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Title of Thesis: "Intra-Regional Trade among South Asian Countries: A Critical Study"

Keywords: SAARC, Intra-Regional Trade, Gravity Model, SMART Simulation, Intra-Industry Trade.

ABSTRACT

The present study analyses the intra-regional trade among South Asian Countries from 1975-2012. The central question of the study is why the intra-regional trade in the SAARC (South Asian Association for Regional Cooperation) bloc is low and what are the measures that are required to increase the intra-regional trade among member countries? In sum, the study aims to address the following specific questions

A) Do South Asian countries have the same comparative advantage at the most disaggregate product level?

B) What are the pattern and trends of the intra-industry trade among South Asian Countries and what is the implication of the intra-industry trade of all member countries?

C) What is the impact of regional trade cooperation of all member countries?

D) Will South Asia benefit if the sensitive list under SAFTA (South Asia Free Trade Agreement) is removed?

The impact of trade in the SAARC region has been estimated using the gravity model with panel data estimations. The study also examines the revenue implications for the region and also assesses of whether there are possibilities for trade creation and consequent revenue generation will offset losses due to reduction in tariff on sensitive list under SAFTA agreement. Econometric modeling has been used to assess the quantitative impact of SAFTA. Different econometric and statistical techniques, like revealed comparative advantage (RCA), GL intra-industry index (IIT), trade complementarity index (TCI), Spearmen rank correlation, gravity model and Partial Equilibrium Model have been employed.

The study finds out that South Asian countries are characterised by an almost similar comparative advantage at the 2-digit level and relatively narrow range of products but revealed comparative advantage analysis based on SITC 3-digit suggests that there may be scope for greater trade within South Asia.

The study also identified main sectors for trade (export and import) possibilities between India and Bangladesh in products such as textiles, agriculture, engineering, chemicals, electronics, and metals and minerals. The study also found trade possibilities based on the intra-industry index between India and Sri Lanka such as food and live animal, manufacturing goods, and machinery and transport equipment. Trade possibilities between India and Pakistan are textiles, agriculture, engineering, chemicals, electronics and metals and minerals, food and live animals, chemicals, beverages tobacco, oil etc.

The study also examined the nature of trade flows in the SAARC region within gravity model framework. The panel gravity model has been estimated for the period of 1985 to 2011.

The results also suggested that SAFTA's formation is estimated to have a positive impact on enhancing the intra-regional trade in the SAARC region. The results show that GDP and population among other factors can explain export flows and import flows. In addition, the nature of trade among South Asian countries is intra-industry. The most important finding of the study is SAFTA has produced trade creation among its members. The study suggested that geographic distance might impede trade and tariff has negative effect on trade.

South Asian countries have witnessed a significant shift in the production structure of their economies. One common feature of the structural changes is the dominance of the services sector. The study shows that the share of South Asia in global services trade has increased much faster than goods trade. This study reveals the immense untapped future potential in services trade in South Asia. There is enough diversified adequate capacity to export, provided South Asian countries match the trade demand correctly and the barriers to service trade are addressed.

The study also investigated the impact of sensitive list (Phase II) under the SAFTA at disaggregate level (HS 6 digit) by using partial equilibrium modeling.

The results indicates a positive effect on consumer surplus and trade, though there is negative effect on tariff revenues of South Asian countries (India, Bangladesh, Pakistan and Sri Lanka).The results show that total trade effect will be near about US$ 1 billion. The most benefited products will be crude oil, natural rubber, cotton, textile, polyester staple fibers, plain weave, chemicals, electric products, and metal products.