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Title of the Thesis: Trade Facilitation in South-Asia: An Empirical Analysis

Abstract

Keywords: Trade facilitation; South-Asia; intra-regional trade; augmented panel gravity model; trade potential; simulation analysis.

The analysis begins with elaborating the journey of South-Asia as a region until formation of SAFTA and the bottlenecks faced by the region in achieving the complete economic integration in the region. The analysis highlights that trade openness of the three largest economies of South-Asia namely India, Bangladesh and Pakistan are the lowest in the region, while the small economies in the region like Maldives, Bhutan, Nepal and Sri Lanka have massive dependence on international trade. South-Asia's share in world trade remains marginal. It has increased from 1.01 percent in 1990 to 3.09 percent in 2017 out of which 2.69 percent originates only out of India. Four out of eight economies namely, Afghanistan, Bhutan, Maldives and Nepal generate less than US\$ 1 million worth of exports which is less than one percent of the total merchandise exports of the region. India alone contributed more than eighty percent of the regions' total exports i.e., US\$ 325 million and seventy-five percent of total merchandise imports i.e., US\$ 514 million. The three largest economies of the region namely, India, Bangladesh and Pakistan are also one of the most highly protected economies with tariff rates 17.1 percent, 14 percent and 12.1 percent respectively.

The analysis of trade facilitation performance of different South-Asian economies highlight that India, Nepal and Sri Lanka are the best performers in most of the trade facilitation indicators, while Bangladesh is the worst performer in most of the indicators. India is the best performer in South-Asia in terms of Logistics Performance Index, Ease of Doing Business, Time to Export for Documentary Compliance, Time to Import for Documentary Compliance, Global Competitiveness Index and Corruption Perceptions Index.

The study developed five composite trade facilitation indicators representing the five dimensions of trade facilitation in South-Asia including Transport Efficiency, Customs

Environment, Regulatory Environment, Service-Sector Infrastructure and Business Cost of Terrorism. The study employs an empirical model, i.e., the augmented panel gravity model. The analysis reflects that out of the five indicators of Trade Facilitation developed for the study, the most impactful indicator in terms of highest coefficient of explanatory variables on intra-regional trade in South-Asia is Regulatory Environment Index, followed by Customs Environment Index, Service-Sector Infrastructure Index, Transport Efficiency Index and Business Cost of Terrorism Index. However, Transport Efficiency Index came out to be insignificant and all the other trade facilitation indicators in the all-inclusive model came out to be significant. Tariff is also very impactful and significant variable in determining the intra-regional trade in South-Asia.

The export trade potential is estimated for five selected South-Asian economies for each other. According to the trade potential analysis, Bangladesh has the greatest potential of expanding its exports to all the other four countries in South-Asia. The scope of expanding exports of Bangladesh is also quite large, i.e., approximately US\$ 2.8 billion out of which US\$ 2.56 billion arises only out of its exports to India. India has untapped export potential only with Bangladesh of about US\$ 5.2 billion and it is exceeding its export potential with the other three countries. Nepal has export potential with Pakistan and Sri Lanka, whereas it is exceeding its export potential with India and Bangladesh. Pakistan has unrealized export potential with India (US\$ 41 million) and also with Nepal (US\$ 10.5 million), however it is exporting more than its potential to Bangladesh and Sri Lanka. Sri Lanka has untapped export potential with Nepal and Bangladesh and it has exceeded its export potential with India and Pakistan.

According to the results of simulations analysis, if all the below average countries of South-Asia improve their performance in TE, CE, RE, SSI & BCT altogether up to the regional average then the intra-regional trade in South-Asia is estimated to be increased by US\$ 31.52 billion which is equivalent to 183.54 percent rise in intra-regional trade. To increase the intra-regional trade up to this level, the tariffs may have to be completely phased out in absence of trade facilitation. In case of South-Asia, the ideal choice would be to go for both trade facilitation and tariffs together initially and the investments for trade facilitation could be partially funded by tariff revenues and tariffs could be gradually reduced so as to protect the domestic suppliers and increase the trade flows at the same time. In the long run, trade facilitation could be enhanced more and more and tariffs should be completely phased out to ensure free trade.