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Toward a Pan-Asian Regional Trading Arrangement: Third-Country Competition among Member Countries

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Toward a Pan-Asian Regional Trading Arrangement: Third-Country Competition among Member Countries[1]

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Abstract

Intra-SAARC trade is low and the potential for this trade is not very high as the trade complementarities between the SAARC countries are not very high. This provides the rationale for a broader grouping in Asia of the south Asian and the East Asian Countries, including the South-East Asian countries. Given the pattern of global trade, the trade complementarities involved are high. Multiple overlapping regional arrangements are actually being put into place to take advantage of these complementarities. The paper examines the patterns of specialization of individual countries and the world market shares of these countries in their specialized commodities. The countries in a broader grouping, perhaps through some restructuring of industries, will not compete with each other globally in the third markets and will thereby be able to benefit from economies of scale reaped within the grouping.

Keywords: Regional trading arrangements; SAARC; Asian Economic Community

JEL Codes: F14, F15

1. Introduction

South Asian Association for Regional Cooperation (SAARC) and South Asian Preferential Trade Arrangement (SAPTA)/ South Asian Free Trade Area (SAFTA) become important in the South Asian region as a stepping-stone to further political cooperation between the countries of the region. This was also the model followed in Europe where, following the Second World War, cooperation in larger spheres succeeded the initial cooperation attained in the economic sphere. This model becomes especially relevant in South Asia, where two of the largest economies are politically antagonistic to one another, very much like France and Germany were in the aftermaths of the Second World War. This is not to deny that some degree of initial thrust for economic cooperation has to come from the political sphere; yet, the process having been once

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initiated, the road to further cooperation becomes easy if the economies of the countries concerned become increasingly interdependent.[3]

Yet there are reasons to believe that the global division of labour that is currently emerging supports a broader regional agreement between South and East Asia inclusive of South-East Asia. Under this division, the US is importing finished consumer goods substantially from China, whereas China itself imports intermediate inputs from South East and East Asia. This latter region, in turn, is a major export destination of India and other South Asian economies. A broader South Asian economic cooperation, which includes countries of both South and East Asia, is necessary to take advantage of this trend. The tri-polar division of world into three major trade blocs, the Americas, Asia and the European Union is also relevant in this context.

More importantly economic cooperation at sub-regional levels like SAARC and ASEAN tend to be sub-optimal. The trade complementarities between the South Asian countries are limited. Countries like India, Pakistan and Bangladesh have export advantages in similar manufactured goods, though there is some evidence that the export baskets of these countries have started diverging. The possibilities of trade cooperation between these countries are, hence, limited. On the other hand, the possibilities of trade between South Asia and East Asia are enormous. A large trade already exists between some of the countries of these two regions, especially between India and some of the South-East Asian countries like Malaysia, Indonesia and Thailand. The trade complementarities between the countries of the two regions are also high. It makes tremendous economic sense to look beyond South Asia to include in its ambit also the countries of South-East Asia for furthering economic cooperation in the region. This would also be in the interest of the larger countries of the region like India and Pakistan, which will find even larger markets for their exports. It is of course true that relatively smaller countries have much more to gain by access to the markets of the larger countries of a regional trading arrangement.

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[3] At a seminar on 'India-Pakistan Relations: In pursuit of Peace', organised by VPM's Centre for International Studies in April 2004, a reference was made to the opposite point of view espoused by scholars in international relations, like Carl Deutsch, arguing that where there is economic interdependence, the conflict between nations actually increases due to the economic problems related to increased interdependence. See Kamath (2005), p. 165.

Moreover, broader cooperation in Asia is also necessary for political reasons. India is looked upon as too dominant an economy in the South Asian region. The India factor can be neutralised only in the context of a broader grouping in Asia with the participation of economically dominant countries of the east, some of which are also politically dominant. The 'Look East' policy that has been adopted by India in the 1990s becomes significant in this context. Such a policy includes bilateral FTAs like the one with Thailand; as also the initiation of arrangements like BIMST-EC, the membership of which overlaps, partly, both SAARC and ASEAN, and the proposed FTA with ASEAN itself.

The remaining part of the paper is organised as follows. Section 2 begins by examining the experience and potentials of trade cooperation under SAARC. It is shown that the SAPTA process that has already been initiated has not been of much use in increasing the intra-SAARC trade, though, of late, there has been an upward movement in this trade. A grouping of countries in South Asia, like the SAARC, could be of political significance, but not much of economic value given the absence of trade complementarities between the countries of the region. An economically meaningful grouping requires cooperation between much larger set of countries in Asia, including countries both in the South and South-East Asia. This has been happening, of late. The various attempts at such groupings spanning larger areas of Asia are examined in Section 3. Groupings like BIMST-EC are perhaps an intermediate step to a full-fledged cooperation between SAARC and ASEAN. Section 4 attempts a small exercise to bring out the implications to competition in global markets, among member countries, of an economically more meaningful grouping consisting of the SAARC and ASEAN member countries than a grouping only of the SAARC members. It is shown that such a grouping will not adversely affect the interests of potential members in terms of competition in third-country global markets. Section 5 provides some concluding comments.

2. Economic Cooperation in South Asia: SAARC, SAPTA and SAFTA

Though the SAARC was established as early as in the mid-1980s, it largely remained an organisation for cultural cooperation between member countries. Economic cooperation among the members was emphasized only since 1991 with the establishment of the Committee on

Economic Cooperation (CEC) and the Inter-Governmental Group (IGG). The high-level CEC comprising Commerce/ Trade Secretaries of SAARC Member States was established in 1991 consequent to the endorsement of the SAARC Study on Trade, Manufactures and Services (popularly known as the TMS Study) by the Council of Ministers at their Ninth Session at Malé. Also in 1991, the Sixth Summit at Colombo approved the establishment of an Inter-Governmental Group (IGG) to formulate an agreement to establish a SAARC Preferential Trading Arrangement (SAPTA) by 1997. The framework Agreement on SAPTA was finalised in 1993 and SAPTA came formally into operation in December 1995, i.e., two years before the date mandated for the IGG. Three rounds of trade negotiations were conducted under the framework Agreement on SAPTA. Under these three rounds members granted preferential tariff concessions covering a number of products: Bangladesh (572), Bhutan (266), India (2402), Maldives (390), Nepal (425), Pakistan (685), and Sri Lanka (211). The depth of tariff concessions granted over these products ranged from 5 to 15 per cent by Maldives to 10 to 75 per cent by Sri Lanka and 10 to 100 per cent by India. Pakistan offered concessions in the range of 10 to 30 per cent on the 685 products included by it. From a longer run point of view, it was visualised that the SAARC member countries would reduce tariff to 20 per cent within two years and 5 per cent within five years. On the other hand, the least developed countries within SAARC were expected to reduce tariffs to 30 per cent within two years and further to 5 per cent within eight years.[4] By the time that the fourth round of trade negotiations was initiated under SAPTA, the initiatives under SAPTA were overtaken by the Framework Agreement on SAFTA under which a Free Trade Agreement has been established in the region in January 2006.[5]

Any further progress in inter-regional trade in South Asia is hence expected to be under the aegis of SAFTA. Preliminary analysis, however, suggests that the concessions exchanged so far have not made much of a difference to the intra-regional exports of any of the SAARC countries, except in the case of Nepal and Sri Lanka.[6] It is a known fact that the intra-regional (within SAARC) exports, as a percentage of world exports of the respective SAARC countries, are not

[4] The preferential tariff reductions visualised for facilitating intra-regional trade within SAARC, of course, differentiated between the least developed and other countries, with the least developed countries within SAARC getting a preferential treatment in the matter of tariff reductions.

[5] A Free Trade Area like SAFTA, of course, denotes a higher level of integration as compared to a Preferential Trading Area, like SAPTA.

[6] The increase is actually more due to the bilateral trade agreements of these countries with India rather than the concessions exchanged under SAPTA.

very large and did not change on the average between the two trienniums, 1994-96 and 2000-02. It is only very recently that Intra-SAARC trade has started increasing. Table 1 shows the ratio of intra-SAARC to total exports of individual SAARC countries and the overall SAARC average. On an average, the SAARC countries exported only 4.20 per cent of their total world exports to each other in the mid-1990s and this percentage remained unchanged at the beginning of the century in spite of over five years of the operation of SAPTA. The ratio has, however, marginally increased to 4.40 per cent in the triennium centred on 2002 and further to 4.80 per cent in the triennium around 2003.

Not surprisingly, the SAARC average is largely determined by the intra-SAARC exports of the dominant country India and is a little under the Indian intra-SAARC exports share in all years. The share of intra-SAARC exports for Bangladesh and Pakistan has consistently been below the SAARC average (lower for Bangladesh than for Pakistan), whereas the share of intra-SAARC trade has consistently increased for the other large SAARC country, Sri Lanka, from below the SAARC average to substantially above it in the triennium centred on 2003. The share of intra-SAARC exports in their respective world exports has been substantially higher than the SAARC average for the two smaller SAARC countries, viz., Maldives and Nepal, and has been increasing[7]. It has reached close to the 50 per cent mark in the triennium centred on 2002. For both these countries, however, the higher share of intra-SAARC trade in world exports reflects historical ties with a single country, *viz*., with Sri Lanka in the case of Maldives and with India in the case of Nepal.

Table 1 also shows that, except for Nepal and Sri Lanka, intra-SAARC exports of SAARC member countries as a percentage of their respective world exports have actually declined between 1995 and 2001, the decline being substantial both for Bangladesh and Maldives, though not as substantial for the two largest SAARC countries, India and Pakistan. The decline in the intra-SAARC export share for Bangladesh reflects a truly global engagement in exports, whereas that for Maldives too reflects a greater diversification of exports, though in this case there is also a reduction in the dependence on Sri Lanka markets within SAARC and a concomitant

[7] Data for Bhutan has not been tabulated in *DOTS Yearbook*, but the intra-SAARC trade for Bhutan is also expected to be very high as a percentage of its total trade, since a large part of Bhutan's trade is expected to be with India.

diversification, to some extent, to the markets of Bangladesh, India and Pakistan. The decline has been reversed in 2002 and 2003, marginally for Bangladesh and substantially for Maldives. The increase in the share of intra-SAARC exports for Nepal and Sri Lanka, however, cannot exactly be attributed to the successful working of SAARC. The Intra-SAARC exports of Sri Lanka increased by over 103 per cent in US $ terms between 1995 and 2001. Of these, the exports to India increased by over 203 per cent; so that exports to the Indian markets as a percentage of total intra-SAARC exports of Sri Lanka increased from 33 per cent in 1995 to nearly 50 per cent in 2001. Similarly, the share of Nepal's exports to India as a percentage of its total intra-SAARC exports increased from 80 per cent to 98 per cent between 1995 and 2001. These shares have further increased, both for Sri Lanka and Nepal, in the triennium centred on 2002. The increase in the share of intra-SAARC exports of Nepal and Sri Lanka is explained by the increase in trade, not with the SAARC countries in general, but with India. This latter increase has been due to successful bilateral trade arrangements between these countries and India.

From an economic point of view SAFTA as grouping of seven countries is unlikely to be meaningful. Statistically, and going by current levels, SAFTA trade is largely the intra-SAARC trade by India and Pakistan. These two countries together accounted for 88 per cent of intra-SAAARC exports of SAARC countries in 1994-96, with India at over 75 per cent and Pakistan at 13 per cent of total intra-SAARC exports of the member countries. Of the remaining 12 per cent, over five per cent were accounted for by Sri Lanka, with smaller shares for the other four states in Intra-SAARC exports. In 2000-02, too, the exports of India and Pakistan within the SAARC region account for 80 per cent of the intra-SAARC exports of member countries. The relative increase in the intra-SAARC exports of the other member countries is largely accounted for by the increase in the exports of these other countries to larger markets like India.

It is not surprising that the intra-SAARC trade is not substantial. This follows from the fact that, at their current stage of development with similar economic structures, not many trade complementarities exist between the member countries of SAARC. This also explains why most of the intra-SAARC trade (80 to 90 percent of the total intra-SAARC trade) is with the two countries whose structures are different from those of the other five, i.e., with India and Pakistan. Paul (2005) has computed indices of trade complementarities for individual countries of SAARC *vis-à-vis* each other for the years 1990 and 2000 based on the cosine index formula used originally by Linemann (1966).[8] The computed values show that, by and large, the export supplies of individual SAARC countries do not match the import demands of their SAARC trading partners, the only exception being the export supply of Pakistan, which matches, to some extent, the import demands of Maldives and Sri Lanka.[9]

The SAFTA process under SAARC is important, not because it will be able to create an economically meaningful grouping, but for reasons that are more political. First, processes like SAPTA and SAFTA provide a plurilateral platform for negotiations between two adversarial neighbours in a situation where bilateral negotiations are politically difficult. But this is clearly a second-best option. Secondly, the same platform can be used for reducing non-tariff rather than tariff barriers among member countries. More useful than the preferential tariff reductions are the various trade facilitation and harmonisation measures that are sought to be undertaken through SAPTA/ SAFTA and the related initiatives like the Group on Customs Cooperation that was set up in 1996 and the Technical Committee on Transport and Communications that was set up as the expanded version of Technical Committee on Transportation in 2000. These would go a long way toward the removal of non-tariff barriers to trade through measures like simplification and harmonisation of import licensing and registration procedures, simplification and harmonisation of customs clearance procedures, customs cooperation to resolve disputes at customs entry points, harmonisation of national customs classification based on HS coding system, harmonisation of standards, reciprocal recognition of tests and accreditation of testing laboratories of member countries, development of communications systems and transport infrastructure, and simplification procedures for business visas.

There have been suggestions in the literature that, over time, membership in trade groupings may become irrelevant economically as the MFN tariffs of the countries in these groupings are progressively brought down to the lowest levels of tariff in the grouping. This happens because countries with higher external tariffs in the grouping fear that they would lose investments to

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[8] The possible values of the index range from zero to unity, the value being close to unity if the aggregate export supplies of a country match well with the aggregate import demand of the partner country, and close to zero if it does not.

[9] Even in the case of Pakistan-Maldives and Pakistan-Sri Lanka trade, though, the cosine index values are substantially less than 0.5. The index values are much smaller in all other cases.

countries with lower tariffs, since these latter would allow imports of intermediate inputs to be used in production at a lower cost. Also, as inefficient industries lose out to intra-group competition, there would progressively be fewer pressures on group members from domestic industries for protection through higher external tariffs. If, in spite of these points, tariff concessions within a trade group continue to remain important vis-à-vis the tariffs imposed on third countries, it is much more meaningful for large countries like India and Pakistan, in the present milieu, to join a larger grouping. India is actively pursuing this through policies like the 'Look East Policy' that it has been following in the 1990s. In the next section we examine the attempts at building up economic groupings in Asia that will lead to the emergence of a Pan-Asian consciousness in the region. South Asian consciousness can emerge only as a part of the Pan Asian consciousness.

3. **Emergence of the Asian Economic Community: The Spaghetti Bowl Effect**

Economic groupings are emerging in Asia as a part of the process wherein trade liberalisation is globally proceeding simultaneously in two channels: multilateral trade under the MFN channel and regional trade under the preferential trading channel. For a long time Asia had pursued trade liberalisation largely through the MFN channel and not through the regional preferential route. This was unlike the strategies adopted in other parts of the world, notably in Europe and in North America, where a two-track policy was followed – MFN trade liberalisation at the global level along with preferential trade liberalisation at the regional level. The regional channel operated in Europe in the form of the Single European Market, whereas it operated in North America through the NAFTA, both having been negotiated in the early 1990s, along with the negotiations for global trade liberalisation under the Uruguay Round of the GATT. It was only in the end-1990s that the regional channel for trade liberalisation started taking roots in Asia. Regional trade and economic groupings in East Asia emerged in the aftermaths of the Asian crisis of July 1997in the form of the ASEAN Free Trade Area (AFTA) and the proposed East Asian Economic Community (EAEC). Though SAPTA as a preferential trading arrangement came into being in South Asia in December 1995, it has graduated only very recently to a free trade area, *viz*., SAFTA.

The literature on regional trading and integration arrangements recognises three waves of regionalism in the post-war history of international trade:[10]

> The first wave occurred in 1960s and is known as closed regionalism mainly because the regional economic cooperation forged by participating countries was aimed mainly at determining which import-substituting industries are to be developed and where to locate them, and securing raw materials for such industries from member countries. …
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> Many developing countries…shifted from an inward-looking to an outward-looking development strategy by liberalizing trade and investment to enhance their export competitiveness. The number of countries embracing multilateralism increased rapidly… Some countries have decided to fast-track trade liberalisation through a regional route. This regionalism has put emphasis on open regionalism, an example of which is the formation of the Asia-pacific Economic Cooperation (APEC) that espouses non-discriminatory liberalization; that is, the best tariff preferences that one APEC member accords to APEC members are also extended to other non-APEC trading partners. Thus multilateralism and regionalism were considered to be reinforcing each other.
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> The third wave of regionalism emerged after the 1997 East Asian crisis. By then, the APEC process virtually halted after the largest nations, led by the United States and Japan, expressed their willingness to liberalize only within the context of the negotiated reciprocity under WTO. Progress in multilateral trade and investment flows also slowed. Thus, some countries started to explore alternative routes to achieving trade and investment liberalisation by entering into RTAs with neighbouring countries or countries in other regions of the world seeking the same objectives.

[10] ADB (2005)

Authors have variously identified the phases in regionalism, and the above classification, though illuminating, is just one of many that are available.[11] For our purpose we can usefully differentiate between two kinds of RTAs based on the motivation for the establishment of the arrangements. The earlier RTAs were formed largely with a view to increasing the intra-RTA trade. The later day RTAs that have been formed since the 1990s have been with a view to economies of scale, also through industrial restructuring. Thus, Unilever makes all its dishwasher powder meant for the European market at tits Lyons (France) plant and its toilet soap for Europe at Port Sunlight (UK) following the formation of the Single European Market in preference to smaller plants catering to each individual market in the entire range of products.[12] It is these new RTAs that are relevant to our analysis.

The new RTAs are more comprehensive than traditional RTAs – they go much beyond mere trade liberalisation between member countries. The proliferation of these RTAs in the last five to ten years has given rise to a new kind of regionalism, including in Asia, wherein the integration is deeper and wider than in the traditional RTAs. The new arrangements are hence called regional integration arrangements rather than regional trading arrangements. The proliferation of such arrangements means that almost all countries are members of at least one bloc and many belong to more than one. Countries are connected to one another through partially overlapping arrangements giving rise to the spaghetti bowl effect of interconnections between countries. It is on this background that we identify some of the regional integration efforts that are underway in Asia today. These include the Bangkok Agreement, SAFTA, AFTA BIMSTEC and the proposed East Asian Economic Community that has the potential to expand into the Asian Economic Community. The objective is to get a clearer idea of how a broader Asian economic alliance has been emerging over the years and in an accelerated way in recent years. Some of the attempts are from the earlier waves of regionalism, but have received renewed impetus, e.g., the Bangkok Agreement with the accession of china. Annexe I provides a list of principal RTAs involving Asian countries.[13]

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[11] As Page (2000, p. 17) notes, "The proliferation of regional integration agreements which started in the early 1980s represents the third wave of regionalism in this (that is, last!) century, following those of the 1930s and of the 1950-60s." Thus Page's first wave of regionalism predates the War.
[12] RIS (2005)
[13] Some of the agreements also have links beyond the Asian continent to the Americas and Australia-New Zealand. We have however restricted our listing to basically those agreements that basically span within Asia.

One of the oldest agreements in this context is the Bangkok Agreement. It has received fillip recently through the accession of China. The Third Round of Negotiations was launched as late as in October 2001 and concessions were exchanged between members. Bangladesh, India and Sri Lanka are three members that are common to the Bangkok Agreement and BIMST-EC, economic cooperation initiated at the instance of Thailand. The other members of BIMST-EC are Nepal, Bhutan, Myanmar and Thailand. Thus five of the members of BIMST-EC are common with SAFTA. BIMST-EC has formalized a Framework Agreement for an FTA in February 2004.

BIMST-EC members Thailand and Myanmar, which are also members of AFTA, provide a link between SAARC and ASEAN. India is planning a free trade area with Thailand in ASEAN and also with Sri Lanka in SAARC. ASEAN becomes the centrepiece in any attempt at pan-Asian regional integration. ASEAN is at various stages of establishing FTAs with the larger countries of Asia, viz., China, Japan and India. The proposed grouping of ASEAN with Japan and Korea has been christened as JACK. Inclusive of India it has been called JACIK. It is important however that other countries of South Asia also be included in the grouping, sooner or later. ASEAN has formally proposed the establishment of EAC, the East Asian Community. Through overlapping arrangements like the SAARC and BIMST-EC, economic, and perhaps even political, rationality requires that we move ultimately to an Asian Economic Community (AEC).[14] We suggest below that we are perhaps not yet ready for a grouping with China, but a grouping of SAARC and ASEAN could be the first step to the formation of a full-fledged AEC. At an intermediate stage, there could be an Asian grouping in the world division of labour like the SACJAK (SAARC-ASEAN-China-Japan-South Korea)

4. Trade Competition for SAARC Countries in a Pan-Asian RTA

In this section we establish the kind of competition that will be faced by SAARC countries in the world market because of a pan-Asian arrangement like the SACJAK (SAARC-ASEAN-China-Japan-South Korea). For this purpose we consider only those commodities in

[14] The working of the Spaghetti Bowl effect can also provide links to Central Asia via Pakistan through the RTA designated as Economic Cooperation Organisation (ECO), listed in Annex I.

which the 20 countries (7 SAARC, 10 ASEAN and China, Japan, South Korea) are specialised in the world market. A country is said to be specialised in a commodity if its export share of the commodity is larger than the total export share of the country in the market. Thus, if the total export share of a country in the world market is one per cent, it would be said to be specialised in all those commodities wherein its export share is more than one per cent in the world market. Since we are primarily interested in SAARC countries, we report below in Table 2, the number of commodities, at 3 digit SITC level, in which these countries are specialised in the above sense. Table 2 also provides the break-up of this number by 3 categories of commodities: SITC 0-4 (primary commodities), SITC 5-6 (chemicals and manufactures classified by material), and SITC 7-9 (machinery, transport equipment and other more advanced manufactures).

There are no major surprises in the number of specialised commodities and their division by SITC categories. Thus the larger countries, India, Pakistan, Sri Lanka and Bangladesh are specialised in a larger number of commodities in the world market. Also these countries have a larger number of specialised commodities in the manufactured commodities categories of SITC 5-6 and SITC 7-9.

Establishment of the new kind of RTAs would mean that some of these specialised commodities of the individual countries will face competition from within the trading bloc. The restructuring of industries that is implicit in the new RTAs to obtain advantages of scale economies will become difficult if more than one country in the bloc are specialised in a commodity. The competitiveness picture that emerges for the SAARC countries in the SACJAK arrangement can be summarized as follows.[15]

1. The SSARC countries will largely be oblivious to Competition from Korea and Japan in the world market. This is because Korea and Japan are largely specialised in those commodities under Sections 7, 8 and 9 in which SAARC countries do not have a specializing interest. The notable exception is the commodity toys, games and sport goods (SITC 894), where Japan,

[15] The market share and specialisation computations are made from the World Bank, *Trade Can 2002.*

with its 9.5 per cent market share, dominates the fractional market share of Pakistan.[16] Japan also dominates in SITC 628 (articles of rubber, n.e.s.) with its 11 per cent market share, that of Sri Lanka being a mere 0.20 per cent.

2. This is not true of competition from China. In many of the commodities that SAARC countries specialize in for exports, China has a dominating market share. This is especially true of garments (SITC 842, 843, 844, 845, 846 & 847), where China dominates the world market with its close to 25 per cent market share in these categories.[17] Some of the SAARC countries have respectable world market shares in these categories, but much lower than that of China: India's shares are 3.75 per cent in SITC 843 (textile fabric over garments) and 4.85 per cent SITC 844 (Textile fabric undergarments), whereas Bangladesh has a share of 5.80 per cent in SITC 844. China also dominates India's share of over 2 per cent in the travel goods market (SITC 831) with its over 52.5 per cent share of the market.
3. China similarly dominates the world market in SITC 651, 654, 655, 656, 658 & 659, i.e., textile commodities in which many of the SAARC countries specialise. China's world market shares in these SITC sections are 8.30 per cent, 13 per cent, 15 per cent, 7.70 per cent, 24.25 per cent and 8.88 per cent, respectively. The SAARC countries specialized in these sections are Bangladesh, Pakistan and Nepal. Most of the South Asian countries specialized in these sections have fractional shares in the world market.[18] China also dominates India in SITC 278 (Other crude minerals) with its over 10 per cent world market share, India's share, though not fractional, is much lower at just a little over one per cent. The same applies to SITC 291 (crude animal material) wherein China's share is 20.41 per cent, and India's is 1.22 per cent.
4. There are several manufactured goods, though, wherein some of the SAARC countries would continue to maintain their position of a single country specialised in the export of the commodity even after formation of SACJAK. In most cases, however, their world market shares of these commodities tend to be small and even fractional. Examples include SITC 562 (manufactured fertilizers) for Bangladesh, SITC 591 (disinfectants, insecticides,

[16] Analysis at a more disaggregated level may show that the commodities in which Japan and Pakistan specialize are actually different within the broad 3-digit level category. This point is more generally valid, but is particularly true of 3 digit categories that have more subcategories to it.

[17] The only exception is SITC 846, wherein China's share is lower, but still close to 20 per cent.

[18] There are two exceptions to this: Bangladesh's share of 1.12 per cent in Section 658 and Nepal's share of 1.83 per cent in Section 659. These shares, though not fractional, are no where near the Chinese shares in these categories. (24.25 per cent and 8.88 per cent, respectively).

fungicides, etc.) for Bhutan, though with a very marginal share in the world market, SITC 266 (synthetic fibres suitable for spinning) for India with a one per cent world market share, as also SITC 785 (motor cycles, motor scooters and other cycles), though with a fractional market share of a little less than one per cent. Similarly Pakistan continues to singly specialize in SITC 872 (medical instruments), though again with a fractional market share. Sri Lanka singly specializes in SITC 662 (clay construction materials), though with a fractional market share.

5. Amongst primary commodities, Pakistan continues to singly specialize in cotton (SITC 263), with a respectable market share (1.50 per cent), whereas Bangladesh dominates in jute fibre (SITC 264) with a share of over 80 per cent. Sri Lanka is a dominant player in SITC 074 (Tea), though even here china is the larger player with its share of 17.22 per cent in the world market. Sri Lanka is similarly placed with respect to SITC 265 (vegetable textile fibres, excluding cotton & jute) where it is second to Philippines, the market shares of the two being 4.5 per cent and 5.5 per cent, respectively. Sri Lanka continues to specialize singly in SITC 551 (essential oils and perfume), though with a marginal market share.
6. There are also commodities wherein the South Asian countries continue to have a larger share in the world market as compared to other countries in the SACJAK. Examples include SITC 281 (iron ore and concentrates), wherein India has a share of close to 7 per cent, with Philippines lagging behind at around 1.50 per cent. India continues to have the largest share in SITC 611 leather (2.41 per cent), SITC 612 leather manufactures (6.25 per cent) and SITC 667 pearls & precious stones (Close to 12 per cent). This is also true for SITC 222 (oil seeds for soft oils) for India and SITC 223 (oil seeds for other oils) for Pakistan, though here the world market shares of these countries are fractional.
7. In primary commodities though, by and large, the competition from other members of SACJAK increases. In most cases the ASEAN countries also specialise in similar commodities and, at times, with larger market shares than the SAARC countries.
8. The market shares of smaller SAARC countries are fractionally small in the commodities in which they specialize. This is particularly true for Bhutan and Maldives, and also for Nepal.

5. Some Concluding Comments

The restructuring of industries that is relevant is, however, not in terms of primary commodities production, but in terms of manufactured goods. It is clear form above, that except in the case of competition from China, there are many manufactured commodities in which the SAARC will be able to hold to their own specializations in any restructuring that will follow the establishment of a trading arrangement like SACJAK and take advantage of the scale economies that will ensue as a producer in a larger economic bloc.

Emergence of a South-Asian regional trading arrangement may be important for political cogency in the region, but the global division of labour points to the necessity for the emergence of a pan-Asian trading arrangement. It is not a mere platitude to say that the 21st century is going to be an Asian century. The relative rates of growth that are being attained in Asia *vis-à-vis* the west means that the economic centre of gravity will slowly but surely shift to Asia over the early part of this century. The global demographic dynamics reinforces this shift to Asia. The trading world that is emerging in this situation of transition is essentially a tri-polar world: The Americas, Europe and Asia emerging as three trading blocs.[19]

The emergence of a pan-Asian regional trading arrangement becomes important in this context. It is only by hitching on to the Asian bandwagon that the countries of south Asia, either singly or as a group, can hope to contribute effectively to the emerging global economic configuration and benefit from it in return. It there are political and economic impediments in forging an effective South Asian group, a better strategy in the short to medium term would be to work for the emergence of other groups with overlapping memberships that create the spaghetti bowl effect. The 'Look East' policy of India becomes meaningful in this context. Pakistan is perhaps 'looking west'. A politically meaningful South Asian consciousness can emerge in the context of a pan-Asian economic consciousness.

[19] The mechanism whereby the vast region of Africa will be integrated into this process and the role that that continent will play in the global division of labour is not yet clear.

Most of the SAARC countries may not yet be ready to form a third-wave kind of a regional trading arrangement with China, since China has a dominating share in the world exports of most commodities in the same category of manufactures that are also of export interest to these countries. This may require a more graduated approach to integration. In the initial stages, a trading arrangement between SAARC and ASEAN could be worked out. As we have seen in Section 4 above, the South Asian countries specialize in six (Maldives) to 16 (India) 3-digit SITC level commodities in the world market for exports. Some of these are manufactured goods. Many of the ASEAN countries specialize in the same primary commodities that SAARC countries specialize in. However, except for the textiles group, SAARC and ASEAN countries do not necessarily compete in manufactured goods. This should facilitate the kind of industrial restructuring that is the very *raison-de-étre* of the new regional integration arrangements.

India may go in for JACIK (Japan-ASEAN-China-India-Korea), but that will leave what we have called SACJAK (SAARC-ASEAN-China-Japan-Korea) out in the cold. The establishment of an Asian Economic Community, rather than that of an East Asian Economic Community, in which a large number of Asian countries including from South Asia can participate, will help in the emergence of Asia as the dominant economic bloc of the 21st century.

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Table 1: Percentage Share of Intra-Regional Exports of SAARC Countries in Their Respective World Exports (Trienniums 1994-96, 2000-02, 2001-03 & 2002-04)

SAARC Country	Triennium Centred on			
	1995	2001	2002	2003
Bangladesh	2.24	1.52	1.58	1.59
India	4.84	4.32	4.47	4.93
Maldives	21.65	14.93	46.74	-
Nepal	11.40	39.96	46.77	-
Pakistan	2.96	2.75	2.69	3.03
Sri Lanka	2.66	4.06	5.26	7.14
SAARC Total	4.20	4.20	4.41	4.80

Source: Computed from *Direction of Trade Statistics (DOTS) Yearbooks*, 2001, 2003, 2004 and *DOTS Quarterly*, September 2005, International Monetary Fund, Washington, DC.

Table 2: Number of Specialised Commodities at 3-Digit SITC Level in World Exports of SAARC Countries (Average of 1999 & 2000)

Country	*SITC 0-4*	*SITC 5-6*	*SITC 7-9*	*Total*
Bangladesh	6	5	1	12
Bhutan	4	2	1	7
India	9	3	4	16
Maldives	5	-	1	6
Nepal	6	3	-	9
Pakistan	6	4	3	13
Sri Lanka	8	4	1	13

Source: Computed from *Trade Can 2002*¸ World Bank, Washington, DC

Note: A country is said to be specialised in the export of a commodity if the share of that commodity in the importing market is greater than the share of the total exports of the country in the market.

Annexe I
RTAs in the Asian Region

RTA	**Member Countries**	**Date of Entry into Force/ Status**
Bangkok Agreement	Bangladesh, China, India, Lao PDR, Republic of Korea and Sri Lanka	1975
ECO	Islamic Republic of Afghanistan, Republic of Azerbaijan, Islamic Republic of Iran, Republic of Kazakhstan, Kyrgyz Republic, Islamic Republic of Pakistan, Republic of Tajikistan, Republic of Turkey, Turkmenistan and Republic of Uzbekistan.	1991
AFTA	Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam	1992
India-Sri Lanka	India and Sri Lanka	2001
Singapore-Japan	Japan and Singapore	2003
BIMST-EC FTA	Bangladesh, India, Myanmar, Sri Lanka, Nepal and Bhutan	Framework 2004
SAFTA	Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka	2006
Singapore-Republic of Korea	Singapore and Republic of Korea	Proposed
ASEAN-China	ASEAN Countries and China	Framework proposed
ASEAN-Japan	ASEAN Countries and Japan	Framework proposed
ASEAN-Republic of Korea	ASEAN Countries and Republic of Korea	Proposed
ASEAN-India	ASEAN Countries and India	Proposed 2006
Japan-Republic of Korea	Japan and Republic of Korea	Proposed
North-East Asia Initiative	China, Japan and Republic of Korea	Proposed
Thailand-Japan	Japan and Thailand	Proposed

Source: Based on a Table at http://www.unescap.org/itid/mtg/rajan.pdf