THE IMPACT OF ECONOMIC INTEGRATION AMONG SAARC MEMBER COUNTRIES

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Abstract

This paper attempts to explore the impact of economic integration among the macro economic structure of seven SAARC member countries–Pakistan, India, Bangladesh, Srilanka, Nepal, Maldives and Bhutan during 1989-2001. The paper basically focuses on the free trade agreements which encourage economic integration and trade liberalization process among SAARC countries. It also investigates the scope of SAARC by providing substantial evidence, which shows the benefits of intra regional trade expansion. The opportunities of investment are also different as the tax and non tax structure of these countries are entirely different. So there is considerable scope for trade expansion among SAARC countries based on comparative advantage. In addition to that an arrangement is also expected through which SAARC can deal with the world's major trading blocks as a composite unit in order to maximize the gains of trade and enhance their bargaining power with respect to other countries and economic blocs. Regional economic co-operation can help in optimum utilization of capabilities and resources available in the member states, reduction and dependence on external world, opening up avenues of industrialization for small countries and strengthening of negotiating capabilities with the rest of the world.

This study is an attempt to understand the incentives for and progress towards greater economic integration[1] in South Asia. This sub-region comprises seven economies, namely, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka, which are members of South Asian Association for Regional Cooperation (SAARC)[2]. Afghanistan was added to the regional grouping at the behest of India on November 13,

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[1] Many international economists have come up with different definitions of integration. According to Balassa (1961), integration has been said to progress through the freeing of barriers to trade (trade integration), the liberalization of factor movements (factor integration) the harmonization of national economic policies (policy integration), and the complete unification of these policies (total integration) (Balassa, 1976). Kitamura (1966) however criticizes these definitions on the grounds that they conform to the principles of classical economic doctrines but do not apply to the present day market economies, which are characterized by a considerable degree of state intervention, and apply even less to developing and to socialist economies.

[2] The first concrete proposal for establishing a framework for regional cooperation in South Asia was made by the former president of Bangladesh, Ziaur Rahman, in May, 1980. It was promptly endorsed by Nepal, Sri Lanka, the Maldives and Bhutan but India and Pakistan were initially skeptical. Their acceptance of the SAARC concept was slow, hesitant and delayed.

2005, and became a member on April 3, 2007. Although, with the addition of Afghanistan, the total number of member states was raised to eight, this paper focuses mainly on Pakistan, India, Bangladesh, Sri Lanka Bhutan, Nepal and the Maldives (7 countries).

The world is increasingly being divided into regions, and trading blocks are increasing around the globe. Since inception, SAARC did not witness any dramatic changes in trade and other economic linkages within the region. The total intra-trade of SAARC countries was minimal (around 3 per cent) when SAARC was first established and it still remains small.

Jacob Viner (1950) was the first one to examine the impact of regional groupings on the welfare and introduced the concept of trade creation and trade diversion[3]. However, he made restrictive assumptions of zero demand and supply elasticities. Subsequently Meade (1955) relaxed the zero price elasticity of demand. Lipsey (1957) relaxed the assumptions of zero supply elasticity as well. The main finding of these studies has been that if trade creation and trade expansion exceeds the trade diversion, regional integration would be welfare promoting and vice-versa.

The analysis presented by Viner, Meade and Lipsey has been static and it may be argued that dynamic advantages may be even stronger. However, the estimates of dynamic gains have been subject to controversies as well[4]. Vamvakidis (1998) in one of the early attempts tried to answer the question whether regional trade agreement held any impact on growth. His empirical evidence showed that there was a case for smaller economies entering into such arrangements with larger economies for growing faster.

The traditional theories of gains from free trade suggests that removal of trade barriers allow consumers and producers to purchase from the cheapest and most competitive source of supply. This will increase efficiency and welfare. However, by introducing the concepts of 'trade creation' and 'trade diversion' it was argued that the net effect of trade liberalization on a regional basis is not necessarily positive. According to Bhagwati and Panagariya (1996) if members of the regional trade agreements are small in relation to the outside world, possibilities of trade creation will be very little. Dynamic effects of forging regional alliance includes market expansion effects i.e. the achievements of economies of scale and the ability to choose the best locations for production and distribution. As trade barriers are removed and markets expand, competition enhancement effects facilitation of efficient production because companies with oligopolies in the region are made more competitive by market integration. Other dynamic effects include accommodating specialization and division of labour, promoting technical efficiency and terms of trade effects etc.

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[3] See Arndt (1969), Mundell (1964) , Lipsey (1970) and Meier (1985) , Viner, J. (1950), The Customs Union Issue. New York: Carnegie Endowment for International Peace

[4] (See Bhagwati (1993), Helpman (1995), Baldwin and Venables (1995), and Srinivasan (1997).

Most of the SAARC countries have been dependent on the production and export of a few primary commodities for the expansion of their economies. A major share of their international trade is also based on the export of these primary products, and the import of raw materials and other capital goods required for the export sector, as well as for other sectors of the economy. This paper tries to focus on the trade pattern of SAARC countries and use various tools to assess their future performance. Its charter was accepted by all the seven members in mid-1985. Success of similar regional trade and economic integration groups in other parts of the globe had impressed the members, therefore, they created it primarily for holding consultations on regional issues of mutual interest as well as collaborating internationally for mutual benefit. Regional cooperation that SAARC initially emphasized was on the political level, for which the foreign ministers of the seven countries met. Members also intended to explore the possibilities of cooperation on economic and social issues, but that was secondary.

Due to the legacy of conflicts, the member countries of the SAARC were initially tentative in coming together. Lack of enthusiasm, poor understanding of benefits of regional integration and overly cautious conduct made the process of formulating regional integration-related agreements and implementing them in an effective and efficacious manner time-consuming and difficult. SAARC often gave an impression of being a forum where the member countries met to carry on discussions and organize seminars and conferences, rather than thoughtfully devise pragmatic sub-regional economic integration policies for common good and implement them in a methodical manner so that their GDP growth and intra-regional trade and investment can be accelerated and poverty ameliorated.

SAARC was formally founded at the first SUMMIT conference of 7 and 8 Dec, 1985 in Dhaka. It comprises of seven countries of South Asia, i.e. Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. SAARC is a manifestation of the determination of the peoples of South Asia to work together towards finding solutions of their common problems in a spirit of friendship, trust and understanding and create on order based on mutual respect, equity and shared benefits. The primary objective of the association is the acceleration of the process of economic and social development in member states, through collective action in agreed areas of cooperation.

Evolution

The idea of regional cooperation in South Asia was first mooted in November 1980. After consultations, the Foreign Secretaries of the seven countries met for the first time in Colombo in April 1981. This was followed up, a few months later, by a meeting of the committees of the Whole, which identified five areas for regional cooperation. The Foreign Ministers, at their first meeting in New Delhi in August 1983, adopted the Declaration on SAARC and formally launched the (IPA)[5] in the five agreed areas of cooperation namely, Agriculture, Rural Development, Telecommunications,

[5] Integrated Program of Action

Meteorology, Health and Population Activities. Later, Transport, Postal Services, Scientific and Technology Cooperation, Sports, Arts and Culture were added to the IPA.

OBJECTIVES

- To promote the welfare of the peoples of South Asia and to improve their quality of life:
- To accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potential:
- To promote and strengthen collective self – reliance among the countries of South Asia.
- To contribute to mutual trust, understanding and appreciation of each others problems.
- To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields.
- To strengthen cooperation with other developing countries
- To strengthen cooperation among themselves in international forums on matters of common interests.
- To cooperate with international and regional organizations with similar aims and objectives.

Basic features for interactive functioning were laid down as:

- Cooperation within the framework of the Association is to be based on respect for the principles of sovereign equality, territorial integrity, political independence, non interference in the internal affairs of other states and mutual benefit.
- Such cooperation is to complement and not to substitute bilateral or multilateral cooperation.
- Cooperation should be consistent with bilateral and multilateral obligations of member states.

SAFTA[6]

At the initial stage SAARC did not cover core issue related to trade to investment. To overcome this SAPTA[7] was formed with passing of time the member countries have envisaged the formation of the South Asian Free Trading Agreement which was formed in 2001 enabling the dismantling of all barriers to regional trade.

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[6] South Asian Free Trade Area leading subsequently, towards a custom unit common market and economic union.

[7] South Asian Preferential Trading Agreement was finalized in 1993, and formally came in to operation in December 1995, well before the date of stipulated by the Colombo summit. This reflects the desire of SAARC countries to promote and sustain the mutual trade and economic cooperation of trade with in the SAARC region.

SAPTA implies elimination of both tariff and non tariff barriers and the use of informal channels. SAFTA was to induce a shift of illegal trade flows from the legal trade channels because South Asian countries had imposed non tariff barriers particularly in the form of quantitative restriction, which obstructed the flows of trade through formal channels.

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

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

Source: Direction of Trade Statistics Yearbook 1997, 2002 (International Monetary Fund)

Achievements under SAARC have been many and can be counted as Ratification of SAFTA, SAARC Development Fund (SDF), SAARC Village in each Member State, National Coordination Committee of SAARC members, Independent South Asian Commission on Poverty Alleviation (ISACPA), SAARC Development Goals (SDG), SAARC Regional Multimodal Transport Study (SRMTS), establishment of South Asia University (SAU) and Inter- Governmental Agreement on SAARC Food Bank Opportunities in South Asia are many because it is considered to be the fastest growing sub-region, having similar cultural and social values, large markets and work force, a good connectivity, energy potentials, ports facilities, tourism potentials, strategically significant as the gateway to East Asia.

Despite being a very versatile area of opportunities, South Asia also has many challenges to overcome like poverty, weak governance, political instability, unresolved disputes, natural calamities and needs for massive investments.

India has by far the largest economy in SAARC, while Pakistan and Bangladesh are the second and the third largest (Table 1). These three economies are of crucial importance for any sub-regional integration and cooperation plan to operate successfully, albeit India and Pakistan would be the dominant constituents of any formal regional integration agreement. The size of the GNP and per capita income of the seven South Asian economies according to the 2004 available data are as follows:

Table 1
Gross National Income (GNI) in 2004

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

Source: The World Bank. 2006. *World Development Indicators.* Washington DC.

Bhutan and the Maldives are two tiny economies of the sub-region. The former is a land-locked country, while the latter is water-locked. Of these seven, three economies, namely Bangladesh, Bhutan and Nepal, come under the UN designated category of the least-developed countries (LDCs). The Maldives and Sri Lanka come under the World Bank category of lower-middle income (LMI) countries and India and Pakistan come under the category of low income countries (LIC). South Asia is one of the poorest regions in the world. More than a-fifth (22 percent) of the global population lives in this sub-region, although it accounts for merely 2 percent of the global GDP. A large number of people who are below the poverty line, inhabit this sub-region, which is world's mostly populated area.

If per capita GNI is taken as a measure, Sri Lanka is the second most prosperous sub-regional economy (Table 1). The island country of the Maldives has the highest per capita GNI. It is made up of 1,190 coral reef islands, having 26 major atolls. Only 200 islands are inhabited and 44 of them have been skillfully adapted for modern tourism. Due to its prosperous tourism-based economy, the Maldives is the growth champion of South Asia. It leases out numerous islands to expert tour operators, who run the industry in a highly professional manner. Hiring of expatriate professionals in tourism-related businesses is a common practice. So are imports of all the inputs needed by the tourism industry. Its average annual GDP growth rate for the last two decades (1985-2005) was

10 percent and per capita GDP $2,300. Fisheries and trade follow closely next to tourism. The economy is regarded as exemplary in the region and welcomes foreign direct investment (FDI).

The Kingdom of Bhutan is one of smallest and least developed economies in the world. Agriculture is the mainstay of the economy and a large proportion (85 percent) of population depends on it. Animal husbandry and forestry are the other economic activities. Due to rugged mountainous terrain building roads and other infrastructure is difficult and expensive. The economy is closely aligned with that of India, through close trade and monetary links. Although the industrial sector is small and technologically backward, Bhutan has high hydropower potential. It has also become an attractive tourist destination in recent years. Its per capita income was $760, higher than many of its larger sub-regional neighbors.

Liberalizing Protectionist Regimes

During the post-World War II period, the South Asian economies had adopted the strategy of import-substituting industrialization (ISI). The supporting policies that went with the ISI included a massive public sector and a control-ridden private sector that existed at the periphery of the economy, and a strong anti-export bias. The ISI strategy effectively worked towards limiting trade, including intra-regional trade. Its influence was asymmetric towards restraining the latter. High level of protectionism was an integral part of the ISI strategy.

Tariff levels in Bangladesh, India and Pakistan were exceedingly high until 1990. In the early 1990s, more South Asian economies changed course and began liberalizing their domestic trade regimes by slashing tariffs. Both India and Bangladesh began liberalizing trade policies and cutting tariff rates in the early 1990s. It continued gradual tariff reduction during the 1990s and the early 2000. Nepal and Pakistan began liberalization and slashing of tariff rates in 1997. Bangladesh's tariffs were the highest in the region but the government began to slash them. Consequently, during the 1990s the South Asian economies succeeded in moving away from the stringently protectionist quasi-autarkic regimes of the past and in increasing their trade with the global economy. However, it must be pointed out that, first, this evolution was slow, much slower than that in China. There was backtracking on tariff reforms in Bangladesh and India during 1997-2001 period. Second, trade liberalization in the sub-region was far from uniform, with Bangladesh, India and Pakistan still adhering to several interventionist policies.
As set out above, while considerable tariff liberalization occurred in the South Asian economies, they continue to be among the most highly protected in the world, after the socialist economy. Table 2 shows this clearly:

Table 2
Tariff Rates in the South Asian Economies

(In Percent)

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

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

In the sub-region, the simple and weighted average tariffs were highest in India and lowest in Sri Lanka. The levels of average applied tariffs were also the highest for this sub-group of economies. In 1989-90 applied average unweighted tariffs for the South Asian economies were 76 percent. Comparable figure for the East Asian economy was 20 percent.

Financial sector liberalization was to be adopted next. India and Sri Lanka began deregulation of interest rates and permitted private sector banking to grow in the mid-1990s. Nepal and Pakistan followed with identical measures in the late 1990s. Majority of the South Asian economies followed prudent fiscal and monetary policies. The exceptions in this regard were India and Sri Lanka. These two economies were known for fiscal profligacy, with large budget deficits, in the vicinity of 10 percent of the GDP.

Economic and structural reforms in these economies were not only launched after long procrastination but are also incomplete. There is a pressing need to implement further reforms, unleash the market forces, reduce the high level of governmental intervention in the economy and address the rigidities that the economic structures of South Asian economies are presently facing so that they could achieve trade-induced growth exemplified by the East Asian economies in the near-term. These measures are sure to benefit the poor.

Until 2009 these economies continued to suffer from macroeconomic, financial and governance related constraints. All these flaws coalesced to retard productivity growth rate and rein in competitiveness of export sectors. Private sector economic activity was critically constricted by serious infrastructural bottlenecks, poor economic governance, serious constraints in labor and land markets, and inadequate development and deficient performance of the financial markets. Some of the most conspicuous economic constraints have been created by power shortage and inland road and rail transport constraints, archaic labor laws and inefficient trade infrastructure, particularly custom procedures and regulations. Business enterprises, particularly small and medium ones,

frequently face problem in accessing finance from the organized financial sector. While property rights are properly defined, implementation is arbitrary. Stifling red tape and rent-seeking practices in the government system increase the transaction costs enormously. These economies have a long way to go in, first, completing their reform and restructuring process and, second, addressing the limitations enumerated in this paragraph.

There were several well-known long-standing social issues that exacerbated the economic difficulties in this sub-region. Principal among them were the presence of corruption, inefficient government systems, incompetent bureaucracies in the larger South Asian economies, environment of domestic (Nepal and Sri Lanka) and mutual (between India and Pakistan) conflicts. In spite of following the ISI strategy in the past and incomplete reforms in the present, one is intrigued by the question about what factors could possibly be responsible for recent pick up in the GDP growth rate and trade performance in the South Asian economies.

One plausible answer could be institutional development, which helped make the payoff from the partial macroeconomic reform program superior to what can be normally expected. Democratic environment, which contributed to democratic institutional development and free press in these countries were responsible for slow progress of reforms on the one hand, and also improved outcomes of the partial reform process on the other hand. Second, it seems that incomplete reforms helped in diminishing or removal of anti-export bias that these economies had suffered from in the past. Gradual domestic policy reforms improved export performance over the 1990-2000 period, which was reflected in improvement in the trade to GDP ratio. Third, Devarajan and Nabi posited that external financial flows were the other factor that helped South Asian economies in surpassing the trend of growth rates. After September 11, 2001, external debt burden of Pakistan declined sharply. A significant source of external finance for the South Asian economies was remittances from abroad, which have been on an increase. A good number of nationals from big South Asian countries live and work abroad and repatriate their savings. In 2005 they received inflows of repatriated income of $22 billion, which helped keep their balance of payments situation stable.

In addition, agriculture in South Asia is largely monsoon fed. Therefore, weather conditions are of material importance and influence annual GDP growth rates significantly. Over the last several years, these countries benefited from adequate and spread out monsoons. They contribute to bountiful harvest, which firmed up the GDP growth performance. Also, a long spell of low interest rates in the industrial economies resulted in larger capital flows into the stock markets of some of the South Asian economies than was possible under normal circumstances. India benefited most from this kind of external capital flows. Other countries were able to borrow large amounts from the global capital markets in this environment of low interest rates. This development was responsible for an up tick in investment in the South Asian economies.

Intra-Trade And Regional Integration Initiatives

Very little intra-regional trade is taking place in South Asia. Intra-regional trade has remained stagnant at less than 2 per cent of the total trade in the last 25 years. A study carried out by the Pakistan ministry of finance in 1996 concluded that due to low transportation costs, cultural similarities which influence taste and cause profitable complementarities to emerge and low transaction costs, the economic benefits of liberalizing trade with India outweigh costs.

Intra-regional trade is not a novel concept for the South Asian economies. That being said, they are indeed new to the concepts of regionalism and regionalization.

A close scrutiny of trade statistics and direction of trade of these countries reveals that their intra-regional trade was heavily concentrated on a small number of traditional markets in the sub-region. This trend was determined by historical developments in their trade. These economies completely ignored to expand their intra-regional markets during the post-war period. Trade expansion in the other member countries of the sub-region had a low priority for these economies. In addition, persistent protectionist trade regimes, discrimination of trade with larger neighbors, long-running conflicting relations among the larger countries and constraints emanating from transport and trade facilitation were the principal inhibiting factors. History of ignoring the sub-regional markets and the inhibiting intra-trading environment coalesced to keep the intra-regional trade to a measly level in South Asia.

Multifarious feuds among the South Asian economies were one of the reasons they did not think of forming an economic union of any kind for a long while. Confrontations among them during the post-War period made economic cooperation difficult. Moving belatedly on the sub-regional economic integration front, the seven South Asian economies signed an agreement to form the South Asian Preferential Trade Area (SAPTA) in 1993; it came into effect in December 1995. Although three rounds of preference exchange negotiations took place, the exchange of preferences among members under SAPTA remained exceedingly low. Lack of success of SAPTA was caused by known drawbacks, namely, persistence of high level of protection in the member countries, lack of any meaningful offers for tariff reduction, outright exclusion of several large sectors of trade from tariff reduction, domestic political problems, and tense relations among some member countries of SAPTA. Furthermore, India had a ban on imports of consumer products from the SAPTA countries until 1998 and from the rest of the world until 2001, which also became a hurdle in the way to having a robust SAPTA. It took off to an exceedingly poor start and gave an impression of initially existing merely on paper, thereafter it stagnated.

Product coverage under SAPTA remained limited. SAPTA's implementation in terms of tariff liberalization was lethargic primarily because of the adoption of the product-by-product approach. An analysis of the top 20 export commodities of the member countries revealed that the SAPTA resulted in significant preferences for only the LDC members of SAPTA. It could not be regarded as a successful regional trade-promoting body. The

ultimate objective of the member countries was to build on SAPTA and turn the sub-region into a full-fledged free trade area (FTA). An Inter-Governmental Expert Group was set up in 1996 to propose the necessary steps to proceed towards an FTA. Turning SAPTA into a South Asian Free Trade Agreement (SAFTA) was originally planned to be completed by 2001, but little progress occurred in this direction.

After ten years of prolonged discussions, deliberations and negotiations, the SAFTA agreement was signed in January 2004, for which the internal liberalization was scheduled to begin on January 1, 2006, in a phased manner. In an obvious move to higher level of trade and economic cooperation, the 25-article SAFTA replaced the SAPTA. It was the most significant sub-regional economic initiative since the formation of SAARC. Members agreed to give themselves ten years for progressive liberalization of tariffs. Complete trade liberalization is to take place by 2016. Tariff cuts would proceed in two stages but at a different pace for the LDC member states and the non-LDC members of SAFTA. For the LDC members in the sub-region, India, Pakistan and Sri Lanka agreed to bring down the tariffs by January 2009. That is, in the WTO parlance, LDCs would benefit from 'early harvest'. As a gesture of goodwill the LDC members would also benefit from additional measures under the special and differential treatment accorded to them in the SAFTA.

SAFTA gives an impression of being a rhetorically ambitious organization. Still its negotiations have a narrow base and were limited to trade in goods. They did not cover services, investment, and other non-border market access issues. In addition, SAFTA ignored negotiations on the rules of origin (ROO), which can be a complex issue for any free trade agreement (Sally, 2006). Although SAFTA does not hold out a promise of fundamentally transforming the economies of one of the largest and most economically challenged and crowded regions of the global economy, it can deliver substantially increased intra-trade and investment in the sub-region.

Notwithstanding the recent regionalization initiatives leading to some improvement in the recent past, sub-regional economies still maintain fairly high level of protection. This sub-group of economies needs to set a high objective for regional integration and earnestly work towards achieving it. As any group of regionally integrating economies, they should first endeavor to increase intra-regional trade in goods and services. Second, they need to encourage cross border investment. To this end, creation of a supportive policy structure and attractive investment environment are indispensable. Third, equally important is the development of supply chains. In this area, South Asian economies can take a lesson from the East Asian economies and China, which have recorded impressive success in supply chain development and management. Furthermore, cooperation in the area of harmonization of product standards, custom procedures and other regulations would certainly help achieve the objectives of expansion of sub-regional trade, investment and supply chain development[8].

[8] Eichengreen, B.H. and D. Irwin (1998) 'The Role of History in Bilateral Trade Flows' in J. A. Frankel (ed.) *Regionalization of the World Economy,* Chicago: University of Chicago Press. pp. 33-64.

Multilateral trade negotiations (MTNs) under the Doha Round had stagnated since the very beginning. Divergence in positions of developing and industrial economies had existed on several significant issues in the Doha Round and the gap was not bridged even during the fifth biannual Ministerial Conference, held in Cancún, Mexico, during 10-14 September 2003. The number of participating economies in this Conference was 146. The principal bones of contention were agricultural trade reforms, an age old chestnut, and the so-called Singapore issues. Due to serious, albeit avoidable, errors of judgment, the dissension in negotiating stands taken by the large-trading WTO members and poor conference management wheels did come off the cart of the multilateral trading system and the Cancún Ministerial Conference collapsed ignominiously (Das, 2003). This failure of MTNs provided an impetus to formation of bilateral trade agreements (BTAs). In South Asia possibilities of BTAs were being discussed between three pairs of economies: Pakistan and Sri Lanka, Bangladesh and India and Bangladesh and Sri Lanka. This was in the background of India's bilateral agreements with Bhutan, Nepal and Sri Lanka. Similar endeavors were made between South Asian economies and those outside the sub-region. India and Thailand signed a framework agreement for negotiating an FTA. India was also forming similar BTA with Singapore. In addition, a joint study group was set up by China and India for studying the feasibility of an FTA. Moving faster than India, Pakistan signed a limited trade pact with China, also known as an 'Early Harvest' agreement. It became operational in 2006 and is to be expanded into a full-fledged FTA by 2009. Pakistan signed a trade and investment framework agreement (TIFA) with the US in 2005, which is planned to become an FTA in the future. BTA discussions were in progress between Pakistan and several ASEAN economies, which included Indonesia, Laos, Singapore and Thailand. Sri Lanka signed a TIFA with the US, with plans to convert it into a full-fledged FTA in the short-term[9].

Thus viewed, the post-2000 scenario in South Asia has undergone a marked transformation. The series of recent regional and bilateral agreements albeit slow to come about portend to an alteration in the mindset of the policy mandarins in South Asia. They also presage the probability of creation of a large integrated economic region in the

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[9] R L Varshney, Promotion of Trade and Economic Relations, Arif A. Waqif (eds.), South Asian Cooperation in Industry, Energy and Technology, (New Delhi: Sage Publications, 1989), p. 67.

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For a detailed account of the operational concepts involved read Regional Economic Integration and Politics: The Case of SAPTA by Padmaja Murthy, Strategic Analysis, March 1999 Issue.

foreseeable future stretching beyond South Asia. Asian political leaders have talked of visions of a prosperous Asia, stretching between Korea in the East and Pakistan in the West.

Table 1 Import structure by main categories in SAARC member countries.

Source: UNCTAD Hand Book of Trade & Development Statistics 1995

Table 2
Intra- SAARC trade

Intra- SAARC exports (Million US $)

Countries	Years	Total value (Million U.S $)	All Food Items %	Agricultural Raw Materials %	Fuels %	Ores And Metals %	Manufacture Goods %
Bangladesh	1980	1979.5	23.6	5.9	9.5	2.9	57.9
	1990	3431.8	19.10	5.4	16.5	3.1	55.9
India	1970	2093.7	20.9	9.2	7.7	9.9	49.4
	1980	13818.7	9	1.7	44.6	5.9	37.7
	1990	23798.7	3.2	4.0	27.3	8.1	51.2
	1994	28184.7	6	4.4	23.9	7.6	51.3
	1996	36055	4	4.0	24.0	7	54
Pakistan	1970	1170.9	20.9	3.6	6.5	20.9	66.1
	1980	5350.5	13	3.4	27	2.7	54
	1990	7354.5	17.4	4	20.9	3.6	54.1
	1994	8879.3	16.3	6.2	18.4	2.7	55.9
	1995	11535.3	17.7	5.5	16.5	2.7	57.4
	1996	11812	15	4	21	3	57
Sri Lanka	1970	386.6	47	2.1	2.4	1.4	46.8
	1980	2035.4	20.4	1.1	24.3	1.6	52.3
	1990	2632.9	19.1	1.8	12.6	1.5	64.9
	1994	4457.8	15.9	1.9	6.3	1.1	74.7
	1996	5028	16	2	6	1	75
Nepal	19780	226.3	4.3	0.6	17.7	1.2	73.1
	1990	574.7	14.8	7	8.7	2	67.4
	1995	601.7	15.1	5	19.5	4.9	47.4
	1996	664	15	5	20	5	47

From	Bangladesh	Bhutan			India		Nepal		Maldives		Pakistan		Sri Lanka		Grand Total	
Years	90	96	90	96	90	96	90	96	90	96	90	96	90	96	90	96
Bangladesh	--	--	--	--	22	21	7	1	--	--	23	37	8	2	60	61
India	297	832		15	--	--	40	158	5	15	43	141	102	458	487	1619
Maldives	--	-	--	--	--	--	--	--	--	--	--	25	7	13	7	38
Nepal	1	5	--	--	14	33	--	--	--	--	--	--	--	--	15	38
Pakistan	103	109	--	1	49	41	1	6	1	3	--	--	69	80	223	240
Sri Lanka	10	12	--	--	20	43	--	1	7	16	32	37	--	--	69	109
Grand Total															861	2105

Source: IMF Direction of Trade Statistics Year Book 1994-96

Intra- SAARC trade

Intra- SAARC imports (Million US $)

From -To	Bangladesh		Bhutan		India		Nepal		Maldives		Pakistan		Sri Lanka		Grand Total	
Years	90	96	90	96	90	96	90	96	90	96	90	96	90	96	90	96
Bangladesh	--	--	7	4	170	1018	2	6	--	--	70	90	8	10	257	1124
India	15	58	--	--	--	--	15	49	--	--	45	39	22	35	07	181
Maldives	--	-	--	--	7	36	--	--	--	--	1	3	10	18	18	57
Nepal	8	1	--	--	43	150	--	--	--	--	1	6	-	1	52	158
Pakistan	38	36	--		46	212	--	--	--	27	--	-	37	45	121	320
Sri Lanka	9	2	--	-	118	562	--	--	6	14	51	69	--	--	184	64
Grand Total															729	2487

Source: IMF Direction of Trade Statistics Year Book 1994-96

TABLE 3
Trade with SAARC countries
% share in SAARC total exports

Countries Years	Bangladesh	Bhutan	Maldives	Sri Lanka	Pakistan	Nepal	India
1989-90	--	0.003	0.32	10.25	--	2.54	
1990-91	58.9	--	--	9.63	.085	2.56	18.9
1991-92	56.32	0.006	0.89	13.3	--	1.34	--
1992-93	--	--	--	15.54	0.12	1.95	20.3
1993-94	49.6	--	1.56	12.2	0.17	--	22.9
1994-95	50.2	0.0035	--	--	0.155	2.5	25.1
1995-96	51.6	0.004	0.79	17.7	0.176	2.7	27.03
1996-97	48.26	0.011	0.66	16.2	0.7	3.16	30.94
1997-98	45.8	0.049	0.43	20.48	1.136	3.03	29.3
1998-99	29.85	0.016	0.85	37.77	0.572	2.98	27.96
1999-00	25.44	0.023	0.44	38.53	0.466	2.08	33.02
2000-01	26.88	0.065	0.56	40.11	0.654	3.25	28.48

Source: World Bank Report 2008

Table 4
Trade with SAARC countries
% share in SAARC total imports

Source: World Bank Report 2008

Countries / Years	Bangladesh	Bhutan	Maldives	Sri Lanka	Pakistan	Nepal	India
1989-90	*23.7*	--	*0*	*3.12*	--	*25.2*	*29.1*
1990-91	--	*0*	*0*	--	*0.98*	*28.5*	*18.1*
1991-92	--	*0*	--	*2.11*	*0.6*	*30.9*	*18.6*
1992-93	*21.8*	--	*0*	--	*12.5*	--	*21.5*
1993-94	*29.4*	--	*0*	*1.54*	--	*29.14*	*22.2*
1994-95	*26.1*	--	*0*	--	*6.5*	*31.5*	--
1995-96	*25.9*	*0*	*0*	*1.116*	*15.8*	*33.16*	*24.02*
1996-97	*38.59*	*0*	*0*	*2.44*	*0.91*	*30.03*	*28.03*
1997-98	*36.66*	*0*	*0*	*4.17*	*3.12*	*40.04*	*16.5*
1998-99	*42.03*	*0*	*0*	*3.02*	*2.16*	*33.78*	*18.2*
1999-00	*48.58*	*0*	*0*	*1.86*	*3.43*	*27.2*	*19.3*
2000-01	*49.58*	--	--	*2.95*	*3.15*	*29.5*	*15.9*