

THE ROLE OF SAARC IN THE PROCESS OF TRADE LIBERALIZATION AND ECONOMIC INTEGRATION

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Abstract

This paper attempts to investigate the role of globalization and economic integration among the macroeconomic structure of seven SAARC member countries including Pakistan, India, Bangladesh, Sri Lanka, Nepal, Maldives and Bhutan during the last two decades. The objective of the paper is to improve understanding of the process of trade liberalization through economic integration in South Asia. In this regard free trade agreements can play a very vital role to encourage trade liberalization process among SAARC countries. The data provides the substantial evidence, which shows the advantages of intra regional trade enhancement through enlargement of markets and efficient utilization of productive resources. It will improve the transfer of technologies and skills. Each member country may be able to enhance the gains of increase in trade and comparative advantage due to the economies of scale and best allocation of all factors of production.

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Introduction

This research attempts to explore the basic reasons for development of economic cooperation in the region. This part of Asia includes seven countries, named, Pakistan, Bangladesh, India, Bhutan, the Maldives, Sri Lanka and Nepal, these all are the part of SAARC which means South Asian association for regional cooperation. Afghanistan became a member of this association on November 13, 2005 on the request of India. After the inclusion of Afghanistan, now there are total eight member states present in SAARC. Although in this research main focus is on Pakistan, India, Bangladesh, Sri Lanka Bhutan, Nepal and the Maldives (7) countries.

The impact of regional groupings on the welfare was introduced by Jacob Viner (1950)¹. He initiated the concepts of trade creation and trade diversion by assuming that elasticity of demand and supply are zero. Consequently Meade (1955)² released the assumption of zero price elasticity of demand. Later on Lipsey (1957)³ also released zero supply elasticity as well. The main essence of these researches is that regional integration would promote welfare only if trade creation and trade expansion is more than the trade diversion and vice-versa.

The outcome of the study produced by Viner, Meade and Lipsey has been stationary and they believed that dynamic gains could be more powerful. Though, the estimations and measurement of these dynamic gains are again debatable. (See Bhagwati (1993)⁴, Help man (1995), Baldwin and Venables (1995) and Srinivasan (1997).

In 1978 Jayaraman⁵ was the first one to do the empirical research on the impact economic cooperation in South Asia. The quantitative study of Srinivasan (1995)⁶ argues that instead of preferential trade liberalization unilateral trade liberalization can produce better results for South Asia. Regional economic integration is in favor of relatively small countries of the sub-region and its advantages would be more than the trade liberalization with other regional blocs. The research of World Bank (1997)⁷ proves the gains of welfare through preferential trade agreements. According to the research of Waqif (1987)⁸ it is evident that every member country can increase its trade with other member country of SAARC. He further explains that by improving vertical and horizontal links among these economies self sufficiency can be increased and bargaining skills can be improved in dealing with other countries of the world. The

¹ The customs union issue 1950.

² Theory of customs union 1955-121 pages North Holland Publications.

³ Lipsey, R.G. (1957), "The Theory of Customs Union: Trade Diversion and Welfare", JSTOR The Economic Journal vol 81 no323,sep,1971

⁴ Bhagwati 1993:vol 6 Cheltenham, U.K Northampton, Mass Elgar.

⁵ South Asia; Commercial policy; Customs unions Book was published in 1978,161p. Orient Longman (Bombay).

⁶ Preferential Trade Agreements with Special Reference to Asia published on 1st Jan 1995.

⁷ World Bank Policy Research Working Paper 4473, World Bank, ...1997

⁸ Waqif, A.A.1987. 'Regional Cooperation for Industrial Development in South Asia', in Waqif, A.A. (ed.), South Asian Cooperation in Industry, Energy and Technology. Sage Publications India Private Ltd., New Delhi/Newbury Park/ London.

researchers⁹ suggests that economic integration among the economies of South Asia will make them independent and facilitate to decrease their dependence on non member advanced countries of the world. Moreover regional cooperation will improve the relation of the member countries and solve their political conflicts. So in the long run it will bring significant decline in armed forces expenditures of each country and enhance their safety (Bhat 1983, Dasgupta 2000). Various types of other benefits may be achieved by the member countries through enhancing their trade with each other (Fernandez, R. and Portes, J. 1998)¹⁰.

Govindan, K(1996)¹¹ focuses the impact of South Asian Preferential trading agreement (SAPTA) mainly for expansion in trade of food items and for this reason export and import intensities of food are observed by him. The conclusion of his research is that chances of expansion of SAARC trade are very prominent.

Nowadays the idea of regional integration is becoming very famous; there are many examples of successful regional economic integrations. With the passage of time these regional trading blocs have expanded all over the world and become more organized and meaningful. From the time when the SAARC incepted, this organization could not able to bring significant change and improvement in trade expansion and relationship among SAARC countries. It is evident from the fact that entire trade between SAARC members was not more than about 3% at the time of establishment of SAARC and even today it continued to be very little.

The majority of the members of SAARC are relying hardly on the export and production of any main supplies or commodities for the growth of their financial system. The export of these main supplies or commodities are the main factor which controls foremost portion of their global business, these countries imports are inelastic because even their export sector cannot be flourished without imports of machinery, tools, equipments and sometime raw materials also included in that list. In addition to export sector other sectors dependence on imports is also very significant. In this research our focus will be upon the trade model of SAARC countries and use various tools to evaluate their trade outlook.

In May, 1980 the ex- president of Bangladesh, Ziaur Rahman, initiated a basic idea for the formation of an agenda for regional economic integration in South Asia.

The procedure of making agreements of regional integration and their implementation in a right manner is not an easy task. In the beginning countries were not fully aware of advantages of regional integration so there is a lack of excitement and understanding on their side. SAARC generally known as a platform to discuss the regional issues of member countries in the form of seminars and conferences and normally it is not taken

⁹ (Batliwalla 1987; Varshney 1987; Hussain 1987) and (Panchamukhi et al 1990)

¹⁰. 'Returns to Regionalism: An Analysis of Nontraditional Gains from Regional Trade Agreements', The World Bank Economic Review, Vol.12, No.2: 197-220.

¹¹. 'A South Asian Preferential Trading Arrangement: Implications for Regional Trade in Food Commodities', Journal of Economic Integration, Vol. 11, No.4 (December): 478-91.

as a serious effort towards the process of economic integration to accelerate the economic growth and prosperity of all the members.

The SAARC was formally founded at the first SUMMIT conference of 7 and 8 Dec, 1985 in Dhaka. The countries included in SAARC are Pakistan, Bangladesh, India, Sri Lanka, Bhutan, Nepal and Maldives. The great enthusiasm of the south Asian people to work as a team and to solve their common problems which are the main hurdles in their development process resulted in the form of SAARC. It encourages the friendly relations among the member countries and creates an environment of trust and mutual respect. The main idea behind SAARC is to increase the speed of socio-economic development¹² of member countries with the cooperation and joint efforts of each other in their respective fields of interest.

SAARC's Evolution

The basic concept of regional integration in South Asia was initiated in November 1980. First time foreign secretaries of member countries decided to meet each other in Colombo 1981. This process was continued and after some time they agreed upon five areas of cooperation. Later on in August 1983 they moved forward and formally accepted the IPA (Integrated Program of Action) in the five mutually settled areas of cooperation namely, Agriculture, Rural Development, Telecommunications, Meteorology, and Health and Population Activities. Later, Transport, Postal Services, Scientific and Technology Cooperation, Sports, Arts and Culture were added to the agenda of IPA.

Objectives

- To improve and encourage the wellbeing of south Asians
- To accelerate the process of socio-economic development and the standard of life of the people of this region by taking the full advantage of their potential
- To enhance the joint dependence of members on the resources of South Asian countries in an environment of friendship and mutual trust.
- To encourage teamwork and mutual cooperation in all areas of interest
- To promote relationship with other less developed economies
- To show the unity and support for each other in international platforms
- To increase collaboration with other regional and international forums of similar interest

¹² The idea that economic integration especially in trade will bring increase in economic growth and development of all the member countries mainly because of the spatial agglomeration of economic activities was presented by Martin and Ottaviano (1996). According to the endogenous growth theory the public policies are considered important source to determine the growth rates in the long run.

Ideology

- SAARC Association focused mainly on the principles of non interference in the internal affairs, political independence, sovereign equality, territorial integrity, of all the countries.
- Such collaboration is established to support mutual assistance of all SAARC countries
- SAARC members should follow the mutual obligations of bilateral and multilateral type

MEMBERSHIP

CURRENT MEMBERS

-  Islamic Republic of Pakistan
-  Republic of India
-  Republic of Maldives
-  State of Nepal
-  Democratic Socialist Republic of Sri Lanka
-  Islamic Republic of Afghanistan
-  People's Republic of Bangladesh
-  Kingdom of Bhutan

Observers

-  Islamic Republic of Iran
-  Japan
-  South Korea
-  People's Republic of China
-  European Union

Prospects of SAARC

The China is very much interested to become the member of SAARC. India and Bhutan are unwilling about the membership of China on the other hand Pakistan and Bangladesh are in support of China's entry. Bhutan and China do not even have diplomatic relations with each other. However, India approved to grant China and Japan can join as an observer in the year 2005 during Dhaka summit. During the 14th summit three countries Pakistan Bangladesh and Nepal decided to offer their full support for the membership of China.

The Islamic Republic of Iran, showed great interest to join SAARC as an observer on 3 March 2007. In the 3 April summit in New Delhi Iran's appeal for observer status was discussed in a conference of the SAARC member countries. Iran traditionally enjoyed strong cultural, economic and political relationships with Afghanistan, India and

Pakistan and has expressed its wish to become a member of the SAARC on 22 February 2005. I

The Russian Federation has shown its interest to become an observer as well. The Commonwealth of Australia and Mauritius also expressed their interest in joining as an observer. SAARC will also consider allowing Australia and Mauritius to join as an observer.

Safta¹³

In the beginning SAARC did not cover the core issue related to trade and investment. To avoid this SAPTA¹⁴ was formed with passing of time the member countries have decided the formation of the South Asian Free Trading Agreement which was formed in 2001 which abolished all barriers to intro regional trade.

The SAPTA eliminates both tariff and non tariff hurdles because high tariff in the South Asian region persuade the use of informal channels so the SAFTA would bring a shift in illegal trade flows from the legal trade channels. Similarly the South Asian countries decided to impose non tariff barriers particularly in the form of quantitative restriction, which obstruct the flows of trade through normal channels.

Table A: SAARC intra-regional trade
(US\$ millions)

| Year | Intra-SAARC trade | SAARC world trade | Percentage |
|--------------------------|--------------------------|--------------------------|-------------------|
| Pre-SAPTA period | | | |
| 1986 | 1,055 | 44,042 | 2.4 |
| 1987 | 1,146 | 49,480 | 2.3 |
| 1988 | 1,732 | 52,669 | 3.3 |
| 1989 | 1,723 | 58,595 | 2.9 |
| 1990 | 1,590 | 65,490 | 2.4 |
| 1991 | 1,914 | 63,435 | 3.0 |
| 1992 | 2,488 | 71,149 | 3.5 |
| 1993 | 2,458 | 72,211 | 3.4 |
| Post-SAPTA period | | | |
| 1994 | 2,937 | 82,839 | 3.5 |
| 1995 | 4,263 | 103,878 | 4.1 |
| 1996 | 4,928 | 110,962 | 4.4 |
| 1997 | 4,447 | 115,370 | 3.9 |
| 1998 | 6,001 | 123,144 | 4.9 |
| 1999 | 5,511 | 131,152 | 4.2 |
| 2000 | 5,884 | 146,924 | 4.0 |
| 2001 | 6,537 | 143,443 | 4.6 |

¹³ South Asian Free Trading Agreement

¹⁴ South Asian preferential trade agreement

**Source: IMF (International Monetary Fund) 1997, 2002 Direction of Trade Statistics Yearbook
Achievements under SAARC**

- Ratification of SAFTA
- SAARC Development Goals (SDG)
- SAARC Regional Multimodal Transport Study (SRMTS)
- South Asia University (SAU)
- Inter- Governmental Agreement on SAARC Food Bank
- SAARC Development Fund (SDF)
- SAARC Village in each Member State
- National Coordination Committee of SAARC members
- Independent South Asian Commission on Poverty Alleviation (ISACPA)

Opportunities in South Asia

- Fastest growing sub fastest growing sub-region
- Similar Cultural and social values
- Large market
- Good connectivity
- Large workforce
- Fertile land
- Energy potentials
- Ports facilities
- Tourism potentials
- Knowledge sharing
- Strategically significant as the gateway linking the whole of South Asia to East Asia.

Challenges in South Asia

- High poverty incidence
- The South Asian subcontinent is home to more than half of Asia's poor.
- Weak governance
- Political Instability
- Long-pending unresolved disputes
- Natural calamities
- Needs massive investments
- Ownerships of participation in regional Issues
- Financing gap of regional projects

Indian economy is the greatest among all the SAARC member countries economy, whereas the other leading economies include Pakistan and Bangladesh. Economies of these three countries are of vital significance for any local incorporation and collaboration arrangement to function fruitfully, although India and Pakistan remain the leading elements of any proper regional incorporation agreement. According to the

available data of 2004 the size of the per capita income and Gross National Product of the seven SAARC member countries are given in Table 1 below:

Table 1
Gross National Income (GNI) in 2004

| | GNI in Billions Of dollars | GNI Per Capita in dollars |
|-----------------|---------------------------------------|--------------------------------------|
| 1. Bangladesh | 61.3 | 440 |
| 2. Bhutan | 0.70 | 760 |
| 3. India | 673.2 | 620 |
| 4. Pakistan | 90.7 | 600 |
| 5. Nepal | 6.6 | 250 |
| 6. The Maldives | N.A. | 2300 |
| 7. Sri Lanka | 19.5 | 1010 |

Source: The world development indicators World Bank. 2006.

The Maldives is the growth winner of South Asia mainly because of its tourism-based economy. This is very important to mention that only 200 islands are populated out of 1,190 coral reef islands. However 44 islands are competently modified for modern tourism. Maldives which is an island country has the highest per capita Gross National Income. Many islands are given on lease to expert tour operators. Generally highly professionals are hired in tourism-related businesses to get the best use of these islands. The economic performance of Maldives is excellent in the SAARC and considered very attractive for FDI (Foreign Direct Investment). Maldives per capita income is \$2300 and annual average Gross Domestic Product growth rate was 10% for the previous twenty years (from 1985 to 2005). Trade and Fisheries are also very significant areas of the economy. According to the given information in Table 1 the second best-off regional economy is Sri Lanka.

The majority of complete deprived people live in Maldives and Bhutan; both little countries of the SAARC are among those countries which have largest population growth rate in the world. Bhutan is surrounded by land and Maldives is surrounded by water. South Asia is considered as among the deprived areas of the world comprises 22% or more of the world population, while its share in the world Gross Domestic Product is nearly 2%.

It is important to mention that the names of four SAARC economies (Bangladesh, Nepal, Bhutan and the Maldives) are incorporated in United Nation nominated group of the LDC (Least Develop Countries). Sri Lanka and Maldives are included in the grouping of LMI (Lower Middle- Income Countries) while Pakistan and India's group is called LIC (Low Income Countries).

The small country Bhutan is known as a least developed economy in the world. The economy has a very inconvenient and costly transportation system mainly because of

high mountains, rocky land and unavailability of infra structure. The main sector of the economy is Agriculture sector on which 85 percent of population depends. Other significant areas are Forestry and Animal husbandry. Bhutan is carrying strong ties with India, through financial links and business activities. It has enormous potential in hydropower and with little efforts could be developed as a perfect place for tourists. Its average per person income is seven hundred and sixty dollars, which is greater in comparison of other bigger SAARC member economies.

Liberalizing Protectionist Regimes

The import-substituting industrialization (ISI) policy was followed in South Asian countries during the post-second World War era. In addition to that other policies included a huge public sector, a controlled private sector and a tough anti-export bias. The ISI policy worked very effectively and overall trade was restricted which include intra-regional trade as well. We can say that its pressure was more on intra-regional trade. Protectionism was considered as an important part of the import-substituting industrialization (ISI) policy.

In Pakistan, Bangladesh and India high tariffs were identified till 1990. In the beginning of 90s, many policies of South Asian countries were changed through reduction¹⁵ of tariffs to liberalize their domestic trade regimes. Bangladesh and India both tried to liberalize their trade strategies and decreasing tariff rates in the beginning of 1990s. Tariff reduction policy was a continuous nonstop policy in 90s and the beginning of the 2000s. In 1997 Pakistan and Nepal also followed trade liberalization policy and reduced tariff rates. The tariffs of Bangladesh were considered topmost in the South Asia; however decision was made by the authorities to decrease them gradually. In this way in the time of 1990s the South Asian economies changed their policy effectively and abolish their previous protectionist structure to enhance their trade relations with member and nonmembers of SAARC. On the other hand, it must be noted that, in the beginning this procedure was time-consuming and difficult. During 1997-2001 many tariff reforms were introduced in Bangladesh and India. There was inconsistent Trade liberalization in the sub-region as Bangladesh, India and Pakistan are still following numerous interventionist regimes.

Despite of the fact that significant tariff liberalization took place in the South Asia still it is considered among the extremely protected region in the world, just after the socialist economy. This is evident from Table 2:

¹⁵ Vamvakidis (1998) focus on the fact that growth is effected by regional trade agreements in the early stages of his research. He proved with the help of empirical evidences that the speed of growth increases significantly if small and large economies form these types of agreements. Another research was done by Cappelin (2000) which took the case of EU¹⁵ as an example and proved that the performance of EU was improved due to the financial assistance and regional integration factors. This helped to enhance growth in deprived areas and brought equal distribution of resources in Europe.

Table 2
Tariff Rates in the South Asian Economies

(In Percent)

| Economy | Year | Simple Average | Weighted Average | Standard Deviation |
|----------------|-------------|-----------------------|-------------------------|---------------------------|
| Bangladesh | 2004 | 18.42 | 15.87 | 10.2 |
| Bhutan | 2002 | 16.61 | 18.18 | 10.9 |
| India | 2001 | 32.32 | 26.50 | 13.0 |
| The Maldives | 2003 | 20.21 | 20.68 | 13.2 |
| Nepal | 2003 | 13.61 | 16.80 | 10.9 |
| Pakistan | 2003 | 17.1 | 14.46 | 10.9 |
| Sri Lanka | 2001 | 9.25 | 6.68 | 9.3 |

Source: Computed from COMTRADE Database of the United Nations by Mukherji (2005).

The uncomplicated tariffs of weighted average type were imposed. In Sri Lanka these types of tariffs were lowest and in India they were highest as compare to other countries of South Asia. This sub-group of economies also adopted the highest levels of average applied tariffs, for instance 76 percent average un-weighted tariffs were applied for the South Asian economies during 1989-90. The similar comparable figure in the economy of East Asian countries was showing only 20%.

In the next attempt liberalization of financial sector took place. India and Sri Lanka started permitting their private sector banking to grow by deregulation of interest rates in the mid-1990s. Pakistan and Nepal adopted similar policy in the end of 1990. There was an adoption of prudent fiscal and monetary policies in most of the South Asian economies. India and Sri Lanka were exceptions because both of these countries had been famous for huge fiscal extravagance and budget deficits in the region of 10% of GDP.

In these economies after a long process of public demand structural and economic reforms were introduced but not completely. It is strongly recommended to apply further policies, to discourage the interference of public sector and give motivation to the policies of trade liberalization. Moreover it is also suggested that the rigidities which were faced by South Asian economies should be reduced to achieve trade induced growth like East Asian countries. Such policies will benefit the absolute poor in the sub-region.

There were quite a few distinguished old social matters that have worsened the economic problems in this sub-region. The main problems of larger South Asian economies were corruption, mismanagement, poor performance of public sector, inefficient bureaucracies, atmosphere of domestic conflicts like Nepal and Sri Lanka and nature of joint conflicts between Pakistan and India. It is very surprising that in the presence of the history of ISI policy and incomplete reforms how South Asian economies could be able to achieve current boost in the trade activities and economic

development. One reason might be institutional advancement, which enable them to overcome the problem of incomplete macroeconomic reform program. Free press and domestic atmosphere are also responsible for the growth of democratic institutions. Steady policies of domestic reforms enhanced exports and GDP ratio during 1990-2000. Nabi and Devarajan (2006) proved that external financial flows were also responsible for the improvement and change in the pattern of growth rate of South Asian economies. The crisis of September 11, 2001, was another reason due to which external debt load of Pakistan reduced significantly. In addition to that Remittances from abroad was also very prominent factor which helped to improve the condition of economies of this region. Large number of people of South Asian countries works in foreign countries and sends their savings in their home countries. In order to improve the condition of balance of payment in the year 2005 they sent inflows of \$22 billion.

Agriculture in South Asia is heavily dependent on monsoon rain; too much dependence on weather conditions creates uncertainty and influences the performance of annual GDP growth rate. Heavy rainfall in monsoons season over the last few years contributed to extra ordinary harvest, which strengthen the economic situation and improve GDP growth rates. Moreover, declining interest rates in western countries was reflected through huge inflows of funds in the economies of this region. India was most fortunate in this regard. However other countries were also benefited because they could be able to get loan from the international capital markets. This factor was the main reason for bringing the boost in the investment pattern of South Asia.

Regional Integration and Intra-Regional Trade Initiatives

The trade among the South Asian countries is very small. During the previous twenty five years the size of Intra-regional trade was almost stagnant and remained below 2 per cent of the total trade. A study carried out by the Pakistan ministry of finance in 1996 concluded that due to low transportation costs, cultural similarities which influence taste and cause profitable complementarities to emerge and low transaction costs, the economic benefits of liberalizing trade with India outweigh costs.

Intra-regional trade is a new idea for the South Asian countries it is difficult for them to understand the issues of regionalism and regionalization. That is why 95 percent of their trade depends on extra-regional countries. If we do the deep analysis of trade pattern and follow trade statistics then it is very much evident that intra-regional trade was never organized in a true sense it only existed in the form of unorganized traditional markets.

Past factors in the trade were responsible to determine this tendency .The post war era destroyed the elements of intra-regional trade this is the reason why growth and trade expansion of SAARC economies was not considered important. On the other hand, constant protectionist policies, unfriendly relations with neighboring countries, unavailability of infra-structure and poor performance of trade and transport sector were mainly responsible for restriction of intra-regional trade in South Asia. Due to miscellaneous factors the South Asian countries were hesitant and reluctant to form an economic union for a long time. Differences of the post-war period and bad memories of

the past were stopping them to form economic union. In this way very slowly these seven South Asian economies moved towards the path of economic integration and they formed the South Asian Preferential Trade Area (SAPTA) in the year 1993 which actually implemented during December 1995. Despite the fact that three rounds of meetings were organized even then the progress of SAPTA was extremely slow. Many factors were responsible for this slow process like presence of protectionist measures, absence of any positive actions towards the reduction of tariff, prohibiting tariff reduction in numerous huge sectors of the economy, political instability, corruption, and stressed relationships of SAARC member economies. Additionally, until 1998 India stopped importing items of consumer requirement from the SAPTA member countries and similar restrictions were imposed for the other countries of the world till 2001. So SAPTA was unable to flourish successfully in such type of unhealthy environment. Some time it seemed that SAPTA was nothing but a paper work and it's never been implemented practically.

As far as the tariff reduction is concerned SAPTA implementation and the coverage of product was not successful mainly because reporting of product was incomplete and they were following the policy of product-by-product approach which reduced the speed of tariff reduction in the beginning. It was also identified after investigation of the twenty main commodities of exports that through SAPTA priority was given to those members which belong to LDC. Due to these reasons regional trade could not be successfully promoted through this agreement and the goal of developing complete free trade area (FTA) could not be achieved. In the year 1996 government Experts of all the member countries suggested desired line of action to build free trading area in the South Asia. This project of Free Trade Area (FTA) was assumed to complete in 2001 however little development took place in this regard.

In the beginning of the year 2004 the SAFTA agreement was approved which was the result of detailed planning and discussions. The trade liberalization process of the member countries was planned to start from the beginning of 2006, step by step. So in this manner SAPTA turned into SAFTA which was more refined and improved in enhancing trade activities among all the member countries. Formation of SAFTA was considered as a big achievement of SAARC organization. The entire process of complete elimination of tariffs was planned to be completed in a decade time which means in the year 2016. In a two steps process Tariff reduction took place however the speed of this reduction would be different for those countries which are the member of LDC and those which are not the member of LDC. As a member of LDC Pakistan, India and Sri Lanka were ready to reduce their tariffs in the starting of the year 2009, this was actually proposed by World Trade Organization (WTO) that LDC should get the advantage first. Moreover other advantages and preferences would be given to LDC as an encouragement.

The drawback with SAFTA agreement is that it deals only with tangible items of trade so it neglected the trade of intangible items which are equally important. Moreover, the rules of origin (ROO) discussions were also neglected which can make free trade agreements complicated (SALLY, 2006). Instead of bringing any dramatic change in the

economic and trade pattern of member countries SAFTA try to accelerate the development process of all the member countries by improving their inter-regional trade and investment.

The matter of the fact is that SAARC economies still relying on different protectionist measures so the prosperity of sub-region require paying more attention towards the improvement of inter-regional trade. They should follow the examples of other economic integrations in this regard and should improve their inter-regional trade with goods and services both. In addition to that investment among countries should also be encouraged by giving different incentives to promote trade and improving supply chains. China and East Asian countries example can be taken in this regard. In simple words the prosperity of intra-regional trade and investment lies in the development of quality standards, custom process and strictly following the policies.

There was no progress in multilateral trade negotiations (MTNs) during the Doha meetings because there were many differences existed between developed industrial countries and developing countries. Next meeting in which 146 countries were participating organized in Mexico in September 2003, but even that meeting was also unable to solve the problems. The main area of interest was agriculture trade reforms and the Singapore issue. However because of difference of opinion between WTO members and the management of conference both conferences ended in a most disastrous way. This fall down of MTNs results in a creation of BTAs (bilateral trade agreements). These agreements were negotiated between 3 pairs of South Asian countries Sri Lanka and Pakistan, India and Bangladesh and Sri Lanka and Bangladesh, which was in the light of Bhutan, Nepal and Sri Lanka BTAs with India, same type of agreements were signed between South Asian countries and other non member countries. India made two agreements with Thailand and China to develop FTA. India was also negotiating with Singapore to form BTA. In comparison with India, Pakistan signed an agreement with China known as 'Early Harvest', which started working in 2006 and developed FTA in a true sense by the year 2009. In order to establish FTA with US Pakistan signed an agreement known as TIFA (trade and investment framework agreement) in the year 2005. Indonesia, Laos, Singapore and Thailand are the members of ASEAN and Pakistan were planning to sign a BTA; on the other hand Sri Lanka signed TIFA with US to establish FTA in the near future.

This expressed that, remarkable change took place in South Asian countries during the post-2000 period. The chain of latest agreements no matter they are regional or bilateral are responsible for this drastic transformation of South Asian economies It might be possible that in the near future economic integration will expand beyond South Asian countries. The dream of prosperity of Asia will come true in near future and it will be in a dominating position in the world.

Conclusion

SAARC countries can perform much better by increasing cooperation among them for the betterment of their trade and economic wellbeing. SAARC countries have to remove all trade barriers to promote trade relations. These relations are greatly affected due to political and terrorism acts, especially the relations between India and Pakistan, as 80% of GDP of SAARC is based on their trading activities, and now a day's these countries are trapped in many political and terrorism issues and blaming each other, and due to this the trade acts are suffering a lot and GDP is badly affected. So in short all countries have to work for mutual benefits and solve all these issues in a friendly manner, so that trade between these countries can blossom more in future. India has the largest and fastest growing economy in the region, and it also holds a big trump card for resolving the major issues that have afflicted the region. As a big brother, India has a great responsibility to steer SAARC countries in the direction of economic integration. By doing so, India will expedite its own growth and ensure its stability as well. If India needs a convincing argument for this, it should only examine the circumstances that led to the creation of the EU and NAFTA.

It is argued that SAARC is unable to integrate South Asian economies because of political conflicts mainly between Pakistan and India. However political and economic issues are becoming hurdles in the way of prosperity and advantages of unified economy.

Over the years, SAARC's role in South Asia has been greatly diminished and is now used as a mere platform for annual talks and meetings between its members.

SAARC has intentionally laid more stress on "core issues" mentioned above rather than more decisive political issues like the Kashmir dispute and the Sri Lankan civil war. However, political dialogue is often conducted on the margins of SAARC meetings. SAARC has also refrained itself from interfering in the internal matters of its member states. During the 12th and 13th SAARC summits, extreme emphasis was laid upon greater cooperation between the SAARC members to fight terrorism.

Positive perspective suggests that SAFTA will enhance the political gains and economic benefits of all member countries. Though the success of FTA is doubtful but the criteria of high pre-FTA tariffs and geographical closeness are accepted. In addition to that criteria for trade complementarities is also met because the huge quantity of illegal trade proves the amount of complementarity and switch is actually more than shown in official data. Expansion in trade will encourage comparative advantage, technical knowhow, efficiency and best allocation of factors of production (Kumar et al., 2002)¹⁶.

¹⁶ Kumar, R., 2001, Sovereignty and Intervention: Opinions in South Asia, Pugwash Online, Volume 2, No.1, 2001