CHAPTER - I

INTRODUCTION

In today's world no nation exists in economic isolation. A nation’s economy, its industries, service sectors, levels of income and employment and living standards are linked to the economies of its trading partners. The benefits of international trade accrue in the forms of lower domestic prices, development of more efficient methods and new products and a greater range of consumption choices. In an open trading system, a country will import those commodities that it produces relatively at a higher cost. Since resources are channeled from uses of low productivity to that of high productivity, gains from trade are attained permitting higher levels of consumption and investment.

Over the past 20 years, world trade has grown twice as fast as real GDP deepening economic integration and raising living standards\(^1\). The role of foreign trade in economic development is considerable and both are intimately connected. Trade can stimulate growth if exports are tending to increase faster than imports or be a brake on growth if imports are tending to increase faster than exports.

The dramatic growth of cross-border investment and international trade over the past two decades combined with explosive growth in global communications and technology. The FDI\(^1\) flow, which was $160 billion in 1991 soared to $1.1 trillion in 2000. And the volume of international trade also expanded dramatically
to 16 fold over the past 50 years, are evident for well being of the nations through open trading system. However, it is generally accepted that the gains to a nation from free international trade may more than outweigh the losses to particular domestic firms and workers. Although free trade is often strongly advocated, many countries believe that the expansion in trade is best accomplished through the establishment of Regional Economic Association (REA) / Integration (REI). However, the emerging WTO regime has in no way undermined the process of regionalism. It has wide ranging implications for the global economy.

The South Asian Association for Regional Co-operation (SAARC) comprises the seven countries of South Asia. i.e., Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. SAARC is a manifestation of the determination of the people of South Asia to work together towards finding solutions to their common problems in a spirit of friendship, trust and understanding and to create an order based on mutual respect, equity and shared benefits. The primary objective of the Association is the acceleration of the process of economic and social development in member states, through collective action in agreed areas of co-operation

South Asian nations have not only a shared culture and a common history, but also, a common destiny in the 21st century. South Asia constitutes 3% of world area, but houses 22% of the world’s population. South Asia also makes an
integrated condominium of common rivers, mountain system, ocean and a conjoint ecological system.

The region suffers from massive balance of payments burden, mass unemployment, high population growth rate, large concentration of poverty, low rate of economic growth, constant food shortage, worsening terms of trade, largely illiterate, considerable malnourished, and also the least gender sensitive region of the globe.

The combined GDP of South Asia US $ 609 trillion is only 1.8% of the world GDP. Unsurprisingly therefore, per capita incomes are low. In 2000 the average per capita income stood at $ 490 and therefore poverty is a serious problem confronting the south Asian economies.

The South Asian economies differ rather significantly in size. For example, India accounts for more than three-fourth of the region’s GDP while Sri Lanka and Nepal contribute only 2.7% and 0.9% to the regional GDP respectively. Pakistan and Bangladesh comprise medium sized economies in the region and account for 11.7 and 8 percent respectively of the regional GDP. There are also sharp variations in per capita incomes across the countries, Sri Lanka’s per capita income (US$ 860) is over three times that of Nepal (US$ 241). Whereas Bangladesh, India, and Pakistan’s per capita income is US$ 373, 459, and 516 respectively.
The Imports of South Asia increased from $37.7 billion in 1990 to $78.1 billion in 2000, indicating an annual growth rate of 9.8 percent, but the Exports increased at a more rapid rate of 12.06 percent, from $27.3 billion in 1990 to $65.2 billion in 2000. India's bilateral trade with the SAARC countries accounts for a small share in her trade. India's Imports from SAARC countries increased marginally from 0.54% of the total Imports in 1991 to 0.73% in 2000. Whereas, the Exports rose to 4.43% in 2000 compared to 1.78% in 1991 (More than doubled).

Due to the growing protectionist tendencies in the international market and the increasing competition among suppliers, particularly in the developing world, the need to evolve feasible strategies for regional economic co-operation in South Asia is becoming more and more apparent. This is evidenced by the recent tempo of activities in this regard in the South Asian region. Increased regional economic co-operation would help reduce the economic dependence of the South Asian countries on the developed countries in the future. Given the possibility that trade with the rest of the world does not offer very happy prospects in the future, intra regional trade could facilitate growth and development of the South Asian countries on the basis of the regional self-reliance. Such regional economic co-operation is considered feasible because intra regional, historical, cultural, geographical and developmental commonalities are much stronger than intra regional differences in political and economic structures and perspectives. Besides, the sub continental economy of the South Asian region offers potentially
vast and undeveloped markets, and is blessed with huge endowments of material and human resources. Against this background, the present study attempts to review the trade structure and technological flows among SAARC countries and to indicate a few areas for future co-operation. Also undertakes a detailed analysis of the pattern of "revealed Comparative" advantage and the extent of trade complementarity in South Asia, with a view to ascertaining whether or not the SAPTA (Saarc Preferential Trading Agreement) and the existing trade structures of individual countries can support the regional economic co-operation initiatives.

1.1 STATEMENT OF THE PROBLEM:

The International economic environment and the global political balance have undergone revolutionary changes since the beginning of 1980s. The Introduction of this development has consequently led to a continuous erosion of multilateral frame work of trading system: increasing internationalization of production, application of various protective unfair trade policies and comparative disparity on the distribution of benefits from the existing trading system. Further, the formation of regional grouping of organizations has become a trend in the world economies since the post world war-II, not only to strengthen gradual economic integration for overcoming barriers of global trade policies but also to exploit the potential of complementarities for a better allocation of available resources to mutual comparative advantage.
The trend towards excessive regionalisation of world markets vis-à-vis the formation of different regional blocks have created a common threat to the prospects of a multilateral trading system and opening door for bilateralism, despite the efforts of WTO to evolve a multilateral free trading system under the frame work of new round of trade negotiations.

Since the late 1950s more than forty economic co-operation and association arrangements have been formed among developing countries. Their experience has shown that most of them disintegrate prematurely in an atmosphere of hostility and recrimination or otherwise they became inactive and continue to exist but only on paper. It is possible to assess the success of regional economic co-operation among developing countries only in the longer term i.e., after the development of a productive sector capable of responding to increases in inter-regional demand. Further, REA (Regional Economic Association) is necessary among developing countries in order to increase the group’s bargaining power in its economic and sometimes political external relations.

SAARC was founded by the Dhaka declaration of 1985 as a regional grouping of seven South Asian developing countries viz., Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. After successful establishment of SAARC as an association for political affairs, all the seven countries literally agreed to form a regional block for economic activities. That dream came to realize ultimately when SAPTA was founded on 11th day of April 1993.

6
The main aim of the present study is to analyse India’s foreign trade with SAARC countries individually and with the Region (which is consortium of less developing countries) as a whole under SAPTA agreement and to investigate the changes before and after the formation of SAPTA. This study on the changes in India’s foreign trade from 1991-92 to 1999-2000 is expected to be useful in evolving suitable policy prescriptions that would lead to improving the trade with SAARC countries and thereby improving the country’s balance of payments position.

1.2 SIGNIFICANCE OF THE STUDY:

Foreign Trade assumes significance because they form the core component of the process of country’s growth and employment generation. Therefore it becomes a matter of paramount importance to study the various options for improving the Foreign Trade relationship with various countries and developing countries in particular. Our experience with European Union market for Indian exports and various rigidities in terms of newer trade barriers makes us to think of the possibilities of improving and diversifying trade to the countries closer to us. An enquiry into the achievements of SAPTA, its problems and prospects is extremely significant in this context.
1.3 OBJECTIVES OF THE STUDY:

Following are the specific Objectives of the present study:

1. To analyze the trends in India’s aggregate exports and imports for the period 1991-92 to 1999-2000.

2. To analyze the SAARC intra regional trade before and after implementation of SAPTA.

3. To facilitate in identifying the appropriate Policy instruments and strategies for achieving the objectives of regional economic co-operation.

4. To study the possibilities for promotion of Intra-regional trade through Preferential trading arrangements, Joint ventures, Technology Transfer and Investments.

5. To outline the scope for Co-operation in areas like Regional projects, Physical infrastructure and Regional Tourism.

6. To make recommendations to improve and consolidate India’s trade with SAARC countries.

1.4 HYPOTHESIS:

(1) SAPTA has not led to improvement of India’s Trade with SAARC countries.

(2) There is no Trade Complementarity that exists between SAARC countries.
1.5 METHODOLOGY:

The methodology followed in this study is a broad analytical framework encompassing the various facets of regional economic co-operation. This framework is considered useful for two important reasons. The first is that it provides a rational basis for establishing regional economic co-operation. This helps in removing the apprehensions about the prospects of regional economic co-operation. Specific commodities/products and industries have been identified for the expansion of intra-regional and intra-industry trade and for the establishment of joint ventures in the member countries. The second reason is that this framework also facilitates in identifying the appropriate policy instruments and strategies for achieving the objectives of regional economic co-operation. The study has also outlined the supporting institutional mechanisms in areas related to trade and investment. Such mechanisms often play a crucial role in strengthening the efforts of regional economic co-operation.

Furthermore, the issues concerning regional trade liberalization are many, and to understand the ground realities, there is a need for having varieties of databases and adoption of number of suitable approaches. In this study we have attempted to examine intra-regional trade over a period of time. In the context of existing intra-regional trade, attempt has been made to examine coverage and effectiveness of each round of SAPTA on individual member countries.
1.5 (A) Sources of Data and Tools of Analysis:

For the purpose of the study, both Primary and Secondary data were used. Primary data are collected through interviews and discussions with the traders/agents to get their views on improving the trade relationship with SAARC countries. For examining Intra-regional trade among SAARC member countries, we have used data provided by Direction of Trade Statistics, IMF, World Bank, ADB, RBI, plan documents of Government of India, Study reports of the various Universities, Directorate of Industries etc., To trace the bilateral and intra-regional trade behavior, we have used time series data for the period 1990-2000. For data on Tariff and non-tariff barriers and Concessions, the information provided by the SAARC Secretariat is used. It may be noted that different rounds of SAPTA were signed and implemented at different points of time. We used “before and after” approach to examine the effectiveness of each round of SAPTA on India from the specific supplying partner country.

In Balassa’s RCA index, it is argued that if a country exports a relatively substantial part of its domestic production and if this performance index is better than the internationally practiced norms, the product is considered to be competitive. We have used the same logic to identify the potential product for each country. Similar to Balassa’s argument, it may be argued that a country has competitiveness in those products, which are exported substantially as compared to other products in the export basket of the country.
Various Journals, Books, Working Papers etc., also form the sources of Secondary data.

1.5 (B) Sampling Design:

The Primary data were collected using multiple methods such as Questionnaire, Interviews and Discussions. Discussions method was largely used. A list of registered companies and traders who are actively dealing with Saarc countries was obtained from the offices of the Joint Director General of Foreign Trade, Kochi, Bangalore and New Delhi. This list had 32 organisations from Kochi, 116 organisations from Bangalore, and 200 from Delhi. To restrict the sample size to 100 and to give equal representation to all the three regions, all the 32 organisations of Kochi and 34 Organisations each from Bangalore and Delhi region were randomly selected. Questionnaires were sent to all the 100 organizations. However 9 Organisations from Kochi, 2 from Bangalore, and 5 from Delhi did not respond. After receiving the completed questionnaires, the researcher personally interviewed officers of the organisations for further clarifications. Repeated visits were required in some of the cases.

Interviews and discussions were also held with Experts/Academicians/Research Scholars etc., to get a deep insight into the problems, prospects and policy formulations etc., in the SAARC region.
The Data collected were edited, processed and analysed using appropriate statistical tools.

On the basis of analysis, conclusions are drawn and recommendations are made.

1.6 SCHEME OF THE STUDY:

The scheme of the thesis is as follows:

The first Chapter contains the Introduction, Objectives of the study and Methodology of the study. In chapter II Review of literature is outlined. In Chapter III Origin and Development of Regional Economic Integration has been discussed. Chapter IV contains two sections viz., (a) analysis of Revealed Comparative advantage (b) Trade Complimentarity. An overview of Analysis of Intra-regional Trade of SAARC countries is presented in chapter V. Regional Co-operation in Other Areas viz., Possible opportunities/promotion of trade through Investments, Joint ventures and Technology Transfers, Physical infrastructure, Regional Projects, Regional Tourism and Energy Co-operation etc., is discussed in Chapter VI. Summary, Recommendations and Conclusions have been detailed in Chapter VII.
References:


