

TRADE COOPERATION AND PERFORMANCE IN EAST AND SOUTH ASIA: TOWARDS A FUTURE INTEGRATION

Biswajit Nag*

On paper free trade and open economies maximize global efficiency in the production and distribution of both goods and services. However, in the real world where distortions are the norm the ideal of free trade is difficult, if not impossible, to achieve. In consequence, countries and economies have become increasingly involved in the pursuit of the “second-best” solution in the form of regional or subregional free trade arrangements. This paper examines the rationale for, and impact of, these arrangements in the ESCAP region and suggests that there is considerable potential for further trade cooperation between the various free trade arrangements formed in the different subregions of ESCAP. In this regard, the paper makes a number of recommendations that emphasize the need for the bigger economies of the region to take the lead in furthering trade liberalization.

I. PROS AND CONS OF REGIONAL TRADING ARRANGEMENTS

It has been well established in the literature that free trade and open economic policy maximize the global efficiency in a distortion-free world. The “first-best” Pareto-efficient solution is practically impossible to achieve as today’s world is ridden by multiple distortions in the form of tariffs, non-tariffs, exchange controls, movement of factors of production and different political and economic systems (Kreinin and Plummer, 2002). Against this background the ideas of regional trading arrangement (RTA) have been mooted. An RTA facilitates the choice of a selective liberalization policy as mutually agreed by all member economies, keeping them protected from global competition. Over time, the process of globalization has been interwoven with the gradual opening up of economies and, in most cases, initially at the regional level.

* Indian Institute of Foreign Trade, New Delhi, 110016, India.

The rationale for regional cooperation is based on a number of factors, not all of which are necessarily economic in nature. In many cases, regionalism brings the same benefits, however on a much smaller scale, as those resulting from multilateralism.¹ It allows the participating developing countries to achieve larger economies of scale in production, attain specialization, increase competitiveness and diversify their export basket, thus assisting domestic economic reform. It becomes increasingly apparent that there is much to gain from regional trade facilitation measures. Such cooperation also could help countries to come together and develop a common understanding on several international trade-related issues.²

However, finding equitable ways to share the burdens and benefits of regional cooperation can be difficult and many countries may be unwilling or unable to cooperate because of political tensions, lack of trust, high coordination costs and the asymmetric distribution of costs and benefits of regional cooperation. Moreover, there are strong incentives for a country to behave strategically on separate issues so that it can withdraw on a particular issue if not satisfied. Regional cooperation agreements may sometimes be difficult to achieve or fail to deliver results owing weak institutions and the lack of proper enforcement mechanisms for ensuring the fulfilment of commitments. RTAs may lead to “trade diversion”,³ which can limit the benefits derived from trade liberalization. Regional peace, stability and mutual trust are basic preconditions for successful regional cooperation.

Generally RTAs have four stages of development. In the first and second stages, agreements by and large follow a “positive list” approach, which identifies goods that are to enjoy tariff reduction (product by product or sectoral) and then go more rapidly through the “negative list” approach, conforming the commitments of the members to include most of the traded goods (except a small “negative list” of goods which are excluded) for faster process of liberalization. In the third and fourth stages, steps are taken towards the creation of a single market involving trade facilitation measures and the liberalization of trade in services, plus movement

¹ For example, regional cooperation helps a country to overcome the size limitation and exploit economies of scale, but its multilateral trade liberalization and active participation in global trade makes this more obvious and there is no limit to realizing economies of scale in that context (ESCAP, 2004a).

² However, countries from other regions can also contribute to this effort. Recent developments show that countries do not need regional organizations to form common negotiating positions, e.g. the Cairns group or the G22 had no regional basis. However, many regional groups (like SAARC) discuss WTO matters among themselves for better understanding of specific issues, which can help in developing negotiating position before forming a negotiating group (ESCAP, 2004a).

³ Trade diversion is trade that is diverted away from outside countries as a result of lowering tariffs between the members of a trading bloc.

of labour and capital. This is followed by policy coordination on macroeconomic and other economic matters (economic union) among members. However, the rapid proliferation of RTAs, especially in the 1990s, has blurred all of these stages. This traditional stage model of integration is probably no longer a good characterization about the development of RTAs. For example, many RTAs were originally free trade agreements (FTAs). Some, such as the North American Free Trade Agreement (NAFTA), never were intended to be more than an FTA, and common markets and monetary unions are (at least currently) not of major relevance outside Europe.

In Asia, though regional cooperation was initiated in the late 1960s through the formation of the Association of Southeast Asian Nations (ASEAN), actual economic and trade cooperation started much later, with the signing of the ASEAN Preferential Trading Arrangement (PTA) in 1977. Subsequently, South Asian countries came together and formed the South Asian Association for Regional Cooperation (SAARC) in 1985, after the idea of SAARC was floated in the early 1980s. Efforts also have been made by cross-subregional groups such as APEC,⁴ the Bangkok Agreement countries, BIMST-EC⁵ and ASEAN+3.⁶ Recently, countries have been engaged in forming a number of bilateral trade agreements (BTAs), which is a new trend in the region. Japan and the Republic of Korea are going further to develop deeper economic cooperation through economic partnership agreements (EPAs) with many countries in the region.

The article will analyse selected trade agreements and the performance of major Asian economies to harness the possibility and implication of further trade cooperation among South, South-East and North-East Asian countries. In this context, the merits of harmonizing trade cooperation among ASEAN, SAARC and North-East Asian countries will be explored.

II. EVALUATING TRADE AGREEMENTS

Despite the recent rapid growth of RTAs, the extent of their contribution to the achievement of high economic growth is still unclear. These should be evaluated on a number of criteria, such as the extent of trade liberalization within the RTA, treatment of non-members, extent of harmonization of policies linked to trade and

⁴ Asia-Pacific Economic Cooperation.

⁵ Formerly known as the Bangladesh-India-Myanmar-Sri Lanka-Thailand-Bhutan-Nepal Economic Cooperation, BIMST-EC was renamed the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation on 31 July 2004.

⁶ ASEAN members and China, Japan and the Republic of Korea.

the nature of dispute settlement mechanism.⁷ It is widely believed that the outcome of an RTA depends mainly on the membership, the policies pursued and the effectiveness of the proposed institutional mechanism. Moreover, political willingness and commitments are equally important for the success of any trade agreement. Lastly, to be consistent with the multilateral process RTAs should be outward looking.

RTAs are acceptable within the World Trade Organization (WTO) framework.⁸ However, in practice it has proven difficult for members to agree on the precise interpretation or application of the provisions of WTO. For most RTAs there is inevitably a degree of uncertainty about whether they can be assumed to be in conformity with articles related to RTA. The overall assessment of the costs and benefits of RTAs is often summarized by asserting that outward-looking arrangements are better than inward-looking ones (ESCAP, 2000) and that they are more likely to facilitate liberal multilateral trade. The outward orientation of any RTA is judged on the basis of its consistency with Article XXIV of the General Agreement on Tariffs and Trade (GATT),⁹ or the existence of any inbuilt rule which stresses the reduction of external barriers in the form of reduction of most-favoured nation (MFN) tariffs and/or rule which stresses that agreement is open to other countries under certain accession conditions. Open regionalism,¹⁰ which eliminates the creation of discriminatory arrangements, is also considered outward oriented.

The Doha Round has recognized the importance of RTAs in promoting trade liberalization and stressed on bringing harmony among regional and multilateral processes, reshaping RTA rules and improving transparency and systemic issues

⁷ Chapter 3 of *Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation* (ESCAP, 2004a) briefly documents various features of PTAs and their possible outcomes.

⁸ Article XXIV of GATT and Article V of the General Agreement on Trade in Services (GATS) provide the legal foundation for RTAs.

⁹ GATT Article XXIV, which permits exceptions from the general rule of non-discrimination under certain conditions, refers to a wide coverage of products and no action that would raise trade barriers against non-members. In practice, these conditions are seldom met. Even if they were, the network of preferential arrangements that would develop could still harm the multilateral system. If GATT Article XXIV seems to be extremely weak, its implementation has been even weaker.

¹⁰ Open regionalism is consistent with a narrower product coverage than the rules of Article XXIV. Its virtue is that it does not challenge Article I of GATT, yet it still involves a concerted attempt to move towards freer trade. While the product coverage is not as extensive, it does involve a wider coverage of other issues. The concept of open regionalism changes the interpretation of MFN from exclusive MFN required for members only, which is the GATT norm, to inclusive MFN (also for non-members). It also changes the norm of reciprocity from specific direct balancing of benefits to a more diffuse and general give and take. Some tend to see open regionalism as a prototype for a new edition of Article XXIV.

through negotiation while considering the developmental aspects of these agreements. The WTO Committee on Regional Trade Agreements (CRTA) has enjoyed little success so far in assessing consistency among the notified RTAs owing to various political and legal difficulties, which include issues on preferential rules of origin and the dispute settlement process. CRTA has also been unable to carry out effectively its functions of review and oversight of RTA implementation (WTO, 2003). The current negotiation on RTAs has been conducted giving thrust on transparency and systemic issues. Discussions have been fruitful on transparency issues and RTA surveillance mechanisms leading to more precision in the notification procedure. Informal discussions on systemic issues started in 2003, which include clarification and improvement of the existing rule on RTAs and other related rules.

III. MAJOR TRADE AGREEMENTS IN BRIEF

Regionalism in Asia is more or less outward oriented, supportive to the multilateral process and flexible and has sought to integrate Asian economies. Since the late 1990s some of the Asian trade blocs have picked up the momentum towards further liberalization among the member countries. In this section, trade agreements in the SAARC and ASEAN regions will be analysed. Attention will also be given to cross-subregional attempts linking countries from different subregions and the recent endeavour of the North-East Asian countries in this regard.

ASEAN's PTA in 1977 was one of the earliest moves towards cooperation in regional trade. This provided the beginning of tariff reduction on a product-by-product basis according to members' priorities. ASEAN leaders undertook deeper trade liberalization measures through the formation of the ASEAN Free Trade Area (AFTA) in 1992. The AFTA arrangement, through the Common Effective Preferential Tariff (CEPT) scheme, envisages the reduction of tariffs and non-tariffs through a proper time schedule, contrary to earlier PTAs.¹¹ The modalities of CEPT are based on concessions granted on a reciprocal product-by-product basis, thereby

¹¹ The CEPT scheme contains an Inclusion List (IL), a Temporary List (TEL), Sensitive List (SL) and General Exception List (GEL). Products in IL are divided into two groups subject to two different schemes of tariff reductions. They are normal-track products and fast-track products. The protocol to amend the agreement on the CEPT scheme (2003) has provided a time line for complete elimination of import duties of products under IL by 2010 and for Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam by 2015. Flexibility has also been allowed for import duties on some sensitive products, which are to be eliminated not later than 1 January 2018. In 2003, the average CEPT tariff rate for products in IL was 2.7 per cent (compared with 12.76 per cent in 1993). The tariff on products under TEL would ultimately come down to CEPT levels but they are temporarily protected. Items in SL are unprocessed agricultural goods for which tariffs will be reduced to CEPT levels by 2010. GEL consists of the products that are permanently excluded from the tariff reduction initiatives.

encouraging members to include more products for tariff reduction. In addition, an effort has also been made to expand the scope through the standardization and harmonization of customs procedures, an industrial cooperation scheme, a framework for services liberalization and an investment area. The ASEAN Framework Agreement on the Facilitation of Goods in Transit (1998) aims to facilitate the impact of AFTA through the smooth transportation of goods in transit. ASEAN also adopted a separate Protocol on Dispute Settlement Mechanism (1996) to solve the disputes more transparently. For further integration, a Framework Agreement on the ASEAN Investment Area was signed in 1998, which initially focuses on gradually opening up all sectors for direct investment to eventually offer national treatment to all investors.

In South Asia, trade cooperation was initiated through the Agreement on SAARC Preferential Trading Arrangement (SAPTA). Signed in 1993, SAPTA followed a positive list approach, including flexible provisions for least developed countries (LDCs). It has proper rules of origins and no formal dispute settlement mechanism. The fourth round of SAPTA negotiations was completed in 2002 and studies have indicated that the process has not been very effective (Mohanty, 2003) as concessions offered have been less attractive. However, the renewed effort to accelerate trade liberalization through the signing of the Agreement on South Asian Free Trade Area (SAFTA) during the twelfth SAARC Summit in 2004 is noteworthy. Member States have agreed to begin implementation of it from 1 January 2006. Tariff reduction¹² will be done in phases providing flexibility to the LDCs.¹³ The tangible gain from SAFTA will be understood once sensitive lists, the rules of origin and a compensation mechanism concerning the loss of customs revenue are prepared. SAFTA also suggests that members adopt additional measures, including the simplification of banking procedures for import financing, transit facilities for

¹² Tariff reduction is scheduled in two phases. The non-least developed countries – India, Pakistan and Sri Lanka – would have to reduce their tariffs from their existing levels of 20 per cent within a time frame of two years from the date the agreement comes into force. The region's least developed countries (LDCs) – Bangladesh, Bhutan, Maldives and Nepal – will reduce their existing tariff rates to 30 per cent within the two years from the date the agreement comes into force. The subsequent tariff reduction from 20 per cent or below to 0-5 per cent shall be done within a second time frame of five years for non-LDCs, beginning from the third year from the date the agreement takes effect. However, the period of subsequent tariff reduction by Sri Lanka shall be six years. The subsequent tariff reduction by the LDCs from 30 per cent or below to 0-5 per cent shall be done within a second timeframe of eight years beginning from the third year from the date of coming into force of the agreement.

¹³ Non-LDCs will reduce their tariffs for LDCs to 0-5 per cent within three years of implementation of the agreement. The framework also has provisioned for favourable treatment for LDCs concerning anti-dumping and countervailing measures. In addition, appropriate mechanism to compensate the LDCs for their loss of custom revenue owing to the implementation of the trade liberalization programme shall also be established.

efficient intra-SAARC trade, the removal of barriers to intra-SAARC investments, rules for fair competition and the promotion of venture capital and simplification of procedures for business visas.

BIMST-EC¹⁴ was established in June 1977. It is a unique joint-action framework in which two ASEAN members have come together with countries of South Asia for economic cooperation. Bhutan and Nepal joined the group in 2004. At the Sixth BIMST-EC Ministerial Meeting in 2004, an FTA was signed which includes trade in goods and services, investment liberalization and improvement of competitiveness. Negotiations on the product list and other necessary issues are expected to be completed by December 2005, with implementation to start by July 2006. Full implementation of the FTA between India, Sri Lanka and Thailand is expected in June 2012 and for LDCs in 2017. India, Sri Lanka and Thailand will eliminate tariffs of “fast track” products by 2009 while other countries will do so by 2011.

The Bangkok Agreement is a preferential trading arrangement. Signed in 1975 by five initial members, Bangladesh, India, the Lao People’s Democratic Republic, the Republic of Korea and Sri Lanka, the Agreement was based on mutually beneficial trade liberalization measures (GATT’s enabling clause). It has followed a positive list, product-by-product approach for tariff concession on goods. Though generally treated as a sleepy agreement, China’s accession to the Bangkok Agreement in 2001 provided a substantial dynamism which has been reflected in an increase in the list of concessions after completion of the third round of negotiations in 2004 (see table 1). A number of countries have also recently expressed their interest in the Agreement, and Pakistan is in the process of accession.

APEC¹⁵ provides another trend, which is based on open regionalism or non-discriminatory liberalization. The best tariff preferences that one APEC member accords to other members are also accorded to non-APEC trading partners to attain the common goal of reaching free trade by 2010 (2020 for developing countries). APEC also pursues trade facilitation and customs harmonization. However, it has been recognized that as APEC’s founding principles emphasize

¹⁴ See footnote 5 above.

¹⁵ Established in 1989 as an informal dialogue group, APEC today is a cooperative, multilateral economic and trade forum and has 21 member economies: Australia; Brunei Darussalam; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; Philippines; Republic of Korea; Russian Federation; Singapore; Taiwan Province of China; Thailand; United States; and Viet Nam. For details see http://www.apecsec.org.sg/apec/about_apec.html (accessed on 13 January 2004).

Table 1. Number of items (preliminary) under Bangkok Agreement concessions

	<i>Current</i>	<i>After third round</i>
Bangladesh	129	210
China	902 (18)	1 671 (156)
India	188 (33)	577 (57)
Republic of Korea	214 (29)	1 298 (316)
Sri Lanka	288 (32)	523 (80)
Total	1 721 (112)	4 279 (609)

Source: ESCAP, "Multilateralism Free Trade Areas in Asia and the Pacific: Progress, Challenges and Prospects", document presented to the Subcommittee on International Trade and Investment at its first session, Bangkok, 27-29 October 2004 (E/ESCAP/SCITI/1).

Note: () = special concessions to least developed countries.

voluntary, non-binding, unilateral action, the driving forces to trade liberalization depend very much on the WTO round and the successful implementation of the Doha Agenda is important to achieve the 2010/2020 Bogor Goals.

Bilateral free trade agreements play an increasingly important role in promoting trade liberalization and economic growth in Asia. Several countries of the region are now pursuing EPAs (see table 2) designed to facilitate trade in goods and services and investment flows. The agreement between Japan and Singapore is a good example of this form of cooperation, which has moved beyond trade and investment liberalization to include cooperation in financial services, information and communication technology (ICT), human resources development, small and medium-sized enterprises (SMEs) and tourism. Japan and the Republic of Korea expect to complete FTA negotiations by the end of 2005 and Japan has recently agreed to establish EPAs with three South-East Asian countries: Malaysia, the Philippines and Thailand. Important bilateral attempts in South Asia are trade cooperation between India-Sri Lanka and India-Bangladesh. Conversely, ASEAN has moved further to strengthen cooperation linking individual countries through ASEAN+Japan, ASEAN+China, and ASEAN+India agreements.

Major subregional blocs such as ASEAN and SAARC and cross-subregional groups such as BIMST-EC, the Bangkok Agreement and APEC have structured trade agreements with time lines to reduce trade barriers. Only APEC has a clear policy regarding integration of its members with the world economy as it pursues a policy of open regionalism. In addition, different forms of bilateral agreements, including EPAs, are the new trend, rendering the entire scenario of Asian regional

integration more complex. The increasing number of agreements, their coverage, aspirations, overlapping of different time lines and existence of several LDCs in various groups have created confusion about the short- and medium-term efficiency gains from these efforts. Though skepticism exists, no one can deny the fact that these efforts hold the potential to lay the foundation for the eventual integration of all countries in the region. Experts hold positive expectations regarding ASEAN's preference in bilateral agreements (ASEAN+1+1+1). EPAs are also viewed as producing deeper integration through domestic regulatory reform and establishing linkages between trade and development goals. Asian regionalism is definitely experiencing a transition phase, which will move towards greater outward-oriented regionalism if, together with the proliferation of trade agreements, MFN rates also start falling. Active negotiation in WTO and implementation of the Doha Agenda are necessary to achieve this. The "spaghetti bowl" of trade agreements will take

Table 2. Some recently established/proposed EPAs and similar agreements in the Asian and Pacific region, 1999-2003

<i>Agreements</i>	<i>Member countries</i>	<i>Status</i>
Japan-Singapore Economic Partnership Agreement (JSEPA)	Japan-Singapore	Entered into force in 2002
Japan-Republic of Korea Free Trade Agreement (JKFTA)	Japan-Republic of Korea	Negotiation process is expected to be completed by 2005
Japan-Thailand Economic Partnership Agreement (JTEPA)	Japan-Thailand	The negotiations was to begin in early 2004
Japan-Malaysia Economic Partnership Agreement (JMEPA)	Japan-Malaysia	The negotiations was to begin in early 2004
Japan-Philippines Economic Partnership Agreement (JPEPA)	Japan-Philippines	Entered into negotiations in early 2004
Sri Lanka -Singapore Comprehensive Economic Partnership Agreement (CEPA)	Singapore-Sri Lanka	Discussions ongoing
India-Singapore Comprehensive Economic Cooperation Agreement (CECA)	India-Singapore	Negotiation ongoing

Sources: The Ministry of Foreign Affairs of Japan, *The Japan-Singapore Economic Partnership Agreement (JSEPA)*, <http://www.mofa.go.jp/region/asia-paci/singapore/agree0201.html> (13 January 2004); and the Ministry of Trade and Industry, *Free Trade Agreement*, http://www.mti.gov.sg/public/FTA/frm_FTA_Default.asp?sid=12 (14 January 2004).

shape concretely, depending on the gravitational force among bigger countries as well as stronger trade blocs in the region. Hence, the bigger countries need to play a more meaningful role in bringing harmony among the different countries to develop an “Asian way” of integration.

IV. ANALYSIS OF TRADE PERFORMANCE

Trade growth rates

Export growth rates of different countries and subregional groups are shown in table 3. It may be pointed out that selected subregional groups experienced higher export growth rates in the first half of the 1990s compared with the latter half. The 1997-1998 financial crisis and the slowdown in the IT sector in 2000-2001 were the main reasons for the negative export growth, which pushed down the average export growth rate in the post-1995 period. On average, in the last decade the Bangkok Agreement countries experienced the highest growth rates, owing mainly to the performance of India and China. In addition to India, among the other South Asian countries Bangladesh and Nepal had double-digit export growth rates in the 1990s. Sri Lanka's export growth rate registered more than 15 per cent in the first half of the 1990s but slowed down thereafter. Among ASEAN countries, Cambodia, the Lao People's Democratic Republic, Malaysia, the Philippines, Thailand and Viet Nam performed well during this period. Among North-East Asian countries Japan registered the lowest export growth rate (4.11 per cent) in the 1990s. China's exports grew by 15 per cent during that time. The actual export figures are shown in table A1 of the appendix.

Turning to the intraregional trade growth among selected subregional groups, table 4 shows that the intra-group trade growth among Bangkok Agreement countries is greater than those of ASEAN and SAARC. In the 1990s, exports and imports were around 27 per cent and 31 per cent respectively. Intra-ASEAN trade fell drastically after 1995. It is important to note that AFTA was established during this period. The Asian crisis dealt a big blow to the intra-group trade growth among ASEAN members. Equally interesting is that despite the slow progress in trade negotiations, the Bangkok Agreement countries had a significant high trade growth rate. SAARC countries also received a jolt in the post-1995 period and as a result their intra-group trade growth plummeted. However, of interest is that there is little difference in average intra-group trade growth between ASEAN and SAARC during the selected period. Table A2 in the appendix provides more information on exports of selected Asian trading blocs.

The bilateral trade growth of some countries in the Asian and Pacific region is shown in table 5. This provides some indication of the natural bias in trade

Table 3. Export growth rates (per cent) of selected trading groups and countries or areas

	1980- 2000	1990- 1995	1995- 2000	1990- 2000	1996- 1997	1997- 1998	1998- 1999	1999- 2000	2000- 2001	2001- 2002
ASEAN	11.08	17.10	4.43	11.05	3.58	-6.60	9.09	18.77	-9.75	0.05
Bangkok Agreement	12.94	15.38	7.79	12.17	12.88	-1.11	6.91	23.75	-1.03	16.39
SAARC	9.37	11.07	5.24	9.08	5.33	-2.39	4.63	16.78	0.28	9.69
Bangladesh	12.58	18.25	11.09	15.33	20.72	6.23	6.16	17.24	-4.91	1.02
Bhutan	11.55	6.17	0.95	6.99	17.36	-8.25	7.28	-11.09	-2.91	-10.00
India	9.38	11.45	5.28	9.45	5.75	-4.49	6.67	18.82	2.28	13.62
Maldives	11.40	-2.38	6.98	5.64	23.84	1.45	-14.31	19.14	0.41	18.67
Nepal	10.77	11.20	17.75	10.73	5.37	16.72	27.04	33.66	-8.39	-22.99
Pakistan	7.87	6.06	0.76	4.28	-6.48	-2.79	-0.27	6.32	2.32	7.31
Sri Lanka	9.61	15.42	6.39	11.33	13.28	3.67	-4.47	18.20	-11.31	-4.88
Brunei Darussalam	-2.18	-0.74	1.07	0.54	-0.55	-16.60	27.11	-1.14	-6.77	2.95
Cambodia	31.62	49.41	9.57	25.31	-2.76	49.16	11.41	7.94	15.43	10.97
Indonesia	6.18	11.75	4.10	8.06	7.29	-8.60	-0.37	27.66	-9.14	-32.05
Lao People's Democratic Republic	16.05	36.43	0.62	15.44	11.21	2.93	-15.89	6.28	0.30	-10.14
Malaysia	12.71	19.93	4.62	12.24	0.53	-6.97	15.52	16.08	-10.41	5.98
Myanmar	7.38	21.60	14.23	14.38	16.07	22.97	5.57	44.07	45.54	27.85
Philippines	11.45	16.06	18.78	18.85	21.93	18.22	24.35	8.77	-17.89	11.02
Singapore	12.18	17.62	1.08	9.93	-0.02	-12.07	4.35	20.16	-11.65	2.81
Thailand	15.17	18.70	3.19	10.52	2.97	-5.09	7.32	18.17	-5.71	5.74
Viet Nam	20.98	19.48	19.68	22.70	26.59	1.92	23.28	25.21	4.51	9.47
Japan	7.01	8.71	1.07	4.11	2.45	-7.85	8.11	14.28	-15.81	3.28
China	14.74	18.70	10.04	14.47	21.02	0.50	6.11	27.84	6.78	22.36
Hong Kong, China	14.49	15.87	1.60	8.26	4.04	-7.48	-0.07	16.09	-5.93	5.37
Taiwan Province of China	10.94	9.71	4.45	7.51	5.16	-8.90	9.90	22.57	-16.90	7.35
Republic of Korea	12.23	12.78	5.52	10.11	4.97	-2.83	8.60	19.89	-12.67	8.00

Source: UNCTAD Handbook of Statistics on CD-ROM, 2003.

patterns within the region. Trade growth rates between China and the Republic of Korea and China and India are quite high. The Republic of Korea's exports to India registered more than 5 per cent growth during the period 1997-2001 but India's exports to the Republic of Korea did not rise. South-East Asian countries such as Thailand and Singapore also have relatively high export growth in South Asian countries. Trade growth between India and Malaysia is also higher than their world export growth rates. China consistently has a high export growth rate in the region. The opposite is true for Japan except for its export growth in China and Bangladesh. It needs to be mentioned that despite two shocks in the selected

Table 4. Intra-group trade growth^a (percentage)

		1990-2002	1990-1995	1995-2002
ASEAN	Imports	11.05	21.55	4.12
	Exports	10.91	23.79	2.53
Bangkok Agreement	Imports	31.38	65.43	11.43
	Exports	27.42	55.00	10.77
SAARC	Imports	11.97	24.29	3.92
	Exports	9.96	18.58	4.19

Source: Calculated from the data available in the UNCTAD Handbook of Statistics on CD-ROM, 2003.

^a Compound average growth rate.

Table 5. Export growth rates (1997-2001) of selected countries or areas in different export destinations in the region

Destinations	Japan	Taiwan Province of China	China	Hong Kong, China	Republic of Korea	Singapore	Thailand	Malaysia	India	Pakistan	Bangladesh	Sri Lanka
Exporting country or area												
Japan		-3.17	9.27	-3.87	-0.74	-7.68	-5.00	-6.66	-3.43	-9.96	8.82	-10.26
China	9.00	10.14		1.54	8.22	7.58	11.70	13.78	19.37	4.28	8.23	12.00
Hong Kong, China	-21.34	-3.58	-5.65		-5.52	-23.92	-14.83	-9.85	3.58	-18.78	-8.58	-15.11
Republic of Korea	2.81	6.05	7.60	-5.25		-8.41	-4.72	-11.87	5.25	-0.27	2.74	-6.91
Singapore	1.37	2.68	7.01	-2.59	6.14		-2.01	-0.81	5.21	7.41	11.10	-0.22
Thailand	3.35	4.90	12.49	-0.90	5.54	-4.56		2.18	12.35	3.25	14.11	-1.39
Malaysia	4.57	-1.45	19.50	-1.87	3.97	-1.45	4.43		7.56	-11.10	-2.57	6.33
India ^a	-1.24	-0.49	5.54	11.71	-0.68	4.89	16.26	8.05		9.83	6.47	10.48

Source: Calculated from the data available in PC-TAS on CD-ROM (1997-2001), International Trade Centre, UNCTAD/WTO.

Note: Growth rate implies compound average growth rate in percentage.

^a Growth rate is for the period 1997-2000.

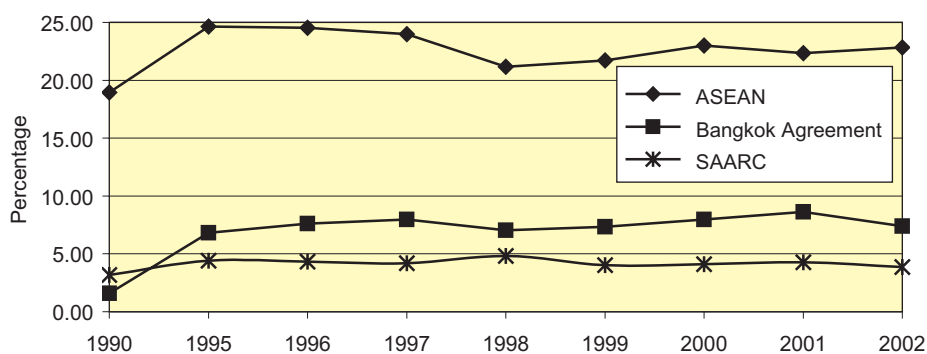
period some of these countries enjoyed high bilateral export growth. The analysis indicates that a future integration among the economies of North-East, South-East and South Asia will transform the entire region into a large growing market and most of the countries will benefit substantially.

Analysis of export share

The Intra-subregional export share in the Asia region has not changed much in the last 20 years (ADB, 2002). Most of the Asian preferential trade areas

have a relatively low share of intra-bloc exports because their trade is mostly with non-members such as the United States of America, Japan and the European Union. Throughout the 1990s, even after the introduction of AFTA, the intra-ASEAN export share were hovering between 22 and 24.5 per cent (see figure 1). Exports among ASEAN countries grew by almost 11 per cent annually in the 1990s after the implementation of the CEPT scheme¹⁶ but it remains unclear whether this was a result of CEPT or the rapid GDP growth causing a rise in consumption. Intraregional trade fell slightly after the 1997 economic crisis (ASEAN, 2003). The extent of AFTA's success in expanding trade is still under debate. De Rosa (1995), using a simulated model for five original ASEAN members, has shown that AFTA brings only small increases in trade compared with the effect of MFN tariff reductions because most of the ASEAN countries' important partners are non-member industrialized countries. The simulation also shows that the expansion of production and exports in various economic sectors is about the same under AFTA and MFN. Other studies like Fukase and Martin (2001) also argue that MFN reduction would have delivered larger benefits to ASEAN members. Hence, it is gradually becoming necessary for ASEAN to expand its trade relationship through trade agreements with other Asian countries to harness the potential for trade. It may also be noted that despite the high export growth rate among the Bangkok Agreement countries, their intra-bloc trade share always remained below 9 per cent in the 1990s implying that much of the potential is still to be realized.

Figure 1. Movement of intra-group export share



Source: Calculated from, *UNCTAD Handbook of Statistics on CD-ROM, 2003*.

¹⁶ The 2001 package of tariff cuts covered almost 84.7 per cent of products in IL, 13.4 per cent in TEL, 1.3 per cent in GEL and 0.6 per cent in SL.

Studies of Asian RTAs suggest that they cannot be regarded as natural trade blocs (ESCAP, 2000) but also indicate that there is a greater economic logic behind the groupings that have already developed than among possible alternative groupings. Trade flows within subregions are generally low for big countries such as Bangladesh, India and Pakistan within SAARC. The share of intra-group trade was higher for smaller members in each grouping, for example, Maldives and Nepal in SAARC, Brunei Darussalam and the Lao People's Democratic Republic, Myanmar and Viet Nam in ASEAN. The trade share of the Lao People's Democratic Republic with its partners in the subregion was as high as 66 per cent in 1997 (ESCAP, 2000). This highlights that RTAs provide goods from small countries considerable opportunities in terms of access to the markets of other member countries.

It is important to note that countries of North-East Asia trade among themselves more intensively as expressed in the share of their total exports (see table 6) in respective countries. Among Bangkok Agreement countries, China and the Republic of Korea's export share in each other's market is much higher than their export share in South Asian countries despite the rising export growth among the members in general. The intra-SAARC export share has remained at less than 5 per cent even after completion of four rounds of SAPTA in 2002. Under SAPTA, tariffs have been reduced on more than 5,000 products and SAARC rules of origin have been relaxed but the depth of tariff cuts and product coverage were insufficient to increase trade. However, ASEAN members such as Thailand and Malaysia are experiencing a relatively higher export share in the Japanese market. India is also exporting around 4 and 6 per cent of its total export to Japan and Hong Kong,

Table 6. Percentage share of total exports of selected countries or areas in different export destinations in 2001

Destinations	Taiwan		Hong		Republic of Korea	Singapore	Thailand	Malaysia	India	Pakistan	Bangladesh	Sri Lanka
	Japan	Province of China	China	Kong, China								
Exporting country or area												
Japan		6.01	7.68	5.77	6.27	3.65	2.95	2.73	0.48	0.12	0.11	0.07
China	16.90	1.88		17.49	4.70	2.18	0.88	1.21	0.71	0.31	0.36	0.15
Hong Kong, China	2.60	3.87	32.25		1.19	1.79	0.73	1.13	0.29	0.04	0.37	0.22
Republic of Korea	10.97	3.88	12.09	6.28		2.71	1.23	1.75	0.94	0.24	0.44	0.22
Singapore	7.67	5.15	4.38	8.89	3.85		4.35	17.35	2.23	0.30	0.70	0.32
Thailand	15.30	2.94	4.40	5.07	1.89	8.12		4.18	0.74	0.27	0.35	0.22
Malaysia	13.30	3.62	4.34	4.57	3.34	16.95	3.82		1.79	0.45	0.19	0.21
India ^a	4.03	0.88	1.87	5.93	1.01	1.97	1.19	1.36		0.42	2.10	1.44

Source: Calculated from the data available in PC-TAS on CD-ROM (1997-2001), International Trade Centre, UNCTAD/WTO.

^a Owing to non-availability of data, India's share is calculated for the year 2000.

China respectively, indicating that trade cooperation may improve the situation as the current export growth of India in some North-East Asian economies is quite encouraging. On the contrary, most of the selected countries have a very low export share in South Asia, which may be because of the smaller size of markets or prevailing high trade barriers in South Asia. To promote trade-induced growth, South Asian economies need to further their cooperation with other Asian countries.

Export diversification

The export diversification (DX) index for a country is defined as: $DX_j = (\sum |h_{ij} - h_i|)/2$, where h_{ij} is the share of commodity i in the total exports of country j and h_i is the share of the commodity in world exports.¹⁷ Export diversification is important for developing countries because many of them are often highly dependent on relatively few primary commodities for their export earnings. Unstable prices for these commodities may subject a developing country exporter to serious terms of trade shocks. Hence, diversification into new primary export products is generally viewed as a positive development. The strongest effects are normally associated with diversification into manufactured goods, and its benefits include higher and more stable export earnings, job creation and learning effects, and the development of new skills and infrastructure that would facilitate the development of even newer export products. Table 7 illustrates the dynamics of export diversification of selected Asian countries. It is important to note that during the 1990s the number of products exported from South Asian countries and from some South-East Asian countries such as Indonesia, Malaysia, the Philippines and Thailand increased significantly. This implies that involvement of these countries in international trade increased. At the same time their diversification increased whereas concentration decreased, which is reflected in a falling index, implying that export shares of the country have come closer to the world export share structure. Improvement in export diversification is quite significant for countries such as India, Indonesia, the Republic of Korea and Thailand.

UNCTAD uses the concentration index to measure the diversification of exports. This is also included in table 7. The concentration index, or Hirschman (H) index, is calculated using the shares of all three-digit products in a country's exports, as follows: $H_j = \sqrt{\sum (x_i/X_j)^2}$, where x_i is country j 's exports of

¹⁷ This index is a modified Finger-Kreinin measure of similarity in trade. For more information, please consult Finger and Kreinin (1979).

Table 7. Export diversification and concentration in selected countries or areas in Asia

Indicator	1990			1995			2001 (2000 for Nepal and India)		
	Number of commodities exported	Diversification index	Concentration index	Number of commodities exported	Diversification index	Concentration index	Number of commodities exported	Diversification index	Concentration index
Country or area									
Japan	219	0.443	0.139	224	0.405	0.124	225	0.383	0.135
Bangladesh	58	0.836	0.253	75	0.826	0.264	96	0.853	0.308
Brunei Darussalam	11	0.865	0.647	NA	NA	NA	NA	NA	NA
China	229	0.478	0.080	233	0.484	0.063	232	0.465	0.077
Hong Kong, China	174	0.608	0.146	172	0.583	0.153	170	0.644	0.207
Taiwan Province of China	216	0.518	0.086	220	0.470	0.110	218	0.493	0.156
India	207	0.632	0.142	220	0.606	0.137	225	0.581	0.130
Indonesia	198	0.668	0.267	210	0.607	0.146	225	0.504	0.126
Republic of Korea	211	0.525	0.103	219	0.436	0.148	214	0.419	0.140
Malaysia	218	0.582	0.184	227	0.519	0.178	229	0.504	0.200
Maldives	NA	NA	NA	11	0.492	0.401	10	0.488	0.385
Nepal	33	0.816	0.453	38	0.801	0.437	52	0.774	0.305
Pakistan	140	0.840	0.226	130	0.849	0.242	154	0.825	0.220
Philippines	180	0.689	0.285	186	0.641	0.356	204	0.642	0.387
Singapore	228	0.501	0.194	228	0.490	0.211	223	0.492	0.247
Sri Lanka	128	0.775	0.279	NA	NA	NA	151	0.770	0.236
Thailand	207	0.599	0.098	222	0.492	0.089	221	0.405	0.100

Source: UNCTAD Handbook of Statistics on CD-ROM, 2003.

Note: The number of products exported is reported at three-digit SITC, Revision 2 level; this figure includes only those products that are greater than US\$ 100,000 or more than 0.3 per cent of the country's total exports.

product i (at the three-digit classification) and X_j is country j 's total exports.¹⁸ The lower the index, the less concentrated are a country's exports. Lower concentration is observed for China, India, Indonesia, Japan, the Republic of Korea and Thailand. Slightly more concentration is noticed for Malaysia, Pakistan and Singapore.¹⁹ The benefits of the diversified exports of these countries can be further augmented regionally if they mutually agree to reduce their trade barriers. In that context, a harmonization among different subregional trade agreements and cross subregional

¹⁸ The index has been normalized to account for the number of actual three-digit products that could be exported. Thus, without normalization the maximum value of the index is 239 (the number of individual three-digit products in the Standard International Trade Classification (SITC), revision 2), and its minimum (theoretical) value is zero, for a country with no exports. For details of the normalization process refer to the UNCTAD Handbook of Statistics on CD-ROM, 2003.

¹⁹ The value of these indices depend on the number of products and they are not suitable for strict time series comparison.

efforts like BIMST-EC, the Bangkok Agreement and ASEAN+3 will open up a new dynamism in regional trade in Asia. Important to note is that selected South Asian countries such as India, Pakistan and Sri Lanka have diversified exports as expressed in the indicators described in table 7. This indicates that the subregion is gradually moving away from the clutches of primary product bottlenecks towards offering a more diversified export basket. Other subregions need to tap this positive development as this indicates indirectly that South Asian products are gradually becoming competitive in the world market.

Trade complementarities

To understand the dynamics and prospects of trade among a group of countries or within a trade bloc, the trade complementarity (TC) index can be used as valuable information. The index shows how well the structures of a country's imports and exports match those of its partners. Its appeal is also that its values for countries considering the formation of a regional trade agreement can be compared with others that have formed or tried to form similar arrangements. The TC between countries k and j is defined as: $TC_{kj} = 100 - \text{sum} (|m_{ik} - x_{ij}|/2)$ where x_{ij} is the share of good i in global exports of country j and m_{ik} is the share of good i in all imports of country k . The index is zero when no goods are exported by one country or imported by the other and 100 when the export and import shares exactly match.²⁰ It is important to note that the TC index is calculated to match the export-import basket of two countries comparing their global export and import shares; it does not take into account existing bilateral trade flows between two countries only. Hence, the TC index takes into account the possible trade cooperation effect through measures such as trade barrier reduction, foreign investment, technology transfer and trade facilitation.

In this section, the TC index has been calculated (see table 8) to understand the prospects and potential of a future integration between South and East Asia. SAARC countries have almost the same TC index as other members and countries from North-East Asia. The index of SAARC countries in North-East Asia is also higher than their index in ASEAN. This provides a strong point for these countries to forge a closer cooperation with the countries of North-East Asia. Maldives exports only a few products, which mainly include seafood, fish, meat, apparel and have a high import share in East Asia. India consistently has a higher TC index in all three subregions compared with other SAARC members. North-East Asian countries China; Hong Kong, China; Japan; Republic of Korea; and Taiwan Province of China have an even higher TC index for the SAARC region. The index increased

²⁰ For details see Hoekman, Matoo and English (2003).

Table 8. Average trade complementarities of Asian countries or areas in different subregions

		SAARC	North- East Asia	ASEAN			SAARC	North- East Asia	ASEAN
Bangladesh	1997	19.97	19.25	13.64	Republic of Korea	1997	53.10	64.54	64.36
						2001	55.97	66.96	68.77
India	1997	43.92	42.33	36.28	Taiwan	1997	46.27	59.83	63.93
	2000	46.71	42.32	39.31		2001	50.32	60.70	65.49
Maldives	1997	51.49	50.41	48.95	Brunei Darussalam	1997	24.96	21.51	19.23
	2001	49.57	50.83	49.30					
Sri Lanka	1997	20.17	24.40	18.34	Indonesia	1997	43.11	44.44	33.82
	2001	21.66	20.15	15.17		2001	47.17	53.87	46.28
Pakistan	1997	20.82	18.56	12.78	Malaysia	1997	46.90	58.94	62.24
	2001	27.39	19.83	15.77		2001	48.61	62.74	67.48
China	1997	48.04	59.58	52.94	Philippines	1997	37.26	53.27	54.57
	2001	52.66	65.31	57.78		2001	39.05	54.81	56.79
Hong Kong, China	1997	35.77	45.04	43.74	Singapore	1997	44.36	59.87	64.68
	2001	34.86	39.57	35.60		2001	47.61	63.67	65.79
Japan	1997	45.24	60.07	64.42	Thailand	1997	51.98	63.46	59.36
	2001	49.64	63.25	60.80		2001	58.10	65.16	61.09

Source: Calculated from the data available in PC-TAS on CD-ROM (1997-2001), International Trade Centre, UNCTAD/WTO.

Note: Owing to the non-availability of export data, calculations for Pakistan, Sri Lanka and Taiwan Province of China have been done taking into consideration world import from these countries.

in the period 1997-2000 indicating a stronger logic for trade cooperation between these two subregions. An increasing TC index is visible also for ASEAN members in SAARC. Thailand's TC index for SAARC reached 58 in 2001, which is the highest among South-East Asian countries. This justifies the importance of Thailand in a group such as BIMST-EC. The high TC index of China, India and the Republic of Korea in South and North Asia points to the reason for a high trade growth of the Bangkok Agreement countries as described earlier.

Most of the South-East and North-East Asian countries have a higher TC index in each others' markets, implying a stronger complementarity between exports and imports of these countries. On that basis, further cooperation is being promoted through ASEAN+3. Proposals have emerged within the region for an ASEAN+3

FTA.²¹ To promote further trade cooperation among Asian countries attention should be given not only to trade barrier reduction but also to trade facilitation, foreign investment, technology transfer and trade-related infrastructure development.

Export of services

Of late, many Asian countries are actively engaged in export of services. Though most of the services are exported to the West, a regional market may be explored. As the region is experiencing a more than world average growth rate with countries actively participating in the liberalization process, a service market will sooner or later become quite attractive and specialized services will be required at lower costs. Table 9 provides the export and import figures of total services of selected Asian countries. Total services reported in the table include 11 main service categories, according to the definition in the fifth edition of the International Monetary Fund *Balance of Payments Manual* (BPM5, 1993). The categories included are transport, travel, communications, construction, computer and information services, financial services, insurance, other business services, royalties and licence fees, personal, cultural and recreational services and government services, i.e. China; Hong Kong, China; India; the Republic of Korea; and Taiwan Province of China²² registered high export growth rates in services. Major service importing countries are China; Hong Kong, China; Indonesia; Japan; Malaysia; the Republic of Korea; and Taiwan Province of China. The import market is growing rapidly in South Asian countries such as India and Sri Lanka as reflected in the service import growth rate. In North-East Asia, service imports in China and the Republic of Korea grew more than 5 per cent from 1995 to 2000.

Country-wise export of major services is reported in table A3 in the appendix. China's high growth in travel and communication services mainly reflects the country's intense people-to-people linkage and business dynamism with other countries. However, Chinese construction and other business services may soon be lucrative to other countries. India's high service export growth is due chiefly to professional and technical services which include the services of Indian IT professionals. The export of financial services from Japan and Hong Kong, China and of insurance from Singapore has shown that these countries can offer these services for the growth of the region provided the region is properly equipped with the basic financial infrastructure. Thailand and China have a distinct advantage in

²¹ The TC index for East Asia has been calculated also in the World Bank study "East Asia integrates: a trade policy agenda for shared growth" by K. Krumm and H. Kharas (2004).

²² Cambodia, the Lao People's Democratic Republic and Maldives also have high growths of tourism resulting in high growths of export of services.

Table 9. Export and import of services in selected Asian countries or areas
(Millions of US dollars)

	Flow	1990	1995	1998	1999	2000	2001	2002	1995-2000 Growth (per- centage)
Bangladesh	Exports	391.568	698.194	723.927	777.662	815.083	752.201	893.678	3.14
	Imports	700.451	1 531.22	1 237.09	1 396.72	1 620.21	1 521.51	1 478.13	1.14
China	Exports	5 855	19 130.3	23 895	26 248	30 430.5	33 334	39 744.5	9.73
	Imports	4 352	25 222.8	26 672	31 589	36 030.6	39 267	46 528	7.39
Hong Kong, China	Exports	..	..	35 132.4	35 983	40 759.1	41 428	45 158.5	6.48
	Imports	..	..	24 990.5	23 725.5	24 584.2	24 314	24 204.4	-0.80
Taiwan Province of China	Exports	7 008	15 016	16 768	17 259	19 952	19 495	21 240	5.85
	Imports	14 658	24 053	24 169	24 405	26 930	24 700	25 161	2.29
India	Exports	4 624.86	6 774.72	11 691.1	14 509	18 330.5	..	..	22.03
	Imports	6 089.55	10 267.8	14 539.9	17 271.3	19 912.9	..	..	14.16
Indonesia	Exports	2 488	5 469	4 479	4 599	5 213	5 500	6 574.48	-0.95
	Imports	6 056	13 540	11 961	11 573	15 011	15 880	17 116.8	2.08
Japan	Exports	41 384.1	65 274	62 412	60 998.2	69 238.1	64 516.2	65 712	1.19
	Imports	84 281.4	122 626	111 833	115 158	116 864	108 249	107 940	-0.96
Republic of Korea	Exports	9 636.9	22 827.3	25 564.6	26 528.8	30 533.6	29 054.9	28 142.6	5.99
	Imports	10 251.8	25 806.1	24 540.5	27 179.8	33 422.8	32 882.5	35 603.2	5.31
Malaysia	Exports	3 858.96	11 601.6	11 516.7	11 919.3	13 940.5	14 455	..	3.74
	Imports	5 484.54	14 980.8	13 126.7	14 735.3	16 747.4	16 656.6	..	2.25
Pakistan	Exports	1 429.29	1 857.25	1 404	1 373	1 380	1 459	2 469	-5.77
	Imports	2 072.86	2 937.53	2 261	2 146	2 252	2 330	2 239	-5.18
Philippines	Exports	3 244	9 348	7 477	4 803	3 972	3 148	3 056	-15.73
	Imports	1 761	6 926	10 107	7 515	6 402	5 198	4 320	-1.56
Singapore	Exports	12 810.8	29 648.6	18 124.5	23 689.9	26 761.4	26 168.3	..	-2.03
	Imports	8 641.55	17 367.2	17 070.7	19 234.5	21 693.7	20 442.8	..	4.55
Sri Lanka	Exports	439.631	819.205	916.598	964.316	938.71	1 355.45	1 268.3	2.76
	Imports	639.162	1 199.11	1 361.64	1 413.68	1 621.45	1 180.16	997.02	6.22
Thailand	Exports	6 419.02	14 845.2	13 155.6	14 635.1	13 868.2	13 024.3	15 319.1	-1.35
	Imports	6 309.19	18 803.8	11 998.3	13 582.8	15 460.3	14 619.4	16 721.7	-3.84
Viet Nam	Exports	..	..	2 616	2 493	2 702	2 810	2 948	3.03
	Imports	..	..	3 146	3 040	3 252	3 382	3 698	4.12

Source: UNCTAD Handbook of Statistics on CD-ROM, 2003.

Note: The growth rate for Hong Kong, China and Viet Nam is calculated for the period 1998-2002.

offering construction services to the region as reflected in their high export growth. As for shipping and other ocean logistics Japan, the Philippines, the Republic of Korea and Singapore are the major exporters. It needs to be pointed out that the region is growing not only in terms of services export but also in services market. There have been only few attempts²³ at the regional level to harness the potentiality. As noted earlier, exporting as well as importing countries are spread throughout the South, South-East and North-East subregions, and a special effort is required to open up the services sector in stages regionally through region-wide cooperation. As the service sector is still a sensitive issue in many countries, region-wide agreement may not be possible all at once, however, sector wise a regional agreement may be pursued through a positive list.

V. CONCLUDING REMARKS

The article highlights the potentiality among countries of SAARC, ASEAN and the North-East Asian subregion for further trade cooperation. It also critically reviews the institutional set-up of major trade blocs in the region and emerging trends. The analysis of the existing cooperation and trade performance points out the need to develop a cooperation strategy as countries of these subregions are actively trading with each other. The article draws the following conclusions.

- The current trend shows that the relatively developed countries of South-East and North-East Asia would like to engage in intense cooperation for integration. However, South Asian countries are linked haphazardly either through bilateral agreements or through cross-subregional agreements such as BIMST-EC and the Bangkok Agreement. The BIMST-EC FTA will be operational from July 2006 and Bangkok Agreement members have recently finished their third round of negotiations. Despite slow progress, trade among members of these groups, especially among Bangladesh, China, India, the Republic of Korea, Sri Lanka and Thailand, has shown a positive trend. A consolidation of current efforts will give headway to this integration process.

²³ The ASEAN Framework Agreement on Services was signed in 1995. It aimed to enhance cooperation in services amongst members in order to improve the efficiency and competitiveness, diversify production capacity and supply and distribution of services of their service suppliers within and outside ASEAN, eliminating the restrictions to trade in services. At present, ASEAN has concluded four packages of services commitments through three rounds of negotiations since 1 January 1996. Services included are air transport, business services, construction, financial services, maritime services, telecommunications and tourism.

- The result of SAPTA has not been significant among members. SAFTA may be seen as a culmination of bilateral agreements such as the India-Sri Lanka and India-Bangladesh trade pacts. SAFTA and the BIMST-EC FTA also are expected to ease the existing high trade barriers (MFN rates) in South Asian countries. As trade barrier reduction time plans are already in hand, ASEAN may consider the extension of the ASEAN+India arrangement, with gradual flexibility to other South Asian countries. This may be seen as a realizable goal in the near future and needs to be tuned with SAFTA and BIMST-EC FTA time line. The “prosperity” document aiming to create the ASEAN-India FTA by 2011 (2016 for LDCs)²⁴ definitely will be a new beginning of the relationship between South and South-East Asia. At the same time, looking at the trade potentiality, SAARC may consider extraregional agreements in the form of SAARC+1 arrangements, which will ultimately serve the same purpose.
- The 1998 proposal for a free trade agreement between Japan and the Republic of Korea marked a historic shift by these two countries from their long-standing aversion to involvement in PTAs. Since, both countries have actively pursued BTAs with many other countries in the region. Proposals have also emerged within the region for an ASEAN+3 FTA between ASEAN members, China, Japan and the Republic of Korea. This arrangement may result in creating an East Asian trade bloc (Scollay, 2003). The ASEAN+3 framework currently has been making steady headway towards future undertakings of regional cooperation including building a durable institutional framework for region-wide dialogue and cooperation. ASEAN members are engaging in regular discussions (in Bali in 2003 and Vientiane in 2004) with their dialogue partners, China, India, Japan and the Republic of Korea for further cooperation in various fields.
- The analysis shows that ASEAN as a collection of small countries would like to be a “hub” and become connected with different countries separately through agreements such as the ASEAN-China or ASEAN-India arrangements. The recently signed ASEAN-China agreement of trade in goods (2004) further intensifies the ASEAN philosophy of integration, with a target of creating the world’s largest

²⁴ For details see the ASEAN website at: www.aseansec.org.

FTA by 2010 (2015 for LDCs) catering to almost 2 billion people. The shape of the traditional “hub and spokes” architecture will depend on the gravitational force between ASEAN as a bloc and the larger countries in the region. ASEAN, with its longer experience in promoting RTAs in Asia, could integrate itself separately with South and North-East Asia at a different speed but targeting the same goal.

- The logic of further cooperation receives support from China’s trade growth in India and other South Asian countries. The Republic of Korea’s growth in India and Japan’s growth in Bangladesh and China are equally encouraging. India’s export to China and Hong Kong, China is also noteworthy. It is important to note that SAARC has a better TC index in North-East Asia compared with ASEAN, which implies a higher trade complementarity in the form of an export-import match between North-East and South Asia. Between 1997 and 2001, the TC index of SAARC in North-East Asian countries showed some improvement, also indicating that further trade cooperation may provide more benefits. In general, ASEAN countries have a closer economic relationship with North-East Asian countries, which is reflected in a high TC index. At the same time, some ASEAN members such as Singapore and Thailand show a significant improvement in their TC index in SAARC. Malaysia’s export growth in India and Sri Lanka is also noteworthy. South Asian countries are also involved in diversifying their export baskets, indirectly reflecting their improvement in competitiveness. All of these observations intensify the requirement for further trade cooperation between South, South-East and North-East Asia.
- The study also reveals that some major service exporter and importer countries are also located in Asia. There are few attempts to include services in trade negotiation by the selected trade blocs, except by ASEAN. As the service sector is still a sensitive issue in many countries, a regional agreement may be pursued sector-wise through a positive list.
- Asian regionalism as a whole has been complicated by the increasing number of agreements in the form of BTAs and EPAs in addition to FTAs and their coverage and aspirations. This is because different FTA time lines overlap with each other and there are a large number of least developed countries that require special

treatment. As a result, short- and medium-term efficiency gains from these efforts are unclear. However, this lays the foundation for the eventual integration of all countries in the region. For this reason, the consolidation of agreements is necessary. However, to achieve further economic integration in Asia, bigger countries and stronger economies need to take the lead (ESCAP, 2004a). A successful Asian integration will pave the way for further benefits once this reduces the MFN tariff rates. Many least developed countries in the region are not WTO members. It is the responsibility of all these blocs to create a level playing field by ensuring effective and meaningful participation of these countries with less possibility of backsliding. The implementation of the Doha Agenda in this context is absolutely necessary to develop the capacities of weaker countries so that they can participate in the negotiation process effectively. A two-track approach, helping ASEAN+3 to ahead and in stages gradually link with SAARC, possibly through a sector-by-sector approach, will benefit the countries of the Asian region from the vibrant trade relationship among themselves.

**Table A1. Exports of selected Asian countries or areas
and regional groups**
(Thousand US dollars)

	1980	1985	1990	1995	1999	2000	2001	2002
ASEAN	71 463 320	72 115 560	144 073 694	320 502 605	356 600 028	425 151 238	384 363 512	160 385 239
Bangkok Agreement	34 708 333	56 918 409	148 495 049	313 003 191	383 985 347	477 248 576	471 439 043	491 134 266
SAARC	12 147 803	14 031 406	27 138 379	47 493 620	54 075 142	65 378 463	64 658 149	14 626 898
Bangladesh	740 367	973 656	1 556 435	3 407 241	3 918 997	4 691 657 ^a	5 681 769	NA
Bhutan	8 836 ^a	989 ^a	75 000 ^a	103 531 ^a	115 947 ^a	63 490 ^a	91 038 ^a	NA
India	7 510 634	8 949 523	17 858 807	31 649 957	36 671 964	45 249 648	44 306 555	NA
Maldives	15 646 ^a	24 910 ^a	52 000 ^a	49 805	63 951	76 195	76 578	90 757
Nepal	74 584 ^a	128 523	180 362	359 218	524 294	708 776	737 579 ^a	NA
Pakistan	2 754 731 ^a	2 707 600	5 522 077	8 124 916	8 312 710	9 129 914	9 177 957	9 852 719
Sri Lanka	1 043 005	1 246 204	1 893 698	3 798 952 ^a	4 467 279	5 458 783 ^a	4 586 673 ^a	4 683 422
Brunei Darussalam	4 470 776 ^a	2 676 573 ^a	2 147 752	2 088 587 ^a	1 327 998 ^a	2 585 971 ^a	2 410 998 ^a	NA
Malaysia	12 944 694	15 637 884	29 453 234	73 778 178	84 511 923	98 229 800	88 004 508	NA
Myanmar	447 787 ^a	356 087 ^a	472 331 ^a	952 740 ^a	1 124 982 ^a	1 621 362 ^a	2 271 890 ^a	NA
Indonesia	21 908 887	18 586 717	25 675 334	45 417 984	48 665 445	62 124 003	56 316 868	NA
Philippines	5 750 882	4 588 751	8 090 699	17 173 834	35 036 885	38 078 242	32 149 876	35 208 156
Singapore	19 375 474	22 845 825	52 730 131	118 263 153	114 681 779	137 805 771	121 753 785	125 177 083
Thailand	6 369 169	7 057 087	23 004 009	56 344 554	58 423 067	68 786 657	65 113 283	NA
China	7 916 609 ^a	15 412 183	62 091 405	148 779 565	194 930 863	249 202 562	266 098 210	325 595 965
Hong Kong, China	13 671 595	16 599 161	29 002 408	29 945 853	22 380 644	23 536 718	20 272 853	18 327 511
Taiwan Province of China	19 838 002	30 624 792	67 041 281	111 343 290	119 395 220	148 727 464	122 781 687	NA
Japan	129 807 031	175 901 305	286 947 524	442 937 420	417 610 187	479 247 654	403 363 667	416 715 316
Republic of Korea	17 451 083	30 282 843	65 015 704	125 056 486	143 685 442	172 267 493	150 434 533	160 854 879

Source: UNCTAD Handbook of Statistics on CD-ROM, 2003.

^a Estimates.

Table A2. Dynamics of exports in selected regional groups in Asia and the Pacific
(Millions of US dollars)

Partner		1990	1995	1996	1997	1998	1999	2000	2001	2002
ASEAN	Intra-trade of group	27 365	79 544	84 049	85 362	69 809	77 892	98 059	87 902	94 760
	Rest of the region ^a	53 233	110 255	122 895	125 664	108 031	122 335	152 861	143 626	150 372
	Rest of the world	117 001	243 243	258 379	270 506	260 105	281 003	328 299	305 306	320 348
	Total trade of group ^b	144 365	322 786	342 429	355 868	329 914	358 896	426 359	393 207	415 108
Bangkok Agreement	Intra-trade of group	2 429	21 728	25 005	29 482	25 240	28 224	37 895	40 801	44 470
	Rest of the region ^a	74 110	149 979	152 405	168 855	152 059	161 717	201 897	197 306	231 781
	Rest of the world	149 588	296 317	303 605	340 526	333 882	355 879	437 191	431 646	556 531
	Total trade of group ^b	152 016	318 046	328 610	370 008	359 122	384 103	475 086	472 447	601 001
SAARC	Intra-trade of group	863	2 024	2 144	2 174	2 466	2 180	2 614	2 827	2 697
	Rest of the region ^a	7 133	14 193	16 026	15 960	14 373	15 564	18 511	20 137	20 947
	Rest of the world	26 368	43 808	47 285	49 802	48 789	51 960	61 213	63 213	67 321
	Total trade of group ^b	27 231	45 832	49 429	51 976	51 255	54 140	63 827	66 040	70 018

Source: UNCTAD Handbook of Statistics on CD-ROM, 2003.

^a Region in "Rest of the region" refers to the UNCTAD definition of the Asian region.

^b Total trade of group is sum of "intra-trade of group" and "rest of the world".

Table A3. Export of selected services from some Asian countries or areas
(Millions of US dollars)

Sector	1990	1995	1998	1999	2000	2001	2002	1995-2000 Growth (per- centage)	
Bangladesh	Total services	392	698	724	778	815	752	894	3.14
	Transport	38	70	92	94	91	72	93	5.41
	Travel	19	25	52	50	50	48	57	15.01
	Other business services	238	373	62	53	99	98	101	-23.26
China	Total services	5 855	19 130	23 895	26 248	30 431	33 334	39 745	9.73
	Transport	2 706	3 352	2 300	2 420	3 671	4 635	5 720	1.83
	Travel	1 738	8 730	12 602	14 098	16 231	17 792	20 385	13.21
	Communications	159	756	819	590	1 345	271	550	12.23
	Construction	..	..	594	985	602	830	1 246	20.36 ^a
	Other business services	918	3 740	6 941	7 410	7 663	8 448	10 419	15.43
Hong Kong, China	Total services	..	..	35 132	35 983	40 759	41 428	45 159	6.48 ^a
	Transport	..	..	10 984	11 502	12 772	..	..	7.83 ^b
	Travel	..	..	7 574	7 279	7 930	..	..	2.32 ^b
	Other business services	..	..	12 403	13 193	15 952	..	..	13.41 ^b
	Financial services	..	..	2 108	2 475	2 677	..	..	12.71 ^b

Table A3 (continued)

Sector		1990	1995	1998	1999	2000	2001	2002	1995-2000 Growth (per- centage)
Taiwan Province of China	Total services	7 008	15 016	16 768	17 259	19 952	19 495	21 240	5.85
	Transport	2 323	4 548	3 656	3 605	4 063	3 529	3 710	-2.23
	Travel	1 741	3 287	3 372	3 571	3 738	3 990	4 229	2.60
	Insurance	146	418	699	376	607	404	563	7.75
	Financial services	..	..	712	680	805	514	757	1.54 ^a
	Other business services	2 260	5 759	7 069	8 013	9 692	10 034	11 048	10.97
India	Total services	4 625	6 775	11 691	14 509	18 331	..	..	22.03
	Transport	959	1 890	1 773	1 844	1 882	..	..	-0.09
	Travel	1 558	2 582	2 949	3 010	3 168	..	..	4.18
	Insurance	123	170	230	238	249	..	..	7.87
	Other business services	1 967	2 120	6 096	8 892	12 289	..	..	42.12
Indonesia	Total services	2 488	5 469	4 479	4 599	5 213	5 500	6 574	-0.95
	Travel	2 153	5 229	4 255	4 353	4 974	5 276	5 285	-0.99
	Other services	265	240	224	246	239	224	300	-0.08
Japan	Total services	41 384	65 274	62 412	60 998	69 238	64 516	65 712	1.19
	Transport	..	22 506	21 270	22 927	25 599	24 007	24 022	2.61
	Travel	..	3 224	3 743	3 431	3 373	3 306	3 497	0.90
	Construction	..	6 559	7 736	5 729	5 849	4 793	4 625	-2.27
	Computer and information services	..	..	1 338	1 257	1 569	1 413	1 140	-3.93 ^a
	Financial services	..	305	1 608	2 042	2 865	2 711	3 127	56.46
	Royalties and licence fees	..	6 005	7 388	8 190	10 227	10 462	10 422	11.24
	Other business services	..	24 437	17 078	15 811	17 709	16 245	17 401	-6.24
Republic of Korea	Total services	9 637	22 827	25 565	26 529	30 534	29 055	28 143	5.99
	Transport	3 179	9 272	10 204	11 466	13 687	13 180	13 073	8.10
	Travel	3 161	5 150	6 908	6 841	6 834	6 384	5 294	5.82
	Other business services	2 376	6 761	6 580	6 035	7 200	6 388	6 245	1.27
Malaysia	Total services	3 859	11 602	11 517	11 919	13 941	14 455	..	3.74
	Transport	1 198	2 466	2 271	2 492	2 802	2 748	..	2.59
	Travel	1 684	3 969	2 381	3 588	5 011	6 863	..	4.78
	Other business services	885	5 004	6 749	4 714	5 055	3 537	..	0.20
Pakistan	Total services	1 429	1 857	1 404	1 373	1 380	1 459	2 469	4.15 ^c
	Transport	722	830	715	746	840	818	831	0.02 ^c
	Communications	..	269	307	282	190	202	332	3.08 ^c
	Other business services	333	178	171	131	136	144	218	2.94
Philippines	Total services	3 244	9 348	7 477	4 803	3 972	3 148	3 056	-15.73
	Transport	246	274	324	575	891	659	631	26.60
	Travel	466	1 136	1 418	2 554	2 134	1 723	1 740	13.44
	Other services	2 532	7 938	5 735	1 674	947	766	685	-34.64

Table A3 (continued)

Sector		1990	1995	1998	1999	2000	2001	2002	1995-2000 Growth (per- centage)
Singapore	Total services	12 811	29 649	18 125	23 690	26 761	26 168	..	-2.03
	Transport	2 225	4 957	4 456	4 577	5 336	4 720	..	1.48
	Travel	4 650	7 744	4 764	5 084	5 394	5 111	..	-6.98
	Insurance	88	354	435	501	957	1 119	..	21.98
	Other business services	5 756	16 500	8 372	13 447	14 995	15 142	..	-1.89
Sri Lanka	Total services	440	819	917	964	939	1 355	1 268	2.76
	Transport	169	335	403	403	400	384	514	3.59
	Travel	128	226	230	273	248	213	363	1.87
	Other business services	110	212	225	226	182	168	171	-3.04
Thailand	Total services	6 419	14 845	13 156	14 635	13 868	13 024	15 319	-1.35
	Transport	1 327	2 455	2 671	3 017	3 250	3 057	3 265	5.78
	Travel	4 325	8 035	6 174	7 028	7 483	7 075	7 901	-1.41
	Construction	19.19	94	94	236	229.7	296	244.5	64.29
	Other business services	630	3 844	3 919	4 042	2 600	2 298	3 593	-7.53

Source: UNCTAD Handbook of Statistics on CD-ROM, 2003.

^a Growth rate for the period 1998-2002.

^b for 1998-2000.

^c for 1995-2002.

Other business services include merchanting and other trade-related services; operational leasing services; and miscellaneous business, professional and technical services.

.. means not availability of data.

REFERENCES

- ASEAN, 2003. "Southeast Asia: a free trade area", available online at <http://www.aseansec.org> (20 November 2003).
- Asian Development Bank, 2002. *Asian Development Outlook 2002* (Hong Kong, Oxford University Press).
- De Rosa, D.A., 1995. *Regional Trading Arrangements among Developing Countries: The ASEAN Example*, IFPRI Research Report 103.
- ESCAP, 2000. "Regional trading arrangements, partnership and the international trading system"; a. background in "Development through globalization and partnership in the Twenty First Century: an Asia-Pacific perspective for integrating developing countries and economies in transition on a fair and equitable basis", available online at http://www.unescap.org/tid/publication/chap3_2054.pdf (24 April 2003).
- _____, 2004a. *Meeting the Challenges in an Era of Globalization by Strengthening Regional Development Cooperation* (United Nations publications, Sales No. E.04.II.F.24).
- _____, 2004b. "Multilateralism free trade areas in Asia and the Pacific: progress, challenges and prospects", Document E/ESCAP/SCITI/1, 01.09.04, ESCAP.
- Finger, J.M. and M.E. Kreinin, 1979. "A measure of export similarity and its possible uses", *Economic Journal*, vol. 89, No. 356, pp. 905-912.
- Fukase, E. and W. Martin, 2001. "Free trade area membership as a stepping stone to development: the case of ASEAN", vol. 1, World Bank Discussion Paper, No. WDP 421, World Bank.
- Hoekman, Bernard, A. Matoo and P. English (eds.), 2003. *Development, Trade and the WTO: A Handbook* (Washington, World Bank).
- Kreinin, M.E. and M.G. Plummer, 2002. *Economic Integration and Development: Has Regionalism Delivered for Developing Countries?* (Cheltenham, Edward Elgar).
- Krumm, K. and H. Kharas (eds.), 2004. *East Asia Integrates: A Trade Policy Agenda for Shared Growth* (World Bank IBRD and Oxford University Press).
- Mohanty, S.K., 2003. "Implications of SAPTA on intraregional trade flows of the South Asian region: an empirical assessment", paper prepared for the ESCAP Expert Group Meeting on Regional Trade Agreements in Asia and Pacific, Bangkok, 30-31 January 2003.
- SAARC, 2004. *SAARC: A Profile*, available online at <http://www.saarc-sec.org>.
- Sakakibara, E. and S. Yamakawa, 2003. "Regional integration in East Asia: challenges and opportunities", Part I: History and Institutions, Policy Research Working Paper 3078, World Bank.
- Scollay, R., 2003. "Economic impact of RTAs in Asia and the Pacific", paper prepared for the ESCAP Expert Group Meeting on Regional Trade Agreements in Asia and Pacific, Bangkok, 30-31 January 2003.
- UNCTAD, 2003. *UNCTAD Handbook of Statistics* on CD-ROM, (United Nations publication, Sales No. E/F.05.II.D.2).
- _____, 2003. PC-TAS (HS), CD-ROM for 1997-2001, International Trade Centre, UNCTAD/WTO.
- WTO, 2003. "The changing landscape of RTAs", paper prepared by the WTO Secretariat for the Seminar on Regional Trade Agreements and the WTO, Geneva, 14 November 2003.