

# Promoting SAARC: India's Role

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Presentation

To

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## Outline

- ▶ **South Asia: Its Geo-Economic Features and Position in Global Economy.**
- ▶ **Status of Regional Cooperation in South Asia**
- ▶ **Factors Constraining Cooperation and a Review of Literature**
- ▶ **India's Role: (i) Measures Taken;  
(ii) Recommended**

## **South Asia: Features and Position in the World Economy**

## South Asian Association for Regional Cooperation



- ▶ **Established** : December 1985.
- ▶ **Member countries** : Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, Afghanistan( joined in 2006)
- ▶ **Aim** : To accelerate the process of economic and social development in Member States.
- ▶ **Areas of cooperation**: Agriculture and Rural Development; Health and Population Activities; Women, Youth and Children; Environment and Forestry; Science and Technology and Meteorology; Human Resources Development; and Transport.

## Share in SAARC (Average over 2002-06)

Indicator	% Share in SAARC							
	Afghanistan	Bangladesh	Bhutan	INDIA	Maldives	Nepal	Pakistan	Sri Lanka
Population	1.73	10.54	0.05	75.56	0.02	1.62	10.47	1.36
Land area	13.64	2.72	0.98	62.18	0.01	2.99	16.12	1.35
GDP, PPP	0.68	6.66	0.07	81.03	0.06	0.97	8.42	2.12
Trade in Goods	7.24	14.64	n. a	40.34	1.06	7.99	13.17	15.56
Export of Services	n. a	2.25	n. a	86.85	0.86	0.78	6.26	3.01
FDI Inflow	0.02	4.36	0.05	74.73	0.13	0.08	17.90	2.82
Total reserves minus gold	n. a	2.06	0.31	87.62	0.13	0.96	7.41	1.69

Source: Calculated from data given by World Bank, IMF, UNCTAD

## Participation in World Economy (2005)

### A Comparison

Indicator	SAARC	ASEAN	CAREC	CAREC (Excl. China)
Surface area	3.8	3.3	11.5	4.3
Population	22.8	8.6	21.3	1.0
GDP	2.3	2.0	5.4	0.2
Merchandise exports	1.2	6.3	7.7	0.4
Merchandise imports	1.8	5.6	6.5	0.3
Total reserves minus gold	3.6	7.1	19.8	0.2
FDI Inflow	1.0	3.9	8.5	0.4

Source: WDI, 2007

## Share in SAARC: Some Features

- ▶ Striking heterogeneity.
- ▶ India's smaller land area compared to its population.
- ▶ India's relatively lower share in total SAARC trade.
- ▶ Service sector dominated region

## Economic Structure (% of GDP)

	Bangladesh		India		Nepal		Pakistan		Sri Lanka	
	2000	2006	2000	2006	2000	2006	2000	2006	2000	2006
<b>Agriculture</b>	24.6	18.7	23.4	17.5	39.6	38.1	25.9	19.4	19.9	16.5
<b>Industry</b>	24.4	27.0	26.2	27.9	21.5	20.3	23.3	27.2	27.3	27.1
<b>Manufacturing</b>	14.7	16.5	15.6	16.3	9.2	7.5	14.7	19.5	15.1	12.2
<b>Services</b>	51.0	54.3	50.5	54.6	38.9	51.5	50.7	53.4	52.8	56.5
<b>Gross capital formation</b>	23.0	25.0	24.3	33.8	24.3	30.3	17.2	21.8	28.1	28.4
<b>Gross Domestic Savings</b>	17.9	20.3	23.7	32.4	15.2	11.1	16.0	13.7	17.5	17.0
<b>FDI Stock</b>	4.4	6.3	3.8	5.7	1.3	1.5	9.8	11.4	9.8	10.9
<b>Trade</b>	36.0	40.6	29.9	34.8	39.0	40.5	32.1	35.6	64.2	63.0
<b>Total Reserves (months of imports)</b>	2	3	9	11	8	n. a	3	6	2	3

Source: ADB, UNCTAD

Contd..



## Economic Structure (% of GDP)

	Afghanistan		Bhutan		Maldives	
	2000	2006	2000	2006	2000	2006
Agriculture	57.0	39.5	27.7	22.4	8.8	8.4
Industry	23.2	25.3	34.3	35.9	15.0	16.7
Manufacturing	17.2	16.1	8.3	7.3	8.0	6.8
Services	19.8	35.3	36.3	37.2	80.1	78.8
Gross capital formation	11.6	21.3	47.4	51.4	26.3	36.1
Gross domestic savings	-19.4	-24.8	30.5	36.8	44.2	47.6
FDI Stock	0.6	0.3	1.0	2.8	19.0	21.4
Trade	41.7	n. a	77.0	n. a	120.9	124.2
Total Reserves (months of imports)	n. a	n. a	21	17	4	3

Source: ADB, UNCTAD

## Growth Momentum in the Region

Indicator	Bangladesh		India		Nepal		Pakistan		Sri Lanka	
	2000	2006	2000	2006	2000	2006	2000	2006	2000	2006
<b>GDP</b>	5.6	6.4	5.4	9.7	6.1	2.8	4.3	6.9	6.0	7.4
<b>GDP per capita</b>	4.6	5.3	2.5	6.3	5.0	0.1	1.6	4.7	4.5	5.2
<b>Exports</b>	19.5	32.8	27.6	23.2	39.7	4.2	13.5	15.4	29.2	12.3
<b>Imports</b>	9.5	22.5	7.3	29.8	24.0	17.1	14.6	39.4	31.4	19.7
<b>Export (Services)*</b>	20.1	27.4	3.6	31.7	—	-22.5	6.5	29.8	-1.5	0.9
<b>Agriculture</b>	7.4	4.5	-0.2	2.7	4.9	1.7	6.1	1.6	1.8	4.7
<b>Industry</b>	6.2	9.6	6.4	10.9	8.7	3.5	1.3	5.0	7.5	7.2
<b>Services</b>	5.1	6.1	5.7	11.0	5.7	2.4	4.8	9.6	7.0	8.3

Source: ADB, 2007  
\* Data for 2005.

Contd.

## Growth Momentum (Contd.)

Indicator	Afghanistan		Bhutan		Maldives	
	2000	2006	2000	2006	2000	2006
GDP	n/a	7.5	7.6	11.0	4.4	23.5
GDP per capita	—	7.8	2.4	3.8*	2.7	15.9
Exports	-17.4	25.9*	-7.5	64.9	18.8	39.4
Imports	16.2	13.5*	7.4	11.6	-3.4	24.4
Export (Services)*	—	30.3	-0.6	48.3	1.7	-37.5
Agriculture	7.1**	2.8*	4.6	0.4	-0.2	-0.7
Industry	-2.8**	19.3*	5.2	3.0	1.2	10.6
Services	4.0**	10.4*	18.7	13.2	6.0	23.8

\*\* Data for 2003

\*Data for 2005

Source:ADB, 2007

## Business Environment in SAARC Countries

Country Ranking (1– 175)	Country	Starting a business	Dealing with licenses	Employing workers	Protecting investors	Trading Across borders	Enforcing contracts	Closing a business
53	Maldives	31	9	5	60	91	83	114
74	Pakistan	54	89	126	19	98	163	46
88	Bangladesh	68	67	75	15	134	174	93
89	Sri Lanka	44	71	98	60	99	90	59
100	Nepal	49	127	150	60	136	105	95
134	India	88	155	112	33	139	173	133
162	Afghanistan	17	-	74	173	152	165	151

Source: World Bank, 2007

## Competitiveness Indicators

Country	Global Competitiveness	Infrastructure Quality	Business Sophistication	Corruption Perception Index
	Country ranking (1– 131)			(Country Ranking (1-179))
Pakistan	92	72	79	138
Bangladesh	107	120	102	162
Sri Lanka	70	73	51	94
India	48	67	26	72

Source: World Economic Forum and Transparency International

## **South Asia: Status of Regional Cooperation**

## SAFTA

- ▶ SAFTA came into force in January 2006.
- ▶ Aims *“to strengthen intra-SAARC economic cooperation to maximise the realization of the region's potential for trade and development for the benefit of their people, in a spirit of mutual accommodation, with full respect for the principles of sovereign equality, independence and territorial integrity of all States”*
- ▶ Focuses on reduction of tariffs for intra-regional trade among the SAARC members in a time bound manner.
- ▶ No tariff reduction on sensitive items of the members if they so desire.
- ▶ All quantitative restrictions, if not permitted under GATT 1994 to be eliminated.

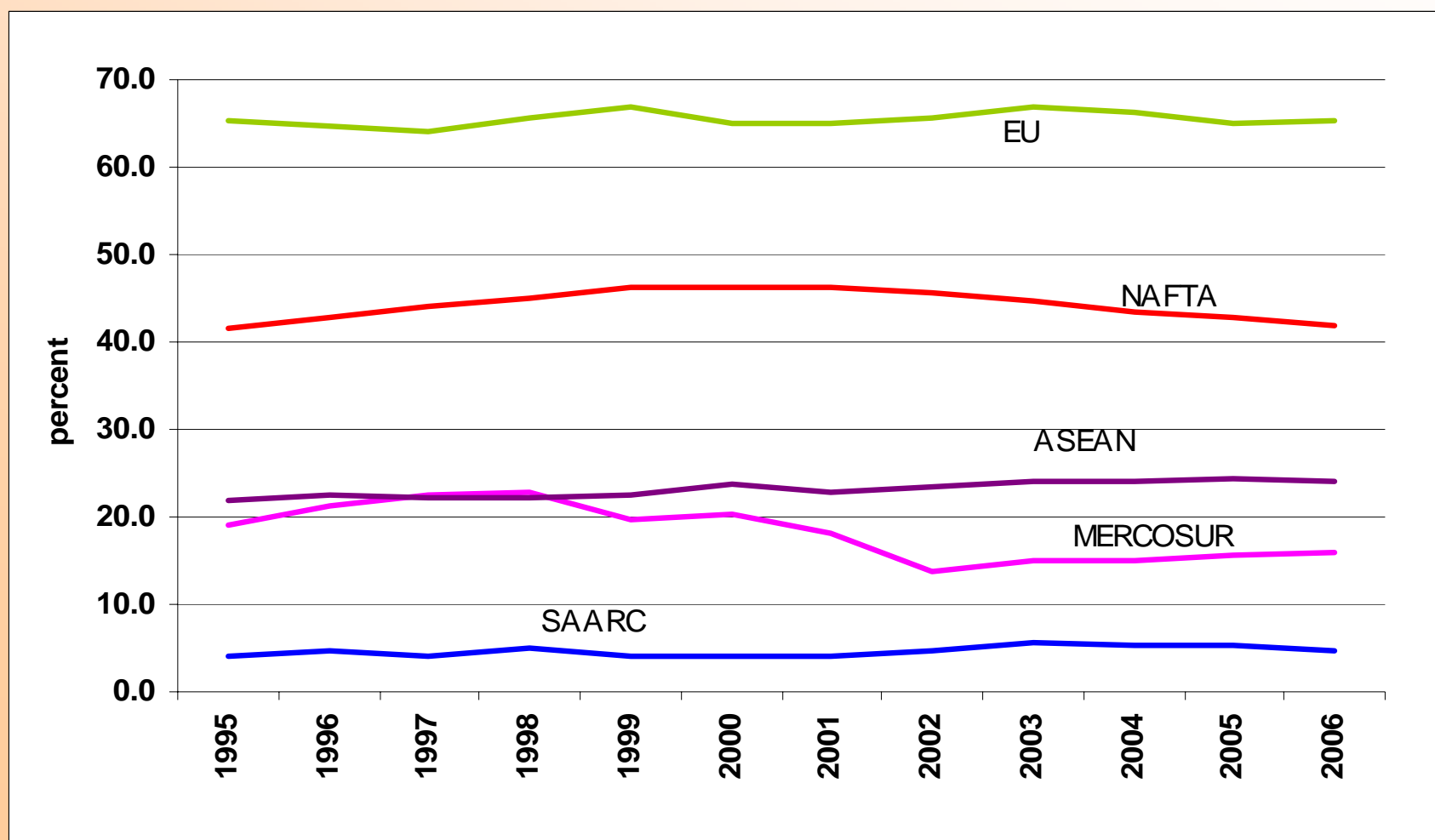
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## SAFTA (contd.)

- ▶ SAFTA Ministerial Council and Committee of Experts to monitor the implementation of SAFTA Agreement.
- ▶ Mechanism for Compensation of Revenue loss incurred by the LDCs due to reduction of tariffs.
- ▶ To protect domestic industry from possible injury due to increased preferential import, scope for partial or full withdrawal of preference granted under SAFTA for a period of maximum 3 years.
- ▶ Safeguard measures not to be applied against the product of LDCs if share of import from an LDC of the product concerned in total import of importing country is less than 5%.
- ▶ Consultations and Dispute Settlement Procedures put in place.



## Intra Regional Trade – A Comparison



# Intra Regional Trade Among SAARC Countries

## -A Profile

(Average Over 2002-06)

	Intra Regional Exports			Intra Regional Imports		
	Value (US \$ mill)	Share in		Value (US \$ mill)	Share in	
		Region	Own Total Exports		Region	Own Total Imports
<b>Afghanistan</b>	83	1.2	41.9	896	13.2	39.8
<b>Bangladesh</b>	145	2.1	1.8	1836	27.1	15.2
<b>India</b>	4474	66.2	5.5	984	14.5	0.9
<b>Maldives</b>	17	0.2	13.9	127	1.9	20.0
<b>Nepal</b>	319	4.7	51.9	762	11.2	45.9
<b>Pakistan</b>	1209	17.9	8.9	573	8.5	2.8
<b>Sri Lanka</b>	508	7.5	8.7	1598	23.6	19.4
<b>SAARC Region</b>	6754	100.0	6.2	6776	100.0	4.4

Estimated from data from DoTS

## Composition of Intra SAARC Trade- Exports (percent)

SITC	Description	1991	1995	2001	2005
0	Food & Live Animals	20.8	29.3	28.6	17.4
1	Beverages & Tobacco	0.8	0.9	0.6	0.5
2	Crude Materials ex. food/fuel	13.1	5.5	4.7	4.7
3	Mineral fuel/lubricants	3.1	1.7	2.8	19.1
4	Animal/ veg oil/fat/wax	0.1	0.2	0.6	4.5
5	Chemical/products n.e.s	9.4	10.0	11.5	11.5
6	Manufactured goods	37.3	34.8	30.0	26.8
7	Machinery/Transport equipment	13.2	14.8	14.3	10.5
8	Misc. manufactured goods	1.7	1.7	5.0	4.8
9	Commodities n.e.s	0.6	1.0	1.9	0.3
	<b>SAARC Region</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Calculated on the basis of data from WITS

Countries considered: India, Pakistan, Sri Lanka and Bangladesh.

## **Factors Inhibiting Regional Cooperation in South Asia**

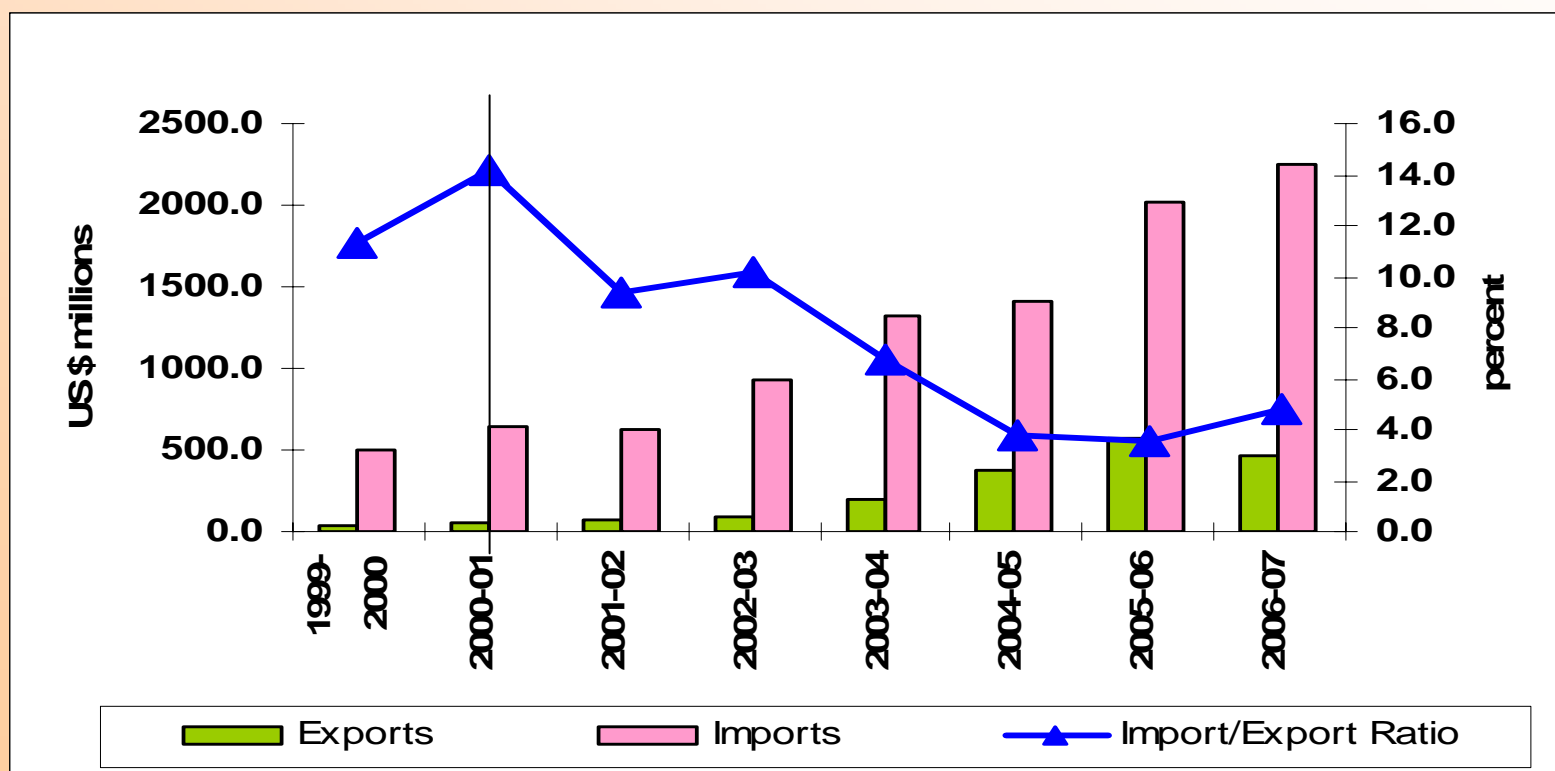
## Empirical Literature

- ▶ Empirical literature suggests no consensus on gains from an RTA in the region.
- ▶ **M. Kabir Hassan (2001)** with the help of gravity model tries to make an analysis of the unexplored trade opportunities in the region. His results suggest that SAARC member countries are yet to harness the fruits of regional integration in totality.
- ▶ **Jayatilleke S. Bandara and Wusheng Yu (2003)**. Using trade data and a global Computable General Equilibrium (CGE) model, show that unilateral liberalisation rather than preferential liberalisation (SAFTA) would benefit South Asian countries much more. The small countries in the region would gain little and may even lose under preferential liberalisation.
- ▶ **Batra (2004)**. Using Augmented Gravity Model finds positive trade potential for SAARC region as a whole. India's trade potential is revealed to be highest with Pakistan.
- ▶ **Arvind Panagariya(2007)**. argues that SAFTA is not a persuasive idea on both economic and political grounds . Economically, the region is small in relations to the outside world and remains heavily protected. The probability of trade diversion rather than trade creation is higher. Politically, border dispute between the two largest nations are ongoing and unresolved. Therefore aim should be to promote project-by-project cooperation in areas of mutual interest.

## Factors Inhibiting Intra-Regional Trade

- ▶ Low trade complementarities.
- ▶ Export basket not diversified (exception, India).
- ▶ Restrictive Rules of Origin and destination.
- ▶ Services not included in the regional trade agreement.
- ▶ High trade barriers (large negative list, non tariff and para-tariff barriers ).
- ▶ Lack of communication links (Poor transport infrastructure).
- ▶ High transaction costs ( Corruption, custom delays etc.)
- ▶ Inability to build a relationship of mutual trust and confidence .
- ▶ Politics and lack of commitment.

## Sri Lanka Trade with India



- Indo-Sri Lanka Bilateral Trade Agreement came into existence in March 2000.
- Since 1999, Sri Lanka's exports to India have increased by 10.5 times and Imports from India by 4.5 times. Consequently Import/Export ratio has fallen.

# India's Imports from Sri Lanka

S.N	Commodity	1999-2000	Commodity	2006-07
		Value		Value
1	Coffee, Tea, Mate and Spices.	13.9	Animal /Vegetable Fats And Etc	99.93
2	Iron and Steel	8.1	Copper /Articles thereof.	87.63
3	Pulp of Wood or of other Fibrous Cellulosic Material; etc	3.34	Electrical Machinery / Equipment /Parts thereof;	44.13
4	Animal or Vegetable Fats and Oils etc	2.74	Coffee, Tea, Mate / Spices.	28.7
5	Plastic/ Articles thereof.	2.34	Rubber/ Articles thereof.	26.55
6	Lac; Gums, Resins/ Other Vegetable Saps/ Extracts.	2.13	Aluminium /Articles thereof.	24.31
7	Edible Fruit /Nuts; Peel /Citrus Fruit /Melons.	2.11	Articles Of Stone, Plaster, Cement, Asbestos, Mica etc	20.62
8	Rubber/articles thereof.	1.4	Machinery /Mechanical Appliances like Dish Washng Mach./Machnry for Filng,, Sealng,, Labelng Boxs, Bags/ Containrs	13.24
9	Paper /Articles of Paper Pulp, etc	0.85	Wood / Articles of Wood etc	11.6
10	Products of Animal Origin, nes.	0.7	Pulp Of Wood or other Fibrous Cellulosic Material; Waste And Scrap Of Paper	11.6
	<b>Total</b>	<b>44.23</b>	<b>Total</b>	<b>470.26</b>

Value in US \$ million

Source: DGFT

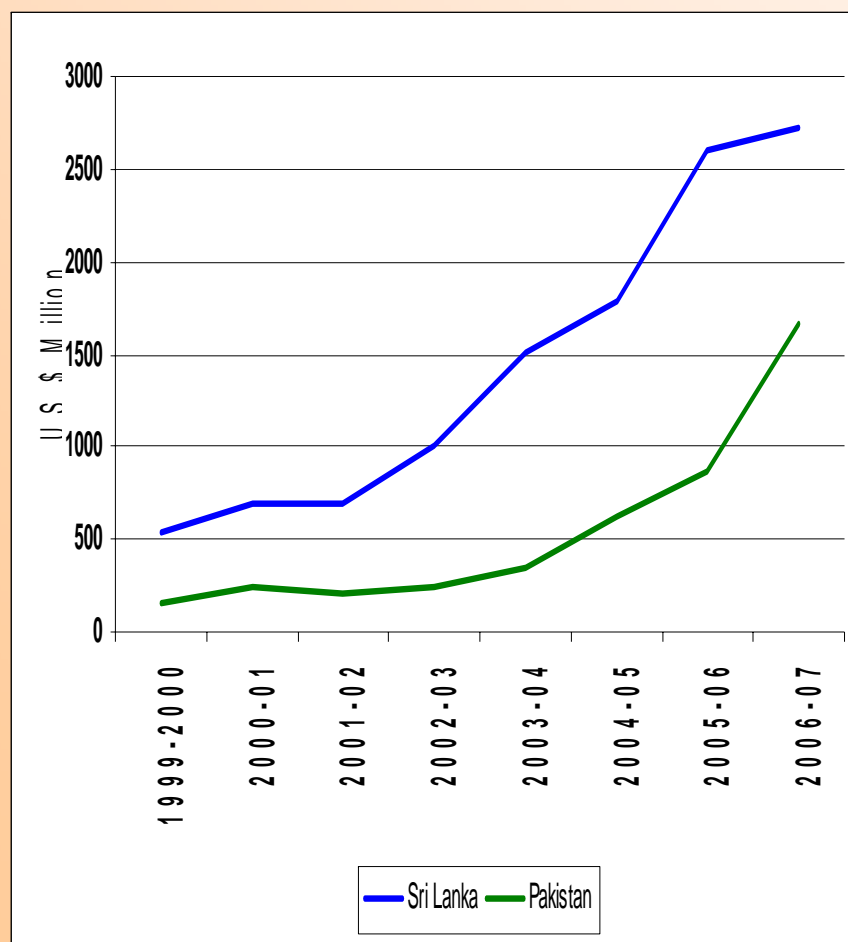
**Structure of trade has changed. Sri Lanka is exporting more intermediate goods to India.**



## India's Investments in Sri Lanka

- ▶ The India-Sri Lanka FTA has stimulated new FDI into Sri Lanka for rubber-based products, ceramics, electrical and electronic items, wood-based products, agri-commodities and consumer durables
- ▶ India is the 4<sup>th</sup> largest investor in Sri Lanka with FDI approvals of US\$ 450 million.
- ▶ Indian Oil Corporation, Taj Hotels, L&T, Ambuja, Tata and Ashok Leyland are among the prominent Indian companies operating in Sri Lanka.
- ▶ With close to 120 flights per week including by Indian private airlines tourist arrivals from India in Sri Lanka are the largest.
- ▶ Some of the important projects in the pipeline include a 500MW coal-based thermal power plant at Trincomalee by NTPC, oil & gas exploration in Mannar blocks of Sri Lankan waters by ONGC and up-gradation of the Colombo-Matara railway by RITESIRCON.
- ▶ Ceylon Biscuits and Damro are the most visible Sri Lankan investments in India

# India's Trade (export+import) with Pakistan (and Sri Lanka)



## Opportunities

- ▶ Recorded trade between India and Pakistan low however trade through third country like Afghanistan, Dubai, Gulf States, and illegal channels is quite significant.
- ▶ Potential for intra industry trade exists in engineering goods, transport equipment, agricultural goods, pharmaceuticals, chemicals and textiles.

## Problems

- ▶ Absence of MFN status to India.
- ▶ Restricted positive list of items of imports from India.
- ▶ Non tariff barriers in India
- ▶ Indian trade regime considered to be more restrictive than Pakistan.
- ▶ Politics

## ...with Bangladesh

### Opportunities

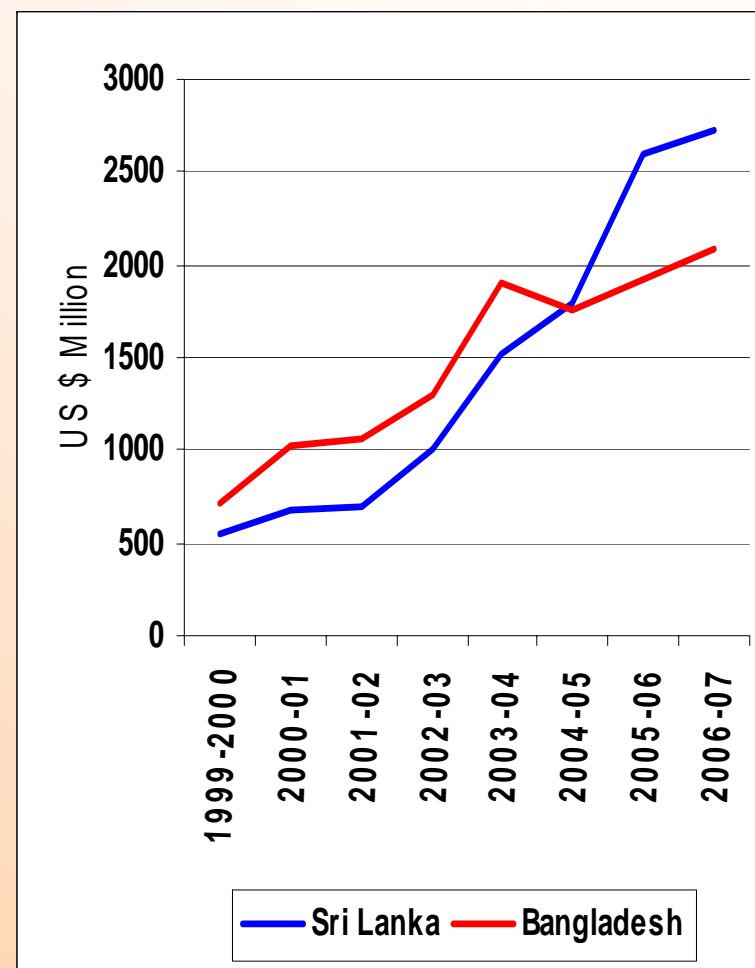
- Natural Gas Exploration and industries based on it like Electricity, Fertilizer and Petrochemicals.
- Engineering consultancy in Infrastructure (power, telecommunications, ports, roads and railways)
- Information Technology (Data Processing and Software Development)

### Problems

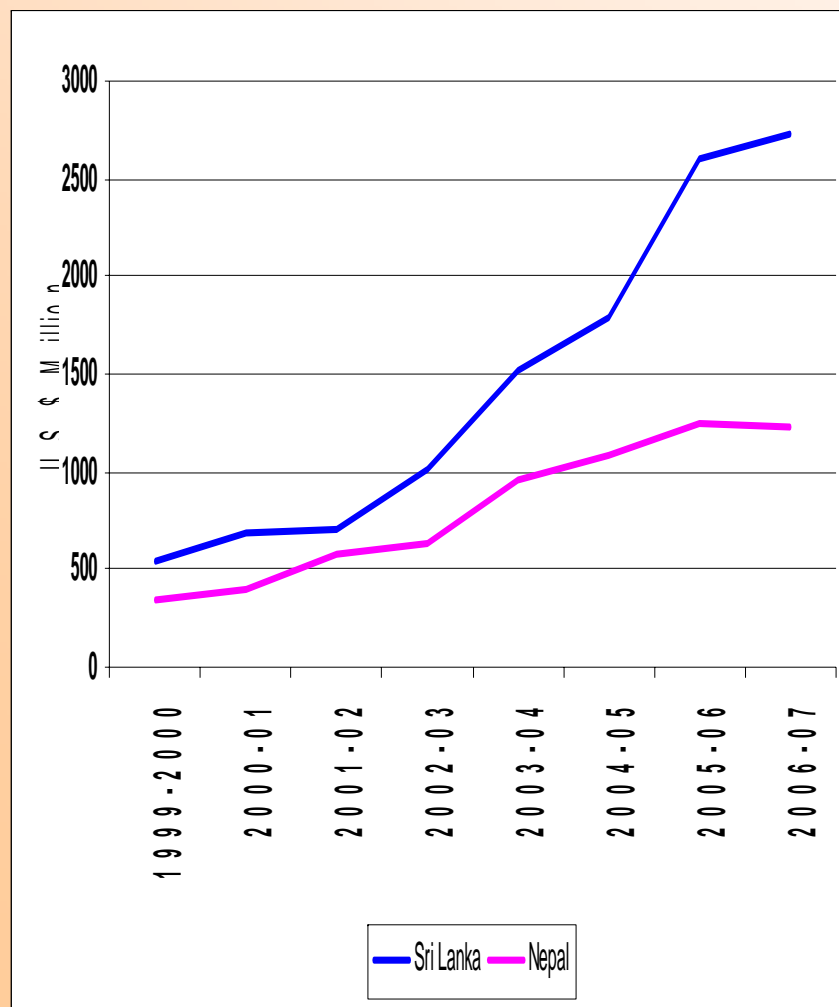
- Poor infrastructure, corruption, uncertain law and order situation, inadequate commercial laws and courts, and policy instability (i.e., policies altered when a new government comes to power).
- Investors in infrastructure and natural resource sectors, including power, mineral resources and telecommunications must seek approval from the corresponding government ministries. They have to face lengthy and corrupt bureaucratic procedures.

### On the Trade front :

- In Bangladesh, slow pace of liberalization, tariff reduction and increase in the scope and levels of para-tariffs to protect domestic consumer goods industry.
- Non tariff barriers by India, protection to domestic textiles and apparel industry.
- Constraints on imports by the land border by both countries.
- Congestion, delays, bribes etc. at customs. Consequently Illegal trade between the two countries amounts to 3/4 of regular trade.



## ...With Nepal



### Opportunities

- ▶ Due to limited domestic production of manufactured products and increasing demand, India can export transport, vehicles and communication equipments; agricultural machinery, tools and fertilizer; medicine, medical equipment and tools etc.
- ▶ Joint venture opportunities in tourism industry, investment in hydroelectric power, telecommunication, civil aviation and infrastructure (road and airport) construction.
- ▶ Joint ventures potential for Indian manufacturing mainly for exporting exists in consumer durables, non-durables, garments and carpets, apparel etc.

### Problems

- ▶ Limited natural resources, difficult topography, poor infrastructure, weak human capital base and labour union excesses supported by Maoist.
- ▶ Though Nepal open to foreign direct investment, implementation of policies often distorted by bureaucratic delays and inefficiency. Investors in Nepal face a non-transparent legal system.
- ▶ On the Indian side Nepal traders face non tariff barriers, corruption, politically motivated business and border closures, high transaction cost like submission of unnecessary documents, administrative hassles at customs office.

## Why should India support SAARC

- ▶ Make de facto the de jure
- ▶ For greater inflow of FDI
- ▶ Dynamic trade gains
- ▶ Regional security
- ▶ Promotion of development of least developed countries.
- ▶ Returns to scale.
- ▶ Increased efficiency in the provision of public goods and services.
- ▶ Connectivity payoff with the rest of Asia
- ▶ Achieving greater social cohesion within India.
- ▶ Defining and defending our regional space.

## Some Recent Initiatives by India

- ▶ India has unilaterally reduced negative list of trade items from 744 to 500 for least developed countries (LDCs) of SAARC.
- ▶ India has advanced the trade liberalisation programme in respect to LDCs by one year and with effect from 1st January 2008, the import duty on all items other than those in the negative list has been reduced to zero.
- ▶ A task force has been set up to address Non-Tariff Barriers faced by partner countries in India.
- ▶ To promote people to people contact, trade and commercial interaction within the regions India's initiatives include, opening up of road, rail and ferry links with Pakistan; the Open Skies arrangement with Sri Lanka; Integrated Check Posts along the borders; the optical fiber backbone across the Nepalese Terai as well as, the Rail Agreement with Nepal, hydro-electric projects in Bhutan and Nepal etc.
- ▶ Under the chairmanship of India an intergovernmental Agreement to establish the South Asian University was signed during the 14th SAARC Summit. The main campus of the University will be in India.
- ▶ To enhance cultural connectivity in the region, India hosted a SAARC Cultural Festival in November 2007.
- ▶ To focus on issues relating to women, India hosted meetings relating to Home-based Workers, Trafficking in Women and Children and, Micro Financing and Women Economic Empowerment.
- ▶ India will contribute \$100 million of the \$300 million initial corpus of SAARC Development Fund established to finance projects related to poverty alleviation, infrastructure development etc.
- ▶ India has offered SAARC nations access to free-of-cost remote sensing data collected by various satellites launched by the Indian Space Research Organisation (ISRO) during major disasters in the region.

## India's Possible Role

- ▶ **Take a long term strategic view of South Asia and be seen to be doing**
- ▶ **Committing greater resources by both Central and State Governments to regional cooperation.**
- ▶ **Clarify that security is a concern but will not come in the way of promoting regional cooperation.**

## India's Possible Role

- ▶ **Further Encourage the private sector to take up cross border projects.**
- ▶ **Invite multilateral and bilateral support in key sectors :Transport, Energy, Tourism, Environment, Irrigation.**
- ▶ **Listen as an equal partner and report back on suggestions implemented.**
- ▶ **Actively strengthen SAARC Secretariat.**



**Thank You**