



SOUTH ASIAN TRADE PERFORMANCE AND MARKET INTEGRATION

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Abstract

The trade performance of countries in South Asia over the past two decades has been poor relative to other regions. Exports from South Asia have doubled over the past 20 years to approximately USD 100 billion. In contrast, East Asia's exports grew ten times over the same period. The low level of intraregional trade has contributed to weak export performance in South Asia. The empirical analysis in this paper demonstrates gains to trade in the region from reform and capacity building in trade facilitation at the regional level. When considering intraregional trade, if countries in South Asia raise capacity halfway to East Asia's average, trade is estimated to rise by USD 2.6 billion. This is approximately 60 percent of the total intraregional trade in South Asia. Countries in the region also have a stake in the success of efforts to promote capacity building outside its borders. If South Asia and the rest of the world were to raise their levels of trade facilitation halfway to the East Asian average, the gains to the region would be estimated at USD 36 billion. Out of those gains, about 87 percent of the total would be generated from South Asia's own efforts (leaving the rest of the world unchanged). In this paper, we find that the South Asian region's expansion of trade can be substantially advanced with programs of concrete action to address barriers to trade facilitation to advance regional goals.

INTRODUCTION

Acceleration of the rates of growth is important for developing countries and trade can play the role of leading sector not only for a country but for a region also (i.e. a group of countries intending to have close trade relations among themselves). We accept trade as an engine of growth and consider trade cooperation as a means among developing countries to solve and remove bottleneck in the process of economic growth. In the process of globalisation and liberalisation of the economics, South Asian countries like other developing countries need and require greater coordination in economic policies in general and trade in particular.

The 1990s witnessed comprehensive reform programmes in almost all the countries in South Asia. All the countries in the region (except Sri Lanka, which began opening up of the trade and Capital flows in 1977) have initiated major policy reforms with respect to the external sector which, *inter alia*, included reduction in the level and dispersion of tariffs and quantitative restrictions and removing regulations on foreign investments. Reforms were not confined to the external Sector alone. There have been significant reform measures with respect to the domestic sectors of the economy like the industrial de-licensing to do away with entry barriers, reforms in agricultural prices, removed of subsidies and fiscal consolidation. The early years of the 21st century witnessed further initiatives to consolidate the efforts made during the last decade. The period also witnessed the launching of new plans in Bhutan (9th plan), India (10th plan and now towards 11th plan) and Nepal (10th Plan, 11th and now towards 11th Plan). Since there was inter-country variation in the focus as well as the pace of reform a country level approach is called for (RIS, 2004). On the whole, on the basis of observations, we may suggest that all the countries in South Asia have undertaken unprecedented reform initiatives during past decades. A general trend appears to the one wherein the focus of reforms has been on the external sector.

TRADE PERFORMANCE IN SOUTH ASIA

(A) Growth in Exports and Imports

Table1 presents the annual growth rate in exports and imports of South Asian Countries since 1991. Looking at the table it appears that both exports and imports move in the same direction in almost all the countries. For South Asia as a whole, the early years of 1990s, particularly the period since 1992, was marked by unprecedented growth rates in both exports and imports. This maybe seen in the context of wide-ranging reforms especially with respect to trade and investment that these countries initiated in the early 1990s. The period of high trade growth rate however has been followed by a period of marked deceleration in the rate of growth since the mid 1990s. To be more specific; the double digit growth rates of the mid-1990, (above 20 percent) were followed by a period of persistent slowdown including negative growth rates during 1998, due to some unfavorable international environments (East Asian financial crisis). The low growth phase continued even in the early years of the 21st century mostly on account of sluggish world demand, and the same circumstances seems today in the year 2008-09 as the result of global economic crises. But overall we can say that, as the South Asian economics got integrated with the world market, their export performance became highly susceptible in world export market. The exports of the region are expected to grow in near future. Another trend that can be observed from the figures in the same table is the growing convergence across South Asia in terms of growth rates of exports as well as imports.



(B) Direction of Trade

In the front of direction of trade, the South Asian countries continued to depend on developed country markets for their exports. However, the importance of the developing countries has also been growing over the past decade (1990-2001) and as well as in the present decade (2001-06), especially in the East and Southeast Asian region and China.

The major sources of imports into the South Asian region have also experienced some change during the period under consideration. Though industrial countries continue to be predominant suppliers of the South Asian imports, the shares of developing country trade performer's have gone up during the 1990's & and in the starting years of 21st Century. A large proportion of these growing imports came from such developing countries of East and Southeast Asia and China. While the proportion of imports from East Asia and China is high for most countries in South Asia, it has increased significantly for India during the decade. A large proportion of imports to the South Asian countries is also from the middle East, comprising mostly oil and gas.

Overall, it may be stated that the direction of trade which has undergone a shift the recent times in favour of developing countries and more specifically East and Southeast Asian countries has been continuing although there are country specific variation in this respect.

COMPOSITION OF TRADE

In front of the composition of trade few data suggest that the export basket of the South Asian countries is primarily dominated by manufactures. This indicates a shift from primary commodities exports to manufacturers, which has important positive implications for income and employment generation opportunities in the South Asian region. In this respect Bangladesh and Sri Lanka showed a better performance as compared to others. It is also to be noted that in most of the South Asian Countries the manufactured exports comprises of one or two commodities like textile and clothing. Hence, the need or diversifying into other manufactured goods cannot be over emphasized. However, Primary commodities still have an important role the South Asian countries exports. Some of the notable primary products include jute in the case of Bangladesh, tea for Sri Lanka and India, rice for India and Pakistan, Iron ore for India etc. Here we may note that the condition of Nepal is not fairly good in the region.

The import structure of the South Asian countries show that manufactured goods account for more than 50 percent of imports in all the countries (Table 2). Here again, Bangladesh and Sri Lanka reported remarkable increase in the share of manufactured imports. The increasing import and export intensity of the countries may be seen in the context of increased trade and investment liberalization which in turn enables these countries to be part of global production networks. The import structure, in general, reflects the gaps between domestic production and demand with some of the countries importing food grains, while others depend upon imports to meet the domestic demand for energy. These countries also source their respective requirement of industrial intermediates, machinery and Capital equipment and even durable consumer goods from abroad in various proportions.

In the case of composition of trade on services, it is well-known fact that the global trade in services has been growing at a rapid pace in recent times. The global trends are also reflected in the case of the South Asian countries. It is evident that in terms of composition of services, the south Asian region has made strides in the area of travel and transport services. However in case of India, the recent growth has been forsoresly owing to "other commercial services". This category includes India's growing exports of IT software and related services. The South Asian countries imports of services have also grown in recent times. For Nepal, imports of travel services have been quite prominent.

Export Performance in a Comparative Global Perspective

To get a more comprehensive picture of their trade performance an attempt has been made to analyze the trade performance of South Asian countries by referring to the trade performance index as developed by the ITC. It is difficult to have an all-embracing definition of successful trade performance. Some developing countries, for instance, record high growth rates by specialising in niche markets and concentrating their export markets, while other developing countries record more moderate rates of growth with a well diversified array of products and partner countries. In other cases, successful performance is the result of a favourable product or marked penetration since the beginning. Successful performance can also be gauged in terms of a country's ability to adapt its export profile to changing patterns of world demand. The last approach is the most dynamic and demand-driven trade policy stance. The Trade Performance Index (TPI) designed by ITC aims to tackle the complex and multidimensional nature of trade patterns.



It is evident that the trade performance of the South Asian countries at the global level has been dismal in relative sense. This is clear from the fact that in the area of basic manufactures, out of 184 countries in the world, the rank of South Asian ranged between 122 and 129. Similar is the situation in various other sectors such as fresh food, processed food, textiles, chemicals, etc. However, data for these sectors are not reported here for shortage of space. During some of the recent years (in most cases the period is 1997-2004) in terms of exports of basic manufactures some countries of the South Asian region such as Bangladesh, India and Pakistan have shown dynamism as compared to other countries in the world.

However, in terms of rate of per capita exports only Nepal and Pakistan appeared to have fared better as compared to other South Asian countries. This indicator is important because it may be argued that the level of exports is determined by the demand for a country's products in world markets and a country's ability to satisfy that demand, which can be related to its size. Hence, the value of per capita exports shows how outward looking is a country, and the extent to which the population produces for the world market. The change in per capita exports reflects changes in a country's outward looking stance and performance for the group of products considered.

In terms of share in global market in basic manufactures except India other countries have not performed very well. While India's rank has been 34, other countries have ranked in the range of 83-121. There are two more aspects that need to be taken into account while assessing the trade performance, viz. product diversification as well as market diversification. The South Asian countries have performed relatively better in terms of market diversification as compared to product diversification.

SUGGESTIVE MEASURES

Liberalization of trade and investments regimes at the regional level that would facilitate efficiency-seeking restructuring of the region's enterprises by making them more competitive. This could help South Asian exporters face the challenges of international markets much better. As it has been observed, one characteristic of the South Asian countries' exports to outside the region is the low realization of value added. The bulk of their products are exported at a rather early stage of processing. Much of the value addition in garments, for instance, takes place at the stage of branding and marketing. The South Asian countries should consider setting up South Asia level mega-companies to foster an integrated South Asian textiles sector. This approach could avoid the *inter-se* competition that prevails today causing mutual disadvantages. In order to secure their markets overseas and to realize a greater proportion of value added, the South Asian exporters should consider taking over a few marketing and distribution chains in their lines of production in developed countries. Given the scale of resources involved in such takeovers, it may be beyond the capacity of individual exporting companies or individual member countries. However, this could be done by forming regional consortia of the south Asian exporters.

Similarly, joint ventures of regional commodity exporters could undertake their packaging and marketing on behalf of joint venture partners. This approach could be fruitful for tea, coffee, jute, cardamom basmati rice, etc. which are currently exported in bulk and are subject to low unit value realization.

ENHANCING SOUTH ASIA MARKET INTEGRATION

Like elsewhere in the world, market consolidation through trading arrangements is growing rapidly in Asia. In East Asia's export-oriented industries, market-led *de facto* regionalization preceded formal *de jure* integration. South Asian economies, on the contrary, have been unable to gear up market integration either formally or informally, and the subregion has remained the least integrated, although its geography and comparative advantages hold the potential for a highly integrated trade, investment, and production space (Tewari 2008).

Skeptics have long been doubtful about the potential of a subregional economic grouping among South Asian nations due to the subregion's sluggish economic activities prior to the 1970s and poor performance in international trade. Import-substituting policies, along with restrictive trade and industrial rules constrained these economies' subregional and global trade expansion for a long time. In fact, economic integration under the South Asian Association for Regional Cooperation (SAARC) regime was not explicitly envisaged until as late as the 1990s.

Since the early 1990s, however, several attempts have been initiated to boost South Asian economic integration through a number of trade pacts at the bilateral, subregional, and plurilateral levels. As the umbrella organization in South Asia, SAARC has taken initiatives to enhance integration—the South Asian Preferential Trading Arrangement (SAPTA) and the South Asian Free Trade Area (SAFTA), and more recently the SAARC Agreement on Trade in Services (SATIS), which was signed in 2010 (SAARC Secretariat 2004, 2010).



Little has been achieved under these instruments, and barring Afghanistan and Nepal, all the South Asian economies depend heavily on markets outside the region as their export destination. However, this does not mean that intra-subregional trade

has declined. Indeed South Asia’s trade with both its subregional and external partners has increased significantly since 1990s, although trade growth with external partners has been faster.

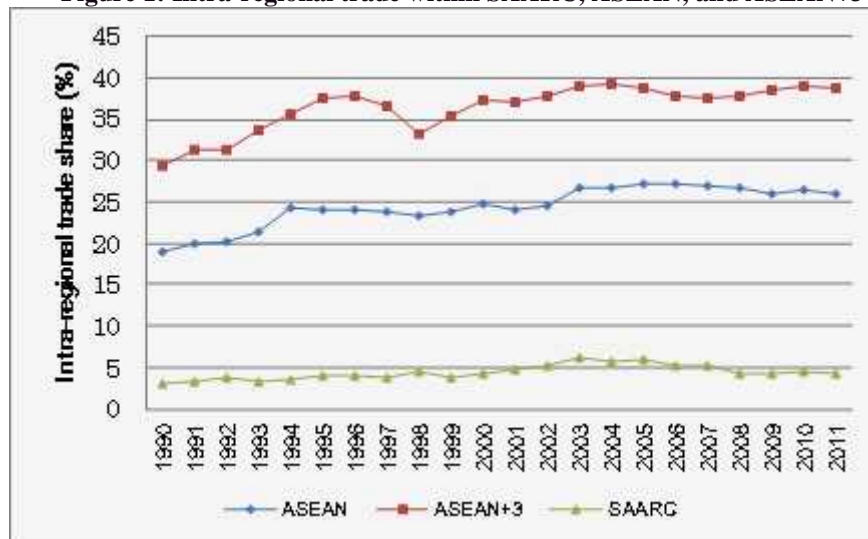
Statistical evidence suggests that intra-subregional trade among SAFTA members is rising slowly and steadily. As indicated in Table given below, South Asia’s intra-subregional trade share increased from 2.7% in 1990 to 4.3% in 2011. Also, Figure 1 provides a comparative picture of intra-subregional trade shares for the member states of SAARC, the Association of Southeast Asian Nations (ASEAN), and ASEAN+3. It clearly shows that SAARC largely trails the other two in terms of subregional integration. For example, in 2011, SAARC’s intra-subregional trade was only 4.3%, whereas the corresponding figures for ASEAN and ASEAN+3 were 26% and 39%, respectively. SAARC’s share is still very low when compared with corresponding figures from other regions, but the positive trend is clear. As such, policymakers and business communities in South Asia have become increasingly interested in economic integration in South Asia and the potential benefits that may come along with it.

South Asia’s total trade within the subregion and with the world

Reporter	South Asia				
Partner	South Asia			World	
Indicator	Total Trade, in billion US\$	As percent of South Asia's Total Trade with the World	Total Trade Growth (%)	Total Trade, in billion US\$	Total Trade Growth (%)
1990	1.8	2.7	N/A	66.2	N/A
1995	4.4	4.2	43.3	104.4	26.9
2000	6.2	4.3	21.7	142.8	10.6
2005	17.3	5.3	30.6	324.1	32.5
2010	33.2	4.6	45.9	719.9	33.8
2011	40.5	4.3	22.1	951.1	32.1

Source: Asia Regional Integration Center (ARIC) Integration Indicators Database. Available: <http://aric.adb.org/indicator.php>, accessed 20 August 2012.

Figure 1: Intra-regional trade within SAARC, ASEAN, and ASEAN+3



Source: Asia Regional Integration Center (ARIC) Integration Indicators Database. Available: <http://aric.adb.org/indicator.php>, accessed 20 August 2012.

ASEAN: Association of Southeast Asian Nations, SAARC: South Asian Association for Regional Cooperation



A recent Asian Development Bank Institute working paper (Moinuddin 2013) focuses on the promises that sub-regional economic integration in South Asia hold. The paper observes that the structure of economies in South Asian countries has changed since the 1970s, when agriculture was the predominant sector in South Asia in terms of share in GDP. Since then, the services sector has grown rapidly and at present accounts for more than half the region's economy. The manufacturing sector has remained rather weak and has been predominated by the textiles and clothing industry. With industry and agriculture performing below par, South Asia's services sector is likely to become the harbinger of the region's growth paradigm (Nabi et al. 2010).

SAFTA'S POTENTIAL IN ACCELERATING INTRAREGIONAL TRADE

Several quantitative and qualitative studies have been conducted on SAPTA/SAFTA's potential gains, but the findings have largely remained inconclusive. The critical empirical finding of Moinuddin (2013), which differs from some earlier works, is related to SAFTA's potential for generating intra-subregional trade. The regression with country-pair panel data took into account the typical gravity variables as well as additional explanatory and dummy variables that were found to be relevant for investigating the effects of FTAs on trade flows. The relationship between the trading partners' GDP and export flows was found to be more than proportional. This phenomenon, coupled with the impressive economic performance of South Asian countries in recent years, may lead the countries of this subregion to further enhance their trade flows. Moreover, an additional regression with overall trade restrictiveness indices has suggested that scaling down tariff and nontariff barriers will positively affect intra-bloc trade among South Asian economies. This calls for an effective implementation of SAFTA's trade liberalization program. Against this backdrop, there are reasons for optimism about SAFTA becoming a cohesive and profitable regional trading bloc. South Asian economies, which typically maintain high trade restrictions, will benefit from improved subregional and global integration by reducing trade barriers.

The recently signed SAARC Agreement on Trade in Services entered into force in late 2012, but it is yet to be fully implemented. To reap the benefits of economic integration, the subregion needs to promote liberalization in the services sector, a promising area for a rising South Asia. Additionally, an intra-SAARC investment agreement is likely to create an enabling environment for cooperation beyond mere trade to include investment and finance, among others (SACEPS 2002, Raihan 2012).

TO CONCLUDE

The WTO process has an increasingly important role in shaping the patterns of trade. Hence, South Asian coordination is important for securing their common interests. Owing to the consensual approach adopted in WTO negotiations, a coordinated response by the South Asian countries would be more effective in realizing their objectives. The South Asian countries have already begun extensive consultations on WTO issues under the SAARC umbrella. In fact, now at this stage it is neither necessary nor desirable to examine the case for and against trade cooperation. Trade cooperation is established fact. The only things are that we have to discuss and examine ways and means to make it more fruitful. The SAARC's spirit/mutual trust, goodwill and understanding have to be maintained and strengthened. By maintaining the primacy of economic integration, countries of the subregion can expect effective cooperation and integration in South Asia. At the end of the day, SAFTA's success will be assessed in terms of its trade generating capacities. The potential is already there; it is now a matter of effective implementation of the trade deal. This will entail South Asian countries addressing not only economic factors such as trade facilitation and infrastructure development, but also some non-economic factors like creating political will and building confidence. For this, South Asian economies must conceptualize integration as an evolving process. Indeed, this is reflected in SAARC, which has an explicit intent to move in the direction of an economic union. The growth of the South Asian countries offers prospects and challenges for deeper integration with the global economy, and integration under SAFTA is the first step in that direction.

Year	Table 1: Growth Rates of Merchandise Trade of South Asian Countries, 1991-2004 (growth rates in percent)									
	South Asia		Bangladesh		Bhutan		India		Maldives	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
1991/92	5.2	-11.8	12.7	-7.4	7.9	-14.4	-1.1	-24.5	1.9	17.0
1992/93	8.0	9.2	16.1	0.5	-9.6	14.0	3.3	10.3	10.0	18.4
1993/94	15.3	14.3	19.5	15.5	4.9	50.4	20.2	15.1	-19	5.9
1994/95	21.3	38.7	6.3	2.9	-4.1	-25.7	18.4	34.3	43.1	9.7
1995/96	20.2	21.6	37.1	39.2	10.2	4.6	20.3	21.6	12.7	20.9
1996/97	6.5	12.5	11.8	19.1	39.6	14.1	5.6	12.1	-6.0	12.6



1997/98	4.8	2.3	14.0	-7.5	1.7	18.4	4.5	4.6	15.8	15.6
1998/99	-0.1	-5.7	16.8	5.4	12.0	3.7	-3.9	-7.1	3.4	1.5
1999/00	-5.8	10.5	2.9	6.6	-5.9	20.5	11.6	16.5	-4.3	13.6
2000/01	15.5	11.4	8.2	4.4	6.6	12.8	17.0	13.0	13.2	-1.0
2001/02	1.1	-1.8	11.4	11.3	-12.9	6.1	0.1	-2.8	1.4	1.3
2002/03	7.0	2.5	-7.6	-8.7	-1.8	-4.0	11.4	6.3	18.1	-2.4
2003/04p	11.5	11.0	9.5	3.5	6.7	8.5	11.5	12.0	6.3	8.5
2004/05p	12.5	11.5	10.5	7.5	8.5	9.3	13.3	13.8	8.5	11.0

Source: Based on Asian Development Outlook 2003.

year	Table 1: Growth Rates of Merchandise Trade of South Asian Countries, 1991-2004 (growth rates in percent)					
	Nepal		Pakistan		Sri Lanka	
	Export	Import	Export	Import	Export	Import
1991/92	12.8	-0.2	19.8	13.1	8.1	20.7
1992/93	56.1	15.8	14.6	7.3	20.6	15.3
1993/94	18	14.9	0.3	11.7	16.4	14.4
1994/95	3.6	21.9	-1.4	-13.6	12	18.9
1995/96	-9.7	21.7	16.1	18.5	18.6	11.4
1996/97	1.9	5.8	7.1	16.7	7.6	2.4
1997/98	10.2	21.6	-2.6	-6.4	13.3	7.8
1998/99	11.9	-12.4	4.2	-8.4	3.4	0.4
1999/00	18.2	-10.3	-10.7	-6.7	-3.9	1.5
2000/01	42.3	20.1	8.0	-0.2	19.8	22.4
2001/02	4.6	-0.2	9.1	6.2	-12.8	-18.4
2002/03	-18.0	-11.4	2.2	-6.9	-2.4	2.2
2003/04p	5.0	5.0	12.0	14.0	6.5	9.0
2004/05p	10.0	10.0	10.0	10.0	9.0	12.0

Source: Based on Asian Development Outlook 2003.

Table 2: Structure of Merchandise Imports												
	Merchandise Imports (\$mn.)		Food (% of total)		Agricultural raw materials (% of total)		Fuels (% of total)		Ores and metals (% of total)		Manufactures (% of total)	
	1990	2004	1990	2004	1990	2004	1990	2004	1990	2004	1990	2004
Bangladesh	3618	9397	19	25	5	15	16	17	3	12	56	79
Bhutan	-	-	-	-	-	-	-	-	-	-	-	-
India	23580	59618	3	15	4	13	27	47	8	15	51	58
Maldives	-	-	-	-	-	-	-	-	-	-	-	-
Nepal	672	2473	15	23	7	14	9	26	2	13	67	59
Pakistan	7411	20617	17	22	4	14	21	39	4	13	54	60
Sri Lanka	2688	6925	19	24	2	11	13	19	1	11	65	84

Source: RIS based on World Bank, World Development Indicators, 2004-05 based on and compiled from.



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