

Issues On Intra-Regional Trade Of South Asia in Reference To India

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1. Introduction:

International trade refers to economic activities that involve trading between countries. The items generally traded are goods and services (Okenna & Adesanya, 2020). Trade can lead to the full utilization of otherwise underemployed domestic resources. In addition, by expanding the size of the market, trade makes possible division of labor and economics of scale (Salvatore, 1992). Romer argues that international trade enables countries to import intermediate inputs from abroad that are not invented domestically, which can help in fostering the productivity of the manufacturing sector (Romer, 1990).

A typical example of regional integration effort is ASEAN, which is being either transformed into an institutionalized economic bloc. The ASEAN Economic Community (AEC) plays a central role in ASEAN economic integration, as it was the third-largest economy in Asia and the world's sixth-largest economy as of 2019. In regards to trade, 25 percent of ASEAN trade is intra-regional; thereby constituting the largest share of the bloc's total trade. Its external key partners are China, the US, the EU, Japan, and South Korea (ICRP Budapest, 2020). Since the 1990s, attempts have been initiated in order to boost the South Asian Economic integration by South Asian Countries. SAARC has taken initiative to enhance the integration through the initiation of the South Asian Preferential Trading Agreement (SAPTA), the South Asian Free Trade Area (SAFTA), and the SAARC Agreement on Trade in Services (SATIS). SAPTA contains provisions of giving special and favorable treatment to the least developed countries which are located in the SAARC region, but on the contrary, its focus on trade facilitation is very limited (Rao, 2017).

2. Status of Intra-Regional Trade in South Asia

Reference to India

South Asia is among the world's least economically integrated regions, despite the advantages of proximity, structural and cultural familiarities, and shared developmental priorities. Constrained by disagreements stemming from past history, national pride, territorial disputes, ethnic and religious disturbances, mutual mistrust, and cross-border migration issues; the region has been unable to leverage the benefits of regional cooperation to bolster its common future interest (Mehta, 2020). Trade facilitation measures are recognized as the major drivers for the expansion of trade in developing countries of the South Asian regions. Trade facilitation covers a multitude of issues that are relevant to the smooth and efficient flow of trade particularly at the border level. The cost of trading at cross border level in South Asia is one of the highest in the world. In South Asia, limited road density, railway line, the inefficiency of customs procedures, poor transportation and communication infrastructure and delay in the part of clearances are believed to be some of the major constraints for having increment for such incidences on trading at cross border in South Asia.

Table No. 1 India's Bilateral Trade with South Asian Countries (US \$ in millions)

Export							
Countries	2014	2015	2016	2017	2018	2019	2020
Afghanistan	422.56	526.6	506.34	709.75	715.44	997.58	825.78
Bangladesh	6451.48	6034.96	6820.13	8614.52	9210.32	8200.85	9080.20
Bhutan	333.94	468.95	509.28	546.12	657.33	738.6	661.44
Maldives	152.38	179.07	197.79	217.00	223.02	226.57	195.88
Nepal	4558.77	3902.7	5453.59	6612.96	7766.2	7160.35	6760.38
Pakistan	1857.29	2171.19	1821.88	1424.31	2066.63	816.64	326.87
SriLanka	6703.72	5310.75	3913.15	4476.46	4710.21	3800.91	3498.22
Import							
Afghanistan	261.91	307.9	292.9	433.78	435.44	529.84	509.49
Bangladesh	621.37	727.15	701.68	685.65	1044.8	1264.74	1064.68

Bhutan	149.87	281.27	307.82	377.99	370.96	405.73	385.01
Maldives	4.32	4.29	9.17	5.68	20.41	6.00	24.49
Nepal	697.91	470.59	445.13	438.38	508.14	711.61	669.34
Pakistan	497.31	441.03	454.49	488.56	494.87	13.97	2.39
Sri Lanka	756.17	742.79	602.2	722.63	1488.67	903.69	642.94

(Government of India: Ministry of Commerce and Industry, 2021)

Table No. 2 Country Wise Trend of South Asian Trade (US \$ in billions)

Countries	Export		Import	
	2000	2018	2000	2018
Afghanistan	0.16	1.28	0.78	7.83
Bangladesh	6.48	39.66	7.5	58.66
Bhutan	0.03	0.35	0.02	0.77
India	47.83	319.33	52.8	490.93
Maldives	0.26	0.58	0.4	2.4
Nepal	0.73	1.27	0.87	10.14
Pakistan	0.72	25.22	10.3	62.19
Sri Lanka	5.34	11.68	6.58	21.44
South Asia	69.55	399.37	79.20	654.36

(UN.ESCAP Asia-Pacific Research and Training Network on Trade (ARTNet) et al., 2020)

Most of the studies on the regional integration, trade, or economic cooperation in South Asia have depicted that intraregional trade accounts for a little more than 5 percent of South Asia's total trade, compared with 50 percent in East Asia and the Pacific and 22 percent in Sub-Saharan Africa (World Bank Group, 2018). Despite having implemented economic reforms with liberalization, privatization, and global policies starting in 1991 and signing the South Asian Free Trade Areas (SAFTA) agreements for greater economic integration and free trade in 2006, India's overall trade with South Asia has been low accounting between 1.7 percent and 3.8

percent of its global trade. India exports in bulk; however, imports are minimal, due to the trade barriers (Vanik, 2021). Trade between the SAARC countries is also limited as compared to developed nations. In fact, SAARC nation's trade is more with other countries like the US and Europe than with their neighboring countries (Mukherjee, N.A.). India's bilateral export trade with South Asian countries is at an increasing trend while its import trade volume is more or less static. India's export to Bangladesh, Nepal, Sri Lanka, etc; South Asian Countries is more while its export with Maldives, Pakistan, Bhutan, Afghanistan could not increase that much in 2014 to 2020 period. India's export to Bangladesh, Nepal, and Sri Lanka stood at the US \$ 9080.20 million, the US \$ 6760.38 million, and US \$ 3498.22 million respectively in 2020 (see, Table No. 1). Likewise, India's impact from these three South Asian countries stood at the US \$ 1064.68, US \$ 669.34, and US \$ 642.94 respectively in 2020.

Similarly, South Asia's export and import rose up to the US \$ 399.37 billion and US \$ 654.36 billion in 2018. By this time, India's export and import trade increased promisingly than that of the 2000 period (see, Table No. 2). Bangladesh succeeded to boost its export in 2018 from that of 2000; by this time its import also rose. Except for Sri Lanka, the other South Asian Countries as Nepal, Bhutan, Afghanistan, etc; could not succeed to boost their export trade either to South Asia or to the third countries of the world. The value of Indian export to Bangladesh was the highest among countries in South Asia in 2020, valued at nearly US \$ 8 billion. The Maldives on the other hand accounted for just over the US \$ 226 million for Indian exports by that year. Exports to the South Asian region from India accounted for nearly 7 percent in 2020 (Statista, 2021). The data further reveals that India's export to the EU, ASEAN, NAFTA, and SAARC remained at 17.30 percent, 11.97 percent, 17.60 percent, and 6.82 percent respectively in 2018 while this percent for India's import from these trading blocs remained at 10.20 percent, 9.97 percent, 7.31 percent and just 0.62 percent in the meantime (WITS, 2019).

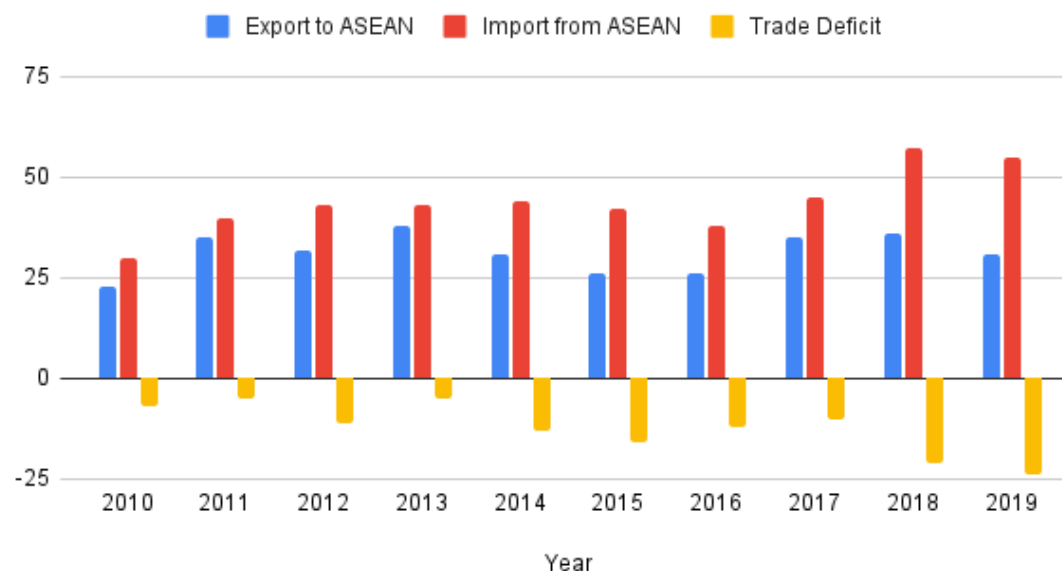
Table No. 3 India-ASEAN Trade (2010-2019) (US \$ in billions)

Year	Export to ASEAN	Import from ASEAN	Trade Deficit
2010	23	30	-7
2011	35	40	-5
2012	32	43	-11
2013	38	43	-5
2014	31	44	-13
2015	26	42	-16
2016	26	38	-12

2017	35	45	-10
2018	36	57	-21
2019	31	55	-24

(Handique, 2021) (PHD Research Bureau, 2019)

Export to ASEAN, Import from ASEAN and Trade Deficit



3. Issues on Intra-Regional Trade of South Asia and India-ASEAN Trade:

Intra-South Asia trade shows a higher concentration in favor of India. Barring Bhutan and India, intra-regional trade share has declined or remained static in the case of other South Asian countries. This also poses serious challenges since trade has gradually concentrated in favor of India. Under such high concentration, a fall in regional connectivity, which connects India with its South Asian neighbors, is thus a matter of great concern, particularly for those countries which are landlocked (UN.ESCAP Asia-Pacific Research and Training Network on Trade (ARTNet) et al., 2020). Connectivity with advanced infrastructure is required for regional cooperation and integration. But even after three decades and more years after SAARC's establishment, South Asian countries are lagging in connectivity and cooperation (Chand, 2020).

The South Asian Free Trade Agreement (SAFTA) is often highlighted as a prominent outcome of SAARC, but that, too, is yet to be implemented. Despite SAFTA coming into the effect as early as 2006, the intra-regional trade continues to be at a meager 5 percent (Bhattacharjee,

2018). SAARC has not been able to leverage the drivers for economic growth in member countries through regional cooperation, which is evident from the fact that countries here are better integrated with those outside compared to their own neighbors (Ahmed, 2020). The cause of modest profile of intra-regional trade amongst South Asian countries attributed to low product coverage stringent rule of origin the product by product approach to tariffs concessions, and denial of concessions to products of trade interest to each other countries of South Asia. The literature on trade has shown the importance of both infrastructure and customs in determining the amount of cross-border trade flow. It can thus be inferred that the problems in infrastructure and customs in SAARC countries also contribute to the low amount of intra-regional trade in South Asia. Additionally, South Asian states have been observed to prioritize extra-regional trade. The region's priority for trade with North America or Europe significantly outweighs its priority for intra-regional trade. It is important to note that the export of South Asian states to other regions consists of relatively similar products: textile, readymade garments, leather, agricultural products, etc. the outcome is that the states tend to become more competitive against each other rather than being complementary (Gill, 2020).

The mismatch in priorities leads to difficulties in trade deals between ASEAN and India. It took seven years to negotiate the ASEAN-India Trade in Goods Agreements and Service and Investment negotiations were conducted even later. The underlying factor is the different sector's priorities of ASEAN and India. While comparative advantage for a longer proportion of ASEAN countries lies in manufacturing activities, India's strength is in services. For India, trade in goods is limited since its manufacturing and agricultural sectors are less competitive and the domestic market is large enough to generate income (Das, 2018). The free trade in goods agreement signed between India and ASEAN in 2009 has facilitated the development of supply chains and production networks in products such as electronics and automobiles, including vehicle and component manufacturing. However, there remain certain challenges to establishing a supply chain; such as non-tariff barriers, poor connectivity, and quality of infrastructure, among others. Additionally, the lack of adequate transparent links among the economies (India and ASEAN) poses a serious problem for the expansion of intra-regional trade.

4. Way Forward:

The robust growth of intra-regional trade lies in the degree of economic integration and meaningful connection of the economies of South Asia. Having a similar socio-economic setup; there are the prospects of integration through the use of common currency, increase in the investment activities, reduction of tariffs, elimination of other trade barriers for the free flow of goods and services, maintenance of good governance, etc. Each South Asian countries produce large quantities of products that will have comparative advantages. Expansion of railway network and construction of superhighways within and outside South Asia could facilitate a

further increase in more volume of trade in the region. The stalemate between India and Pakistan has been hindering the implementation of the SAFTA spirit. This could be lessened through bilateral dialogue between India and Pakistan. Unification of the region will not only yield economic gains but also serve to address development concerns by helping nations close existing poverty gaps and attain food and energy security as well. The importance of India's current relationship with ASEAN and its future potential for mutually beneficial growth will require greater political, economic, and diplomatic engagement with ASEAN.

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