

# Pattern of Intra-regional Trade: Unbundling a South Asian Conundrum

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South Asia is one of the least integrated regions of the world. While individual member countries have been successfully increased their share of trade in the global market, growth of intraregional trade lags behind the growth of the region's overall trade. This paper analyses the reasons for this apparently puzzling nature of South Asian economies. The paper decomposes the regional trade statistics between 2000 and 2012 to analyse the dynamics of regional trade and factors behind it. The findings suggest that one of the missing elements is the inability of the region to meet its demand for imports internally with the change of the economic structure. India, being the largest economy, is the main driver of the intraregional trade. The trade preference of the SAARC countries has been changing disfavours India. This is mainly due to India's relative inability to meet the import demand of other South Asian countries. In the absence of strengthened economic ability to meet their own demand, the scope for intra-industry trade, emergence of regional value chain, and trade in new areas like services, intraregional trade is unlikely to register any notable improvements

**Keywords:** South Asia, Regional Integration, Bilateral Trade

**JEL Classification:** F140, F15

## I. INTRODUCTION

Global trade has increased significantly during the last three decades contributing to the growth of the world economy.<sup>1</sup> Many trade blocks have been formed in different parts of the world to promote trade. South Asian Association for Regional Cooperation (SAARC) was established in 1985 with an objective to foster economic cooperation in South Asia region, which eventually focused on

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<sup>1</sup>A number of empirical studies now suggest that outward orientation of an economy contributes to economic growth and development (Balassa 1996, Dollar 1992, Lee 1995, Wang 2007, OECD 2003). There is evidence that international trade affects economic growth positively by facilitating capital accumulation, industrial structure upgrading, technological progress and institutional advancement. In particular, increased access to capital and intermediate products at world prices results in increase of productivity of the manufacturing sector. Similarly, increased access to global market helps to resolve the problem of limited domestic market.

the enhancement of trade within the member countries. Several treaties/agreements like South Asian Preferential Trade Arrangement (SAPTA), South Asian Free Trade Area (SAFTA) have been signed by the member countries to accomplish this goal.

The SAARC member countries have also reduced import tariff in order to increase their outward orientation. According to the latest available data, the MFN tariffs (simple average, applied) of South Asian countries are as follows: Bangladesh 14.4 per cent (in 2011), India 13.7 per cent (in 2012), Pakistan 13.5 per cent (in 2012), Sri Lanka 9.9 per cent (in 2012), Nepal 12.3 per cent (in 2012), Maldives 20.5 per cent (in 2011), and Bhutan 21.9 per cent (in 2007). These policy changes paid off; region's overall trade has been increasing over time. However, while the region's overall trade with the rest of the world has significantly increased since the early 1990s, intraregional trade of the region is one of the lowest in the world. This phenomenon has been identified as a *South Asian conundrum* (Basher 2013).

South Asia as a region became a very vibrant economic power over the last 25 years. It has grown twice as fast as the rest of the world. The demonstrated economic strength coincided with a more systematic and persistent trade liberalisation measures taken by the region since the early 1990s and on the whole such a policy stance has been maintained. All SAARC member countries have managed to maintain the growth momentum notwithstanding different natural as well as policy shocks, raising their shares in global output. Nevertheless, the performances of individual South Asian countries differ significantly reflecting their positions at different rungs of the ladder of comparative advantage, and thus providing an economic basis for intra-regional trade. The South Asian conundrum refers to the puzzling empirical observation that trade of each SAARC member countries with the rest of the world has increased over time, but the trade within them did not increase at a similar pace.

South Asia is still one of the least-integrated regions of the world in terms of intraregional trade in comparison to other trade blocks. In 2000, the share of South Asia's total trade in region's total trade with the rest of the world was 4.6 per cent, which declined to 4.3 per cent in 2012. The same share for other trade blocks are as follows: NAFTA 46.4 per cent, EU 64.6 per cent, ASEAN 22.5 per cent, CARICOM 11.4 per cent and COMESA 4.8 per cent in 2000, and NAFTA 40 per cent, EU 59.1 per cent, ASEAN 24.7 per cent, CARICOM 12.6 per cent and COMESA 6.3 per cent in 2012.

Against this backdrop, the most pertinent question is, how to unbundle the South Asian conundrum? Is it one or two countries which are responsible for low intraregional trade in South Asia or each country of the region has a role? It is not

possible to answer this question without analysing the bilateral trade statistics of the region. The country specific information is lost in aggregation in most of the time. A detailed and rigorous analysis of the bilateral trade statistics of the region is yet to be done to unbundle the nature of the South Asian conundrum. This paper attempts to fill in this gap. Specifically, the analyses the bilateral trade patterns to understand what needs to be done to increase intraregional trade in South Asia.

The rest of the paper is organised as follows. Section II provides a brief description of dynamics of interregional trade in different trade blocks and juxtaposes it that of South Asia. Section III describes the methodology and data used in this paper. Section IV provides the empirical results and finally, section V concludes and provides policy recommendations.

## II. INTRAREGIONAL TRADE OF SOUTH ASIAN COUNTRIES AND OTHER TRADE BLOCKS

To assess the relative role of intraregional trade in different trade blocks, we estimate the ratio (R) of growth of region's total trade ( $g_w$ ) and growth of region's intraregional trade ( $g_r$ ),  $R = g_w/g_r$ . The paper confines its focus in the post millennium period, i.e., 2000-2012 period. Sometimes the recent or emerging trend and nature of trade cannot be captured if the data for a longer period are used in empirical analysis. To avoid this possibility, the paper decides to confine its focus on the 2000-2012 period.

If trade with the rest of the world grows faster than the intraregional trade, R will be greater than 1, and vice versa. If R is greater than 1, it means growth of intraregional trade is lagging behind the growth of overall trade of the region. In plain words, the region is more outward oriented rather than trading within the member countries. Different values of R for some selected trade blocks are reported in Table I.

TABLE I  
VALUE OF RATIO OF GROWTH RATES OF OVERALL TRADE  
AND INTRAREGIONAL TRADE FOR SOME SELECTED  
TRADE BLOCKS DURING 2000-2012

	Regions					
	NAFTA	EU	ASEAN	CARICOM	COMSEA	SA
Import	0.74	0.86	1.19	0.91	1.60	1.32
Export	0.68	0.85	1.10	1.45	1.25	0.69
Total	0.71	0.85	1.15	1.19	1.40	0.92

Out of the 6 trade blocks, growth of interregional trade of three blocks, namely NAFTA, EU and SA, outpaced the growth of their overall trade. In the

case of the remaining 3 trade blocks, ASEAN, CARICOM and COMESA, growth of the interregional trade lags behind the growth of overall trade. Similar pattern is observed in the case of export as well. But in the case of import, the growth of South Asia's intraregional imports falls short of the growth of the region's overall import implying that the region as a whole is yet to develop economic capacity to meet its import requirement. As the region is importing more from the rest of the world vis-à-vis the region itself, this is a pointer to the mismatch between the region's export strength and import demand. The same holds true for ASEAN and COMESA as well.

However, reliance of EU and NAFTA on outside their corresponding member countries is less prominent. In both cases, growth of interregional import is higher than the growth of total import. The same holds true for CARICOM as well.

In South Asia, India is the largest trade partner of the region for the other regional countries, followed by Bangladesh (Table IIA). Although Pakistan is the 2<sup>nd</sup> largest economy of the region, in terms of its intraregional trade, its rank was 5<sup>th</sup> in 2000. This is mainly due to its low trade with India. For some of the other countries like Nepal and Bhutan, India was the only effective regional trade partner.

TABLE IIA  
INTRAREGIONAL TRADE (IN MILLION US\$)  
IN SOUTH ASIA IN 2000

Countries ↓	Partner countries						
	BGD	India	Pakistan	Sri Lanka	Nepal	Bhutan	Maldives
BGD	na	1010.8	186.3	14.2	7.2	1.5	0.6
India	78.9	na	245.8	657.7	496.9	4.4	21.6
Pakistan	178.9	248.2	na	117.6	5.4	0.7	1.5
Sri Lanka	13.5	645.7	99.9	na	0.9	0.0	119.9
Nepal	9.7	893.4	3.5	0.7	na	1.1	0.0
Bhutan	7.8	187.3	1.5	0.0	1.5	na	0.0
Maldives	0.3	35.7	1.4	8.9	0.0	0.0	na

na= Not applicable.

Between 2000 and 2012, though the volume of intraregional trade of SAARC member countries has increased, the pattern has not changed. India still has by far the largest intraregional trade, followed by Bangladesh. The lackluster performance of Pakistan still continues, indicating whatever barred Pakistan's intraregional trade in 2000 still remains unattended (Table IIB). This is an indication that no major change propitious to intraregional trade has taken place in South Asia during the last one decade or so.

TABLE IIB  
INTRAREGIONAL TRADE (IN MILLION US\$)  
IN SOUTH ASIA IN 2012

Countries ↓	Partner countries						
	BGD	India	Pakistan	Sri Lanka	Nepal	Bhutan	Maldives
BGD	na	5450.9	573.5	68.9	60.0	30.2	1.1
India	5532.7	na	2156.5	4482.7	2944.1	351.0	128.4
Pakistan	755.5	1920.6	na	384.3	2.9	0.1	5.8
Sri Lanka	94.1	4115.7	438.1	na	1.3	0.0	76.7
Nepal	58.2	4514.3	6.7	1.9	na	10.5	0.0
Bhutan	73.4	1187.7	0.7	0.2	23.6	na	0.0
Maldives	1.4	157.1	5.4	116.1	0.0	0.0	na

Although India had the largest intraregional trade in 2000, as Table 3A reveals, it was not the largest destination market for other regional countries. As a destination country for other regional countries, Sri Lanka ranked 1<sup>st</sup> in 2000 (in terms of column sum of Table IIIA), followed by India and Pakistan. However, India is by far the largest source country for total imports procured by other regional countries from the region, accounting for more than 63 percent of total intraregional imports in 2000 (Table IIIB). Bangladesh, on the other hand, had the largest share as an importing country in total intraregional import, accounting for more than 47 percent in the same year.

TABLE IIIA  
INTRAREGIONAL EXPORTS (IN MILLION US\$)  
IN SOUTH ASIA IN 2000

Countries ↓	Destination countries						
	BGD	India	Pakistan	Sri Lanka	Nepal	Bhutan	Maldives
BGD	na	63.7	43.6	03.3	4.8	0.9	0.0
India	1.4	na	163.8	594.2	139.8	1.1	21.3
Pakistan	141.6	65.0	na	82.0	02.8	0.3	1.4
Sri Lanka	10.0	56.9	29.1	na	0.8	0.0	89.1
Nepal	1.8	317.8	0.1	0.0	na	0.6	0.0
Bhutan	5.9	87.8	0.8	0.0	0.7	na	0.0
Maldives	0.3	0.2	0.1	16.3	0.0	0.0	na

TABLE IIIB  
INTRAREGIONAL IMPORTS (IN MILLION US\$)  
IN SOUTH ASIA IN 2000

Countries ↓	Source countries						
	BGD	India	Pakistan	Sri Lanka	Nepal	Bhutan	Maldives
BGD	na	947.1	142.7	10.8	2.4	0.6	0.6
India	77.5	na	81.9	63.5	357.0	23.3	0.3
Pakistan	37.2	183.2	na	35.5	2.6	0.4	0.1
Sri Lanka	3.5	588.9	70.8	na	0.1	0.0	30.8
Nepal	7.9	575.7	3.4	0.7	na	0.6	0.0
Bhutan	1.9	99.6	0.7	0.0	0.8	na	0.0
Maldives	0.0	35.6	1.3	52.5	0.0	0.0	na

Between 2000 and 2012, intraregional exports increased with a qualitative change. Bangladesh emerged as the largest destination country for exports of other regional countries, followed by Sri Lanka (in terms of column sum of Table IVA). The contribution of the largest economies of the region, India and Pakistan, as a destination country for intraregional exports, is even less than that of Nepal, one of the smallest economies of the region. However, India consolidated its position as a source country for imports of other regional countries, accounting for more than 75 per cent of the total intraregional imports in 2012 (Table IVB). Along with Bangladesh, the dependence of other countries like Sri Lanka and Nepal has also notably increased during 2000 and 2012.

TABLE IVA  
INTRAREGIONAL EXPORTS (IN MILLION US\$)  
IN SOUTH ASIA IN 2012

Countries ↓	Destination countries						
	BGD	India	Pakistan	Sri Lanka	Nepal	Bhutan	Maldives
BGD	na	665.4	78.3	28.7	22.3	8.3	0.4
India	4936.7	na	1633.3	3813.1	2587.1	170.8	121.8
Pakistan	696.0	348.0	na	300.9	1.3	0.0	5.7
Sri Lanka	67.5	598.6	87.2	na	1.1	0.0	60.6
Nepal	40.3	598.6	02.1	0.4	na	7.7	0.0
Bhutan	59.1	500.2	0.7	0.0	11.0	na	0.0
Maldives	0.0	9.4	0.1	24.8	0.0	0.0	na

TABLE IVB  
INTRAREGIONAL IMPORTS (IN MILLION US\$)  
IN SOUTH ASIA IN 2012

Countries ↓	Source countries						
	BGD	India	Pakistan	Sri Lanka	Nepal	Bhutan	Maldives
BGD	na	4785.6	495.2	40.2	37.7	21.8	0.7
India	596.0	na	523.1	669.6	503.6	180.3	6.6
Pakistan	59.5	1572.6	na	83.4	1.6	0.1	0.1
Sri Lanka	26.5	3517.0	350.9	na	0.2	0.0	16.1
Nepal	17.9	3915.7	4.6	1.5	na	2.8	0.0
Bhutan	14.3	687.5	0.0	0.2	12.6	na	0.0
Maldives	1.4	147.7	5.3	91.3	0.0	0.0	na

The above tables show that intraregional trade in South Asia, albeit increasing, is still very meager. Against this backdrop, this study aims to analyse the main underlying reasons for missing trade regionalism in South Asia.

### III. METHODOLOGY AND DATA

To unbundle the South Asian conundrum, this paper analyses the trade of SAARC member countries in order to find out whether they trade with one another less than one would expect given the growth of their overall trade. In doing so, the paper applies the method used by J. Frankel (Frankel 1991). Suppose, intraregional trade of a particular region in year 't' is  $T_{it}$ . Total trade of the region (intraregional plus with the rest of the world) in the same year is  $T_t$ . Total world trade in the same year is  $W_t$ . Let us define the following indices as:

1. Share of intraregional trade in region's total trade,  $A = T_{it}/T_t$ .
2. Share of region's total trade in world trade,  $B = T_t/W_t$ .
3. Region's bias factor (in favour of the region itself),  $C = A/B$ .

Index A shows the relative importance of the intraregional trade to the region. For given value of total trade of the region, a high value of A would imply high importance of intraregional trade to the region. If intraregional trade and total trade of the region increase at the same rate over time, the value of A will not change. On the other hand, if intraregional trade increases faster than the total trade of the region, A will also increase over time, and vice versa.

Index B shows the relative strength of the region in global market. If the region succeeds to increase its exports to the global market faster than the overall growth of the world trade, B will increase over time, and vice versa.

Index C, the ratio of A to B, shows how much the region favours the regional market vis-à-vis the global market in a particular year 't'. No particular bias, against or for, is implied by a unitary value of this index. However, if the index is greater than 1, bias in favour of the regional market is implied and vice versa.

If the demonstrated bias towards intraregional trade continues to remain unchanged, the predicted share of intraregional trade in region's total trade in year (t+n),  $A_{t+n}$ , should be equal to  $B \cdot C$ . If the actual value of  $A_{t+n}$  is turns out to be greater than the predicted value, a growing trade regionalism is implied. Similarly, if the actual value of  $A_{t+n}$  is turns out to be smaller than the predicted value, a decaying trade regionalism is implied.

In order to decompose the performance of the South Asia region in terms of intraregional trade, this paper estimates the above indices for each member countries. Suppose, total trade of country 'j' with the whole region in year 't' is  $T_{jt}$ . Total trade of the region (intraregional plus with rest of the world) and total world trade in the same year are denoted by  $T_t$  and  $W_t$  respectively as before. We defined the following indices for country 'j' as:

4. Share of country's trade with the region in region's total trade,  $A = T_{jt}/T_t$ .
5. Share of country's total trade in world trade,  $B = T_j/W_t$ .
6. Region's bias factor (in favor of the region),  $C = A/B$ .

Using the estimated bias factor, we estimated predicted value of the country's share in region's total trade for a future year and juxtaposed it with the actual share observed in that particular year to assess whether the country is reorienting its trade towards the region more vis-à-vis the rest of the world. India is by far the largest economy in the region. Therefore, we estimate the above indices (i) whole South Asia (all SAARC member countries), and (ii) India.

In empirical estimation of the above indices, we considered the year 2000 as the base year to predict the value of intraregional trade in region's total trade in 2012. The paper uses the data from the United Nations Conference on Trade and Development (UNCTAD). However, the UNCTAD data sometimes differ from the national data due to some difference in definitions. But it is customary in the literature to use the data from global data bank instead of national sources for cross country comparison.

#### IV. RESULTS

The estimated Frankel index implies that South Asia does not show any sign of trade regionalism. The share of intraregional trade in South Asia's total trade in 2000 was 4.6 per cent. In the same year, the share of South Asia's total trade in



world's total trade was 0.05 per cent. These shares imply a bias towards intraregional trade by 89.28 in 2000. If the same level of bias continues, the share of intraregional trade in South Asia's total trade in 2012 should have been 9.82 per cent. But the actual share was 4.28 per cent, lagging behind the predicted level by about 5.54 per cent (Table V). This implies a missing sign of trade regionalism.

TABLE V  
REGIONALISM IN SOUTH ASIA

	Total Trade	Export	Import
Intraregional trade as a share of region's total trade in 2000	4.60	4.56	4.64
Region's total trade as a share of world's total trade in 2000	0.05	0.00	0.06
Bias (to the region) factor in 2000	89.28	100.14	80.79
Predicted share of intraregional trade in region's total trade in 2012	9.82	11.04	8.86
Actual share of intraregional trade in region's total trade in 2012	4.28	5.76	3.40
Differences in percentage points in between predicted and actual share	5.54	5.28	5.46

Both intraregional exports and imports failed to show any sign of trade regionalism in South Asia. Share of intraregional exports in South Asia's total exports in 2000 was 4.56 per cent, whereas share of South Asia's total trade in world's total trade was less than 0.01 per cent. The estimated bias towards intraregional exports was 100.14. Based on the observed bias, the predicted share of intraregional exports in South Asia's total export in 2012 should have been 11.04 per cent. In reality, this share stood to be 5.76 per cent, which is less than the predicted value by about 5.3 per cent. So, the export regionalism in South Asia is also missing.

Similarly, share of intraregional import in region's total import in 2000 was 4.64 per cent. In the same year, the share of region's total import in world's total import was 0.06 per cent, implying a bias to the region by 80.79 per cent. If this bias remains unchanged, share of intraregional imports in region's total import should have been 8.86 per cent in 2012. But the actual share fell short by 5.46 per cent from this.

The regional trade profile of SAARC countries is reported in Table VIA. Share of Bangladesh's total trade with other SAARC countries in 2000 accounted for about 8 per cent of its total trade with the rest of the world, and about 0.01 per cent of total world trade. In the absence of no change in the demonstrated trade preference, Bangladesh's trade with SARRC countries in 2012 should have accounted for 14.41 per cent of its total trade with the rest of the world in the same year. But the actual share was 10.54 per cent. This implies that the relative importance of the regional market vis-à-vis the global market is decreasing to Bangladesh over time.

TABLE VIA  
TRADE PREFERENCE OF SOUTH ASIAN COUNTRIES (TOTAL TRADE)

	X Country						
	BGD	India	Pakistan	Sri Lanka	Nepal	Bhutan	Maldives
Country X's trade with the region as a share of its global trade in 2000	8.03	2.47	3.53	7.64	38.46	71.26	21.37
Country X's trade with the region as a share of total global trade in 2000	0.01	0.02	0.01	0.01	0.01	0.00	0.00
Regional bias factor (C)	858.27	137.5	646.62	1138.2	5550	47149.2	26358.6
Country X's predicted trade with the region as a share of its global trade in 2012	14.41	6.08	9.46	14.57	69.00	164.13	19.98
Country X's actual trade with the region as a share of its global trade in 2012	10.54	2.10	7.90	17.34	64.57	75.62	14.98
Differences in percentage points in between predicted and actual share	3.87	3.98	1.56	-2.77	4.43	88.51	5.00

In the case of India, the actual share of its trade with SAARC countries as a share of its total trade with the rest of the world in 2012 not only fell short of the predicted value but also declined in absolute terms compared to 2000. This share was 2.47 in 2000, and should have been 6.08 in 2012 in the absence of any change in trade preference with SAARC countries, but fell to 2.10 percent. This indicates that importance of regional market to India is declining in absolute terms over time.

The cases of Pakistan, Nepal, Bhutan, and Maldives are similar to Bangladesh. Their penetration into the regional market is increasing over time but at the same pace that one would expect based on the trade preference of the

country in 2000. Sri Lanka is the only exception in this regard. Its trade with the SAARC countries has been increasing at a faster rate than one would expect on the basis of its trade preference in 2000. Share of its trade with SAARC countries in 2000 in its total trade with the rest of the world was 7.64 per cent. In the absence of any change in trade preference, this share was predicted to be 14.57 per cent. The actual share was 17.34 per cent, implying a growing importance of regional market to the country over time.

Tables VIB and VIC show the changes in export and import preferences respectively of the SAARC countries. Bangladesh's total export to SAARC countries as a share of its export to the rest of the world in 2012 fell short by 1.39 percentage points from what one would expect based on the trade profile of 2000. But the same share of imports in 2012 exceeded the predicted value. In the case of India, its exports to SAARC countries as a share of its exports to the rest of the world in 2012 fell short from the predicted value, implying decaying importance of the region as a destination market to India. Similar decaying importance of the region as a import source to India is also evident (Table VIC). In the case of Pakistan, Sri Lanka and Nepal, the importance of SAARC countries vis-à-vis the rest of the world as a destination market of their exports has increased over time (Table VIB). However, the same importance as a source market for import has declined over time.

**TABLE VIB**  
**TRADE PREFERENCE OF SOUTH ASIAN COUNTRIES (EXPORTS)**

	X Country						
	BGD	India	Pakistan	Sri Lanka	Nepal	Bhutan	Maldives
Country X's export to the region as a share of its global export in 2000	1.88	4.06	4.53	3.49	39.83	92.37	15.53
Country X's export to the region as a share of total global export in 2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Regional bias factor (C)	1009.9	152.3	701.28	1208.9	8026	62646.8	59361.7
Country X's predicted export to the region as a share of its global export in 2012	4.44	11.37	13.15	5.36	28.31	194.34	11.06
Country X's actual export to the region as a share of its global export in 2012	3.06	4.74	14.02	8.71	72.21	93.60	10.90
Differences in percentage points in between predicted and actual share	1.39	6.63	-0.87	-3.35	-43.8	100.74	0.15

TABLE VIC  
TRADE PREFERENCE OF SOUTH ASIAN COUNTRIES (IMPORT)

	X Country						
	BGD	India	Pakistan	Sri Lanka	Nepal	Bhutan	Maldives
Country X's import from the region as a share of its global import in 2000	12.45	1.20	2.70	11.23	37.76	58.84	23.01
Country X's import from the region as a share of total global import in 2000	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Regional bias factor (C)	749.17	125.7	601.18	1077.2	4271	38027.7	17126.31
Country X's predicted import from the region as a share of its global import in 2012	21.80	1.76	6.34	22.74	90.91	146.70	22.71
Country X's actual import from the region as a share of its global import in 2012	5.13	0.53	4.46	21.87	63.46	65.56	15.80
Differences in percentage points in between predicted and actual share	-0.94	1.23	1.88	0.88	27.45	81.14	6.91

To decompose and understand the underlying reasons for observed diminishing importance of intraregional trade in South Asia, we analyse the trade of SAARC member countries with India. The objective of this exercise is to assess the importance of India—the biggest economic power of the region—in regional trade.

Bangladesh's total trade with India as a share of its total trade with South Asia was 82.45 in 2000. In the same year the share of Bangladesh's total trade in total intraregional trade of South Asia was 14.96. It implies the bias factor (towards India) of Bangladesh was 5.51 in 2000. Had this bias of Bangladesh towards India remained unchanged, share of Bangladesh's trade with India as a share of its total trade with South Asia would have been 73.99 in 2012. In reality, this share was 87.92 in 2012. It means Bangladesh's trade in fact has been intensified at an accelerated rate over time.

In the case of Sri Lanka, Nepal, and Maldives, relative importance of India vis-à-vis other SAARC countries has increased in 2012 compared to 2000. In the case of these countries, trade with India as a share of their total trade with all SAARC countries has exceeded the predicted value in 2012.

TABLE VIIA  
**TRADE PREFERENCE OF SOUTH ASIAN COUNTRIES  
 WITH INDIA (TOTAL TRADE)**

	X Country					
	BGD	Pakistan	Sri Lanka	Nepal	Bhutan	Maldives
Country X's trade with India as a share of its total trade with the region in 2000	82.45	34.67	73.37	98.34	94.55	33.62
Country X's trade with India as a share of total intraregional trade in 2000	14.96	3.67	9.56	13.22	2.77	0.53
Country X's bias (to India) factor (C)	5.51	9.44	7.68	7.44	34.11	63.57
Country X's predicted trade with India as a share of region's total trade in 2012	73.99	44.66	77.82	82.69	99.77	24.60
Country X's actual trade with India as a share of region's total trade in 2012	87.92	35.54	87.06	98.31	92.39	56.13
Differences in percentage points in between predicted and actual share	-13.92	9.11	-9.24	-15.62	7.38	-31.52

However, Pakistan's trade with India as a share of its total trade with South Asia was 34.7 per cent in 2000. In the same year the share of Pakistan's total trade in total intraregional trade of South Asia was 14.9 per cent. It implies the bias factor (towards India) of Pakistan was 5.5 per cent in 2000. Had this bias of Pakistan towards India remained unchanged, share of Pakistan's trade with India as a share of its total trade with South Asia would have been 44.6 per cent in 2012. In reality, this share was 35.5 per cent in 2012. This means Pakistan's trade with India has increased over time but not at the pace as one could expect based on the bilateral trade statistics of 2000. Bhutan shows the similar nature as well.

Tables VIIB and VIIC present the export and import preference respectively of SAARC countries with India. As can be seen from Table VIIB, in the case of all SAARC countries, the share of their exports to India in their total exports to the region has increased in 2012 more than what was predicted on the basis of the export preference of 2000. However, in the case of imports, the share of imports from India as a share of total imports from the region has exceeded the predicted value only in the case of Bangladesh and Bhutan. For other SAARC countries, it fell short of the the predicted value. This finding implies the inability of the Indian economy to meet the import needs of the region. Given the fact that India and other major economies of the region like Bangladesh, Pakistan and Sri Lanka have more or less similar economic structure, they cannot depend on one another to meet their import requirement. More than 83 percent of South Asia's total GDP is contributed by India. Therefore, India's ability to meet the import

demand of the other SAARC countries will be main driver of intraregional trade in the region.

**TABLE VIIB**  
**TRADE PREFERENCE OF SOUTH ASIAN COUNTRIES**  
**WITH INDIA (EXPORTS)**

	X Country					
	BGD	Pakistan	Sri Lanka	Nepal	Bhutan	Maldives
Country X's export to India as a share of its total export to the region in 2000	53.11	34.67	30.56	99.23	92.23	1.02
Country X's export to India as a share of total intraregional export in 2000	2.17	2.21	1.94	10.83	2.99	0.01
Country X's bias (to India) factor (C)	24.48	33.13	15.77	9.17	30.85	173.84
Country X's predicted export to India as a share of region's total export in 2012	80.28	56.83	46.54	27.04	76.05	8.08
Country X's actual export to India as a share of region's total export in 2012	82.17	87.06	73.32	92.20	87.61	27.52
Differences in percentage points in between predicted and actual share	-1.89	-30.24	-26.79	-65.16	-11.56	-19.44

**TABLE VIIC**  
**TRADE PREFERENCE OF SOUTH ASIAN COUNTRIES**  
**WITH INDIA (IMPORTS)**

	X Country					
	BGD	Pakistan	Sri Lanka	Nepal	Bhutan	Maldives
Country X's import from India as a share of its total import from the region in 2000	85.65	61.36	84.85	97.86	96.69	39.77
Country X's trade import from India as a share of total intraregional import in 2000	24.78	4.79	15.41	15.06	2.61	0.93
Country X's bias (to India) factor (C)	3.46	12.80	5.51	6.50	37.11	42.75
Country X's predicted import from India as a share of region's total import in 2012	81.43	99.13	95.35	125.26	125.64	31.09
Country X's actual trade import from India as a share of region's total import in 2012	88.78	80.55	89.93	99.32	96.21	60.12
Differences in percentage points in between predicted and actual share	-7.35	18.58	5.42	25.94	29.43	-29.03

## V. CONCLUSION

South Asia, as a trade block, has one of the lowest intraregional trade in the world. The penetration into the world market of this region as a whole is increasing while trade within the region is yet to see any notable momentum although trade within the region cost less and therefore relatively easy. This phenomenon—growing penetration into the global market with failure to pluck the low-hanging fruits of own backyard—is known as a ‘South Asian conundrum’. This paper attempts to understand this conundrum by analysing the regional trade statistics attempts<sup>2</sup>. Several findings are in order from the analysis.

First, compared to other regional trade blocks, South Asia is one of the least internally-integrated regions of the world. There is no sign of formation of trade regionalism yet. The openness of most of the countries has been increasing. The volume of trade with the rest of the world shows a secular increase since the early 1990s by when more or less all countries have embraced outward orientation as a policy for economic growth. But the bilateral trade within the South Asian countries failed to register an equally impressive growth over time. While a number of factors like non-tariff measures (NTMs) and non-tariff barriers (NTBs) can potentially be responsible, further research is required to know the exact reason for this.

Second, the relative importance of the regional markets to all SAARC countries has declined in 2012 from what it was in 2000. The only exception is Sri Lanka. However, the relative importance of regional market vis-à-vis global market in the case of export has increased except India, Nepal and Bhutan. But in the case of imports, the importance of regional market vis-à-vis global market has declined in the case of all SAARC countries. This implies that with the changing economic structure of South Asian economies, the SAARC countries become more dependent on global market for their imports than the region itself.

Third, the trade preference of SAARC countries in 2012 has changed disfavours India compared to 2000, with Bangladesh being the only exception. However, the relative importance of India as a destination market of other SAARC countries has increased in 2012 compared to 2000. But India’s inability

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<sup>2</sup> Although trade also takes place informally among the South Asian countries, this paper does not include them. This is mainly due to lack of time-series information on informal trade for all South Asian countries. The available limited information indicates that trade among South Asian countries is dominated by formal trade. Hence, it is very unlikely that inclusion of informal trade would change the main findings of this paper.

to meet the import demand of other countries of the region became more prominent during the same period.

Finally, India is by far the largest economy of South Asia accounting for more than 80 percent of total GDP of the region. Quite understandably, it is the main determinant of intraregional trade of the region. It is evident from the analysis that all other countries are to some extent successful in reorienting their exports to the region during the 2000-12 period; India failed to do so mainly because of its inability to meet the regional import demand.

In terms of economic structure and composition, South Asia is more or less homogenous. The export structure of main countries of the region is gradually changing creating scope for intraregional export. In the absence of the economic ability of the region to meet their own demand, intra-industry trade, joint venture to take advantage of relatively abundant resources of one country, trade in new areas like electricity and services will be the main promoter of intraregional trade in South Asia. A regional economic plan for investment and cooperation will provide the leeway to intraregional trade.

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