

## ECONOMIC CBM'S IN SAARC NATIONS

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### ABSTRACT

*The proposal for the establishment of SAARC was mooted by President Zia-ur-Rehman of Bangladesh and despite initial reservation exhibited by India and Pakistan. SAARC was born in December 1985. Since then it has provided the institutional framework for promoting regional cooperation among South Asian Countries. SAARC was conceived as an association for purely economic, social and cultural cooperation but working of SAARC reveals that it has two main dimensions: Economic and political. Even though SAARC is one of the youngest regional economic groupings, it has made rapid progress in terms of initiatives aimed at fostering an economic integration in the region. Over the past decade or so, the South Asian countries have undertaken some significant reforms of their economies to integrate themselves more intensively with the world economy.*

**KEYWORDS:** CBM, SAARC, SAFTA, SAPTA, Liberalization

This integration process has a considerable impact on the regional economic cooperation among the South Asian Countries also. As a result, a number of initiatives have been taken by the South Asian countries to liberalize intra-regional trade at unilateral, bilateral and regional levels, despite these initiatives the proportion of regional trade and investment is still quite modest. Although SAARC has been giving primacy to economic cooperation since early 1990s, but for further strengthening the overall competitiveness of the region (SAPTA) was launched in 1995. The SAARC leaders have further committed themselves to (SAFTA). Alongside, there have been various bilateral, sub regional and unilateral initiatives that have further complemented the regional integration initiatives in the region (India Today, Mar 29, 1999, p57)

The SAARC was inspired by the objective of creating an environment conducive to confidence building and constructive cooperation within the region through economic or cultural cooperation. Trade is becoming a major segment of economic development, so much so that trade cooperation has come to replace Cold- War-era security pre-occupation with political and strategic issues. Economic cooperation at the regional level has the potential to galvanize nations to come together to enhance the pace of development.(Joy,1996,p33) The

interdependence borne out of economic mutuality can in turn help to resolve interregional tensions. Across the world a number of regional groupings or multilateral trade agreements have successfully translated economic cooperation into viable instruments of economic as well as security and stability. ASEAN and European Union stand testimony to ideological underpinnings of cooperation giving way to cooperation for economic prosperity as the new ethos. (CMIE Report, July 2001,p36) The SAARC was also inspired by the objective of creating an environment conducive to confidence building and constructive cooperation within the region through economic or cultural cooperation. India has always maintained that SAARC is strictly meant for economic. Social and cultural cooperation between the seven nations of the region and should not be used to air political differences.(Muni,1993,189)

### **Trends of India's Blatantly Trade with Pakistan and Other SAARC Countries:**

India's trade with SAARC countries was not substantial during the pre-SAARC period and the position also did not show any substantial change in the post-SAARC period. The export to SAARC countries was never above 5 percent of the total exports or India. The exports to SAARC countries amounted to \$307 million in 1980 and it was 3.64 percent of the total exports that year. The exports to the region declined by more than

25 percent in 1981 and by 14 percent in 1982 and it forced the percentage of total exports to decline to 2.6 percent and 2 percent respectively. In 1985 the exports to SAARC countries amounted to US \$270 million, which was nearly 14.3 percent less than the export of the previous year. The exports to SAARC as a percentage of total exports also declined from 3.8 percent in 1984 to 3.3 percent in 1985. In the pre-SAARC period (1980-85), though the exports exhibited a mixed trend, it actually came down by nearly 2 percent and also the percentage to total export by 0.34 percent. (RIS Report, 2002, p168)

In the post-SAARC period exports to the region was showing an upward trend. The export to the region was \$277 million in 1986 increased by 10.5 percent in the following year and annual rate of growth in 1988 was nearly 19 percent. But, in 1989, the growth rate was marginally declined by 4.1 percent. This was because of the decline of exports to Nepal, a major trading partner in the region, due to the strained trade relationship. In 1991 the exports amounted US \$ 949 million and the rate of growth recorded was 94.9 percent against 28.5 percent of the previous year. The reason for this substantial increase in the exports to SAARC States was because of sharp increase in the exports to Maldives. In the post SAARC period the trend shows upward trend and the exports to the region during the 2000 was more than six fold from the 1980. But the proportion to total exports increased only marginally because of increase in the total exports. (Ibid)

### **TRENDS OF INDIA'S TRADE WITH SAARC COUNTRIES**

The exports to SAARC countries as a proportion to total exports stood at 3.6 percent in 1980 and marginally declined in the early eighties. In 1985 the share of exports to SAARC countries stood at 3.3 percent to total exports and a declining trend was observed during the second half of the last decade. Though the share of exports to SAARC region was only 2.7 percent in 1990, it increased to 4.34 percent in 2000 which is less than 1 % to the highest recorded since 1980. The current position of exports to SAARC countries is less significant. Hence, it is vital for the economic development of the country to promote exports to SAARC countries and it is expected to reap the benefit of SAPTA by India being the largest economy in the SAARC region.

The imports from SAARC of total imports stood at

0.95 percent in 1980 and it declined to 0.69 percent in 1985. As a result of higher growth rate recorded in total imports than the imports from SAARC, the imports from the region as a proportion of the total imports increased marginally to 0.87 percent in 2000. This reveals that the imports from SAARC both in terms of value as well as the proportion of total exports increased marginally from 1980 to 2000.

### **Trends of India's Trade with SAARC Countries**

Thus, the analysis India's trade with SAARC countries exhibits that there, exists a high degree of instability and commodity concentration. The recently signed SAPTA is hoped to enhance the country's trade with other member countries of SAARC by reducing the tariff barriers and dominating the non-tariff barriers. The end of the cold war gave a significant push to socio-economic cooperation in South Asia. Although, during the entire post-Cold War period, South Asia continues to be a conflict torn region with most of the countries suffering domestic violence caused by communalism, ethnic conflict, separatism, religious fanaticism and socio-economic deprivation. But, despite this disturbing trend, India's policy in the sub-continent has been to build a strategically secure, politically stable and harmonious and economically cooperative neighborhood. India firmly believed that stability in the region can only be established through better economic relationship. Therefore, through greater economic interdependence India, in the recent past, had tried to improve its relationship with their neighbors, especially with Pakistan. But, India and Pakistan still have a great deal to learn from the global experience, where trade is increasingly being used as a prelude to political reconciliation. The Sino-American trade relations offer another convincing example of how trade can be skillfully used to enhance mutual confidence between two politically hostile nations. (Sridharan, 2000, p72)

Political ECBMs for India and Pakistan exist in dozens of areas. Unfortunately, trade between the two countries is guided by political myths, which, as evidence indicates are much ado about nothing. There are some economic myths also which hinders the trade between the two, most of the Pakistanis believed that free trade between the two would not be very healthy, the domestic markets of both the countries and they felt that markets in both countries would be captured by foreign goods which intern

adversely affect the health of the domestic industries in their respective countries. But the trade communities of both the countries felt that the world trends clearly indicate that such an apprehension has no economic basis. They strongly believed that with the relaxation of trade restrictions the economy of both the countries would grow faster because both the countries have different economic strengths. If both the countries would collaborate with each other, they can substantially reduce their trade deficit, e.g. if Pakistan buys wheat from the Indian States of Punjab and Rajasthan instead of buying it from Canada and America, would entail a financial saving of \$ 25 in freight charges alone on every tone of imported wheat.(Siddiqui,p104) Further, with the increase in bilateral trade, public revenues will also increase, since governments can earn more through custom revenues when smuggled items switch to formal trade. The table shows that public revenues in Pakistan can increase by more than Rs. 2 billion even with an unusually low tariff rate of 10 percent.

**Table 2**  
**Pakistan: Revenue Gains from Trade with India**

Smuggling estimates (\$mm)	Effective tariff rates		
	10%	20%	30%
750	3450	6900	10350
600	2760	5520	8280
500	2300	4600	6900

Source: RIS Report 2002

Enhanced economic cooperation will not only create interdependence between the two but also promote tourism, cultural contacts and exchange of electronic as well as print media which helped them to remove historically rooted enemy images from the minds of the people of both the countries. As the conflict between India and Pakistan is more psychological than territorial, it is necessary for both the countries to gradually reduce the mistrust between them and create a cooperative security environment as far as possible. With the widening of economic base and reduction or mistrust between the two countries, several new avenues will be open for cooperation. In recent years, there has been much talk of economic cooperation in the laying of gas and oil pipeline from Iran, Persian Gulf, and Central Asia through Pakistani land or maritime territory to India. It appears that this sort of economic cooperation in energy, a key component or infrastructure in both the countries will

catalyze trade in the larger run.

Several proposals have been offered in lieu of strategic considerations. Out of several proposals of joint pipeline project would be most economical and viable project. In this project the overall cost will be reduced approximately by 25 to 30%. This project will be more beneficial for Pakistan than India as this project would attract foreign direct investment in Pakistan which in the longer help Pakistan to further broaden and strengthen its economic base. Pakistan would also gain an estimated \$ 600 m as transit fee apart from maintenance and security fee from India.(Iqbal,2000,p162) The only hurdle in the implementation of this project is the political one, because most or the Pakistani felt that such cooperation would run counter to its policy since 1994 of holding economic cooperation contingent on the Kashmir issue. They also fear that any improvement of relationship with India will be counterproductive both politically and military. From India's perspective, a pipeline through Pakistan runs the risk of disruption, whether deliberate or due to attacks by terrorist groups. Several religious extremist groups in Pakistan have already threatened to blow up any such pipeline. Some groups within Pakistan has been able to work out approaches that would provide satisfactory safeguards to ensure a continuation of the natural gas supplies through periods of enhanced tension, as well as to generate awareness about the economic benefits to both the countries from building joint pipeline.(Lama,1999,p30-31) This group considered the construction and operation of a joint natural gas pipeline would be a major CBM after Kargil war and terrorist attack on Indian Parliament, India is not very keen to persuade Pakistan for the implementation of this project and simultaneously looking for alternative LNG import route.

Another project, which can be used as a strong economic CBM is the export of surplus electricity from Pakistan to northern part of India. Prime Minister Nawaj Sharif made the proposal to Prime Minister Vajpayee when they met at the United Nations in September 1998.(Barua,159) They also proposed that the first link with Pakistan's power grid could be between the neighboring cities of Lahore in Pakistan and Amritsar in India, which are barely 40 Km apart. Economically, the export of electricity to India was considered a good opportunity for Pakistan to earn foreign exchange. A rough estimate that if Pakistan has a surplus capacity of 200

megawatts for exports it could earn as much as \$ 1.2 billion per year for perhaps up to 20 years.(Dubey,1999,p9) But diplomatic shadow-boxing, political skirmishes and the proxy war in Kashmir stalled the power deal for several years.

**Table 3**

Primary commercial energy consumption in India and Pakistan million tones oil equivalent, 1997/98

Country	Coal & Lignite	Oil Products	Nat. Gas	Hydro-power	Nuclear	Growth. or new ren	Total Coml.
India	147.1	102	21.2	6.3	0.9	0.2	277.3
Pakistan	2.0	17.9	15.1	5.3	0.1	0.0	40.4

Sources: TERI (1998) HDIP (1999).

Several leaders have expressed their apprehensions about the misuse of foreign exchange earned by the Pakistan government out of trade relationship with India. They feared that substantial part of this foreign exchange earnings will be utilized by the Pakistani government in subversive activities against India. Therefore this group of leaders had cautioned Indian government about the consequences of any further economic favoritism towards Pakistan. They have also warned India that one cannot trust Pakistani political and military leadership and said that they can certainly ditch India at the time of national crisis. Therefore, India cannot depend on the needs of strategic resources like energy supply both oil and electricity from Pakistan. Despite such fears, which could be genuine or unwarranted bilateral or regional trade is recognized as an effective CBM. In spite of disappointing level of trade among the countries of the region - just 3 percent compared to the trade volume with the rest of the world - there is enormous potential for trade development. Since early 1990 several studies have been conducted with a view to shed light on the enormous cost of non-cooperation and the substantial benefits of co-operation particularly in areas of transport and communications, energy, employment

generation, poverty alleviation etc. These studies have also highlighted that such economic cooperation will automatically develop people to people understanding across the national frontiers, which in the longer run could be helpful for confidence building. These studies have also suggested that if, due to political and military reasons, bilateral economic cooperation is not possible in that case nations should try for sub-regional cooperation incorporating more than two nations of the region.

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