

Abstract

This thesis investigates and analyzes various aspects of intra regional trade and intra regional FDI flows of South Asia. It also focuses on economic integration in South Asia region in an attempt to assess the impact of various bilateral and multi-lateral treaties on regional trade and FDI. Moreover, this thesis tests the impact of economic liberalization reforms on South Asia's foreign trade and direct investment (FDI). The ultimate objective of this study is to investigate the major determinants of intra regional trade and intra regional FDI in South Asia by applying the gravity model of trade. The present study focuses multiple questions and highlights various aspects both theoretically and empirically.

This thesis first examines various trends of foreign trade and FDI inflow to these countries using recent data. Findings of an empirical estimation of the impact of economic liberalization reforms suggest that reform measures such as trade liberalization, capital market liberalization and fiscal reforms are positively correlated with foreign trade and inward FDI flow of these countries.

Next, this thesis empirically examines the determinants of intra regional trade and intra regional FDI in South Asia by the gravity trade model using different sets of panel data from 1990 until 2012. Our empirical findings suggest that GDP, population, infrastructure, economic openness, real exchange rate and distance are some of the important trade determinants for the region. The study also indicated a very weak trade creation effect in South Asia as only a few of the regional dummy variables became positively associated with intra regional trade. Most of the regional dummy

variables became statistically not significant and there was a clear country effect as the countries with large GDP and population dominate intra regional trade. We have also found that the major factors that matter regional FDI in South Asia are GDP, labor force, infrastructure, natural resources, real exchange rate, FDI in the past years, level of corruption and degree of business freedom etc.

Then, this thesis focuses on various aspects of intra regional trade and FDI in the South Asia region. In order to measure the impact of economic integration on intra regional trade and intra regional FDI, our empirical study (with multilateral trade agreements and bilateral investment treaties as proxy for economic integration) suggests that South Asian Free Trade Area (SAFTA) is positively associated with both intra regional trade and intra regional FDI while the Asia Pacific Trade Agreement (APTA) dummy is positively associated with intra regional trade only. However, none of the bilateral investment treaties (BIT) has appeared to be a significant factor of intra regional FDI flow in South Asia.

At the end of this thesis, an analysis for simulation of intra regional trade and FDI has been performed. Results show that the initiatives taken so far toward an expansion of intra regional trade and FDI in South Asia have not been effective. Weak institutional framework, interstate hostility and ineffective regional agreements have been accused for not to push regional integration forward to a level commensurate with the potential. Major regional arrangements like SAARC, SAPTA and SAFTA are beset with problems and show no hope of changing the ground quite rapidly. It is true

that some progress was achieved but this is not enough to create proper institutions among the countries for pushing regional integration forward through trust-based relationships.

Finally in the policy conclusion, it is recommended that if the countries in the region want to create significant benefits from regional integration through exploring the potential of trade and FDI, some conditions need to be fulfilled. First of all, goal-oriented policies and strong political commitment towards economic integration are needed. Second, it is an important obligation that the countries in South Asia overcome the major barriers to regional trade and FDI flow. Third, the role of regional trade agreements needs to be reconsidered because the presence of bilateral preferential trade agreements in the region affects the contribution of multilateral trade treaties negatively. Fourth, promoting the role of bilateral investment treaties (BITs) is also equally important. And the role of India on South Asia's regional integration should be recognized and acknowledged by all the countries of the region including India itself.