



ISSN NO. 2320-5407

Journal homepage: <http://www.journalijar.com>

INTERNATIONAL JOURNAL
OF ADVANCED RESEARCH

RESEARCH ARTICLE

PROBLEMS IN SOUTH ASIAN FREE TRADE AREA (SAFTA)

Mohit Kumar, Vipin

(Assistant Professor, A.S. College, Khanna)

Manuscript Info

Manuscript History:

Received: 22 May 2015
Final Accepted: 19 June 2015
Published Online: July 2015

Key words:

Inulin, *Lactobacillus*,
Microencapsulation, Prebiotics,
Probiotics, Psyllium

*Corresponding Author

Mohit Kumar

Abstract

Countries that form a regional trading arrangement (RTA) are usually heterogeneous, as reflected in their size in terms of geographic area, population as well as gross national output, economic structure as manifested in the composition of goods and services produced and traded, and policy intervention mechanisms in place by way of fiscal, financial and trade-related measures, influencing domestic production and trading activities. These varied characteristics of the members greatly influence their gains from an RTA. The South Asian countries under the South Asian Free Trade Area (SAFTA), vividly portraying their inherent dissimilarities, also point toward a somewhat uncomfortable scenario of unequal distribution of potential gains from the regional cooperation scheme. Whilst all the SAFTA members are low-income developing countries, four of them viz., Bhutan, Bangladesh, Maldives and Nepal are amongst the least developed countries (LDCs) due to a number of overriding problems that constrain their economic growth and development. Consequently, to what extent these problems can effect SAFTA agreement is an important question, which is the principal objective of this paper.

Copy Right, IJAR, 2015., All rights reserved

INTRODUCTION

SAPTA was envisaged primarily as the first step towards the transition to a South Asian Free Trade Area (SAFTA) leading subsequently towards a Customs Union, Common Market and Economic Union. In 1995, the Sixteenth session of the Council of Ministers (New Delhi, 18-19 December 1995) agreed on the need to strive for the realization of SAFTA and to this end an Inter-Governmental Expert Group (IGEG) was set up in 1996 to identify the necessary steps for progressing to a free trade area. The Tenth SAARC Summit (Colombo, 29-31 July 1998) decided to set up a Committee of Experts (COE) to draft a comprehensive treaty framework for creating a free trade area within the region, taking into consideration the asymmetries in development within the region and bearing in mind the need to fix realistic and achievable targets.

The SAFTA Agreement was signed on 6 January 2004 during Twelfth SAARC Summit held in Islamabad, Pakistan. The Agreement entered into force on 1 January 2006, and the Trade Liberalization Programme commenced from 1st July 2006. Following the Agreement coming into force the SAFTA Ministerial Council (SMC) has been established comprising the Commerce Ministers of the Member States. To assist the SMC, a SAFTA Committee of Experts (SCOE) has been formed. SCOE is expected to submit its report to SMC every six months. The SAFTA Agreement states that the "the SMC shall meet at least once every year or more often as and when considered necessary by the Contracting States. Each Contracting State shall chair the SMC for a period of one year on rotational basis in alphabetical order."

The Governments of the SAARC (South Asian Association for Regional Cooperation) Member States comprising the People's Republic of Bangladesh, the Kingdom of Bhutan, the Republic of India, the Republic of Maldives, the Kingdom of Nepal, the Islamic Republic of Pakistan and the Democratic Socialist Republic of Sri Lanka hereinafter referred to as "Contracting States"

Motivated by the commitment to strengthen intra-SAARC economic cooperation to maximise the realization of the region's potential for trade and development for the benefit of their people, in a spirit of mutual accommodation, with full respect for the principles of sovereign equality, independence and territorial integrity of all States;

Noting that the Agreement on SAARC Preferential Trading Arrangement (SAPTA) signed in Dhaka on the 11th of April 1993 provides for the adoption of various instruments of trade liberalization on a preferential basis;

Convinced that preferential trading arrangements among SAARC Member States will act as a stimulus to the strengthening of national and SAARC economic resilience, and the development of the national economies of the Contracting States by expanding investment and production opportunities, trade, and foreign exchange earnings as well as the development of economic and technological cooperation;

Aware that a number of regions are entering into such arrangements to enhance trade through the free movement of goods;

Recognizing that Least Developed Countries in the region need to be accorded special and differential treatment commensurate with their development needs; and

Recognizing that it is necessary to progress beyond a Preferential Trading Arrangement to move towards higher levels of trade and economic cooperation in the region by removing barriers to cross-border flow of goods;

PROBLEMS IN SAFTA

A. LIBERALIZING PROTECTIONIST REGIMES:

After the Second World War, significant protectionist sentiment compelled the economies of South Asia to pursue import-substituting industrialization (ISI). They maintained a strong anti-export bias, a massive public sector, and a control-ridden private sector at their periphery. ISI advocates worked to limit trade, especially intra-regional trade.

Pre-1990 tariff levels in Bangladesh, India, and Pakistan are demonstrative. In the early 1990s, a few South Asian economies began to slash tariffs and liberalize their domestic trade regimes. According to the United Nations' Commodity Trade Database, while considerable tariff liberalization did occur, the region has continued to rank among the most highly protected in the world, second only to the group of socialist economies.

Tariff Rates in South Asian Economies (Percent)

Country	Year	Simple Average	Weighted Average	Standard Deviation
Bangladesh	2004	18.42	16.87	10.2
Bhutan	2002	16.61	18.18	10.9
India	2001	32.32	26.50	13.0
The Maldives	2003	20.21	20.68	13.2
Nepal	2003	13.61	16.80	10.9
Pakistan	2003	17.10	14.46	10.9
Sri Lanka	2001	9.25	6.68	9.3

Source: Mukherji. 2005. Computed from the United Nations' COMTRADE Database.

Both simple and trade-weighted average tariff rates were highest in India and lowest in Sri Lanka. In 1989-90, applied average unweighted tariffs for the South Asian economies were 76%. Non-tariff barriers (NTBs) and para-

tariff barriers (PTBs) have also presented serious problems to sub-regional integration. In April 2006, trade ministers of the seven countries met in Dhaka to review and control NTBs and PTBs. Pursuant to that end, the SAFTA Committee of Experts was established to meet twice a year.

The South Asian economies implemented macroeconomic reforms and liberalization measures due to general disenchantment with the socialistic style of economic management that prevailed under the ISI regime, whereby large governments intervened in the economic sphere. Regional economic policymakers believe that their countries have been missing out on the growth opportunities that East and Southeast Asia enjoy. Except for Sri Lanka, the economies of South Asia failed to liberalize their trade and foreign investment policies until the early 1990s. A pioneer in the region, it undertook significant reform and liberalization measures towards the end of the 1970s and during the 1980s. Given the country's relatively high per capita GNI, its reforms seem to have yielded significant benefits.

In conjunction with trade policy liberalization, the South Asian economies also launched a much-needed and long-awaited campaign of industrial deregulation. Public policy mandarins were slow to realize the error of their ways. The business community and a segment of the policymaking community eventually began to recognize, however belatedly, how critical the external sector could be to economic growth and poverty alleviation. Even incomplete reform measures of recent times have achieved clear gains. At 16.1% in 1981, the poverty gap index for the region declined to 11% in 1990 and 6.4% in 2001

B. DOMINANCE OF INDIA:

India has emerged as the region's unquestioned economic leader. It has failed to reach its full potential, however, due to tenuous relations with its neighbors. Experiences of the last two decades (1985-2005) have shown how difficult it is to bring about reasonable economic integration between such politically acrimonious members of the SAARC as India and Pakistan. Their relationship has always been one of suspicion⁴. In stark contrast, the small economies of Bhutan and Nepal have maintained strong trade links with India.

It is important to note the extent to which economic developments in India can affect developments in other sub-regional economies. Until the early 1990s, India was never regarded as a rapidly growing economy or successful trader. Its export structure abounded in products that were undifferentiated, labor-intensive, low-skill, and technologically simple. Its dispirited performance adversely affected neighbor economies. The situation changed dramatically when its growth began to accelerate in the 1990s. Since 2000, several macroeconomic and financial indicators suggest a marked improvement. India's trade with Asian economies, particularly China, has improved significantly after the currency crisis of 1997-98. India's stock market has boomed, with capitalization growing at a heady pace. Recent rankings show India as one of the three most favored destinations for FDI. The flow of resources to India has provided benefits to the rest of the region.

Since India constitutes 70 per cent or more of SAARC's area and population, and has political conflicts with all its neighbours, India has to redefine its role, from seeking reciprocity in bilateral relations, to being prepared to go the extra mile in meeting the aspirations of all other SAARC nations.

A shortcoming in the current situation is that unlike Europe, SAARC is not an association of nearly equally sized countries. India, as stated earlier, is about 70 per cent of the size of South Asia, and the other SAARC member-nations have a common border bilaterally only with India, and not with each other. The economic and quality of life disparities among South Asian nations are also quite wide.

C. MORE THAN INCOMPLETE REFORM PROGRAMS

Reform implementation has remained slow and incomplete in the region. According to South Asia scholars, governance issues have proven to be its Achilles' heel. Transparency International's Corruption Perception Index (CPI), an annual ranking, found that Bangladesh was the most corrupt nation in the world, receiving a score of 1.7 out of 10. Other ranked South Asian countries also recorded poor performances.

Country Rank in the World CPI Score

Country	Rank	Score
Bangladesh	158	1.7
Pakistan	144	2.1
Nepal	117	2.5
India	88	2.9
Sri Lanka	78	3.2

Source: Transparency International. Berlin, Germany.

The economies of South Asia have continued to suffer from macroeconomic, financial, and governance-related constraints. These deficiencies have combined to retard productivity growth rates and rein in the competitiveness of export-oriented sectors. In effect, private economic activity has suffered from infrastructural bottlenecks, poor economic governance, labor and land constraints, and deficient financial market performance. The most conspicuous economic constraints have been attributable to power shortages, archaic labor laws, and inefficient customs procedures and trade regulations. Small and medium-sized business enterprises have frequently faced problems in accessing capital from the organized financial sector. While property rights have been properly defined, implementation has been arbitrary. Bureaucracy and rent-seeking practices in government continue to increase transaction costs enormously.

Longstanding social challenges have only exacerbated these economic difficulties—the presence of corruption, inefficient government systems, incompetent bureaucracies in the larger South Asian economies, domestic turmoil, and foreign conflict have all proved detrimental.

Though incomplete, recent reforms in this arena have demonstrated promise in facilitating the path towards integration. An increasingly democratic environment has contributed to institutional development and free press in the region. While bureaucratic hurdles have slowed progress on the one hand, associated governance improvements have accelerated it. Importantly, these reforms have helped to erode the most egregious forms of anti-export bias from which these economies suffered in the past.

Gradual domestic policy reforms improved export performance from 1990 to 2000, as reflected in improvements in trade to GDP ratios. According to two World Bank economists who study the South Asia region, financial flows helped South Asian economies surpass trend growth rates. After 9/11, Pakistan's external debt burden declined sharply. A significant source of capital flow originated from remittances—more nationals from the larger South Asian countries live and work abroad as they repatriate their savings. In 2005, a total of \$22 billion in remittances helped to stabilize the region's balance of payments.

D. ECONOMIC CASE FOR SAFTA

Historical figures reveal a steady decline in intra-regional trade in South Asia during the postwar period—down to 2% of total trade levels by the mid-1960s. Despite small improvements in recent years, consistent figures of less than 5% indicate the low likelihood of uniting the sub-region as a cohesive trading bloc in the short-term. Moreover, the World Bank concludes that SAFTA member countries have tended to trade far more extensively with industrial economies like the United States and the European Union, due perhaps to differences in factor endowments (India and Pakistan provide a case in point).

While Bangladesh and Sri Lanka, in contrast, respectively received 20% and 15% of their total imports from South Asian countries (notably India), their import volumes covered a small share of Indian exports. As a share

of total exports, Indian trade flows to neighboring sub-regional economies did see a small increase in the 1990s, from 3% in 1990 to 5% in 2002. These improvements were not, however, universal—unilateral non-discriminatory tariff liberalization was carried out on a most-favored-nation basis. This evidence suggests, albeit weakly, that a cohesive and profitable free trade agreement in South Asia is possible in the short-term

E. CONFLICTS AMONG MAJOR ECONOMIES OF SAFTA

Disagreements between India and Pakistan on SAFTA-related issues persisted even in 2006. In November 2006, India claimed that Pakistan was deviating from the SAFTA Agreement and was refusing to implement it in letter and spirit. The Indian Minister of External Affairs suggested that it would be difficult to operationalize SAFTA unless Pakistan implemented it earnestly. While Pakistan had expanded the basket of tradable goods under the positive list by 78 items, obstructions to trade continued. The minister accused Pakistan of applying conditions to trade with India under SAFTA, a step that went against the essence of the agreement. India launched a formal complaint to the SAARC Council of Ministers.

CONCLUSION

Since, SAARC was formally established in 1985, during its first Summit in Dhaka, Bangladesh. The comprehensive objective of the alliance and SAFTA agreement was to consolidate South Asia's economic and geopolitical potential, and promote the welfare of the population of the region and improve their quality of life.

But more than three decades since it was formed, SAARC stands on shaky ground, and according to some experts has largely been a “somnolent and disappointing body,” its achievements meagre and unconvincing.

Economically, the region is one of the least integrated in the world, with very low levels of intra-regional trade and investment. Intra-regional trade is under 5 percent of total official trade – less than it was fifty years ago – while intra-regional foreign investments as a proportion of total investment figures are just as paltry. Juxtaposed to this, intra-regional trade accounts for nearly 35 percent of the total trade in East Asia, 25 percent in Southeast Asia, and almost 12 percent in Middle East and Africa. The SAFTA (South Asian Free Trade Agreement) group comprises a region that has tremendous economic potential, but despite having 23 percent of the world's population, the region accounts for only 6 percent of Purchasing Power Parity based global GDP, 2 percent of world goods trade, 3 percent of global foreign direct investment, but more than 40 percent of the world's poor.

SAARC has also done little to improve bilateral disagreements and skirmishes, and the Regional Convention on Suppression of Terrorism has failed to combat terrorist activity. Inter-state conflict is also one of the most significant reasons for the stalling of the SAFTA. The group's commitment to the goals of the SAARC Charter for Democracy, have been disappointing with several member-nations struggling with military coups, unstable governments, rampant corruption and abuse of power.

Several factors combine to make a negative case for a viable free trade agreement in the short-term. Even so, a reasonable case exists for the creation and gradual strengthening of SAFTA, as there are few benefits to dwelling on historical ill will. As these economies grow and economic complementarities begin to develop, the countries of South Asia may find that SAFTA can offer a potentially significant contribution to their progress

Despite the all discussed problems SAFTA will be an appropriate platform for meeting the common challenges of the region. The member countries should cooperate with each other to address them.

REFERENCES

1. W.P.S. Sidhu & Rohan Sandhu, “Reinvigorating SAARC: India's Opportunities and Challenges”, Brookings India.
2. Sheel Kant Sharma, “South Asian Regionalism: Prospects and Challenges”, Indian Foreign Affairs Journal Vol. 6, No. 3, July-September 2011, 305-314
3. Dilip K. Das, “The South Asian Free Trade Agreement: Evolution and Challenges”, MIT International Review.
4. Subramanian Swamy, “A case for SAARC reforms”, The Hindu, Nov 25, 2014.
5. Mohammad A. Razzaque, “Weaker Economies in SAFTA: Issues and Concerns”, 1st South Asian Economic Summit, Colombo, Sri Lanka.
6. Rajiv Kumar, “SAARC: Changing Realities, Opportunities and Challenges”, DIE Research Project, 2011.
7. Zahid Shahab Ahmed, S Stuti Bhatnagar, “Interstate Conflicts and Regionalism in South Asia: Prospects and Challenges”, Perceptions, Spring Summer 2008.