CHAPTER II

REVIEW OF LITERATURE

The process of economic integration in the SAARC countries is not a new phenomenon. It has started a long back and many studies had been conducted on economic cooperation among SAARC countries. The following discussion reviews the important theoretical and empirical studies regarding the problems and prospects of regional economic co-operation at global level in general and SAARC in particular.

Gehrels and Johnston (1955) argued that “success or failure of economic union would be strongly influenced by the degree of success of members in maintaining domestic stability and in making the necessary structural adjustments to increase the trade.” The empirical findings of the study found that the increasing size of individual country market had increased the competition and had led to better performance of the producers along with the increase in saving of resources by replacing the poor local sources of supply with the low cost sources of other member nations.

Wexler (1962) highlighted “the impact of political and strategic factors on the increasing popularity of regional economic integration. The study found that various effects of integration on trade, production, consumption, movements of productive factors, etc., depend on varying degree of integration in the different forms of integration.” The empirical findings of the study found “positive degree of correlation between higher form of integration and greater need for closer co-ordination of policies designed to combat recessions, prevent excessive inflation, and stimulate growth.”

Nye (1968) compared the effects of regional level processes in European and developing countries and found that the differences in the level on infrastructure, more dependance on foreign countries, administration, political formation, and differences in ideologies. The study concluded that “more efforts are required to promote the relationship between regional cooperation and outside environments.”
Dahlberg (1970) compared “the configurative approach of regional integration with neo-functionalistic approach. The configurative approach described the certain basic and universal building blocs, but in contrast to the neo-functionalistic approach it did not assume that the same building blocs were used in all regions- even if in varying sizes. Furthermore, the configurative approach showed that the degree of regional integration depended upon the careful mapping of cultural norms, institutions, and decision making styles of the various economic units.”

Mutharika (1972) studied “the stages of regional economic integration. The study emphasized on comparative advantages gained out of the regional economic integration theory. The study observed the positive effect of regional economic integration on trade gains among member countries.”

Kegley and Howell (1975) measured “the dimensionality of regional integration. The study showed that regional integration was a multidimensional phenomenon. The empirical findings of the study showed that societal interdependence, attitudinal integration and intergovernmental cooperation were taken as base for the dimensions of regional integration. Moreover it appeared that the dimensionality of integration might vary across regions due to the existence of different factors in particular region.”

Jayaraman (1978) analyzed “the static effects of a hypothetical customs union in South Asia, with the post-union common external tariff equal to the lowest pre-union tariff rate.”

Hausman and Taylor(1981) studied “the static welfare effects of a South Asian customs union with the common external tariff equal to the weighted average rates of all country averages.” The study further found that “the quite modest welfare gain for the region as a whole not exceeding 0.07 percent of the region’s total regional product.”

Hodgson and Herander (1983) suggested “the movement of factors of production in region in the absence of common market. Many nations maintain quotas restricting the number of foreign workers that may be employed in that country.
In order to gain effects of regional economic integration free movement of labour is required.”

Brada and Mendez (1985) examined six integration schemes and decomposed their ability to promote inter-member trade into environmental, policy and system effects. Findings of the study further indicated that “effectiveness of integration policies of CACM and EFTA had more reliable than EEC, LAFTA and the Andean Pact. Although integration could benefit developed and developing countries alike, for some, such as those in Latin America, inter-member distances severely limit its effectiveness.”

Helpman and Krugman (1985) examined “the patterns of trade movements of inter-regional terms of trade between the developing and developed market economies for the period 1950-80. The study concluded that the post-second world war period has a tremendous growth in world trade in merchandise. During the three decades (1950-80), world exports and imports (of visible) rose at an abnormal growth rate of about 11 percent. Over the three decades the rates of growth accelerated from 6.4 percent during 1950-60 to above 9 percent during 1960-70 and further to above 10 percent in the last decade, 1970-80.”

Waqif (1987) mentioned that “almost all countries had possibilities to increase their respective trade with the partner countries of the SAARC region. The study pointed out that regional collective self-reliance could be obtained by exploiting horizontal and vertical economic linkages among these countries to help induce autonomous and self-generating growth among the cooperating countries.”

Naqvi et al. (1988) analysed the potential of regional trade development with the use of a trade link model for Bangladesh, India, Pakistan and Sri Lanka. The findings of the study showed that “India’s outlook, both for export and import, was biased for extra-regional sources than to intra-regional sources. The least oriented country toward regional trade was Bangladesh. It imported more from extra-regional sources rather than intra-regional sources with the increase in GNP.”
Batiz and Paul (1991) emphasized that “economic integration between two similar developed economies would increase the worldwide rate of economic growth. The increasing trade in goods and promoting flows of ideas could achieve closer integration. The study showed the pure scale effects of integration instead of taking into consideration the trade between countries with different endowments and technologies. The empirical findings of the study indicated that any form of integration could increase the long run-rate of growth if it encouraged the worldwide exploitation of increasing returns to scale in the research and development sector.”

Summers and Lawrence (1991) attempted “to investigate the relationship between exports and economic growth in India. The study concluded that export growth causes growth of national income. Empirical investigations reveal that the developing countries’ import demand of various goods has been sensitive to relative price differences on the one hand, between imports and domestically produced goods and on the other, between imports from developing and from developed countries.”

The study supported that “growing trade among developing countries, in particular, their imports from each other has not been due merely to income growth but relative price differences between developed and developing country supplier played a major role.”

Fung (1992) attempted to correlate the economic integration with promotion of competition. On the basis of illustrative model, the study found that low cost production ability of foreign firm would indeed enhance competition through the process of economic integration. However if the foreign firms had high cost producer, integration would retard competition. The concluded section of the study showed that “trade liberalization would not always provide competition opportunities, the efforts of policy-makers regarding competition policy must be enforced even under the umbrella of liberalization.”

Villa and Juan (1993) emphasized to provide an overview of the evolution of regional disparities in Europe and United States in the decade of 1990s. The findings of the study showed that disparities among the nations of European Community were
significantly greater than those found between the nations of the United States. In terms of per capita Gross Domestic Product the relative maximum difference among EC nations was approximately 2.4 times in 1990, whereas that among the U.S. states was 1.4 times. The regional inversion processes and their effects on the progressive reduction of disparities were also highlighted.

Foroutan, F. (1993) “examined the consequences of tariff liberalization at the regional level using gravity model approach. The study used various criteria to categorise the regionally traded commodities into nine broad commodity groups. From policy-making point of view, these product groups are aggregative elasticity's for non-homogeneous products may be inappropriate in simulating implications of tariff removal on bilateral trade flows.”

Srinivasan and Canonero (1995) used the gravity model and predicted that “the impact of a South Asian FTA on trade flows will be small for India but much larger on the smaller countries. Their simulation shows that the effect of removing all tariffs would be to increase total trade between 3 percent of GDP for India and 5.9 per cent of GDP for Nepal and in between for other countries.”

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

Wadhva (1996) observed that “very small number of products is considered for tariff concessions in SAPTA I for regional trade liberalization. In this situation the size of gains in terms of additional regional trade could be very minimal. In order to make the SAPTA process effective there is a need for granting deeper cuts in the concessional rates.”

Sengupta and Banik (1997) predicted “a 30 per cent 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. These results are intuitive; India being
large, the impact on its trade of the FTA with the small neighbours cannot be proportionately large.”

Bandara and Yu (2003) conducted, “a series of policy simulations to find out desirability of a South Asian Free Trade Area. These policy simulations are related to unilateral trade liberalisation by South Asia; preferential trade liberalisation in South Asia; preferential trade liberalisation between South Asia and ASEAN, NAFTA, EU; and multi-trade liberalisation. The results suggest that the impact of preferential trade liberalisation is very small, but that the impact of unilateral trade liberalisation is significant for South Asian countries. Under preferential trade liberalisation, small countries would lose or gain marginally. The study further evaluates the SAFTA within the global structure of overlapping RTAs using modified gravity equation. First, it examines the effects of the Trade Liberalization Program (TLP) which started in 2006. SAFTA would have a minor effect on regional trade flows and the impact on custom duties would be a manageable fiscal shock for most members. Second, the paper ranks the trade effects of other potential RTAs for individual South Asian countries and SAFTA: RTAs with North American Free Trade Agreement (NAFTA) and the European Union (EU) dominate one with the Association of South East Asian Nations (ASEAN).”

Chengappa (1999) examined “India-Pakistan economic relations in terms of trade ties, which was operating among the different level of businessmen in either country.” The study provided a brief overview of the Pakistan economy in order to understand its trade policies and; pointed out the problems in the way of bilateral trade flows with Indian economy. The study indicated that “economic instabilities, political differences and terrorist activities had been reducing trade ties between these two nations.” The study suggested some steps “to promote bilateral or mutual trade ties between these two nations. For improving the India-Pakistan economic and political relations, there would be need for accelerating strong economic co-operation process.”

Vamvakidis (1999) “Estimated and compared the growth performance of countries that were liberalized broadly and joined an RTA during the period of 1950-92. The comparisons showed that economies grew faster after broad liberalization, in both
the short and the long run, but slower after participation in an RTA. The empirical findings of the study showed that only nondiscriminatory openness would foster growth and a closed economy would be seeking to open its markets with world integration, as opposed to regional integration, in order to achieve the benefits for short as well as long period.”

Guru-Gharana (2000) predicted “the possibilities of trade expansion in the SAARC region with the help of macroeconomic modelling for South Asian Economies. The estimation was based on time series data during the period of 1975-1996. Using Three Stages Least Squares (3SLS) estimation technique, the study found that all SAARC countries would be dramatically benefited from regional trade expansion.”

Mehta and Bhattacharya (2000) examined “the implications of first three rounds of SAPTA on four large economies of the region, namely India, Bangladesh, Pakistan and Sri Lanka by using gravity model. The study used the data for the year 1993 and 1994 for this purpose. SAPTA was first implemented in December 7th 1995 and the effect of the agreement might be felt after 1995.”The study has concluded based on their empirical results that “the SAPTA process would promote intra-regional trade.”

Siriwardana (2001) in his study “focused on bilateral trade liberalisation between Sri Lanka and SAARC countries and the implications for Sri Lanka. It conducted 12 trade liberalisation related experiments between SAARC countries, ASEAN countries and other Asian countries.”The results of this study suggest that “Sri Lanka would benefit from bilateral trade liberalisation between Sri Lanka and SAARC countries. Sri Lanka would benefit further by expanding bilateral trade liberalisation into ASEAN and other Asian countries. However, the results were mixed in terms of detailed commodity-wise analysis.”

Udagrdera (2001) “identified the constraints in the way of economic negotiations and estimated the challenges that need to be addressed in future negotiations.”The study argued that “trade liberalization among the SAARC countries had not progressed as desired due to number of constraints, which had not been providing desired results due to number of constraints including political distrust, economic asymmetries and limited
trade complementarities among the member countries; lack of commitment; and lack of information regarding trade arrangements among member countries.” The study observed that “relevance of SAPTA to member countries depended on its ability to promote intraregional trade, which further depended on widening product coverage; deepening tariff cuts; ensuring equitable distribution of benefits among the members; and removal of structural impediments to trade.”

**Wijayasiri and Desinge (2001)** assessed “the challenges faced by South Asian Countries in transition to knowledge based economies through the process of regional economic integration.” The study showed that “region was weak with respect to the four key dimensions of knowledge based economy, namely business environment, innovation system, human resource development and information and communication technology infrastructure, which would likely to hinder the prospects of the region in its movement to knowledge based economy. Empirical findings in the study highlighted positive correlation between emergence of regional cooperation process and promotion of knowledge based economies in the member countries of SAARC region.”

**Bhattacharya (2001)** in his study found “the effects of first three rounds of SAPTA on the region as a whole. Examining all the three rounds of SAPTA, it was found that the net increase in the regional trade after the conclusion of the third round was very small.” The study further recommended that “Deeper tariff cuts and selection of highly traded products for trade liberalisation within the region could have improved the trade prospects of the region.”

**Agarwala and Parkash (2002)** evaluated “the process of liberalization in trade, investment, finance and labour movements needs to continue at the national as well as international level in order to save the East Asian countries from the misallocation of their resources, both human resources and capital resources. For bringing the greater resource mobilisation in the region, the study focused on the establishment of an Asian Resource Bank for these economies.” The study examined that “the institutional arrangements for regional cooperation on the basis of formal cooperation agreements in the form of customs unions and free trade areas, as well as informal cooperation
arrangements including trade, investment, technology transfer, infrastructure development, policy harmonization and exchange of information which tried to facilitate the flows of goods, services and factors within a sub region without erecting any discriminatory barriers against flows from other parts of the world.”

Mukherjee (2002) studied “the implication of three rounds of SAPTA Agreements on the Indian economy by using time series bilateral trade flow data. The study examined the implications of SAPTA on India's exports and imports. The study tried to examine the combined effects of SAPTA I, 11 and III to understand the impact of regional tariff.”

Siriwardana (2002) applied “the GTAP model version 5 database, which contains data for Bangladesh, India, Sri Lanka and the rest of the world, to explore two plausible scenarios for free trade in South Asia; first, the effects of elimination of all tariffs between South Asian countries under a FTA; second, the effects of a 10 per cent Common External Tariff (CET) targeting non-members of the proposed South Asian FTA.” The results suggest that “trade liberalization is beneficial to South Asian countries in terms of GDP and welfare gains under both policy scenarios. However, the extent of the benefits varies between countries. In the event that an FTA is established for South Asia, the effects of trade creation are likely to outweigh the effects of trade diversion, leading to net expansion of trade in the entire region. liberalization on India's external sector.”

Bandara and Yu (2003) applied “the CGE model to find out the potential a South Asian Free Trade Area. These policy simulations are related to unilateral trade liberalisation by South Asia; preferential trade liberalisation in South Asia; preferential trade liberalisation between South Asia and ASEAN, NAFTA, EU; and multi-trade liberalisation. The results suggest that the impact of preferential trade liberalisation is very small, but that the impact of unilateral trade liberalisation is significant for South Asian countries. Under preferential trade liberalisation, small countries would lose or gain marginally. The study further evaluates the SAFTA within the global structure of overlapping RTAs using modified gravity equation. First, it examines the effects of the
Trade Liberalization Program (TLP) which started in 2006. SAFTA would have a minor effect on regional trade flows and the impact on custom duties would be a manageable fiscal shock for most members. Second, the paper ranks the trade effects of other potential RTAs for individual South Asian countries and SAFTA: RTAs with North American Free Trade Agreement (NAFTA) and the European Union (EU) dominate one with the Association of South East Asian Nations (ASEAN).”

Chowdhury (2003) attempted to measure the intra and international trade competitiveness for SAARC nations using annual data during the period of 1960-2000. The study found that “SAARC countries had been making efforts for social and economic development of South Asian nations, but despite significant trade liberalization, the progress in both intra-regional and international trade had not been displaying desired results due to economic dissimilarity and political mistrust among the members countries.” The empirical results of the study in terms of trade among the regional group showed that “the smaller countries, namely Bangladesh and Sri-Lanka had been gaining more benefits from the openness of trade negotiations.” The study also indicated that “Pakistan and Sri-Lanka’s trade liberalization efforts did not seem to have much positive impact in terms of international trade.”

Hirantha (2003) evaluated the progress of SAPTA and prospects of SAFTA with the use of gravity model analysis using trade data during the period of 1996-2002. The study resulted that “there was a significant trade creation effect under the SAPTA and found no evidence of trade diversification effect with the rest of the world.” The study found that “reduction in tariff and non-tariff barriers to trade among member countries would bring substantial benefits to SAARC region and SAPTA would be most likely to promote intra-regional trade through the process of economic integration.”

Satanarayan (2003) studied “the impact of regional cooperation in the development of agricultural, energy and manufacturing sectors among SAARC countries.” The study found that “having being strong industrial and technological base, India is the only exporter of engineering goods in the SAARC region.” The empirical findings of study showed that “the export baskets of India and Pakistan were relatively
more diversified and included non-primary products as compared to Bangladesh, Nepal and Sri Lanka. On the other hand, the import baskets of Bangladesh, Sri Lanka and Nepal included mostly consumer goods, while in case of Pakistan and India imports comprised mainly of capital and intermediate goods.”

Sharan (2003) discussed “the varying levels of integration schemes, started from free trade area, customs union, common market and following to the economic and political union. Benefits and cost of economic integration in the forms of trade creation and trade diversion effects, inter-commodity substitution and consumption gains, dynamic effects, collective self-reliance and increased foreign direct investment was observed in the empirical findings of the study.”

Agarwal (2004) found “the impact of financial activities instead of trade activities on the economic development of developing economies. The study showed the two way relationship between globalization and regionalism.” This study showed that “regional trading agreements among developing countries were taken as suggestive measures for increasing economic development because larger production for regional market would enable the exploitation of economies of scale, lower costs of production and make the goods competitive in the world market. The concluding section of study reflected the impact of globalization on the Indian economy which resulted that regionalism was not an answer to the challenges thrown up by globalization. trade negotiations.”

Khan (2004) has studied the trade-taking place between the various trading blocs like ASEAN, MERCOSUR and NAFTA during the period of 1991-2001. The study reflected that “geographically closed countries in these blocs traded more than the countries of South Asia. The study showed the increasing trends in the trade relations between India and Sri Lanka after the signing of FTA between these two countries. The study found that during the year 1999, the political disturbance between India and Pakistan had hampered the trade ties between these two nations, especially Kargil War. But still the current bilateral trade ties between these varied nations would develop sound economic and political relations.”
Sen et al. (2004) highlighted that “no doubt, the density of economic and political interactions between ASEAN and India had been increasing, but still there had not been much progress in the evolution of the mindset among ASEAN elites in some towards deepening engagement with India. No curious efforts had been taken by ASEAN universities, think tanks, and the media regarding the strong formal ASEAN-India economic relations.” The study reviewed “the existing economic relations between India and ASEAN in merchandise trade, trade in services, investments, tourism, and manpower flows which resulted that range of existing complementarities between ASEAN and India would have substantial and still had not been fully exploited. The vital element in fructifying and sustaining the dynamic of this emerging economic relationship would be to develop trust and confidence in each other and operationalise the framework agreement. It would be essential that the media and elities on both sides would make effort to address the current information and mindsets that hinder the pace and scope for economic cooperation between ASEAN and India. Until and unless the ideological and informational blindness would not be lifted, there would be no opportunity to realise gain from the existing significant complementaries between ASEAN and India.”

Tay et al. (2004) attempted to analyse the trends in regional agreements and to find a link between sustainable development and rush to regionalism. Based on the survey of literature, the study found the different developmental aspects of the agreements including: “investment rules, intellectual property rights, capital controls, trade in services, disputes settlement mechanisms and institutions of development cooperation”, which had been important for countries developmental prospects. The study highlighted that economic as well as strategic considerations with regard to regionalism could be achieved only on the basis of strong and positive correlation between regionalism and sustainable development through economic and environmental implications.

Faleiro (2004) focused on the positive perspective of South Asia Free Trade Agreement (SAFTA). The study pointed out that normalisation of trade relations between India and Pakistan and with other SAARC countries must be indeed crucial for the success of SAFTA. People to people contacts in the region, enhancement of tourism,
relaxation of the visa-regime, efforts to promote the bonds of ethnicity and culture, creation of atmosphere of dialogue and cooperation rather than conflict and confrontation should be the pivotal elements to strengthen goodwill and foster better understanding among the member of SAARC region.

Weerakoon (2004) assessed “the effects of economic integration in terms of absolute and relative growth rates of FDI in the SAARC region. The empirical literature in study showed Sri-Lanka’s positive experience with FDI in raising manufactured export growth after providing capital and skill intensive manufacturing sectors and introducing new management and production techniques.” The study further highlighted “the high degree of positive correlation between regional trade liberalization and investment flows through the process of regional economic integration after reducing the barriers to trade in goods as well as investment and accessing the large market.” With the available data from RIS, South Asia development and cooperation report 2001-2002, the study found that “Bangladesh was the largest investor from the region in the India, followed by Sri-Lanka, Nepal and Maldives but on the other hand none of the SAARC countries registered as significant investors in Pakistan.”

Mukherji (2004) evaluated “the impact of tariff concessions on India’s preferential trade in the first three rounds of SAPTA negotiations in relation to its bilateral trade with Bangladesh, Maldives, Pakistan and Sri-Lanka covering the period 1996-97 to 2002-03. The hypothesis was that tariff cuts were expected to induce faster growth in India’s preferential trade in relation to its total bilateral trade. However the study revealed that due to lack of proper targeting, low preferential margins, non-concern with a variety of non-tariff barriers and the emergence of more ambitious Indo-Lanka Free Trade Agreement, the performance of India’s preferential trade under SAPTA had been lackluster.” Based on the experience from the operation of SAPTA, the study suggested that “merely thinking about preferential margins, maintaining unduly long period to attain the goal of a free trade area without concern for deeper forms of integration such as removal of non-tariff barriers, investment cooperation, science and technology cooperation and improvement in trade facilitation measures could make SAFTA largely irrelevant.”
Crawford and Fiorentino (2005) studied the evolving landscape of RTAs and to provide a brief update on recent developments, trends and directions. The study explained four broad themes: RTAs Kaleidescope looked at main trends and characteristics of RTAs, both in force, under negotiations and at the proposal stage; motivations and outcomes explored some of the underlying reasons why countries had been engaging in RTAs, together with their effects on third parties and the multilateral system as a whole.

Mafizur Rahman (2005) quantified “macroeconomic structure of SAARC countries –Bangladesh, India, Nepal, Pakistan and Sri-Lanka individually with a view that this would help policy makers and planners to analyse the impacts of different policy options and costs and benefits of increased economic integration in the SAARC countries.” The study found that “there were inter-country differences in production and consumption pattern, investment behaviour, tax and non-tax structures in the SAARC countries, which provided a considerable scope for trade expansion among the SAARC countries based on comparative advantages. This study also explored the reasons for slow progress in economic co-operation in this region.”

Roy (2005) listed causes of slow progress of RTAs in South Asian region. The study found that “the basis of RTAs were purely economic and often extended to security, strategic and political factors. The description of the current status of trade arrangements in South Asia were covered under the study. The reasons for success/failure of regional trading arrangements such as SAPTA. and the methods and ways to make future agreements more effective have also been suggested in detail.”

Brown et al. (2005) attempted “to outline the relationship between regional trading agreements and violent conflict. It charted the development of RTAs around the world and questioned the extent to which the trend was internally or externally driven process.” The study investigated “some of the non-trade concerns or factors that were being bundled into modern RTAs particularly those that attempted to use trade agreements as a way to improve the quality of governance in signatory countries. The study evaluated the positive and negative impacts of RTAs on peace and security around the world.”
Pal (2005) traced the reasons behind explosive growth of regionalism and surveyed the literature on RTAs and its relations with the *multilateral trading system*. The study revealed that, “if the explosive growth of regionalism continues then it would bound to have a detrimental impact on the WTO regime. The rule of WTO to keep RTAs outside its purview had given a scope to countries to bypass the WTO regulations. The study has thrown light on welfare impact of RTAs, whether development of RTAs would be trade creating or trade diverting and the negative effects of regionalism. The study further found that apart from the problems of trade diversion, the complex web of regional agreements can also introduce uncertainties in the global trade system. Furthermore, the problems associated with unequal power structure and exploitation of smaller members by a bigger economic power can be more acute in a regional trade block.”

Maini (2005) pointed out that Kashmir dispute between India and Pakistan as “the main reason for the lack of cooperation with the South Asian region. The study focused on South Asian in general and Punjab in particular, due to following reasons: one Punjab located on the Northern-Western border on India, which had the strategic benefits of being a link to Pakistan and secondly, the Punjab via their peace initiatives, mostly in the form of transportational links, had set an example for other regions in South Asia. Neo-classical model of economic integration referred to three features of economic integration: liberalization, development and coordination of policies had been highlighted in the study which would led to the creation of desirable structure of the international economy, by removing artificial obstacles to optimal market operations and deliberately introducing elements of coordination or unification.”

Nataraj (2005) presented the theory of RTAs, rules governing RTAs in the WTO, developmental dimensions of RTAs along with the different concepts of regionalism in the form of old regionalism versus new regionalism. The study discussed “the debate with regard to regionalism versus multilateralism.” The study argued that “no doubt empirical research observed that regionalism had generally increased trade both among members and between members and non-members but still regionalism could be a strong compliment to the multilateral system, it could not be a substitute because there was a
similar approach in the basic objective of both the regionalism and the WTO’s multilateralism i.e. enhancing trade between countries.” The study also suggested “new regionalism approach for RTAs with dynamic effects of economic integration, resulted in trade and investment oriented integration as compared to old regionalism approach based on trade-oriented effects.”

Chandra (2005) conducted a study to explain various issues on the current state and prospects of economic cooperation among South Asian countries. The study discussed the issues relating to the South Asian Association for Regional Co-operation, South Asian Preferential Trade Agreement and the progress towards South Asia Free Trade Agreement, besides strategies for economic cooperation, both within and outside South Asia. The study pointed out that it would be difficult to achieve the objective of economic cooperation until and unless the two big powers of South Asia, India and Pakistan had not been taking regional cooperation seriously and not stopping to mix it with bilateral disputes. The study suggested to cover a wide range of economic issues like trade, tariffs concessions, technology, investment, joint venture and fiscal and monetary policies in the scope of economic cooperation.

Mohanty and Chaturvedi (2005) attempted to prepare a new approach to select environmentally sensitive goods, which was further applied to study the type of trade directions in the South Asian region. The empirical analysis indicated that “South Asia had a large market for these products, and about one quarter of the regional trade was falling under the medium and high technology product groups. An effort was also made to minimize negative environmental implications of possible trade expansion in the SAARC region.”

Pitigala (2005) summarized that “the region has shown a mutual dependency in basic foods and agricultural products, although they are not fully liberalized. A narrow group of products which are mostly made up of agriculture and raw material for manufacture, on which most countries display comparative advantage has created inroads in regional trade. Countries have to develop comparative advantages in the different
commodities especially in the products which they are trading with non-members to make the SAFTA successful in its true sense.”

**Chand (2006)** discussed “the internal factors in case of Asian countries to go for regional integration in trade. The study also analysed impact of RTA in Asia on regional and global welfare. The study estimated the changes in the regional concentration of agricultural and non-agricultural trade in Asia during the 1990s and analysed its implications for future liberalization of trade.” The study found that “preferences or strategic interest had changed the nature of trading arrangement from regional trading agreements to preferential trading agreements.” The study further predicted that “in the long run free trade area in Asia might lead to the end of regionalism in favour of multilateralism.”

**Ranjan (2006)** highlighted the reasons for faster formation of the RTAs/PTAs. Economic desirability of RTAs and legal dimensions of RTAs were also evaluated in the study. Trade creation and trade diversion approaches had taken as basis for the assessment of economic desirability of RTAs and significance of legal dimensions of RTAs was checked on the basis of certain conditions laid down in the WTO notification regarding the formation of RTAs as an exception to the MFN rule. The theoretical approach regarding the formation of RTAs showed that regionalism should be taken as a tool to foster multilateralism. The study expected the faster pace of liberalization at the regional level by lowering of tariffs would prepare countries faster for further liberalization at the multilateral level and hence the barriers to international trade would rapidly come down.

**Mehta and Narayanan (2006)** presented overview of the concept of RTAs by showing the consequences of concepts like *trade creation* and *trade diversion*. The study suggested “the pattern of India’s economic regionalism by presenting the India’s involvement in regional and bilateral FTAs/PTAs, Welfare gains and human development implications of RTAs in terms of increased GDP and broadening scope of economic cooperation initiatives ranging from trade to investment and services were also
dealt in the empirical literature of the study.” The study identified “India’s dominating position for the enhancement of regional economic cooperation in regional and bilateral forms among SAARC member countries.”

**Khan et al. (2007)** identified “the causes for the slow progress of regional economic integration in South Asia region. The study suggested the ways to overcome the conflicts among SAARC member countries. Political instability, security measures and a noticeable rise in intra-state tension has imparted a negative dimension to South Asia’s experience with economic globalization. People to people contact, development of infrastructure and information technology etc. are the steps that build peace between all nations, promote equitable development and in turn, address the concerns of groups responsible for intra-state instability.”

**Raihan and Razzaque (2007)** examined “the features and prospects of different regional integration and bilateral FTAs in South Asia involving Bangladesh. The paper has also estimated the trade creation and trade diversion aspects of the total welfare effects of SAFTA scenarios. Results suggest that a full implementation of SAFTA will lead to welfare gains for India, Sri Lanka and rest of South Asian countries, though Bangladesh suffers from welfare loss. Bangladesh’s welfare loss is mainly driven by the negative trade diversion effect. Simulation results also suggest that the negative trade diversion effect can be undermined by some associated unilateral trade liberalisation measure.”

**Aggarwal (2008)** studied “the effect of deepened regionalism on investment flows. The study argued that regional integration has the potential to promote intra and extra regional FDI flows and economic development in individual countries of the region. Regional integration provide the way for the most efficient use of the region's resources through additional economies of scale, value addition, employment and diffusion of technology. The study identified the factors that hindered the process of economic integration, namely, structural weaknesses, institutional bottlenecks, political movements, narrow nationalism and mutual mistrust.”
Ali and Talukder (2009) analysed “the prospects and challenges of preferential trade liberalisation and regional integration in South Asia by analysing regional and international trade structures of South Asian countries through conventional trade measures such as commodity composition and direction of trade, and bilateral trade shares. The study found that, with the existing low level of bilateral and intra-original trade among the South Asian countries, the gains from free trade arrangements in this region are likely to be minimal. The study noted insignificant share of region in the world trade and persistence high level of tariff barriers. The study pointed out that preferential trade liberalisation is more likely to bring about trade diversion than trade creation leading to more gains for large countries and losses for small countries. The study found the trade policies of individual countries in south asia being shaped by political considerations rather than economic considerations.”

Jabeen et al. (2010) identified “those areas where both the neighbors (India and Pakistan) are constructing bilateral cooperation under the SAARC to address the controversial issues, which may repel hostilities and facilitate the two states to enhance cooperation for development and strengthening friendship and understanding between their people.”

Alam et al. (2011) highlighted “the barriers and facilitations of trade among SAARC. The main barrier to trade among SAARC includes policy and security issues. The study identified the spillover effects including smuggling of weapons, health, security environment, issues of Indo-Pak co-operation, and bilateral conflicts. The study attempted to make a conventional search of the barriers and facilitations to trade among SAARC states. The study provides an idea about the structure of trade among SAARC economies, and help to annotate that why there is low intra-SAARC trade and how to maximize it. The study highlights the measures that could enable the member state to maintain the trade relations. The study suggested various measures to promote trade among SAARC namely the establishment of trade centers, reduction of taxes, duties on imports and exports.”
Saez (2012) discussed “regional economic integration using the case study of South Asia, notably with reference to its key institutional actor, namely SAARC. The study discussed the core facets of SAARC’s intervention to foster economic integration in South Asia, exemplified by the SAPTA and SAFTA.” The study argued that “the pattern of economic integration in South Asia offers some lessons for Europe. However, these are rather limited in comparison to what South Asia can learn from Europe in terms of economic integration.”

Rahman et al. (2012) studied “the reasons for sluggish performance of SAPTA and SAFTA and offered recommendations for facilitating economic integration of the SAARC community.” The study pointed out that “the process of economic integration will not speed up unless the political atmosphere of South Asia improves through the resolution of mutual disputes, particularly between India and Pakistan.” The study noted that “political tensions and certain procedural difficulties had blocked the full implementation of the South Asian Preferential Trade Agreement (SAPTA) and the South Asian Free Trade Agreement (SAFTA) which could have advanced economic integration in the region.” The study recommended that “the South Asian countries have a lot of economic potential and possess the will to exploit it through cooperation. Mutual cooperation should also include trade in services sector, industrial production, agriculture and construction of water reservoirs.”

Raihan and Prabir (2013) conducted the study “to examine the trade potential between India and Pakistan in greater details and do a mapping of major trade barriers affecting the bilateral as well as regional trade in South Asia. The study further attempted to quantify the gains for India and Pakistan and the South Asia region from the India-Pakistan most favoured nation scenario. The study found that Pakistan’s most favoured nation status to India would generate larger benefits if it is supported by improved connectivity and trade facilitation.”