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## **SAARC PREFERENTIAL TRADING ARRANGEMENT: A PRELIMINARY ANALYSIS**

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### **INTRODUCTION**

Dramatic changes have been underway in the post-Cold War international order in the form of a shift from global bipolarity to multipolar economic competition and cooperation with rapid strides in economic regionalism. As predicted by one observer, a greater dispersal of economic power will mark the post-Cold War international order.<sup>1</sup> The emergence of economic groupings like NAFTA (North American Free Trade Area), APEC (Asia-Pacific Economic Cooperation), and the launching of ASEAN Free Trade Area (AFTA) as well as further strengthening of cooperation by existing groupings like the European Union (EU) are some cases in point. SAARC Preferential Trading Arrangement (SAPTA) is the latest major development in South Asia.

The content of SAPTA Agreement reflects promises of "growth and development" in order to eradicate poverty of the common people of the SAARC countries. The question is how far they are achievable. Indeed, any further development of SAARC's cooperative activities in South Asia needs peaceful inter-state relations among the member states. But inter-state relations among SAARC countries are hostage to

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1. Robert D. Hormats, "Making Regionalism Safe", *Foreign Affairs*, Vol. 73, No. 2, March/April 1994, p. 99.

a number of bilateral disputes which do not provide conducive environment for further development of cooperation within SAARC. Moreover, economic asymmetry in terms of the unequal size of markets, technological development etc., is a major constraint to trade cooperation in South Asia. Against this backdrop, the present paper addresses one central question: will SAPTA be able to provide the *modus operandi* for greater economic cooperation in South Asia? To get the answer of the above query, we shall touch upon the various aspects of the SAPTA. For the convenience of our discussion, the paper is organized into five sections. The first section makes a brief overview of SAPTA which includes the origin, principles, provisions and the rationale for SAPTA. The second section deals with the present intra-regional trade scenario in South Asia. The third section is devoted to the analysis of responses to SAPTA by the governments and the business community of the SAARC countries. The fourth section analyses the political and economic obstacles to SAPTA, and finally, the fifth section considers the prospects for SAPTA.

## I. SAPTA : A BRIEF OVERVIEW

Trade cooperation, one of the core areas of economic cooperation, is central to the success of any regional association. Since the official beginning of SAARC in 1985 economic cooperation in core areas has been made a "self-denying ordinance"<sup>2</sup> and kept out of the deliberations of SAARC agenda. Some members of the SAARC were opposed to early inclusion of these core areas, such as trade or industry or investment while others tended to support gradual induction under the agenda of SAARC cooperation.<sup>3</sup> The need for

2. Rehman Sobhan, "The Logic of Placing Economic Cooperation on the SAARC Agenda" in Imtiaz Ahmed and Meghna Guhathakurta (eds.), *SAARC: Beyond State-Centric Cooperation*, Centre for Social Studies (CSS), Dhaka, 1992, p.40.
3. Bishwa Pradhan, *SAARC and Its Future*, Malla Press, Kathmandu, 1989, p. 141.

promoting trade cooperation featured among the concerns of official circles in the Bangalore Summit (1986) of SAARC Heads of State and Government. In the Islamabad Summit in 1988, a more concrete step was taken as a regional study on "SAARC Trade, Manufactures and Services", designed to identify various hindrances to trade expansion within SAARC, was commissioned. The study made some practical recommendations aimed at inclusion of trade and other economic areas into the agenda of cooperation in SAARC. Subsequently, a high level Committee on Economic Cooperation (CEC) of Commerce Secretaries was established in order to institutionalize economic cooperation among SAARC member states. At the Colombo Summit in 1991, an Inter-Governmental Group (IGG) was set up on the recommendations of CEC to formulate and seek agreement on institutional framework under which specific measures for trade liberalization among SAARC member states could be pursued. Then the Inter-Governmental Group after two meetings during 1992 finalised a draft Agreement on SAARC Preferential Trading Arrangement (SAPTA) which was subsequently approved by the CEC and other higher SAARC bodies. Finally, the Heads of State and Government of the seven members of SAARC signed the Agreement on SAPTA (South Asian Preferential Trading Arrangement) on 11 April 1993 in Dhaka during their seventh Summit. The Agreement will come into force after all member states have ratified it, the formalities in respect of which are expected to be completed by December 1995. Sri Lanka, and Nepal have already ratified the SAPTA Agreement.<sup>4</sup>

SAPTA is a contractual agreement providing a framework of rules and modalities for gradual liberalization of intra-regional trade among SAARC member states. The main aim of SAPTA is to promote and sustain mutual trade cooperation among the contracting states through exchange of concessions on their exportable/importable commodities in the form of elimination of tariff, non-tariff and para-tariff barriers.

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4. *The Morning Sun*, Dhaka, 10 September 1994.

The basic principles governing the SAPTA include overall reciprocity and mutuality of advantages in such a way as to benefit equitably all contracting states, taking into account their respective levels of economic and industrial development, pattern of external trade, trade and tariff policies and systems. It is stipulated that SAPTA will be negotiated step-by-step, improved and extended in successive stages with periodic reviews. Initially negotiations will be conducted on a product-by-product basis. Another noteworthy principle incorporated in the Agreement is the scope of Special and Preferential Treatment for the Least Developed Countries. The significance of SAPTA lies in the fact that it establishes a clear possibility of full integration of SAARC economies in future.<sup>5</sup>

The father of the European Community, Jean Monnet, in his famous memoirs had observed that "people only accept change when they are faced with necessity and only recognize necessity when a crisis is upon them."<sup>6</sup> The South Asian countries, besieged by the multi-faceted crises, have looked for a framework within which they can work out instrumentalities for imparting dynamism to their economies. These crises, which have accelerated the emergence of SAPTA, may be analysed from two perspectives: intra-regional and extra-regional. Alleviation of poverty may be considered as the main motive force behind SAPTA. As many as 47 percent of the world's poor live in the South Asian region, in terms of income levels. GNP per capita in this region ranges between US\$ 180 to US\$ 430. The national economies of this region are prone to massive unforeseen dislocations, both natural and man-made, which pose challenges to the task of development. Agriculture, the mainstay of the region, suffers from periodic shocks due to erratic monsoons and floods.<sup>7</sup> The likely

5. See, the original document of *Agreement on SAARC Preferential Trading Arrangement (SAPTA)*.
6. Kant Kishore Bhargava, "South Asia : The Way Ahead", *South Asia Journal*, Vol. 5, Nov. 4, April-June 1992, p. 383.
7. *Inaugural Speech by the President of SAARC Chambers of Commerce and Industry, Souvenir, Dhaka, 7 February 1994.*

expansion of trade through SAPTA may contribute to poverty alleviation by generating new employment opportunities for the ordinary people at different levels of production and export services. Moreover, the common man will have access at relatively cheaper rates to some of the commodities and consumer products which are otherwise imported from far-off developed countries at exorbitant net prices and high transportation costs.<sup>8</sup>

The extra-regional factors are also important for the emergence of SAPTA. The global trend towards regional economic integration is on the increase. The continued success of the powerful trading blocs such as NAFTA, EU, ASEAN are likely to further strengthen the relative position of the major economies while the developing countries with lesser success in integration are doomed to face further disadvantage. Most of the countries in the world are trading increasingly with their neighbours and, in fact, intra-regional trade often forms the bulk of the total trade of many regions in other parts of the world. Nearly 46 percent of world trade represent intra-free trading area activity.<sup>9</sup> In this context, SAPTA has become an unavoidable necessity for the SAARC region.

## II. INTRA-SOUTH ASIAN TRADE: THE PRESENT SCENARIO

The portrayal of the current trends of trade among South Asian countries as well as its comparison with the global trade shows the ongoing trade surplus or deficit among the SAARC countries and with the rest of the world. The current trade surplus or deficit points to the

8. Mr. R. M. Roy, "SAARC Preferential Trading Arrangement (SAPTA)", paper presented at the national seminar on SAARC Preferential Trading Arrangement (SAPTA), jointly organised by The Federation of Bangladesh Chambers of Commerce and Industry and Friedrich-Naumann-Stiftung (FNSt), Dhaka, 24 July 1994.
9. Amita Sarkar, "SAARC Preferential Trading Arrangement", Discussion Paper, presented at a Discussion, jointly organized by Federation of Indian Chambers of Commerce and Industry and Friedrich-Naumann-Stiftung, New Delhi, 18 May 1994, p. 2.

existing intra-regional trade potentials and give indications for future directions. The existing potentials and subsequent efforts by SAARC countries to develop these potentials will determine the future of SAPTA.

The South Asian countries have a tiny share in the global trade. As indicated in Table 1, in 1986 the South Asian countries as a whole exported US\$ 14.73 bn in the global market whereas in the same year the total global export was US\$ 1984.6 bn. In percentage terms, the share was only 0.74 percent of the total global export rising barely to only 0.89 percent in 1992. In terms of imports, the figures were 1.22 percent and 1.07 percent respectively in 1986 and 1992. This implies that its trade (export and import) from 1986 to 1992 never exceeded 2 percent of the total global trade.

Table 2 gives overall view of intra-regional trade in relation to total trade of the SAARC countries. According to this table, the participation of the South Asian countries in intra-regional trade accounts for only 3.0 percent of the region's total trade volume. The table also indicates that from 1986 to 1992, the intra-regional trade increased at a rate of 13.0 percent per annum against the total trade volume of the region which grew at a rate of 10.8 percent per annum. The relative high growth rate of intra-regional trade compared to the region's overall trade is largely due to the rise in intra-regional import at 14.2 percent compared to the increase of region total import at 8.5 percent. As a result, the share of intra-regional import rose from 2.0 percent in 1986 to 2.8 percent in 1992 of the region's overall imports. From 1986 to 1992, the intra-regional total exports grew at a rate of 11.6 percent per annum, by contrast, the region's overall exports grew at 14.4 percent. This resulted in a decline in intra-regional export as percentage of region's total exports from 3.8 percent in 1986 to 3.2 percent in 1992.

In Table 3, the balance of global and intra-regional trade is shown. This table gives a very discouraging picture of regional trade

in SAARC countries. Except India and Pakistan, other members of SAARC, namely, Bangladesh, Sri Lanka, Nepal and the Maldives, have suffered adverse balance of payment at regional as well as global level. India and Pakistan have enjoyed trade surplus at the regional level. Pakistan has enjoyed trade surplus with India due to its restricted trade policy.<sup>10</sup> However, both India and Pakistan have suffered trade deficit at the global level. The picture shown in this table underscores the need for expansion of intra-regional trade.

In a dynamic situation where comparative advantage of countries constantly changes, inter-country differences in surpluses or deficits are not much important. What matters is the surplus or deficit at the global level. All countries in the region suffer huge trade deficits globally, and their intra-regional deficits or surpluses are only a small portion of their global deficits. These countries need to strive to diversify their export base and achieve comparative advantage in a wide range of products so that their overall deficits can correspondingly be reduced. Yet, in a regional context, continuous deficits in a member country's trade with regional partners may be looked upon with disfavour by deficit countries.<sup>11</sup>

### III. RESPONSE TO SAPTA BY SAARC COUNTRIES

Here we will discuss the responses to SAPTA at the government and business community's level in South Asia. They are the two

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10. Rashid Ahmad Khan, "Indo-Pakistan Trade: Prospects and Constraints", *Regional Studies*, Islamabad, Vol. XIII, No 1. Winter 1994-95, p.53.
  11. Quoted in Ayubur Rahman Bhuyan, "Implications of SAPTA for SAARC countries with particular reference to Bangladesh", Discussion Paper presented at the national seminar on SAARC Preferential Trading Arrangement (SAPTA), jointly organised by The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and Friedrich-Naumann-Stiftung (FNSt), Dhaka, 24 July 1994, pp. 5-6.

important catalysts for any kind of economic cooperation. So, it is important to understand their perceptions about trade cooperation through SAPTA.

## Bangladesh

Bangladesh has signed the SAPTA with much enthusiasm. Referring to the SAPTA, Prime Minister Khaleda Zia termed it as an "important landmark in SAARC cooperation".<sup>12</sup> In the opinion of the then president of the Federation of Bangladesh Chambers of Commerce and Industries (FBCCI), Mahbubur Rahman, SAPTA would create a lot of opportunities for benefitting from expansion of intra-regional trade in South Asia considering the very low share at present. He also added that the member countries of SAPTA would gain from tariff and non-tariff concessions.<sup>13</sup> The lure of the global market, and the comparative advantages in the regional market have induced the Bangladeshi business community to be more active participants of SCCI (SAARC Chamber of Commerce and Industry).

In spite of these developments, Bangladesh has not ratified the SAPTA, because much has not been quantified about the benefits which are expected to be reaped by it. Its dilemma of taking further steps to implement SAPTA has been reflected in Bangladesh's proposal of a list of products for tariff concession in which Bangladesh proposed 56 items to India, 51 to Nepal and 28 to Sri Lanka. The list of 500 items exportable to Bangladesh proposed by India has embarrassed the Bangladesh officials. India has reduced the list by almost half and has also agreed to cut it further.<sup>14</sup> Most of the products on which Bangladesh has sought tariff concession are also produced in the major partner countries themselves, and hence the latter's import of these products are hardly likely to increase even if

12. *The Bangladesh Observer*, Dhaka, 12 April 1993.

13. *The Financial Express*, Dhaka, 25 July 1994.

14. *Dhaka Courier*, Dhaka, 10 December 1993, p.5.



trade barriers are fully removed.<sup>15</sup> The narrow export base of Bangladesh is a major impediment in this regard. The reason lies in the fact that specialization has not taken place in the productive resources in conformity with regional or global comparative advantage. It is due to the pro-import substituting trade and industrialization strategy, which is also applicable to other smaller economies of SAARC countries.

### **Bhutan**

Bhutan's official position on SAPTA is reflected in the statement of the King of Bhutan, Jigme Singhe Wangchuk, who said: "The SAPTA which seeks to expand intra-regional trade through reduction of barriers will go a long way in bringing tangible benefits to our people." He further added: "In this regard I may mention that Bhutan already enjoys the benefits of free trade with our close friend and neighbour, India".<sup>16</sup> The Bhutan Chamber of Commerce and Industry has been a partner of SCCI in order to carry out the activities of SAPTA in the private sector in Bhutan. Bhutan may not have worked out its due economic benefits through SAPTA which possibly may have delayed her ratification of the SAPTA.

### **India**

Lending his full support to SAPTA, the Indian Prime Minister, P.V. Narashima Rao, said that India would join the collective endeavour to implement the Agreement.<sup>17</sup> The Indian State Minister for External Affairs, R L Bhatia, said: " Our commitment to the SAPTA reflects our desire to promote the welfare of the peoples of South Asia, to improve the quality of life and to accelerate economic growth and social progress on our common objectives."<sup>18</sup>

15. Ayubur Rahman Bhuyan, *op.cit.* p.9

16. *Kuensel*, Bhutan's National Newspaper, 17 April 1993.

17. *The Statesman*, Calcutta, 11 April 1993.

18. *The Bangladesh Observer*, Dhaka, 25 May 1994.

Available reports show that Indian business community has no reservation about SAPTA. India joined the SCCI as an active member. Amita Sarkar, Assistant Secretary, FICCI (Federation of Indian Chambers of Commerce and Industry) has voiced the Indian business community's concern for trade expansion through SAPTA. She has articulated the business community's concern in the following way: "the thrust of the Indian economy is on following a vigorous strategy for export promotion. At this juncture, SAPTA, with varying degrees of reductions in tariff and non-tariff barriers among SAARC countries, can lead to considerable expansion of inter-state trade. Most of the South Asian countries have a high level of protection in the form of tariff and non-tariff barriers. India being a comparatively more developed country can export many items of finished manufactured goods in addition to food items which at present dominate its export basket to these countries."<sup>19</sup> She also opined that: "India should take greater initiative in widening and deepening tariff cuts under the SAPTA. We must move forward making SAPTA a viable scheme for enhancing regional cooperation in the SAARC."<sup>20</sup>

Although SAPTA was greeted with much enthusiasm both at the government and non-government levels in India, New Delhi has not yet ratified it. The cause of her unwillingness to ratify SAPTA is evidenced in the opinion of an Indian scholar that SAPTA is "a tentative step" for the integration of South Asian markets. The selective commodity-by-commodity negotiation for progressive tariff reduction provided for under SAPTA is going to be a slow, long-drawn-out process. Besides, political considerations may lead any of the seven member states to stall the whole process. On the part of India, an alternative approach which will be quite viable and feasible is integration of the market of India separately with the markets of those

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19. Amita Sarkar, *op.cit.* p.5.

20. *Ibid.* p.6

South Asian countries which are prepared to travel along this route."<sup>21</sup> This, however, is a line of thinking which is not shared by many in South Asia.

### **The Maldives**

The Maldives, a tiny member state of SAARC, also supports SAPTA but with some qualification. The Maldives Foreign Minister, Fatullah Jameel, has given the rationale of the Maldives support for SAPTA, as he stated "We will not benefit much from it (SAPTA) but we are looking to the interest of the people of the region."<sup>22</sup> Such a perception may have prevented the Maldives from ratifying the SAPTA Agreement. The Maldivian business community also stands for SAPTA with their government. The Maldivian Traders' Association has become a member of SCCI.

### **Nepal**

Like Sri Lanka, Nepal has also been positive about SAPTA. The Nepalese former Minister for Tourism and Civil Aviation, Ram Hari Joshi, has opined that the successful implementation of the SAPTA and the plan of action for eradicating poverty would usher in a new and promising era for effective regional cooperation in South Asia.<sup>23</sup>

Nepal strongly endorses SAPTA because over 30 percent of the total volume of Nepal's foreign trade is with SAARC member states which could increase when SAPTA would become a reality.<sup>24</sup> Naturally, Nepal had no reservations to ratify the SAPTA after its

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21. Muchkund Dubey, "Indo-Bangladesh Economic Relations", seminar paper presented at the International Seminar on "Society, Polity and Economy of Bangladesh" organized by the Centre for South, Central, Southeast Asian and Southwest Pacific Studies, School of International Studies, Jawaharlal Nehru University, New Delhi, 7-8 March 1994, p.21.

22. *The Financial Express*, Dhaka, 4 December 1993.

23. *The Bangladesh Observer*, Dhaka, 25 May 1994.

24. *The Independent*, Kathmundo, 13 April 1994.

House of Representatives unanimously approved it in September 1993. It will come into force after all the member states complete the formalities of ratification. Nepal has also started implementing it by allowing 10 percent tariff concessions to all goods imported from SAARC countries.<sup>25</sup> The Federation of Nepal Chambers of Commerce and Industry (FNCCI) is a constituent body of SCCI. The FNCCI viewed SAPTA as a step towards poverty alleviation, as the people can get less-costly items from around the region.<sup>26</sup>

### **Pakistan**

The former Prime Minister of Pakistan, Nawaz Sharif, welcomed and endorsed the objectives of SAPTA. In the beginning, he took a negative attitude to the proposal as he did not want to give India access to Pakistani market. Afterwards, Pakistan signed the SAPTA agreement due to the consensus that without an agreement on trade there is little possibility of pushing the SAARC process forward.<sup>27</sup> Praising SAPTA Nawaz Sharif said, "The SAPTA arrangement will stimulate our economies through cooperation in a regional context".<sup>28</sup> The Pakistani Foreign Minister, Assef Ahmed Ali, said : "Now that we have embarked on the second round of SAARC cooperation, it is vital that cooperation in the economic and trade sectors should be given due priority".<sup>29</sup>

At the government level, Pakistan has shown its apparent interest in SAPTA as well as its non-cooperative attitude with regard to the process of implementation of SAPTA. This has been evidenced by its not attending the fourth meeting of the IGG, a body represented by mid-level bureaucrats or experts, held in Colombo on 11-12 Novem-

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25. *Ibid.*

26. *Ibid.*

27. Rashid Ahmad Khan, *op.cit.* p.51.

28. *Dawn*, Karachi, 9 April, 1993.

29. *The Bangladesh Observer*, Dhaka, 5 December 1993.

ber 1993. Also, it did not send a delegation to the Dhaka meeting of the CEC comprising Commerce Secretaries in the same year. At last, Pakistan took a positive step to intra-SAARC arrangements by sending a high powered team to the 23-24 April 1994 IGG meeting on SAPTA in the Maldives and actively participated in its deliberations. Pakistan also expressed its desire to make major reductions of tariffs at rates higher than those it planned for members of ECO (Economic Cooperation Organization).<sup>30</sup>

Although the favourable attitude of Pakistan seemed to have hastened the implementation process of SAPTA, Pakistan's position still remains uncertain. Its doubtfulness has been projected in Bangladesh-Pakistan economic relations. While Bangladesh highlights the importance of trade relations at the regional level and emphasizes on the removal of trade barriers, Pakistan continues to focus on the bilateral trade. This is evident in the statement of V A Jaffrey, the Adviser to the Prime Minister of Pakistan Benazir Bhutto on Financial and Economic Affairs, who said that trade "is not possible in the basket of SAPTA as there are not only economic problems, but also political disputes within the region."<sup>31</sup> Pakistan's hesitation is caused by its hostile relations with India and its fear of India's giant industrial base which may be a threat to Pakistan's industry and trade. India's emphasis on trade cooperation bilaterally rather than multilaterally has added a further note of doubt for Pakistan. On the contrary, the Uruguay Round of GATT talks is exerting a strong influence on Pakistan to expand its multilateral relations.<sup>32</sup> The above factors are responsible for Pakistan's reservation to ratify SAPTA.

Beside government's guarded optimism about SAPTA, the Pakistani business community seems to be enticed by the prospects of

30. *The Financial Express*, Dhaka, 11 May 1994.

31. *The Financial Express*, Dhaka, 14 July 1994.

32. Rashid Ahmad Khan, *op.cit.* p.50-55.

the regional market for their products.<sup>33</sup> The zeal for free trade has induced them to assume the presidency of SCCI.

### Sri Lanka

Sri Lanka was the initiator of the proposal of SAPTA. The government of Sri Lanka has no reservation for SAPTA. In the opinion of Sri Lankan former Foreign Minister A.C.S. Hameed, it was imperative for all SAARC member countries to extend their fullest cooperation to ensure the share of benefits of trade expansion equitably. This would enhance the negotiating capacity of SAARC with other trading blocs. He also assured that his country would extend its fullest cooperation to make SAPTA operational by the end of 1995.<sup>34</sup> Mentionably, Sri Lanka adopted the market economy in 1977. The commitment to the market economy and the immediate need for development have encouraged the Sri Lankan government to ratify SAPTA earlier. Sri Lankan enthusiasm is reflected in the words of the Former Prime minister of Sri Lanka, Ranil Wickramesinghe : "we are pushing both for SAPTA and liberalization in the SAARC."<sup>35</sup>

The business community of Sri Lanka is enthusiastic about the implementation of SAPTA. They envisage that SAPTA would place South Asia at par with the rest of the world.<sup>36</sup> The Federation of Chambers of Commerce and Industry of Sri Lanka is a member of SCCI.

From the above review, a common point appears that all the members of SAARC are committed to trade cooperation through SAPTA. The overarching presence of India, in terms of its giant economic size, generates fear in the smaller economies of SAARC and

33. Inaugural Speech by the President of SAARC Chambers of Commerce and Industry, *Op. Cit.*

34. *The Bangladesh Observer*, Dhaka, 5 December 1993.

35. *India Today*, New Delhi, 15 March 1994. p.91.

36. *Daily News*, Colombo, 4 August 1994.

poses a major threat to the successful trade cooperation by means of SAPTA. But the underdevelopment of the South Asian states and the ongoing global trend of trade cooperation render the need for the expansion of trade through SAPTA an imperative.

#### IV. OBSTACLES TO SAPTA

The success of SAPTA is likely to be impeded by two types of obstacles, political and economic. These two sets of factors are interwoven and mutually reinforcing. Political obstacles emerge from the inter-state relations in South Asia which are characterized by the existence of a number of long-standing bilateral disputes. One of the main characteristic features of bilateral disputes in South Asia is the fact that virtually all of them are Indo-centric. The only remarkable exceptions are the disputes between Bangladesh and Pakistan over the sharing of common assets and the repatriation of stranded Pakistanis to the former.<sup>37</sup> Economic obstacles are a combination of weak industrial base, fragile infrastructure, lack of capital etc., which are affecting the individual states of South Asia, thereby, hindering regional economic development.

#### Political Obstacles

One of the main reasons for the success of organisations like the EU, the ASEAN, NAFTA and the Gulf Cooperation Council (GCC) is the convergence of political, security and ideological perceptions of their member nations. Few organizations have been founded, least of all prospered, without the member nations adhering to a common position in this regard. The situation in South Asia today is quite different. There is sharp divergence of views among South Asian states about political and security matters. If we take the case of poli-

37. A.K.M. Abdus Sabur, "South Asian Security in the post-Cold War era: Issues and Outlook", *Contemporary South Asia*, Oxford, Vol 3, Number 2, 1994, p. 108.

tics, bilateral disputes in South Asia involving India make the regional political environment adverse to the expansion of economic cooperation. A number of bilateral disputes have created an environment of mutual mistrust and suspicion among the South Asian political elites. The outcome of this mutual mistrust and suspicion is that the South Asian elites are following a very cautious approach to give SAPTA a concrete shape. Thus politics as a "hang-over" is slackening the process of the rapid implementation of SAPTA.

Trade is one of the most vital parts of economic cooperation in the modern times. The flow of export/import gets affected when political relations between or among the countries are inimical to each other. The adverse political relations do not help to liberalize trade barriers between or among the countries which are opting for trade cooperation to the fullest extent. A small state's trade expansion may be hampered if it is landlocked by a state which is superior to that in terms of size, economic and military strength. Thus, the geo-strategic vulnerability of a state can be used as a political leverage for economic exploitation.

Political disputes in which the South Asian landscape is embroiled are many in number. The origins of these disputes are steeped in the history, geo-politics and culture of South Asia. Some of these disputes push bilateral relations into high-intensity political tension. Some of them have been historically working as the breeding ground for mutual mistrust and misunderstanding. The following are some of these political disputes:

a) *India versus Bangladesh*: The disputes between India and Bangladesh over the sharing of the water resources of common rivers, including that of the Ganges, demarcation of maritime boundaries and the ownership of South Talpatty, cross-border migration etc., have made the bilateral relationship far from cordial. Of these, the Ganges water issue sometimes turns into a high-intensity political tension between these two countries.



b) *India versus Pakistan*: Particularly, the nuclear programme and the Kashmir issue have vitiated Indo-Pakistan relations. The Kashmir issue still continues to generate high-intensity political tension between the two countries.

c) *India versus Sri Lanka*: On ground of ethnic affinity to the Sri Lanka Tamils and geographical proximity to the island, India directly involved itself in Sri Lanka's ethnic crisis, resulting in severely straining the bilateral relations between the two countries. The Indo-Sri Lankan Agreement of 1987 through which India exercised its influence in the affairs of Sri Lanka's national security led to further straining of their bilateral relations. With the assumption of Chandrika Bandaranaike Kumaratunga's government to power, Indo-Sri Lanka relations have considerably improved.

d) *India versus Nepal*: Nepal is a landlocked country sandwiched between India and China. For all practical purposes, it is India-locked. The misunderstanding between them has developed on the basis of the Treaty of Peace and Friendship concluded between them in July 1950. The Agreement on Commerce and Trade was also signed in the same year. This agreement was of 10 years duration, to be renewed subsequently. Thus, Nepal became excessively dependent on India in terms of economy and security. The misunderstanding arising out of the excessive dependence of Nepal on India has yet to be dispelled. Nepal wants to review the treaty of 1950, which was followed by the treaty of 1965 on security. By this treaty, India treats Nepal as a part of its own security zone which can not be violated by Nepal without India's consent. India is persistently rejecting the Nepali demand of the renewal of the treaty.

e) *India versus Bhutan*: Bhutan's relations with India are governed by the Indo-Bhutanese Treaty of 1949, whereby India acknowledged the independent status of Bhutan and guaranteed its internal autonomy. The Bhutanese government, on the other hand, conceded to be guided

by India in its external relations. Bhutan's trade and economic development is totally dependent on India. The only transit route through India for Bhutanese export depends on India's pious intention. For that reason, Bhutan takes very cautious steps in its bilateral relations with India.

Now, we shall explain how these political disputes are degenerating political environment in South Asia and eventually creating a barrier to the trade expansion in this region. Transit is considered as one of the pre-requisites of regional trade cooperation. When the Indian government sought the transit facilities through Bangladesh to its northeastern states with a view to reducing the colossal amount of trade imbalance between them, the Bangladesh government made the acceptance of this proposal conditional upon India reaching an agreement on sharing of the Ganges waters.<sup>38</sup> On the part of India, it has been denying transit facilities through its territory to Nepal and Bhutan for sending their goods to Bangladesh and through Bangladesh to overseas markets.<sup>39</sup> According to the estimate of one Indian scholar, if Bangladesh allows transit facilities to India, Bangladesh could develop an export trade of 50-100 million dollars with northeastern Indian states. Bangladesh's export earnings to Nepal could increase by 50-100 million dollars thanks to the requested provision of transit facilities by India. With the granting by India of transit facilities for trade between Bhutan and Bangladesh, there will be an increase in the two-way trade between these two countries.<sup>40</sup> On the other hand, Bangladesh did not calculate its cost-benefit on transit as yet.

In July 1994, the government of Pakistan announced its trade policy for 1994-1995. Under this policy a few items were added to the list of items which are allowed to be imported from India. The step

38. Muchkund Dubey, *op.cit.* p.12.

39. *Ibid.* p.14.

40. *Ibid.*

was immediately denounced by the Leader of the Opposition and former Prime Minister, Mr. Nawaz Sharif, who alleged that the policy would cause irreparable damage to the vital interests of Pakistan, including its stand on Kashmir, as it envisaged trade-based privileges for India.<sup>41</sup> Although the number of items in which trade is allowed between India and Pakistan has jumped from 42 in 1982 to 570 in 1988-89, Pak-India trade is very limited and restricted. According to a study, Pakistan's exports to India account for a mere 0.93 percent of its total exports, whereas India's trade with Pakistan is only 0.17 percent of its overall trade. Pakistan's strained political relations with India have contributed to maintaining a restricted trade policy with India.<sup>42</sup>

The Tamil crisis has obstructed Sri Lanka's reaching NIC status by achieving the GDP growth rate of 6.5 percent to 7.5 percent. The resolution of the Tamil crisis would make available resources equivalent to 4.5 percent of GDP or Rs. 23 billion, enabling the channelling of these funds to build up the infrastructure necessary for rapid development of the economy.<sup>43</sup> The immediate solution of Tamil problem will open up the scope for Indo-Sri Lanka free trade. India's neutral position on this issue will help Sri Lanka reach a rapid solution to this crisis. The improved Indo-Sri Lanka relationship is likely to open the avenues for Sri Lanka to initiate free trade with other SAARC countries.

The misunderstanding originated from the Treaty of Peace and Friendship in 1950, concluded between Nepal and India, has deadlocked Nepal's move for negotiation for a new transit port facility in Bombay. Currently, it is using the Calcutta port.<sup>44</sup> India has pro-

41. Rashid Ahmad Khan, *op. cit.* p. 31.

42. *Ibid.* p. 46.

43. *Daily News*, Colombo, 24 August 1994.

44. *India Today*, New Delhi, 15 March 1994, p. 89.

posed to Nepal a free trade zone on the India-Nepal border. Nepal has stressed that India should be more understanding as far as Nepal is concerned.<sup>45</sup>

Nepal's trade performance in the past has been characterized by a steady growth in trade imbalance. This was more pronounced in the 1980s. Nepal's trade dependency on India decreased from almost 90 percent in the fifties to 37 percent today owing to diversification policy, but this decrease has partly been symbolic. In substance, Nepal has continued to rely on the import of essential goods from India.<sup>46</sup> The transit through India to Bhutan needs India's permission for any other country. For instance, Bangladesh signed a Trade and Transit Agreement with Nepal in August 1980 which took eight years to be implemented until the trade corridor was to be opened in 1988, because of a delay in the signing of an agreement between Bhutan and India to provide the necessary transit facilities.<sup>47</sup> Bhutan uses the Calcutta port for whatever little exports it makes to the outside world except India. Thus Bhutan's trade expansion in South Asia depends on India's good will.

It is clear from the foregoing analysis that most of the political disputes in South Asia are relating to India, but there are other disputes, though insignificant, which do not concern India. For example, Bhutan-Nepal dispute over the 80,000 Bhutanese refugees of Nepali-origin<sup>48</sup>, and Bangladesh-Pakistan dispute as we have

45. *India Today*, *op.cit.*, p.91.

46. Dev Raj Dahal, "Economic Dependence and 'Active' Foreign Policy: The Choice of Nepal" in M Abdul Hafiz and Mizanur Rahman Khan (eds.), *Development Politics and Security: Third World Context*, Civil and Military Press, Dhaka, 1990. p.212.

47. Syed Serajul Islam, "Bangladesh-Bhutan Relations: From Isolation to Intimacy" in Muzaffer Ahmed and Abul Kalam (eds.), *Bangladesh Foreign Relations: Changes and Directions*, The University Press Limited, Dhaka, 1989, p.53.

48. *The Bangladesh Observer*, Dhaka, 21 April 1993.

mentioned earlier. These are not so important as the disputes with India are. Because, India's preeminence in SAARC has kept the smaller members in a fear-psychosis. The net result of these disputes is mutual suspicion and misunderstanding which are prohibiting political elites of SAARC countries to move for free trade. India prefers bilateral solutions to any dispute in the SAARC, whereas most of the other members in SARRC (Bangladesh, Pakistan, Sri Lanka) prefer regional approach to solve any contentious issues through SAARC. SAARC, the parent forum for SAPTA, having excluded bilateral disputes from its deliberations remains devoid of sufficient political commitment to create congenial atmosphere for the implementation of SAPTA. To achieve higher level economic cooperation, congenial political atmosphere is one of the dominant pre-requisites.

### **Economic Obstacles**

The success and strengthening of SAPTA also depends upon the removal of the economic obstacles. Here we shall analyse some of these obstacles that have regional implications for SAPTA.

*Unequal size of the market* : The unequal size of market appears to be one of the most important obstacles to the expansion of trade in South Asia. India is a great economic power in the region. It accounts for 76 percent of the population, 59 percent of the import market, 62 percent of the export earnings, 41 percent the external reserves, 79 percent of manufacturing value added and 68 percent of manufacturing exports.<sup>49</sup> In terms of exportable commodities, India owns over 5,600 commodities to export. Only Pakistan, which has about 4000 commodities, comes next in South Asia.<sup>50</sup> Nevertheless, Pakistan is no match to India in industrial development and size of the market.

49. Rehman Sobhan, "The Logic of Placing Economic Cooperation on the SAARC Agenda", *op. cit.*, pp.43-44

50. Amita Sarker, *op. cit.*, p.4

The members of SAPTA have been classified into two categories on the basis of the size of market and the level of economic development in order to facilitate equitable distribution of benefits from the Agreement. Bangladesh, Nepal, Bhutan and the Maldives have fallen into the category of least developed countries.<sup>51</sup>

The fear of possible Indian economic domination over the economies of smaller countries is a barrier to trade cooperation in South Asia. India's economic domination is reflected in its trade imbalance with almost all the countries of South Asia, except Pakistan. In 1992, India exported US\$ 258 million to Bangladesh, US\$ 5 million to the Maldives, US\$ 85 million to Nepal, US\$ 47 million to Pakistan, US\$ 192 million to Sri Lanka. In the same year, India imported US\$ 5 million from Bangladesh, US\$ 21 million from Nepal, US\$ 149 million from Pakistan and US\$ 13 million from Sri Lanka.<sup>52</sup> The strong industrial base, technological development and its comparatively restricted market have given India a predominant position in South Asia. The spill-over effects of the fear of India's economic domination is also reflected in its neighbour's psyche. For instance, it is manifested in the statement of a Pakistani analyst, who said: "It will be more appropriate to say that Pakistan is not willing to have unregulated trade with India without adequate safeguards for its indigenous industries and comparatively high-wage labor force."<sup>53</sup> If the adequate safeguarding measures that are encapsulated in the SAPTA Agreement for the least developed members are not properly meted out to them, the unequal size of the market will create the imbalanced basis of trade-gains from SAPTA.<sup>54</sup>

51. See, *SAPTA Agreement*, Article 3a.

52. Quoted in Ayubur Rahman Bhuyan, *op. cit.*, p.17-18.

53. Mohammad Iqbal, "SAARC: Problems & Prospects", *Regional Studies*, Islamabad, Vol, XI, No.I, Winter 1992-1993, p.56.

54. See for details, *SAPTA Agreement*, Article 6 and Annex-1.

*Lack of Complementarity in Products* : The South Asian economies are basically competitive rather than complementary as the products tend to be similar in the primary and consumer goods industries.<sup>55</sup> Only in the more advanced manufacturing and capital goods sector would there be scope for a non-competitive trade, but this would overwhelmingly benefit India which alone has a significant consumer and capital goods manufacturing industry. However, these product sectors, despite some lower transportation costs, are not necessarily cheaper or of equal quality to foreign goods and therefore there is limited benefit for smaller states to import from India.<sup>56</sup>

The extra-regional export pattern of the SAARC countries is mutually competitive rather than complementary. Jute goods are exported by Bangladesh as well as India. Tea exports are shared by Sri Lanka, India and Bangladesh. Pakistan competes with India in the world's high-quality rice market as well as in cotton goods. Of late, Nepal has met a significant percentage of demand for hand-made carpets along with India and Pakistan.<sup>57</sup> The SAPTA Agreement provides the least developed member states to promote their export prospects through technical assistance and cooperation arrangements to increase their production capacities.<sup>58</sup> The achievement of complementarity in products under SAPTA may not be possible due to the absence of technical cooperation and development financing in the South Asian countries.

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55. Ross Mallick, "Cooperation among antagonists: regional integration and security in South Asia", *Contemporary South Asia*, Oxford, Volume 2, Number 1, 1993. P.37.

56. *Ibid.*

57. Mohammad Iqbal, *op.cit.*

58. SAPTA Agreement, Article 6.

*Trade policy barriers* : The restrictive import policies of different South Asian countries have been responsible for, perhaps, the highest tariff rates of Asia. All the South Asian countries face persistent trade deficits, and in order to reduce these deficits they impose stringent trade control measures through tariff, para-tariff and non-tariff measures which apply with equal rigour to imports from intra-regional and external sources.

An analysis of Table 4 gives the picture that the South Asian economies have opened up their economies to international competition. As tariffs have come down and quantitative restrictions removed, the share of merchandise trade has been rising consistently over the past few years in all of the South Asian economies. [Table 4] The table shows that India is still behind the trend of trade liberalization. For instance, in South Asia India is still lagging behind Sri Lanka, Bangladesh etc. For instance, the average tariff rate in Bangladesh is 23 percent and that in India is 70 percent.<sup>59</sup>

There is also the revenue objective of import control. Despite trade liberalization measures of the recent years, customs duty still accounts for a significant proportion of the Government's revenue in all these countries, and will possibly continue to remain so in the absence of alternative fiscal sources. For example, Sri Lanka's customs tariffs can still go up to 40 percent.<sup>60</sup> The aim of SAPTA is to expand intra-regional trade through eliminating tariff, non-tariff and para-tariff barriers. A lot of such barriers are making trade cooperation difficult.

*Excessive dependency on the West* : The South Asian countries are extremely dependent on the western countries for technology, capital and expertise. The resource-poor South Asian countries have to spend huge amount of money for this dependency which could have

59. MuchKund Dubey, *op.cit.* p.7.

60. *The SAARC File*, Economic Bulletin, 13 May 1994, Associated Chamber of Commerce & Industry of India, New Delhi, p.29.



otherwise been invested for their own development. A recent SAARC study has estimated that 40 percent to 75 percent of imports of the nations of the region are financed through external assistance.<sup>61</sup> The dependency on the West for aid, trade and investment is putting restraints on achieving self-reliance of South Asian countries. Also, dependency to the extreme level is reducing the bargaining capacity of South Asian countries with the developed West. SAPTA can properly be used as a collective response to this dependency. For that reason, the productive capacities of South Asian countries have to be improved. The absence of financial and monetary cooperation may obstruct that process.

*Lack of financial and monetary cooperation* : Lack of financial and monetary cooperation has limited intra-SAARC trade and circumscribed the region's access to adequate international liquidity. Therefore, it is necessary for the SAARC countries also to cooperate in financial and monetary spheres. In South Asia, there have not been established a regional development bank, a regional import-export bank and a regional finance corporation as joint ventures of all member countries of SAARC.<sup>62</sup>

Since trade imbalances constitute a serious constraint to trade expansion in South Asia it is necessary that a clearing arrangement be made to settle payments among member countries for clearing their current transactions. In this respect, a South Asian Clearing mechanism has not been established. While a South Asian Clearing Union may be set up, it may also alternatively be possible to expand

61. Abul Ahsan, "SAARC Preferential Trading Arrangement (SAPTA): In Broader South Asian Perspective", Discussion paper presented at the national seminar on SAARC *Preferential Trading Arrangement (SAPTA)*, Dhaka, 1994. p.4.
62. Sadrel Reza, "Issues in Trade Cooperation in South Asia: A Bangladesh Perspective", *BIISS Journal*, Dhaka, Volume 15, Number 4, 1994. pp.333-335.

the present ACU (Asian Clearing Union) by admitting Maldives and Bhutan - two of the SAARC members currently outside the Union.<sup>63</sup> Although not widely dissimilar, the SAARC members currently follow different exchange rate systems, such as pegging to a particular currency or a basket of currencies and limited flexibility and "managed floating". The basic distinction is thus in the extent of flexibility of the exchange rate but the variation in such rates of individual countries over the past years has been, by and large, in the same direction. Lack of cooperation among central banks of the member countries of SAARC to stabilize the exchange rate is not found to be a favourable factor for mutual trade expansion as indicated by the experiences of existing integration schemes.<sup>64</sup>

*Informal trade* : Informal trade means trade which goes on outside the government's official trade regime. This include smuggling or illegal trade. There is a large volume of unofficial trade between Bangladesh and India, India and Pakistan and India and Sri Lanka. The Government loses a good amount of revenue through informal trade. It also distorts the domestic price level. The increasing amount of revenue through formalizing the informal trade may contribute to the balance of payment between Bangladesh and India, India and Sri Lanka and India and Pakistan. It can help achieve positive balance of payment. It is estimated that in 1993 the Bangladeshi market has absorbed over US \$ 1.5 billion worth of unofficial trade from India.<sup>65</sup>

63. *Ibid.*

64. *Ibid.*

65. Mahendra P. Lama, " Bangladesh-India Trade Relations: Some Critical Issues", Paper presented at the International Seminar on *Society, Polity and Economy of Bangladesh*, organized by South Asian Studies Division, Centre for South, Central, Southeast Asian and Southwest Pacific Studies, School of International Studies, Jawaharlal Nehru University, New Delhi, 7-8 March 1994, p.8.

If informal trade outweighs the formal trade, it would not help flourish formal trade through SAPTA. Then intra-regional trade expansion will be hampered. On the other hand, informal trade justifies the validity of SAPTA because mutual reported trade volume is meagre, but, including the transaction of informal trade, the potential gains would be greater.

*Weak infrastructure* : Although the South Asian markets have the advantage of physical proximity to each other, trade is constrained by inadequacies of regional transport and communications systems. SAARC countries lack a regional transportation network such as the Asian Highway Project and the Trans-Asian Railway Project, developed inland waterways with special provision for transit facilities for land-locked Nepal and Bhutan, a regional shipping lines with multi-modal transport including regional ship building and repairing facilities and developed air linkages by pooling together resources of different national airlines. On the other hand, there is considerable lack of cooperation in the communication side covering postal, telephone, telegraph, telex, fax and also radio and television. Particularly, telecommunications network is vital not only for promoting greater South Asian cohesion but also for developing a fast growing research-intensive sector which has recently been found to be at the forefront of promoting global trade and industry.<sup>66</sup> Weak infrastructure in the communication sector creates road-blocks to gather information about the business potentials in SAARC countries. Importers in one country may not even be aware of what goods are available in other countries of the region, and how far their demands can be met with supplies from within the region. There is still lack of adequate information at the multilateral level in SAARC about tariff and non-tariff barriers. The absence of overall knowledge about the South Asian economy

66. Sadrel Reza, *op.cit.*, p.335-336.

is an impediment to the economic policy makers to work out an effective policy. One of the main problems in facilitating the provision of SAPTA for the product-by-product negotiations for concessions on commodities is due to gap in the knowledge of the policy makers about the market and economic strength of SAARC countries.

## V. PROSPECTS FOR SAPTA

Any regional integration scheme has its own merits and demerits. SAPTA is no exception to this. In the context of South Asia, any further development of SAPTA must be directed by the developments of SAARC. The more the political understanding will be achieved among the SAARC leaders, the more will it influence SAPTA to go ahead. During the early period of SAARC, the deep-rooted political suspicion of smaller member-states about India had left them insecure. On the other hand, India thought that the smaller countries were ganging up on her. As a result, India and her neighbours have harboured an outlook of extreme caution towards one another. This kind of outlook has hampered the process of generating confidence essential for engaging in credible economic activities. Consequently, the frequent calls made by the regional leaders to plunge SAARC into the core economic issues have left a hollow sounding echo devoid of substance.<sup>67</sup>

The emergence of SAPTA out of this extreme caution has at least made a real gesture to step into the core areas of economic cooperation. But the leaders of SAARC have not been able to agree on political conditions as we have analysed earlier, which would be acceptable to all the parties for implementing the economic objectives that are inherent in the general scheme of regionalism.<sup>68</sup> In fact, the

67. Sridhar K. Khatri, "A decade of South Asian regionalism: retrospect and prospect", *Contemporary South Asia*, Oxford, Volume 1, Number 1, 1992, p.9.

68. *Ibid.* p.7.

fullest benefits from South Asian economic integration could be achieved if such type of political conditions prevailed. At the present stage, SAPTA is not an economic integration of SAARC economies where all trade barriers are required to be dismantled and the contracting states would lose all controls on the free movement of goods and services across the borders. Economic integration is a highly political decision. The exclusion of bilateral and contentious issues from the SAARC agenda will continue to keep inter-state political relations volatile. Thus SAARC's emphasis on the non-political approach to expand the areas of cooperation in the core areas would not help SAPTA to reach the stage of economic integration. Without political commitment among the political elites in SAARC, the regional decision making would not be possible which will obstruct the expansion of SAPTA.

Trade cooperation consists of various stages. There are six stages of trade cooperation in international trade, embodying different degrees of cooperation. The following are the stages: Harmonization of Trade policies, Free Trade Area, Customs Union, Common Market, Economic Union and Economic Integration.<sup>69</sup> Harmonization of Trade policies is possible among a group of countries, when they decide to coordinate their policy. The SAARC countries have come to realise that they need to step into trade cooperation which resulted in the formation of SAPTA. This is one kind of harmonization of interests of SAARC countries. But the operational aspect of SAPTA has not been harmonized. A 10 percent tariff cut under SAPTA is not being followed unanimously by all the members of SAARC.<sup>70</sup> The common tariff and the commodity list on which the members of SAPTA sought concessions have not yet been finalized. Regionally,

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69. See for details G.S. Kushwaha, *Regional Trade Cooperation in South East Asia*, Chung Publications, Allahabad, India, 1983, pp.2-77

70. Rashid Ahmad Khan. *op. cit.*

Nepal has announced an import duty exemption of 10-15 percent for SAARC countries.<sup>71</sup>

Since regional trade would take place on the basis of mutual import, it might create regional division and specialization of resources predominantly pro-import substituting nature which might cause inefficiency. Due to asymmetry in domestic economy (size, level of development, structure etc), gains might be, without compensating measures, unequally distributed. In that case, regional trade might appear as a source of regional disparity and underdevelopment. Regarding trade cooperation in South Asia, an analyst has remarked that "the conventional methods of trade cooperation like free trade area, customs union or common markets where internal trade barriers are completely dismantled are unlikely to find favour in the region in the near future. There is apprehension that such methods will benefit the larger countries at the expense of smaller ones. However, drawing on the experience of other existing integration schemes such as the Latin American Integration Association (LAIA), which replaced Latin American Free Trade Association (LAFTA) and the ASEAN, it may be quite possible for South Asia to design a mechanism of trade expansion acceptable to all partner countries. For example, there is a continuing effort within ASEAN to improve its PTA scheme which has graduated into ASEAN Free Trade Area (AFTA). LAIA envisages an economic preference made up of regional tariff preferences and partial agreements on bilateral tariff reductions. These partial agreements could be multilateralized through a negotiated process."<sup>72</sup>

Economic Union and Economic Integration need harmonization of economic, monetary, fiscal, social and political policies. SAPTA still remains far from all these conditions. As a matter of fact, in much of the Third World, the functional approach has often taken a backseat due to the need for a premature politicization process in order to set the

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71. *The SAARC File, op. cit.* p.32.

72. Sadrel Reza, *op.cit.* p.330.

wheels of cooperation turning. Moreover, because of the weak economic infrastructure in the developing countries, regionalism has become more of a synonym for economic development than having anything to do with more grandiose goal of an economic or political union.<sup>73</sup>

Long-term benefits may be achieved by SAPTA in many areas. Its potentials remain for exploration of natural resources, human capital formation, exploitation of dynamic gains from trade through maximizing various linkages and economies of scale, technological spurt and appropriate technological innovations. Productive efficiency originating from managerial efficiencies on the basis of comparative advantage and augmenting efficiencies emanating from competition which act as catalyst elements in the development process of the region. Beyond these factors, the more SAPTA will be taking its institutional shape, the more will it strengthen the bargaining capacity of SAARC countries with the developed West.

In the light of the foregoing analysis, we can conclude that the potential gains from SAPTA are yet to be quantified. Besides, the immediate and static gains from intra-regional trade may not be very significant at this moment. In spite of that, the emergence of SAPTA lies in the need for eradicating abject poverty of the South Asian countries as well as the external fear of marginalization arising out of the ongoing global trend of regional economic cooperation. However, the South Asian countries have accepted the reality of trade cooperation through SAPTA with India at the heart of the region. The strengthening of SAPTA in South Asia depends upon India's gesture with regard to its concessions about the implementation of SAPTA.

Political obstacles are the most formidable constraints to SAPTA. At the state level, politicians take the ultimate decision in any policy matter. In the regional context of South Asia, it is the South Asian

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73. Sridhar K. Khatri, *op. cit.* p.7.

political leaders who would take policies for the future of SAPTA. The present political understanding among political elites in South Asia remains devoid of mutual trust and cooperation. The exclusion of political agenda has overshadowed the prospect of SAARC to bring notable changes in the perceptions of political elites in the South Asian region. In South Asia, India tries to gain maximum gains from negotiations on any bilateral issue. Therefore, the prospect of political understanding is still a far cry in the region.

A number of economic constraints that the SAPTA confronts are blunting South Asia's economic potentials. The exploitation of these potentials depends on the actors: the government and the private sector. The government can liberalise its trade policy and thus provide support to the private sector. While the business community may take the responsibility of implementing the government policies. Without proper policy support, businessmen can not expand their business. In South Asia, none of the governments are adequately moving towards free trade because of the political disputes. A lot of stringent trade measures are taken due to political reasons. Trade interests are being hampered by political interests.

In spite of the influence of market economy and liberal democracy, SAPTA is not taking off the ground as fast as it was expected. Nevertheless, the imperative of poverty and development as well as the increasing global trend of regional trade cooperation would set the wheels of SAPTA moving. At the same time, due to absence of sufficient political commitment, SAPTA may continue to play a limited role as an engine of "growth and development" in South Asia.



Table 1 : Share of SAARC Countries in World Trade

		Export		Import	
		1986	1992	1986	1992
Bangladesh	(Million US\$)	889 (0.04)	2040 (0.05)	2550 (0.12)	3732 (0.10)
India	(Million US\$)	9135 (0.46)	20683 (0.56)	15051 (0.73)	23638 (0.61)
Maldives	(Million US\$)	25 (")	77 (")	78 (")	179 (")
Nepal	(Million US\$)	134 (")	332 (")	314 (")	499 (")
Pakistan	(Million US\$)	3383 (0.17)	7267 (0.20)	5367 (0.26)	9375 (0.24)
Sri Lanka	(Million US\$)	1163 (0.06)	2570 (0.07)	1829 (0.09)	3661 (0.10)
Region	(Billion US\$)	14.73 (0.74)	32.97 (0.89)	25.19 (1.22)	41.08 (1.07)
World	(Billion US\$)	1984.6 (100.0)	3687.0 (100.0)	2063.5 (100.0)	3846.1 (100.0)

Note: Figures in parentheses indicate percentage of world trade.

Source: IMF, *Direction of Trade Statistics Yearbook, 1993*. Quoted in Ayubur Rahman Bhuyan, "Implications of SAPTA for SAARC Countries with Particular Reference to Bangladesh" (Paper presented at the National Seminar on SAPTA jointly organised by The Federation of Bangladesh Chambers of Commerce and Industry and Friedrich-Naumann-Stiftung (FNSt), Germany, Dhaka, 24 July 1994).

Table 2 : Intra-regional Trade in relation to total trade of SAARC Countries (Million US\$)

Country	Year	Intra-Export	Total Export	% of Total Exp.	Intra Import	Total Imp.	% of Total Imp.	Intra Trade	Total Trade	% of Total Trade
Bangladesh	1986	54	889	6.1	91	2550	3.6	145	3439	4.2
	1992	46	2040	2.2	378	3732	10.1	424	5772	7.3
India	1986	277	9135	3.0	73	15051	0.5	350	24186	1.4
	1992	587	20683	2.8	188	23638	0.8	779	44321	1.7
Maldives	1986	5	25	18.8	9	78	11.0	14	103	13.6
	1992	11	77	14.8	14	179	8.0	25	256	9.8
Nepal	1986	51	134	38.2	102	314	32.4	153	448	34.1
	1992	23	332	6.9	95	499	19.1	118	831	14.2
Pakistan	1986	109	3383	3.2	95	5367	1.8	204	8750	2.3
	1992	359	7267	4.9	139	9375	1.5	498	16642	3.0
Sri Lanka	1986	58	1163	5.0	144	1829	7.9	202	2992	6.7
	1992	47	2570	1.8	329	3661	9.0	376	6231	6.0
Total South Asia	1986	554	14729	3.8	514	25189	2.0	1068	39918	2.7
	1992	1073	32969	3.2	1143	41084	2.8	2220	74053	3.0
Annual Growth Rate of SAARCTrade:1992 over 1986(%)		11.6	14.4	-	14.2	8.5	-	13.0	10.8	

Source: As for Table 1.

Table 3 : Balance of Global and Intra-regional Trade of SAARC Countries (Million US\$)

Country		Intra-Export	Intra-Import	Intra-regional Trade Balance		Global Trade Balance
Bangladesh	1986	53.9	91.1	(-)	37.2	(-) 1661.5
	1992	45.7	377.8	(-)	332.1	(-) 1691.2
India	1986	277	73	(+)	204	(-) 5916
	1992	587	188	(+)	399	(-) 2955
Maldives	1986	4.7	8.6	(-)	3.9	(-) 53.88
	1992	11.4	14.3	(-)	2.9	(-) 101.93
Nepal	1986	51.2	101.9	(-)	50.7	(-) 179.7
	1992	22.7	95.4	(-)	72.7	(-) 166.7
Pakistan	1986	108.5	95.1	(+)	13.4	(-) 1984.2
	1992	359.4	138.6	(+)	220.8	(-) 2108.1
Sri Lanka	1986	58.4	144.3	(-)	85.9	(-) 666.7
	1992	46.7	328.7	(-)	282.0	(-) 1091.1

Source: As for Table 1.

**Table 4 : Progress in Openness of South Asian Economies**

Countries*	Export(a) Imports(a)		Exports + Imports(a) Average				Tariffs	
	1970	1992	1970	1992	1970	1992	1991	1994
Bangladesh	3.5	8.0	5.3	10.6	7.2	18.6	75	26
India	3.8	9.2	-	10.5	7.8	19.7	128	53
Nepal	5.6	13.4	30	24.9	15.7	38.3	21(b)	-
Pakistan	7.9	17.3	20	22.3	20.8	39.6	66	30
Sri Lanka	15.3	28.3	17.5	39.6	32.8	68.0	25	20

Source: *World Development Report 1994, World Tables 1994*, Washington, D.C.

a. percentage of GDP

b. data for 1987

\* data for Bhutan unavailable