

Problems of India's Trade with SAARC Countries - A Review

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Abstract

Regional co-operation has been an important feature of trade policy in the post-war period. Europe was the first continent where regional economic co-operation developed. The movement towards greater regional economic cooperation among developing countries has emerged as an effective modality for promoting South – South Cooperation. The establishment of South Asian Association for Regional Cooperation (SAARC) is also an effort in this direction. Expansion of trade after the formation of SAARC needs to be evaluated periodically; such an evaluation will help to understand whether trade has really expanded more after the formation of SAARC, compared to the earlier phases. Hence, the main focus this study is to understand the problems of Indian trade with SARRC Region. All the nations have promised to move from SAPTA to SAFTA by the turn of the countries. It is yet to be seen whether they take all the necessary steps towards trade liberalizations to make the movement from SAPTA to SAFTA smooth.

Keywords: Export, Import and Trade problems.

Background

There is a greater realization today than ever before that the problems of trade and development of developing countries cannot be solved without co-operation among them. It should not be taken to mean in any way, that it frees the industrialized economies from their responsibility towards their developing counterparts. In other words, economic co-operation among developing countries should supplement the global efforts and, in no way, it should not eliminate the interaction between the affluent North and the needy South-South Co-operation. Efforts are still being taken in international organizations, especially in UNCTAD, GATT, IMF and World Bank. The global economic situation is a reflection of varied structural maladjustments and the persisting lack of equity in international economic relations (Debendra Kumar Das ed., 1996). The share of South Asia intra-regional exports in the total exports of world is around three per cent.

The share of intra-regional imports to the total imports is about two percent for all commodities and about five percent of agricultural commodities. The share of intra-regional trade in total trade has declined over the years. Among the South Asian countries, Nepal has the highest share of in the intra-regional trade followed by Bangladesh and Srilanka. India and Pakistan, the major traders in the region have a low share in the intra-regional trade. The South Asian countries trade more with industrial, countries. Except Nepal, all other South Asian countries export less than 10 percent of their total exports and imports of food commodities to other South Asian Association of Regional Co-operation (SAARC) countries in the region. The South Asian Region can develop a strong market by strengthening the technological and trade cooperation among them. India exports only 2 per cent of its total food commodities exports to other countries of the region (Kumaresan Govindan, 1994).

Regional Grouping

Today almost all the countries must accept the fact that they are part of the world economy. No country can escape from its role in the system of interdependent trading nations. It is still a debatable point whether the degree of inter-dependence among nations is increasing or not. However, it is a fact that the world trade has grown exceptionally fast in the post-war period. On the whole, the forces working for economic interdependence among nations become irresistible. Nobody can deny the fact that the rich nations are getting richer, while the poor nations are trying to stand up on their own legs. The world as whole has grown in constant dollars around five percent a year on an average during the period from 1950 to 1980. On the other hand, the poorest nations, such as Afghanistan, Bangladesh, Ethiopia, India, Indonesia, and Pakistan had grown by four percent. South Asian Region is one the most populous regions in the world with low Per Capita Income (PCI). As regionalism is reemerging and playing an important role in international trade, the countries in South Asian region have endorsed a South Asian Preferential Trading Arrangement (SAPTA) among the SAARC member countries and it can significantly influence development of the agriculture sector and the overall economy of these countries.

Statement of Problems

In the world market, the products of the developing countries are facing tough competition with the products of the developed countries. As a result, the share of the developing countries is not increasing in the world market with the passage of time. On the other hand, the share of developed countries has been increasing in the world market. Developing countries need to develop their necessary infrastructure, transport and telecommunication system, basic and key industries; besides, they need to modernize their agriculture sector to assure continuous supply of food to the people and raw materials to the industry. For these purposes, developing countries should import modern technology, industrial equipments and other necessary items. All these activities force them to depend more and more on imports from developed countries. However developing countries do not have adequate foreign exchange to pay for their imports (Davinder Kumar Madaan, 1998).

Regional trade grouping have come to study as a hard reality on the global economic scenario. They range from preferential trading arrangement to economic union. The basic objective is to promote intra-regional trade among the member countries and there by economic cooperation and development. The establishment of SAARC is also an effort in this direction. Expansion of trade after the formation of SAARC needs to be evaluated periodically; such an evaluation will be helpful to understand whether trade has really expanded more after the formation of SAARC, compared to the earlier position. SAARC is showing its constant interest in expanding its intra-regional trade and adopting different policies for it. Now more than two decades are over and this is the time to assess and progress in trade. Hence, the main focus of this study is to examine the problems of India's trade with SAARC Region.

Methodology

In SAARC, Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Srilanka are the eight members. The secondary data collected from various journal and Government of India report.

Discussion

In present day world, no country, however, powerful, can live in isolation. It is the experience of all countries that they can optimize their opportunities and capacity only when they form themselves into a group of countries having common interest. India is one of the members of the SAARC and is comparatively a more powerful country in terms of resources, population, military strength, and growth potentials, technical and scientific progress. For a proper appreciation of the various issues involved, it would be desirable to understand first the problems of trade.

Problems

SAARC as a regional grouping of developing countries face a number of problems. Some problems in promoting the intra-regional trade in the SAARC region are discussed in this section.

Information Gap

In general, there is a huge information gap among the developing countries regarding the existing trade opportunities. The need to strengthen the information system among the developing countries has been realized long ago. They are still depending largely on the information systems of the developed parts of the world to know the details about the opportunities of trade with other developing countries. At sub-regional level, countries of south Asia do not possess clear knowledge about each other's economy. Further the exporters do not have perfect awareness about the importers of the region who will demand their products (Hariharan and Jabaraj, 2003). The lack of effective information system among the countries of the region has led to many economic distortions. For instance "Pakistan was planning to import six million of wheat from U.S.A. While India was planning to export two million tones to Soviet Union. Natural gas of Pakistan and Bangladesh is not being exported to other counties of the region despite pressing energy needs (Davinder Kumar Madaan, 2000).

Payments

The countries of South Asia are suffering from adverse balance of payments. Their share in world trade is less than two percent and there is no sign that the position will improve in near future most of the SAARC countries, as mentioned earlier, are exporting food grains and they are not in a position to earn more foreign exchange. Under these circumstances, these countries generally, tend to restrict imports and this comes in the way of intra-regional trade too. Further, revenue consideration may discourage governments the abolition of tariffs even on intra-regional in trade.

Inadequate Tariff Advantages

The tariff advantages introduced by the developing economies in general and SAARC countries in particular are not much and in many cases, the tariff cuts are less than five percent. Moreover a number of commodities are not included in tariff concessions. When transport costs are included the prices of imported goods their prices become much higher than domestic goods.

Inadequate Development of Transport Facilities

Cooperation in the field of transport and transit should top the list of measures of deeper integration. In fact, it is the essential precondition for reaping the advantage of a free trade regime. The advantages of competitiveness gained by the reduction of tariff and non-tariff barriers can be realized only if products can move physically to the other countries. This is not possible without transport and transit facilities. The non-availability of these facilities constitutes a physical barrier to promote intra-regional trade in the region (Muchkund Dubey, 2007).

Unequal Economic Structure

The economic capabilities of the SAARC nations are unequal as their economic structures are divergent. This fact has created the feeling that economic cooperation in augmenting the expansion of intra-regional trade within the region will not be beneficial (Kumarratnesh, 1997).

Competition of International Market

Some of the member countries are important exporters of same type of products and are therefore competitors in the international market. For example this is true of India and Bangladesh with respect of jute and India and Srilanka with respect to tea. Similarly, textiles and clothing are very important export items of most of the members (Jitandra J.Ahirrao, 2004).

Non- Tariff Barriers

The SAFTA would imply elimination of both tariff and non-tariff barriers. To the extent that high tariffs in the South Asian Region encourage the use of informal channels. The South Asian countries impose non-tariff, particularly in the form of quantitative restrictions, which obstruct the flow of trade through formal channels (Nisha Tanya, 2001). Very often, the role of factors other than tariff preferences is neglected. As a matter of fact, tariff advantages become a minor factor. Studies undertaken in this connection have clearly established the fact that exchange of tariff concessions alone cannot help the developing countries in achieving trade expansion and more efforts are required in the areas of non-tariff measures also. "The experience with the generalized system of preferences showed that tariff preferences should not have been expected to act as a prime mover in trade but only as a hand-maiden". The functioning of the tripartite agreement also showed that the lowering of import tariffs by itself, without other necessary steps to overcome non-tariff barriers existing

in the foreign trade system of the majority of the developing countries cannot give a sufficient impulse to the strengthening of mutual trade flows.

Informal Trade

There are several factors influencing informal trade flows that do not come under the domain of SAFTA. Informal Trade also take place due to domestic policy distortions. Such distortions are evident in different fiscal regimes in the South Asian countries. The governments also play an active role in the distribution of some commodities. These factors cause price to differ across borders, and, make informal trade profitable. The important point about domestic policy distortions is that they are not addressed either by SAFTA or by the WTO commitments. It has to be kept in mind that the economies of South Asia are in many ways quite different from other developing countries that have formed in the past or are presently contemplating preferential trading blocs. Unlike most of them, prior to the 1947, Pakistan of the subcontinent, Bangladesh, Pakistan and India were intact a single country, politically, economically and monetarily. This historical fact continues to be relevant .since a large part of the informal trade flourishes due to the traditional, Historical, economic and ethnic lint's.

If formal Trade and informal Trade are compared in an institutional framework then whatever may be the real cost associated with smuggling, there are as great or greater costs associated with formal trade. Smuggling may not be an outcome of taxes but rather an attempt to circumvent the cumbersome way of government regulations and controls that often make trade through normal channels very difficult. More specifically, the transaction costs of operating through the formal channel may exceed those of informal channels. Thus as long as transaction costs are high, exporters, prefer to use unofficial channels. A distinctive feature of the South Asian Cuntries is the inadequate transit and transport systems. This often results in high transports costs in the region and creates a strong incentive for trade to take place through informal channels. It can be seen that transport costs both direct and indirect are not quite related to the trade and industrial policy environments of the region and informal trade of this nature may remain even if liberalization polices of the countries continue. High tariffs within the SAARC regions encourage informal trade across borders. High tariff rates create a strong incentive to avoid the formal channel in order to evade tariffs. It can be seen that tariffs on both primary and manufactured goods are high for India Bangladesh and Pakistan.

Political Relations

There is lack of political will on the part of the member nations to enhance economic cooperation among them. This is due to the absence of feeling for any particular compulsions as well as economic inspiration for intra-regional cooperation and partly due to the apprehension about India's possible domination over all other countries of the region. This apprehension not only creates an adverse effect on trade relations but also appears to be conscious irresponsiveness towards the economic cooperation. Border disputes, ethnic issues and affiliations cause mutual distrust among some of the members of the Association and

these prevent emotional closeness and as a consequence, adversely affect the pursuit of cooperation.

Rules of Origin

While free trade arrangements require abandoning both tariff and non-tariff barriers, they also require rules of origin to ensure that goods from third countries do not enter the low tariff country legally to be smuggled informally into high barrier country. While all the SAARC countries have reduced their tariff levels in the early 1990's the speed at which such reduction has taken place differs amongst countries.

Domestic Policies

Even if countries in South Asia abandon both tariff and non tariff barriers, unless domestic policies are synchronized, informal trade will continue to take place. Thus tax structures amongst the SAARC countries differ to quite an extent. Example of domestic policy distortion is the public distribution system where prices are administered. A large number of agricultural product and essential commodities are sold under a dual pricing policy in India.

Transaction Costs

The multiplicity of rules and regulations stringent administrative procedures coupled with bureaucratic practices, poor infrastructural facilities and lack of institutional support may generate transaction costs which may discourage official trade even if trade policy distortions are corrected under SAFTA. In the South Asian context the informal channel becomes an attractive channel simply because the transaction cost of operating through this channel is lower than that of operating through the official channel.

Development of Banking System

It may also be noted the development of banking system in the region and the links among themselves can do a lot for promotion and the Co-operation particularly in the field of trade and commerce. During the last decade banking has developed in the region but they lack links among themselves. It would be worthwhile to establish a number of South Asian Regional Banks to expedite development of economic Co-operation in the region.

Other Problems

Lack of technology, lack of economies of scale and inadequate quality of goods not only make cost of production high but also manufactures become un competitive within the region and also in the international market. Due to the differences in the levels of development and economic strength, there is a feeling that the relatively advanced member countries would be the major beneficiaries of the cooperation and the least developed among them may not benefit from other countries Last but not the least; SAARC nations are competitive rather than complementary. India and Bangladesh compete in the world market for jute goods; India Bangladesh and Srilanka compete in respect of readymade garments; India, SriLanka and Bangladesh compete in respect of manpower exports to week Asia. The internal political, economic and socio-cultural differences continue to stay in South Asia for a

long time. Accordingly; the progress of SAARC programme will also continue to be slow and halting. However this fact should not undermine the importance of SAARC as a positive development in South Asia.

Conclusion

Europe was the first continent where regional economic co-operation developed. The movement towards greater regional economic cooperation among developing countries has emerged as an effective modality for promoting South – South Cooperation. Complementarities in production, trade and resource management would be relatively larger in the context of neighboring economies of a region or sub-region for India and other SAARC nations, the trade wind has to blow within. With just 3.51 per cent share of SAARC intra-regional trade in world trade, there is a crying need for correcting the directions of trade among the member nations to focus within the region. India being the most industrialized nations among the seven SAARC countries, the onus lies on India to take the initiative for SAARC to emerge as a powerful trading bloc. All the nations have promised to move from SAPTA to SAFTA by the turn of the countries. It is yet to be seen whether they take all the necessary steps towards trade liberalisation to make the movement from SAPTA to SAFTA smooth.

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