LIBERALIZATION, REGIONALIZATION AND ITS IMPACT ON COUNTRY’S REGIONAL TRADE

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ABSTRACT

This presentation has winding up a literature survey of research on ‘liberalization, regionalization and its impact on country’s regional trade’. A literature review is the study of a body of texts touching upon the topic on which this research study is to be carried out that aims to review the critical points of current knowledge and secondary sources (IJRCM June 2011). Generally there are two approaches in free-trade activities. One is, ‘International approach’, other is, ‘Regional approach’ (Lee 2001). But generally it is found that it liberalization permanently lost its transparency. Its position has shifted from most favorable to reasonable rule of thumb. The main objective of this study is to find out that the evaluation of empirical study engaging in international trade and intra-regional trade with partner countries after trade liberalization and to examine as to whether there are any changes occurred on international economy based on the liberalization. A comparative and descriptive analysis was used to assess the empirical based researches were done related to trade liberalization and regional trade. Especially, considered as SAFTA, AFTA, NAFTA and EU based studies which were done by the scholars to evaluate its performances. An empirical based analysis suggested that there are many structural changes that had also taken place on the economy through liberalization and regionalization. This study also reveals that trade liberalization has promoted trade creation and expansion to a considerable level in Sri Lanka’s external trade as well as other member of regional cooperation. It has also been found that the trade-diversion effect has occurred to Sri Lanka and as well as other members. Related to Sri Lanka, the empirical studies have been found significant gains from trade liberalization and intra-regional trade with other member countries of SAARC. It is advisable that Sri Lanka should carefully reduce or eliminate all trade and non-trade barriers simultaneously and also should include some of imports items in the negative list. The economy of the country has undergone reasonable structural changes but its dependency ratio is not helpful to the country. Hence, the findings of this paper suggest that organization in measurement is needed to promote the research within regionalization and liberalization as well as more industry based analysis to avoid bias measuring in an important strategic field of regional strategy and also this research would suggest that liberalization is not out-dated but it should be moderated for the country’s situation for the best result and achievements.
INTRODUCTION

Today it has become necessary to evaluate the importance and the magnitude of the changes taken place in the country’s economy by the trade-creation of regional trade and also the developing countries have to know as to whether the international trade or regional trade is more useful to the third world countries.

Trade-creation and trade-diversion brought about by the regional trade have considerably changed the size and quantity of economies in international trade. Consequently these changes have influenced the Sri Lankan economic growth with structural changes, energy development and social development. So, this research becomes necessary.

As a result of the international trade, trade liberalization and open the economy arrangement for regionalization became inevitable for all countries. Almost all countries have been engaged themselves in international trade with one side and with other side in intra-regional trade. In this context, despite several international crisis and issues, Sri Lanka also has opened the door of her economy with the objective of building up its economy. However, Sri Lanka has not gained net trade benefits after the trade liberalization except in 1978. Of the problems faced by Sri Lanka due to trade liberalization, the most important question is for how long this free trade system is going to last.

However, it must be started that not often have any foreign policy negotiations slowed down as a result of changes in the domestic circumstances. If that were the case, the “Wonder of Asia” policy started by the Mahinda Rajepbakshe government (2009) would never have been fine-tuned under the PA that it would not have continued negotiations in a long run to be integrated into a market is more critical for Sri Lanka than being out of estimate. Therefore, it is critically important for Sri Lanka to analyze its benefits, and begin utilizing the opportunity optimally and programmatically.

The evolution of the existing trade pattern and trade system will provide a valuable insight, greatly facilitating trade and economic development in Sri Lanka as well as other member countries. This investigation will help planners, policy makers, future researchers and academics to understand the system better and to popularize the international trade and market more efficient tools.

The survey of literature aims to establish certain significant conclusion regarding the liberalization and regionalization of the member countries. There is a vast amount of literature on the subject works that have been included in the present study. This work is an effort to unravel the hidden complexities in the signing of the regional integration. The divers works referred to in this study have been covered into one main theme; the survey of literature: the empirical approach and this investigate has been covered into four main regional co-operation; Sri Lanka-SAARC economic relations, AFTA, NAFTA, and EU.

Hence, this paper will give the existing research with a review based on the main streams of liberalization with a regional focus. This will facilitate researches as well as academics to gain an overview of an important topic that has a large impact on how policy makers strategize and structure of regional co-operation across regions.
1. IMPORTANCE OF THE STUDY

Generally, the importance or goal of the systematic research or investigation is to contribute to existing knowledge or to understanding and/or solving problem within society. If it says in the words of Sarantakos, S (1993: 31), “Social Research”, Basingstoke, McMillan, “The purpose of research is to review and synthesise existing knowledge, to investigate existing situations or problems, to provide solutions to a problem, to explore and analyse more general issues, to construct or create a new procedure or system, to explain a new phenomenon or to generate new knowledge”.

In taking the research question mentioned in problem statement, this study is purely descriptive as well as comparative and aims to investigate using an integrated liberalization framework how liberalization and regional integration can contribute to economic growth and trade expand to the country. Therefore, this study will contribute or needed to ongoing debates about trade deficit and income disparities due to trade integration and desirability of globalization. The specific objectives are suggest an integrated theoretical framework by combining the existing theories and empirical studies; build economic and econometric specifications that confine the short-run and long –run relationships between the variable under investigation in integrated framework; examine the growth and expand hypotheses using the empirical results, to generate policy implications in designing regional integration policy as development strategy to the country.

2. STATEMENT OF THE PROBLEM

As the present situation, this field of research is extended and complicated and many new theoretical ideologies are included in this field of study by the researches. For example, the trend of goods market internationalization taking from globalization has been challenged and with that the most favorable strategic implication and regional set up and the rise of regionalization, there is a well-built need to review the classical as well as latest literature to shed light on the above mentioned issues by analyzing new research streams and capturing new findings (see also Oscar Franklin, 2010:8).

After three decades of implementation of liberalization and regional integration policy, the following crucial research question/problem statement now arises: The wide-ranging research, contradicting findings and perceptions within the field of liberalization and regionalization, calls for a literature review of the recent literature finding, structuring and critically analyzing theory and its key implications for how to efficiently strategize and organize a regional co-operation to fully utilize the potential competitive advantage of operating across regions from a contingency theory perspective.

3. RESEARCH METHODOLOGY

3.1 APPROACH AND STRUCTURE

The present research result will be obtained through comparative model analysis and the present work has to bring out the basic arguments and assumptions to reflect upon the fundamental issues of conflict that require attention and action to prevent constant problems. The comparative model research as a pioneer research has been carried out on liberalization, free
trade and regionalism by the researchers. They have analysed the liberalization policy, regionalization policy and its impact on member countries’ trade with its major trading partners also, they have analysis of the gravity model for their research on intra-regional trade of member countries. They have explained the structural changes of the economy as well as trade-diversion and trade-creation effect by their researches.

According to the above background, the overall goal of this study is to investigate whether or not regional integration has reduced income difference and improved key macroeconomic stability indicators within the countries. In the light of consequent theoretical and empirical literature, important research hypothesis emerge that must be tested against the data.

4.2 RESEARCH DESIGN

Therefore, a literature review based research paper differs from other types of research as it covers already validated sources and used methodology. A literature review can have three primary approaches; one is chronological- meaning that material is presented in a chronological order; second is by trend-the material found is presented in order of research trends; third is thematic-meaning that the review is organized around a topic or issue (Oscar Franklin, 2010).

With reference to the focus of this study, a chronological and trend approaches have been chosen mainly due to the defined practical purpose and approach and the extensive all ready existing chronological research that has covered the estimation of regional blocs wise like SAPTA, AFTA, NAFTA and EU. Furthermore, a statistical method was used to analyse the effects of regional blocs without considering the chronological order of which the research has been conducted.

4. RESULTS & DISCUSSION

5.1 THE SURVEY OF LITERATURE: THE EMPIRICAL APPROACH

The empirical approaches into four categories: one is partial equilibrium analysis, second is general equilibrium analysis, third is gravity model approaches and the fourth is ex-post studies of regionalism. According to Ariffin (2007) the first and second model-based counterfactual analyses while they involve either perfectly or imperfectly competitive markets. The third group of study originally developed by Tinbergen (1962) with the reason of analyzing determinants of bilateral trade flows between partners. Fourth one is followed by Torre and Margaret Kelly (1992). This study is an attempt to bring out some empirical works on intra-regional trade among the member countries. Especially, this study tried to estimate Sri Lanka’s trade relationship with her partner nations which are members of SAFTA, NAFTA, AFTA and EFTA.

5.1.1 PARTIAL EQUILIBRIUM ANALYSIS

Since the inception of SAARC many research have been carried out with reference to economic welfare effect among member countries. These researches have all tried to shed light on whether the possibilities of intra-regional trade extension of SAARC and SAPTA have occurred as expected. And also, intra-regional trade, investment and the trends of economic co-
operation were taken into consideration. These researches carried out by Waqif and Chatterjee (1993), Ahuja and Battachaya (1993), Reddy (1993), Shrestha (1993), Thapa (1993), Wanigaratne (1993), and Yapa (1993) belong to the primary stage. These researches reveal the advantages obtained by the co-operation in the fields of agriculture, energy, manufacturing, and services through the inflow of investment with intra-regional trade. Furthermore, the limitation of economic and organizational constrains found among intra-regional economic co-operation of SAARC have been compared with that of European Union. Besides, it has been pointed out in these researches that, through regional arrangement, welfare increase will occur and it is inevitable that a SAARC member country continue to maintain the trade relationship with a third country. And also, it has been emphasized in these researches that, the factors like less growth of GDP, over growth of population and the trend of rapid increase of poverty which are obstacles for economic development of SAARC countries will be eliminated. There by the relationship between SAARC regional development sectors is said to be very essential. Deep concern have been expressed in summary of regional trade extension and the following trade contents like trade policies, tariff, loan arrangement, financial exports, information, shares, marketing, transport and so on. However, it is suggested to avoid fully liberalization followed by Western countries and to impose carefully partial liberalization in selected sectors. All the above primary researches were Pre-SAPTA. All other Post-SAPTA researches carried out by Hassan, Mehanna and Basher (2001), Henegedara (2003), Dharmapriya (2003), Noori and Patnaik (2003), Frankel (1997), Frankel and Wei (1997) explain the extension of intra-regional trade, interested bilateral trade arrangement among member countries and the effect evaluation resulted by trade-creation, trade-diversion and trade deficit. Verdoorn (1954) find out the effects of an intra-OECD trade arrangement on members as well as on rest of the world (ROW) by using static partial equilibrium analysis. He assumed that market structure is perfectly competitive. He further assumed that consumption elasticity of substitution is -0.5 among imports and domestic production and its -2 between different countries. In addition to that there is no import tariff on manufactures among ten member countries of OECD and exchange rate also unchanged. Johnson (1958) also worked out the assessing the prospective benefit of UK after, it’s entering in EFTA. He evaluated the impact on manufactured industry and future welfare gains to the UK due to the lower tariffs facing UK exports as well as lower prices received by its imports. He also assumes same condition like Verdoorn. In addition to that there are common tariffs imposed after the groping. Finally he found that UK got a trade gains equal to £ 62 – £192 million for exports and £31 million for imports.

Another comprehensive study was done by Scitovsky (1958) under the partial equilibrium. He used changing exchange rate and examines gains from the creation of the EEC. He took different marginal cost between member countries in the same industry. He tried to assess gains from integration when the marginal cost equalized within the member nations. Under the above background, Scitovsky find out the EEC benefited around US $ 74 million, meanwhile, the rest of the world has lost equal to that amount. This achievement was obtained, because specialization happened to be only 0.05 % of European GNP. Moreover, all EEC countries got advantages of favourable terms of trade equal to US $ 465 million.

OECD (2003) employed partial equilibrium analysis under the assumption of trade facilitation would lead to a reduction of one percent of trade transaction cost. The effect of trade facilitation has two parts: first, the effect on OECD nation and second effect on non-OECD countries. The research reveals that the world income gains from a 1% decline in trade
transaction costs would be considerable amount about US $ 40 billion of which 69 % will be received by the OECD nations and rest by non-OECD countries.

Wilson, Mann and Otsuki (2003) examine the connection between trade facilitation, trade flows and GDP per capita for goods sector in APEC nations. They used four signs regarding trade facilitations, first; port efficiency, second; custom environment, third; own regularity environment, fourth; E-commerce/business. According to that research, improvement of the port efficiency had a good contribution to trade and also the flexibility of custom regularity helped e-business. However, rigid regularity has a negative effect on intra-APEC infrastructure trades.

ASEAN (1999) tried to study partial equilibrium among ASEAN countries has grown from US $ 44.2 billion in 1993 to US $ 73.4 billion in 1998. This growth has achieved before the financial crisis in mid1997, representing an average increase of 13%. Further it was found that the intra-ASEAN exports have been increasing by 29.6%. However, financial and economic crisis has adversely affected on intra-ASEAN trade in 1998, which is equal to 15.9% (the 5.8 percent reduction in total ASEAN exports) in 1998.

Another important contribution from the study of the AFTA by Bowles (1997), pointed out that AFTA energised regionalism and multiple regionalism in North-South area of Asia region. He mentioned that this type of regionalism countries with extremely different levels of per capita income group themselves together in trading bloc. Some of the countries joint with different regional trade blocs which is called multiple regionalisms. For an example, members of SAARC also join BISTEC as well as APEC. According to Ho Sze Yin, Iris (2010), this is multi face activities in the globalism and leads to international free trade.

A study by Kawai and Wignaraja (2007) related the intra-regional trade bloc effects in regionalism. They applied partial equilibrium analysis among 30 nations and concluded that FTAs joining ASEAN most of them had multilateral trade negotiation other than member countries rather than a homogeneous rule. The above type of conclusion has been agreed by Shandre, Thangavelu and Aekapol Chongvilaivan (2009). According to them, “noodle-bowl” effects happened into a single, region-wide FTA, maybe through the EAFTA.

### 5.1.2 GENERAL EQUILIBRIUM ANALYSIS

Some researchers have tried to focus the special aspects of the relationship inside and outside the region taking as example certain prioritized countries. Among such researches carried out by Henegedara (2003), and Dheerasinge (2003) done with reference to Sri Lanka are remarkable. These researches have utilized descriptive analysis and comparative analysis in their researches. They have tried to assess the general trend of Sri Lanka’s foreign trade and the trade extension resulted by the economic policy changes taken place after 1997. And also, they have tried to explain the different progressive stages of the trade relationship Sri Lanka had with SAARC member countries. They have identified the changes in Sri Lankan imports and exports structures with India. It has been proved that, as a result of the growth in the manufacturing sector, proportional increase of goods has also occurred in export. At the same time, the ratio of agricultural goods in export has decreased. And also, they have pointed out the considerable changes taken place in Sri Lanka’s per capita income, consumption level, production, labour movement and technology etc.

Mehta and Kumar (2004) argued that starting of SAFTA was a land mark in the evolution of SAARC which was formed in 1995. SAARC would benefit if its cooperation would expand beyond formal trade. That means SAARC should convert from political regionalism into intra-
regional trade bloc. We can produce a research document by Dhungel (2004) points out actual progress and achievement in implementation of SAARC agendas and considered very insignificant. Jhamb (2006) also supported Dhungel’s view and argued that it was in the primary stage due to the weak political relationship and a general environment of distrust between member countries.

Pitigala (2005) found that the trade structures that changed among the South Asian countries might not assist a rapid increase in intra-regional trade due to weak trading relations among the SAARC nations. The above view was supported by Baysan and others (2006). They concluded that the economic matters for SAFTA were comparatively weak.

Regional trade would lead to trade-creation and trade –diversion effect through intra-regional preferential arrangement or agreement. However, a few study of intra-regional trade patterns on SAARC done by scholars proved that evidence of trade complementarities in South Asia is mixed. Recently Ali and Talukder (2009) pointed out these based on Das (2007). One other recent study done by Newfarmer and Pierola (2007) found that the SAFTA fell short of their possible advantages because of product exemptions, special priority for selected productions and negative list or rules for point of origin.

Tuli Sinha (2009 & 2010) evaluates ASEAN and SAARC as two key regional stages for motivating economic cooperation in South Asia and South East Asia. This study attempts to finds the size of AFTA has exceeded SAFTA in terms of trade gains and value addition to the overall regional economic growth. An investigation exposes that the formation of AFTA has led to a remarkable expansion of intra-ASEAN trade since its beginning. The results indicate the intra-ASEAN trade has been always increasing over the years from US $ 81.98 billion in 1993. Even today (in 2010), the intra-ASEAN trade includes nearly 25% of the total external trade in comparison to just 2% of the intra-SAARC trade. Tuli Sinha (2010) has moreover concluded, despite initial benefits, SAFTA has not really achieved much in terms of internal or external trade. He observed India is the only country well-off conditions of intra-regional trade in South Asia. It means that, India’s total imports have been sharply increased from Pakistan, Sri Lanka, Bhutan and Bangladesh.

One of the earliest study by Miller and John Spencer (1977) regarding the calculation of the effects of a RTA, they checked up the effects of UK entry into the European Economic Cooperation (EEC). They found that the UK achieved small terms-of-trade gain on its entry. Same time, UK’s price of agriculture rose by 22% as compared to manufactured goods. Under the common tariff performances, exports and imports of manufactured goods of UK increased by 50% within the EEC. Besides, imported agriculture production increased by 72% from EEC and decreased its imports from Commonwealth countries by 0.8 percent. It means that after the joining of UK with EEC both trade-creation and trade-diversion effects occurred.

Other significant contribution second of generation general equilibrium model by Harris R G and David Cox (1984) inspect of the economic effects of the US-Canada FTA is to examine the imperfect market and economics of scale on the trade liberalization under the multi possibilities such as unilateral free trade, multilateral free trade, bilateral free trade and sectoral free trade. The above types of free trade are applied to zero tariffs. They assumed that a firm faces mix return to scale (increase and constant) and fixed and variable cost on their model. They found that Canada only benefited on her GDP under the unilateral free trade (4%), multilateral free trade (9%), bilateral free trade (9%) and sectoral free trade (1.5).

A multi countries global general equilibrium model was used by Hamilton, Bob and John Whalley (1985) to analyse a range of RTAs. Example; US-Japan, US-EEC, US-Canada, US-
other developed nations, US-Newly Industrial Countries and US-LDCs. They assumed that constant return to scale and perfect competition functioned in the production and market respectively. They summaries the US always gets gains under the above range of RTAs, and the other non-member countries almost lost their welfare. Especially the result shows that the LDCs and NICs greatest welfare loss but EEC-Japan FTA gets a small gain (1 billion in 1977).

Harrison, Rutherford and Wooton (1989) used a static general equilibrium model regarding to the estimation of the elimination from EC countries’ of economic welfare measures. And assume that the market is perfect competition and production function employed in constant return to scale. There is a common agriculture policy employed within the EC members. And six tradable goods and eleven members considered by them for an estimate. After the elimination of eight members from common agriculture policy they found that all eleven nations proved economic welfare decline on abandoning the EC-common policy. In case of non-member like US got a small welfare gain. They concluded Ireland was the highest loss country (8% in GDP) and lower loss for France and Italy (0.9 % in GDP).

Lee Davis, Warwick Mckibbin and Andrew Stoecke (2000) have expressed that forming the trade agreement under the trade liberalization would benefit all countries. These types of benefits are in terms of productivity, investment, income and welfare. They were used APG-Cubed general equilibrium model (developed by McKibbin 1996) in their research, which could only be analyzed through the use of a particular computer software programme. This study capture the gains from forming an AFTA-CER (Closer Economic Relations Trade Agreement) free trade area are estimated from 2000 to 2020 to be US $ 48.1 billion of GDP.

Nordas, H K (2008) examine by using general equilibrium model which is used for simulating the effects of service trade liberalization on the interaction between goods and services in production and trade with OECD countries. After the trade liberalization, he observed, a gradual decline in service trade costs. At the same time this impact was observed in trade goods and services. However, he pointed out these phenomenon is a non-linear impact. He summarised trade liberalization contributed to intermediate service account between 13% and 30% of total manufacturing coast. His result suggested that there is statistically and economically significant relationship between labour productivity and services. Further, service trade liberalization result shows that a large increase in services variety in both countries and income distribution between labour and capital is not much affected. And also the effect of trade liberalization is larger in the smaller member country.

OECD (2004) undertook a comprehensive general equilibrium study of non-trade barriers concerning developing nations. According to this work, all barriers related to custom regulation, administration measures and technical requirements to trade emerge as the main non-trade barriers concerning developing nations as well as developed nations markets. This study focuses on Special Preference Sectors (SPS) procedures and cited regularly in business surveys centering on access to OECD markets. In terms of sectors indicated, animals and related products, machinery and electronics, and chemical products are subject to non-trade barriers. This research concluded the above identified sectors that provide insights into non-trade barriers that especially concerning the Tsunami effected countries.

Hyung-Jong Lee and Karinne Loges (2005) carried out another general equilibrium analysis to examine about trade interests of the Tsunami affected countries. One of the assumptions suggested that regarding on the Tsunami hits countries; the trade could be a more useful tool to assist the recovery of those countries than aid transfers alone. To investigate the above suggestion, they examine the economies of the affected countries and discovered their
overall trade benefit and market access concerned. This research found out and argued that when trade benefits of the affected countries recover, they may have some limitations in distribution of gains directly to the Tsunami affected people and region.

Shandre, Thangavelu and Ackapol Chongvilaiwan (2009) have tried to evaluate free trade agreement, regional integration and growth in ASEAN. The major objective of them is to assess the explosion and performance of free trade agreements in ASEAN with weight on liberalization of trade in goods and services, and capital market. They assumed that diminishing marginal returns to economic integration works in their model. They agree that the ASEAN economics moving on the right track. They concluded as follows; the total value of exports rising from US $ 341 billion in 1996 to US $ 770 billion in 2006, while the total value of imports rose from US $ 376 billion to US $ 685 billion. They identified three driving forces in the region to help this improvement. First, NAFTA and EU dominated the world trade up to date. Second, the Asian Financial Crisis held in 1997. Third, the major threats as a hub of international trade and investment to the region by larger developing countries like India and China.

OECD (2010) trade policy studies examine trade and economic effects of responses to the economic crisis. This study was undertaken by the OECD’s Trade Committee based on general equilibrium model to examine the financial and economic crisis that started in 2008. The finding shows that direct trade procedures have the most strongly negative impact on both trade and growth; report suggests a US $ 1 increase in tariff revenues results in a US $ 2.16 go down in world exports and a US $ 0.73 fall in world income. The report also suggests that US $ 1 of more spending can increase a nation’s own GDP by US $ 0.64 on average while world trade could increase by US $ 0.08, but the effects on the real GDP of other countries are mixed.

Another significant contribution by Taro Ichikawa (2010) based on general equilibrium model considers examining of ASEAN urged to facilitate intraregional trade. This new study worries the need for trade facilitation in the ASEAN region. The study pointed out that member nations allow trade with different degrees, reflecting the region’s deep diversity effects. Under the above assumption, ASEAN members apply very low import tariffs and efficient open domestic markets, while gaining very low tariff in the majority export markets. This study welcomes recent liberalization efforts, have strengthened the efficiency of transport services, resulting lower logistics cost and the regulatory environment gives huge conductive to trade. And also this research finds that inefficient custom administration and inadequate infrastructure facilities response to major barriers to trade in the region and affect the competitiveness of ASEAN’s exports through increasing cost and shipping travel times.

5.1.3 GRAVITY MODEL ANALYSIS

Hassan, Mehanna and Basher (2001) have done their researches using gravity model. They declare through the arrangement of regional trades among the SAARC members neither the trade-creation nor the trade-diversion effects has occurred in the SAARC countries. They have data set about in 27 countries there are 351 data points for given year. The results show that the variables of GDP, GDP Per capita and distance to be highly significant at the 1% level but BORDER not similar. The estimated coefficient on GDPs at about 1.006 indicates that the trade increase with size. The estimated coefficient on GDP per capita is about 0.12 expressing that poorer nations’ trade less with each other.

The study undertaken by Samaratunga, Sisira Jayasuriya and David Prentice (2001) to analyze the impact of the enlargement of APEC on South Asia. This research provides an
analysis of the determinants of trade flows between South Asian and APEC nations. Those objectives have been achieved by using a gravity trade model with some expansion. The gravity models take on such variables like income, distance, relative prices, openness and tariff and non-tariff barriers. The results show that the potential for extensions of South Asia’s exports to the APEC region is very limited and suggests that needs for policy reforms for the economic growth of SAARC region is stressed. According to that all regression coefficients are significantly different from zero with 80% (R squared), but the coefficient on imports unit values of parameter insignificant.

The research conclusion arrived at by the researches done by Usha Nori and Patnaik (2003) carried out in a different angle, prove that, the trade between SAARC countries and the European Union for the last two decades have increased their trade advantages. He also points out India and Pakistan enjoyed trade dominancy considerably, and also the trade between Nepal, Sri Lanka and Bangladesh with European Union has been extended. They also argue that, as the trade liberalization in South Asia has not occurred simultaneously the advantages gained in respect of different period. However, the opportunity of trade integration between SAARC and EU could be well-known due to the transitivity. They described the above as ‘maximum canonical correlation’.

Hirantha (2003) was done a gravity base model analysis regarding to SAPTA and SAFTA. He used the gravity model analysis to examine the progress of SAPTA using panel data cross sectional data for the period of 1996-2002. His gravity model results explained that there is a significant trade creation effects under SAPTA and finds no facts of trade diversion effect with the respect of the world. Over the research period, SAPTA-1 appears to have been statistically significant. They would trade 4.8 times higher than other two member countries (4.7683). This is evident that trade creation occurred among the SAPTA-1.

Rahman (2003) to examine the Bangladesh’s trade performance a panel data analysis by using gravity model approaches. His study covered 35 countries including from SAARC, ASEAN, NAFTA and EEC. The data collected over the period of 1971-1999. He also gives a theoretical justification for using the gravity model in the analysis of bilateral trade. His results show that Bangladesh’s trade is helpfully determined by the size of the economies, per capita GNP differential of the countries concerned and openness of the trading countries. He strongly states that the exchange rate, partner countries’ total import demand and openness of economy affect the Bangladesh’s export positively. However, the exchange rate is not influenced in the Bangladesh’s imports. Transport cost is found as a major factor in pressuring Bangladesh’s overall trade negatively.

Suresh Moktan (2008) employed the gravity equation to examine of intra-regional trade exports and trade-creation and trade-diversion effects of trade agreements in SAARC nations. His investigation of gravity model has including a pooled panel data for the period of 1980-2005. The regressions are designed to evaluate economic effects as follows, pre-SAARC/pre-SAPTA and post-SAARC /post-SAPTA. According to the study, the sign of the coefficients for the member countries’ GDPs, Populations, Distance, Common border, Common currency, Island and Port are as expected, and are statically significant. The impact of devaluation of real exchange is found to be positive, however largely insignificant. And the variable of landlocked has a significant positive impact to the intra-trade. He has concluded Bhutan and Nepal’s intra-regional exports stranded as high as 81.9 % and 36.2 % respectively.

Another gravity model based analysis on trade prospective of Pakistan was done by Nazia Gul and Hafiz M. Yasin (2011). They used a panel data for the period 1981-2005 across
42 countries including from SAARC, ASEAN, NAFTA, EFTA, Middle East, Far East, and Central and North America. Their results expose that Pakistan’s trade probable is higher with countries of ASEAN, EU, Middle East, Latin and North America other than SAARC and ECO countries. The basic gravity model results show product of GDP and distance are found to be significant. The evidence of their results says that the GDP boosted in 1% significant level the Pakistan’s bilateral trade increased by 0.92%. The estimated value on GDP per capita is 0.11, which express that bilateral trade increases as the difference between the per capita GDP of Pakistan and its partner countries increases, but less than proportionally.

Much more evidences are given regarding bilateral and intra-regional trade effects using gravity model base analysis by Sharma and Chua (2000), Thornton and Goglio (2002), Elliot and Ikemoto (2004), and Tang (2005). They all tried to examine trade creation and trade-diversion effects of ASEAN members and obtained mixed results because the member nations’ activities not honestly engaged in intra-regional trade. The trade bias among them has been calculated through the gravity equation. Along with them, Sharma and Chua (2000) estimated that AFTA not accounted the trade creation effects. Thornton and Goglio (2002) argued some of the member countries have been bias in the direction of intra-regional trade due to closeness, similarity of economic size and language among all member countries. Elliot and Ikemoto (2004) and Tang (2005) used the data for the period after 1997 and tested by gravity equation concluded that AFTA has trade creation but no trade diversion effect after its formation.

Elliot and Ikemoto (2004) tried to examine on economic effect of European Economic Commission (EEC) and NAFTA. They used the data representing the period of 1982-1999 which divided into six periods to compare before and after the formation of AFTA. The estimated results showed the size of trade -creation effect before 1997 was very low among member countries compared with China, South America and East Europe. After the formation of AFTA, there was a major negative trade- diversion effect occurred within the members. The members had their imports from member countries other than non-members. However, the negative impact of trade exports explains that the trade-diversion effect was increased as AFTA members favored to export to non-members other than members. They concluded this involvement due to the currency devaluation after the financial crisis which happened in 1997.

Ho Sze Yin, Iris (2010) also attempted to examine likewise Elliot and Ikemoto (2004) whether formation of AFTA led to trade creation between members and trade diversion from 1988 to 2004. He found that there is boost of intra-regional trade after the formation of AFTA in 1992. While, there is no evidence for the trade-diversion effect among the member countries after the formation of AFTA. This empirical result has contradicted with former study of Elliot and Ikemoto (2004). He argued that this is not only due to the financial crisis but also due to Severe Acute Respiratory Syndrome (SARS) in 2003. Therefore, the member countries were compelled to export and import within the region. A regression results clearly say that both economic effects had negative impact after 2003. He used the modified original basic gravity model and estimated pooled data by OLS from 1988 to 2004 for 46 (including 10 member countries) countries. The data is separated into four periods as 1988-1992, 1993-1997, 1998-2002 and 2003-2004.

Regarding to the EEC and EFTA, in many studies, to estimate the trade-creation and trade-diversion effects had been employed since 1965. Frankel’s works of the fifteen member countries of the EU exposed that trade among them was insignificant for the early period but later found that it was significant. The coefficient variable represented into the intra-trade was insignificant for the period of 1965-1980. After 1985, a coefficient value 0.2 was significant and
increased to 0.3 in 1990. This parameter value explained that two member of the EU trade 35% more with each except non-members. Frankel and Wei (1997) also agreed that the above (0.2) value positive and statistically significant coefficient. While the coefficient of dummy variable for West Europe not significant before 1990 but after that coefficient value represented as 0.4 showing that two Western Europe countries had more trade 49% other than non-members. Regarding to the NAFTA, their study suggested that coefficient values almost not significant at least in 1992. This year NAFTA officially negotiated with EU. They concluded because NAFTA consist only three countries. Theirs data covered as pooled for the period of 1970-1992. They found that the estimated coefficient of NAFTA presence significant with the parameter value of 0.36 involving a 43% effect on intra-NAFTA trade.

5.1.4 EX-ANTE AND EX-POST ANALYSIS

Very earliest study by Balassa (1967) estimates the trade-creation and trade-diversion after the establishment of EEC-common market. He employed a partial equilibrium analysis consist of ex-ante and ex-post methodology. He compares welfare effects of two periods, 1953-1959 and 1959-1965 before EEC and after EEC. The objective of his study is to measures the income elasticity of import demand. His results showed an increase in income elasticity of demand for imports of all type of commodity, by occurrence of trade-creation but not on all types of goods. For example, trade-creation concerned only fuels, machinery and transport equipment while trade-diversion effect occurred for food, raw material, tobacco and chemical. In addition, he expresses that the welfare gain after the EEC is in the real GNP growth rate of 0.1 percent per annual.

Another early study based on EEC by Truman (1975) workout for the analysis of shares for the EEC -6 before and after the establishment of custom union. He employed a partial equilibrium analysis for the period from 1953 to 1968. He attempted compare a hypothetical import shares and actual import shares after the formation of EEC. For the comparison he used the data period from 1950 to 1960 in eleven manufacturing industries. The evaluation of the study results shows that 43% of industries (out of 11) recorded an increase in trade shares meanwhile 37% decreased. Other remaining 20 percent of the industries practiced a dropping shares for both member and non-member countries. And also the results indicate that the intra-regional trade increased by US $ 11 billion including US $ 2 billion which came from non-members or extra-regional. Besides explicit from the results, a US $ 1 billion increase in total trade, but then again which came from extra-regional trade.

Late 1990s, a well-known study of impact assessment regarding on regionalization of NAFTA was done by Kruenger (1999). She carries out the methodology of an ex-post study to inspect NAFTA impact on trade of members and non-members. The results of this research showed for the late 1980s and early 1990s, Mexican exports seemed to have been benefiting share in the US market but loosing share in rest of the world. But the interesting observation is that, after the 1994 (early 1990s) Mexico got beneficiary trade share responses on manufacturing production from both markets. These performances have been due to the devaluation of her currency during 1994-1994.

Dean A De Rosa (1998) has contributed to examine the increasing regionalism and development of the countries base on static economic theory, quantitative findings, and policy guidelines. He explains about quantitative studies of regional integration arrangement opening with ex-post empirical studies of AFTA, NAFTA and European Community during the 1960s
and 1970s. He expresses in his previous study (1995) the effects of the integration that AFTA is trade-creating on a net basis. The found out that, larger benefits in trade and marginally larger gains in welfare. De Rosa explains, about Malaysia and Singapore gained principally from the trade-diversion by other members. Other finding by De Rosa, described that alternative scenarios in which the trade regimes of the ASEAN countries are liberalized on a concentrated most favourable nation (MFN) basis rather than preferential basis, income comparatively larger benefits in trade and economic welfare.

Waldkirch (2004) evaluates the developing countries’ effects of new regionalism on foreign direct investment (FDI) activities using the ex-ante analysis. This analysis shows that how FDI increasing after the financial liberalization into the LDCs. And also this study tries to express what the effects in non-member countries after the regionalism implemented. The main objective of this study is to formally investigate the effect of the commitment value of FTA between a small developing and developed country on inward FDI. According to this analysis some important policy as well as empirical suggestion cropped up. Regarding this suggestions the need for modeling the effects of regional integration such as trade- creation and trade– diversion. The results show a more bilateral trade volume is correlated with a better increase in FDI. In fact, size wise big countries join together in FTA if a country’s aim of regionalism is to capture more FDI.

Another study under the ex-post model type examines by Faiza Amjad and Naheed Zia Khan (2005) related with SAARC and Pakistan. This study focuses on the forecasts of comprehensive economic cooperation in the member countries of SAARC. The estimated results show that two external variable such as export earnings (GDP growth) and trade balance (GDP growth) are influenced on growth in the SAARC countries. Explaining that 1 % increase in export earnings increases the growth rate of GDP by 0.04 (double increases). While, 1 % reduces trade imbalance, increases the growth rate of GDP by 5 %. However, the coefficient value of exchange rate brings negative sign means that domestic currency values appreciated not advisable. Internal sector variables such as domestic investment is significant at 1% level and gets positive sign while price level negative sign and statistically not significant. The coefficient value of domestic investment is 0.368 means that domestic investment increase by 1% the GDP would be raise into 0.4%. While, the estimated coefficient of price level is -0.026 indicating that inflation damages the growth of GDP but it’s theoretically invalid.

A different simulation result and explanation given by Bandara J S and Yu W (2008) as a sectoral based effect analysis on agricultural trade liberalization in the Asia-Pacific region. The principle objective of this research is to attempt to evaluate the impact of agricultural trade reform in the Asia-Pacific region. The above aim is to test on ASEAN, SAARC, ASEAN + 3, ASEAN + 3 + India and Indo-Lanka free trade agreement. In this background, they tried to examine only the welfare results, and this basis to indicate “winners” and “losers”. However, they are assuming that agricultural liberalization is limited under the SAFTA. The above challenge will help to examine further answering the question of “is it useful for South Asian countries to move towards multilateral trade liberalization? The overall welfare results of the SAFTA region indicate that US $ 16,554.46 million in 2001 show the impact of multilateral trade liberalization purposes. In addition, India would gain (12.9) reasonably under SAFTA. But, Sri Lanka and Bangladesh as a small size economies reflect welfare losses (-0.8 and -8.2 respectively). The reason for that, they argue, India gets on big trade shares within the region. Further, Bangladesh’s negative impact as terms of trade wise also (-9.1) compare to Sri Lanka.
only 3.1. Therefore, they compelled to suggest that the SAARC countries have to reduce their tariff and non-tariff barriers under the multilateral scenarios.

Suresh Moktan and Danura Miriyagalla (2008) was another great work regarding to the assessment of impacts on economic and welfare implication of SAFTA and SAFTA + 5 under the trade liberalization phenomena. Findings tell that the biggest welfare benefits for SAARC countries under the multilateral FTAs scenario with deeper liberalization in selective sectors. However, the results incorporate with SAFTA plus 5 generate more welfare gains (net trade-creation) other than SAFTA. The simulation results of their study clearly show that the welfare of SAFTA countries increases by US $ 339.15 million while, both SAFTA + 5 and rest of the world reduces account by US $ 140.07 million and US $ 54.42 million respectively. According to the outcomes, they expected trade-creation within the region and trade-diversion from rest of world. However, they stated that Bangladesh was the biggest loser their economic welfare due to the lack of removal of the trade barriers while, India and the rest of South Asia gained the largest benefit.

An analytical perspective base study was done by Sinha and Pradhan (2008) on India’s financial openness and integration with South East Asian countries. Their study considers the proportion of a country’s GDP as a good indicator for level of trade openness. Further, they assume that trade openness had ex-ante and ex-post openness. However, they accept both are interrelated. Other indicators like “financial integration” and “financial openness” have also used in the analysis. The above study expresses about low trade performance due to by restrictive industrial and foreign investment policy. However, they concluded that India’s exports share declined below than the Asia (21.7 %). In the case of India’s FDI openness, as estimated by the FDI stock-to-GDP ratio increases from 3.8 % in 2000 to 5.8 % in 2006. Whereas, this achievement is much lower than the other developing countries in Asia. They summarized on average India’s share was 24 % of total portfolio flows to all developing countries during the period 1999-2006.

5. CONCLUSIONS

All four (4) categories of empirical studies inspecting the economic effects of regionalism are equally fashionable among researches, although each of them has its strengths and shortcomings from the methodological as well as theoretical point of view. The findings of many of these theoretical and empirical studies varied; especially with regard to the welfare effects that a particular regional trading arrangement has on member in comparison with non-member countries.

This is perfect even if these studies go down into the same methodological category. For example, the gravity base model shows that the findings of Anuar Ariffin (2007) and some others about the effects of a different RTAs on members’ vis-à-vis non-members are different from that of Frankel (1997) and Krueger (1999). These open to doubt findings. Therefore, justify further research to examine economic effects brought about by regionalism.

The empirical studies has been founds that a significant gains from trade liberalization and intra-regional trade with member countries of RTAs. It is advisable that member country should carefully reduce or eliminates all trade and non trade barriers simultaneously and also should include some of imports items in the negative list. The economy of the country has under gone reasonable structural changes but its dependency ratio is not helpful to the country. Hence, the findings of this paper suggest that organization in measurement is needed to promote the
research within regionalization and liberalization as well as more industry based analysis to avoid bias measuring in an important strategic field of regional strategy. And also this research would suggest that liberalization is not out dated but it should be moderated for the country’s situation for the best result and achievements.

6. FUTURE SCOPE OF THE STUDY

Given the last many years enormous contribution of material within this field of study this paper, in terms of timeline, aim at reviewing the most recent research by primarily focusing on research conducted between 1950 and 2010 as this will provide the reader with the most update literature available. While the present spotlight of this paper and given the long research history of liberalization and regionalization elderly complementary study will be offered to provide a whole framework providing a platform for new theory to be implemented.

Stated the problem formulation, the content of this paper is kept strictly to regional literature in order to give outcome. As this study gives on liberalism, neo-liberalism, and regionalism as well as structure of regional blocs and theory perspective it is surrounded from other wings of regional and global elements such as tariff and non-tariff barriers, custom, foreign exchange, and etc.

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