

SAPTA : The Gate-Way Of SAARC

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INTRODUCTION

The Global Trends

The events of regionalisation and openness are global, on the lines of free trade on which the General Agreement on Trade and Tariff (GATT) resolved in the Uruguay Round for reducing trade barriers for increasing flow of trade among nations. This concept of globalization of national economies can also be marked having almost parallel-narrower-down concept of regionalisation through creation of economic blocs and zones on regional basis. European Union (EU), North American Free Trade Area (NAFTA), Association for South East Asian Nations (ASEAN) and Asia Pacific Economic Co-operation (APEC) are the brighter examples of such regional groupings. In the event of such increasing trend of regional groupings, South Asian countries were lagging behind. Nonetheless, realizing the need of the day, South Asian Association for Regional Cooperation. (SAARC) was established in December, 1985.

Having completed the first decade of its existence in 1995, the SAARC (comprising of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) amply demonstrated its momentum of co-operation both within and outside its region.

SAARC Intra- Regional Activities Of SAARC

With SAARC's basic objectives of (i) Improving the quality of life and welfare of the people of South Asia; (ii) accelerating economic, scientific, social and cultural development in the region; (iii) establishing collective self-reliance, mutual trust, therein understanding mutual problems, collaborate and assist in these fields, its Integrated Programme of Action (IPA) presently have twelve agreed areas of co-operation, such as, areas of agriculture, communication, education and culture, environment, health and population, meteorology, prevention of drug trafficking and drug abuse, rural development, science and technology, tourism, transport and women development.

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Outside Activities Of SAARC

With regard to the agreements of co-operation with international and other regional organisations, SAARC's memorandum of understanding with UNCTAD (United Nations Conference on Trade and Development) provides Trade Analysis and Information System (TRAINS) to enrich and upgrade data-based informations on trade control measures prevailing in both developed and developing countries of the world.

Secondly, with UNICEF (United Nations Children's Fund) SAARC signed to implement decisions relating to children. Thirdly, SAARC entered into a Memorandum of Understanding with Economic and Social Commission for Asia and the Pacific (ESCAP), International Telecommunications Union (ITU), and with Commission of the European Union (EC) for mutual cooperation.

SAPTA : THE LANDMARK OF SAARC

In order to augment economic co-operation among its member states, a framework agreement on SAARC's Preferential Trading Arrangement (SAPTA) was drafted by its high level Committee on Economic Co-operation (CEC)'s Inter-Governmental Group (IGC) on trade liberalisation on 11th April 1993 during the Seventh SAARC Summit in Dhaka, to promote intra-regional trade by gradual removal of the existing trade barriers among the member countries.

However, expansion of trade among member countries of SAARC cannot be seen in isolation as it is deeply constrained due to some fundamental inter-related issues like:

- *Political Relation* : trade expansion is not as much related to its conceptual issues but is more reflected through the delicate political relations within this region.
- *Lack of Finance Capital*: shortage of capital to finance big investments to accelerate economic development is further constrained by the grants and loans which are generally tied-up with imports from donor countries.
- *Fear of Domination* : Due to the predominating size of Indian economy and its scale of operations, the fear of functional disparity does prevail.
- *Existence of Competitiveness*: Goods produced by the member countries of SAARC are mostly supplementary in nature and thus raise competitiveness among themselves itself. Absence of complementarity in the products, thus, further weakens the base of economic co-operation.

On The Core Of SAPTA

The preamble of SAPTA states that on the premises of:

- motivated to promote economic co-operation;
- aware that expansion of trade acts as a powerful stimulus to development;
- convinced of the need to establish and promote preferential trading arrangements;
- bearing in the mind the urgent need to promote the intra-regional trade;
- recalling specific areas identified where economic cooperation might be feasible;
- guided by the commitment of sharing the benefits of trade expansion equitably;
- cognizant of the mandate to formulate and seek agreement on an institutional framework;
- recognising that a preferential trading arrangement to the first step towards higher levels of trade and economic co-operation in the region; have agreed on its *25 Articles*.

Definitions And Aims : Eleven conceptual terms are defined in the Article (1). The Article (2) states its basic aim to promote and sustain mutual trade and economic co-operation among the Contracting States.

Principles : The Article (3) deals with the four principles of SAPTA:

- The principles of overall reciprocity to benefit equitability.
- SAPTA shall be negotiated step-by-step.
- The special needs of the Least Developed Contracting States shall be clearly recognised.
- SAPTA shall include all products in their raw, semi-processed and processed forms.

Components : Article (4) consists of SAPTA's four components as:

- Product-by-product basis,
- Across-the-Board Tariff Reductions,
- Sectoral-basis,
- Direct Trade measures.

Additional Measures, Concessions, Special Treatments : The Articles (6), (7) and (10) deal with the *Special Considerations, Initial Concessions, and More Favourable Treatments* exclusively to be given to the *Least Developed Contracting States*.

Communication, Transport and Transit : The Article (12) agrees to undertake appropriate steps and measures for developing and improving communication system, transport infrastructure and transit facilities for accelerating the growth of trade within the region.

Balance-of-Payment Measures : The Article (13) extends the right to the contracting states to provisionally suspend the SAPTA concessions in the event of their serious economic and BOP problems. Further, the Article (14) provides the safeguard measures to protect domestic product from imports under SAPTA concessions.

SAARC'S TRADING ON THE EVE OF SAPTA Volume Of Trade

The overall external trade of the member countries of SAARC is revealed here as percent of country's total imports and exports respectively:

Bangladesh's share of imports from SAARC went down from 7.8 percent (1974) to as low as 2.6 percent (1983), but increased since then to 7.5 percent (1991). Its export's share rose from 1.9 percent (1974) to as high as 11.4 percent (1984), but declined since then to 4.7 percent (1991).

Bhutan's share of Imports from SAARC went down from 95.9 percent (1981) to 62.6 percent (1988), whereas its exports after attaining its peak of 99.3 percent in 1985, stood at 95 percent in 1988.

India's share of its imports from SAARC initially went up from 6.6 percent (1974) to 9.6 percent (1981), but ultimately stood at 5.3 percent in 1991. Its share of exports to SAARC drastically went down from its peak of 3.9 percent (1984) to 0.05 percent in 1991.

Maldive's share of Imports from SAARC went down from 30.1 percent (1974) to 10 percent (1985), but it increased since then to 14.1 percent in 1991. Likewise its export's share also initially declined from 12.3 percent (1974) to 9.6 percent (1988), but ultimately rose to 19.2 percent in 1991.

Nepal's share of imports from SAARC were as high as 57.4 percent in 1974 but ultimately went down to as low as 19.1 percent in 1991. Its share of exports to SAARC also marked a similar downward trend from 68.7 percent in 1974 to 8.4 percent in 1991.

Pakistan's both imports and exports share to SAARC showed declining trends. Its share of imports went down from 4.1 percent (1978) to 1.4 percent in 1991, whereas its export's share also went down from 5.3 percent (1985) to 3.4 percent in 1991.

Sri Lanka's share of imports after touching its peak of 12.6 percent (1979) went ultimately down to 7.2 percent in 1991. Likewise, its share of exports, which was at its highest of 8.5 percent in 1981, went down to stand at 2.6 percent in 1991.

Based on the above trends of volume of trade of the member countries of SAARC, we find that as percentage shares of the respective country's total imports and exports only Bangladesh and Maldieves are

marked to be having increasing shares of both imports and exports with SAARC over the recent years. For the rest of the member countries, their both import and export shares are losing their relative interests in the SAARC region.

Commodity Composition

Over the recent five years, the overall SITC section-wise pattern revealed the following major trends:

- In the case of imports, the major shares of traditional imports were those of the sections 0 and 3; and those of the non-traditional imports were of the sections 6 and 7. In the case of exports, the major shares of traditional exports were of the sections 0 and 2, and those of non-traditional exports were of the sections 6 and 8.
- With regard to the traditional import of the section 3, mineral fuels and lubricants, decreased within SAARC; that of the section 0, food and live animals, increased in the cases of Pakistan, Sri Lanka and Bangladesh but decreased in the case of India, Maldives and Nepal.
- The non-traditional imports of the section 6, manufactured material goods, went up, except for Nepal, and that of the section 7 went down, except for Pakistan and Nepal, in this region.
- Concerning the traditional exports, we find that of the sections 0 and 2 went down, whereas the non-traditional exports of sections 6 and 8 went up in the SAARC region.

Based on the above trends, the general pattern of commodity composition of SAARC's trading evolves as :

- In the case of traditional imports a mixed pattern still exists in the sense that both dependency and self-reliance towards food imports are observed.
- For non-traditional imports also, the clustered pattern of the sections 6 and 7 do not extend a clear picture. Nonetheless, it will not be wrong to state that SAARC members are surely on their way in establishing wider industrial base and import substitution.
- Regarding the traditional exports, truly its exports of the section 2, crude materials, went down. Yet it remained a fact that except for Bangladesh, the downward trend of exports of the section 0, food, indicate supply constraint in agricultural sector.
- As far as the non-traditional exports are concerned, the rise in the exports of the section 6 and 8, manufactured goods and articles, are healthy signs of industrial growth of these countries.

MARKS ON THE PROSPECTIVES

Absence Of Complimentarity

Apart from the fear of economic domination by the bigger members, most of the member countries of SAARC are faced with competitions among themselves. This is due to the existing nature of supplementary in their trading products. We consider it to be the biggest hurdle in any such effort for economic co-operation. This can only be resolved by establishing complimentary in their trading products.

The Needed Adjustments

The prospects of expanding the regional exports lie in the development of region's manufacturing sector and introduction of new products that have a demand within as well as outside the region. In fact, the ability to export and to generate export surplus much depend upon the extent of product diversification.

The imports sector within the region are presently subjected to either (i) higher regional share as supplier of these imports and (ii) higher regional shares as non-suppliers of these imports, or (iii) declining regional shares with the region's supplier as high. All these three categories are then needed to be adjusted in favour of both intra and inter-regional trade under SAPTA.

Transit Impacts

Bearing upon the exorbitant transit problems, trade expansion and economic co-operations also depend upon restricting the cost-escalation therefrom. For instance, Pakistan's access to Nepal, Bhutan and Bangladesh via India, Pakistan's own gate-way for SAARC members to China, Russia and other parts of Central Asia, India's gate-way to Nepal for Pakistan, Bangladesh, Sri Lanka and the rest of the world are the major transit links that if negotiated under SAPTA, would help considerably in not only expanding market but also reduce the cost factor. These however are needed to be adjusted along with multilateral trade liberalization measures to avoid distorted preferences.

Economics Of Scale

Shortage of capital needed for the required diversified industrial base in the region is one more important aspect which needs urgent consideration. Not only the limited ability to import but also lower scale of industrial activities act as a barrier to trade prospects. In the recent years the role of private sector is looked upon both as positive and active in promoting and strengthening the pace of development.

Among the member countries of SAARC, presently India and Pakistan have a comparatively stronger base of capital goods industry and other manufacturing industries. Thus, they can be looked upon with a

positive attitude for their capital and manufactured products. Added to this, the existing added technical advancement in this sector may then help to establish scale of operation as well as external economies to the other members of SAARC. Negotiations with positive attitude in this direction are also the call of the day.

Tariff Preferences

The expected benefit of SAPTA's preferential import duties can be achieved if these are negotiated initially on product-by-product basis. Countries like India and Sri Lanka are well ahead in the process of economic openness with tariff reductions. Thus, in the event of multilateral trade, any general reduction in the tariff in this region will consequently affect the whole setup of indigenous industrial base due to cost differential structures and hence, needs caution in its final declaration on tariff preferential arrangements.

Measures And Concessions

Article (15) of SAPTA spells out that the concession agreed upon shall not be diminished or nullified except under the provisions as spelled out in other Articles. The major Articles for such provisions are 13 and 14, import threats and BOP problems there from.

These problems would occur if tariff negotiations are on product basis, or atleast will slower the pace of regional liberalisation in the event of multi-lateral trade. Thus, there is the utmost need for deeper evaluation on the aspects of tariff preferences, safeguard measures and the maintenance of concessions.

STEPS TOWARDS THE FUTURE OF SAPTA

In view of the above analysis, we are of the opinion that certain factors need to be taken care in SAPTA.

Do Away With Supplementary

In order to do away with competitions among the member countries themselves arising out of supplementary nature of their trading products, there lies the strong need to identify the areas of comparative advantage or even competitive advantage for the smaller economy members.

Ensure Credit And Finance Capital

In view of the least developed members of SAARC, it is not only essential to make provisions for long term credit facilities, for import of capital goods, but also ensure free capital flows from outside SAARC region. In fact, confinement of SAPTA only towards trade would mean less or little benefit.

Search For Joint Ventures And Mutual Exchange Opportunities

With the idea of better utilization of available resources, areas need to be identified where joint investments, bilateral or even multilateral, can be made to strengthen infrastructural base of the economies.

Trade Liberalization On Sectorial Basis

SAPTA negotiations for trade liberalization on product basis may be necessary at the initial stages of negotiations. However, to foster faster benefits and to avoid complications there from, sectorial basis negotiations may carry more meaning.

CONCLUSION

The first round of trade negotiations under SAPTA, we expect, would entitle nominal increase in trade flows due to the limited numbers of products covered under SAPTA's tariff concessions. It will, thus, be necessary for the second round of trade negotiations under SAPTA to cover a larger number of products and to ensure a meaning toward intra-regional trade flows. However, there lies the caution. Experiences of GATT's Uruguay Round tell us that product basis took almost a decade to find its final shape. Further, the developing countries themselves are now engaged in an inter-regional preferential trading arrangement called GSTP (Global System of Trade Preferences). This (GSTP) too is finding its difficulties arising out of product basic negotiations. SAPTA, therefore, must take a lesson from these global experiences, specially in the event of new dimensions of intellectual property rights, multilateral negotiations and investments under the GATT system.

Finally, in the global trends of both regionalisation and globalization, success of SAARC and the effective implementation of its SAPTA lie much on the closer co-operation of the private sector of this region. This will enable and ensure awareness of the various possibilities of trade for mutual benefits. Identification of investment opportunities, direct involvements of conducting the process of trade should lie much on the private sector and their primary role to provide the necessary feedback informations to the government authorities will further ensure the future success of SAPTA because as it stands today, we can visualize SAPTA as only setting out the rules of the game, which is yet to be played.

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