



SAARC: OPPORTUNITIES AND CHALLENGES FOR INDIA

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ABSTRACT:

Economic integration is an economic arrangement between different regions, marked by the reduction or elimination of trade barriers and the coordination of monetary and fiscal policies. The aim of economic integration is to reduce costs for both consumers and producers, and to increase trade between the countries taking part in the agreement.

KEYWORDS: *Economic integration , economic arrangement.*



INTRODUCTION :

One of the most significant developments in the world trade is emergence and high proliferation of regional trade agreements (RTAs). RTAs are forming the backbone of multilateral trading system. It tries to build, strengthen and boost trade and finance among member economies.

LEVELS OF ECONOMIC INTEGRATION:

Economic integration can take several forms that represent varying degrees of integration. Free trade area is the lowest extent of national integration, political union the greatest. Each level of integration incorporates the properties of those levels that precede it.

1. Free Trade Area: Countries remove all barriers to trade among members, but each country determines its own barriers against non-members.

2. Customs Union: Countries remove all barriers to trade among members but erect a common trade policy against non-members.

3. Common Market: Countries remove all barriers to trade and the movement of labour and capital between themselves, but erect a common trade policy against non-members.

4. Economic Union: Countries remove barriers to trade and the movement of labour and capital, erect a common trade policy against non-members, and coordinate their economic policies.

5. Political Union: Countries coordinate aspects of economic and political systems. Members accept a common stance on economic and political policies regarding non-member nations. Nations are allowed a degree of freedom in setting certain political and economic policies within their territories.

Economic integration may be conducted through different approaches, each of which however also represents a different degree of integration. Three approaches may be distinguished in this regard. First, there is Sectoral integration, which is used to mean integration which is "(i) limited to particular industries or sectors of the economy or economies concerned ;(ii) gradual, proceeding successively

from sector to sector." Second, functional integration refers to integration which is "(i) gradual, proceeding successively from sector to sector; (ii) by means of price incentives operating in a free market. The last one is institutional integration, used to mean integration which is "by means of adaptations of national or international institutions (in the widest sense of the word, for example, monetary practices and arrangements)".

Sectoral and/or functional integration is often characterized as "market-driven" integration whilst institutional integration is known as "policy-driven." It has been observed that regional economic integration in Europe under the auspice of the European Union (EU) corresponds more to the policy-driven model of institutional integration as, in Europe, "the origins of integration have been institutional in nature, and the development of institutions has been prominent throughout the process". In contrast, integration in East Asia has been market-driven. Although the existing institutions in this region are fairly weak and ineffective, intra-industry trade in parts and components and foreign direct investment-conducted by corporations and encouraged by significant liberalization-have been and continue to be the key driving forces of the established production-sharing system, of the evolution of these cross-border networks and of the fostering of regional cooperation and integration". China is a major player in this production-sharing regime and plays a key role in shaping the market-driven integration in Asia.

INDIA'S REGIONAL TRADE INITIATIVES

1. SAARC/SAPTA/SAFTA

The charter founding SAARC in 1985 was signed by seven nations: Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. The seven countries were joined by Afghanistan in 2007. SAARC members signed the South Asian Preferential Trade Arrangement (SAPTA) in April 1993, with the view to creating the South Asian Free Trade Area (SAFTA).

The SAPTA was made into a regional trade agreement by all members of SAARC at the twelfth SAARC Summit in January 2004, and came into force from 1 January 2006. Under Rule 7 of the phased tariff liberalization programme, in two years, the tariffs of India, Pakistan and Sri Lanka will be slashed to 20 per cent in two years, while Bangladesh, Bhutan, Maldives and Nepal (as Least Developed Countries) will reduce tariffs to 30 percent. In Five to eight years, the contracting parties will bring tariffs down to 0-5 per cent. The SAFTA includes also measures not covered by the SAPTA, such as the harmonization of standards, mutual recognition of tests and accreditation of testing laboratories, trade facilitation measures such as simplification and harmonization of customs clearance, important licensing, registration and banking procedures, and removal of intra-SAARC investment barriers.

The South Asian Association of Regional Cooperation (SAARC) turned thirty two in 2017. The SAARC's charter, which has many similarities to the founding charters of similar regional associations signed elsewhere. While other regional associations have made substantial progress, SAARC has yet to produce notable results. Table 1 presents shares of regional trade in the total trade of the regional. SAARC's Share was 4.8% whereas, ASEAN share was 25.8% and NAFTA share stood at 40.0%

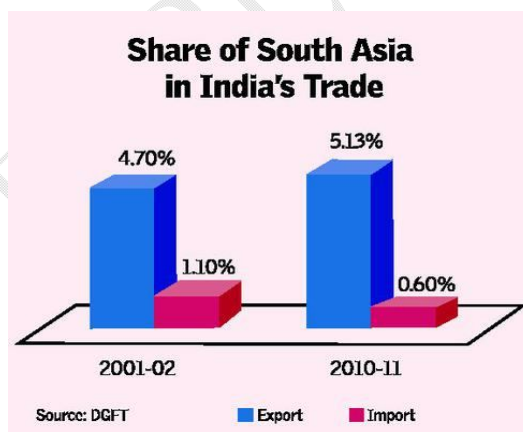
Table 1: Leading Regional Groupings: Intra-Regional Trade (Shares of regional trade in the total trade of the regional)

Regional Group	Share of intra-regional trade in total trade of respective region groups
MERCOSUR	15.5%
NAFTA	40.0%
ASEAN	25.8%
ASEAN+3	34%
SAARC	4.8%
EUROZONE	49.3%
APEC ¹	65.5%

Source: 2015 World Bank Report

Economic integration in south Asia has remained a non-starter even after 32 years of the SAARC. The security concerns of India and Pakistan are a huge hurdle. Intra-regional trade accounts for roughly 65 per cent of European Union's total trade; it is 51 per cent in the North American Free Trade Agreement (NAFTA) area, 25 per cent in the Association of South East Asian Nations (ASEAN) and 16 per cent in the Latin American trade bloc, MERCOSUR. However, this ratio is just 5 per cent in the South Asian Free Trade Area (SAFTA) despite the existence of logistical advantages.

India's trade with South Asia has not kept pace with its otherwise rapidly growing external trade. As shown in the chart presented below, the share of SAARC region in India's export remained stagnant over the last decade. Its import share has, in fact, declined. This is expected as SAFTA is limited in nature and focuses mainly on gradual duty reduction for promotion of trade, which is only one of the trade barriers. SAFTA has not been successful in addressing other trade barriers affecting growth of intra-regional trade flows.



Source: The Hindu

The reasons for slow growth in intra-regional trade are obvious. While politics is certainly one of the key factors to restrict growth of trade among South Asian nations, there are other factors probably more important, such as enabling policy environment and supporting infrastructural facilities which have not let intra-SAARC trade, including between India and Pakistan, the two major nations of the region, take off. Deep rooted mistrust and the continued existence of contentious issues, especially between India and Pakistan have to be removed and resolved, if SAARC is to become effective.

AREAS OF POTENTIAL

Experience of South-East Asia shows that trade and investment go hand in hand, so it is time policy-makers contemplated deepening the existing FTA into a comprehensive cooperation agreement covering not only trade in goods but also services and trans-border movement of investment and personnel. Since most of the developed Asian economies have a comparative advantage in the manufacturing sector while India's advantage is in the service sector, greater India-Asian economies ties would be mutually beneficial. Thus, India's role in regional integration is of utmost importance. The other areas that need immediate attention are rationalization of trade documentation and removal of non-tariff barriers. Considering the shared cultural heritage and similar demand patterns, there are immense possibilities to multiply intra-regional trade in South Asia.

2. BIMSTEC

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) groups together Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand. In the first BIMSTEC Summit in July 2004, the leaders adopted a Declaration calling for the establishment of a free trade area covering trade in goods, services, and investment, as well as mutual recognition of standards, customs cooperation and business migration, among others. For India, BIMSTEC is highly politically motivated, as it "resolves the problem of slow movement in South Asian cooperation by eliminating Pakistan and including Myanmar and Thailand". The BIMSTEC is nevertheless instrumental for regional economic integration in Asia as it serves as a formal link between South Asia and Southeast Asia.

3. INDIA'S BILATERAL F.T.A. INITIATIVES

India has signed a number of F.T.As with its Asian neighbors. The India-Sri Lanka F.T.A, signed in December 1998, is one of India's earliest bilateral trade arrangements. India and Singapore signed a Comprehensive Economic Cooperation Agreement in July 2005, under which trade in goods, services, investment protection, standard and technical regulation, and other areas of economic and regulatory cooperation are addressed. A Framework Agreement for establishing Free Trade between India and Thailand was signed in October 2003. In addition, India is negotiating F.T.As or joint exploring the possibilities of F.T.As with China, Malaysia, Indonesia, Korea, Mauritius, Chile, the SACU, the GCC, and the MERCOSUR.

REVIEW OF LITERATURES

This section comprises the review of various literatures and these are as follows:

- T.K. Jayaraman and C.K. Choong (2012) study reveals that if SAFTA is to become successful and emerge as a meaningful regional bloc like ASEAN, some bold and decisive asymmetric initiatives on the part of India are called for. Experiences from other regions have now shown that regionalism, if purely dependent on agreements and summit talks, cannot take hold unless it is market driven. Market forces can work only if the biggest gainer from trade and investment relationships shows some readiness to part with portion of the gains experienced by way of trade surpluses. If SAARC has to become successful as a regional bloc, India as the biggest gainer from trade and investment relationships should take some bold steps, which would represent some readiness to part with some of the gains derived by way of trade surpluses.
- P.Kalita (2010) stressed on the need for greater regional integration in Asia has been reiterated once again in the wake of the recent financial crisis (2008 US financial crisis). The crisis has exposed the fragility of existing global financial and economic institutions mainly existing in Asia and Europe. However, Asian economies on the other hand have shown much more resilience. She states that for a successful Asian wide integration, India's involvement is crucial given the country's consistent economic performance and growing global integration. India has also shown a shift in its trade partners from the European Union and the USA to the Asian economies. The gains from Asian regional integration could be substantial if it's realized through well-designed RTA'S. The analysis in this paper clearly puts forth the point that the

time is ripe for the formation of a stronger and broader Asian Economic Community. India with its rising economic eminence in Asia as well as globally has a crucial role to play to facilitate this integration. Despite being one of the late entrants in forging closer ties with the Asian economies, India has managed to establish itself as a formidable force in Asia with its increasing trade and investment ties not only with the Asian economies, but also globally.

Finding of the study reveals that India's trade in services with the Asian countries is still less compared to its trade with rest of the world. Given this low intra-Asian services trade, there is tremendous potential for increasing trade in services within the region, particularly in the information and communication technology. The analysis lucidly pinpoints to the fact that there is ample scope for enhancing trade and investment ties among India and the Asian countries by exploiting each other comparative advantage. Study concludes that there is urgent need to successfully conclude the ongoing FTA negotiations while at the same time should also encourage the formation of newer sub regional and bilateral FTAs in the region. It also advocates a need to reform the institutional structure of SAARC as well as integrate the region better with the rest of Asia.

- Jiangyu Wang (2006) argues that regional economic integration in Asia should first of all seek to achieve sub-regional integration in East Asia and South Asia, while linking up the two sub regions with bilateral FTAs, among which the most important one should be an India-China FTA. Eventually, all the FTAs will be consolidated into one Pan-Asian FTAs. In the process of regional economic integration, China and India, given the size of their populations, as well as their central strategic positions in international and regional relations, will inevitably play fundamentally important, if not entirely dominating roles. The paper also suggests that Asian countries, notably China and India should practice "deep integration" as opposed to "shallow integration". Trade in services is an important area in which deep integration should be sought. China and India, with growing comparative advantage in certain services sectors, should take the lead in liberalizing regional services. Lastly, it is suggested that Asian countries should, at this stage, establish an institution to develop common principles and guidelines for the sub-regional and bilateral F.T.As.
- M.G. Asher and S.Srivastava (2003) basically placed their work to investigate India's role in Asian Economic Community and how India can integrate its vision of becoming the self-sufficient developed nation with the integration of Asian countries. The finding of the study reveals that, existing sub-regional co-operation initiated under the framework of ASEAN and SAARC is unlikely to exploit the full potential of the regional economic integration across Asia as the extent of complementarities are likely to be limited at the sub-regional levels. The diversities in levels of economic development and capabilities across a pan-Asian economic community are much wider and provide for the requisite economies of scale and scope, and therefore mutually beneficial linkages across member countries. There is increasing recognition that even as Asian countries engage in competition, Asia-wide communication and dialogue, constructive co-operation, and institution building through JACIK-Japan, ASEAN, China, India and South Korea (or similar forum) provide much sounder base for securing Asia's future and its rightful place in the world community than the current sub-regional efforts. There is therefore urgency in establishing an Asia-wide forum such as JACIK. Given India's gradual emergence to a knowledge-based economy and the existence of wide-ranging complementarities with other JACIK countries, India is poised to plan an important role in the proposed new Asian Economic Community.

They emphasized on that India's energies are focused on achieving the vision of becoming a developed nation through integrated set of policies and actions. This will require India to become a knowledge-based economy in the broadest sense, including generating commercially valuable new

knowledge products. It is only the knowledge-based economy that can support India's large labor force and population of over a billion. While the political, social, and economic constraints in progressing towards the vision should not be underestimated, India is continuing to acquire capacities and capabilities which make it a valuable economic partner for other JACIK (Japan, ASEAN, China, India and Korea) countries. India's large market also makes it an important trading partner, particularly for ASEAN. JACIK countries will also find economic opportunities in India's large pool of technical and professional manpower, and in cooperating with India's scientific research institutes.

- R.Sen. and M.G.Asher (2010) argues that India's unilateral liberalization policies since the early 1990s, and purposeful and strategic perusal of its Look East Policy have resulted in considerably greater integration with the rest of Asia than is commonly realized or acknowledged. Moreover, the enabling conditions for greater economic integration among major Asian economies have been laid. If Asia is to increase its economic and political weight in world affairs, India's involvement would have to be an integral part of the Asia-wide cooperation. It is in this context that closer cooperation among Japan, ASEAN, South Korea, India and China would provide considerable win-win opportunities and will have far-ranging implications for the world. The analysis in their paper strongly suggests that India's participation in existing and prospective formal organizations and institutions will significantly enhance Asia's capacity to address the continent's challenges: and enhance its leverage and influence in world affairs. It is in this context that focusing integration efforts on East Asia alone is arguably not an optimal strategy for Asia as a continent. While India will need to be more proficient at strategic economic diplomacy, and at soft power skills, East Asia will need to shed its cold war mindset and its insularity to grasp win-win opportunities.
- A. Aggarwal (2008) argues that that regional integration in South Asian has the potential to promote economic development in individual countries irrespective of size and the level of growth. This potential can be exploited only through a deeper form of cooperation. A number of challenges remain. Unresolved structural weaknesses, institutional bottlenecks, political movements, narrow nationalism and mutual mistrust are several factors that explain the failure of the region to tap its potential. These problems themselves provide strong motivation for strengthening cooperation. It is only through deeper regional collaboration that these shortcomings can be addressed and rectified. Plans for the creation of the SAARC Development Fund, the SAARC Development Bank and the SAARC University, need immediate implementation along with the lowering of investment barriers across geographically adjacent territories. Increased investment flows will improve the competitiveness of regional firms in global markets. She further stressed on that though inward investment is beneficial for the host countries' firms, however; it is important to note that outward investment itself works as a catalyst for improving commercial competitiveness. Regional cooperation, by promoting cross border investment, will offer opportunities to firms, especially from smaller countries, to grow in terms of size and capabilities to compete globally. Furthermore, it can help in raising efficiency and industrial restructuring. It is essential that South Asian countries take a big stride forward to forge deeper integration.
- R. Kumar and M. Singh (2009) in their paper analyzes that progress in SAARC has been far short of potential. In their paper, they focused on 'real impediments' to regional integration in South Asia, i.e. SAARC. The three central arguments in the paper are: first, increased intra-regional trade will follow higher flows of cross-border investment and so greater effort should be directed to achieve the latter. Second, as the dominant partner in SAARC, India will have to accept disproportionately greater responsibilities in pushing forward the SAARC process. This will include a continuation and strengthening of the process of unilateral concessions that India has recently initiated in a clear admission that it will not demand reciprocity from its neighbors. However, they also argue that India's unilateral approach cannot be continued indefinitely and its neighbors, particularly Pakistan and Bangladesh, will have to show some minimal progress in changing their current positions, which cannot be justified either on the basis of international

agreements or bilateral benefits that visibly accrue from regional cooperation. Third, given the widespread support for regional cooperation in the civil society, academics, and sections of industry in each member country in SAARC, this is an opportune time for putting together a concerted and coordinated effort to overcome the remaining impediments to regional integration. Such an effort will surely take the process beyond the tipping point. The benefits that are subsequently generated will ensure that the virtuous cycle of increasing levels of regional cooperation in South Asia is then set in motion.

OBJECTIVES OF THE STUDY

To study that how far economic growth in each of the SAARC economies has influenced the growth in the other member countries.

How fluctuations in the output of the each of the SAARC countries influence the output of other countries in the group.

To study the trade pattern between India and other SAARC nation.

To study the reasons and factors which are responsible for the failure of SAARC.

HYPOTHESIS OF THE STUDY

- H_0 : There is no correlation between the national output of India and other SAARC member nations.
 H_A : There is a correlation between the national output of India and other SAARC member nations.
- H_0 : There is no correlation among the economic growth of India and other SAARC member nations.
 H_A : There is a correlation among economic growth of India and other SAARC member nations.
- H_0 : There is no trade pattern among SAARC nations.
 H_A : There is a trade pattern among SAARC nations.
- H_0 : There are not enough opportunities available for trade among SAARC member nations.
 H_A : There are enough opportunities available for trade among SAARC member nations.

DATA & METHODOLOGY

1. Data

(1) **Data Source** - In the study, all the data on trade among SAARC member nations will be collected from secondary sources. The trade related data among member nations can be collected from the authorized Annual Reports and Official Website of SAARC, UNCTAD and WTO. Also, various Journals and Research Papers, reports and newspaper articles may be surveyed in making this study.

(2) **Time Period** -The proposed study seeks to investigate macroeconomic interdependence among SAARC nations during the period between 1985-2016.

(3) **Variables**- For monitoring interdependence among SAARC nations, macroeconomic variables such as **Real GDP**, inflation and trade openness shall be taken into account.

2. Methodology

The proposed study primarily focuses on theoretical construct to make contributions to the already existing body of knowledge. In order to accomplish this task, a combination of both quantitative and qualitative research will be used to present the findings in order to ensure the reliability, depth and high quality.

Tentative Statistical Tests

The following are the statistical test which can be applied as per the necessity of the study:

[1] *Descriptive analysis* is used to describe the basic features of the data in a study. The descriptive technique such as Mean, Median, Standard Deviation, Skewness, Kurtosis can be used.

[2] *Multiple Regression*

[3] *Unit Root Test* tests are test for stationery in a time series.

[4] To analyse the empirical results, *Variance Decomposition Analysis* may be used.

CHAPTERISATION PLAN

Chapter I- Introduction

Chapter II- India's efforts at regional economic integration in South Asia

Chapter III- A profile of SAARC countries

Chapter IV- A brief study about the challenges faced by SAARC and why it has not produce any notable result yet

Chapter V- Review of Literature

Chapter VI- Design of Research and Methodology

Chapter VII- Results and Interpretations

Chapter VIII- Conclusion and Recommendations

Chapter IX- Limitation of the study

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