

TRADE AND TRANSPORT FACILITATION IN SOUTH ASIA

2. OVERVIEW OF SOUTH ASIAN TRADE

2.1 Introduction

20. This section provides a very brief trade overview of continental South Asia (Afghanistan, Bangladesh, Bhutan, India, Nepal and Pakistan), designated as the SARC region. The island countries in South Asia, the Maldives and Sri Lanka, account for 1.4 percent of the region's population and 5.4 percent of its exports. The rest of the world has been grouped into 8 regions:

- EAP: medium and lower income East Asia and Pacific Countries
- ECA: Europe (other than the EEC15), and Central Asia
- MNA: Middle East and North Africa
- SSA: all of Sub Saharan Africa
- LAC: Latin America, except Mexico
- EAPH: high income East Asia and Pacific countries
- EEC15: France, Germany, the United Kingdom, etc
- NAFTA: the United States, Canada and Mexico

The primary socio-economic parameters of South Asia and the other regions are outlined in **Table 7**.

	Population (million)	GDP (\$ billion)	GDP/Capita (US\$)	Trade as % of GDP		Exports/capita (US\$)
				Exports	Imports	
World	6,348	44,384	6,894	23	24	1,614
SARC	1,420	972	684	13	19	89
<i>Afghanistan</i>	<i>30</i>	<i>5.8</i>	<i>240</i>	<i>8</i>	<i>45</i>	<i>19</i>
<i>Bangladesh</i>	<i>142</i>	<i>56.8</i>	<i>423</i>	<i>15</i>	<i>23</i>	<i>65</i>
<i>Bhutan</i>	<i>1</i>	<i>0.7</i>	<i>916</i>	<i>30</i>	<i>48</i>	<i>272</i>
<i>India</i>	<i>1,095</i>	<i>691.9</i>	<i>718</i>	<i>11</i>	<i>17</i>	<i>82</i>
<i>Nepal</i>	<i>27</i>	<i>6.7</i>	<i>271</i>	<i>11</i>	<i>25</i>	<i>31</i>
<i>Pakistan</i>	<i>156</i>	<i>96.1</i>	<i>711</i>	<i>14</i>	<i>23</i>	<i>102</i>
EAP	1,885	3,033	1,609	39	35	629
ECA	487	2,875	5,903	35	33	2,069
MNA	349	1,193	3,421	55	36	1,886
SSA	741	615	830	31	28	256
LAC	448	1,687	3,764	21	17	777
EAPH	236	6,744	28,587	26	24	7,358
EEC15	385	12,614	32,743	29	29	9,550
NAFTA	432	14,339	33,202	10	16	3,421

21. While South Asia has moved from inward to outward looking economic policies, international trade, as a proportion of GDP, is still well below the world average, lower than any other region, excepting NAFTA. Exports from South Asia account for only 13 percent of GDP (2005) compared with the global average of 23 percent. The importance of international trade has increased but from a very low base. During the 30 years, 1975 – 2005, export importance in South Asia has more than

doubled, from 5 to 13 percent of GDP, but in East Asia export importance has risen almost fourfold, from 10 to 39 percent of GDP. In absolute terms, South Asia is a very small player in global trade; about 1.2 percent of world exports and 1.7 percent of imports.

2.2 Direction Of Trade

22. International trade in South Asia is directed very largely outside the region. Intra-regional trade totals rather less than US\$6 billion, less than 5 percent of the region's overall trade. In terms of imports, South Asia has the least intra-regional trade in the world, less than half the level of the next lowest trading region (Middle East and North Africa), Table 8.

Table 8 World Intra-Regional Trade Flows: 2005⁷

	Exports to Own Region		Imports from Own Region	
	US\$ million	% total exports	US\$ million	% total imports
SARC	5,897	4.7	5,621	3.1
EAP	114,137	9.6	194,475	18.4
ECA	212,520	21.1	215,406	22.9
MNA	14,592	2.2	28,113	6.6
SSA	12,797	6.8	11,631	6.8
LAC	72,531	20.8	71,940	25.2
EAPH	332,032	19.1	267,605	16.5
EEC15	2,140,849	58.2	2,011,361	54.7
NAFTA	870,999	59.0	775,773	34.0

The economic size of India, relative to the other countries, has obvious implications for intra-regional trade, but a broadly comparable situation exists in East Asia and intra-regional trade accounts for 18 percent of the region's imports, magnitudes higher than in South Asia.

23. India generates over 60 percent of the exports within intra-regional trade but takes only 16 percent of the imports and has large trade surpluses with the larger regional economies, Table 9.⁸

Table 9 SARC Region: Intra-Regional Trade Flows 2005-2006
(US\$ million)

Origin	Destination						Total
	Bangladesh	India	Nepal	Pakistan	Bhutan	Afghanistan	
Bangladesh	-	157	4	51	4	7	223
India	1636	-	859	943 ⁹	84	147	3669
Nepal	6	347	-	4	1	0	358
Pakistan	228	284	3	-	0	832	1347
Bhutan	0	88	1	1	-	*	90
Afghanistan	9	66	0	53	*	-	128
Total	1879	942	867	1052	89	986	5815

Almost all intra-regional trade in South Asia is between neighbouring countries: India - Bangladesh, India - Nepal, India - Pakistan and Pakistan - Afghanistan.

⁷ COMTRADE data for the MNA and SSA regions were still lacking for a number of reporting countries; the partial data may understate the share of intra-regional trade in total regional trade

⁸ This pattern is not unusual; in NAFTA Canada - Mexico trade is much lower than trade between either Canada and USA or Mexico and USA. The situation is rather different in the EU, reflecting the shorter distances

⁹ Indian exports have risen rapidly since 2003. The increase in FY06 was sugar exports of US\$ 339 million.

24. Intra-regional trade has increased faster than the SARC's overall trade; India's exports to SARC more than doubled between 2000 and 2004, reaching over US\$3 billion, while Bangladesh's imports from SARC almost tripled to US\$1.7 billion. The proportion of intra-regional trade in total trade has increased significantly, especially for the smaller countries, Table 10.

Table 10 SARC: Importance of Intra-Regional Trade
(Intra-regional trade as percent of total trade)

	1990	1995	2000	2005
Afghanistan	12.2%	15.4%	22.1%	35.1%
Bangladesh	6.7%	10.2%	5.4%	9.1%
India	1.3%	2.3%	1.8%	1.9%
Nepal	26.2%	30.5%	40.0%	46.5%
Pakistan	1.9%	1.8%	3.0%	5.7%

However, the importance of intra-regional trade for India, Pakistan and, to a lesser extent, Bangladesh remains small in comparison with trade with the rest of the world. The situation is asymmetric: India is the major regional trading partner, but intra-regional trade has little overall economic significance for India.

2.3 The Commodity Structure Of Trade

25. Over a third of the SARC region's exports consist of textiles and clothing; the sector dominates exports from Bangladesh (86 percent), Pakistan (69 percent) and Nepal (51 percent), and is the largest single export sector in India (21 percent). In 2004, SARC exported US\$32 billion of textiles and clothing, while importing US\$5.9 billion, much for further processing. Exports went primarily to the EEC15 (\$14.7 billion) and NAFTA (\$10.8 billion) while imports came from East Asia (\$4.1 billion). The ending of the Multi-Fiber Agreement has had a largely positive impact with textile exports continuing to grow, especially from Bangladesh and India. Nepal, with the most difficult supply chains, has suffered, however, and textile exports have declined.

26. The structure of exports from the SARC region, in terms of intra-regional and total trade, is shown in Table 11.

Table 11 Structure of SARC Exports: 2004

Total Trade			Intra-Regional Trade		
MTN	Commodity	% Exports	MTN	Commodity	% Exports
02	Textiles	33.4	02	Textiles	15.3
09	Mineral products	14.9	05	Chemicals	14.8
04	Metals	12.5	97	Petroleum	11.9
05	Chemicals	9.7	16	Grains	11.3
03	Leather, rubber	4.6	09	Mineral products	6.9
97	Petroleum	3.7	12	Fruit/vegetables	5.5
07	Non-electrical machinery	2.9	18	Oil Seeds	4.6
	Other	18.3		Other	29.9

The structure of intra-regional exports differs quite considerably from total exports, although textiles are still the single largest export group. Intra-regional trade is more diversified with a much higher proportion of unprocessed or semi-processed agricultural commodities. Agricultural commodities total 27.5 percent of intra-regional trade but only 9.0 percent of total trade. Petroleum is the third largest intra-regional export, consisting of products from the refineries of the coastal countries to the landlocked countries.

27. The SARC region accounts for only 1.2 percent of world exports but has significant market penetration for some commodities/products. It has substantial penetration in a number of textile and textile/garment related sectors (for example, 17 percent of the world market for made-up textile articles) as well as in iron ore (16 percent), rice (14 percent) and gems and jewelry (13.5 percent).

2.4 Formal And Informal Trade

28. While formal trade flows within South Asia are small, relative to other regions, there is also considerable informal trade. Porous borders, straddled by the same ethnic communities, provide a conducive environment for unrecorded cross-border flows. Some of the informal flows are local trading across the border and the high transaction costs of formal trade may contribute to such trade. There are, however, more organized informal trade flows designed to either: (a) circumvent trade restrictions as, for example, the limited list of imports that Pakistan allows from India; or (b) evade high duties and other import-related taxes. Exact estimates of the informal trade flows are obviously not to find possible, but the flows are substantial and a significant part of total trade within the region.

29. It is reported that large volumes of India's exports to Pakistan are routed, at significant additional cost, through Dubai where the goods are re-labeled. A very substantial proportion of the imports into Afghanistan are then informally re-exported to Pakistan. Formal trade between India and Pakistan, during the period 1997 – 2004, never exceeded US\$250 million, but informal trade has been estimated at between US\$0.5 – 1.0 billion¹⁰. A recent study reported that unrecorded trade between Bangladesh and India may be as high as 75 percent of the formal recorded trade flow¹¹. In both studies, the direction of informal trade mirrors the formal flows with a large Indian trade surplus. A rather different situation has supposedly existed between India and Nepal with third country imports being informally re-exported to India, similar to the situation between Afghanistan and Pakistan. However, even if the high estimates of informal and mis-reported trade are added to the formal trade levels, South Asia remains the region with the lowest levels of intra-regional trade.

¹⁰ “Quantifying Informal Trade between Pakistan and India”, Khan, Yusuf, Bokhari and Aziz. World Bank, 2005. The study estimated informal trade, in 2004, at just over US\$ 500 million but suggests that it might previously been substantially higher but that traders have switched to lower cost sources in China.

¹¹ “Studies on India-Bangladesh Trade: Trade Policies and Potential FTA”, World Bank, Report No. 37863-BD, 2006