



Regional trade in South Asia

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Aim and objective



- The aim of this presentation is to develop a case for enhanced trade cooperation within the South Asian countries, in order to increase their economic growth and human development.



- The presentation will address the following questions:
 - What is the current state of intra-regional trade and why?
 - What could be the possible benefits of enhanced intra-regional trade?
 - What are the steps needed to facilitate trade within South Asia?

Status of South Asia's trade



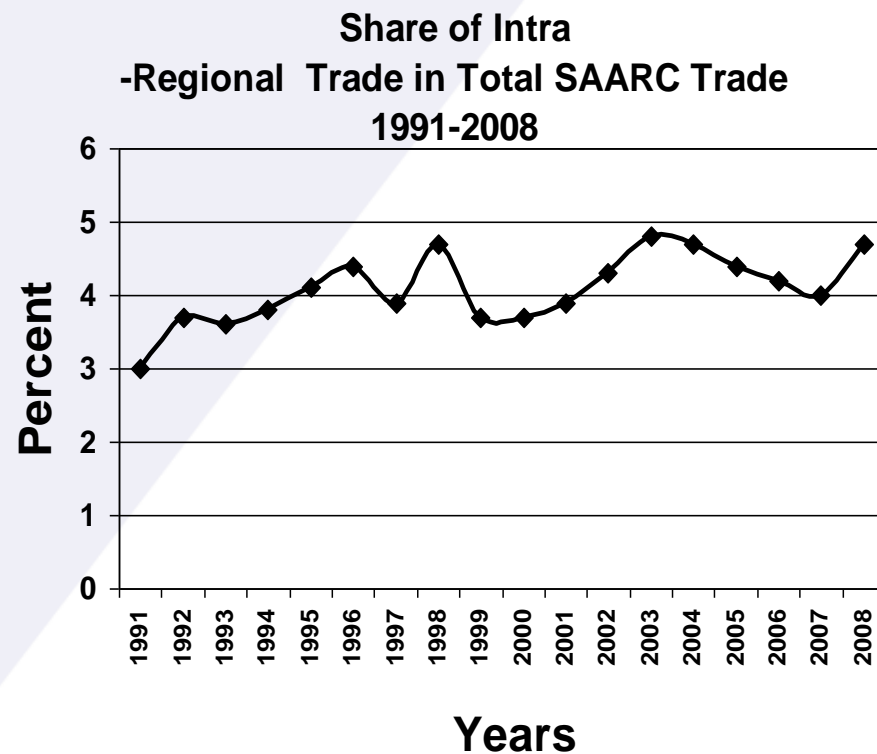
- South Asian countries have undertaken significant trade reforms with liberalization of tariffs and deeper integration with the global economy.
- South Asian exports to the world have increased by 24.6% since 2000 and the total trade volume of the region stands at US\$ 628,908 million.

Status of intra-regional trade



- Intra regional trade have registered some growth overtime, it still remains rather insignificant when compared to other regional trading blocks.
- Trade within South Asia is dominated by India, which accounts for 65% of total intra-regional trade.
- For Pakistan, the share of intra-regional trade has declined from 24.5% in 1980 to 19.8% in 2008.

| South Asia's Exports to different regions | (%) 2005 | (%) 2008 |
|-------------------------------------------|----------|----------|
| South Asia | 6.6 | 6.3 |
| South-East Asia | 8.2 | 7.3 |
| Europe | 24.7 | 23 |
| North America | 20.5 | 16 |
| Others | 40 | 47.3 |



Composition of intra-regional traded products



Primary Products

- Cotton
- Limestone
- Cotton yarn
- Vegetables
- Hydrocarbons
- Bituminous oil
- Natural rubber

Raw material & intermediate products

- Stone & sand
- Pig and Sponge iron
- Lime
- Cement
- Textile yarn
- Jute fibers
- Fertilizer
- Flour

Finished products

- Motor cars
- Motorcycles

- More than 55% of South Asia intra-regional trade potential has not been tapped.

| Trading Partners | | Gap between actual and preferential trade (%) |
|------------------|-----------|-----------------------------------------------|
| Bangladesh | Pakistan | 75.0 |
| Bangladesh | Sri-Lanka | 94.8 |
| India | Pakistan | 81.9 |
| Pakistan | Sri-Lanka | 66.7 |
| South Asia | | 55.7 |



- Overall South Asia is the least integrated region in the world, when compared to Sub Saharan Africa, East Asia and Pacific, Middle East and North America and Latin America and Caribbean.

Factors that restrict intra-regional trade



1. Indo-Pak hostility

- Trade between these two countries has been abnormally low. Pakistan accounts for less than 1% of India's trade and India accounts for approximately 5% of Pakistan's trade.
- Discriminatory steps by Pakistan:
 - Not implementing SAFTA provisions to Indo-Pakistan trade
 - Maintaining a narrow positive list of goods that India can export to Pakistan.
 - Not granting the MFN status to India



- Discriminatory steps by India:
 - India has maintained high tariff rates and non-tariff barriers on goods of particular interest to Pakistan.
- Bureaucratic regulations and restrictions have made trade so costly between the two countries that it has led to significant informal trade through a third country or through smuggling.

2. High similarity in tradable products:

- Low level of intra-regional trade can largely be attributed to fairly high export similarity among the South Asian countries.
- The export similarity encourages South Asian countries to protect their local industries behind tariff walls, thereby narrowing the scope for intra-regional exports.
- High negative/sensitive list , 53% of the total import trade in SAFTA has been subjected to this list with India restricting 1,647 items, Sri Lanka 1,574 items and Pakistan 1,183 items

Intra-regional export similarity Index

| | |
|------------|------|
| Bangladesh | 28.4 |
| India | 85.3 |
| Sri Lanka | 44.7 |
| Nepal | 44.2 |
| Pakistan | 50.4 |

Source: ESCAP 2008 and MHHDC 2009

3. Low complementarities in production network

- The tradable products are mainly of primary, resource-based and low-technology nature hence diminishing the scope of developing strong regional linkages of production network.
- These products also exhibit identical pattern of revealed comparative advantage and low complementarity especially as destination for trade in South Asia.
- The composition of intra-regional trade hardly makes a case for strong regional linkages of production networks.

| Intra South Asia trade complementarity index | | |
|----------------------------------------------|---------------------------|----------------------|
| | South Asia as destination | South Asia as source |
| Bangladesh | 44.5 | 6.2 |
| India | 54.4 | 63.9 |
| Sri Lanka | 57.5 | 23.7 |
| Nepal | 55.2 | 26.6 |
| Pakistan | 50.2 | 21.7 |

Source: ESCAP 2008 and MHHDC 2009



4. Preferential and bilateral trading agreements

- South Asia has 22 multilateral and 21 bilateral agreements within and outside the region.
- These agreements though boost trade amongst signatory countries, they undermine the interests of other countries in the region. E.g. India-EU FTA will hurt Bangladesh as India will gain preferential access to EU markets.

5. Slow implementation of SAFTA

The effectiveness of SAFTA is undermined by the sluggish process of its implementation.

- The slow pace of its tariff liberalization programme.
- Limited product coverage
- A large sensitive/negative list (53% of SAFTA trade is subjected to negative list).
- The prevalence of non-tariff barriers. (SPS, TBT, quota restrictions, anti-dumping measures, licensing requirements and countervailing measures)
- SAFTA fails to implement its initiatives

Composition of intra-regional trade products



Sensitive list of SAARC countries

| Country | Non-LDC | LDC |
|------------|---------|-------|
| Bangladesh | 1,254 | 1,249 |
| Bhutan | 259 | |
| India | 884 | 763 |
| Maldives | 671 | |
| Nepal | 1,350 | 1,300 |
| Pakistan | 1,183 | |
| Sri-Lanka | 1,574 | |



6. Services trade not covered under SAFTA

- Service trade accounts for more than half of the GDP in most South Asian countries and the region is emerging as a major exporter of commercial services worldwide.
- The region is negotiating liberalization of the services sector under WTO, yet limited efforts are undertaken to incorporate service trade under SAFTA. Currently negotiations are underway on SAFAS.
- Regional cooperation in trade in services, especially in telecommunication and information technology, medical services, aviation and unskilled labour services has immense potential.



- Other impediments contributing towards low regional trade
 - High transaction cost
 - Limited infrastructure especially port and other transport infrastructure
 - The mindset of policy makers; the fear of India and passive mindset of India

Informal trade accounts for 72 % (\$1.5 bn) of formal trade in the region.



| | Bangladesh | India | Pakistan | Sri Lanka | South Asia |
|---------------------------------------|------------|-------|----------|-----------|------------|
| Overall ease of doing business (rank) | 119 | 133 | 85 | 105 | |
| Days taken to export | 25 | 17 | 22 | 21 | 32.4 |
| Cost of export (US\$ per container) | 970 | 945 | 611 | 715 | 1,364 |
| Days taken to import | 29 | 20 | 18 | 20 | 32.2 |
| Cost to imports (US\$ per container) | 1,375 | 960 | 680 | 745 | 1,509 |

Source: Doing Business Report, 2009, World Bank

Benefits of expanding intra-regional trade



- To help overcome some supply side constraints such as shortage of energy and investment capital.
- To diversify the export market and thus reduce dependence on European and American markets.
- By creating regional supply chains, in agriculture manufacturing and services the region can move from exporting low value added products to exporting high value added



- **Developmental and environmental efficiency gains**

- Provision of regional public goods like; Environment, water, and natural resources including regional ecosystems and related bio-diversity.

- Human development impact
 - Employment and income generation
 - Augment consumption expenditure
 - Poverty alleviation
 - Increase expenditure on health and education

| Impact of SAFTA on welfare | Welfare effect (US\$ million) |
|----------------------------|-------------------------------|
| Bangladesh | 265.8 |
| India | 366.0 |
| Pakistan | 82.0 |
| Sri Lanka | 13.8 |
| Rest of South Asia | 130.7 |

Source: MHHDC computations based on ADB and UNCTAD 2008.



Policy recommendations

1. Enhance Indo-Pak trade

- Short-term measures include:
 - Easing business visa processes,
 - Increasing the number of border crossings,
 - Improving regional road, rail and port links.
- Medium-term measures involve:
 - Pakistan granting the MFN status to India and allowing transit trade,
 - India reducing the tariff rate on products of trading interest to Pakistan,
 - India reducing non-tariff barriers, especially on agricultural products.



2. Strengthen SAFTA

- Accelerate and stringently follow the schedule for tariff cuts.
- Reduce the sensitive list to broaden coverage.
- Include commitments and specify a time frame to reduce non-tariff barriers.
- Improve the mobility of people by opening the visa regime within SAARC.



Incorporate trade in services in SAFTA

- Since trade in services does not involve the movement of goods, it is easier to implement. Prioritizing the liberalization of the service sector can realize the intended benefits.
- Financial markets within the region should be broadened and cross-border investment must be promoted.
- Local banks should be encouraged to open branches in neighboring countries to facilitate traders' involvement in intra-regional trade.



4. Adopt trade facilitation initiatives

- SAARC Single Window initiative;
- Custom-to-custom cooperation to harmonize procedures;
- Modernize legal and regulatory frameworks.



5. Promote regional energy trade

To meet the growing demand for energy, trade in energy (electricity, gas and coal) has to be taken seriously by the policy makers. Key initiatives could be:

- Hydro electricity from Nepal and Bhutan.
- Gas from Central Asia and Iran, through Pakistan.



Thank you