

Mapping Composition of Trade in South Asian Countries

Kabita Kumari Sahu

Lecturer in Economics,
North Orissa University, Baripada, Odisha, India
(kabitasahu69@gmail.com)

Sudhakar Patra

Associate Professor of Economics
Ravenshaw University, Cuttack, Odisha, India
(sudhakarpatra65@gmail.com)

Abstract

The objective of the paper is to examine the regional and international trade structures through customary trade practices such as commodity composition and direction of trade, and bilateral trade shares of the South Asian countries and the obstacles of Preferential Trade Liberalization. South Asia accounts for higher level of trade barriers although shares an insignificant portion of world trade. However the South Asian Preferential trade agreements held on 2-4 May 1995 at the 8th SAARC summit in Delhi promoted economic cooperation among the members of states in spite of some political splat. However the economic factors are more responsible for sharpening the position of trade than the political issues. This makes the point very clear that much of trade diversion than trade creation can be promoted by Preferential Trade Liberalization making the rich countries richer and poor countries poorer.

Key Words- Trade Liberalization, Composition, Preferential trade, Agreements, Negotiations

Introduction

South Asian accounts for the largest population consisting of 1.47 billion people among all regional coalition in the world. The SAARC organization was founded in 1985 comprising seven members namely, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka whereas Afghanistan joined the organization in 2005. Although almost all the South Asian nations enjoyed a powerful and strong cultural tie among each other, the most efficient among them were India, Pakistan and Bangladesh who shared a common market and integrated market and monetary system till 1947. A spirit of regionalism supported the endeavor of the association to unite the incongruence set of European countries and to create an affluent bloc. However, in retrospect it was premature and a top-down endeavor at promoting regional cooperation, since ground realities in terms of trade and investment flows, and political will were not really in place to support such an effort. Thus it was regarded as the least integrated region of the world. Further the decision of the member countries to adopt Preferential Trade Liberalization promoted much of trade diversion than trade creation making the rich countries richer and poor countries poorer and establishing a Free Trade Area which was much taxing.

This led to the establishment of South Asian Preferential Trade Arrangement (SAPTA) in 1995 which marked the first major political breach for the SAARC towards regional agreement on economic cooperation for

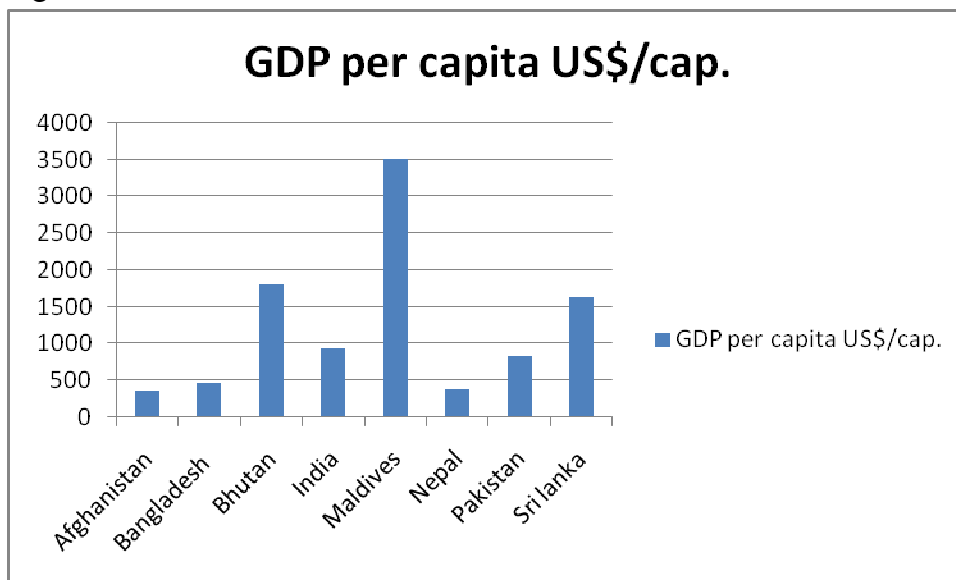
welfare-enhancing (in case of trade-creation) or welfare-reducing (trade-diversion)¹ (Preferential Trade among the SAARC Countries: Prospects and Challenges of Regional Integration in South Asia). Hence it is much important to forecast the obstacles in liberalization of trade and achieving regional and economic integration in South Asia(Das, 2008). The study can be supported by the basic development indicators of SAARC countries as shown in Table-1.

Table -1: Basic development indicators of SAARC countries.2010

	Population	Population Density	GDP per capita
	In millions	Per Km ²	US\$/cap.
Afghanistan	27.21	43	366
Bangladesh	160.00	1111	467
Bhutan	0.06	18	1810
India	1181.41	373	947
Maldives	0.31	1024	3505
Nepal	28.81	204	387
Pakistan	176.95	220	828
Sri lanka	20.06	306	1627

Source: World Development Indicators, July 2010

Fig-1 Gross Domestic Product in South Asian Countries in 2010



Regional Trading Arrangements among SAARC Countries

The formation of Regional Trade Agreements (RTAs) have stepped forward in globalizing the economy and confronting the objective of WTO of global free trade by creating multifaceted trading agreements like North

¹ Preferential Trade among the SAARC Countries: Prospects and Challenges of Regional Integration in South Asia

American Free Trade Agreement (NAFTA), the European Union (EU), the ASEAN Free Trade Area, the Central American Common Market, Latin American Free Trade Area, the Central African Customs and Economic Union, the East African Community, the Arab Common Market, the New Zealand-Australia Free Trade Area, and Common Market of the Southern Cone. One aspect of RTAs is much relevant for SAARC countries, since SAARC could not materialize the formation of South Asian Free Trade Area (SAFTA) by 2001; there is a possibility of marginalization of those countries, which are outside the group.² The sole objective of the summit to promote intra-regional trade mentions the benefits of the purpose as follows: larger markets and fuller utilization of production capabilities, transfer of suitable production technologies, comparative advantage and complementarities, economies of scale due to expanded markets and better utilization of entrepreneurial capabilities, capital, manpower and natural resources with which the associate countries are endowed in varying degrees.

South Asian Economy

The South Asian region being the most populated part of the world (1.47 billion, Table -2) is characterized by greater inequality in the distribution of income with 43 % of its people living below the poverty line. South Asia's economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of support services. SAARC, tragically, is the world's only region, which has failed to tap the potential for social-cultural exchange and economic cooperation, with the continuation of war (ADB, 2005) and cold war in the region between India and Pakistan. Intra-SAARC trade is dismally as low as 4% and the collective share of the region in world trade was just 1%.³

Table 2: Demographic indicators of SAARC region (7 Countries)

	2008	2009	2010
Population	1.3bn	1.3bn	1.4bn
Population growth Annual%	1.9%	1.9%	
Life Expectancy		62.6	
GNI per capita(\$)	410	440	460
GDP (Current \$)	513.7bn	581bn	620.3bn
GDP Growth	6.4	5.8	
Export of goods and services			
% of GDP	12.4	13.4	13,1
Import of Goods and services	17.2	16.9	17.0

Source: UNCTAD

However recently South Asia's fastest growth in exports has been predicted by a report by the World Bank. But according to a recent World Bank report, "South Asia's Integration into the Global Economy," predicts South Asia will have "the world's fastest growth in exports" by 2028.

² (Preferential Trade among the SAARC Countries: Prospects and Challenges of Regional Integration in South Asia).

³ (Preferential Trade among the SAARC Countries: Prospects and Challenges of Regional Integration in South Asia).

Economic Cooperation and SAFTA

The focus of economic cooperation of the SAARC is the South Asian Preferential Trade Arrangement (SAPTA). It aims at the liberalization of regional trade by dissolving trade barriers and promoting greater cooperation (Veeramani, C. 2003). SAARC is one of the regional economic groupings having 16 years of origin and forming a closer affinity among the members by establishing a heavy intra-bloc trade. Among all the RTAs, NAFTA and EU share 55% of India's exports and hold the major share of the South Asian neighbours (Dhungel, Kamal Raj, 2008). The SAARC nations account a good trade relation outside their region too. Their largest trading partners, accounting for more than 50 % of their total trade, are the major industrial countries in the European Union, along with the United States, Japan and 40 % with countries in the Asia-Pacific region and the just concluded Kathmandu Summit pledged to work towards early establishment of South Asian Free Trade Area (SAFTA) and directed the member governments to finalize the draft treaty framework for this purpose by the end of this year itself. It was supposed to materialize by the end of 2001.⁴

Objectives of the Paper:

The objectives of the present study are described below:

1. To investigate the trend in India's aggregate exports and imports for the period 2009-10 to 2010-11.
2. To interpret the SAARC intra regional trade before and after implementation of SAPTA.

The present study features the supplement mechanisms in the areas of trade and investment which helps to intensify the venture of regional economic co-operation. Furthermore, the issues concerning regional trade liberalization are many, and to understand the ground realities, there is a need for having varieties of databases and adoption of number of suitable approaches. In this study we have attempted to examine intra-regional trade over a period of time. In the context of existing Intra-regional trade, attempt has been made to examine coverage and effectiveness of each round of SAPTA on individual member countries.⁵

Trend of Imports, Exports and Balance of Trade

India's international trade has contributed to the growth of its GDP from 16% in 1990-91 to 43% 2005-06. India's major trading commodities include engineering goods, petroleum products, chemicals and pharmaceuticals, gems and jewellery, textiles and garments, agricultural products, iron ore and other minerals. Major import commodities included crude oil and related products, machinery, electronic goods, gold and silver. The major trading partners of the country are European Union, China, the United States and the United Arab Emirates. After declining consistently for the first seven months of the year 2009-10, India's exports reversed the trend in October, 2009 by registering a positive growth of 3.4% (Table-3). The upward trend has been maintained since then wherein exports grew at the rate of 30.0 % in November 2009; 20.3% in December, 2009, 18.7% in January, 2010, 34.8% in February, 2010; 54.1 % in March 2010, 38.5 % in April 2010, 30.1 % in May 2010, 43.8% in June 2010, 11.7 % in July 2010, 22.5% in August 2010, 23.2 % in September 2010, 21.3% in October, 2010, 26.5% in November 2010 and 36.4% in December 2010. In November 2010, exports increased 22.3% year-on-year to ₹85,063 crore (US\$17.25 billion), Imports during 2009-10 were US\$ 288.4

⁴ (Preferential Trade among the SAARC Countries: Prospects and Challenges of Regional Integration in South Asia).

⁵ (Preferential Trade among the SAARC Countries: Prospects and Challenges of Regional Integration in South Asia)

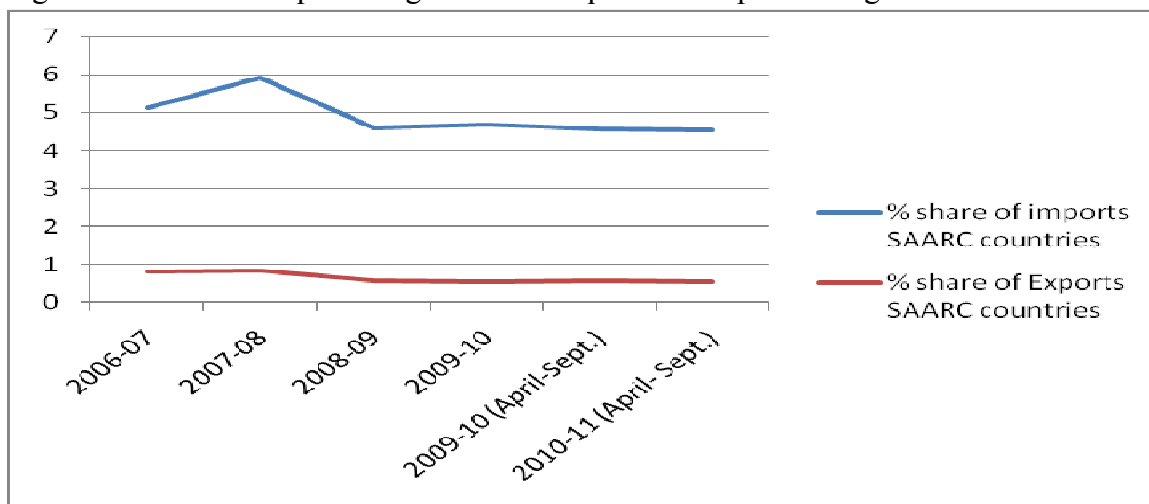
billion as against US\$ 303.7 billion during 2008-09 registering a negative growth of 5.1 per cent in Dollar terms. The graph indicate the trend which reveals that share of India's export has remained lower than the share of exports.

Table-3: India's Trade with SAARC Countries (Value In Us\$ Billion)

	2006-07	2007-08	2008-09	2009-10	2009-10 (April-Sept.)	2010-11 (April- Sept.)
EXPORTS						
India's total	126.41	163.13	185.30	178.75	80.95	105.35
% share of SAARC countries	5.12	5.91	4.62	4.69	4.58	4.55
IMPORTS						
India's total	185.74	251.65	303.70	288.37	128.13	161.45
% share of SAARC countries	0.81	0.84	0.60	0.57	0.58	0.56

Source: DGCI&S

Fig-2 Trend of Indis's percentage share in Import and Export during 2006-11



Oil imports were valued at US\$ 87.1 billion which was 6.5 per cent lower than those valued at US\$ 93.2 billion in the previous year. Non-oil imports were US\$ 201.2 billion which was 3.4 per cent higher than non-oil imports of US\$194.6 billion in the previous year. During 2009-10 trade deficit declined marginally as there was a mild recovery in exports and a marginal decline in imports. The trade deficit in 2009-10 was US\$ 109.6 billion which was lower than the deficit of US\$ 118.4 billion during 2008-09. Performance of Exports, Imports and Balance of Trade in Rupees during 2004-05 to 2010-11 is given in the Table 4.

Table-4 Performance of Exports, Imports and Balance of Trade in Rupees during 2004-05 to 2010-11
(Values In Us\$Millions)

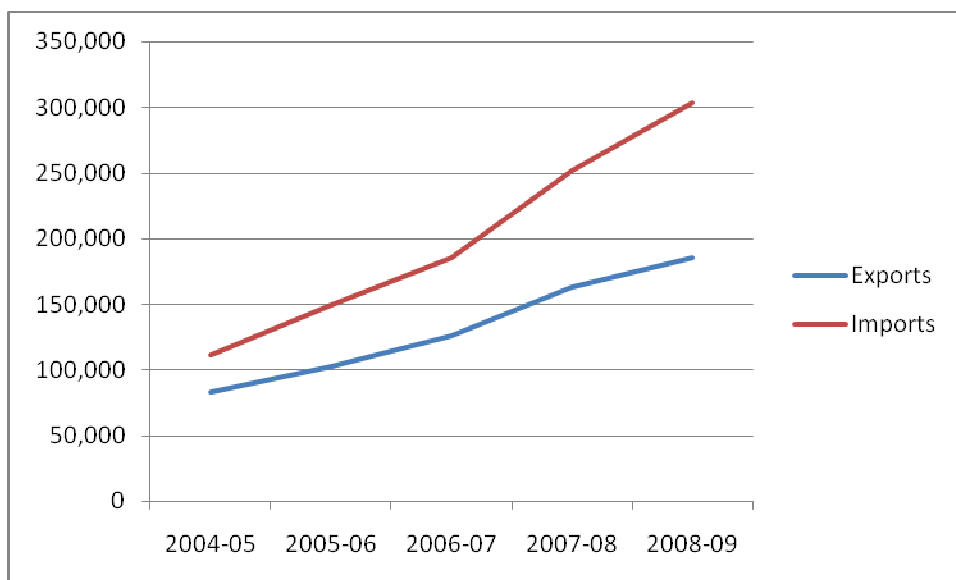
Sl No	Year	Exports	% growth	Imports	% growth	Trade balance
1	2004-05	83,536	-----	111,517	-----	-27,981
2	2005-06	103,091	30.85	149,166	42.70	-46,075
3	2006-07	126,414	23.41	185,735	33.76	-59,321
4	2007-08	163,132	22.62	251,654	24.52	-88,522
5	2008-09	185,295	29.05	303,696	35.49	-118,401
6	2009-10	178,751	13.59	288,373	20.68	-109,621
7	2009-10	127,182	-3.53	207,315	-5.05	-80,133
8	2010-11	164,707	29.5	246,724	19.01	-82,017

Source: DGCI&S

Note-2009-10 & 2010-11 date are related to April to September only.

The trend of export and import shows that the gap between export and import is increasing over time. This is an adverse trend for India's foreign trade.

Fig-3 Trend of India's Export and Import during 2004 to 2008



Although the global slowdown during 2008-09 could not affect the imports much, however the exports of the country faced a declining trend during the first seven consecutive months in 2009-10 as well (Table-5). Thus the Foreign trade Policy (FTP) 2009-14 was announced in order to detain the declining trend of the exports which recorded an annual export growth of 15 % having an annual export target of US\$ 200 billion by March 2011 and to come back on the high export growth path of around 25 per cent per annum in the remaining three years of this Foreign Trade Policy i.e. up to 2014. This envisages the long term policy objective for the government to double India's share in global trade by 2020. Subsequently, an Annual Supplement 2010-11 to

the FTP (2009-14) was announced on 23rd August, 2010 in order to supplement further measures to enhance exports.

Table-5 South Asia's Bilateral trade with India

	2000	2001	2002	2003	2004	2005	2006
India's share in total intra-SAARC trade(%)							
Bangladesh	86.6	90.3	91.5	90.2	90.2	89.8	89.5
Maldives	34.7	38.4	35.9	37.0	43.6	57.9	57.9
Nepal	98.4	98.4	98.3	98.9	98.5	99.3	99.5
Pakistan	44.2	54.9	46.4	47.3	58.7	63.3	64.5
Srilanka	73.4	77.4	84.3	86.6	88.0	91.2	91.2
India's share in total world trade(%)							
Bangladesh	7.6	9.5	9.5	10.5	9.4	10.3	9.9
Maldives	7.7	9.0	8.7	8.2	8.7	10.0	9.9
Nepal	37.1	43.6	47.2	51.8	56.5	65.8	71.5
Pakistan	1.2	1.6	1.0	1.2	2.2	2.2	2.4
Srilanka	5.6	6.2	9.3	11.2	13.3	15.8	17.3

Source:IMF 2007

As, India's total share in the imports from SAARC nations is less than its imports from ASEAN +3 nations i.e.,(27%) ,the country is required to open up its markets and give more relaxations to sustain a smooth trade relation.(Table-6)

Table-6 Relative Share of India's Trade with SAARC and ASEAN +3 nations

SAARC							
Exports	4.2	5.7	5.1	6.4	5.6	5.2	5.5
Imports	0.9	1.3	0.9	0.9	0.8	0.9	1.0
ASEAN							
Exports	13.5	18.1	16.7	18.2	18.9	20.6	21.9
Imports	17.1	24.9	19.3	21.4	20.6	19.9	27.0

Source: IMF 2007

Note: ASEAN +3=Association of South East Asian Nations, plus China, Japan and the Republic of Korea; SAARC=South Asian Association for Regional Cooperation.

Nepal having a dilapidated trade with ASEAN +3 nations has a customary relation with Indian market which values the Nepali exports much due to endowment of greater concessions with the latter country.(Table – 7)

Table-7 Direction of trade for South Asian Economies

	2000	2001	2002	2003	2004	2005	2006
India							
SAARC	2.4	3.3	2.9	3.4	2.9	2.7	2.8
ASEAN +3	15.5	21.7	18.1	20.0	19.8	20.2	24.9
Pakistan							

SAARC	2.7	2.9	2.2	2.6	3.3	3.5	3.8
ASEAN +3	18.7	18.3	19.1	19.4	18.9	19.9	26.7
Bangladesh							
SAARC	8.7	10.6	10.4	11.6	10.5	11.5	11.0
ASEAN +3	25.4	25.9	27.4	26.2	23.0	24.6	30.3
Nepal							
SAARC	37.7	44.3	48.0	52.4	57.4	66.3	71.9
ASEAN +3	17.3	21.2	18.7	16.4	16.1	17.2	12.5
Maldives							
SAARC	22.3	23.5	24.3	22.3	19.9	17.3	17.1
ASEAN +3	42.9	40.2	39.9	43.1	42.2	42.1	46.9
Srilanka							
SAARC	7.7	8.1	11.0	12.9	15.2	17.4	19.0
ASEAN +3	23.9	22.6	22.2	23.1	21.7	20.7	22.1

Source: IMF 2007

Note: ASEAN +3=Association of South East Asian Nations, plus China, Japan and the Republic of Korea; SAARC=South Asian Association for Regional Cooperation.

At present, most South Asian nations are restricting 55-65 percent of their imports from India under SAFTA sensitive lists. Although the sensitive list protects the sensitive industries from increased competition, there are a lot of items that do not face competition, i.e., tariffs are not brought down. However this agreement is not concerned with any formal provisions to explicitly phase out any formal negative lists which are most often pruned down over time.

Table-8 Comparative Rules of Origin across FTAs in South Asia

	SAFTA	ISFTA	PSFTA
Bangladesh	1,254		
Bhutan	137		
India	865	419	
Maldives	671		
Nepal	1,335		
Pakistan	1,183		540
Srilanka	1,065	1,180	697

Source:Respective agreements

Note: ISFTA-India-Srilanka Free trade Agreement;PSFTA-Pakistan-Srilanka Free trade Agreement; SAFTA-South Asian Free trade Agreement;TLP-Tariff liberalisation Program;FTA=Free Trade Agreement

The SAPTA treaty projected to bar 53% of the total imports trade among South Asian nations from the liberalisation of tariffs. An unilateral attempt has been taken by India to trim its sensitive list by excluding about 264 additional items pertinent to LDCs which do not include any explicit obligation to deal with non-tariff barriers

Table-9 Trade restriction under SAFTA

	Value Of Imports From Saarc Subject To SL (%)	Value Of Exports From Saarc Subject To SL (%)
Bangladesh	65.0	22.0
Bhutan	38.4	56.5
India	74.5	57.6
Maldives	64.0	46.4
Nepal	17.2	34.0
Pakistan	51.7	47.0
Srilanka	52.9	

Source: Weerakoon and Thennakoon 2008

Note :SAARC:South Asian Association for Regional Cooperation;SL:Sensitive List, For LDCs 1,249, For LDCs 744

Conclusion

The present paper depicts that the prospects for forging closer economic relations among SAARC countries could be fully employed through the twin processes of trade liberalization and industrial restructuring which are complementary to each other. Although currently the intra-regional trade among SAARC countries is low, but it had a tendency to rise marginally during the 90s. This reflects certain scope for the expansion of intra-regional trade but there are a number of factors seem to be acting as restraints, the most important among these are the high level of trade barriers, and lack of information on supply and demand of various products. The policies of the Export-oriented industrial development help to increase cost consciousness and encourage proficient use of production and management resources. This encourages the SAARC countries to introduce economic policy reforms to be intended for improving the competitive abilities of industrial firms. The liberalization of trade and import regimes in the SAARC countries can go a long way in strengthening industrial production structures and assisting industrial reformation along international given competitive lines. The SAARC Preferential Trade Arrangement (SAPTA) being the first scope step in trade liberalization has to be sufficiently enlarged for the purpose of deriving significant usefulness from preferential trading arrangements. It has been recommended that the SAARC countries should adopt a mutual approach for tariff elimination, tariff reduction and preferential or concessional tariffs which will quicken the attempt towards the creation of a Free Trade Area in the SAARC region. Further it is highly essential to accentuate that trade co-operation of the smaller countries with the greater neighbors would lead the stronger ones to conquest the weaker. India, the biggest and the most industrialized trading partner among the SAARC countries, share common trade borders with the rest of the six member nations of SAARC. Hence India is solely liable to integrate all the six nations in a strong trade tie and to create the Regional Economic Co-operation in South Asia. This brings a great challenge for India to generate a leadership attitude for bringing the countries together as partners in mutual progress.

References

- Asian Development Bank (2008), Asian Development Outlook 2008.
- Asian Development Bank (2005), Regional Cooperation Strategy and Programme, South Asia (2006-08), ADB.
- Baysan, T. ; Panagariya, A. and Pitigala, N. (2006), “ Preferential Trading in South Asia”, World Bank Policy Research Working Paper, No.3813, World Bank.
- Chaturvedi, Sachin (2007), “Trade Facilitation Measures in South Asian FTAs: An Overview of Initiatives and Policy Approaches”, RIS Discussion Paper, No.118.
- Das, Dilip K. (2008), “The South Asian Free Trade Agreement: Evolution and Challenges”, MIT International Review, Spring 2008.
- Dhungel, Kamal Raj, (2008) “Regional Energy Trade in South Asia”, South Asia Economic Journal, Vol.9, No. 1.
- Government of India (2008), Foreign Trade Policy, Ministry of Commerce and Industry, Department of Commerce, April.
- Official website of SAARC. viewed 10 th June, 2012, < <http://www.saarc-sec.org>>
- Official website of ASEAN. viewed 12 June, 2012 <<http://www.asean-sec.org>>
- Panagaria, Arvind (2000). Preferential Trade Liberalization: The Traditional Theory and New Developments. *Journal of Economic Literature*. Vol. 38. No. 2. pp. 287-331.
- Rahman, Mustafizur; Shadat, Wasel Bin and Das, Narayan Chandra (2006), “Trade Potential in SAFTA: An Application of Augmented Gravity Model”, Centre for Policy Dialogue Paper, No.61.
- Taneja, Nisha; Sarvananthan, M; Karmacharya, Binod K. and Pohit, S. (2002), “Informal Trade in the SAARC Region: A Case Study of India, Sri Lanka and Nepal”, Report Prepared for the South Asia Network of Economic Research Institutes, August.
- Taneja, Nisha (2006), “India- Pakistan Trade”, ICRIER Working Paper, No. 182, June. United Nations, UN COMTRADE database.
- Veeramani, C. (2003), “Liberalisation, Industry-specific Factors and Intra- Industry Trade In India”, ICRIER Working Paper, No. 97, March.
- Wilson, John S. and Otsuki, Tsunehiro (2007), “Regional Integration in South Asia: What Role for Trade Facilitation?” Policy Research Working Paper, No. 4423, Development Research Group, the World Bank, December
- World Bank (2008), Doing Business 2008: South Asia.