Impacts of the South Asia Free Trade Agreement

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Foreword

This report is the result of collaboration between students in the Master of International Public Affairs program in the Robert M. La Follette School of Public Affairs at the University of Wisconsin–Madison and a select group of U.S. government agencies interested in issues of trade and South Asia. This effort provides La Follette School students the opportunity to improve their analytical skills by applying them to an issue with a substantial international component and to contribute useful knowledge and recommendations to their client. To be sure, the opinions and judgments presented in this report do not represent the views, official or unofficial, of either the La Follette School or of the client organization for which the report was prepared.

The La Follette School offers a two-year graduate program leading to either a Master of Public Affairs or a Master of International Public Affairs degree. Students in both programs develop analytic tools with which to assess policy responses to macroeconomic issues, evaluate implications of policies for efficiency and equity, and interpret and present data relevant to policy considerations.

The authors of this report are enrolled in Public Affairs 869: International Workshop, the capstone course in the international public affairs program. The workshop provides students with practical experience applying the tools of analysis they have acquired in three semesters of coursework to examine real-world problems and (where relevant) to propose feasible solutions to clients in the public, nongovernmental, or private sector. Most of the semester is spent *doing* analysis, in the form of projects that culminate in reports such as this one. While acquiring a set of analytical skills is important, it is no substitute for learning by doing.

Melanie Frances Manion
Professor of Political Science and Public Affairs
May 7, 2004

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Abbreviations

ASEAN	Association of South East Asian Nations
BBIN–GQ	Bangladesh–Bhutan–India–Nepal Growth Quadrilateral Initiative
BIMST–EC	Bangladesh–India–Myanmar–Sri Lanka–Thailand Economic Cooperation
CGE	Computable General Equilibrium
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GTAP	Global Trade Analysis Project
HS	Harmonization System
IPA	Integrated Program of Action
ISFTA	Indo–Sri Lanka Free Trade Agreement
LDC	Least Developed Country
NAFTA	North American Free Trade Agreement
NTB	Non-tariff Barrier
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asia Free Trade Agreement
SAPTA	South Asia Preferential Trade Agreement

Executive Summary

The South Asia Free Trade Agreement (SAFTA) is one path toward trade liberalization, welfare gains, and economic growth for the seven countries in the South Asia region. Whether SAFTA will realize those goals effectively and efficiently is debatable. This report takes a largely pessimistic view of the agreement. Although potential gains from SAFTA exist, the South Asia region does not meet most of the theory-based criteria for successful trade agreements. Successful implementation and large welfare gains are therefore unlikely to be realized under this agreement.

There are many impediments to a successful SAFTA. Unresolved political tensions are likely to derail much of the agreement's progress, and the most commonly traded goods may be left out of the agreement. India is expected to be the big winner, while the smaller, poorer countries may lose in terms of trade, efficiency, and welfare. Countries of the region are using alternative means of liberalization; unilateral and bilateral liberalization may be more efficient ways to achieve welfare and economic improvements. At its best, gains attributable to SAFTA will be small or nonexistent for the region. At its worst, SAFTA will be a trade-diverting, efficiency-reducing agreement, leaving some of the countries worse off.

There is a potentially large role for the U.S. and the North American Free Trade Agreement (NAFTA) to play in South Asian development. Welfare benefits of SAFTA could be significantly higher for all countries if an agreement could be forged between NAFTA and SAFTA. The SAFTA agreement by itself, however, is likely to cause a marginal loss of welfare for the NAFTA region.

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TERMS OF THE AGREEMENT

Realization of the South Asian Free Trade Agreement (SAFTA) on January 1, 2006 (pending ratification) will be the culmination of roughly 20 years of cooperation among Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. In the first phase (to be completed by January 2008), the terms of SAFTA require India, Pakistan, and Sri Lanka to reduce tariff rates to 20 percent and Bangladesh, Bhutan, Nepal, and Maldives (the least developed countries or LDCs) to 30 percent. In the second phase, tariffs would be further reduced to 0–5 percent by January 2013 for Pakistan and India, by January 2014 for Sri Lanka, and by January 2015 for the LDCs. Each member state will prepare and maintain a list of sensitive products for which tariffs will not be reduced. (See Table 1 for a summary of reductions proposed under the two phases of SAFTA.)

Table 1
Tariff Reductions Proposed Under SAFTA

Countries	Existing tariff rate	Proposed SAFTA reduction	Timeline
First Phase			
India, Pakistan, Sri Lanka	> 20%	Reduce to 20%	2 years
	< 20%	Further annual reduction	2 years
Bangladesh, Bhutan, Maldives, Nepal	> 30%	Reduce to 30%	2 years
	< 30%	Further annual reduction	2 years
Second Phase			
India, Pakistan, Sri Lanka	≤ 20%	Reduce to 0–5%	2 years
Bangladesh, Bhutan, Maldives, Nepal	≤ 30%	Reduce to 0–5%	3 years (primary products) 5 years (other products)

SOURCE: M. Asaduazzaman, Nazneen Ahmed, sharif M. Hossin, and Subrata Sarker. 2003. “South Asian Free Trade Area: An Analysis for Policy Options for Bangladesh,” Dhaka, Bangladesh: Bangladesh Institute of Development Studies, page 8.

In January 2015 the provisions of SAFTA will fully supersede those of the earlier South Asia Preferential Trade Agreement (SAPTA), and free trade will become the rule rather than the exception. Under SAPTA, tariffs were reduced only for goods specified in the agreement. Conversely, under SAFTA, tariffs will be reduced for all products except those on each country’s sensitive list. A history of events that lead to SAFTA and a more detailed description of current trade liberalization policies can be found in Appendix A.

CHARACTERISTICS OF REGIONAL TRADE

South Asian intraregional trade volume is very low relative to other regions of the world. According to some estimates, it is currently around $4–6 billion[1] per year (Malik, 2004). India dominates the region's trade: Between 1992 and 2002 India's exports to the region more than tripled, rising from $710 million to $2.8 billion. By contrast, its imports from South Asian countries were quite low: $166 million in 1992 and $531 million in 2002. While the levels of trade have fluctuated over the last decade, generally less than 1 percent of India's total imports came from South Asia, and 4 to 5 percent of its exports went to the region (see Appendix B, Figure B–1).

Whereas India's domination of regional trade is readily apparent, there is no clear secondary leader. Throughout the 1990's, Bangladesh was the second largest contributor to trade within South Asia, both in terms of actual trade volume and as a percentage of overall intraregional trade. Data and estimates for 2002, however, indicate that Sri Lanka surpassed Bangladesh as the second largest intraregional trader. Pakistan's economy is the region's second largest, but its annual contributions to intraregional trade declined between 1998 and 2002 and averaged only 10 percent over the last decade. Average trade volume figures for all countries between 1992 and 2002 are presented in Table 2.

Table 2
South Asia Intraregional Trade, 1992–2002

Country	Average annual trade ($ billions*)	Percent of overall intraregional trade	Recent trend
India	1,884	40	Rising
Bangladesh	922	21	Falling
Sri Lanka	706	17	Fluctuating
Nepal	683	14	Fluctuating
Pakistan	479	11	Falling
Bhutan	168	4	Rising
Maldives	90	2	Steady

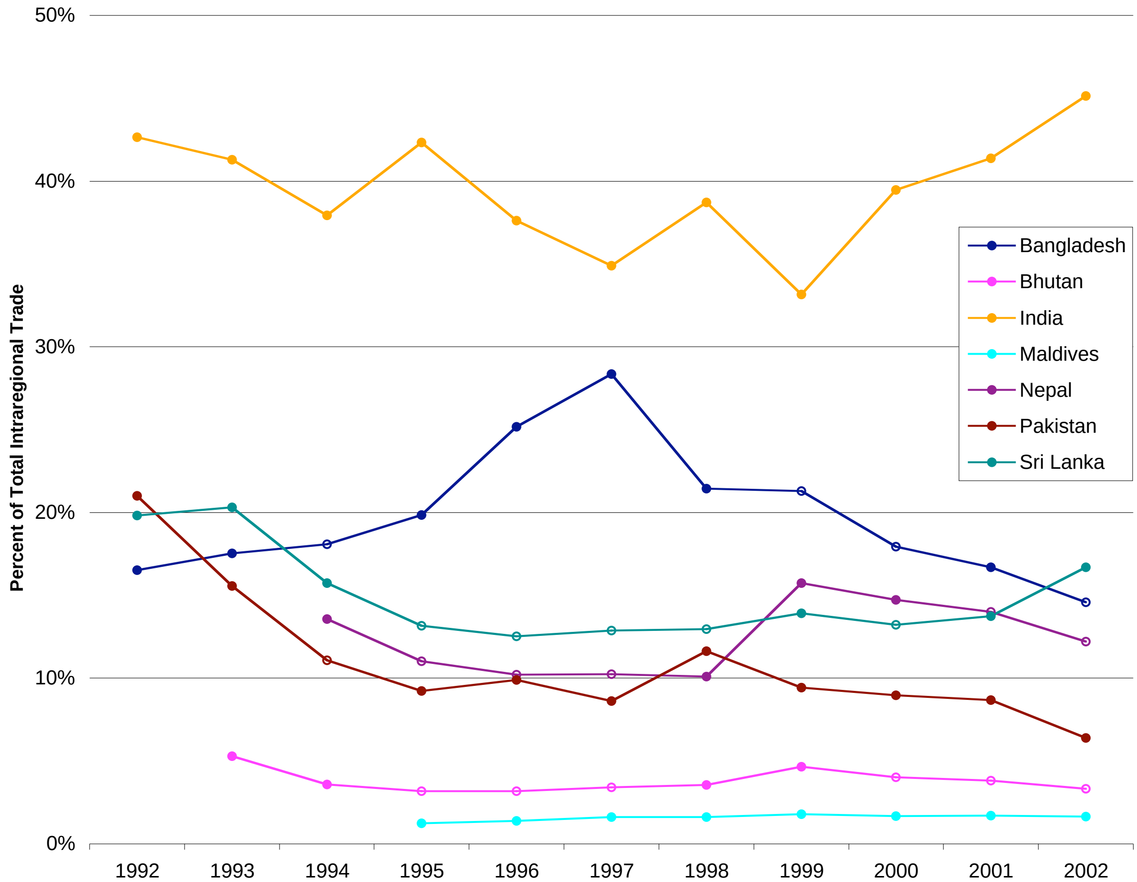
*Values are constant year 2000 dollars.

SOURCE: Based on data from the United Nations Statistics Division, available at http://unstats.un.org/unsd/comtrade/, accessed April 19, 2004.

Surprisingly, in most years for which data are available, Nepal's proportion of regional trade was higher than that of Pakistan. Predictably, Bhutan and Maldives make up a very small portion of trade within South Asia; on average they only contributed from 1 to 4 percent annually. These trends are displayed in Figure 1 below.

[1] All dollar amounts in this paper are expressed in United States dollars.

Figure 1
Contributions to Intraregional Trade



Further details on regional trade characteristics are in Appendix B, Table B–1 and Figure B–2. Country-specific information is available in Appendix D. Because many of the countries of South Asia are small and relatively undeveloped, finding trade data for them was difficult and required estimation. Consequently, all of the figures and tables (with the exception of Table 3) contain some estimated data.

Currently, South Asian countries trade in similar goods. Textiles, clothing, and apparel constitute a significant portion of total exports from the region. All of the countries also import crude oil for fuel (see Appendix B, Table B–2). There are, however, potential opportunities for increased trade. For example, Bangladesh, Maldives, Nepal and Sri Lanka import cotton fabrics for the production of their textile exports, and cotton is a substantial export commodity for Pakistan. Nevertheless, throughout all stages of SAPTA, the participating countries have generally not granted concessions on such highly traded goods.

CRITERIA FOR FREE TRADE AGREEMENT SUCCESS

Economic trade theory indicates a number of criteria likely to increase the probability that a free trade agreement (FTA) will result in welfare gains and economic growth. Key criteria include the following seven:

1. *Geographical proximity.* Regional FTAs are more likely to succeed due to reduced transportation and communication costs. Local goods may also be more compatible with regional factor endowments than those from farther away.

2. *High pre-FTA tariffs.* With a similar percentage reduction, greater gains can be captured if initial tariff rates are high.

3. *High intraregional trade levels.* Benefits accruing to each country will be realized only when transactions are made. A trade agreement among countries with little trade would be futile.

4. *Trade complementarities.* When one country's production or supply meets another country's demands, the potential benefits of trade are large. In order for both countries to benefit, however, differences in economic structure are necessary; otherwise, countries with very similar goods or similar patterns of comparative advantage gain less.

5. *Low political tensions.* Low political tensions result in smoother negotiations and implementation of agreements. Political problems hamper every aspect of trade agreements.

6. *Streamlined market access for goods produced.* Producers are more likely to take advantage of trade agreements and make allocation decisions according to them if the resulting market is easy to understand and negotiate. The faster goods can reach their destinations, the more benefits can accrue.

7. *Low non-tariff barriers (NTB).* Reducing tariffs will not result in large economic gains unless the flow of capital and products is uninhibited.[2]

Based on assessments of how well SAFTA can meet these criteria, predictions about the agreement's ability to bring about economic growth and welfare gains can be categorized as either optimistic or pessimistic. The opinions of most researchers and analysts fall along a continuum of these two conclusions, and many remain neutral. The conclusions summarized below serve to bracket the range of evaluations regarding the effectiveness of SAFTA.

[2] Bhattacharyya and Katti (1996) state that allowing free movement of goods can attract foreign direct investment, which will increase welfare gains independent of the FTA.

OPTIMISTIC PREDICTIONS

Optimistic predictions regarding SAFTA emphasize potential economic gains and political benefits to be gained by the countries of South Asia. Although most of the theoretical criteria for FTA success are not met in South Asia, benefits will be realized. Two criteria that *are* met are geographic proximity and high pre-FTA tariffs. Of the other five criteria, the trade complementarities criterion may be met. The sizeable amount of unrecorded trade among South Asian countries indicates that the level of complementarity and exchange is better than data currently demonstrate. Increased trade will create additional possibilities for comparative advantage and diversification as technical efficiency and resource allocation improve (Kumar et al., 2002).

Even if trade complementarities are low in South Asia, optimistic predictions emphasize the potential for gains from intra-industry trade. The monopolistic competition model demonstrates why this is true. An industry may have economies of scale (because the industry has declining average costs, each additional unit of production is cheaper to produce than the one before). For such an industry, however, the variety of goods that can be produced and the scale of production that is possible will be limited by a small domestic market. Trade creates an integrated market and a bigger pool of consumers, which allows each country's industry to specialize in a narrower range of goods and produce on a larger scale. Consumers in all of the countries simultaneously benefit from a larger variety of goods that are cheaper after trade due to the economies of scale (Krugman and Obstfeld, 2000).

The region is therefore is characterized by substantial unmet trade potential. Trade flow could increase by as much as 1.6 times with the complete elimination of trade barriers (Kumar et al., 2002). Because the countries continue to impose tariffs on their most highly traded products, they have yet to come close to achieving the benefits of trade liberalization. Consequently, removing the duties on a single industry or sub-sector would be enough to significantly increase welfare through greater intraregional trade (Mohanty, 2003). Thus, if tariffs were reduced in a few key markets, trade might increase enough to meet the criterion of high intraregional trade.

Free trade within South Asia may not divert trade[3] because there are already efficient, low cost products from the area yet members are not currently taking advantage of them. Others argue that trade diversion is not a significant problem because the long-term benefits of regional development outweigh the short-term trade diversion effects and over time the creation of trade in new products will replace the trade diversion of some current products (Kumar et al., 2002).

The countries of the region have more political will than they are given credit for, as demonstrated by the implementation of numerous measures to facilitate trade.[4] Under the

[3] Trade diversion takes place when exports from efficient producers in nonmember countries are replaced by exports from less efficient producers in member countries.

[4] Trade facilitation refers to strategies for increasing welfare gains, such as easing trade-related border restrictions and liberalizing foreign exchange markets. Other measures include improvements in regulatory systems and standards, electronic commerce, and transportation.

auspices of SAPTA, member countries negotiated many tariff and non-tariff barrier (NTB) reductions. Many South Asian countries are also entering into bilateral agreements with each other. As trade facilitation measures are further increased under SAFTA, restraints on capital and product movement will be reduced, and the region will be closer to meeting the low NTB criterion.

SAFTA may also deepen South Asia's economic integration and reinforce incentives to resolve political conflicts in and among member states. Economic ties will then increase common regional goals, further reducing political problems. Thus, in time, the low political tensions criterion may also be met.

Studies enlisting both a gravity model and a version of the computable general equilibrium (CGE) model, called the Global Trade Analysis Project (GTAP), show that SAFTA can have a positive impact on the region, particularly on the smaller countries (Pigato et al., 1997; Bandara and Yu, 2003). Finally, promoting regional investment can bring foreign direct investment in the form of banks and large companies into the geographic area, increasing prosperity.

PESSIMISTIC PREDICTIONS

Pessimistic predictions contend that SAFTA will have negative effects on the region as a whole or on particular countries within the region. Not even the two criteria for successful FTAs that are met will increase SAFTA's likelihood of success. While geographic proximity could help reduce transportation costs, it could also create political tension and disagreements among countries. In South Asia, geographic proximity has resulted in historical tensions that have continually hampered the success of SAFTA (Bandara and Yu, 2003). Similarly, high pre-FTA tariffs exist, but the goods targeted by SAFTA are not the highly traded goods that could make a large impact on trade and gross domestic product (GDP) levels. Many of the concessionary goods are not traded at all (Bhattacharyya and Katti, 1996, p. 10).

Unilateral and bilateral trade liberalization can bring about greater welfare benefits than FTAs can. The Bandara and Yu study (2003), based on the GTAP model, found that India would be the only country to realize a significant welfare gain under SAFTA. The smaller countries would see only marginal welfare gains, and Bangladesh would lose. In addition to welfare effects, the study examined allocation efficiency, production, and export changes. It concluded that SAFTA will not produce significant efficiency gains, and the small countries can be expected to lose from inefficient resource utilization. Because all seven countries have similar production structures, SAFTA implementation cannot be expected to result in increased production. Exports to North American Free Trade Agreement (NAFTA) countries and the European Union can therefore be expected to drop. Because India's exports to and imports from the other countries can be expected to increase, its gains will be the largest.

Pessimists also believe that SAFTA will contribute to the "spaghetti bowl" phenomenon, in which many applicable tariff rates combine with multiple sources of origin to create confusion and difficulty for customs officials and producers (Bhagwati et al., 1998). Rules of origin are applied to prevent both the transshipment of goods imported from states with low external tariffs to states with higher ones and the conversion of non-originating goods in one member state for re-export to other members (Cadot et al., 2002). Thus, the rules of origin can be manipulated, resulting in a large and chaotic set of tariff rates on the same good. This contributes to trade diversion because it increases compliance costs for intra-bloc exporters who must source intermediate inputs in the region, even though outside suppliers would be cheaper (Cadot et al., 2002). In short, the consequence of the “spaghetti bowl” phenomenon is an increase in transaction costs and protectionism.

In summary, SAFTA will be an efficiency reducing agreement, constraining more efficient, nondiscriminatory liberalizations that have more potential for welfare gains (Bandara and Yu, 2003). Additional problems with overall implementation of SAFTA include individual countries’ unwillingness to increase interdependence, a lack of communication among the countries, and a lack of exportable surpluses (Kemal et al., 2000). Furthermore, with the exception of India, percentage shares of intraregional exports are declining overall.

CHALLENGES TO SUCCESSFUL EVALUATION

A number of barriers make an accurate evaluation of SAFTA’s effects difficult. The level of economic integration among South Asian countries is uncertain. Much of the official production and trade data are unavailable, and existing data show inconsistencies. Similarly, informal sector trade and illegal trade are present in the region. SAFTA may produce an apparent increase in trade by bringing currently unrecorded informal trade into official statistics as tariffs are lowered and customs systems become more sophisticated. Under such a scenario, SAFTA could not be accurately credited with a real increase in regional trade. Rather, it should be seen as the means by which informal trade is pulled into the formal sector and official statistics. Thus, predicting SAFTA’s impact in the region and determining whether any observed changes are truly attributable to SATFA would be difficult.

A problem with SAPTA that could continue under SAFTA is that many of the concessionary products are not traded among the countries at all. For example, rubies and emeralds are on Bangladesh’s list of concessions, but Bangladesh neither imports nor exports them. If the lists of exempted goods include each country’s highly traded goods, SAFTA’s impacts will be small. These lists are currently being developed and will not be available until later in 2004, at the earliest. Without these lists, researchers will not be able to predict the effects of SAFTA accurately.

Regional customs systems may also cause problems for streamlining the implementation of SAFTA. Currently, there are two product classification systems being used in the region, which makes it difficult to list and compare goods. All of the countries except Pakistan use the Harmonization System (HS) to identify and codify commodities. Pakistan uses the Standard International Trade Classification, a statistical classification designed to provide the commodity aggregates needed for economic analysis and international comparison.

IMPLICATIONS FOR THE UNITED STATES

SAFTA has the potential to affect the U.S., which might see either economic gains or losses upon implementation. A study based on the GTAP model found that all regions outside of

South Asia would experience welfare losses with the implementation of SAFTA. When the seven countries band together, the U.S. and other NAFTA countries are likely to lose marginally due to trade diversion and unfavorable terms of trade (Bandara and Yu, 2003). As the South Asian countries participate in more regional trade, they will not export as many inexpensive goods to the U.S. Yet the same study found that if NAFTA and SAFTA negotiated an agreement, both regions could realize large welfare gains, and South Asia would gain more than it could under SAFTA or unilateral liberalization (Bandara and Yu, 2003).

In 2003, the U.S. had a trade deficit with every South Asian country except Bhutan. The region accounted for $20 billion (1.6 percent) of U.S. total imports and received $6 billion (0.9 percent) of U.S. exports. This $14 billion deficit with South Asia accounted for 2.5 percent of the overall U.S. trade deficit with the world ($536 billion in 2003; Trade Stats Express). Among the countries in South Asia, India is the main regional trade partner with the U.S., accounting for 66 percent of the region's exports to the U.S. and 80 percent of the imports. South Asia is not a significant trading partner with the United States overall, so any welfare losses associated with SAFTA would be minimal for the U.S. Still, an agreement between NAFTA and SAFTA could help boost these percentages and give South Asian countries greater access to the large U.S. market. Consequently, South Asian economies might grow more quickly, and regional integration with the world market might become attainable.

CONCLUSION

We are not pessimistic about the potential for dynamic gains from increased trade,[5] and openness to trade could lead to economic growth in the South Asia region. Our research leads us to conclude, however, that SAFTA has limited capability to increase intraregional or extra-regional trade for its member states. Several factors make major developmental gains from SAFTA unlikely.

First, the benefits remain to be realized because the preferences have not yet taken effect. The member states have yet to grant preferential status to the products they trade in the highest volume. Unless they do, they are unlikely to realize large benefits from SAFTA. This step requires political will and domestic control that is not readily apparent in most countries of the region. The concessions made under SAPTA have had little effect and are particularly difficult to distinguish in light of the other existing regional and bilateral free trade agreements. Moreover, as political tensions between India and Pakistan have rekindled, the countries of South Asia are likely to achieve greater economic success through bilateral trade agreements.

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[5] Dynamic gains from trade include direct and indirect benefits associated with trade. A number of theories point to various examples of dynamic gains. For example, large scale markets lead to increased competition and greater efficiency. Similarly, a large market allows a country to better capture benefits of increasing returns to scale. A final theory suggests trade policy openness may give governments incentives to use better governance and put down corruption (Wacziarg, 2001).

Second, according to static CGE models, SAFTA's effects are likely to be small. Further, the effects on poorer countries—an important consideration—are likely to be minimal and possibly negative. If these countries become stuck in a cycle of exporting raw non-value-added products and importing technology-based goods, they are unlikely to realize high levels of growth and development.

Third, the actual gains are likely to remain small given the structure of preferences and production within the economies. The countries produce many similar goods, making it difficult to gain comparative advantage in a particular good or product. If some industries have economies of scale, however, the monopolistic competition model shows a possibility of gains among countries with similar economic structures. Again, until the countries create a list of goods to be exempted from SAFTA, determining these effects and their scope will be difficult.

Some measures to improve the likelihood of welfare gains and economic growth associated with SAFTA include the harmonizing standards, professionalizing foreign trade management, creating specialized institutions, and joint collaborative marketing efforts.

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APPENDIX A
HISTORY OF SOUTH ASIAN ECONOMIC COOPERATION[6]

Seven countries formed the South Asian Association for Regional Cooperation (SAARC) in 1985. The primary goals of the organization were to promote greater regional coordination of economic, social, and cultural issues and present a unified voice to the rest of the world. SAARC's regional economic integration process can be separated into two stages. During Stage 1, output expansion was promoted through trade, investment, and technology collaborations. Under an integrated program of action (IPA), the seven countries implemented a development strategy that included poverty alleviation, action for the environment, welfare gains for women and children, and social and cultural exchange. During Stage 2, SAARC members chose to promote a common market and macroeconomic coordination that would lead to the SAARC Economic Union. Initiatives relating to economic cooperation include the SAARC Preferential Trading Arrangement, Chamber of Commerce and Industry, Council of Development Finance Institutions, and Project Development Facility.

One of the first significant collaborative agreements of the member countries was the SAPTA agreement. SAPTA was implemented in December 1995, and since then there have been four rounds of SAPTA negotiations. Concessions under the first round in 1996 included 226 tariff lines at the HS 6-digit level.[7] The second round covered around 1,868 tariff lines. During the third round, 3,456 tariff lines were added. Thus, a total of 5,550 tariff line concessions are included in the agreement. The depth of the tariff concessions ranged between 5 and 100 percent. The SAPTA agreement was ground breaking, as all negotiations were conducted on an item-by-item basis. The LDCs also received preferential treatment in the form of lower tariffs. The successful SAPTA negotiations prompted SAARC leaders to set up a committee of experts to draft a treaty of SAFTA at the tenth SAARC summit in 1998. The agreement was designed to be a legally binding schedule for freeing trade.

In addition to SAFTA, there are a number of sub-regional initiatives for trade liberalization. The Bangladesh–Bhutan–India–Nepal Growth Quadrilateral Initiative (BBIN–GQ) is being pursued under the SAARC framework. Its prime objective is to promote rapid economic development through the identification and implementation of specific projects. The Bangladesh–India–Myanmar–Sri Lanka–Thailand Economic Cooperation (BIMST–EC) is outside the SAARC process and includes two countries that belong to the Association of South East Asian Nations (ASEAN). Its members emphasize cooperation within six areas of their economies: (1) trade and investment, (2) technology, (3) transportation and communication, (4) energy, (5) tourism, and (6) fisheries.

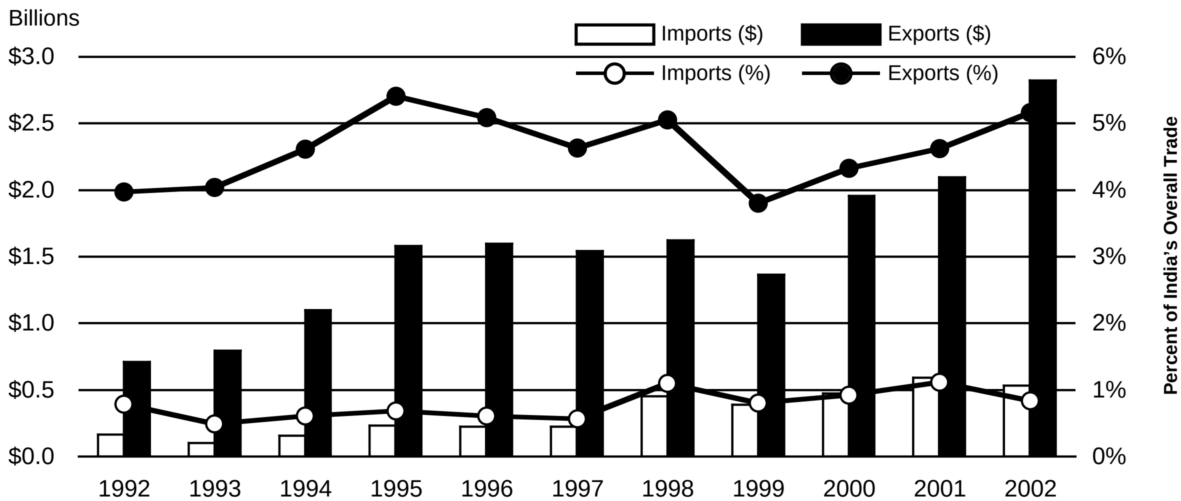
Bilateral trade agreements are also very common among SAARC member countries. Indo–Bhutan economic cooperation stems from a 1949 treaty that creates free trade and commerce between the two countries. India has also been the principal donor of foreign aid to Bhutan. Indo–Nepal economic relations are governed by the Treaty of Trade, Treaty of

[6] This section is based on Kumar et al. (2002).
[7] The Harmonization System is a coding system for commodities.

Transit, and Agreement for Cooperation to Control Unauthorized Trade. These agreements state that, with few exceptions, India will import goods from Nepal without import duty or other restrictions. The Indo–Sri Lanka Free Trade Agreement (ISFTA) was signed in 1998 and became effective in March 2000. The basic objectives of the agreement are to expand domestic markets, augment bilateral trade, and fuel economic development. Two main provisions are the elimination of tariff restrictions and moderation of rules of origin, compared to SAPTA provisions.

APPENDIX B
FIGURES AND TABLES

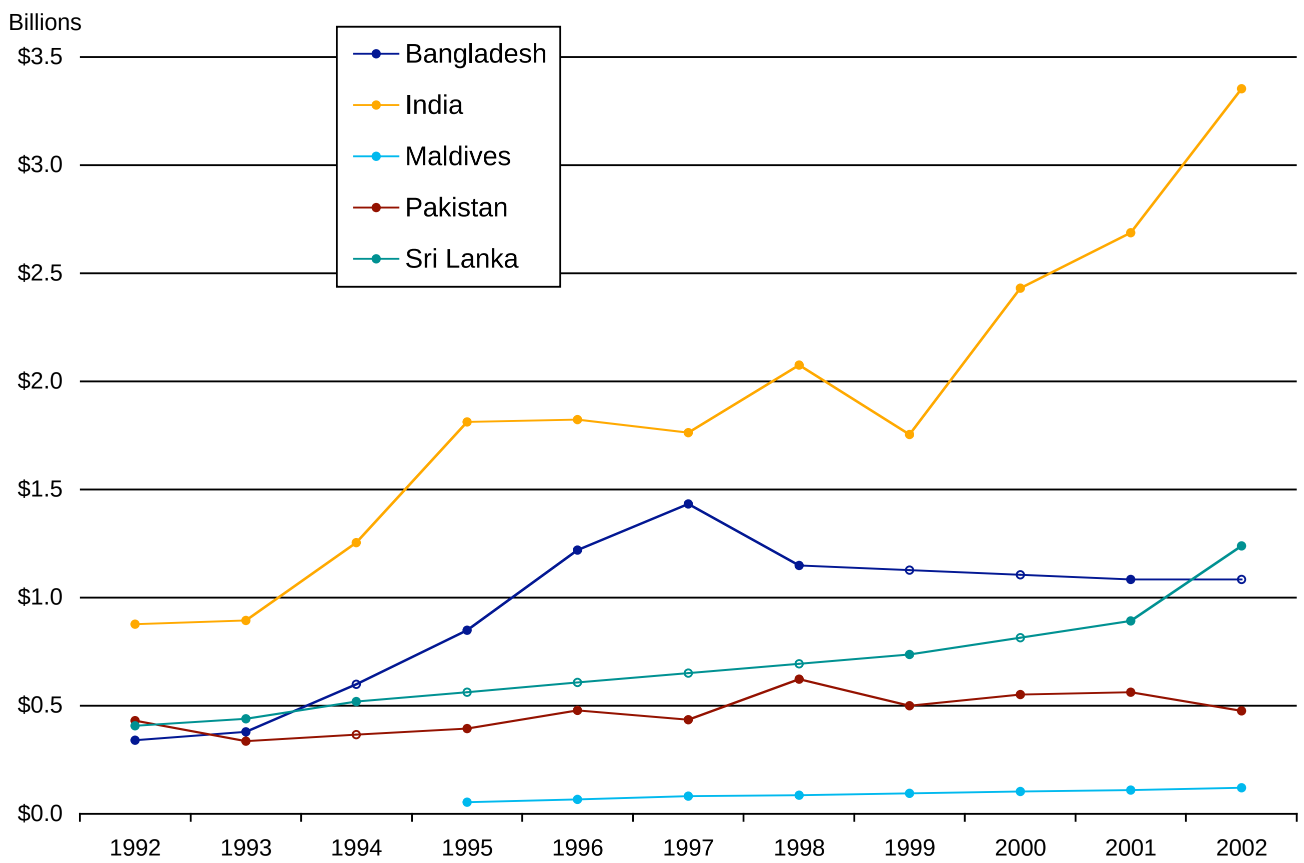
Figure B–1
India's Trade with South Asia



NOTE: Dollar values are in constant year 2000 dollars.

SOURCE: United Nations Statistics Division. "UN Commodity Trade Statistics Database (UN Comtrade)." Available at http://unstats.un.org/unsd/comtrade/, accessed May 13, 2004.

Figure B–2
South Asia Intraregional Trade



NOTE: Total trade data points are imports plus exports, in constant year 2000 dollars. Hollow points are estimations. See Appendix C for a description of estimation methods.

SOURCE: United Nations Statistics Division. “UN Commodity Trade Statistics Database (UN Comtrade).” Available at http://unstats.un.org/unsd/comtrade/, accessed May 13, 2004.

Table B–1
Trade ($) and percent of regional trade (%), 1992–2002

	1992		1993		1994		1995		1996		1997		1998		1999		2000		2001		2002	
Country	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Bangladesh	340	17	380	18	598*	18	850	20	1,220	25	1,434	28	1,148	21	1,127*	21	1,106*	18	1,084	17	1,084*	15
Bhutan			114	5	119	6	137*	3	155*	3	173*	3	191	4	247	7	247*	4	247*	4	247*	3
India	877	43	894	41	1,254	38	1,812	42	1,823	38	1,764	35	2,075	39	1,755	33	2,432	39	2,687	41	3,354	45
Maldives							54	1	67	1	82	2	87	2	95	3	103	3	111	2	122	2
Nepal					448	14	472*	11	495*	10	$18*	10	541	10	833	16	908	15	908*	14	908*	12
Pakistan	432	21	337	16	366*	11	395	9	479	10	436	9	623	12	499	9	552	9	563	9	476	6
Sri Lanka	408	20	440	20	520	16	563*	13	607*	13	650*	13	694*	13	737	14	814*	13	891	14	1,240	17
Total	2,057		2,165		1,893		3,111		3,589		3,716		4,124		3,333		3,087		5,336		5,192	

* Estimated data.

NOTE: Trade is in millions of dollars.

Table B–2
Imports and exports ($ million) and percent of regional trade (%) by country and product for selected years

	Bangladesh (2001)		Bhutan (1999)		Maldives (2002)		Nepal (2000)		Pakistan (2002)		Sri Lanka (2002)	
Product (HS code)	$ million	%	$ million	%	$ million	%	$ million	%	$ million	%	$ million	%
Fish, shellfish (034-5,7)					571 53,979	<1 57						
Crustaceans (036)	200 341,860	<1 6										
Rice (042)			8,300 <1	5 <1					33 482,363	<1 5		
Tea (074)											6,982 686,538	<1 14
Cotton (263)	406,964 265	5 <1										
Crude petro oil (333-4)	411,049 10,545	5 <1	12,800 <1	7 <1	47,243 <1	12 <1	226,153 <1	15 <1	3,034,660 133,017	26 1	822,442 466	13 <1
Electric current (351)			469 45,990	<1 41								
Leather (611)	2,251 254,900	<1 4										
Textile yarn (651)	303,701 69,582	4 1					73,587 8,891	5 1	104,227 1,013,373	1 10		
Cotton fabrics (652-3,5)	1,112,362 86,253	14 2			15,738 <1	4 <1	53,565 298 (from ’99)	4 <1	38,401 1,827,857	<1 18	980,410 53,462	15 1
Made-up textile articles (658)									7,935 1,834,606	<1 18		

NOTE: Underlined values represent imports; values not underlined represent exports.

Table B–2 (continued)
Imports and exports ($ million) and percent of regional trade (%) by country and product for selected years

	Bangladesh (2001)		Bhutan (1999)		Maldives (2002)		Nepal (2000)		Pakistan (2002)		Sri Lanka (2002)	
Product (HS code)	$ million	%	$ million	%	$ million	%	$ million	%	$ million	%	$ million	%
Floor coverings etc. (659)							1,588 146,356	<1 21				
Lime/cement/construction (661)			<1 12,253	<1 11								
Pig iron etc. (671)			261 12,271	<1 11								
Textile/leather machinery (724)									464,444 2,515	4 <1		
Office equipment/parts (759)			19,386 <1	11 <1								
Clothing (841-4)	3,336 3,144,317	<1 54			3,516 33,884	1 36	2,293 132,070	<1 19	937 1,404,872	<1 14	29,648 1,711,923	<1 35
Apparel (845)	4,911 1,157,314	<1 20					4,650 33,061	<1 5			19,530 522,209	<1 11
Clothing accessories (846)							686 42,033	<1 6				
Special transactions (931)							216,972 160,167	14 23				
Gold nonmonetary exchange ore (971)							<1 111,384	<1 7				

NOTE: Underlined values represent imports; values not underlined represent exports.

APPENDIX C
ESTIMATION OF MISSING DATA POINTS

Estimated data are represented in Figures 1 and B–2 with hollow points and in Table B–1 with asterisks next to the dollar values. This appendix describes the two methods of estimation and the countries and years for which each method was used.

Linear Method

In Figures 1 and B–2 and Table B–1, trade data was unavailable for the following countries, so data for those years have been estimated: Bangladesh 1994, 1999, and 2000; Bhutan 1995–1997; Nepal 1995–1997; Pakistan 1994; and Sri Lanka 2000. When data was available from the years immediately preceding and immediately following a missing observation, we estimated that point by taking the average of the two surrounding points. Data for Bangladesh in 1994, Pakistan in 1994, and Sri Lanka in 2000 were approximated in this way.

Estimates for periods of two or more years were generated using a slope (or simple linear) method. Using Bangladesh as an example, we made estimates for 1999 and 2000 by first calculating the change between the 1998 ($1,148) and 2001 ($1,084) data points. Figures are given in millions of U.S. dollars.

$$\$1{,}084 - \$1{,}148 = -64$$

Second, we divided the result by the number of missing years plus one (in this case, three). Note that for this example, the result has been rounded. In the estimation process, however, rounding was done at the end of the calculation process.

$$\frac{\$1{,}084 - \$1{,}148}{3} = -21$$

Third, we added this number to the 1998 value to generate the estimate for 1999.

$$\$1{,}148 + (-21) = \$1{,}127$$

Fourth, we repeated step three using 1999 as the base year for the 2000 estimation.

$$\$1{,}127 + (-21) = \$1{,}106$$

Dollars were rounded to the nearest million for the table.

Placeholder Proxy Method

Figures 1 and B–2 and Table B–1 also include proxies for missing data points when there were no endpoints to calculate a slope. Because two of these graphics include approximations of each country’s contribution to intra-regional trade, missing data would cause percentages for the remaining countries to change. For some countries, therefore, the last available data point was carried forward to 2002 as a placeholder figure to maintain the relative accuracy of the proportions. Bangladesh’s 2001 value of $1,084 million was carried forward into 2002, Bhutan’s 2000 value of $247 million was used as a proxy for 2000–2002, and Nepal’s 2000 data point of $908 million was used as a placeholder for 2001–2002.

APPENDIX D
COUNTRY PROFILES

Data for the following figures are from the United Nations Statistics Division (available at http://unstats.un.org/unsd/comtrade). Values are presented in constant year 2000 dollars.

Bangladesh

Bangladesh is an important country in South Asia because it is neither large nor small and has an economy with relatively good potential for growth. Its trade with India and the region in general, as well as its percentage contribution to regional trade, has declined since 1997. Conversely, its trade with Pakistan and the world as a whole has been on the rise.

Figure D–1
Bangladesh's Trade With India

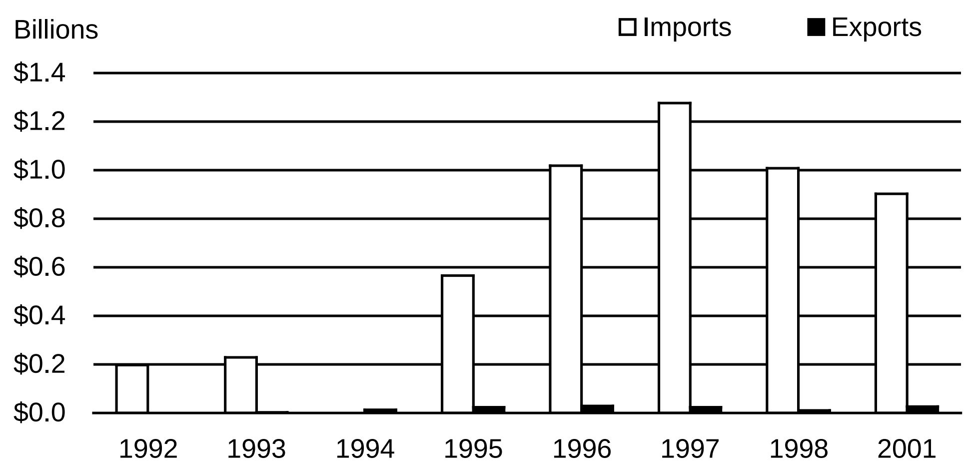


Figure D–2
Bangladesh's Trade With Pakistan

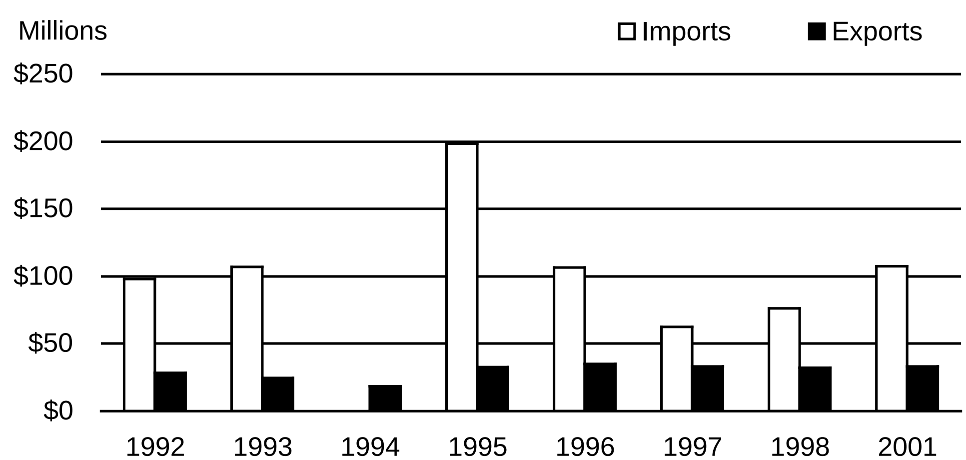


Figure D–3
Bangladesh's Trade With Sri Lanka

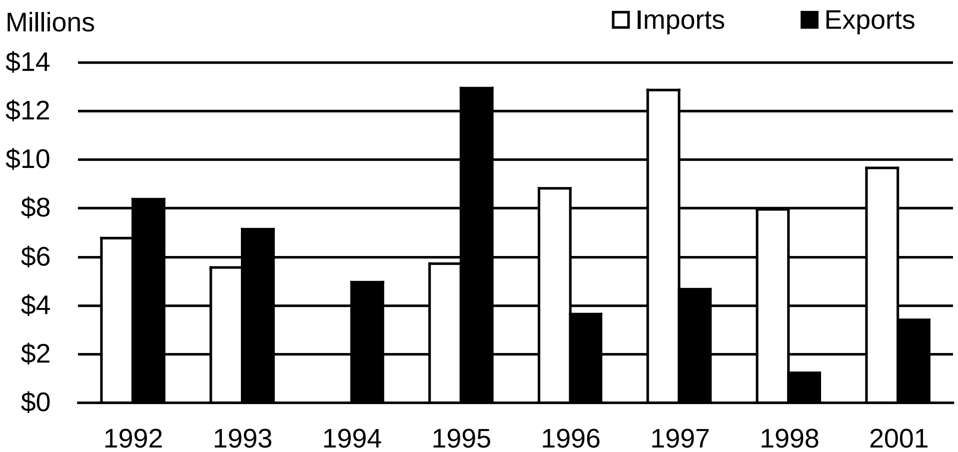


Figure D–4
Bangladesh's Trade With the Region

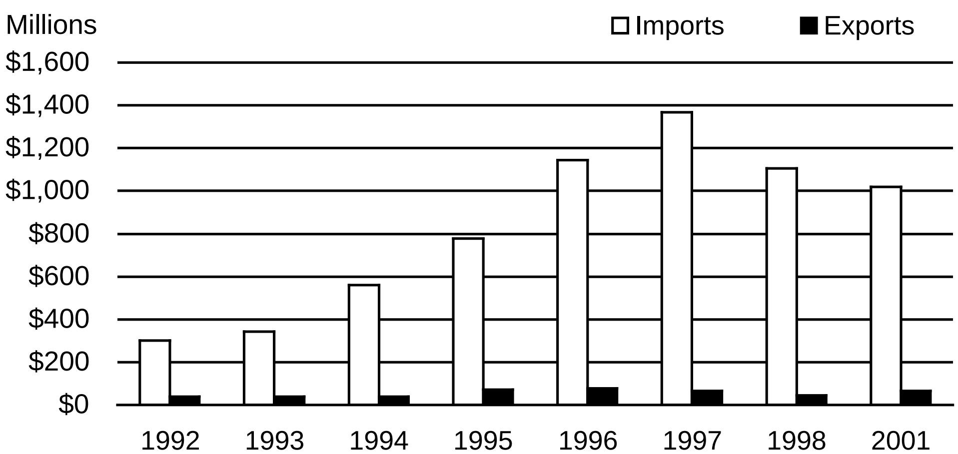
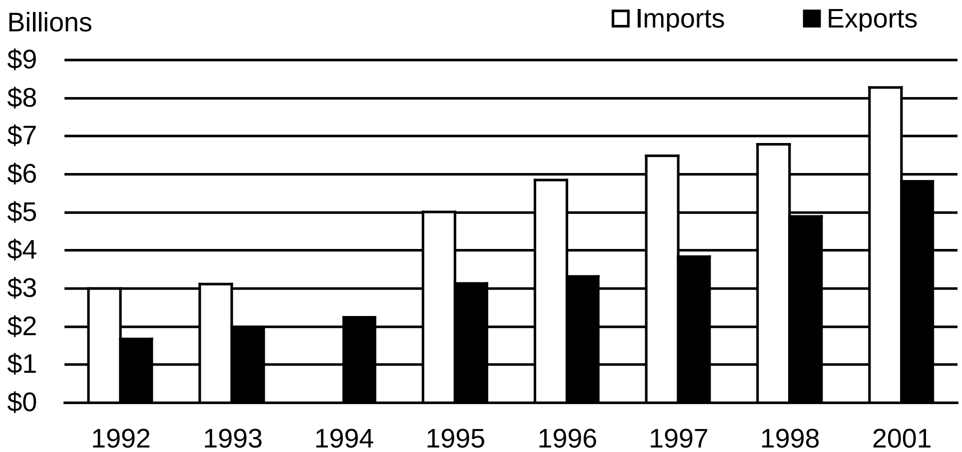


Figure D–5
Bangladesh's Trade With the World



Bhutan

Bhutan, one of the poorest countries in South Asia, has increased its trade since 1998 with India, Bangladesh, Nepal, the region, and the world. Unfortunately, more recent data is not available but trends show growth in both Bhutan's imports and exports.

Figure D–6
Bhutan's Trade With Bangladesh

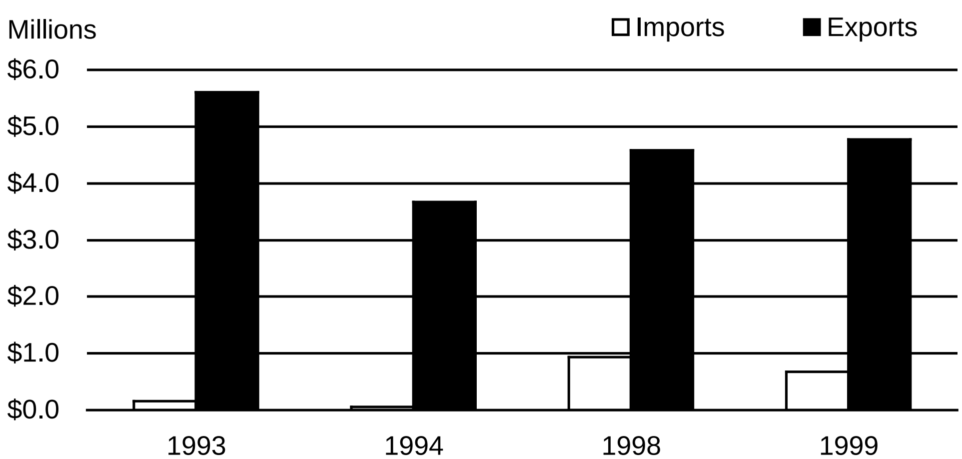


Figure D–7
Bhutan's Trade With India

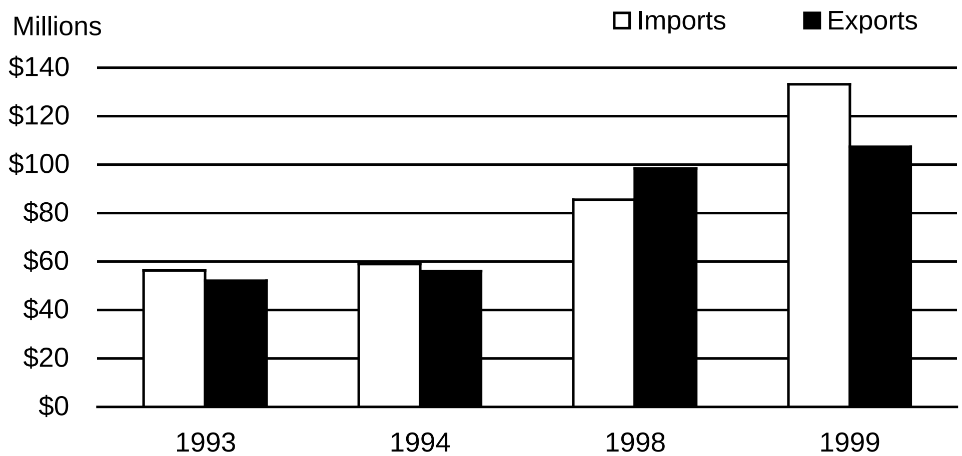


Figure D–8
Bhutan's Trade With Nepal

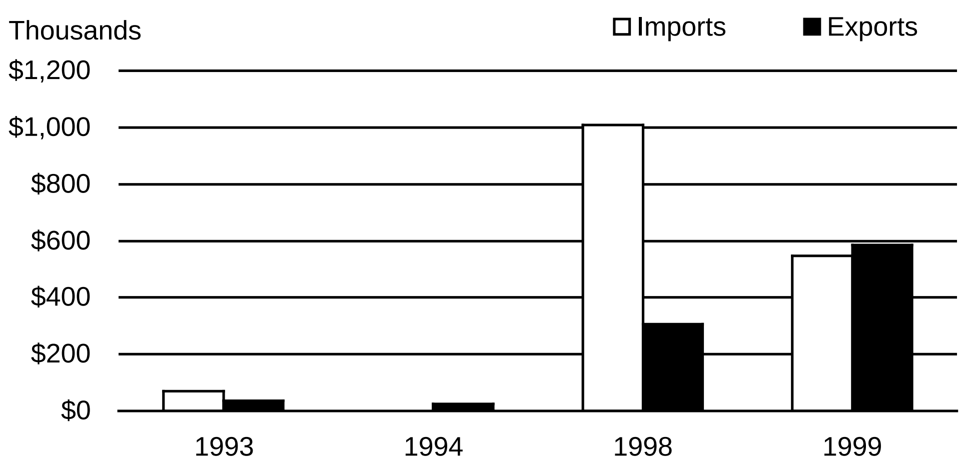


Figure D–9
Bhutan’s Trade With the Region

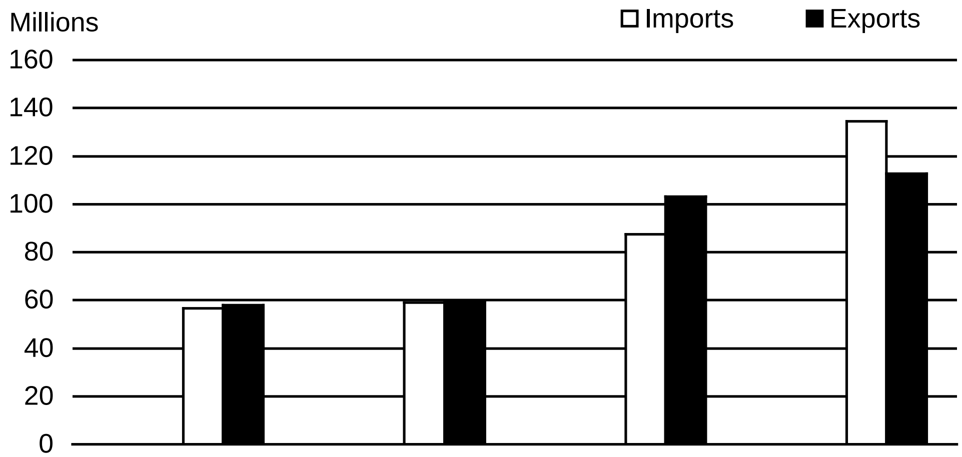
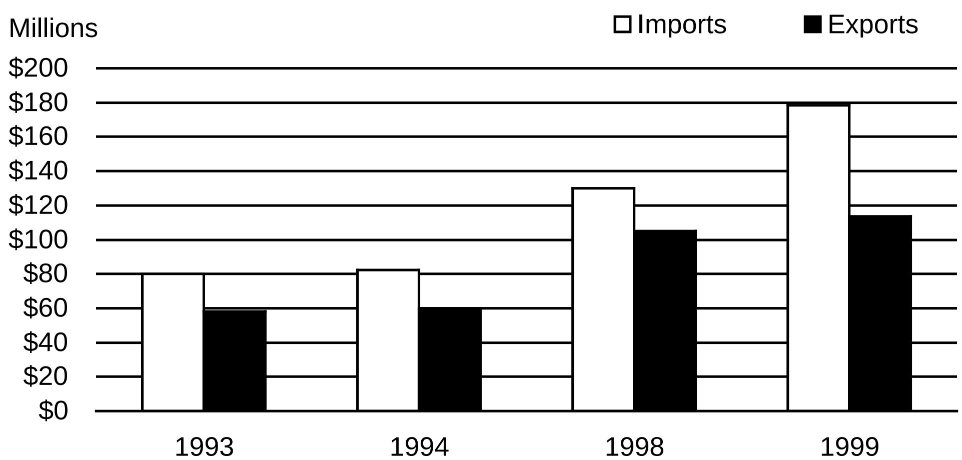


Figure D–10
Bhutan’s Trade With the World



India

India exports much more to most of its South Asian neighbors than it imports. The overall levels of India’s trade with individual countries, the region, and the world have been rising fairly steadily over the last decade. Levels of trade with most of its neighbors reached a peak around 1994–1996. This was then followed by a slump and then renewed growth again. In nearly all cases, recent trading surpasses the peak levels of the mid-1990s but whether this can be attributed to SAPTA is difficult to ascertain.

Figure D–11
India’s Trade With Bangladesh

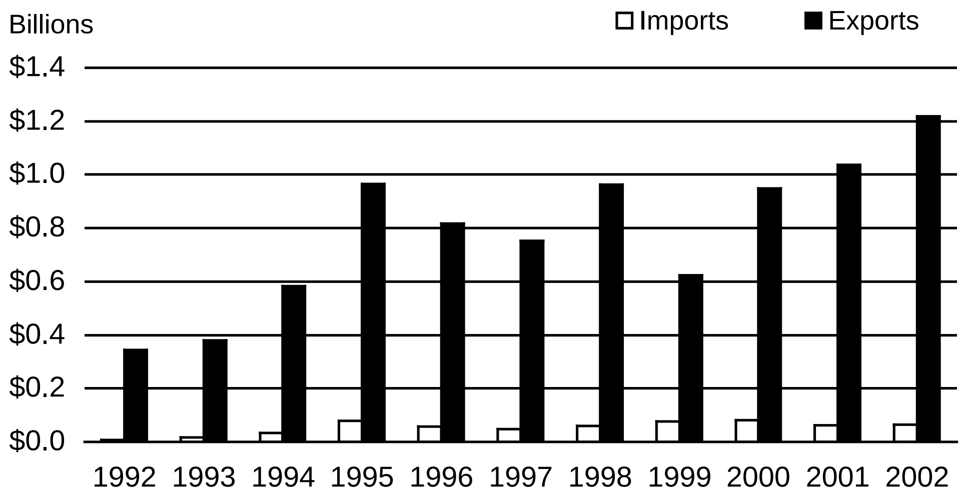


Figure D–12
India’s Trade With Nepal

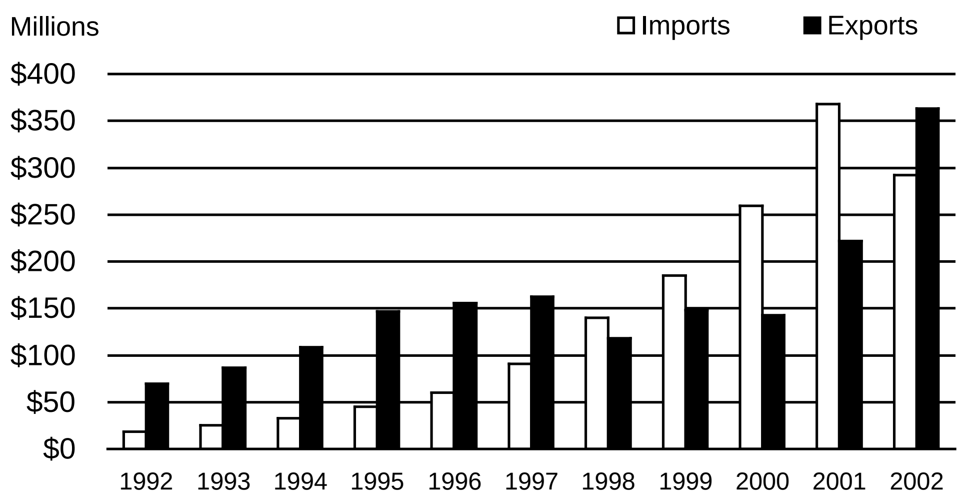


Figure D–13
India's Trade With Pakistan

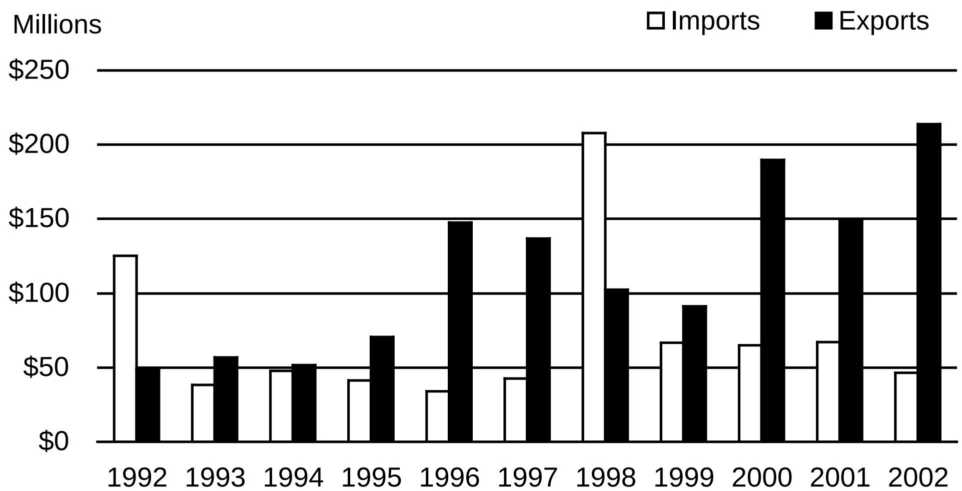


Figure D–14
India's Trade With the Region

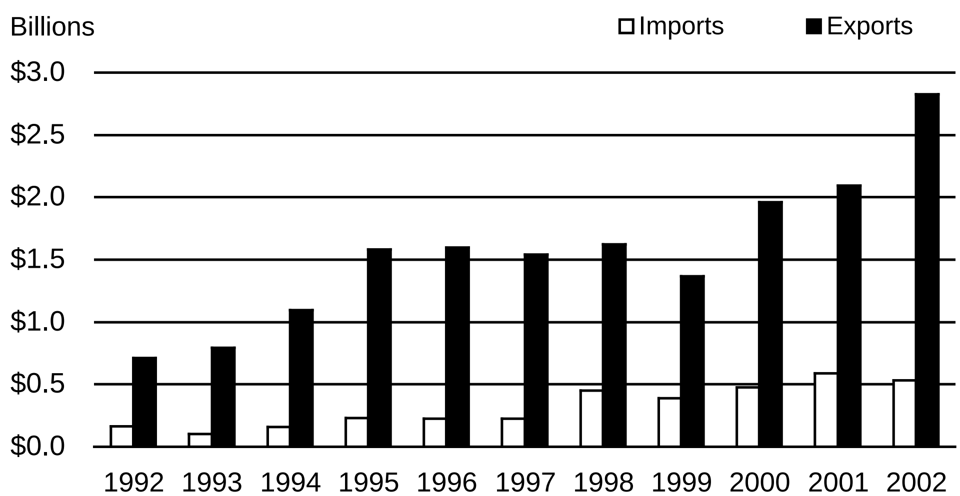
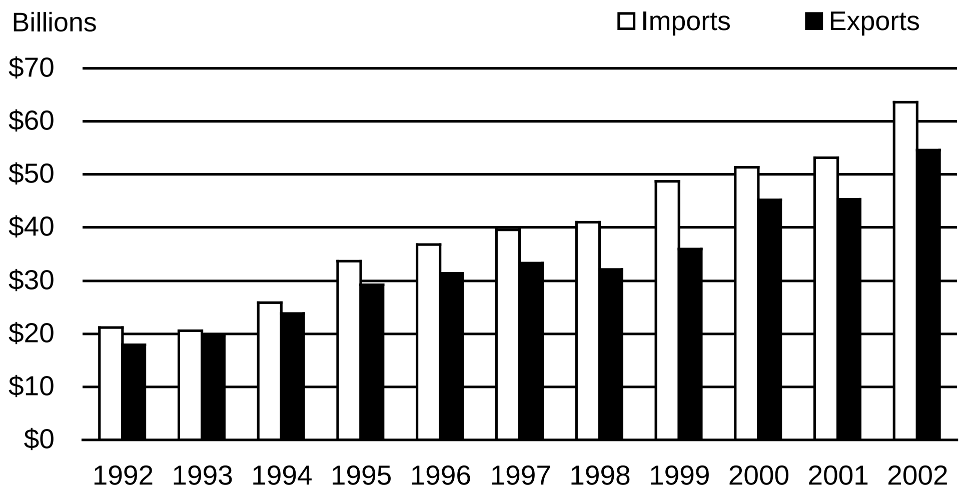


Figure D–15
India's Trade With the World



Maldives

Maldives is a group of several small islands off the southwestern coast of India. For this reason, the country has a very limited economy and must import many products. Imports from India, Pakistan and Sri Lanka have risen over the last several years, as have its imports from the region in general and from the world. Given the absence of export data, it is difficult to ascertain whether there is a recent trend.

Figure D–16
Maldives's Trade With India

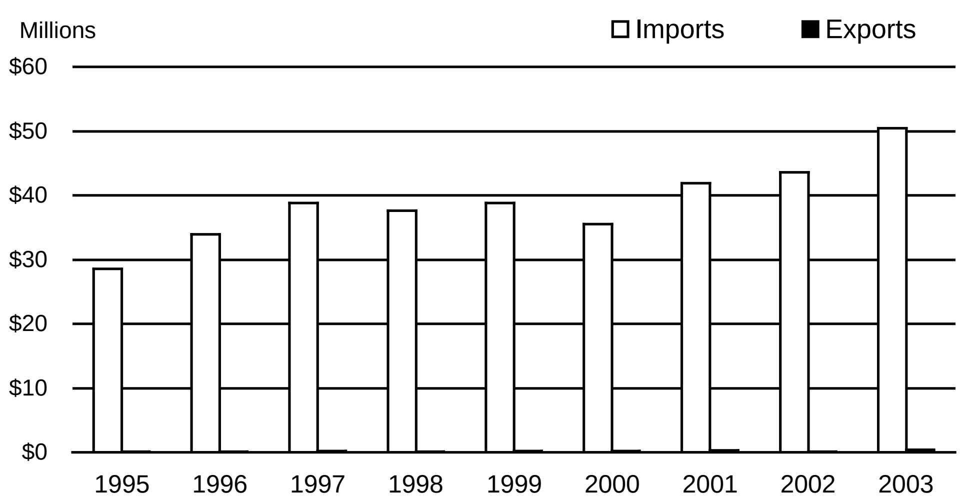


Figure D–17
Maldives's Trade With Pakistan

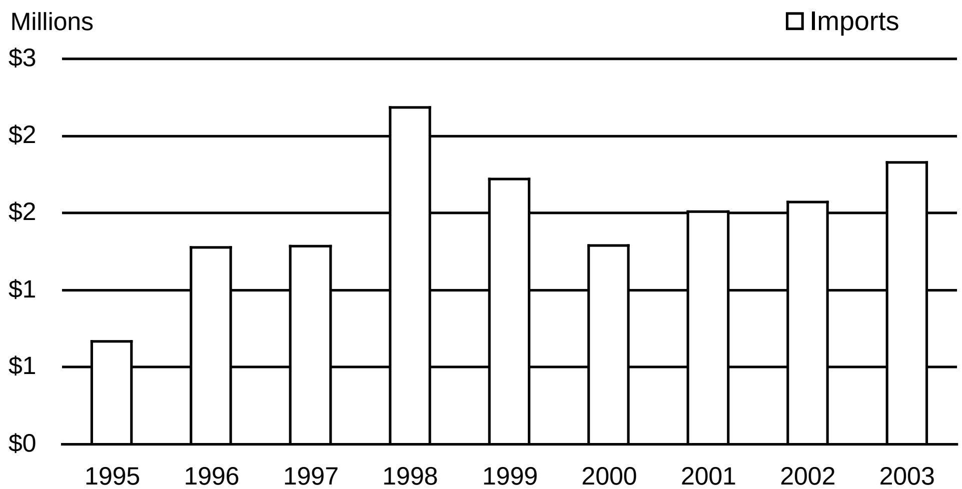


Figure D–18
Maldives's Trade With Sri Lanka

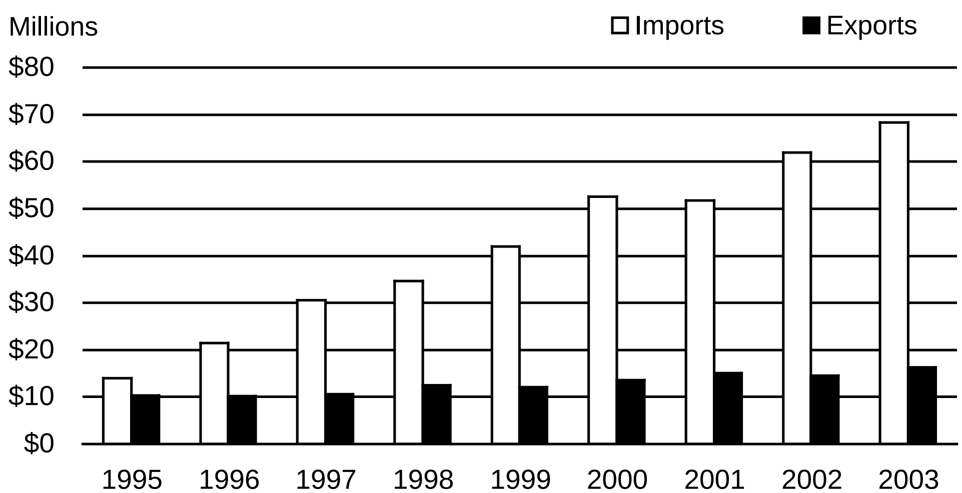


Figure D–19
Maldives's Trade With the Region

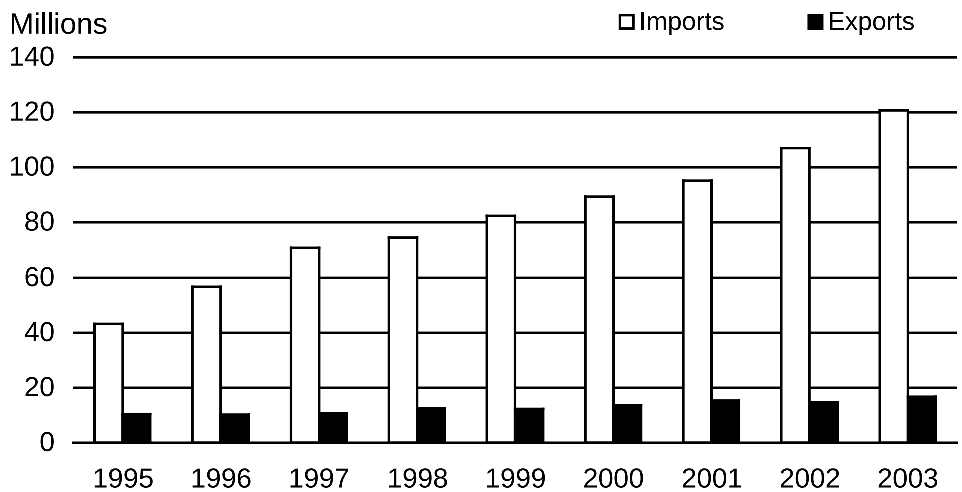
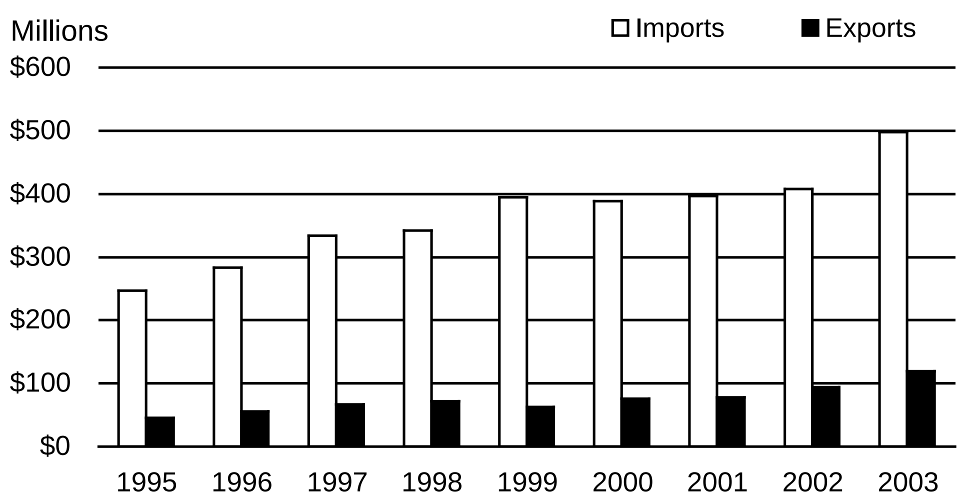


Figure D–20
Maldives's Trade With the World



Nepal

Patterns are difficult to find in Nepal's trade within South Asia. Its imports and exports with the world as a whole have increased from 1994 to 2000, but among the various countries, only an increase of exports to India and therefore the rest of the region can be seen.

Figure D–21
Nepal's Trade With Bangladesh

Figure D–22
Nepal's Trade With India

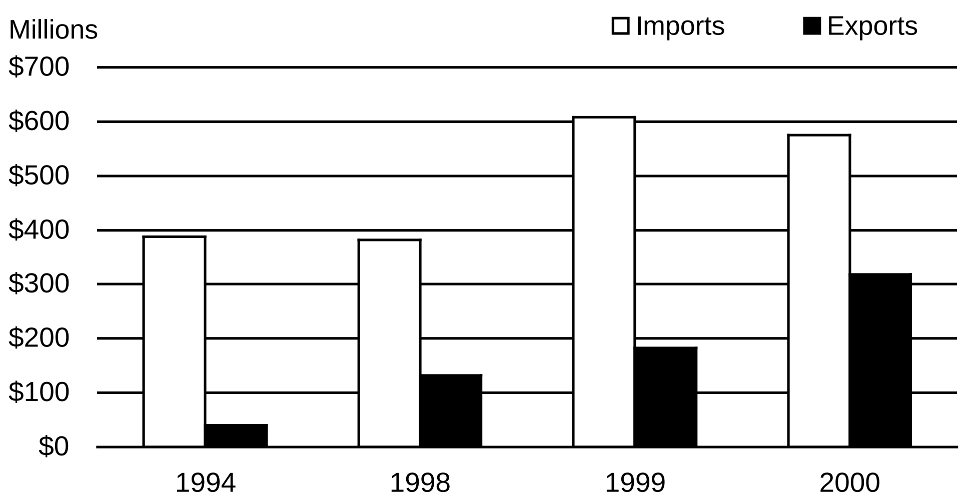


Figure D–23
Nepal's Trade With Pakistan

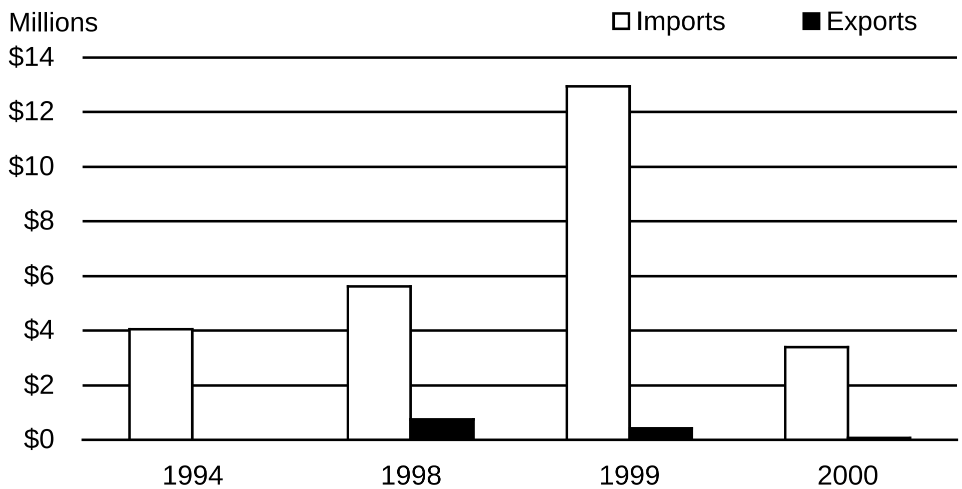


Figure D–24
Nepal's Trade With the Region

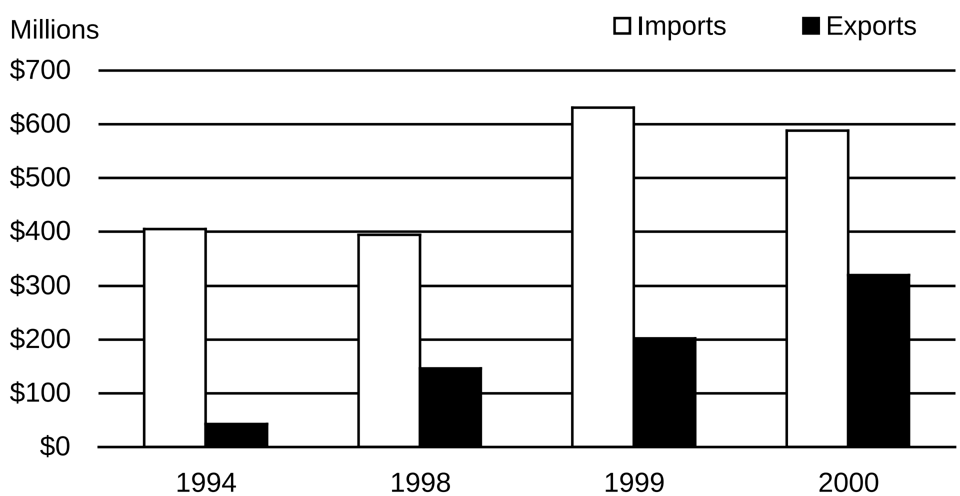
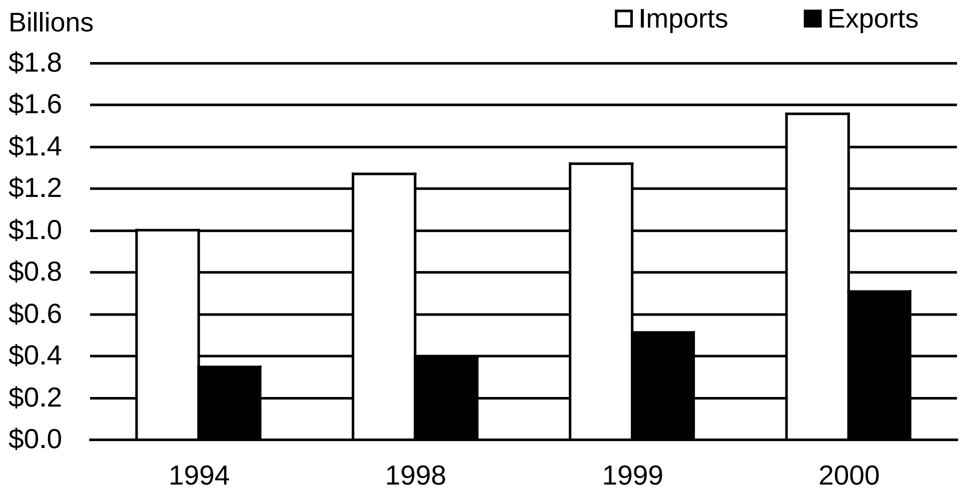


Figure D–25
Nepal's Trade With the World



Pakistan

Similar to India, Pakistan has carried a trade surplus with many of its South Asia neighbors. The only country with which it has had increased levels of trade in recent years is Maldives. Generally, Pakistan's exports with the region as a whole have been decreasing, whereas import levels have varied. Pakistan's trade with the world decreased after 1996 but has by and large increased each year since.

Figure D–26
Pakistan's Trade With Bangladesh

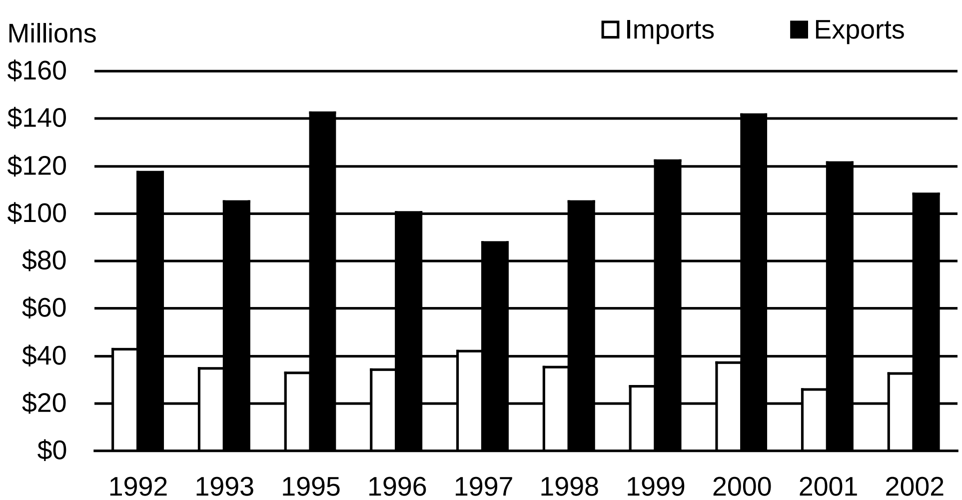


Figure D–27
Pakistan’s Trade With India

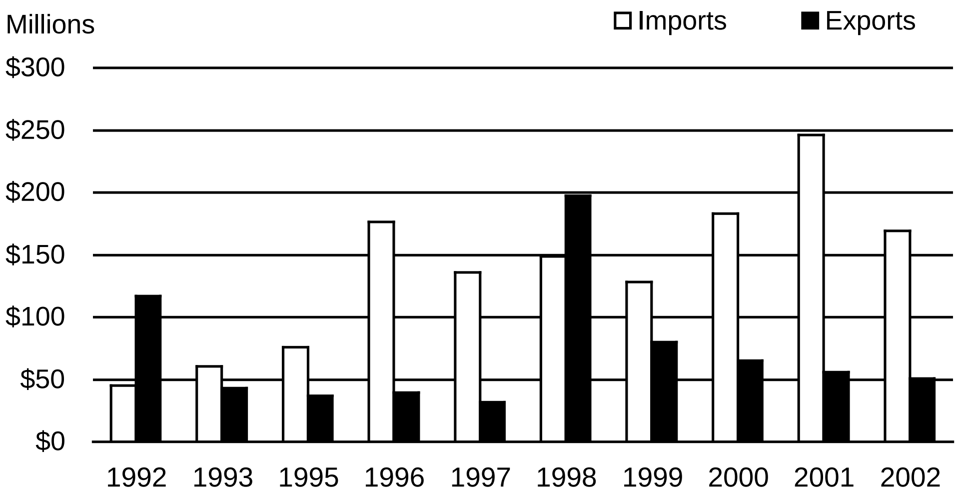


Figure D–28
Pakistan’s Trade With Maldives

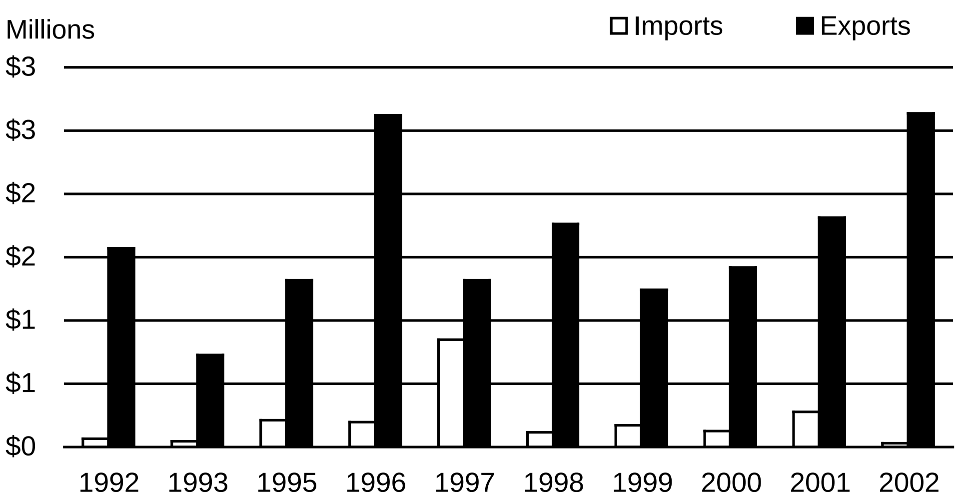


Figure D–29
Pakistan's Trade With the Region

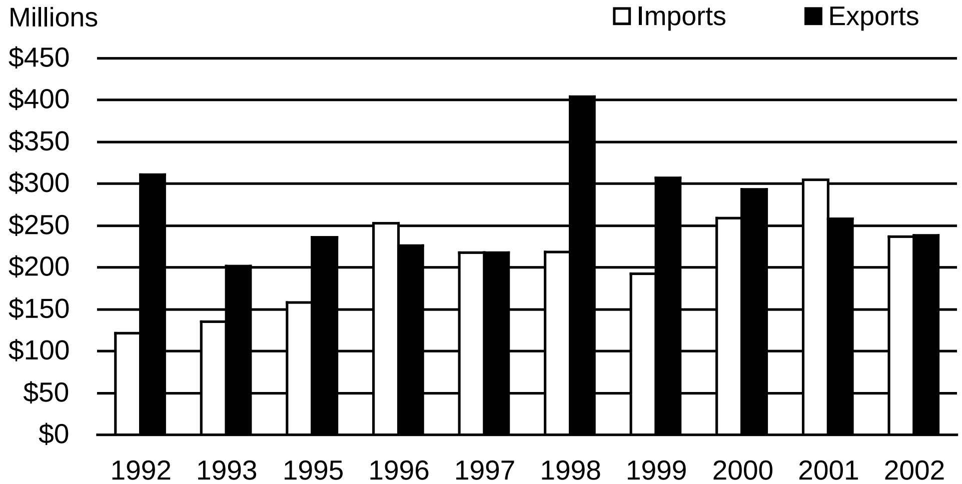
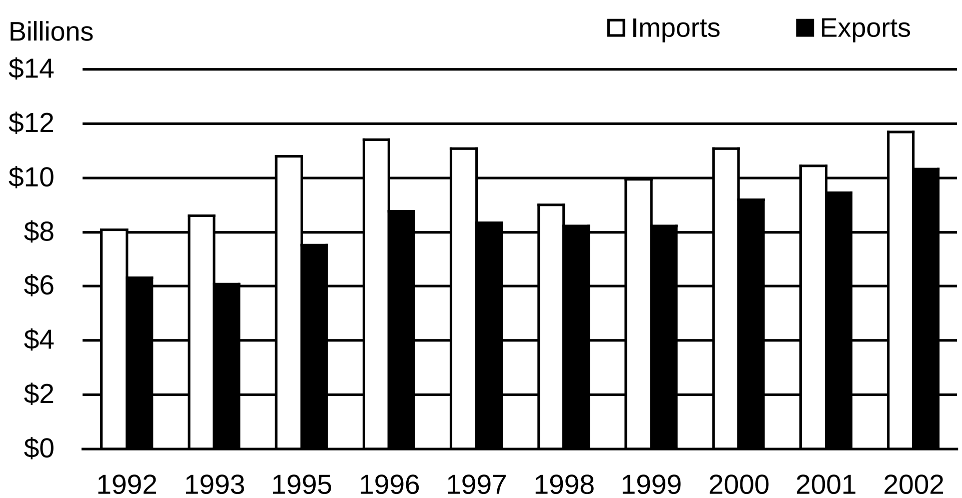


Figure D–30
Pakistan's Trade With the World



Sri Lanka

Sri Lanka's trade with India and Maldives has grown in recent years, whereas trade with Bangladesh has been relatively stable over the period for which data is available. Sri Lanka's high level of exchange with India is the primary influence in its increasing trade with the South Asia region in general. Trade with the world overall has risen steadily, with imports only somewhat higher than exports.

Figure D–31
Sri Lanka's Trade With India

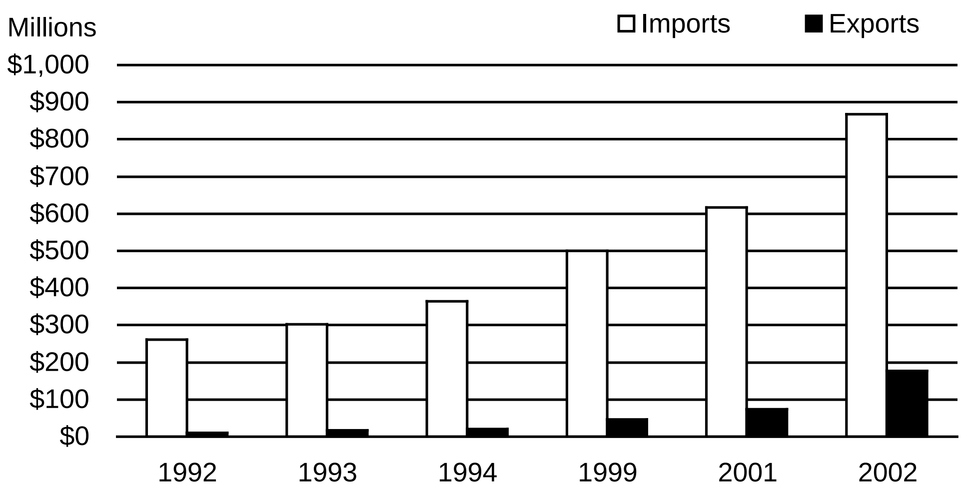


Figure D–32
Sri Lanka's Trade With Maldives

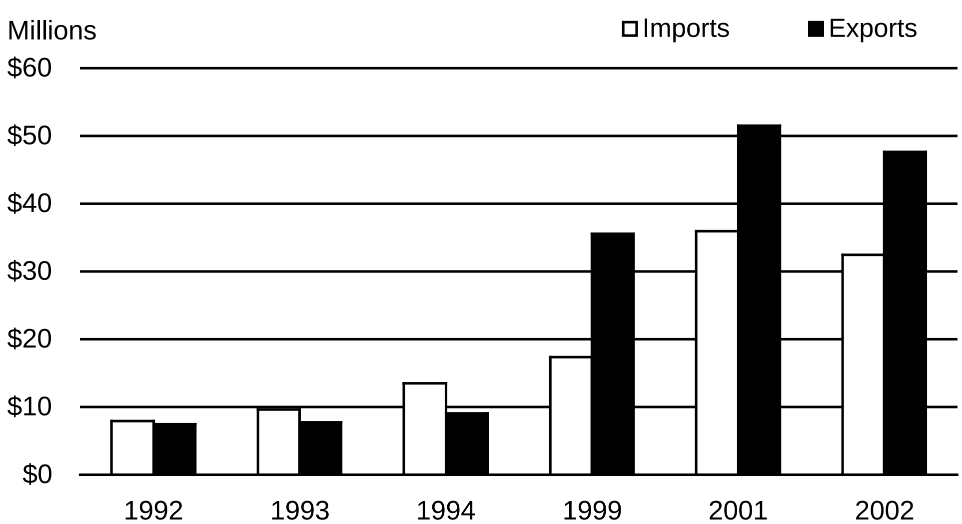


Figure D–33
Sri Lanka's Trade With Pakistan

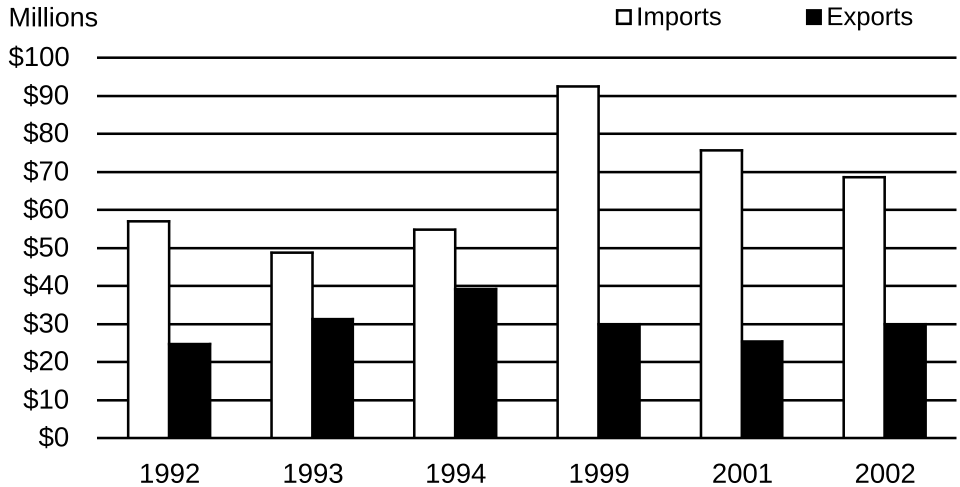


Figure D–34
Sri Lanka's Trade With the Region

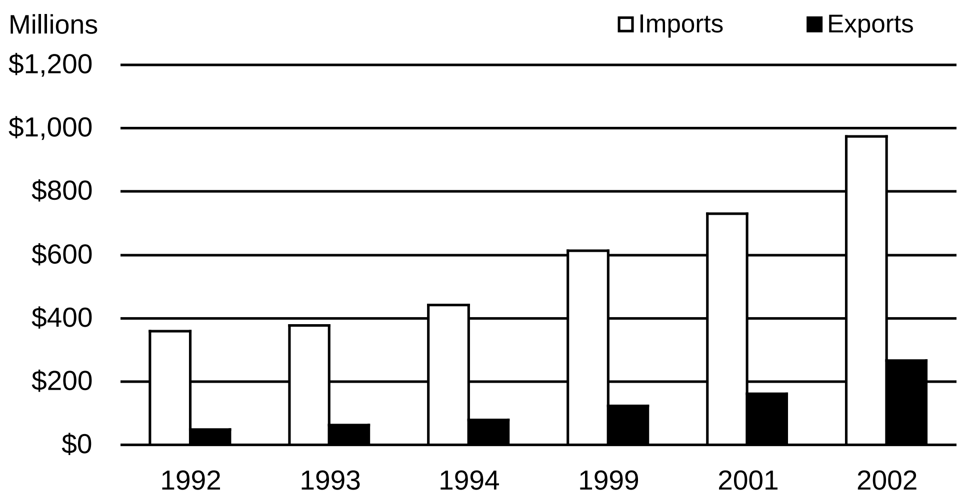


Figure D–35
Sri Lanka's Trade With the World