

International Multidisciplinary  
Research Journal

Golden Research  
Thoughts

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RNI MAHMUL/2011/38595

ISSN No.2231-5063

Golden Research Thoughts Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial board. Readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

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SAARC & INDIA: OPPORTUNITIES AND CHALLENGES.



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**ABSTRACT:**

Integration among developing countries also attracts direct foreign investment in new regionally based manufacturing industries that enjoy economies of scale. This requires inter-governmental agreement for the establishment of those industries

or plants, as also policy measures like tariff against foreign competition, fiscal & administrative measures for their implementation & success. This association of countries of Indian sub-continent is for close economic and commercial co-operation among the member countries. India has taken keen interest in promoting this trade group and also for encouraging trade among the member countries of the group. SAARC is one of the smallest trade organisations of the world whose primary aim is to accelerate the social and economic development of member states. It is the poorest trade organisation whose 4 members viz. Bangladesh, Nepal, Bhutan and Maldives come in the category of least developed countries. The present study is confined to an economic integration of South Asian countries. It tries to focus on the various problems faced by the developing countries of the region and plan to trace out the various remedial measures to tackle the issues.

**KEYWORDS**

*Globalization, Liberalisation, Privatisation, Economic Integration, Developing Economies.*

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## INTRODUCTION

As the name indicates, SAARC is an economic association of south Asian countries for regional co-operation which will be beneficial to member countries. Seven members of Indian sub-continent formed this association in 1985. This association of countries of Indian sub-continent is for close economic and commercial co-operation among the member countries. India has taken keen interest in promoting this trade group and also for encouraging trade among the member countries of the group. INDIA, PAKISTAN, SRILANKA, BANGLADESH, NEPAL, BHUTAN AND MALDIVES are the members of this group. It is operating since 1985 and is making steady progress SAARC accounts for over one-fifth of the world population but has only about 3.3% of world's land area. The density of population is very high and a major share of the world's poor lives in the SAARC member countries. The SAARC countries have many common features and problems. They face all usual problems of developing countries. The present study is confined to an economic integration of South Asian countries. It tries to focus on the various problems faced by the developing countries of the region and plan to trace out the various remedial measures to tackle the issues.

## OBJECTIVES OF STUDY:

The modest objectives of the present work are as follows:

1. To articulate a conceptually clear and concise thesis on the paper theme.
2. To analyse critically the impact of LPG on Indian economy in particular and on the less developed countries in general.

## RESEARCH METHODOLOGY:

The present study is based on the secondary data collected from different journals, magazines, sites and published data of SAARC.

## HYPOTHESIS:

1. Economic Integration will help to bring faster economic development in the areas of under development.
2. It will also help to fill up the technological gaps between the forward and backward regions.
3. This can also help the less developed countries to negotiate and bargain with developed economies in a more effective way.

## NEED FOR ECONOMIC INTEGRATION:

Economic integration among developing countries is needed to accelerate their economic development by

- 1) Encouraging the establishment & growth of manufacturing industries

- 2) Expanding intra-regional & extra-regional trade
- 3) Increasing the gains from trade
- 4) Providing benefits of the extension of competitive markets.

Developing countries chiefly export primary products which are traded freely in world markets. On the other hand, their imports consist mainly of intermediate goods & manufacturers which the majority of them either do not produce or produce in limited quantities. Economic integration is essential to change the existing pattern of trade which requires changes in the existing pattern of production. The aim is to industrialize their economies on modern lines. There is much less interest in trade creation through destroying inefficient producing units existing in the member countries. But there is more interest in trade diversion by shifting purchases from the rest of the world to member countries, & more constructively, the achievement of economies of scale. The purpose is also to mobilize & utilize fully their unemployed resources through industrialization. Finally, there is the need to attract foreign investment & utilize it profitably for economic development of the customs union or free trade area.

#### BENEFITS FROM ECONOMIC INTEGRATION:

There are many prospective gains from regional integration among developing countries. The following benefits accrue to developing countries when they form a trading bloc, or a customs union or a free trade area among themselves.

1. There is expansion of trade among member countries with the removal of trade barriers.
2. There is "trade creation" when goods which were being produced by high-cost partners are replaced by low-cost producers the gains from trade.
3. This leads to the movement of resources from less efficient to more efficient production. This further tends to increase the gains from trade.
4. Since the developing countries have similar levels & patterns of consumption in particular regions, regional trade agreements among them provide greater opportunities to expand their markets & develop.
5. On the basis of inter-country agreements for the establishment of new & the expansion of existing manufacturing industries, the countries can benefit from the economies of scale.
6. In order to exploit economies of scale & utilize excess capacities in existing plants or process, developing countries can have complementary agreements for their development.
7. Regional integration among developing countries encourages competition among them. Every member country tries to innovate & adopt new methods of production in its specified industries.
8. Integration among developing countries also attracts direct foreign investment in new regionally based manufacturing industries that enjoy economies of scale. This requires inter-governmental agreement for the establishment of those industries or plants, as also policy measures like tariff against foreign competition, fiscal & administrative measures for their implementation & success.

### OBJECTIVES OF SAARC:

- 1.To develop co-operation among the member countries in the area such as agriculture, rural development, telecommunication, postal services, transport, science and technology, metrology, tourism and sports.
- 2.To accelerate economic growth, to promote welfare of the people of the region, to promote collective self-reliance.
- 3.To promote active collaboration and mutual assistance in economic, social and cultural field.
- 4.To co-operate for water resource development in the region.
- 5.To promote the welfare of the people of south Asia and to improve their quality of life.
- 6.To contribute to mutual trust, understanding and appreciation of one another's problems
- 7.To strength cooperation with other developing countries.
- 8.To cooperative with international and regional organizations with similar aims and purposes.

### PRINCIPLES:

#### SAARC is based on the following principles-

- 1.Co-operation within the frame work of association in based in respect of the principles of sovereign equality, territorial integrity, political independence, non-interference in the internal affairs of the other states and mutual benefits.
- 2.Such co-operation is to complement and not to substitute bilateral or mutual co-operation.
- 3.Such co-operation should be consistent with bilateral and multilateral obligation of members states.

### TRADE AND ECONOMIC CO-OPERATION:

SAARC has taken various steps to open trade and economic co-operation among member's countries in core area. Of these, SAARC precedential trading agreement (SAPTA) is more important.

In 1995, the member's countries of the group created south Asian preferential trade agreement (SAPTA). Here the purpose was to develop trade among the members of the group two rounds of negotiations have been completed for reducing tariff on inter-regional trade. The second round was concluded in November, 1996. It resulted in exchange of tariff concession on 1975 tariff lines

The SAARC Heads of state of Govt. in their 9 summit in male on 12-5-1997 have recognised the importance of achieving South Asian Free Trade Area (SAFTA) by the year 2001 A.D. The leaders further agreed that the third round of negotiations should deepen tariff concessions along with the removal of non – tariff barriers and structural impediments in order to more speedily towards the goal of SAFTA.

SAARC Preferential Trading Agreement (SAPTA): The SAPTA agreement for trade and economic co-operation among member countries came into force on 7 December 1995.

### Main feature of SAPTA:

#### The following are the main features of SAPTA

1.Objectives: - SAPTA is a contractual agreement which presents pattern of rules for gradual liberalization of intra – regional trade among SAARC member countries. The main objective of SAPTA is to promote and sustain mutual trade and economic co-operation among SAARC states through the exchange of concessions on para – tariff and non – tariff measures.

2.Principles: - Article 3 of the agreement explains the following basic principles which administers the agreement

(i)All member states will receive benefits equitably on the basis of reciprocity and mutuality of advantages. However, their respective levels of economic and industrial development, trade and tariff policies and systems will be taken into account.

(ii)SAPTA agreement shall be negotiated step by step, improved and extended gradually in successive stages. It will be reviewed periodically.

(iii)SAPTA agreement emphasizes on the special needs and preferential treatment for the least developed member countries.

3.Scope : - All products, manufactures and raw materials, semi-processed and processed shall be included in the mutual concessions given by member countries. Under this, trade liberalisation shall be done by preferential arrangements relating to tariffs, para-tariff, non – tariff and direct trade measures. It points towards different types of trade negotiations for trade liberalization or preferential terms on product by product basis, across the board tariff reductions, sectoral basis and direct trade measures.

4.Special Preferential Treatment for least Developed States : - Besides other provisions, SAPTA provides additional measures for special and more favourable treatment to least developed member countries. They are :-

(i)By helping them to expand their export potential through technical assistance, establishment of industrial and agricultural projects linked to cooperative financing and buy back arrangements

(ii)By setting up manufacturing and other facilities in least developed member countries to meet their intra-regional demand under cooperative arrangements;

(iii)By formulation of export promotion policies, establishment of training facilities in the field of trade and supporting export marketing of products through such measures as export credit insurance, access to market information etc.

(iv)By removing non-tariff and para-tariff barriers and providing duty free access, exclusive tariff preferences or deeper tariff preferences for export products;

(v)By negotiating long-term contracts to achieve reasonable levels of sustainable exports;

(vi)By giving special consideration of exports in the application of safeguard measures from least developed member countries; and

(vii)By adopting greater flexibility in the introduction and continuance of trade restrictions under critical circumstances by the least developed member state.

**5. Balance of Payments and Safeguard measures:** - Any member State facing serious economic problems including payments difficulties may suspend provisionally the concessions permitted to import merchandise.

There are also some safeguard measures under SAPTA agreement for member countries. First if any product, which is a subject of a concession and is imported into a member state in such manner or in such quantities as to cause serious injury in the importing member country, this importing member country may suspend that concession provisionally. Second, SAPTA lays down provisions for information, consultation and dispute settlement in order to adopt balance of trade and safeguard measures by any member country.

**6. Extension of negotiated concessions:** The concessions agreed under SAPTA, except those made exclusively to the LDCs, shall be extended unconditionally to all member states.

**7. Committee of participants:** SAPTA has a committee of participants consisting of representatives of member states. The committee meets at least once a year to review the progress made in the implementation of this Agreement. It ensures that benefits of trade expansion arising from this agreement accrue to all member states equitably.

**8. Non-application of the agreement:** The provisions of this agreement shall not apply to member states under the following situations.

If preferences have already been granted or are to be granted by one state to some other member states, and to third countries through bilateral, plurilateral and multilateral trade agreements and similar arrangements.

**9. Modification and withdrawal of concessions:** Any member state which has given concessions may notify the Committee on Economic Co-operation (CEC) of its intention to modify or withdraw the concessions after a period of 3 years. For this, that country will enter into consultations and negotiations with another concerned country and if necessary, negotiate for appropriate compensation. If an agreement is reached within 6 months, the CEC may ask the affected member state to withdraw or modify equivalent concessions. But if any country leaves SAPTA, other member states shall be free to withdraw all the concessions given to it.

**10. Withdrawal from SAPTA:** Any member state may withdraw from SAPTA. For this, it is obligatory for it to give 6 month's notice to SAARC secretariat and also to inform CEC.

Thus SAPTA is an organisation for the expansion of intra-regional trade. Its aim is to set up South Asian Free Trade Area (SAFTA) till 2002 by abolishing all trade barriers gradually among member countries, and SAARC Community by 2005.

#### SAPTA Trade Talks and Concessions:

Negotiations of trade concessions under SAPTA are conducted by an Inter Governmental Group (ICG). This arrangement operates on the basis of reciprocity and mutuality of benefits. It takes into



account the levels of development of member countries, their pattern of external trade and trade related policies. Efforts are made to remove tariff and non-tariff barriers that stand in the flow of trade among SAARC countries.

Since the beginning of SAPTA two rounds of negotiations have ended and the third round is in progress. Tariff concessions are negotiated among member countries product wise and step by step. In the first round, member countries exchanged mutual tariff concessions on 226 items. Being the largest member, India gave tariff concessions on 106 commodities to member countries which ranged between 10% and 100%. Pakistan gave tariff concessions on 35 items, Sri Lanka on 31, Maldives on 17, Nepal on 14, Bangladesh on 12 and Bhutan on 11 items to other members. In return, India received tariff concessions on 24 items from Pakistan, 14 from Sri Lanka and 5 from Bangladesh at mostly 10% of the applied tariffs. All the tariff concessions became effective from December 7, 1995. In the second round exchange of tariff concessions on 1975 items took place. India offered trade concessions on 1000 items. These concessions became operational from March 1, 1997.

In the third round of trade negotiations which started in July, 1997, the aim was to extend product coverage from 6000 to 7000 items and wider and deeper tariff concessions. At the 10th SAARC Summit held at Colombo in July 1998, India announced to lift import restrictions for member countries on 2000 items. Accordingly, 2000 items were allowed license free entry without tariffs from SAARC countries with effect from August 1, 1998, but subject to the condition that the listed items / goods were new and originated in member countries of SAARC.

#### INDIA & SAARC:

India is an important and leading member of SAARC. It has trade relations with all SAARC members. India provides financial and technological assistance to member countries for their economic development.

India had the chairmanship of SAARC during the year 1996-1997. India hosted the 17th session of SAARC council of Ministers at New Delhi in December, 1996. During the course of first decade of existence, nations of the SAARC have made substantial progress in the liberalization of intra regional trade under the SAPTA. India has granted the highest number of tariff concessions on 911 lines.

The progress of SAARC was limited for some years due to the absence of cordial relations between India and Pakistan. Fortunately, the situation changed in early 2004. The 12th SAARC Summit was limited for some years due to the absence of cordial relations between India and Pakistan. Fortunately the situation changed in early 2004. The 12th SAARC Summit was held in Pakistan on 4th and 5th of January, 2004 in a cordial atmosphere and proved to be extremely successful and beneficial to all member nations.

#### India's trade with SAARC countries.

The 12th SAARC Summit concluded on 5th January, 2004 after signing of an agreement on free trade, an additional protocol on terrorism and a social character. The Summit adopted the "Islamabad Declaration" affirming the commitment of member nations to fight terrorism and promotion of regional trade.

The South Asian Free Trade Area (SAFTA) agreement which will create a free trade area in the

region by 2015 and the additional protocol on terrorism were signed by the foreign ministers of respective countries during SAARC Summit.

According to Pakistan Prime Minister M.Z.K. Jamali, the Islamabad Declaration contained the road map for South Asian Co-operation.

The 12th SAARC Summit adopted a historic agreement to institute free trade amongst the SAARC countries over 10 year period starting from January 2006 at the end of which import duty on most goods traded within the region will be in the 0-5% range.

Trade liberalization will be over 2 stages after Jan 1 2006. Two years to bring rates to 20% (3 years to LDCs) and 5 years to lower import duties to 5% or less (8 years in the case of LDCs and 6 years for Sri Lanka).

### Agreement to come into force on January 1, 2006

1. Duty reduction to rates in the 0-5% range to be brought over 10 years (7 years in the case of India and Pakistan, 8 years for Sri Lanka and 10 years for the rest) from 2006.
2. Goods coverage to be negotiated, sensitive lists to be maintained.
3. All tariffs, para-tariffs, non-tariff measures and direct trade measures to be covered.
4. Ambition extends to promoting conditions of fair competition in the free trade area, trade facilitation and gradual harmonization of legislation in the relevant areas.
5. Special needs of least developed countries to be taken into account.
6. Additional measures to be considered ranging from freeing up intra – SAARC movement of capital, harmonization of customs, classification, clearance and import licensing, rules for fair competition and promotion of venture capital, simplifying business visa procedures.

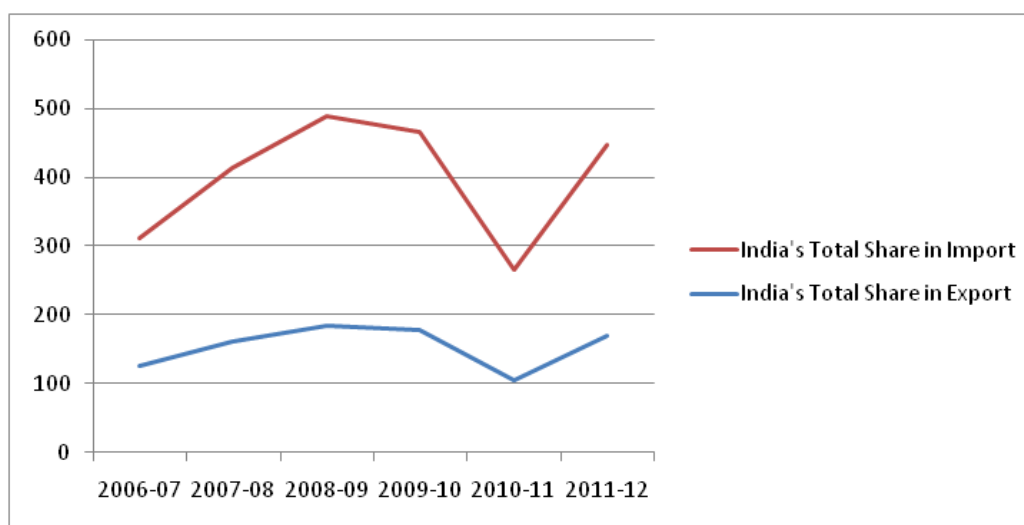
During ex- Prime minister AtalBihari Vajpayee's visit to Islamabad (for 12th SAARC Summit) Pakistan persuaded India to resume the stalled composite dialogue, which India received assurance that Pakistan would not allow its territory to be used for terrorist acts. The composite dialogue process has already started and is making steady progress.

At present, India's exports to Pakistan are limited. For example, India's total exports during 2001-02 were \$ 44 billion but a mere \$ 204 million went to Pakistan. On the other hand, India's exports to Bangladesh stood at \$ 930 million and exports to Sri Lanka at \$ 662 million. Pakistan has to pay heavy price for importing goods from other countries (except India) and India's exports suffer due to non-availability of neighbouring market. Along with India and Pakistan, other countries of SAARC are likely to get many benefits because of improved Indo-Pak relations. In the recent Indo –Pak dialogue process, there were no winners and losers. The real winners were the people of South Asia. According to Prime Minister Atal Bihari Vajpayee, "Countries in the SAARC region have to make a bold transition from mistrust to trust, from discord to concord and from tension to peace.

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<b>Exports</b>						
<b>India's Total Share</b>	126.41	163.13	185.30	178.75	105.35	170.11
<b>% Share of SAARC Countries</b>	5.12	5.91	4.62	4.69	4.55	3.76
<b>Imports</b>						
<b>India's Total</b>	185.74	251.65	303.70	288.37	161.45	277.26
<b>% Share of SAARC Countries</b>	0.81	0.84	0.60	0.57	0.56	0.52

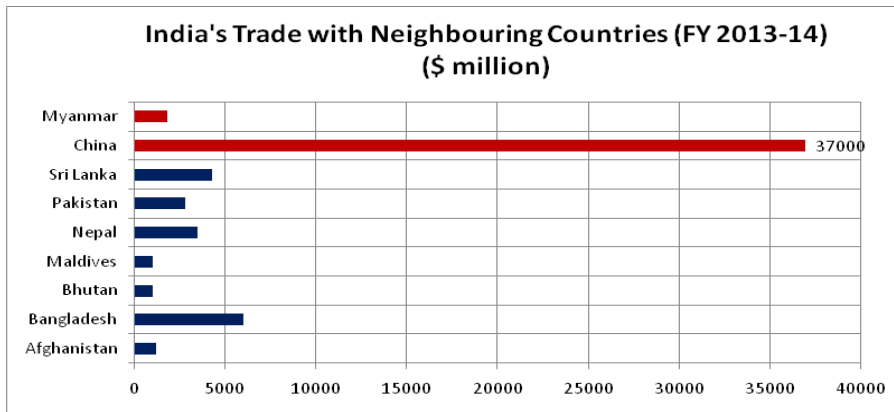
Source: SAARC Annual report

From the above table it is crystal clear that the volume of India's export was around 126.41 billion US \$ in the year 2006-07 which increased to 185.30 US \$ billion in year 2008-09 but declined to 105.35 US \$ billion in the year 2010-11, whereas we can find a further rise in the volume of trade which reached to 170.11 billion US \$ in 2011-12. But the ratio wise of the total India's trade with SAARC countries was 5.12% in the year 2006-07 which declined to 4.62% in 2008-09 and it further declined to 4.55% in the year 2010-11 and further fell down to 3.76% in the year 2011-12.



Source: SAARC Annual report

In respect of India's import was around 185.74 billion US \$ in the year 2006-07 which increased to 303.70 US \$ billion in year 2008-09 but declined to 161.45 US \$ billion in the year 2010-11, whereas we can find a further rise in the volume of trade which reached to 277.26 billion US \$ in 2011-12. But the ratio wise of the total India's trade with SAARC countries was 0.81% in the year 2006-07 which declined to 0.60% in 2008-09 and it further declined to 0.56% in the year 2010-11 and further fell down to 0.52% in the year 2011-12.



Source: SAARC Annual report

From the above chart it is crystal clear India's trade with neighbouring countries like Sri Lanka, Pakistan, Nepal, Maldives and others shows surplus where exports are greater than imports. But, the countries like Myanmar and China show deficit where our imports are greater than exports.

#### APPRAISAL OF SAARC:

SAARC is one of the smallest trade organisation of the world whose primary aim is to accelerate the social and economic development of member states. It is the poorest trade organisation whose 4 members viz. Bangladesh, Nepal, Bhutan and Maldives come in the category of least developed countries. The total annual trade of SAARC countries in the global trade in 1997 was \$ 109.7 billions. India took the major share in total global trade accounting for 62.1% and balance of about 38% was shared by the other 6 member countries – Pakistan (18.4%), Bangladesh (9.4%), Sri Lanka (8.2%), Nepal (1.5%), Maldives (0.25%) and Bhutan (0.15%). The intra- SAARC trade was \$ 3,000 millions which was less than 3% of the regions total global trade. When SAARC becomes a free trade zone by 2005, its share in the global trade is likely to achieve the target of 10%. So far as India is concerned, its cumulative trade with other SAARC member countries was Rs. 7,500 crores in 1999-2000. Of this, exports were at Rs. 6,100 crores and imports at Rs. 1,400 crores.

#### ACHIEVEMENTS OF SAARC:

So far, the achievements of SAARC in boosting trade and regional co-operation are the following:

- 1.The establishment of SAPTA and reduction in quantitative controls, tariff and non-tariff barriers on imports and grant of concessions under it.
- 2.The setting up of Technical Committees for economic co-operation among SAARC countries relating to agriculture, communication, education and culture, environment, health and population, rural development, science and technology, tourism, transport, etc.
- 3.One of the objectives of SAARC is to eradicate poverty among member states by 2002. The agenda on removal of poverty includes strategy of social mobilization, policy of decentralized agricultural development, small – scale labour intensive industrialization and human development. It gives priority

to the right to work and primary education for every poor person. In its efforts to reduce poverty, SAARC is receiving the co-operation of World Bank, UNDP and ESCAP. SAARC has established a three – tier mechanism for exchanging information on poverty reduction programmes which is passed on to member countries.

4.SAARC has created a reserve of 2,41,580 tonnes of foodgrains for meeting emergencies in member countries. It is managed by the SAARC Food Security Reserve Board which comprises representative from each member state. It meets once a year and undertakes a periodic review and assessment of the food situation and prospects in the region. The latter include such factors as production, consumption, trade, prices and quality and stocks of foodgrains.

5.SAARC has set up SAARC Chamber of Commerce and Industry (SCCI). Since 1992 with its headquarters at Karachi. Its national units are located in 7 SAARC countries. It has played a significant role in promoting economic and trade co-operation in the region. It helped forming SAPTA. Its aim is to promote trade and interaction of chambers of commerce and industry of 7 member countries, to organize trade fairs and to confer with other trade organization for increasing SAARC trade.

6.SAARC established the SAARC Agriculture Information Centre (SAIC) in 1988 which works as a central information institution for agricultural related resources like fisheries, forestry, live stock, potato, rice, etc. it serves as a central information institution for 7 national information centres in each member state. It helps in exchanging regionally technical information relating to R and D activities. SAIC also publishes and distributes information among member countries on research and experiments conducted by agricultural institutes relating to agriculture.

7.To develop the SAARC countries socially and economically, SAARC has entered into agreements and signed memorandum of understandings (MOUs) with a number of international and regional organizations like UNCTAD, ESCAP, UNDP, APT(Asia Pacific Telecommunity) ,UNDCP,EC,ITU (International Telecommunication Unions), CIDA (Canadian International Development Agency) etc.

8.To help member states financially, SAARC has set up 2 funds:

(i)South Asian Development Fund (SADF) with 3 windows : window for identification and development projects, window for institutional and human resource development and window for social and infrastructural development projects

(ii)SAARC japan special fund.

9.Encouraged by SAARC, the South Asian Growth Quadrants (SAGQ) comprising India, Bhutan, Nepal and Bangladesh has been formed in early 2000. It aims at the economic development of eastern India, Bangladesh, Nepal and Bhutan and the basis formed by 3 major rivers Ganga meghna and Brahmaputra. The area identified for co-operation are multi-nodal transportation and telecommunications, effective use of energy and natural resources, development of tourism, increase in trade and investments and checking environmental hazards.

### CRITICISMS OF SAARC:

Even though the process of trade liberalization between SAARC countries has made a good beginning, yet the following are the obstacles in its way:

1.There are many commodities with large intra trade which have not been included in the list of tariff concessions.

2.Many commodities on which trade concessions have been given by Pakistan and India.

3. Member countries often bargain for removal of tariffs on the basis of the condition of every commodity.
4. Some member countries get benefits from other regional preferential arrangements which led to duplication of preferences. For instance, LDC member states like Bhutan and Nepal are already benefitting from much higher tariff concessions on a bilateral basis. Many items on which India, Pakistan, Sri Lanka and Bangladesh are granting tariff concessions under SAPTA to one another have already been provided under bilateral agreements.
5. Trade concessions being granted under SAPTA on the basis of product by product area big hindrance to trade liberalization. Unless concessions are given on a wider scale on the basis of sectors, it is not possible to convert SAPTA into SAFTA.
6. India, Pakistan and Sri Lanka, the 3 big member states of SAPTA, want to grant tariff concessions primarily on the basis of mutually. The reason for this is lack of faith with each other. For instance, Pakistan is not willing to extend MFN (most favoured nation) status to India which it is obligatory to grant under WTO Agreement. This stands in the way of taking SAPTA to SAFTA.
7. INDIA, Pakistan, Sri Lanka and Bangladesh have quite high tariff rates on many commodities. Pakistan and Bangladesh also impose VAT on all imported goods. Besides, all SAARC countries levy such non-tariff barriers as quantitative restrictions, restrictive licenses etc. unless they are totally removed SAPTA cannot be a success.
8. Despite the setting up of Technical Committee on transport, land and water route transport facilities are not available among SAARC countries. Due to the lack of transport facilities, high transit duty etc, intra-regional trade has not been increasing, especially among India, Pakistan and Bangladesh.
9. Bank relations are also not developed among SAARC countries. The methods of credit instruments are different in each country from others. Consequently these are delays and bottleneck in buying and selling commodities neither payments are made in time nor they are cleared. These are the main obstacles in increasing SAARC trade.
10. Another obstacle in the way of SAARC trade is that every member country is afraid of India's superior status because it possess the largest natural, financial, technical and manpower resources in the region. Naturally its output of various commodities and export potential are the highest among the SAARC members and its trade balance is also favorable with them.
11. With the removal of trade barriers among SAARC countries, informal (illegal) trade in goods has increased. As a result, bilateral trade balances have been adversely affected between the member states. This has led to the demand for tariff barriers which would make SAFTA a remote possibility.
12. The long drawn hostility between Pakistan and India has overturned the schedule of establishing the SAFTA by 2002 and the SAARC Community by 2005.

#### SUGGESTIONS:

The following are the suggestions made to increase trade and economic co-operation among SAARC countries:

1. Tariff and non-tariff barriers should be removed by granting more concessions, especially average import tariffs imposed by India, Pakistan, Bangladesh and Sri Lanka.
2. Trade among SAARC countries can be increased through transport facilities. For this rail, road and water transport infrastructure should be strengthened. Besides, there is the need to improve the

procedures for the grant of visas, transportation of goods and clearance at check-points.

3. Norms regarding the origin of products under SAPTA should be relaxed. At Present, if the proportion of the manufactured or produced product or the imported input of a SAARC country exceeds 50%, the product will not be considered to be the produce of that country and it will not get trade concessions. But to increase trade among SAARC countries, it is essential that the ultimate place of manufacturer of a product should be the sole criterion for determining the origin of a product.

4. SAARC countries mostly re-export primary products. In the coming years, they should establish manufacturing industries. For this, they should set up special export areas. To attract foreign investments, they should enter into buy-back agreements and also provide fiscal and other facilities to foreign investors.

5. There should be periodic meetings among exporters, importers and private sector representatives of SAARC countries so that informations may be provided for tradeable products and views may be exchanged to remove the trade barriers.

6. The 3 big and developed SAARC countries (India, Pakistan and Sri Lanka) should give to the 4 LDCs market access in their territories by granting one – sided concessions on the basis of non-reciprocity principle.

7. Production capacities at the regional level should be enhanced through co-operation among SAARC countries so that intra-regional trade and trade with outside countries increase.

8. For expanding trade relations, it is essential that investments should be made in special regions for the development of infrastructural facilities.

9. In the light of the above, there should be free flow of investments. For this, a SAARC investment region should be established. These will be 2 advantages from it. One, with the flow of investments among SAARC countries small member states will get credit facilities for development. Two, this will encourage direct foreign investment into SAARC countries.

10. Big member states of SAARC should help small member countries in developing their power, transport, infrastructure, communication and other resources so that their economic capacities may increase and they may diversify. In this way all member states will be capable of fully increasing infra-regional trade.

11. SAARC members should set up joint ventures in each other's country, especially in the least developed countries so that their industrial base may develop, their production capacities may increase and intra-regional trade and trade with the rest of the world may expand.

12. For SAARC to march from SAPTA to SAFTA primarily depends upon the relations between India and Pakistan. This is possible on the basis of reciprocal trade concessions, and Pakistan according MFN status TO India and giving up hostile attitude towards India.

## CONCLUSION:

Since its inception, SAARC has made the above noted achievements within few years. But to march from SAPTA to SAFTA and to make it a reality, it is essential to have the spirit of mutual faith among the member countries. For this, they will have to improve the political environment and to have greater economic co-operation. But they require effective co-ordination which the developing countries lack due to political and ideological differences among them and the benefit of fear of hegemony of large and strong states in regions. Despite of these even though a customs union may be

the ultimate objective, it will still be a sizable accomplishment in the immediate future. To secure the mutually supporting measures of regional investment policies, regional trade liberalization and regional aid institutions in developing countries. These difficulties or problems explain the failure or slow progress towards economic integration in developing countries. Implementing free movement of unskilled labor across SAARC will be at least as politically difficult as the creation of a CU, as countries with very large populations, high numbers of unemployed, and low skilled workforces are also the low income and low wage countries, while high-income Singapore and Brunei Darussalam have limited land and populations and would face severe spatial and social constraints. What is more politically acceptable would be effective regional cooperation in managing the large legal and illegal intra-regional flows of low-skilled workers. Such cooperation could include sharing information on the demand for and supply of such workers, policing common borders to prevent illegal flows and human trafficking, greater transparency on the terms of employment for low-skilled workers, and better protection of the rights of such workers from abuse by recruiting agencies in home countries and placement agencies and unscrupulous employers in host countries. With greater volatility in global financial markets in recent years, SAARC governments are understandably reluctant to commit to free flow of capital, with the threat to domestic financial volatility.

Therefore in order to bring the meaningful globalization, there must be free movement of labor and other factors of production with uniform fiscal and monetary policies within the region.

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