REGIONAL TRADE COOPERATION AMONG SAARC COUNTRIES: AN EMPIRICAL STUDY

DOCTOR OF PHILOSOPHY

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DEPARTMENT OF MARKETING
FACULTY OF BUSINESS STUDIES
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To my
Parents

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Thesis submitted to the University of Dhaka
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Certified that the work incorporated in the thesis entitled "REGIONAL TRADE COOPERATION AMONG SAARC COUNTRIES: AN EMPIRICAL STUDY" was undertaken by Md. Rafiqul Islam under my supervision.

401272

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DECLARATION

The work presented in this thesis is original and has not been submitted by me to any University or Institution for the award of any degree or diploma. The thesis entitled "REGIONAL TRADE COOPERATION AMONG SAARC COUNTRIES: AN EMPIRICAL STUDY" submitted by me for the award of the Degree of Doctor of Philosophy at the University of Dhaka is based upon my own work carried under the supervision of Professor Dr. Haripada Bhattacharjee, Department of Marketing, University of Dhaka.

MD. RAFIQUL ISLAM

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Md. Rafiqul Islam

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ACRONYMS

ACP	African, Caribbean, and Pacific Countries
AERC	African Economic Research Consortium
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BEPZA	Bangladesh Export Processing Zone Authority
BIT	Bilateral Investment Treaty
BMRE	Balancing, Modernization, Replacement and Expansion
CACM	Central American Common Market
CAP	Common Agricultural Policy
CARICOM	Caribbean Community and Common Market
CBI	Cross Border Initiative
CEAO	Economic Community of West Africa (Became UEMOA)
CEFTA	Central European Free Trade Area
CEMAC	Economic and Monetary Community of Central Africa/ Communaute Economique et Monetaire d'Afrique Centrale
CEPGL	Economic Community of the Countries of the Great Lakes/ Communaute Economique des pays des grands lacs
CER	Closer Economic Relation
CET	Common External Tariff
CGE	Computable General Equilibrium
CMEA	Council for Mutual Economic Assistance
COMESA	Common Market for Eastern and Southern Africa
CRTA	Committee on Regional Trading Agreements
CUSFTA	Canada-United States Free Trade Agreements
DFI	Development Financial Institution
EAC	East African Cooperation
EC	European Community
ECOWAS	Economic Community of West African States
ECSC	European Coal and Steel Community

EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Association
EPA	Economic Partnership Agreement
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FERA	Foreign Exchange Regulation Act
FTA	Free Trade Area/ Free Trade Area
FY	Fiscal Year
G3	Group of Three
GATT	General Agreement on Trade and Tariffs
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalized System of Preference
HSC	Harmonized System Code
IFC	International Finance Corporation
IMF	International Monetary Fund
IOC	Indian Ocean Commission
IRC	Import Registration Certificate
JV	Joint Venture
L/C	Letter of Credit
LAFTA	Latin American Free Trade Area
LAIA	Latin American Integration Association
LATN	Latin American Trade Network
MERCOSUR	Common Market of the South/Mercado Comun del Sur
MFN	Most Favoured Nation
NAFTA	North American Free Trade Agreement
NFCD	Non-resident Foreign Currency Deposit
NPR	Nominal Protection Rate
OECD	Organization for Economic Cooperation and Development

PTA	Preferential Trade Agreement
RIA	Regional Integration Agreement
RTA	Regional Trading Agreement
SAARC	South Asian Association for Regional Cooperation
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCC	Southern African Development Coordination Conference
SAPTA	SAARC Preferential Trading Arrangement
SMP	Single Market Program
TFP	Total Factor Productivity
TNC	Transnational Corporation
UEMOA	West African Economic and Monetary Union/ Union economique et monetaire ouest-africaine
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USTDA	United Nations Trade and Development Agency
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organization

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CHAPTER-01

INTRODUCTION, OBJECTIVES AND METHODS

BACKGROUND AND RATIONALE OF THE STUDY

In the international trade, growth of regional trading blocs has been one of the major developments in recent years. Virtually all countries are now members of at least one bloc (Rodrik 2000). The developments have occurred against the backdrop of globalization. New technologies and more liberal trading regimes have led to higher trade volumes, larger investment flows, and increasingly footloose production.

Trading arrangements among nations have been around for hundreds of years. The major development has started to take place since 1930s (Anderson and Norheim 1993). In the 1980s, a huge change in attitudes toward international trade and competition took place. Led by the European Union's (EU's) Single Market Program, a new wave of

apparently more liberal trading arrangements emerged. These were inspired by a set of hopes and aspirations.

However, the recent growth in regionalism was dominated by the EU's activities (Byron 1994). The extension of the Single Market Program to neighboring countries that were not yet members of the EU, the signing of Europe Agreements with the countries of Eastern Europe, the accession of three new members in 1995, and the development of a more active and formal Mediterranean policy have paved the way of successive developments of regional trading agreements amongst countries.

Europe was not the only continent involved. The Canada-United States Free Trade Agreement of 1988, Common Market of the South (MERCOSUR) of 1991 and the Group of Three in 1995, and the Andean Pact and the Central American Common Market (CACM) of 1991 and 1993, respectively are a few examples. The ultimate aim however, is to boost international trade among member nations.

In 1992, the countries of the Association of Southeast Asian Nations (ASEAN), after 25 years of political cooperation with limited trade cooperation, formed a meaningful Free Trade Area (FTA), the ASEAN Free Trade Area (AFTA). Since then, additional countries have joined AFTA, which has also started talks with China.

In West Africa, the trade blocs re-formed in more liberal and more tightly organized blocs. The Common Market for Eastern and Southern Africa (COMESA) replaced a preferential trade agreement (PTA), and many of its members also took part in the Cross-Border Initiative (CBI). The Southern African Development Coordination Conference (SADCC) transmogrified into the Southern African Development Community (SADC), which is a trade and economic cooperation association rather than a defense organization. East African Cooperation (EAC) sprang up where the East African Community had failed. In North Africa, the Mahgreb and Mashraq groups have renewed their integration efforts.

Regional trading arrangements usually increase trade between its members. An important issue, however, is whether it "creates" trade or "diverts" it. Evidence on the balance between trade creation and diversion in trade blocs is mixed. The conclusions from the past studies are, broadly, that there are gains from regional integration but these gains are small (Frankel 1999, Wade 2001).

Evidences also suggest that Regional Trading Agreements (RTAs) increase competition and product differentiation, eliminate internal inefficiencies (so- called X-inefficiency), raise productivity levels, improve countries legal and regulatory framework, increase FDI, enhance knowledge spillovers on trade, increase demand for education, and so on. There is a good deal of evidence that openness

to trade reduces price-cost margins, an indicator of competitive pressure in the industry.

A number of studies have calculated the potential (rather than actual) gains that might be expected from the competition and scale effects of RTA. Hathaway (1998) construct a CGE model of the U.S. and Mexican automobile industries and simulate the possible effects of North American Free Trade Agreement (NAFTA). They predict large increases in output for Mexico, increases in the scale of individual firms, and reductions in price-cost margins. The direct evidence on RTA and growth is however, subject to some methodological reservation but is actually pretty consistent.

The need for promoting trade cooperation among the developing countries to the attainment of self-sufficiency has got preference to the development economists immediate after the world war-II. The signing of the Bangkok Agreement in 1975 has culminated the idea of co-operation in trade in Asian region (Islam 2001). The objective of the Bangkok Agreement was, however, the promotion and expansion of trade co-operation among its member states through trade liberalization. The emergence of South Asian Preferential Trading Arrangement (SAPTA) for promotion of trade cooperation amongst the South Asian Association for Regional Co-operation (SAARC) countries, broadly speaking, is the outcome of the notion of the Bangkok Agreement.

During the Dhaka summit of SAARC in 1993, SAPTA came into light as a contractual agreement of the SAARC member countries. It provides rules and modalities for gradual liberalization of intra-regional trade among the member countries through exchanging mutual concessions on their tradable commodities in the form of gradual elimination of tariff and non-tariff barriers. The significance of SAPTA lies in the fact that it establishes a clear possibility of full integration of SAARC economies in future.

The main objective of SAPTA is to promote intra-regional trade co-operation by liberalization of trade through minimizing tariff and non-tariff trade barriers and offering concessions of the mutually agreed tradable products of the member countries (Ahmed 1999). Above all, alleviation of poverty through creation of new employment opportunity was the central notion of the formation of SAPTA.

As many as 47% of the poor of the world live in this region in terms of per capita GNP (Aggarwal 1985). There is no viable alternative before this region without launching "collective self-reliance" efforts so as to lessen the bulk of huge unemployment and poverty. The drives of eradication of poverty and attainment of regional self sufficiency in one hand and the global deteriorating economic environment, restrictive business practices, fear for gradual decrease in foreign aid on the other hand, have contributed jointly much to the emergence of SAPTA. Hence, like all other economic forum - NAFTA, APEC, ASEAN,

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AFTA etc., the importance of SAPTA for enhancing trade cooperation in South Asia is beyond question.

The official acceptance of SAPTA brought enthusiasm among the SAARC leaders as well as the people of different community in this region referring SAPTA a "landmark" in the cooperation endeavor stressed towards the expansion of intra-regional trade cooperation.

To turn SAPTA into a reality, Bangladesh as well as Nepal, Bhutan and Sri Lanka, the comparatively less developed economies in this group, highlight the importance of trade relation at the regional level and emphasis more on the removal of trade barriers while both India and Pakistan, the two major economies in the group, focus more on bilateral trade co-operation rather than multilaterally due to the fact of hostile relations with each other both politically and economically which spurred them to view SAPTA as no more than a "tentative step" for the integration of South Asian markets.

Despite of the suspicion on the development of SAPTA by some of the members of SAARC, the present economic conditions of South Asian states coupled with the ongoing global trend of trade cooperation cater the need for expanding intra-trade cooperation through SAPTA an imperative.

The expansion trade within SAARC countries largely depends upon the analysis of trade among member countries from the viewpoint of

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gain and loss incurred by each country. Most of the earlier studies have ignored this aspect. This study assesses the gains and losses of trade among SAARC countries and evaluates the trends and dimensions of trade among the member countries of SAARC.

OBJECTIVES OF THE STUDY

The present study mainly attempts to concentrate on the gains and losses of trade among the member countries of SAARC. It then investigates the trends and directions of trade among SAARC countries. The specific objectives of the study are:

1. To investigate the nature of trade among SAARC countries.
2. To assess gains and losses from the trade within SAARC nations.
3. To identify problems of trade among SAARC countries.
4. To suggest future prospects of trade among SAARC countries.

METHODOLOGY OF THE STUDY

THE DEFINITION OF THE RESEARCH PROBLEM

The Board of Directors of the American Marketing Association has approved the following as the new definition of (marketing) research:

"Marketing research is the function that links the consumer, customer, and public to the marketer through information-information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process" (Malhotra 1999).

Above definition suggests that (marketing) research can be of two types: problem identification research and problem solving research. Problem identification research is undertaken to help identify problems and opportunities that are not necessarily apparent on the surface. Problem solving research is undertaken to solve specific (marketing) problems. The present study is basically a problem identification research in nature as it explores the gains and losses of trade among SAARC countries.

Problem definition involves stating the general research problem and identifying its components. Among the various process of defining the problem (such as interviews with experts, secondary data analysis

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etc.), this study applies the secondary data analysis technique in defining the problem. Secondary data on trade among SAARC countries indicate that a few nation is gaining from the trade while majority are the loser. This has stimulated the researcher to pick up the research issue and therefore, a study has been conducted to identify countries which are gaining and which are losing. This gain and loss status could be observed if one investigates the trend and direction of trade among the SAARC countries.

APPROACH TO THE PROBLEM

Development of an approach to the problem includes formulating an objectives or theoretical framework, analytical models, research questions, hypotheses, and identifying characteristics or factors that can influence the research design (Malhotra 1999). In this study these have been developed as under:

Objective Evidence/Theretical Framework

Objective evidence (evidence that is unbiased and supported by empirical findings) has been gathered by compiling relevant findings from secondary sources (discussed in literature review chapter). Objective evidence obtained from secondary sources indicates a secular-increasing trend of trade of India in all the countries, while a

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wild fluctuating trend has been observed in most of the countries excepting the India. Variables selection which, formed the theoretical framework of the study, were identified from the past studies and is discussed in the literature review chapter.

Analytical Model Used

An analytical model is a set of variables and their relationships designed to represent in whole or in part, some real system or process. Basically three types of models are used in research. These are verbal model, graphical model, and mathematical model. Present study applies both verbal and mathematical model to describe the relationships of the variables. Mathematical model applied in this study has been the sign test, log-linear growth function, and gravity model. The gravity model is used to examine whether a lower magnitude of intra-SAARC trade is a normal outcome or not. Calculating the coefficient of determination (R-square) and F-value has tested goodness of the fit of the model.

Research Questions

The research questions were developed on the basis of problem definition and theoretical framework. Four research questions were formulated for the study. These are:

1. What is the nature of trade among SAARC countries?

2. Which countries have been gaining and losing from the trade within SAARC nations?

3. What are the major problems of trade among SAARC countries?

4. Is there any prospect of trade among SAARC countries?

HYPOTHESIS OF THE STUDY

Adequate literatures on the regional trade cooperation among SAARC countries are not available. Therefore, it is very difficult to draw hypothesis precisely regarding any problem in this area. Nevertheless, on the basis of the available literature and also on the basis of the expert opinion, the following two hypothesis for each category have been drawn and put forward to be established by the findings of this study:

Hypothesis for Export

Null Hypothesis: $H_0 : f_1(x) = f_2(x)$ i.e. there is no significant increase in the export between any two SAARC countries.

Alternative Hypothesis: $H_a : f_1(x) \neq f_2(x)$ i.e. There is a significant increase in the export between any two SAARC countries.

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Hypothesis for Import

Null Hypothesis: $H_0 : f_1(y) = f_2(y)$ i.e. There is no significant increase in the import between any two SAARC countries.

Alternative Hypothesis: $H_a : f_1(y) \neq f_2(y)$ i.e. There is a significant increase in the import between any two SAARC countries.

RESEARCH DESIGN

Formulating the research design involves the following steps:

Sources, Methods, and Instruments of Data Collection

The study is conducted based on published secondary data and information. All relevant information/data have been collected from such sources as Bangladesh Bureau of Statistics, Export Promotion Bureau, Direction of Trade Statistics Yearbook (International Monetary Fund, Washington D.C.). The quality and authenticity of data have been beyond any controversy as these institutions are highly recognised by the researchers working in this arena.

The study is both qualitative and quantitative in nature and as such some workable hypotheses are developed and tested. Simple average, percentage, annual growth rates, semi-log growth rate, sign test have

been calculated to arrive any meaningful conclusion. The study also investigates the effects of gravity model to estimate the trade flow between Bangladesh and India and also with the rest of the world. Suggestions put forward are simply the normative statement along with experiences utilised by the neighbouring countries to make the balance of trade favourable.

Unit of Analysis

SAARC is a family of seven members. They are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Srilanka. The trade data that is export and import, of the Maldives and Bhutan are highly eratic and did not show any secular trend. Because of eratic and non-availability of export and import data of these two countries, the present study examines the gains and losses of the trade of only five member countries of SAARC which, are Bangladesh, India, Pakistan, Srilanka and Nepal. These five countries thus provide the unit of analysis of the present study.

MATHEMATICAL MODEL

SEMI-LOG GROWTH RATE

This type of growth rate is calculated to determine the overall growth rate for a specific period of time e.g. from 1995 to 2000. We can explain this method as below:

Consider the equation:

$$Y_t = Y_0(1+r)^t$$

where r is the compound rate of growth over the time t.

Taking the natural logarithm of the above equation, we get

$$\log Y_t = \log Y_0 + t \log(1+r)$$

Now suppose $\beta_1 = \log Y_0$ and $\beta_2 = \log(1+r)$.

Therefore, we can write

$$\log Y_t = \beta_1 + \beta_2 t$$

Adding the disturbance term to the above equation, we obtain

$$\log Y_t = \beta_1 + \beta_2 t + u_t \quad \text{(Semi-Log growth rate Model)}$$

This model is a semi-log model because only one variable appears in the logarithmic form. This model is like any other linear regression model with the linear parameters β_1 and β_2.

SIGN TEST

Sign test is a non-parametric test. Its name comes from the fact that it is based on the direction or signs for pluses or minuses of a pair of observations, not on their numerical magnitudes. A sign test is conducted under the following circumstances:

(i)   When there are pairs of observations on two things being compared.

(ii)   For any given pair, each of the two observations is made under similar extraneous conditions.

(iii)   Different pairs are observed under different conditions.

Condition (iii) implies that the differences $d_i = x_i - y_i$; $i = 1, 2, ..., n$ have different variances and thus renders the paired t-test invalid, which would have otherwise been used unless there was obvious non-normality. In such a case we use the "Sign Test". No assumptions are made regarding the parent population. The only assumptions are:

(i)   Measurement are such that the deviations $d_i = x_i - y_i$ can be expressed in terms of positive or negative signs.

(ii)   Variables have continuous distributions.

(iii) d_i's are independent.

Mathematical formula for sign test is:

$$P\{X = r\} = {}^nC_r p^r q^{n-r} = \frac{n!}{r!(n-r)!} p^r q^{n-r}, \ n \geq r.$$

Consider $\bar{p}$ = Probability of + (plus) signs.

$$\bar{q} = 1 - \bar{p} \Rightarrow \text{Probability of } - \text{(minus) signs.}$$

r = Number of success or + (plus) signs desired.

n = Number of trials undertaken.

Suppose p is the proportion of success or + (plus) signs in a sample. Then the mean and standard deviation of the sign test of p are respectively:

$$\mu_{\overline{p}} = p \ , \qquad \sigma_{\overline{p}} = \sqrt{\frac{pq}{n}}$$

where, p = proportion of success or + (plus) signs in H_0.

q = 1 − p, and

n = sample size i.e. number of + (plus) and − (minus) signs.

For a hypothesis test of the population proportion p, assume p is equal to the hypothesized proportion p_h and $q = q_h = 1 - p_h$.

Then in the normal approximation of the distribution of p, the standard normal variable z is:

$$z = \frac{\overline{p} - \mu_{\overline{p}}}{\sigma_{\overline{p}}} = \frac{\overline{p} - \mu_{\overline{p}}}{\sqrt{\frac{p_h q_h}{n}}}$$

This z is the test statistic that we want to compute for the sign test.

GRAVITY MODEL

Gravity model offers a systematic framework for measuring the normal pattern of trade. The gravity model has long been used for empirical studies of the pattern of trade. Gravity model of international trade estimates the trade flow as a function of variables that directly or indirectly affects the determinants of normal trade flow.

The typical gravity model specification relates bilateral trade to income, population (or per capita income) and distance between the trading partners:

$$\text{Log}(\text{TRADE}_{ijt}) = a + B_1 \log(Y_{it} Y_{jt}) + B_2 \log(P_{it} P_{jt}) + B_3(\text{DIST}_{ij})$$

where TRADE_{ijt} is bilateral trade between countries i and j at time t (measured in US dollars), Y is real income (the so-called gravity variable), P is population, and DIST is distance. As trade is expected to increase with size and per capita income and to decline with distance, B_1 should be positive, B_2 and B_3 negative.

ORGANIZATION OF THE STUDY

The study has been organized in seven chapters. First chapter presents an introductory discussion. It consists of background and rationale of the study, objectives of the study, methodology of the study, hypotheses of the study, research design, mathematical model, and organization of the study. Second chapter describes the brief account on historical development of SAARC.

Chapter three reviews the existing literature on regional integration and development. This chapter is divided into two sections. Section-I reports the effects of RIAs on trade and development from a global point of view and Section-II outlines the effects of RIAs on SAARC countries.

Chapter four discusses the main findings and analysis of trends and directions of trade among SAARC countries. This chapter consists of five parts: trends of Bangladesh's trade, trends of India's trade, trends of Pakistan's trade, trends of Sri Lanka's trade, trends of Nepal's trade.

Chapter five discusses the trade with India and trade policies of Bangladesh. This chapter examines the trade policies of Bangladesh

with special reference to both nominal and effective tariff and non-tariff barriers. This chapter also examine whether intra-SAARC trade is lower or higher than what is predicted by economic model i.e. gravity model.

Chapter six points out the problems of trade among SAARC countries. Chapter seven prescribes some suggestions and policy implications to improve trade relation among SAARC countries. Finally, chapter eight concludes the study.

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CHAPTER – 02

SAARC: A BRIEF ACCOUNT ON HISTORICAL DEVELOPMENT

PREAMBLE

The need for maximizing intra-regional interaction has become a worldwide phenomenon. The waves of globalization and liberalization have further made it essential for countries all over the world to strengthen their regional economic inter-linkages (Anand 1991). The way regional and sub-regional groupings have come into existence all over the world in the decade of 1990s itself is a testimony of tile fact that regionalism and sub-regionalism have become one of the major aspects of world order today (Bimol 1989). The South Asian region has kept pace with the forces of globalization and liberalization by consolidating the regional cooperation and heading towards sub-regional groupings within the framework of regional cooperation.

The South Asian Association for Regional Cooperation (SAARC) has now completed a substantial period of its existence. Yet it is constrained to follow a "go slow approach" in view of the paradoxical nature of the region (Derosa 1986). There can be no doubt that the SAARC has been

an encouraging development and it has enhanced regional solidarity and identity in South Asia. Yet, the fact remains that it has not been able to provide momentum to development efforts, and attempts to develop strong economic linkages and mitigate political discords (Enamul 1991). Perhaps, the reason lies in the conflicting nature of the region, which has sowed seeds of fear, and mistrust ever since the British left the sub-continent and the countries of the region got independence (Mehta 2000).

Regionalism as a means of consolidating relations with the countries of a particular geographic area or like-minded ones, to preserve and promote their common politico-strategic and economic interests gained momentum in the post Second World War international Order. It is considered to be a concept somewhere in the middle of nationalism and universalism. Cooperation among nations has become a sine qua non of international politics and its is an inescapable ingredient of international processes in the Post War World Order (Mcqueen 1998). One vital aspect of the need for cooperation was formation of regional organizations, which was indeed a new experience in the world politics.

It were not only the country of a region but even major powers of the world were inclined to give a helping hand for this phenomenon to become a worldwide reality. The western European countries first mooted the idea of regional economic development. It was thought that the pace of socio-economic development could be accelerated through regional cooperation. The ground realities in that part of Europe were in conformity with such regional groupings. Economic forces were quite

powerful and had a dominant position in the society. It was, therefore, in a position to make the parochial and narrow nationalist attitudes of the political elite in those countries subservient to its dictates (Mukerjee 2000).

Hence, the imperatives of economic needs requiring cooperation among nations over-shadowed the zeal of the political elite for political sovereignty, could only be protected within the confines of national boundaries. The advocates of economic cooperation among nations, however, thought that besides there being, no contradiction between regional cooperation and political sovereignty of individual countries, socio-economic development alone could strengthen the political base of that sovereignty (Mukerjee 1988).

Such a predominant role of economic forces, as one witnessed in the European context, was not to be seen in developing countries where political decisions had precedence over socio-economic needs and requirements. Hence, the genesis of regional cooperation in the developing world had roots in political decisions. It is, therefore, not surprising that the first organizations for regional cooperation involving developing countries that came up were for security and strategic objectives and not for socio-economic development (Nikhat 1992).

In this context, one may also recall that the international situation underwent rapid changes after the end of the Second World War. New alignments and strategies had become vital in the wake of Cold War in order to expand areas of influence into the newly emerging

international domain. A number of regional organizations came into existence on the basis of political and strategic considerations, though ostensibly the objective was to provide economic succor to under developed areas of the world. It was growingly realized that politico-strategic interests of the developed world could be maintained and support could be raised in different parts of the world by establishing regional organization.

A number of organizations such as the RIO Pact, Organization of American States in Latin America, North Atlantic Treaty Organization (NATO) in Western Europe, CENTO in West Asia, Association for South East and later South-East Asia Treaty Organizations (SEATO), etc., came into being at the behest of the western world (Nayyar 2001).

The basic objective of the above organizations was to protect their politico-strategic interest and to contain the influence of the rival Soviet Union (Nordstrom 1995). The United States of America and its Western allies used their economic power also to keep the members of the developing world perpetually under their influence. The Western powers also encouraged such organizations, which were formed primarily with certain economic objectives, i.e. Regional Cooperation for Development in Iran, Turkey and Pakistan, the Colombo Plan, etc.

But it should be kept in mind that only such regional organizations were supported which were located in the areas of strategic importance for the United States and its allies. The Soviet Union also supported the formation of regional organizations of its allies in Eastern Europe such

as the Warsaw Pact in retaliation to the regional organizations set up by the west. The basic objective behind these regional organizations was to protect the interest of their member nations.

The idea of development through regional cooperation gradually became popular in other parts of the third world. The newly independent states of Asia and Africa also realized that it would be possible to accelerate their socio-economic development through regional organizations and that their security concerns would also be better protected. A number of regional organizations came into being precisely for these objectives, among them being Inter American Development Bank, Free Trade Association in Latin America, Arab League, Organization of African States, etc (Panagariya 2000).

The non-aligned movement, which became popular among the third world countries, though by itself not being an organization for regional cooperation, did provide a base for the member countries to take steps towards regional cooperation. Nonalignment was a factor binding several nations into a relationship of mutual benefit. In the formation of OAU and ASEAN, the nonaligned movement played a big role. At the United Nations the formation of the Group of 77 had its base in the non-aligned movement.

It may be stressed here that regionalism as a means of consolidating efforts towards economic development has gradually acquired prominence. The growing economic pressures of the developed countries, the need for South-South Cooperation, etc. encouraged the

developing countries to integrate their economies at the regional level (Panchamukhi 1997).

The post-Cold War world has particularly witnessed an added emphasis on the regional and sub-regional cooperation all over the world. The economic forces let loose by globalization, liberalization and privatization have encouraged opening of national economies across the national boundaries, flow of capital and technological resources and expansion of multi-national corporations. These developments have accorded prominence to regionalism.

It has been perceived that expansion of market facilities to neighboring countries, establishment of trade linkages, transfer of technology, eco-management and the sharing of natural resources for mutual benefits require regional cooperation. Thus, the process of economic liberalization and globalization has reinforced the idea of regionalism and sub-regionalism. The concept of growth axis has become important, wherein countries belonging to a particular geographic region, sharing resources and having common developmental needs, priorities and problems could cooperate together, considering a sub-region as a single development unit.

In the post-1990 period, a number of such attempts have been made in different parts of the world. In 1993, North American Free Trade Agreement (NAFTA) came into existence. European Economic Area was established in 1994. ASEAN Free Trade Association (AFTA) was established by South-East Asian countries. In March 1995 Mauritius

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took initiatives towards forming an organization of the Indian Ocean rim countries which included India, South Africa, Australia, Kenya, etc.

In June 1995, International Forum for the Indian Ocean Region (IFICIR) was established with the initiatives taken by Australia. In 1994 Mexico, Columbia and Venezuela formed the Group Three (G-3). The Association of Caribbean States also came into existence. In January 1995 World Trade Organization (WTO) was established. The SAARC countries also moved ahead with the idea of SAPTA and SAFTA. It gives some idea of the fact that the need was being felt to integrate national economies together. It was considered to be beneficial to the developed as well as the developing economies.

Sub-regional cooperation is yet another phenomenon, which has acquired significance in various parts of the world in recent years. Sub-regionalism is a new and innovative phenomenon gaining prominence. Just like regionalism and inter-regional cooperation, sub-regionalism is also considered to be a strategy for development. There are three prerequisites for sub-regional cooperation: geographical proximity, economic commonalties in terms of natural resources, problems of development, etc., and a sense of urgency in promoting development and prosperity (Pigato 1997).

Since the very idea of sub-regional grouping involves a common concern of the countries of a sub-region on certain economic issues affecting them, it ensures congenial bilateral relations between them. Hence, a sub-regional approach is not only an instrument to promote

development but it may also promote peace and stability in the region (Raju 1990). And in this context it may also be helpful in conflict resolution and confidence building.

The sub-regional cooperation seeks to build a cooperative framework which aims at transforming benefits of economic development from nation states to a larger entity namely sub-region. Sub-regionalism is an approach towards interdependent development, which seeks to replace national developmental efforts into inter-regional or sub-regional cooperation leading to collective benefits. It may be defined as a "controlled regional development strategy, a response to borderless economy as it is a means of enhancing competitiveness of the participating growth areas and promoting their exports in the global market place" (Sing and Saeed 1990). It may also be treated as a localized version of regionalism, which tends to develop smaller growth oriented zones within a broader region.

In a more simplistic way, it can be said that where objectives of an action plan cannot be sufficiently achieved by the countries of a region by acting individually, these objectives can be adequately attained by forming a regional grouping of the concerned countries. But there has to be sufficient scope and willingness to form such a group.

Sub-regional cooperation in the eastern Himalayan Region involving India, Bangladesh, Nepal and Bhutan, and Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation (BIMSTEC) encouraging linkages between SAARC and ASEAN provide scope and

encouragement for sub-regional cooperation in South Asia (Tarlock 1995).

FORMATION OF SAARC

South Asian region comprised of seven independent and sovereign countries (Bangladesh, India, Pakistan, Sri Lanka, Nepal, Bhutan and Maldives) and dominating the northern half of the Indian ocean occupies an important strategic position. It is the largest geographical reality of the Indian ocean community and almost a continental whole. The region is easily identifiable.

South Asia is one of the most popular regions of the continent. It contains nearly one fifth of world's total population. It has emerged as the poorest region of the world (Sumati 1988). The per capita GNP of South Asia is lower than any other region in the world. Over 500 million people in the region survive below absolute poverty line. Interestingly, while South Asia contains 23 percent of the world's population, it produces only 1.3 per cent of the world's income (Adiseshiah 1987). The adult literacy rate (48 percent) of the region is lowest in the world. Half of the children in South Asia are underweight. About 26 million people lack safe drinking water, 830 million have no access to basic sanitation facilities and over 400 million people go hungry every day (Arora 1986).

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India is the largest country of the region. Its size, population, resources, economic development, scientific and technological advancement, military strength is quite disproportionate in comparison to other countries of the region. It contains nearly 76 percent area of the total region (Aswani 1995). India's population is three times more than the combined population of the other six countries of the region. Its GNP is 78 percent of the total GNP of the region. Geography has provided India a central position in the region. It Shares 4046 km land border with Bangladesh, 3310 km with Pakistan, 1752 km with Nepal and 587 km with Bhutan, apart from maritime border with Sri Lanka (Barac 1985). India has major or minor border disputes with all these countries except Bhutan. No other country of the region shares border with any other country except India. This Indo-centric nature of the region has been a major source of dissonance.

The Indo-centricity, along with asymmetry in size, resources and capabilities has given a feeling of insecurity among the smaller states of the region. They feel being over-shadowed by India. Because of its vastness, India has a natural sphere of influence, which has often caused suspicion among the smaller states (Colombage 1998). India's initiatives are not only misunderstood but often coined as Indian hegemony by the ruling elite, so as to serve their own vested interests. The smaller states tend to develop their distinct identities. In this process affinities with India are ignored and points of diversity are stressed again and again.

The South Asian countries are faced with the problems of competing ideologies, systemic diversities and conflicting political system. There has been a conflict between democratic urges and authoritarian forces. India has built a cohesive national ideology. It has been able to secure accommodation, tolerance and consensus because of its democratic process. A complex and heterogeneous state like India has survived because of a consensus developed in this country. Indian nationalism has been rooted on the principles of democracy and secularism (Dhirendra 1993). The other countries of the region lack this framework. The authoritarian rulers of the countries of the region often follow an aggressive nationalism, which has been rooted more in anti-Indianism than the indigenous traditions and values. Hence, it has been narrow in outlook.

The other countries of the region such as Pakistan, Sri Lanka, Nepal and Bangladesh also began with the establishment of a democratic political system but except Sri Lanka others could not sustain it and soon turned into authoritarian regimes (Bashir 1987). This kind of systemic and ideological divergence prevented development of a coherent foreign policy approach. India being a democratic country naturally sympathized with the democratic forces in the region, which was perceived by the authoritarian rulers as threat to their survival. Hence, their efforts have been to draw away from India in the name of identity, independence and sovereignty.

The political boundaries demarcating the post-colonial South Asian states were determined arbitrarily and were not products of historical

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evolution. Therefore, they ignore the reality of geography and ethnicity. It has given rise to a number of contentious bilateral issues. The borders between different countries cut across communities, religion and ethnic groups, resulting in the existence of similar religious and ethnic groups across the boundaries. These ethno-cultural affinities arouse fear of irredentism and have been a source of tension between the concerned countries (Frankel 1999). Since the various ethno-religious communities in south Asia have their origin in India, any kind of ethnic tension arising in any country, becomes a source of tension in India. India's reaction is viewed as her interference and reacted sharply by the concerned country (Ghularn 1992).

Despite the South Asian countries constituting one of the poorest regions of the world, the imperative need for a mutually beneficial cooperation has generally been ignored by them. The economies of these countries are more competitive than complementary (Inotai 1991). It is a fact that the South Asian region is quite rich in a number of natural resources and these countries can seek India's cooperation and assistance in the utilization of these resources. But, they are suffered from the fear of being pressurized by India (Kelegama 1998). They seem to be more concerned about reducing their economic dependence upon India.

Because of an inherent threat perception against India, the smaller states of the region tend to follow divergent foreign policy approaches. Their foreign policies accord more importance to extra-regional linkages

which have been responsible for inviting super power rivalry in South Asia, and thereby contribute to inter-state hostilities in the region.

But there are quite a few factors binding the South Asian countries together. Most of the South Asian states share a common legacy of British imperialism. It had led to the growth of common political, administrative and legal institutions in these countries. All the countries of the region share common ethnicity, religion, language, etc. Their social structure, social institutions, belief system, life style are quite common (Khadka 1989).

It can, therefore, be stressed that despite many differences, it is the geographic compactness added to the common experiences of British imperialism and the common bonds of religion, language, culture which make South Asia as a region. These bonds provide sufficient scope for mutual cooperation and integration. However, much of the success of such cooperation would depend on to what extent these countries use common symbols for the consolidation of regional solidarity.

The efforts towards regional cooperation in South Asia began as a part of the phenomenon of Asian identity. In fact, the leadership in India thought in terms of cooperation in South Asia in a wider perspective, since it was felt that most of the Asian countries had similar experiences of colonial exploitation and underdevelopment, and need to work together for preserving their independence and sovereignty. It was only through mutual cooperation that they could overcome their problems. The Indian leadership was conscious of the need to develop

cooperation in South Asia even before her independence. The Indian National Congress had passed a resolution in this regard as early as in 1928 (Lajipathi and Subbi 1990).

Nehru believed that those countries, which were struggling for their national independence and had similar problems of development, should come together. He said in 1945, " I stand for a South Asian federation of India, Iran, Iraq, Afghanistan and Burma" (Maheswari 1987). In 1947 Nehru organized the first Asian relations conference in New Delhi. It advocated for cooperation among the Asian countries. Between 1947-1955 such other conferences were organized to find out the possibilities of Asian cooperation. Other countries of South Asia also took some interest in this regard. Sri Lanka had proposed for a permanent organizational structure for regional cooperation. But this proposal could not secure support from other countries.

A major step towards cooperation in the Asian and African continents was taken at the 1955 Bandung Conference (Mishra 1983). Proposals for regional economic cooperation and the intra-regional cooperation in Asia and Africa were put forward but unfortunately none could be materialized.

These earlier attempts towards regional cooperation in Asia and South Asia were not successful. A number of reasons may be held responsible for their failure. The inter-state disputes, tensions, distrust and apprehensions among the individual countries were the main factors (Muni 1992). Pakistan, Bharma and Sri Lanka had problems with

India. India's relations with China had also gradually strained on border issue. The smaller states of the region were apprehensive of India's role and attitude towards them. Therefore, they followed diverse approaches with regard to regional and global issues. Pakistan was more inclined towards a West-Asian cooperation. As a result of this, India's efforts towards regional cooperation gradually cooled down.

Fresh efforts towards cooperation in South Asia can be seen with the beginning of the seventies. Mrs. Indira Gandhi, during her visit to Burma, Afghanistan and Indonesia pursued the idea of regional cooperation (Pandey 1998). The various developments, which took place in the South Asian region during the early seventies as well as late seventies, helped in building tip an atmosphere for cooperation among the South Asian countries.

The emergence of Bangladesh as an independent country, Pakistan's erosion as a counter-balance against India, and the 1971 Indo-Soviet Treaty had given India dominant status in the region. India had succeeded in further normalizing its relations with Sri Lanka, Nepal, etc. But Sikkim's merger with the Indian Union was seen by smaller neighbors as an evidence of India's expansionist designs in the region.

The establishment of new political regimes in South Asia after 1976 was important. All these regimes needed stability and political legitimacy, hence, wanted each other's support. The Janata regime in India had a soft attitude towards the neighboring countries. This apart, the deepening economic crisis, poverty, underdevelopment,

unemployment and declining growth rate had compelled these countries to think in terms of regional cooperation.

The smaller states of the region – Nepal, Sri Lanka and Bangladesh – seemed quite enthusiastic in this regard. A concrete proposal for regional cooperation in South Asia came from the Bangladesh President Zia-ur-Rahman in May 1980 (Ahmad 1985). In fact, he had been working on this idea for quite some time and had been approaching India and other countries. It was not surprising that the proposal came from a smaller state of the region. In fact, they felt that the regional cooperation could serve two objectives. It could provide a cover against India's domination and it could accelerate the pace of their economic development. It was obvious that the smaller states would endorse the proposal promptly.

India and Pakistan had initial reservations. India accepted the idea in principle but decided to scrutinize it carefully. Pakistan thought that such an idea would further strengthen India. The idea of regional cooperation ultimately took a final shape in December 1985 after several meetings and rounds of discussion among the constituent states (Ahmad 1999).

The formation of SAARC and its working during the last few years show that the South Asian countries now sincerely subscribe to the idea of regional cooperation and take it as mutually beneficial. Two big members of the association – India and Pakistan – have come out of their initial hesitation in this regard. It has become clear that there is

tremendous potential of regional cooperation in the sphere of economic development. A number of such areas can be evolved where a meaningful regional cooperation is possible. There seems greater enthusiasm among the smaller members who have indeed looked towards the SAARC with high hopes.

It is not only India's and Pakistan's role and attitude that would determine the survival and sustenance of SAARC, but the attitude of smaller states is equally crucial. The politico-strategic needs of these states and their strategic perceptions are important factors. Whether or not SAARC can be an effective alternative to bilateralism is significant. It may be noted that India's own policy and approach towards the neighboring countries may also have a direct bearing on SAARC and determine attitude of the smaller states towards it. In this backdrop the attitude of the member countries towards the SAARC is important and needs a deeper understanding.

The SAARC has a wider scope for interaction at the regional level. It can conduct special studies related to specific problems and issues, lay down policy programs, provide structural formulas and can take initiatives through its various specialized agencies. It has so far included number of areas for forging regional cooperation such as transport, communication, environment, resource development, science and technology, poverty alleviation, population, health, education, etc. (Charan 1988) There can be many more areas where SAARC can provide leadership and coordinate various programs. SAARC's attempts

of SAPTA and SAFTA are significant and lay down hopes for the development of strong regional trade linkages.

However, the vital question whether SAARC can play a role in dissolving contentious bilateral issues still can not be answered. Whether or not SAARC can or should have a political agenda is a debatable issue. Nevertheless it can be said that SAARC is bound to function under the shadow of serious political hangovers. Many of the SAARC summit conferences have witnessed it and such a situation is likely to prevail.

The sub-regional cooperation in the eastern Himalayan region is a welcome development as it has the potential to forge regional cooperation more extensively. But this idea has raised a controversy among South Asian countries: whether it is beyond the scope of SAARC, whether it is an alternative to SAARC's go slow approach, is it a strategy to isolate some of the countries of the region? (Kanesahingam and Kemal 1990).

Actually, it is because of the inherent political misunderstanding among the countries of the region that these doubts have been raised. Hence, whether it is regional cooperation or sub-regional cooperation, a congenial political environment, trust and mutual understanding will ultimately be a condition for a long-term and meaningful cooperation.

There can be no doubt about the need and potentials of regional cooperation in South Asia. But, it is also a fact that SAARC has not

been able to come out of the historic-political hangovers, affecting bilateral relations of the countries of the region. The Indo-centricity has created problems. How to overcome them is a challenge for the SAARC.

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CHAPTER –03

LITERATURE REVIEW ON REGIONAL TRADE BLOC

This chapter reviews the existing literature on regional integration and development. The chapter is divided into two sections. Section-I reports the effects of Regional Integration Agreements (RIAs) on trade and development from a global point of view and Section-II outlines the effects of RIAs on SAARC countries.

SECTION-I

EFFECTS OF RIAS ON TRADE AND DEVELOPMENT

Regional trading blocs has been one of the major developments in international relations. Generally all countries are now members of at least one bloc. In addition to the boom in numbers, the past 10 years have also witnessed qualitative changes in regional integration

arrangements (Andriamananjara 2001). One can identify three major merits in this regard:

- The move from a closed to a more open model of regionalism. The new wave of regional integration agreements generally exhibits a more outward-looking stance and greater commitment to boosting, rather than controlling, international trade.

- The recognition that, in addition to reducing tariffs and quotas, effective integration requires the removal of other barriers, or what has come to be known as "deep integration."

- The advent of trade blocs in which high-income countries and developing countries are equal partners-so-called North-South agreements. (Bond 2001, Bhagwati 1987).

Against the backdrop of globalization, these development have occurred new technologies and more liberal trading regimes have led to higher trade volumes, larger investment flows, and increasingly footloose production.

Historical Route to Regional Integration Agreements (RIAs)

RIAs have been around for hundreds of years. For example, a custom union of the provinces of France was proposed in 1664; Austria signed free trade agreements with five of its neighbors during the 18th and

19th centuries; and the colonial empires were based on preferential trade arrangements. Customs unions were precursors to or were embodied in the creation of new states in, for example, Germany (the *Zollverein*) Italy, and the United States (Bilal 1998, Cordoba 1996).

The 1930s saw a great fragmentation of the world trading system. Governments struggled with the slump in demand without the benefit of global economic institutions to provide liberal focal points. One of the "solutions" adopted was regional preference. The exact causal relationship between restricted trade and declining incomes during this period is still debated, but fragmentation into closed blocs fostered efficiency and frustrated recovery from the Great Depression.

Partly in response to the experience of the 1930s, and partly under the influence of U.S. idealism and internationalism, the post-World War-II system established equal treatment of all partners (nondiscrimination) as a fundamental principle of the trading system. Exceptions were permitted, both on pragmatic grounds and for reasons of principles, and among these exceptions was the ability to create trade blocs -Free Trade Areas (FTAs) and customs unions aside from reinforcing existing colonial links, it contributed to the political reconstruction of Europe through the creation of the Benelux customs union in 1947, the European Coal and Steel Community (ECSC) in 1951, and the more far-reaching European Economic Community (EEC) in 1957.

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The survival and apparent success of the EEC led to a spurt of regionalism between developing countries in the 1960s. This spurt was mostly driven by the import-substitution creed that protection was required for industrialization and hence for prosperity and that this policy would be less costly if extended over a larger economic area. The RIAs were generally very protectionist and interventionist in the sense of trying to determine administratively which industries to have and where they should be located. They involved numerous controls and restrictions on economic activity and, consequently, yielded rather modest economic results. In addition, the degree of implementation was often low, in part because of disagreements on where industries should be located.

By the late 1970s, the ineffectiveness of these RIAs had become evident. None seemed to have contributed strongly to development; some had collapsed; and the strains of the debt crisis made those that survived largely moribund.

In the 1980s a huge change in attitudes toward international trade and competition took place. Led by the EU's Single Market Program (SMP), a new wave of apparently more liberal RIAs emerged. These were inspired by a set of hopes and aspirations.

The recent growth in regionalism was dominated by the EU's activities: the extension of the Single Market Program to neighboring countries that were not yet members of the EU, through the European Eco-

nomic Area; the signing of Europe Agreements with the countries of Eastern Europe; the accession of three new members in 1995; and the development of a more active and formal Mediterranean policy that potentially included RIAs with nearly every Mediterranean country. In fact, of the 87 notifications of RIAs to the World Trade Organization (WTO) since 1990, only 13 had no European partner.

In the America, the Canada-United States Free Trade Agreement of 1988 was extended to Mexico in 1994 through NAFTA; Common Market of the South (MERCOSUR) was formed in 1991 and the Group of Three (G3) in 1995; and the Andean Pact and the Central American Common Market (CACM) were resurrected in 1991 and 1993, respectively. In 1992, the countries of the Association of Southeast Asian Nations (ASEAN), after 25 years of political cooperation with limited trade cooperation, formed a meaningful FTA, the ASEAN Free Trade Area (AFTA). Since then, additional countries have joined AFTA, which has also started talks with China. The Republic of Korea and Japan, among others, are negotiating an FTA.

In West Africa, the trade blocs re-formed in more liberal and more tightly organized blocs. The Common Market for Eastern and Southern Africa (COMESA) replaced a preferential trade agreement (PTA), and many of its members also took part in the Cross-Border Initiative (CBI). The Southern African Development Coordination Conference (SADCC) transmogrified into the Southern African Development Community (SADC), which are a trade and economic

cooperation association rather than a defense organization. East African Cooperation (EAC) sprang up where the East African Community had failed. In North Africa the Mahgreb and Mashraq groups have renewed their integration efforts (Baldwin 1992, Ethier 1998).

Contribution of RIAs to Trade and Growth

A trade bloc usually increases trade between its members. An important issue, however, is whether it "creates" trade (by allowing cheaper products from other bloc members to substitute for more expensive domestic production) or "diverts" it (by substituting intrabloc imports for imports from outside the group that were cheaper when both faced equal tariffs). Although the evidence on the balance between trade creation and diversion in trade blocs is mixed, some new research findings showing that diversion must be recognized as a serious possibility (Baldwin and Anthony 1995).

The balance between trade creation and diversion is an important determinant of the overall benefits of an RIA. It is, however, based on a view of the world in which intercountry trade is driven entirely by differences in productivity and factor endowments. But in fact, trade can also arise from product differentiation and from economies of scale that reduce costs as production grows. In these circumstances, competition between firms is weakened, and consumers lose. International trade then offers an important means of increasing

competition by allowing new suppliers to enter markets. RIAs can generate such benefits by fostering trade between members, although there is not yet sufficient empirical evidence to show that developing countries will be able to reap large gains from this source (Lawrence 1991).

Although the trade changes just discussed were undoubtedly of considerable benefit to the economies concerned, the no-change anti-monde (counterfactual) calculations are far too simple to allow us to conclude immediately that regionalism was working.

The most popular of these more sophisticated approaches, the gravity model, explains trade between any two countries as a function of their Gross Domestic Products (GDPs) (richer economies both export and import more), their populations (larger economics depend proportionately less on trade than smaller ones), the distance between them (as a proxy for transport costs, cultural similarity, and business contacts), and physical factors such as sharing a land border or being landlocked or an island. To these factors, economists add variables to represent the additional trade that occurs if both countries are members of a given RIA and, sometimes, the ways in which RIA members' imports from and exports to the rest of the world differ from the trade patterns of countries with no effective regional ties (Konan and Keith 2000).

Gravity models are estimated on the basis of data from many countries. They assume that in the absence of an RIA, member trade bears the same relationship to GDP, population, distance, and so on as does the "arm's-length" trade of the sample countries. This clearly depends on the set of countries and years used to estimate the model. Estimates of trade creation and diversion can be derived for a single year. As with trade propensities, however, pairs of countries may trade heavily for extraneous reasons - cultural similarities, compatible commodity compositions, and the like - and so more convincing results are derived by looking not at snapshots but at changes over the period during which the RIAs are being formed.

One of the first gravity models for RIAs (Aitken 1973) examined the effect of the EEC and the European Free Trade Association (EFTA) on European trade. Starting in 1951 (to obtain a picture of pre-EEC forces at work), he estimated gravity models for a number of years and investigated how the coefficients on intra-EEC and intra-EFTA trade evolved. Both the EEC and EFTA substantially increased their intrabloc trade as they reduced internal barriers, starting in 1961 and 1964, respectively.

By 1967, Aitken estimated, intra-EEC trade was 80 percent higher than it would otherwise have been, and intra-EFTA trade was 50 percent higher. Eichengreen and Frankel (1997) found similar results for 1952-92: the effects on intrabloc trade were concentrated in the

early years of EFTA and the EEC, and whereas EFTA was predominantly trade creating, the EEC displayed both trade creation and diversion.

In the first gravity study of developing country RIAs, Aitken and Obutelewicz (1976) found that the 1959-71 association agreements between 18 African countries and the EEC significantly increased mutual trade, with the effect increasing progressively through the period of association.

Frankel and Ernesto (1997) examined intra and extrabloc trade for eight RIAs - the EC, EFTA, NAFTA, MERCOSUR, the Andean Pact, AFTA, the CER (the Closer Economic Relations agreement between Australia and New Zealand), and the East Asian Economic Caucus - for the period 1970-92. Their results for individual years show that increases in intrabloc trade are generally accompanied by significant drops in trade with the rest of the world (trade diversion).

Finally, to explore the "new wave" of regionalism, a recent Asian Development Bank study estimates trade effects for every year during the period 1980-96 (Thant and Tang 2001). It explicitly tests whether the changes in the effects are statistically significant and extends the gravity approach by looking for three separate effects on the trade of each RIA: the effects on intrabloc trade, on extrabloc imports, and, uniquely, on extrabloc exports. It considers nine major blocs,

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comparing members' performance both between blocs and with the performance of 17 countries that were not members of significant arrangements at the time.

The gravity model compares members' actual trade not with what it as before the RIA - frequently, an undemanding standard - but with what it would have been had members exhibited "average" behavior as defined by the other countries in the sample. A related indicator is a comparison between trade within the RIA and members' export performance in he third country markets, where they receive no preferences.

Wartin (1998) found that MERCOSUR members' exports to partners increased most strongly in products where extrabloc exports were weak and protection was relatively high. Since member exports compete with the same third-country suppliers inside the bloc as outside it, Yeats inferred that the greater success of some of the exports within the bloc was attributable to trade preferences. Thus, he concluded, MERCOSUR tariff barriers were diverting trade from cheaper goods made outside the bloc to more expensive internal ones. This is not the same as comparing the RIAs with their members' pre-RIA distorted positions, but it certainly suggests some forgone opportunities from nondiscriminatory trade.

These changes in perspective alter economists' views or the returns to regionalism and of how to quantify them and set the scene for a richer menu of integration effects than was found above. Most obviously, they allow us to explain intraindustry trade - the phenomenon in which a country imports and exports different varieties of the same good.

Intra-industry trade was hardly acknowledged in economic literature until the 1960s, when empirical studies of Western European RIAs (Balassa and Ardy (1974) showed that the bulk of trade expansion within Benelux and the newly established EEC was intra industry rather than interindustry or intersectoral. Intra industry trade has subsequently become the leading component of manufactured trade between developed countries, and some studies have suggested a positive link between RIAs and intraindustry trade. For developing countries, however, intraindustry trade seems rather less important, and there is no firm empirical evidence on the connection between it and regionalism.

Using CGE (Computable General Equilibrium) models, researchers simulated the effects of policy changes associated with RIAs. Because such models typically contain a great deal of micro economic detail, they can be used to predict changes in production in each sector, as well as changes in factor prices and real incomes.

CGE models have become increasingly sophisticated as researchers have refined the technique. First-generation models assume that all markets are perfectly competitive but that products still differ by country of origin, so that the costs and benefits of RIA membership arise only from trade diversion and trade creation. Second-generation models include increasing returns and imperfect competition and so incorporate the scale and competition effects. Third generation models contain some dynamics, allowing for capital accumulation and sometimes also technical progress.

The conclusions from these models are, broadly, that there are gains from regional integration but that these gains are small (Hanson 1996, Harrison 1994, Page 1996). In the first-generation models the interaction between trade diversion and trade creation has effects that are typically only a fraction of I percent of GDP. In second -generation models the effect generally increases to around 2-3 percent of GDP, and in third-generation models the gain is approximately 5 percent of GDP.

There is plenty of evidence that the number of firms operating in most developing countries is relatively small. Rodriguez and Rodrik (1999) reports that measures of concentration (measures of firms' market power) in manufacturing sectors in large developing countries are typically between 50 and 100 percent higher than in developed countries.

After the formation of the RIA there are four firms in one combined RIA market. This increases the intensity of competition and may induce merger (or bankruptcy) of some firms, perhaps leaving only the three most efficient firms. The net effect is increased competition, larger firm scale, and lower costs. "Triopoly" competition is likely to be more intense than the original duopolies, and the surviving firms, being larger and more efficient, can better exploit economies of scale Rodrik (2000).

The third source of gain arises if each firm produces a different variety of the product. In the example just given, consumers throughout the RIA now have a choice of three rather than two varieties.

The final source of gain is in the possible reductions in internal inefficiencies that firms are induced to make. If the RIA increases the intensity of competition, it may induce firms to eliminate internal inefficiencies (so- called X-inefficiency) and raise productivity levels (Horn, Harald, and Lundgren 1995). Since competition raises the probability of bankruptcy and hence of layoffs, it also generates stronger incentives for workers to improve productivity and increases labor turnover across firms within sectors (Dinar and Aaron 1997).

There is a good deal of evidence that nonpreferential trade liberalization achieve these gains. A number of studies have found

that openness to trade reduces price-cost margins, an indicator of competitive pressure in the industry (Panagariya 1997).

There is also evidence of an association between trade liberalization and increases in efficiency, and between trade liberalization and a reduction in the dispersion of efficiency levels, as low-efficiency firms adapt or are eliminated. Rajiv (2000) concludes that most of the efficiency gains from openness come from reductions in inefficiencies rather than from scale effects.

As for regional integration, we have much less direct evidence. The most extensively studied RIA is the EU. Here the static gains from completing the integration of the European market under the Single Market Program (SMP) were predicted to range up to about 5 percent of GDP, split about equally between the traditional effects and the scale and competition effects just considered (Chang and Alan 2002, Elena and Jose 1999).

These estimates were based on extrapolations of calculations from a handful of industries and assumed a significant increase in competitive pressure. Indeed, they were characterized as somewhat "heroic" (Bhabani 1997).

The ex-post evidence available to date is less flattering to the SMP, although, in fairness, it is very provisional. The EU's Single Market Review (CEC 1996) estimated its economic effects at only 1 to 1.25 percent of GDP in 1994. Moreover, there is good evidence that general external trade liberalization has been more important than regional integration in achieving competitive gains. Krugman (1991) show that the procompetitive effects of trade occur not through high levels of intra-EU trade but only where there is a high degree of import competition from firms outside the EU.

A number of studies have calculated the potential (rather than actual) gains that might be expected from the competition and scale effects. Kuglem (1996) construct a CGE model of the U.S. and Mexican automobile industries and simulate the possible effects of NAFTA. They predict large increases in output for Mexico, increases in the scale of individual firms, and reductions in price-cost margins. A study of MERCOSUR based on a similar methodology suggests GDP gains of 1.8, 1.1, and 2.3 percent for Argentina, Brazil, and Uruguay, respectively, the larger economies gaining less because they are already closer to reaping economies of scale (Lama and Rais 2001).

Quite different results are obtained by Hinojosa (1998), who uses a similar methodology to examine the effects on Senegal of the West African Economic and Monetary Union (WAEMU), an RIA of small, least-developed countries. WAEMU has a positive effect (0.57 percent,

measured as the deviation from the base run) on Senegal's welfare, but on the import side, elimination of tariffs on intra-RIA imports has a negative effect (20.18 percent) because of significant trade diversion. Improved regional market access raises Senegal's welfare by 0.15 percent, which does not offset the welfare loss of 0.18 percent from trade diversion. The small size of the welfare gain, 0.15 percent, is likely to be attributable to the small intrabloc trade flows. WAEMU's Common External Tariff (CET) is generally lower than Senegal's pre-WAEMU tariffs, resulting in an additional welfare gain of 0.49 percent. Thus, the main benefit from WAEMU for Senegal is the reduction in tariffs with respect to the rest of the world, not the removal of tariffs on intrabloc trade. And the gain from unilateral trade liberalization (1.26 percent) is more than twice the 0.57 percent gain from WAEMU, even though unilateral trade liberalization does not provide the benefit derived from improved market access.

Another aspect of the same argument is at countries may feel better able to liberalize their own trade if others are doing so at the same time. If improved access to another market depends on opening one's own, a new constituency for trade reform may be created among exporters. If countries simultaneously reduce tariffs on each other's exports, adverse terms-of-trade changes are less likely than if only one party liberalizes (Bagwell and Robert 1998).

Forming a group that provides scope for intrabloc industrial specialization reduces the cost of protection and can generate welfare gains that would not be open to members through unilateral tariff liberalization (Cooper 1965).

Ever since customs theory began, with Moukarbel (1997), economists have puzzled about who the perfect partners would be. For many years, this proved to be a sterile debate, with every proposal turning out to be, at best, a restricted and special case (Panagariya 1997). Recently, World Bank research has yielded new findings which, if they do not close the book on the controversy, at least shine a brighter light on the question.

Early research focused on whether potential RIA members were complementary in their production and consumption patterns and whether they were already major trading partners. The first criterion proved very difficult to pin down. In the early 1990s the second appeared to gain considerable currency, along with the notion that countries close enough to each other to reap savings on transport costs were natural partners (Motta and George 1996, Mukherjee 2000).

The argument on transport costs is more sophisticated but is ultimately of little more practical use. This situation could arise either

because the rest of the world levies tariffs or export taxes on its trade or because of transport costs (Wheeler and Mody 1992).

Amjadi and Alan (1999) show that although for MERCOSUR high transport cost on trade with the rest of the world offer scope for large terms of trade gains, very few goods seem likely to experience the required change in trade patterns.

The direct evidence on RIAs and growth is subject to some methodological reservation but is actually pretty consistent. There is little evidence that RIAs between developed countries stimulate growth, some recent evidence that North-South RIAs may affect growth and none that RIAs between developing countries do so.

A well-structured RIA might increase a member country's underlying growth rate, raising its development trajectory by increasing credibility or reducing tensions between countries. These, in turn, could raise capital and labor productivity, lead to additional flows of investment and knowledge, and push an economy several notches up on the development path.

The theoretical literature on openness and growth has not generated robust findings on the link between RIAs and growth. Although openness is typically positively associated with growth, especially where

trade or FDI is a medium for transferring knowledge, this is not necessarily true for regional integration. Recent empirical work, however, indicates that North-South RIAs are likely to generate productivity gains to the developing (Philip 1995).

Regional integration may be able to help, in terms of both policy integration and international politics. If, by joining an RIA and taking policy integration measures, a country improves its legal and regulatory framework, it may obtain a growth benefit.

Hoekman and Pierre (1994) offers convincing evidence that increasing mutual trade among affluent countries leads to upward convergence in per capita incomes. He shows that in Europe, the strong increases in trade associated with increased integration coincided with a dramatic narrowing of per capita incomes across countries. There was an almost continuous convergence in per capita incomes in Europe as integration proceeded, from 1947, when the Benelux customs union was created, through 1981. Stages along the way included the creation of the ECSC in 1951 and of the EEC in 1957, elimination of quotas in 1962, and removal of internal tariffs in 1968. Income differences narrowed by about two-thirds over the period, and the convergence was upward, with the poorer countries experiencing faster growth than previously.

Hoekman and Pierre (1994) finds being convergence among developed countries, with the poorer catching up with the richer; no convergence between middle-income countries or between them and other countries (including rich ones); and a malign convergence among poorer countries. He also finds that convergence is common between countries that are major trading partners (known as convergence clubs) but not among random groups of countries (Holmes and Alasdair 1997).

This reinforces the view that trade is the mechanism through which convergence occurs, although the underlying cause might be some other aspects of openness, such as FDI, that are strongly correlated with trade. Syed (1996) finds that the existence of convergence clubs is attributable more to convergence in rates of Total Factor Productivity (TFP) growth than in investment rates. Hoekman and Konan (1999) derived similar findings for the EC and EFTA.

Karras (1997) examines whether integration facilitates convergence in the per capita incomes of member countries by investigating convergence during the period 1960-90 in three RlAs: ASEAN (5 countries), the EU (15 countries), and LAFTA (7 countries). Three empirical tests all reveal strong convergence in the EU (the initially poorer countries grow more quickly), somewhat weaker convergence in LAFTA, and absence of convergence, or even divergence, in ASEAN.

Karras (1997) concludes that regional integration does not guarantee convergence in the standards of living of member countries but that convergence may be associated with the degree of economic integration (as manifested in reduction of protection, enhanced internal trade, and increased policy coordination), which is highest in the EU and weakest in ASEAN. Another possibility is that convergence is more likely in North-North RIAs (the EU) than in South - South ones (LAFTA and ASEAN).

A more formal stream of work on trade and productivity is that by Melo and Arvind (1995), and Campa and Soreson (1997), who seek to explain TFP levels in OECD countries and developing countries, respectively. The authors construct an index of total knowledge capital, measured by accumulated investment in research and development (R&D), for each developed country. They assume that trading partners obtain access to a country's stock of knowledge in proportion to their imports from that country - total imports, in the 1995 paper, and imports of machinery and transport equipment in the 1997 study.

Lecomte (2001) and Lucas (2000) argue that the new approach developed by Melo and Arvind (1995) has not been carried through to its logical conclusion because countries also obtain "indirect" knowledge spillovers through trade. That is, France obtains knowledge spillovers from trading with other OECD countries, which means that

it can draw on more knowledge than it alone produces. Therefore, any country (say, Belgium) that trades with France will obtain not just direct knowledge spillovers from the knowledge France produces but also indirect spillovers from the knowledge France acquires through its trade with other countries. The authors find that these indirect spillovers are larger than the direct ones and that both have a significant impact on TFP. They also perform various tests and obtain results that are statistically superior to those obtained by Coe and Helpman.

Work on Latin America (Murphy 1994) shows that the interaction between education and OECD knowledge spillovers has a positive effect on TFP in R&D - intensive industries. The implication is that there are virtuous growth cycles, with increases in education resulting in increases in the TFP of R&D - intensive industries, greater demand for skilled labor (which is typically complementary with technology), increased demand for education, and so on. Moreover, given that OECD R&D stocks grow continuously over time, the interaction effect between education and OECD knowledge spillovers implies that education has permanent effects on productivity growth in R&D-intensive industries. Since these industries benefit mainly from spillovers from the North, the interaction effects provide another argument for North-South rather than South-South RIAs in Latin America. The FTAA and the Chile-EU FTA, as well as prospective North-South RIAs such as the EU-MERCOSUR FTA, should help in this regard.

Johnson (1995) shows that the impact of technological knowledge on TFP diminishes as the distance between the knowledge - exporting and knowledge - importing countries increases. Although he does not specify the channel of knowledge diffusion, this effect appears likely to apply to trade. This would seem to suggest that in choosing a partner in the North, a developing country is better off, other things being equal, choosing a close rather than a distant one. According to this view, Mexico is better off selecting Canada and the United States as trading partners than Japan or the EU. This is supported by the findings of Murphy 1994 showing that the impact of foreign knowledge from the United States and Canada on TFP in Mexico is several times larger than that from the rest of the OECD.

Spillovers are affected by closeness in geography, language, and history (Johnson 1995), which may lower the cost of absorbing and adapting knowledge from European sources. For example, importers in Morocco may find it easier to learn how a machine operates if it is imported from France rather than from Japan because of the language bond and because Moroccans often have long-standing relationships with French traders.

Lecomte (2001) and Lucas (2000) show that in the case of NAFTA, trade   diversion in Mexico is dynamically beneficial because the diversion takes place from a source (the OECD countries outside

North America) with a small effect on TFP to one with a larger impact-the United States and Canada. The authors estimate elasticities of TFP with respect to foreign knowledge of 0.36 for the United States and Canada and 0.04 for the rest of the OECD. They then simulate the effect of NAFTA and find that it raises TFP in Mexico by 5.5 to 7.5 percent, 0.5 percent of which is attributable to trade diversion and the rest to trade creation.

Despite the well-known shortcomings of cross-country regression as a research technique - for example, its almost complete inability to establish causation-huge use has been made of it as a tool for exploring the determinants of economic growth. We review here some of the main studies on trade and growth based on cross-country regressions. Many of them have included openness in one form or another, and nearly all have identified a positive relationship between openness and growth. Several of the earlier works in this genre (Dhar 1999; Wignaraja 1998; Brada and Jose 1988) have received rather rough treatment recently at the hands of Rodriguez and Rodrik (2001).

The latter argue that these studies' measures of openness are so flawed that the relationship remains unproved, especially as it pertains to the trade dimension of openness as opposed to the macroeconomic (exchange rate) dimension. It is important to note that Rodriguez and Rodrik (2001) do not argue that openness hinders

growth-there is no general evidence for this proposition-but merely that the positive relationship is not yet fully established.

Rodriguez and Rodrik's views have been challenged by Bhagwati and Arvind (1996), who argue that since the case for openness was based on far more than cross-country regressions, losing that strand of evidence should not have a great effect on the overall conclusion.

Commenting on Rodriguez and Rodrik, Jones (2001) estimates some 100 specifications; he concludes that trade restrictions are harmful to long-run income and that the effects are potentially large, although there is a great deal of uncertainty regarding the magnitude of the effects. He also points out that cross-country growth regressions are a coarse toot for addressing this question.

In an influential study, Frankel and Ernesto (1997) go to great lengths to sort out the causation between trade and growth. They show that the part of trade attributable to purely exogenous factors such as population size, land area, and distance seems to generate improved growth rates that large countries close to large markets grow faster. From this, they tentatively infer that other aspects of trade-those attributable to policy-will also boost growth. The latter conclusion seems quite reasonable, since many of the trade barriers that countries impose appear to be analytically equivalent to transport costs, which Frankel and Romer have shown to be inimical to growth.

All the studies mentioned above refer to nondiscriminatory liberaliza-tion. The direct evidence that RIAs stimulate growth is weak. Harry (1988) and Hansen (1999) use a cross-sectional regression to suggest that European integration enhanced members' growth rates during the period 1976-85, possibly by as much as 0.6-0.8 percent per year, and that the influence operated through technology transfer rather than through investment. Other commentators have failed to replicate these results, and Baldwin and Richard (1996) state that no study has identified positive growth effects for non-European RIAs.

Simon (1999) shows that the EU's marginally significant positive impact disappears once one has taken the openness of individual member countries into account. Vamvakidis' results are probably more reliable than those of Henrekson, Torstensson, and Torstensson because of his longer time period and because the latter sought to capture general openness via a price distortion index based on Acemoglu and James (1998), which Rodriguez and Rodrik (2001) argue is flawed. Vamvakidis does find beneficial effects on a country's growth rate from having large, rich, open neighbors, but this is quite independent of participation in RIAs. Cross-country growth regressions by Milward (1993) and Moran (1998) similarly find no growth effects from RIAs over the 1960s to 1980s.

Trade liberalization affects the balance of the centripetal and centrifugal forces through at least three mechanisms (Greenwold

1998): (a) reductions in a country's import barriers improve the market access of firms located in its partner countries; (b) opening a country's markets to increased product market competition from foreign firms reduces the profitability of local firms; (c) lower import barriers mean cheaper imported intermediate goods and hence higher local profitability. The mix of these effects depends on the type and extent of liberalization-unilateral, multilateral, or regional-and on the relative strengths of the centrifugal and centripetal forces.

It used to be fashionable to argue that RIAs did not actually raise trade barriers and caused only very limited trade diversion. In the most studied case, that of the EEC and its associated arrangements, trade diversion in manufactures was generally held to be slight (Balassa and Ardy 1974; Krishna 1998; Lall 2000). More recent evidence, however, suggests that diversion can be significant even when regional integration is accompanied by external liberalization.

Blanchard and Lawrence (1997) find that the formation of the EEC reduced the annual growth of member trade with other developed countries by 1.7 percentage points, with the main attenuation occurring over 1959-61, just as preferences were starting to bite. Cumulating the decline in growth over 1957-73, and noting that total EEC imports from the rest of the world were $83.1 billion in 1973, puts lost ROW exports at $24 billion in that year.

The formation of EFTA had similar, if smaller, effects. Frankel (1999) find that by 1990 trade diversion had largely erased the EEC's tendency to trade unusually heavily with the rest of the world, while North (1997) finds that over 1960-72, "EFTA exports to the EC suffer[ed] from their nonpreferential status," as did other European nonmember countries' exports in later periods. Recent analysis, which focuses on 1980-96, finds evidence of trade diversion from the deepening of the EC and EFTA and possibly from the formation of NAFTA and MERCOSUR (Bhalla 1997).

With respect to investment, several studies showed that an RIAs induced investment (Baldwin 1992, 1996). These studies suggest that the rate of return on capital (and on investment) did rise in all integrating countries regardless of capital abundance. The formation of RIA affects investors' decisins about where and how to invest.

There is strong evidence that creating an RIA stimulates FDI (Bhagwati 1987, Motta 1996, WTO 1996). For example, between 1946 and 1970, the number of manufacturing subsidies of EC-member multinatioals located in other EC countries increased more than sixfold, from 68 to 434, while those located in non-EC countries increased only from 95 to 311 (Yannopoulos 1990). Similarly, North-South RIAs, the data show that FDI to Mexico rose from $4.3 billion in 1993 to $11 billion in 1994, the year NAFTA came in to force (Northstrom 1995).

Cooperation on demestic policies can substantially increase the gains from forming a trade bloc. Evidence suggests that an RIA can assist policy integration by providing an institutional framework and by making available sources of gain that may help overcome opposition to policy reforms (Messerlin 1998, WTO 1998, Hoekman and Konan 1999).

Countries sometimes form trade blocs for noneconomic reasons, such as national security, peace, and assistance in developing political and social institutions. Data show that the formation of an RIA helped countries in dealing with security tensions between neighbouring countries (Proctor and Shah 1999).

From the above discussion, we can derive a number of concrete and fairly robust rules of thump about RIAs. These are:

1   If a country wishes to participate in a RIA, it should use it as a procompetitive instrument.

2.   Not all parterns are equal. RIAs with high-income countries are more likely to generate significant economic gains than those with poorer ones.

3.   RIAs can enhence the credibility of economic and political reform programs, but generally only if they explicitly include provisions and mechanisms that directly affect the policies of investment.

4.   RIAs can solve political problems; but if they are economically wasteful or divisive, they could have opposite effects.

5. The existance of widespread intercountry spillovers calls for cooperation between developing countries in areas other than trade policy.

6. Governments should consider carefully the transactions and implementation costs associated with different types of RIAs. and

7. The fiscal dimensions of RIAs are important for countries where trade taxes generate a significant share of government revenue.

SECTION-II

LITERATURE REVIEW ON SAARC

Subhan (1999) argues that regional organizations as a mechanism of effective cooperation among nations have acquired significance all over the world. SAARC's relevance can be understood in the context of this worldwide phenomenon. However, South Asia despite being a compact region, SAARC has not so far been able to record any meaningful achievement. The political differences among the member countries seem to be a primary bottleneck in this regard.

Ramachandran (1991) believes that the success of SAARC would depend much upon the behavior of India and Pakistan towards it. Also equally important is that unless the countries of South Asia lay adequate focus on improving the human standards, their contribution to regional cooperation will be very poor. Hence, ultimately the objective of regional cooperation needs to raise the living, standards of the people and narrow down the economic disparities. India being the largest country in the region has a greater role to play in consolidating regional cooperation.

Corea (1989) has argued that systemic coherence, ideological compatibility, common foreign policy goals and common security perceptions provide internal cohesiveness among the countries of a region, which is necessary for the formation of regional organizations. It can be said that the performance of SAARC over the years has not been much impressive. In this regard one may state that lack of tolerance, mutual trust, submissiveness and hostility among the member countries have played a negative role in consolidating regional cooperation.

Panchamukhi and Kumar (1990) evaluates the South Asian Association for Regional Cooperation in terms of its challenges and opportunities. While there is no denying the fact that the SAARC has made an important headway towards regional cooperation, it is also a fact that there has been a gulf between declaration and implementation. The prevailing political and security climate in South

Asia, asymmetry and divergence among the constituent states, lack of balanced interdependence, different perceptions and approaches pose serious challenges for the SAARC. Much of the success of SAARC would depend on to what extent the countries of the South Asian region can attain mutual trust and goodwill towards each other and on that basis provide a sustained and systemic support to SAARC.

Adiseshiah (1989) has made an assessment of the role played by smaller states of the region vis-a-vis SAARC. His discussion is based on the argument that peace, stability and development is not a domain of big powers, instead the smaller states can also influence the international and regional order and play an important role in shaping it. He has categorically brought out the small states perception of asymmetric relations in the region and the imperative need of regional organization which would preserve and promote interests of the smaller states vis-a-vis big states in the region.

Nikhat (1992) has very aptly discussed the conflictual nature of relationship in the South Asian region and its consequences for the successful working of the SAARC. His argument has been that despite a conscious effort on the part of the founding fathers to keep SAARC out of the consideration of bilateral political disputes, it has not been able to record any impressive success. The proponents of SAARC stressed on the primacy of socio-economic agenda and carefully avoided political and security issues, so that any member of the organization does not alienates himself from it. But, there are hardly

any evidence to explain that SAARC has succeeded in building a regional identity of South Asia as ASEAN has succeeded in creating a regional environment in South-East Asia.

Stephen (1989) is of the opinion that regional cooperation in South Asia must be understood in the context of two situations prevailing in the region. Firstly, South Asia provides a case where both military and non-military variables threaten peace and security in the region. Secondly, historical variables still play a role in contemporary situations. These factors have given way to negative nationalism, which has hampered the process of regional cooperation.

Verma (1990) argued that regional cooperation in South Asia can not achieve its desired goal unless people of the region develop a sense of being secure. The success of SAARC in achieving cooperative security will depend how the concept of security is broadened from traditional conception of security of state to the security of people. Such consideration would bring political issues at the forum of SAARC. He believes that once SAARC attains a shared interdependence on socio-economic issues it will provide opportunities for extending the frontiers of cooperation to political and security related issues.

Khadka (1989) has made a comprehensive analysis of sub-regional cooperation in South Asia as an ideal and as a reality. He has viewed sub-regional cooperation as a localized version of regionalism. The SAARC's go-slow approach and encouragement from the ASEAN's

experiences of growth triangle/quadrangle approach, etc. have encouraged South Asian countries to follow sub-regional approach, particularly in the eastern Himalayan region.

Mehta and Bhattacharya (1999) examines growth quadrangle approach in SAARC. The author concludes that sub-regionalism can be an effective means of multi-lateral cooperation. But since governments are the main actors in this venture it has many political overtones.

Watermon (1988) discussed origin and growth of SAARC and initiatives taken by SAARC for regional cooperation. The author believes that mutual trust among the member countries is the primary condition for the success of SAARC.

Emanual (1991) reviews the various summit conferences of SAARC. He argued that there have been sufficient reasons for the growth of regional cooperation in South Asia and SAARC has faced numerous challenges to its survival. But the fact that SAARC has survived provides evidence that the organization has sufficient inbuilt strength and dynamism.

Dubey and Jetty (1999) argues that the fulcrum of peaceful co-existence and cohesion in South Asia revolves around the Indo-Pakistan relations. Hence, much of the success of SAARC depends on normalization of relationship between the two countries.

Pakistan's role in the SAARC is equally important. In fact, as stated earlier, the effectiveness of SAARC depends much on the cooperation it receives from India and Pakistan.

Kanesahingam and Kemal (1990) argue that Pakistan being a member of many regional organizations understands the importance of regional cooperation. Pakistan can not afford to ignore SAARC. But its attitude and role in SAARC is always characterized by suspicion, hostility and mistrust. Pakistan's policy towards SAARC is influenced by its problem of socio-cultural identity. Pakistan's presence in SAARC is not wholehearted and its substantive interest in SAARC is related to Indian presence.

Kelegama (1999) explains that the misperceptions between the India and Pakistan constitute the primary hurdle to regional cooperation in South Asia. He has rightly pointed out that it is difficult to remove the long shadow of distrust and discontent between the two countries overnight. But the two countries need to understand that they have vast scope for mutual gains through regional cooperation and the two countries have a common economic future.

Lama (1999) has traced Nepal's role in SAARC. Geography has put Nepal and India in such a situation where closer cooperation between the two countries becomes necessary. Hence, SAARC may not provide alternative to all its bilateral issues with India. Yet, Nepal's increased interaction at the regional level is possible through the SAARC. Nepal's attitude towards SAARC has been quite positive and it has

been an active member in the forum. Nepal appears to be much more interested in the sub-regional cooperation in the eastern Himalayan region.

Agwani (1987) dealing with Sri Lanka's attitude towards SAARC opines that Sri Lanka's attitude towards SAARC has been inconsistent. It has changed in accordance with the developments taking place in the region. Sri Lanka's behavior vis-a-vis SAARC has been determined by its geo-strategic location, internal disturbances and political leadership. More specifically, her attitude towards SAARC has largely been conditioned by her problems of security and stability, particularly in the context of its ethnic crisis.

Bimol (1991) tracing Bangladesh's role in SAARC points out that Bangladesh's active role in this forum is obvious considering that the proposal for regional cooperation in South Asia was mooted by Bangladesh itself. The Bangladesh proposal in a way reflected the small state psyche vis-a-vis big countries of the region. Bangladesh can gain in a tremendous way both through regional and sub-regional cooperation. However, Bangladesh has also joined other member countries a number of times, in raising bilateral issues at the SAARC forum.

Madan (1988) discusses Bhutan's role in SAARC. Bhutan's perception of SAARC has been one of positivism and active cooperation. However, Bhutan has looked towards SAARC as an organization providing a

platform to project its identity as a sovereign, equal and independent state and help her in consolidating her political status in the region. Mukherji (1987) has underlined the instruments and modalities of development of free trade in South Asia. The trade liberalization policies followed by South Asian countries have created the necessary conditions for their move towards SAPTA. There are tremendous opportunities for intra-regional trade. The author has suggested that the goal of attaining a free trade area needs to be planned in a manner that the time schedule for trade liberalization can be worked out in advance in terms of trade coverage.

Waqif (1992) has outlined that in most of the South Asian countries both the unemployment and poverty are on the increase. Therefore, there is need to promote a faster pace of employment generation and poverty alleviation. He notes that the private sectors in India or in other South Asian countries can not play an effective role in employment generation or poverty alleviation without getting adequate support from the governments. Hence, the government or the SAARC forum will continue to play a significant role in employment generation and poverty alleviation.

Sen (1995) has examined SAARC's move from SAPTA to SAFTA. She has emphasized that the non-cooperation in trade among the SAARC countries has caused higher prices of commodities resulting in loss of consumer welfare in the entire region. The SAARC countries are plagued by trade deficit, as their major trading partners are developed

countries. The volume of intra-regional trade is very low. She, however, cautions that the transition from SAPTA to SAFTA might not be a smooth process unless a congenial political environment is created in the region.

Mukherji (1993) makes out an assessment of economic and political benefits of SAARC vis-a-vis sub-regional groupings for Bangladesh and options for the country between SAFTA on the one hand and South Asian Quadrangle and BIMSTEC on the other. His assessment appears to be that SAPTA as an economic initiative is still infant. On the other hand, SACQ and BIMSTEC are expected to take less take-off time in making progress in the areas of cooperation selected by them, of course without hampering the spirit of SAARC.

Lavakare (1995) has made a detailed analysis of trade structures among the SAARC countries in terms of their intra-SAARC imports and exports. His analysis of intra-SAARC imports and exports structures suggests that the present low volume of trade may be increased if the member countries take steps to eliminate trade barriers such as tariff and non-tariff barriers, trade imbalances, inadequate infrastructures, customs, transit problems, weak information network, etc.

Krishanalekha (1989) has analyzed the interplay of population growth and poverty in South Asia. It discusses in detail the factors responsible for population growth and poverty in the SAARC. He argues that the excessive pressure of population on productive

resources has been a major source of continuing poverty. The SAARC has included poverty alleviation program in its agenda. But it appears that most of its activities so far have proved to be ritualistic only. However, it can be said that SAARC may provide guidelines and a framework on the basis of which poverty alleviation program can be launched in a more effective manner.

Morley (1990) has focussed on the share of SAARC region in total imports of India, Pakistan and Sri Lanka in case of certain select items. Her study shows that the SAARC countries have to incur tremendous costs due to low level of intra-regional trade. It has resulted in loss of revenue due to importing the same commodities from outside the region countries at higher price. If it is possible for these and the other countries of the region to purchase such goods locally from the SAARC countries, they will gain significantly. Therefore, there is a need to promote regional trade linkages. In her opinion as well, this will require removal of tariff and non-tariff barriers.

Poudyal (1988) traces the nature and pattern of trade relations among the ASEAN and SAARC countries. It can be said that the present heavily tilted import-export regimes of South Asian countries in favor of developed countries can be diverted towards the ASEAN countries. It would be in the interest of the South Asian countries to look towards South-East Asia for their product market and explore the possibilities of closer economic cooperation with ASEAN. Both the

regions can provide certain tariff concessions to each other in order to forge a closer economic cooperation between the two.

Dhirendra (1993) has discussed the existing nature and patterns of monetary and financial cooperation in the South Asian region. He believes that there is a strong need for further strengthening the level of monetary interaction among the countries of South Asia. It is also necessary from the point of view of greater integration with the global economy. SAARC also needs to adopt certain innovative approaches.

Yogendra (1990) makes out a detailed description of Indian joint ventures in Nepal, Sri Lanka and Bangladesh. She has also pointed out the major problems faced by the Indian joint ventures and has also made some suggestions, which can be followed in order to overcome these problems. The point that may be stressed here is that the region is endowed with abundant natural resources but these countries do not have the required expertise and technology. India can provide the necessary expertise and technology to these countries.

Prand (1988) also suggests that there is a need to increase intra-regional investment and from his perspective there are vast potentials for setting up joint ventures among the SAARC countries. The author believes that successful attempts to achieve regional economic -integration would require some degree of political stability and an understanding among the constituent countries particularly between India and Pakistan.

Bashir (1991) has pointed out that the distrust and discontent among the member states has loomed large in building a regional solidarity. The slow progress of SAARC due to political stereotypes has lead some of its member states to think in terms of sub-regional cooperation or joining other regional groups. The SAARC countries need to look afresh at their political and security issues. What SAARC may think of is to introduce political agenda in its deliberations. The author seems to have strongly believed that SAARC can not progress in the absence of any conflict resolution mechanism.

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CHAPTER-04

TRENDS AND DIRECTION OF TRADE AMONG SAARC COUNTRIES

TRENDS OF BANGLADESH'S TRADE

Bangladesh is the third largest country in the SAARC region. It is mostly covered by India in the north-east and west, Mayanmar in the south-east and Bay of Bengal in the south. The country has an area of one lakh forty four thousand square kilometers and has plenty of rivers and canals. The area of Bangladesh is only 3.2 percent of the total area of the SAARC region.

Bangladesh's Trade with SAARC Countries

Bangladesh's trade with SAARC countries was not substantial in the early nineties and the volume of trade was around 10 percent of the total trade, though upward trend in the total volume of trade exhibited in the late nineties. In 1993, the decade's highest annual growth rate of 72.89 percent (Table-1) was recorded in respect of exports to the region. As a result, exports to the region as a percentage of the total exports reached 11.44 percent (Table-2), which was the maximum, recorded

during the decade. Compounded (semi-log) growth rate of export experienced adverse trend (- 2.33%) and import was 54.46 percent during the decade.

The declining trend bounced back in 1994 and it continued till 1996. During this period the percentage of the total trade also declined considerably. In 1997, the annual growth rate was around 46.2 percent (Table-1) over the previous year and the percentage also slightly improved to 5 percent from 4.1 percent of the previous year.

If this trend continues, it will be beneficial for the development of the country. In 2000, the export to the region was around $79.3 million (Table-1) against $60.5 million of the previous year. The annual growth rate also increased to 31.1 percent from 18.9 percent of 1999.

Sign Test –01

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Bangladesh to SAARC countries during the period.

Result: Using Sign test, we get $P = 0.89$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Bangladesh to SAARC countries during the study period as the data (Table-1) does not provide any evidence against H_0.

The value of imports from SAARC region was actually increasing. This is evident from the fact that there was always an upward trend since 1992 in the imports from the region.

The imports from the SAARC region, which was only $87.4 million in 1994, grew substantially. It was around $162.1 million (Table –1) in 1998, which was nearly 85.5 percent more than the imports of 1994.

In 1999, there was a sharp increase in the imports from the countries of the region and it was more than 54 percent over the previous year. But in 2000 though the imports increased to $251.8 million, the rate of growth was only a meager one-percent. Overall, both export and import didn't show any secular trend but rather volatile in nature.

Sign Test –02

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Bangladesh from SAARC countries during the period.

Result: Using Sign test, we get $P = 0.04$. Since $P < 0.05$ at 5% level of significance, then null hypothesis H_0 is rejected and conclude statistically that there is significant increase in the imports of Bangladesh from SAARC countries during the study period as the data (Table-1) provides any evidence against H_0.

Bangladesh's Trade with SAARC Countries
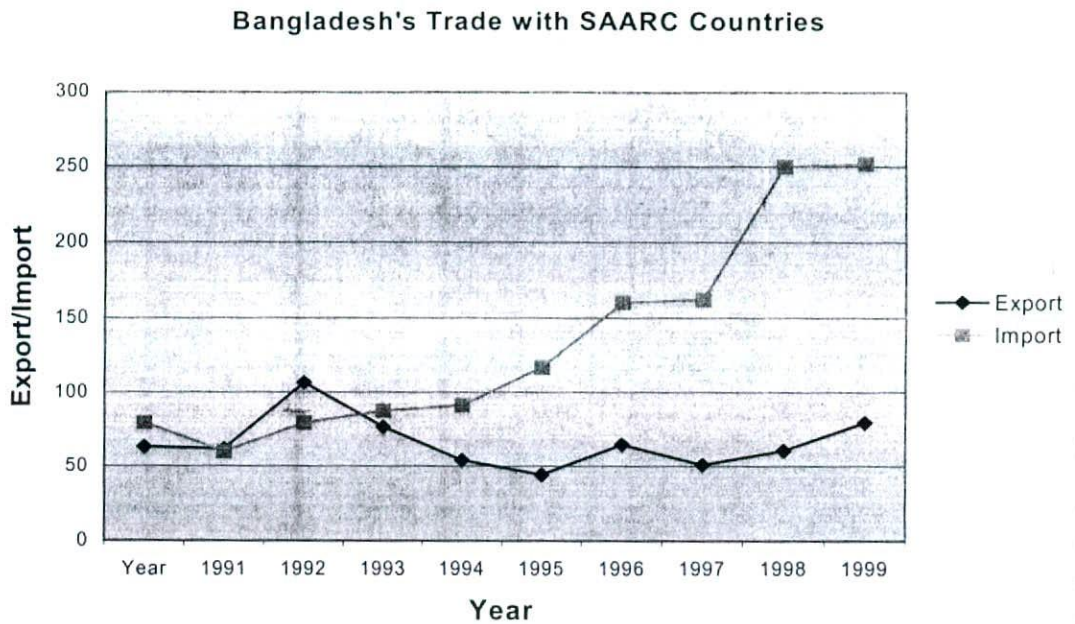
During the study period the imports from the region increased sharply but the percentage increased only marginally, as it was set off by the increase in the total exports. In 1999, the import from the region was only marginal the percentage of imports increased to 7.45 percent from 6.84 percent of the previous year (Table-2). This was due to the decline in the total imports by 7.5 percent.

The increasing trend of imports from the region observed during the period indicates that if the present trend continues and the trade diversification in respect of exports are initiated, the country could increase the trade with the region, in practice conceptualizing the concept of regional co-operation. Bangladesh's balance of trade with SAARC countries was unfavorable to the country during the period under investigation (Table-1).

Trends of Bangladesh's Trade with India

There has been substantial trade with India, and it is the second largest export market for Bangladesh among the countries of the SAARC region. In 1993, the exports to India increased more than three times than the figure of the previous year. The increasing trend continued in 1994 also with an annual growth rate of 4.56 percent touching the export figure of $29.6 million (Table-3), which is the highest recorded during the decade.

But during the period the picture was different. In 1995, the exports came down by 73.99 percent, the highest negative growth rate recorded during the decade. Though the export growth rate turned to a positive 42.86 percent (Table-3) in 1996, it again bounced back to 20.91 percent negative in 1997. But in 1998 onwards the exports to that country was increasing. In 1999, the exports increased by more than 102 percent over the previous year. The exports to that country increased to $22.8 million in 2000 from $21.7 million of the previous year with an annual growth of 5.07 percent. Semi-log growth rate of both export and import was negative; 11.68 percent for export and – 15.9 percent for import.

Sign Test –03

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the export of Bangladesh to India during the period.

Result: Using Sign test, we get $P = 0.98$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Bangladesh to India during the study period as the data (Table-3) does not provide any evidence against H_0.

India has been the largest source of Bangladesh's import among SAARC countries. It was nearly \$43.3 million in 1991, but in 1992 the imports from India recorded a negative annual growth of 12.47 percent (Table-3). In 1994, the import from India stood at \$64.9 million, which was nearly 15 percent more than the figure of the previous year.

In 1995, the import growth rate from India was negative and it was around 12 percent. Since then the share of Bangladesh's imports from India exhibited a continuous upward trend. The imports increased to \$90 million in 1997 and further to \$120.7 million (Table –3) in 1998. In 2000, the imports touched the figure of \$189.5 million, which was nearly 11.3 percent more than the figure of 1999. This indicates that there has been substantial increase in the imports from India. However, trade with India didn't depict any secular trend, instead fluctuation was very erratic in nature.

Sign Test –04

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Bangladesh from India during the period.

Result: Using Sign test, we get $P = 0.02$. Since $P < 0.05$ at 5% level of significance, then null hypothesis H_0 is rejected and conclude statistically that there is significant increase in the imports of Bangladesh from India during the study period as the data (Table-3) provides evidence against H_0.

Trends of Bangladesh's Trade with Pakistan

Pakistan is one of the major trading partners of Bangladesh among the SAARC countries and it is the largest export market among the countries of the region. In 1992, the exports to that country increased with an annual growth rate of 22 percent.

But the period witnessed a declining trend in the exports to Pakistan. The exports to that country which was around $41.5 million (Table –4) in 1994 came down to $27.9 million in 1996 and $23.2 million in 1999. During the same period, the exports to Pakistan as a percentage of exports to SAARC countries also depicted a mixed trend. The export to Pakistan was nearly 54.2 percent of the export to the region and it declined to 29.94 percent in 1998 and further to 0.85 percent negative in 1999 (Table –4). But in 2000, as a result of sharp increase of nearly 68.5 percent (Table –4) in the exports to Pakistan over the previous year, the exports to that country amounted to $39.1 million and it was nearly one-half of the exports to the region. One striking observation is that Bangladesh performed well with respect to export volume; 0.74 percent growth rate while import declined by a level of 8.38 percent during the period.

Sign Test –05

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Bangladesh to Pakistan during the period.

Result: Using Sign test, we get $P = 1$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Bangladesh to SAARC countries during the study period as the data (Table-4) does not provide any evidence against H_0.

The import from Pakistan was around \$18.6 million in 1993. It further declined to \$17.7 million (Table –4) in 1994. Until 1997 imports from that country was increasing. In 1997, the imports touched the figure of \$62.5 million from \$17.7 million of 1994. As a result, the imports from that country increased nearly two and half times and the total imports doubled and the percentage increased from 20.3 to 39 during the same period.

The highest import from Pakistan was recorded in 1999 and it was \$70.1 million with an annual growth rate of 169.62 percent over the previous year. This was the highest recorded since 1991 although it was only 1.9 percent of the total imports. Trade balance witnessed an adverse trend after 1996. This may be due to change in state power and politics with whom no friendly relation is existed since independence.

Sign Test −06

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Bangladesh from Pakistan during the period.

Result: Using Sign test, we get $P = 0.34$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Bangladesh from Pakistan during the study period as the data (Table-4) does not provide any evidence against H_0.

Trends of Bangladesh's Trade with Nepal

Bangladesh's trade with Nepal, compared to other countries of the region like India and Pakistan, is less significant in terms of volume. The exports amounted to $3 million (Table −6) in 1993 and went on to increase in succeeding two years. The highest export amounted to $13 millions in 1995 decreased continuously in the succeeding years.

The import from Nepal was insignificant. The imports from that country amounted to $1 million in 1995. Import recorded a rising trend from 1995 to 1999. In 1999, imports from Nepal amounted to $18 million, which was 1.34 percent of the total imports from the SAARC countries. There was, however, a sharp fall of imports in 2000, to only $2 million (Table-6).

The Balance of trade with Nepal, which was unfavorable to Bangladesh, turned adverse thereafter as the exports systematically declined. In

1999, the adverse position stood around $17 million (Table –6). This is well reflected in compound growth rates of both exports and imports.

Trends of Bangladesh's Trade with Sri Lanka

Bangladesh's trade relation with Sri Lanka was insignificant and it made remarkable improvement in the study period especially in relation to exports. In 1994, the exports declined nearly one-third of the figure of 1993 and the mixed trend continued almost throughout the decade. The highest exports to that country recorded in 1997 and it amounted to $17.9 million (Table –5). In 1999, the exports to Sri Lanka declined to $8.2 million and it further came down to $5.9 million (Table-5) with an annual negative growth rate of 28.05 percent against the positive growth rate of 26 percent of the previous year. Unfavorable balance of trade was observed throughout the decade which is clearly demonstrated in the big difference between the growth rates of exports and imports.

Sign Test –07

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Bangladesh to Sri Lanka during the period.

Result: Using Sign test, we get $P = 0.34$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Bangladesh to Sri Lanka during the study period as the data (Table-5) does not provide any evidence against H_0.

In 1992, the imports increased to \$4.7 million and further to \$4.8 million in 1994 (Table –5) and it indicates that the imports were almost stagnant.

But in the late nineties, the imports from Sri Lanka was on an increasing trend. The imports, which were only \$5 million in 1996, increased to \$14.4 million (Table –5) in 1998 and it was almost a two-fold increase. In 2000, the imports declined to \$4.8 million from \$8 million of the previous year. The negative growth rate was around 40 percent in 2000 against 44.44 percent of 1999.

Sign Test –08

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Bangladesh from Sri Lanka during the period.

Result: Using Sign test, we get $P = 0.16$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the imports of Bangladesh from Sri Lanka during the study period as the data (Table-5) does not provide any evidence against H_0.

TRENDS OF INDIA'S TRADE

India is the largest country in the SAARC region having an area of thirty-two lakh eighty-eight thousand square kilometers and is share in the region is around 73.4 percent. The country lies south of the Himalayas and extends to the Indian Ocean. It is bordered by four SAARC countries namely Pakistan, Nepal, Bhutan and Bangladesh besides China and Burma. Thus India stands as a center of the SAARC region both location-wise and area-wise.

Trends of India's Trade with SAARC Countries

India's trade with SAARC countries was substantial during the last decade. In the period 1991-2000, India's exports to SAARC were showing an upward trend. The exports to the region was $277 million in 1995 increased by 10.47 percent in the following year and the annual rate of growth in 1997 was nearly 19 percent (Table-7). In 1998, the growth in exports declined to 4.12 percent. This was because of the decline of exports to Nepal due to the strained trade relationship.

In 2000, the exports amounted to $949 million and the rate of growth recorded was 94.87 percent against 28.5 percent of the previous year (Table-7). In the period 1995-2000, the trend was upwards and the exports to the region more than doubled during the period. Export growth rate increased by 17% while import declined by about 0.25 percent.

Sign Test –01

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the India's exports to SAARC countries during the period.

Result: Using Sign test, we get $P = 0.11$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of India to SAARC countries during the period as the data (Table-7) does not provide any evidence against H_0.

The imports from SAARC countries were not significant for India and it amounted to $120 million in 1991. The upward trend shown in the beginning of nineties again bounced back in 1993, the import increased by 18.04 percent over the previous year (Table-7). The imports from the region amounted to $112.02 million in 1993 and the annual growth rate came down to 6.62 percent in that year. The imports of India from SAARC countries exhibited a mixed trend.

In 1995, the imports from the region declined more than one third over the previous year and the imports amounted $73.02 million in that year (Table-7). Though the imports increased in the subsequent two years, it declined by 41.3 percent over the previous year in 1998. This was because of the sharp decline in the import from Nepal due to the strained trade relationship.

The increasing trend bounced back in 1999 and the annual growth rate in that year was 79.6 percent and further increased by 20.59 percent in

2000. The imports in 2000 amounted to $117 million, which was 20.59 percent more than the imports of 1999. This analysis of the import data exhibits that the imports of India in the SAARC region showed a mixed trend.

Sign Test –02

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of India to SAARC countries during the period.

Result: Using Sign test, we get $P = 0.98$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the imports of India to SAARC countries during the period as the data (Table-7) does not provide any evidence against H_0.

In 1994, the share of exports to SAARC countries stood at 3.27 percent to the total exports and a declining trend was observed during the second half of the last decade (Table-8). Though the share of exports to SAARC was only 2.7 percent in 1999, it increased to 4.63 percent in 2000, which was the highest, recorded since 1991 (Table-8).

The current position of exports to SAARC countries is less significant. Hence, it is vital for the economic development of India to promote exports to SAARC countries and it is expected to reap the benefit of SAPTA by India, being the largest country in the SAARC region.

India's Trade with SAARC Countries
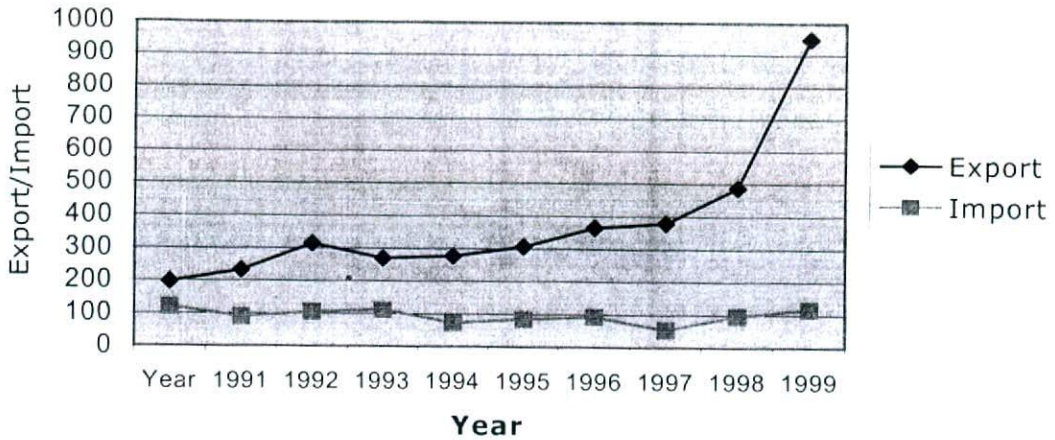
The imports from SAARC as a percentage of total imports declined to 0.69 percent in 1994 (Table-8). As a result of higher growth rate recorded in the total imports than the imports from SAARC, the imports from the region as a proportion of the total imports declined further to 0.54 percent in 2000. This reveals that the imports from SAARC both in terms of value as well as the proportion to total exports declined from 1991 to 2000.

India has favorable balance of trade with SAARC countries. The upward trend of exports and the marginally declining trend in imports pushed the favorable balance of trade upward in the subsequent years. The favorable balance of trade was $157.98 million in 1994 increased to $271.98 million in 1997 (Table-7). But in 1998 the favorable balance of trade increased by 19.5 percent over the previous year, though the exports increased only by 4 percent (Table-7). This was attributed to the sharp decline in the imports from SAARC countries. The trend of balance of trade with SAARC countries as exhibited by Table-7

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indicates that the favorable positions increased by almost four times during the period of 1994-2000.

Trends of India's Trade with Bangladesh

India had substantial trade relations with Bangladesh during the last decade. The exports to that country showed a declining trend in the early nineties. The adverse growth rate recorded in respect of exports to Bangladesh was 12.82 percent in 1992 (Table-9). In 1993, the exports increased almost one and half times over the previous year and since then it exhibited an upward trend. In 1994, the exports to that country amounted to $104 million and the share in the exports to the region also began to rise.

The export to Bangladesh was having an increasing trend in the later half of the last decade. The exports amounted to $113 million in 1995 and increased at an annual growth rate of 28.3 percent in 1996 (Table-9). Though the exports had only a growth rate of 17.24 percent in 1997, it sharply increased in 1998 and as a result the annual rate of growth increased to 50 percent in that year (Table-9).

The increasing trend continued in 1999 at a growth rate of 16.5 percent and the exports in that year amounted to $297 million and it was the highest recorded during the last decade. But in 2000, the increasing trend reversed back and the exports declined by 46.5 percent over the previous year. Though the exports amounted only $159 million in

2000, it was 52.9 percent more than the exports of 1994 (Table-9) and the overall analysis of the exports to that country exhibits an increasing trend during the period 1991-2000. Overall, India's export to Bangladesh increased by about 15 percent and import was only 2 percent during the period under investigation.

Sign Test –03

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of India to Bangladesh during the period.

Result: Using Sign test, we get $P = 0.02$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is rejected and conclude statistically that there is significant increase in the exports to Bangladesh during the period as the data (Table-9) provides evidence against H_0.

In 1993, the imports from that country doubled over the previous year and the imports stood at $27 million. The figure of 1994 exhibits an increasing trend of 7.14 percent over the previous year. The trend of imports from Bangladesh exhibited a different trend. The import came down to $8 million in 1995, which was nearly 72.5 percent less than the previous year (Table-9). Though the increasing trend bounced back in the following two years, it again declined by 6.67 percent in 1998. In the early nineties the imports from that country increased. In 2000, it amounted to $26 million against the figure of $15 million of 1999 and the annual rate of growth in 2000 was 73.3 percent against 7 percent of the previous year (Table-9).

Sign Test –04

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of India from Bangladesh during the period.

Result: Using Sign test, we get $P = 0.98$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the imports from Bangladesh during the period as the data (Table-9) does provide any evidence against H_0.

Trends of India's Trade with Nepal

The exports to that country was \$82 million in 1995 and remained at the same figure in 1997, though there was a decline of nearly 11 percent in 1996 (Table-10). But in 1998, the exports to Nepal sharply declined by nearly 61 percent over the previous year. It was due to the worsened trade relations with that country. But the exports picked up by 25 percent in 1999 and 12.5 percent in 2000. This was because of the improved trade relations with that country.

Sign Test –05

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of India to Nepal during the period.

Result: Using Sign test, we get $P = 1$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports to Nepal as the data (Table –10) does not provide any evidence against H_0.

In 1993, the imports almost doubled and the increasing trend continued in 1994 also. The imports declined by 20 percent over the previous year in 1995 (Table-10), though a marginal increase was recorded in the following two years. The imports from Nepal came down to $3 million in 1998 from $44 million of 1997 and it was due to the adverse trade relation existed between these countries in 1998 (Table –10).

But due to improved trade relations in 1999, the imports from that country made almost a fourfold increase and further by 20 percent in 2000. Though the imports declined from $40 million in 1995 to $18 million in 2000, the trend is encouraging. The decreasing trend has well been reflected in the semi-log growth rate figure.

Sign Test –6

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of India from Nepal during the period.

Result: Using Sign test, we get $P = 0.66$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the imports of India from Nepal during the period as the data (Table-10) does not provide any evidence against H_0.

Trends of India's Trade with Pakistan

The exports to Pakistan increased by 8.33 percent in 1995, it came down by nearly 8 percent in 1996 (Table –11). But in the succeeding three years there was significant increase in the exports to that country and the exports almost increased by more than three times. The highest export was recorded in 1999 and it amounted to $43 million in that year. But in 2000, the exports to that country recorded a negative annual growth rate of nearly 12 percent as the exports came down to $38 million. Compound growth rate of India's external trade with Pakistan was exhibited an expected value i.e. export increased by 25 percent while import scaled-down by about one-fifth level.

Sign Test –07

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of India to Pakistan during the period.

Result: Using Sign test, we get $P = 0.02$. Since $P < 0.05$ at 5% level of significance, then null hypothesis H_0 is rejected and conclude statistically that there is significant increase in the exports to Pakistan in the period as the data (Table –11) provides evidence against H_0.

India's import from Pakistan was not only significant but also substantial among the SAARC countries during the last decade. During the period 1991-2000 under study, only in 1994 there was an upward trend in the imports from Pakistan and it increased by nearly 40 percent over the previous year (Table-11). But in 1995, the negative

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annual growth rate bounced back to 46.43 percent and the lowest amount of imports was recorded in that year. Since then the imports from that country had a continuous increasing trend. The imports from Pakistan increased to $51 million in 2000 from $45 million of the previous year (Table-11) and thereby recording an annual growth rate of more than 13 percent.

Sign Test –08

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of India from Pakistan during the period.

Result: Using Sign test, we get $P = 0.89$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the imports of India from Pakistan during the period as the data (Table -11) does not provide any evidence against H_0.

Trends of India's Trade with Sri Lanka

The imports of India to Sri Lanka showed a mixed trend. The exports to Sri Lanka declined marginally by 5.6 percent in 1995 over the previous year (Table-12). But in 1996 the export increased by 10.45 percent and further by 21.6 percent in 1997. In 1998, the exports to that country amounted to $61 million, which was the lowest recorded and it was 32.2 percent less than the exports of the previous year (Table-12). In 1999, the exports increased by 67.2 percent over the previous year. In 2000, it increased to $122 million against $102 million of the previous year and the annual growth rate was 19.6 percent of that year.

Sign Test −09

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of India to Sri Lanka during the period.

Result: Using Sign test, we get $P = 0.66$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of India from Sri Lanka during the period as the data (Table-12) does not provide any evidence against H_0.

India's imports from Sri Lanka amounted to $23 million in 1991 and marginally increased by 34.78 percent in 1992. The declining trend bounced back in the following two years and it was 54.8 percent in 1993 and 64.3 percent in 1994 (Table-12).

The imports from Sri Lanka showed an increasing trend in 1996 where it decreased by 40 percent over the previous year. The imports from that country stood at $11 million in 1998 and it doubled in 1999 (Table-12). The imports from Sri Lanka remained stagnant in 2000 and as it did not decline it was favorable sign of the regional co-operation.

Sign Test −10

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of India from Sri Lanka during the period.

Result: Using Sign test, we get $P = 0.89$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the imports of India from Sri Lanka during the period as the data (Table-12) does not provide any evidence against H_0. Insignificant increase in the import of India from Sri-Lanka is also well documented when compound growth rate figures have taken into account.

TRENDS OF PAKISTAN'S TRADE

Pakistan is bounded by India in the east, Afghanistan in the west and north, and Arabian sea in the south. It is lying in the extreme western side of the South Asian Region. It is the second largest country in the SAARC region having an area of 796 thousand square kilometers and share in the SAARC region is 17.76 percent.

Pakistan's Trade with SAARC Countries

Among SAARC countries, Pakistan was having substantial trade with Bangladesh and Sri Lanka and significant trade only with India, while the trade with Maldives, Nepal and Bhutan was negligible. In the early nineties, India was the major market for Pakistan among SAARC countries. From 1991 to 2000, the total export of Pakistan has increased from $142.10 million in 1991 to $217.70 million (Table-13) in 2000 indicating an increase. Insignificant increase in Pakistan's export to SAARC countries is also evident from compound growth rate.

Sign Test –01

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Pakistan to SAARC countries during the period.

Result: Using Sign test, we get $P = 0.11$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Pakistan to SAARC countries during the study period as the data (Table-13) does not provide any evidence against H_0.

Pakistan's import from SAARC countries was almost stagnant during the last decade. The figure, which was \$106.50 million in 1991, increased to \$120 million in 2000 (Table-13) with the meager average annual rate of change.

Besides Sri Lanka, Pakistan was having substantial imports from India and Bangladesh. The trade both imports and exports with Bhutan, Maldives and Nepal was not substantial in the past as their combined share among SAARC countries was less than one percent.

Sign Test –02

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Pakistan to SAARC countries during the period.

Pakistan's Trade with SAARC Countries

Result: Using Sign test, we get $P = 0.66$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the imports of Pakistan to SAARC countries during the study period as the data (Table-13) does not provide any evidence against H_0.

The share of Pakistan's exports to SAARC countries as a proportion to the total exports were only 5.92 percent in 1991 and this share came down to 5.29 percent in 1994 (Table-14). In 1999, the share of exports to SAARC declined to 3.98 percent and further declined to 3.35 percent in 2000 (Table-14). A meaningful co-operation in respect of trade of Pakistan with SAARC countries is yet to take its momentum.

The position of imports from SAARC countries was still worse. The share of imports from the region was only 1.95 percent of the total imports in 1991 and further declined to 1.59 percent in 1994 (Table-14). Thus, it was evident that the imports from the region were on a

declining trend during the period. The share almost remained 1.64 percent in 1999 but further declined to 1.42 percent (Table-14) in 2000.

The above facts reveal that Pakistan's trade with the SAARC countries are not only less substantial but also insignificant compared to the total trade. The exports to and imports from the SAARC region was declining even after many discussions and summits made in the name of regional cooperation and also in the area of economical development.

Trends of Pakistan's Trade with India

Pakistan had the significant trade relation with India among the SAARC countries and it is the third largest market in the region behind Bangladesh and Sri Lanka. In 1991 the export to that country amounted to $50.5 million and came down to $28.5 million in 1992 (Table-15). In 1992, the negative annual growth rate was nearly 43.56 percent against the previous year. The declining trend continued in 1993 and the exports amounted to $25.3 million.

Though the exports exhibited a mixed trend, it had increased from $20.8 million in 1995 to $49 million in 1999 (Table-15). The upward trend bounced back to a declining trend as the exports in 2000 came down by $47.10 million with a marginal negative growth rate of 3.9 percent. This fact is also supported by semi-log growth rate figures.

Sign Test −03

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Pakistan to India during the period.

Result: Using Sign test, we get $P = 0.62$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Pakistan to India during the study period as the data (Table-15) does not provide any evidence against H_0.

Unlike exports, the import from India was not substantial in the study period. In 1994, the imports from India increased to $22.05 million (Table-15), which was almost four times more than the figure of 1991. Though the imports to that country exhibited a mixed trend on an average it was increasing. The imports, which stood at $12.8 million in 1995, increased to $45.7 million in 1999 (Table-15) and it was around two and half times more than the figure of 1995. But in 2000, the imports declined by 3.06 percent and it amounted to $44.3 million.

Sign Test −04

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Pakistan to India during the period.

Result: Using Sign test, we get $P = 0.02$. Since $P < 0.05$ at 5% level of significance, then null hypothesis H_0 is rejected and conclude statistically that there is significant increase in the imports of Pakistan

to India during the study period as the data (Table-15) provides evidence against H_0.

The balance of trade with India was highly favorable to Pakistan in the early nineties and the favorable position declined substantially in the subsequent years due to increase in the imports. The favorable balance of trade, which stood at $46.5 million in 1991, came down to $21.5 million in 1992 and further to $8 million in 1995 (Table-15). There had been substantial improvement in the balance of trade in 1997 and it was favorable to Pakistan to the extent of $21.5 million.

Because of the significant fall in the exports in 1998, the balance of trade with India became unfavorable to Pakistan first time since 1991. The decline of exports was more than the imports, which caused the favorable position to fall to $2.8 million in 2000 from $ 3.3 million of the previous year.

Trends of Pakistan's Trade with Bangladesh

Bangladesh is another major trading partner of Pakistan, having substantial proportion of the trade with the SAARC region. In 1991 the exports recorded was $75.20 million. But the exports declined in the following two years and the declining rate was around 45 percent and 7 percent (Table-16) respectively. As a result of the sharp increase in the exports by 69 percent, the exports to that country increased to $64.6 million in 1994.

It began with a declining rate in exports by 37.8 percent in 1995. But in 1996, the exports doubled and in 1999, it recorded an annual growth rate of 56.47 percent (Table-16) over the previous year. This neutralized the negative growth rates of 37.8 percent of 1995 and 35.3 percent of 1998 (Table-16). But the negative growth rate again bounced back and the exports declined to $100.6 million in 2000, which was 2.14 percent less than the exports of 1999.

Sign Test –05

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Pakistan to Bangladesh during the period.
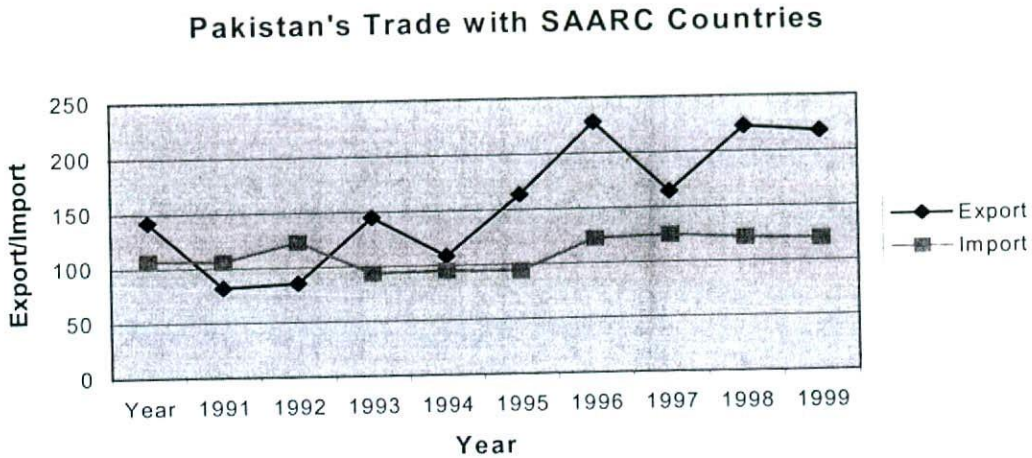
Result: Using Sign test, we get $P = 0.11$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Pakistan to Bangladesh during the study period as the data (Table-16) does not provide any evidence against H_0.

Unlike exports, the imports from Bangladesh, which stood at $62.2 million in 1991, increased to $64.3 million in 1992 and further to $45.5 million in 1994 (Table-16). The imports to that country declined to $43.9 million in 1995 and further declined to $38.2 million in 1999. In 2000, the exports marginally declined by 3.4 percent over the previous year to the figure of $36.9 million.

Sign Test −06

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Pakistan to Bangladesh during the period.

Result: Using Sign test, we get $P = 1.00$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the imports of Pakistan to Bangladesh during the study period as the data (Table-16) does not provide any evidence against H_0.

The balance of trade with Bangladesh was unfavorable to Pakistan. It was around $13.0 million in 1991. But as a result of exports declining drastically and imports increasing marginally the adverse balance of trade bounced back in 1992 and in 1993 (Table-16). But as a result of a high annual growth recorded in 1994, the balance of trade became favorable to Pakistan and continued through the period except in 1995 where it had an adverse position of $3.7 million.

The favorable position, which was $41 million in 1996, increased to $61.9 million in 1997 and further to $64.6 million in 1999 though it decreased to $21.1 million in 1998. As a result of marginal decrease in exports, the favorable balance of trade decreased to $63.7 million in 2000.

Trends of Pakistan's Trade with Sri Lanka

Pakistan's exports to Sri Lanka were $16.2 million in 1991 rose to $68.9 million in 1999, having an average annual growth rate of 7.75

percent (Table-17) throughout the period. Though the annual growth rate for 2000 was negative by 1.6 percent, the exports had risen from $16.2 million in 1991 to $67.8 million in 2000.

Sign Test –07

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Pakistan to Sri Lanka during the period.

Result: Using Sign test, we get $P = 0.02$. Since $P < 0.05$ at 5% level of significance, then null hypothesis H_0 is rejected and conclude statistically that there is a significant increase in the exports of Pakistan to Sri Lanka during the study period as the data (Table-17) provides evidence against H_0. Semi-log growth rate also supports the fact.

The imports from Sri Lanka were having a mixed trend during the last decade. Pakistan had the import figure of $39.3 million in 1991 came down to $34.4 million (Table-17) in 2000 indicating a negative growth rate of 7.03 percent.

Sign Test –08

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Pakistan from Sri Lanka countries during the period.

Result: Using Sign test, we get $P = 0.34$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude

statistically that there is no significant increase in the imports of Pakistan from Sri Lanka during the study period as the data (Table-17) does not provide any evidence against H_0.

The country had an unfavorable balance of trade with Sri Lanka in the early nineties. The adverse position was $23.1 million in 1991 and $21.7 million (Table-17) in 1992. But with the doubling of export figure in 1994 and with the marginal decrease of 15 percent in imports the balance of trade position turned to the country's favor. Since then, the favorable situations continued and in 2000 the excess of exports over imports touched the figure of $33.4 million which was the highest since 1991.

TRENDS OF SRI LANKA'S TRADE

Sri Lanka, a member country of SAARC is an island in the Indian Ocean. Its' neighbors are India on the northwest, Maldives on the west and the Andaman and Nicobar islands to its east. As it is an island, all the other sides are covered by sea. The country has an area of 66 thousands square kilometers and is nearly 1.5 percent of the total area of the SAARC region.

Sri Lanka's Trade with SAARC Countries

Sri Lanka's trade with SAARC countries was not significant. In 1991, the total export was $80.80 million. Since then, the trend was negative and the exports came down to $53.3 million in 1994, which was the lowest recorded during the last decade. The negative growth rate

recorded was nearly 17.62 percent in 1994 against 3.14 percent of the previous year.

In 1995, the exports increased marginally by 9.57 percent. The exports declined by 7.2 percent in 1996. But a sharp increase of 70.11 percent was recorded in 1997 touching a figure of $92.2 million and it was the highest since 1991. Since 1998, the trend bounced back to negative and in 2000, the exports to SAARC countries came down to $57.1 million against $70 million of the pervious year recorded a negative annual growth rate of 18.4 percent.

Sign Test –01

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Sri Lanka to SAARC countries during the period.

Result: Using Sign test, we get $P = 0.32$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Sri Lanka to SAARC countries during the study period as the data (Table-18) does not provide any evidence against H_0.

Like exports, the import from SAARC countries was not significant in terms of US Dollars. The total imports from SAARC region stood at $92.40 million in 1991. In 1992, there was nearly 42.1 percent increase in the exports from the region. Since then a negative trend was observed up to 1998 except in 1995 and in 1997. In 1995, the growth

rate was nearly 22.9 percent while in 1997 it was around 31 percent. But in 1999, the trend was upward recording 45.4 percent growth over the previous year and 24.5 percent in 2000. The total import in 2000 from the region was $229 million, which was the highest recorded since 1991 against $183.9 million of 1999.

Sign Test –02

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Sri Lanka from SAARC countries during the period.

Result: Using Sign test, we get $P = 0.13$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the imports of Sri Lanka to SAARC countries during the study period as the data (Table-18) does not provide any evidence against H_0.

Sri Lanka's export to SAARC countries as a percentage of total exports also was not significant. During nineties, the trend was mixed and in 1997, it was around 6.3 percent (Table-19). But in 1998 and in the late nineties, the exports to SAARC countries declined in value and the total exports increased marginally, the percentage was on a declining trend. In 2000, it came down to as low as $2.6, which was the lowest since 1991, against $3.69 of 1999, and $5.59 of 1998.

The analysis of the imports from SAARC countries also discloses no different picture. The import from SAARC countries as a percentage of

total trade was 5.2 percent in 1991 (Table-19). The percentage remained well below 8 percent throughout the decade. The trend of percentage in imports was mixed and it varied between 5.19 percent and 7.98 percent during the decade. As the imports from SAARC region increased at a faster rate than the total imports, the percentage was on an increasing trend in the early nineties. In 1999, the percentage import was 6.98 percent and in 2000, it further rose to 7.24 percent.

Sri Lanka's Trade with SAARC Countries
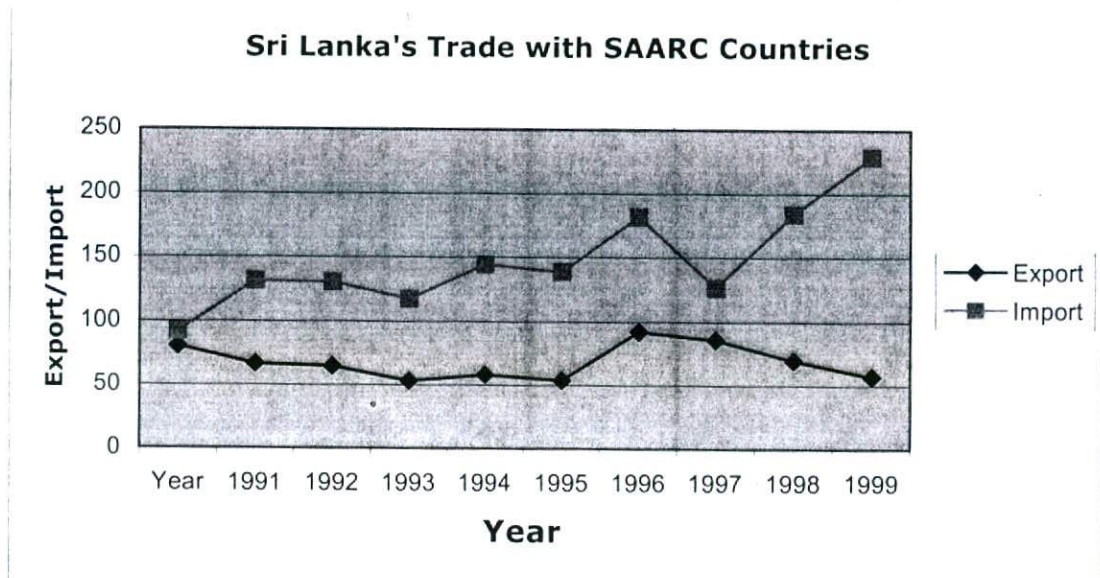
The balance of trade with the SAARC countries was always unfavorable for Sri Lanka. It was around $11.6 million in 1991. But as a result of sharp increase in the exports and decline in the imports, there was a substantial decrease in the balance of trade position with the region. The increasing trend continued and remained almost stagnant in the mid-nineties. In 1998, a considerable decrease was recorded in the imports and marginal decrease in the exports pushed down the country's adverse position to $40.4 million.

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But in the late nineties the exports recorded a negative growth and increase in the imports forced the adverse position to move further upward. The adverse balance of trade increased from $113.9 million in 1999 to $171.9 in 2000 with an undesirable growth rate of 50.9 percent over the previous year. As it creates an adverse impact on the country's economy, the exports should be boosted up to bring down the adverse position of trade with SAARC countries.

Trends of Sri Lanka's Trade with India

India has been one of the major trading partners of Sri Lanka among the SAARC countries. The total exports to India stood at $21.2 million in 1991 and during the last decade it had been recording a declining trend. Though there was an increase of about 30.66 percent in 1992 over the previous year, the exports to India came down to $12.5 million in 1993 which was nearly 54.9 percent less than the previous year.

The trading results did not carry a different picture even after the formation of SAARC. A fluctuating trend was observed in the study period. In 1994, the export came down to $6.2 million with a negative growth rate of 47.5 percent. But in 1997 there was more than a two-fold increase recorded in the exports and again in 1998 the negative growth rate bounced back by 48.7 percent. Since then there was an upward trend. In 1999, the exports doubled over the previous year to touch a figure of $20.2 million. Though the increase recorded was only 5.9 percent in 2000, the present trend of exports is encouraging and hoped to be maintained in near future.

Sign Test –03

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Sri Lanka to India during the period.

Result: Using Sign test, we get $P = 0.86$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Sri Lanka to India during the study period as the data (Table-20) does not provide any evidence against H_0.

The import from India in 1991 was \$72.9 million and it increased by \$115.4 million in 1992. A declining trend was observed in 1993 and the negative annual growth rate was around 3.4 percent. Though a sharp increase in the imports recorded was in 1992 i.e. more than 58 percent, a marginal decrease was recorded in the following year. In 1994, the imports from that country recorded nearly 33 percent negative annual growth rate.

The imports were having an upward trend, though marginal, except in 1998 where it came down by 27.4 percent. In 1999, the imports from India increased significantly and the annual growth rate was nearly 78.5 percent, which was the highest, recorded since 1991. Though the annual growth rate came down to 15.9 percent in 2000, the total imports from India rose to \$136.7 million from \$118 million in 1999.

Sign Test –04

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Sri Lanka from India during the period.

Result: Using Sign test, we get $P = 0.09$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the imports of Sri Lanka from India during the study period as the data (Table-20) does not provide any evidence against H_0.

Trends of Sri Lanka's Trade with Bangladesh

Sri Lanka's export to Bangladesh was not significant in the early nineties and it was almost stagnant during the same period. The exports, which stood at $3.5 million and an increasing trend was observed in the succeeding three years. But in 1993, a two-fold increase was recorded in the exports to that country. In 1994, it further increased by 2.84 percent to touch the exports to $14.5 million. Though, the exports came down by 52.41 percent in 1995, an upward trend was recorded in the latter part of the nineties. In 1998, the exports almost doubled over the previous year and it was almost $22.9 million, which was the highest ever recorded since 1991. But in the late nineties exports to that country recorded a negative growth rate and it was nearly 55 percent in 2000 against 57.2 percent in 1999. The above analysis indicates that the export to Bangladesh was having a mixed trend since 1991.

Sign Test –05

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Sri Lanka to Bangladesh during the period.

Result: Using Sign test, we get $P = 0.31$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Sri Lanka to Bangladesh during the study period as the data (Table-21) does not provide any evidence against H_0.

Like exports, Sri Lanka's import from Bangladesh was not significant. In 1997 there was considerable increase in the imports and it reached the figure of $16.9 million which was the highest recorded since 1991 from $0.2 million of the previous year.

In 1998, the previous year's trend bounced back and the negative annual growth was almost 77.5 percent and the imports from Bangladesh came down to $3.8 million. Though the trend changed in 1999 and imports increased to $8.9 million, it again decreased to $6.5 million in 2000 (Table-21). The negative growth rate was around 27 percent in 2000 against the positive growth rate of 134.2 of the previous year. The analysis of the imports data exhibit that Sri Lanka's imports from Bangladesh was having a mixed trend and considerable variations existed since 1991.

Sign Test –06

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Sri Lanka from Bangladesh during the period.

Result: Using Sign test, we get $P = 0.43$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the imports of Sri Lanka from Bangladesh during the study period as the data (Table-21) does not provide any evidence against H_0.

Trends of Sri Lanka's Trade with Pakistan

Pakistan had been a major trading partner of Sri Lanka among SAARC countries. In 1991, the exports to that country stood at $38.2 million and it decreased to $29.7 million in 1992 with an annual negative growth rate of 22.25 percent.

In 1994, the exports came down to $27.3 million from $34.2 million of the previous year and it was the lowest recorded during the decade. In 1995, the exports moderately increased by 23.8 percent and in 1997, a sharp increase of 69.11 percent was recorded over the previous year. Since then it was on declining trend. In 2000, the exports were $31.2 million against $32.5 million of the previous year (Table-22) and the annual negative growth rate was 4 percent while in the previous year it was 27.62 percent.

Sign Test –07

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Sri Lanka to Pakistan during the period.

Result: Using Sign test, we get $P = 0.30$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Sri Lanka to Pakistan during the study period as the data (Table-22) does not provide any evidence against H_0.

The import from Pakistan stood at $17.6 million in 1991 and it came down to $13.5 million in 1992 from $17.6 million of the previous year with annual negative growth rate of 23.3 percent. Since then imports marginally increased except in 1998, where it declined by 27.12 percent over the previous year. The upward trend was highest in 1994 when the imports almost doubled over the previous year. But in 1999 imports from that country was stagnant and the imports stood at $50.8 million, same as that of the previous year. In 2000, the annual growth rate was 46.7 percent and the imports touched the figure of $74.5 million (Table-22), which was the highest since 1991.

Sign Test –08

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the import of Sri Lanka from Pakistan during the period.

Result: Using Sign test, we get $P = 0.02$. Since $P < 0.05$ at 5% level of significance, then null hypothesis H_0 is rejected and conclude

statistically that there is a significant increase in the imports of Sri Lanka from Pakistan during the study period as the data (Table-22) does not provide any evidence against H_0.

TRENDS OF NEPAL'S TRADE

Nepal, a member country of SAARC is one of the low income and least developed country in South Asia. It is situated at the bottom of the great Himalayas and is lying between India and China. It is a country covering an area of approximately 141 thousand square kilometers with an average length of 800 kilometers and a width of 160 kilometers. The country shares nearly 3.15 percent of the total area of SAARC region.

Nepal's Trade with SAARC Countries

Nepal's export to SAARC countries was $37.40 million in 1991, but there was a sharp decrease in 2.14 percent in the following year. In the following two years 1993 and 1994, it is increasing as $40.35 and

Nepal's Trade with SAARC Countries
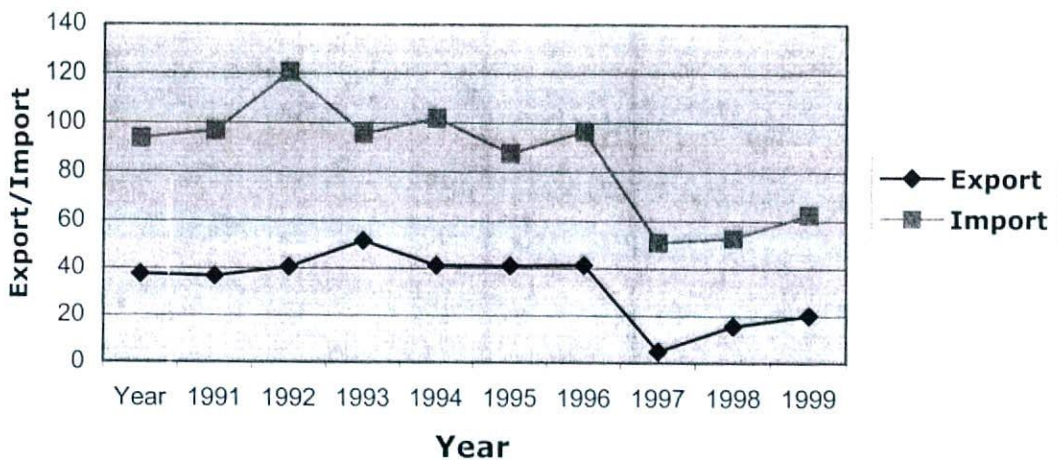
$51.66 respectively. The lowest export amount is $4.94 in 1998. Finally it came down to $20.13 million in 2000 (Table-23).

Sign Test –01

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Nepal to SAARC countries during the period.

Result: Using Sign test, we get $P = 0.82$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Nepal to SAARC countries during the study period as the data (Table-23) does not provide any evidence against H_0.

Nepal's imports from SAARC countries stood at $93.70 million in 1991 and came down to $62.67 million in 2000 (Table-23). The lowest amount of imports is $51.04 in 1998. The trend had been always fluctuating indicating the lack of a suitable import policy in respect of SAARC countries. This was because of the increase in exports from other countries and marginal decrease in the imports from SAARC countries.

Sign Test –02

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Nepal to SAARC countries during the period.

Result: Using Sign test, we get $P = 0.91$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude

statistically that there is no significant increase in the imports of Nepal to SAARC countries during the study period as the data (Table-23) does not provide any evidence against H_0.

Trends of Trade with India

Trade with India has been substantial both in terms of imports and exports and India had been the single largest trading partner of Nepal among the member countries of SAARC during the last decade. The exports to India stood at \$36.20 million in 1991. The export was same in the following year. The figure stood stagnant in 1992 increased to \$39.83 million in 1993 with an annual growth rate of nearly 10 percent over the previous year. In 1994, the exports touched the figure of \$45.88 million, the highest during the last decade and the growth rate was around 15.2 percent. The export figure came down to \$16.08 million in 2000. The lowest amount of export is \$3.00 million in 1998. The situation was worse in late nineties, but it is slowly improving in the early nineties.

Sign Test −03

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Nepal to India during the period.

Result: Using Sign test, we get $P = 0.73$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Nepal

to India during the study period as the data (Table-25) does not provide any evidence against H_0.

The imports from India stood around $93.60 million in 1991 and remained in the same figure in 1992. The imports declined sharply in 1998 by about 60 percent. But the imports are picking up in late nineties. The annual growth rate was nearly 22.3 percent in 1999 and 13.5 percent in 2000 against the negative growth rate of 1998.

Sign Test –04

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Nepal from India during the period.

Result: Using Sign test, we get $P = 0.96$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the imports of Nepal from India during the study period as the data (Table-25) does not provide any evidence against H_0.

Trends of Trade with Bangladesh

Nepal had no substantial exports to Bangladesh, though it was considered as its second largest source of imports in the region. The export to Bangladesh was only $0.9 million in 1991. But in 1992, the exports to that country increased significantly to $10.7 million and it was nearly 20 percent of the exports to the region and nearly 15 percent of the total exports made during the year. Since then the

exports to Bangladesh declined considerably. The exports, which stood at $0.93 million in 1998, increased to $1.4 million in 1999. The share of exports to that country in 1998 was nearly 18.8 percent of exports to the region and in 1999 it was around 9 percent. This increase was due to the sharp decline in the exports to India, the largest trading partner of Nepal. In 2000, the exports again declined to $0.12 million and thus indicating a negative trend in the exports to Bangladesh.

Unlike exports, the imports from Bangladesh was not significant in the study period except in 1993 where the imports were around $16.09 million. The share of exports to Bangladesh in 1993 was around 13 percent of the exports to the region. Though the value and trend of exports fluctuated and even diminished in the succeeding years, the percentage share had gone up. This is evident in the year 1998 when the percentage share went up to 22.3 percent. The imports increased in 2000 to $12.70 million while the share in exports to the region declined to 20.3 percent.

The balance of trade with Bangladesh was not favorable to Nepal except in the early nineties. The favorable position was at its maximum in 1991 where it stood around $10.4 million and continued to be favorable in 1992 though it declined to $0.4 million. Since then the adverse position in respect of trade crept in and it was on an increasing trend in the early nineties. The adverse position, which was $6.69 million in 1999, increased to $12.52 million in 2000.

Trends of Trade with Pakistan

The export amount of Nepal stood at $0.70 million in 1991 and came down to $0.40 million in 1999. The export trade between these two countries was almost negligent throughout the decade and the trend of trade was always fluctuating. But in 2000, the exports sharply went up and the export figure was $3.91 million, which was the highest since 1991. Though there was nearly a nine-fold increase in the export in 2000, the percentage of exports to Pakistan was only around 1.5 percent of the total export of Nepal and it was nearly 19 percent of the exports to the region. The ups and downs shown in the trend of exports was due to the lack of sound export promotion policy towards that country.

Sign Test –05

Hypothesis: $H_0 = f_1(x) = f_2(x)$ i.e. there is no significant increase in the exports of Nepal to Pakistan during the period.

Result: Using Sign test, we get $P = 0.58$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the exports of Nepal to Pakistan during the study period as the data (Table-26) does not provide any evidence against H_0.

Nepal's import from Pakistan was negligent since 1991 compared to the total imports of the country. It was less than one percent throughout the last decade. The trend of imports from Pakistan was erratic and

uneven. The imports which stood at $0.10 million in 1991 rose to $1.26 million in 1999. The ups and downs in the trend existed throughout the decade. But in 2000, the figure came down to $0.52 million indicating a negative annual growth rate of 58.7 percent.

Sign Test −06

Hypothesis: $H_0 = f_1(y) = f_2(y)$ i.e. there is no significant increase in the imports of Nepal from Pakistan during the period.

Result: Using Sign test, we get $P = 0.15$. Since $P \geq 0.05$ at 5% level of significance, then null hypothesis H_0 is accepted and conclude statistically that there is no significant increase in the imports of Nepal from Pakistan during the study period as the data (Table-26) does not provide any evidence against H_0.

Trends of Trade with Sri Lanka

There was no considerable trade between Nepal and Sri Lanka. During the last decade the trend observed for the exports had been always fluctuating. In 1994, the export amount was $3.98 million and the exports further rose to $12.8 million in 1995 (Table-27), which was the maximum amount of export to that country during the last decade. Since then, a declining trend was observed and the amount even recorded below one percent since 1997. Though the figure of 2000 doubled over the previous year, the export was not significant.

The import from Sri Lanka was not significant during the last decade. The amount of imports from that country was $0.02 million in 1993

(Table –27). Since then an upward trend was recorded up to 1998. Even though imports reached the maximum figure of $2.89 million during the last decade in 1998, the percentage of import from that country to the total imports stood far below one percent. Though the figure came down to $0.09 million in 1999, there was an upward trend in 2000 with an annual growth rate of 11 percent (Table –27).

Though the volume of trade between Nepal and Sri Lanka had been very insignificant, the former had a favorable balance of trade with the latter up to 1996. In 1995, the country had the maximum favorable position of $12.75 million. Since 1997, Nepal had an adverse balance of trade and the maximum was recorded in 1998 when the figure reached $2.73 million. This was due to considerable increase in the volume of imports than the exports. In 1999 and in 2000, the figures stood at 0.08 million with a note that further trade promotion is necessary to bring down the adverse balance of trade position in the coming years.

Conclusion

Trend analysis shows that trade balance of Bangladesh with major nations of SAARC has always been unfavorable. India and Pakistan are the two major trading partners of Bangladesh in the SAARC region. The share of imports from India is on an increasing trend while from Pakistan it shows a fluctuating trend. Pakistan has the status of being the largest export market among the SAARC countries accounting for nearly one-half of the Bangladesh' exports while India is the major

source of imports among the SAARC countries accounting for more than three-fourths of the imports. Its trade with Sri Lanka is significant and that of Nepal is insignificant. There is no trade relation with Bhutan and Maldives.

Year-wise trade fluctuation with SAARC is again indicative to conclude that external trade policy of Bangladesh has lacked clear vision. In Bangladesh, one must not disagree with the view that policy changes with change in state power. As a result, Bangladesh's performance of external trade even with neighboring countries is extremely sluggish.

The analysis of India's trend of trade exhibits that the trade recorded reasonably good growth rates and the economy diversified its industrial base and it provided a high degree of economic self-reliance. The exports as well as imports, increased considerably during the last decade. India's trade with SAARC countries exhibits that there exists a high degree of instability and commodity concentration. The SAPTA may play a vital role in enhancing the country's trade with other member countries of SAARC by reducing the tariff barriers and eliminating the non-tariff barriers.

Bangladesh, Sri Lanka, and India have been major trading partners of Pakistan among SAARC countries. Pakistan didn't have significant trade relation with Nepal. Pakistan's exports to Maldives and Nepal are not substantial and exports to Bhutan are not significant. As in the cases of exports; Bangladesh, India and Sri Lanka are the three

important sources of imports for Pakistan contributing nearly 96.3 percent of imports from the region in 2000.

Despite a substantial change in the structure of Pakistan's trade during the last decade, the composition of its trade with other member countries of SAARC have not changed significantly. Only three items viz., rice, cotton and cotton yarn accounted for nearly two-third of Pakistan's exports to Bangladesh. Exports to India have been quite volatile in terms of commodity composition. Erratic and insignificant trade was recorded with Bhutan, Maldives and Nepal.

Among the SAARC countries, India and Pakistan had been the major trading partners of Sri Lanka. More than 92 percent of the total trade both exports and imports with the SAARC countries are with these two countries. Bangladesh has also emerged as one of the growing exports market of Sri Lanka among the SAARC countries. Though the total exports to SAARC countries are on a declining trend, the imports from the region have increased substantially. Sri Lanka's import from Bangladesh was on a declining trend. Sri Lanka's trade both imports and exports with Nepal were not significant and in case of Bhutan there was no trade relationship.

Nepal being an agro-based country, the major commodities exported are agricultural products. Hence the industrial products are yet to become main contributors to the total export earnings of the country. India was the main trading partner both in terms of export and import. Though, the volume of trade has declined considerably, it remains as

one of the major partner in trade. The trade diversification process initiated recently was a helping hand to commence trade with Bangladesh, Pakistan, etc. and hoped to increase considerably in the coming years. Nepal has no trade relation with Maldives and Bhutan. The signing of SAPTA and its implementation is hoped to establish trade relations with these countries of the region.

The above facts reveal that the trade relations with member countries of SAARC are accounted for by few commodities and these are confined to mainly primary commodities. Hence to improve the trade relations it is necessary to diversify the trade among the member countries.

It is evidently clear from the above discussion that India is the major beneficiary with respect to intra-regional trade from Bangladesh among the SAARC countries. The nature, extent, and trade policy of intra-regional trade between Bangladesh and India deserves special investigation. The next chapter deals with this aspect in a comprehensive manager.

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CHAPTER 05

TRADE WITH INDIA AND TRADE POLICIES OF BANGLADESH

India is a giant economy with a long common border with Bangladesh. The local economies are closely integrated, and there is a great deal of economic activity back and forth across the border. Informal trade from Bangladesh to India is less expensive compared to mainland Indian products due to scale economies and transportation cost advantages. On the other hand, informal exports from India to Bangladesh are huge. Policy makers very often overlook the benefits of trade resulting from economies of scale and geographic proximity, and concentrate on the impact of macro-level tariff reductions on trade. During recent years, trade deficit with India has increased very rapidly. This huge trade deficit with India has very little to do with India being a more efficient producer than Bangladesh; it has more to do with the trade and exchange rate policies of these countries.

This chapter describes the structure and performance of imports from India and exports to India over the last twenty years. In the process of analyzing such trade data, study also discusses the Bangladesh trade with other trading partners. The chapter also examines the trade policies of Bangladesh with special reference to both nominal and effective tariff levels, and non-tariff barriers that hinder the growth of Bangladesh trade with its neighboring countries.

This study estimates a gravity model of international trade to examine whether intra-SAARC trade is lower or higher than what is predicated by economic model. The results of this model will help to understand the possibilities of trade creation and diversion effect resulting from the South Asian Preferential Trading Arrangements (SAPTA) among SAARC member countries.

THE STRUCTURE AND PERFORMANCE OF FOREIGN TRADE OF BANGLADESH

Bangladesh's export sector sustained its robust growth in FY 2002 with export earnings rising to $ 4.4 billion, indicating a growth rate of 14 percent over FY 1990. The rate of growth of exports was, however, slightly better compared to FY 1990 when exports registered a growth of 11.8 percent compared to the previous year. The readymade garments (RMG) and knitwear appear to be the largest export categories both in terms of volume and growth during 1990-2002 time period.

Knitwear export growth rate (52%) dominates the RMG growth (6%) during this time period. Knitwear is a variant of readymade garment. The only difference is that RMGs are made out of finished fabrics whilst knitwear weaves yarn into a readymade garment. Combining RMG and knitwear together account for $ 2228.35 million of exports in FY 2002, which grew by 14.31 percent to $ 2547.13 million in FY 2002. However, the local value addition from knitwear, come to more than 50 percent while that from the RMG averages only 25 percent (CPD database 2002)

It is important to remember in this context that the rules of origin (ROO) for accessing EU GSP schemes require a 3-stage value addition in case of knit RMG, whereas in case of woven-RMG a two-stage value addition is enough. In recent years, EU has raised objections on the ground that Bangladesh has failed to abide by ROO provisions in respect of knit-RMG products, and has threatened to discontinue the concessionary treatment for these exports. This reinforces the argument that if Bangladesh is to continue commanding market access to European countries and hopes to enhance the export performance of the promising knit-RMG sector to the EC then there is no alternative to establishing strong backward linkage in the RMG sector (Barac 1995).

The failure to promote backward linkages to supply the RMG sector with intermediate inputs, in the way of yarn, fabrics and other inputs will seriously threaten the RMG and knitwear industry after the post MFA year. Unless Bangladesh has a significant backward linkage of

its own, it may, in the wake of the phasing out of the MFA, lose ground to its various sources of fabric supply, such as India, as well as to countries with a highly integrated textile industry which could subsidize input costs to their own RMG sector whilst starving Bangladesh of those inputs necessary to retain her market share. Unless a full-fledged product and export development program, including diversification away from our dependence on North American and European community markets takes place, Bangladesh's capacity to sustain its export capability in the next decade may be compromised.

Breakdown of primary versus manufactured goods

Out of total export earnings, primary goods accounted for only 12 percent whereas manufactured goods accounted for 88 percent on average over the last 20 years. Export earnings from traditional goods declined from 69 percent of total exports in 1990 to 10.6 percent in 2002 whereas non-traditional goods share rose from 31 percent in 1990 to 88.4 percent in 2002.

During 1990-2002 period, jute items accounted for 9.83 percent whereas non-jute items accounted for 90 percent. These figures show a secular improvement of non-traditional exports and gradual decline of jute exports, which used to dominate our export sector (CPD database 2002).

Country-wise export break-down

The increasing importance of the USA as the major export destination and the structure of exports to the USA (RMG exports to USA accounted for 76.7 percent of total exports to the USA, whilst the matched figure for knitwear was 8.3 percent) would suggest that along with the growth in commodity concentration there has also been a corresponding market concentration over the past years. Three countries accounted for over half of Bangladesh's total exports, whilst top 10 countries account for almost two-thirds of our exports.

In spite of efforts to widen Bangladesh's export market base there has not been any significant breakthrough in recent years in the diversification of market. The share of countries such as India, Russia and France has been in secular decline in recent years. The fall in the share of India, Bangladesh's principal source of imports, is particularly noticeable. Outside of the USA and the EC markets, only Hong Kong and Japan's share in total exports has registered some increase in the 1990s - exports to these countries registered a growth of 49.5 percent and 64.4 percent respectively in FY 2002. Exports to the USA increased by 62.2% over the same period (CPD database 2002).

Structure and Performance of Imports of Bangladesh

In contrast to export growth our import growth has remained much less robust in spite of impressive progress in import liberalization. Bangladesh has, since the 1980's, realized major advances in eliminating quantitative restrictions (QRs) and reducing protection to

our imports. By 1994, only 30 import items remain exposed to any form of trade related QRs, as opposed to 429 items being covered by QRs in 1985-86. Average nominal tariffs, on a trade-weighted basis, are now down to 21 percent in 1999 - 2000, with a low of 11.3 percent for capital goods and a high of 25 percent on final consumer goods (CPD database 2002). These are tariffs levels, which may still be below East/Southeast Asian rates, but for one of the world's poorest and as yet highly undiversified economies, such as Bangladesh, this level of trade liberalization is not an insignificant achievement.

Compared to the rates of growth in FY 1990 and FY 1991 which were 7.4 percent and 6.2 percent respectively, the rate of growth in imports of 38.6 percent in FY 2002 was indeed quite significant. It is noticeable that imports have continued to demonstrate robust growth in FY 2002. Imports have increased by about 24.8 percent compared to FY 1990. If the structure of growth of imports in FY 2002 is analyzed, it can be seen that for primary and final consumer goods the growth rate was about 15 percent, whilst the corresponding rates for intermediate and capital goods were 21.5 percent and 50.9 percent respectively. This has resulted in a shift in the structure of imports in favor of production related imports. The structure of imports into Bangladesh shows that the share of production related imports (intermediate inputs and capital goods) accounted for 64.8 percent or about two thirds of total imports while the share of consumption related imports (primary and final consumer goods) accounted for 35.2 percent of total imports (CPD database 2002).

Structure of imports into Bangladesh by major countries.

A review of Bangladesh's import market structure indicates that, import sources have undergone some important changes in recent years, with the emergence of India as the major source of imports into Bangladesh and the decline in importance of such major import sources as the USA, Japan, Singapore and South Korea. India has, over the last five years, climbed from the 7th position to that of the most important import source for Bangladesh. India supplied about 12 percent of total imports to Bangladesh. In contrast, Japan's share declined from a high of 10 percent to only 4.6 percent over the last decade. On the other hand, China and Hong Kong have remained important import sources in the 1990s, together contributing about 14 percent of the global imports coming into Bangladesh (CPD database 2002).

The emergence of India as the major import source and the resulting negative balance of trade however conceals the fact that a significant part of the imports from India go to export oriented industries as inputs, which in turn results in a positive balance of trade with other trading partners such as the USA. For example, cotton yarn and fabrics accounted for about one-third of Bangladesh's imports from India. However, as is known, the official trade of Bangladesh with India does not reflect the actual traded volume between these two countries. According to the findings of a recent survey, the volume of unofficial exports to Bangladesh is estimated to be about 2528.2 crore Taka or $630 million. If this unofficial trade is taken into account

India's share in total imports will go up from 12.1 percent to about 21.1 percent (Bakht 2000).

Exchange Rate Policy of Bangladesh

In the early 1990s, a substantial reduction in the external deficit was achieved without a significant real devaluation of the Taka although the real effective exchange rate computed by the IMF showed a secular appreciation in its value since the beginning of the 1990s. Although exporters were demanding a drastic devaluation of the Taka, policy makers were reluctant to do so in a situation of rising reserves and the rapid liberalization in trade regime. It was also not clear whether devaluation, while promoting exports, would induce a more positive investment response. It is to be noted here that while over the last five years, the Bangladesh Taka was devalued by 15 percent, over the corresponding period, Pakistan devalued its currency by 40 percent, India by about 90 percent and Sri Lanka by more than 35 percent (Bhabani 2001).

An analysis of the behavior of the real exchange rate is important for understanding whether the country should devalue the currency, and if so, then by how much. An open economy, which competes with the rest of the world for export markets, must endeavor to maintain a correct real exchange rate of its currency. If its currency is overvalued its competitiveness is weakened and the country might have to face the consequence of losing ground in its export markets.

Bhabani (2001) estimated an aggregate export demand function for Bangladesh by employing multivariate co-integration and error-correction models. Researcher postulated that real exports depend on foreign economic activity, foreign as well as domestic prices and exchange rate volatility. Results indicate that volume of world trade and exchange rate volatility dominates long-term Bangladeshi export growth. The author found that export elasticity with respect to exchange rate volatility and volume of world trade are -0.5 and 0.73 respectively. None of the price effects on export growth are found to be significant. The finding that the Bangladeshi export growth is determined more by volume of world trade and exchange rate volatility than by changes in domestic and foreign prices has one important policy implication.

A REVIEW OF TRADE POLICIES OF BANGLADESH

The government's commitment to exports with a particular emphasis on expansion of nontraditional export is to be found in the Export Policy Order (EPO) 1998-1999. The EPO outlines the general thrust of the strategy with the incentive regime built around it. While most incentives address the profitability concerns of exporters in general, the strategy is clearly to promote the growth of nontraditional exports.

Two facilities that have been operating successfully for garments exporters are the private bonded warehouse and the special bonded warehouse, both of which permit duty-free importation of inputs for

ready made garments under back-to-back letters of credit (L/C). Recently, the special bonded warehouse facility has been extended to cover non-garment export industries (such as leather products) and input imports under a more flexible arrangement without back-to-back L/Cs. More recently, NBR has taken a significant step forward in allowing duty-free imports of capital machinery to 100 percent export-oriented industries. The Duty Exemption and Drawback Office (DEDO) of NBR was recently revamped under the Export Development Project (EDP) to streamline procedures and expedite disbursement of duty drawbacks on an actual or flat-rate basis. Setting up of export processing zones (EPZ) with tax and duty-free privileges and adequate provision of infrastructure facilitates has encouraged some foreign and domestic investors to set up industries in the non-garments sector.

Until recently, the trade regime in Bangladesh was geared toward a strategy of import-substituting industrialization with heavy protection to domestic activities without regard to considerations of efficiency or domestic resource costs. This scenario is changing, though not as rapidly as is warranted by the present highly competitive international trade scene.

The anti-export bias of the trade regime in Bangladesh is evident from the tariff structure consisting of high nominal and effective tariff rates, a quota rationing scheme that generates undue rents on imports, and an exchange rate that is typically overvalued. This situation is fast changing with trade policy switching from an inward-oriented strategy

of import substitution to an outward-looking strategy of export promotion based on the economy's existing and potential comparative advantage.

The tariff rates have gone done substantially in the 1990s. Import-weighted tariffs, which had come down from 24 percent in FY 1990 to 21.9 percent in FY 2001, further, declined to 16.7 percent in FY 2002. The nominal tariff rates which had declined from 57 percent in FY 1990 to 25.9 percent in FY 2001 continued to decline, falling to 22.3 percent in FY 2002 (CPD database 2002).

Bangladesh's nominal import protection level currently ranks among the lowest in South Asia. The highest tariff slab was also reduced from 60 percent to 50 percent. These data further reveals that the highest reduction of (import-weighted) tariffs had been on the capital goods sector where tariffs were reduced by more than 31 percent. Import-weighted tariffs have, in fact, declined for all categories of imports, although, not in a uniform manner. In fact, imports of zero-rated commodities increased by about 82 percent compared to 16 percent for commodities with zero-plus import duties over the decades (CPD database 2002).

In recent years, the numbers of quantitative restrictions (QRs) have come down significantly. In 1990s, almost one-fourth of all items under 4 digit headings was subject to QRs. In 2002, QRs were retained on only 126 items which contributed only 2 percent of total imports. According to the 1996-97 Import Policy the number of 4-digit

headings subject to QRs for trade reasons were further reduced from 40 percent to 23 percent, although the total number of QRs registered a slight increase from 109 to 114 in 2002 (CPD database 2002).

The number of products still remaining under import bans or restrictions are now limited to only 33 items, mainly in the textile sectors, where some import substitution is taking place. It is however unclear whether any of these banned items remain immune from the process of 'unofficial' .imports which, as we have already been observed, remain a growing source of Bangladesh's total imports.

Bangladesh has taken only the first steps toward achieving the goal of uniform tariffs-system that ensures nondiscriminatory protection on the matter of tariffs. To improve productive efficiency, several anomalies in that tariff structure have been addressed (e.g. eliminating multiplicity of rates for similar products, removing discriminatory rates between end-users, reducing dispersion in the tariff structure, and conforming to only seven tariff rates overall). Finally, the publication in July 1993 of the Bangladesh Operative Tariff Schedule 1993-1994 has presented in one document complete information on trade taxes and fees for the benefit of among others, domestic producer and potential investors.

A key ingredient of trade liberalization is the replacement of quota rations with equivalent tariffs. The government of Bangladesh has, in most part, subscribed to the principle of having tariffs as the only protective instrument, and limiting quota rations to those imports that

need to be restricted for non-trade reasons (e.g. health, religion, national security, or environment). Owing to the hitherto complex system of quota rations that often combined trade and non-trade arguments, no effort has been made to devise tariff equivalence of any sort. Instead, a principle of "dual CD maxima" has been accepted: 25 percent maximum CD on revenue grounds and 75 percent maximum CD on protection grounds (Islam 2000).

Export Incentive Schemes of Bangladesh: An Assessment

Export incentives provided in Bangladesh can be broadly grouped into (a) assistance to gross value added or returns to primary factors, (b) assistance to inputs or intermediates and (c) assistance to output. The major thrust of these incentives is directed towards (a) ensuring that policy and administrative constraints on export activities are alleviated, (b) enhancing backward linkage and value addition, (c) diversifying exports, (d) promoting export-oriented investment and (e) injection of price competitiveness in global markets. The principal policy interventions that have influenced the incentive regime for exporters in recent years may be identified as:

1. a general reduction in tariff levels;
2. increase of cash compensation to non-traditional exports from 15 percent to 25 percent;
3. elimination of dual exchange rates and convertibility of the Taka on current account;
4. extension of BW facilities to some non-RMG products such as leather;

5. provision for duty free imports of machinery's for export-oriented units;

6. relaxation of foreign exchange retention limits.

The withdrawal of cash subsidies on export credits (currently within the lower band of 8.0 to 10.0 percent) has negatively impacted on the incentive to export, on the other hand. The above policies, on the whole, have significantly reduced the anti-export bias of the trade policies which was very much in evidence during the 1980s (Rab, 1989).

Some of the current policy changes have also lessened the difference between incentives enjoyed by direct exports and deed exports' and between EPZ units and 100 percent export-oriented units outside the EPZ. The impact of different incentives varies across sectors (Lall 2000) as well as between the stages of production. Whilst incentives such as the cash compensation scheme, operated by Bangladesh Bank, is targeted to enhance backward linkage and the duty-free import of machinery's is intended to promote export-oriented investment, incentives in the way of the ECG operated by Shadharan Bima Corporation is intended to sever marketing risks.

THE INDIA BANGLADESH BILATERAL TRADE PATTERN

Any current attempt to sustain exports points to the need for improving Bangladesh's bilateral trade relations with India. This involves the need for a rapid move towards removal of QRs by India and providing zero-tariff access to Bangladesh's exports to the Indian market. Thus far the trade balance with India remains heavily in deficit. This persistent and growing trade deficit with India demands attention because of its political as distinct from economic implications. Such implications appear to suggest a need for diplomatic attention since the market mechanism remains imperfect due to the asymmetry both in the economic structures as well as policy regimes of the two countries.

History of Trade Relations with India

Immediately after independence, Bangladesh concluded a General Trade Agreement with India in March 1972. Among other things, this agreement provided for border trade between Bangladesh and neighboring Indian states of West Bengal, Assam, Meghalaya, Tripura and Mizoram. Free trade in certain commodities was allowed within 16 kilometers of both countries' borders. The Trade Agreement of 1972 was replaced by another Trade Agreement signed on July 5, 1973 for three years. In subsequent periods, border trade was found to be inadequate for the growth of formal merchandise trade; therefore, border trade was discontinued under the 1973 Agreement.

This agreement provided for the most favored nation (MFN) treatment and a system of Balanced Trade and Payment Arrangement (BTPA). The BPTA system was replaced from January 1, 1975 by payment through freely convertible currencies. This agreement was renewed upto September 1980.

A third Trade Agreement was signed on October 4, 1980 initially for three years. The agreement was renewed a number of times. On October 24, 1995, the existing trade agreement was further renewed for three years upto October 1998. Under the third Trade Agreement, an Inland Water Transit and Trade Protocol between Bangladesh and India was concluded in August 1982. This protocol provides for making the inland waterways of both the countries available for trade.

Balance of Trade with India and Bilateral Exchange Rate

While Bangladesh imports mainly textile and textile related raw materials from India, Bangladesh's major export to India happens to be chemical and allied products. Table –28 provides bilateral trade between India and Bangladesh since 1972. These figures clearly show that India always had trade surplus with Bangladesh. This worsening trade situation should concern the policymakers of Bangladesh since India happens to be a powerful and larger economy bordering on Bangladesh. Moreover, Bangladesh economy, in many ways, is similar with that of Indian economy. The bilateral balance of trade with India has traditionally been in deficit but in recent years this deficit has been increasing at a very high rate.

In order to have a level-playing field, this view subscribes to a competitive devaluation of Taka against Indian rupee.

The second view looks at structural factors driving the trade imbalance which are located in the much larger size, diversity and technological maturity of the Indian economy compared to Bangladesh. The geographical proximity of India along with the increasing familiarity of Bangladesh's importers to India's production capacities which in recent years have become globally more competitive both in terms of price as well as quality has made Indian products increasingly competitive in Bangladesh's market. Bangladesh's import liberalization, now reintroduced by an increasingly porous border which circumvents virtually the entire land boundaries of Bangladesh, has made Bangladesh virtually into an open market for India and one of its fastest growing areas of export opportunity.

The only feasible policy of addressing the growing imbalance is to explore avenues to enhance Bangladesh's exports in to India. This will demand measures within India to improve opportunities for market access for Bangladesh's exports through providing withdrawal of all QRs as well as elimination of tariffs on all Bangladeshi exports. Such a move will be of only limited benefit to Bangladesh in the short run, but over the longer period will encourage local, Indian and regional investors to locate investment in Bangladesh targeted to the larger Indian market. It is this approach to correcting the growing trade imbalance, which has come under focus in the area of informal

Bilateral exchange rates between India and Bangladesh during 1974-2002 have also been assessed in order to investigate the dynamics underlying this expansion in the bilateral trade imbalance. Taking 1985 as the base year, the Taka underwent a real depreciation against the Indian rupee in 1986 which was somewhat arrested in 1987. The Taka once again started to appreciate in 1988 and the downward movement of the real exchange rate continued until recently. In 2002, the Taka remained appreciated against the India rupee – the magnitude of real appreciation being about 30 percent compared to the base year. Thus the large nominal appreciation of the Taka vis-a-vis the Indian rupee was accompanied by a significant appreciation of the real exchange rate. The misalignment in the bilateral real exchange rate might thus have contributed to the expanding Indo-Bangladesh trade imbalance.

There are two views regarding the impact of exchange rate on Indo-Bangladesh bilateral trade. One view states that the large imbalance of trade between India and Bangladesh is a result of inappropriate exchange rate policy on behalf of Bangladesh. India has consistently pursued an interventionist exchange rate, better known in economics text book as "beggar-thy-neighbor" policy, which simply says that the purpose of such policy is to divert demand from foreign goods to its own, and as a result take away jobs and income from one's trading partners. Such depreciation does not increase total demand or create net income or jobs, which is the objective of free trade. India has successfully exported unemployment to Bangladesh and its other trading partners in order to create domestic employment.

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diplomacy, and more recently, in the area of formal diplomacy. It is in this context that the issues of preferential trading arrangements in South Asia have assumed considerable importance. In order to improve trade balance with India, the policymakers should consider the following:

1. competitive devaluation of Bangladeshi Taka;

2. reinforce the border patrol to stop informal trade;

3. actively seek tariff and non-tariff cuts on Bangladeshi exports to India; and

4. strengthen the already existing bond of SAARC and expand this bond into meaningful economic relationships.

THE GRAVITY MODEL OF BANGLADESH TRADE WITH INDIA AND THE WORLD

Methodology and Data

Gravity model offers a systematic framework for measuring the normal pattern of trade. International trade flows are determined by comparative advantage, possibility of intra industry trade, transport cost etc. Trade policy may revise the normal trade flows. Gravity model of international trade estimates the trade flow as a function of variables that directly or indirectly affects the determinants of normal trade flow. In this study we used the gravity model to examine whether a lower magnitude of intra-SAARC trade is a normal outcome or not.

The gravity model has long been used for empirical studies of the pattern of trade. Specifically, the volume of trade between two countries should increase with their real GDPs (the so-called gravity variable), since large countries should trade more than small ones, and with per capita incomes, since rich countries should trade more than poor ones. It should diminish with geographical distance because proximity reduces transportation and information costs.

Since the dependent variable in the gravity model is bilateral trade between pairs of countries, each variable (other than distance) is entered in product form. Researchers then add dummy variables for participation in various preferential arrangements. If one finds a positive coefficient on the dummy variable indicating that two

countries, both of which participate in the same preferential arrangement, trade more with one another than predicted by their incomes and distance, then the conclusion drawn is that the arrangement is trade creating for its members. If there is a negative coefficient on the dummy variable indicating that only one member of the pair participates in a particular preferential arrangement, this is taken as evidence of trade diversion vis-a-vis the rest of the world.

The typical gravity model specification relates bilateral trade to income, population (or per capita income) and distance between the trading partners:

$$Log(TRADE_{ijt}) = a + B_1 \log(Y_{it} Y_{jt}) + B_2 \log(P_{it} P_{jt}) + B_3 (DIST_{ij})$$

where $TRADE_{ijt}$ is bilateral trade between countries i and j at time t (measured in US dollars), Y is real income (the so-called gravity variable), P is population, and DIST is distance. As trade is expected to increase with size and per capita income and to decline with distance, B_1 should be positive, B_2 and B_3 negative.

This study utilizes the methodology followed by Akhter (2002). Annual data on bilateral trade flows among SAARC countries has been collected from IMF's Direction of Trade Statistics. The UNCTAD and the United Nations COMTRADE data base has also been used to compare import and export trade flows of SAARC countries.

Disaggregated data on Bangladeshi imports and exports have also been collected from Bangladesh Bureau of Statistics, and Ministry of Commerce. A substantial amount of data has also been collected by hand from different government documents.

Results and Discussion of the Model

A more systematic way of adjusting for the natural determinants of trade is by means of the gravity model. The assumptions of the model are that trade between two countries is proportionate to the product of their GNPs and the product of their per capita GNPs. An increasing function of adjacency (when two countries share a common land border), and inversely related to the distance between them.

Dummy variables are added when both countries in a given pair belong to the same regional grouping. This provides a means of determining how much trade within each region is due to factors common to trade throughout the world and how much remains to be explained by regional effects.

Table–29 provides the descriptive statistics of all-explanatory variables and regional blocks used in this study for the year 2001. We use regional block variables in our analysis in three ways.

First, we use seven regional blocks of countries - SAARC 1, SAARC2, ASEAN1, ASEAN2, NAFTA, EEC1, and EEC2-with, which Bangladesh has regular and significant trade. SAARC1 block consists of Bangladesh, India, Nepal and Bhutan, whereas SAARC2 block

consists of all seven members (the remaining members are Pakistan, Sri Lanka and Maldives). ASEAN1 consists of Indonesia, Malaysia, Philippines, Thailand, Singapore and Laos, whereas ASEAN2 consists of ASEAN1 countries plus Korea, Japan, and China. NAFTA block consists of Canada and US. EEC1 consists of Germany, Italy, UK, Netherlands, Spain, Belgium, France and Denmark, whereas EEC2 consists of EEC1 plus Brazil.

Second, we formed hypothetical trading blocks among Bangladesh and ASEAN1, ASEAN2, NAFTA, EECI and EEC2 countries to examine the likely effects of such grouping if they were to materialize.

Third, we add a term for each grouping in order to capture trade-diversion effects. These terms are indicated by a suffix "N", standing for trade with non-members of the grouping in question. Correlation matrix of variables and all trade blocks for the year 2001 is presented in Table–30.

The regression results for the year 2001 are presented in Table–31. To check the robustness of our results, we perform three regression runs: first, with the existing and hypothesized trading block countries; second, with existing trading block countries; finally, with the hypothesized trading block countries.

All three standard gravity variables (GDP, GDP per capita and distance) are found to be highly significant statistically at the 1% level of significance. While the BORDER variable retains its sign, it is not

statistically significant. All variables except GDP PER CAPITA have their expected signs. The unexpected negative sign for GDP per capita variable suggests that as the GDP per capita of a country improves, it trades less with its block member. While this result may be plausible with the members of SAARC countries because most of them have similar per capita income, it is not conceivable why it may be so with other trading partners.

The value of trade (imports plus exports), in logarithmic form, between pairs of countries is the dependable variable in all regressions. The estimated coefficient on the log of the product of the two countries' GDPs at about 0.63 indicates that trade increases with size but less than proportionately. This reflects the fact that small countries tend to be more dependent on trade than larger, more diversified ones.

The estimated coefficient on the product of per capita GDPs is about -0.70, indicating that poorer countries trade less with each other. The coefficient on the log of distance is about -0.6, indicating that when distance between two nonadjacent countries is higher by 1 %, trade between them falls by 0.60%. The coefficient on adjacency, at 0.44, indicates that two countries sharing a common border trade roughly one and half times as much [exp (.44) = 1.55] as two otherwise similar countries.

The basic variables would soak up most of the variation in bilateral trade flows if there were nothing to the notion of trade blocs, leaving little to attribute to a dummy variable indicating whether two

countries are members of the same regional grouping. Variations in intra-regional trade would be due solely to the proximity of countries and their rates of economic growth. In fact, the dummy variable for membership in the same regional grouping SAARC is not significant statistically. The SAARC1 and SAARC2 dummy variables are statistically insignificant, indicating the preferential trading agreements among these countries did not yield trade creation benefits.

If two countries are SAARC1, for example, they would trade 92 percent less among themselves than two otherwise-similar country would [exp (-2.59) = 0.08]. Not only that the grouping among SAARC I block (Bangladesh, India, Nepal and Bhutan) indicate significant trade diversion effect: members of SAARC1 trade 83 percent less with non-members than do typical countries in our sample [exp (-1.78) = 0.17]. Similar results prevail for SAARC2 countries. Although SAARC was formed as a regional cooperation organization, it is yet to achieve the greater benefits of trade among themselves.

The estimated coefficients of ASEAN1, ASEAN2 and EEC2 dummy variables are not statistically significant. However, the block dummy NAFTA and EEC1 are statistically significant. For example, if two countries were members of the EEC1, they would trade more than one hundred and six times as much in 2001 as would two other wise - similar country. Members of EECI would trade eight times more with non-members than would typical countries in our sample [exp, (2.063) = 7.87].

The dummy variables of hypothesized blocks - BANASEAN1, BANASEAN2, BANNAFTA, BANEECI and BANEEC2-are, however, neither trade creating nor trade diverting. **In fine, the 2001 cross section results point to the conclusion that the regional trade arrangements among the SAARC countries were neither trade creating nor trade diverting.**

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MAJOR PROBLEMS OF TRADE AMONG SAARC COUNTRIES

The concept of regional economic co-operation has been assuming increasing significance among developing countries. To accelerate the pace of economic growth and social development of the countries, regional co-operation among the countries of the region has become a necessity. The formation of SAARC has helped the member countries to give greater emphasis to the mobilization of their own resources, accelerating the pace of the economic growth and attainment of collective self-reliance by reducing the excessive dependence on uncertain developed world economies.

But the regional co-operation has been hampered by both political and economic constraints. The current economic conditions in the countries of South Asian region are of major cause of concern. The GDP growth rate is low and the rate of saving in the region is also less. The balance of payment position is alarming and the shortage of technical know-how is severe. Besides, the availability of professional and skilled

labor has constrained the developmental process of the SAARC countries. The lack of resources for proper investment and the viability to effectively utilize whatever potential resources are have slowed down the industrial development of the region.

The declining agricultural productivity causes, food shortage, and the countries of SAARC have to depend on imports from the rest of the world which is a regular phenomenon. Hence it has worsened the terms of trade. The countries of the region have not been able to utilize effectively the available export potential and hence the growth in foreign exchange earnings is poor.

The increasing awareness caused by the alarming economies of the SAARC countries facilitated the need for adopting coordinated strategy for development through full exploitation of potential resources available in the region. But the possibilities of regional co-operation in trade have been restricted by the following constraints:

TARIFF AND NON-TARIFF BARRIERS

The existence of high tariff and non-tariff barriers in the SAARC region has been the greatest constraint in the expansion of trade in the SAARC region. The tariff rates in bigger economies like India, Pakistan and Bangladesh are higher than those of the smaller economies like Sri Lanka, Nepal, Bhutan and Maldives.

The trade regime of the SAARC countries is characterized by the existence of non-tariff barriers such as restrictive licensing, quantitative restrictions and prohibitions and canalization of imports through state trading monopolies.

Some SAARC countries levy Value Added Tax (VAT) on all imports while some others levy import surcharge and turnover tax on imports. This has limited the imports of SAARC countries. The SAARC countries fail to give tariff preferences to the imports from the SAARC region. Pakistan's VAT is 100 percent on all imports while Sri Lanka's import surcharge is as high as 69 percent on animal vegetable oil, fats, etc. It also charges turnover tax of 74.1 percent on beverages and tobacco while the turnover tax on the other imports is comparatively low. Thus the high tariffs and widespread resort to NTB's (National Tax Board) in the SAARC countries impede the expansion of the intra-regional trade.

DISCRIMINATORY TREATMENT

The intra-regional trade in the SAARC region has been constrained by the discriminatory treatment by some member countries of the regional sources of supply. India enjoys MFN (Most Favored Nation) status with many countries of the region while Pakistan does not grant MFN status to India. Pakistan's import from India has been governed by the periodic list issued by the government of Pakistan. Though recently there has been a significant expansion of the list of items, it does not cover large number of items, which can be imported from India, instead of importing from other countries of the world taking advantage of the

regional proximity. Also in Bangladesh, Indian machinery has been discriminated on the basis of nationality.

LACK OF INFORMATION ·

One of the problems faced by the SAARC countries for the regional economic co-operation is the lack of information. Despite being neighboring countries and having formed a regional body, the SAARC countries have not been able to fill the information gap in the region regarding the export potentials, import requirements, domestic economic policies, business opportunities in the region, tariff and non-tariff barriers, infrastructural facilities, potential sources of supply of goods and technology, investment opportunities, etc. The interaction among these countries was minimum and this limited the scope for product identifications for exploring the export potential of the SAARC countries, and provided a basis for the resistance to accepting the goods from the region.

LACK OF FINANCE AND CREDIT

The diversion of trade to the SAARC region has been hindered by the lack of finance and credit available to the member countries of the region. The lack of co-ordination between the financial institutions and Trade Promotion Associations (TPA) of the region has added another constraint to the expansion of intra-regional trade. The Transnational Trading Corporations (TTC's) based in the industrialized countries have been playing significant role in the import of the SAARC countries. The lack of adequate clearing and payment arrangement within the region

has constrained the intra-regional trade to a greater extent. The bigger economies have not been extending adequate credit to the weaker member countries of SAARC to promote trade.

TRADE IMBALANCES

The intra-regional trade among the SAARC countries has been characterized by perennial imbalances. Among the SAARC countries, India has favorable constant balance of trade with all the SAARC countries except Pakistan. This is because of Pakistan's reluctance to import more from India. The existing trade restrictions add to the trade imbalances and it will discourage the further expansion of trade among the SAARC countries.

NON-AVAILABILITY OF EXPORTABLE SURPLUS

The expansion of intra-regional trade can be facilitated by the availability of exportable surplus of a desired specification and of a good quality. But unfortunately most of the SAARC countries export most of the goods, which are similar to the products imported from the countries outside the region with poor quality and difference in specification. This has limited the trade diversion from the rest of the world towards the SAARC countries.

HIGH COST OF PRODUCTION

The inherent inefficiency in the production process and lack of proper utilization of available national, financial and manpower resources have increased the cost of production in the SAARC region. The lack of

technical knowledge restrained the export competitiveness of the product of the region. The restrained trade policy of the countries of the region was also responsible for low production, inefficiency and high cost of production. Thus it substantially hindered the expansion of trade in the region.

LACK OF SUSTAINED DIALOGUE AND FOLLOW-UP

The mutual economic relations on a continuous and sustained basis can be pursued only if there is sustained dialogue and proper follow-up. The lack of this has been another problem, which hindered the promotion of mutual trade in the SAARC region. At bilateral level a number of Joint Economic Commissions (JEC's), Joint Business Councils and Joint Business Committees have been set-up among the member countries of SAARC. But unfortunately, after initial enthusiasm they are rendered ineffective after some time. So to have proper regional economic co-operation, setting up of committees and councils without reviewing its performance may not yield desired results.

INADEQUATE TRANSPORT FACILITIES

The economies freight and the benefits of geographical proximity has been lost in the SAARC region due to the absence of infrastructural. facilities. The transport facilities have been hindered by the lack of adequate land routes between India and Pakistan, and India and Bangladesh. The shipping services are highly unfavorable to the promotion of regional trade because of the higher cost of operation within the region compared to the movement of goods to other

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countries. The transportation cost to Nepal is increased by the entry tax. The lengthy procedure to get the coastal license for foreign ships and high terminal charges to transport goods to other countries of the region limits the promotions of intra-regional trade in the SAARC region.

POOR BANKING RELATIONS

The poor banking relations among the banks of the member countries of SAARC have limited the scope of promotion trade among SAARC countries. The performa and procedures for Letter of Credits (LC's) differ from one country to another in the SAARC region and sometimes it also raises the question of honoring the instrument in due course. The delay caused by the poor banking relations for payment will cause sometimes the expiry of the instrument. Hence for expanding international trade in the region, intensive banking relations among SAARC countries have become a necessity.

THREAT OF INDIA'S DOMINANCE

India is the largest economy having more than 73 percent of the region's total area and it accounts for nearly 77 percent of the region's population. In terms of economic indicators also, it is dominant over all the member countries of SAARC. Due to the availability of natural, financial, technical and manpower resources, India gets comparative advantage in production and in distribution of goods and services. Hence smaller countries of the SAARC feel that India will have more bargaining power in the region if there be more economic co-operations in the SAARC region, and they also fear that India will use the markets

of other member countries as a dumping ground for their products. Such apprehensions should be removed to have more meaningful economic co-operation.

TRAVEL AND TOURISM BARRIERS

Intensive travel is required to promote investment in the region and despite cultural and geographical proximities, intra-regional travel and tourism have been constrained by visa formalities, police verifications, and shortage of foreign exchange, etc. The relaxation of curbs on travel and formalities for business travel and working out an arrangement for intra-regional travel in the SAARC region in the local currencies is an urgent necessity for promoting trade in the region as these restrictions hamper the travel of businessmen which adversely affects mutual trade.

LACK OF CREDIBILITY IN REGIONAL CAPABILITIES

The expertise and capabilities developed in the region lack credibility and it is due to a variety of reasons such as Western dominance over the economic relations of the member countries of SAARC, existence of information gap among them, etc. Many successful projects can be implemented and operated in the SAARC region by the member countries of the region. The decision-maker's prejudicial treatment of regional capabilities and expertise hinders the promotion of intra-regional trade.

LACK OF INDUSTRIAL PROTECTION

Many of the SAARC countries adopt import substitution policies to protect the home industry. But the governments of the SAARC countries are selective in granting such protection. The existing joint ventures of the member countries of SAARC are seriously affected by the unrestricted dumping of competing goods from non-SAARC countries.

COMPLEXITIES IN PROCEDURE

The intra-regional trade has been constrained by the procedural complexity in the SAARC region. The respective economies of SAARC do not give preferential trading procedures for intra-regional trade.

LACK OF QUALITY CONTROL

The absence of proper quality control system in the exports from the member countries of the SAARC inhibit the growth of intra-regional trade in the SAARC region.

SKILLED MANPOWER CONSTRAINTS

The lack of skilled manpower and entrepreneurs in some SAARC countries limit the scope for intra-regional trade.

CURRENCY DEVALUATION PROBLEM

Despite the huge imbalance in trade, no corresponding rapid depreciation of the Bangladeshi Taka against the Indian Rupee has taken place. The depreciation of the currency has been faster in India

than in Bangladesh. Considering 1990 as the base year, Taka has been devalued by about 51 percent up to the year 2000 while Indian rupee was devalued by 159 percent, Pakistani Rupees by 165 percent, Nepalese Rupee by 144 percent and Sri Lankan Rupee by 99 percent during the same period. So, deeper currency depreciation by major trading partners of SAARC countries, especially of India's, has worked against Bangladesh's economic interest. To be precise, it has reduced Bangladesh's foreign exchange reserves created a black economy, encouraged capital flight, and distorted domestic relative prices, and lowered income and employment.

LACK OF JOINT VENTURE

The gap between the demanded and the available capital, technology, entrepreneurship and the organisational resources of SAARC Countries can be filled through joint ventures from relatively more developed countries. Joint ventures among the SAARC countries might also be helpful in achieving mutually beneficial trade and commerce. Bangladesh has not been able to attract any sizeable amount of foreign investment or joint venture investment due to various constraints. The vast potentials available in SAARC countries are still untapped, which can be efficiently use for the product diversification and economic development of the country.

RESTRICTIVE IMPORT POLICIES

The most serious obstacle to the expansion of intra-regional trade has been the pursuance of restrictive import policies. Quite often, the restrictions happen to cover imports of those goods, which are not only

being produced within the region, but also which are in surplus and being held in inventories or exported outside the region. After the introduction of economic policy reforms in recent years, most of the member countries have negative lists of specified commodities, while there is no ban on imports of other than those in the negative lists. Despite this, the import from a member country is restricted to a limited number of specified commodities. While it is true that the import substitution strategy pursued in the past in most of the member countries might have made their production structure highly similar and competing in many cases, the high tariff regime is now being slowly dismantled in many countries. The levels of reduction in tariffs might vary among the member countries, but the tariffs have come down everywhere in the SAARC region in recent years.

The changes in the trade policies of SAARC countries clearly reflect that the tariff barriers are being rapidly dismantled with a view to promoting efficiency in the domestic industrial sectors. Domestic industries are being driven now to face competition from imports. Under these changed circumstances, the continued presence of non-tariff barriers including quantitative restrictions and outright ban on imports or other discriminatory practices among member countries in the region would continue to impede the expansion of intra-regional trade.

PREFERENTIAL TRADING ARRANGEMENTS

The initiative towards establishing SAPTA (South Asian Preferential Trading Arrangements) was taken during the Sixth SAARC Summit in

Colombo in December 1991 within the framework of rules providing for step-by-step liberalization of intra-regional trade (SAARC, 1994). Under SAPTA, the member countries have agreed to exchange lists of products for seeking trade concessions. An "Inter-Governmental Group on Trade Liberalization" has been established to negotiate trade concessions. SAPTA contains provisions giving "Special and Favorable Treatment" to the "Least Developed Countries" (LDCs) in the SAARC region. The agreement envisages periodic reviews of trade concessions on tariffs, para-tariff and non- tariff lines.

Despite strong commitment to implement SAPTA for liberalizing trade amongst member countries, unfortunately the rules, provisions and trade liberalization process remain unutilized as yet. This inactive role of SAPTA though shall be analyzed from the viewpoint of overall SAARC concept; but policy planners failed to operationalize the SAPTA agreement and as a result, it becomes a titular concept.

BILATERAL CONFLICTS

Over the last couple of years, bilateral conflicts in SAARC countries have undergone a process contradictory in nature. India's relations with her neighbors, Bangladesh, Nepal and Sri Lanka in particular are witnessing a process of gradual improvement, though Indo-Pakistan relations experiencing a graduation deterioration that is the major stumbling of regional trade cooperation.

CONCLUSION

Regional co-operation among the SAARC countries has become a necessity to accelerate the pace of economic growth and social development of the member countries. The formation of SAARC has helped the member countries to give greater emphasis to the mobilization of their own resources, accelerating the pace of the economic growth and attainment of collective self-reliance by reducing But the regional co-operation has been hampered by both political and economic constraints.

Some of the major constraints of trade among SAARC countries have been discussed in this chapter. The major problems include tariff and non-tariff barriers, discriminatory treatment by some member countries, lack of information, lack of finance and credit, trade imbalance, non-availability of exportable surplus, high cost of production, lack of sustained dialogue and follow-up, inadequate transport facilities, lack of industrial protection, poor banking relations, threat's of India's dominance, travel and tourism barriers, lack of credibility in regional capabilities, complexities in procedure, lack of quality control, skilled manpower constraints, currency devaluation problem, lack of joint venture, restrictive import policies and preferential trading arrangements constraints. The detailed discussion of the above problems has been critically analyzed with proper empirical evidence.

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CHAPTER - 07

SUGGESTIONS AND POLICY IMPLICATIONS

SUGGESTIONS TO ACHIEVE ECONOMIC GOALS AMONG COUNTRIES

In this study, the existing composition and trends of trade of individual countries of the SAARC and among themselves have been analyzed. It has also been tried to analyze the policy dimensions of the SAARC countries in promoting intra-regional trade and the various factors responsible for constraining the promotion of intra-regional trade.

On the basis of the findings of this study, the following suggestions for improving the existing pattern of trade among the SAARC countries as well as for overcoming the constraints that limit the promotion of intra-regional trade in the SAARC region are recommended:

TRADE POLICY MEASURES

1. The SAARC countries still adopt import substitution methods due to non-availability of resources to protect the home industry and due to trade imbalance. In order to promote intra-regional trade,

these countries have to liberalize their trade with the member countries. The trade liberalization policies to be adopted in such a manner that could benefit all the SAARC countries irrespective of their size, either smaller or larger. That is, all the member countries will get the benefits of trade expansion equitably. Hence while forming a suitable trade liberalization policy for the SAARC region, specific interest of all countries, especially of the smaller countries should be taken into account.

2. The high tariff rates existing in the member countries of the SAARC, discussed in the constraints, as it happens to cover imports of those goods which are being imported from the member countries. It has been found that the existing tariff rates are high in bigger economies of the region like India, Bangladesh and Pakistan and hence these countries should take special initiative to reduce the tariff rates. It is also recommended that tariff concessions should be extended to member countries of SAARC to promote the intra-regional trade.

3. The trade relations among the SAARC countries are characterized by the existence of a variety of non-tariff barriers. They should take measures to withdraw these non-tariff barriers as far as possible with a view to developing intra-regional trade among these countries. They should endeavor to freeze the existing non-tariff barriers, so as to roll these barriers back.

4. The discriminatory attitude of some member countries like Bangladesh, Pakistan and Sri Lanka for the goods on the basis of

nationality of origin should be avoided to expand the intra-SAARC trade. For example, Pakistani citizens dislike Indian product.

5. Preferential treatment on the goods produced in the SAARC region is vital for the promotion of regional co-operation in trade. Hence the SAARC countries which are not providing MFN status to other member countries should provide MFN status to each other as it helps to increase the volume of trade.

6. Regional preferences should be given as far as possible in joint ventures and technology transfer in the region since it will not only help the SAARC countries to establish an industrial base, but also provide an effective instrument for entering into the home market of member countries, thus promoting the trade within the region to a greater extent.

7. Counter-trade that is compensatory trade arrangement in which goods and services are exchanged rather than purchased outright, can be implemented effectively in the SAARC region, if adequate attention is given for the promotion of intra-regional trade.

8. The establishment of a SAARC monetary fund could be suggested to overcome the problems relating finance and credit in the region. This will also serve as a monetary authority to carry out the economic obligations in the region by the member countries.

9. The bigger and better economies of this region like India and Pakistan should forgo some of their advantageous position, which

they are enjoying presently for the promotion of intra-regional trade.

10. Regional Export Processing Zones (EPZ) should be developed in the SAARC region and the potential investors who have requisite technology and know-how, should be extended preferential terms of investment in the zones.

MEASURES FOR DISSEMINATING TRADE INFORMATION

1. The setting up of SAARC secretariat in the commerce ministries of member countries and close interactions among them are recommended for disseminating regional trade information in each country.

2. The establishment of the proposed SAARC Documentation center can provide information on the trade among SAARC countries to the business communities as well as to research scholars. It will also help in identifying the trade potential in the region and increasing the trade in the region.

3. The association between the chambers of Industry and Commerce can not only disseminates information on trade matters, it can also emphasis to identify and resolve the various constraints that affect the intra-regional trade in the SAARC region.

4. Exchange of trade delegations on a bilateral and multilateral basis can be a useful tool in disseminating trade information among

SAARC countries. It will also help in identifying the regional trade potentials in the region.

5. SAARC countries should hold SAARC trade fairs and exhibitions, so that the goods available to meet the demand of the SAARC countries may be exposed to member countries. Such trade fairs and exhibitions should be conducted periodically on rotation so that each member country gets the benefit of exposure to other member countries.

6. Setting up of Joint Business Councils (JBC) and Joint Business Commissions is suggested to disseminate information pertaining to the scope of promotion of intra-regional trade as well as to overcome the constraints existing in the development of trade among the SAARC countries.

7. The SAARC should publish trade-related journals or booklets covering the statistical data of trade of member countries, the trade policies of member countries and the various problems faced by the SAARC countries in the intra-regional trade.

8. The promotion of intra-SAARC trade can be facilitated by holding SAARC Trade conference periodically, which will provide a forum to discuss the problems and prospects of trade among SAARC countries.

MEASURES OF DEVELOPMENT OF INFRASTRUCTURE

1. The existing transport and transit facilities should be examined in detail by the committee specially constituted for it and should

come out with suggestions for improvement and should monitor them for their proper implementations. This will remove the bottleneck in transport and transit system in the SAARC region especially in the land locked countries like Bhutan and Nepal.

2. High freight rates existing in the SAARC region should be reduced to a reasonable limit and regular shipping services may be encouraged to cooperate and coordinate the trading operations in the member countries of the SAARC.

3. The existing telecommunication system and postal services need to be upgraded and modernized in the SAARC region as these are vital for the promotion of trade in the region.

4. All the SAARC countries except Sri Lanka and Maldives can be connected by road and railway services. If liberalized transit and transport facilities are offered in this region by road and railway networks, it can promote the trade between these member countries to greater extent.

MEASURES FOR TRADE FINANCING AND PAYMENT ARRANGEMENT

1. The member countries of SAARC should provide each other adequate line of credit to their importing partners to expand intra-regional trade, since many of the SAARC countries face resource constraints for their imports.

2. The establishment of SAARC financial institution will facilitate the improvement of trade in the region as it can finance and monitor the trading transactions of the private sector of the SAARC region.

3. The increased co-operation between the existing trade financing institutions and commercial banks of the member countries of the SAARC can extend credit facilities at concessional rates to both importing and exporting countries.

4. The line of credit also should be extended to overseas buyers of the region on a preferential basis, and it can increase the trade in the region as many importers of the member countries of SAARC face the problem of financial resources.

5. As all the member countries of the SAARC are not members of the Asian Cleaning Union (ACU), the establishment up of a SAARC cleaning union can be thought of since it eliminates or reduces the exchange rate margins and provides guarantee against the risk of non-convertibility and non-transferability of the values of transaction.

6. Since all the member countries of SAARC face the problems of foreign exchange, counter-trade and offshore trading may be preferred in the region to promote intra-SAARC trade.

7. To facilitate the banking transactions and to avoid increasing delay in settling transaction in the region, the establishment of a SAARC bank can be considered.

8. If a wider cooperation is expected from the member countries of the SAARC on the economic front, the introduction of common currency in the SAARC region can be thought of as it will remove the major bottlenecks faced by the member countries of the SAARC in their intra-regional trade.

INSTITUTIONAL MEASURES

1. Strengthening of institutional infrastructure at the political level is a necessity for promoting trade among member countries of the SAARC.

2. The adopted constitution for the establishment of SAARC chamber in the meeting of the representatives of the Federation/ Association of the SAARC region in March 1992 in Kathmandu should be finalized and launched as early as possible. This will help to promote economic co-operations among the SAARC countries, especially in the area of international trade.

3. A regional state trading organization may be launched to meet the domestic demand of the SAARC region as well as to expose the export potential of the region to the outside world.

4. A regional research organization may be established under the direct supervision of the SAARC secretariat to carry out research on the economic problems faced by the SAARC economies especially in the area of international trade and its development. The research findings of this organization should provide a suitable basis for future policy measures in the region.

5. The formation of SAARC Trade Promotion Organization will help the SAARC countries in promoting their trades both within the region and with rest of the countries of the world.

6. The establishment of SAARC "Institute of Foreign Trade" will be a vital tool in the promotion of intra-regional trade as it will supply adequate member of trained persons for trade-related activities in the region.

MEASURES FOR HARMONIZATION AND STANDARDIZATION

1. The existing procedural formalities in the SAARC countries should be simplified and harmonized on a preferential basis to increase the volume of trade in this region.

2. The opening of letter of credit in respect of trade within the region should be made uniform in all the SAARC countries.

3. The existing lengthy custom procedures in different economies of the SAARC countries have to be liberalized to strengthen the trade among SAARC countries.

4. An appropriate mechanism has to be worked out to ensure quality of goods traded in the region, delivering schemes and after sales services and also to dispose of the traders' complaints.

5. The SAARC countries should relax the curbs on travel especially to the commercial travelers and should extend free visa to the member countries of SAARC.

POLICY DIMENSIONS OF TRADE RELATIONS AMONG SAARC COUNTRIES

The existences of tariff as well as non-tariff barriers impede the trade relation significantly among the SAARC countries. As a result, the expansion of intra-SAARC trade has not taken its momentum even after the elapse of nearly eighteen years from the formation of the SAARC. Restrictive trade policies adopted by member countries of the SAARC pose some serious obstacles to the trade expansion among the SAARC countries. Besides, some member countries also adopt discriminatory policies against the intra-SAARC trade. From this study, some of the policies of trade relations among the SAARC countries include trade agreements, exchange restrictions, counter trade, joint venture, export promotion, import substitution and state trading.

TRADE AGREEMENTS

The incidence of trade barriers has been reduced to concessions under various bilateral and multilateral agreements between the SAARC countries. The existence of bilateral agreements among the SAARC countries plays a significant role in the formation of trade policies and thus expansion of trade. Its existence was not a hindrance to the formation of the SAARC, and the constitution of the SAARC does not prohibit the further bilateral agreements. The SAARC countries while negotiating the trade preferences, should consider the existing bilateral trade agreements.

EXCHANGE RESTRICTIONS

Foreign exchange is an important factor for each country for the expansion of trade with other countries. There is a need for an in-depth study of the currency systems of member countries of the SAARC as it is necessary for harmonizing trade relations among them. Being the SAARC member countries developing ones and being the availability of their foreign exchange reserves limited, they are now facing a lot of constraints for further expansion of trade. The situation, therefore, is more severe than it was earlier. An important mechanism for facilitating and increasing intra-regional trade is the bilateral and multilateral Clearing and Payment Arrangements (CPAs).

The main purpose of CPA's is to clear current transactions in the currencies of member countries of the SAARC and use the freely convertible currencies to settle the balances arising from the periodic settlement. As all of the SAARC countries are facing the problem of foreign exchange scarcity, any kind of such CPA within the region facilitate the expansion of intra-regional trade as it will save the convertible currency by making periodic settlement. This saving of convertible currency will reduce the over-dependence on exports for foreign exchange and also import curbing due to lack of sufficient foreign exchange.

The CPA reduces or eliminates exchange rate margins and provides a guarantee against the non-convertibility and non-transferability risk of the transaction value and reduces transaction costs and exchange charges. It also brings a corresponding banking relationship among the

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commercial and central banks of this region. As the CPAs are part of comprehensive economic co-operation and as it greatly reduces the exchange restriction between the agreed countries, it is considered as complementary to other mechanisms for promoting intra-regional trade among the SAARC countries.

GATT AND ITS IMPACT ON SAARC

General Agreement on Tariffs and Trade (GATT) is a multilateral trading agreement, which confers the benefits of Most Favored Nation (MFN) status to all its 117 members. These benefits include reduced tariffs and increased market access. This has proved to be an effective trade agreement, as the trade in the SAARC region is hindered by the existence of high tariffs and non-accessibility to the markets of each member country.

The successful conclusion of the GATT trade deal would result in significant expansion in the world trade. As such, the developing countries could also substantially increase its exports. The major share of exports of the SAARC countries are agricultural based and in the key agricultural sector, the GATT provides a framework for the reduction in export subsidies by developed countries and this would make the region's agricultural exports more competitive in the world markets. Though the agreement provides for the import of agricultural products despite their strong reservation from the developing countries, the market accessibility to other exporting countries of agricultural product can be achieved.

COUNTER TRADE

Counter-trade refers to a compensatory trade arrangement in which goods and services are exchanged rather than purchased outright. Different types of counter trades may include barter arrangement, switch trading, buy-back arrangement, and counter-purchase arrangements.

The establishment of an effective counter-trade arrangement among the member countries of the SAARC will increase intra-regional trade in the South Asia. It can also be used as an effective tool for enhancing the foreign trade of the member countries of the SAARC. In counter-trade, a generic title for any form of trade does not constitute sole or total payment for goods and services received. As the counter-trade does not require much foreign exchange, the limited foreign exchange available in the SAARC economies can be effectively used for the import of goods and services from outside the SAARC region, where the counter-trade arrangement does not exist.

Counter-trade facilitates to overcome the protective trade policies of the countries. Since most of the SAARC countries are following protective trade policies and trade discrimination, counter-trade offers a vital tool for expanding the trade in the region. It stimulates trade and helps to explore new markets. This will help the international trade of the SAARC countries, which are on a low profile in the region. It should be mentioned that counter-trade requires careful planning to ensure that the products are of good quality, easily marketable and reasonably

priced, etc. These products also suit the domestic demands and be delivered in time.

JOINT VENTURES

The gap between the demand and the availability of capital, technology, entrepreneurship and organizational resources of less developed countries in the SAARC region can be filled from relatively more developed countries through joint ventures projects. This will not only enable the efficient utilization of the capabilities and resources of the SAARC countries but also contribute significantly to the concept of collective self-reliance in the South Asian region. Of course, it is observed that in recent time, the SAARC region witnessed the emergence of joint ventures in the area of service and manufacturing sectors.

The joint venture in the South Asian region can be an effective tool in the development of the region, as it is more appropriate and adaptive to the local conditions. This will also reduce the dependence on the imported capital and raw materials from the region outside SAARC. The determination of core areas of joint venture in the SAARC region depends upon the policy objective of the types of joint venture and the economic priority of the SAARC countries.

The possibilities of joint ventures in the SAARC region should be explored, as it is mutually beneficial for the trade and development of the SAARC region. The existing joint ventures represent only a small portion of the vast potentials available in the region. It also brings out

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the fact that there exist ample opportunities for joint ventures in the SAARC countries. If more joint ventures are established in the less developed sectors of the economies in the SAARC countries, the untapped resources of this region can be efficiently used to ensure its economic development and attain self-reliance of the same.

EXPORT PROMOTION

Trade is an important indicator of the extent of interdependence between the countries of the SAARC region. The export earnings are the only dependable and all time source of foreign exchange for developing countries, especially in the SAARC region, where the member countries are some of the least developed in the world. The various sources of foreign exchange such as loans and grants suffer from the mood of the suppliers and carry high servicing charges, and repayment obligations, while the availability of private remittances are uncertain. Hence export has to be promoted both within the SAARC region to reap the benefit of regional economic cooperation and also outside the region for the economic development of the individual SAARC country.

In the promotion of the intra-regional trade of this region, the avenues for regional cooperation may include trade liberalization, market sharing agreements, payment arrangement and monetary cooperation, SAARC chamber of commerce and industry, SAARC trade fairs and exhibitions, SAARC trade preference, unrestricted transit facilities, and SAARC common market.

IMPORT SUBSTITUTION

The economies of SAARC countries face the problem of adverse balance of payment position. The foreign exchange earnings in these economies are not sufficient enough to meet its import requirements. This limits the import from other countries. As the finance and credit facilities available to these countries are limited, the member countries of SAARC may adopt the method of import substitution to meet their domestic demand. This will facilitate in saving the limited foreign exchange available to these economies and help to import essential commodities, which are not available or produced in the respective countries of the region. Hence the non-availability of adequate foreign exchange reserves for imports is one of the factor that led the SAARC countries to adopt import substitution.

The existing pattern and structure of trade in the SAARC region has resulted in the trade imbalances in the region. Most of the member countries of the SAARC have adverse balance of trade. This also has led to the adoption of import substitution policies in the individual economies of the SAARC countries. To have more intra-regional trade, which is a necessity for the development of the SAARC region, the existing import substitution policies have to be liberalized.

STATE TRADING

The concept of state trading is that import and export transactions are controlled and managed by state owned or state controlled agencies. The main objective of state trading is to facilitate the development of trade in the country by assisting the inadequate number of private

traders in solving the difficulties and problems arising out of their trades with other countries. The State Trading Organizations (STO) may play an important role in the individual economies of the member countries of the SAARC. But a common State Trading Organization is yet to emerge in the SAARC region. The emergence of SAARC STO will facilitate the member countries not only to expand the trade between these countries, but also to explore new markets for the member countries.

Off shore trading could be an another area of fruitful co-operation in the regional trade of the SAARC countries. The contents and market information available to member countries of the SAARC can be utilized to export products and services to other third countries as well. Thus if there is a proper co-ordination among the STOs existing in the SAARC countries, it can expand the international trade within the region as well as outside the region.

CONCLUSION

Intra-regional trade continues to retain a marginal character in the SAARC countries. A broad trade policy is required to improve the trade among the SAARC countries. The exports of the region should be improved further to strengthen the economy, and the imports should be met as far as possible from the region itself, by taking advantage of regional proximity. The available resources existing in the region should be exploited and the possibilities of trade diversification should be explored fully to expand the trade in the region.

The political differences existing among the SAARC countries should be set aside, and these countries should focus on the speedy economic development of the region. The signing of SAPTA and its early implementation expects to limit the constraints faced by the member countries of the SAARC to further expansion of trade in the region. But it is much dependent on the will of the member countries for its implementation.

The trade liberalization in the SAARC region will be a useful tool in the expansion of trade in the region. The expansion of trade in the region can give a new dimension to the concept of regional co-operation in South Asia and, undoubtedly, it will strengthen the SAARC organization. This will also enable the countries to achieve the declared objectives of the SAARC and accelerate the pace of economic growth as well as social development of member countries by promoting the objectives of individual and collective self-reliance.

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CHAPTER-08

SUMMARY AND CONCLUSION

Regional co-operation among the SAARC countries has become a necessity to accelerate the pace of economic growth and social development of the member countries. The formation of SAARC has helped the member countries to give greater emphasis to the mobilization of their resources, accelerating the pace of the economic growth, and attainment of self-reliance by reducing the excessive dependence on developed countries. But the regional co-operation has been hampered by both political and economic constraints.

SAARC is a family of seven members. They are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The trade data relating to export and import of Maldives and Bhutan are highly erratic and did not show any secular trend. Because of erratic and non-availability of export and import data of these two countries, the present study examines the gains and losses from the trade of only five member

countries of SAARC which include Bangladesh, India, Pakistan, Sri Lanka and Nepal. These five countries provide the unit of analysis of the study.

The study is conducted based on published secondary data and information. All relevant information/data have been collected from such sources as Bangladesh Bureau of Statistics, Export Promotion Bureau, Direction of Trade Statistics Year Book (IMF, Washington D.C.). The study is both qualitative and quantitative in nature and as such, some workable hypotheses are developed and tested accordingly. Simple average, percentage, annual growth rates, semi-log growth rate, sign test have been calculated and gravity model is tested to arrive any meaningful conclusion. Suggestions put forward are simply the normative statement along with experiences utilised by the neighbouring countries to make the balance of trade favourable.

In this study, the existing trade compositions and trends of individual countries of the SAARC, among themselves as well as with the rest of the world, have been analyzed. Major constraints of trade among the SAARC countries have been discussed and some suggestions have been put forward in this study. It has also been tried to analyze the policy dimensions of the SAARC countries in promoting intra-regional trade and the various factors responsible for constraining the promotion of intra-regional trade.

Trend analysis shows that trade balance of Bangladesh with major nations of the SAARC has always been unfavorable. India and Pakistan

are the two major trading partners of Bangladesh in the SAARC region. The share of imports from India is on an increasing trend while from Pakistan it shows a fluctuating trend. Pakistan has the status of being the largest export market among the SAARC countries accounting for nearly one-half of the Bangladesh's exports while India is the major source of imports among the SAARC countries accounting for more than three-fourths of the imports. Its trade with Sri Lanka is significant and that of Nepal is insignificant. There is no trade relation with Bhutan and Maldives. In Bangladesh, one must not disagree with the view that policy changes with the change of state power. As a result, Bangladesh's performance of external trade even with neighboring countries is extremely sluggish.

India's trend of trade exhibits that the trade recorded reasonably good growth rates and the economy diversified its industrial base and it provided a high degree of economic self-reliance. The exports as well as imports increased considerably during the last decade. India's trade with SAARC countries exhibits that there exists a high degree of instability and commodity concentration. The SAPTA may play a vital role in enhancing the country's trade with other member countries of the SAARC by reducing the tariff and eliminating the non-tariff barriers.

Bangladesh, Sri Lanka, and India have been major trading partners of Pakistan among SAARC countries. Pakistan didn't have significant trade relation with Nepal. Pakistan's exports to Maldives and Nepal are not substantial and exports to Bhutan are not significant. As in the

cases of exports; Bangladesh, India and Sri Lanka are the three important sources of imports for Pakistan contributing nearly 96.3 percent of imports from the region in 2000. Exports to India have been quite volatile in terms of commodity composition. Erratic and insignificant trade was recorded with Bhutan, Maldives and Nepal.

Sri Lanka's trends of trade shows that India and Pakistan had been the major trading partners among the SAARC countries. More than 92 percent of the total trade both exports and imports with the SAARC countries are with these two countries. Bangladesh has also emerged as one of the growing exports market of Sri Lanka among the SAARC countries. Though the total exports to SAARC countries are on a declining trend, the imports from the region have increased substantially. Sri Lanka's import from Bangladesh was on a declining trend. Sri Lanka's trade both imports and exports with Nepal were not significant and in case of Bhutan there was no trade relationship.

The major commodities exported from Nepal are agricultural products, as the base of its economy is agriculture. Hence, the industrial products are yet to become main contributors to the total export earnings of the country. India was the main trading partner both in terms of export and import. The trade diversification process initiated recently was a helping hand to commence trade with Bangladesh, Pakistan, etc. and it hoped to increase considerably in the coming years. Nepal has no trade relation with Maldives and Bhutan. The signing of SAPTA and its implementation is hoped to establish trade relations with these countries of the region.

The major problems include tariff and non-tariff barriers, discriminatory treatment by some member countries, lack of information, lack of finance and credit, trade imbalance, non-availability of exportable surplus, high cost of production, lack of sustained dialogue and follow-up, inadequate transport facilities, lack of industrial protection, poor banking relations, threat's of India's dominance, travel and tourism barriers, lack of credibility in regional capabilities, complexities in procedure, lack of quality control, skilled manpower constraints, currency devaluation problem, lack of joint venture, restrictive import policies and preferential trading arrangements constraints.

The suggestions for improving the existing pattern of trade among the SAARC countries as well as for overcoming the constraints of intra-regional trade include trade policy measurement, measures for disseminating trade information, development of infrastructure, trade financing and payment arrangement, institutional measures, harmonization and standardization, etc.

The existence of tariff and non-tariff barriers impedes the trade relation between countries and these barriers are highly significant in the trade relation amongst the SAARC countries. Restrictive trade policies adopted by member countries of the SAARC pose as one of the most serious obstacles to the trade expansion among the SAARC countries. Policy dimensions to improve the trade relations among the SAARC countries include trade agreements, exchange restrictions, counter

trade, joint venture, export and import promotion, import substitution, state trading.

The intra-regional trade continues to retain a marginal character in the SAARC countries. While the trade inflows between the SAARC region and the developing countries continue to be significant, the trade among the countries of the region is less significant. The trade among the countries of the region is composed of a few commodities and it is confined mainly to primary commodities.

A broad trade policy is required to improve the trade among the countries of the region. The exports of the region should be promoted further to strengthen the economy, and the imports should be met as far as possible from the region itself, by taking advantage of regional proximity. The available resources existing in the region should be exploited to the fullest extent and the possibilities of trade diversification should be explored fully to expand the trade in this region.

The political differences existing among the SAARC countries should be set aside, and the main focus should be on the speedy economic development of this region. The signing of SAPTA and its early implementation are hoped to limit the constraints faced by the member countries of the SAARC to further expansion of trade in this region. But it is much dependent on the will of the member countries for its implementation.

The trade liberalization in the SAARC region will be a useful tool in the expansion of trade in this region. The general feeling in the SAARC countries is that the trade liberalization will benefit only the more developed countries of the region and, therefore, adequate steps should be undertaken to win the confidence of the smaller countries of the region.

The expansion of trade in the SAARC region can give a new dimension to the concept of regional co-operation in South Asia. This will again strengthen the SAARC organization. This will also enable to achieve the declared objectives of the SAARC and will accelerate the pace of economic growth and social development of member countries by promoting the objective of individual and collective self-reliance.

The SAARC economies, realizing the economies of foreign trade, have liberalized their economies to promote the international trade. The government of Pakistan has withdrawn the requirement of prior issue of import license for items declared in the free list. Bangladesh and Sri Lanka also have made liberalization in their respective economies for facilitating the international trade. But unfortunately, very little has been done to promote the intra-regional trade in the region.

In fine, it could be told that it has become a necessity to introduce revolutionary trade among the member countries of the SAARC. This will help achieve comparative advantage in production along with efficient and effective utilization of available resources, thus resulting in accelerating the pace of economic development in this region. As the

trade relations with member countries of the SAARC are accounted for by few commodities and these are confined to mainly primary commodities, it is essential to improve the trade relations and diversify the trade among the member countries.

The low level of intra-regional trade in South Asia partly reflects the similarity of the comparative advantage pattern within the region and also the structural rigidities created by political constraints. The competitive nature of the SAARC economies suggests that mere removal of trade barrier is not likely to have significant impact on intra-regional trade. Efficient expansion of regional trade is likely to be based on a planned re-organization of the industrial structure which can create horizontal and vertical complementarities as well as generate scale economies.

Non-economic factors also contribute to low intra-regional trade. The long history of political conflicts, particularly among India, Pakistan and Bangladesh has caged in potentially profitable trade channels. In addition, financing difficulties compound the problem. All South Asian countries are heavily dependent on foreign assistance for financing their large and expanding trade deficits. The terms and conditions of foreign aid frequently constrain the recipients to purchase from specified donor sources.

The economies of the SAARC countries are similar in factor endowments and cost structure. Therefore, inter-industry trade based on comparative advantage is unlikely to be significant in the SAARC countries. The modem theory of international trade suggests that countries with similar patterns of demand are likely to trade more

among themselves because goods which have achieved economies of scale can more easily be sold in another country having a similar preference pattern. Therefore, economies of scale can trigger profitable trade flows even in the absence of comparative advantage.

Expanded regional markets within the SAARC should make it possible for many consumer good industries to achieve significant scale economies thus boosting regional trade. However, to the extent that the region's comparative advantage is going to lie in the production of relatively simple consumer goods, an effective market for them must be ensured. This calls for a policy of diverting purchasing power to the relatively poorer segments of the population. Success of the SAARC in this direction is clearly linked to an egalitarian development policy the region.

In addition to the horizontal integration of the regional consumer goods industry, intra-regional trade can also be increased through vertical integration. Typically, raw materials such as jute, cotton, leather, food, minerals, pass through several stages of fabrication. The essence of vertical integration is to allow one country specialize in one stage of production of the final commodity thereby realizing the economies of scale associated with the particular stage of production.

The level of intra-regional investment by the SAARC countries has been very low. India is the major foreign investor within the region. There are several reasons for the low level of intra-SAARC investment. First, there are three major determinants of foreign investments in developing countries: the size of domestic market, avoidance of anticipated tariff barriers, and the access to markets in the host country's regions.

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Except for India, the small size of the domestic markets in the SAARC region offers little prospect for efficient scale of operation and hence profitability. Coupled with this issue is the low per capita income in these countries, which discourages foreign investment exclusively for the purpose of serving the domestic markets.

The SAARC countries compete with each other for similar types of foreign investment. The SAARC countries, with the possible exception of India, have inherited the most labor intensive production processes while the Pacific Rim countries move on to production of goods that require more skilled labor and capital. In earlier stages, production utilizing relatively labor intensive technologies move to the Pacific Rim countries from the developed countries after they switched to the second or third generation technologies. The relatively cheap labor cost is still a major incentive for investment in the SAARC region countries.

There is also a lack of investible surplus in the private sector in the SAARC countries. The growth of intra-SAARC investment can take place if the scope of the market is regional. Another reason may be the efficiency in the scale of plants achieved by the consolidation of the production of competing products. These products could be for regional production as well as for export.

The major impetus for the growth of foreign investment in the SAARC countries within the region has to come from India, the dominant economic entity within the region. India's current state of industrial

development, as well as its technical and manpower capabilities could serve as resources for the whole region.

The SAARC countries can increase financial cooperation among themselves via clearing union arrangements, export credits and payments unions. The lack of internally generated foreign exchange in many of the SAARC countries mean that most of the funds needed to finance imports must be obtained abroad. Often the financing is in the terms of development assistance or export credits made available by the developed countries. While this type of concessionary financing increases north-south trade, it does not provide any assistance in intra-SAARC trade. Increased financial assistance among SAARC countries may be able to achieve the later.

The international inconvertibility of the currencies of the member countries hinders trade. Since payments for trade (between the currencies) generally have to be made in convertible currencies, their own currencies are of little use. However, the provision of convertible currencies run up against the foreign exchange constraint faced by the SAARC countries.

The operational issue is then to devise financial arrangements that facilitate greater trade and investment linkages and in the process circumvent the need for convertible currencies. Three such arrangements are clearing union, export credit and payments union.

The Asian Clearing Union (ACU) already exists and could be strengthened. Of the SAARC countries, Bangladesh, India, Nepal, Pakistan and Sri Lanka are members of the ACU. The scope of the ACU could be enlarged by including the Maldives and Bhutan. In 1992 about 30 percent trade among these countries were transacted the ACU. This figure can be improved upon with better cooperation among these countries. Another financing option to increase trade could be the provision of export credits by the SAARC countries. India provides short-term export credits only allowing the exporters to obtain local currency payments while waiting for payment in convertible currency. This type of arrangement is efficient if proceeds from export earnings are used to purchase goods from the importing country. Otherwise, the importing country is once again faced with the prospect of obtaining convertible currency. Finally, payments unions can also facilitate trade among the SAARC countries. A payments union envisages the setting up of a fund that will be used to provide medium-term balance of payments credit to the subscribing countries.

Any financial arrangement, however, among the SAARC countries will be limited by the non-convertibility of the currency of the member countries and the region's chronic (convertible) foreign exchange shortage. The success of arrangements such as export credit facilities, the ACU and payments union will depend on the participation of multilateral institutions such as the ADB or the World Bank particularly in providing access to convertible currencies. An alternative route could be willingness on the part of the trade surplus countries to accept non-convertible currencies as payment.

A striking feature of the SAARC economies is that the volume of intra-regional trade is very low and the dependence on the industrialized countries considerable. To the extent that regional trade is limited by the absence of complementarily in production and resource base and financing difficulties, immediate benefits from trade creation within the SAARC are not likely to be significant. However, trade in the region is also inhibited by structural rigidities created by political conflicts. Removal of such rigidities under the SAARC can open up some profitable intra-regional trade channels. In the long run, structural change through regional planning can create new vertical and horizontal linkages through regional planning can create new vertical and horizontal linkages to generate dynamic benefits from integration. In addition, there is room for mutually profitable cooperation within the SAARC in the areas of trade cooperation in external markets and regional water management with regard to the problems of floods and irrigation.

However, unimpeded liberalization of trade and investment may increase the dominance of India within the SAARC given her vastly superior economic size and relatively high level of industrialization. Integration among the SAARC countries may trigger both "backwash" and "spread" effects and the former is likely to stronger than the latter in the case of the SAARC countries, because pre-union disparities among members are high. Therefore, a precondition for successful integration among the SAARC countries is a diffusion of political tensions so that regional complementarities and scale economies can be exploited and at the same time, mutually agreeable mechanisms for

equitable distribution of benefits and costs of integration can be put in place.

Bangladesh needs to make massive investments in both yarn and fabric manufacture to cope with the termination of the MFA where we will be left to substitute our own imported inputs if we are to remain competitive. The issue of investments designed to service RMG exports thus remains a central theme of prospective industrialization strategy and export program of Bangladesh. Bangladesh needs, in this respect, to develop a new generation of export industries in the area of consumer electronics, leather and silk products, gem-processing, soft toys and computer software to both augment as well as diversify her export base.

In order to reduce the huge trade deficit with India, Bangladesh should, among other things, devalue its currency further, stop border smuggling, seek reduction in tariff and non-tariff barriers on Bangladeshi exports to India, encourage more Indian investment into Bangladesh and make the SAPTA more meaningful and operational.

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APPENDIX - I

SELECTED REGIONAL INTEGRATION AGREEMENTS WITH DEVELOPING COUNTRY MEMBERS

In this appendix, the name of the agreement is followed by the type of agreement (common market, customs union, FTA, and so on) and by the governing GATT/WTO provision. Article XXIV of the GATT sets out the conditions under which the formation of FTAs or customs unions is permitted. The GATT Enabling Clause, approved in 1971, allows members to "accord differential and more favorable treatment to developing countries without according such treatment to other contracting parties." The years are the dates of notification to the GATT/WTO or, if not notified, of founding.

RIAs BETWEEN DEVELOPED AND DEVELOPING ECONOMIES

European Union (EU), common market, Article XXIV; formerly European Economic Community (EEC), European Community (EC), 1957, Belgium, France, Germany, Italy, Luxembourg, Netherlands; 1973, Denmark, Ireland, United Kingdom; 1981, Greece; 1986, Portugal, Spain; 1995, Austria, Finland, Sweden.

European Economic Area (EEA), FTA, Article XXIV. 1994, EU, Iceland, Liechtenstein, Norway.

Euro-Mediterranean Economic Area (Euro-Maghreb), FTAs, Article XXIV. Bilateral agreements: 1995, EU and Tunisia; 1996, EU and Morocco.

EU bilateral agreements with Eastern Europe, FTAs, Article XXIV. 1994, with Hungary, Poland; 1995, with Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Romania, Slovak Republic, Slovenia.

North American Free Trade Agreement (NAFTA), FTA, Article XXIV; extension of 1989 Canada-United States Free Trade Agreement (CUSFTA), Article XXIV. 1994, Canada, Mexico, United States.

Asia-Pacific Economic Cooperation (APEC), regional but not preferential agreement; not notified to the WTO. 1989, Australia, Brunei Darussalam, Canada, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, United States; 1991, China, Hong Kong (China), Taiwan (China); 1993, Mexico, Papua New Guinea; 1994, Chile; 1998, Peru, Russian Federation, Vietnam.

LATIN AMERICA AND THE CARIBBEAN

Andean Pact, customs union, Enabling Clause. 1969 (revived in 1991), Bolivia, Colombia, Ecuador, Peru, Venezuela.

Central American Common Market (CACM), customs union, Article XXIV. 1960 (revived in 1993), El Salvador, Guatemala, Honduras, Nicaragua; 1962, Costa Rica.

Common Market of the South/Mercado Comun del Sur (MERCOSUR), customs union, Enabling Clause. 1991, Argentina, Brazil, Paraguay, Uruguay.

Group of Three (G3), FTA, Enabling Clause. 1995, Colombia, Mexico, Venezuela.

Latin American Integration Association (LAIA), Enabling Clause; formerly Latin American Free Trade Area (LAFTA), Article XXIV, 1960. Revived as LAIA, 1980, Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

Caribbean Community and Common Market (CARICOM), customs union, Article XXIV. 1973, Antigua and Barbuda, Barbados, Jamaica, St. Kitts and Nevis, Trinidad and Tobago; 1974, Belize, Dominica, Grenada, Montserrat, St. Lucia, St. Vincent and the Grenadines; 1983, The Bahamas (part of the Caribbean Community but not of the Common Market).

AFRICA

Cross-Border Initiative (CBI), common policy framework, with the support of the International Monetary Fund (IMF), the World Bank, the EU, and the African Development Bank; not notified to the WTO. 1992, Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe.

East African Cooperation (EAC), other, Enabling Clause; formerly East African Community, 1967, broke up in 1977. Revived 1996, Kenya, Tanzania, Uganda.

Economic and Monetary Community of Central Africa/Communaute conomique et monetaire d'Afrique Centrale (CEMAC), customs union, Enabling Clause, 1999. Formerly Union douaniere et economique de l'Afrique Centrale (UDEAC); 1966, Cameroon, Central African Republic, Chad, Republic of Congo, Gabon; 1989, Equatorial Guinea.

Economic Community of West African States (ECOWAS), FTA, Enabling Clause. 1975, Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo.

Common Market for Eastern and Southern Africa (COMESA), FTA, Enabling Clause. 1993, Angola, Burundi, Comoros, Djibouti, Arab Republic of Egypt, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe.

Indian Ocean Commission (IOC), integrated regional program for development of trade; not notified to the WTO. 1982, Comoros, Madagascar, Mauritius, Seychelles.

Southern African Development Community (SADC), FTA, Enabling Clause; formerly known as the Southern African Development Coordination Conference (SADCC). 1980, Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, Zimbabwe; 1990, Namibia; 1994, South Africa; 1995, Mauritius; 1998, Democratic Republic of the Congo, Seychelles.

West African Economic and Monetary Union/Union economique et monetaire ouest – africaine (UEMOA), customs union, Enabling Clause; formerly Economic Community of West Africa (CEAO), 1973. 1994, Benin, Burkina Faso, Cote d'Ivoire, Mali, Niger, Senegal, Togo; 1997, Guinea-Bissau.

Southern African Customs Union (SACU), customs union. 1910, Botswana, Lesotho, Namibia, South Africa, Swaziland.

Economic Community of the Countries of the Great Lakes/Communaute economique des pays des grands lacs (CEPGL), to promote regional economic cooperation and integration; not notified to the WTO. 1976, Burundi, Democratic Republic of the Congo, Rwanda.

EUROPE

Central European Free Trade Area (CEFTA). 1993. 1996, Czech Republic, Hungary, Poland, Slovak Republic, Slovenia; 1997, Romania; 1999, Bulgaria.

Committee for Mutual Economic Assistance (CMEA, also known as COMECON). 1949, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Soviet Union; 1949, Albania; 1950, Democratic Republic of Germany; 1962, Mongolia; 1972, Cuba; 1978, Vietnam. China attended meetings as an observer between the late 1950s and 1961. The Federal Republic of Yugoslavia negotiated a form of associate status in 1964.

MIDDLE EAST AND ASIA

Association of Southeast Asian Nations (ASEAN), 1967. 1977, ASEAN Preferential Trading Arrangement, Enabling Clause; 1992, ASEAN Free Trade Area (AFTA), Enabling Clause, Indonesia, Malaysia, Philippines, Singapore, Thailand; 1994, Brunei Darussalam; 1995,

Vietnam; 1997, Lao People's Democratic Republic, Myanmar; 1999, Cambodia.

Arab Common Market, long-term aim is customs union, Article XXIV. 1964, Agreement for Economic Unity among Arab League States.

Gulf Cooperation Council (GCC), other, Enabling Clause. 1981, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

South Asian Association for Regional Cooperation (SAARC) Preferential Trading Arrangement (SAPTA), preferential trading agreement, Enabling Clause. 1995, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.

APPENDIX – II
ALL TABLES

Table-1
Bangladesh's Trade with SAARC Countries
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	63.00	--	79.30	--	-9.30
1992	61.60	-2.22	60.00	-24.33	1.60
1993	106.50	72.89	79.20	32.00	27.30
1994	76.50	-28.17	87.40	10.35	-10.90
1995	53.90	-29.54	91.10	4.23	-37.20
1996	44.20	-18.00	116.90	28.32	-72.70
1997	64.60	46.15	160.20	37.04	-95.60
1998	50.90	-21.21	162.10	1.19	-111.20
1999	60.50	18.86	249.90	54.16	-189.40
2000	79.30	31.07	251.80	0.76	-172.50

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = -2.33\%$

$SLGR_i = 54.46\%$

Table-2
Bangladesh's Trade with SAARC Countries as a Percentage of Total Trade

(Value in millions of US Dollars)

Year	Exports to SAARC	Total Exports	Share in Percent	Imports from SAARC	Total imports	Share in Percent
1991	63.00	768.00	8.20	79.30	2418.50	3.28
1992	61.60	724.00	8.51	60.00	2291.10	2.62
1993	106.50	931.30	11.44	79.20	2870.30	2.76
1994	76.50	998.80	7.66	87.40	2526.20	3.46
1995	53.90	888.90	6.06	91.10	2550.40	3.57
1996	44.20	1076.80	4.10	116.90	2730.30	4.28
1997	64.60	1291.10	5.00	160.20	3034.10	5.28
1998	50.90	1304.90	3.90	162.10	3617.60	4.48
1999	60.50	1671.80	3.62	249.90	3656.10	6.84
2000	79.30	1687.50	4.70	251.80	3381.40	7.45

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

Table-3
Bangladesh's Trade with India
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	20.30	--	43.30	--	-23.00
1992	6.90	-66.01	37.90	-12.47	-31.00
1993	28.30	310.14	56.50	49.08	-28.20
1994	29.60	4.56	64.90	14.87	-35.30
1995	7.70	-73.99	57.20	-11.86	-49.50
1996	11.00	42.86	74.40	30.07	-63.40
1997	8.70	-20.91	90.00	20.97	-81.30
1998	10.70	22.99	120.70	34.11	-110.00
1999	21.70	102.80	170.30	41.09	-148.60
2000	22.80	5.07	189.50	11.27	-166.70

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = -11.68\%$

$SLGR_i = -15.9\%$

Table-4
Bangladesh's Trade with Pakistan
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	42.10	--	25.50	--	16.60
1992	51.40	22.09	17.20	-32.55	34.20
1993	63.30	23.15	18.60	8.14	44.70
1994	41.50	-34.44	17.70	-4.84	23.80
1995	35.50	-14.46	26.30	48.59	9.20
1996	27.90	-21.41	37.30	41.83	-9.40
1997	33.40	19.71	62.50	67.56	-29.10
1998	23.40	-29.94	26.00	-58.40	-2.60
1999	23.20	-0.85	70.10	169.62	-46.90
2000	39.10	68.53	57.40	-18.12	-18.30

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = 0.74\%$

$SLGR_i = -8.38\%$

Table-5
Bangladesh's Trade with Sri Lanka
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	0.50	--	3.50	--	-3.00
1992	0.50	0.00	4.70	34.29	-4.20
1993	0.30	-40.00	.10	-12.77	-3.80
1994	0.20	-33.33	4.80	17.07	-4.60
1995	0.60	200.00	7.60	58.33	-7.00
1996	0.20	-66.67	5.00	-34.21	-4.80
1997	17.90	8850.00	7.70	54.00	10.20
1998	6.50	-63.69	14.40	87.01	-7.90
1999	8.20	26.15	8.00	-44.44	0.20
2000	5.90	-28.05	4.80	-40.00	1.10

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = -27.97\%$

$SLGR_i = -3.21\%$

Table-6
Bangladesh's Trade with Nepal
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	--	--	--	--	--
1992	--	--	--	--	--
1993	3	--	--	--	--
1994	12	300	--	--	--
1995	13	8.33	1	--	12
1996	8	-38.46	8	700.00	0
1997	5	-37.5	7	-12.50	-2
1998	2	-60.00	10	42.85	-8
1999	1	-50.00	18	80.00	-17
2000	0	-100	2	-88.89	-2

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = 4.52\%$

$SLGR_i = -12.22\%$

Table-7
India's Trade with SAARC Countries
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	197.00	--	120.00	--	77.00
1992	233.00	18.27	89.00	- 25.83	144.00
1993	315.00	35.19	105.00	18.04	209.94
1994	270.00	- 14.29	112.02	6.62	157.98
1995	277.00	2.59	73.02	- 34.82	203.98
1996	306.00	10.47	84.01	15.05	221.99
1997	364.00	18.95	92.02	9.53	271.98
1998	379.00	4.12	54.02	- 41.30	324.98
1999	487.00	28.50	97.02	79.60	389.98
2000	949.00	94.87	117.00	20.59	832.00

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = 17.03\%$

$SLGR_i = -2.50\%$

Table-8
India's Trade with SAARC Countries as a Percentage of Total Trade

(Value in millions of US Dollars)

Year	Exports to SAARC	Total Exports	Share in Percent	Imports from SAARC	Total imports	Share in Percent
1991	197.00	9639.00	2.04	120.00	18099.00	0.66
1992	233.00	9681.00	2.41	89.00	16722.00	0.53
1993	315.00	8231.00	3.83	105.00	15115.00	0.70
1994	270.00	8265.00	3.27	112.02	16329.00	0.69
1995	277.00	9135.00	3.03	73.02	15051.00	0.49
1996	306.00	10798.00	2.83	84.01	16841.00	0.50
1997	364.00	12981.00	2.80	92.02	19130.00	0.48
1998	379.00	15365.00	2.47	54.02	19239.00	0.28
1999	487.00	17814.00	2.73	97.02	23529.00	0.41
2000	949.00	20492.00	4.63	117.00	21687.00	0.54

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

Table-9
India's Trade with Bangladesh
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	39.00	--	22.00	--	17.00
1992	34.00	-12.82	8.00	- 63.64	26.00
1993	90.00	164.71	27.00	237.50	63.00
1994	104.00	15.56	29.00	7.41	75.00
1995	113.00	8.65	8.00	-72.41	105.00
1996	145.00	28.32	14.00	75.00	131.00
1997	170.00	17.24	15.00	7.14	155.00
1998	255.00	50.00	14.00	-6.67	241.00
1999	297.00	16.47	15.00	7.14	282.00
2000	159.00	-46.46	26.00	73.33	133.00

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = 15.09\%$

$SLGR_i = 1.68\%$

Table-10
India's Trade with Nepal
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	85.00	--	19.00	--	66.00
1992	85.00	0.00	19.00	0.00	66.00
1993	95.00	11.76	44.00	131.58	51.00
1994	82.00	-13.68	50.00	13.64	32.00
1995	82.00	0.00	40.00	-20.00	42.00
1996	73.00	-10.98	41.00	2.50	32.00
1997	82.00	12.33	44.00	7.32	38.00
1998	32.00	-60.98	3.00	-93.18	29.00
1999	40.00	25.00	15.00	400.00	25.00
2000	45.00	12.50	18.00	20.00	27.00

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = 6.16\%$

$SLGR_i = -24.38\%$

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Table-11
India's Trade with Pakistan
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	4.00	--	56.00	--	-52.00
1992	6.00	50.00	31.00	-44.64	-25.00
1993	11.00	83.33	20.00	-35.48	-9.00
1994	12.00	9.09	28.00	40.00	-16.00
1995	13.00	8.33	15.00	-46.43	-2.00
1996	12.00	-7.69	23.00	63.33	-11.00
1997	19.00	58.33	26.00	13.04	-7.00
1998	25.00	31.58	26.00	0.00	-1.00
1999	43.00	72.00	45.00	73.08	-2.00
2000	38.00	-11.63	51.00	13.33	-13.00

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = 25.25\%$

$SLGR_i = -9.30\%$

Table-12
India's Trade with Sri Lanka
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	66.00	--	23.00	--	43.00
1992	105.00	59.09	31.00	34.78	74.00
1993	117.00	11.43	14.00	-54.84	103.00
1994	71.00	-39.32	5.00	-64.29	66.00
1995	67.00	-5.63	10.00	100.00	57.00
1996	74.00	10.45	6.00	-40.00	68.00
1997	90.00	21.62	7.00	16.67	83.00
1998	61.00	-32.22	11.00	57.14	50.00
1999	102.00	67.21	22.00	100.00	80.00
2000	122.00	19.61	22.00	0.00	100.00

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = 6.34\%$

$SLGR_i = -21.02\%$

Table-13
Pakistan's's Trade with SAARC Countries
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

| Year | Export | | Imports | | Trade |
	Value	Growth(%)	Value	Growth(%)	Balance
1991	142.10	--	106.50	--	35.60
1992	81.90	-42.36	105.80	-0.66	-23.90
1993	85.30	4.15	123.10	16.35	-37.80
1994	144.80	69.75	93.60	-23.96	51.20
1995	108.30	-25.21	95.10	1.60	13.20
1996	163.70	51.15	93.90	-1.26	69.80
1997	227.90	39.22	122.40	30.35	105.50
1998	164.60	-27.78	124.60	1.80	40.00
1999	222.40	35.12	121.30	-2.65	101.10
2000	217.70	-2.11	120.00	-1.07	97.70

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = 4.36\%$

$SLGR_i = 1.20\%$

Table-14
Pakistan's Trade with SAARC Countries as a Percentage of Total Trade

(Value in millions of US Dollars)

Year	Exports to SAARC	Total Exports	Share in Percent	Imports from SAARC	Total imports	Share in Percent
1991	142.10	2401.7	5.92	106.50	5459.60	1.95
1992	81.90	3074.9	2.66	105.80	5326.00	1.99
1993	85.30	2558.7	3.33	123.10	5852.20	2.10
1994	144.80	2738.4	5.29	93.60	588.50	1.59
1995	108.30	3383.0	3.20	95.10	5367.20	1.77
1996	163.70	4168.3	3.93	93.90	5818.70	1.61
1997	227.90	4509.3	5.05	122.40	6588.40	1.86
1998	164.60	4660.1	3.53	124.60	7107.00	1.75
1999	222.40	5587.2	3.98	121.30	7383.00	1.64
2000	217.70	6494.2	3.35	120.00	8431.50	1.42

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

Table-15
Pakistan's Trade with India
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	50.50	--	4.00	--	46.50
1992	28.50	-43.56	7.00	75.00	21.50
1993	25.30	-11.23	12.70	81.43	12.60
1994	37.50	48.22	15.50	22.05	22.00
1995	20.80	-44.53	12.80	-17.42	8.00
1996	21.40	2.88	11.80	-7.81	9.60
1997	50.20	134.58	28.70	143.22	21.50
1998	30.40	-39.44	30.50	6.27	-0.10
1999	49.00	61.18	45.70	49.84	3.30
2000	47.10	-3.88	44.30	-3.06	2.80

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = -0.69\%$

$SLGR_i = 27.18\%$

Table-16
Pakistan's Trade with Bangladesh
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	75.20	--	62.20	--	13.00
1992	41.20	-45.21	64.30	3.38	-23.10
1993	38.20	-7.28	72.50	12.75	-34.30
1994	64.60	69.11	45.50	-37.24	19.10
1995	40.20	-37.77	43.90	-3.52	-3.70
1996	0.70	125.62	49.70	13.21	41.00
1997	101.60	12.02	39.70	-20.12	61.90
1998	65.70	-35.33	44.60	12.34	21.10
1999	102.80	56.47	38.20	-14.35	64.60
2000	100.60	-2.14	36.90	-3.40	63.70

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = 2.95\%$

$SLGR_i = -5.09\%$

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Table-17
Pakistan's Trade with Sri Lanka
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	16.20	--	39.30	--	-23.10
1992	11.70	-27.78	33.40	-15.01	-21.70
1993	20.10	71.79	36.00	7.78	-15.90
1994	42.30	110.45	30.50	-15.28	11.80
1995	47.00	11.11	35.30	15.74	11.70
1996	49.70	5.74	31.30	-11.33	18.40
1997	74.50	49.90	52.70	68.37	21.80
1998	66.50	-10.74	48.60	-7.78	17.90
1999	68.90	3.61	37.00	-23.87	31.90
2000	67.80	-1.60	34.40	-7.03	33.40

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = 15.39\%$

$SLGR_i = -1.32\%$

Table-18
Sri Lanka's Trade with SAARC Countries
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	80.80	--	92.40	--	-11.60
1992	66.80	-17.33	131.30	42.10	-64.50
1993	64.70	-3.14	130.6	-0.53	-65.90
1994	53.30	-17.62	117.40	-10.11	-64.10
1995	58.40	9.57	144.30	22.91	-85.90
1996	54.20	-7.19	138.80	-3.81	-84.60
1997	92.20	70.11	181.80	30.98	-89.60
1998	86.10	-6.62	126.50	-30.42	-40.40
1999	70.00	-18.70	183.90	45.38	-113.90
2000	57.10	-18.43	229.00	24.52	-171.90

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = -3.41\%$

$SLGR_i = 9.50\%$

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Table-19
Sri Lanka's Trade with SAARC Countries as a Percentage of Total Trade
(Value in millions of US Dollars)

Year	Exports to SAARC	Total Exports	Share in Percent	Imports from SAARC	Total imports	Share in Percent
1991	80.80	996.20	8.11	92.40	1773.20	5.21
1992	66.80	1053.80	6.34	131.30	1794.80	7.32
1993	64.70	1435.60	4.51	130.6	1845.60	7.08
1994	53.30	1264.90	4.21	117.40	1831.80	6.41
1995	58.40	1162.70	5.02	144.30	1829.40	7.89
1996	54.20	1334.30	4.06	138.80	2056.40	6.75
1997	92.20	1460.70	6.31	181.80	2278.80	7.98
1998	86.10	1540.00	5.59	126.50	2087.50	6.06
1999	70.00	1895.30	3.69	183.90	2636.40	6.98
2000	57.10	2199.80	2.60	229.00	3162.70	7.24

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

Table-20
Sri Lanka's Trade with India
Exports, Imports and Balance of Trade
(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	21.20	--	72.90	--	-51.70
1992	27.70	30.66	115.40	58.30	-87.70
1993	12.50	-54.87	11.50	-3.38	-99.00
1994	6.20	-50.40	74.70	-33.00	-68.50
1995	11.80	90.32	79.20	6.02	-67.40
1996	6.20	-47.46	83.50	5.43	-77.30
1997	19.30	211.29	91.00	8.98	-71.70
1998	9.90	-48.70	66.10	-27.36	-56.20
1999	20.20	104.04	118.00	78.52	-97.80
2000	21.40	5.94	136.70	15.85	-115.30

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = 0.09\%$

$SLGR_i = 6.48\%$

Table-21
Sri Lanka's Trade with Bangladesh
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	3.50	--	0.20	--	3.30
1992	4.70	34.29	0.60	200.00	4.10
1993	14.10	200.00	0.20	-66.67	13.90
1994	14.50	2.84	0.20	0.00	14.30
1995	6.90	-52.41	0.30	50.00	6.60
1996	10.10	46.38	0.20	-33.333	9.90
1997	11.20	10.89	16.90	8350.00	-5.70
1998	22.90	104.46	3.80	-77.51	19.10
1999	9.80	-57.21	8.90	134.21	0.90
2000	4.40	-55.10	6.50	-26.97	-2.10

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = 2.31\%$

$SLGR_i = 41.64\%$

Table-22
Sri Lanka's Trade with Pakistan
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	38.20	--	17.60	--	20.60
1992	29.70	-22.25	13.50	-23.30	16.20
1993	34.20	15.15	17.10	26.67	17.10
1994	27.30	-20.18	33.80	97.66	-6.50
1995	33.80	23.81	46.10	36.39	-12.30
1996	31.40	-7.10	46.70	1.30	-15.30
1997	53.10	69.11	69.70	49.25	-16.60
1998	44.90	-15.44	50.80	-27.12	-5.90
1999	32.50	-27.62	50.80	0.00	-18.30
2000	31.20	-4.00	74.50	46.65	-43.30

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = -2.00\%$

$SLGR_i = 15.52\%$

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Table-23
Nepal's Trade with SAARC Countries
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	37.40	--	93.70	--	-56.30
1992	36.60	-2.14	96.80	3.31	-60.20
1993	40.35	10.25	120.67	24.66	-80.32
1994	51.66	28.03	95.71	-20.68	-44.05
1995	41.18	-20.29	101.87	6.44	-60.69
1996	41.10	-0.19	87.63	-13.98	-46.53
1997	41.35	0.61	96.61	10.25	-55.26
1998	4.94	-88.05	51.04	-47.17	-46.10
1999	15.54	214.57	52.93	3.70	-37.39
2000	20.13	29.54	62.67	18.40	-42.54

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = -2.33\%$

$SLGR_i = 54.46\%$

Table-24
Nepal's Trade with SAARC Countries as a Percentage of Total Trade

(Value in millions of US Dollars)

Year	Exports to SAARC	Total Exports	Share in Percent	Imports from SAARC	Total imports	Share in Percent
1991	37.40	51.10	73.19	93.70	262.00	35.76
1992	36.60	60.90	60.10	96.80	265.00	36.53
1993	40.35	83.26	48.46	120.67	266.64	45.26
1994	51.66	134.81	38.32	95.71	295.17	32.43
1995	41.18	134.29	30.66	101.87	313.98	32.44
1996	41.10	147.64	27.84	87.63	466.00	18.80
1997	41.35	234.58	17.63	96.61	534.03	18.09
1998	4.94	183.39	2.69	51.04	421.36	12.11
1999	15.54	216.20	7.16	52.93	452.45	11.70
2000	20.13	256.07	7.86	62.67	455.33	13.76

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

Table-25
Nepal's Trade with India
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	36.20	--	93.60	--	-57.40
1992	36.20	0.00	93.60	0.00	-57.40
1993	39.83	10.03	104.47	11.61	-64.64
1994	45.88	15.19	89.90	-13.95	-44.02
1995	36.81	-19.77	90.25	0.39	-53.44
1996	37.19	1.03	80.14	-11.20	-42.95
1997	40.25	8.23	89.93	12.22	-49.68
1998	3.00	-92.55	35.57	-60.45	-32.57
1999	13.73	357.67	43.49	22.27	-29.76
2000	16.08	17.12	49.35	13.47	-33.27

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = -11.68\%$

$SLGR_i = -15.9\%$

Table-26
Nepal's Trade with Pakistan
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export		Imports		Trade Balance
	Value	Growth(%)	Value	Growth(%)	
1991	0.70	--	0.10	--	0.60
1992	0.40	-42.86	0.20	50.00	0.20
1993	0.52	30.00	0.09	-55.00	0.43
1994	1.80	246.15	0.11	22.22	1.69
1995	1.57	-12.78	0.45	309.09	1.12
1996	0.95	-39.49	1.79	297.78	-0.84
1997	1.05	10.53	0.95	-46.93	0.10
1998	0.85	-19.05	1.21	27.37	-0.36
1999	0.40	-52.94	1.26	4.13	-0.86
2000	3.91	877.50	0.52	-58.73	3.39

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = 0.74\%$

$SLGR_i = -8.38\%$

Table-27
Nepal's Trade with Sri Lanka
Exports, Imports and Balance of Trade

(Value in millions of US Dollars)

Year	Export Value	Export Growth(%)	Imports Value	Imports Growth(%)	Trade Balance
1991	--	--	--	--	--
1992	--	--	--	--	--
1993	--	--	0.02	--	-0.02
1994	3.98	--	0.06	300.00	3.92
1995	12.80	221.61	0.05	-16.67	12.75
1996	2.81	-78.05	0.07	40.00	2.74
1997	0.04	-98.58	0.65	825.57	-0.61
1998	0.16	300.00	2.89	344.62	-2.73
1999	0.01	-93.75	0.09	-96.89	-0.08
2000	0.02	100.00	0.10	11.11	-0.08

Source: Direction of Trade Statistics Year Book, 1995 and 2002, International Monetary Fund, Washington D.C.

$SLGR_e = -27.97\%$

$SLGR_i = -3.21\%$

Table-28: Balance of Trade with India

(Value in million Taka)

Year	Export from Bangladesh	Import into Bangladesh	Trade Deficit	Year	Export from Bangladesh	Import into Bangladesh	Trade Deficit
1972-73	79.23 (9.90)	409.95 (51.24)	330.72 (41.34)	1984-85	1032.51 (38.96)	1746.80 (65.92)	714.29 (26.96)
1973-74	145.28 (18.16)	857.50 (107.19)	712.22 (89.03)	1985-86	261.73 (8.72)	1800.90 (60.03)	1539.17 (51.29)
1974-75	99.25 (12.41)	557.30 (69.67)	458.05 (57.26)	1986-87	364.12 (11.65)	1963.70 (62.48)	1599.50 (51.19)
1975-76	59.92 (4.13)	1194.60 (82.39)	1134.68 (78.26)	1987-88	276.96 (8.86)	2727.80 (87.29)	2450.84 (78.43)
1976-77	71.96 (4.64)	864.60 (55.78)	792.64 (51.14)	1988-89	290.36 (9.07)	3328.66 (104.03)	3038.30 (94.96)
1977-78	21.10 (1.40)	680.10 (44.98)	659.00 (43.56)	1989-90	660.02 (20.05)	4784.00 (145.32)	4123.98 (125.27)
1978-79	39.91 (2.62)	672.20 (44.17)	632.29 (41.55)	1990-91	863.94 (24.25)	6444.90 (180.88)	5580.96 (156.63)
1979-80	218.11 (14.07)	752.30 (48.55)	534.39 (34.48)	1991-92	292.13 (2.49)	8823.70 (226.25)	8531.57 (223.76)
1980-81	403.62 (24.84)	943.30 (58.06)	539.88 (33.22)	1992-93	296.64 (7.78)	13384.70 (341.97)	13088.06 (334.39)
1981-82	224.78 (11.21)	1180.90 (58.87)	956.12 (47.66)	1993-94	885.02 (21.84)	16579.36 (411.82)	15724.34 (389.98)
1982-83	343.94 (14.48)	816.10 (34.35)	472.16 (19.87)	1994-95	1150.38 (28.75)	27679.36 (680.08)	26528.98 (651.33)
1983-84	407.88 (16.21)	1235.00 (49.07)	827.12 (32.26)	1995-96	2947.85 (72.34)	44925.00 (1102.45)	41977.15 (1030.11)
				1996 -97	1985.16 (46.49)	39358.52 (921.73)	37373.36 (875.24)
				Total Trade Deficit with India			170275.85 (4659.81)

Note: Figures in brackets indicate value in million US$.

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Table-29: Descriptive Statistics for Gravity Model: 2002

Series	Obs	Mean	STD	Minimum	Maximum
LOGTRADE	351	5.800	3.247	0.000	12.414
LOGGDP	351	43.148	4.308	30.113	55-090
LOGPCI	351	8.313	3.417	2.167	19.175
LOGDISTANCE	351	8.081	0.946	5.037	9.360
BORDER	351	0.100	0.300	0.000	1.000
SAARC1	351	0.017	0.130	0.000	1.000
SAARC1N	351	0.262	0.440	0.000	1.000
SAARC2	351	0.051	0.221	0.000	1.000
SAARC2N	351	0.407	0.492	0.000	1.000
ASEAN1	351	0.043	0.203	0.000	1.000
ASEAN1N	351	0.359	0.480	0.000	1.000
ASEAN2	351	0.103	0.304	0.000	1.000
ASEAN2N	351	0.442	0.497	0.000	1.000
NAFFA	351	0.003	0.053	0.000	1.000
NAFTAN	351	0.142	0.350	0.000	1.000
EEC1	351	0.080	0.271	0.000	1.000
EEC1N	351	0.433	0.496	0.000	1.000
EEC2	351	0.103	0.304	0.000	1.000
EEC2N	351	0.462	0.499	0.000	1.000
BANASEAN1	351	0.060	0.238	0.000	1.000
BANASEAN1N	351	0.399	0.490	0.000	1.000
BANASEAN2	351	0.128	0.335	0.000	1.000
BANASEAN2N	351	0.467	0.500	0.000	1.000
BANNAFTA	351	0.009	0.092	0.000	1.000
BANNAFTAN	351	0.205	0.404	0.000	1.000
BANEEC1	351	0.103	0.304	0.000	1.000
BANEEC1N	351	0.462	0.499	0.000	1.000
BANEEC2	351	0.128	0.335	0.000	1.000
BANEEC2N	351	0.484	0.500	0.000	1.000

Table-30: Correlation Matrix for 2002

	LOG TRADE	LOGGDP	LOGPC1	LOG DISTANCE	BORDER	SAARC1	SAARC1N	SAARC2	SAARC2N
LOG TRADE	1.00								
LOGGDP	0.55	1.00							
LOGPC1	0.29	0.81	1.00						
LOG DISTANCE	0.00	0.10	0.03	1.00					
BORDER	0.21	0.04	-0.02	-0.58	1.00				
SAARC1	-0.11	-0.12	-0.16	-0.28	0.25	1.00			
SAARC1N	-0.44	-0.22	-0.30	-0.06	-0.11	-0.08	1.00		
SAARC2	-0.22	-0.22	-0.25	-0.35	0.27	0.57	0.13	1.00	
SAARC2N	-0.53	-0.33	-0.31	0.06	-0.24	-0.11	0.60	-0.19	1.00
ASEAN1	0.00	-0.02	0.03	-0.32	0.26	-0.03	-0.13	-0.05	-0.18
ASEAN1N	-0.09	-0.03	0.03	0.13	-0.21	-0.10	-0.12	-0.17	-0.11
ASEAN2	0.14	0.17	0.16	-0.31	0.26	-0.04	-0.20	-0.08	-0.28
ASEAN2N	-0.03	0.13*	0.16	0.34	-0.30	-0.12	-0.11	-0.21	-0.08
NAFTA	0.11	0.00	-0.03	-0.11	0.16	-0.01	-0.03	-0.01	-0.04
NAFFAN	0.20	-0.01	-0.10	0.36	-0.14	-0.05	-0.09	-0.09	-0.11
EEC1	0.35	0.16	0.24	-0.51	0.32	-0.04	-0.18	-0.07	-0.24
EEC1N	0.08	0.13	0.20	0.52	-0.29	-0.12	-0.10	-0.20	-0.07
EEC2	0.36	0.13	0.17	-0.40	0.26	-0.04	-0.20	-0.08	-0.28
EEC2N	0.03	0.09	0.11	0.58	-0.31	-0.12	-0.08	-0.22	-0.03
BANASEAN1	-0.04	-0.03	-0.02	-0-34	0.20	-0.03	0.01	-0.06	-0.06
BANASEAN1N	-0.10	-0.04	-0.02	0.15	-0.21	0.03	-0.02	-0-03	-0.08
BANASEAN2	0.09	0.16	0.12	-0.34	0.21	-0.05	-0.05	-0.09	-0.16
BANASEAN2N	-0.04	0.10	0.11	0.36	-0.29	0.01	-0.06	-0.06	-0.09
BANNAFFA	0.07	-0.01	-0.07	0.01	0.07	-0.01	0.09	-0.02	0.05
BANNAFFAN	0.10	-0.03	-0.16	0.21	-0.15	0.10	0.13	0.07	0.01
BANEEC1	0.30	0.14	0.20	-0.42	0.26	-0.04	-0.03	-0.08	-0.13
BANEEC1N	0.03	0.10	0.14	0.42	-0.29	0.01	-0.04	-0.06	-0.07
BANEEC2	0.31	0.11	0.13	-0.32	0.21	-0.05	-0.05	-0.09	-0.16
BANEEC2N	-0.01	0.06	0.07	0.47	-0.30	0.00	-0.05	-0.07	-0.05

(Contd.)

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(Continued)

	ASEAN1	ASEAN1N	ASEAN2	ASEAN2N	NAFTA	NAFTAN	EEC1	EEC1N	EEC2	EEC2N
LOG TRADE			.							
LOGGDP										
LOGPC1										
LOG DISTANCE										
BORDER										
SAARC1										
SAARC1N										
SAARC2										
SAARC2N										
ASEAN1	1.00									
ASEAN1N	-0.16	1.00								
ASEAN2	0.63	0.10	1.00							
ASEAN2N	-0.19	0.63	-0.30	1.00						
NAFTA	-0.01	-0.04	-0.02	-0.05	1.00					
NAFTAN	-0.09	-0.10	-0.14	-0.07	-0.02	1.00				
EEC1	-0.06	-0.22	-0.10	-0.26	-0.02	-0.12	1.00			
EEC1N	-0.18	-0.08	-0.30	0.06	-0.05	-0.08	-0.26	1.00		
EEC2	-0.07	-0.25	-0.11	-0.30	-0.02	-0.14	0.87	-0.14	1.00	
EEC2N	-0.20	-0.05	-0.31	0.11	-0.05	-0.07	-0.27	0.85	-0.31	1.00
BANASEAN1	0.84	-0.04	0.51	-0.08	-0.01	-0.10	-0.07	-0.22	-0.09	-0.23
BANASEAN1N	-0.17	0.85	0.07	0.49	-0.04	-0.10	-0.24	-0.05	-0.28	-0.02
BANASEAN2	0.55	0.14	0.88	-0.20	-0.02	-0.16	-0.11	-0.34	-0.13	-0.36
BANASEAN2N	-0.20	0.51	-0.32	0.86	-0.05	-0.05	-0.28	0.10	-0.32	0.16
BANNAFTA	-0.02	-0.07	-0.03	-0.08	0.58	0.14	-0.03	-0.08	-0.03	-0.09
BANNAFTAN	-0.11	-0.12	-0.17	-0.08	-0.03	0.76	-0.15	-0.09	-0.17	-0.07
BANEEC1	-0.07	-0.25	-0.11	-0.30	-0.02	-0.14	0.87	-0.14	0.75	-0.16
BANEEC1N	-0.20	-0.05	-0.31	0.10	-0.05	-0.07	-0.27	0.85	-0.16	0.71
BANEEC2	-0.08	-0.29	-0.13	-0.34	-0.02	-0.16	0.77	-0.06	0.88	-0.20
BANEEC2N	-0.20	-0.01	-0.33	0.16	-0.05	-0.05	-0.29	0.72	-0.33	0.85

(Contd.)

(Continued)

	BAN ASEAN I	BAN ASEAN1N	BAN ASEAN2	BAN ASEAN2N	BAN NAFTA	BAN NAFTAN	BAN EEC1	BAN EEC1N	BAN EEC2	BAN EEC2N
LOG TRADE										
LOGGDP										
LOGPCI										
LOG DISTANCE										
BORDER										
SAARC1										
SAARC1N										
SAARC2										
SAARC2N										
ASEAN1										
ASEAN1N										
ASEAN2										
ASEAN2N										
NAFTA										
NAFTAN										
EEC1										
EEC1N										
EEC2										
EEC2N										
BANASEAN1	1.00									
BANASEAN1N	-0.21	1.00								
BANASEAN2	0.66	0.05	1.00							
BANASEAN2N	-0.24	0.62	-0.36	1.00						
BANNAFTA	-0.02	0.05	-0.04	0.04	1.00					
BANNAFFAN	0.05	0.02	0.00	-0.01	-0.05	1.00				
BANEEC1	-0.09	-0.12	-0.13	-0.17	-0.03	0.01	1.00			
BANEEC1N	-0.09	-0.05	-0.20	0.06	0.04	0.00	-0.31	1.00		
BANEEC2	-0.10	-0.16	-0.15	-0.21	-0.04	0.00	0.88	-0.20	1.00	
BANEEC2N	-0.10	-0.03	-0.22	0.11	0.03	-0.01	-0.33	0.85	-0.37	1.00

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Table-31: Regression Results for Gravity Model: 2002

Variable	Coefficient	T-statistics	Coefficient	T-statistics	Coefficient	T-statistics
Constant	-12.043	-4.688	-13.138	-5.268	-20.203	-8.419
LOGGDP	0.628	14.902	0.640	15.420	0.576	10.380
LOGPCI	-0.694	-12.382	-0.704	-12.674	-0.433	-6.081
LOGDISTANCE	-0.601	-2.547	-0.538	-2.387	0.401	1.785
BORDER	0.439	1.009	0.401	0.956	1.972	3.640
SAARCI	-2.588	-2.658	-2.243	-2.400		
SAARCIN	-1.778	-5.696	-1.553	-5.223		
SAARC2	-1.030	-0.812	-0.820	-0.677		
SAARC2N	-0.996	-1.531	-0.872	-1.389		
ASEANI	-3.853	-0.875	-2.178	-3.071		
ASEANIN	-2.713	-1.129	-0.969	-3.029		
ASEAN2	4.228	1.092	3.367	2.786		
ASEAN2N	2.982	1.381	1.720	2.782		
NAFr/1%,,	4.388	1.641	5.506	2.635		
NAFrAN	2.365	3.862	2.408	4.074		
EECI	4.677	2.058	4.025	3.726		
EECIN	2.063	4.195	2.048	4.260		
EEC2	-0.877	-0.344	0.819	0.618		
EEC2N	-0.063	-0.088	0.030	0.043		
BANASEANI	1.621	0.372			-1.995	-2.285
BANASEANIN	1.797	0.745			-0.917	-2.104
BANASEAN2	-1.087	-0.273		2.587		3.391
BANASEAN2N	-1.328	-0.595		0.960		2.068
BANNAFTA	0.814 1.276		0.511		1.776	
BANNAFTAN	0.000 1.464		0.000		0.515	
BANEEC1	-0.811	-0.425		2.642		2.053
BANEEC1N	0.000 1.535		0.000		1.005	
BANEEC2	1.571 1.104		0.771		1.250	
BANEEC2N	0.000 0.048		0.000		-0.032	
R-square	0.731		0.725		0.495	
F-value	35.415		48.673		23.492	
P-value of F	0.000		0.000		0.000	
DW	1.569		1.559		0.983	

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