine products, electronic goods, oil means, fresh vegetables, spices, cosmetics, raw cotton including waste, dairy poultry products, products, etc.
**Exploitation of trade complementarities:** South Asian region throws significant trade complementarities that allow countries to specialize in different products. Several studies identified as many as 113 potentially tradable items within the SAARC region. These include tea and coffee, cotton and textiles, garments, rubber, light engineering goods, iron and steel, cement, edibles (dry fruits, spices, and vegetables), medical equipment, pharmaceuticals and agro-chemicals, among others. Due to existing trade barriers a number of these items are currently imported into the region.

**Exploitation of comparative advantage:** Zones of comparative advantage embrace countries, making trade feasible across these zones. Thus Sri Lanka, Bangladesh and India all export tea, while Pakistan imports it. India and Bangladesh export jute and jute products to the rest of the SAARC. Pakistan and India produce cotton, which its neighbors require. Similarly, India and, to a lesser degree, Pakistan export manufactured goods within the region.

**Role of informal trade:** Informal trade (smuggling) in South Asia is also a good index of trade complementarities. Under free trade, a substantial proportion of informal trade is likely to switch to formal channels. The major items currently being traded informally in the region include cloth of different varieties, cosmetics, jewelry, bicycles, medicines, cattle, sugar, spices, raw cotton, garments, machinery, cement, aluminum, petroleum products, automobile, tyres, and tubes, electrical goods, rice, etc. In spite of several complementarities, trade among SAARC countries still remains at low ebb.

**Suppression of intra-regional trade and diversion into illegal channels:** It is opined that magnitude of intra-SAARC trade could be have been higher in the absence of informal trade which is
caused by the presence of tariff and non-tariff barriers and smuggling of goods.

**Mitigation of conflict through trade:** Increased trade spurs domestic economic activity, thus generates employment and reducing unrest within domestic populations. According to international relations theory, the options whether to trade or go to war depends on the potential returns from trade and future prospects of trade levels in future. Therefore, the need of the hour is stepping up of bilateral relations through exchange of more trade delegations without any regard for political differences.

**Need for diversion of funds from defence to trade development:** South Asian nations waste huge resources on military equipment and up gradation on a regular basis, while India, Pakistan and Sri Lanka spend about 20 percent of their scarce resources that could have been used for poverty reduction health care including diseases eradication. In fact, in the name of defence, every country is forced to divert funds from development to defence. One wonders why India and Pakistan are so weapon thirsty and resort to such huge spending on arsenal while majority of their people suffer under poverty. And Fizzling out tensions would help in escalation in trade volume and augment incomes for both the countries. Trade could be used to boost trade and overcome the political differences between the SAARC countries.

Some more suggestions:

1. All quantitative restrictions and non-tariff barriers should be eliminated.
2. All items that are brought under SAPTA (preferential trade) should be actively traded. At present only a few items are actually traded.
3. The fears that bigger partner/country would dominate to be allayed.

Though SAFTA initiated removal of all such barriers, still more dynamic actions are required to speed up the intra-SAARC trade facilitation.

The existence of trade barriers between the SAARC countries has rendered the traders uncompetitive even though they are low cost producers∗∗.

CONCLUSION

SAARC countries should converge into each other to face boldly the common challenges facing them. With one-fifth of humanity, the SAARC countries are faced with problems of poverty, backwardness, low productivity, unemployment and high pressure of population. The diverse economic features of the Saarc countries can also bring complementariness in forging ahead the trade relations among these countries. India and Pakistan being the largest among the Saarc in terms of GDP and population shall shed away the political misunderstandings. India’s giantness shall not be viewed as dominance; instead the member countries may view it as a shadow of protection under the stewardship of the third world leader viz., India. This kind of approach gives them collective strength so as to face the onslaught boldly in their trade management with the advanced countries.

∗∗ South Asia has efficient low cost producers in the region who have been rendered uncompetitive due to the existence of trade barriers, both open and hidden. In fact, presently a large percentage of South Asian imports are from outside the region and at much higher cost. For example, Sri Lanka currently imports railway coaches from Romania forgoing the much cheaper alternative available in Southern India. In cement and ship building Sri Lanka Sri Lanka trades with South Korea instead of tapping the cheaper options in Pakistan and India. Pakistan imports iron ore and textile machinery at a higher cost than are available from India. Existing tariff