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A study on Trends and Prospects of Trade among SAARC nations

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Abstract
One of the most significant trends in international relations in recent years has been the rise of regional trade blocs. Almost every country is a member of a bloc, and many are members of many blocs. Regional accords vary greatly, but they always have the goal of lowering economic barriers between member countries. SAARC was formed with the same objective. To improve the process of economic and social integration in member countries trade promotion became an active area of interest. Focusing on the analysis of South Asia Association of Regional Cooperation (SAARC) trade, the paper attempts to analyse the trends and prospects of trade among SAARC nations through calculating and analysing various integration indices. Services trade performance of SAARC nations has also been analysed which is mostly not taken into consideration in the existing literature. Trade openness has also been analysed among SAARC nations on the basis of the Trade-GDP ratio. A comparative analysis has also been made between intraregional trade in South Asia and certain other regional agreements. The paper concludes its results on the basis of data pertaining to years (1960-2019).

Keywords- SAARC Trade, Trade openness, Intraregional trade, South Asia, Services trade.

1. Introduction

The South Asian Association for Regional Cooperation (SAARC) is an emerging trade bloc in South Asia. Following the formation of the pact, the bloc's total trade has improved. Apart from the overall opening up, the region's governments began to consider enhanced collaboration and trade among themselves as a priority. The creation of the SAARC in 1985 by a group of seven South Asian countries, namely Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, reflected this in part. On April 3, 2007, Afghanistan was admitted as a full member of SAARC. The growth of preferential trade agreements around the world in the previous decade has prompted a shift in mind-set in the region, particularly in India, which has begun to negotiate its own set of preferential trade accords. SAPTA was conceived as a first step toward the establishment of a South Asian Free Trade Area (SAFTA), which would eventually lead to a Customs Union, Common Market, and Economic Union. The Sixteenth session of the Council of Ministers (New Delhi, 18-19 December 1995) concluded in 1995 that it was necessary to work toward the implementation of SAFTA, and an Intergovernmental Expert Group (IGEG) was established in 1996 to identify the steps required to move toward a free trade area. The SAFTA Agreement was signed on January 6, 2004, in Islamabad, Pakistan, at the Twelfth SAARC Summit. The Agreement became effective on January 1, 2006, and the Trade Liberalization Program began on July 1, 2006.

However, since the formation of SAARC, the success has been regarded as negligible, and intra-regional trade between SAARC countries remains low. With low intra-regional trade and low perceived competitiveness among SAARC countries, the question of whether regionalism will benefit these countries

has arisen. Based on this question, this paper attempts an intertemporal analysis, specifically from 1960 to 2019. The main objective of the study is to examine the trends and prospects of trade integration among SAARC Nations.
When compared to regional forums such as the European Union (EU) and the Association of Southeast Asian Nations (ASEAN), intra-SAARC trade is currently relatively low (ASEAN).

2. Literature Review

Many studies have sought to shed light on the region's economic integration. The signing of the SAFTA agreement, according to Mehta and Kumar (2004), was a watershed moment in the evolution of SAARC since its formation in 1985. If SAARC's cooperation went beyond formal trade, it would benefit from regionalism.
Political conflicts, macroeconomic instability, policy deficiencies, a lack of a common stance, and low implementation capacity are among the problems that have hindered successful regional integration of South Asian countries from more rapid growth and benefit from cross-border and global trade and investments, according to a few studies (Jayaratne, 2004).
In her research, Taneja (2004) stated that South Asia is the least integrated region in comparison to Europe, Latin America, and East Asia. On the other hand, India's share of total regional trade has risen over time, indicating that if India and Pakistan can unlock more potential, SAARC intra-regional trade will soar to new heights.
Due to poor trading relations among the SAARC countries, Pitigala (2005) concluded that the trade structures that developed among South Asian countries may not facilitate a rapid increase in intra-regional trade. A study by Baysan et al. backed up this claim (2006) According to Pattanaik (2006), SAARC will be stymied if small states do not integrate; if SAARC succeeds, they will only benefit from the large economies like India and Pakistan.
SAFTA's successful integration will necessitate all countries' initiatives and willingness to create a favourable political climate in the region (Ghani and Din, 2006).
Newfarmer and Pierola (2007) recently discovered that preferential trade agreements in South Asia, including SAFTA, fall short of their potential due to product exemptions, special arrangements for specific goods, and restrictive point-of-origin rules. Due to product exemptions, special arrangements for specific products, and restrictive point-of-origin rules, preferential trade agreements in South Asia, including SAFTA, fall short of their potential, according to Newfarmer and Pierola (2007). Ershad Ali and Dayal K. Talukder(2009) in their Preferential Trade among SAARC nations analysed the prospects and challenges of regional integration in South Asia and found that the region accounts for a very insignificant share of world trade but persistent high levels of tariff barriers. Thus, preferential trade liberalisation is more likely to bring about trade diversion than trade creation leading to more gains for large countries and more losses for small countries. Dr. Rummana Zaheer(2013) in her paper examines the impact of trade liberalization over the macroeconomic structure of four SAARC member countries-Pakistan, India, Bangladesh and Srilanka during1985 to 2006, the data provides the substantial evidence, which shows the benefits of intra-regional trade expansion: larger markets and fuller utilization of production capabilities, transfer of suitable production technologies, comparative advantage and complementarities, economies of scale due to expanded markets and better utilization of entrepreneurial capabilities, capital, manpower and natural resources.
Zahoor Ahmad Dar(2015) made a comprehensive analysis of the future of SAARC with regard to its roles, problems and future prospects of SAARC. The paper suggested that there is a need to prioritize regional objectives and streamline them as national priorities along with this physical connectivity needs to be improved. Neetu Ahmed (2018) reviewed Intraregional trade within the SAARC region and suggested certain measures like strengthening infrastructure facilities, energy trade among SAARC nations, Non-Tariff measures etc. to boost trade of SAARC nations.

2.1 Research gap

As per my knowledge and review, services trade among SAARC nations have not been taken much into consideration despite the fact that major contributions to most of the countries GDP is from the Service sector so there is a lack of holistic approach to analyse the current status. Also since Afghanistan joined SAARC recently hence most of the studies are involving only 7 member countries. Thus the present paper attempts to fill in the gaps of the above literature and present the current pattern of Trade among SAARC nations and highlight its future prospects.

3. Overview of Trade Performance of SAARC Region

In SAARC countries, the importance of trade as a growth facilitator has been recognized. The rising trade openness of SAARC economies over time demonstrates this, still even with increasing trade-to-GDP ratios, South Asian economies remained the least open in comparison to other emerging and developed economies

Table 1: Trade Openness (Export and Import as per cent of GDP) in SAARC Countries

Country/Region	1960	1970	1980	1990	2000	2008	2015	2019
Afghanistan	11.15	21.72	---	---	---	---	---	---
Bangladesh	19.30	20.82	23.37	18.96	29.32	42.62	42.083	36.75
Bhutan	---	---	51.34	57.48	80.35	109.4	102.1	84.35
India	11.29	7.66	15.38	15.50	26.90	53.36	41.92	39.55
Maldives	---	---	358.66	168.08	---	---	---	146.9
Nepal	---	13.20	30.27	32.18	55.71	46.03	53.09	54.92
Pakistan	20.39	17.96	35.89	35.03	25.36	35.59	27.65	30.43
SriLanka	62.88	54.05	87.01	68.24	88.63	63.36	49.55	52.37
South Asia	**13.97**	**10.76**	**20.14**	**19.23**	**29.33**	**42.62**	**42.08**	**39.09**

Source: The World Development Indicators, World Bank Report 2019

Within the SAARC zone, there are significant differences. The Maldives, for example, is heavily reliant on the external market, with a trade openness ratio of 146.9 percent, whereas Pakistan is the least open country in the SAARC region. Since India has such a large domestic market, trade accounts for a much smaller percentage of GDP, particularly when compared to East Asian economies, which are small and rely heavily on trade for growth. The majority of the countries are reasonably trade-friendly. Bangladesh, Bhutan, India, and the Maldives all have higher trade-to-GDP ratios. However, it was strong for Sri Lanka at one point but has since decreased. With greater global economic integration, the external economic climate has a much greater impact on these economies than before. Overall if the trend of trade openness is analysed for the whole South Asia region than it has increase from 13.97% to 39.09% but is far below from 57.46% trade openness ratio of East Asia and Pacific region.

Table 2: Share of SAARC Region in World Merchandise Exports (%)

Country	**1960**	**1970**	**1980**	**1990**	**2000**	**2008**	**2015**	**2019**
Afghanistan	0.04	0.03	0.03	0.01	0.002	0.003	0.003	0.005
Bangladesh	---	---	0.04	0.05	0.1	0.09	0.19	0.21
Bhutan	---	---	0.001	0.002	0.002	0.003	0.003	0.003
India	1.02	0.63	0.42	0.51	0.65	1.21	1.62	1.71
Maldives	0.91	0.001	0.000	0.002	0.002	0.002	0.001	0.002
Nepal	0.013	0.013	0.004	0.006	0.012	0.006	0.004	0.005
Pakistan	0.307	0.141	0.128	0.160	0.140	0.126	0.133	0.123
Sri Lanka	0.295	0.107	0.052	0.055	0.084	0.052	0.064	0.063

Source: UNCTAD Report 2020

Table 3: Share of SAARC Region in World Merchandise Import (%)

Country	1960	1970	1980	1990	2000	2008	2015	2019
Afghanistan	0.063	0.035	0.040	0.026	0.018	0.018	0.046	0.038
Bangladesh	---	---	0.124	0.100	0.133	0.145	0.251	0.307
Bhutan	---	---	0.002	0.002	0.003	0.003	0.006	0.005
India	1.672	0.643	0.711	0.653	0.774	1.949	2.357	2.523
Maldives	0.003	0.001	0.001	0.004	0.006	0.008	0.011	0.015
Nepal	0.028	0.023	0.016	0.019	0.024	0.022	0.040	0.064
Pakistan	0.060	0.235	0.256	0.204	0.163	0.257	0.264	0.261
Sri Lanka	0.300	0.117	0.097	0.074	0.094	0.085	0.113	0.103

Source: UNCTAD Report 2020

The Merchandise trade analysis of SAARC nations individual share in total world exports and imports shows wide fluctuation. India acquires a major share in export and imports. During 2019 the share of India in world merchandise exports was 1.71% as against 1.02% in 1960 while imports grew during the same period from 1.67% to 2.52%. Afghanistan has the least share and it has shown a sharp decline in imports as well as exports. Bangladesh shows a gradual improvement in export share from 0.04% in 1980 to 0.21% in 2019 while imports of Bangladesh have also increased from 0.124% to 0.307%. Similarly, there has been improvement in merchandise export and import share for Bhutan. Export share of Pakistan, Sri Lanka, Maldives and Nepal have declined.

Table 4: Share of SAARC Region in World Services Exports

Country	2005	2007	2009	2011	2013	2015	2017	2019
Afghanistan	---	---	0.047	0.058	0.018	0.017	0.007	0.011
Bangladesh	0.056	0.054	0.055	0.055	0.061	0.065	0.070	0.10
Bhutan	0.002	0.002	0.002	0.002	0.003	0.003	0.003	0.002
India	1.949	2.394	2.561	3.102	3.048	3.124	3.354	3.489
Maldives	0.012	0.044	0.043	0.047	0.053	0.058	0.054	0.056
Nepal	0.014	0.014	0.019	0.019	0.024	0.029	0.029	0.026
Pakistan	0.137	0.103	0.109	0.114	0.101	0.118	0.104	0.088
Sri Lanka	0.058	0.049	0.052	0.069	0.096	0.128	0.140	0.122

Source: UNCTAD Report 2020

Table 5: Share of SAARC Region in World Services Imports

Country	2005	2007	2009	2011	2013	2015	2017	2019
Afghanistan	--	--	0.024	0.036	0.031	0.024	0.023	0.022
Bangladesh	0.090	0.088	0.096	0.121	0.138	0.158	0.160	0.167
Bhutan	0.005	0.003	0.003	0.004	0.004	0.004	0.004	0.004

India	2.311	2.605	2.271	2.882	2.674	2.657	2.915	3.075
Maldives	0.008	0.009	0.011	0.013	0.015	0.022	0.024	0.023
Nepal	0.017	0.021	0.024	0.018	0.021	0.025	0.031	0.030
Pakistan	0.289	0.256	0.187	0.188	0.168	0.180	0.204	0.160
Sri Lanka	0.110	0.104	0.097	0.134	0.112	0.122	0.123	0.114

Source: UNCTAD Report 2020

The services trade analysis of SAARC nations individual share in world total imports and exports shows wide fluctuations. India, Nepal, Bangladesh, Maldives and Sri Lanka witnessed an increase in their share of services exports in the world total from 2005 to 2019. India witnessed robust growth in services export share from 1.949% to 3.489% which is highest among SAARC Nations. Pakistan, Bhutan and Afghanistan on the other hand witnessed decline in their share of services exports in the world total. As far as share in imports of services in world total is concerned, Bangladesh, India, Maldives, Nepal and Sri Lanka have witnessed an increase in imports share in which major increase has been in India. On the other hand, there has been a decline in services imports shared in Pakistan, Afghanistan and Bhutan.

Table 6: Ranking of five major Export Partners of SAARC region, 2019

Partner→ Reporter↓	**Rank 1**	**Rank 2**	**Rank 3**	**Rank 4**	**Rank 5**
Afghanistan	India (410.13)	Pak(298.04)	China(31)	Turkey (25.11)	UAE(23.55)
Bangladesh	US (5993.35)	Germany (4557.11)	UK (3050.04)	Spain (2085.37)	France(1881
Bhutan	India (497.71)	Bangladesh (15.22)	Italy (4.13)	Netherlands(3.93)	Nepal (1.98)
India	US (49320.60)	China: Mainland (19008.27)	UAE (17953.34)	China:Hongk ong (9537.37)	Singapore (8295.02)
Maldives	Thailand (54.95)	Germany (15.74)	France (14.60)	UK (11.76)	US(9.22)
Nepal	India (582.33)	US (77.64)	Germany (21.66)	China (20.79)	UK(15.40)
Pakistan	US (4141.85)	China:Mainl and (1867.04)	UK (1726.18)	Germany(13 95.02)	UAE(1096.88)
Sri Lanka	US(2596.29)	India (660.15)	UK (654.01)	Italy (574.16)	Germany(512 .81)

Note: Figures in Parentheses indicates trade value in Million, US Dollar
Source: Direction of Trade Statistics, IMF 2019

Table 7: Ranking of five major Import Partners of SAARC Nations,2019

Partner→ Reporter↓	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5
Afghanistan	Iran (1245.56)	China(1156.69)	Pakistan(1058.01)	Kazakhstan(514.61)	Uzbekistan(433.80)
Bangladesh	China (13265.78)	India(6936.47)	Special category(3617.08)	Singapore(2592.77)	US(1946.83)
Bhutan	India (1154.22)	Singapore(24.27)	Thailand(20.55)	China(17.90)	Japan(10.74)
India	China (68344.55)	US(34951)	UAE(30283.32)	Saudi Arab (26996.48)	Iraq(22070.23)
Maldives	UAE(543.35)	China(469.42)	Singapore(354.53)	India(290.35)	Malaysia(191.45)
Nepal	India (8474.75)	China(1895.76)	Canada(316.54)	UAE(213.41)	US (192.89)
Pakistan	China(12380.78)	UAE(6317.32)	US(2584.90)	Saudi Arab (2449.62)	Indonesia(2221.03)
Sri Lanka	China(4187.99)	India(3461.21)	Singapore(1836.75)	Japan(1616.77)	UAE(1134.65)

Note: Figures in Parentheses indicates trade value in Million, US Dollar
Source: Direction of Trade Statistics, IMF 2019

As far as Direction of Trade is concerned, UAE, US, China, Singapore and Saudi Arab are the major countries to which SAARC nations are having Trade relations. However, Bhutan and Nepal majorly trade within the SAARC region with India. Except for these two countries, all other South Asian countries are involved with a very insignificant amount of trade within the region. India also has trade relations with Sri Lanka and Afghanistan.
India also witnesses the highest volume of export and Import in SAARC Nations. Major Exports of SAARC nations go to the US while the SAARC nations are majorly dependent on China for imports.

4. Trend in Intra-Regional Trade in South Asia

In comparison to other Asian regions, such as ASEAN, intra-regional trade in South Asia is relatively poor. South Asian countries mainly trade with countries outside of the country. With the announcement of the (SAPTA) SAARC Preferential Trading Agreement in the mid-1990s, SAARC gained traction. Since its inception at the turn of the millennium, the South Asian Free Trade Region (SAFTA) has been performing admirably (Mohanty and Chaturvedi, 2006). In 2019, intra-regional trade accounted for just 5.62 percent of South Asia's total foreign trade, compared to 22.33% for ASEAN member countries.

Table 8: Trend in Intra-Regional Group Trade (%)

Regional group	1990	1995	2000	2003	2005	2008	2012	2015	2017	2019
European Union	59	59.48	58.92	61.28	60.62	60.37	57.44	58.92	59.84	59.72
EU 28	65.96	65.82	65.43	67.42	65.83	64.89	61.46	63.19	63.86	63.23

Euro Zone	54.46	52.71	51.23	52.65	51.30	49.74	46.66	46.46	46.83	46.53
ASEAN	18.10	21.85	23.78	24.44	24.85	24.84	24.26	23.39	22.41	22.33
ASEAN +3	37.8	43.16	45.25	47.96	47.38	45.03	45.94	46.80	46.94	46.29
SAARC	**2.71**	**4.23**	**4.49**	**5.81**	**5.47**	**4.51**	**4.29**	**5.57**	**5.66**	**5.62**
APEC	67.95	71.99	72.73	71.40	69.81	65.27	66.61	69.54	69.88	69.33

Source: Asia Regional Integration Centre Database, ADB 2019

For individual countries, the intra-regional trade ratio varies from a low of 3.25 per cent for India and 5.54 per cent for Pakistan to a high of 62.96 per cent for Nepal and 90.68 per cent for Bhutan. Despite the development of regional groups, trade flows within the SAARC region are weak. This may be due to the fact that SAARC economies have different market sizes than other international groupings. Bhutan and Nepal, for example, cannot be India and Pakistan's primary export destinations. As a result, the intra-SAARC trade potential is limited, especially for big SAARC countries with small SAARC economies. Bhutan and Nepal, on the other hand, have maintained close trade relations with India despite their limited economies. Nepal and Bhutan, for example, import more than 50 percent of their imports from India, respectively, but only a small portion of Indian exports.

4.1 Intra-regional trade share is the percentage of intra-regional trade to total trade (sum of value of exports and import) of the region, calculated using trade data. It is calculated

$$T_{ii}/T_i$$

where Tii is exports of region *i* to region *i* plus imports of region *i* from region *i* and T_i is total exports of region *i* to the world plus total imports of region *i* from the world. A higher share indicates a higher degree of dependency on regional trade.

Table 9: Intra-Regional Trade Share of SAARC's Total Trade

Country	**1990**	**1995**	**2000**	**2005**	**2008**	**2012**	**2015**	**2017**	**2019**
Afghanistan	14.46	11.06	33.93	36.79	27.42	13.92	22.76	21.63	28.49
Bangladesh	5.98	12.84	7.98	10.34	11.57	10.52	9.83	10.8	9.63
Bhutan	9.70	73.2	67.7	82.29	86.59	86.35	86.25	87.62	90.68
India	1.57	2.72	2.48	2.79	2.31	2.23	3.15	3.09	3.25
Maldives	12.6	14.05	22.33	17.61	16.19	15.15	19.12	17.83	15.72
Nepal	11.88	14.84	39.06	61.71	62.6	66.6	61.2	61.03	62.96
Pakistan	2.72	2.35	3.55	6.18	7	7.88	7.87	6.25	5.54
Sri Lanka	5.65	7.81	7.51	17.27	17.41	18.02	18.73	18.95	16.15

Source: Asia Regional Integration Centre Database, ADB 2019

4.2 Intra-regional trade intensity index is the ratio of intra-regional trade share to the share of world trade with the region, calculated using trade data. It is computed as:

$$(T_{ii}/T_i)/(T_i/T_w)$$

Where T_{ii} is exports of region i to region i plus imports of region i from region i; T_i is total exports of region *i* to the world plus total imports of region *i* from the world; and T_w is total world exports plus imports. It determines whether trade within the region is greater or smaller than should be expected on the basis of the region's importance in world trade. An index of more than one indicates that trade flow within the region is larger than expected given the importance of the region in world trade.

The result on the basis of data available shows that the intraregional trade intensity index in 1990 was 2.72 and increased to 3.92 in 1995 as well in 2000 it remains 3.99. After 2000 it started declining and reached as low as 1.69 and in 2019 it was 2.11 lower than 1990s level.

4.3 Export Growth: is the percentage change in the value of exports relative to the previous year.

4.4 Export Intensity index: is the ratio of a trading partner's share to a country/region's total exports and the share of world exports going to the same trading partner. It is calculated as:

$$X_{ij} = \frac{x_{ij}/X_{iw}}{x_{wj}/X_{ww}}$$

Where x_{ij} is the dollar value of exports of country/region *i* to country/region *j*, X_{iw} is the dollar value of the exports of country/region *i* to the world, x_{wj} is the dollar value of world exports to country/region *j*, and X_{ww} is the dollar value of world exports. An index of more than one indicates that trade flow between countries/regions is larger than expected given their importance in world trade.

4.5 Export Share: is the percentage of exports going to a partner to total exports of a country/region. It is computed as the dollar value of exports of country/region *i* to country/region *j* expressed as a percentage share of the dollar value of exports of country/region *i* to the world. A higher share indicates a higher degree of integration between partner countries/regions.

4.6 Import Growth: is the percentage change in the value of imports relative to the previous year.

4.7 Import Share: is the percentage of imports from a partner to total imports of a country/region. It is computed as the dollar value of imports of country/region *i* from country/region *j* expressed as a percentage share of the dollar value of imports of country/region *i* from the world. A higher share indicates a higher degree of integration between partner countries/regions.

Table 10: Various Integration Indicators

Indicators	1990	1995	2000	2005	2008	2012	2015	2017	2019
Intra-SAARC Export Growth(%)	1.86	39.39	25.68	37.67	14.4	2.36	-9.36	14.27	-7.54
Intra-SAARC Export Share(%)	3.47	4.57	4.69	7.02	6.21	5.93	7.3	7.13	7.27
Intra-SAARC Import Growth(%)	40.38	47.38	21.04	-6.06	12.8	-.3.69	-4.39	14.14	-11.31
Intra-SAARC Import Share(%)	2.18	3.97	4.33	4.43	3.51	3.31	4.46	4.76	4.58
Export Intensity Index	3.11	3.99	3.54	3.89	2.43	1.84	2.38	2.2	2.26

Source: Author's own calculation based on ADB database.

The intra SAARC export witnessed a little growth in 1990 i.e. 1.86% but it showed a robust growth during 1995. However, it declined again in 2000 and even showed negative growth in 2015. Growth in exports however picked up in 2017 but during 2019 the growth rate declined. Overall export growth within the SAARC region remained at a low level.

Intra SAARC Export share was as low as 3.47% in 1990 and remained at low level until 2005 where it showed an increased growth rate of 7.02% but again during the global economic slowdown of 2008 the export share declined in 2008 and picked up again in 2015 and in 2019 it was 7.7%. The intra SAARC export share values however were never too high showing low levels of integration. The intra ASEAN export share of ASEAN in 2019 was 23.33% which shows a much higher level of integration as compared to SAARC.

The intra SAARC import growth in 1990 and 1995 was as high as 20.38% and 47.38% which is even higher than the figures of ASEAN in the same periods. But then in 2000 it witnessed a sharp decline in growth rate

and the rate fell down to 21.04 and the growth rate declined in 2005. Growth rate remained negative in 2012 as well as 2015 except in 2008. 2019 again witnessed a decline in import growth at -11.31%.
Intra SAARC Import share has shown a very small increase in the period of 1990 to 2019. It increased from 2.18% to 4.58% while import share during the same periods for ASEAN was much higher than SAARC i.e. 16.34% and 21.31%. The SAARC region's integration in terms of exports as well as imports has remained low in comparison to other regional groupings. As far as the Export intensity index is concerned, which is again a good measure of Integration shows a declining trend from 1990 to 2019 from 3.11 to 2.26.

5. Summing Up

To summarize, the growth of intra-regional trade has been slowed by factors other than economic concerns. The Indo-Pak bilateral relationship plays a critical role in ensuring intra-regional trade stability and development. Apart from that, SAARC countries must invest in physical infrastructure that will improve their global competitiveness. Despite the fact that major SAARC countries' GDP cycles are more synchronized, trade integration remains low due to a higher degree of protectionism among SAARC countries than the rest of the world. In this context, a good SAFTA outcome may play a significant role in strengthening regional trade relations. However, it is to be anticipated that as tariff barriers are further dismantled under SAFTA, a substantial portion of informal trade would fall under the purview of formal trade. This, combined with favourable Rules of Origin, has the potential to boost intra-regional trade in the SARRC. SAARC countries will need to take meaningful measures to harmonize customs and other processes, as well as mutual recognition of certificates and standards and trade facilitation. As a result, SAARC's trade policy must ensure that SAFTA facilitates trade development rather than trade diversion from the region, as many researchers suggest.

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