

Effects of Regionalism on South Asian Trade: A Gravity Model Analysis

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ABSTRACT: *South Asia has been focusing on enhancing its inter and intra-regional trade through various trade arrangements since mid 1990s. Proliferation of these agreements caused in complex trade, raising a question on the type of trade arrangement that would be most favorable. The objective of this study was to assess the effects of various forms of regional trade agreements on bi-lateral trade of South Asia. Gravity model of international trade was used as the analytical tool and the effects of the World Trade Organization (WTO), Regional Trade Agreements (RTA) such as SAFTA, EU, ASEAN, BIMSTEC and NAFTA and Bilateral Trade Agreements (BTA) were estimated. Distance between the trading partners, sharing of common language, and colonial ties were the remaining variables included in the models. Three types of BTAs were included; between two South Asian countries, between a South Asian country and a non-South Asian country, and between two non-South Asian countries. Cross sectional data covering 2555 bilateral trades for the year 2012 were used for the estimation. The data were extracted from the gravity databases of Asia Pacific Research and Training Network, World Bank and WTO. The models were estimated using Ordinary Least Squares including importer and exporter fixed effects. The results of the estimation suggested that sharing of a common language, sharing a common colony, and membership of WTO positively and significantly affected export values, and geographical distance, as expected, effect on the same negatively. The memberships in BTA and RTA had mixed effects. Among RTAs used in the study, only EU was statistically significant. Contrary to estimation results of the previous studies, the results showed a negative effect of EU on regional trade, when control for country effects. SAFTA, ASEAN, BIMSTEC and NAFTA did not show significant effects on bilateral trade. The effects of all BTAs were positive and significant. BTAs within South Asia enhanced its regional trade greater than the BTAs with non-members suggesting that proliferation of BTAs within South Asia is welfare improving.*

Keywords: *BTA, Gravity model, RTA, South Asia, WTO*

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