



## ANALYZING THE BARRIERS OF PAK-INDIA TRADE ON TEXTILE EXPORTS BY USING CGE MODEL

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**Abstract:** This research investigates the analyzing the barriers of Pak-india trade on textile exports by using CGE model. Data were collected from 50 exporters by using simple random technique. Data were analyzed by using SPSS-21 version, A structural questionnaire was developed for the reliability and validity of the data. It was revealed that Exporters' opinion on export after decreasing the strength of barriers. Exporters have been asked if they are ready to export more to the INDIA after these barriers will be less, and 70% of the exporters said yes, 22% said maybe, and 8% said no. Thus, exporters are positive regarding export to the INDIA. India's export to the INDIA can be increased if these barriers get less or are removed. It was further revealed that Accordingly, the results suggest that a reduction of import tariffs to 10 percent will increase Pakistan's welfare and terms-of-trade as well. Although one might expect that the reduction of import tariffs would increase the domestic output and therefore increase exports sales, this policy reform would adversely affect Pakistan's domestic output in most of these sectors because of foreign competition. A similar impact can be seen in exports sales too.

**Key Words-**ISSUES, PAK-INDIA, TRADE

### Introduction

Textile industry of Pakistan is broadly divided into many sectors that are Ginning, Spinning, Weaving, Knitting, Towel, Dying, Printing, Processing, Hosiery, Made-ups and Garments. As the first objective is concerned with understanding the current status of textile industry; in this connection a survey of the entire textile industry will be conducted. A total of 48 companies were selected for conducting the research in Hyderabad, Kotri, Karachi, Faisalabad and Lahore region including the key integrated textile units to ensure full representation of all sectors. Further the above sectors of textile industry were lumped together into four major sectors as Spinning, Weaving (including Knitting, Dying & Printing (including Processing and Bleaching), and Garments (including Made-ups, towel, Hosiery and other manufactured items) for compiling the qualitative information. The survey methodology included a combination of primary data that was generated through a questionnaire and intensive interviews with individuals connected to the industry to identify



their internal issues, national issues, global issues and required remedial actions and the secondary data included journal articles, trade policies of Pakistan, news, and internet which were helpful for the second and the third objectives. In the second objective the graphs are used to explain the growth pattern of textile exports from the year 1980 to 2009 as the implementation of WTO on textile industry of Pakistan started from 1995 that was 100% complete in 2005. Therefore the starting 14 years from 1980 to 1994 are considered as the time period with quotas, whereas the last 14 years from 1995 to 2009 are considered as the quota free era. In the third objective developing countries like China, India, Srilanka and Bangladesh are taken into account to analyze the effects of WTO on them. Here the information collected through the above mentioned secondary sources regarding the benefits of becoming the member of WTO and the problems associated with its implementation are highlighted.

### The Textile Industry of Pakistan

One of the major economic indicators for the development of Pakistan economy is textile Industry. Textile Industry is an important source of the overall and major export of the country. In fact, Pakistan is ranked in top most leading cotton producing countries of the world. Statistically, till 1997 Pakistan was named as world's largest exporter of yarn. In 1999, it was ranked on the second position in the largest exporter of textile made-ups list. In textile made-ups sources, the second largest sources were the bed wear and linens sub sectors. These both shared about 28 per cent share of total textile made-ups in 1999 (SMEDA, 2002). In addition, Pakistan became second largest exporter of bed wear and linen globally during that period.

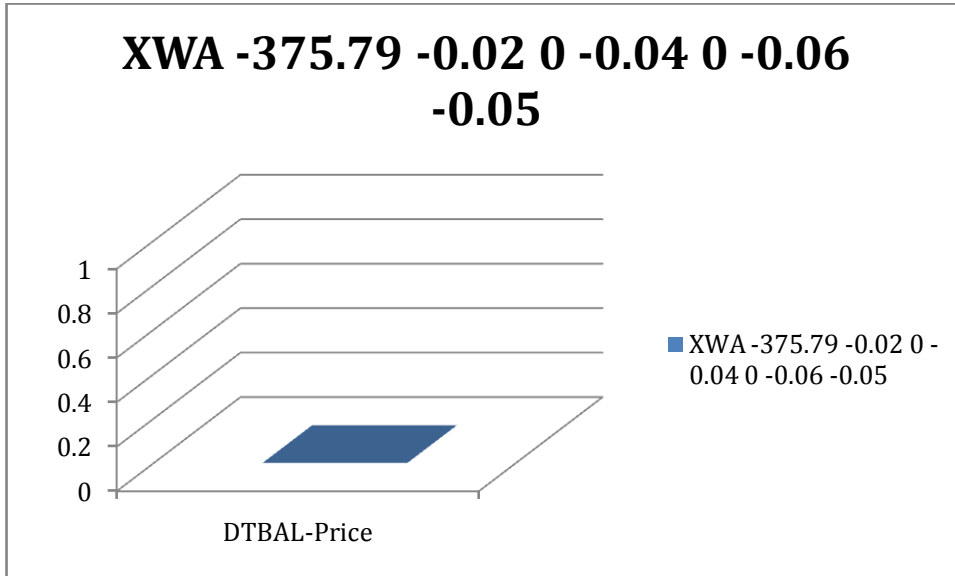
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### DATA COLLECTION METHODOLOGY

Data were collected from 50 exporters by using simple random technique. Data were analyzed by using SPSS-21version, A structural questionnaire was developed for the reliability and validity of the data.

**Table6.1:Experiment-1-15PercentUniformImportTariffsEstimated Welfare and Trade Effects (Percentage changes in millions)**

Countries	EV US\$	% of GDP	TOT	V-Export	V-Import	Exp-Price	Import-Price	DTBAL-Price
IND	3213.97	3.40	0.41	0.4	1.23	2.1	3.68	109.74 m
PAK	4442.63	4.35	5.98	2.19	0.61	-8.97	5.44	285.66m
XSA	-1592.56	-1.74	-0.57	-3.92	31.54	24.83	-2.12	-1322.73m
XWA	-375.79	-0.02	0.00	-0.04	0.00	-0.06	-0.05	149.69m



Description

IND=INDIA

PAK=PAKISTAN

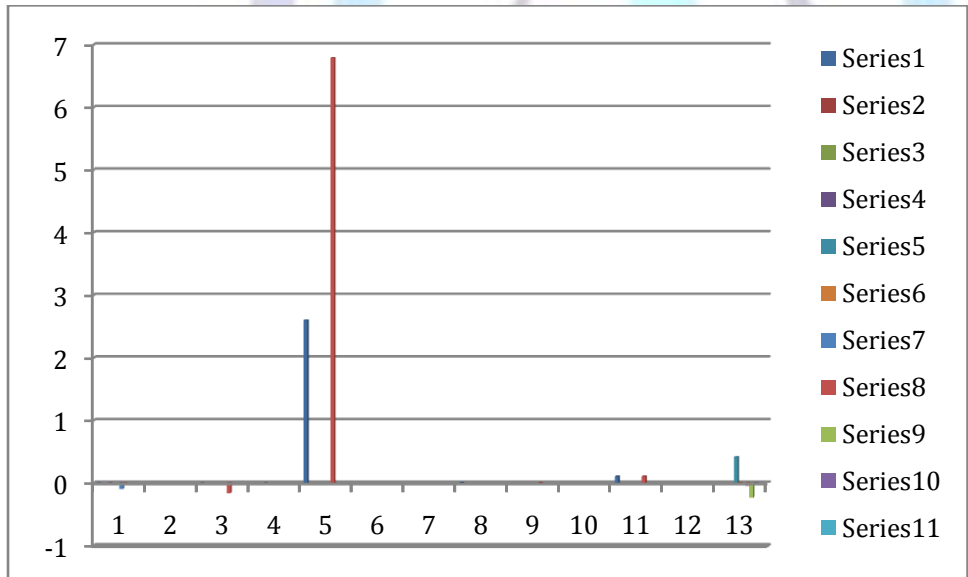
XSA = REST OF SOUTH ASIA

XWA= REST OF WORLS

All experiments were conducted with the standard general equilibrium closure of the GTAP model. According to the results Base line tariff for India is 18% SAFTA tariff is 5% and given MFN Tariff is 15% and rest of world is 15%..The first experiment considered the Pakistan’s reduction of import tariffs to 15 percent under the unilateral trade liberalization. The impact of this scenario on regional welfare and the resulting percentage changes in sectoral output and trade are reported in Table 6.1 Accordingly, if Pakistan (PAK) reduces its import tariffs to 15 percent unilaterally on a global basis to maintain a uniform external tariff rate, Pakistan’s EV US\$ 4442.63 and GDP 4.35, and India’s EV US\$ 321 million (3.40 percent of the GDP). Under this scenario, Pakistan’s volume of imports rises by 1.23 percent while its volume of exports falls slightly by 0.4 percent reflecting the fact that the pressure to increase imports is stronger than the increase in demand for Pakistan’s exports by unilateral liberalization. However, as a result of the composite export price increase by 2.1 percent, Pakistan’s experiences a small improvement in the terms-of-trade of 1.5 percent and the real GDP by 0.9 percent. The welfare gains or losses for other regions are quite varied under this simulation. However, since Pakistanis impact on unilateral reduction of import tariffs to 15 percent will not affect other region’s real GDP or terms-of-trade significantly.

**Table 6.2: Experiment- 115PercentUniformImportTariffsEstimatedPercentageChangesinRegionalOutputandTrade**

Sector	IND	PAK	XSA	XWA
<b>(a) Industry Output (In Millions)</b>				
TEXT	1.45.03	2.60	0.01	0.11
<b>(b) Export (In Millions)</b>				
				0
				0
TEXT	-0.16	6.79	0.01	0.11



Tariff Rates  
 5% SAFTA  
 15% XWA  
 5% XSA  
 15 MFN

**Table6.2:Experiment-2SouthAsianFreeTradeAgreement-SAFTA- EstimatedWelfare and Trade Effect**

Countries	EV US\$	% Of GDP	TOT	Vole-Export	Volume-Import	Export Price	Import-Price	DTBAL US\$
IND	5434.97	4.34	0.80	5.40	4.00	9.38	8.68	-1100.9
PAK	5643.63	6.35	0.99	7.11	7.77	5.97	7.44	-786.77
RAS	-1592.56	-1.74	-0.57	-3.92	31.54	24.83	-2.12	-1322.7

Tariff Rates

SAFTA=5%

MFN=10%

XWA=10%

SAFTA=10

The trade reform scenario (*Experiment-2*) was conducted under the regional trade liberalization policy option to examine the impact of South Asian Free Trade Agreement-SAFTA in different contexts from the perspective of Pakistan. As a member of the SAFTA, Pakistan committed to continue major trade liberalization measures, to establish and promote free trade arrangements for strengthening inter-regional economic co-operation and the development of national economies. In this experiment, it was assumed that Pakistan and each of the SAARC member countries in the model (India and the Rest of South Asia comprising Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka) remove their tariffs against each other, while maintaining their tariffs against the rest of the South Asia.

**Table6.3:Experiment-2**
**10PercentUniformImportTariffs**
**EstimatedPercentageChangesinRegionalOutputandTrade**

Sector	IND	PAK	XSA	XWA
(a) IndustryOutput				

TEXT	0.03	0.60	0.01	0.11
Exports				
TEXT	-0.16	8.79	0.01	0.11

Tariff Rates

SAFTA=5%

MFN=10%

XWA=10%

SAFTA=10

The trade reform scenario (*Experiment-2*) was conducted under the regional trade liberalization policy option to examine the impact of South Asian Free Trade Agreement- SAFTA in different contexts from the perspective of Pakistan. As a member of the SAFTA, Pakistan.

committed to continue major trade liberalization measures, to establish and promote free trade arrangements for strengthening inter-regional economic co-operation and the development of national economies. In this experiment, it was assumed that Pakistan and each of the SAARC member countries in the model (India and the Rest of South Asia comprising Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka) remove their tariffs against each other, while maintaining their tariffs against the rest of the South Asia. According to results in SAFTA 5% tariff the Pakistan industry output .079 compare to India -0.4 that Pakistan's will benefit on SAFTA trade with India. Indian industry output shows that in Auto, Textile India's position is better in compare with Pakistan. The second experiment considered that Pakistan's reduction of import tariff to 10 percent under the unilateral trade liberalization. The impact of this scenario on regional welfare and the resulting percentage changes in sectorial output and trade are reported in Table 6.1, 6.2 and 6.3 respectively. Accordingly, if Pakistan reduces its import tariff to 10 percent unilaterally on a global basis to maintain a uniform external tariff rate, Pakistan's experiences a welfare gain around US\$201 million (1.53 percent of the GDP). Under this scenario, Pakistan's volume of imports rises by 3.3 percent while its volume of exports falls slightly by 0.3 percent reflecting the fact that the pressure to increase imports is stronger than the increase in demand for Pakistan's exports by unilateral liberalization. However, as a result of the composite export price increase by 1.1 percent, Pakistan's experiences a small improvement in the terms-of-trade of 1.5 percent and the real GDP by 0.8 percent. The welfare gains or losses for other regions are quite varied under this simulation. However, the impact of Pakistan's unilateral reduction of import tariff to 10 percent will not affect the region's real GDP or terms-of-trade significantly. Accordingly, the results suggest that a reduction of import tariff to 10 percent will increase Pakistan's welfare and terms-of-trade as well. Although one might expect that the reduction of import tariffs would increase the domestic output and therefore increase exports sales, this policy reform would adversely affect Pakistan's domestic output in most of these sectors because of foreign competition. A similar impact can be seen in exports sales too.

**Table 6.4: South Asian Free Trade Agreement-SAFTA (continued)  
Estimated Percentage Changes in Regional Output and Trade**

**Aggregate Exports**

Sector	PAK	IND	XSA	XWA
TEXT	-0.078	-5.60	0.06	0.45

**Aggregate Imports**

TEXT	-0.76	-5.60	0.03	0.45

**Experiments-Sensitivity of the Results**

As portrayed already, to measure the effect of Trade strategy changes on Pakistan's Trade with India, three extra investigations were attempted with an expanded versatility esteem for the import-import substitution parameter (Armington parameter)- ESUBM, to consider as Pakistan-India Trade connection. As needs be, under these three trials, to start with, the span of the ESUBM expanded by 50 percent, and after that multiplied the worth (100 percent expansion) to decrease Pakistan's business sector power on the planet market. This would give a chance to look at the affectability or power of the model forecasts regarding the adjustment in the fundamental parameters.

Table 6.3 introduces the consequences of these three investigations with the focal versatility esteem situations. In this manner, under the 15 percent uniform outer tax situation (E-4), in the event that we lessens Pakistan's business sector power by expanding the estimation of ESUBM by 50 percent (E-4.1), it would build welfare pick up around US\$201.84 million (0.60 percent of the GDP). Thus, multiplying the worth (100%) of ESUBM (E-4.2) would expand Pakistan's welfare by around US\$237.60 million (or 2.41 percent of the GDP). In the previous case, the increment in welfare from



the focal worth is 0.44 percent, and in the last case, it is around 0.47 percent. In spite of the fact that these progressions are moderately little, it would recommend that even as a major nation would be in a position to pick up from the one-sided Trade liberalization. The welfare increments for the nation as the flexibilities increment. On the other hand, under these two situations, we little increment as far as Trade as flexibilities increments. Besides, under these situations, the effect on terms-of-Trade is very little unique in relation to the focal situation case

Essentially, test 2 (E-2) manages the SAFTA situation. As appeared in Table17, with the esteem's increment of ESUBM, both the welfare and the terms-of-Trade will increment straightly from the focal situation case. Subsequently, the welfare pick up for Pakistan's under the 50 percent expansion in ESUBM (E-5.1) is roughly US\$33.38 million (2.58 percent of the GDP), though under the 100 percent expansion situation (E-5.2), it is around US\$422 million (2.33 percent of the GDP). Along these lines the welfare will increment by 4.2 percent from its focal quality situation, and in the last case it will increment by 5.2 percent. Along these lines, welfare increments as versatilities increment. Along these lines, the additions are fairly direct with both the cases mirroring the model's power results.

Test 3 (E-3) considered the consolidated arrangement of SAFTA cum 15% uniform import levies situation Thus, half increment of the estimation of ESUBM (E-6.1), would expand welfare pick up around US\$311million (from US\$221 million at the focal situation) or 5.11percent of the GDP. Here, the increment in welfare from the focal worth is 31 percent. Essentially, multiplying the estimation of ESUBM (E-6.2) would expand Pakistan's welfare by around US\$720 million or 7.22 percent of the GDP. For this situation, the increment in welfare from the focal quality is 61 percent. Additionally, under these two situations, the increment as far as Trade is 8.0 and 8.8 individually. Accordingly the changes in the terms of Trade from the focal worth are 1.7 and 3.6 percent separately. In spite of the fact that these welfare and terms-of-Trade increases are not directly identified with the adjustments in the Armington versatility ESUBM, the outcome would propose that one-sided Trade liberalization in blend with territorial Trade liberalization licenses Pakistan to grow its fare segments while all segments contend all the more nearly with a bigger number of contending mixed bags from abroad.

Table 6.3. Highlights Pakistan's sectorial yield, fares and imports under the affectability examination situations. Appropriately, Pakistan's industry yield falls altogether in all most every one of the divisions aside from critical increments in Agriculture and Textile wearing attire. Pakistan's fare additionally diminish extensively under every one of the examinations as appeared in of Table 6.4, aside from Textile and farming under E-2, and E-3 Auto Parts, under E-6 Parma, and Financial Services and Insurance and Transport and Logistics. India's position in E-2 and E-3 vastly improved contrast with Pakistan.

### Non-Economic Benefits

Other than the welfare and terms of Trade additions recommended by the reenactments, provincial Trade liberalization under SAFTA may have some non-financial advantages to Pakistan especially social and political advantages; those are hard to represent quantity. For instance, SAFTA can help its individuals to talk with one voice in worldwide arrangements and build up a typical comprehension on a few worldwide Trade related issues. It could likewise decrease the political question among individuals and make the locale a more appealing area for outside direct ventures. Pakistan is essential for getting noteworthy advantages from FDI, liberalization of Trade and FDI approaches should be supplemented by fitting arrangement measures regarding training, R&D, and human capital aggregation if Trade transaction with India will restore.

### 6.5.ISSUES ON SAFTA OF TEXTILE INDUSTRY OF PAKISTAN

The Cronbach alpha test was applied for reliability and internal consistency of the multi-item barriers scale on all barriers. The internal consistency of the questionnaire was checked by this test.

Table6.5. Reliability Statistics

Cronbach's alpha	Cronbach's alpha based on standardized items	No of items
.987	.988	25

From Table6.5 one can see that the Cronbach alpha value is 0.98 which is considered to have a very high internal consistency and reliability. So, it was concluded that the scales for the multi-item barrier questions were very reliable and had an internal consistency

**6.5.Exporters' perceptionofbarriersduringexport/Natureofproblemfaced byPakistaniexportersduringexporttotheINDIA**

One-samplet-test

Barrier	N	Mean	Std. deviatio	t-value	Sig. (2-	Sig.at n5
Tariff barrier	50	3.0667	1.19131	7.196	.000	YeS
governmentalregulations	50	3.4667	1.25505	9.299	.000	YeS
Priceofthecommodity	50	2.5833	1.12433	4.294	.000	YeS
Marketaccessproblem	50	3.5000	1.44386	8.262	.000	YeS
informationalbarrier	50	3.0667	1.26044	6.801	.000	YeS
legalandPoliticalbarriers	50	2.4000	1.06086	3.213	.002	YeS
Customprocedureandlicensing.	50	3.5000	1.30838	9.117	.000	YeS
Technicalstandards	50	4.1000	1.18893	13.942	.000	YeS
anti-dumping	50	3.1000	1.50367	5.873	.000	YeS
languagesandcustoms	50	3.0167	.96536	8.479	.000	YeS
Culture	50	2.8500	1.32544	5.201	.000	YeS
labelingandpackagingrequirement	50	4.0333	1.05713	15.192	.000	YeS
Sanitaryandphytosanitary(SPS)mea	50	3.9500	1.06445	14.481	.000	YeS
importquotasofdestinationcountry	50	2.4333	1.14042	3.215	.002	YeS
Demandoftheproduct	50	2.7000	1.19745	4.787	.000	YeS
Competitionfromfirmsinforeignmark	50	2.5833	1.23908	3.897	.000	YeS
Lackofcapitaltofinanceexpansi oninto foreignmarkets	50	2.9667	1.22082	6.387	.000	YeS
businessenvironment	50	2.6000	1.06086	4.673	.000	YeS
industrialpropertyrightsandcopyright	50	2.7333	1.27381	4.703	.000	YeS
Corruption	50	2.6167	1.27680	3.984	.000	YeS
Currency Traderate	50	3.2667	1.19131	8.496	.000	YeS
Climaticconditionsofdestinationcou	50	2.0500	1.01556	.686	.495	No
Transportationcostandduration	50	2.7833	1.23634	5.158	.000	YeS
Certification	50	3.3167	1.26881	8.282	.000	YeS
Workingstructure/scheduleofthetar geting country	50	1.6667	.83700	-2.715	.009	YeS

Table-6.5 shows that Pakistani exporters have significant feelings for all the barriers except the climatic conditions of the destination country, which are regarded by the mas a Internal factor.

**6.7Percentage analysis**

Percentageanalysis hasbeendonetochestrengthofeachsignificantbarrier.These barriers are divided into two parts – common barriers to export and hidden barriers. Commonbarriersarethosethatexistduetogovernmentalregulationsandpoliciesand

whichglobalorganizationssuchasWTOfindasolution,andtheycansolvethroughthe agreements.Hiddenbarriersarethosethatexistnaturally,andgovernmentbodiescannot really make solutions on them, but these hidden barriers can affect export negatively.



## 6.6 Common Barriers

Table 6.6..Percentage analysis of Pakistani exporters' perception of common barriers

No.	Common barriers	Not and issue at all (1)	No barrier (2)	Not seen as barrier (3)	barrier (4)	Very serious barrier (5)
1.	Tariff	5%	37%	20%	23%	15%
2.	Governmental regulations	10%	15%	13%	42%	20%
3.	Customs procedure and	7%	22%	17%	25%	30%
4.	Anti-dumping	17%	25%	12%	20%	27%
5.	Technical standards and health regulations	5%	10%	8%	30%	47%
6.	Sanitary and phytosanitary measures	2%	13%	8%	42%	35%
7.	import quota of destination country	23%	33%	25%	13%	5%
8.	industrial property rights and copyrights	20%	27%	23%	20%	10%
9.	Certification	10%	20%	17%	35%	18%
10.	Price of the commodity	20%	27%	33%	15%	5%

Porters' perception of common barrier. Table 3 and Fig. 2 show that respondents regard governmental regulations, customs procedure and licensing, technical standards and health regulations, sanitary and phytosanitary measures and certification as the major barriers to export. The anti-dumping and tariff barrier are not the major barriers but tend to be the major ones. The tariff barrier may be low due to several rounds of GATT and WTO. The import quota of the destination country and the Price of the commodity are not regarded as barriers, either.

governmental regulations  
 anti-dumping  
 Sanitary and phytosanitary measures  
 import quota of destination country

**6.7.Hiddenbarriers**

**6.7**

**Table6.7.PercentageanalysisofPakistaniexporters'perceptionofhiddenbarriers**

No	Hiddenbarriers	Notanissue atall(1)	Nobarrier (2)	Notseenasa barrier(3)	barrier (4)	Veryserious barrier(5)
1.	Marketaccessproblem	13%	17%	10%	27%	28%
2.	informationalbarrier	13%	23%	18%	33%	17%
3.	Legalandpolitical barriers	25%	27%	33%	13%	2%
4.	Languagesandcustoms	5%	23%	43%	22%	7%
5.	Culture	17%	32%	15%	23%	13%
6.	Demandoftheproduct	20%	22%	35%	15%	8%
7.	Competitionfromthefirmsintheforeignmarket	25%	23%	27%	18%	7%
8.	Lackofcapitaltofinance expansionintoforeignmarket	15%	18%	33%	22%	12%
9.	businessenvironment ofthetargetingcountry	18%	25%	38%	15%	3%
10.	Corruption	23%	30%	15%	25%	7%
11.	Currency Traderate	8%	20%	23%	33%	15%
13.	Transportationcostandduration	17%	30%	20%	25%	8%
14.	Workingstructure/schedule ofthetargetingcountry	55%	25%	18%	2%	0%
15.	Labelingandpackaging regulations	3%	7%	13%	37%	40%

Table6.7. and Fig. 3 show that the respondents regard the market access problems and labelingandpackagingasthemajorbarrierstoexport.Althoughnotthemajorbarriers butculturalone,thecurrencyTraderateandinformationalbarriertend tobethemajor barrierstoexport.TheLegalandPoliticalbarriers,LanguagesandCustoms,demandof theproduct,workingstructure/scheduleofthetargetingcountry,businessenvironment are not regarded as barriers to export.

When exporters were asked about the other barriers they face than the above- mentioned common and hidden barriers, most of the respondents said that coordination is another barrier they face mostly during export.

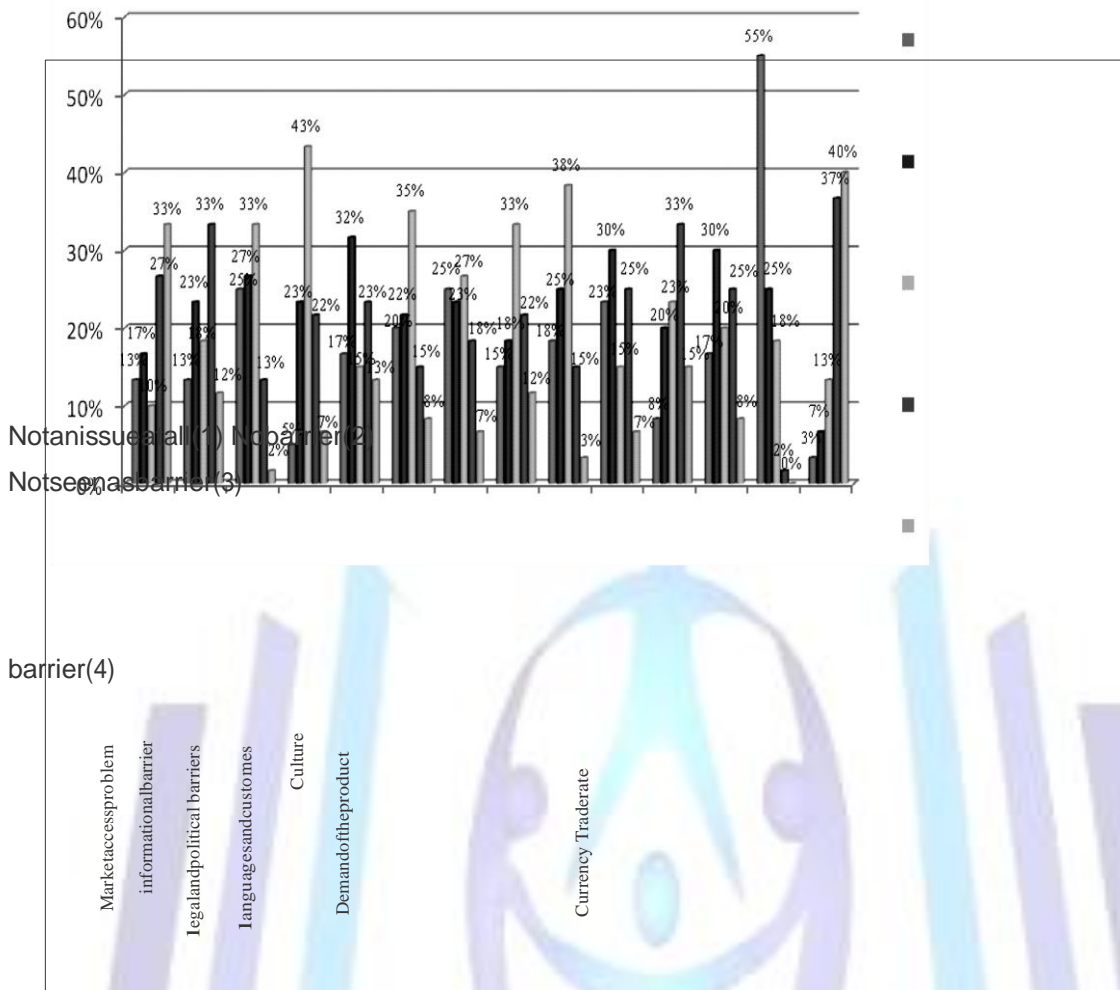


Fig3. Percentage analysis of Pakistani exporters' perception of hidden barrier

#### 6.4. Exporters' attitude after decreasing the strength of barriers

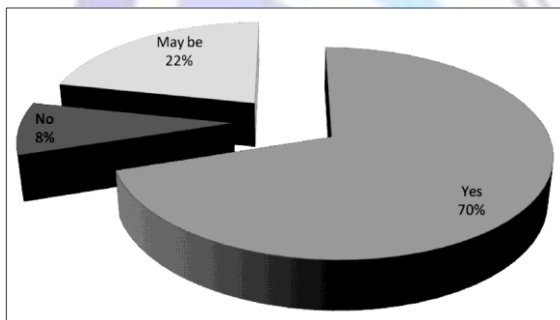


Fig. 6.4. Exporters' opinion on export after decreasing the strength of barriers. Exporters have been asked if they are ready to export more to the INDIA after these barriers will be less, and 70% of the exporters said yes, 22% said maybe, and 8% said no. Thus, exporters are positive regarding export to the INDIA. India's export to the INDIA can be increased if these barriers get less or are removed.

### Conclusions

This research focused on the Barrier of Pak-India trade relation on SAFTA by using Model Pakistan's volume of imports rises by 1.23 percent while its volume of exports falls slightly by 0.4 percent reflecting the fact that the pressure to increase imports is stronger than the increase in demand for Pakistan's exports by unilateral liberalization. However, as a result of the composite export price increase by 2.1 percent, Pakistan's experiences a small improvement in the terms-of-trade of 1.5



percent and the real GDP by 0.9 percent. The welfare gains or losses for other regions are quite varied under this simulation. However, since Pakistanis impact on unilateral reduction of import tariffs to 15 percent will not affect other region's real GDP or terms-of-trade significantly. Although not the major barriers but cultural alone, the currency, trade rate and informational barriers tend to be the major barriers to export. The legal and political barriers, languages and customs, demand of the product, working structure/schedule of the targeting country, business environment are not regarded as barriers to export.

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