

# **EXPLORING PAKISTAN'S REGIONAL ECONOMIC COOPERATION POTENTIAL**

by

**A. R. Kemal**

## **I. INTRODUCTION**

Despite GATT and now WTO, regional trade arrangements have proliferated and the most important new initiative has been NAFTA. Whether such regional arrangements result in the improvements in welfare of member countries and the world at large or not has been widely debated [see for example, Viner (1950), Meade (1955), Lipsey (1957), Corden (1972), Kemp and Wan (1976), Kowalczyk (1990), Bhagwati (1971, 1993), Melo and Panagariya (1993) Anderson and Blackhirst (1993), Baldwin and Venables (1995), Bhagwati and Panagariya (1996), Srinivasan (1993, 1997), Vamvakids (1998) Bhagwati, Krishna and Panagariya (1999), Clausing (2001) and Panagariya (1999, 2000)]. The proliferation of Preferential and Free Trade Areas, however, has resulted in what Bhagwati (1995) calls a "Spaghetti Bowl" of tariffs; each country is applying different rates of tariffs for a product for different countries. The free trade intentions of the regional trade arrangements, therefore, may have resulted in a chaos leading to reduction in the welfare [For an excellent survey of regional trade arrangements, see Panagariya (2000)]. Nevertheless, though the best way of optimizing gains from trade is the multilateral trade framework, in the presence of regional arrangements the countries that are not part of any regional trade groupings will be denied the advantage of higher levels of trade.

Pakistan is a member of the two regional groupings, viz. South Asian Association for Regional Cooperation (SAARC) and Economic Cooperation Organization (ECO) but so far both of them have met with limited success. The intra-regional trade has been around 4 percent of the total trade in both the SAARC and the ECO although in both the organizations exports of member countries receive preferential treatment. The Islamabad SAARC summit declaration promises the South Asian Free Trade Area (SAFTA) over not very distant future, and hopefully would give a boost to economic cooperation amongst the South Asian countries. ECO countries have also taken important initiatives for the higher levels of cooperation and may also come up with similar arrangements.

The lack of success in promoting trade in both the regions despite the agreements and pronouncements at highest levels reflects the ambivalent attitude of the member countries towards regional cooperation. While South Asian Preferential Trade Agreement (SAPTA) and Framework Agreement for Trade Cooperation (FAT) were signed during the last decade, most of the member countries are still reluctant to grant preferential treatment to the products of export interest of the other member countries. The success of SAFTA would depend upon the number of products and the kinds of products included in the sensitive list.

Obviously, if the products of the export interests of the member countries are placed on the sensitive list the benefits of SAFTA would be minimal.

The success of regional integration, preferential treatment, free trade area or a custom union, depends on a number of factors, and most important of which are the pattern of comparative advantage and the extent of trade complementarity within a regional trading bloc. Intra-regional trade is promoted in situations where members have comparative advantage in diverse products and exhibit strong trade complementarities. On the other hand, prospects of regional trade expansion are likely to be limited for countries whose production and trade structures are characterized by identical pattern of comparative advantage and low trade complementarities<sup>1</sup>. However, various constraints may not allow the trade to flourish despite the comparative advantage and low transport costs. The constraints to possibilities of trade expansion and other modes of economic cooperation, therefore, need to be identified and resolved.

The present study briefly reviews intra-regional trade both in the SAARC as well as ECO and identifies constraints to intra-regional trade and other modes of economic cooperation. Brief review of the literature of regional cooperation and its implications is presented in Section II. The intraregional trade levels and patterns are examined in section III. Constraints to intra-regional trade especially the trade complementarities, revealed comparative advantage and intra-industry trade are analysed in Section IV. The possibilities of investment and joint ventures are analysed in Section V. SAFTA agreement and possibilities of greater economic cooperation are examined in Section VI. Main conclusions are summarized in section VII.

## II. REGIONAL COOPERATION AND ECONOMICWELFARE

Regional arrangements may take various forms including:

- i) *Preferential Trade Area*: Preferential treatment is granted to the member countries in the form of reduction in the import duty on their exports.
- ii) *Free Trade Area*: Imports are allowed duty-free from the member countries, but each country individually determines the level of tariffs on the non-member countries.
- iii) *Custom Union*: Besides allowing duty-free imports from the member countries, uniform tariff is imposed on the imports from the non-member countries.
- iv) *Economic Union*: Besides the duty-free tariffs on member countries and uniform tariff for the non-member countries, factors of production move freely across the member countries. Moreover, it has uniform competition policy and all other measures aimed at strengthening of market mechanism; common policies for structural change and regional

---

<sup>1</sup> Obviously if trade is opened up, there are possibilities of changes in comparative advantage and a large number of products not traded now may be traded.

development; and macro-economic policy considerations including binding rules for budgetary policies. The countries may have the same currency as well.

Viner (1950) was the first one to examine the impact of regional groupings on the welfare and introduced the concept of trade creation and trade diversion. However, he made restrictive assumptions of zero demand and supply elasticities. Subsequently Meade (1955) relaxed the assumption of zero price elasticity of demand. Lipsey (1957) relaxed the assumptions of zero supply elasticity as well. The main conclusion of these studies has been that if trade creation and trade expansion exceeds the trade diversion, regional integration would be welfare-promoting and vice-versa. Empirical studies give conflicting results and one cannot conclude desirability or otherwise of such groupings.

The analysis presented by Viner, Meade and Lipsey has been static and it may be argued that dynamic advantages may be even stronger. However, the estimates of dynamic gains have been subject to controversies as well. [see Bhagwati (1993), Helpman (1995), Baldwin and Venables (1995), and Srinivasan (1997)].

Changes in the welfare due to preferences granted to member countries would depend upon whether the most efficient producer in the world is part of the group or is outside the group. If it is part of the group, the economic integration would be welfare promoting. However, if the efficient producer is outside the group, then forming of regional blocs results in diversion of trade. The trade diversion tends to lower the welfare levels. However, it needs to be noted that even if the most efficient producer is not part of the group, in addition to trade diversion, there is also a possibility of trade creation. Suppose that prior to the forming of regional block, tariff was prohibitive and the country met the entire demand of the product from domestic supplies. Trade would be created as the imports from member countries are given preferential treatment and tariff is no longer prohibitive. Moreover, even if tariff was not prohibitive prior to formation of regional bloc and imports from the most efficient producer in the world were taking place and after the regional bloc trade has diverted to less efficient producers, the trade would expand as the prices of imported products fall. Therefore, both trade diversion and creation will take place. Since for each of the products there is a possibility of trade creation or diversion, the benefits of regional bloc will be sum of these two outcomes; the net outcome is ambiguous. Such an analysis is essentially static and it is generally believed that the major benefits of forming trade blocs are dynamic. For example after the regional grouping is formed, the countries may specialise in accordance with comparative advantage and the industries having scale economies would be so restructured that instead of each country producing the same product they specialize and the cost of production falls. That would be welfare improving. During 1980s and 1990s, most of the work in this area has been towards examining the dynamic effects of trade blocs. See for example, Bhagwati (1993), Bhagwati and Panagariya (1996), Levy (1997), Krugman (1993) and Srinivasan (1991).

It is generally believed that the regional groups are stumbling blocs to free trade and in the literature the question has been explored by examining the impact on the level

of welfare if the number of blocs increases in the world. Bhagwati (1993) and Bhagwati and Panagariya (1996) examine the issue on the basis of two alternative assumptions. Firstly, regional and multilateral processes do not interact and proceed independently. Second, whether the formation of regional blocs makes the success of the multilateral process more, or less likely. They conclude that regional blocs are an unnecessary nuisance in the way of trade.

Levy (1997) similarly explores if: (i) the option to form trading bloc makes multilateral liberalization more feasible, and (ii) whether feasible multilateral liberalization becomes infeasible because of regional bloc. He emphatically rejects the first possibility. As regards (ii), he examines two types of Heckscher-Holin model with (a) homogenous products, and (b) differentiated products. He concludes that in the first model, option of a regional grouping cannot block a previously feasible multilateral accord. However, in the presence of differentiated products the regional blocs may hinder the multilateral liberalization.

Wonnacott and Lutz (1989), Summers (1991) and Krugman (1993) have espoused “Natural Trading partner” hypothesis and conclude that more the two countries trade with each other relative to the outside world, the less likely that a union between them will be harmful. The results relating to the joint welfare of the union are, however, independent of the volume of trade. While Panagariya (1999) suggests that free trade areas tend to reduce the union’s joint welfare.

As noted earlier, because of both the trade creation and the trade diversion, it is not possible to make any general statement about the welfare effects of preferential trading agreements. Whether or not the partner countries and the world will gain or lose depends on the pre- and post-tariff rates and the nature of agreement. Some authors, such as Krugman (1991, 1994), believe that preferential arrangements between natural trading partners are likely to be welfare inducing, the others, including Bhagwati (1994), fear that preferential trading arrangements may lead to trade diversion.

Various studies have examined the impact of trade policies by examining the trade share before and after the formation of regional blocs. Such studies implicitly assume that the share of trade with partner countries would not have changed in the absence of the agreement [see Krueger (1999); Cline (1978); de la Torre and Kelly (1992); Drysdale and Garnaut (1993); Robertson (1970); Saxonhouse (1994)]. However, the assumption may not be very realistic and, therefore, a more sophisticated counterfactual is necessary to assess the effect of an agreement on extent of trade creation relative to trade diversion.

Brown, Deardorff, and Stern (1992); Brown and Stern (1989); Haaland and Norman (1992) have used CGE simulations to provide the counter-factuals. However, CGE models are very sensitive to the assumptions, parameters, and data used to estimate them, and have to be interpreted accordingly. Simulations that provide the counterfactuals have suffered from manipulation of the structure of the model, functional forms and parameter values in these models [see Vamvakidis (1998) and Clausing (2001)].

For counterfactuals, gravity equations have also been estimated to assess the impact of preferential arrangements on trade flows. These equations have the advantage of including several variables that are affecting trade flows, such as income changes and exchange rate variables. A dummy variable is used to assess the impact of various preferential trading agreements on trade flows [See Frankel and Wei (1995); Frankel and Kahler (1993); Frankel (1997); Krueger (1999); Aitken (1973); George et al. (1977); and Willmore (1976)]. However, the gravity model also suffers from various problems. Firstly, the dummy variables may not be capturing the effects of preferential trade liberalization only and may reflect the impact of certain other variables. Second, they fail to distinguish the extent of trade creation relative to trade diversion. Third, trade flows are examined at a highly aggregative level and fail to examine the extent of trade liberalization across goods or industries.

### III. INTRA-REGIONAL TRADE IN SAARC AND ECO

Pakistan is part of both SAARC and ECO and the intra-regional trade in both the groups is around 4 percent despite the South Asian Preferential Trade Agreement (SAPTA) and Framework Agreement for Trade Cooperation (FAT) in ECO. These agreements have only been able to increase marginally the share of intra-regional trade due to a number of factors. Firstly, negotiations under SAPTA and FAT have been conducted mainly on a product-by-product basis, which though allows some flexibility to each member country, is time consuming. Second, the depth of tariff cuts offered under the two has not been very substantial. For example, India has offered the preferences on a large number of products and the margins have been the maximum but its MFN rates have been higher than those of its partners, and as such concessions had very little impact. Third, actual trade coverage of the preferences has been limited; most of the products to which concessions were given are not widely traded in the region. Fourth, confining solely to the tariffs and leaving para-tariff and non-tariff measures out of the purview of negotiations has also been one of the factors in constraining the growth of intra-regional trade. Fifth, high local content criterion has also acted as one of the constraints (see Table 1).

Table 1: Intra-SAARC Trade (\$Million)

	Intra-SAARC trade	World trade of SAARC countries	Share of intra-SAARC trade in world trade of SAARC countries
1980	1210	37885	3.2
1985	1054	44041	2.4
1990	1584	65041	2.4
1995	4228	104159	4.1
1996	4914	111479	4.4
1997	4390	115961	3.8
1998	6073	121331	5.0
1999	5640	129738	4.4
2000	5884	141978	4.1
2001	6537	139585	4.7

Source: Weerakon and Wijayasiri (2003)

Whereas intra-regional trade on an average in SAARC is rather low accounting for only four per cent of the total trade, the shares differ both across countries and for the import and exports. Shares of intra-regional imports were 33.2, 11.7, 10.1, 2.3 and 0.7 percent of the total imports of Nepal, Bangladesh, Sri Lanka, Pakistan and India respectively in 2000. Moreover, share of the regional imports in case of Bangladesh quadrupled, that of Sri Lanka increased by almost one half, those of India and Nepal have marginally increased, and that of Pakistan shows some fluctuations but there seems to be an increasing trend over 1985-2000 period (see Table 2). Trends in intra-regional exports reveal a different picture (see Table 3). For instance, share of Bangladesh has gone down from 7.7 percent in 1985 to 1.6 percent in 2000, of Nepal from 38.3 percent to 30.0 percent, of Sri Lanka from 3.8 to 1.8 percent and of Pakistan from 5.3 percent to 2.9 percent. However, that of India increased from 3.3 percent in 1985 to 4.4 percent in 2000. [For details see Kemal et al (2003)].

Table 2: Percentage Shares of Intra-Regional Imports in Total Imports

Year	Bangladesh	India	Nepal	Pakistan	Sri Lanka
1985	3.46	0.69	32.43	1.59	6.17
1986	3.57	0.49	32.44	1.75	7.64
1987	4.28	0.5	18.8	1.61	6.49
1988	5.28	0.48	18.09	1.86	7.79
1989	4.48	0.28	12.11	1.75	5.79
1990	6.84	0.41	11.7	1.64	6.74
1991	7.47	0.54	13.76	1.42	6.88
1992	10.13	0.83	17.4	1.48	11.89
1993	11.88	0.45	17.23	1.55	10.11
1994	12.76	0.49	18.37	1.55	10.58
1995	17.66	0.53	17.53	1.46	11.08
1996	16.29	0.5	28.55	2.41	12.59
1997	12.91	0.45	26.76	1.96	10.7
1998	17.26	1.11	31.66	2.42	10.09
1999	13.47	0.80	31.99	1.94	9.78
2000	11.68	0.73	33.15	2.32	10.11

Source: PIDE (2003).

Table 3: Percentage Shares of Intra-Regional Exports in Total Exports

Year	Bangladesh	India	Nepal	Pakistan	Sri Lanka
1985	7.65	3.25	38.32	5.28	3.8
1986	6.06	3.01	38.11	3.2	4.52
1987	4.1	2.82	27.84	3.92	3.58
1988	5	2.78	17.63	5.04	5.76
1989	3.9	2.43	2.69	3.51	5.21
1990	3.62	2.71	7.19	3.97	3.3
1991	4.7	1.78	7.86	3.33	2.6
1992	2.21	3.83	13.07	4.93	1.97
1993	2.42	4.00	4.69	3.21	2.17
1994	2.3	4.13	3.87	3.25	2.37
1995	2.65	4.98	8.7	3.13	2.28
1996	1.82	4.92	12.99	2.54	2.27
1997	2.26	4.36	25.44	1.75	2.05
1998	2.69	5.46	36.49	4.08	1.53
1999	1.92	4.82	28.85	3.27	2.03
2000	1.57	4.43	26.95	2.92	1.81

Source: PIDE (2003)

It has been observed that relatively smaller countries of SAARC have the pro-regional bias in their trade structure while larger countries, both Pakistan and India, have an anti-regional bias in their trade structure. Unless the benefits of trade liberalisation accrue to all the trading partners, possibilities of trade expansion in SAARC would be rather limited. India's trade has not only an anti-region bias, the index of trade balance<sup>2</sup> for India falls short of unity; her exports to the region have invariably been higher than her imports [see Kemal *et al*, (2002)].

The Framework Agreement on ECO Trade Cooperation (FAT)<sup>3</sup> calls for progressive elimination of non-tariff barriers as well as gradual reduction of tariffs in the region with a view to promoting trade. The intra-regional exports in the ECO region is not only low, it has fallen over time (see Table 4). The shares of intra-regional imports in the total imports have declined from 11.1 to just 4.2 percent and that of exports from 11.3 to 4.2 percent over 1995-99 period. There are wide variations across various countries; intra-regional imports is 3.3% for Pakistan, 2.8% for Turkey, 3.6 percent for Iran, 4.6% for Kazakhstan, 12.5 percent for Turkmenistan, 12.5% for Azerbaijan, 22.6% for Kyrgyzstan and 28.3% for Tajikistan of their total imports (see Table 5). The shares of intra-regional exports also vary significantly and are the lowest in case of Turkey and Pakistan, i.e., 3.3 and 3.0 percent respectively. Kyrgyzstan, Tajikistan and Turkmenistan show the maximum intra-regional trade. While Pakistan's trade within ECO accounts for only 3 percent of its total trade, Turkey, Iran and Afghanistan and to some extent Uzbekistan and Kazakhstan account for bulk of Pakistan's intra-regional trade. It is rather low with Azerbaijan, Kyrgyzstan, Tajikistan and Turkmenistan [Kemal (2003)].

---

<sup>2</sup>The index of trade balances (TB) is

$$TB = \frac{\text{Share of the country in intra - regional Imports}}{\text{Share of the country in intra - regional Exports}}$$

If TB exceeds unity, the country runs deficits;

If TB is equal to unity, trade is balanced; and

If TB is less than unity, the country runs surpluses. It should be noted that the trade balance indices are reported here only to highlight the existing pattern of intra-regional trade, and not to argue for balanced trade within the region.

<sup>3</sup> It was signed on March 6, 2000 by all the Member States (except Turkmenistan and Uzbekistan).

Table 4 Percentage Shares of ECO Intra-Regional Exports in Total Exports

Country	Years				
	1995	1996	1997	1998	1999
Afghanistan	n.a.	n.a.	n.a.	n.a.	n.a.
Azerbaijan	49.0	51.2	33.1	35.3	12.9
Iran	19.0	15.4	19.4	24.3	3.4
Kazakhstan	8.5	8.8	7.8	7.4	6.1
Kyrgyzstan	39.7	51.7	37.4	29.7	26.5
Pakistan	3.3	2.5	2.0	2.5	3.0
Tajikistan	20.6	31.6	28.9	27.7	26.4
Turkey	4.2	4.9	4.9	4.2	3.3
Turkmenistan	22.5	11.9	40.5	65.2	15.7
Uzbekistan	20.1	11.8	11.7	15.4	n.a.
Share of Intra-regional Exports in Total Exports to the World	11.34	8.71	10.55	10.61	4.15

Source: ECO Annual Economic Report 2000

Table 5. Percentage Shares of ECO Intra Regional Imports in Total Imports

Country	Years				
	1995	1996	1997	1998	1999
Afghanistan	n.a.	n.a.	n.a.	n.a.	n.a.
Azerbaijan	44.9	34.8	36.6	31.4	22.6
Iran	32.8	34.5	25.9	24.2	3.6
Kazakhstan	13.5	8.4	5.4	5.8	4.6
Kyrgyzstan	35.1	41.5	39.6	31.6	28.3
Pakistan	2.7	2.4	3.3	2.3	3.3
Tajikistan	42.9	46.3	48.1	46.9	59.3
Turkey	3.2	2.7	2.3	2.1	2.8
Turkmenistan	25.2	18.7	30.0	25.9	12.5
Uzbekistan	18.1	15.7	14.9	13.3	n.a.
Share of Intra-regional Imports in Total Imports from the World	11.13	9.58	8.51	7.82	4.18

Source: ECO Annual Economic Report 2000

The success of Intra-regional trade would also depend on if these countries form a Free Trade Area and allow the imports duty-free or at a concessional rate from the member countries. The products that may not enjoy concessions may be specified, however, the list should be small and must not contain the products that are of export interests of the member countries.



## IV. ECONOMIC COOPERATION: IMPEDIMENTS

There have been various attempts to foster mutually beneficial economic relations both in SAARC and ECO including SAPTA in SAARC and FAT in ECO. However, as noted above, the trade linkages continue to be weak and not much tangible progress has so far been made towards promoting regional economic cooperation. This section highlights the factors that may have inhibited intra-regional trade. The weak trade linkages may be attributed to several structural as well as policy-induced factors including identical comparative advantage, lack of complementarities, low intra-industry trade, lack of exportable surpluses, lack of communication links, restrictive trade policies, and lack of finances. Besides, lack of political commitment has been the major stumbling block in the way of economic cooperation.

### Identical Comparative Advantage

Both the SAARC and to a lesser extent ECO are characterized by an almost identical pattern of comparative advantage in a relatively narrow range of products, and consequently they have weak complementarities in their bilateral trade structures. It is generally believed that the economies of South Asia are quite similar and therefore they have similar comparative advantage. The revealed comparative advantage is a ratio of the share of a given product in a country's exports to its share in world exports (see Balassa (1965) and is defined as

$$R_{ih} = \frac{X_{ih} / X_{it}}{X_{wh} / X_{wt}}$$

where

$R_{ih}$  = Revealed comparative advantage ratio for country  $i$  in product  $h$ .

$X_{ih}$  = Country  $i$ 's exports of product  $h$ .

$X_{it}$  = Total exports of country  $i$ .

$X_{wh}$  = World exports of product  $h$ .

$X_{wt}$  = Total World exports.

The ratio can be used to determine the revealed comparative advantage. A country is said to have a revealed comparative advantage (disadvantage) in a product if the ratio exceeds or falls short of unity. However, it may give misleading results in the presence of distortions in the market. Therefore the pattern of "true" comparative advantage may differ from the one suggested by the revealed comparative advantage ratios. The Revealed Comparative Advantage at three digit classification reported in Kemal *et al* (2002) show that

- The pattern of revealed comparative advantage is quite similar across the South Asian countries;
- With the exception of India and Sri Lanka, the South Asian countries enjoy comparative advantage in a relatively narrow range of products.

Bangladesh, Nepal and Pakistan out of 71 commodity groups have revealed comparative advantage in only 7, 5 and 12 commodity groups while India and Sri Lanka have comparative advantage in 26 and 21 product categories; and

- Not surprisingly, none of the countries has comparative advantage in capital intensive and high value-added products.

### **Lack of Trade Complementarities**

It is generally presumed that success of regional integration depends largely on the extent of trade complementarities. The complementarity indices<sup>4</sup> estimated in Kemal et al (2002) are reproduced in this section. Trade complementarity index is defined below:

$$C_{ij} = 1 - \left( \sum |m_{hi} - x_{hj}| \right) \div 2$$

Where

$C_{ij}$  = Trade Complementarity index for trade between countries  $i$  and  $j$ .

$m_{hi}$  = Share of good  $h$  in total imports of country  $i$ .

$x_{hj}$  = Share of good  $h$  in total exports of country  $j$ .

The trade complementarity index is zero when no good exported by one country is imported by the other, and equals one when the shares of one country's imports correspond exactly to those of the other's exports.

There is a lack of strong complementarity in the bilateral trade structures of South Asian countries. Similarities in the trade structures, together with absence of comparative advantage in capital intensive and high value-added products — i.e. the products that are normally imported by countries in the region — may have played a role in constraining the growth of intra regional trade in South Asia.

### **Intra-Industry Trade**

Whereas the comparative advantage on the basis of factor endowments suggests that the trade would take place only if there are differences in factor endowments, Grubel-Lloyd (1975) forcefully argue that differences in the level of technology and human capital can lead to intra-industry trade even in products with identical factor input requirements. Krugman (1981) argues that industries in which increasing returns are achieved at a fairly low level of output can accommodate many producers, with each producing differentiated products. Under these circumstances, each country will

---

<sup>4</sup> Because of the non-availability of disaggregated data on most of the ECO region, the complementarity indices cannot be estimated. However, the indices are expected to be larger.

specialise in different varieties of the product and engage in intra-industry trade. Regional integration schemes involving cross-country production sharing arrangements<sup>5</sup> have also resulted in increased intra-industry-trade. Yeats (1998) points out that production sharing has become a major factor in regional trading arrangements.

The Grubel-Lloyd intra-industry trade helps in determining the intra-industry trade. The index is defined as:

$$G_h = \frac{(X_h + M_h) - |X_h - M_h|}{(X_h + M_h)}$$

where  $G_h$  = Grubel-Lloyd index of intra-industry trade in industry  $h$ .

$X_h$  = Exports of industry  $h$ .

$M_h$  = Imports of industry  $h$ .

The Grubel-Lloyd index ranges between 0 and 1 with larger values indicating a greater degree of intra-industry trade. The Grubel-Lloyd indices for SAARC countries reported in Kemal et al (2002) lead us to conclude:

- Historical pattern of intra-industry trade amongst the South Asian countries is highly erratic, and there are only a few products in which intra-industry trade has occurred on a sustained basis;
- with few exceptions, leather products, textiles and clothing, and some basic machinery and tools dominate the intra-industry trade profiles of the South Asian countries; and
- The proportion of intra-industry trade in total trade has been very low for most of the products, implying a low intensity of intra-industry trade in the region. This is also reflected in the average bilateral Grubel-Lloyd indices of intra-industry trade.

### **Lack of Export Diversification**

All the countries belonging to the two regional blocs are deficient in capital, and the industrial base is hardly diversified. The countries that have undertaken investments in high value-added exportable products have done so by importing capital goods incorporating technologies from the West. The regional exports largely consist of raw materials and traditional products, and where they have comparative advantages, are competitors in the world export market rather than trading amongst themselves. Given the scenario, both the SAARC as well as ECO trade is tilted towards developed countries. If this pattern is to change trade sharing arrangements and vertical integration may be necessary which besides provision of intra-regional trade would also help in the realization of dynamic advantage.

---

<sup>5</sup> Under the production sharing arrangements, various stages of the production process for a specific product are undertaken in different countries, giving rise to intra-industry trade.

The limited capacity to generate exportable surpluses of the product in accordance with the specifications required in the regions has also marred the growth of intra-regional trade. Even though South Asian countries have undergone major structural reforms and share of industrial sector has increased sharply, their industrial sector is not diversified. With the exception of India and, to some extent Pakistan, the resource constraints have prevented the South Asian countries to undertake investments in high value-added exportable products, and have made these countries dependent on industrialised countries for their capital goods and technology. The regional exports largely consist of raw materials and traditional products, such as textiles and garments, and some regional countries are direct competitors in the world export market for these products. On the other hand, the import requirements of the region mainly consist of capital goods and high-tech products.

### **Lack of Transport Communication Links**

Because of the poor communication links production, consumption, and trade patterns of potential trading partners sometimes are unknown to the partner countries. The inadequate trade facilitation mechanisms such as high handling and transportation charges and delays in delivery, implies that potential of intra-regional trade cannot be fully utilized. The land route and railway links in SAARC depend on the transit facilities provided by India; Pakistan, Bangla Desh and Nepal have to pass through India. In ECO, seven of the ten countries are landlocked and Afghanistan is the key to trade between Pakistan and Central Asian Republics is concerned. The shipping facilities are also inadequate and many a products could not be traded in SAARC because such facilities are not available.

### **Monetary Cooperation**

These countries have generally faced severe foreign exchange constraints due to persistent imbalances in their current accounts. The paucity of foreign exchange may have been an impediment to intra-regional trade. Monetary cooperation such as the Asian Clearing Union (ACU), can facilitate intra-regional trade by obviating the need for hard currencies for settling regional trade balances.

### **Political Problems**

Apart from problems on the economic front, political differences have undermined efforts to foster regional economic cooperation especially in SAARC. Political differences between Pakistan and India have been the main constraining factor towards trade expansion within SAARC. In general the smaller countries in the region have been generally skeptic towards regional economic cooperation initiatives. The political conflicts as well as differences in economic outlooks have been strong impediments to intra-regional trade.

## V. PROMOTION OF INTRA-REGIONAL TRADE AND INVESTMENT

As noted earlier, intra-industry trade can play a pivotal role in promoting regional integration in South Asia. This is because this type of trade can flourish even in situations where the trade and production structures of the trading partners lack strong complementarities. It results in trade expansion and dynamic scale economies. Therefore, trade linkages among the South Asian countries need to be strengthened by devising mechanisms to promote intra-industry trade within the region. One way to accomplish this is through regional production sharing arrangements that involve the initiation of part of a manufacturing process for a specific good in one country and the transfer of the activity to another for further processing<sup>6</sup>. The South Asian countries can achieve greater economic cooperation and integration by evolving a vertically integrated regional production structure in sectors that are of economic significance in the regional context<sup>7</sup>. This would allow the South Asian economies to specialise in different lines of production within a particular industry and thus achieve benefits of specialisation and scale economies. It must, however, be pointed out here that the regional production sharing arrangements generally emerge in response to a combination of factors including low tariffs, wage differentials, low transportation costs, and favourable government policies, and, needless to say, these arrangements are unlikely to succeed in the absence of political commitment.

Since the basic objective of any economic grouping is to liberalize and expand trade within the region, two types of policies are required. Firstly, removal of tariff and non-tariff barriers in the region and providing regulatory and enabling environment for trade. Secondly, increasing the inter-connection of private sector in various product groups potentially important in the region. Whether it is the promotion of trade or establishment of joint ventures, the visits of businessmen across countries are rather important. In this regard, visa policy of the regional economies can play an important role in promoting trade.

The Chambers of Commerce and Industry needs to identify the products to be traded and the industries where regional investment and joint ventures amongst the regional countries is possible. Therefore, an initiative to bring traders together in specific groups with a view to raising business awareness in the region as well as to provide input to removal of trade impediments is essential. Unfortunately, the private sectors of most of the member countries of both SAARC and ECO lack the effective institutional and human resource capacity to deal with the complexity of the multiple demand of regional

---

<sup>6</sup> For instance, electronic components may be produced in country A, shipped to country B for assembly, and then re-exported back to country A.

<sup>7</sup> Some of the potential areas where regional production sharing systems can be developed are leather products, textiles and clothing, and basic machinery.

and multi-lateral trade agreements.

Joint ventures can be important instruments for pooling regional resources to promote industrialization and economic growth. In view of the fact that these countries have collectively gained substantial experience in agro-based industries, textiles and clothing, paper and pulp, and light engineering, there seems to be a scope for joint ventures in these areas. It may be pointed out that the establishment of joint ventures will particularly benefit the small countries because they generally lack the resources to undertake industrial investment on an efficient scale.

## **VI. SAFTA AGREEMENTS AND POSSIBILITIES OF INTRA-REGIONAL TRADE**

SAARC's Islamabad declaration in 2004 promises South Asian Free Trade Area (SAFTA) which would come into force on January 1, 2006, and would be fully implemented by 2015. As per the agreement, tariff reductions, rules of origin, safeguards, institutional structures, and dispute settlement will be sorted out by various committees<sup>8</sup>. It also calls for adoption of various trade facilitation measures, such as harmonization of standards and customs procedures, and transport infrastructure cooperation. These measures would hopefully help in promoting the intra-regional trade.

SAFTA's tariff reduction program calls upon India, Pakistan, and Sri Lanka, relatively more developed countries in the region, to reduce tariffs to 20 percent by 2006. While Nepal, Bhutan, Bangladesh and Maldives, relatively less developed countries, are required to reduce tariffs to 30 percent by 2006. Following that Pakistan and India in five years, Sri Lanka in six years and other SAARC countries in 8 years shall have to reduce their tariffs to 0-5 percent level. Moreover, India, Pakistan, and Sri Lanka will reduce their tariffs on imports from the relatively less developed countries to 0-5 percent by January 1, 2009.

The agreement calls for elimination of all quantitative restrictions. The agreement allows a sensitive list of products on which preferences will not be accorded. However, such list may not have more than 20 percent of the total number of products that can potentially be traded. It also provides for reviewing the number of products on the sensitive list at four-year intervals with the aim of reducing the list and expanding the free trade coverage of the Agreement.

While some of the regional groupings have been successful, the others have not been all that successful. World Bank (2004) reviews the regional experiences around the

---

<sup>8</sup> With a view to ensuring that agreement is implemented, it establishes the SAFTA Ministerial Council, the regional body's highest decision-making authority, and a Committee of Experts responsible for monitoring implementation and resolving disputes. The Committee of Experts is required to update the Ministerial Council every six months on the progress of the Agreement.

world and points out the following six broad conclusions on the success of such groupings of free trade. Firstly, a regional trade agreement does not automatically result in increased trade and growth. Whereas the intention at the time of formation of the group is always to promote intra-regional trade and economic cooperation in all the fields, a large number of interest groups emerge who on the grounds of injury to their industry, call for exemption from reduction in the import duties. Experience with SAPTA has been disappointing for that reason. SAFTA allows a sensitive list and if the list is large, then SAFTA may not result in higher intra-regional trade. Probably, there is a need to underscore the point that promotion of trade involves closing down of the industries in which the country does not have comparative advantage. Moreover, agreements that kept high trade barriers to protect inefficient activities undermined the competitiveness.

Second, those trading arrangements which were preceded or accompanied by unilateral efforts among members to reduce external protection have been more successful. Reducing trade barriers vis-à-vis the rest of the world creates an incentive for all members to export. It augments competition that drives domestic productivity [see Muendler (2002)]. As is quite well known, when external protection is generally low, trade creation usually dominates trade diversion, and so the risks that regional agreements will be a drag on growth is substantially reduced. Indeed regional agreements where members have had low external protection have enjoyed greatest success [see Baldwin and Venables (1995) and Burfisher, *et al*, (2003)].

Third, the agreements between the countries which have different factor endowments have shown more consistent success because it allows the opportunities to exploit differentials in wage rates, capital availability and technological levels [Schiff and Winters (2003) and Lederman et al, (2003)]. However, this conclusion runs contrary to the success of EU. The promotion of intra-industry trade would result in higher growth even if factor endowments are similar.

Fourth, a regional integration framework that helps in trade creation and competition amongst regional countries would help in lowering domestic prices and providing new technology. It is impossible to have the benefits of a regional agreement without exposing the member economies to new competition [Hoekman and Schiff (2002)].

Fifth, competition in services also results in successful integration. Lowering the cost of telecommunications, finance, business services, and retail and wholesale commerce would result in productivity gains.

Finally, there is a need to streamline border transactions through trade facilitation. Increase in efficiency within the region often spills over into trade outside the region as well, because improving customs or improving efficiency of ports helps both intraregional trade and international trade.

The key to success of SAFTA is the small number of products on the sensitive list and allowing all the goods in which the regional countries have export interest. It needs to be

noted that opening of trade would be beneficial to some of the activities while the other activities in which the country does not have comparative advantage will have to be closed down. Obviously if every country would like to protect almost all the economic activities even the activities where the country does not have even the dynamic comparative advantage, the gains from trade would be minimal. Since trade creates interdependencies and because of the mistrust the South Asian countries have been reluctant to create such interdependencies, there is an urgent need to remove such mistrust by confidence building measures and resolving all the major issues.

To ensure the success of SAFTA, the member countries have to take a number of initiatives. Firstly, all countries must have very small sensitive list and there should be a firm basis to include products on the negative list. Simple and transparent ground rules should be laid. Second, keeping rules of origin simple and transparent, and ensuring that they must not become devices of protection and impediments to trade. The SAPTA rules have been quite stringent. Third, since some of the SAARC members may dump their products and/or provide subsidies to exports resulting in unfair competition, the transparent anti-dumping and countervailing methods would be necessary. However, anti-dumping actions and countervailing duties against regional partners can bring back the protectionist tendencies; anti-dumping mechanisms can stifle the benefits for SAFTA arrangements. Fourth, intra-industry trade can play an important role in bolstering economic and trade relations within the region. Whereas the intensity of intra-industry trade is low, the potential for widening the scope of this type of trade within the region is rather large. However, that can only be realized if the import duties are low. We may note that intra-industry trade is largely driven by product differentiation and increasing returns to scale. Therefore, an increased level of intra-industry trade in the region can only be achieved if the regional countries are able to develop the technological capacity to produce different product varieties at declining average cost. Fifth, joint ventures can be important instruments for pooling regional resources to promote industrialisation and economic growth in the South Asian region.

What would be the impact of SAFTA? RIS (2004) reports results of studies conducted in the framework of the gravity model. It suggests that complete elimination of tariffs under SAFTA may increase the intra-regional trade by 1.6 times the existing level. It further suggests that in the dynamic framework the gains from liberalization are at least 25 percent higher than the static gains. However, these gains are grossly understated in view of SAARC's large trade potential; it exists both in terms of trade diversion from traditional sources towards SAARC countries by removing the constraints and in terms of trade creation and trade expansion by easing import restrictions on products which, are in general, not being traded amongst SAARC countries but are the major exports of South Asian countries. It needs to be underscored, that while more than half the exports of manufactured goods from South Asia consist of textiles and leather products, they are subject to very high rates of import duties and/or quantitative restrictions and even outright bans in South Asia. Similarly, rather limited trade in engineering goods is due to a number of factors including reliance on foreign aid to finance the import of capital goods, poor quality of goods and heavy import duties on capital goods even by the countries who are themselves exporters of capital goods.



## VII. SUMMARY AND CONCLUDING REMARKS

Regional economic cooperation is increasingly being viewed as a vehicle for expediting the process of economic development through trade expansion, improvement in productivity, specialization in accordance with comparative advantage and improved quality of products. Pakistan has been a member of SAARC and ECO but in both the groups, intra-regional trade accounts for only 4 percent of total trade.

Similar comparative advantage and low trade complementarity are the main impediments to trade. Nevertheless, other impediments such as limited capacity to generate exportable surpluses, restrictive trade policies, and political problems have also inhibited the growth of intra-regional trade. However, through intra-industry trade; achieving vertical specialization; joint export marketing of competing regional export products; deepening trade liberalization, promoting monetary cooperation; and encouraging joint industrial ventures can result in higher trade. But regional economic cooperation is unlikely to succeed without political harmony and convergence in economic perceptions, which are essential pre-requisites for forging an economic and trade alliance.

The signing of SAFTA has created euphoria in the South Asian countries. However, there are at least two possibilities which may make it redundant. Firstly, all the countries are members of WTO and would reduce the tariff levels. If their MFN tariffs are close to preferential tariffs under SAFTA, intra-regional trade may not grow at a rapid rate. Though one could argue that at lower rate of import duty, with or without SAFTA, the intra-regional and trade outside the region would flourish. Second and more importantly, if the sensitive list is large and includes most of the products of export interest of South Asian countries, then the trade would not flourish. For the success of SAFTA it is imperative that the negative list is quite small and the countries must be prepared for closure of a few industries. Similarly, the rules of origin should be so formulated that they do not unnecessarily constrain the growth of intra-regional trade. Moreover, anti-dumping and countervailing duties, though necessary for fair trade, should not be used for protective measures. The SAFTA has great potential and South Asian countries should accept the short-term costs for long-run benefits. Nevertheless, SAARC countries must make an effort to make SAFTA a success, because that would expedite the process of economic development, mainly because of the problems in global market access and the higher transaction costs of producing for the world market. Expansion of trade, efficiency and improved quality of exports would hopefully benefit the countries participating in the regional co-operation effort.

## REFERENCES

- Aitken, N. D. (1973) 'The effect of the EEC and EFTA on European trade: a temporal cross-section analysis,' *American Economic Review* 63, 881-92.
- Anderson, Kym and Richard Blackhurst, eds. (1993) *Regional Integration and the Global Trading System*. NY: St. Martin's Press.
- Balassa, Bela (1965). Trade Liberalization and Revealed Comparative Advantage." *The Manchester School of Economics and Social Studies*, Vol 33
- Baldwin, Richard E., and Anthony J. Venables (1995). "Regional Economic Integration", in G. Grossman and K. Rogoff, eds., *Handbook of International Economics*: Vol.3, Section 1.2. Elsevier Science, Amsterdam.
- Bhagwati (1971), "Trade Diverting Custom Unions and Welfare Improvement: A Clarification" *Economic Journal*, 81:323, pp.580-87.
- Bhagwati, J. (1994) 'Regionalism and multilateralism: an overview,' in *New Dimensions in Regional Integration*, ed. J. De Melo and A. Panagariya (Cambridge: Cambridge University Press).
- Bhagwati, Jagdish (1993) "Regionalism and Multilateralism" An Overview," in *New Dimension in Regional Integration*. Jaime de Melo and Arvind Panagariya, eds. Cambridge U. Press, pp. 22-51.
- Bhagwati, Jagdish; and Arvind Panagariya, (1996) "Preferential Trading Areas and Multilateralism: Strangers, Friends or Foes?" in *The Economics of Preferential Trade Agreement*. Jagdish Bhagwati and Arvind Panagariya, eds. Washington, DC: AEI Press, pp.1-78.
- Bhagwati, Jagdish; Pravin Krishna, and Arvind Panagariya, eds. (1999) "*Trading Blocs: Alternative Approaches to Analyzing Preferential Trade Agreements*. Cambridge, MA: MIT Press.
- Brada, J.C. (1994) 'Regional integration in Eastern Europe: prospects for integration within the region and with the European Community,' in *New Dimension in Regional Integration*, ed. J. De Melo and A. Panagariys (Cambridge University Press).
- Brown, D. K., A. V. Deardorff, and R. M. Stren (1992) 'A North American Free Trade Agreement: analytical issues and a computational assessment,' *World Economy* 15, 11-29.
- Brown, D. K., and R. M. Stern (1989a) 'U.S. Canada bilateral tariff elimination: the role of product differentiation and market structure,' in *Trade Policies for International Competitiveness*, ed. R. Feenstra (Chicago: University of Chicago

Press).

- Brown, D. K., and R. M. Stern (1989b) 'Computable general equilibrium estimates of the gains from U.S. Canadian trade liberalization,' in *Economic Aspects of Regional Trading Agreements*, ed. D. Greenway et al. (Brighton: Harvester Wheatsheaf).
- Burfishcer, Mary, Sherman Robinson, and Karen Thierfeldler (2003) "Regionalism: Old and New, Theory and Practice." Paper from the International Agricultural Trade Research Consortium (IATRC) Conference, June 2003, Capri, Italy.
- Clausing, K. A. (2001), "Trade Creation and Trade Diversion in the Canada-United States Free Trade Agreement," *Canadian Journal of Economics*, Vol. 34, No. 3.
- Cline, W.R. (1978) 'Benefits and costs of economic integration in Central America,' in *Economic Integration in Central America: A Study*, ed. W.R. Cline and C. Delgado (Washington, DC: Brookings Institution).
- Corden, W. Max. (1972) "Economies of Scale and Customs Union Theory," *J. Polit. Econ.* 80:3, pp. 465-75.
- de la Torea, A., and M. R. Kelly (1992) 'Regional trading arrangements,' IMF Occasional Paper No. 93.
- Drysdale, P., and R. Garnaut (1993) 'The Pacific: an application of a general theory of economic integration,' in *Pacific Dynamism and the International Economic System*, ed. C.F. Bergsten and M. Noland (Washington, DC: Institute for International Economics).
- Economic Cooperation Organization (2002) "ECO Prospects and Challenges in Transport and Communications Sector", ECO Secretariat, Tehran, Iran.
- Frankel, J.A. (1997) *Regional Trading Blocs in the World Economic System* (Washington, DC: Institute for International Economics).
- Frankel, J.A., and M. Kahler (1993) *Regionalism and Rivalry: Japan and the U.S. in Pacific Asia* (Chicago: University of Chicago Press).
- Frankel, J.A., and S. Wei (1995) 'European integration and the regionalization of world trade and currencies: economics and politics,' in *Monetary and Fiscal Policy in an Integrated Europe*, ed. B. Eichengreen et al. (New York: Springer).
- George, R., et al. (1977) 'Short-run trade effects of the LAFTA,' *Kyklos* 30, 618-36.
- Grubel H and Lloyd, P. (1975) "*Intra Industry Trade: The Measurement of International Trade in Differentiated Products*. New York.

- Haaland, J., and V. Norman (1992) 'Global production effects of European integration,' in *Trade Flows and Trade Policy after '1992,'* ed. L.A. Winters (Cambridge: Cambridge University Press).
- Helpman, Elhanan. (1995) "Political and Trade Policy", National Bureau of Economic Research Working Paper: 5309.
- Hoekman, Bernard, and Maurice Schiff (2002). "Benefiting from Regional Integration." In Hoekman, Bernard, Aaditya Matoo, and Philip English, eds. *Development, Trade, and the WTO: A Handbook*. World Bank: Washington, D.C.
- Kemal, A. R., (2003) "Exploring Pakistan's Regional Economic Cooperation Potential", *Study Prepared for Asian Development Bank*.
- Kemal, A. R., Musleh-ud Din, Kalbe Abbas and Usman Qadir (2002) "A Plan to Strengthen Regional Trade Cooperation in South Asia" in T. N. Srinivasan (ed.) *Trade Finance and Investment in South Asia*, Social Science Press, New Delhi.
- Kemp, Murray C. and Henry Wan Jr. (1976), "An Elementary Proposition Concerning the Formation of Customs Unions", in *Three Topics in the Theory of International Trade, Distribution, Welfare and Uncertainty* by Murray Kemp. North-Holland, New York.
- Kowalczyk, Carsten (1990) "Welfare and Customs Unions," NBER Working Paper 3476.
- Krueger, A. (1999) 'Trade creation and trade diversion under NAFTA,' NBER Working Paper No. 7429.
- Krueger, A. (1999) "The move toward free trade zones,' in *Policy Implications of Trade and Currency Zones: A Symposium Sponsored by the Federal Reserve Bank of Kansas City* (Kansas City: Federal Reserve Bank of Kansas City).
- Krugman, P. (1991) 'The move toward free trade zones,' in *Policy Implications of Trade and Currency Zones: A Symposium Sponsored by the Federal Reserve Bank of Kansas City* (Kansas City: Federal Reserve Bank of Kansas City).
- Krugman, P. (1994) 'Regionalism vs. multilateralism: analytical notes,' in *New Dimension in Regional Integration*, ed. J. De Melo and A. Panagariya (Cambridge: Cambridge University Press).
- Krugman, Paul (1993) "Regionalism versus Multilateralism: Analytical Notes," in *New Dimensions in Regional Integration*. Jaime de Melo and Arvind Panagariya, eds. Cambridge, UK: Cambridge U. Press, pp. 58-84.
- Krugmen, P. R. (1981). "Intra-Industry Specialization and the Gains from Trade." *Journal of Political Economy*. Vol. 89, No. 5.

- Lederman, Daniel, William Maloney, and Luis Serven (2003). *Lessons from NAFTA for Latin American and Caribbean Countries: A Summary of Research Findings*. World Bank, Washington, D.C.
- Levy, Philip (1997), "A Political Economic analysis of Free Trade Agreements", *American Economic Review*. 87:4, pp. 506-19.
- Lipsey, Richard. (1957) "The Theory of Customs Unions: Trade Diversion and Welfare," *Economics*, 24:93, pp. 40-46.
- Meade, James E. (1955) "*The Theory of Customs Unions*. Amsterdam: North-Holland.
- Melo, Jaime de and Arvind Panagariya, eds. (1993) "*New Dimensions in Regional Integration*. Cambridge, UK: Cambridge U. Press.
- Michaely, Michael (1994). *Trade Preferential Agreements in Latin America: An Ex-Ante Assessment*." Latin America and the Caribbean Region, World Bank, Washington, D. C.
- Muendler, Marc-Andreas (2002). "Trade, Technology, and Productivity: A Study of Brazilian Manufacturers, 1986-1998." Dissertation. University of California at Berkeley.
- Panagariya, Arvind. (1999) "Preferential Trading and Welfare: The Small-Union Case Revisited," mimeo, U. Maryland.
- Panagariya, Arvind. (2000) "Preferential Trade Liberalization: The Traditional Theory and New Development," *Journal of Economic Literature*, Vol. XXXVIII, pp.287-331.
- PIDE (2003), "Revealed Comparative Advantage and Trade Complementarity in South Asia" A study prepared for the SAARC Network of Researchers on Global Financial and Economic Issues. Pakistan Institute of Development Economics, Islamabad.
- RIS (2004) *South Asia Development and Cooperation Report 2004*, Research and Information System for the Non-Aligned and Other Developing Countries (RIS), New Delhi, India.
- Robertson, D. (1970) 'Effects of EFTA on member countries,' in *Europe's Free Trade Area Experiment*, ed. H. Corbet and D. Robertson (Oxford: Pergamon Press).
- SAARC (1999) *Survey of Development and Co-operation 1998,99*. Research and Information System for the Non-Aligned and Other Developing Countries, New Delhi, India.
- Saxonhouse, G. R. (1994) 'Trading blocs and East Asia,' in *New Dimensions in Regional Integration*, ed. J. De Melo and A. Panagariya (Cambridge: Cambridge University

Press).

- Schiff, Maurice, and L. Alan Winters (2003). *Regional Integration and Development*. Oxford, U.K.: Oxford University Press and Washington, D.C.: World Bank.
- Srinivasan, T. N. (1993) "Regionalism versus Multilateralism: Analytical Notes. Comment," in *New Dimensions in Regional Integration*. Jaime de Melo and Arvind Panagariya, eds. Cambridge, UK: Cambridge U. Press, pp. 84-89.
- Srinivasan, T. N. (1997) "Common External Tariffs of a Customs Unions: Alternative Approaches," *Japan World Econ.* 9:4, pp. 447-70.
- Summers, Lawrence (1991) "Regionalism and the World Trading System," in *Policy Implications of Trade and Currency Zones*. Symposium sponsored by Federal Reserve Bank Kansas City, pp. 295-301.
- Vamvakidis, Athanasios (1998) "Regional Integration and Economic Growth" *The World Bank Economic Review*, Vol. 12, No. 2, pp. 251-70.
- Viner, J. (1950) *The Customs Union Issues* (New York: Carnegie Endowment for International peace).
- Weerakoon, Dushni and Janaka Wijayasiri (2003) "Implications to Member States of Progression from SAPTA to SAFTA, Institute of Policy Studies of Sri Lanka.
- Willmore, L. (1976) 'Trade creation, trade diversion, and the effective protection in the Central American Common Market,' *Journal of Development Studies* 12, 396-414.
- Wonnacott, Paul and Mark Lutz (1989) "Is There a Case for Free Trade Areas?" in *Free Trade Areas and U.S. Trade Policy*. Jeffrey Schott, ed. Washington, DC: Institute for International Econ., pp. 59-84.
- World Bank (2004) "South Asia Free Trade Area: Promise and Pitfalls of Preferential Trade Arrangements", The World Bank, Washington, D.C.
- Yeats, Alexander J. (1998). *Just How Big is Global Production Sharing*, World Bank Policy Research Working Paper 1871. The World Bank, Washington, D. C.