Regional Trade Agreements in South Asia: Current Outlook and Challenges

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Current RTAs in South Asia

• SAARC: SAFTA/SATIS
• Asia-Pacific Trade Agreement/Bangkok Agreement
• Important FTAs in the subregion include the India-SL FTA, the Pakistan-SL FTA, the India-Nepal FTA and the India-Bhutan FTA
• ECO
• Sectoral cooperation arrangements: BIMSTEC and IOR-ARC
SAFTA

• SAPTA had 4 rounds during 1995-2005 and the overall outcome was far from satisfactory
• SAFTA was signed in 2004 in Islamabad and extensive negotiations on modalities were conducted until mid-2006
• Tariff liberalisation implemented on July 1st 2006
• Inter-regional trade in SAARC somewhere around 5-6%
• SAFTA aims at working towards the formation of a FTA by 2016, under which the customs duties on products from the region will be progressively reduced
Impediments to SAFTA: Technical, Political, and Institutional

• Several issues remain which threaten the success of the agreement: NTBs, SL, ROO, RLCM, Additional measures, Dispute Settlement, Slow integration of services under SATIS, TLP
• Regional politics which is impeding the progress of SAFTA, some of the key ones now getting addressed
• An ineffective institutional structure – a number of (overlapping) committees without proper coordination
• Lack of adequate resources in the SAARC Secretariat to monitor implementation of activities
Challenge: Addressing NTBs and High Cost of Trade for SAFTA to be Effective

**Persistent Barriers to Trade**

- Despite reductions in tariff rates, nontariff barriers (NTBs) are still significant, and are currently increasing their shares in total trade costs in the region.
- Trade facilitation has become the leading NTB that reduces intraregional trade in SA:
  - Airports and maritime ports in SA are less advanced than those in China and other countries in East Asia.
  - Weak land networks across national borders also pose a formidable barrier to trade in SA, particularly for the landlocked countries.
  - Poor roads lengthen transportation time and reduce the longevity of vehicles, imposing higher per unit costs for cargo.
- SA is also characterized by inefficient and complicated administrative procedures and lack of transparency in inspection and documentation requirements.
- According to a World Bank study (2006) the costs of trading across borders in SA are among the highest in the world.
SATIS

- SAARC Agreement on Trade in Services (SATIS) signed in 2010
- Based on ‘positive list’ approach and ‘GATS-plus’
- Studies show more complementarities in services than in goods in South Asia and the trade imbalance with India of other SA countries to be much lower than in goods
- A good start would be to bind whatever unilateral liberalization in services at the existing level under SATIS
- Current progress is not satisfactory
Complementarities : Trade in Services.

Emerging Patterns of Comparative Advantage and Complementarity in Services

<table>
<thead>
<tr>
<th>Category of Services</th>
<th>Sector</th>
<th>Countries with Revealed Comparative Advantage (RCA&gt;1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour and resource intensive</td>
<td>Transport</td>
<td>India, Pakistan</td>
</tr>
<tr>
<td>Labour and resource intensive</td>
<td>Travel</td>
<td>Maldives, Nepal</td>
</tr>
<tr>
<td>Labour intensive</td>
<td>Construction</td>
<td>India, Bangladesh</td>
</tr>
<tr>
<td>Skill and technology intensive</td>
<td>Communications</td>
<td>Bangladesh, India, Nepal, Pakistan, Sri Lanka</td>
</tr>
<tr>
<td>Skill and technology intensive</td>
<td>Computer and information services</td>
<td>India, Sri Lanka</td>
</tr>
<tr>
<td>Skill and technology intensive</td>
<td>Financial and insurance services</td>
<td>India, Pakistan</td>
</tr>
</tbody>
</table>

Notes: Considers average RCA (³1) for the period 2000 to 2006
Source: RIS (2008)
APTA

- APTA (SL, BGD, IND, KOR, LAO, CHIN): China became a member in 2000; largest PTA in the world in terms of coverage of population
- But APTA based on “positive list” approach, thus negotiations are slow
- Preferences diluted by NTBs, preferential tariffs not given to actively traded goods, preferential margins were small, etc.
- Some regional exports receive MOPs of 50% and 20% but the reduction in duty for some products is from 5% to 4%, which is marginal
- 4th Round – still not completed since meetings do not take place on a regular basis
- Some APTA tariff preferences remain unutilized
APTA

- The 4th round of negotiations completed in December 2009, which aimed to widen the coverage of preferences to at least 50% of the number of tariff lines & provide a tariff concession of at least 50%
- The 4th round of negotiations is extended into areas beyond the traditional tariff concessions like trade facilitation, non-tariff measures and investments in order to deepen trade cooperation & integration
- APTA will provide ample opportunities for business expansion, sourcing & attracting FDI
- Most regional exporters are not aware of APTA concessions. Thus trade authorities need to raise awareness among exporters about the APTA agreement in order to increase its usage
ILBFTA

- In the period immediately preceding the Agreement (1995-2000), average annual exports from SL to India were US$ 39mn & annual average imports were US$ 509mn.
- India was an important source of imports even prior to the Agreement – by 2000, India was already the second largest source of imports to SL after Japan.
- But India was not a major export market prior to the ILFTA – it was the 14th rank in export destinations in 2000.
- SL’s trade with India changed dramatically following the implementation of the FTA in 2000.
- India fully implemented the Agreement by March 2003, and SL did so by October 2008 – longer time frame for the latter given economic asymmetries between the two countries.
ILBFTA: Special and Differential Treatment for Sri Lanka

- Larger negative list (SL agriculture sector fully protected)
- The immediate duty-free list (319 items) and 50% preferential duty list (889 items) were considerably smaller than those offered by India (1351 items and 2799 items respectively), while the Sri Lankan negative list (1180 items) was considerably larger than India’s (196 items)
- Relaxed Rules of Origin (ROO) - 35% (25% if Indian imports used)
- Longer tariff phase-out period (8 yrs for SL & 3 yrs for India)
- Negative list reduction based on SL’s comfort level
- Revenue compensation excluded, but SL insisted that high revenue import items will not be subject to tariff preferences (M duties = 2% of GDP revenue)
## India-Sri Lanka Trade: 1995-2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports (US$ Mn)</th>
<th>Imports (US$ Mn)</th>
<th>Trade Balance (US$ Mn)</th>
<th>Import/Export Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>58.0</td>
<td>600.1</td>
<td>-542.1</td>
<td>10.3:1</td>
</tr>
<tr>
<td>2001</td>
<td>72.0</td>
<td>601.5</td>
<td>-529.5</td>
<td>8.4:1</td>
</tr>
<tr>
<td>2002</td>
<td>170.5</td>
<td>852.8</td>
<td>-682.3</td>
<td>5.0:1</td>
</tr>
<tr>
<td>2003</td>
<td>245.3</td>
<td>1073.2</td>
<td>-827.9</td>
<td>4.4:1</td>
</tr>
<tr>
<td>2004</td>
<td>391.5</td>
<td>1439.1</td>
<td>-1047.6</td>
<td>3.7:1</td>
</tr>
<tr>
<td>2005</td>
<td>566.4</td>
<td>1835.4</td>
<td>-1269.0</td>
<td>3.2:1</td>
</tr>
<tr>
<td>2006</td>
<td>489.5</td>
<td>2172.9</td>
<td>-1690.4</td>
<td>4.4:1</td>
</tr>
<tr>
<td>2007</td>
<td>515.3</td>
<td>2610.1</td>
<td>-2094.8</td>
<td>5.1:1</td>
</tr>
<tr>
<td>2008</td>
<td>418.3</td>
<td>3443.0</td>
<td>-3024.7</td>
<td>8.2:1</td>
</tr>
<tr>
<td>2009</td>
<td>322.3</td>
<td>1820.1</td>
<td>-1498.2</td>
<td>5.7:1</td>
</tr>
<tr>
<td>2010</td>
<td>474.1</td>
<td>2570.3</td>
<td>-2096.2</td>
<td>5.4:1</td>
</tr>
<tr>
<td>2011</td>
<td>519.2</td>
<td>4431.2</td>
<td>-3912.3</td>
<td>8.5:1</td>
</tr>
</tbody>
</table>

Source: Central Bank of Sri Lanka
## ILBFTA: Outcome of 11 years

### Positives

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2005</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports:SL</td>
<td>1%</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>Imports:SL</td>
<td>9%</td>
<td>17%</td>
<td>22%</td>
</tr>
<tr>
<td>No of Products:SL</td>
<td>505</td>
<td>1062</td>
<td>2100</td>
</tr>
<tr>
<td>Type of Exports:SL</td>
<td>Primary products</td>
<td>Vanaspathi &amp; copper</td>
<td>Value-Added products</td>
</tr>
<tr>
<td>Export Destination:SL</td>
<td>14</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Investment in SL</td>
<td>&lt; 2%</td>
<td>16%</td>
<td>15%</td>
</tr>
</tbody>
</table>
ILBFTA: Trade Gap Narrowing

Trade balance in India’s favour

- Given India’s size, it is obvious that its exports would exceed SL’s
- In 2011, 83% of SL’s exports were under the FTA, compared to only 13% of imports (major imports from India such as Oil, Vehicles, Transport Equipment, Pharmaceuticals, Agricultures, etc., are in the SL ‘negative list’)
- Thus deficit in terms of the FTA has fallen in recent years
- FTA has helped in narrowing the trade gap between the two countries in favour of SL and has contributed towards more equitable and balanced growth of bilateral trade
ILBFTA: Exports and Imports to India, 2006-2011

Source: Department of Commerce, Sri Lanka
IL-CEPA: Looking Beyond the FTA

- Given the early success of the ILBFTA, both parties were aware of the importance & benefits of broader economic integration.
- Based on the recommendations of the JSG report, it was decided to include trade in services, investment & economic cooperation, along with further liberalization of the goods sector, under the ambit of a Comprehensive Economic Partnership Agreement (CEPA).
- Negotiations of the CEPA began in 2005, & after 3 years of negotiations the CEPA Agreement framework was scheduled to be signed in July 2008.
- But due to reservations expressed by a group of local industrialists & a political party, the CEPA was not signed & has remained in limbo since then.
- Reservations were based on 2 broad concerns: about the nature of the CEPA itself & that the drawbacks in the FTA should be dealt with first, prior to embarking on a CEPA.
ECO

- ECO was formed in 1985 by Pakistan, Turkey and Iran and in 1992 expanded with Afghanistan, Azerbaijan, Kazakhstan, Tajikistan, Turkmenistan, Uzbekistan, and Kyrgyz.
- The ECO Trade Agreement (ECOTA) of 2003, aims to establish a single market for goods and services through agreements relating to tariffs, para-tariffs and NTBs.
- Has embarked on several projects in sectors including energy, transportation, agriculture and drug control.
ECO

• Little progress has been made due to the marked similarity of ECO economies, which all specialize in a small group of primary products

• Lack of appropriate infrastructure and institutions to make full use of resources

• Domestic politics in individual member countries have compelled countries to give less priority for regional cooperation issues
Sectoral Cooperation Arrangements

• BIMSTEC (India, Sri Lanka, Bangladesh, Nepal, Bhutan, Thailand, Myanmar), focus mainly on sectoral cooperation projects: Bay of Bengal marine/fisheries, Bay of Bengal tourism, etc.
• Outcome not impressive. An FTA proposed in 2004 has not made much progress
• IOR-ARC (India, Sri Lanka, Bangladesh, & Iran from the South & South West Asian region are members among the 19)
• Open regionalism framework without any binding commitments, thus sectoral cooperation projects are also moving slowly
Consolidating the Existing RTAs

• Trade agreements will have to be fully used
• Consolidate the existing ones rather than expanding RTAs and diluting trade policy
• Deepen and broaden SAFTA capped by SATIS,
• Deepen positive list tariff preferences under APTA,
• ILBFTA to be converted to IL-CEPA, PLFTA to be converted to PL-CEPA (on a later date), and
Overcoming barriers to preferential trade

- Trade agreements are not without anomalies: actively traded goods excluded, preferential tariffs nullified by NTBs, ROOs impediment, trade facilitation weak and becoming a NTB, dispute settlement mechanisms weak, etc.
- They need to be addressed
- If ‘negative lists’ are reduced, actively traded goods are included under preferential/free trade, and NTBs removed, then the amount of trade under preferential channels would have been more in South Asia
The Growth of CEPAs, CECAs and EPAs

- CEPA is a new mechanism devised to address all trading NTBs, without signing case-by-case MOUs for recognition of standards, etc., a comprehensive barrier list in goods, services, and investment is signed in one go to facilitate trade

- That is why CEPAs are accepted all over the world: at present, there are 84 CEPAs, CECAs and EPAs in operation

- Exploring the trade-investment nexus crucial when complementarities are limited and CEPAs are geared to invigorate this nexus and promote intra-industry trade – vertical integration
Making the Best Use of Preferential Trade

• In global trade it is said that more than 50% now moves under preferential/free trade agreements
• Spaghetti bowl confusion is over-exaggerated by some free traders. Yes, the initial confusions will be there but once you study and obtain practical experience the confusion will no longer be there
• Trade agreements can be diluted by politics (big power domination, economic colonization, economic nationalism/patriotism)
• Trade agreements to succeed political leadership is necessary (e.g., President Clintons leadership for NAFTA)
Concluding Remarks

• Consolidate and expand existing RTAs – less rewarding RTAs should be put aside and focus should be on the ones where positive results are already visible and potential gains remain unexploited

• THANK YOU
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