

SAARC and Foreign Trade of India: Issues and Challenges Ahead.

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Foreign policy of India (FTP) is operational for the next five years (2015-2020) with focus on increasing share in international market which is approximately 2 per cent of the total world trade. The target in the policy has been set to double the exports by 2020 to \$900 billion. Present Government has started programmes such as make in India, Digital India and Skill India and the FTP has been designed to support these programmes. The main focus of the policy is to increase exports from India, making Indian products more competitive in International Market, increase foreign exchange earnings and reserves and to increase share in the international business by doubling the exports during the period of policy. Trade facilitation and enhancing the ease of doing business are the other major focus areas in this new FTP and to have paperless working in a 24x7 environment. Talking about the new policy, which aims at boosting India's exports, Commerce Minister Nirmala Sitharaman said that PM Narendra Modi's pet projects, 'Make in India' and 'Digital India' will be integrated with the new Foreign Trade Policy. Export obligations reduced by 25 per cent , agricultural and village industry products to be supported across the globe at rates of 3% and 5% under MEIS, industrial products to be supported in major markets at rates ranging from 2% to 3%, Served From India Scheme (SFIS) will be replaced with Service Export from India Scheme (SEIS), Branding campaigns planned to promote exports in sectors where India has traditional Strength, Duty credit scrips to be freely transferable and usable for payment of customs duty, excise duty and service tax, Manufacturers who are also status holders will be enabled to self-certify their manufactured goods as originating from India, Online procedure to upload digitally signed document by Chartered Accountant/Company Secretary/Cost Accountant to be developed.

Looking at the world economies, India's largest trading such as USA, Europe and UAE have responded positively in favour of India as these economies are very strong, hence the target has been set to double the exports in next five years. India has maximum export earnings from merchandise exports which is about 65 per cent of the total earning. Merchandise exports has increased at the rate of 15 per cent during last three four years and expected to increase in the future with major trading partners of India. Ministry of Commerce has aimed to increase exports of labour intensive products, agricultural exports, high tech products, products having high potential of export earning, eco friendly and green products. Other focused area of promotion includes defence, pharmaceutical sector, products meeting set standards by BIS and textile and allied products. To maintain the momentum in merchandise exports Govt has introduced the new schemes namely 'Merchandise Exports from India Scheme' (MEIS) is for export of specified goods to specified markets. The 'Services Exports from India Scheme' (SEIS) for increasing exports of notified services. The prior conditions of non transferability of imported goods and other certain conditions have been removed under the scheme to promote international business. Export obligation has also been lowered under the schemes which ultimately will be beneficial to the exporters hence, second scheme namely 'Services Exports from India Scheme' (SEIS) have been introduced to promote service sector in the coming years.

The real question before India is how to achieve these set targets and meet the objectives of the FTP. Though India and China has become largest trading partners in international business but political differences, geographical and border disputes can affect the business ties at any time. Chinese economy has been reported of slowest growth in last twenty five years which turns in favour of India but can India take advantages of such situations by making pro-active policies and responding at fast speed.

Foreign Trade Issues and International Trade

India have limited manufacturing base and heavily depends upon other countries for oil, gas, minerals and nuclear material. India being largely populated and having more than 50 percent youngsters can take lead in the manufacturing of labour intensive products. It has be make available resources more effective and production centric to compete with China which produces at low cost and selling across the globe. Present era is era of specialization and identifying the areas of competitive and comparative advantages to take lead over other competitions in the international market. Other neighbouring countries such as Vietnam, Bangladesh, Cambodia and Nepal do

contract manufacturing at much lower price than India especially textile related items. The impact is clearly visible from the fact that since 2011, India's exports have hovered between \$300 billion to \$312 billion in 2013-14 as against a target of \$325 billion. Jewellery made of gold is no longer popular in Europe or other developed countries expect India, Middle East, China or other Asian countries. Diamonds has huge market and India is still one of the major diamond cutter especially Gujarat state. But how long India diamond industry can survive is the question of hour. Diamond industry along with other thrust products needs strong push by the Government for their survival in the market. India is huge market for automobile but competing with other major automobile manufacturing countries like USA, Japan, Germany and Korea. All major automobile brands of the world has established their manufacturing base in India but in future shifting their base to other countries such as Mexico, Malaysia, Peru and Vietnam for taking advantages of lower tariffs, common standards and uniform investment rules. As far as service sector is concerned the outsourcing industry is losing to Ireland, Philippines and Bangladesh as these countries provides better facilities and have English language command and longer working hours. The other service sector such as education, nursing, tours and travelling also loosing base to other countries due to terrorism problems or other regional unsafely issues of disturbances. Decreasing standards of moral values and aggression on minor social, cultural, religious issues and politicising of every thing is turning against India. The Govenment schemes extended to exporters are not enough and even ineffective is some cases due to increasing competition across the globe. The benefits provided to star trading houses, export oriented units, and special economic zones have not delivered much and mostly, IT sector is seen using tax-breaks of SEZs and setting up their offices to cater to foreign markets. Initiatives of boosting exports through Merchandise Exports from India Scheme (MEIS) and Services Exports from India Scheme (SEIS) will not be sufficient in the present scenario.

There are various other reasons also for the slowing down the exports. In case of engineering exports the reason cited was increase in steel import duty but Govt did not increased the duty drawback, non implementation of interest subvention scheme demanded by large section of exporters. The reason for the shift in the global export paradigm, according to an article written in the Financial Times by Herald van der Linde, HSBC's head of Asian equity strategy, China has integrated production a lot more over the years, necessitating lesser imports from the rest of the world—the share of imported components in China's total exports fell from a peak of 60% in the mid-1990s to around 35% today. That, of course, also underscores the need for India to jumpstart its trade talks since, only if it is part of large trading blocs will its exports stand a better chance.

In spite of these issues the major export body namely Federation of Indian Exports Organisations (FIEO) in December 2014 said that they do not expect any major increase in exports next year (2015-16) as the situation is getting worse in Middle East, Europe, Japan and Russia which are one of the major trading partners of India. FIEO believed that focusing and extending benefits to star trading houses and export benefits to units in SEZ/EOUs would boost manufacturing in India.

The current FTP is supposed to provide solution to the issues of concern and to create environment of ease of business like Singapore and removing the trade barriers so that Indian manufacturers can compete in the international market. No doubt the present Government is opening doors in various sector for foreign direct investment but sectors like textile, agricultural exports pharmaceuticals, defence, technological advanced product, and project exports needs immediate attention of the Government. Present FTP also reduced export obligation under export promotion capital goods schemes to increase exports but lot more to be done to achieve policy objectives. FIEO viewed that current FTP focuses on quality product exports and with other initiatives India will gain creditability in the global market as its product acceptability will increase. FIEO also viewed that there is need of interest subvention scheme to help the exporters to meet their demand of products.

Region- wise Foreign Trade of India

Table 1: (value in US\$ millions)

Region	Apr-Apr 2018	Apr-Apr 2019(P)	%Growth	%Share
1) Europe	5,060.51	5,086.24	0.51	19.55
1.1 EU Countries	4,415.17	4,528.95	2.58	17.41
1.2 European Free Trade Associatipn (EFTA)	109.59	126.61	15.52	0.49
1.3 Other European Countries	535.74	430.68	-19.61	1.66
2) Africa	2,217.51	2,414.28	8.87	9.28
2.1 Southern African Customs Union (SACU)	529.96	286.61	-45.92	1.10
2.2 Other South African Countries	82.57	182.81	121.41	0.70
2.3 West Africa	518.30	696.11	34.31	2.68
2.4 Central Africa	80.55	115.02	42.79	0.44
2.5 East Africa	582.48	648.24	11.29	2.49
2.6 North Africa	423.64	485.50	14.60	1.87
3) America	5,371.20	5,305.30	-1.23	20.40
3.1 North America	4,696.49	4,623.17	-1.56	17.77
3.2 Latin America	674.70	682.13	1.10	2.62
4) Asia	12,846.93	12,685.39	-1.26	48.77
4.1 East Asia (Oceania)	385.10	226.75	-41.12	0.87

4.2 ASEAN	2,668.77	3,074.45	15.20	11.82
4.3 West Asia- GCC	3,787.19	3,232.61	-14.64	12.43
4.4 Other West Asia	724.78	1,036.19	42.97	3.98
4.5 NE Asia	3,196.54	3,161.01	-1.11	12.15
4.6 South Asia	2,084.54	1,954.39	-6.24	7.51
5) CIS & Baltics	229.52	272.97	18.93	1.05
5.1 CARs Countries	23.75	30.61	28.86	0.12
5.2 Other CIS Countries	205.77	242.36	17.78	0.93
6) Unspecified Region	223.79	246.35	10.08	0.95
Total	25,949.46	26,010.53	0.24	100.00

Source: DGCIS, Kolkata, 2019

The table 1 indicates that India has largest trade with East Asian countries having 48.77 per cent share, followed by American (20.40%) and European region(19.55%). Whereas India has only 7.51 per cent share with SAARC member countries and some of them showing negative growth. India has minimum trade with CIS & Baltics countries which is just 1.05 per cent of the total trade.

Table 2 : Trade with SAARC Countries

Countries	Apr-Apr 2018	Apr-Apr 2019(P)	%Growth	%Share
	2,084.54	1,954.39	-6.24	7.51
1) BANGLADESH	838.81	728.97	-13.09	2.80
2) NEPAL	635.74	620.08	-2.46	2.38
3) SRI LANKA DSR	273.19	282.58	3.43	1.09
4) PAKISTAN	202.73	177.69	-12.35	0.68
5) AFGHANISTAN	56.19	67.51	20.15	0.26
6) BHUTAN	57.08	60.02	5.15	0.23
7) MALDIVES	20.78	17.54	-15.62	0.07

Source: DGCIS, Kolkata, 2019

It is evident from the table that India's trade with countries such as Afghanistan, Bhutan and Sri Lanka have shown positive growth in comparison to other SAARC countries. Other countries such as Maldives, Bangladesh, Pakistan and Nepal indicated negative growth in the year 2019. Though India has largest trade partner countries with percentage share like Bangladesh (2.80%), followed by Nepal(2.38%)and Sri Lanka (1.09%) respectively. It can also be noticed that out of seven SAARC trade partners India's trade have negative growth with four countries.

Regional Block SAARC not Effective:

At present, integration across the world among various nations differs in the form of free market, economic integration, customs union, and political union. For growth of international business, **economic integration among** different countries has become very important as it removes trade barriers such as tariffs and non tariffs barriers between them. A step further in the process of economic integration might be adoption of a common currency as in case European Economic Community (EEC), with monetary policy regulated by a single central bank.

South Asian Association for Regional Cooperation (SAARC) was formed in December 1985 with the objectives of regional economic growth, to examine the reason of slow growth and to streamline the business and enhance cooperation and efficiency in the functioning of member countries along with other regional integration, overall development in the area of social, cultural, technical and economic fronts. The current members of SAARC includes, Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal Pakistan and Sri Lanka.

South Asian economies in contrary to European union, NAFTA have been unable to gear up economic, market integration due to various regional issues. SAARC countries are unable to form ties like other integration. Due to different national interest and country focused politics the members of SAARC still struggling to achieve from the integration. Restrictive trade policies, geographical disputes and vested political interest are the major obstacles in the smooth functioning of the SAARC.

Though various attempts have been made to strengthen SAARC economic intergaration and signed agreements such as South Asian Preferential Trading Arrangement (SAPTA) and the South Asian Free Trade Area (SAFTA), and more recently the SAARC Agreement on Trade in Services (SATIS), which was signed in 2010 (SAARC Secretariat 2004, 2010) to enhance the economic cooperation. The main problem of the SAARC countries is that mostly the member countries are dependent on other developed countries is look forward to tie up with developed nations right from technological advancement to strategic planning etc. SAARC countries relations has passed through many phases of ups and downs. One of the important achievements of these countries is efforts to resolve the disputes through bilateral talks. The regular meeting at different levels is a healthy sign

to improve the relationships but on the other hand some members have refused to sit with each other which are big jolt for the success to SAARC. However, the members of SAARC realized the need of economic cooperation, hence South Asian Preferential Trading Arrangement (SAPTA) was signed in 1993 with the objective of economic integration in the region, as trade between member states was negligible and all members agreed to increase cooperation in the area of customs tariffs. Further, in 2004 South Asian Free Trade Area agreement (SAFTA,) was signed at summit of Foreign Ministers in Pakistan which was implemented in 2006 to provide clear policy for cross border trade, to harmonize product testing, to increase transport infrastructure. But the reality is that trade among member countries is still negligible and purpose of this agreement is still a long way to achieve. Most of the member countries prefer to tie up with developed countries like USA, Europe and China etc rather than with the members.

SAARC Problems and Its Future

These eight nations of South Asia constitute 3 per cent of the world's area, but have 21 per cent of the global population. India being member constitutes 70 per cent or more of SAARC nations population and geographical area. SAARC have not been able to achieve set objectives as people to people contact is very low, atmosphere of mistrust, lack of political will to resolve the issues, low connectivity of roads, railways and border restriction due to various issues are the main obstacles for the integration success. South Asia is also one of the most backward regions across the globe and needs fast economic development at higher pace as about 40 per cent of the region's population below poverty line. Social issues such as illiteracy, social injustice, different religious and cultural traditions, low productivity, unemployment and low standard politics of member nations are the main causes of derailing the economic development. Like European Union there is lack of free movement of goods, labour, capital and investment in the South Asia integration. Social disturbance mainly terrorism is creating differences among nations and member countries avoid to set together for any discussion to resolve pending issues. For example, Governments of India and Pakistan and Pakistan and Afghanistan mistrust , accuse of terrorism each other and other various reasons which escalates conflicts among regional grouping member. To strengthen the trade India has given Most Favoured Nation (MFN) status to Pakistan long back but Pakistan still has not given this status to India and still charging high customs duty on Indian Products. Past wars, Kargil conflict and sponsored terrorism by Pakistan and geographical issues between India and Pakistan are the main

reasons to disrupt the economic cooperation between two nations. Military take over's at any time in Pakistan also derails the peace process which seriously affects people to people contact and trade.

Hence, there is urgent need to take bold steps for effective functioning of the SAARC. Serious Government efforts are required to resolve old disputes, increasing agriculture as majority of the population is involved in this profession, promoting, cottage and small, medium industries, atmosphere of trust, fighting terrorism jointly, more people to people contact, fighting poverty, hunger and other social evils, separating religion and politics, infrastructural cooperation and development and technological transfer among member countries etc will help for regional economic growth and development. SAARC countries must learn from European Union and NAFTA as how these countries are able maintain and sustain their regional disparities, have common economic policies, free movement of goods and services and free movement of labour, capital and investment and above all common currency. Though various agreements in different areas have been signed by the SAARC member countries from time to time but these agreements failed to result in positive manner. But if SAARC members make serious efforts taking China together then it could become world's second largest economy.

India being most important member shares border with rest of seven countries but these seven countries do not share border with each other, hence India and has political conflicts with all its neighbours due to one or the other reason. The recent three agreements proposal containing agreements on (i) SAARC Motor Vehicle Agreement for the Regulation of Passenger and Cargo Vehicular Traffic, (ii) SAARC Regional Railway Agreement, and (iii) SAARC Framework Agreement on Energy Cooperation (Electricity) were also derailed by Pakistan. Pakistan do not want that India should get access to Afghanistan and make policies to stop India to become the regional economic powers. Pakistan also stalled the road infrastructural development due to its vested interests.

Dynamic Political leadership and and efforts by all members to improve bilateral relations are required to full the objectives of SAARC. The real issues before SAARC is to stabilized governments as the unstable governments are affecting the decision making process, Secondly, increasing economic cooperation to fight with poverty and other social issues, Thirdly, separating religion and politics and setting aside disputes and conflicts to set way for economic development, trust building measures and transparency between governments and people and joint efforts in tackling the issues relating to World Trade Organisations. India has taken special interest in the regional development and present leadership under Prime Minister Narinder Modi is making an strong efforts for greater connectivity, long lasting business ties with the member

countries may result into positive manner and SAARC may soon be able to achieve its objectives in future.

Conclusion:

In the present era global market is becoming highly competitive and the need of regional integration is becoming more and more important.. South Asian economies in contrary to European union, NAFTA have been unable to gear up economic, market integration due to various regional issues. SAARC countries are unable to form ties like other integration due to different national interest and country focused politics the members of SAARC still struggling to achieve from the integration. Restrictive trade policies, geographical disputes and vested political interest are the major obstacles in the smooth functioning of the SAARC. The member countries should make attempts to resolve their issues to compete with other blocks in the world. India is becoming more and more competent to rest of the countries in comparison to other SAARC countries as mostly the member countries are dependent on other developed countries is look forward to tie up with developed nations right from technological advancement to strategic planning etc.

These eight nations of South Asia constitute 3 per cent of the world's area, but have 21 per cent of the global population. India being member constitutes 70 per cent or more of SAARC nations population and geographical area. SAARC members should chart out plan to have more and more people contact as it is very low, atmosphere of mistrust, lack of political will to resolve the issues, low connectivity of roads, railways and border restriction due to various issues are the main obstacles for the integration success. Hence, improvement of infrastructure like road, railway and air connectivity should be improved by the Governments. Common issues of SAARC nations such as illiteracy, social injustice, different religious and cultural traditions, low productivity, unemployment and low standard politics of member nations should be dealt by the respective governments on top priority. Social disturbance mainly terrorism issue is creating differences among nations and member countries must respect each other and efforts should be made to resolve pending issues. Governments of India and Pakistan and Pakistan and Afghanistan mistrust , accuse of terrorism each other and other various reasons which escalates conflicts among regional grouping member. To strengthen the trade India has given Most Favoured Nation (MFN) status to Pakistan long back but Pakistan still has not given this status to India and still charging high customs duty on Indian Products. Past wars, Kargil conflict and sponsored terrorism by Pakistan and geographical issues between India and Pakistan are the main

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