

ASIAN TRADE BLOCS IN WORLD TRADING SYSTEM: SAARC VERSUS ASEAN

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Abstract

The economy of Asia comprises more than 4.2 billion people (60% of the world population) living in 46 different states. Six further states lie partly in Asia, but are considered to belong to another region economically and politically. Asia is the world's fastest growing economic region. Over the years trading blocs have played a major role in regulating the trend and pattern of international trade. Different regional blocks have come up in the period of economic liberalization in various parts of the world. ASEAN and SAARC are the two major trade blocs in Asian region. The Association of Southeast Asian Nations (ASEAN) is a geo-political and economic organization of ten countries located in Southeast Asia, which was formed on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then, membership has expanded to include Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam. The South Asian Association for Regional Cooperation (SAARC) is an economic and political organization of eight countries in Southern Asia. In terms of population, its sphere of influence is the largest of any regional organization: almost 1.5 billion people, the combined population of its member states. It was established on December 8, 1985 by India, Pakistan, Bangladesh, Sri Lanka, Nepal, Maldives and Bhutan. In April 2007, at the Association's 14th summit, Afghanistan became its eighth member.

This paper attempts to compare two Asian regional groupings, the Association of South East Asian Nations (ASEAN) and the South Asian Association for Regional Cooperation (SAARC). The main objective of this project is to study the contribution of Asian Trade Blocs ASEAN and SAARC over World Trade. What is their contribution in terms of World's export and Import? Which trade Bloc is better than the other and what are the reasons for their respective successes and failures.

KEY WORDS : Trade Blocs, SAARC, ASEAN, World trade

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1. Introduction

The development of regional trade agreements in the East Asia region is considered to be relatively a recent phenomenon when compared to other parts of the world such as the Europe where the efforts on trade arrangement/agreement can be dated a long way back to the late 1940s. East Asia was not active in regional trade agreements until recently. Two major trade blocs in Asia are SAARC and ASEAN.

The South Asian Association for Regional Cooperation (SAARC) came into existence on 8th December 1985 in Dhaka, Bangladesh, with a number of objectives aimed to improve and develop the region as a whole. However, SAARC over the last 25 years has achieved very little and has been relegated as an organisation of little value, both within and outside the region. The Association of South East Asian Nations (ASEAN), on the other hand, in a neighbouring region, has achieved significant growth through regional cooperation between ten developing economies. During a period where the world is adopting a multilateral regional approach to development, the SAARC is yet to become effective enough to drive economic prosperity and play a meaningful role in reducing inter-state tensions in the region. The ASEAN bloc was established on August 8, 1967, when foreign ministers of five countries – Indonesia, Malaysia, the Philippines, Singapore, and Thailand – met at the Thai Department of Foreign Affairs building in Bangkok and signed the ASEAN Declaration, commonly known as the Bangkok Declaration.

In 1993, SAARC countries signed an agreement to gradually lower tariffs within the region, in Dhaka. Nine years later, at the 12th SAARC Summit at Islamabad, SAARC countries devised the South Asia Free Trade Agreement (SAFTA) which created a framework for the establishment of a free trade area covering 1.4 billion people. This agreement went into force on July 1, 2006. Under this agreement, SAARC members will bring their duties down to 20 per cent by 2007.

2. Objective of the study

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Which trade Bloc is better than the other and what are the reasons for their respective successes and failures.

3.Literature review

Asia has experienced an explosion of regional trade agreements (RTAs) in recent years particularly in East and Southeast Asia. Production and institutions across these regions have become further integrated due to these RTAs. The domain of integration now extends to South Asia with India and other South Asian economies getting connected to East and Southeast Asia through formal trade arrangements. Proliferation of RTAs has revived the debate on multilateralism and regionalism.(Syeda Sana Rahman,2011).The rapid growth of regional trading relationships in Europe, Asia, and Latin America has raised policy concerns about their impact on excluded countries and on the global trading system. Some observers worry that the multilateral system may be fracturing into discriminatory regional blocs. Others are hopeful that regional agreements will go beyond what was achieved in the Uruguay Round and instead become building blocks for further global liberalization and WTO rules in new areas. Jeffrey Frankel shows through extensive empirical analysis that the new breed of preferential trade arrangements are indeed concentrating trade regionally. He then assesses whether regional blocs are "natural" or "supernatural"--that is, whether they enhance or reduce global welfare.(1997, Jeffrey A. Frankel).The development of regional trade agreements in the East Asia region is considered to be relatively a recent phenomenon when compared to other parts of the world such as the Europe where the efforts on trade arrangement/agreement can be dated a long way back to the late 1940s. East Asia was not active in regional trade agreements until recently. Prior to 2002, the ASEAN FTA (AFTA) was the only free trade agreement comprising countries within the region. Since then, we observe quite a number of arrangements made Among the East Asian nations: Japan-Singapore FTA (2002), ASEAN-Japan Comprehensive Economic Partnership Agreement (2008), ASEAN-China Free Trade Area (ACFTA) (2010) and the ongoing efforts among China, Japan, South Korea and ASEAN in forming the ASEAN plus 3 as well as a possible China-Japan-Korea FTA in the near future given recent interests among the three governments of China, Japan and South Korea in closer economic ties(Wai-Heng Loke).Praveen Bhalla, Praveen (1990) in his paper attempts to compare two Asian regional groupings, the Association of South East Asian Nations (ASEAN) and the South Asian Association for Regional Cooperation (SAARC), with special reference to the influence of geopolitical factors in their creation and development. The main features and mechanisms of cooperation within the two groupings are examined and compared and their future prospects,

particularly for achieving regional stability and growth, are analyzed. The aim of the comparison is not so much to assess their relative performance (as ASEAN is almost two decades older than SAARC) as to determine to which extent ASEAN is a valid model for SAARC, given the different geopolitical settings and different levels of development of the two groupings. Khwaja, Sarmad, and Riaz Mahmood (1988), analyses the determinants of trade flows between the countries of the South Asian Association for Regional Cooperation (SAARC) and of the Association of South East Asian Nations (ASEAN). The results show that while the high intensity of bilateral trade of these countries is not explained by high complementarity, a policy of nondiscriminatory import liberalization in ASEAN countries would significantly benefit the SAARC countries in terms of export expansion. Raipuria, Kalyan (2002) says if SAARC is to unlock growth through regional economic integration, it will need major policy and planning changes to open borders and spur investment. It needs to study the parameters of regional cooperation followed by ASEAN countries in achieving high levels of 'economic openness'.

4. Basic development indicators of SAARC and ASEAN

South Asia is the poorest region on the earth as well as Sub-Saharan Africa, and it has the lowest GDP per capita. Poverty is commonly spread within this region. According to the poverty data of world bank, there was more than 40% of the population in this region lived on less than \$1.25 per day in 2005, compared to 50% of the population in Sub-Saharan Africa.

Table 1 presents the overview of SAARC economies. Considering the size of land area, population and economy, India is by far the largest country in South Asian region; while Pakistan and Bangladesh are the second and third largest country respectively (Table 1). It is argued that, because of their size, these three economies are of crucial importance for successful regional integration and cooperation; and more importantly, India and Pakistan would be the dominant states of any formal regional integration agreements.

When we compare the GDP growth for the year 2008, we find that the highest growth is witnessed by Bhutan followed India. Lowest growth was witnessed by Pakistan followed by Afghanistan in 2008. GDP per capita of Maldives is highest that is 4134 US \$ followed by Sri Lanka. The GDP per capita of India is 1016 US \$ in 2008.

Bhutan has the highest GDP per capita in the region, while Nepal has the lowest. India is the largest economy in the region; it is the world's 11th largest or 4th largest by purchasing power adjusted exchange rates. Pakistan has the next largest economy and the 5th highest GDP per capita in the region followed by Bangladesh. If Iran is counted, it is the richest economy and the second largest in region. According to a World Bank report in 2007, South Asia is the least integrated region in the world; trade between South Asian states is only 2% of the region's combined GDP, compared to 20% in East Asia.

Table 2 shows some key economic indicators which gives an overview of the East Asian economies of year 2009. The population and land area statistics give some indications on the economies' factor endowment as well as market size for firms in tapping potential scale economies in production. GDP level and growth rates provide indications on economic development stages and exports and imports indicators suggest degree of openness as well as how intensive the economies are linked to the world. This group has some very wealthy nations (in terms of per capita income), Japan and Singapore alongside some of the world's poorest, Lao PDR and Myanmar. Their stages of economic development also vary widely. Japan and Singapore are developed economies, followed closely by South Korea. Some ASEAN economies such as Malaysia, Thailand, Indonesia and Philippines have achieved the status of 'developing economies' for some time while China, Vietnam and perhaps to a smaller extent Cambodia, are fast developing. (Wai-Heng Loke, 2012). In terms of economic size, China and Japan together is 6 times larger than all the ASEAN economies combined. If Korea is added to China and Japan, their economy combined is 7 times of ASEAN economic size. In terms of population, this region has among the most (China) and fourth most (Indonesia) populous countries in the world. The region also comprises of two countries, Lao PDR and Singapore that have only 5 to 6 million people each. China alone has a population of 18 times more than the rest of the East Asian economies' population combined.

Table1: Basic development indicators of SAARC countries, 2008

	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
GDP growth (annual %)	2.284691174	6.190431553	13.82855681	6.074823758	5.235625851	5.349438198	1.998102209	5.950043356
GDP per capita (current US\$)	366.0831023	497.214294	1868.678187	1016.847744	4134.931178	437.8720822	990.5346358	2012.517251
GNI per capita, PPP (current international \$)	1100	1450	4820	2930	5290	1120	2590	4460
Land area (sq. km)	652230	130170	38394	2973190	300	143350	770880	64630
Life expectancy at birth, total (years)	43.94621951	66.145	66.13356098	63.71765854	71.58212195	66.69007317	66.52909756	74.12712195
Literacy rate, adult total (% of people ages 15 and above)	----	55	----	----	----	57.9	53.69804067	90.55795051
Population, total	29021099	160000128	686789	1139964932	305027	28809526	166111487.1	20156204.34

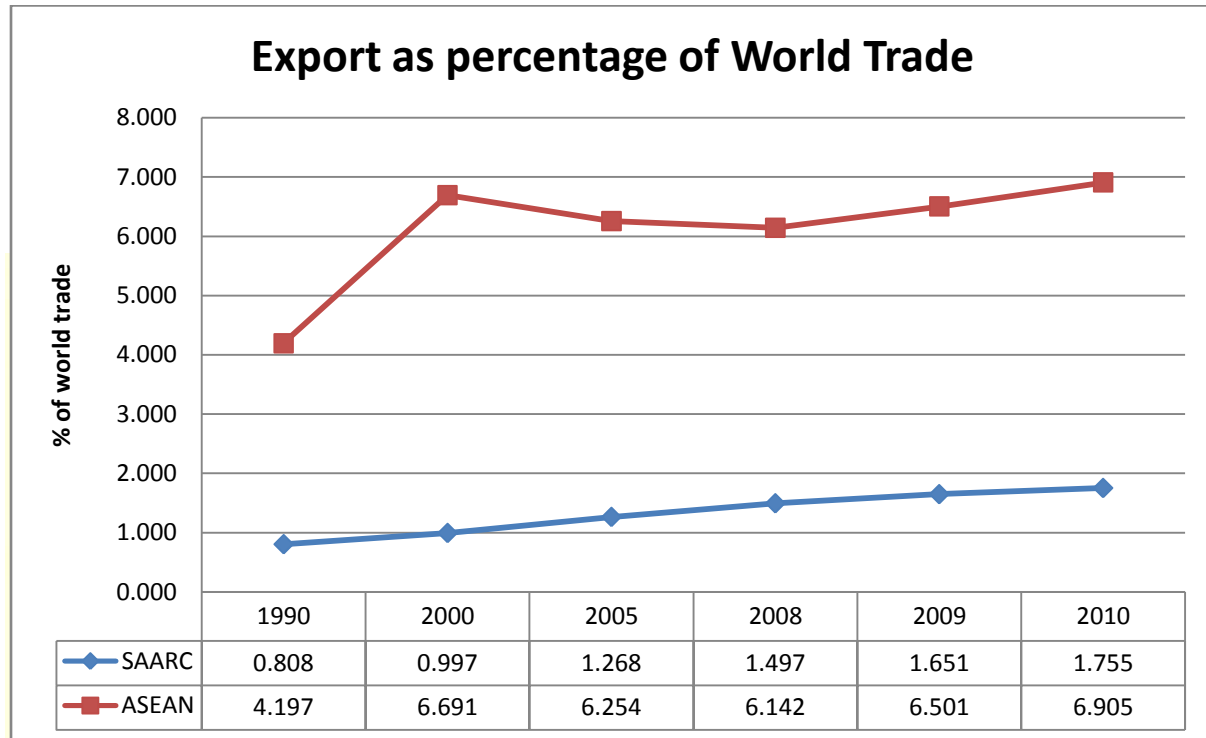
SOURCE : Various World Development Reports and other World Bank's data files

Table 2: Selected Basic Indicators: ASEAN, 2009

Total land area	Total population	Population density	Annual population growth	Gross domestic product at current prices	Gross domestic product per capita at current prices	
					US\$	US\$ PPP
km ²	thousand	persons per km ²	percent	US\$ million	2009	2009
2009	2009	2009	2009	2009	2009	2009
5,765	406.2	70	2.1	10,758.6	26,486.0	36,177.4
181,035	14,957.8	83	2.1	10,359.2	692.6	1,787.6
1,860,360	231,369.5	124	1.2	546,864.6	2,363.6	4,371.2
236,800	5,922.1	25	2.8	5,579.2	910.5	2,250.0
330,252	28,306.0	86	2.1	193,107.7	6,822.0	12,353.3
676,577	59,534.3	88	1.8	24,972.8	419.5	1,138.1
300,000	92,226.6	307	2.0	161,357.6	1,749.6	3,591.8
710	4,987.6	7,023	3.1	182,701.7	36,631.2	52,871.8
513,120	66,903.0	130	0.6	264,322.8	3,950.8	7,943.5
331,212	87,228.4	263	1.2	96,317.1	1,119.6	3,123.8
4,435,830	591,841.0	133	1.4	1,496,341.3	2,532.5	4,872.9

Source: ASEAN Statistics, 2011.

Graph 1 and Table 3: Export contribution of SAARC & ASEAN in World Trade



Source : www.unescap.org/stat/data/syb2011

5: Export and Import contribution of SAARC & ASEAN in World Trade

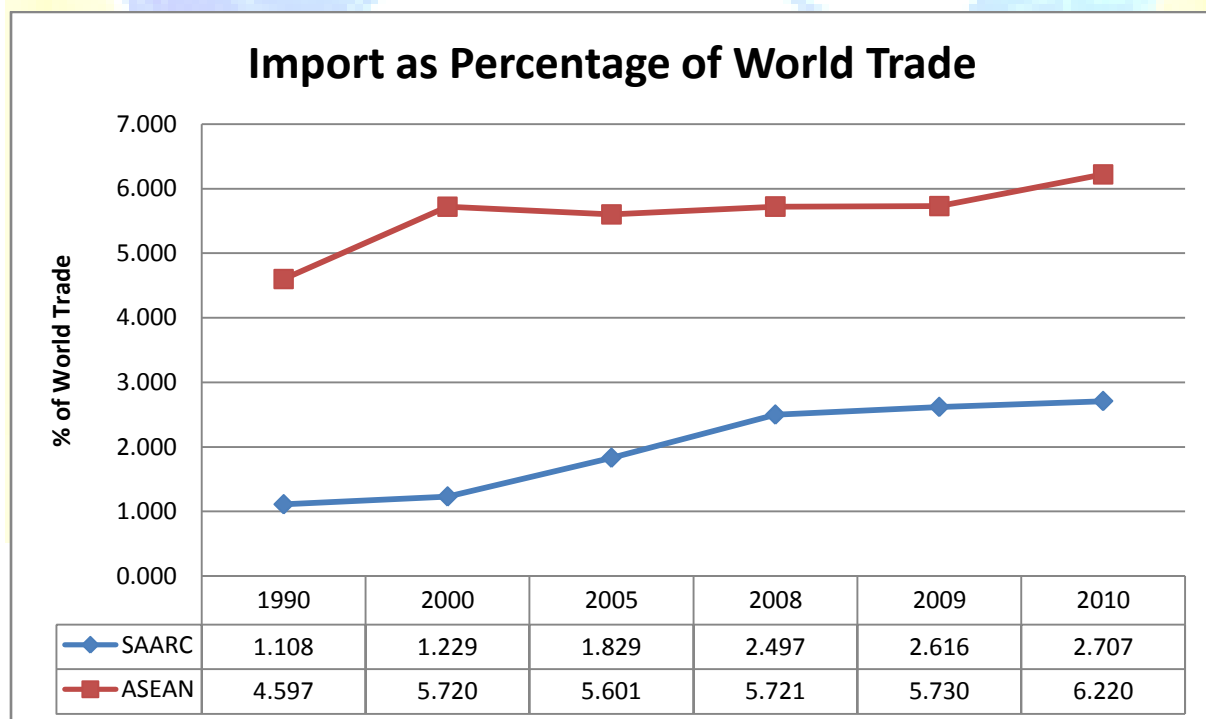
From **Table 3 and Graph 1** we can see that during the study period of 1990-2010 export contribution of ASEAN is more than SAARC in world trade. The SAARC contribution was lowest in year 1990, which was 0.808% and was highest in 2010, which was 1.75%. If we see the contribution of ASEAN in world trade it was also lowest in 1990 which was 4.1% but much higher than SAARC. The contribution of ASEAN in world trade was highest in 2010, it was 6.9%.

What we find in our study that if you compare the ASEAN and SAARC trade bloc we find that even after a span of twenty years the share of SAARC was five times low than ASEAN during the period 1990-2010

From **Table 3 and Graph 1** we can see that during the study period of 1990-2010 import contribution of ASEAN is more than SAARC in world trade. The SAARC contribution was lowest in year 1990, which was 1.1% and was highest in 2010, which was 2.7%. If we see the import contribution of ASEAN in world trade it was also lowest in 1990 which was 4.5% but much higher than SAARC. The import contribution of ASEAN in world trade was highest in 2010, it was 6.2%.

Thus we find that ASEAN is more active bloc than SAARC and export and import contribution of ASEAN is more than SAARC.

Graph 2 and Table 4: Import contribution of SAARC & ASEAN in World Trade



Source : www.unescap.org/stat/data/syb2011

6. Conclusion

This article evaluates ASEAN and SAARC as two pivotal regional platforms for actuating economic cooperation in South and Southeast Asia. A comparative study reveals that despite asymmetrical sizes AFTA has surpassed SAFTA in terms of trade benefits and value addition to the overall regional economic growth. Therefore, it is pertinent to examine AFTA and SAFTA relatively and ascertain reasons for the failure of SAARC and SAFTA in relation to ASEAN's initiatives.

Although number of countries in both the blocs is almost equal but ASEAN countries are more cooperative as compared to SAARC. Although SAARC population is more than ASEAN, ASEAN is a bigger contributor to world's Imports and Exports. Although SAARC has been working towards enhancing its regional trade, it certainly requires a structural revival. There are several steps that should be incorporated in the working process of SAFTA and SAARC on the whole to improve the conditions of trade. First, SAFTA experiences high trade deficit in terms of its global trade, thus more emphasis could be given to boost exports from the region. Second, SAARC countries are mainly exporting agricultural commodities and agro-based products. With trade being competitive and identical, more diversification of goods is extremely essential. Third, while SAARC countries have effected reduction in tariff levels, it can be reduced even further to increase the benefits of the trade bloc in future. Adequate steps could also be implemented to attract more FDI into the region from other sources. Fourth, the direct relationship between bilateral exports and GDP in the SAARC region reveals the potential for export-led growth in the region. With further opening of the economy, the bilateral exports will also increase. As there is a positive relation between the bilateral trade agreement and bilateral export flows in the SAARC region, the creation of bilateral agreements in the region must be encouraged. Finally, strengthening of economic relations can be used to reinforce improving political relations in the region, for instance, the relationship between India and Pakistan, as economic ties could help improve political relations to a great extent.

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