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Regional Economic Integration in South Asia: The Way Forward

MUSLEH-UD DIN and SHAHBAZ NASIR

I. INTRODUCTION

Like many developing economies, the South Asian countries are opening-up their economies with a view to accelerating their economic growth through greater trade and investment. In this context, attempts have also been made to encourage regional trade under the aegis of the South Asian Association for Regional Cooperation (SAARC). In particular, the South Asian Preferential Trade Agreement (SAPTA) provides for reductions in tariffs and other restrictions on specific commodities on a reciprocal basis, and the eventual objective is to integrate the South Asian economies into a free trade area through SAFTA, which would come into force on January 1, 2006. However, despite greater attention on regional economic cooperation initiatives, there has been little progress in regional trade expansion: intra-regional trade continues to be minimal, not exceeding 5 percent of the total trade of the South Asian economies.

This paper highlights the importance of regional economic integration in South Asia as elsewhere, spells out the factors which have so far hampered economic cooperation in the region, and outlines a future course of action to achieve greater economic integration in South Asia. Section 2 provides a broad perspective on regional economic integration with a particular focus on the need to foster greater economic cooperation in South Asia. Section 3 discusses the factors that have impeded intra-regional trade and economic ties within the region. Section 4 spells out measures to enhance economic cooperation in the SAARC region, while Section 5 concludes the discussion.

II. REGIONAL ECONOMIC INTEGRATION

In the last two decades, the trading system has given rise to the proliferation of the regional and bilateral trade agreements (RTAs). The number of such

Musleh-ud Din is Chief of Research at the Pakistan Institute of Development Economics, Islamabad. Shahbaz Nasir is Staff Economist at the Pakistan Institute of Development Economics, Islamabad.

agreements more than quadrupled since 1990 to around 230 in 2004, and trade between these RTA partners now makes up almost 40 percent of total trade [World Bank (2005)].

A large body of theoretical and empirical literature has investigated the role of regional economic integration. The *Customs Union* theory, due to Viner (1950), predicts that regional economic integration schemes can promote new trade among members, but they can also divert trade from more efficient producers outside the integration scheme. More specifically, regional economic integration can result in trade creation by allowing the low-cost producers to have free access to the domestic market, reducing domestic prices, and displacing higher-cost domestic producers. However, a regional trading arrangement can also result in trade diversion by allowing less efficient producers that are members of the RTA to displace more efficient producers outside the RTA. Regional economic integration is likely to yield more economic benefit than harm when it leads to trade creation rather than trade diversion.

In as far as an RTA leads to trade creation, it is expected to spur competition in the domestic economies. Increased import competition results in lower prices for consumers, more product variety and quality, and increased incentives for innovation. By promoting a more efficient allocation of resources, import competition increases productivity, living standards, and long-run growth of the economy. Empirical research has shown that the welfare consequences of trade liberalisation through regional trading arrangements generally tend to be positive.

The arguments for promoting regional economic integration in South Asia, as elsewhere, go beyond the traditional benefits of regional economic integration associated with trade creation. To begin with, RTAs are often viewed as a way for nations to lock in and institutionalise trade policy reforms.[1] The improved policy credibility may also encourage both domestic and foreign investment by reassuring investors that policy will not be reversed in the future.[2] Second, an RTA may act as a stepping stone to multilateral trade liberalisation by providing an opportunity to experiment trade liberalisation on a limited scale. Third, increased economic ties in the region may create stake-holding in the domestic economies, reduce the risk of conflict, and thus enhance regional security.[3] Finally, it needs to be emphasised that South Asian countries can provide easier access to each others markets because of geographical proximity, and shared economic, social and cultural characteristics; and this makes it all the more imperative for them to foster regional economic cooperation.

[1]Fukase and Winters (1999) argue that ASEAN membership is likely to strengthen the members' commitment to reform and thus enhance their external credibility.

[2]Foreign investment may also be encouraged due to increased market size within an RTA.

[3]Schiff and Winters (1998) maintain that increased trade among members of an RTA can build mutual trust and thereby reduce tensions among trading nations.

It must be pointed out here that regional economic integration initiatives are often subject to criticism mainly on two counts. First, critics focus on the welfare loss associated with trade diversion from more efficient producers outside the regional trading bloc to less efficient producers that are members of the RTA. However, whether or not trade diversion occurs depends on external trade regimes of member countries and its risk tends to fall with the level of external tariffs. Therefore, the likelihood of trade diversion can be minimised by keeping external tariffs low. Second, critics argue that RTAs may stall the process of multilateral trade liberalisation, which is the first best policy. This question has been debated at length in the literature and most of the studies generally support the argument that RTAs tend to promote the process of multilateral trade liberalisation rather than retard it.

III. IMPEDIMENTS TO REGIONAL INTEGRATION IN SOUTH ASIA

Despite efforts to strengthen regional economic cooperation, intra-regional trade in SAARC region continues to be small and on average accounts for only 5 percent of the total trade. Several factors are believed to be responsible for weak economic ties in the region including, for example, identical comparative advantage, lack of trade complementarities, restrictive trade policies, lack of regional transport network and transit system, and political problems.

To begin with, it is argued that the success of regional integration schemes hinges, among other things, on the pattern of comparative advantage and the extent of trade complementarity within a regional trading bloc. More specifically, regional integration schemes are more likely to promote intra-regional trade 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 characterised by identical pattern of comparative advantage and low trade complementarities, as has been observed in the case of South Asia. It must, however, be noted that static comparative advantage determines the pattern of trade only in the short run. If trade is opened up as a result of a regional trading arrangement, there are possibilities of changes in comparative advantage, and the pattern of trade will be governed by the dynamic evolution of comparative advantage in a longer term perspective. So it is very much likely that a large number of products that are not traded now would eventually become a part of trade.

There is a general lack of an efficient regional transport network and transit system that has contributed to unrealised potential of intra-regional trade. For example, Nepal's trade with other countries in the region depends on transit facilities provided by India. It is generally recognised that these facilities often involve high handling and transportation charges, and delays in delivery, thus hampering the flow of trade between Nepal and its trading partners in the region [Kemal, *et al*. (2002)].

Despite recent trade policy reforms (see Appendix for details), the trade regimes in South Asia are still considered restrictive, especially in sectors where potential for regional trade exists.[4] Heavy protection in the form of general protective taxes and import duties on items of export interest to the regional countries has hampered the growth of intra-regional trade. Consequently, the region is also facing the problem of cross-border smuggling, which is very much prevalent in the trade between India, Bangladesh and Pakistan. Lack of cross border transit points and integrated transport networks across the region are also potential hindrances in the intra-regional trade. Moreover, complicated customs-clearance involving excessive checking and paperwork, and non-transparent administrative procedures at the customs hamper international trade in general.

Political problems have also not helped the process of regional economic integration in South Asia. In particular, India and Pakistan, the two largest economies of the region, have not been able to realise the full potential of their bilateral trade owing to various political compulsions. On the other hand, the smaller South Asian countries have also been rather skeptic towards regional economic cooperation initiatives, not least because of their apprehension that a large trading partner may dominate the region economically to the detriment of their domestic industries. The political conflicts as well as differences in economic perceptions have been strong impediments to intra-regional trade in South Asia.

IV. MEASURES TO ENHANCE ECONOMIC COOPERATION

To move the process of regional economic integration forward, serious efforts are needed in several key areas including reduction in trade barriers, harmonisation of customs procedures and tariff structures, improving transparency of trade and investment policies, collectivism, and effective implementation of SAFTA. These measures will contribute towards strengthening economic ties in the region thus helping to achieve the shared goal of economic development and prosperity.

Reducing Trade Barriers

Collective and concrete action to lower trade barriers and advance domestic reforms is important to facilitate regional trade. The regional countries need to reduce the high effective tariffs on the specific industries of each partner country which are applied to safeguard the interests of some of the local business communities at the cost of low competition and high domestic prices. In particular, high and specific duties on textiles and agricultural products should be reduced to

[4]Incidentally, a major reason for the failure of SAPTA to spur intra-regional trade was that most of the products of export interest to the regional countries were excluded from preferential treatment [Kemal (2004)].

make available the cheaper goods in the domestic market, thereby improving consumer welfare. This will also lead to enhanced trade within the region.

Simplifying and Improving the Tariff Structure and Procedures

To reduce the complexity of the tariff structures, protective duties and exemptions provided to domestic producers need to be removed. Demand for such exemptions also goes down as effective tariffs are reduced. The improvement in the custom as well as tax administrations must complement tariff reduction policies. This process should be designed and implemented in close consultation with the stakeholders: business community, farmers, investors, traders and others. Some studies have pointed out a tendency to use anti-dumping duties as a tool for restricting imports in some South Asian countries. There should be mutual revision of anti-dumping policies on a regional basis. On the other hand, small countries including Nepal, Maldives and Bhutan need to build their capacity to deal with anti-dumping investigations on their exports on the one hand, and to improve their technical expertise for counter safeguard measures on the other.

Improving Trade Facilitation

Reduction in tariffs alone is not sufficient to promote economic ties in the region. What is needed is a regulatory environment that facilitates trade through reduction in the transaction costs associated with bringing goods and services across borders. Trade facilitation involves a wide range of initiatives, including, for instance, reforms in the regulation and harmonisation of standards, promoting efficiency in customs, and improvement in regional transport infrastructure. The regional countries need to adopt a coherent strategy to harmonise their policies, focusing in particular on transport and transit systems, and customs procedures. Domestic regulatory procedures and institutional structures based on international best practice models (for example of ASEAN) can improve transparency and introduce professionalism in border clearance procedures. Streamlining regulations on technical barriers and liberalising transport and telecommunications regimes can also facilitate trade. Collective action to raise capacity in trade facilitation in terms of upgrading ports, and introduction of information technology in border processing would lower transaction costs and expand trade across the region.

Promoting Collectivism

South Asian countries need to adopt a collective approach to safeguard the interests of the region. Collective forums help improve the bargaining position and South Asian countries can effectively deal in the multilateral negotiations on trade with other regions and at international forums like WTO. Member countries should also cooperate with each other in order to insulate the regional economy against external shocks.

Minimising Trade Diversion

Due to preferential tariffs for the regional countries, it is apprehended that these reduced tariffs may result in trade diversion from the most competitive source to the lesser one in the region. To minimise trade diversion and the attendant welfare loss, the preferential removal of trade barriers in the region must be accompanied by a reduction in the level of external protection.

Confidence-building Measures

Confidence-building measures are needed to create the right atmosphere for greater economic ties in the region. First, the region is dominated by two large economies, India and Pakistan, and these countries must lead the way towards regional economic integration in South Asia. Actions of these economies have a strong influence on trade policies of other South Asian countries. Both the countries need to work together to ensure smaller regional countries that their interests will be safeguarded and their apprehensions about the domination of larger economies will be addressed in regional matters. Possibilities of trade expansion in South Asia would be rather limited unless the benefits of trade liberalisation accrue to all the partners. Second, easing of travel and visa restrictions would promote contact between the business communities within the region, leading to ushering of new possibilities for economic cooperation. Third, opening up of bilateral trade beyond what is covered by SAPTA, though initially on a limited scale, would bring a new wave of relations and confidence, and may lead to a broader trade and economic ties within the region. Finally, there is a need to create awareness about the potential benefits of regional economic cooperation. This will make various regional economic cooperation initiatives more acceptable to general masses thus making it easier for governments to engage in such initiatives.

Making SAFTA Work

The SAARC member countries signed SAFTA agreement in January 2004, which promises to be influential in expanding intra-regional trade. Basic parameters of this agreement include tariff reductions, elimination of quantitative restrictions, rules of origin, safeguards, institutional structures, dispute settlement and various trade facilitation measures (harmonisation of customs procedures and standards and mutual recognition of test results, and transport infrastructure cooperation). The agreement will come into force on January 1, 2006 and will be fully implemented by 2015. It envisages bringing down the import duties to 20 percent by 2006 and in the range of 0-5 percent by 2013. There is provision for the LDCs to reduce the rate of duties to 0-5 percent by the year 2015.

The SAFTA agreement provides a useful framework for strengthening trade ties in the region. However, the success of SAFTA depends on its effective implementation, which would require a conducive economic and political environment and a strong willingness for integration and liberalisation of the SAARC members. This will reduce the chance of disruption of trade and derailment of the agreement. Also, there must be a strong acceptance of the members for the subsequent economic adjustments. Continuous dialogues and interaction along with sincere efforts towards understanding each others point of view and the matters ahead are the essential ingredients for the success of SAFTA and any other integration efforts in the region.

SAFTA allows for sensitive list and if this list is large and is used to protect the interests of few industrialists, then SAFTA may not be helpful in increasing the intra-regional trade. Large negative lists and detailed product specific rules may blunt the potential benefits from the trade liberalisation process. Therefore, there is a need for further deliberations in this matter in the future SAARC/SAFTA meetings. The countries should aim for broader tariff liberalisation; it results in trade diversion towards more competitive sources and also creates competitiveness in the domestic market. Reduction in external protection will also result in trade creation.

Transparent anti-dumping and countervailing duties in the region will be necessary for the confidence building between the SAARC members. Moreover, Simplification in the SAFTA rules and measures is required for its speedy and effective implementation. The sector wise reviews of the tariffs should not be allowed as these result in a more complex system and promote rent-seeking, ultimately making it difficult to implement the agreement. The capacity of the member countries should also be improved for effective implementation of the agreement. Monitoring and technical reviews are essential ingredients and may further help in this regard.

Exploring Potential in New Areas

For sustained economic cooperation in the region, there is a need to explore potential in new areas. For instance, Kemal, *et al.* (2002) highlight the importance of developing vertical specialisation through regional production sharing arrangements. Vertical specialisation would allow the regional trading partners to achieve economies of scale by concentrating on various segments of the value chain in a production process. In addition, it has been argued that intra-industry trade can play an important role in the process of regional economic integration, especially in view of the present lack of trade complementarities in the region. It must, however, be pointed out that intra-industry trade is more likely to emerge in a market structure characterised by product differentiation and increasing returns to scale. While larger markets as a result of economic integration would help firms realise economies of scale, they would have to develop technological capabilities to achieve product differentiation. In the latter context, evidence elsewhere has shown that regional trading arrangements have often led to the transfer of technology among the partner countries.

V. CONCLUDING REMARKS

This paper has highlighted the importance of regional economic integration in South Asia, spelled out the factors which have so far hampered economic cooperation in the region, and outlined a future course of action to achieve greater economic integration in South Asia. As a tool for achieving greater economic integration, regional trading arrangements spur competition in the domestic economies leading to lower prices, more product variety, better quality, and increased incentives for innovation. By promoting a more efficient allocation of resources, competition increases productivity, living standards, and long-run growth of the economy. In addition, regional trading arrangements may institutionalise trade policy reforms, act as a stepping stone towards multilateral trade liberalisation, and help enhance regional security.

Despite efforts to strengthen regional economic cooperation, intra-regional trade in SAARC region continues to be small and on average accounts for only 5 percent of the total trade. Several factors are believed to be responsible for weak economic ties in the region including, for example, identical comparative advantage, lack of trade complementarities, restrictive trade policies, lack of regional transport network and transit system, and political problems. To move the process of regional economic integration forward, the paper recommends several measures including reduction in trade barriers, harmonisation of customs procedures and tariff structures, improving transparency of trade and investment policies, collectivism, and effective implementation of SAFTA. These measures will contribute towards strengthening economic ties in the region thus helping to achieve the shared goal of economic development and prosperity.

Appendices

APPENDIX-I

Trade Regimes in South Asia

Tariffs

During the last two decades, trade and liberalisation reforms were initiated in almost all South Asian countries with a view of improving their growth prospects. The following table provides a glimpse of the existing trade regimes in South Asia.

Table 1

Trade Regimes in South Asia

Policies	India	Pakistan	Bangladesh	Sri Lanka	Nepal
Import Restrictions					
Import Licensing	No	No	No	No	No
QRs on Imports	No	No	Yes, Limited	Yes, Minor	Yes
State Monopolies	Yes	Yes	Yes	Yes, Minor	Yes, Minor
Tariff Structure (2003)					
Top Normal CD Rate	30	25	25	27.5	25
Average CD Rate	22.2	17.3	16.3	11.3	13.7
Avg. CD + other Protective Taxes 2003	22.2	18.2	26.5	13.4	18.0
Range of CD slabs>normal	40-210%	40-250%	None (use of para tariffs and exemptions for extra Protection)	75 & 100%	40, 80, 130%
% of ad valorem tariff lines >normal CD rate	2	0.1		0.2	5.2
% of tariff lines with specific duties	5.3	0.9		1.7	0.6
Existence of high level of NTBs	Yes	No	No	No	No

Source: World Bank (2004).

(*) An across the board defense surcharge of 20 percent is applied, with some exceptions.

The general protective taxes in addition to custom duties (CD) are quite visible in Bangladesh, Nepal and to some extent in Sri Lanka. However, in India and Pakistan CD appears to be the only protective import duty. In general, all the South Asian countries apply highest tariffs on the final consumer goods, followed by intermediate components and machinery, and raw materials. This tariff structure leads to very high effective protection rate for the final goods and the lower protection for raw materials.

India is applying heavy custom duties ranging between 40-200 percent mainly to protect its agriculture, textiles and garments, and automobile sectors. In pursuit of the overall trade liberalisation process started in late 1980s, Pakistan gradually reduced its tariffs in the 1990s. Over the period, Pakistan has implemented a fairly liberal tariff structure in its agriculture sector, which has been a protected sector in not only Pakistan but also in the developing world as a whole.

Like most of other South Asian Countries, Bangladesh also consistently liberalised its tariff regime in the 1990s by reducing tariffs and eliminating many quantitative restrictions on imports. There has been substantial reduction in the maximum tariff rates (from 350 percent in 1990-91 to 32.5 percent in 2002-03) with tariff bands reduced to just four. To give extra protection to the local industry, some additional duties/charges are levied such as infrastructure development surcharge (IDS), import permit (IP) fee, advance income tax, value-added tax (VAT) and supplementary duties. These additional duties roughly increase the effect of the protection rate by 1/3rd [World Bank (2004)].

Unlike other parts of South Asia, Maldives maintained almost a status quo during 1990s in its tariff liberalisation. In 2000, there were major changes in the duties and tariff structure of the country. The tariff commodity classifications were substantially altered and many rates were changed. No duties or surcharges are levied on imports other than CD.

Non-tariff Barriers

In the past, non-tariff barriers like quotas, import licensing and other quantitative restrictions were the main features of the trade policies of the South Asian countries. These policies were mainly driven by the import substitution and protection of the domestic industry. The industrial consumer goods and the agriculture sectors remained highly protective through the quota restrictions (QRs), which served as almost the ban on imports. Until very recently India had an import licensing policy for all consumer goods, textile fabrics and most of agricultural products. The phasing out of the QRs began in 1998, and the last set was finally lifted in April 2001, however, major agriculture commodities in India were still controlled by government owned/authorised trading monopolies. Some import controls on 600 tariff lines are justified on grounds of technical standards, SPS rules, and other health and safety lines. Government mandated import monopolies or State Trading Enterprises (STEs) are also contributing towards non-tariff barriers to imports, especially in the urea and agricultural products particularly rice, wheat, all coarse grains except maize and copra. The discriminatory domestic taxes are also applied on the domestic and imported products in the Indian setup. For example, a lower excise tax rate (12 percent) is charged on domestic textile fabrics than on imported textile fabrics (16 percent).

In Pakistan, import licensing was one of the key instruments for the quota restriction up to the early 1990s, and it gradually reduced in the decade of 1990s. In 1998, there were only 2.7 percent of the 6-digit tariff lines subject to quota restrictions as compared to 25.4 percent in 1987. The standardisation requirement for the import of certain products was also removed in 1995. After the initiation of the major trade reforms in 1997-98, the country by the year 2003 was almost free of all the quota restrictions except for few, like the import of second hand items (e.g. cars).

In Bangladesh, protection at the border in addition to tariffs is provided by import bans or restrictions that affect nearly 12 percent of tariff lines. The quota restrictions, very high in the 1980s (56 percent of the 6-digit tariff lines in 1987) were gradually reduced in the 1990s (11.9 percent of the 6-digit tariff lines in 1998). The situation improved over the time, but still textile and agriculture are the sectors with the major concentration of these restrictions. High levels of restrictions (tariff as well as QRs) are contributing in the growing level of smuggling (unofficial imports) and major part of informal trade is originating from India. Estimates show that these unofficial imports can be as much as the official one.[5] Bangladesh has also number of registration, certificates and tests requirements for the imports.

There are few formal non-tariff barriers in Maldives. A general import license from Ministry of Trade and Industry is essential for any kind of import in the country. In 1998, most of the QRs were eliminated except for few on imports of rice, sugar, and wheat flour. Few import restrictions and prohibitions are maintained for health, safety, security, environmental and religious reasons. However, the extent of duty concessions is high which is undermining the transparency of the tariff structure.

Anti-dumping Duties

In South Asia, India and Pakistan are the only two countries using the anti dumping duties to protect their local industry from competition. In India, anti-dumping duty is one of the major measures taken for the protection of the domestic producers and is neutralising the benefits of overall tariff reduction. India started anti-dumping duties in 1993 and more than 300 cases have been completed.[6] These resulted in the imposition of specific duties on imports from particular firms and countries and gave protection to Indian producers. In Pakistan, the National Tariff Commission (NTC) has equipped itself for the preparation and implementation of anti-dumping duties to safeguard its domestic industry from any foreign unfair competition. Like Pakistan and India, Bangladesh also has its Tariff Commission which is responsible for the investigation of matters and cases on dumping and subsidies. Until 2000, there was no case proceeding on anti-dumping or countervailing measures in Bangladesh. Despite the complaints from the local producers about the dumping or subsidised exports, there was no formal submission of application against these activities due to lack of technical expertise, required data and financing on the part of the commission as well as the local producers.[7] On the other hand, Maldives has no mechanism for the protection of domestic producers against any dumping or subsidised imports and no specific anti-dumping, countervailing or safeguard laws prevail in the country.

[5]WTO Trade Policy Review for Bangladesh (2000).
[6]WTO Trade Policy Review for India (2002).
[7]WTO Trade Policy Review for Bangladesh (2000).

Trade Facilitation

Measures to facilitate trade and lower logistics costs in South Asia are among the most needed steps to promote economic integration with the rest of the world as well as intra-regional trade. To harmonise the custom procedures, standardised forms and simplified procedures are essential. Although all the SAARC members have approved the Customs Action Plan and countries also made personal efforts to harmonise the application and simplification of customs procedures and practices, the lack of integrated transport systems, port congestion, complicated customs-clearance procedures, and non-transparent administrative procedures at the customs are still hampering the trade flows. In this regard, coordination and cooperation is required between the countries. The lack of cross border transit points across the region are also potential hindrances in the intra-regional trade. For example, Goods moving between India and Pakistan often must be transhipped through a third country. The lack of integrated transport networks in the region clearly raise cargo shipping costs.

In order to facilitate the importers and make the process transparent, Pakistani authorities initiated a Customs Valuation Information System (CVIS), through which the importers can access the exchange data for their consignment. In case of products subject to certain conditions, approval from the competent government agency, or certificates from the exporting country may be required. During 1998-1999, the introduction of self-assessment and rapid clearance procedures allows quick clearance for many import categories. Moreover, computerised data management system for assessment and clearance has increased the efficiency of the custom authorities to some extent.

Despite the efforts by Bangladeshi government, complicated custom procedures involving excessive checking and paperwork still exist in the system. In Maldives, the import procedures are computerised to facilitate the importers. An introduction of online processing software and Electronic Data Incharge (EDI) for the import applications has considerably reduced custom processing time.

Standardisations

Standards and technical regulations are important elements of trade policy. In 1999, SAARC and the EU signed a Memorandum of Understanding (MOU) to enhance cooperation to assist the harmonisation of SAARC standards. These issues are also part of the bilateral agreements between the South Asian countries.

Bureau of Indian Standards (BIS), the Indian national agency for the formulation of standards, in 2001, developed more than 17423 standards and almost 42 percent have been harmonised with international standards. India introduced new rules in 2000, and these are believed to be seriously restricting imports of steel and a number of other products in India. These have added to the costs of the foreign exports through discriminatory regulations regarding the standards, inspecting cost and setup of liaison offices [World Bank (2004)]. All imports of livestock, agricultural and processed food products are subject to general health, safety and technical regulations. Some changes in these regulations were made in 2001, which seem a replacement of the abolished general import licensing of consumer goods. Second hand goods are also restricted on similar grounds.

In Pakistan Standards and Quality Control Authority (PSQCA) is responsible for ensuring the standards and quality for the imported and domestic products and may perform inspection where needed. Testing facilities for agricultural goods are inadequate, and standards are inconsistently applied, usually in the context of protecting some domestically manufactured product. The Bangladesh Standards and Testing Institution carries out the formulation and enforcement of standards for imports in Bangladesh. The policy objectives are the harmonisation of national standards with international standards. In 2000, Bangladesh had 36 ISO compatible standards.

Regional Trade

Intra-regional trade in South Asia is extremely limited—even when geographic proximity and levels of Gross Domestic Product (GDP), population, and trade arrangements are taken into account. The South Asian Preferential Trade Agreement (SAPTA) signed in the mid-90s has not been very helpful in promoting the intra-regional trade because of the fact that most products of export interest to the regional countries were excluded from the preferential treatment [Kemal (2004)]. With the exception of the trade of Nepal and Bhutan with India, and the trade of the Maldives with Sri Lanka, intra-regional trade in South Asia has been restricted even more than trade with the rest of the world [World Bank (2004)].

APPENDIX-II

Table 2

Import Duties in South Asia (as Percent of Goods Imports)

	Bangladesh	India	Bhutan	Maldives	Nepal	Sri Lanka	Pakistan
1980	16.4	25.7	–	3.4	16.0	9.6	25.3
1981	15.7	30.7	–	5.1	16.3	8.4	24.8
1982	13.1	32.4	–	7.2	15.4	6.8	21.6
1983	14.4	32.9	0.1	7.4	11.1	10.0	24.7
1984	15.0	39.0	0.1	11.4	12.2	15.4	25.1
1985	14.0	44.1	0.2	12.7	12.7	16.2	24.0
1986	–	50.9	0.3	14.2	11.5	19.0	28.5
1987	18.3	53.1	0.0	17.7	13.0	20.1	–
1988	17.1	47.9	0.2	17.9	14.5	16.6	30.7
1989	18.8	45.4	0.3	15.3	12.8	20.1	28.8
1990	–	42.2	0.2	14.0	14.2	18.0	31.6
1991	19.8*	45.9	0.4	15.2	11.1	16.0	25.4
1992	–	36.9	0.5	15.5	10.1	15.7	27.5
1993	–	26.9	0.3	15.1	9.1	12.1	22.5
1994	–	23.3	0.8	15.1	9.3	10.7	24.3
1995	–	24.8	0.9	14.8	10.1	9.9	23.9
1996	–	24.6	0.5	14.4	9.4	9.4	20.6
1997	13.6*	21.4	0.5	15.3	8.0	8.6	18.7
1998	12.3*	20.5	0.5	15.7	8.1	8.2	16.1
1999	11.7	20.2	0.6	15.1	9.6	7.3	13.8
2000	11.9*	18.6	0.7	16.2	8.5	4.8	12.0
2001	–	20.1	0.8	15.4	9.0	5.4	10.3
1980s Avg	**15.9**	**40.4**	**0.2**	**11.5**	**13.6**	**14.6**	**26.5**
1990s Avg	**13.9**	**25.7**	**0.6**	**15.3**	**9.3**	**9.8**	**19.6**

Source: Compiled using World Development Indicators 2003 CD-Rom.

Notes: '–' Not available, and the figures with '*' for Bangladesh are the protective import tax collection as percent of total imports from World Bank (2004).

Table 3

Pakistan—Tariffs Structure

	Simple Average Tariff Rates				
	All Products	Agriculture Products	Industrial Products	Normal Maximum Rate	No. of Standard Rates (slabs)
1987-88	77	–	–	–	–
1993-94	50	–	–	70	–
1996-97	41.7	47.2	40.8	65	14
1997-98	–	–	–	45	6
1998-99	–	–	–	40	6
1999-00	–	–	–	35	5
2000-01	24.8	28	24.3	35	5
2001-02	20.4	21.8	20.2	30	4
2002-03*	18.2	13.9	18.3	25	4

Source: WTO Trade Policy Review (1995, 2002) and World Bank (2004).
Notes: '–'= Not available, figures for 2002-03 are World Bank estimates.

Table 4

Bangladesh—Tariff Structure

Year	Number of Tariff Bands	Maximum Rate (%)	Unweighted Average Rate (%)	Weighted Average Rate (%)	Dispersion (Coefficient of Variation)
1990-91	18	350	88.6	42.1	72
1991-92	18	350	57.5	24.1	73.1
1992-93	15	300	47.4	23.6	65.1
1993-94	12	300	36	24.1	67.7
1994-95	6	60	25.9	20.9	74.5
1995-96	7	50	22.3	17	74.1
1996-97	7	45	21.5	17.9	75.9
1997-98	7	42.5	20.8	16.1	73.9
1998-99	7	40	20.3	14.7	72.2
1999-00	5	37.5	17.1	–	80.8
2002-03	4*	32.5*	16.5*	–	–

Source: WTO Trade Policy Review (2000).
Notes: '–' = Not available and figures with '*' are obtained from World Bank (2004).

Table 5

India—Tariff Structure

	Applied Average Tariff Rates	Average Tariffs (Including other Protective Taxes)	Normal Maximum Customs Duty	Total Protective Rate
1990-91	125	128	–	–
1991-92	–	n.a.	–	–
1992-93	–	94	–	–
1993-94	71	71	–	–
1994-95	–	55	–	–
1995-96	41	40.8	–	–
1996-97	39	38.6	50	52
1997-98	35	34.4	40	45
1998-99	–	402	40	51.8
1999-00	–	39.6	40	46.5
2000-01	–	n.a.	35	44.9
2001-02	32.3	38.4	35	41.3
2002-03	–	35	30	36

Source: WTO Trade Policy Review (1998, 2002) and World Bank (2004).
Notes: '–' = Not available.

Applied average tariff rates are adjusted basic rates which have been reduced by exempt rates. Protective Rates are world bank estimates where normal maximum CD rates are adjusted for the special duties/surcharges, special and additional duties.

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