



REGIONAL AND ECONOMIC INTEGRATION OF SOUTH ASIA (SAPTA AND SAFTA): THE CHALLENGES AHEAD

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ABSTRACT

Regional integration is an idea of deepening of networking among the member countries of a particular region, mostly exemplified through a regional organization. The idea of regional integration is exemplified through various stages of development of networking of which the most basic and important stage is economic integration and the last being the political integration of a region. The model for any regional integration study is the European Union (EU) model which tries to propagate the idea of steady and gradual phase wise regional integration from economic integration to political integration, the former exemplified in a common market and common currency while the later is exemplified in a regional legislature or Parliament. South Asia has started off its regional organization in 1985 and in the last thirty odd years have started to step in a preliminary stage of regional integration which is within the second stage of economic integration, i.e. a free trade area. The South Asian transformation from a preferential trade area to a free trade area have been completed between 1991 and 2006 which according to scholars is a considerably long period and the reason for such delay was the animosity between Indian and Pakistan. Even due to this very reason the development of free trade area in South Asia is also very slow. Thus the status of regional integration in South Asia is relatively low compared to the happenings in Europe and South East Asian regions. This paper will try to focus on the nature of regional integration theoretically and practically in other parts of the world and then in a comparative perspective assess the situation in South Asia.

KEYWORDS-Regionalism, Economic Integration, South Asia, SAPTA, SAFTA

INTRODUCTION

Regional integration refers to growth of societal integration within a region. Contemporary analysts refer to this a soft regionalism which is a process of higher level of economic interdependence within a region than with the rest of the world. Human interpenetration, trans-border growth triangles lies at the core of such transnational regionalism that is conceptualized in terms of flows, complexes, mosaics or networks. An important strategy of regional integration concerns regional economic integration. Specific policy designs are formulated to remove or reduce barriers to mutual exchange of goods, services, capital and people. This variety of regionalism is dominated by the European model. Regional integration aims at regional cohesion which refers to the possibility of the emergence of a cohesive and consolidated regional unit. Cohesion makes regionalism of particular interest to the study of international relations. When the region plays a

defining role in its integrationist form in the relations between states and when the region form the organizing basis for policy within the region, cohesion can be understood better.

OBJECTIVES

1. To understand the meaning and nature of regional integration
2. To identify the various stages of regional integration
3. To assess the importance of regional integration in South Asia
4. To appreciate the developments through SAPTA and SAFTA
5. To analyse the problems and prospects for regional integration in South Asia

METHODOLOGY

As the study is merely descriptive in nature the investigator has made an honest attempt to study the



various relevant books/Journals/ website for the information regarding the regional integration. The investigator has tried his utmost to make the study as objective as possible by employing different previous studies and information available on internet.

Evolution of the Idea

The problem of defining regions and regionalisms attracted a good deal of academic attention in the late 1960s and early 1970s. Joseph Nye in an edited book on International Regionalism: Readings imprints that particular attention during the time was given to the idea of regional interdependence. The regionalist challenge of 1960s fell far short of expectations as there were few places outside Europe where the regionalist experiments have produced tangible results. The impetus to a new wave of regionalism came from European Union through the completion of a Single European Market through the signing of Maastricht Treaty in 1993. The contemporary development of regional integration has occurred against the background of a powerful parallel trend towards globalization. The newness of regional integration is that the theme of interdependence started to be applied beyond Europe in nonwestern regions.

The Various Stages

Regional integration can be achieved fully only when the various stages of regional integration are successfully passed through step by step. The first of this stage is to form a regional trade bloc (RTB) which can be achieved through two sub-stages – preferential trade agreement through which the member-countries by preference open up their goods and services for the co-member countries of the region. The second sub stage is to have a free trade area (FTA) by which goods and services are fully opened up among the member-countries of a particular regional organization. The next important step is to form a Customs Union (CU) in which a common regional institution is set up to look after the regulations and laws guiding the free movement of goods and services across the region. The next step is to have a Common Market (CM) in which the regional goods and services are placed to other region and countries of the world in a concerted way thereby creating an idea of a common market. The next step is to have a common currency for exchanges of goods and services of the region taken together. With the completion of the economic integration the next step is to have a political integration exemplified in the creation of an integrated legislature which synchronizes the laws and regulations formulated at the legislatures of member-countries. Thus from economic to political – the entire spectrum comes up under the various stages

of regional integration of which European Union is the classic model.

THE SOUTH ASIAN SCENARIO

South Asia is at a turning point. Powered by the dynamic growth of the Indian economy, it is the fastest-growing region in the world. South Asia can be propelled faster to find its rightful place in the world if its member states develop as an integrated economy. While countries in the region seek economic integration of South Asia, their agenda is shaped more by the “pre- state needs for capital, labor, infrastructure development and transport and civilization imperatives than post- state democratic needs such as human security, environmental protection, social justice and peaceful resolution of conflict. Economic integration has the highest transformative effect and thus economic impact in the lagging and peripheral areas of the region. When economic integration transforms the region and spreads new infrastructures, institutions and approaches that lower frictions, and alleviate coordination and information failures, the benefits from stronger regional cooperation and integration tend to be highest for the peripheral regions and in this case for the poor in South Asia. First Sri Lanka in the 1970s and then India, Bangladesh, and Pakistan in the early 1990s abandoned trade protectionism in favor of openness as the strategy for development and poverty alleviation. India’s greater openness was prompted by the foreign exchange crisis in 1991 and the prodding of the IMF, which had developed a new approach, subsumed by most commentators under the term “the Washington Consensus.” Fiscal austerity, privatization, and market liberalization were the three pillars of this program of economic adjustment. There are only two functional institutions (the Bay of Bengal Programme Inter-Governmental Organization and South Asia Cooperative Environment Programme). An example of a regional facilitating institution is the newly established South Asian Association for Regional Cooperation (SAARC) Development Fund. In the energy sector, an intergovernmental framework agreement on energy cooperation facilitates a phased development of a regional energy market. South Asia’s diversity provides huge opportunities for trade, investment, and economic growth. The region’s remarkable success in recent decades demonstrates this. Geographically, the South Asia region is very wide and heterogeneous. It links Central and West Asia with Southeast and East Asia. Some of the South Asian countries are also members of many forward-looking regional and sub regional initiatives such as ECO, SAARC, BIMSTEC and EAS. There are, however, challenges to the South Asian countries to maintain the



regional competitiveness and complementarity. One of the best solutions to such challenges is to strengthen regional connectivity and trade facilitation which would further support the regional economic integration.

SAPTA

The international economic environment is changing fast. Liberalization, globalization and rationalization are taking place rapidly in the world economy, in which so far South Asia is lagging behind. In this context, SAPTA may be considered as a landmark in the process of trade cooperation among the SAARC countries. It on the one hand silenced the critics that SAARC is only for resolutions and recommendations and on the other hand, it paved the way for intensive trade cooperation. SAPTA, using Rostow's terminology, can be considered as a 'take off stage' in the process of trade cooperation. It will gradually and smoothly lead not only to a free trade area but beginning with a free trade area and moving to a common market, it will ultimately result in the forming of a South Asian Economic Union.

Origin

While regional governments were reducing protection, some also took steps to encourage intraregional trade. The SAARC was stalled because of continuing hostility between India and Pakistan, so India concluded bilateral agreements with its smaller neighbors to increase trade. As a consequence, the total value of regional trade increased rapidly in the late 1980s and most of 1990s but not the shares of regional trade in total trade. This was principally because of unilateral trade liberalization by countries on India's borders and large appreciations of the exchange rates of the peripheral countries relative to the Indian rupee. Most of the increased trade was one way, with large increases in exports from India, especially to Bangladesh and Sri Lanka. The sixth summit was held in Sri Lanka on 21 December 1991 and was famous for the launch of South Asian Preferential Trade Area (SAPTA). SAPTA was ratified by all the members and as per the provisions of the Article 22 Entry into force, the SAPTA agreement entered into force with effect from December 1995, on the eve of the Completion of First Decade of SAARC.

Basic Features

The basic principles and objectives of SAPTA are given in the Agreement. The Preamble of the Agreement rightly points out, "... that the expansion of trade could act as a powerful stimulus to the development of their national economies by expanding

investment and production, providing greater opportunities of employment and help, securing higher living standard for their population Bearing in mind the urgent need to promote the intra-regional trade, which presently constitutes a negligible share in the total volume of the South Asian Trade, [it was rightly recognized in the Summit that] preferential Trading Arrangements is the first step towards higher levels of trade and economic cooperation in the region." Article 3 of the Agreement states the basic principles- 'SAPTA shall be based and applied on the principles of overall reciprocity and mutuality of advantages in such a way as to benefit equitably all contracting State'. (3a). SAPTA shall be negotiated step by step, improved and *extended* in successive stages with periodic reviews'. (3b). SAPTA has taken care of the special problems of least developed members of the SAARC also. Articles 4 and 6 are important in the Agreement as they contain 'component' (Article 4) and 'Additional Measures' (Article 6) for the preferential agreement. SAPTA will include arrangements relating to tariffs, para-tariffs, non-tariff measures and direct trade measures. It is obvious that the inclusion of all these aspects in the preferential agreement will give a boost to trade expansion and trade may become a leading sector in the South Asian economies. In addition to these, as is clear from Article 6 (1), 'the adoption of trade facilitation and other measures to support and complement SAPTA to mutual benefit' will further help in expanding trade. Tariff Negotiations are the most important as liberalization of trade will open up vast opportunities for developmental cooperation in the SAARC region. Article 5 deals with negotiations for the preferential arrangement among the SAARC countries. The Agreement has left the option to member countries to follow any one or a combination of the following approaches and procedures. There are four alternative approaches, namely: Product-by-Product basis, Across-the-Board tariff reductions, Sectoral basis and Direct Trade Measures. It was agreed upon by the South Asian Countries to negotiate tariff preferences initially on a Product-by-Product basis. *Rules of Origin* are important and significant as the determining factor for the success of the Preferential Agreement. Article 16 deals with the rules of origin, which are set out in Annex III of the Agreement. Products can either be wholly-produced or Not wholly-produced. The real issue is about 'Not wholly-produced or obtained products'. The basic rule is that 50% of the Free on Board (F.O.B) value of the products, is added within the territory of the exporting member countries.

Towards the close of the last century, SAARC members have taken a momentous decision, which will



show results in the new century. Thus, the SAPTA must be considered as an outstanding achievement of the South Asian countries. It is neither a transitional approach nor a historical necessity- transitional approach in the sense of tiding over certain problems and historical necessity as there is trend towards regionalism. It is however a means to an end. The end is rapid economic development. A Preferential agreement will increase the overall efficacy and productivity in South Asia on the one hand, and will enable these countries to face external competition, on the other. Technically speaking, keeping in the mind the different stages of Trade Cooperation, it comes very close to the formation of a free trade area. In a free trade area, goods and commodities move freely within the area and in this case preferential treatment will be given to the South Asian products to increase intra regional trade. Three rounds of tariff negotiations have taken place and the Fourth Round is almost complete and may be announced any day. Regarding the Fourth Round, it has been decided that the negotiations would, as far as possible be conducted on a Chapter-wise, Sectoral and Across the- Board basis. The Tenth Summit (Colombo 1998) decided in favour of deeper tariff cuts for products, which are being actively traded or are likely to be traded among members. In the First Round, 226 commodities were taken up for concession, in the Second and Third Round, tariffs were reduced on 1868 and 3456 commodities, totalling to 5550. While making concessions, SAARC has taken care of the needs of the least developed countries (LDCs). The progress of SAPTA in tariff concessions is harmonious and equitable. Following SAPTA's establishment, three rounds of preferential tariff reductions were implemented. Concluded in 1995, SAPTA-1 covered only 6 percent of traded goods (about 226 products at the 6-digit level of the Harmonized System of Tariffs). The important issue of nontariff barriers was deferred. SAPTA-2, concluded in 1997, was more ambitious; it covered 1,800 6-digit HS items and incorporated provisions about easing some nontariff barriers. SAPTA- 3, signed in 1998, was the most ambitious, covering 2,700 items. Work on SAPTA-4 was initiated in 1999 but was put on hold after the military takeover in Pakistan on October 12, 1999. Politics once again halted the advance of regional integration.

SAFTA

South Asian countries have tried to improve regional trade. Formal agreements have been less effective than changes in macroeconomic policies, such as the adoption of market exchange rates. In the South Asian Association for Regional Cooperation (SAARC), trade facilitation was addressed under both the South

Asian Preferential Trading Arrangement (SAPTA) and the South Asian Free Trade Area (SAFTA) agreement. Under Article 6 (Additional Measures) of SAPTA, the contracting parties agreed to consider trade facilitation measures to support and complement the reduction of tariffs, para-tariffs and liberalization of trade. In SAFTA, the member states agree to consider trade facilitation measures outlined under Article 8. Although trade facilitation is not addressed in a binding form, the intention of the countries to harmonize and simplify standards, customs procedures, business visa procedures and so on is highlighted. The move to create SAFTA, therefore, represents a major development in the region. Properly implemented, SAFTA could bring both economic development and peace to the region.

The Origin

The 12th SAARC Summit held in January 2004 in Islamabad made a significant achievement by signing the South Asian Free Trade Agreement (SAFTA) with an aim to reduce the barriers between South Asian countries. SAFTA is only the second phase of regional trading bloc preceded by South Asian Preferential Trading Agreement (SAPTA) which unfortunately didn't yield desired result. South Asian leaders went ahead and SAFTA became operationalised from July 2006 with its impact likely to be felt by 2013 when tariffs in the region expectedly would come down to between five to zero per cent. The member countries agreed for simplifying the procedures for intra-region banning, removal of restrictions on investment by member countries within the region, lifting of foreign exchange restrictions for the member countries, simplification of procedures for visa for intra regional movement. In short, SAFTA would mean free movement of people within the region, free movement of goods and services, development of connecting physical infrastructure, harmonizing the general forms of financing, banking and foreign exchange and regional agreement for investment promotion and protection. Within three years of its operation, SAFTA has not struck a balancing chord in regard to the regional trade imbalances. Tariff free items have not increased for trading purpose across borders in the region. Intra regional investment is also very meager. The less developed countries of the region are yet to see the benefits from it. Simply signing the SAFTA agreement will not get us far, there has to be genuine long term commitment to a free trade area. However, progress under SAFTA, juxtaposed with the developments under WTO, will also have consequences not only for international and intraregional trade in the coming years, but will also



have interesting fallouts in the regional economic and political fields.

In 1997, SAARC leaders had agreed to launch the SAFTA by 2001. The five-year delay was caused by deteriorating relations between India and Pakistan after nuclear tests by the two countries in May 1998, the military takeover in Pakistan in October 1999, and the near-war in 2001 and 2002 when more than a million soldiers massed along the India–Pakistan border. Tensions began eased in April 2004 when Atal Bihari Vajpayee, then prime minister of India, pledged to work toward creating a peaceful South Asian region. The SAFTA agreement is a traditional trade agreement in that it does not include some of the non-trade issues incorporated in RTAs elsewhere. In that sense, South Asia is playing catch-up with other developing regions. The framers of SAFTA—mostly government officials representing the Ministries of Foreign Affairs and Commerce in the SAARC countries—could learn from the experience of other RTAs.

Basic Features

The SAFTA tariff reduction program stipulates average weighted tariffs of no more than 20 percent by the region's more developed economies—India, Pakistan, and Sri Lanka—within two years of the entry into force of the agreement. Within five years after the completion of the first phase, India and Pakistan will adjust their tariffs to the 0 to 5 percent range. The region's least developed countries—Bangladesh, Bhutan, Maldives, and Nepal—are required to have average weighted tariffs of no more than 30 percent within two years, but would be allowed longer periods for the second downward adjustment: Sri Lanka in six years and Bangladesh, Bhutan, Maldives and Nepal in eight years. India, Pakistan, and Sri Lanka will reduce their tariffs to the agreed low levels on imports from other countries. The agreement also calls for eliminating quantitative restrictions for products on the tariff liberalization list. While member states have been allowed to develop lists of sensitive items that would not be subjected fully to the stipulated tariff cuts, the number of products to be included in the country lists would be subject to review every four years. The Islamabad Declaration established some institutional devices to oversee the implementation of SAFTA. A Ministerial Council will be the highest decision-making authority while a Committee of Experts (COE) will monitor implementation of the agreement and resolve disputes.

Article 3 of SAFTA Agreement elaborates the Objectives of this Agreement are to promote and enhance mutual trade and economic cooperation among Contracting States by, inter-alia:

1. eliminating barriers to trade in, and facilitating the cross-border movement of goods between the territories of the Contracting States;
2. promoting conditions of fair competition in the free trade area, and ensuring equitable benefits to all Contracting States, taking into account their respective levels and pattern of economic development;
3. creating effective mechanism for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and
4. establishing a framework for further regional cooperation to expand and enhance the mutual benefits of this Agreement.

SAFTA shall be governed in accordance with the following principles:

1. SAFTA will be governed by the provisions of this Agreement and also by the rules, regulations, decisions, understandings and protocols to be agreed upon within its framework by the Contracting States;
2. The Contracting States affirm their existing rights and obligations with respect to each other under Marrakesh Agreement Establishing the World Trade Organization and other Treaties/Agreements to which such Contracting States are signatories;
3. SAFTA shall be based and applied on the principles of overall reciprocity and mutuality of advantages in such a way as to benefit equitably all Contracting States, taking into account their respective levels of economic and industrial development, the pattern of their external trade and tariff policies and systems;
4. SAFTA shall involve the free movement of goods, between countries through, inter alia, the elimination of tariffs, para tariffs and non-tariff restrictions on the movement of goods, and any other equivalent measures;
5. SAFTA shall entail adoption of trade facilitation and other measures, and the progressive harmonization of legislations by the Contracting States in the relevant areas;

Article – 12 talks about Special Provision for Maldives which Notwithstanding the potential or actual graduation of Maldives from the status of a Least Developed Country, it shall be accorded in this Agreement and in any subsequent contractual undertakings thereof treatment no less favourable than that provided for the Least Developed Contracting States.



REGIONAL INTEGRATION IN SOUTH ASIA: THE WAY AHEAD

As South Asia is presently coping up with the preliminary stages of economic regional integration so one must understand the complexities attached with that phenomenon. Economic integration depends heavily on the density and quality of connectivity or so to say regional infrastructure. A stronger connectivity not only strengthens the intra- and inter- regional trade but also generates higher income and prosperity. In the South Asia, the maritime and aviation sectors are relatively well connected to their respective global networks. There is also a higher degree of private sector involvement in developing and managing infrastructures in these sectors. From a regional perspective, therefore, the priority should be given to the development and upgrading of land-based transport infrastructure. Governments in South Asia can attract more ships, and a wider range of ships, by investing and maintaining their maritime ports. They may also improve competitiveness by improving the efficiency of land transport, particularly through road and railways. The major challenge facing South Asia in its quest for regional integration and increasing competitiveness is the poor quality and inefficient infrastructure services, both hardware and software, which raise costs of transportation and production and constrain the capacity of the South Asian economies to gain from a liberal trading environment. South Asian region, with its geographical contiguity, has great potential for cooperation in connectivity sector. The importance of tariffs as barriers to trade has gradually come down, however, high-tariffs still exist for certain sensitive products, and there is a strong presence of Non-Tariff Barriers (NTBs) including high border transaction costs in the region. High transportation costs, poor institutions, inadequate cross-border infrastructure, and absence of a regional transit trade are some major factors penalizing the region's trade and integration

From a trade perspective, and in order to forge greater regional integration in South Asia, there is a need to reduce the elements of trade costs. Despite falling tariffs, geographical proximity, and economic and cultural similarities, trade in South Asia has not grown as a result of higher trade costs. The cost of trade transportation increases if the country is landlocked (e.g., Nepal). The land border in South Asia is overcrowded and needs special attention in order to reduce time delays and transaction costs. Progress in transportation links and trade facilitation in Asia so far has been made through several sub regional initiatives. Although some sub regions such as the GMS have successfully implemented cross-border corridors and

progressed much further in strengthening connectivity, or ECO which has introduced regional transit arrangement, few others (such as the SAARC) have yet to make any major breakthroughs. The sub regional transport corridors like the GMS transport and trade facilitation program have created a demonstration effect in Asia and have become a role model for other sub regions in Asia. Unlocking the region's trade potential is a daunting task. Costs for not having uninterrupted road or railway connectivity across the region or facilitation of border trade can offset gains appearing from trade preferences as proposed under several free trade agreements and other arrangements such as SAFTA. Therefore, the need for a better enabling environment for trade that offers lower trade costs has gained momentum in entire Asia. At the same time, a regional transit arrangement would help South Asia to better integrate the region and also to strengthen the globalization process. Use of improved technology to manage the transportation and security would help reduce trade costs through higher efficiency and take care additional traffic. A stronger regional cooperation with other regions and countries is thus imminent in order to secure the technology to manage the transportation corridors, trade and security.

CONCLUSION

In recent times regional economic co-operation has emerged as an effective instrument to enhance the welfare of the people of a particular region. Exploitation of economic complementarities among geographical proximate countries has been the prime force responsible for its re-emergence. A Similar wave was witnessed during 1930s and again during 1960s when there was a wide spread attempts to create regional economic cooperation, but the success achieved by such arrangements, then, was limited. To achieve the objectives SAARC succeeded to set up two important bodies namely, South Asian Preferential Trade Arrangement (SAPTA) and South Asian Free Trade Agreement (SAFTA) in the year 1995 and 2006 respectively. The targets had been assigned to these bodies for the promotion of social, cultural, political and economic integration among the member countries of SAARC since its inception. Number of studies had been carried out to evaluate the regional economic integration at the global level as well as at regional level. The present study is also in the same direction to study the dynamics of regional economic integration among SAARC countries over the period.



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