

NUST INSTITUTE OF MANGEMENT SCIENCES

Thesis

Final Draft

**“The Emergence of Regional trade Blocs with Special
Reference to SAARC”**

Submitted To:

Ms. Rozeena Shaheen

Date of submission:

29th March 2007

Submitted by:

Saman Kamal

MBA 2K4 A

Roll # 088

ACKNOWLEDGEMENTS

First of all I would Thank All Mighty Allah for giving me the strength and courage to complete this thesis. Secondly I am thankful to my Family for always being there for me and for supporting me throughout. Last but not the least I would like to thank my instructor Ms. Rozeena Shaheen for guiding me throughout the course of completion of this thesis.

Table of Contents

CHAPTER 1: Introduction	01
1.1 History of Regional Trade blocs	01
1.2 The Recent Move to Regionalism	02
1.2.1 The Influence of Europe	03
1.2.2 The Reversal of the American Position	03
1.2.3 Canada Enters the Picture	04
1.2.4 Developing Countries' Abandonment of Import Substitution	04
1.3 Implications for World Trade	05
1.4 Factors Motivating Interest in Sub-Regional Integration and Importance of Regional Trade Blocs	06
1.4.1 Building a Sense of Security among Neighbors	06
1.4.2 Managing Trade Frictions	06
1.4.3 Capacity Building for Development	06
1.4.4 Stepping stones to multilateral liberalization	07
1.4.5 The Copycat Syndrome	07
1.5 Role of WTO in regulating Regional Trade Blocs	08
1.6 Some Regional Trade Blocs	08
1.6.1 NAFTA: North American Free Trade Agreement	08
1.6.2 European Union	09
1.6.3 SAARC: South Asian Association for Regional Cooperation	10
1.7 Pakistan's Historical Perspective	10
Chapter 2: Literature Review	11
CHAPTER 3: Hypothesis, Data and Methodology	21
3.1 Hypothesis	21
3.2 Data and methodology	21

CHAPTER 4: Findings and Analysis	23
4.1 Analysis of Performance of Trading Blocs in General	23
4.2 Case Study	25
4.2.1 INDIA- Pakistan Trade in context of SAARC	31
4.2.2 Future of SAFTA	37
CHAPTER 5: Conclusion & Recommendations	40
5.1 Conclusion	40
5.2 Recommendations	42
Appendices	

ABSTRACT

This Paper aims to assess the performance of regional Trade blocs in general and Saarc in particular, with special attention being paid to India- Pakistan relations and its impact on Saarc. The performance of SAARC is also compared with that of other trade blocs. Data used in this paper consists mainly of graphs and tables and is taken from research papers on the internet and from newspapers. The paper opens with a history of trade blocs, why they are important and then the paper moves on to the literature review in which research papers have been analyzed. Hypothesis and Research methodology are provided next .Findings and analysis cover the next section It is discussed in this section as to why SAARC has not been able to perform to its expectations and what is the future of SAARC now after the introduction of SAFTA. The paper then presents a conclusion and offers a few suggestions as to how the performance of SAARC can be improved and its benefits for the people of the region.

CHAPTER 1: Introduction

The decade of 1990s is widely seen as the decade of globalization. However, a more striking trend of the 1990s was the emergence of strong RTAs in different parts of the world led by Single European Market by European Union in 1992 and North American Free Trade Agreement (NAFTA) in 1994. These RTAs pursued a deeper type of integration covering preferential free trading arrangements complemented by strong rules of origin and mobility of capital (and some times even labor) across the region. The level of economic integration was progressively deepened and coverage of RTAs expanded over time. Thus EU progressively evolved into an economic union and then a monetary union with a single currency while expanding the membership to cover 25 countries. NAFTA is expanding southwards into a Free Trade Area of the Americas (FTAA).¹

1.1 History of Regional Trade blocs

There is little point in trying to identify the earliest regional trading arrangement in history. For as long as there have been nation-states with trade policies, they have discriminated in favor of some valued neighbors and against others. Regional trading arrangements have at times played major roles in political history. For example, the German Zollverein, the customs union that was formed among 18 small states in 1834, was a step on the way to the creation of the nation of Germany later in the century. This precedent has not been lost on those Europeans who today wish to turn the European Union into a single nation-state.

Between 1990 and 1994, the GATT was informed of 33 regional trading arrangements, nearly a third of all deals since 1948. By now there are only a few countries, including Japan, that do not belong to any formal regional trading arrangement, according to the survey of the field taken by the World Trade Organization (WTO, the successor to the GATT), on the occasion of its inauguration (WTO 1995, 27). If the Asia Pacific

¹ Bilaterals 2005, "Nafta , a new beginning" [Online]
http://www.bilaterals.org/article.php3?id_article=2952

Economic Cooperation forum (APEC) is counted as a planned regional trading arrangement of sorts, then virtually all countries now belong to at least one such club.

The surge in regional trading arrangements over the last 10 years constitutes a break with preceding postwar history. Previous regional agreements had been neither so numerous, nor so successful, as those of recent years. Perhaps most important, where the United States once tended to oppose them, choosing to emphasize multilateral liberalization through the GATT instead, now the United States is at the forefront of some of the largest regionalist initiatives. Why the change, and why now? Developments in four essentially independent arenas seem to have come together in the late 1980s to create a movement toward regionalism: European integration, US strategy, developments in Canada, and changing attitudes toward trade in the developing world.

1.2 The Recent Move to Regionalism

Between 1990 and 1994, the GATT was informed of 33 regional trading arrangements, nearly a third of all deals since 1948. The surge in regional trading arrangements over the last 10 years constitutes a break with preceding postwar history. Previous regional agreements had been neither so numerous, nor so successful, as those of recent years. Perhaps most important, where the United States once tended to oppose them, choosing to emphasize multilateral liberalization through the GATT instead, now the United States is at the forefront of some of the largest regionalist initiatives. Why the change, and why now? Developments in four essentially independent arenas seem to have come together in the late 1980s to create a movement toward regionalism: European integration, US strategy, developments in Canada, and changing attitudes toward trade in the developing world.

1.2.1 The Influence of Europe

The European Community (EC) took a major step with the Single Market initiative, which was adopted in 1987 and took effect in 1992. The ambitious plan was to turn a free trade area into a true common market. European integration has faced some setbacks, most notably the September 1992 and August 1993 crises in the Exchange Rate Mechanism, which put a crimp in the plans for Economic and Monetary Union that had been agreed at Maastricht, Netherlands, only nine months before. Nevertheless, the continued expansion of the European Community, now the European Union (EU), in terms of scope, depth, and geographical area is a truly historic achievement. This success has undoubtedly had a demonstration effect, encouraging emulation in the form of regional initiatives in other parts of the world.

1.2.2 The Reversal of the American Position

The second key force underlying the global move to regionalism is American strategy. Until the 1980s, European steps toward integration produced two reactions in the United States. First, Americans would override their instinctive aversion to regional trading arrangements by taking a dose of geopolitical medicine. The premier motive behind European economic integration--particularly the formation of the EEC in 1958--was the political one of assuring that no more wars, such as the three Franco-German conflicts over the preceding century, would be fought in the heart of Europe. The United States approved this logic and indeed pushed it forward. Second, American governments would respond to European actions on the regional front--that is, EC expansion--by proposing a new round of liberalization negotiations in the GATT so as to keep the momentum in the multilateral direction. This pattern played a role in the Dillon, Kennedy, and Tokyo Rounds.

In 1982, this pattern changed. Trade Representative William Brock encountered European resistance to American proposals at a GATT ministerial conference in Geneva for a new round of multilateral negotiations. He responded with regional initiatives (see, e.g., Destler 1995, 212). He let it be known that the United States was "willing to dance"

with interested partners. The swift outcome was the US-Israel Free Trade Agreement and the Caribbean Basin Initiative. (Negotiations with Canada took longer.) Where the Americans had previously reacted multilaterally to European actions on the regional front, now they reacted regionally to European actions on the multilateral front. The logic.

1.2.3 Canada Enters the Picture

Israel and the Caribbean are too small to constitute a major trend in US policy by themselves.. But the US frustration with the lack of multilateral progress happened to coincide with an independent development--the third link in the chain: Canada instigated negotiations on a free trade area with the United States. In doing so, Canada reversed over 100 years of explicit rejection of proposals for such links with its larger neighbor. An important motive was the developing view among Canadian businesspeople that their domestic market was too small to exploit economies of scale. The new American willingness to consider regional agreements was certainly a necessary component of the bilateral deal, which was completed in 1988 (e.g., Schott 1988, 1989; Kahler 1995b, 13; Krueger 1995, 1, 23-24). But so was the change in Canadian attitudes.

1.2.4 Developing Countries' Abandonment of Import Substitution

The fourth component of the new regionalism, and the one that has made it a worldwide phenomenon, is the spread of serious regional initiatives to the developing countries. Most dramatically, in 1990 Mexican President Carlos Salinas de Gortari reversed 150 years of active resistance to the *yanqui* embrace and asked to follow the Canadian precedent in forming a free trade area with the United States. The resulting North American Free Trade Agreement (NAFTA) was concluded in 1992 and ratified in 1993. But there has also been a simultaneous proliferation of regional trading arrangements among developing countries themselves, far more serious than failed attempts along these lines in the past. In 1991 alone, Mercosur was inaugurated among four countries in the eastern half of South America (Argentina, Brazil, Paraguay, and Uruguay); Venezuela and Colombia reinvigorated the Andean Pact in the western half of that continent,

agreeing to establish a common market within two years; and Southeast Asian countries agreed to form the ASEAN Free Trade Area (AFTA). Many more agreements followed as well, in virtually all parts of the world.

There was a logical prerequisite for successful regionalism among developing countries. The prerequisite was that countries in Latin America and elsewhere had to ditch the import-substitution model, which had dominated thinking in the 1960s and 1970s, in favor of the market liberalization model.

That outward orientation is generally a prerequisite for successful free trade agreements can be seen in the failures of countries in Latin America and elsewhere under the import-substitution philosophy of the 1960s. As long as the goal was to find regional markets for favored industries that could not compete on world markets, and as long as each country tended to favor the same industries (steel was a typical favorite), the enterprise was doomed to failure. But when the goal is to make industries better able to compete internationally, regional arrangements are more likely to succeed.

1.3 Implications for World Trade

If all the regional trade agreements which have been negotiated to date were implemented fully, the WTO Secretariat estimates (1) that as much as half of world trade would be tied up in a spaghetti bowl of new discriminatory rules which impede world trade. This represents a tremendous leakage from world trade, with significant negative consequence for the rate of growth of world trade. If governments want a multilateral trading system that works, and world trade growth at its maximum, then regional economic cooperation must be designed in such a way as not to undermine the system. If not, the rate of growth of world trade and investment flows will slow. The negotiation of exclusive trading blocs contributes directly to this outcome.

1.4 Factors Motivating Interest in Sub-Regional Integration and Importance of Regional Trade Blocs

Here are some of the factors which lead to an interest in sub Regional integration

1.4.1 Building a Sense of Security among Neighbors

The motive for regional economic cooperation is often political as well as economic. For the European Union (EU), for example, which has no common foreign or security policy, trade policy represents the only available instrument for external influence. Political factors, more than any others, have been the key motivation behind the EU's drive for bilateral free trade agreements, first with European neighbors, then on a more global basis. From an economic perspective, however, the gains from trade creation are greatest where the partner countries have complementary economies. Although it is in a country's economic interest to choose a partner with high complementarities, the more frequent reality is that countries seek out as partners those economies which do not threaten their 'sensitive' sectors, as they are for example, between ASEAN and China.

1.4.2 Managing Trade Frictions

The management of potential or escalating frictions is a very important economic motive for regional cooperation. It was part of the underlying rationale for the formation of APEC, which offered an opportunity for trade and investment policy dialogue, including between Japan and the United States of America, at a time when trade frictions across the Pacific risked impacting negatively on other regional economies.

1.4.3 Capacity Building for Development

Regional integration is a natural and constructive response to the forces of globalization. Closer integration of neighboring economies is seen as a first step in creating a larger regional market for trade and investment. This works as a spur to greater efficiency, productivity gain and competitiveness, not just by lowering border barriers, but by reducing other costs and risks of trade and investment.

1.4.4 Stepping stones to multilateral liberalization

In broad terms, the desire for closer regional integration is usually related to a larger desire for ‘opening to the outside world’. Regional economic cooperation is being pursued as a means of promoting development through greater efficiency, rather than as a means of disadvantaging others.

The major motivation is not always the promotion of intra-regional trade as is commonly understood. The deeper regional economic integration is to facilitate restructuring or rationalization of industry across the region on the most efficient basis so as to exploit the economies of scale and specialization. The Cecchini Report commissioned by the European Commission which provided the basis for the White Paper on the Single European Market had empirically established that the European economies were losing substantially in welfare terms by not cooperating between themselves.

Regionalism also helped the member countries to protect their industry from external competition by imposing common external tariffs and strong rules of origin. Japanese companies supplying to the EU and NAFTA markets had to shift their production to the respective regions in order to comply with the ‘screw driver regulations’ or the strict rules of origin.

The immediate danger is that coherence and predictability offered by multilateralism will be weakened as governments increasingly turn to regional arrangements to manage their trade interests.

1.4.5 The Copycat Syndrome

Standing seemingly alone, watching the rest of the world, including the US and the EU negotiate bilateral preferential deals with trading partners initially outside the East Asian region but steadily geographically closer, has led to real, if unjustified fears in the East Asia of “being hurt” and of “being left out”.

This doesn’t mean, of course, that countries in the region will in fact gain by following suit. On the contrary, East Asia is likely to lose rather than gain, from mimicking the

closed trading bloc approach in other regions. Alternative more open models of cooperation are required, more consistent with the WTO.

Nevertheless, “being left out” causes resentment. (Indeed, many agreements negotiated for underlying geo-political reasons may prove counterproductive in overall strategic terms precisely because of unforeseen consequences of this nature.)

1.5 Role of WTO in regulating Regional Trade Blocs

In general, the WTO mandates that each member accord Most Favored Nation (MFN) status to all other WTO members. However, it allows an exception for regional trade initiatives that extend different terms of trade to participating countries, stipulating that an RTA must comply with two main requirements outlined in the GATT Article XXIV. First, the agreement must lower trade barriers within the regional groups. Second, the agreement cannot raise trade barriers for non-participating members.

1.6 Some Regional Trade Blocs

1.6.1 NAFTA: North American Free Trade Agreement

The North American Free Trade Area is the trade bloc created by the North American Free Trade Agreement (NAFTA) and its two supplements, the North American Agreement on Environmental Cooperation (NAAEC) and the North American Agreement on Labor Cooperation (NAALC), whose members are Canada, Mexico and the United States. It came into effect on 1 January 1994.

The agreement

NAFTA called for immediately eliminating duties on half of all U.S. goods shipped to Canada, and gradually phasing out other tariffs, over a period of about 14 years. Restrictions were to be removed from many categories, including motor vehicles and automotive parts, computers, textiles, and agriculture. The treaty also protected intellectual property rights (patents, copyrights, and trademarks), and outlined the removal of investment restrictions among the three countries. Provisions regarding worker and environmental protection were added later as a result of supplemental agreements signed in 1993.

This agreement was an expansion of the earlier Canada-U.S. Free Trade Agreement of 1988. Unlike the European Union, NAFTA does not create a set of supranational governmental bodies, nor does it create a body of law superior to national law. NAFTA is a treaty under international law. Under United States law it is classed as a congressional-executive agreement rather than a treaty, reflecting a peculiar sense of the term "treaty" in United States constitutional law that is not followed by international law or the laws of other nations.

1.6.2 European Union

The **European Union (EU)** is a union of 27 states. It was established in 1992 by the Treaty on European Union (The Maastricht Treaty), and is the de facto successor to the six-member European Economic Community founded in 1957. Since then new accessions have raised its number of member states, and competences have expanded. The EU is the current stage of a continuing open-ended process of European integration.

The EU is the largest economic entity and one of the largest political entities in the world, with 493 million people and a nominal GDP of €11.5 (\$15.0) trillion in 2006. The Union is a single market with a common trade policy, a Common Agricultural/Fisheries Policy, and a Regional policy to assist poorer regions. It introduced a single currency, the euro, adopted by 13 member states..

Important EU institutions and bodies include the European Commission, the Council of the European Union, the European Council, the European Central Bank, the European Court of Justice, and the European Parliament. Citizens can live, travel, work, and invest in other member states (with some restrictions on new member states). Passport control and customs checks at most internal borders were abolished by the Schengen Agreement.

The European Union is one of the biggest trading blocs in the world.

1.6.3 SAARC: South Asian Association for Regional Cooperation

South Asian Association for Regional Cooperation (SAARC) is the largest regional organization in the world by population, covering approximately 1.47 billion people. SAARC is an economic and political organization of Eight countries in Southern Asia. The organization was established on December 8, 1985 by India, Pakistan, Bangladesh, Sri Lanka, Nepal, Maldives, and Bhutan, with the recent introduction of Afghanistan.

Saarc has not performed very well till now since its founding on mainly due to political differences between the member countries, particularly India and Pakistan.

1.7 Pakistan's Historical Perspective

Pakistan was created on 14th August 1947 when the British left the Indian Sub continent. Pakistan from its onset has been an aid dependant country and has not been able to stand firmly on its feet. In the 60's there was an economic boom but that subsided in the seventies when nationalization of all industries took place. The 80's was a time of martial law. The 90's gain saw democracy returning but the economic progress of the country was very bad. In 1999 after a military coup President Musharaaf took over, since then the economic conditions of Pakistan are improving, however the government has not been able to find an answer to the problem of inflation.

Relations with India have been hostile for most part since Independence which has meant that Saarc has not been able to perform to expectations. However for the betterment of Pakistan and its neighboring states it is imperative that Saarc is revived as it will contribute to all the countries in the region coming closer and to the economic uplift of the region.

The aim of this paper is to look at the performance of Regional trade blocs in general and SAARC in particular and to critically analyze the performance of India and Pakistan as they are the two largest countries of SAARC. The aim is also to see the changes which have occurred in terms of trade after SAFTA.

Chapter 2:Literature Review

(Philip McCann, Daniel Shefer, 2005):

Over the last two decades there have been various analytical breakthroughs within the fields of economic growth, trade and economic geography which have forced analysts to reconsider how these phenomena are related. In particular, since the early 1990s there has been a widespread revival of both academic and public policy interest in the links between geography, trade and economic growth, and there are several reasons for this; one reason is technological, a second reason is institutional.

Firstly, the primary technological development which has contributed to the renewed interest in the economic impacts of geography, has been the rapid improvement in information, communications and transportation technologies. These technological advances have improved the ability of corporate and government decision-makers to coordinate either market or organizational activities across progressively larger geographical areas.

Secondly, at the same time as these technological changes have taken place, there have also been widespread institutional changes within the global and regional trade frameworks. The movements towards free-trade and integrated market areas such as EU, NAFTA, ASEAN and MERCOSUR, have meant that the tariff structures associated with national borders may be becoming progressively less important in terms of their effects in shaping a nation's economic and social conditions.

Overall this article tries to establish a link between the widespread use of technology and the institutional changes that have taken place and the regional growth that has taken place, and concludes that the overall affect on regionalism of technology and institutional changes has been positive.

(Kim, Suk H, Huh, Chang Soo,1996):

They analyze APEC as a trading bloc. Asia-Pacific Economic Cooperation (APEC), established in 1989 as a regional forum for economic cooperation, has expanded to 18 members: Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, the Philippines, Singapore, South Korea, Taiwan, Thailand, and the United States. "In spite of the tremendous diversity of our cultures, political systems and stages of development of our economies, we have been able to envision a community of Asia-Pacific economies based on a growing spirit of partnership," President Suharto of Indonesia declared at the end of the 1994 APEC Summit. On November 16, 1994, leaders of the 18 Pacific Rim nations moved toward creating the largest trade zone by the year 2020. Developed nations such as the United States and Japan agreed to end trade barriers by 2010, and developing nations agreed to follow suit by 2020. APEC member countries represent more than half the world economic output. The APEC leaders agreed to meet in Osaka, Japan, in 1995 to hammer out details of how to reach the free trade goal.

APEC's guidelines stipulate the following three principles: First, cooperation should be outward looking, building consensus on a broad range of economic issues. Second, participation is to be open ended, based on the strength of economic linkages. Third, regional liberalization is to be promoted, provided it is consistent with WTO principles, not to be to the detriment of other economies. These three principles make APEC a unique trading bloc because a group of countries came together for the first time to promote global economic interests. In this paper, the nature of trading blocs, the structure of APEC, major features of APEC, and the role of the Eminent Persons Group have been discussed.

(Ashok B Sharma, 2004):

Countries across the globe are realising the importance of regional trading blocks. The South Asian countries too have now felt the urgency of such an arrangement.

This article basically deals with the history of SAARC and comments on its future.

The South Asian Association for Regional Cooperation (SAARC) with membership of seven countries including India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan and Maldives, is gradually moving towards a distinct regional trading block.

Beginning was made with the signing of the SAARC Preferential Trading Agreement (SAPTA) in Dhaka in April 11, 1993. Subsequently the concept of South Asia Free Trade Area (SAFTA) was mooted at the 11th SAARC summit in Kathmandu and ultimately an agreement on SAFTA was signed on January 6, 2004 at the 12th SAARC summit in Islamabad. SAFTA agreement is a step forward in this regard.

Apart from compliances mentioned in the SAFTA agreement relating to regional trade like tariff reductions, there is a mention of trade facilitation measures like harmonisation of standards, reciprocal recognition of tests and accreditation of testing laboratories in member countries. This important aspect of trade is mentioned in Article 8 of the SAFTA Agreement. Non-tariff barriers can deter trade and hence need to be negotiated well in the interests of intra-SAARC trade.

This SAARC Standing Group had so far held three meetings and all of these meetings were hosted in Delhi as India is the coordinator. The first meeting was held within a year after its formation. It was held in June 29-30, 1999. The second meeting was held after a gap of two years in February 4-6, 2002. The delay was due to political difference between major member countries in the region. Now as the political differences between major countries have narrowed down leading to the success of the 12th SAARC Summit in Islamabad the Standing Group could eventually meet in Delhi on May 18-19, 2004.

This article also comments on the fact that lessons need to be learnt from the collapse of the last WTO ministerial meeting at Cancun. Developing countries need to remain united if they are to get any benefits from global trade. There is also a need for forming regional trading blocks. European Union, Mercosur, NAFTA, ASEAN are

the examples of success. The South Asian countries should, therefore realise and move faster towards implementation of SAFTA Agreement.

The ISO has also recently recognised South Asian region as a separately distinct region for formulation of regional standards. SAARC signed a MoU with the German Metrology Institute, PTB for promoting cooperation in fields of measurement, calibration, standards, conformity assessment and accreditation. It is also planning to enter in agreement with other European bodies for technical assistance in developing standards. SAARC is currently formalising a MoU with UNIDO. These efforts will help South Asian countries to develop standards in equivalence to globally accepted norms.

All in all this article states that if some pre requisites are met and there is political stability SAARC can achieve a lot.

(C. Parr Rosson, 2000):

Discusses that trading blocs, or preferential trading arrangements (PTAs), are relatively new in U.S. trade policy, but other nations have used and participated in various forms of preferential trade for decades. PTAs normally include one or more of the various types of economic integration, such as a free trade area, a customs union, a common market, or an economic union. More than 23 forms of PTAs have been identified among the 119 countries that account for 82 percent of world trade (Fieleke 1992). The use of PTAs to achieve both domestic and international trade policy objectives clearly is increasing.

Since 1985, the United States has negotiated preferential trade treatment with Israel and regional free trade agreements with Canada and Mexico. The United States has announced that Chile is the next country likely to join NAFTA. Several countries in Central and South America have joined new trading bloc initiatives.

The interest and concern of observers, analysts, and policy makers have been raised regarding the implications of PTAs for U.S. agriculture. The threat that U.S. firms will re-locate offshore and take jobs with them, and the ability of the United States to compete with low-wage economies have been focal points of debate. The environmental consequences of making common national borders more open, increased industrialization, and the prospects of the world economy fracturing into openly hostile trading blocs, are other policy issues related to the formation of trading blocs and their increased use as a policy option.

On the other hand, large economic gains may be achieved with PTAs, as reduced trade barriers create new markets for U.S. goods and cheaper products for consumers. The purpose of this paper is to discuss the importance of PTAs, reasons for their increasing use, and potential gainers and losers as PTAs become a more common trade policy instrument

First the paper discusses forms of trade agreements, then it moves on to discussing motivations for preferential trade agreements which are as follows:

1. PTAs foster political stability and economic prosperity, thereby supporting the continuation of the democratic process and reducing the likelihood of political

and social disruption in those countries that are economically or politically important to the strategic interests of the United States.

2. PTAs hasten the progress of multilateral trade negotiations, such as GATT; the achievement of timely, substantial reduction in barriers to trade, particularly agriculture, intellectual property rights, services, nontariff barriers, and dispute settlement procedures; and stimulate economic growth and development.
3. PTAs counter the economic and political power created in Europe by further expansion and integration of the EU and the prospects for trade and economic cooperation with former Soviet and Eastern bloc nations.

This paper further goes on to say whether preferential trading agreements create trade or not. It sees the short term effects of trade creation and trade diversion. It also sees the long term effects of increased competition, economies of scale etc, efficient resource use. Trade theory provides only ambiguous conclusions regarding the consequences of PTA formation. Free trade is certainly more efficient than discriminatory trade, but in a world of less-than-free trade, PTAs may permit major economic gains under certain conditions. Long term gains, such as increased competition, economies of scale, and greater investment may far exceed the short term gains from trade creation. Consumers often gain from PTA formation as restrictive trade barriers are lowered and finally eliminated. Government and taxpayers bear the cost of this gain, however, since tariff revenue also declines.

All in all PTAs will likely take on added importance as policy tools for negotiating fewer barriers to trade among groups of nations. Strong economic and political interests will be the driving force behind these actions. In the future, it may become more important to negotiate access to major markets, using the additional leverage provided by nations acting together.

(Ben Zissimos, 2005):

Argues that trade blocks are regional because, in their absence, optimal tariffs are higher against (close) regional partners than (distant) countries outside the region. Optimal tariffs shift rents from foreign firms to domestic citizens. Lower transport costs imply higher rents and therefore higher tariffs. So regional trade blocks have a higher payoff than non-regional trade blocks. Therefore, only regional trade blocks may yield positive gains when sponsoring a trade block is costly. To analyze equilibrium, standard theory of non-cooperative networks is extended to allow for asymmetric players. Naive best response dynamics show that ‘trade blocks can be stepping blocks’ for free trade.

What is the basis for higher trade based gains to a regional agreement? According to standard optimal tariff theory, the higher the rents made by a foreign firm in the domestic market, the more scope there is for shifting rents to domestic citizens through the use of higher tariffs. And because trading costs increase with distance, firms make higher rents in nearby markets than those that are further away. So in the absence of an agreement, optimal tariffs are higher on imports from countries in the same region than on imports from countries of other regions. It follows that a bilateral free trade agreement (FTA) between two close neighbors brings about larger production and trade gains than between distant countries because the former entails a larger mutual tariff reduction.

While standard optimal tariff theory provides a basis for individual tariff setting, a general framework is needed in which the overall structure of trade blocks in the (world) economy can be analyzed.

The paper further says that in each period a trade agreement must have a sponsor. A sponsor is the country that meets the cost of bringing all other country representatives to the negotiating table in order to make the agreement for that period. An example of where a country plays such a leadership role in coordinating such agreements is the Presidency of the European Parliament.⁴ To motivate this need for a trade block to be sponsored, it will be assumed that a trade block cannot be made binding indefinitely. It may be that a government can only credibly commit to an agreement for the duration of its parliament. Conditions are derived under which, in each period, there is an incentive for some country to step forward as sponsor. Moreover, if a country undertakes to sponsor a trade

block, all the proposed partners accept because they anticipate (and realize) trade-based gains.

The main result of the paper concerns the characterization of the equilibrium configuration of trade blocks that emerges over time under different levels of sponsorship cost.

Not surprisingly, if sponsorship costs are above a certain level then no trade blocks will form at any point on the equilibrium path; and costs they are below a certain level then world free trade will emerge straight away. It is when sponsorship costs are at an intermediate level that regionalism arises and can persist over time. Perhaps most interesting of all, a range of sponsorship costs is identified at which regionalism emerges first before free trade can be reached.

(Vangie Bhagoo, 2005):

Deals with the consequences of the proposed Regional economic Partnership agreements and the Caribbean. Caribbean countries which have traditionally relied on exports of their sugar and bananas under preferential market access to the European Union now face a complete overhaul of their historical Trading agreements.

Repa has been advocated by the EU and is set to replace the Lome arrangements. under which African, Caribbean and Pacific countries enjoyed preferential access to the EU market for more than 25 years. Market access could end by December 2007.

There are three main principles of the proposed REPA.

Reciprocity: The Lome provisions gave ACP countries almost free access to the European countries, but the reverse does not apply. Under REPA the ACP countries would open their market to the EU, while imposing regional tariffs on all Non EU partners such as the US and Latin America.

Regions: The EU encourages ACP countries to sign free trade agreements not as individual countries but as regional groups. This would limit the number of agreements and contribute to sustaining regional integration efforts.

Special treatments for LDCs. Some 39 least developing countries are not obliged to sign the REPAs in order to retain their present level of access to the EU. The LDCs in the Caribbean and Haiti and Belize.

Although there are some clear advantages of the REPA in terms of direct investment flows from the EU to the Caribbean, it appears that the region will have to shoulder the burden of adjustment. This is because many Caribbean governments collect tax revenues from tariffs. In some countries like the Bahamas Custom duties account for half of total revenue. This source of funding is likely to diminish under a REPA.

The proposed REPA may also hinder trade with non EU partners. It may divert trade from a lower cost supplier outside EU to a higher cost supplier within EU, thus imposing a negative affect on the general welfare of the region.

CARICOM ministers have also expressed some serious concerns with the agricultural trade assessment of the region. Agriculture still accounts for at least 10 % of the GDP and the ministers have disagreed with the EU's perception that agriculture has no future in the

region. The ministers have called for a re assessment and also for the insertion of an agriculture development strategy into the REPA.

All in all the REPA is expected to strengthen the integration between the EU and the ACP countries but it will need to counter its problems and also the issues of high crude oil prices and terrorism need to be addressed.

CHAPTER 3: Hypothesis, Data and Methodology

3.1 Hypothesis

H1: Saarc over the years has not been able to perform to its potential

The area forming Saarc has been involved in political and economic problems. There is widespread corruption and the relations between neighbors are not friendly. Saarc has not been able to reach its objectives due to negligence and lack of commitment of the leaders.

H2: With the coming of SAFTA things have improved

SAFTA or the Saarc Free Trade Agreement has moved things in a positive direction, as free trade between the neighbors has allowed all countries to focus on their specialization and core competences

H3: In terms of trade Pakistan and India and the two major players in SAARC

Pakistan and India apart from being the biggest in size amongst the Saarc countries are also the two major players in Saarc and the future of Saarc will be determined by relations and trade between these two countries.

H4: There is a link between the social and political conditions of countries and the performance of the trade bloc of which it is a part

The social and political atmosphere in countries forming trade blocs is hugely responsible for the performance of the bloc. India and Pakistan with reference to Saarc are a prime example.

3.2 Data and methodology

This paper uses comparative analysis to evaluate the performance of SAARC and other trade blocs.

The figures and tables show the trade between the SAARC countries and also trade with other countries is shown. Also exports within other blocs are also analyzed and compared with the performance of SAARC.

The methodology involves analyzing the figures and tables in terms of trade achieved and its actual potential. Time Frame of the Data is from 1960 to 2006.

Data has been collected through the following means:

- Internet websites of Saarc and other trade blocs, as well as official countries' websites
- Local as well as international magazines and journals like Herald, Newsweek, The economist etc.
- Newspapers like The News and Dawn.
- Research papers that already exist on the topic
- Academic notes and papers.

CHAPTER 4: Findings and Analysis

“Despite our geographic proximity and certain similarities of economic infrastructure, intra-Saarc trade still remains at an extremely unsatisfactory 5 percent, compared with 38 per cent within Asean. We conclude the Safta arrangement at a moment when the world has realised disadvantages of the present multilateral trade processes, such as the WTO. This situation has given a new relevance to regional cooperation. We believe that Saarc can provide valuable options for South Asia,”

President Chandrika Bandaranaike Kumaratunga of Sri Lanka

4.1 Analysis of Performance of Trading Blocs in General

Regional cooperation has become a norm these days. If we look at Appendix 1, we see that the exports within blocs have been on the rise generally. If we take the example of ASEAN then we see that in 1995 the total exports within the bloc were \$1,689,780 which increased to \$1,796,868 in 1998. Citing another value from the table we see that in the European union (EU) the exports within the bloc increased from \$981,260 in 1990 to \$1,076,512 Million in 1998. This has been due to the policies of trade liberalization within blocs by both ASEAN and EU. ASEAN and EU have made use of the complementary skills and recourses within the blocs in order to boost the overall progress of these blocs.

By looking Appendix 2 we see that that the percentages of trade within blocs has also been increasing steadily. This is in addition to the overall value of the exports which has been increasing within trade blocs. If we look at APEC we see that in 1970 the percentage of Intra regional trade was 57.9 % which increased to 69.7 % in 1998. Among the APEC countries, the rapid increase in trade (at least was until the current financial crisis) cannot be entirely explained by the growth of the member countries.

Rather APEC has operated as an intensifying trade bloc. Its high level of trade is all the more impressive in that the distances are so large.

Also another example is NAFTA whose share of intra bloc trade has increased from 36% in 1970 to 51.7% in 1998. This analysis however does not hold true for some other trading blocs like EU where the percentage of intra bloc trade has actually gone down from 59.5

% in 1970 to 57.2% in 1998. This is due to the reason that the share was high initially and now the EU is exploring additional markets like USA and Asia.

Again by looking at Appendix 3 we can see that intra regional trade figures are the highest for EU 12 countries from 1960 till 1995 by passing all other trade blocs. Second in line has been NAFTA with intra bloc trade figures at 35 to 45 % over the 25 year period. Andean Pact is the lowest amongst those blocs mentioned with the figure with its intra bloc trade at 10 % in 1995 having risen from the lowest point before. The progress of EU 12 is worth praising as they have not let political differences come in between their economic policies. While the share of EU and NAFTA has increased we see that the share of ASEAN in intra bloc trade has actually come down.

Appendix 4 shows the size of various trading blocs. By far the largest among them is NAFTA which is 112% the size of the US economy. We have to bear in mind that United States is an integral part of NAFTA itself. Second in line is European Union which houses 378 million people and whose size is 110.4% of the United States economy. We see that SAPTA(Now SAFTA or the South Asian Free Trade Area) houses the maximum amount of people that are 1,347 Million yet it 's size is just 7.1 % of the United States economy showing clearly that SAPTA is under performing. This is due to the political instability and mistrust among the nations of SAPTA. Countries like Switzerland and blocs like Andean Pact are performing okay if we keep in mind their population although there is still a huge room for improvement.

4.2 Case Study

”Performance of SAARC as a whole with Special reference to India and Pakistan”

We will now analyze the performance of SAARC or SAFTA with special reference to the trade and political relations of India and Pakistan.

SAARC is comprised of seven members with now the addition of an eighth member which is Afghanistan.² One of the most important ways through which developing countries can accelerate their economic growth is through enhancing intra-regional co-operation. Hence, it is believed that intra-regional trade must become an integral part of the growth strategy of SAARC countries if they are to develop their full potential. The scope for co-operation between the South Asian countries is enormous. The region has a potential market of 1.4 billion consumers, the largest middle class in the world, as well as a hardworking, low wage labor force. The region is characterized by large income disparities, with 43 percent of its population living below the poverty line South Asia holds tremendous promise for trade and cooperation. But it should be kept in mind that this is a very volatile region and in the words of Former US president Bill Clinton it is the world's most dangerous place due to the presence of two hostile nuclear power neighbors³. Tensions between India and Pakistan over the years have been responsible partly for the slow progress of SAARC. Due to India's enormous size it is by far the biggest contributor to trade among SAARC countries.

As can be seen in Appendix 5 the population of SAARC region has increased from 1.3 bn in 1996 to 1.4 bn in 2000, which means that this is a huge market. The GDP as of 2000 is 620.3 Billion up from 513.7 Billion in 1996. This shows that the region is progressing but still intra regional trade is low. The GDP growth rate for the region is also healthy at 5.8 % as of 1999 which has increased since then. GNI or Gross national Investment is \$ 460 per capita which is not very high.⁴ Together these countries of SAARC form 20% of the world population and have 3.5% of its land area. Yet, they account for only 0.25% of the world's GNP

² For details on SAARC formation, selected parameters of countries and elements of SAFTA agreement see Appendix 30, 31 and 32

³ Peace Studies Journal 2005, "Regional Integration studied" [Online]
<http://www.peacestudiesjournal.org.uk/docs/RegionalIntegration.PDF>

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 per year. At present, S.A.A.R.C. accounts for less than five percent of global trade; this is in contrast to the 22 percent share by A.S.E.A.N. and the 65 percent share by the E.U.⁵ Compared to 4% of Intra SAARC trade the intra bloc trade figures of other regions are as follows: NAFTA (North Atlantic Free Trade Area) 37 %, and ASEAN' 38 %.

Appendix 6 shows the intra SAARC trade as percentage of total trade for different countries. We see here that Nepal is the highest contributor in terms of having the highest share of Intra SAARC trade in terms of its total trade. This is so because Nepal is a small country with limited resources and it finds trading with neighbors very convenient and cheap as compared to trade with other countries. Next in line is Maldives at 22.06% and it also has the same reasons as Nepal. Pakistan and India have very little intra SAARC trade which is due to their political differences which has meant that both the countries don't trust the platform of SAARC. This is truer for Pakistan than for India. India being a very big country has managed to exploit other markets like the EU and ASEAN. In addition, the visa restrictions among a number of SAARC countries, such as the India and Pakistan, and delay in shipments from land-locked countries as Nepal which is dependent on Calcutta Port or a port in Bangladesh are also discouraging the SAARC trade. In order to boost intra SAARC trade settling of issues like the Kashmir, sharing of land and boundaries with Bangladesh, renegotiating the 1950 Treaty with Nepal is paramount.

Appendix 7 lists down the Contributions to Intra Regional trade expressed as percentages. The top of the list is India, which contributes around 55% to Intra regional trade as of 2002. The percentages have fluctuated over the years but still India has consistently remained the top contributor to intra regional trade. This can be attributed to the fact that India is the largest country among the SAARC nations with the largest exports base and also because India has the greatest influence over SAARC. The second largest contributor has been Bangladesh. This can be attributed to the fact that SAARC

⁵ Peace Studies 2005, “Where are we Heading?” [Online]
http://www.pinr.com/report.php?ac=view_report&report_id=473&language_id=1

started from Bangladesh and Bangladesh has great belief in SAARC. The country which is the worst contributor to SAARC trade is the Maldives. Although Intra SAARC trade occupies a vast amount of its trade yet due to its limited size and population it is the worst contributor.

Appendix 8 shows the total amount of intraregional trade for all the SAARC countries represented individually. We see here that India's intra regional trade has increased from \$0.8billion in 1992 to \$ 3.4 billion in 2002. Other countries have also shown an increasing trend except for Maldives and Pakistan whose \$.1 and \$.4 billion respectively in 2002 which were only a slight increase from their 1992 figures. Presently around three to four billion dollars informal trade is still going on between all the seven member states of Saarc, which if formalized could result in huge benefits for the members of SAARC.

Appendix 9 shows Intra SAARC shares in Exports and Imports. If we look at 1980 we see that the exports have been more than the imports. This trend has continued till 1995 however in 1996 the trend has reversed with the imports becoming higher than the exports. This is a worrying trend and should be looked into.

Appendix 10 shows the proportion of Trade in GDP of South Asian economies. Over the years this has shown an increasing trend. From 1985 to 1987 the proportion of trade for Bangladesh was 15.81 % which increased to 24.88 % from 1996 to 1998. The same hold true for India and Sri Lanka as well whose Shares also increased. This is due to the reason that with the coming of WTO and progress on SAARC as well as the trend towards globalization borders of these countries have opened up thus allowing for more trade. Also these countries now realize the importance of trade more in gaining access to low cost and specialized products.

Appendix 11 shows the Export composition of the SAARC countries. All the countries of SAARC are agrarian economies however there has been an increase in the services sector of these economies lately. Sri Lanka's exports consist of textiles, garments, tea, coconut and ranges to petroleum products. Exports of India and Pakistan deal with gems and

textiles, jewellery, engineering goods etc and raw cotton and textiles, leather garments etc respectively. One reason for the low intra SAARC trade which was \$5.3 in 1998 is the fact that the production in the SAARC countries is somewhat similar which limits their trade to each other.

Appendix 12 lists the import composition of the SAARC member countries. These ranges from machinery, equipment, food and drink, to petroleum and capital goods etc. If the SAARC countries were to collaborate freely they would be to some extent able to fulfill each other's requirements. For instance Pakistan can import cheap transport equipment from India which would mean that it would save huge amounts of foreign exchange.

Appendix 13 gives an estimate of the exports and imports of SAARC countries and percentage of regional trade. We see from the table that Fish represents a huge number of exports for Maldives \$53,979 Million in 2002. Likewise rice is a major export for Pakistan while it is a major import for Bhutan comprising of \$8300 million in value and about 5 % of imports for Bhutan. We also see from the table that crude, petroleum oil is a major import for all SAARC countries, while it is an export for Pakistan and Sri Lanka and also other SAARC countries, yet it comprises of only 1 % of the exports of these two countries and less than 1 % for other SAARC nations, and more than 26 % and 13 % of imports for Pakistan and Sri Lanka. This shows that although all nations of SAARC have minimum exports of petroleum products yet all have to rely on other countries support for their petroleum needs to a large extent. We also see that almost all the nations of SAARC except Bhutan are involved in the trade of clothing with it representing a major export of Pakistan and Sri Lanka valued at 14 % and 35 % of regional trade respectively.

According to the SAARC Survey of Development and Cooperation 1998/1999 the top ten commodity groups in the export structure of the SAARC member countries account for a disproportionately large share of their exports, e.g. 70% in the case of Pakistan and Sri Lanka, 86% in Bangladesh and 91% in Nepal. India by contrast enjoys the best position in the region in terms of a relatively diversified export structure with its top ten commodity groups accounting for only 43% of exports. However, the same report states that the composition of exports in different SAARC member countries has undergone

significant changes in the recent past. An encouraging feature is that their manufacturing output has been steadily increasing.

Appendix 14 shows the GDP breakdown by sectors. As has been mentioned previously, all countries of SAARC are agrarian economies. We see however that services comprised of 48.4% of India's GDP in 2001, up from 39.9 % in 1985. This is due to the reason that India has a huge, educated labor base and it is a market for outsourcing of services by big multinationals. The share of agriculture has come down from 33.7% to 25.1 For India in 2001. In the case of Bangladesh as well we see that the share of agriculture has come down while that of the services sector has increased. This can be attributed to the government's policy of focusing more on the services sector and also to the large educated labor base of Bangladesh. On the other hand we see that Nepal remains a primarily agrarian economy with 40.3% of its GDP coming from agriculture. In the cases of Sri Lanka and Maldives as well their share of the services sector is more and has increased from their previous values, largely due to the efforts of the government.

South Asia is a very big region however it has not been able to attract a huge amount of foreign investment over the years. According to Appendix 15, of the share of total FDI or foreign direct investment for Asia Bangladesh has a meager 0.08 % from 1991 to 2001 while the share in FDI has been phenomenal for China. The only country among SAARC which has been able to attract some decent amount of FDI has been India whose FDI from 1991 to 2001 is valued at 2.07 %. But this figure is dismally low for a country of the size of India if we compare it with Singapore and Hong Kong whose FDI flows have been 11.82% and 16.87 % which shows that India has been under performing. The major reason for India's bad performance and that of other SAARC countries as well is that these countries lack proper infrastructure, and the skills of their employees are lower as compared to Singapore and Hong Kong. Furthermore for a large time India had been a closed economy and only as recently as 1995 has India focused more on attracting outside investment. Also the political and economic conditions in many SAARC countries like Pakistan, Nepal and the language barrier in these countries has prevented

much foreign investment from entering their country. One reason for the building of SAARC and SAFTA has been to attract more foreign investment to the region.

Another reason for the lower investment to SAARC countries in comparison to other countries of Asia has been the lower manufacturing value added of these countries. Manufacturing value added is defined as the value that is added to a product when it is manufactured. If we look at Appendix 16 we see that the ASEAN countries generally are much better at manufacturing value added than the SAARC countries. For Instance Singapore has a \$ 5,461 manufacturing value added per capita in 1007 compared with only \$ 49 for Maldives or \$134 for Sri Lanka. This is by far a huge difference and can be attributed to the fact that the manufacturing that occurs in the SAARC regions is simple in nature and often involves primary products thus lesser value is added at each step as compared to ASEAN which is involved in the manufacturing of highly technical industrial goods and services where more value is added at each step. The export basket for most of the SAARC member states is composed of primary goods (agriculture and allied products) or low-tech labour-intensive manufactures (textiles, garments, clothing, etc). Their exports are in bulk, which means that the component of value-added at the country level is low and hence restricts the export base since the larger and more lucrative value-added market is not available to South Asian countries. Typically, other countries tend to take advantage of this market. Likewise their imports are either intermediate goods (resource/raw material-based) like petroleum and chemicals, or capital goods (machinery/equipment-based).

We will now be comparing the performance of SAARC with another trade bloc which is the European Union (EU). Optimists in South Asia want to see SAARC developing into a monetary union like EU. If we look at Appendix 17 we see that the population of South Asia is 1,418.10 million while that of 307.45 million in 2005. While the total GNI of European Union is \$ 8495.01 Billion that of South Asia is very low at \$ 854.86 Billion, although if we consider the percentage of world population living in South Asia it is 22.45 % compared with only 4.85% in EU .One reason for SAARc not being able to match the EU is Lack of adequate financial resources is considered to be one of the major

constraints in building the industrial and semi-industrial base of already strained economy. The unavailability of enough funding has to some extent adversely affected in making technical committees and regional resource centers of the SAARC more effective which could have otherwise helped to develop the manufacturing and industrial base in the region. Also political and economic differences have prevented SAARC from matching the EU. Also most of the SAARC countries continue to remain primarily agricultural in nature and depend upon the developed world for their exports and imports of both manufactured as well as semi-manufactured products. The resources of the governments in SAARC countries are almost perpetually under severe strain in view of the ever –increasing need for social amenities for the expanding populace. This also cuts into the funds originally allocated to various developmental projects.

The acute similarity of resource endowments (including the quality and capabilities of human capital) as well as non-convertibility of the currencies of the region has historically rendered regional trades unattractive.

This clearly shows that it will take quite an extra ordinary effort on part of South Asia to even dream of becoming like the European Union.

4.2.1 INDIA- Pakistan Trade in context of SAARC

India and Pakistan are the two largest countries in South Asia and form an integral part of SAARC. It is therefore important to analyze the performance of SAARC in light of the performance of these two countries.

At the time of independence more than 50% of Pakistan's exports and 30% of its imports were accounted for by India. However relations between the two neighbors have been far from cordial since. Pakistan wants a solution to the disputed territory of Kashmir. In fact Kashmir has been the reason for the slow progress of SAARC. Pakistan and India have fought three wars with each other. Apart from that Siachen issue is also a cause of Debate among these two nations. India on the other hand accuses Pakistan of supporting militancy in Kashmir. These political reasons have led to SAARC not achieving its objectives and also India- Pakistan Trade lagging behind its true potential.

If we see Pakistan's balance of trade with India from Appendix 18 we can clearly notice that the balance of trade is in the favor of India. In 200-2001 Imports from India totaled \$238.33 million while exports to India were \$55.41 million thus resulting in a balance of minus \$ 182.92 million. The only time when Pakistan had a positive balance of trade with India was in 1998-1999 when its balance of trade was \$ 28.81 million. This negative balance of trade is one of the reasons for the slow progress of SAARC as all countries feel that free trade would result in a total dominance of trade by India.

Appendix 19 shows the major items of exports to India by Pakistan. These include vegetables and fruits, textile yarn, rice, sugar cane etc. Most of these products are agrarian and primary products. That is one of the reasons for its low balance of trade with India.

Appendix 20 graphically represents India's trade with Pakistan. As can be clearly seen from the graph India's exports have generally remained higher than its imports, due to its larger size, lower cost of production and wider industrial base. However the level of trade with Pakistan is below that of India with other SAARC countries. Exports to Pakistan constitute a very small proportion of the overall exports and this holds true for Pakistani exports to India as well, namely, a mere 1%. It is also much lower than India's trade figures with other countries in the SAARC region. With Bangladesh total trade is almost US\$ 1 billion, with Sri Lanka it was close to US\$ 1 billion in 2002, with Nepal it is around US\$ 600 million. The level of trade with Pakistan is clearly not natural, since Pakistan's economy is larger. With the advent of SAFTA this pattern is likely to increase although Pakistan has prepared a list of sensitive items on which tariff will not be reduced. Pakistan fears that if free trade were to prevail some of its industries like automobile would be wiped away , that is the reason why Pakistan is not willing to give MFN status to India. The growing political strife and bureaucratic obstacles indicates that 'non-tariff barriers in the form of political disputes, bureaucratic delays and interference by the intelligence agencies have been obstructing trade between India and Pakistan. There are growing concern that regionalism in South Asia might end up as Pandora's box if concerned efforts are not made beyond the turmoil of political exigencies. If relations

are improved it could be advantageous for both sides. Pakistan imports iron ore from Liberia in Africa that can be obtained from India. Electric arc furnaces located in north India import steel- making scrap from all over the world as raw material -- such scrap can be easily sourced from Pakistan. India produces long-staple cotton whereas it does not have adequate supplies of medium- and short-staple cotton that is grown in Pakistan."⁶

Appendix 21 shows India's trade with the SAARC region. Again it is apparent that India clearly dominates the trade much to the fear of its SAARC neighbors. In 2002 India had exports to SAARC of \$ 2.8 billion, while its imports were \$.55 billion. This trend in favor of India has been going on since 1992 as is evidenced from the graph. To a response to the SAARC member countries India says that after SAFTA it would not dominate the trade and free trade would be beneficial to all the SAARC member countries, although this remains to be seen. India quotes the example of its free trade agreement with Sri Lanka which has greatly benefited Sri Lanka and not just India. This scenario does not the benefits to smaller countries such as, for example, Sri Lanka gaining from increased investments in the rubber-tyre manufacturing sector or a new tea blending segment emerging in Sri Lanka to the detriment of Dubai, or India's further investments in hydro-electric projects in Bhutan and Nepal with buy-back arrangements.

Appendix 22 shows the trade of Pakistan with India from Pakistani perspective. It paints a grim picture for Pakistan, except for 1992 and 1998 Pakistan's imports from India have been higher than its exports to India. In 2001 its imports from India were \$245 million while its exports were only \$ 55 million. This does not include the informal trade between the two countries which takes total trade to the tune of \$ 2 billion per annum through traditional sources like cross border smuggling and personal baggage. One of the reasons for low exports to India has been high MFN tariffs applied by India. India on its part says that these tariffs are equal to what it has for EU and other countries. India says that Pakistan could also enhance its exports to India in the field of processed foods, medical equipment and consumer goods if quality and competitiveness is maintained.

⁶ IPS NEWS 2005, "India – Pakistan Trade in context of SAARC" [Online]
<http://www.ipsnews.net/news.asp?idnews=31780>

Free flow of consumer goods between Pakistan and India, analysts say, could be slightly negative for Pakistan in the short run, but over the long haul, it definitely is a win-win situation for both. Analysts say that Pakistan has strong gas reserves and a telecom infrastructure which is one of the best in the region. If the country can exploit the two advantageously, it could earn market share in the neighboring country as well, the same is true for India with respect to its cement producing capabilities.

Appendix 23 shows Pakistan's trade with the region, this has generally been good however it has shown a decreasing trend in 2001 and 2002. In 2001 Pakistan had a negative balance of trade with the SAARC countries. This can be attributed to the rising manufacturing costs in Pakistan. The power rates in Pakistan are among the highest in the region. After SAFTA Pakistan has reduced tariffs on import of 4,872 products from Sri Lanka, Bangladesh, Bhutan, Nepal and Maldives. However, these concessions would be available to India only on items to be incorporated in "positive list". Pakistan currently trades with India with a 'positive list' of 773 items and would give tariff concessions under SAFTA to only those items.

Pakistan, which has ratified SAFTA treaty, has said it would apply SAFTA provisions to all other countries except India. In the case of India, it has been maintaining that full-fledged trade even under SAFTA would not be permitted until political disputes like Kashmir are resolved.

India has already said SAFTA would be meaningless if Pakistan continued to trade with positive list instead of a negative list.

Appendix 24 and Appendix 25 analyze the trade performance of India in terms of its major trading partners. In terms of exports its biggest trading partner is the United States to whom its exports are \$9351.2 million in 200-2001 but having decreased to \$8513.38 in 2001-2002. Other importing countries of Indian products include Hong Kong, UK, Japan, Germany etc not to mention the SAARC country Bangladesh. An interesting trend to note is that all its exports top countries outside Asia have decreased from 200-2001 to 2001-2002 while that to Bangladesh and Malaysia has increased. This shows that India is now focusing more on the Asian market.

In terms of Imports India's biggest imports have been again from the USA. Its imports from USA have shown an increasing trend and are valued at \$ 3149.63 million in 2002. Other exporting countries include Belgium, Japan, UK, Switzerland. An interesting point to note is that there is no SAARC country present in the list of the highest exporting countries to India which clearly shows that India does not rely on SAARC countries too much for its imports.

If we have a look at Pakistan's exporting partners in Appendix 26 we see that USA again is the biggest importer of Pakistani products and imports to USA have actually increased from 200-2001 to 2001-2002. In 2000-2001 the imports were \$ 2240.6 Million which increased to \$2257.5 Million in 2001-2002. Other countries which import Pakistani products include Dubai, UK, Hong Kong, Germany although the monetary value of these exports are very low as compare to that of India. We also notice here that there is no South Asian country in the list of major importing countries of Pakistani products which goes to show that Pakistan is not fully reaping the benefits of intra regional trade. The grand total of exports from Pakistan are valued at \$ 9123.7 Million in 2001- 2002 and the value for Indian exports is \$43826.93 Million for the same period which is a huge difference and can be attributed to India's size and economic policies.

Appendix 27 shows sources of imports from Pakistan. The major countries include Kingdom of Saudi Arabia, Kuwait, Dubai, Japan. We notice here that the biggest exporting countries to Pakistan which are KSDA and Kuwait and oil producing countries which goes to show how much Pakistan is dependant on the supply of external petroleum products. The total imports for Pakistan are valued at \$10339.5 million in 2002 which is an increase from its 2001 value.

If we compare this scenario with that of Bangladesh shown in Appendix 28 we see that for exports Bangladesh like Pakistan and India is reliant on USA, Germany, France, Italy meaning non SAARC countries but in terms of its imports it is reliant on a SAARC country which is India. Imports from India totaled \$ 1065 million in 2002 from a total imports bill of \$ 7968 Million for Bangladesh. This shows that Bangladesh is reliant on

SAARC for its importing needs to a great extent. A major reason why intra-regional trade has failed to flourish is because, as mentioned, the bulk of the SAARC countries' exports are directed towards the industrialized countries. The portion of exports going to the developed world ranges from 55.1% in the case of India to Nepal's 86% in 1996.

If relations between India and Pakistan were to improve it would lead to the betterment of the people of the two nations. The corporate sector, notably the listed companies on the country's three stock exchanges could benefit in more than one ways after the normalization of relations with India. An example of this is the pharmaceutical and consumer goods sector , in which multinationals are active players in both the countries, "Drugs are low priced in India, but would it suit those multinationals, who are manufacturing and selling same drugs at different prices in both countries to equalize prices? If they do, perhaps, they would want to close down all production in high-cost country and instead only package and sell fully-manufactured product there. But over the long term, analysts say, excess of supply of all consumer products on both sides, would reduce prices and as economic theory says, it could go to boost demand.

"The cross-border listing could well be an efficient tool to expand the exposure of the local equities on the international platform eventually leading to a bigger client base", hopes a leading stock analyst at the W.E. Financial Services.

If trade between the states was opened, Pakistan would receive cheaper imports due to lower transport costs and the absence of payments to a middleman. Pakistan would benefit from a 1 billion population market in India and likewise India would have access to a 16 crore market. Investments would be needed in communications and infrastructure which will spur an economic movement in the country. This implies that there is potential for lucrative trade between India and Pakistan. Moreover, if these two states, arguably the largest powers in SAARC, pushed for economic cooperation, it is likely that other states will follow their lead.

4.2.2 Future of SAFTA

We have had a lot at India- Pakistan trade in reference to SAARC and SAFTA. Now we will have a look at the future of SAFTA. After the Islamabad summit of 2004, SAFTA was decided upon and was officially launched on 1st January 2006.⁷ It creates a framework for the creation of a free trade zone covering 1.4 billion people in India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and the Maldives and recently *Afghanistan*. Currently, Rules of Origin, Technical Assistance as well as a Mechanism for Compensation of Revenue Loss for Least Developed Member States are under negotiation.

If we look at Appendix 29 we will come across a table which states tariff reductions proposed under SAFTA. The countries of SAARC have been divided into least developed contracting States and Non least developed contracting states. The least developed contracting States include Bangladesh, Bhutan, Maldives and Nepal while the non least developed states include India, Pakistan and Sri Lanka. According to the table in the first phase India, Pakistan and Sri Lanka will reduce their tariff rate to 20 % in a time frame of two years, while the least developed countries will reduce their tariff rate to 30 % in a period of two years. In the second phase India, Pakistan and Sri Lanka will reduce their tariffs to 0 to 5% over a time frame of 2 years, while the least developed nations will reduce their tariffs to 0 to 5 % over a three year period for primary products and over a 5 year period for other products. This is what had been proposed in 2003. However in reality SAFTA Developed Countries (DCs) will reduce customs duties to 0-5 per cent by 2013 and LDCs will do it by 2018. In addition, DCs will have an early harvest programme (by 2009) of duty reduction for imports from LDCs.⁸ Each member state has been allowed to prepare and maintain a list of sensitive products for which tariffs will not be reduced. In the framework treaty, it has been agreed that all the seven member states can maintain two Sensitive List of Products, in which tariff will not be reduced – one for developing countries and another for LDCs.

Safta also provides for simplification and harmonization of standards, customs clearance, import licensing, import financing by banks, transit facilities especially for landlocked countries, promoting intra-Saarc investments, development of communications and

⁸ Rediff India 2006, “What lies ahead for SAFTA? [Online]
<http://in.rediff.com/money/2006/jan/04safta.htm>

transport, and speedy grant of business visas. As things stand, Safta is restricted to trade in manufactures, with further caveats arising from sensitive lists (India has 884 items for DCs, and 765 for LDCs) and rules of origin requirements (changes in tariff heading at 4-digit level, and value addition of 40 per cent for DCs, and 30 per cent for LDCs). One of the benefits of SAFTA will be that the 'premium' (products unique to the region) categories, for instance, stand to gain so that more of Darjeeling Tea, Sri Lankan blend, Nepali carpets, high-quality Pakistani cotton, Bhutani handicrafts and Maldivian tuna may well make their way into each others' market. One pitfall of SAFTA is that it overlooks the highly lucrative services sector and only concentrates on manufactures. These include sectors like tourism and hospitality (Nepal, Maldives, Sri Lanka), retailing of electricity (with Pakistan's surplus power, Nepal and Bhutan's hydel-power capacities), transmission/distribution of gas (Bangladesh), and health services (India), and so on and a host of other services which make up one-third (and growing) of Nepal's Gross Domestic Product (GDP) and close to 50 percent (and above) of that of the other SAARC member states. If SAFTA were to succeed then besides the short distance there would be lesser freight cost which will ensure quick deliveries and short inventories. The member states will have no language barrier and would be abreast with each others trade practices and fashion needs. All this will result in complementing each others economy. The problems under Safta however are also enormous. Bangladesh was concerned that Indian exports have swamped its market with made-in-India stuff after facilitation of trade between the two countries, whereas its own exports to India were extremely low. Same problems were being faced by other countries. Some of them complain about tardy customs procedures, currency problems and para-tariffs, and few talks about unofficial quota restrictions. In case of Pakistan, restrictions against textile imports in India in the shape of duties and procedures were also a major worry. Unless these problems are solved at the quickest progress will be slow.

In order for SAFTA to succeed the political differences like the issue of Kashmir has to be solved. Today two strong rivals of Europe, Germany and France, are representing a single bloc with complete understanding. China has recently signed non-aggression treaty with the member of Southeast Asian countries, which consists of Philippines and Vietnam - both the countries are claiming their rights to the Spratley Islands. We can

learn from these examples. Intra SAFTA trade will help more now due to increase in the prices of oil, which means that higher import prices will have to be incurred by all. By trading regionally the transportation cost will be cut significantly. Also FDI will be easier to get if SAFTA is implemented properly.

One concern however that needs to be addressed is that of India's likely dominance over SAFTA. India needs to reassure its partners in writing that it will not harm their interests.

CHAPTER 5: Conclusion & Recommendations

5.1 Conclusion

This thesis basically deals with the formation of and performance of trade blocs. The particular point on emphasis is SAARC or SAFTA as it has been known recently.

South Asia occupies a distinct position in the World. Taken together all the SAARC countries have a population of 1.5 billion, which constitutes 22% of the total world population. However, the region's aggregate GDP, at about 932 billion dollars, unfortunately is less than 2% of the world's GDP. Due to political and economic reasons SAARC has not been able to fulfill its potential. Intra-Saarc trade, at present, is a tiny 3.8 per cent of the region's total trade.⁹

In conclusion I would like to state that SAARC holds tremendous potential for growth and success, with the recent formation of SAFTA things are looking good for the region, however there are a few problems which need to be overcome before SAFTA can move ahead firmly. First is to solve political issues. India and Pakistan are head locked over Kashmir, that problem needs to be solved at the earliest, as Pakistan says that there can be little progress on SAFTA if this problem is not resolved. Apart from that there are economic issues as well. Issues like smuggling, custom duties, tariffs, visa restrictions which limit the potential of SAFTA. If relations between the two neighbors were to improve it would lead to a formalization of the informal trade of about \$3 billion, and the exchange of surplus industrial productions where one of the trading partners is deficient on barter basis could open a new vista of two-way trade between the close neighbors.

All the South Asian countries were once under British colonial rule. This accounts for the homogeneous production structures that they possess, and for some of the other constraints on their economies. These include infrastructures that have been constructed to serve the centre as it existed at the time of colonial rule; the inability to finance imports through exports; the competitive and non-complementary nature of their economies; old historical trade links; the inadequate quality of goods that can be imported from within the region; and the absence of credit facilities. Structural constraints are manifested in

⁹ DAWN online 2006, "SAFTA the way forward?" [Online]
<http://www.dawn.com/2004/01/19/ebr8.htm>

low export supply capabilities, lack of investible resources due to low savings and technological backwardness. These issues also need to be resolved at the earliest.

Another issue is that of trust. In order to prosper the countries of South Asia need to trust each other, and they should be willing to give others a chance. India may gain in the short terms from free trade but in the long run all countries will benefit.

According to a recent World Bank report, "South Asia's Integration into the Global Economy," predicts South Asia will have "the world's fastest growth in exports" by 2028. So there is a lot of scope for optimism, and if the countries are able to resolve their differences they can all gain from trade as there will be lower transportation costs and as there are less language barriers progress can be achieved.

All in all I feel that SAFTA although is not performing up to the mark but if problems in its way can be countered by the member states there is no reason why SAFTA cannot truly become a free trade area resulting in lower cost , high quality products for all and better negotiating power with respect to other countries of the world, which will also help in us getting more foreign investment and thus improving the lives of the 1.4 billion pole of the SAARC region.

5.2 Recommendations

We have seen the huge success of trade blocs such as the European Union and Asean. According to the Sachs and Warner (1995) study, it is a myth that economies can grow faster under the shield of protectionism. As per the study, developing countries with open economies grew by an average of 4.5 percent per year in the 1970s and 1980s while those with closed economies grew by only 0.7 percent. Protectionism breeds inefficiency, creates massive rents, taxes consumers to death, results in gross misallocation of resources and promotes mal-governance.¹⁰

We feel that SAARC or Safta also has the potential to succeed and in the process improving the lives of many people residing in the south Asian region. The South Asian region is blessed with exceptional diversities of natural and human resources.

Here are a few recommendations for improving the condition of SAFTA:

1. In order to improve the condition of unequal infrastructure levels of the least developed members within European Union there is the European Regional Development Fund which is meant to redress regional imbalances of the least prosperous regions within the EU. A similar sort of development fund should also be there in the case of SAFTA.
2. Another issue is that of Import financing. The SAARC member countries finance imports and deficits through external assistance. They have a very limited ability to finance imports through export earnings. Because of this dependence these borrowing countries surrender their independence of choice in where to import commodities from. This feature of the SAARC member countries' economic profile is also a major obstacle to the expansion of intra-regional trade. This financing should be done through internal assistance by having banks which provide these loans. To reduce dependence on external financial aid, clearing and payments arrangements and the promotion of mutually advantageous counter trade would be required. However, the common currency that such a process would need, demands strict fiscal controls and extensive monetary cooperation,

¹⁰ Sawtee 2005, "Blocs or reality?"[Online]
<http://www.sawtee.org/uploads/articles/tariff09jan04.php>

which the region is still far from having. Also the South Asian Development Fund (SADF) set up in 1996 needs to be made more active.

3. Another major issue is that of the relations between the two major powers of SAARC which are India and Pakistan. Both countries need to resolve their political differences at the earliest specially the Kashmir conflict. They both need to initiate more confidence-building measures (CBMs) to replace the antagonism and mistrust of the past with bilateral cooperation and trust in the future. Pakistan has announced tariff reductions on over 4800 import goods from SAARC countries under the new South Asian Free Trade regime but only selected items from India, which are under "positive list", would be considered for such concessions. This means that Pakistan needs to have more trust when it comes to trading with India and therefore needs to increase the number of positive list items.

This will result in benefits in two forms. Firstly an environment of trust will be created and trade between the two neighbor countries can increase. Secondly the resources that these two countries devote to defense could be curtailed.

4. India is the largest country in the region with its population being 73% of the population in the region and its economy constitution approximately 70% of the region's aggregate GDP. Thus the trading policies followed by India will have the most discernible impact on the regional trading patterns, so India needs to adopt fair trading practices like the reduction in tariff for Pakistani goods and also for other countries.

Experts suggest that India can assist most of the other SAARC members in their development efforts by virtue of its diversified industrial base and relatively skilled manpower.

5. Another problem which needs to be resolved is the attention given to the services sector. Services by and large are not as dependent on heavy infrastructure as manufacturing is. The further advantage of focusing on services is that they are largely more non-competing in nature as between countries. Hence lifting of barriers to their trade may spur the engine of 'regional growth' as opposed to the possibility of uneven

development arising from imbalances in the trade in goods. The actual FDI inflows to the SAARC member states have been in energy, telecom, health, banking and tourism—which make the arguments for removing barriers to trade in services even more urgent.

6. Trade promotion in SAARC countries critically calls for reducing tariffs, dismantling non-tariff barriers and impediments of an institutional and attitudinal nature affecting exports from smaller to larger SAARC countries. The high nominal tariffs on a variety of non-tariff barriers such as quantitative restrictions, fiscal charges and discriminatory practices and outright ban on imports has to be avoided among SAARC members. If these steps are taken than smuggling can be curbed and the huge illegal trade between the member countries can be channelised.

7. The issues of “rules of origin”, Trade Remedy Measures (anti-dumping duty, countervailing duty, safeguards etc)and sensitive lists need to be tacked very soon as well. Currently, the Sensitive Lists of products, Rules of Origin, Technical Assistance as well as a Mechanism for Compensation of Revenue Loss for Least Developed Member States are under negotiation, and these need to be resolved at the earliest.

8. Another area that needs due attention is that of bilateral trade between the member countries. Trade between India and Sri Lanka and India and Nepal is on the rise. In order for SAFTA to prosper countries will need to look beyond their individual self interests and look towards the interests of the whole region. It is therefore necessary that an environment of trust is created and rules and procedures are simplified so that progress may occur.

9. The acute similarity of resource endowments (including the quality and capabilities of human capital) as well as non-convertibility of the currencies of the region has historically rendered regional trades unattractive. The SAARC economies export to and import from the exact same countries, and trade in the exact same commodities. Therefore the need now is to expand the trade base and areas like custom duties, tariffs etc should be rationalized so as to improve trade.

10. Another issue is that of the granting of “Observer Status” to certain countries like the United States, China, South Korea and the European Union. If the observer Status is granted to these countries it will only help in intensifying the economic ties between SAARC countries and these countries.

11. In order for the intra SAARC trade to prosper removal of barriers to intra-SAARC investments is necessary. Also transit facilities need to be improved and transit procedures simplified for efficient intra-SAARC trade.

12. SAFTA suggests a fund to compensate for the loss of custom revenues arising from a loss of reductions in tariffs however this fund has not come into existence as yet and also there are no provisions for correcting the regional imbalances that are there. There should be a fund for this purpose as well.

13. Also, SAARC must deal with the world’s major trading blocks as a composite unit in order to maximize the gains of trade for both sides.

14. There should be clauses to protect countries if massive imbalances in trade occur. There is already a Sensitive list which means that goods on this list will not be imported. If there is a disadvantageous exchange in goods not on the ‘negative list’ or sensitive list , the affected country should be able to lean on a clause against ‘import surge’ and ban imports in that good alone, so that no massive imbalance occurs.

15. An efficient and better communication net work, among SAARC partners, is needed so that trade may occur smoothly. For this long terms investment on part of the governments of the SAARC countries is needed, which can give information in terms of export potentials, import needs, domestic economic policies, tariff and non-tariff barriers, infrastructural facilities, demand and supply situation and investment opportunities.

16. Another problem is that a lot of the items on which concessions are offered are not significant in trade terms. This observation is proved by the following: in 1993-94 India imported only 22 of the 106 items offered for concessions, even now after SAFTA many

of the key products are on the sensitive list of countries which limits their trade. So countries should become more willing to trade in goods of importance to their economy as in the long terms they will eventually benefit from the trade.

Appendices

Appendix # 1

Exports within Blocs¹

\$ millions	1970	1980	1985	1990	1995	1996	1997	1998
High-income and low- and middle-income economies								
APEC	57,612	357,697	494,464	901,590	1,689,780	1,754,745	1,869,563	1,736,868
European Union	76,451	456,857	419,134	981,260	1,259,699	1,273,431	1,042,610	1,076,512
NAFTA	22,078	102,218	143,191	226,273	394,472	437,804	496,423	521,649
Latin America and the Caribbean								
Andean Group	97	1,161	768	1,312	4,751	4,806	5,102	5,075
CACM	287	1,174	544	671	1,499	1,676	1,835	2,059
CARICOM	52	577	415	449	305	909	978	1,015
LAIA	1,263	10,981	7,139	12,331	34,513	38,532	44,725	42,941
MERCOSUR	451	3,424	1,953	4,127	14,199	17,075	20,772	20,352
OECS	..	4	10	30	38	32	35	34
Africa								
CEMAC	22	75	84	139	120	164	161	179
CEPGL	3	2	9	7	8	9	6	8
COMESA	412	616	466	963	1,184	1,582	1,486	1,516
ECCAS	37	89	131	163	156	212	211	239
ECOWAS	86	692	1,026	1,533	2,015	2,338	2,358	2,461
MRU	1	7	4	0	2	5	7	8
SADC	76	96	294	930	3,744	4,137	4,163	4,540
UEMOA	52	460	397	614	548	649	680	719
Middle East and Asia								
ASEAN	1,360	12,238	13,423	27,196	77,910	82,543	83,735	67,756
Bangkok Agreement	132	1,464	1,953	4,476	12,070	13,128	13,639	13,243
ECO	31	392	2,447	1,243	4,746	4,773	4,943	4,836
GCC	117	4,632	3,101	6,906	6,529	6,370	5,915	4,248
SAARC	99	664	641	863	2,024	2,147	2,007	2,858
UMA	60	109	274	958	1,124	1,142	916	740

¹World Bank 2004 “Regional Trade Blocs” [Online]
http://www.worldbank.org/data/wdi2000/pdfs/tab6_5.pdf

Appendix # 2

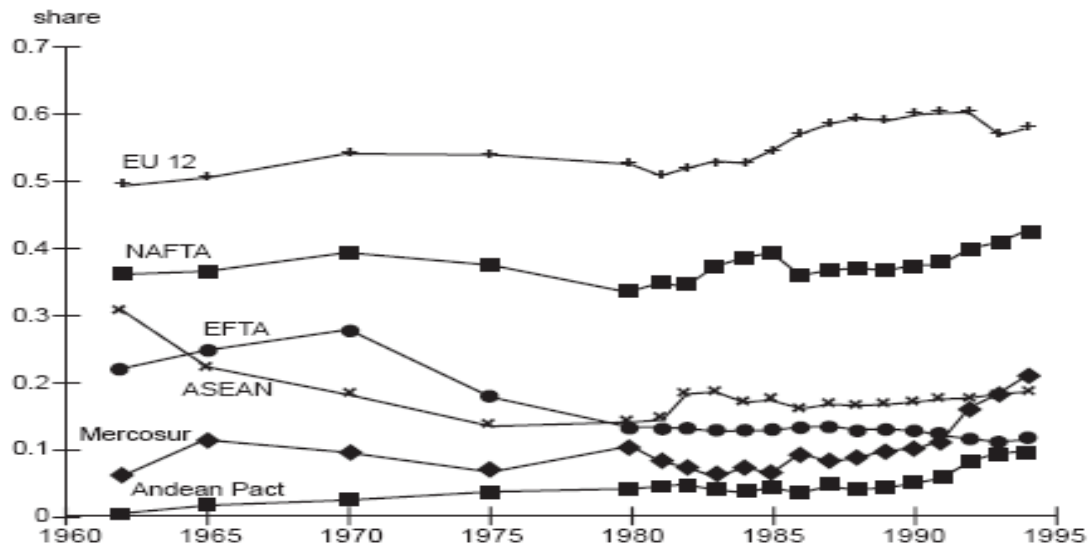
Exports within blocs expressed as percentages²

% of total exports	1970	1980	1985	1990	1995	1996	1997	1998
High-income and low- and middle-income economies								
APEC	57.9	57.9	67.7	68.5	72.0	72.1	71.8	69.7
European Union	59.5	60.8	59.2	65.9	62.4	61.4	53.8	55.2
NAFTA	36.0	33.6	43.9	41.4	46.2	47.6	49.1	51.7
Latin America and the Caribbean								
Andean Group	1.8	3.8	3.2	4.1	12.1	10.7	10.3	11.9
CACM	26.0	24.4	14.4	15.4	17.0	18.9	15.5	14.5
CARICOM	4.2	5.3	6.4	8.1	4.7	13.3	13.5	17.1
LAIA	9.9	13.7	8.3	10.9	16.8	16.6	17.2	16.7
MERCOSUR	9.4	11.6	5.5	8.9	20.3	22.7	24.8	25.1
OECS	..	9.2	6.5	8.2	11.7	9.1	9.7	10.6
Africa								
CEMAC	4.8	1.6	1.9	2.3	2.2	2.3	2.1	2.6
CEPGL	0.4	0.1	0.8	0.5	0.5	0.5	0.4	0.6
COMESA	9.1	6.1	4.7	6.6	6.6	7.9	7.6	7.7
ECCAS	2.2	1.4	1.7	1.4	1.5	1.6	1.6	2.0
ECOWAS	2.9	10.1	5.2	7.8	9.3	8.8	9.0	10.8
MRU	0.2	0.8	0.4	0.0	0.1	0.2	0.4	0.4
SADC	1.4	0.3	1.4	2.8	10.1	10.3	10.0	10.2
UEMOA	6.5	9.6	8.7	12.9	9.8	9.6	11.5	11.1
Middle East and Asia								
ASEAN	22.3	17.2	18.6	18.9	24.3	24.2	23.7	20.4
Bangkok Agreement	2.7	3.7	3.7	3.8	5.1	5.3	5.2	5.1
ECO	2.2	6.3	9.9	3.2	8.0	7.1	7.6	8.3
GCC	4.6	3.0	4.9	8.0	6.6	5.6	4.6	4.5
SAARC	3.2	5.2	4.8	3.2	4.4	4.3	4.0	5.3

² World Bank 2004 “Regional Trade Blocs” [Online]
http://www.worldbank.org/data/wdi2000/pdfs/tab6_5.pdf

Appendix 3

Formal FTA's: Intra regional Trade figures³



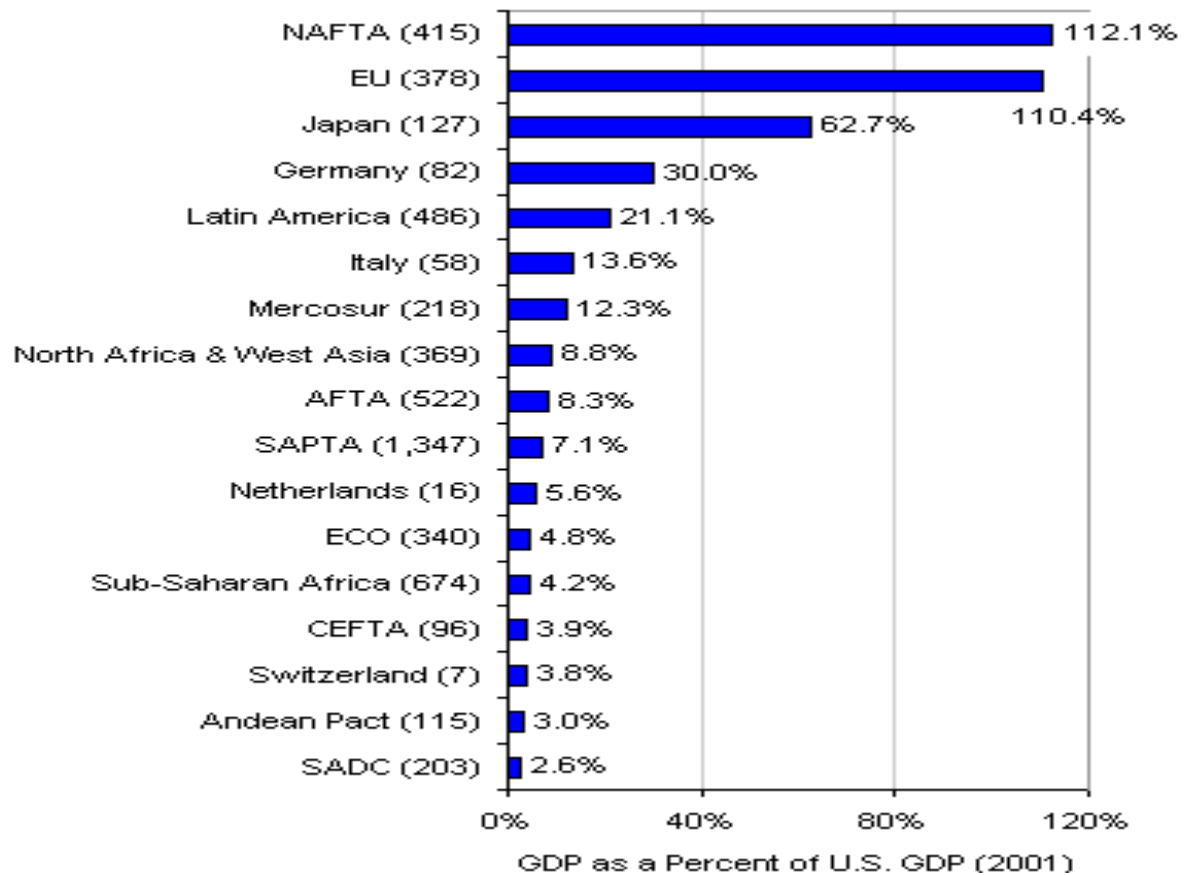
a. Includes all available countries.

Sources: Statistics Canada, World Trade Database; UN COMTRADE data base.

³ World Bank 2004 “Regional Trade Blocs” [\[Online\]](http://www.worldbank.org/data/wdi2000/pdfs/tab6_5.pdf)
http://www.worldbank.org/data/wdi2000/pdfs/tab6_5.pdf

Appendix 4:

Market Size of various Trading Blocs, Regions and Countries



⁴ Apnic 2004 “Regional Trade Blocs” [Online]
http://www.worldbank.org/data/wdi2000/pdfs/tab6_5.pdf

Findings related to SAARC

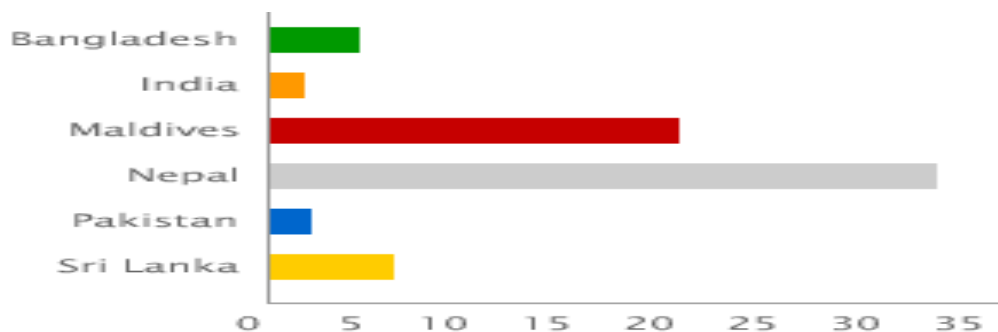
Appendix # 5⁵:

SAARC Region (7 Countries)

	1996	1999	2000
Population	1.3 bn	1.3bn	1.4bn
Population Growth Annual %	1.9%	1.9%	
Life Expectancy		62.6	
GNI Per Capita (\$)	410	440	460
GDP (Current \$)	513.7 bn	581 bn	620.3 bn
GDP Growth	6.4	5.8	
Export of Goods and Services % of GDP	12.4	13.4	13.1
Import of Goods and Services	17.2	16.9	17.0

Appendix # 6⁶

Intra SAARC trade as % of Total Trade



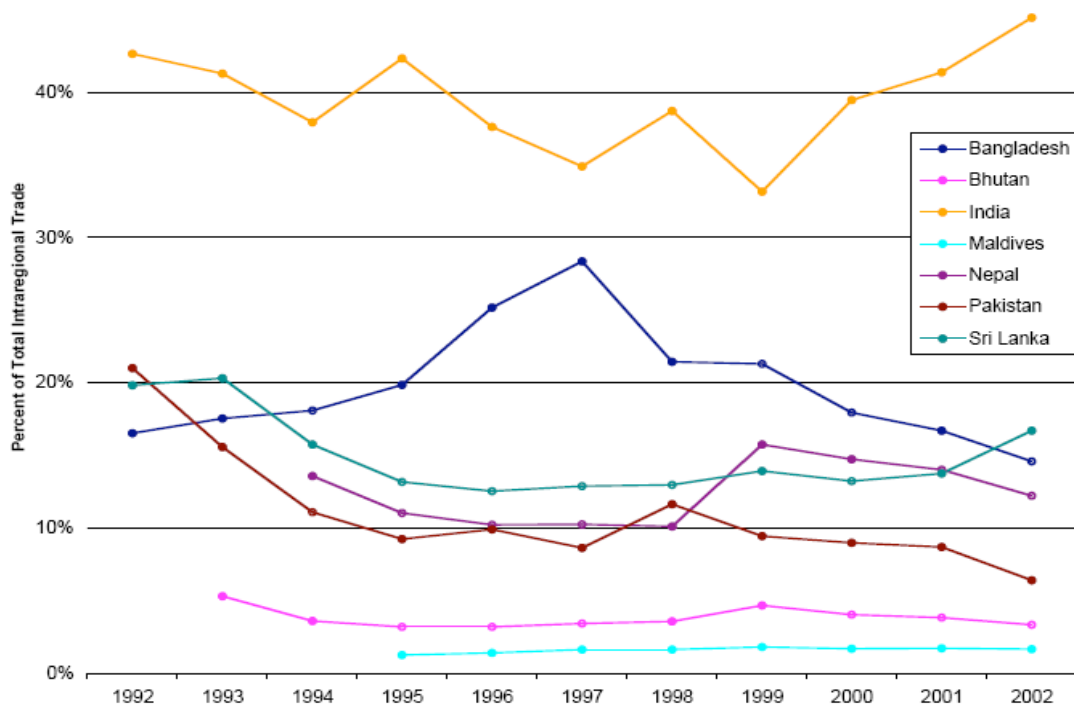
Bangladesh	7.85
India	2.47
Maldives	22.06
Nepal	34.78
Pakistan	2.68
Sri Lanka	7.38

Table 4b: Intra-SAARC Trade(as a %age of total trade)
* Rose, 1999.

⁵The Hindu 2005, “Regional Trade Agreements belie Expectations”[Online]
<http://www.hindu.com/2005/01/16/stories/2005011603451000.htm>

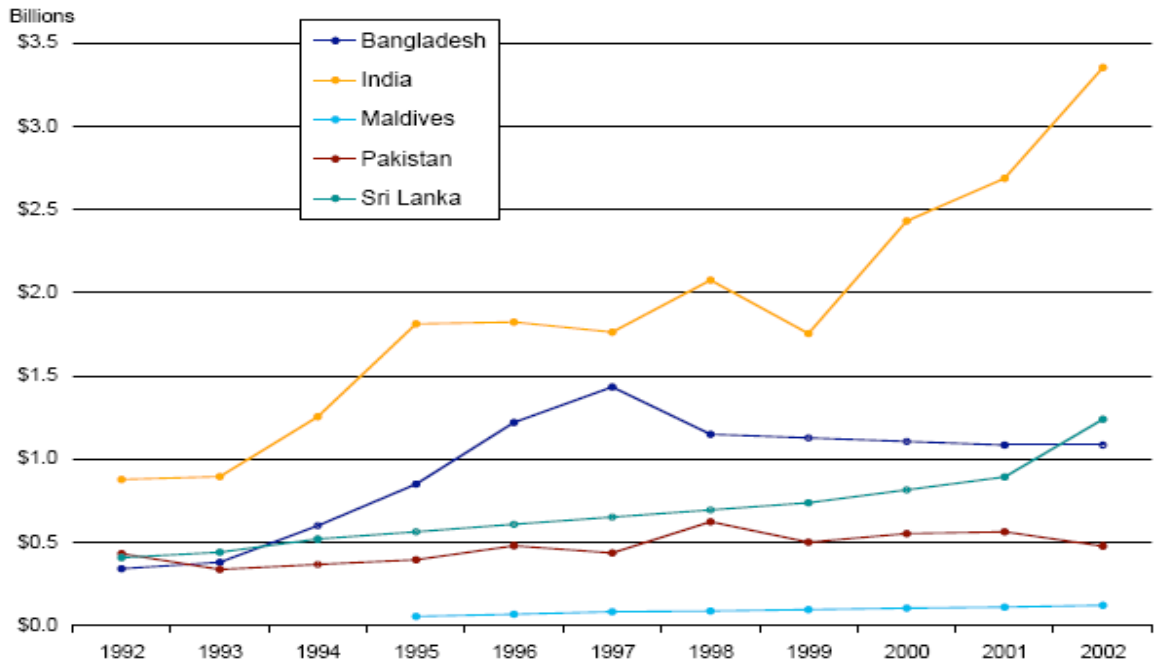
⁶ Kulkarni 2005, “ Future of Saarc in the eyes of the West” [Online]
<http://www.kurakani.tk/Article796.phtml>

Appendix # 7⁷:
Contributions to Intra-regional Trade



⁷ Lafollette 2006“ Impacts of the South Asia Free Trade Agreement” [Online]
<http://www.lafollette.wisc.edu/publications/workshops/2003-2004/pa869/2004-SAFTA.pdf>

Appendix # 8⁸
South Asia Intraregional Trade

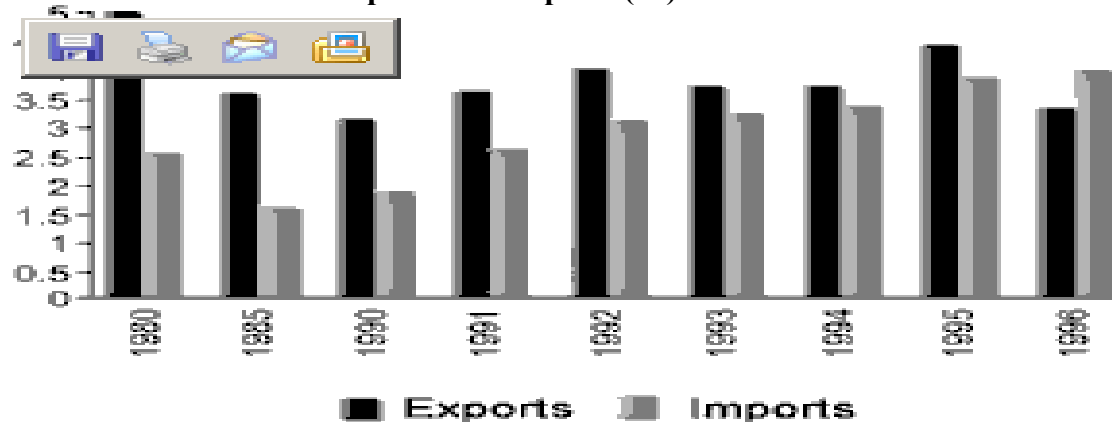


NOTE: Total trade data points are imports plus exports, in constant year 2000 dollars. Hollow points are estimations. See Appendix C for a description of estimation methods.

⁸ Lafollette 2006 “ Impacts of the South Asia Free Trade Agreement” [Online]
<http://www.lafollette.wisc.edu/publications/workshops/2003-2004/pa869/2004-SAFTA.pdf>

Appendix # 9⁹

Intra- SAARC shares in exports and Imports (%)



Appendix # 10¹⁰

Proportion of Trade in GDP of South Asian Economies

(in per cent)

Countries	1985-87	1990-92	1996-98
Bangladesh	15.81	17.22	28.44
India	11.80	16.13	20.92
Nepal	23.34	29.82	42.90
Pakistan	32.75	38.53	33.73
Sri Lanka	54.22	58.94	71.74

Appendix # 11¹¹

Export Composition

SRI LANKA	NEPAL	INDIA	PAKISTAN	MALDIVES	BHUTAN	BANGLADESH
Textiles and garments, tea, leather and footwear, diamonds and other gems, coconut products, petroleum products	Carpets, clothing, leather goods, jute goods, grain	Gems and jewellery, engineering goods, clothing, chemicals, software, cotton textiles, leather iron ore	Raw cotton and textiles; rice; leather manufactures	Fish, clothing	Cardamom, gypsum, timber, handicrafts, cement, fruit, electricity (to India) precious stones, spices	Garments and knitwear, ceramic tableware, frozen fish, jute and jute goods tea, urea fertilizer, leather and leather products

⁹ India Development Foundation 2005“ Who Gains from Trade between India and Pakistan” [Online} <http://www.idfresearch.org/pdf/IndiapakistanPaper-IDF.pdf>

¹⁰ Source: South Asia Development and Cooperation Report, 2001-2002

¹¹ South Asia Journal 2006, “ What Hinders SAARC’s cooperation”
<http://www.southasianmedia.net/Magazine/journal/hindrances.htm>

Appendix # 12¹²

Import Composition

SRI LANKA	NEPAL	INDIA	PAKISTAN	MALDIVES	BHUTAN	BANGLADESH
Cotton and textiles, machinery and equipment, food and drink, consumer durables, petroleum	Petroleum products, fertilizer, machinery	Petroleum and petroleum products, machinery, iron and steel, edible oils, chemicals, fertilizers	Petroleum; machinery and transport equipment; food	Consumer goods, Petroleum products Intermediate and Capital goods	Fuel and lubricants, grain, machinery and parts vehicles, fabrics, rice	Capital goods, foodgrains, petroleum, textiles, chemicals, vegetable oils

Appendix # 13¹³

Imports and Exports (\$ million) and percent of regional trade(%) by country and product for selected years

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

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

¹² South Asia Journal 2006, "What Hinders SAARC's cooperation"
<http://www.southasianmedia.net/Magazine/journal/hindrances.htm>

¹³ Lafollette 2006 "Impacts of the South Asia Free Trade Agreement" [Online]
<http://www.lafollette.wisc.edu/publications/workshops/2003-2004/pa869/2004-SAFTA.pdf>

Appendix # 13 (contd)

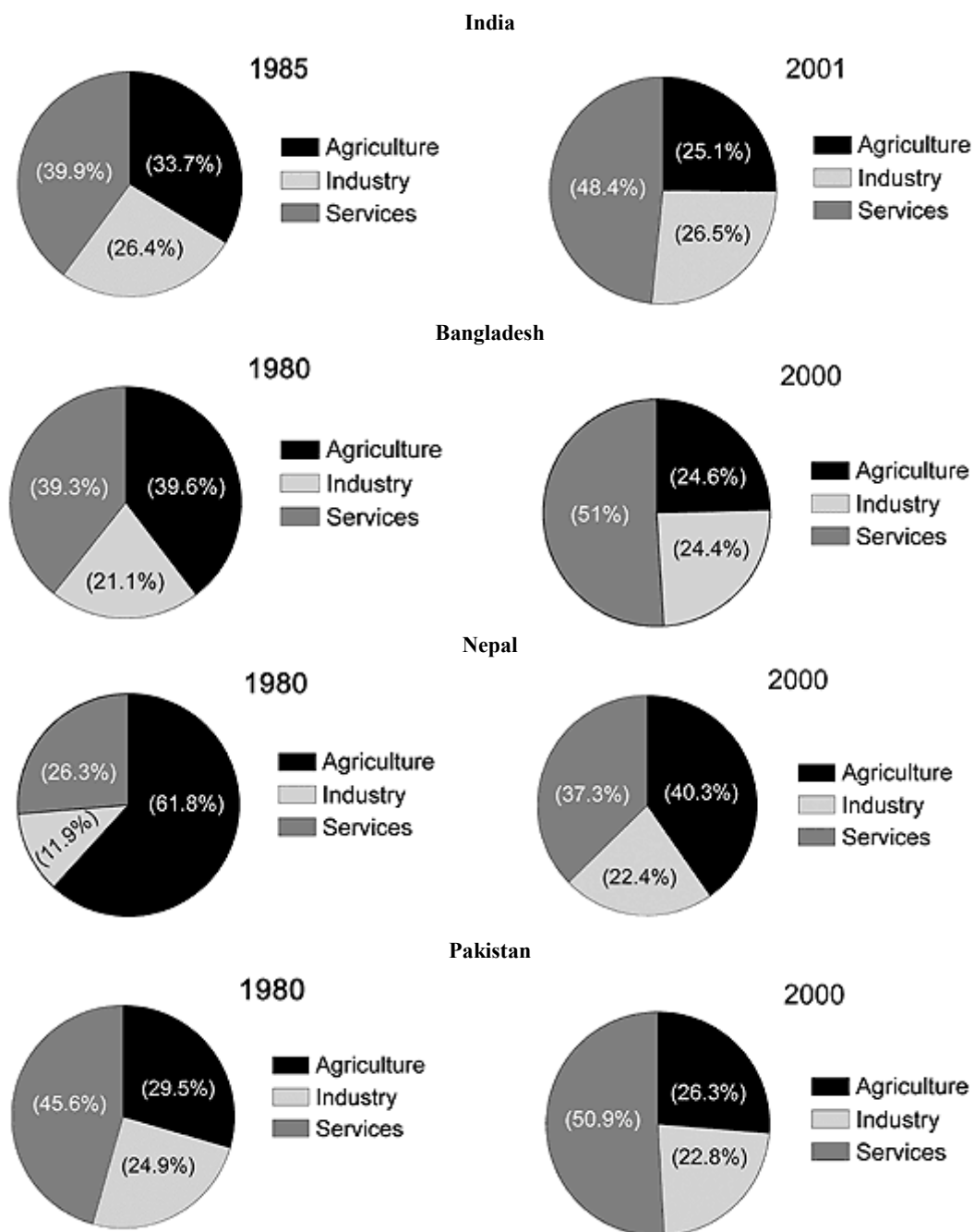
Imports and exports (\$ million) and percent of regional trade (%) by country and product for selected years

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

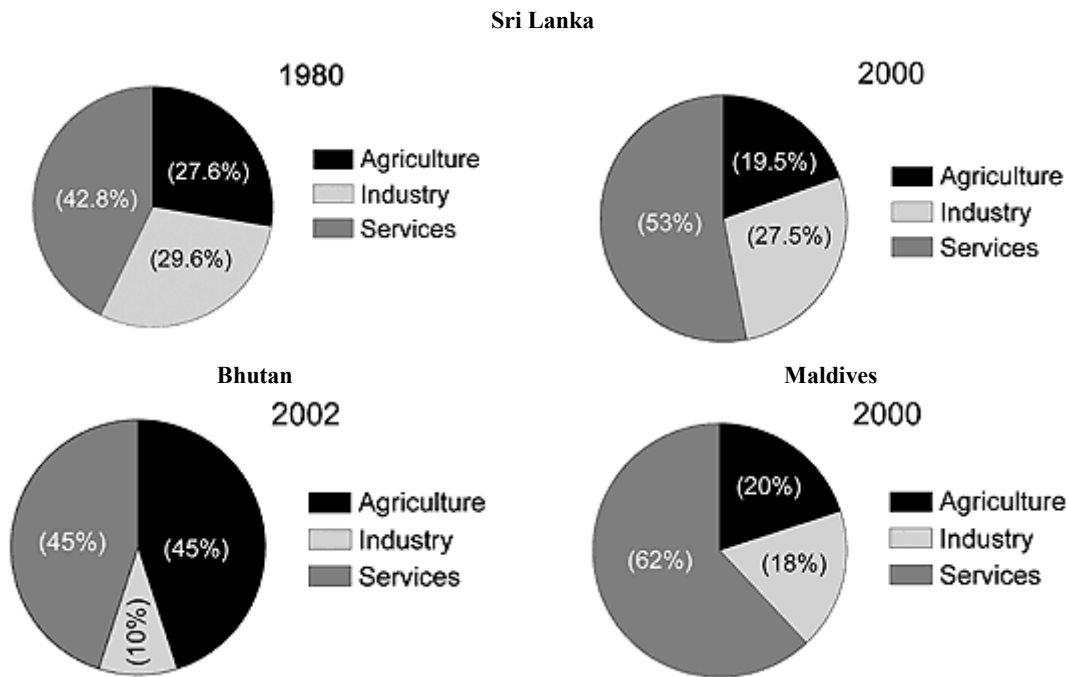
NOTE: Underlined values represent imports; values not underlined represent exports.

Appendix # 14¹⁴:

GDP Sectoral breakdown



¹⁴ Himal South Asian Journal “Such Charming Simplicity” [Online] <http://www.himalmag.com/2004/january/editorial.htm>



Appendix # 15¹⁵

Average Share of Countries in Total FDI Inflows and Total FDI stock in South, East and South East Asia: 1991 to 2001

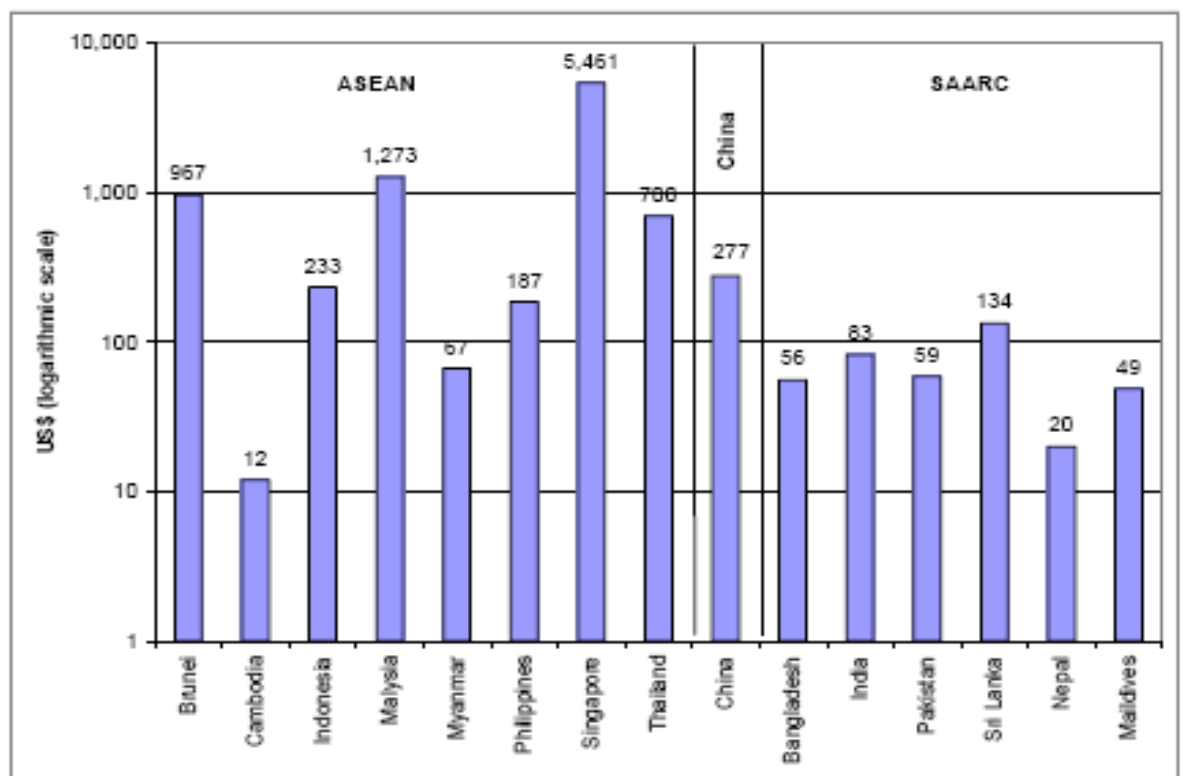
Countries	Average share in Total FDI Inflow 1991-2001	Average share in Total FDI Inward Stock 1991-2001
Bangladesh	0.08	0.05
China	40.62	15.35
China, Hong Kong	16.87	50.96
China, Taiwan	0.03	2.49
India	2.07	0.90
Indonesia	2.68	10.23
Korea	3.98	1.97
Malaysia	8.18	0.01
Nepal	0.0001	0.00
Pakistan	0.77	0.68
Philippines	1.90	1.16

¹⁵ July 2001 Himal South Asian Journal “Such Charming Simplicity” [Online] <http://www.himalmag.com/2004/january/editorial.htm> Original Source : World Development Indicators,

Singapore	11.82	8.49
Sri Lanka	0.25	0.24
Thailand	4.84	2.10
Vietnam	1.59	0.52
Others	1.32	4.84
Total South, East & South East Asia	100.00	100.00

Appendix # 16¹⁶

Manufacturing value added (MVA) in US dollars per capita, 1997



¹⁶The News Online 2006, “Saarc ,will it be able to deliver” [Online]
<http://www.jang.com.pk/thenews/feb2006-daily/05-02-2006/business/b24.htm>

Appendix # 17¹⁷

Comparison between South Asia and the European Monetary Union (World Bank 2005a)

Region	Population	Percentage World Population (%)	Total GNI (US\$ billion)	GNI Per Capita (US\$)
South Asia	1,418.10	22.35	854.86	885.70
European Monetary Union	307.45	4.85	8495.01	27840.00
World	6345.13	100	39833.56	8760.00

Appendix # 18¹⁸

Pakistan's balance of trade with India:(In million US\$)

Year	Imports	Exports	Balance
1996-97	204.70	36.23	-168.47
1997-98	154.53	90.57	-63.98
1998-99	145.85	173.66	28.81
1999-90	127.38	53.84	-73.74
2000-01	238.33	55.41	-182.92

Source: Foreign Trade Pattern of Pakistan, KCCI

¹⁷Nepal Online 2005, "Road to success" [Online]
<http://www.nepalnews.com.np/contents/englishweekly/spotlight/2004/jan/jan09/coverstory.htm>

Appendix # 19¹⁹

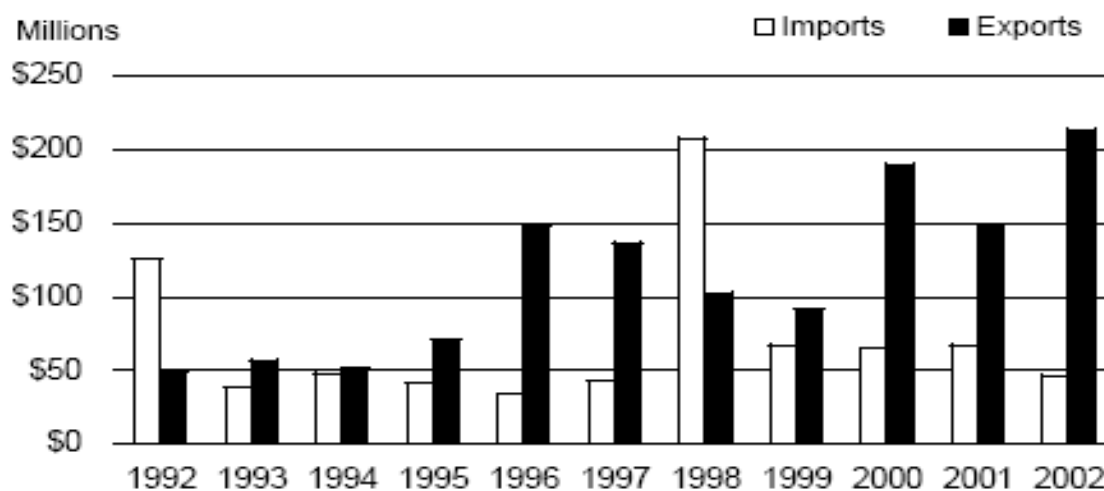
Major items of exports to India (In million US\$)

Commodity Description	1997-98	1998-99	1999-00
Vegetables and fruits	22.33	17.13	22.14
Textile yarn and fabrics	0.78	2.04	2.90
Leather & leather manufacture	0.95	0.55	0.18
Petroleum crude	-	5.16	4.17
Plants for perfum, pharm. etc.	1.21	1.30	2.24
Rice	-	0.01	12.70
Sugar, cane, refined	62.08	142.18	-
Others	3.22	5.29	9.31
TOTAL	90.57	173.66	53.64

Source: Foreign Trade Pattern of Pakistan, KCCI

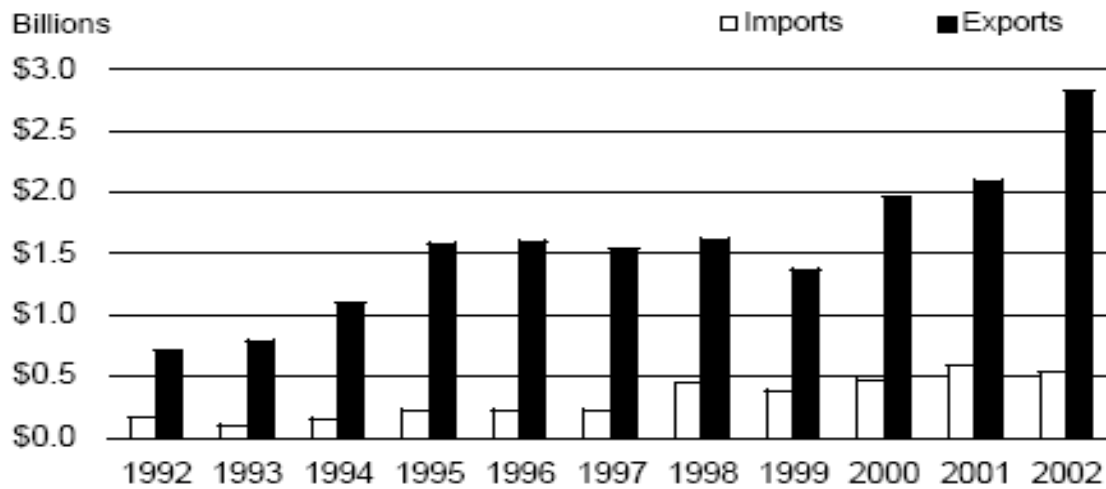
Appendix # 20²⁰

India's Trade with Pakistan

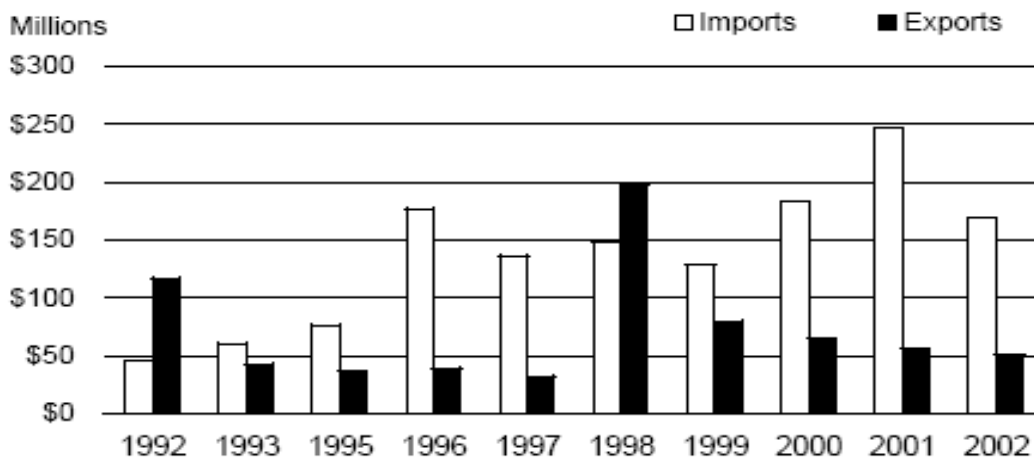


²⁰ Lafollette 2006 "Impacts of the South Asia Free Trade Agreement" [Online] <http://www.lafollette.wisc.edu/publications/workshops/2003-2004/pa869/2004-SAFTA.pdf>

Appendix # 21²¹
India's Trade with the Region



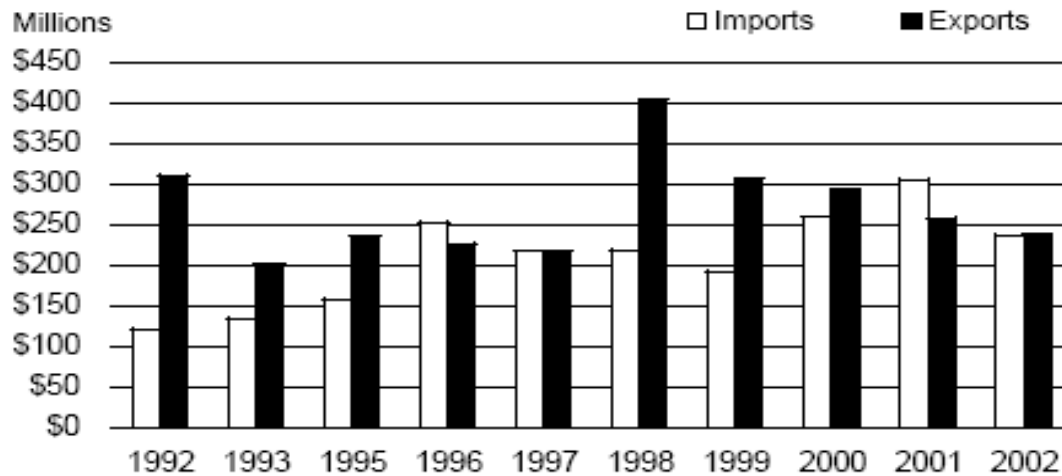
Appendix # 22²²
Pakistan's Trade with India



²¹ Lafollette 2006 “ Impacts of the South Asia Free Trade Agreement” [Online] <http://www.lafollette.wisc.edu/publications/workshops/2003-2004/pa869/2004-SAFTA.pdf>

²² Lafollette 2006 “ Impacts of the South Asia Free Trade Agreement” [Online] <http://www.lafollette.wisc.edu/publications/workshops/2003-2004/pa869/2004-SAFTA.pdf>

Appendix # 23
Pakistan's Trade with the Region



Appendix # 24²³

India's exports to major trade partner (in Million US \$)		
Countries	Year	
	2000-2001	2001-2002
USA	93.5.12	8513.38
Hong Kong	2640.86	2366.36
UK	2298.71	2160.88
Japan	1794.48	1510.44
Germany	1907.57	1788.36
UAE	2597.52	2491.80
Belgium	1470.56	1390.63
Italy	1308.75	1206.53
Russia	889.09	798.19
Netherlands	880.09	863.88
Bangladesh	935.04	1002.8
France	1020.01	945.00
Singapore	877.11	972.31
Malaysia	608.15	773.70
Australia	405.89	418.03
Thailand	530.12	633.14
Total (Incl. others)	44560.29	43826.93

Appendix # 25

India's Imports to major trade partners (in Million US \$)		
Countries	Year	
	2000-2001	2001-2002
USA	3015.00	3149.63
Belgium	2870.05	2763.01
UK	3167.92	2563.21
Switzerland	3160.14	2870.76
Japan	1842.19	2146.45
Germany	1759.59	2028.11
UAE	658.88	915.09
Australia	1062.76	1360.10
Singapore	1463.91	1304.10
Nigeria	63.78	87.12
Italy	723.58	704.49
Korea (Rep.)	893.76	1141.37
France	640.81	844.26
Russia	516.66	535.51
Netherlands	437.53	466.47
Total (Incl. others)	50536.46	51413.79

Source: Federal ministry of Commerce, India

²³ The Hindu 2006, "SAARC Countries' Performances analyzed"[Online]
<http://www.hinduonnet.com/thehindu/mag/2004/01/25/stories/2004012500100200.htm>

Appendix # 26

Exports from Pakistan (2000-2002 in Million US \$)			
Countries	2000-2001	Countries	2001-2002
USA	2240.6	USA	2257.5
Dubai	617.9	Dubai	727.4
UK	576.4	UK	659.1
Hong Kong	503.9	Germany	452.1
Germany	494.6	Hong Kong	442.2
South Korea	279.0	Saudi Arabia	330.4
France	265.2	South Korea	261.9
Netherlands	232.8	Netherlands	257.8
Italy	231.3	Italy	253.0
Japan	192.0	France	246.7
Sub-Total	5633.7 (61.2%)	Sub-Total	2888.1 (64.59%)
Others	3567.9 (38.7%)	Others	3235.6 (35.5%)
G-Total	9201.6 (100%)	G-Total	9123.7 (100%)

Appendix # 27

Sources of Imports from Pakistan (2000-2002 in Million US \$)			
Countries	2000-2001	Countries	2001-2002
KSA	1259.25	UAE	1353.9
Kuwait	964.63	KSA	1200.7
Dubai	731.01	Kuwait	731.8
Japan	576.16	USA	687.8
USA	565.48	China	575.2
China	528.95	Japan	519.3
S. Korea	354.59	Malaysia	456.3
UK	350.22	Germany	439.6
Fujrah	348.86	UK	356.7
India	235.09	Singapore	322.5
Sub-Total	5914.24 (55.1%)	Sub-Total	6643 (64.3%)
Others	4814.68 (44.9%)	Others	3643.7 (35.7%)
G-Total	10728.92 (100%)	G-Total	10339.5(100%)

Appendix # 28²⁴

Bangladesh: Direction of Trade(in Million US \$)

Item	2001	2002
Exports, total	5736	5517
1. United States	1667	1569
2. Germany	588	582
3. United Kingdom	487	580
4. France	308	315
5. Italy	253	224
6. Netherlands	251	217
7. Belgium	180	174
8. Canada	96	64
9. Hong Kong, China	101	95
10. Japan	62	63
Imports, total	9011	7968
1. India	1195	1065
2. China, People's Republic of	772	925
3. Japan	721	573
4. Singapore	827	548
5. Hong Kong, China	452	441
6. Korea, Republic of	404	345
7. United States	265	248
8. United Kingdom	238	184
9. Australia	215	169
10. Indonesia	180	167

Appendix # 29²⁵

²⁴ The Hindu 2006, "SAARC Countries' Performances analyzed"[Online]
<http://www.hinduonnet.com/thehindu/mag/2004/01/25/stories/2004012500100200.htm>

²⁵ Lafollette 2006 "Impacts of the South Asia Free Trade Agreement" [Online]
<http://www.lafollette.wisc.edu/publications/workshops/2003-2004/pa869/2004-SAFTA.pdf>

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. Hossain, 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.

Appendix # 30²⁶

Evolution of regional cooperation in South Asia

It was in 1980 that the late President of Bangladesh Ziaur Rahman first proposed institutionalization of regional cooperation in South Asia. Several factors such as political; economic; security and potentiality of mutual economic benefit through regionalism seemed to have influenced President Ziaur Rahman's thinking about establishing regional organization in South Asia. The smaller countries of the region (Nepal, Bhutan, Maldives and Sri Lanka) promptly accepted the proposal of regional cooperation however India and Pakistan were skeptical initially. The reason was the proposal's reference to the security matters in South Asia. Indian policy makers also feared that Ziaur Rahman's proposal for a regional organization might prove an opportunity for the small neighbors to regionalize all bilateral issues and to join with each other to 'gang up' against India.⁸ Pakistan assumed that it might be an Indian strategy to organize other South Asian countries against Pakistan and ensure a regional market for Indian products, thereby consolidating and further strengthening India's economic dominance in the region. Nevertheless SAARC was finally established in 1985 comprising Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka and held first Summit in December same year in Dhaka where

²⁶Saarc 2006, "South Asian Free Trade Area" [Online] <http://www.saarc-sec.org/main.php?t=2.1.6>

Charter of the South Asian Association for Regional Cooperation as signed.

What can be said about the SAARC is that both economic and security concerns are predominant factors and have equally contributed towards its establishment. It was a demand of the time to contain South Asian states free from the cold war rivalry and have their common voice in the troubled world. Also leaders of South Asia have felt the need of economic integration - particularly the smaller states in order to explore the extant natural resources for their mutual benefit. Besides interests of the South Asian states and contemporary political environment led the establishment of SAARC, without any international pressure to do so. SAARC, therefore, came into being primarily as a response to the domestic political and economic needs of the South Asian countries. Consequently, SAARC's future growth lies more on the domestic political and economic dynamics rather than international factors.

Appendix # 31²⁷

Selected Parameters of South Asian Economies in 2004 (World Bank, 2005a)

Country	Population (million)	Total GNI (US\$ billion)	GNI Per Capita (US\$)
Bangladesh	140.49	61.23	440
Bhutan	0.89	0.68	760
India	1079.72	674.58	620
Maldives	0.30	0.75	2510
Nepal	25.19	6.54	260
Pakistan	152.06	90.66	600
Sri Lanka	19.45	19.62	1010
Total	1418.1	854.06	-
Average	202.59	122.01	885.7

²⁷ Saarc 2006, "South Asian Free Trade Area" [Online]
<http://www.saarc-sec.org/main.php?id=76&t=1>

Appendix # 33²⁸

South Asia Free-Trade Area – Elements of the Agreement

A major outcome of the Islamabad summit held in December 2004 was the long-awaited agreement to set up a free trade area among the SAARC members. The South Asia Free-Trade Area (SAFTA) officially came into force on 1 January 2006, upon completion of the formalities including ratification by all contracting States, and aims to reduce intraregional tariffs to a level of 0-5 per cent within 10 years from the date of entering into force.³

The schedule for tariff reductions under the agreement is as follows:

- Within two years, i.e. by 1 January 2008, tariffs will be reduced to a maximum level of 20 per cent (30 per cent for LDCs). (If actual tariff rates after the coming into force of the agreement are below these percentages, then there shall be an annual reduction on a margin of preference basis of 10 per cent (5 per cent for LDCs) on actual tariff rates for each of the two years.)
- The subsequent tariff reduction to 0-5 per cent for all SAARC countries will be done within a second time frame of 5 years (6 years for Sri Lanka and 8 years for LDCs), beginning from the third year from the date of coming into force of the agreement. Thus, the final date of implementation is 1 January 2013 for India and Pakistan, 2014 for Sri Lanka, and 2016 for Bangladesh, Bhutan, the Maldives and Nepal. These schedules will not, however, prevent contracting States from immediately reducing their tariffs to 0-5 per cent or from following an accelerated schedule of tariff reduction.
- For the products of least developed contracting States (Bangladesh, Bhutan, Maldives and Nepal), the non-least developed contracting States (India, Pakistan and Sri Lanka)

²⁸ Saarc 2006, “South Asian Free Trade Area” [Online]
<http://www.saarc-sec.org/main.php?t=2.1.6>

commit to reducing their tariff to 0-5 per cent within a time frame of three years beginning from 1 January 2006.

Exempted products, trade facilitation and special treatment for LDCs:

- The agreement sets up a sensitive list where products exempted from the Trade Liberalization Programme will be listed. This list has been negotiated by the contracting States and incorporated in the agreement as an integral part.

However, the number of products in the sensitive lists will be subject to maximum ceiling, which will be mutually agreed among the contracting States, with flexibility to least developed contracting States to seek derogation in respect of the products of their export interest. Furthermore, the agreement stipulates that the sensitive list shall be reviewed every four years or sooner, as may be decided by SAFTA Ministerial Council, with a view to reducing the number of items in the sensitive list.

- The signatories have agreed to consider the adoption of trade facilitation and other measures to support and complement the Trade Liberalization Programme.

These may include, among others, the following: harmonization of standards and the reciprocal recognition of tests and accreditation of testing laboratories of contracting states and certification of products; simplification and harmonization of customs clearance procedures; harmonization of national customs classification based on HS coding system; customs cooperation to resolve dispute at customs entry points; simplification and harmonization of import licensing and registration procedures; simplification of banking procedures for import financing; transit facilities for efficient intra-SAARC trade, especially for the land-locked contracting states; removal or barriers to intra-SAARC investments; macroeconomic consultations; rules for fair competition and the promotion of venture capital; development of communication systems and transport infrastructure; making exceptions to foreign exchange restrictions (if any) and repatriation of such payments, and; simplification of procedures for business visas.

- The signatories furthermore agree to give special regard to the situation of LDCs when considering the application of anti-dumping and/or countervailing measures, to consider

greater flexibility for LDCs in continuation of quantitative restrictions as well as to take direct trade measures (such as buy-back arrangements, state trading operations and public procurement) with a view to enhancing sustainable exports from LDCs, as well as to establish an appropriate mechanism to compensate LDCs for their loss of customs revenue until alternative domestic arrangements are formulated to address the situation.

- Rules of Origin will be negotiated by the contracting States and will be incorporated into the SAFTA agreement as an integral part.

References

Bilaterals 2005, "Nafta , a new beginning" [Online]

http://www.bilaterals.org/article.php3?id_article=2952

Philip McCann, Daniel Shefer, 2005, Economic geography and regional growth, Working Paper

Kim, Suk H, Huh, Chang Soo,1996, APEC: A superregional trading bloc, Working Paper

Ashok B Sharma, 2004, Common Quality Norms Are Vital In SAFTA Trade, Working Paper

C. Parr Rosson, 2000, Preferential Trading Arrangements: Gainers and Losers from Regional Trading Blocs, Research Report

Ben Zissimos, 2005, Why Are Trade Blocks Regional?, Research Report

Vangie Bhagoo, 2005, Waiting for the Grim REPA? Regional Economic partnerships and the Caribbean, Research Report

World Bank 2004 " Regional Trade Blocs" [Online]

http://www.worldbank.org/data/wdi2000/pdfs/tab6_5.pdf

The Hindu 2005, "Regional Trade Agreements belie Expectations"[Online]

<http://www.hindu.com/2005/01/16/stories/2005011603451000.htm>

Kulkarnis 2005, " Future of Saarc in the eyes of the West" [Online]

<http://www.kurakani.tk/Article796.phtml>

Lafollette 2006" Impacts of the South Asia Free Trade Agreement" [Online]

<http://www.lafollette.wisc.edu/publications/workshops/2003-2004/pa869/2004-SAFTA.pdf>

India Development Foundation 2005" Who Gains from Trade between India and Pakistan" [Online} <http://www.idfresearch.org/pdf/IndiapakistanPaper-IDF.pdf>

South Asia Journal 2006, " What Hinders SAARC's cooperation"

<http://www.southasianmedia.net/Magazine/journal/hindrances.htm>

Himal South Asian Journal " Such Charming Simplicity" [Online]

<http://www.himalmag.com/2004/january/editorial.htm>

The News Online 2006, " Saarc ,will it be able to deliver" [Online]

<http://www.jang.com.pk/thenews/feb2006-daily/05-02-2006/business/b24.htm>

Nepal Online 2005, “Road to success” [Online]
<http://www.nepalnews.com.np/contents/englishweekly/spotlight/2004/jan/jan09/coverstory.htm>

The Hindu 2006, “SAARC Countries’ Performances analyzed”[Online]
<http://www.hinduonnet.com/thehindu/mag/2004/01/25/stories/2004012500100200.htm>

Saarc 2006, “South Asian Free Trade Area” [Online]
<http://www.saarc-sec.org/main.php?t=2.1.6>

DAWN online 2006, “SAFTA the way forward?” [Online]
<http://www.dawn.com/2004/01/19/ebr8.htm>

Sawtee 2005, “Blocs or reality?”[Online]
<http://www.sawtee.org/uploads/articles/tariff09jan04.php>