

Prospect of Intra-SAARC Trade Expansion: An Empirical Analysis

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***ABSTRACT:** This paper attempts to examine the macroeconomic structure of SAARC countries-Bangladesh, India, Nepal, Pakistan and Sri Lanka- individually with a view that this would help the policy makers and planners to analyze the impacts of different policy options and costs and benefits of increased economic integration in the SAARC regions. The paper then explores the possibility of trade expansion among these countries by examining the macro-economic and regional trade link models based on time series data of 28 years. The study finds that there are inter-country differences in production and consumption patterns, investment behaviour, tax and non-tax structures in the SAARC countries. Hence there is a considerable scope for trade expansion among the SAARC countries based on comparative advantages. The study also confirms that aggregate regional consumption and regional GNP increase significantly with the increase of aggregate regional trade, and the consumption and income elasticities are 1.70 and 1.61 respectively. It is also found that imports have significant positive effects on the government revenues (GR) of all SAARC countries, and the GR significantly and positively affect the GNP of each country. The effects (the elasticities) of GR on GNP for Bangladesh, India, Nepal, Pakistan and Sri Lanka are 0.13, 1.11, 1.84, 0.16 and 0.21 respectively. The analysis also confirms that higher regional exports and the exports to the rest of the world provoke higher regional imports as well as total imports of these countries. The study also exhibits that the GNP of Bangladesh, Nepal, Pakistan and Sri Lanka, with limited exceptions, are significantly increased with the increase of their exports to the region. So these countries would definitely be benefited from the regional trade expansion. The same may be true for India if the smuggled trade is prevented or reduced, and true economic factors, keeping aside political conflicts, dominate for regional trade policy.*

Keywords: *Trade Expansion, SAARC Countries, Macroeconomic and Trade Link Models, Time Series Data.*

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