

ROLE OF SOUTH ASIAN FREE TRADE AREA [SAFTA] IN THE DEVELOPMENT OF INDIAN ECONOMY

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ABSTRACT

In international trade, free trade agreements are getting importance. Since the inception of WTO in 1991, continuous deadlock right from the Doha round, regional and bi-lateral trade agreements have emerged with fruitful results. On the other hand, multi-lateral trade agreements failed to build broader consensus. This is why regional trade agreements are binding neighboring member countries with more powerful force of trade, money and developing economy. The requirement of economic integration in South Asia led to the establishment of South Asian Association for Regional Cooperation [SAARC] in December, 1985. SAARC involves seven countries, namely, India, Bangladesh, Pakistan, Nepal, Bhutan, Sri Lanka and Maldives with its Secretariat in Kathmandu, Nepal. The fundamental goal of SAARC is to accelerate economic and social development through optimum utilization of their human and material resources. SAARC has operationalized South Asian Free Trade Area [SAFTA] since July 1st, 2006. SAFTA leads to South Asian Economic Union, just like European Union. Regional Economic integration in South Asia is to leverage the participating members to get considerable synergies and act as complementary for their mutual advantage. The SAFTA framework focuses on sustainable regional economic growth and improvement. The challenges before SAFTA are to find ways to use the resources to be derived from the trade generated to create opportunities to improve the entire economy so that the business may become more competitive. This study reveals India's exports and imports with the other SAARC member countries and SAFTA's role in the development of Indian economy.

Keywords: International, Regional, Utilization, Synergies, Complementary, Sustainable.

Introduction

In the present era of globalization, international business and multilateral economic activities have gained momentum. Past experience has shown that without active cooperation and integration sustainable growth is not possible. For economic integration in South Asia, South Asian countries joined their hands with each other and formed "**South Asian Association for Regional Cooperation (SAARC)**". The first concrete proposal for establishing a framework for regional cooperation in South Asia was moved by Mr.Ziaur Rehman the former president of Bangladesh in May, 1980. But the acceptance of the SAARC concept remained very slow and finally its charter was formally accepted and signed on December 8, 1985. In April 2007, Afghanistan was admitted as its 8th member.

SAARC is the platform to work together with a spirit of mutual trust, understanding and friendship. It focuses on the promotion of the process of economic as well as social development in the South Asian region. For accelerating the regional integration and quantum of intra-regional trade a large number of trade agreements among the SAARC member countries have been entered into. In the series of such agreements most important one is **South Asian Preferential Trade Area (SAPTA)**. SAPTA is also known as SAARC Preferential Trading Arrangement which was signed in Dhaka during the Seventh SAARC Summit on 11th of April, 1993. It came into existence from December 7, 1995.

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The basic principles of SAPTA are as follows:

- Overall reciprocity and mutuality of advantages.
- Step-by-step negotiations and extension of preferential trade arrangement in stages.
- Inclusion of all types of products- raw, semi-processed and processed.
- Special and favorable treatment to Least Developed Countries (LDCs)

The special treatment of LDCs includes allowance of favorable percentage points, application of relaxed rules of origin, favorable terms for technical assistance, duty- free access, deeper tariff preferences, removal of non-tariff and para-tariff barriers, negotiation of long-term contracts to support sustainable exports and provision of special facilities with regard to shipping and documentation, preparation and establishment of industrial and agricultural projects, tracking facilities and support to export marketing, etc possibly linked to cooperative financing and buy-back arrangements.

All the SAARC countries have implemented substantial reduction in tariffs and also modified their tariff structures as part of the ongoing economic policy reforms. These changes have been carried out with a view to improving the efficiency of domestic industries. This process in itself should help the expansion of intra-regional trade. But the presence of non-tariff barriers in different forms is acting as constraints to realize the potential for trade expansion. The SAARC Preferential Trading Arrangement (SAPTA) is expected to play an important role in boosting the intra-regional trade. According to the country perspective experts on SAPTA, this preferential arrangement would benefit SAARC countries due to the following reasons:

- The countries can substantially reduce the transport and transit cost because of geographical continuity among the members.
- Capital goods produced within the region may be more compatible to the factor endowment of member states than those imported from developed countries.
- The increasing competition among the member states would result in technical efficiency in existing industry as marginal firms might be forced to reduce their cost. Resources will be reallocated away from less efficient firms and monopolies protected by the tariff wall will no longer be in a sheltered position.
- As economic ties get stronger and countries become committed to common economic goals, political problems will gradually recede. When economic benefits gain significance, amicable environment may evolve for dissolving political problems.
- Regional cooperation may also pave the way for regional banks or corporation which might be influential in promoting regional investment in larger projects.

The SAARC Council of Ministers which met in December 1995 reached an agreement to transform SAPTA into South Asian Free Trade Area (SAFTA). The FTA came into effect from July 1, 2006. The following have been the causes of failure of SAPTA:-

- Persistence of high level of protection in member countries;
- Lack of any meaningful offer for tariff reduction;
- Several large sectors of trade which remained totally free from tariff reduction;
- Domestic political problems and tense relations among some members countries of SAARC, for example relation between India and Pakistan;
- India banned imports of consumer products from member countries till 1998 and from the rest of the world till 2001, which proved a hurdle in the way to having a robust SAPTA; and
- Product coverage under SAPTA remained limited also.

An overview of the trade conducted under SAPTA reveals that it took off to a very poor start and gave an impression of initially existing merely on paper and subsequently it stagnated. SAPTA performance in terms of tariff liberalization was exhausted primarily because of its implementation on product by product approach. It could not be regarded as a successful regional trade promoting body. The ultimate objective of the member countries was to build on SAPTA and turn the sub-region into a full-fledged Free Trade Area (FTA). An inter-governmental expert group was formed in the year 1996 to suggest the necessary steps to proceed in the direction of FTA. Converting, SAPTA into a South Asian Free Trade Area (SAFTA) was originally planned to be completed by the year 2001, but very little progress was made in this direction. After 10 years of prolonged discussion, deliberations and negotiations, the SAFTA agreement was signed on 6th of January, 2004; it came into existence on July 1st, 2006 and became operational in 2016.

SAFTA has removed trade limitations among member countries but each member country retains its own tariff structure against outsiders (non-member countries). Here, it is a noteworthy to mention that trade barriers/ Government interventions generally enhances cost of goods and services for both the consumers and the producers. Interventions include taxes and tariffs, non-tariff barriers such as regulatory legislations and quotas. Infact, free trade opposes all such restrictions. Liberalization which was introduced in 1991 entails elimination to these trade barriers in an effort for relatively unrestricted transactions.

Objectives of Forming SAFTA

SAFTA was formed to accelerate mutual trade and economic cooperation among the member countries. Its main objectives may be summarized as under:-

- To remove barriers of intra-regional trade and facilitate free movement of goods and services among the member countries.
- To encourage conditions of fair competition in the free trade area and ensure mutual benefit to the countries which enter into contract after taking into consideration their respective levels and patterns of economic development/ up-gradation/ improvements.
- To devise such systems as may help in achieving and application of the agreements entered into for joint administration and resolution of conflicts; and
- To set an agenda for further regional cooperation so as to enlarge and boost the mutual benefits to be derived from such agreements.

Ideologies Behind the Administration of SAFTA

The following are the ideologies behind the administration of SAFTA:

- SAFTA would be governed by the provisions laid down in it and by rules, regulations, decisions, understandings and protocols to be agreed upon within its framework by the member countries.
- The SAFTA Ministerial Council (SMC) would be the premier decision making body of SAFTA which shall be accountable for the administration and performance of this agreement and all decisions and arrangements made within its legal framework.
- The SMC would consist of the Ministers of Commerce/ Trade of the member countries.
- The SMC would meet at least once in every year and more often as and when it is considered necessary by the member countries. Each member country would chair the SMC for a period of one year by rotation in alphabetical order.
- The SMC would be supported by a Committee of Experts [COE], with one nominee from every member country at the level of a Senior Economic official who posses expertise in trade affairs.
- The COE would monitor, evaluate and facilitate implementation of the provisions of this agreement and accept any task assigned to it by the SMC. The COE would present its report to SMC after every six months.
- The COE would also act as dispute settlement body under SAFTA.
- The COE would meet at least once every 6 months or more than as and when considered essential by the contracting status. Each member country would chair the COE for a period of one year by rotation in alphabetical order.
- The SAARC Secretariat would provide secretarial support to the SMC and COE in the discharge of their functions.
- The SMC and COE would adopt their own rules and course of action.

Contribution of SAFTA to Indian Economy

The SAFTA promises sustainable as well as regional economic growth and development. The warmer relations among the SAARC countries have improved the potential benefit for the whole South Asian region. SAFTA pays greater consideration to trade facilitation measures would also boost intra-regional trade and produce tangible benefits comprising :-

- Elimination of barriers of intra-regional investment;
- Coordination among standards;
- Making of banking procedures for import & export financing quite easy;
- Simplification of customs clearance procedures;
- Providing transportation facilities for intra-regional trade; and
- Development of infrastructure facilities for intra-regional trade.

Table 1: India's Export with SAARC Countries

Year	Total Exports (Rs. In crore)	Exports to SAARC Countries (Rs. In crore)	Percentage Share	Percentage Growth
2008-09	8,40,75,505.87	38,82,302.25	4.6176	-
2009-10	8,45,53,364.38	39,64,599.23	4.6889	2.12
2010-11	11,36,96,426.38	53,00,685.23	4.6621	33.70
2011-12	14,65,95,939.96	64,04,796.85	4.369	20.83
2012-13	16,34,31,828.96	82,21,108.64	5.0303	28.36
2013-14	19,05,01,108.86	1,06,33,431.54	5.5818	29.34
2014-15	18,96,34,841.76	1,25,25,507.80	6.6051	17.79
2015-16	17,16,38,440.44	1,21,70,043.43	7.0905	-2.84
2016-17	18,49,43,355.34	1,28,91,090.62	6.9703	5.92
2017-18	19,56,51,452.80	1,48,92,306.80	7.6117	15.52
2018-19	23,07,72,619.38	1,77,25,537.92	7.681	19.02
2019-20	22,18,82,180.26	1,55,11,687.18	6.991	-12.49

Source: Ministry of Commerce, Government of India, New Delhi

The exports figures as mentioned in the above table reveal that India's exports which were Rs.38,82,302.25 crore in 2008-09 rose to Rs.1,77,25,537.92 crore in the year 2018-19. But during the year 2019-20 it experienced a falloff 12.49 percent. Percentage share which was registered 4.6176 rose to 7.681 percent in the year 2018-19 which reduced to near about 7 percent in the year 2019-20. India's total exports rose 2.64 times while exports to SAARC countries rose to 4 times during a period of 12 years. During the year 2015-16 and 2019-20, exports to SAARC countries showed negative growth. On an average the growth rate in exports to SAARC countries has been registered at 36.36 percent. There is huge potential of India's exports to South Asian countries.

The following table shows India's imports from SAARC countries:

Table 2

Year	Total Imports [Rs.in Crore]	Imports from SAARC countries (Rs.in Crore)	Percentage Share	Percentage Growth
2009-09	13,74,43,555.44	8,26,445.33	0.6013	-
2009-10	13,63,73,554.75	7,83,684.24	0.5747	-5.17
2010-11	16,83,46,695.56	9,88,783.92	0.5873	26.17
2011-12	23,45,46,324.44	12,07,644.88	0.5149	22.13
2012-13	26,69,16,195.82	14,56,153.40	0.5455	20.58
2013-14	27,15,43,309.73	15,00,947.87	0.5527	3.08
2014-15	27,37,08,657.82	17,94,801.71	0.6557	19.58
2015-16	24,90,30,553.77	19,45,897.40	0.7814	8.42
2016-17	25,77,67,536.67	18,87,325.75	0.7322	-3.01
2017-18	30,01,03,343.34	20,64,032.50	0.6878	9.36
2018-19	35,94,67,461.18	30,56,356.79	0.8502	48.08
2019-20	33,55,71,252.98	27,19,620.09	0.8104	-11.02

Source: Ministry of Commerce, Government of India, New Delhi

The figures as shown in the above table reveal that imports from SAARC countries rose to 3.29 times during a period of 12 years. On the other hand India's imports registered only 2.44 times during the same period. The growth rate in imports from SAARC countries on an average has been recorded at 29.11 percent. Only three years have shown negative growth i.e., 2009-10, 2016-17 and 2019-20. As a whole it may be out that as a result of favorable conditions, the future prospects of intra-regional trade for our country are bright.

Challenges before SAFTA

An overview of the performance and operation of SAFTA, the following have been noticed in the efficient running of this Agreement.

- **Tension in Relations:** there are tense political relations among some SAFTA member countries. For example, relations between India and Pakistan on Kashmir issue are tensionable. Both the countries want a solution of this dispute before discussing trade relations with each other. Such tensions among the member countries affect the trade adversely.
- **Low Income Region:** The South Asian region is low income region of the world. The people of this region possess low purchasing power hence, the trade among SAARC member countries would not result in prosperity and economic growth.
- **Huge Disparity among the SAARC Member Countries:** There is huge disparity among the SAARC member countries as regards economic power, military power, professional work force, geographical area, science & technology level as well as international influence. Such potential as a regional hegemony is harmful to SAFTA.
- **Resource Crisis:** The SAFTA depends upon contribution to be made by member countries to meet out its expenditure. It is facing serious resource crisis and member countries do have little enthusiasm to increase their contribution. SAFTA has inadequate fund to compensate the loss of custom duties to be borne by the Least Developed Countries due to change in the policies. Efforts are on to solve such problems.
- **Recessionary Conditions:** In the present scenario recessionary conditions are prevalent all over the world. Hence, there is huge challenge before the SAARC economics how to protect themselves from global slow-down.
- **Need for Upgradation and Development:** Mere liberalization is not enough for the expansion of trade and investment. There is urgent need to identify additional routes by road and rail, augment air links and look at ways to reduce freight costs by sea route. Infrastructure requires upgradation and development.
- **Environmental Challenges:** The South Asian region has been facing environmental hazards since long. Being progressively more aware of global warming, climate changes and environmental challenges facing the region, which generally include sea-level rise, soil erosion, drought, storms, cyclones, floods, melting of glaciers and urban pollution, etc.
- **Menace of Terrorism:** The whole South Asian region is facing serious challenges in the form of terrorism. To encounter the terrorism, strongest possible cooperation in struggle against terrorism campaign is needed amongst the concerned agencies of the member countries of SAARC.

Conclusion

From political point of view South Asian region is one of the lowest integrated blocs of the world. Intra-regional trade as a percentage of GDP is very low among the SAARC countries. The region has suffered much from the trade diversion generated by the many FTAs in America and European Union and its neighbors. Undoubtedly, SAFTA is also a vehicle of promoting better political ties amongst neighborly countries; especially India and Pakistan just like the EEC, which joined France and Germany into a tight economic union and made future conflicts between these two rivalry countries very costly. As already discussed through the figures shown in table1 and table2, the South Asian Countries do not trade much with each other, SAFTA would help to promote trade from informal to formal channels, e.g., the bulk of India-Pakistan trade is routed through Dubai which is very much costly.

India's trade with SAARC countries shows positive trend. It is really a positive sign for the whole South Asian region that India is doing business in both ways to some extent. SAFTA's performance may not be judged on the basis of a single country's potential and performance, rather it would further proceed successfully with the active participation of all member countries. It is hoped that proper and unbiased implementation of SAFTA would give it recognition like that of NAFTA, ASEAN, EU, etc.

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