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REVEALED COMPARATIVE ADVANTAGE AND TRADE FLOWS AMONG SAARC COUNTRIES: AN ANALYSIS**DR. B. P. SARATH CHANDRAN****ASSOCIATE PROFESSOR****DEPARTMENT OF ECONOMICS****VVM'S SHREE DAMODAR COLLEGE OF COMMERCE & ECONOMICS****GOA****ABSTRACT**

South Asian Association for Regional Cooperation (SAARC) came in to existence with the objective of promoting greater regional coordination in economic, social, and cultural issues among members of south Asia. Even after two and a half decade of existence, it did not achieve the desired result and the intra regional trade share remained low for long time. For a Regional Trade Agreement to become successful the members of the group should have a complementary trade structure. The paper used trade indices such as Trade Intensity Index (TII), Revealed Comparative Advantage (RCA) and Trade Competitiveness Index to identify complementary and competing sector of trade within the region. The analysis showed that there are complementary sectors available for greater trade cooperation between members of SAARC. It is also important that two largest members of SAARC namely India and Pakistan should enhance their trade cooperation for making the RTA dynamic. Also infrastructure facilities such as border roads, ports, communication, freight corridors should be built for trade facilitation. India being the dominant member of the SAARC should take the leadership role and extend the unilateral trade liberalisation to give benefit to smaller players. South Asian Free Trade Area can become dynamic and prominent in an era when South Asian economies are witnessing rapid industrialisation and economic progress. It requires concerted efforts from all members towards greater economic cooperation and a sense of belongingness for the shared economic prosperity of the region.

JEL CLASSIFICATION

F10, F14, F15

KEYWORDS

Revealed Comparative Advantage, SAARC, Trade Intensity Index, Trade Competitiveness Index.

INTRODUCTION

The post WTO period witnessed proliferation of large number of Regional Trade Agreements in the world trading system. The inability of the multilateral body to resolve complicated trade issues led to many countries taking the path of regional trade liberalization. The emergence of EU, NAFTA and ASEAN as successful trading blocks of the world hastened the process of bilateral and regional trade cooperation among countries. SAARC which came to existence in the mid 80's emerged from this global phenomenon.

South Asian Association for Regional Cooperation (SAARC) was established in the year 1985 by seven countries of South Asia namely, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The main objective of SAARC is to promote greater regional coordination in economic, social, and cultural issues and present a unified voice to the rest of the world. India is the dominant economy in the SAARC region with more than 75 percent of the population, 80 percent of the GDP (PPP terms) and 70 percent of the total trade. Pakistan, Bangladesh and Sri Lanka are the medium size economies with marginal shares in the economic and trade performance of SAARC. Maldives, Bhutan and Nepal are small economies of SAARC with a very small share in trade. This diversity in size presents the greatest difficulty in SAARC to reconcile the economic and trade integration and adopt a coherent policy measures that take SAARC to a higher level of regional integration and economic cooperation.

Initially SAARC acted as political forum for south Asian nations to deliberate their regional issues, thus carefully avoiding controversial and bilateral problems from its domain for a smooth take off. Economically SAARC achieved very little progress in the initial period due to smaller coverage of goods, political differences, suspicion and inability to demonstrate the spirit of give and take. This made SAARC one of the least traded RTA among multitude of RTAs came in to the world in the recent past. For an FTA to become successful, the participating countries should have complementarity trade structure as well as resource endowments. The tariff levels of the partner countries are also important as higher pre union tariff leads to loss of revenue for host countries after the formation of FTA. The political will to cover important and sensitive commodities in to the tariff concession list is vital for higher intra regional trade and success of RTA. In this context, the paper attempts to understand the trade complementarity and similarity among SAARC countries using various indices of Revealed Comparative Advantage.

REVIEW OF LITERATURE

An early study on the implications of stronger South Asian economic cooperation was done by Jayaraman (1978). The study uses a hypothetical customs union (comprising India, Pakistan, Bangladesh, Sri Lanka and Nepal) under alternate scenarios and found that the proposed customs union becomes beneficial only under scenario three when the post union common external tariff structure consists of the pre-union's lowest tariff rates for each SITC section. However, the gains happen to be of small magnitude.

Rahman et al (1981) studied the intra regional trade of the region as whole using 1976 data (static trade effect). The study estimated an increase in intra-regional imports which would be \$153 million increasing share of intra-South Asian trade from 3.4 percent to 4.7 percent. The study also shows there would be loss of welfare for Nepal and Sri Lanka.

Mukherjee (1992) identified as many as 113 potentially tradable items within the SAARC region. These include tea and coffee, cotton and textiles, garments, rubber, light engineering goods, iron and steel, cement, edibles (dry fruits, spices, vegetables), medical equipment, pharmaceuticals and agro-chemicals, among others.

Empirical research by Srinivasan (1994) suggests that unilateral trade liberalization, rather than preferential liberalization would yield the greatest trade gain for the region. The small economies of the region would gain more from regional integration and also their benefits from intraregional trade liberalization exceed benefits from trade liberalization with other regions. A simulation using gravity model shows that the effect of removing all tariffs, combined with low transportation costs, would be to increase the total trade between 3 percent of GDP for India to 21 percent for Bangladesh and 59 percent of GDP for Nepal.

A World Bank study (1997) analyzes the static welfare consequences of preferential liberalization. Using an integrated general equilibrium model of the world economy (Global Trade Analysis Project, GTAP) it shows that regional trade liberalization would increase the welfare between 0.5 percent of GDP for India and one percent for rest of South Asia.

Govindan (1996) argues that there are many strong trade linkages between SAARC countries. Based on a partial equilibrium model, the ex-ante trade creation and trade diversion effects show that SAFTA would increase trade considerably in the region and would be welfare improving for all SAARC countries.

Using a link model for Pakistan, India, Bangladesh and Sri Lanka Naqvi et al (1988), attempts to analyse the possibilities of regional trade expansion. Their findings show that India's outlook, both for export and import, is biased for extra-regional than to intra-regional. The least oriented country toward regional trade is Bangladesh. It imports more from extra-regional sources rather than intra-regional sources with the increase in GNP.

Guru-Gharana (2000) used three Stages Least Squares (3SLS) estimation technique using three Stages Least Squares (3SLS) estimation technique and found that all SAARC countries would be dramatically benefited from regional trade expansion. Kumar et al (2002), estimated that a complete elimination of trade barriers may increase intra-SAARC trade volumes by a factor of almost two.

Govindan (1994), DeRosa and Govindan (1995) and Pursell (2004), used partial equilibrium models to estimate the price elasticities of demand in food sector and uses them to estimate the effect of preferential liberalization within the region on intraregional trade. The studies concluded that such liberalization would yield welfare gains through increased trade in food within the region. DeRosa and Govindan (1995) extend the analysis to include unilateral liberalization and demonstrate that the gains are much larger when liberalization is on a nondiscriminatory basis. Pursell (2004) carefully studied the preferential liberalization of cement industry between India and Bangladesh, and finds substantial gains from increased competition within the regional market.

Srinivasan and Canonero (1995) and Sengupta and Banik (1997) used gravity model to find out the impact of SAPTA on its members. Both studies predicted a smaller gain for India but much larger on the smaller countries. Sengupta and Banik predicted a 30 percent increase in the official intra-SAARC trade and as much as 60 percent if illegal trade, which is currently out of the official count, becomes a part of official trade. The study brings one of the important aspects of RTA namely size of the members. India being large, the impact on its trade of the FTA with the small neighbors cannot be proportionately large.

Hassan (2001) studied trade flows among SAARC countries using data of 1997 statistical series. The study found that the seven SAARC economies not only reduced trade among themselves but also with the Rest Of World (ROW). Given the traditional weak trading performance of the SAARC economies, particularly the large ones, this conclusion is not surprising.

Hirantha (2004) used both panel and cross sectional data for 1996-2002 period to estimate trade creation and trade diversion effects under the present SAFTA regime, using the gravity model. Unlike Hassan (2001), Hirantha (2004) found evidence of trade creation among the SAARC member countries, without any trade diversion with the ROW. As the SAARC members are dependent on the ROW for their import needs, increase in intra-regional trade goes hand in hand with increasing trade with the ROW.

Of the two empirical studies that utilized CGE model to estimate the welfare effect of SAFTA, Pigato et al (1997) employed the popular Global Trade Analysis Project (GTAP) data base and model. This study concluded that while SAFTA resulted in welfare gains to the member countries. These gains were larger when liberalization took place unilaterally, in a non discriminatory manner.

Another CGE modeling exercise by Bandara and Yu(2003) which employed a different version of GTAP data base estimated that real income gains for India would be 0.21 percent and for Sri Lanka 0.03 percent. According to this exercise, Bangladesh would suffer a real income loss of 0.10 percent, while the other members of SAFTA would gain by 0.08 percent. This study also concluded that the South Asian economies stand to gain more from unilateral non-discriminatory liberalization and multilateral liberalization than from the formation of SAFTA. None of the empirical studies predicted robust welfare gains from the formation of an FTA in South Asia.

EXISTENCE OF TRADE COMPLEMENTARITIES IN SOUTH ASIA

There are areas of comparative advantage exists among SAARC countries, making trade feasible across these countries. Thus, Sri Lanka, Bangladesh and India all export tea, while Pakistan imports it. India and Bangladesh export jute and jute products to the rest of the SAARC member countries. Pakistan and India produce cotton, which its neighbours require. Similarly, India and, to a lesser degree, Pakistan export manufactured goods within the region.

Recent literature (Wickramasinghe, 2001) on South Asian trade indicates significant trade complementarities across the region, highlighting, in particular, the presence of such complementarities in the services sector. Additionally, the literature suggests that increased trade flows are likely to bring technical efficiency, improve resource allocation and allow countries to create niches by specializing in different products within a given industry.

Informal trade (smuggling) in South Asia is also a good index of trade complementarity. Under free trade, a substantial proportion of informal trade is likely to switch to formal channels. The major items currently being traded informally in the region include cloth of different varieties, cosmetics, jewelry, bicycles, medicines, cattle, sugar, spices, raw cotton, garments, machinery, cement, aluminum, petroleum products, automobiles, tyres and tubes, electrical goods, unprocessed food, rice, and flour.

Bilateral FTAs in South Asia are proof that trade is capturing complementarities between countries. The Indo-Sri Lanka FTA – fears of industry contraction in both countries not withstanding – has led to a three-fold increase in bilateral trade flows (Thakurta 2006).

Taking empirical observations Waqif (1987) mentions that almost all countries have possibilities to increase their respective trade with the partner countries of the SAARC region. He points out that regional collective self-reliance can be obtained by exploiting horizontal and vertical economic linkages among these countries to help induce autonomous and self-generating growth among the cooperating countries.

Ahmed (1999) quoting from Srinivasan and Canonero (1993) notes that economies like India and Pakistan would gain from preferential arrangements with bigger block like NAFTA and EU. On the other hand, smaller economies like Bangladesh and Nepal would be more benefited from regional integration. Referring to Hossain and Voudsen(1996), the author also mentions that small partners – Bangladesh and Sri Lanka- suffer and the bigger partners- India and Pakistan- gain if a custom union is formed among these four countries.

Supporting the findings of Yusufzai (1998), Hassan (2000) states that the benefits of Bangladesh are small from regionalism compared to time and other resources it invested. This statement however is not supported by his empirical research. Contrary to this Rahman(1998) and Dubey(1995) have shown a gain from regionalism for Bangladesh. Jambor (2013) in the paper analysed the impact of the EU enlargement on Visegrad (V4) agri-food trade, especially considering revealed comparative advantages. Results suggest that intensity of the V4 agri-food trade has increased significantly after the enlargement.

OBJECTIVES

The general objective of the paper is to understand the trade flow among SAARC countries. The paper specifically looks in to following objectives

1. To construct and analyse the indices of trade integration among SAARC Countries
2. To identify complementary commodities and sectors for enhanced trade in SAARC region.
3. To suggest appropriate measures to improve trade for the success of SAARC regional economic cooperation.

METHODOLOGY

The study used Trade Intensity Index (TII) and Revealed Comparative Advantage (RCA) Index to see trade complementarity and Similarity between India and SAARC countries. The trade intensity index (TII) is used to determine whether the value of trade between two countries is greater or smaller than would be expected on the basis of their importance in world trade. It is defined as the share of one country’s exports going to a partner divided by the share of world exports going to the partner. It is calculated as,

$$\text{Trade Intensity Index } T_{ij} = \frac{(x_{ij}/X_{it})}{(x_{wj}/X_{wt})} \dots\dots\dots (1)$$

Where x_{ij} and x_{wj} are the values of country i’s exports and of world exports to country j and where X_{it} and X_{wt} are country i’s total exports and total world exports respectively. An index of more (less) than one indicates a bilateral trade flow that is larger (smaller) than expected, given the partner country’s importance in world trade.

The study utilizes the Balassa (1965) measure of computing the RCA index. As per the measure comparative advantage is ‘revealed’ by the relative export performance of individual product categories. Thus,

$$\text{Revealed Comparative Advantage RCA}_{ij} = \frac{\frac{x_{ij}}{X_{it}}}{\frac{x_{wj}}{X_{wt}}} \dots\dots\dots (2)$$

where,
 RCA_{ij} = Revealed comparative advantage of the ith country’s, jth industry,

x_{ij} = Merchandise exports of the j th industry by the i th country,
 X_i = Total merchandise exports of the i th country,
 x_{wj} = World merchandise exports of the j th industry,
 X_w = Total merchandise world exports.

In order to get a complete picture of India's comparative advantage the import counter-part is also computed following (Lim 1997). Hence,

$$RCA_{ij} = \frac{\frac{m_{ij}}{M_i}}{\frac{m_{wj}}{M_w}} \dots\dots\dots (3)$$

where,

RCA_{ij} = Revealed comparative advantage of the i th country's, j th industry,
 m_{ij} = Merchandise imports of the j th industry by the i th country,
 M_i = Total merchandise imports of the i th country,
 m_{wj} = World merchandise imports of the j th industry,
 M_w = Total merchandise world imports.

If the RCA index for a particular industry is greater than 1, it implies that the country has a revealed comparative advantage in the exports/imports of that industry and vice-versa. Countries with similar RCA profiles are unlikely to have high bilateral trade intensities unless intraindustry trade is involved. RCA measures, if estimated at high levels of product disaggregation, can focus attention on other nontraditional products that might be successfully exported. There is a problem of non symmetry in the Balassa's Revealed Comparative Advantage. While the comparative advantage ranges from 0 to infinity, the comparative disadvantage ranges from 0 to 1. This problem of asymmetry is overcome through Revealed Symmetric Comparative Advantage (RSCA) index, developed by Dalum et al. (1998), thereby overcoming the limitations of Balassa index cited above.

$$RSCA = [RXA-1/RXA+1]$$

Vollrath (1991) offered three alternative specifications of revealed comparative advantage, following analyses of international competitiveness in agriculture (Vollrath, 1987 and 1989; and Vollrath and Vo, 1990). The first of these measures is the relative trade advantage (RTA), which accounts for imports as well as exports. It is calculated as the difference between relative export advantage (RXA), which equates to the Balassa index1, and its counterpart, relative import advantage (RMA):

$$RTA = RXA-RMA$$

where, $RXA = \text{Balassa Index and } RMA = \frac{\frac{m_{ij}}{M_i}}{\frac{m_{wj}}{M_w}}$

Vollrath's second measure is simply the logarithm of the relative export advantage (ln RXA); and his third measure is *revealed competitiveness* (RC), defined as:
 $RC = \ln RXA - \ln RMA$.

The advantage of expressing these latter two indices in logarithmic form is that they become symmetric through the origin. Positive values of Vollrath's three measures, RTA, ln RXA and RC, reveal a comparative/competitive advantage.

Data for computing the RCA indices are collected from the WTO online database for the year 2012. The trade Diversification Index (DI) and trade Concentration Index (CI) is collected from the UNCTAD database. The intra SAARC Trade Intensity Index (TII) is collected from the Asia Regional Integration Centre (ARIC) of the Asian Development Bank (ADB).

TRADE INDICES AMONG SAARC COUNTRIES

Many Trade Indices are developed to understand the pattern and trend of trade among members of Regional Trade Agreements. Trade indicators such as Diversification Index (DI) and Concentration Index (CI) explain the trade structure of the economies and explains the desirability and reliability of forming a RTA. Trade Diversification Index can take value between 0 and 1. Diversification Index reaches 1 when the differences between the trade structure of the country and the world is maximum. The index value closer to 0 indicates similarity in export structure of the country and the world. Trade Concentration (Herfindahl and Hirschmann) Index is the measure of the degree of market concentration. It has been normalized to obtain values ranging from 0 to 1, 1 being the measure of maximum concentration. Table -1 gives trade Diversification and Concentration Index for SAARC countries for the years 2010 and 2012.

TABLE 1: DIVERSIFICATION AND CONCENTRATION INDICES FOR SAARC EXPORT

	2010			2012		
	No. of Products exported	DI	CI	No. of Products exported	DI	CI
Bangladesh	211	0.860	0.372	211	0.800	0.359
Bhutan	67	0.776	0.327	87	0.796	0.344
India	255	0.502	0.164	255	0.502	0.173
Maldives	38	0.781	0.520	38	0.768	0.629
Nepal	120	0.659	0.144	132	0.702	0.142
Pakistan	221	0.718	0.199	216	0.722	0.183
Sri Lanka	177	0.750	0.212	199	0.771	0.203

Source: UNCTAD Statistical Database

For both periods the export diversification index is lower for India suggesting that India's export structure is less different from average export structure of the world. For other SAARC countries there is a bigger difference in the export structure from world trade. For Bangladesh the Diversification index is above 0.8 showing wider difference from the world average trade structure. Maldives and Bhutan is also having high Diversification Index showing their trade is considerably different from the world average trade pattern. The export Diversification Index value is highest for Pakistan and Sri Lanka in 2010 and continues to remain high in 2012 also indicating greater difference in their export compared to world export structure.

The export concentration is highest for Maldives for both the periods followed by Bangladesh and Bhutan. This showed their export is concentrated to very few commodities. The export concentration is low for India (0.173) and Nepal (0.142) and Pakistan (0.183) as their export is spread across different commodities. The concentration ratio remained more or less same for the two periods for the SAARC countries.

TABLE 2: DIVERSIFICATION AND CONCENTRATION INDICES FOR SAARC IMPORT

	2010			2012		
	No. of Products exported	DI	CI	No. of Products exported	DI	CI
Bangladesh	249	0.541	0.096	250	0.547	0.098
Bhutan	196	0.485	0.109	203	0.529	0.121
India	258	0.435	0.225	256	0.458	0.291
Maldives	176	0.471	0.166	188	0.499	0.243
Nepal	228	0.487	0.124	232	0.488	0.151
Pakistan	248	0.461	0.182	246	0.442	0.224
Sri Lanka	238	0.438	0.099	240	0.404	0.115

Source: UNCTAD statistical Database

The import diversification Index for the SAARC countries are high as they import large number of commodities particularly value added manufactured goods in their trade and hence significantly different from the world average. In 2010, Import Diversification Index is lower for India and Sri Lanka among SAARC nations depicting their import structure is less different from the world average.

India's import concentration index increased from 2010 to 2012 showing imports are getting concentrated to few commodities. This is particularly true as India imports more and more oil every year and the share of oil as percent of India's import increasing over the period. For Bhutan and Maldives also there is a slight increase in commodity concentration in imports.

Trade Intensity Index for the SAARC countries is given in table -3. If the Trade Intensity Index is more than 1 it means the country is trading more intensely with the partner compared with partner's position in world import. If the index is below 1, the trade intensity is low between them. If the trade intensity is high, improving the trade share is difficult without intra industry trade. On the other hand if the Trade Intensity is low, countries can improve their trade share through forging Regional Trade Agreements.

TABLE 3: TRADE INTENSITY INDEX (EII) BETWEEN SAARC COUNTRIES (2012)

	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka	SAARC
Bangladesh	-	4.63	0.30	5.36	4.77	1.38	4.23
India	4.50	-	3.99	24.75	1.45	7.40	0.88
Maldives	0.25	4.37	-	0.04	1.75	58.75	5.52
Nepal	4.68	26.32	0.03	-	0.15	0.17	21.51
Pakistan	4.19	1.58	1.64	0.16	-	6.38	2.88
Sri Lanka	1.75	8.12	63.06	0.18	7.35	-	7.35
SAARC	4.09	0.87	5.17	20.48	2.87	6.72	1.70

Source: ARIC, ADB Database

Bangladesh's is having high trade intensity with India, Nepal, and Pakistan. But its trade intensity is low with Maldives and Sri Lanka. This means Bangladesh can improve its export with Maldives and Sri Lanka if required policy corrections are carried out. India being the dominant economy in the region got high trade intensity with all SAARC partners. But India's trade with SAARC grouping is less intense. This is because India is predominantly exporting to SAARC countries and its import from SAARC counter parts are less the desirable level. Nepal's export intensity is above one with Bangladesh and India and but below one with Pakistan, Maldives and Sri Lanka. Nepal's trade intensity is high with India (26.32) since more than Half of Nepal's export is going to India. Pakistan's trade intensity is above one with all partners except Nepal. Sri Lanka is one country other than India whose export intensity is above one with all countries in the region except Nepal. Maldives is a small economy with a miniscule trade mainly from Sri Lanka followed by India. The table shows Maldives can improve the trade share with Bangladesh and Nepal and Nepal can improve its trade share with Pakistan and Maldives.

Trade Complementarity Index shows that how a country's trade overlaps with the rest of the world. If the trade complementarity Index is zero then there is no overlap in trade with the world trade. On the other hand the index is one then there is a perfect overlap of trade for a country with the rest of the world. The trade complementarity index for the SAARC countries showed that there is very little trade overlap for Bangladesh, Bhutan and Maldives. For Pakistan, Sri Lanka and Nepal also showed highly complementary trade structure. Only India got a relatively higher complementary trade index (0.5) which means it possesses trade overlap with rest of the world.

TABLE 4: TRADE COMPLEMENTARITY INDEX

Countries	2000	2005	2010	2012
Bangladesh	0.1	0.1	0.1	0.1
Bhutan	0.1	0.1	0.1	0.1
India	0.4	0.4	0.5	0.5
Maldives	0.1	0.1	0.1	0.1
Nepal	0.1	0.2	0.2	0.2
Pakistan	0.2	0.2	0.2	0.2
Sri Lanka	0.2	0.2	0.2	0.2

Source: UNCTAD Database

TABLE 5: RCA INDEX OF SAARC COUNTRIES EXPORTS IN 2012

Commodity Category	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka	Bhutan
Agricultural Products	0.58	1.60	2.59	2.43	2.25	3.24	0.65
Food	0.52	1.39	3.12	2.49	2.28	3.46	0.76
Fuel and Mineral Products	0.05	0.96	0.04	0.19	0.15	0.05	2.12
Fuels	0.02	1.01	0.00	0.00	0.07	0.02	1.83
Manufacture	1.50	0.98	0.00	1.18	1.21	1.11	0.74
Iron and Steel	0.03	1.40	0.00	5.85	0.30	0.02	9.37
Chemicals	0.05	1.10	0.00	0.52	0.36	0.14	0.53
Pharmaceuticals	0.05	1.34	0.00	0.45	0.25	0.02	0.00
Machinery and Transport Equipment	0.03	0.43	0.00	0.03	0.05	0.20	0.00
Office and Telecom Equipment	0.01	0.20	0.00	0.02	0.03	0.02	0.00
EDP and OE	0.00	0.08	0.00	0.01	0.01	0.01	0.00
Telecom	0.01	0.42	0.00	0.04	0.07	0.03	0.00
IC and EC	0.01	0.05	0.00	0.00	0.00	0.03	0.00
Automotive	0.01	0.48	0.00	0.01	0.02	0.03	0.00
Textiles	4.19	3.34	0.00	20.70	22.82	1.55	0.07
Clothing	34.58	2.05	0.00	4.61	7.47	18.59	0.00

Source: Computed from WTO trade database

RCA Index for Bangladesh shows that RCA for Textiles, Clothing and Manufacture are above one and all other commodity categories it is less than one. For Clothing it got very high comparative advantage. For India, RCA for Agricultural products, Food, Fuels, Iron and Steel, Chemicals, Pharmaceutical products, Textiles and Clothing are above one. Maldives's RCA for Agricultural products and Food are above one and all other products below one. Nepal's Comparative advantage lies in Agricultural products, Iron and Steel, Textiles and Clothing. Pakistan got RCA advantage in Agricultural Products, Textiles and Clothing. Sri Lanka's RCA is highest in Clothing followed by food, Agricultural products and Textiles. For all other commodity categories they have comparative disadvantage. An across the commodity comparison shows that for Agricultural products and food all SAARC countries have comparative advantage except Bangladesh. India and Nepal got comparative advantage in Iron and Steel where as India alone got comparative advantage in Chemicals and Pharmaceuticals. The strong comparative advantage for the SAARC region is Textiles and Clothing where all member nations got very high comparative advantage except Maldives. But for many important manufactured industrial commodities, none of the SAARC countries are having comparative advantage. This includes Machinery and Transport Equipment, Office and Telecom Equipment, EDP and Office Equipment, Integrated Circuits and Electronic Components Telecommunication Equipments and

Automotive Products. So we can see a similarity in the commodity trade in SAARC countries. India is fast emerging as a manufacturing base in South Asia. But this will further consolidate India's position in already lopsided SAARC trade. But even with similarity SAARC nations can enhance trade by increasing intra industry, intra sectoral trade.

TABLE 6: REVEALED SYMMETRIC COMPARATIVE ADVANTAGE OF SAARC COUNTRIES

Commodity Category	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka	Bhutan
Agricultural Products	-0.27	0.23	0.44	0.42	0.38	0.53	-0.21
Food	-0.32	0.16	0.51	0.43	0.39	0.55	-0.14
Fuel and Mineral Products	-0.90	-0.02	-0.92	-0.68	-0.74	-0.90	0.36
Fuels	-0.96	0.00	-1.00	-1.00	-0.87	-0.96	0.29
Manufacture	0.20	-0.01	-1.00	0.08	0.10	0.05	-0.15
Iron and Steel	-0.94	0.17	-1.00	0.71	-0.54	-0.96	0.81
Chemicals	-0.90	0.05	-1.00	-0.32	-0.47	-0.75	-0.31
Pharmaceuticals	-0.90	0.15	-1.00	-0.38	-0.60	-0.96	-1.00
Machinery and Transport Equipment	-0.94	-0.40	-1.00	-0.94	-0.90	-0.67	-1.00
Office and Telecom Equipment	-0.98	-0.67	-1.00	-0.96	-0.94	-0.96	-1.00
EDP and OE	-1.00	-0.85	-1.00	-0.98	-0.98	-0.98	-1.00
Telecom	-0.98	-0.41	-1.00	-0.92	-0.87	-0.94	-1.00
IC and EC	-0.98	-0.90	-1.00	-1.00	-1.00	-0.94	-1.00
Automotive	-0.98	-0.35	-1.00	-0.98	-0.96	-0.94	-1.00
Textiles	0.61	0.54	-1.00	0.91	0.92	0.22	-0.87
Clothing	0.94	0.34	-1.00	0.64	0.76	0.90	-1.00

Source: Computed from WTO trade database

Revealed Symmetric Comparative Advantage gives symmetry to the index and can be used for better comparison. The table -6 confirms the results of RCA for exports. The RSCA showed except Maldives and Bhutan all SAARC countries got comparative Advantage in clothing and textile. Similarly except Bhutan and Bangladesh all got RSCA in Agricultural products and food articles.

TABLE 7: RCA INDEX OF SAARC COUNTRIES IMPORTS IN 2012

Commodity Category	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka	Bhutan
Agricultural Products	3.05	0.56	1.75	1.58	1.27	1.49	2.47
Food	2.71	0.46	1.81	1.40	1.36	1.40	2.70
Fuel and Mineral Products	0.41	1.88	1.08	1.70	0.93	1.02	1.46
Fuels	0.39	2.08	1.14	1.98	1.10	0.83	1.72
Manufacture	0.89	0.60	0.84	0.70	0.91	0.97	0.67
Iron and Steel	2.01	0.81	3.08	1.18	1.32	3.00	0.81
Chemicals	1.06	0.85	1.13	1.39	0.88	0.49	0.53
Pharmaceuticals	0.44	0.23	1.08	0.62	0.64	0.39	0.27
Machinery and Transport Equipment	0.68	0.50	0.57	0.57	0.64	1.12	0.53
Office and Telecom Equipment	0.33	0.51	0.51	0.42	0.35	0.24	0.44
EDP and OE	0.26	0.50	0.41	0.21	0.36	0.41	0.59
Telecom	0.58	0.73	0.91	0.89	0.60	0.26	0.66
IC and EC	0.10	0.26	0.12	0.04	0.05	0.06	0.03
Automotive	0.25	0.17	0.33	0.46	0.84	1.89	0.10
Textiles	10.53	0.42	1.33	1.50	7.01	0.48	0.83
Clothing	0.34	0.03	0.81	0.07	0.39	0.12	0.55

Source: Computed from WTO trade database

The table – 7 gives the RCA for imported commodities for SAARC countries. Bangladesh got revealed comparative advantage in imports of Agricultural products, food, Iron and Steel and Textiles. For India the RCA for imports fall on fuels and for Maldives it is Agricultural products, food, fuels, Iron and Steel, Chemicals, Pharmaceuticals, and Textiles. The RCA of imports for Nepal is on Agricultural products, Food, fuels, Iron and steel Chemicals, and textiles. Agricultural products, food, fuels, Iron and Steel, Textiles are the commodities having import advantage for Pakistan. Sri Lanka face import advantage in Agricultural products, food, Iron and Steel, Machinery and Transport Equipment, and Automotive.

Revealed Trade Advantage is calculated (table -8) by taking the difference between RCA of exports and RCA of imports. Revealed Trade Advantage Index showed that Bangladesh got trade advantage in only clothing. India got trade advantage with food. Pharmaceuticals, Textiles and clothing. Pakistan got trade advantage only in food products and clothing.

TABLE 8: REVEALED TRADE ADVANTAGE FOR SAARC COUNTRIES

Commodity Category	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka	Bhutan
Agricultural Products	-2.47	1.04	0.68	0.68	1.97	-0.84	0.12
Food	-2.19	0.93	0.68	0.88	2.10	-0.64	0.42
Fuel and Mineral Products	-0.37	-0.92	-0.89	-1.55	-0.88	1.10	-1.42
Fuels	-0.37	-1.07	-1.14	-1.91	-1.08	1.00	-1.72
Manufacture	0.61	0.38	0.34	0.51	0.20	-0.24	-0.67
Iron and Steel	-1.99	0.59	2.77	-0.88	-1.30	6.38	-0.81
Chemicals	-1.01	0.25	-0.61	-1.04	-0.74	0.04	-0.53
Pharmaceuticals	-0.39	1.11	-0.63	-0.37	-0.63	-0.39	-0.27
Machinery and Transport Equipment	-0.65	-0.07	-0.54	-0.52	-0.45	-1.12	-0.53
Office and Telecom Equipment	-0.32	-0.31	-0.49	-0.39	-0.33	-0.24	-0.44
EDP and OE	-0.25	-0.42	-0.40	-0.21	-0.35	-0.41	-0.59
Telecom	-0.56	-0.31	-0.87	-0.83	-0.57	-0.26	-0.66
IC and EC	-0.08	-0.20	-0.12	-0.04	-0.02	-0.06	-0.03
Automotive	-0.24	0.32	-0.33	-0.44	-0.82	-1.89	-0.10
Textiles	-6.34	2.93	19.37	21.32	-5.46	-0.41	-0.83
Clothing	34.24	2.01	3.80	7.40	18.20	-0.12	-0.55

Source: Computed from WTO trade database

Revealed Export Advantage (table-9) is calculated by taking the natural log of Revealed Comparative Advantage Index of Exports. It showed all the SAARC countries got export advantage in textiles and clothing except Sri Lanka and Bhutan. Similarly all SAARC members got export advantage in Agricultural products and food products except Bangladesh and Sri Lanka. Table – 9 gives the Revealed Export Advantage for the SAARC countries.

TABLE 9: REVEALED EXPORT ADVANTAGE FOR SAARC COUNTRIES

Commodity Category	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka	Bhutan
Agricultural Products	-0.55	0.47	0.89	0.81	1.17	-0.43	0.95
Food	-0.66	0.33	0.91	0.82	1.24	-0.28	1.14
Fuel and Mineral Products	-3.06	-0.04	-1.67	-1.91	-3.03	0.75	-3.24
Fuels	-3.85	0.01	-15.08	-2.61	-3.95	0.61	-6.95
Manufacture	0.40	-0.02	0.17	0.19	0.10	-0.30	-7.65
Iron and Steel	-3.62	0.34	1.77	-1.21	-3.95	2.24	
Chemicals	-2.94	0.10	-0.65	-1.03	-1.95	-0.63	-6.27
Pharmaceuticals	-2.94	0.29	-0.80	-1.39	-4.09	-9.91	
Machinery and Transport Equipment	-3.56	-0.84	-3.43	-3.02	-1.63	-8.24	
Office and Telecom Equipment	-4.61	-1.60	-4.12	-3.63	-3.79		
EDP and OE	-5.63	-2.52	-4.88	-5.22	-4.43		
Telecom	-4.36	-0.86	-3.33	-2.73	-3.50		
IC and EC	-4.31	-2.98	-7.18	-8.76	-3.68		
Automotive	-4.97	-0.72	-5.21	-3.97	-3.62		
Textiles	1.43	1.21	3.03	3.13	0.44	-2.71	
Clothing	3.54	0.72	1.53	2.01	2.92	-11.98	

Source: Computed from WTO trade database

Revealed Competitiveness index(table -10) is another index used by Volrath to explain competitiveness of trade. It is calculated by taking the natural log of the difference of Revealed Export of Competitiveness Index and Revealed Import Competitive Index. This also confirms the general trend followed by other indicators.

TABLE 10: REVEALED COMPETITIVENESS FOR THE SAARC COUNTRIES

Commodity Category	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka	Bhutan
Agricultural Products	-1.66	1.05	0.33	0.36	0.94	-0.83	0.05
Food	-1.66	1.10	0.32	0.49	0.94	-0.61	0.14
Fuel and Mineral Products	-2.18	-0.67	-1.75	-2.44	-2.96	0.73	-3.62
Fuels	-2.90	-0.73	-15.21	-3.30	-4.04	0.79	-7.49
Manufacture	0.52	0.50	0.34	0.55	0.20	-0.28	-7.25
Iron and Steel	-4.32	0.54	0.64	-1.38	-4.23	1.14	
Chemicals	-3.00	0.26	-0.77	-1.37	-1.82	0.09	-5.64
Pharmaceuticals	-2.13	1.78	-0.87	-0.91	-3.65	-8.96	
Machinery and Transport Equipment	-3.17	-0.14	-2.87	-2.45	-1.19	-8.36	
Office and Telecom Equipment	-3.49	-0.93	-3.44	-2.75	-2.74		
EDP and OE	-4.26	-1.83	-3.99	-3.68	-3.40		
Telecom	-3.81	-0.54	-3.24	-2.62	-2.99		
IC and EC	-1.97	-1.61	-5.04	-5.64	-0.68		
Automotive	-3.58	1.05	-4.12	-3.20	-3.45		
Textiles	-0.92	2.08	2.75	2.72	-1.51	-1.97	
Clothing	4.62	4.08	1.74	4.70	3.87	-9.84	

Source: Computed from WTO trade database

The Table -11 gives an easy comparison of comparative advantage among SAARC Countries. The Revealed Symmetric Comparative Advantage (RCA) computed are classified in to four categories namely Strong Disadvantage (RSCA -1 to -0.5), High Disadvantage (RSCA -0.51 to 0) High Advantage (RCA 0 to 0.5) and Strong Advantage (RCA 0.5 to 1). Accordingly Revealed Comparative Advantage for all commodities are classified for six SAARC countries. Country with strong comparative can easily export the commodity to the country with weak or low comparative advantage. Similarly country with Weak or low comparative advantage can import the commodity from country with Strong or High comparative advantage. The table – 11 reveals that India, Maldives, Nepal, Pakistan got comparative advantage in agricultural products and food products and they can trade with Bangladesh and Sri Lanka. India got comparative advantage in Iron and Steel, Chemicals, Pharmaceuticals and trade with other SAARC nations.

TABLE 11: COMPARISON OF RCA AMONG SAARC COUNTRIES

Commodity Category	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka
Agricultural Products	HD	HA	HA	HA	SA	HD
Food	HD	HA	HA	HA	SA	HD
Fuel and Mineral Products	SD	HD	SA	HA	SD	HA
Fuels	SD	-	SD	SD	SD	HA
Manufacture	HA	HD	SD	SD	HA	HD
Iron and Steel	SD	HA	SD	HA	SD	SA
Chemicals	SD	HA	SD	HA	SD	HD
Pharmaceuticals	SD	HA	SD	HD	SD	SD
Machinery and Transport Equipment	SD	HD	SD	HD	SD	SD
Office and Telecom Equipment	SD	SD	SD	SD	SD	SD
EDP and OE	SD	SD	SD	SD	SD	SD
Telecom	SD	HD	SD	SD	SD	SD
IC and EC	SD	SD	SD	SD	SD	SD
Automotive	SD	HD	SD	SD	SD	SD
Textiles	SA	SA	SD	SA	HA	SD
Clothing	SA	HA	SD	SA	SA	SD

Source: Constructed from RSCA index table above

Table-11 shows SAARC nations can optimize their trade potential by taking advantage of the comparative advantage. India being the dominant partner should give more market access to other smaller economies in the region. Also political differences and bilateral disputes should be amicably settled to enhance the trade ties among SAARC nations.

CONCLUSION

Even after twenty seven years of its existence, SAARC has failed to live up to its potential. The intra regional trade, which is an indicator of the degree of regional integration is low compared to other regional groupings. The trade Intensity index showed that members are trading above average than with the rest of the world. India is the dominant player in the South Asian region. But its import from rest of SAARC members is relatively lower. This is because the two largest economies of the region namely India and Pakistan have long standing political differences overshadowing their trade. The improvement of bilateral relationship through economic cooperation is the method to revitalize the concept of SAFTA. The south Asian region is experiencing industrial development and it is the appropriate time to focus on improving trade and enhance investment. The Revealed comparative Advantage Index showed that there are areas of trade complementarity between SAARC members and further trade cooperation is possible. Any attempt by members of SAARC to forge bilateral trade agreement with other member will undermine the progress of SAARC. Similarly India should not overemphasize the relationship with ASEAN at the expense of SAARC. China is making serious efforts to strengthen the economic relationship with SAARC countries. Increased Chinese presence in the region will undermine the dominant position and superiority of India with its neighbors. So it is the responsibility of India to give leadership and direction to the trade liberalisation and economic cooperation among members of SAARC.

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