

RIS DISCUSSION PAPERS

**Regional Trade Liberalisation under SAPTA
and India's Trade Linkages with South Asia:
*An Empirical Assessment***

S K Mohanty

RIS-DP # 48/2003



**Research and Information System
for the Non-Aligned and
Other Developing Countries**

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I. Introduction

The twin forces of multilateralism and regionalism have brought radical trade liberalisation across the world during the 1990s. The Multilateralism has made a major stride with the successful conclusion of the Uruguay Round of Trade Negotiations and the beginning of the 'Millennium Round'. The renewed faith in multilateralism, has in no way undermined the process of regionalism, which is in its second phase.

The persistence of global asymmetries have strengthened the process of regionalism in different parts of the world. The inclusion of several issues, which were not initially part of the trade issue in the WTO, such as IPR, labour standard, environment, TRIPS, etc. have further denigrated the relevance of multilateralism as a source of enhancing national, regional and global welfare. The industrialised countries have taken recourse to regionalism in a bid to keep their market intact. At present more than 60 per cent of the global trade is channelised through bilateral and Regional Trading Arrangements (RTAs). In the process, the developing world was getting marginalised.

Much before the emergence of so-called 'second wave of liberalisation', the South Asian countries have realised that the long term interest of the countries in the region lies in the formation of a regional economic grouping. Exactly after a decade from the inception of the South Asian Association for Regional Cooperation (SAARC), the first phase of a preferential trading arrangement (SAPTA) was launched. The South Asian countries have increasingly realised that export-led growth may not be a feasible proposition, considering the restrictive approach to trade by developed countries (Chaturvedi and Nagpal, 2003; and Mohanty and Manoharan, 2002). A regional trading forum among South Asian countries would improve their trade prospects within the region itself. The achievements of the regional process in South Asia with respect to trade have been remarkable. Since end of 1995, four Rounds of SAPTA Negotiation are completed. The SAPTA-IV is just completed and Customs Notifications are to be issued by individual countries for its implementation. Since 1997, attempts have been made to clear the deck for the smooth transition of the region from SAPTA to SAFTA by 2001. Owing to geo-political situation in the region, the ambitious target of SAFTA implementation has been deferred to 2003.

Various studies have indicated that the SAPTA process is not very effective as compared to other RTAs like ASEAN, MERCOSUR, ANDEAN, CARICOM, etc., in augmenting intra-regional

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trade to a respectable level (Wadhwa, 1996 and Bhuyan, 1996, RIS, 2002). The implications of different Rounds of SAPTA for individual member countries are different. For number of countries bilateral concessional trade is much higher than the non-concessional trade based on present level of trade. Of course it is not so for large partners in the region. There are various reasons for the poor performance of the SAPTA process. It may be noted that the regional countries are undergoing trade liberalisation as a part of their multilateral commitments along with the SAPTA process as well as domestic economic reforms in the 1990s. With trade liberalisation taking place across the world on account of multilateral trade negotiations, concessions offered under SAPTA became very meager and less attractive. The series of global economic shocks in the form of East Asian crisis, September 11 terrorist attack on the US, volatility of US dollar, uncertainties in global crude oil prices, etc. have adversely affected the stability of regional currencies. The depreciation of regional currencies has outweighed the concessions provided under different Rounds of SAPTA. Besides, political factors in the region played their critical role in diluting the relevance of SAPTA process in the region.

Nevertheless, there are strong and positive developments in the region as well. These factors may be effective in strengthening economic ties between the member countries. The regional countries are strongly pursuing the implementation of SAFTA in the region. Simultaneously the policy of Bilateral Free Trade Agreements is taking momentum in the region. Following the successful implementation of India's bilateral FTA with Nepal, Bhutan and Sri Lanka, other regional partners are also pursuing similar kind of arrangements. Pakistan and Sri Lanka are likely to sign a FTA in the near future. Bangladesh is also actively engaged with both Pakistan and Sri Lanka to form bilateral FTAs within a very short period. Now, Pakistan is also showing its intention to forge a bilateral FTA with India on a reciprocal basis. Various other initiatives are in the process to make the region a free trade zone in the near future. Furthermore, the region has large trade potential to foster intra-regional and intra-industry trade, despite the fact that the regional partners have many similar products to export to the rest of the world. Combining growing interest of the regional economies for mutual cooperation and existing trade potentials, there are prospects for the region to grow in future.

Looking at the ground realities in the South Asian region, several issues may be raised to understand the future prospects of cooperation in the region. For instance, how efficient are regional and bilateral initiatives in strengthening regional trade? Is bilateral trade imbalance a serious issue for further trade liberalisation in the region? How effective is SAPTA in augmenting regional trade? Do these three Rounds of SAPTA differ in terms of their trade coverage in individual countries of the region? How effective is the SAPTA process in addressing the specific trade concerns of LDCs? What is the nature of products covered under the regional trade liberalisation? Can there be a short cut for bringing speedy liberalisation in the region? An attempt has been made to examine some of these issues in the paper.

In order to examine the efficacy of various rounds of SAPTA, the study attempts to link the contents in the regional PTA with other trade related issues. This would, in fact, through light on the prospects of trade liberalisation in the region. The scheme of the paper is as follows. Some of the methodological issues are discussed in Section II. The intra-regional trade flow is discussed in Section III. An overview of the convergence of products in different Rounds of SAPTA is presented in Section IV. The investment prospects of the region are discussed in Section V. The empirical findings of the paper are analysed in Section VI. The last Section concludes the paper

II. Intra-regional Trade

Most South Asian countries resorted to comprehensive economic reforms during the 1990s. Besides, number of bilateral and regional agreements were signed and implemented on a priority basis. The switching of policy regime in these countries have significantly contributed to outward orientation of these economies as well as regions trade under the regional process.

The present level of intra-regional trade is low, but it increased significantly in the 1990s. Trade within the region increased at a faster rate as compared to that of the world. Further intra-regional imports have been growing more rapidly than exports. However, the growth of regional trade is accompanied by high degree of instability (RIS, 2002).

Intra-regional trade performance of individual countries indicates that both exports and imports grew significantly during the last decade as shown in Table 1. During the period 1990-2000, regional trade of most of South Asian countries have made four-fold increase. The results indicate that there was a down turn in the trade activities of the region in 1991 and 1999. Except for Maldives, other countries faced marginal set back either in their exports or imports or both during these years. However, in the latter half of the 1990s, regional trade has not only been increasing but also becoming highly volatile. The instability in regional trade has an adverse impact on the regional trade balance.

The region has witnessed perpetual intra-regional trade deficit during the period. The trade deficit of the region increased between four to ten times during the period 1990-2000.

During the last decade, India continued to have favourable trade balance with the region. Pakistan also enjoyed the similar status except for a few years in the late 1990s as shown in Table 1. On the other hand, Bangladesh, Maldives, Nepal and Sri Lanka have significant level of trade deficit with the region. The nature of trade deficit in these countries is quite different from each other. In case of Maldives and Nepal, trade deficit with the region increased by around ten times during 1990-2000, but their base-level trade deficit was very low. In 1994, the level of trade deficit of Bangladesh and Sri Lanka was almost similar. During the latter half of the 90s, Sri Lanka's trade balance continued to remain unfavourable, but showed a declining trend during 1996-99. In 2000, it again started rising but the magnitude of trade deficit was much lower than that of 1996 level.

On the other hand, the regional trade deficit of Bangladesh more than doubled during the same period. Exports from Bangladesh to the region constitutes about 2-3 per cent of its global exports, and the corresponding figure for imports is between 7 to 17 per cent in the 90s as shown in Table 2. The trade deficit of Bangladesh with the region constitutes between 10 to 33 per cent of its total trade deficit with the world. The bilateral trade performances of regional partners indicate that Bangladesh has bilateral trade imbalances with most of the regional partners during the last decade. In the mid-90s, Bangladesh had favourable trade with Nepal, but the trend is reversed in the latter years. As far as country's trade balance with Sri Lanka is concerned, it was either balanced or negative during the same period.

South Asia has become an important trade destination of India. Exports from the country to region constitutes between 3 to 6 per cent of its global exports, whereas import from the region is relatively lower than exports. India has maintained favourable balance of trade with the whole of South Asia. The level of positive trade balance is quite significant in case of Bangladesh and Sri Lanka; and moderate with Nepal and Maldives. However, India's bilateral trade balance remained adverse with Bhutan. Up to 1994, India had positive trade balance with Bhutan, but the trend reversed in the subsequent years due to significant rise in Bhutanese exports to India. The trade

surplus with Bangladesh is however subject to fluctuations and that with Nepal increased by four times between 1995 and 1996, largely due to its trade and transit treaty with India. In the subsequent years, the magnitude of trade imbalances with India started receding.

Pakistan exported 3 to 5 per cent of its total exports to the South Asia and imported between 2 to 4 per cent of the total imports from the region in the last decade. The most important export destinations of Pakistan in the South Asian region are Bangladesh, Sri Lanka and India. These three countries absorb about more than 95 per cent of country's exports to the region. India's share in the total imports of Pakistan from the region reached 72.4 per cent in 1996, and started declining to touch the rock bottom of 42.8 per cent in 2000. The declining share of Pakistan's imports from India has resulted in surge in Sri Lanka's exports to Pakistan in a significant manner. Pakistan continued to maintain favourable trade with the region, except for that in 1996-99. In 2000, country's adverse trade balance with the region increased to more than 7 per cent of its total trade deficit with the world.

Sri Lanka has been depending on the South Asian region more on imports than exports. The regional exports of Sri Lanka are about 2 to 4 per cent of its total exports. Though Sri Lanka's import from the region is very high as compared to other non-LDCs of the region, country's dependence on the region has been gradually declining in recent years. Sri Lanka's largest trading partner is India in the region, and other important partners are Maldives, Pakistan, Bangladesh and Nepal. The magnitude of country's trade deficit with the region is much larger than that with global trade in the 1990s. With the reduction of imports from the region, the trade imbalances with the region have declined significantly. The bilateral trade balance of the country remains favourable with Maldives and Bangladesh; and continues to be adverse with other South Asian countries in the region.

The economy of Maldives is highly dependent on regional trade. Its exports depend on the region to the extent of 13 to 25 per cent of its global exports whereas dependence for imports varies between 10 to 21 per cent in the 90s. The trade imbalance of the country is almost proportionate to its regional trade.

The most important trading partner of Maldives is Sri Lanka, and the trade deficit with the country is increasing alarmingly in recent years. With high dependence on India for its domestic import requirements, trade deficit with India, is high in the late 1990s. Maldives trade with Pakistan shows no significant improvements in the 1990s.

Nepal's dependence on South Asia has increased substantially following the Indo-Nepal Trade and Transit Treaty in 1996. The share of Nepal's regional exports to total export increased from 9.3 per cent in 1995 to 36.5 per cent in 1998. Similarly the share of imports from the region jumped up from 17.5 per cent in 1995 to 33.1 per cent in 2000. India is the largest regional trading partner of Nepal, and other important trade partners are Bangladesh and Sri Lanka. The surge of economic ties with the region has widened its trade imbalances with the region. It has large adverse trade balance with India. With Bangladesh and Sri Lanka, the nature of trade balance varies from one year to another.

Trade Imbalance Issue

Trade Imbalance between India and some of the regional trade partners has been one of the most contentious issues in the regional process. It may be noted that India's export and import baskets are highly diversified as compared to smaller partners of the region. Moreover, India's scale of production is high, partly due to its vast domestic market and partially to meet export requirements at the global level. Therefore, production and export bases of India, which are larger than other regional

trade partners, are effectively used by the regional countries to overcome their short term problems concerning production inadequacies in their respective domestic economies. It may be noted that the Nepalese economy was entangled with steep inflation following temporary closure of some of the transit points after the expiry of the Indo-Nepal Trade and Transit Treaty in the 1990s. Similar situation occurred in other neighbouring countries also. We bring home the point that the occurrence of trade imbalances is a natural phenomenon where the dependence on the larger countries is so much. The situation is similar in case of South Africa as compared to other states in the SACU and SADC regions. In the era of interdependent world, the domestic demand cannot be contained due to lack of production, but, 'basic and essential imports' are to be made either from the neighboring country or from the rest of the world. In both the cases, the importing country is likely to have adverse trade balance. During a completely free trade regime, the production deficient countries are likely to face chronically trade imbalances. Attempts should be made to augment exports to trade-surplus country to reverse the trend of the trade balance. The trade surplus countries should also devise some suitable instruments to compensate the trade deficit countries and to support them in augmenting their export capabilities.

However, the large country like India has its own requirements. It is primarily a trade deficit country with respect to rest of the world. Considering the level and varieties of import requirements, the regional partners can take advantage from the large market in India particularly in commodity trade. Even the demand for certain type of specialised services is very much required in India. The regional partners, particularly the trade deficit regional partners should tap such opportunities.

Indo-Bhutan trade relationship should be taken as a model example for the regional cooperation in South Asia. It may be noted that Bhutan was chronically a trade deficit country with India, where bilateral trade was taking place primarily in goods. The export basket of the country was not only small but also lacked supply capabilities. With the support of India, Bhutan developed its hydro-electricity project and exported energy to India. At present, the Indo-Bhutan trade imbalance problem is effectively addressed.

Very often, The trade imbalance problem at the regional level remains unresolved because of political interventions. For a long period, Bangladesh continued to have adverse bilateral trade balance with India. In the 1990s, the bilateral unfavourable balance of trade of Bangladesh had declined substantially due to surge of Urea export to India, which has a large demand for the product. However, the political decision to hike the gas tariff in Bangladesh had resulted in making the sector uncompetitive vis-à-vis other international supplies. India opted for switching of its source of supply of urea and Bangladesh's bilateral trade deficit went up again with India. At present, a large gas reserve is found in the eastern coast of India, which can meet India's large demand for gas. In this changed situation, Bangladesh may have to look for new products to gain wider market access in India.

III. Methodology

The issues concerning regional trade liberalisation are many, and to understand the ground realities, there is a need for having varieties of databases and adoption of number of suitable approaches. In this study we have attempted to examine intra-regional trade over a period of time. In the context of existing intra-regional trade, attempt has been made to examine coverage and effectiveness of each Round of SAPTA on individual member countries. With about 5550 products subject to different levels of tariff and non-tariff concessions during different Rounds of SAPTA, an

attempt has been made to examine the nature of these concessional products under SAPTA. The preparedness of the region to undertake future trade liberalisation is discussed in the light of existing trade potentials of the region. Some of the issues outline above are discussed below.

Database

For examining intra-regional trade among SAARC member countries (SMCs), we have used data provided by Direction of Trade Statistics (DoT), IMF. To trace the bilateral and intra-regional trade behaviour, we have used time series data for the period 1990-2000. The DoT does not report data for Bhutan, and therefore, the contribution of the country to the regional trade is not directly reported in the study. We have also analysed the trade imbalance issue.

For data on tariff and NTB concessions, the information provided by the SAARC Secretariat is use. However, the SAARC Secretariat has not publicly notified the last Round. While offering tariff concessions, uniform level of commodity disaggregation is not followed. After reviewing offers of different countries in the first three Rounds, one can find that tariff cuts are offered between two to eight digit HS level. For analysing the impact of the SAPTA process, we need data not only at 8-digit HS level but also on a time series basis.

It may be noted that different Rounds of SAPTA were signed and implemented at different points of time. In each time an exclusive set of commodities are subject to tariff cut by each member country. Trade in the region is often subject to year-to-year fluctuations, it is very often seen that a product may be heavily traded in one year and may not be traded at all in the other year. Similar situation at the bilateral level is further precarious. We have to examine total trade in each Round country rather than concentrating on individual products. Therefore, to examine the effectiveness of different rounds of SAPTA we need bilateral time series data at 8-digit level for each member country. Considering the data requirement of the study and availability of consistent data, we have taken India's data as a test case in the absence of detailed time series data for other regional partners.

We have taken India's export and import data for the period 1994/95-2000/01 at 8digit HS. The country imported and exported as many as 7132 and 8171 products respectively at 8-digit during the period mentioned above. While India relied on imports from 201 countries, it exported to 218 countries during this period.

Evaluating Effectiveness of Different Rounds of SAPTA

India's import and export data are used separately to examine effects of SAPTA on India. While dealing with India's imports, we try to identify the products which are imported by India from the South Asian partners. From these products, we separate countries on the basis of their status as LDCs and non-LDCs. Then we try to identify products which are offered concessions in specific round of SAPTA negotiation. India's import from each regional country is further grouped into four categories (i.e. imports of India in three different Rounds and trade in non-concessional products). We use "before and after" approach¹ to examine the effectiveness of each round on India from the specific supplying partner country.

Similarly in dealing with export data of India, we select all India's exports to South Asian Countries. We take each country's National Concession Schedule and examine their offer to non-LDCs. For instance, we identify India's export items to a country and marked the products which are offered concessions in different Rounds. The non-concessional products are kept separately. The

¹ Similar Kind of methodology is used to examine effectiveness of SAP. For details see Khan, 1990.

same procedures are applied to other countries as well. Like import data, similar approach is followed to examine the effectiveness of SAPTA.

Technology-Intensive Products Under SAPTA

It is generally believed that South Asia's import and export baskets are very narrow. But the trade structure of the region does not support this hypothesis. The region is not only having an enlarged trade basket but also resort to intra-industry Trade (IIT). However, the region is more significantly dependent on rest of the world than the region as such. The question comes whether the regional countries can depend upon the region? What kind of products are traded in the region and world by the regional partners? Primarily to understand technology-intensive characteristics of the regional trade capabilities, we have developed a product classification based on Lal's (2001) product classification. In this exercise, broad product groups are unchanged, but the classification is modified in two different ways. Firstly, Lal's classification was made on the basis of SITC Revision-3, but now it is redefined using HS trade classification. Lastly, there are number of products, which are not classified in the original product class by Lal, but we have accommodated these products within the existing product classification. A detailed classification of products is presented in Annexure-I.

For exploring the possibilities of trade cooperation in a region, there is a need for examining the export potentials of individual regional partners in the region. In this context we have examined the export potential of South Asian countries.

For empirical analysis, data remain a major constraint. For the present exercise, we need bilateral trade flow data of individual countries at a very disaggregated level. In the absence of country-source data for individual countries, we had to depend upon international sources.

Considering appropriate international trade classification and coverage of countries, we have chosen TRAINS database for estimating trade potentials. TRAINS provides data on bilateral import trade. We have generated export data series from TRAINS for each South Asian country by scanning through 116 countries' bilateral import data at 6-digit HS for 1998. Now export data are available for all regional countries, whereas import data are available for five of them excepting Bhutan and Pakistan.

In Balassa's RCA index, it is argued that if a country exports a product relatively substantial to its domestic production, and if this performance index is better than the internationally practiced norms, the product is assumed to be competitive. We have used the same logic to identify the potential product for each country. Similar to Balassa's argument, it may be argued that a country has competitiveness in those products, which are exported substantially as compared to other products in the export basket of the country.

For identifying export potentials of South Asian countries in the region, export earning of each product at 6-digit HS is calculated for each country separately. For separating out most important export items for each country, we have used varying cut off points for different countries of the region. The use of different cut off points across countries can be justified on the basis of varying level and coverage of exports for each country. For a country, export earning of products above the cut off point, are considered potential export for the country. The cut off point of Nepal and Maldives is chosen as US\$ 100,000; and that for India, Bangladesh, Pakistan and Sri Lanka is US\$ 1000,000. All the export items of Bhutan are taken as potential export for the country because the export basket of the country is very small.

While estimating export potential of the region at individual product levels, the supply capabilities of the regional countries are examined along with demand for those commodities in the region. The export potential is estimated at a point where equilibrium between demand and supply of the region conform to each other.

In order to ensure that there is demand for a particular product in the region, a cut off point is used after estimating regional import for individual items at 6-digit HS level. The cut off point for regional imports is US\$ 300,000.

The minimum of supply and demand of regional trade at 6digit product level is considered as potential trade for the region. This will balance the demand and supply position of the region. Finger and Kreinin (1979) proposed similar arguments in the context of trade similarities between the countries.

We found that the regional countries are trading in more than 5000 products at 6-digit HS. More than 2000 products are considered as important export of either one or more countries in the region. Taking both regional demand and supply considerations, more than 1500 products are identified as potential items for trade in the region and the region is capable of absorbing them.

IV. Product Coverage of SAPTA

The first phase of SAPTA was operational since 7th December 1995, about a decade after the inception of the regional association. The SAPTA process grew step by step to complete four Rounds of Negotiations and proceeding towards SAFTA by 2003. The brief history of the Association is highly fascinating. The idea of forming a regional Association in South Asia was mooted in May 1980. The First Summit was held on 7-8th December 1985 in Dhaka to launch the regional association. For deepening economic cooperation among member countries and widening institutional network, two bodies were created namely intra-Governmental Group (IGG) and Committee on Economic Cooperation (CEC) in 1991. These two bodies were crucial for the inception and formalisation of SAPTA. In the New Delhi Summit, held in May 1995, the SAPTA Agreement was formally approved. With the ratification of SAPTA Agreement by the respective contracting States (CS), the Agreement came into force by end of 1995. The Second Round of SAPTA was initiated in 1996 by the IGG, and entered into force by 1st March 1997. Following the implementation of the Second Round, initiative for SAPTA III was initiated in July 1997 and India became the first CS to issue Customs Notification (No.105/990) on August 10th 1999. The Fourth Round of SAPTA was scheduled to be concluded in July 1999. Recently SAPTA IV is concluded. In a recent study, Mukherjee (2002), has provided statistics about details of customs notification by individual contracting states for the first three Rounds of SAPTA.

Along with the SAPTA process, parallel initiatives were made to implement South Asia Free Trade Area (SAFTA) at the beginning of the new millenium. In the Male Summit in May 1997, an ambitious target was set to implement SAFTA by 2001. Considering the geo-politic realities in the region, adoption of SAFTA is deferred to 2003. In the Colombo Summit in 1998, a decision was taken to set up a committee of experts to prepare a draft treaty for SAFTA.

One of the important features of the SAPTA process is that there is no compulsion on the part of the member countries to liberalise their trade for regional partner in a definite format. The contracting states have adopted product-by-product approach to promote regional trade. It was left to individual contracting States to open up their economies to the region depending on their priorities. Therefore, there has been no uniformity in the liberalisation of products under the SAPTA process. In

the schedule of tariff concession, no uniform approach is followed with respect to the level of product aggregation for tariff concessions. In different Rounds of SAPTA, concessions are granted to commodities, which are defined at the level of chapter, heading, subheading and national lines. The member states have also adopted various combinations of commodity aggregations in HS while conferring concessions to other member countries in the region. Therefore, number of commodities put under SAPTA by individual countries should be read with caution. Another significant progress is that concessions on NTBs are being considered since the Second Round of SAPTA.

In the South Asian region, majority of these countries are LDCs. Out of seven countries in the region, four of them, viz., Bangladesh, Bhutan, Maldives and Nepal, belong to LDC. In the SAPTA process, there is special preference for these countries. In terms of coverage of commodities under concessions and depth of tariff cuts, these countries are given special treatment vis-à-vis non-LDCs. Actual market access of these countries in the region following SAPTA will show the extent to which these countries have benefited from the PTA process.

A broad overview of concession conferred in different Rounds of SAPTA is presented in Table 3. In SAPTA-I, 226 products were chosen for tariff concessions and 100 products were earmarked for LDCs. The number of products under SAPTA-II and SAPTA-III were 1868 and 3456 items respectively. In the three rounds of negotiations under SAPTA, 5550 items are subject to tariff reduction, and 3449 items are exclusively meant for LDCs in the region. Among the South Asian countries, India made sizeable amount of trade liberalisation under SAPTA. Out of the 5550 products liberalised in the first three rounds of SAPTA, India alone liberalised 2927 products, which is constituting about 52.7 per cent of the total commodities liberalised at the regional level. In terms of coverage of liberalisation the order is as follows: India, Bangladesh, Pakistan, Nepal, Sri Lanka, Bhutan and Maldives.

The depth of tariff cuts under SAPTA varies across countries. Between LDCs and non-LDCs, the level of tariff concession is relatively more in case of LDCs. The level of tariff cuts is the deepest in case of India than other regional partners. In case of India, the tariff cut ranges between 25 to 100 per cent for LDCs, and 10 to 90 per cent for non-LDCs in the region. Sri Lanka's tariff reduction is also very sharp, ranging between 10 to 75 per cent for LDCs. Other countries in the region provide very nominal level of concessions to other regional partners. It ranges between 7.5 per cent to 30 per cent for LDCs and 7.5 per cent to 20 per cent for non-LDCs.

The efficacy of the SAPTA process depends upon: (a) coverage of commodities under concessions, (b) importance of the product in the import basket of the concession granting country, (c) the extent of tariff cutting, and (d) the extent of NTBs removal. The present trade practices in the region indicate that many products, which are subject to SAPTA concessions, are not imported by concession offering countries. The reasons for the anomalies in the regional trade need to be explored.

In the Second Meeting of the IGG on Trade and Liberalisation, the Fourth Round of SAPTA Negotiation was concluded at Kathmandu during 30th October – 1st November, 2002. Selected products considered for tariff concessions in this Round are negotiated at the HS Section, Chapter and across-the-board levels. The coverage of products include those that are either currently traded or have the potentiality for future trade. The date of National Consolidated Schedule of each country is yet to be finalised and it is to be sent to the Secretariat by 30th November 2002.

V. Regional Cooperation and Investment Prospects

The South Asian region is one of the capital scarce region of the world. Low capacity of the region to raise domestic resources and low inflow of FDI, have made the region a capital deficient region. In the 90s, the region economies have initiated aggressive reforms to correct domestic distortions as well as creating conditions for attracting FDI. Despite aggressive policy switching, South Asia continues to be a marginal host of global FDI flows. A few MNEs have chosen the region as a base to produce and export manufactured products to other parts of the world. In this regard, the East and South-East countries have gone ahead of South-Asia in hosting MNEs. Looking at the determinants of FDI flows, Kumar (1998) has identified a few factors such as level of development, urbanisation, poor quality of infrastructure, geographic and cultural distances with major source countries of FDI, etc. The MNEs are also chosen vibrant RTAs, for their level of operations. In order to attract FDI at a large scale, the region has to prepare it self to compete with other vibrant FTAs around the globe.

To meet the investment requirements of the region, there is a need for promoting regional joint venture to expand economic activities in other partner countries. This would help in transferring resources and technology as a part of regional cooperation. One of the characteristics of western technology is that they mostly support mass scale production and the break-even point is set at a higher level of production. The indigenous technology, which is called as 'appropriate technology' of developing countries operates at a lower scale, using local raw materials. The regional joint ventures are generally linked with buy-back policy. The promotion of regional JVs has not only improved production capabilities of host countries but also their export capabilities. Very often it is observed that increase in exports from such source have improved trade imbalances of regional partners. It may be noted that South Asia has in fact benefited by promoting regional JVs, and it is the outcome of regional/bilateral trade liberalisation between the SMCS.

During the last decade, there is surge in the number of Indian JVs in several South Asian countries like Bangladesh, Nepal and Sri Lanka. It is difficult to say whether increase in the number of such JVs is due to trade liberalisation at the regional level or bilateral Free Trade Agreements. These JVs are engaged with varieties of production activities in different parts of the region.

Indo-Sri Lanka JVs and Investment Cooperation

Sri Lanka is the first country to start countrywide economic liberalisation in South Asia. The present investment regime in Sri Lanka is highly liberal than many countries in the region. Almost all sectors of the economy is opened for FDI, and foreign ownership is extended upto cent per cent level. There has been no barrier on repatriation of earnings, fees, foreign exchange, etc. relating to the current account. The country has evolved a strong legal and regulatory procedure to resolve any dispute between contracting parties. Unlike many countries in the region, Sri Lanka has an Arbitration Centre in Colombo, and affiliated to Arbitration Institute of Stockholm Chamber of Commerce (Mukherjee, 2000). The Arbitration Centre follows similar norms and standards as the Stockholm Institute to maintain its credibility in the international community.

India and Sri Lanka have engaged in close economic relations since the second half of the 90s. In 1997, both the countries have signed an important Agreement, known as Investment Protection Agreement. The Bilateral Free Trade Agreement between these two countries was signed in 1998. The favourable economic climate between both the countries has promoted many Indian joint ventures to set up their production units in Sri Lanka. There are about 90 Indian joint ventures

operating in Sri Lanka, and a total investment of US\$109 million is made by these JVs. These JVs are operating in several sectors such as textiles, cement, steel mills, light engineering, rubber & plastics, pharmaceuticals, agriculture, dairy, food processing, hotel, computer software, etc.

Many Indian companies have benefited by undertaking JVs in Sri Lanka. An Indian company, Ceat India limited, engaged in the production of automotive tyres in Sri Lanka. The abundant and cheap rubber in the host country has provided a competitive base to the company over other competitors in the sector. The company is not only exporting to all the regional countries in South Asia but also many other countries in the world. Using its brand name, it is exporting tyres to countries like Bangladesh, India, Nepal, Mauritius and some parts of South America. It is very likely that the Indian JVs with buy-back provisions would help Sri Lanka in accessing large market in India (Kelegama, 1998).

Indo-Nepal JVs and Investment Cooperation

Under the Indo-Nepal Trade and Transit Treaty 1996, Nepal can export manufactured products without any Customs duty. In order to serve the northern Indian market, several Indian companies have relocated their production bases to Nepal. For number of agro and herbal based manufacturing industries, Nepal is an attractive destination. The duty free provision of the Agreement has further induced Indian JVs to operate from Nepal. From a total of 214 foreign ventures in Nepal, there are 72 Indian JVs. The total investment of these Indian outfits constitute about 53 per cent of the total investment of foreign ventures (RIS, 2002). Performances of some of the Indian JVs in Nepal are worth mentioning.

The Colgate-Palmolive Indian Ltd., a subsidiary of Colgate-Palmolive, has initiated a joint venture in Nepal to capture North India market. It has an authorised capital of Rs.540 million to produce 12,000 tonnes of toothpaste and toothpowder per annum. The export of toothpaste from Nepal to India shoot up from US\$11 million in 1997-98 to US\$61 million in 1998-99. According to the Federation of Nepalese Chambers of Commerce and Industry (FNCCI, 2000), the export of toothpaste is the most important Nepalese exports to India. The Dabur India Group, another domestic Indian group, has been engaged in ayurvedic and herbal medicinal preparations. It has initiated a joint venture in food processing sector, particularly in the preparations of fruit juices for the North Indian market. At present the share of Dabur Nepal exports to India constitutes 15 per cent of the total bilateral exports from Nepal. Another important case of Indian JV is Kodak India, which is again a subsidiary of Eastman Kodak, USA. The Kodak Nepal is exporting to north India as a result of shifting its production base from India. There are many such firms which are expanding their operations in neighbouring countries as a result of Free Trade bilateral Agreements.

India's Investment Linkages with other Regional Countries

In recent years, there is a surge investment and JV activities between India and Bangladesh. The latter country has a large reserve of natural gas and this source of energy has attracted many JVs to work on diversified production sectors, particularly in energy-intensive ventures. As a test case, one can review the experience of Shinepukur ceramics, which is engaged in the production of fine ceramics. This company came up as a result of collaboration between Abheesht Exports of New Delhi and Beximo of Bangladesh. The production of the Shinepukur ceramics is exported to India in the brand name of DEOL. More than 90 per cent of its production is exported to various countries of the world. The firm has absorbed about 1500 employees in the joint venture. The energy base of the plant is gas, and kilns of the plant are operated using such energy. The firm has not only helped

Bangladesh in promoting its exports but also expanding its capabilities to export to the rest of the world. The export of the firm reaches countries in Europe and America. Exports to these countries alone constitute 70 per cent of its total exports.

Bhutan has built hydro-electricity ventures by collaborating with India with buy-back facility. With this arrangement India is now a net deficit country with Bhutan.

The above trend indicates that bilateral FTA has picked up in the South Asia. The speedy trade liberalisation at the bilateral level has spur trade, investments and technology flows within the region. The bilateral FTAs initiated by India have been working satisfactorily. Other regional partners are also initiated similar negotiation with regional countries. Such activities would ultimately end up with SAFTA. The experience of South Asia indicates that bilateral cooperation complements regionalism in a more effective manner. Other RTAs in the world can share this experience.

VI. Empirical Analysis

The existing literature provides mixed responses on the implications of different rounds of SAPTA on regional trade. The study of Wadhva (1996) observed that very small number of products are considered for tariff concessions in SAPTA I for regional trade liberalisation. In this situation the size of gains in terms of additional regional trade could be very minimal. In another study, Bhuyan (1996) concluded that the effectiveness of SAPTA I could have improved with the inclusion of tariffs and para-tariffs in the concessions of national schedules. In order to make the SAPTA process effective there is a need for granting deeper cuts in the concessional rates.

Number of studies have attempted to examine the implication of SAPTA on intra-regional trade. The shortcomings of many of these studies are on various grounds, particularly in the choice of appropriate methodology to examine impact analysis. Srinivasan and Canonero (1993) study attempted to examine the consequences of tariff liberalisation at the regional level using gravity model approach. They used various criteria to categorise the regionally traded commodities into nine broad commodity groups. From policy making point of view, these product groups are so aggregative and the nature of these products is so divergent within each group that application of similar tariff elasticities for non-homogeneous products may be inappropriate in simulating implications of tariff removal on bilateral trade flows. The simulation exercise based on these elasticities may not lead us towards valid policy conclusion.

In another study, Mehta and Bhattacharya (2000) examined the implications of first three Rounds of SAPTA on four large economies of the region, namely India, Bangladesh, Pakistan and Sri Lanka. For the simulation exercise they used gravity model estimates of Srinivasan and Canonero (1993). They used data for the year 1993/94 and 1994 for this purpose, which may not be appropriate to predict the actual effects of SAPTA I, II and III on regional trade. SAPTA was first implemented in December 7th 1995 and the effect of the agreement might be felt after 1995. The study has concluded based on their empirical results that the SAPTA process would promote intra-regional trade, particularly in the manufacturing sector.

Examining the trade structure of South Asian trade, the empirical study of Srinivasan (1994) found that the unilateral trade liberalisation may result in substantial gains to the region. Using the gravity model approach, the study observed that complete removal of tariff is likely to result in increase in GDP of India by 3 per cent and that of Nepal by 59 per cent. Similar benefits for other regional partners could be between these two values. If the regional partners propose to undertake a

50 per cent tariff reduction, India's GDP is likely to go up by 1 per cent and Nepal by 9 per cent. The gains for other regional partners could be substantial.

Bhattacharya (2001) attempted to analyse the effects of first three rounds of SAPTA on the region as a whole. Examining all the three Rounds of SAPTA, it is found that the net increase in the regional trade after the conclusion of the third round is very small. Deeper tariff cuts and selection of highly traded products for trade liberalisation within the region could have improved the trade prospects of the region.

The implication of three rounds of SAPTA Agreements on the Indian economy is examined by Mukherjee (2002). Using time series bilateral trade flow data, the study examined the implications of SAPTA on India's exports and imports. The study tried to examine the combined effects of SAPTA I, II and III to understand the impact of regional tariff liberalisation on India's external sector. As discussed earlier, different rounds of SAPTA were launched at different points of time in the latter half of the 90s. In order to study the efficacy of each round, there is a need for examining their effects separately. The study observed that the Second and Third Round were effective in boosting intra-regional trade.

In the present study, an attempt has been made to examine the impact of different rounds of SAPTA on Indian imports and exports. We have not only taken note of trends in trade of concessional products but also performance of other trade falling outside the purview of the SAPTA process since the mid-90s. An attempt has been made to identify the type of products considered by the South Asian countries for regional trade liberalisation.

For examining the effects of SAPTA I, II and III, we need disaggregated, time series bilateral trade flow data for individual countries. The national schedules of concessions are such that very often the chosen products are identified at national lines. For this reason, disaggregated data at 8-digit HS are required for this kind of analysis. Since concessions are country specific (i.e., LDCs or non-LDCs), bilateral trade flow data is also required. Different rounds of SAPTA are implemented in phases over a period of time. To understand the efficacy of each round on individual member countries in the region, there is a need for using time series data.

The existing international databases are inadequate² in providing desired data for the study. We, therefore, chosen Indian database for this analysis primarily for three reasons. Firstly, India is the largest country in this region with largest trade base with rest of the. The product range of India for export and imports is quite broad based. Secondly, India has strong economic ties with most of the countries of the region. Examination of India's trade data may provide some light about the performance of other countries in the region. Lastly, the desired level of disaggregated data are available to examine the regional trade with more precision.

In different rounds of SAPTA, mutually exclusive bundles of products were chosen for invoking tariff concessions. We have estimated the volume of trade in the concessional group of products in different rounds. The volume of trade in three different SAPTA Rounds is presented in Table 4. The shaded regions indicate the years in which the Agreements are, in fact, implemented. If

² Bilateral trade flow data are generally available in TRAINS, PCTAS and COMTRADE. While trade data in HS are available in TRAINS, similar data in SITC are provided in PCTAS and COMTRADE. Since, different Rounds of SAPTA used HS classification for tariff concessions, we preferred to use TRAINS. TRAINS data provide bilateral trade flow data at a aggregative level, i.e. 6-digit HS, where are we required similar data at 8-digit level. Therefore, we resorted to India's country source data for analysing SAPTA implications on regional partners.

the volume of trade is substantial and the trade flow is growing or stayed level without substantial decline, one can conclude that the specific SAPTA round is effective for the concerned member country.

The results indicate that SAPTA I was less effective in augmenting India's import from regional partners. The volume of trade in SAPTA I is very low as compared to other two rounds. Except for Nepal, other LDCs have failed to access Indian market. In the Second Round, the volume of Indian imports increased substantially as compared to the First Round. The LDCs of the region gained more market access than non-LDCs in this Round. Among the non-LDCs, the depth of Pakistan's market access in India was much deeper than that of Sri Lanka in the Second Round. The SAPTA process received the maximum gain in the Third Round. In the Third Round, the volume of India's imports increased significantly from Bangladesh, Nepal and Pakistan. Both Bhutan and Maldives have also significantly benefited from the Third Round in accessing Indian market.

The effectiveness of the SAPTA process can be examined by comparing trade flows in the concessional group of commodities to that of non-concessional trade. If the quotient is hundred per cent or more, it means that trade concessions are granted for significant level of trade. The results indicate that the volume of India's import under first three rounds of SAPTA is much higher than the volume of trade outside SAPTA in case of Bangladesh, Bhutan, Nepal and Pakistan. In case of Maldives, almost fifty per cent of its exports to India is covered under SAPTA in 2001.

Examining growth rate India's bilateral imports from regional partners by different Rounds of SAPTA, it may be observed that India's imports responded favourably to its tariff offer to some regional partners. If we compare growth rates of trade before implementation of SAPTA I to that after, some of the countries such as Sri Lanka, Pakistan and Nepal have benefited by accessing Indian market. In case of Nepal, it is very difficult to say that whether the surge in trade in SAPTA I products are due to SAPTA or Indo-Nepal treaty for trade and transit. In the Second Round, some regional partners have responded immediately (Bangladesh and Nepal) and others responded after a lag of two years (Sri Lanka and Pakistan) in terms of augmenting their exports to India. In the Third Round, India's imports from regional partners have increased significantly except for Sri Lanka. During this period, India's imports from Sri Lanka increased significantly in Non-SAPTA product groups. There are possibilities that India's import might have diverted towards non-SAPTA product groups due to Indo-Sri Lanka trade.

Commodity Composition of India's Imports under SAPTA

The imports of India under first three Rounds of SAPTA made a six-fold increase between 1994-95 to 2000-01 as shown in Table 5. Except for three sections (gems and jewellerys, vehicles and arms & ammunitions), India is importing sizable number of products covering all other broad product segments from the region. Agricultural imports constitutes about one-third of India's total imports from the region under the SAPTA process in 2000-01. Traditionally import of vegetable products (Section 2) is the most important import, but currently import of fats and oils are becoming important for India. Imports are quite substantive in case of chemicals (Section 6) and textiles (Section 11). Besides, it has sizable imports in broad product groups like animal products (Section 1), prepared food stuffs (Section 4), plastic products (Section 7), wood products (Section 9), Base metal (Section 15)) and mechanical appliances (Section 16).

The results show that SAPTA process has augmented India's imports not only in manufactured products but also in agricultural products from the region. While concessional

agricultural imports are concentrated in a few specific product groups, the manufactured products are more diversified.

India's Technology Intensive Imports under SAPTA

It is generally believed that South Asian countries are generally trading in primary and low technology products. India's specific imports from the regional partners, having SAPTA concessions, are further classified into their technology intensities. The study by Lal (2001) has classified tradable products into primary, resource intensive, low tech, medium tech and high tech products, depending upon the type of technologies involved in the production process (see Table 6). India has offered concessions to regional member countries in almost all broad areas of products. Majority of India's concessional imports from the region is falling in the group of primary and resource based agro-manufactured products. Other heavily imported product groups under SAPTA are low-tech textile and footwear products and medium technology processed products.

The trend in the composition of India's imports of these products indicates that the quality of India's imports from the region is improving under the SAPTA process. The share of primary and resource based agro-manufactured products constituted nearly 87 per cent of India's imports in 1994-95, which more than halved in 2000-01. It is interesting to note that large share of India's trade is drifting towards almost all segments of low and medium technology products and also some segment of high tech products.

India's Exports to South Asia under SAPTA

The impact of trade concessions offered by regional countries on India's trade relationship with SMCs very small as compared to India's total trade with the region. The implications of trade concessions to India in different Rounds of SAPTA were different for India's exports to the region as shown in Table 7. As discussed earlier, the bundle of commodities in each Round of SAPTA by individual country is different from other. One can examine the nature of commodities traded in each Round over a period of time for each country separately.

The results indicate that the first two Rounds of SAPTA are, rather, more important than the Third Round in terms of volume of commodity trade. From the first three Rounds, the Second Round remained more important from the point of India's exports to the region.

The use of 'before-after approach' on the implementation of different episodes of SAPTA indicate that the trade liberalisation process in the region was not very promising for India's exports to the region. If we compare growth of India's exports and after the commencement of each Round of SAPTA in Specific SMCs, it was quite significant in case of Bangladesh, Sri Lanka and Nepal. On the contrary, it may not be very favourable in case of Bhutan, Maldives and Pakistan.

The level of preferential trade is very little in comparison with other trade, which is outside the preview of SAPTA. The ratio of concessional to non-concessional trade remained very high for Pakistan, Sri Lanka and Nepal and low for Bangladesh, Bhutan, and Maldives. This ratio is increasing over time in many countries.

Commodity Composition of India's Exports under SAPTA

India's exports to the region under the SAPTA process have been heavily concentrated in a few sectors as shown in Table 8. Agricultural exports played a very important role in India's total exports to the region under the regional PTA. Exports for oils and fats, the export of other agricultural products have been quite impressive as compared to other broad sectors in the manufacturing sector.

The highly concentrated exporting areas are processed food products (Section 4), chemicals (Section 6), textile products (Section 11) and base metals (Section 15). In other areas, India's exports are quite substantial such as vegetable products (Section 2), mineral products (Section 5), and vehicles (Section 17). In other areas, the concession exports from India have been at a low-key level. They are animal products (Section 1), plastic products (Section 7), leather products (Section 8), mechanical appliances (Section 16), optical products (Section 18) and other manufactured items (Section 20).

In certain important product segments, India is consistently improving its market presence in the region. They are processed food products (Section 4), chemicals (Section 6), textile products (Section 11) and base metals (Section 15). In some other product segments, the export performance is quite alarming. Those areas are vegetable products (Section 2) and vehicles (Section 17).

India's exports to the region have been subject to high degree of fluctuations, particularly in those products, which are falling within the purview of SAPTA. If we compare the growth rate of India's exports to the region in different product groups under the SAPTA process, only a few important product groups show relative stability in growth during the period 1994-95/2000-01. These are processed food products (Section 4), chemicals (Section 6), textile products (Section 11) and base metals (Section 15). India's exports to the region in the first three Rounds of SAPTA is growing since 1994-95 except for the period 1998-99/1999-00.

India's Technology Intensive Exports under SAPTA

From the point of view of technology intensity of products covered under SAPTA, India's exports are more diversified than its imports. Indian export ranges from primary products to high technology products as shown by Table 9. The major chunk of India's exports is in the group of primary products, resource based agro-manufactures, Medium technology process-manufactures and high technology manufactures (other than electronic and electrical products). These broad groups of products constitute more than three-fourth of India's exports to the region under SAPTA. India is also exporting significant amount of exports in low tech and medium tech manufactures, particularly in automotive products.

In some product groups, the export is consistently increasing over the years. Those broad group of products are high tech manufactures, low tech manufactures (textiles and footwear) and primary products. In case of some medium tech products (particularly, in process manufactures), the volume of exports was very high in 1994/95, but declined significantly during 1995/96-1999-00, and again picked up in 2000-01. The performance of some product groups over the years has been quite impressive. Some of these broad product groups are primary products, resource base non-agro manufactures, low tech manufacture products, medium tech processed manufactures and other high tech manufactures.

Estimating Trade Potentials

The South Asian intra-regional trade is characterised by low volume of trade, instability, dependence on rest of the world and trade imbalances. In order to make the South Asian Regional Cooperation sustainable, there is a need for expanding regional trade by widening the regional trade basket. Explaining the low level of trade in the region, it is very often argued in the literature that the demand capabilities of the region are very small and supply capabilities are very much constrained by under development of the region.

The analysis of export potential of the regional answers some of these queries. The methodological issues about estimation of export potentials of the region are discussed in section II. The present level of intra-regional trade is much lower than the total export of the region to the world. The region is importing about more than 5,000 commodities at 6-digit HS with the global economy. The size of export basket of the region is marginally smaller than that of imports. If we take note of the tradable products, which are considered strategic from export point of view of South Asian Countries, the region is exporting more than 2000 products to the rest of the world. Of course, the number of strategic export products varies from one country to another.

The South Asian countries can significantly improve their export presence within the region. The regional countries can export about 1534 strategic items to the region. The strategic products are considered after examining the demand and supply conditions of these products in the region. The results dispel the hypothesis that the region lacks demand for the products, which are produced in the South Asian region. It is true that the region is critically dependent on large number of products on the rest of the world. Unfortunately, many of these products are exported by South Asian countries to rest of the world, but they find difficult to get a market within the region itself.

The trade basket of South Asia is so large that the region can absorb large exports in almost all broad product groups from the region. It is generally believed that South Asian countries are basically exporters of traditional commodities, such as textiles, leather products, minerals, agricultural products, etc., and, there may be very little scope for intra-industry trade within the region. The empirical analysis shows that this hypothesis is not correct. Though regional countries export substantial amount of such products, they also import these products from rest of the world. The magnitude of export potentials in these products is so large that perfect liberalisation of at least one broad sector can double the present level of intra-regional trade within a span of just one year. The results presented in Table 10 reveal that full exploitation of the existing potential of any such sector such as textiles, chemicals and machinery may significantly change the magnitude of intra-regional trade during a very short period.

There is a need for drawing lessons from the existing practices of trade liberalisation. The three Rounds of SAPTA failed to fulfil the basic mandate of regional PTA is generating significant amount of additional trade in the region. In fact, trade grew at a faster rate in non-concessional product segments. In this perspective, trade liberalisation with a framework of Free Trade Area could be more realistic in meeting the aspirations of chronically trade deficit countries in the region by widening the coverage of products within the region. The perpetually trade deficit countries of the region are likely to resist the proposal for wider close economic cooperation in trade at the regional level unless the trade deficit issue is addressed properly. The trade potential of the region is about US\$ 8.7 billion dollar per annum. In case the trade potential of the region is fully exploited, the intra-regional trade can be increased by six times with a period of one year, comparing with the present level of trade within the region.

Further Path of Trade Liberalisation

Experiences of South Asian countries indicate that the long term interests of the region lie in regional trade liberalisation. The phrase 'trade liberalisation' does not refer to de-escalation of tariff levels alone but it includes reforms in other non-price factors that are detrimental to trade. The core question is about the choice of appropriate approach to undertake liberalisation programme.

The outcome of reform efforts would be radical, if sectoral approach is chosen to product-by-product approach. Under the sectoral approach, all products under a sector are indiscriminately liberalised. The pace of liberalisation is slow in product-by-product approach. Under this approach specific products are subject to concessional trade. In this approach certain strategic products can be kept outside the purview of trade concessions. However, both the approaches have their advantages and disadvantages. For making the liberalisation process speedier, sector approach is the most appropriate one. At present, we are discussing about the sectors, which are appeared to be important for the South Asian region as a whole. The priority sectors for individual countries of the regions will be discussed in the detailed study.

The present level of intra-regional trade is very low and there are possibilities of augmenting regional trade through intra-industry trade. At least in each of the four broad product segments namely textile products (Section XI), Chemicals (Section VI), vegetable products (Section II) and machinery & mechanical appliances (Section XVI), the existing trade potential of the region is higher than that of the present level of intra-regional trade as shown in Table 10. For exploring the full benefit of the existing trade potentials, there is no need for liberalising the entire trade sectors. A few sub-sector with an important trade sector could be opened up to maximise the intra-regional trade. For example, opening up of three sub-sectors like cotton (Chapter 52), man-made filaments (Chapter 54) and man-made staple fibers (Chapter 55) can provide more than 80 per cent of the total export potentials of the textile sector. Similarly export potential of inorganic chemical compounds (Chapter 28), organic chemicals (Chapter 29), pharmaceutical products (Chapter 30) and tanning or dyeing extracts (Chapter 32) cover around 80 per cent of the chemical sector. Considering the magnitude of trade potential of the region, four most important sectors namely textiles, vegetable products, chemical and machinery should be considered for liberalisation in the first phase.

The second phase of liberalisation should include base metals (Section XV) and vehicles (Section XVII). The third phase of liberalisation may include products such as gems and jewellery (Section XIV), plastic products (Section VII), mineral products (Section V), prepared food stuffs and beverages (Section IV), and pulp of wood or fibers (Section X). The remaining product groups can be liberalised in the last phase. The order of liberalisation may be altered depending upon the request of members of the region, especially to provide adequate market access to net trade deficit countries of the region.

VII. Conclusion

Since the formation of SAARC in 1985, the South Asian economies have moved through various stages of regional cooperation. The First Round of SAPTA was implemented in December, 1995 and the Fourth Round was concluded in 2002 November. Though implications of different Rounds of SAPTA on regional economies are different, the overall effects of SAPTA on the region has been significant.

In the first three Rounds of SAPTA, 5500 products were liberalised and LDCs of the region are given more concessions than the non-LDCs. India has offered maximum number of 2927 products in the first three Rounds of SAPTA. The coverage and depth of tariff cuts vary across countries in the region. The regional process is likely to be strengthened with the implementation of SAPTA IV and SAFTA.

Intra-regional trade has been growing during the last one decade, with high degree of instability at the regional as well as at the bilateral level. The bilateral trade imbalances, particularly

with India, has been a core issue of discontent between some regional partners. Some efforts are made by India in the last SAPTA Round to address this issue.

In order to examine the efficacy of SAPTA, India's bilateral time series trade data are used in the absence of similar trade information for other regional countries. The low volume of India's import trade under SAPTA I increased sharply in the subsequent two Rounds. In case of small countries, India's volume of imports under SAPTA was much higher than other trade, which are falling outside the purview of SAPTA. Though India's preferential imports under SAPTA are rising very fast, the share of such imports in total imports of the region is declining steadily. This shows growth of India's normal imports with the regional partners. This may be partly due to bilateral Free Trade Agreements with some regional economies. The implementation of bilateral FTA has led to surge of bilateral investment activities in the region. This may be a reason for augmented trade activities of India with regional partners outside the SAPTA process.

India's preferential import basket under SAPTA is quite diversified. Some of the important import segments are vegetable products, chemical and textiles. It has been importing significant volume of other products such as prepared foodstuffs, plastic products, base metals and mechanical appliances from regional countries. Sizeable amount of such imports fall in the category of primary and resource based agro-manufactured products. Other important imports of India are in the broad product group of low technology (textile and footwear products) and medium technology products.

India's exports to the region is also very significant but a very small proportion of preferential exports fall under the SAPTA as compared to total exports to the region. Tariff preferences granted by regional partners to India in the Third Round is much lower than the earlier two Rounds. India's exports comprise mostly of processed food, chemical, textiles and base metals. Other important product categories for exports are vegetable products, minerals and vehicles. A large proportion of India's exports under SAPTA is in the category of primary, resource based agro-manufactures, medium technology manufactures and high technology manufactures (other than electronic and electrical products).

The region has substantial potentials for trade and investment. The study rejects the hypothesis that South Asian countries competes among themselves to export similar kind of products to the world market and therefore, the level of regional trade is very low. The study found that there is significant level of trade potential in the region to promote intra-regional trade. Complete harnessing of export potential of some important sectors may significantly improve the prospects of intra-regional trade. It is estimated that the trade potential of the region is more than six times than the present level of intra-regional trade.

There is a need for deeper and strategic trade liberalisation to foster intra-regional trade. The region should adopt sectoral approach as the basis for trade liberalisation. The liberalisation process can be made in phases. In the first phase broad product groups like textile, chemicals, vegetable products and machinery and mechanical appliances may be considered for trade liberalisation. The other important product groups may be chosen in subsequent phases. The implementation of SAPTA IV and SAFTA would lead to significant growth in regional trade and hence, improve welfare of the South Asian countries.

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Table 1: Intra-Regional Trade of South Asian Countries in the 1990s

(in Million US\$)

Country	Export/ Imports	1990	1995	1996	1997	1998	1999	2000	Average Growth 1991-2000
Bangladesh	Import	60	83	60	82	103	88	89	8.0
	Import	257	1151	1129	889	1278	1130	1056	19.5
	TB	-197	-1068	-1069	-807	-1175	-1042	-967	23.6
India	Export	487	1544	1650	1464	2030	1908	2019	16.7
	Import	97	198	198	184	484	375	381	27.2
	TB	390	1346	1452	1280	1546	1533	1638	17.0
Maldives	Export	7	11	11	11	13	12	30	21.4
	Import	18	47	60	74	77	85	148	24.6
	TB	-11	-36	-49	-63	-64	-73	-118	27.8
Nepal	Export	15	30	74	101	162	163	183	44.7
	Import	52	132	457	450	454	475	539	38.9
	TB	-37	-102	-383	-349	-292	-312	-356	46.5
Pakistan	Export	223	252	240	225	415	301	286	8.0
	Import	121	169	293	228	225	200	423	18.7
	TB	102	83	-53	-3	190	101	-137	-
Sri Lanka	Export	69	101	109	120	113	144	190	11.6
	Import	184	545	647	620	647	630	707	16.0
	TB	-115	-444	-538	-500	-534	-486	-517	20.2

Data Source: Direction of Trade Statistics, various issues, IMF.

Note: TB and SA refers to Trade Balance and South Asia respectively.

Table 2: Bilateral Trade Balance of Regional Countries in the 1990s

(in Million US\$)

Reporting Country	Partner Country	1990	1995	1996	1997	1998	1999	2000
Bangladesh	World	-1984	-3367	-3638	-3235	-3548	-3832	-3403
	South Asia	-197	-1068	-1069	-807	-1175	-1042	-967
	Bhutan	-7	-4	-5	-4	-5	-3	-4
	India	-148	-958	-997	-759	-1124	-974	-895
	Maldives	0	0	0	0	-1	-1	-1
	Nepal	5	6	-6	-10	4	-4	-3
	Pakistan	-47	-112	-53	-29	-44	-60	-58
	Sri Lanka	0	0	-8	-5	-5	0	-6
India	World	-6177	-3947	-3730	-5769	-5718	-6461	-5426
	South Asia	390	1346	1452	1280	1546	1533	1638
	Bangladesh	282	881	774	608	973	877	804
	Bhutan	0	-4	-7	-2	-3	-4	-4
	Maldives	5	12	51	7	31	36	42
	Nepal	25	80	109	76	177	186	214
	Pakistan	-2	33	102	165	-80	26	100
	Sri Lanka	80	344	423	426	448	412	482
Maldives	World	-86	-307	-243	-279	-279	-338	-166
	South Asia	-11	-36	-49	-63	-64	-73	-118
	Bangladesh	0	0	0	0	0	0	1
	India	-7	-31	-36	-41	-39	-40	-46
	Pakistan	-1	-1	-1	-1	-2	-2	-2
	Sri Lanka	-3	-4	-12	-21	-23	-31	-71
Nepal	World	-236	-429	-988	-1243	-990	-920	-947
	South Asia	-37	-102	-383	-349	-292	-312	-356
	Bangladesh	-7	-7	-5	1	4	2	3
	India	-29	-93	-375	-344	-294	-311	-357
	Pakistan	-1	-3	-2	-4	-5	-1	-1
	Sri Lanka	0	1	-1	-2	3	-2	-1
Pakistan	World	-1796	-3470	-2851	-2979	-875	-1858	-1893
	South Asia	102	83	-53	-3	190	101	-137
	Bangladesh	65	118	73	48	71	78	104
	Bhutan	0	-1	1	0	0	0	0
	India	3	-42	-171	-109	49	-47	-122
	Maldives	1	1	3	0	2	1	1
	Nepal	1	2	6	3	7	1	0
	Sri Lanka	32	5	35	55	61	68	-120
Sri Lanka	World	-741	-680	-651	-653	-1288	-1633	-1229
	South Asia	-115	-444	-538	-500	-534	-486	-517
	Bangladesh	1	6	10	9	9	7	6
	India	-98	-437	-519	-516	-501	-463	-542
	Maldives	1	-3	2	10	22	32	60
	Nepal	0	-1	1	-3	0	2	1
	Pakistan	-19	-9	-32	0	-64	-64	-42

Data Source: Direction of Trade Statistics, various issues, IMF.

Note: IMF does not report Direction of trade of Bhutan.

Table 3: Tariff Concessions Offered by Individual SMC in different Rounds of SAPTA

Concession Offering Country	SAPTA Round	No. of HS Lines offered		
		for all countries	for LDCs	Total
Bangladesh	I	11 (10)*	1 (10)	12
	II	215 (10)	11 (10)	226
	III	338 (10)	143 (10 & 15)	481
Bhutan	I	4 (15)	7 (10,13 & 15)	11
	II	37 (10)	10 (15)	47
	III	23 (10)	101 (10, 18 & 20)	124
India	I	44 (10,25,30,50 & 90)	62 (50 & 100)	106
	II	390 (10,15,25 & 40)	514 (25 & 50)	904
	III	43 (10 & 20)	1874 (50)	1917
Maldives	I	17 (7.5)	17 (7.5)	34
	II	5 (10)	2 (15)	7
	III	390 (5 & 10)	368 (5 & 10)	758
Nepal	I	10 (7.5 & 10)	4 (10)	14
	II	166 (10)	67 (15)	233
	III	52 (10)	137 (10 & 15)	189
Pakistan	I	20 (10)	15 (15)	35
	II	227 (10)	131 (15)	358
	III	24 (20)	271 (30)	295
Sri Lanka	I	20 (10 & 20)	11 (10 & 15)	31
	II	72 (10)	23 (10,50 & 60)	95
	III	28 (10)	54 (10, 30, 50 & 75)	82
Total	I	126	100	226
	II	1109	759	1868
	III	876	2580	3456

*Figures in parentheses represent percentage concessions in tariff rates.

Notes: The number of commodities covered under SAPTA-I, SAPTA-II and SAPTA-III are not comparable. The level of disaggregation of products differ significantly from one country to another.

Source: SAARC Secretariat.

Table 4: Profile of India's Imports from South Asian Countries under various Rounds of SAPTA

(in Rupees Lakh)*

Exporting Country	SAPTA Round	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Bangladesh	I	-	-	-	-	13.57	26.56	203.31
	II	9.08	6.56	6.49	35.90	26.91	26.34	65.47
	III	5959.24	6739.92	9203.63	12024.00	20868.79	22546.51	24086.08
	NCT	897.76	516.48	388.98	1520.46	1222.91	942.27	3155.92
Bhutan	I	-	-	-	-	-	-	1.20
	II	-	-	-	21.95	-	60.83	13.56
	III	1571.63	2651.16	3739.88	1454.58	1957.06	1043.46	1052.94
	NCT	424.26	1011.57	515.84	366.61	242.25	365.48	432.40
Sri Lanka	I	107.80	239.66	485.70	524.74	2353.29	2519.35	2119.47
	II	210.19	536.10	307.79	244.44	63.20	182.52	208.07
	III	12.37	38.76	18.70	118.99	150.83	142.68	63.95
	NCT	6711.08	7651.31	9324.20	7269.00	9536.14	10966.04	13709.19
Maldives	III	4.93	2.24	6.23	24.65	7.75	61.94	17.52
	NCT	24.00	59.24	44.62	38.89	10.67	95.85	20.43
Nepal	I	462.48	302.05	612.15	541.44	612.35	644.71	1077.24
	II	129.54	460.03	102.65	206.75	891.67	1576.37	1232.42
	III	3457.11	7402.13	11601.48	23314.90	43605.77	54552.47	71653.79
	NCT	3497.20	3866.79	4212.32	5140.60	5919.46	7987.94	18813.78
Pakistan	I	60.24	70.29	211.28	115.23	287.68	379.10	208.42
	II	1961.00	2161.73	841.48	634.21	583.62	983.05	3657.64
	III	5932.59	4286.06	8403.92	7809.43	8315.35	9606.31	11199.12
	NCT	5679.01	1509.01	965.96	6325.79	78338.00	11019.59	11558.94

Data Source: SAARC Secretariat, Kathmandu and India Trades, CMIE, India.

Note: The actual implementation of different Rounds of SAPTA is indicated by the shaded region
NCT denotes bilateral trade out side SAPTA.

* One million = Ten lakh

Table 5: India's Imports from South Asian Countries under SAPTA I, II and III

(in Rupees Lakh)

Section	Description	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
I	Live animals and animal products	200.0	2719.9	1638.3	3926.4	6057.4	2997.1	2401.0
II	Vegetable products	8362.6	7104.5	10222.6	9422.8	11302.5	12856.5	17645.5
III	Animal or veg fats & oils	604.8	732.1	619.9	6493.2	19114.0	16156.3	23702.1
IV	Prepared foodstuff, beverages, etc.	165.9	455.6	493.9	1056.1	949.5	2123.1	1488.0
V	Mineral products	282.1	299.8	354.6	60.9	11.8	180.0	190.3
VI	Products of the chemicals	891.2	3502.4	6661.7	10477.5	13140.2	24039.6	29835.6
VII	Plastics & articles thereof	13.8	48.5	13.1	117.0	164.9	609.8	1623.0
VIII	Raw hides & skins, leather	118.3	467.3	102.4	145.3	203.4	208.6	165.3
IX	Wood & articles of wood	1501.2	2323.1	3739.2	1481.9	2374.5	1621.4	1976.3
X	Pulp of wood or of other fibers	12.5	54.7	15.0	64.7	429.5	466.9	1198.3
XI	Textile & textile articles	7685.0	7173.9	11251.7	13216.5	24500.7	28723.0	30748.0
XII	Footwear, headgear, umbrellas	2.0	0.9	-	199.2	531.7	489.0	623.7
XIII	Articles of stone, plaster, cement	1.0	7.0	29.5	12.6	21.2	58.0	139.7
XV	Base metals & articles of base metal	12.0	2.0	390.4	293.4	739.6	2959.2	3969.7
XVI	Machinery & mechanical appliances	26.0	3.0	9.0	101.0	180.5	808.7	1093.1
XVIII	Optical, photograph, cinematographic	-	1.0	0.0	0.0	7.0	36.5	16.9
XX	Misc manufactured articles	0.0	1.0	0.0	3.0	9.5	18.7	43.8
	Total	19878.2	24896.7	35541.4	47071.2	79737.8	94352.2	116860.2

Data Source: India Trades, CMIE, India

Table 6: Structure of India's Technology Intensive Imports from South Asian Countries under SAPTA I, II & III

(in Rupees Lakh)

Sl No	Product Description	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
1	Primary products	8776.5	10015.0	12117.2	13385.7	17777.7	16928.9	20313.2
2	Resource based manufacturers (agro-based)	8456.3	8302.6	12471.7	14148.9	31468.9	34308.3	36913.0
3	Resource based manufacturers (other)	129.7	249.7	286.4	464.7	1056.6	2070.1	2016.8
4	Low technology manufactures (textile, garments & footwear)	1580.3	2721.7	3625.6	7855.4	15589.9	13924.3	22254.0
5	Low technology manufactures (Other products)	24.1	58.6	412.6	378.5	920.2	3485.8	5378.5
7	Medium technology manufactures (process)	872.8	2628.0	3755.5	8021.6	10651.9	19590.2	24715.0
8	Medium technology manufactures (engineering)	-	3.0	0.0	79.0	122.0	792.5	1028.8
9	High technology manufactures (Electronic and Electrical)	25.0	1.0	9.0	20.0	65.5	19.0	80.8
10	High technology manufactures (Other)	13.5	917.1	2863.4	2717.5	2085.1	3233.1	4160.1
	Total	19878.2	24896.7	35541.4	47071.2	79737.8	94352.2	116860.2

Data Source: India Trades, CMIE, India

Note: The classification of products is made by the author based on Lal (2001).

Table 7: Profile of India's Exports from South Asian Countries Under various Rounds of SAPTA
(in Rupees Lakh)

Importing Country	SAPTA Round	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Bangladesh	NCT	165722.2	299735.59	238244.16	225025.19	359620.71	196849.52	305369.96
	I	629.75	991.63	1426.91	1237.55	1326.14	3220.15	2723.38
	II	524.35	747.91	2263.99	6002.01	5268.59	6507.98	14279.7
	III	261.32	499.4	1191.67	562.04	454.07	907.89	1468.58
Bhutan	NCT	3008.82	4879.82	6562.21	3496.21	2710.96	2222.06	306.75
	I	-	-	3.59	2.58	2.05	-	2.6
	II	-	-	41.11	3.94	2.07	3.75	0.28
	III	-	-	4.88	4.8	3.34	-	-
Sri Lanka	NCT	76910.03	90523.22	117795.27	116488.19	114750.25	137742.75	174787.73
	I	6841.35	9027.69	8588.59	7546.64	8333.84	6846.51	8851.79
	II	5698.7	5828.02	8371.64	10163.86	6059.29	-	14387.14
	III	223.99	323.07	1447.07	1268.39	832.94	1317.94	1402.67
Maldives	NCT	3539.36	3777.65	2834.27	2829.08	3004.3	2469.76	8615.94
	I	2.85	15.15	7.14	4.43	8.38	6.15	13.96
	II	-	-	-	-	0.11	-	2.93
	III	0.46	0.42	5.62	3.18	2.27	3.16	31.13
Nepal	NCT	26445.88	37870.15	37622.28	42556.4	33341.93	43985.74	37631.37
	I	180.04	649.94	807.3	681.68	535.27	666.04	290.47
	II	5603.94	7302.56	9390.05	10230.26	9880.02	12575.82	14919.73
	III	19.29	48.28	30.33	47.57	89.79	43.01	89.55
Pakistan	NCT	5388.44	7558.92	34536.98	28880.11	18572.95	19126.94	49781.68
	I	332.31	920.52	542.36	531.69	1268.13	1149.74	563.36
	II	8712.49	14741.11	14992.15	17339.37	18187.41	14066.27	15692.5
	III	391.23	74.82	46.84	103.17	556.21	117.15	274.81

Data Source: SAPTA Secretariat, Kathmandu, India Trades, CMIE, India.

Note: NCT denotes bilateral trade out side SAPTA.

Table 8: India's Exports to South Asian Countries Under various Rounds of SAPTA: BY HS Section

(in Rupees Lakh)

Section	Description	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
I	Live animals and animal products	546.63	768.59	1796.95	1516.8	1051.81	919.32	1039.68
II	Vegetable products	1900.77	3520.43	5268.07	4659.67	3623.35	3345.78	3219.29
III	Animal or veg fats & oils	-	-	-	-	0.08	0.73	1.31
IV	Prepared foodstuff, beverages, etc.	4780.51	8809.98	8622.48	12789.46	15408.68	14839.72	21936.34
V	Mineral products	1930.3	2383.72	2481	4074.48	3237.88	2651.12	3288.07
VI	Products of the chemicals	7459.22	11418.77	13852.51	15490.92	15991.04	18022.46	21824.67
VII	Plastics & articles thereof	1179.05	1342.52	1684.95	1753.7	821.58	292.37	568.75
VIII	Raw hides & skins, leather	7.63	16.43	65.82	53.85	37.89	161.99	246.01
IX	Wood & articles of wood	0.06	13.64	14.13	9.33	7.34	2.5	36.82
X	Pulp of wood or of other fibers	-	6.62	3.13	-	-	-	-
XI	Textile & textile articles	2008.32	2422.46	4034.01	5759.69	3948.51	4349.9	6235.86
XII	Footwear, headgear, umbrellas	-	-	4.88	4.8	3.34	-	-
XIII	Articles of stone, plaster, cement	207.09	97.46	163.15	97.19	88.37	27.2	101.65
XIV	Natural or cultured pearls, jewellery	-	5.29	33.9	0.43	8.26	2.21	44.15
XV	Base metals & articles of base metal	5617.44	3733.85	5509.72	5096.86	3315.36	4428.82	9838.07
XVI	Machinery & mechanical appliances	892.21	734.71	1340.85	1001.09	1103.09	1747.41	1348.76
XVII	Vehicles, Aircraft, Vessels	2663.32	5657.34	4080.9	3091.64	3846.88	2610.98	4833.3
XVIII	Optical, photograph, cinematographic	196.96	215.98	194.37	268.58	268.87	322.34	389.17
XX	Misc manufactured articles	32.56	22.73	10.42	63.96	47.59	26.6	42.68
XXI	Works of art collectors' pieces	-	-	0	0.71	-	-	-
	Total	29422.07	41170.52	49161.24	55733.16	52809.92	53751.45	74994.58

Data Source: India Trades, CMIE, India

Table 9: Structure of India's Exports from South Asia Under SAPTA I, II & III

(in Rupees Lakh)

Sl No	Description	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
1	Primary products	7560.88	13406.37	16521.46	19768.38	20543.53	21133.55	27273.68
2	Resource based manufacturers (agro-based)	479.22	631.42	639.72	464.22	656.54	837.33	824.93
3	Resource based manufacturers (other)	4224.82	6830.56	7122.39	8981.57	8973.16	5981.96	8630.17
4	Low technology manufactures (textile, garments & footwear)	2010.91	2438.89	4104.71	5818.27	3991.22	4510.76	6471.21
5	Low technology manufactures (Other products)	3348.51	1735.75	2840.11	4036.08	3083.29	3587.4	4374.34
6	Medium technology manufactures: Automotive	2663.32	5657.34	4080.9	3091.01	3846.88	2610.98	4833.3
7	Medium technology manufactures (process)	3427.64	3552.05	4599.51	3695.58	1702.83	1933.49	7462.41
8	Medium technology manufactures (engineering)	856.65	747.66	1144.03	1068.88	1133.87	1852.08	1559.78
9	High technology manufactures (Electronic and Electrical)	261.59	202.97	390.37	207.66	239.3	225.09	179.36
10	High technology manufactures (Other)	4588.53	5967.51	7718.04	8601.51	8639.3	11078.81	13385.4
	Total	29422.07	41170.52	49161.24	55733.16	52809.92	53751.45	74994.58

Data Source: India Trades, CMIE, India*Note:* The classification of products is made by the author based on (2001).

Table 10: Trade Potentials of South Asian Region* in 1998

(in '000 US\$)

Section	Description	Imports	Exports	Trade Potentials
I	Live animals and animal products	116455	1728947	83044
II	Vegetable products	1706580	4002522	874910
III	Animal or veg fats & oils	1267011	282872	79625
IV	Prepared foodstuff, beverages, etc.	680090	1035038	170736
V	Mineral products	8973499	1433769	290642
VI	Products of the chemicals	3824440	3371323	1362106
VII	Plastics & articles thereof	1129242	858062	387646
VIII	Raw hides & skins, leather	140932	1496967	59451
IX	Wood & articles of wood	405348	98538	23402
X	Pulp of wood or of other fibres	761837	144983	119066
XI	Textile & textile articles	3269645	16310334	1325953
XII	Footwear, headgear, umbrellas	42679	994387	21688
XIII	Articles of stone, plaster, cement	140092	477457	82207
XIV	Natural or cultured pearls, jewellery	9284088	7396941	367555
XV	Base metals & articles of base metal	2359748	2252903	801594
XVI	Machinery & mechanical appliances	6200869	2336491	1767802
XVII	Vehicles, Aircraft, Vessels	1370624	963193	634520
XVIII	Optical, photograph, cinematographic	686640	238560	144164
XIX	Arms & ammunitions	7375	2614	576
XX	Misc manufactured articles	131311	606461	68556
XXI	Works of art collectors' pieces	134	31705	0

Data Source: TRAINS, UNCTAD, 2001.*Note:* * Imports of the region does not include Pakistan and Bhutan

Appendix I: Classification of Technology Intensive Products

Sl.No.	Product Type	Commodities
1	Primary Products	Live animal for food, Meat fresh, child, frozen, Milk and Cream, Eggs, birds, fresh, preserved, Fish, fresh, chilled, frozen, Shell fish fresh, frozen, Wheat Etc. unmilled, Rice, Barely unmilled, Maize unmilled, Cereals nes unmilled, Veg etc. fresh, simply preserved, Fruit, nuts, fresh, dried, Coffee and substitutes, Cocoa, Tea and mate, Spices, Feeding stuff for animals, Margarine and shortening, Tobacco unmanufactured, refuse, Hides, skins, exc furs, raw, furskins, raw, Seeds for soft fixed oil, Seed for other fixed oils, Natural rubber, gums, Cork, natural, raw, waste, Fuel wood nes, charcoal, Pulpwood, chips, woodwaste, Silk, Cotton , Wool (exc tops), animal hair, Fertilizers, crude, Stone, sand and gravel, Sulphur, unroasted im pyrte, Natural abrasives nes, Other crude minerals, Crude animal materials nes, Crude veg materials nes, Coal, lignite and peat, Crude petroleum, Gas, natural and manufactured, Silver, platinum, etc., Copper exc cement copper, Nickel, Aluminum, Lead, Zinc, Tin
2	Resource Based Manufactures: Agro-based	Meat dried, salted, smoked, Meat prepared, preserved, nes etc., Butter, Cheese and curd, Fish salted, dried, smoked, Fish etc. prepared, preserved nes, Wheat etc. meal or flour, Other cereal meals, flour, Cereal etc. preparations, Vegetables etc. preserved, prepared, Fruit preserved, prepared, Sugar and honey, Sugar candy non-chocolate, Chocolate and products, Edible products, preparations nes, Non-Alcohol beverages nes, Alcoholic beverages, Tobacco, manufactured, Rubber, synthetic, reclaimed, Other wood rough, squared, Wood shaped, sleepers, Pulp and waste paper, Jute, other textile bast fibers, Veg fiber, excel cotton, jute, Waste of textile fabrics, Fexed veg oils, soft, Fixed veg oil non-soft, Processed animal veg oil, etc., Materials of rubber, Rubber tyres, tubes etc., Rubber articles nes, Cork manufactures, Veneers, plywood, etc., Wood manufactures nes, Paper and paperboard
3	Resource Based Manufactures: Other	Iron ore, concentrates, Iron and steel scrap, Uranium, thorium ore, conc, Base metal ores, conc nes, Non-ferrous metal scrap nes, Precious metal ores, waste nes, Briquets, coke, semi-coke, Petroleum products, refin, Residual petroleum products nes, Animal oils and fats, Hydrocarbons nes, derives, Nitrogen-fcntr compounds, Org-inorganic compounds etc., Other organic chemicals, Inorganic elements, oxides, etc., Other inorganic chemicals etc., Synthetic dye, nat indgo, lakes, Dyes nes, tanning products, Essential oils, perfume, etc., Starch, inulin, gluten, etc., Lime, cement, building products, Clay, refractory building products, Mineral manufactures nes, Glass, Pearl, precious, semi-precious stone, Uranium, thorium, alloys, Non-Ferrous metals nes
4	Low technology Manufactures: Textile, Garment & Footwear	Leather, Leather etc. manufactures, Fur skins tanned, dressed, Textile yam, Cotton fabrics, woven, Other woven textile fabrics, Knitted, etc. fabrics, Lace, ribbons, tulle, etc., Special textile fabrics, products, Textile articles nes, Floor coverings, etc., Travel goods, handbags, Men's outer wear not knitted, Women's outerwear non-knitted, Under garments not knitted, Outer wear knitted non-elastic, Under garments knitted, Textile clothing access nes, Headgear, non-textile clothing, Footwear
5	Low Technology Manufactures: Other Products	Paper, etc., precut, Glassware, Pottery, Iron, steel shapes etc., Iron, steel univ, plate, sheet, Iron, steel hoop, strip , Railway rails etc iron, steel, Iron, steel wire (excel w rod), Iron, steel castings unworked, structures and parts nes, Metal tanks, boxes, etc., Wire products non-electronic, Steel, copper nails, nuts, etc., Tools, Cutlery, Base metal household equipment, Base metal manufactures nes, Furniture, parts thereof, Articles of plastic nes, Toys, sporting goods, etc., Office supplies nes, Gold, silver ware, jewelery, Musical instruments, parts, Other manufactured goods
6	Medium Technology Manufactures: Automotive	Pass motor vehicle exc. Buses, Lorries, specially motor vehicles nes, Road motor vehicles nes, Motor vehicle parts, access nes, Cycles, etc. motorized or not

7	Medium Technology Manufactures: Process	Synthetic fibers to spin, Other man-made fibres, Alcohols, phenols etc., Carboxylic acids etc., Pigments, paints, etc., Perfumery, cosmetics, etc., Soap, cleansing etc. preparations, Fertilizers, manufactured, Explosives, pyrotech products, Product of condensation etc., Polymerization etc. products, Cellulose derivatives etc., Plastic material nes, Pesticides, disineffectants, Miscellaneous chemical products nes, Woven man-made fibrics, Pig iron etc., Iron, steel primary forms, Iron, steel tubes, pipes, etc., Trailers, non-motor vehicle, nes, Railway vehicles, Photo, cinema supplies
8	Medium Technology Manufactures: Engineering	Steam boilers & aux plant, Internal combus pisten engine, Engines and motors nes, Agricultural machinery, exc. tractors, Tractors non-road, Civil engineering equipment etc., Textile, leather machinery, Paper etc. mill machinery, Printing, binding machinery pts, Food machinery non-domestic, Other machinery for special industry, Metal working machinery-tools, Metal working machinery nes, Heating, cooling equipment, Pumps for liquids etc., Pumps nes, centrifuges etc., Mechanical handling equipment, Non-electric machinery, tools nes, Non-electric machinery parts, acc nes, radio broadcast receivers, Sound recorders, phonography, Switchgear etc, parts nes, Electric distributing equipment, Household type equipment nes, Ships and boats etc., Plumbing, heating, lighting equipment, Medical instruments nes, Meters and counters nes, Optical goods nes, Watches and clocks, War firearms ammunitions
9	High Technology Manufactures: Electronic & Electrical	Rotating electric plant, Other power generating machinery, Office machines, Automatic data processing equipment, Office, adp machinery parts, access, Television receivers, Telecom equipment, parts, access nes, Electric power machinery nes, Electro-medical, xray equipment, Transistors, valves, etc., Electrical machinery nes
10	High Technology Manufactures: Other	Radioactive etc. material, Medicinal, pharmaceutical products, steam engines, turbines, Aircraft etc., Optical instruments, Measuring controlling instruments, Photo apparatus, equipment nes

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