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## **Impediments to Intra-regional Trade in South Asia: A Stakeholder Perspective**

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### **Author's contribution**

*The sole author designed, analysed, interpreted and prepared the manuscript.*

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### **ABSTRACT**

South Asian Association for Regional Co-operation (SAARC) was founded to achieve better standards of living through greater development in South Asia. SAARC has moved nearer in even though many of its member countries failed to realize the benefit of developing intra-regional trade. Despite the formation of a South Asian Free Trading Area (SAFTA) intra-regional trade performance is not satisfactory relative to South Asia's total trade flow. The main objective of this study is to identify the impediments to boost the intra- to a status of a borderless market regional trade flow of South Asian Region. The study selected the qualitative research methodology where twenty in-depth face to face interviews were carried out with both local as well as regional stakeholders who engage in South Asian regional trade activities. Template analysis was used as the method of data analysis. Secondary data sources used to triangulate the interview data. The research identified four (4) major impediments as the Regional market structure, Regional social structure, Political and economic structure, and Tariff structure. Implications and recommendation developed as it was identified the attractiveness of niche markets, the suitability of localizing marketing strategies, the advantage of entering into strategic alliances between regional and outside companies, and suitability of developing a regional supply chain network and a regional brand name.

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## 1. INTRODUCTION

In the global trading arena, regional integrations perhaps represent the most important legacy of the 21<sup>st</sup> century. Regional integrations (RI) and globalization are the two phenomena challenging the existing global order based upon sovereign states at the beginning of the twenty-first century. International trade studies highlighted that the globalization of markets has opened up to challenge many international trade practices [1,2]. Most governments have realized the importance of facilitating international trade as it secures sustainable and inclusive economic development [3]. Political leaders have realized the importance of greater integration with each other rather than working in isolation with the objective of achieving a higher trade and economic-political status. To achieve these benefits many governments have decided to integrate with each other creating the regional trading blocs which we know in the international trade arena such as East Asia, South East Asia, South Asia, North and South America and the European Union. In this context, the concept of sovereignty became obsolete with this new structure which was aimed at economic as well as security measures in their assistance to state building goals. Although many of these regional trade agreements are progressing towards developing intra-regional trade and achieving sustainable development for its member nations. The progress achieved in South Asian regional integration is unsatisfactory. Hence, it is important for us to identify the impediments to South Asian intra-regional trade. Many studies are reported in the literature using quantitative methods such as econometric models to understand the tariff structure in facilitating intra-regional trade in the South Asian region. However, little is known about the diverse experiences and perceptions of the stakeholders involved in intra-regional trade within the region. These stakeholder's perceptions will enable us to fill the gaps in the known areas of knowledge about impediments to South Asian intra-regional trade performance.

### 2.1 South Asian Regional Integration – History

Regional trade agreements are permitted under Article XXIV of the General Agreement on Tariff and Trade (GATT). The policies and regulations

formulated by a regional integration are affecting all parts of the national economies of their member countries.

In international trade, the concept of regionalism and regionalization is relatively weakly practiced in South Asia compared to other parts of the world [3,4,5]. At the initiation of SAARC there were nine areas where cooperation was entered in to. However, economic and trade cooperation among members was not identified at the start. With a quarter of the population of the world living in the South Asian region, the sooner the member countries realize the potential economic gain through facilitating intra-regional trade [4]. Understanding the, South Asian Regional Cooperation (SAARC) entered into different decisions to enhance the intraregional trade. From regionalization perspective, South Asian Free Trade Area (SAFTA) which was established in 2004 is recognized as the key attempt to develop intra-regional trade within the South Asian region. The main objective of SAFTA is to promote inter-regional trade within South Asian region, by eliminating their trade barriers and obstacles. In addition, SAFTA promotes conditions of fair competition in the free trade area, creating an effective mechanism in the region. South Asian region has experienced significant improvement of trade liberalization of the economies after signing the World Trade Organization charter during 1990s [6]. Even though it's been 16 years after initiating the SAFTA agreement and several other trade agreements between the SAARC member nations the intra-regional trade performance outcomes are not much satisfied [4,7].

Among more than three hundred regional trading blocs in the world, SAARC is identified as the least integrated region, having at present an intra-regional trade of little more than 5% of total exports compared to 50% in ASEAN region and 22% in Sub-Saharan Africa [4,7].

This highlights the marginal growth of intra trade of SAARC compared to other regional trade blocs. Ever since South Asian countries signed for the SAFTA its intra-regional trade been very low level. According to World Bank (2019) SAARC intra trade lags behind being a small fraction of 7% of the total regions trade. Continuous internal strife over even the most modest concessions granted under South Asia Preferential Trade Agreement (SAPTA) reflects

lack of political will on the part of member countries [5]. SAARC policy makers decided to move from the present SAPTA to a South Asian Free Trade Area by the year 2005. Due to the poor performance in the region in 2016 member countries agreed to form a Special Committee on Regional Economic Integration Study (Phase II) to discuss the removal or reduction of the NTMs and para-tariff barriers in the region, especially in the areas of energy cooperation, trade facilitation, investment cooperation, reducing sensitive lists and even formulating the SAARC Agreement on Trade in Services (SATIS) [5]. However, still the commitment of the member nations is weak to gear up again.

### 2.2 The Objective of the Study

It is evident that South Asian members' trade primarily with countries outside the region as more than 93% of the trade of SAARC is directed at countries outside the group [8]. Despite South Asia having been the largest low tariff trading bloc in the world from the 1990's, it still has the most restrictive regional integration [4]. In spite of SAPTA, intra-regional trade in SAARC would not grow above 7% of the total trade of the region [4]. Intra-regional trade in the SAARC before grouping was around 5% in 1985, but it still could not reach above the 7% level in 2019 [7].

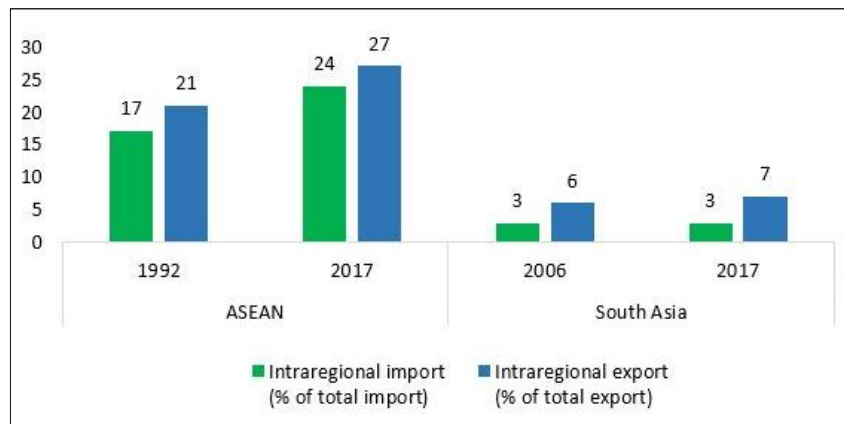
Therefore, this study mainly focuses on exploring the reasons why the South Asian region could not reach the expectations about its intra-regional trade flows collecting diverse perceptions from stakeholders including exporters and importers engage in the intra-

region, academics and researchers specialized in international trade and South Asian regional trade policy makers directly engaged with the South Asian intra-regional trade. Accordingly, this study addresses the following research question.

***“What are the impediments for the South Asian intra-regional trade?”***

### 2.3 Significance of the Study

According to the World Bank Report [9] “South Asia’s integration in to the global conomy” forecasts that South Asia will show “the world’s fastest growth in exports by 2028”. This fact points to the huge potential there exist to integrate the business process throughout the region based on the competitive advantage of each country with an aim to reducing the production cost [3]. At the macro level interestingly, the South Asian government’s interest towards developing intraregional trade facilitates South Asian countries sustainable economic development [3]. The importance of studying these impeding factors and their influence on regional trade performance is considerable. Through identifying and managing these problems especially at the grassroots level helps to increase the overall economic growth, export led growth, enhanced foreign income generation, improved regional relationships, greater resource employability, and encouragement of foreign direct investments (FDI). Also, joint ventures opportunities are expected to devolve to the citizens, and corporate sector and the macroeconomic level of a country could be achieved.



**Fig. 1. Intra-regional trade in ASEAN and South Asia**

Source: World Bank [7]

### **3. LITERATURE REVIEW**

#### **3.1 Brief Overview of Regional Trading Blocs**

According to researchers around 330 regional trade agreements are notified by the WTO [10]. According to the WTO report [11] it is estimated that about 55% to 58% of world trade is channeled through Regional Trade Agreements. Some of the regional integrations are, the North American Free Trade Agreement (NAFTA), the European Union (EU), the Association of South East Asian Nations (ASEAN), the Central American Common Market, the Latin American Free Trade Area, the Central African Customs and Economic Union, the East Asian African Community, the Arab Common Market, the New Zealand Australia Free Trade Area, the Common Market of the Southern Cone.

#### **3.2 Barriers for Regional Integrations**

Several scholars [12] expressed the importance of regionalization as opposed to globalization. Regional trade groupings came to stay as a hard reality in the global economic scenario [13]. Borders can also function as obstacles in spatial interaction, since interactions with foreign neighboring regions tend to be weak [14]. Studies contend that conditioning effects of political borders, in terms of institutional divergences, differences in technological development, different languages and culture, different mental maps of regional actors and infrastructure deficiency, may be so strong that there are still barriers to interaction long after political moves have been made towards harmonization [15]. International trade scholars such as Bhagwati [16] criticized the regionalism which tends to make the trading blocs inward looking and trade diverting.

#### **3.3 Objective of South Asian Regional Integration**

The main objective of formulating the SAARC is to develop the socio economic conditions of the member countries through adopting multi-lateral activities. To achieve this objective, free trade within the regional area has been recognized as important. Further it is expected that this will reduce the trade gap between member countries. Although SAPTA allows for negotiations on a scrotal basis, the approach taken to date has been to negotiate trade concessions on a product-by-product basis. Therefore, except for a

few minor tariff concessions, not much has been accomplished through SAPTA. SAFTA has recognized the importance of the need for special provision to the least developed nations (LDC) because the SAARC region incorporates LDC's of Bangladesh, Bhutan, and Nepal.

Studies on SAARC trade performance point out that unilateral trade liberalization rather than regional trade arrangements will be most beneficial for South Asia [3,4,17]. However, other studies indicate that the small economies in the region, such as Nepal and Bangladesh, would gain considerably from a regional trade agreement. With the expectation of creating a borderless market in the South Asian region, leaders of the member nations have agreed to formulate the SAFTA in 1993. The first and the main objectives are trade expansion among the member countries (especially India), in the fields of transporting, engineering, technical products and information technology. The second is to formulate a long term trade liberalizing program resulting in a boosting of economic and foreign trade. The third objective is to remove trade and non-trade barriers and ensure free access and cross movement of any products. The fourth objective is to reduce illegal trade between India and other member's countries and making the existing trade legal. Notably, today informal trade has become a reason for low intra-regional trade in the South Asian region [4].

#### **3.4 Factors Favoring the Intra-Regional Trade Performance**

The first factor that influences greater regional trade is tariffs of member countries. Certain scholars stated that higher pre-union trade barriers of member countries influence the improvement of intra-regional trade after the removal of tariff barriers [18,19]. Further scholars [19] stated the lower custom union's barriers will influence on trade with the rest of the world. The second factor is the number of members/countries in a regional trade area. They stated if greater the number of countries forming the customs union and the larger the market size [19]. The third factor is the export product diversity of member countries. Intra-regional trade will be more competitive rather than complementary among the economies of member nations [18,19]. The fourth factor is the geographical proximity of member countries. Many scholars [18,20,21] stated that geographical proximity influences intra-regional

trade performance. Whereas some others [22] stated geographical proximity is not a sufficient condition for regional integration or the creation of a trade bloc. The fifth factor is having a strong and trustworthy political relationship between member countries. A strong political relationship among potential members of the regional bloc influences post integration trade creation or diversion [18,19]. However, in the South Asian context, the political instability and weak political relationships between member countries hinders its performance [6]. The sixth factor is the importance of economical harmonization between members. Schott (1991): Mattli (1999) stated Regions which have a similar level of per capita GNP, geographical proximity and political commitment to regional organization are considered potential sources to create successful trading blocs [23,24].

SAARC countries are different from each other on five common factors, namely (1) size of the economy (2) degree of financial and trade openness of the economy (3) composition and direction of foreign trade (4) political and social conditions of the country and (5) economic structure of the country [6]. Keeping high tariff items in the sensitive trade list thus not giving tariff concessions, shallow tariff concessions, Supply side constrains of exporting countries which are mostly LDCs, infrastructural bottlenecks specially in the borders, compared to the rest of the world South Asia's non or para-tariff measures making regional trade costly are few barriers that hinders South Asian regional trade [5]. Over the past years many trade in the South Asia transformed from formal channels to the informal channels. Informal trade between the members is also a factor that hinders intra-regional trade of South Asia [4].

#### 4. METHODOLOGY

The study follows the qualitative research paradigm because of the exploratory nature of this study [25]. Quantitative methodology was rejected because this study focuses on interpreting human feelings of diverse stakeholders including exporters, importers, policy makers, and their emotions, perceptions, and attitudes in understanding weak intra-trade regional performance. The researcher's decision to conduct face to face structured interview method for collecting data has been influenced by the research question and the exploratory nature of the research study. This enabled the researcher to get close enough to social subjects

in order to discover, interpret, and understand respondents' perspectives. Many research studies on intra-regional trade performance and effectiveness of trade agreements are based on quantitative methodology [18,26,27,28]; however, the researcher followed the qualitative approach to understand human perceptions and behaviors in the development of intra-regional trade performance.

The sampling strategy used for this study is the non-probability sampling method. Limited resources and the difficulty of specifying a sampling frame dictated the use of convenient sampling techniques. Using this sampling method, twenty respondents (20) were selected from five categories (see Appendix 1) that consisted of senior economists specialized in South Asian trade (2), senior researchers specialized in South Asian intraregional trade (3), South Asian regional diplomats (3), senior government officials engaged in promoting South Asian trade (2), and regional traders (10).

Understanding the political economy behind regional integration has been identified as crucial to develop South Asian regional integration [3]. Hence, the researcher has included four diplomats employed as trade ambassadors from three member countries located in Sri Lanka, Senior international trade government officials in Sri Lanka and Senior executives from Sri Lankan export development board (EDB). As suggested by Heide & Weiss [29] measures were undertaken to ensure that respondents were qualified to participate in the study to maintain the quality of the data collected. To ensure that the key informant was a reliable proxy for the organization, the researcher selected those individuals who are directly participating in decision making levels at each organization.

The respondents in the regional traders group represented a wide variety of industries including health and sanitary, spices, biscuits, plastic materials, pharmaceuticals, garments, printing and ink and furniture. These 8 respondents together cover all the roles of the international business arena ensuring their depth understanding in trading in the region. The nationality of these traders includes, Sri Lankan, Indian, Bangladesh, Pakistan and Nepal. The researcher conducted interviews without the use of an interview sequence, a method that allows the researcher to elicit information by engaging the interviewee in free and open discussion on the topic of interest. Further it was decided to

collect data from participants in their natural working environments. Specifically, data was collected on the participants' work premises and at neutral places of convenience suggested by the 20 respondents of this study. An interview protocol (see Appendix 2) was used in all the instances to ensure a consistent pathway in analyzing the interview data. This interview protocol and guideline were tested in a pilot study that was not included in the sample.

After the completion of the field work all the interviews were transcribed precisely and comprehensive descriptions were drawn accommodating all the interviews. An effort was made to capture a holistic picture of the respondents' stories by multiple readings of interview transcripts [30]. The template analysis technique [31] also known as thematic coding or codebook analysis was used to analyze the data of the five respondent groups. The first phase of data analysis was assigning codes to the initial set of materials obtained from interviews. Secondary level categories were used in assembling the data in meaningful ways to a higher order level. At this stage the researcher refined and differentiated the initial codes. At this higher order level 674 initial codes were linked to 35 higher order categories.

## 5. FINDINGS AND DISCUSSION

Results from the data analysis shows thirty five (35) higher order codes as factors impeding the intra-regional trade performance of the South Asia (Appendix 3). These codes were identified and ranked based on the frequency of mentioning the respective topics. Four (4) categories were identified through re-grouping above thirty five (35) higher order codes. These four categories were found to be, in order of increasing frequency, Regional Market Structure (123), Regional social structure (102), Political Structure (68), and Tariff Structure (34). Among the thirty five (35) categories this paper only limits its discussion in to the most important factors.

### 5.1 Regional Market Structure

#### 5.1.1 Market and cultural diversity

Market diversity was recognized as the most important factor when entering into the South Asian regional market. Respondents chose this category with a frequency of forty four (44). Cultural heterogeneity was considered to be a

restraining factor for regional trade performance (41 times). Intra-Regional traders who were interviewed feel that there are additional costs to be incurred when deciding to enter the regional market. South Asian regional trade literature states the large market size, geographical proximity to other members India has a greater advantage than other members in the region [4]. Over the years India and Pakistan have been recognized for their significant improvements in its Ease of Doing Business that attracts new investments to their countries [3]. This was confirmed through this study as the respondents (especially the Exporters) stated that the size of the Indian market and the competition they face restrain their performance. Some exporters expressed the opinion that they benefit through market diversity in the region because of the ability to find niche markets. However, all the members in the South Asian Regional market still rank low in their Ease of Doing Business ranking 2020 [3]. Similar to the findings of Ease of Doing Business 2020 [3] respondents of this study stated the high operational cost and the challenges they face when understanding the South Asian regional market is greater than the competition they face when they start trading in the regional market. Especially The Ease of Doing Business Report 2020 especially confirmed [3] this finding as the South Asian region was identified as one of the highest in redundancy costs. This report [3] explains restrictive labor regulations in India as being associated with a 35% of increase in firms' unit labor costs. Respondents spoke about the difficulty in entering regional markets as confirmed by the Ease of Doing Business report 2020 [3] and were concerned about tight competition in marketing and promotional activities.

Often other researchers stated that religiosity and traditionalism influence Indian, Pakistani, Nepalese, Bhutanese, and Bangladeshi markets [32]. This affects regional consumer behavior because the consumer's attitudes and preferences are being influenced by the factors of religiosity and traditionalism [32]. Further, because of this the respondents mentioned that the tendency of consumers to shift between products is lower than in the western market. For a better understanding Hofstede's cultural dimensions could be used. He stated the risk avoidance nature of Asian people. Risk avoidance will make people refrain from running risks through their behavior. This leads to the creation of a particular consumption pattern

where the probability of testing a new brand introduced to the market is lower than in a risk accepting country. Respondents in this study explained the high competition and difficulty in designing marketing strategies is influenced mostly by this risk avoidance cultural dimension in the South Asian market. Thus, a conclusion can be reached that diverse cultures and the influence it has on consumer behavior may shed light on the proper design and implementation of marketing mix strategies, suggesting where efforts to reduce trade barriers might be most beneficial.

### **5.1.2 Regional market size and the power of India on the performance of members**

Larger market size of Indian and Pakistan domain in the regional market [3,4]. India is the dominant country in the South Asian region, accounts to 77% of the total imports into the region and 80% of the total exports from the region [33]. This unequal market size made India gain a competitive advantage in the regional market [3, 6,34]. A few respondents stated that even though this unequal market power existing in India is a disadvantage to smaller members, it is also an opportunity for them to reach out to a market where a variety of consumer preferences exist. This led India to improve its trading across borders by enabling post clearance audits, integrating trade stakeholders in a single electronic platform, upgrading port infrastructure, and expanding the electronic submission of documents [3]. Similar to the explanations by Ahmed, Bhutto & Kalhoro [35], the respondents also confirmed despite India being the South Asian regional market's leader, possibility of generating intra-regional trade in India is relatively low because of lower consumer expenditure power. Also, the possibility for a company to cater for, for example, the entire Indian mass market is difficult. Many respondents in the study as similar to the explanations given by previous scholars [36,37, 38] highlighted the importance of concentrating on a niche market segment due to the complexities in consumer behavior and cultural diversity existing in the region.

Respondents have highlighted this factor as important in trade creation in seventeen (17) instances. Salvatore [19] stated that when diverse products are specialized with the trading partners than complementary products is the greater chance to create trade opportunities. Respondents of this study stated the lack of

product diversity in the South Asian regional market in order to exchange products with each other. Most SAARC members specialized in similar export items. This is similar to a situation of center periphery theory where smaller countries cater to the demands of the empire. The ADB report [39] reflects the fact that most of the countries are exporting raw material for other industries mainly to countries outside the regional market. Many diplomats, researchers and economist participated in this study confirmed most member countries specialized in exporting garments. There for lack of trade complementarity is common in this region. They also explain this has created stiff competition in the regional market shifting regional traders to seek markets other than the intra region. Exporters also pointed out this issue influence on their strategic decision to limit offering certain products to the regional market. Indian companies capture the regional market through lower pricing and cost advantage [6]. However, many respondents' interviews have highlighted the importance of identifying a niche market to avoid this disadvantage of this stiff competition.

Another factor which discourages regional trade is stiff competition in the markets. The results of interview analysis reflect that respondents stated this factor as important with a frequency of nine (9). This is purely because most regional exporters have specialized in similar export items. Especially, the lack of a diversified range of products creates stiff competition in the regional market [18,19]. Consumer ethnocentrism causing the protection of local industries at the expense of welfare benefits of consumers is common in many South Asian countries [40].

### **5.1.3 Proximity of regional members and transportation costs**

Thirteen (13) respondents stated the importance of being regionally proximate to the performance of intra-regional trade. Most respondents stated that trade patterns of the individual country depend on its proximity to the foreign market. High transportation cost and additional costs restrain exporters from trade with distant members. Having understood the importance of this development, India and Nepal decreased the time for exporting and importing between countries by opening a new joint border crossing point between the two countries [3]. Similar to the idea forwarded by Kumar [6] most respondents in the regional trades category said they concentrate on the Indian market because of its

market size and the proximity to their country. This fact was highlighted by recent researchers [4] and confirmed in this research. India has achieved success through opening up its economies to outsiders and welcoming FDI and foreign products into their country [3,34,41]. Compared to India, the other seven members have limited opening up their economies, which has hindered the opportunity to expand international business within region. Lack of cross border transit points and road connections across a region block is a significant hindrance to intra-regional trade [8]. This suggests being regionally proximate is not a strong conducive factor in developing the intra-regional trade of South Asia [42,19,18].

#### **5.1.4 Marketing and promotion**

Respondents pointed out challenges they have to face when exporting and marketing value added products to the regional market. In fourteen (14) instances they highlighted the importance of marketing and promotional strategy. One reason is the high marketing cost that has to be incurred by smaller scale exporters [43]. Respondents stated the essential requirement of adapting marketing strategies in the South Asian regional trade success. Standardization of marketing and promotions are not recommended by many of the respondents. The difficulty faced with branding and other marketing activities make many regional traders decide to limit their exports to non-value added products. Many respondents stated the cinematic interest of the consumers in the regional market. To attract the consumers' attention it is important to design the media campaigns in a cinematic manner. Pricing is the most sensitive factor in the South Asian regional marketing mix. Because of their lower economic development and purchasing power regional consumers are price conscious. Consumers compare competitive brands with respect to the pricing and the product attributes being offered. Therefore, the pricing has to be competitive if the exporter is willing to operate in the mass market.

### **5.2 Regional Social Structure**

#### **5.2.1 Exporters' attitudes about the regional market**

Although exporters are willing to initiate their business in the regional market they said that they prefer the western market. This is because their experience outside the regional market is

greater than that within the regional market. Their knowledge of the foreign market and technology requirements are well identified by these exporters and so they are able to improve trade performance [44,45].

Collectivist cultural characteristic of South Asian people [46] made exporters of this study to explain their preference toward face-to-face meetings, building of trust, and enjoying intensive personal relationships with their buyers, either with B2B or end user when engage with regional trade. They believe these characteristics impact on the formation of relationships and facilitate a strong building of relationships with importers. Most respondents participated in the study (regional traders and diplomats) expect to build a relationship with the agent, distributor, or with the final customer to build business ties in the longer term. A few respondents (regional trades) are not satisfied with the attitudes and the support they get from their regional trading partners (agents and distributors) when capturing the regional markets. One exporter highlighted his disappointed experience of finding and entering into a trade relationship with a regional distributor. The attitudes of the agent or the distributors in the South Asian regional markets are not encouraging when compared to the experience they had outside the South Asian regional market for example in China or ASEAN. They noted the lack of trustworthiness and the willingness to build closer relationships are not strong within the South Asian region. Many said the diversity of the cultural, language, political and religiosity in the South Asian region are influencing the challenging to create a trusting relationship between two unknown parties.

### **5.3 Political and Economic Structure**

It's common that most South Asian countries are politically at a risk influencing its intra-regional trade performance [6,5]. In the international trade literature the influence of political harmonization is identified under two categories in research relating to regional integrations. The first sub factor under this is the nature of political relationships between member countries. Most literature in South Asian regional trade are economic manner, though little attention focus toward understanding the role of political economy in developing the regional trade [3]. All the participant of this study highlighted this in different instances as member governments and their international trade representatives and other stakeholders should develop a systematic policy



decision that facilitate trade between members. The second sub factor is the political and economic stability of the governments. In eight (8) instances, respondents highlighted the lack of strong political relationships between South Asian countries. Many respondents talked about the Indo-Pakistan tensions or any kind of activity that influence the pace of economic integration and brings about peace to the region. Although economic cooperation and even integration is very desirable in South Asia there is a call for creating a politically harmonious subcontinent, which is an extremely formidable task [5]. Further, respondents highlighted the fact that the instability of the local governments of South Asian (in 12 instances) made them reluctant to enter the trading arena. Respondents recognized the lack of economic harmonization of member countries in eleven (11) instances. Reasons such as these made most researchers in the South Asian regional trade to suggest to further work politically towards integrating the member countries to receive intra-regional trade benefits [5].

Property registration process in the South Asian Region identified as the most inefficient in the world [3]. Twelve respondents highlighted the importance of the government role in promoting regional trade opportunities, eleven (11) times. All countries in the region are at the developing stage and government support of these SME exporters is essential to expand in the regional market [47]. Export promotion measures such as tax rebates, low-interest loans, low prices on land leasing, electricity and water, free introduction to and advertising in overseas markets are still widely used in many developing countries [48, 49,50]. When other regions in the world have reduce their taxes over the years, some South Asian members such as the Maldives have introduced new taxes which made the South Asian region look unattractive in respect of its tax compliance time [3]. Therefore, many South Asian governments should invest more money in reforming its tax structure, health, education and social protection where it directly influences on the quality of the human capital and the economic development of the region [3]. From time to time many South Asian countries became inward-looking trade policies promoting domestic production and consumption [3], which has weaken the South Asian intra-regional trade performance.

Most South Asian customers reflect ethnocentric attitudes [51]. The respondents of this study

confirmed their experiences of ethnocentric attitudes promoted by many governments who have the objective of protecting local industries became a major barrier in expanding in the South Asian regional market. A government's political slogan such as "Be Indian Buy Indian" or "Buy Sri Lankan Products" is directing consumer perception towards local brands [3]. Most respondents stated that unless consumers are willing to buy a foreign product it is very difficult and costly to enter into and operate in the South Asian market. As a suggestion to sustain the intra-regional trade performance of South Asian countries scholars [3] urge governments of member countries to develop a South Asian Economic development model similar to East Asian development model and South East Asian development model.

#### **5.4 Tariff Structure**

Respondents have highlighted in fourteen (14) instances, the disturbances at regional customs. This might be because the uncertainty avoidance [52] cultural influence exists in many Asian regional and especially in the South Asian markets. South Asian governments initiate strict rules and regulations on international business operations because they prefer avoid uncertainty, whereas western regions are uncertainty accepting cultures where they welcome foreign investments and international business operations through removing barriers. Uncertainty avoiding cultures try to minimize the possibility if such situations by strict laws and rules, safety and security measures [52]. This caused South Asian governments to request detailed documentation and other evidence to clear a cargo [3]. This requires extensive documentation and legal adherences which demotivate exporters from engaging in intra-regional trade. Most of the exporters participated said they prefer western or East Asian markets because these cultures are uncertainty accepting cultures supporting the explanations in Hofstede's work [52]. Participants highlighted their experience of most governments in the western, East Asian or South East Asian countries encourage foreign trade and foreign direct investments in their market. This findings is further confirmed by the Ease of Doing Business report 2020 [3]. These governments would like to accept the risk from international trade activities and facilitate international trade. Because of this participants stated many international business operators in the South Asian region prefer Western or East Asian markets.

On fourteen (14) instances respondents highlighted the importance of preferential tax reliefs provided under regional trade agreements. Preferential tariff reductions are tariff reductions granted for selected export and import items in the trade agreements between parties. Most respondents spoke about the preferential nature of tariff reductions which do not give them the real benefits which are expected by these agreements.

When it comes to foreign investments in the South Asian region, apart from India all the other member performance in attracting FDIs is quite diverse and poor [3]. Many of the respondents (specially the regional traders) identified unnecessary documentation and inefficient customs procedures as delaying the shipment to the customer. At the India-Bangladesh border a consignment needs at least 22 documents, more than 55 signatures, and a minimum of 116 copies for final approval. To address these issues Ease of Doing Business Report – 2020 [3] stated member governments should immediately develop systematic, realistic and effective policy design to address these gaps in the political economy in South Asian regional integration. Most South Asian regional members such as India, Pakistan and Sri Lanka facilitated trading across borders by enhancing the integration of various agencies in the customs electronic systems and coordinating joint physical inspections at the ports [3].

### **5.5 Recommendations and Implications**

From the research analysis it was revealed that in the South Asian market the consumer purchasing power is low. Hence, the first recommendation is its beneficial for most companies to search and enter into niche markets where profitability is high. For the smaller and medium size businesses it is recommended that they search and enter a niche market in their international operations. Ability of easy access to neighboring countries is an added advantage to these niche firms. Financial and fund difficulty could be avoided through concentrating on a niche segment in the regional market. The researcher found the importance of exporting value added or branded items in to these niche segments. Careful attention has to be paid to pricing and advertising to these niche customers.

The second recommendation is the need to consider the influence of consumer ethno-

centrism in a company's marketing and other strategic decisions. The data analysis has revealed that influence of ethnocentrism in the South Asian region is higher than in other regional blocs. The literature stated that the influence of consumer ethnocentrism depends on the type of product and its necessity requirement. The more the necessity the less will be the ethnocentrism effect.

The third recommendation of this study is to concern on standardization versus adaptation marketing strategy. In many occasions where South Asians feel that western type modernity is distant from their reality and believe that Indian cinema and music are much closer to their individual consumer tastes and preferences. The two counter arguments raise the question of whether you choose cultural heterogeneity or homogeneity in the South Asian regional market.

The fourth recommendation is to enter in to Strategic Alliances between Companies within and Outside the Trading Bloc. The findings prove the fact that consumer preferences are for products outside the regional market. This has been influenced by cultural perspectives imbedded in regional consumers. They perceive that certain products are of a higher quality than regionally made products. To help consumers avoid this perception, this study suggests the possibility of regional companies entering into strategic alliances either with western companies or with South Asian companies which are reputed in the global market. These strategic alliances could be either through licensing agreements to technological transfers, Research and Development partnerships to supplier and marketing arrangements. Strategic alliances as an alternative mode of entry provide an excellent strategic fit especially between firms located in different cultural backgrounds within the region.

### **6. LIMITATIONS AND FUTURE RESEARCH**

Owing to limitations of time, access and funding data was collected from only a few different respondents. Future researchers should use a much larger and more diverse sample of respondents to collect data. The present sample consists of (i.e. stakeholders) respondents from only a few SAARC countries. Future studies should include respondents from all the member countries to representing a diverse and comprehensive understanding of the perceptions of stakeholders. Future studies could thus deal

with more factors that impede SAARC intra-regional trade from three important points of views: trade integration, role of tariffs and political integration. Another limitation of this study is that it does not consider the industrial structure of South Asian regional integration. This is an important aspect for understanding intra-regional trade performance as well as barriers to it enabling future researchers to incorporate an understanding of the industrial structure in their future research.

Further research could also examine issues such as regional consumer behavior, the role of the government in facilitating intra-regional trade, the role of India and its influence on intra-regional trade, the impact of regional culture on marketing strategies, possibility of forming strategic alliances to attract regional customers, the possibility of promoting a regional brand name such as "Made in South Asia" and developing regional supply chain networks. Further research could also focus on a quantitative study based on a survey design covering the impediments identified in this study to understand and prioritise the diverse perceptions of stakeholders.

## 7. CONCLUSION

Focusing on regional trading blocs is considered to be an important international business expansion method. This is especially true in a globalizing environment where regionalization is identified as a better strategy than globalization [12]. The literature highlights the importance of minimizing tariff and non-tariff barriers to create a successful regional trading bloc. The first attempt of this study was to develop a list of factors impeding intra-regional trade performance was carried out using a qualitative approach. This research is an attempt to investigate this issue with a qualitative model, and to analyze a range of barriers to performance in the South Asian regional market. The results that confirmed categories found in the literature also discovered factors not found in the extant literature.

By identifying the reasons that reduce intra-regional trade, we can gain a better understanding of why customers are more or less likely to buy South Asian regional brands and why exporters are not willing to export into the regional market. Interestingly, the researcher found four (4) major categories that influence South Asian regional trade. Namely - Regional market structure, Regional social structure,

Political and economic structure and Tariff structure. Many researchers have commented on the influence and importance of tariff removals to improve intra-regional trade performance. But these tariff reductions have shown little results practically in the South Asian context. However, with the recent economic, cultural, and political changes that have taken place in the region, South Asia still remains an attractive market to many international businesses. Careful attention should be paid to several factors when making the decision to enter into the South Asian market. The influence of the cultural factor is a dominant driver for regional trade performance. South Asian countries share common cultural heritage since the British Colonial regime that has resulted to expect significant level of interdependency but the diversity still visible. This study noted that regional market size, the diversity of markets in South Asian member nations and the low purchasing power of regional consumers could be turned into a new business opportunity either through harnessing the lower production cost of regional producers or encouraging them to focus on a niche market in the South Asian region. Most Indian companies have achieved competitive advantage through maintaining lower production costs. Another factor is the supply side of intra-regional trade performance. It was also confirmed that the regional exporter's preference to trade outside the regional market. The historical trade pattern with the western market and specialization in exporting non value added items created a trade pattern directed outside this regional market. This lack of product diversity creates competition for similar products in the local as well as international markets.

South Asian political structure and relationships between countries are not strong when compared with other major trading blocs such as EU and ASEAN. Political distrust has been a common barrier to South Asian trade development throughout history. The political distrust between India and Pakistan restrict the achievement of the expected objectives of South Asian regional integration. The findings reflect the suitability of choosing adaptable marketing strategy rather than standardization. This reason is common to the trading bloc. The diversity of the markets and cultures resulted in the need for the adaptation of marketing strategies to each local market. The possibility and suitability of entering into strategic alliances with regional companies or companies outside the region is highly important in developing South Asian

regional trade performance. Consumer perception of the quality, brand reputation and other services attached to a regional product is low compared to a western made product. This problem could be strategically solved if traders search for strategic alliances with each other. This helps them gain a better understanding of the technological developments and transfer of knowledge, local market behavior, helps them select the best distribution and promotional strategies, and aims at improving the FDI within the region. The researcher has designed a framework of factors which are important when deciding to enter into the South Asian trade bloc. The identified challenges and recommendations of this study could be used as a guideline for formulating business strategies which are important to achieve better results for investments made.

### COMPETING INTERESTS

Author has declared that no competing interests exist.

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**Appendix 1. List of respondents**

<b>Respondent code</b>	<b>Respondent category</b>	<b>Designation</b>	<b>Institute/ Industry/ Country</b>
RES 01	Researcher	Senior Researcher	A government owned Research institute - Sri Lanka
RES 02	Researcher	Senior Researcher	A government owned Research institute - Sri Lanka
RES 03	Researcher	Senior Researcher	A government owned Research institute - Sri Lanka
ECON 01	Economists	Senior Lecturer	A public University in Sri Lanka
ECON 02	Economist	Senior Lecturer	A public University in Sri Lanka
DIP 01	South Asian regional diplomats	Officer Trade and Commerce – a South Asian embassy in Sri Lanka	South Asian embassies in Sri Lanka
DIP 02		First Secretary - a South Asian embassy in Sri Lanka	
DIP 03		Commerce and Economics Counsellor - a South Asian embassy in Sri Lanka	
GOV 01	senior government officials engaged in promoting South Asian trade	Senior executive level	Export Development Board – Sri Lanka
GOV 02		Senior Executive level	Ministry of Foreign Trade – Sri Lanka
TRAD 01	Regional traders (Exporters and importers, from different South Asian countries)	Export Manager	Large scale spice trader - Sri Lanka
TRAD 02		Export Manager	Large scale confectionary manufacturer – Sri Lanka
TRAD 03		Imports and Exports Manager	Large scale confectionary manufacturer – Sri Lanka
TRAD 04		Director - Exports	Large scale furniture manufacturer – Sri Lanka
TRAD 05		Exports Manager	Leisure and Hospitality service- Sri Lanka
TRAD 06		Manager	Large scale Printing services- India
TRAD 07		General Manager-	Motor Vehicle manufacturing – India
TRAD 08		Directress	Beauty care products- India
TRAD 09		Manager	Garment - Bangladesh
TRAD 10		Manager	Garment – India

**Appendix 2. Interview protocol**

Ask open ended questions probing the below areas;

1. What are the main characteristics of the South Asian regional market?
2. What are the barriers you have experienced when operating in this South Asian regional market?
3. What are the strategies that you/ your organization take to manage the above challenges?
4. Compared to other regional markets such as EU, ASEAN, and Middle East; do you think South Asian market is beneficial to your company/ institute? Why do you think so?
5. Are there any other perceptions about the South Asian Regional market?

**Appendix 3. Impediments to South Asian intra regional trade - Coding of interviews (higher order codes and clusters)**

Number	Higher order codes	Importance of each factor (Frequency)	Clusters (Frequency)
1	High competition within local markets	9	Regional market structure (Total Frequency 123)
2	Diversity of export products are low	17	
3	Proximity of regional members	13	
4	Lack of harmonization of standards	5	
5	Disturbances at the customs	14	
6	Lack of flexibility of marketing and promotional strategies	14	
7	High transportation costs involved	2	
8	Diversity of markets	44	
9	Reputation of the exporter is important	5	
10	Negative consumer Attitudes about the regional markets and products	4	
11	Cultural differences of member countries	41	
12	Exporter's negative perceptions about the regional market	22	
13	Movement of people between member countries	2	
14	Price conscious consumers in the regional market	17	
15	Attractiveness of western markets and products	6	
16	Consumer ethnocentrism is high	3	
17	Demand for the regionally produced products are low	4	
18	Language differences between members	3	
19	Political instability of the member governments	12	Political and economic structure (Total Frequency 91)
20	Informal trade between member countries	5	
21	Power of India	24	
22	Member government's preference towards entering into bilateral trade agreements than regional agreements	4	
23	Member government's lack of support to improve intra-regional trade	11	
24	Lack of political harmonization of member countries	8	
25	High legal barriers	4	
26	Lack of economic harmonization between member countries	13	
27	Fluctuation of foreign exchange rates	4	
28	Low levels of FDIs	1	
29	World economic downturn	2	Tariff structure (Total Frequency 34)
30	Poor technological development in member countries	2	
31	High production cost	1	
32	Mismatch of tariff structures between countries	7	
33	Maturity of the trade agreements (most trade agreements are recently agreed)	9	
34	Preferential tariff reductions offered in free trade agreements are not attractive	14	
35	High and diverse state taxes charged in the Indian market (states)	4	

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