United States Trade with South Asia

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The events following September 11, 2001 have focused world attention on the region of South Asia. This region is composed of the countries of Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. This article examines the economies, U.S. trade patterns, and U.S. trade policies with these countries. Some U.S. trade policies with these countries, especially with Pakistan and India, have come under the microscope in light of the recent events in the region.

The Macroeconomic and Development Indicators for South Asia

The countries of South Asia constitute 22 percent of the world's population, but earn only 2 percent of world income. With the exception of the Maldives and Sri Lanka, the South Asian nations experienced per capita national incomes of less than $500 in 2000 (table 1). The world average per capita national income in 2000 was more than 10 times this amount. Six of the eight countries are struggling with the basic underdevelopment issues of low adult literacy rates, high infant mortality, and low life expectancy compared to the rest of the world. These factors exacerbate low worker productivity and incomes, continuing the vicious circle of low income contributing to low socioeconomic conditions, and low socioeconomic conditions hindering income growth. The exceptions in South Asia are the Maldives and Sri Lanka, which score significantly higher on socioeconomic indicators, both relative to other South Asian countries and the world average. The average infant mortality rate for South Asia is 74 deaths per 1000 live births, compared to the world average of 54. The world average includes developed and developing countries. Life expectancy is lowest in Nepal and Afghanistan. The Maldives and Sri Lanka have life expectancies greater than the world average and adult literacy rates over 90 percent, which is equivalent to the developed countries. These are also the two South Asian countries with the highest per capita incomes. Excluding the Maldives and Sri Lanka, the average adult literacy rate for South Asia is 44 percent, well below the world average of 76 percent. Of course, these are country averages for both males and females. In reality, the literacy rate for females in this region is significantly lower than the country averages presented in table 1.

[1] The views and conclusions expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

Table 1
Economic and Social Indicators for South Asia, the United States, and the World

Country	GNP per capita	Infant mortality	Life expectancy	Adult literacy	Population
	U.S. dollars	*Per 1,000*	*Years*	*Percent*	*Millions*
United States	34,266	7	77	100	281.6
South Asia	460	74	63	55	1,355.0
Afghanistan	([1])	147	46	37	26.6
Bangladesh	370	61	61	41	129.8
Bhutan	590	59	61	42	0.8
India	460	71	63	57	1,015.9
Maldives	1,960	29	68	96	0.3
Nepal	230	75	58	41	23.9
Pakistan	440	90	63	46	138.1
Sri Lanka	850	15	73	92	19.4
World	5,150	54	66	76	6,054.0

[1] Not available.

Source: World Bank, found at Internet address *http://www.worldbank.org*, retrieved on Oct. 23, 2001.

The Pakistan economy suffers from chronic debt problems and has experienced some international loan defaults. With an external debt of $38 billion in 2000, Pakistan sustained a debt to earnings ratio of 13 percent. Japan, the biggest bilateral lender to Pakistan, rescheduled $550 million of Pakistan's debt in 2001.[2] Pakistan is a regular international aid recipient, receiving $2 billion in economic aid in 2000. However, U.S. aid to Pakistan was halted in 1990, nearly a decade before U.S. economic sanctions were imposed on India and Pakistan in 1998. Pakistan is host to over two million Afghan refugees who began fleeing across their common border in 1978. Despite aid from the United Nations and international agencies, the refugees place an additional burden on limited Pakistani resources. Another large influx of Afghan refugees began in October 2001 following air strikes on Afghanistan by the U.S.-led coalition against terrorism, coupled with the economic effects of the worst drought in Afghanistan in three decades. Bangladesh had external debt of $17 billion in 2000, around an 8 percent debt to earnings ratio. International aid to Bangladesh was $1.6 billion in 2000. India had external debt of $60.8 billion in 1999, a debt to earnings ratio of less than 5 percent. India received $2.9 billion in international economic aid in the same year. Most U.S. aid to India was suspended in 1998 under the authority of the Glenn Amendment.

Bangladesh, India, and Pakistan maintain large populations of their workers abroad, receiving foreign exchange in the form of worker remittances sent to families remaining in South Asia. For example, remittances have been as high as one-third of Pakistan's foreign-exchange earnings. In effect, these South Asian economies benefit from the temporary exportation of factors of production (labor) rather than products, as they lack the necessary capital to productively employ the labor at home.

U.S. Trade Flows With South Asia

U.S. merchandise imports from South Asia of $17.5 billion in 2000 accounted for 1.5 percent of total U.S. imports (table 2). The value of U.S. imports from South Asia rose 71 percent over the last five years, 1996-2000. Most of this $7 billion five-year growth in U.S. imports from South Asia is attributed to imports from India, Pakistan, and Bangladesh. The main U.S. imports from the region include apparel, textiles, carpets, and jewelry (HTS chapters 57, 61-63, and 71). U.S. imports from the region are representative of industrial country imports from developing countries. Developing countries typically rely on exports from light manufacturing sectors, such as textiles and apparel or food processing, to stimulate their industrialization and economic development. Light manufacturing sectors are historically used by countries with large populations of low-skilled labor and limited capital resources. For example, Pakistan employs 60 percent of its industrial labor force in the textiles and apparel sector.[3] Foreign exchange earned from light manufacturing exports can be invested in infrastructure, specialized equipment, and human capital for further industrialization and economic development.

U.S. merchandise exports to South Asia of $4.3 billion in 2000 accounted for 0.6 percent of total U.S. exports (table 2). The primary U.S. exports to the region include wheat, machinery and parts, aircraft and parts, and instruments (HTS chapters 10, 84, 85, 88, and 90). U.S. exports to South Asia fell 12 percent over the last five years, 1996-2000. Pakistan accounted for a significant portion of the decline in U.S. exports to the region. Pakistani imports from the United States fell 64 percent as a result of U.S. economic sanctions imposed May 13, 1998, while Pakistani imports from the world rose 33 percent over the same period. A discussion of U.S. sanctions imposed on Pakistan and India appears in the section on U.S. trade policies with South Asia (see below). Indian imports from the world grew by 62 percent between 1996-2000, while Indian imports from the United States grew by only 5 percent over the same period. The data in table 2 illustrate a continuation of the post-U.S. sanctions trend reported in a 1999 USITC study.[4]

The United States reported a $13.3 billion trade deficit with South Asia in 2000 (table 2). While U.S. imports from South Asia grew 71 percent between 1996-2000, U.S. exports to the region fell by 12 percent over the same period, enlarging the deficit over the last five years. The biggest bilateral U.S. trade deficit in the region was with India, at $7.3 billion. While U.S. exports to India have remained flat over the last five years under the nuclear proliferation sanctions program, U.S. imports have increased by 74 percent. The United States reported trade deficits of approximately $2 billion each with Bangladesh, Pakistan, and Sri Lanka. Recent liberalization of Indian trade restrictions on a large list of products should result in better export opportunities for U.S. companies and could reduce the growth in the U.S. trade deficit with South

[2] United Nations High Commissioner for Refugees, found at Internet address *http://www.unhcr.ch*, retrieved Nov. 9, 2001.

[3] L. Kaufman, "Companies Cut Textile Orders from Pakistan," *The New York Times*, Oct. 31, 2001.

[4] "The Glenn Amendment sanctions appeared to have had a relatively minimal overall impact on India, while they appeared to have had a more pronounced adverse impact on Pakistan." U.S International Trade Commission, *Overview and Analysis of the Economic Impact of U.S. Sanctions With Respect to India and Pakistan*, Publication No. 3236, Washington, DC, September 1999.

Table 2
U.S. imports, exports, and trade balance with South Asian countries, 2000

	U.S. imports	U.S. exports	U.S. trade balance
	(Million dollars)		
World	1,205,339	712,287	-493,052
South Asia[1]	17,587	4,305	-13,282
Afghanistan	2	8	6
Bangladesh	2,416	232	-2,184
Bhutan	1	1	0
India	10,680	3,373	-7,307
Maldives	94	6	-88
Nepal	229	35	-194
Pakistan	2,164	453	-1,711
Sri Lanka	2,002	198	-1,804

[1] Totals may not add due to rounding.

Source: Derived from official statistics of the U.S. Department of Commerce.

Asia. Although Pakistan recently improved market access by reducing tariff levels and eliminating some nontariff barriers, U.S. economic sanctions on Pakistan continue to constrain U.S. exports.

India, Pakistan, and Bangladesh

The United States was the number one destination for exports from India, Pakistan, and Bangladesh. U.S. merchandise imports from India grew from $6.1 billion in 1996 to $10.7 billion in 2000. The top U.S. import products from India were jewelry, accounting for $3.3 billion of U.S. import value and $2.7 billion from apparel, textiles and carpets combined. U.S. merchandise imports from Pakistan increased from $1.2 billion in 1996 to $2.2 billion in 2000. Apparel was the number one U.S. import from Pakistan in 2000, accounting for $926 million. Textiles contributed $479 million, yarn and cloth contributed over $280 million, and carpets contributed $105 million to U.S. imports from Pakistan. U.S. merchandise imports from Bangladesh increased from $1.3 billion in 1996 to $2.4 billion in 2000. Apparel accounted for approximately $2 billion of U.S. imports from Bangladesh in 2000.

The United States is the number one country supplier to India, although the European Union has a largest share when the individual members are combined. The top five U.S. export categories to India in 2000 included machinery (HTS 84), electrical machinery and equipment (HTS 85), aircraft and parts (HTS 88), organic chemicals (HTS 29), and instruments (HTS 90). These five HTS chapters accounted for 64 percent of the $3.4 billion U.S. exports to India in 2000. These products are typical of industrial country exports to developing countries. However, in the case of India, they also reflect the extensive trade barriers maintained by the Government of India on imports that compete with Indian producers under the development policy of industrialization through import substitution. Since India gained independence from the United Kingdom in 1947, it has relied on high average tariff rates, especially on consumer goods, and extensive nontariff barriers.[5] The United States recently challenged India's 50 year policy of import bans and licensing requirements through dispute settlement proceedings in the World Trade Organization (WTO). The WTO Appellate Body sided with the United States and India agreed to lift 1,400 trade restrictions for agriculture, textiles, consumer, and manufacturing goods by April 1, 2001.[6] U.S. exports to India should improve significantly in light of these recent trade liberalizations to comply with India's obligations under the WTO.

Saudi Arabia and the United Arab Emirates are the top suppliers for Pakistan, with the United States coming in a close third. The top U.S. exports to Pakistan were similar to India, with the exception of fertilizers. The top five U.S. exports to Pakistan in 2000 were machinery, organic chemicals (HTS 29), fertilizers (HTS 31), aircraft and parts, and electrical machinery and equipment. These five HTS chapters accounted for 59 percent of the $453 million U.S. exports to Pakistan in 2000. Although the Government of Pakistan supported protectionist policies in the past, it lowered the maximum import tariff on consumer goods from 45 percent to 35 percent on March 31, 1999 and committed to the conditional reduction of the maximum rate to between 25–35 percent by June 2000. The rates were also lowered for imports of intermediary goods (25 percent), chemicals (15 percent), and raw materials

[5] B.T. Johnson, K.R. Holmes, and M. Kirkpatrick, *1999 Index of Economic Freedom*, the Heritage Foundation and Dow Jones & Company, Inc., Washington, DC, 1999.

[6] Office of the United States Trade Representative, "U.S. and India Reach Landmark Agreement to Lift Longstanding Indian Import Restrictions," USTR Press Release 00–1, Jan. 10, 2000.

(10 percent). Previously banned or restricted items were allowed entry, on condition they did not violate religious, health, environmental, or security measures.[7]

India and the East Asian countries such as Singapore, Japan, and China, are the primary suppliers for Bangladesh. The top five U.S. exports to Bangladesh in 2000 were cotton yarns and fabrics (HTS 52), electrical machinery and equipment, machinery, aircraft and parts, and cereals (HTS 10). These five HTS chapters accounted for 62 percent of U.S. exports to Bangladesh in 2000. The top U.S. export to Bangladesh, cotton yarns and fabrics, is used as an input in the Bangladeshi apparel sector. Bangladesh maintains a high level of trade protection, with the average tariff rate over 20 percent. Extensive import procedures and corruption act as nontariff barriers.[8]

Sri Lanka and the Maldives

The United States was the top destination for exports from the Maldives and Sri Lanka. U.S. merchandise imports from the Maldives increased from $11.5 million to $94 million over the five year period, 1996–2000. This 712 percent increase in U.S. imports from the Maldives was primarily apparel products. These products entered under HTS chapters 61 and 62, receiving no special import provisions, and paid average tariff rates[9] ranging from 13.7 and 17.2 percent from 1996–2000. U.S. imports from Sri Lanka increased from $1.4 billion to $2.0 billion over the last five years. Apparel was the primary U.S. import from the Maldives and Sri Lanka, which together supplied approximately $90 million of U.S. apparel imports.

The United States is not a major supplier for the Maldives or Sri Lanka. South and East Asian countries are the primary sources. U.S. exports to Sri Lanka and the Maldives in 2000 were only $198 million and $5.9 million, respectively. The top five U.S. exports to Sri Lanka were electrical machinery and equipment, cereals, machinery, textile fabrics (HTS 59), and instruments. The main U.S. exports to the Maldives included aircraft and parts, and machinery. Sri Lanka has a moderate level of trade protection. Sri Lanka has an average tariff rate of 8.5 percent, however, a defense levy, excise taxes, and surcharges can result in high tariff protection for specific items.[10]

[7] Office of the United States Trade Representative, "Foreign Trade Barriers," found at Internet address *http://www.ustr.gov*, retrieved Oct. 23, 2001.

[8] B.T. Johnson, K.R. Holmes, and M. Kirkpatrick, *1999 Index of Economic Freedom*, the Heritage Foundation and Dow Jones & Company, Inc., Washington, DC, 1999.

[9] Ratio of duties to total imports, calculated from official statistics of the U.S. Department of Commerce.

[10] B.T. Johnson, K.R. Holmes, and M. Kirkpatrick, *1999 Index of Economic Freedom*, the Heritage Foundation and Dow Jones & Company, Inc., Washington, DC, 1999.

Nepal, Afghanistan, and Bhutan

The United States received approximately 25 percent of Nepal's exports, with similar shares each for India and Germany in 2000. The top U.S. imports from Nepal are apparel, carpets, textiles, and jewelry. The United States doubled its merchandise imports from Nepal over the period 1996–2000. Imports of $116 million in 1996 rose to $229 million by 2000. India is the primary destination for exports from Bhutan, while Afghanistan's major trade partners include neighboring countries in the Former Soviet Union, Pakistan, and Iran. U.S. merchandise imports from Afghanistan and Bhutan combined were less than $2 million in 2000, down from $9 million in 1996.

The primary supplier for Nepal and Bhutan is India. The United States exported only $43.7 million in merchandise to Afghanistan, Bhutan, and Nepal combined in 2000. The primary U.S. export to Afghanistan was wheat. Aircraft and parts was the top U.S. export category to Nepal. Electrical machinery and equipment was the top U.S. export to Bhutan and the number two export to Nepal in 2000. U.S. exports to Afghanistan dropped by half over the last five years, 1996–2000. U.S. exports to Bhutan doubled, while exports to Nepal increased more than 300 percent over the same period.

U.S. Trade Policies With South Asia

Five South Asian countries participate in multilateral trade liberalization. India, Pakistan, and Sri Lanka were signatories of the General Agreement on Tariffs and Trade (GATT) in 1948. The Maldives signed the GATT in 1957. Bangladesh signed the GATT in 1972. All five of these countries joined the World Trade Organization in 1995. Under the trading rules of the WTO, these nations are entitled to most-favored-nation status with the United States. Bhutan and Nepal have WTO observer status.[11] Afghanistan is not a member of the WTO. In 1999, the United States successfully challenged India's trade restrictions using the WTO dispute resolution mechanism. India was compelled to comply with its WTO obligations per its accession package. On August 23, 1999, the WTO Appellate Body ruled against India's claim that balance-of-payments problems justified the continuation of market-access restrictions.

Developing country members of the WTO qualify for tariff relief under the U.S. Generalized System of Preferences (GSP)[12] for designated products. South

[11] Nondiscriminatory tariff treatment is commonly called "most-favored-nation" (MFN) status; in the United States, it is now known as normal trade relations (NTR) status.

[12] "The GSP program grants duty-free treatment to designated eligible articles that are imported from designated beneficiary developing countries. The GSP program is authorized by Title V of the Trade Act of 1974." *Federal Register*, Vol. 65, No. 212, page 65370, Nov. 1, 2000. The U.S.

Asian countries contributed $3.8 billion of products entering the United States under the GSP, approximately 23 percent of U.S. imports qualifying under the program. Over $1 billion of goods from India entered the United States under the GSP program in 2000. These included a wide variety of products in 72 different HTS 2-digit chapters. Indian products accounted for 18 percent of qualifying goods entering the United States under the GSP in 2000. India was the largest South Asian beneficiary of tariff relief under various U.S. special import programs. However, Indian products qualifying for tariff elimination under special import programs accounted for less than one percent of total U.S. imports from India in 2000. Organic chemicals were the primary Indian products qualifying under the pharmaceuticals[13] and dyes programs. For U.S. imports from Bangladesh, only $33.8 million worth of goods entered under GSP, out of a total of $2.4 billion. With the exception of 1998, an insignificant share of U.S. imports from Bhutan, not a WTO member, entered under the GSP program.[14] Nepal exported $7.3 million in merchandise to the United States under the GSP program in 2000, although 90 percent of U.S. imports from Nepal received no special import provisions. $93.2 million of U.S. imports from Pakistan qualified for GSP.[15] An additional $2.1 billion, approximately 96 percent, entered the United States without special program provisions. Six percent of U.S. imports from Sri Lanka qualified under the GSP. Afghanistan and the Maldives were the only South Asian nations not qualifying under special import programs for merchandise exports to the United States over the last five years.

[12]—*Continued*
GSP program expired on Sept. 30, 2001, but was extended through Dec. 31, 2002 by H.R. 3010.

[13] 7,000 designated pharmaceutical products are covered by reciprocal duty elimination under the Uruguay Round of the General Agreement on Tariffs and Trade, signed by 17 countries, including the United States. For more information see: D. Michels and E. Nesbitt, "The Uruguay Round Elimination of Duties on Pharmaceuticals: Developments in the 2 Years Since Implementation." *Industry, Trade, and Technology Review*, U.S. International Trade Commission, Washington, DC, October 1997.

[14] In 1998, $668,000 imports entered the United States from Bhutan under the GSP program.

[15] U.S. imports from Pakistan qualified under the civil aircraft special import program through 1998. No imports from Pakistan were qualified under this program in 1999 and 2000.

The following average U.S. tariff rate applied to U.S. imports from South Asia not qualifying under any special import programs in 2000. U.S. imports from Bhutan paid the lowest average tariff rate of 3.0 percent for 2000. However, total U.S. imports from Bhutan were less than $1 million. Indian products had the second lowest average tariff rate of 4.9 percent on $9.5 billion worth of goods entering the United States without qualifying for special import provisions. The highest average U.S. tariff rates for South Asian goods entering the United States were 15.5 percent for the Maldives and 15.3 percent for Sri Lanka. Ninty-nine percent of Bangladeshi products entered the United States without special import provisions, paying an average tariff rate of 14.4 percent in 2000. U.S. imports from Nepal paid an average tariff rate of 13.2 percent and U.S. imports from Pakistan paid an average tariff rate of 11.5 percent in 2000.

Economic sanctions were imposed on India (May 13, 1998) and Pakistan (May 30, 1998) by the President of the United States in response to nuclear tests conducted by the two countries. Under the authority of section 201 of the 1994 Arms Export Control Act (Glenn Amendment), the U.S. President was authorized to impose sanctions on any nonnuclear country that was actively involved in nuclear proliferation. Both India and Pakistan tested nuclear weapons in 1998. The Glenn Amendment sanctions allow: termination of foreign assistance by U.S. government agencies; denial of credit, credit guarantees, or financial assistance from any U.S. government agency; termination of defense sales or services; termination of military financing; opposition to any financial or technical assistance by any international financial institutions, except for humanitarian aid; prohibition of U.S. banks providing loans or credit, except for food purchases; and prohibition of exports of goods or technology having military or strategic uses. A subset of these sanctions was relaxed for one year by Presidential waiver under the authority of the India-Pakistan Relief Act. This Act was passed by Congress on October 21, 1998. For more details on the Glenn Amendment sanctions on India and Pakistan or the India-Pakistan Relief Act, refer to the U.S. International Trade Commission report on this topic.[16]

[16] *Overview and Analysis of the Economic Impact of U.S. Sanctions With Respect to India and Pakistan*, Publication No. 3236, U.S. International Trade Commission, Washington, DC, September 1999.