

Regional Agricultural Trade Liberalization Efforts in South Asia: Retrospect and Prospects

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The changes in economic policies in 1980s and early 1990s in South Asian Economies (SAEs), which include Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, were not successful in completely reforming protectionist policies. Relatively higher tariff rates on agricultural commodities remained one of the features of trade regimes. However, the institutional developments related to trade policy have paved the way to some liberalization of agricultural trade. All the SAEs, except Bhutan, are members of the WTO and their involvement in regional trading arrangements has rapidly expanded during the ten years (1995-2004) following the establishment of the WTO. In that context, this brief discusses the regional agricultural trade liberalization efforts in SAEs, highlighting the factors which hampered it and outlining prospects for a more effective liberalization.

NATURE AND TRENDS OF AGRICULTURAL TRADE IN SOUTH ASIA

The structural changes during 1980s and 1990s placed non-agricultural sectors of the SAEs in the driving seat of economic growth. Though the shares of agriculture in national outputs have been declining, agriculture and agricultural trade still play a very important role in the SAEs. However, only India and Sri Lanka are net agricultural exporters¹. The agricultural tradability indices² presented in table 1 measure the relative openness of SAEs to agricultural trade and may indicate how vulnerable a country is to liberalization of agricultural trade. Maldives and Sri Lanka are

more open to agricultural trade, while India is the least open among the SAEs.

Historically, SAEs have been trading similar types of agricultural products and the concentration of exports into limited agricultural product groups is a common phenomenon in many SAEs. India is the most diversified economy in terms of agricultural exports and the least diversified in imports. All the other SAEs show less diversity in agricultural exports while imports show a wide diversity (Figures 1 and 2). The export and import concentrations indicate the potential for trade increase following liberalization. In this respect, India could benefit more due to a higher diversity in exports (lesser diversity in imports) than other SAEs.

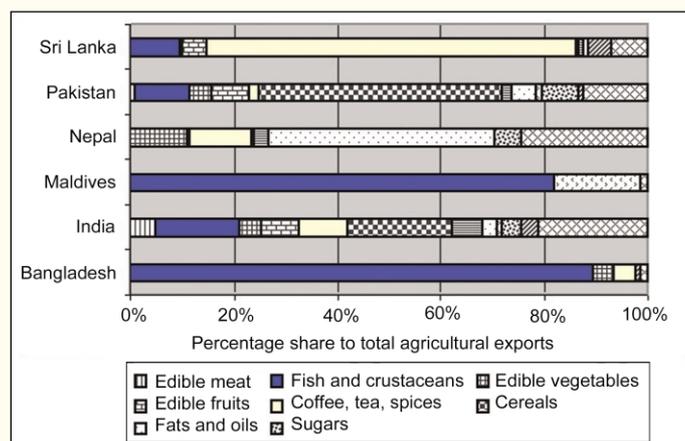


Figure 1: Agricultural export concentrations

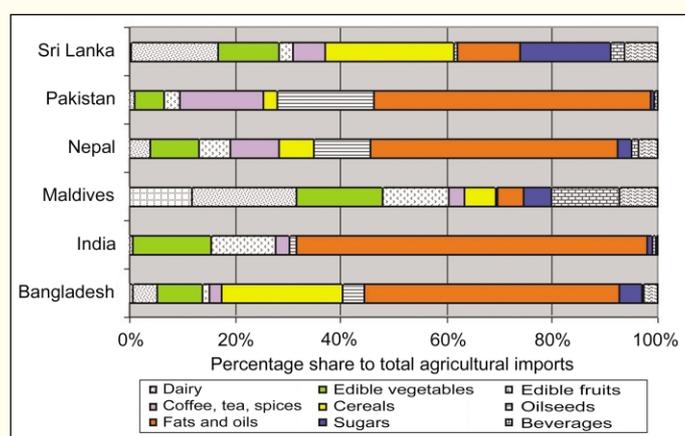
Table 1: Agricultural Tradability Index (ATI) of SAEs; 1992, 1998, 2002

Country	1992	1998	2002
Bangladesh	0.09	0.14	0.18
Bhutan	0.36	0.36	0.19
India	0.05	0.08	0.11
Maldives	0.87	0.79	1.74
Nepal	0.13	0.19	0.22
Pakistan	0.20	0.20	0.22
Sri Lanka	0.52	0.70	0.69

Source: Authors calculation based on UN COMTRADE data.

¹ Authors calculations of Agricultural Net Export Index based on UN COMTRADE data.

² Formulae for all indices mentioned in this brief can be obtained from the authors.



Source: Samaratunga et al. (2006).

Figure 2: Agricultural import concentrations

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An examination of revealed comparative advantage (RCA)³ depicts India as having advantage in a wide variety of agricultural product groups and it indicates the presence of higher potential for India to benefit under a more liberal trade environment. Bangladesh is found to have RCA in limited agricultural product categories which in combination with its higher protection levels limit the potential for trade expansion. Pakistan shows RCA in cereals and sugar while Sri Lanka's RCA is mainly concentrated in HS chapter 09 (beverages and spices). More generally, we find a fall in RCA indices of agricultural exports in the region and assign it to the fact that the non-agricultural exports have grown much faster than agricultural exports. Bangladesh, Sri Lanka and Pakistan have faced greater constraints on maintaining or expanding agricultural exports with the expansion of global trade compared to India. This can be attributed to higher concentration of agricultural exports in a small number of products in these countries and faster growth of non-agricultural exports.

There is no major shift in intra-regional agricultural trade pattern but all SAEs, except Pakistan, show a remarkable growth in intra-regional agricultural trade during the past decade⁴. With reference to the 1995 trade levels, Bangladesh has achieved the highest growth while India has established a prominent position in South Asia for its agricultural products (i.e., India is associated with 80 per cent of the regional agricultural trade – exports and imports combined).

PAST AGRICULTURAL TRADE LIBERALIZATION EFFORTS IN SOUTH ASIA

The Uruguay Round Agreement on Agriculture (URAA) was concluded at a time when all SAEs had already made significant progress in unilateral trade liberalization and has therefore not been a prime factor in inducing liberalization in that sector. In mid 1980s, SAEs initiated regional cooperation with the establishment of SAARC and consequent initiation of SAARC Preferential Trade Agreement (SAPTA) in 1995, followed by other mainly bilateral liberalization initiatives.

Unilateral Liberalization Efforts

As a consequence of unilateral liberalization efforts, Sri Lanka and Nepal have been maintaining relatively lower applied tariff regimes than the other SAEs. During the period 2002-2003, a slight decrease in agricultural tariff rates (at MFN level) could be observed in all SAEs, except in India. Although SAEs maintain a few tariff bands, most of the agricultural commodities are at the highest end within tariff bands at present. Within the region Bangladesh and India face tariffs lower than what they impose on other countries whereas Nepal, Sri Lanka and Maldives face tariffs higher than what they impose. Thus, India and Bangladesh protect their agricultural products from competition from other SAEs. The dispersion of Indian agricultural tariffs is higher than those of other countries but more than two thirds of Indian agricultural tariffs are placed at 30 per cent. Bangladesh maintains more than 55 per cent tariff protection for 25 per cent of agricultural tariff

lines. Nepal maintains a higher percentage, around 80 per cent of tariff lines within less than 20 per cent level. More than a half of Sri Lankan tariff lines, 56 per cent, receive 30 per cent tariff protection (World Bank, 2004). In summary, agricultural trade liberalization of countries in South Asia is uneven and there is a potential/opportunity for further agricultural trade liberalizations/negotiations (see table 2).

Regional Liberalization

SAPTA includes a total of 866 agricultural items for concessions. But, it is unlikely to contribute significantly to intra-regional agricultural trade mainly because of the NTBs in the agricultural sector and uniformity of export commodity basket (Weerakoon and Wijayasiri, 2001). Although SAPTA has offered 5-20 per cent margin of preference (MOP) from most favored nation (MFN) rates, the rules of origin (RoO) criterion is high (40-50 per cent of FOB value). Despite four rounds of preference negotiations, the product coverage remains limited so that the agreement remained ineffective (Kelegama and Adhikari, 2002). Negotiation in terms of the sensitive lists, technical assistance to the LDCs, the mechanism for compensation of revenue loss for LDCs and finalization of rules of origin have already commenced in order to ensure timely implementation of the South Asia Free Trade Area (SAFTA) agreement by 2006 (CBSL, 2004). Under the trade liberalization component, the member countries agreed to gradually harmonize and eventually bring down their import tariffs on trade within SAFTA to 5% or less. However, tariff cuts for SAFTA trade may not apply to items on each country's sensitive list and a higher possibility exists for the inclusion of agricultural products in the sensitive lists. South Asian giants, i.e., India and Pakistan, have a huge responsibility in making SAFTA more effective and viable for economic development of South Asia especially without badly affecting LDCs.

Recent Efforts: Bilateral Liberalization

Slower progress of SAPTA and SAFTA has made it important for individual SAPTA members to form trade agreement bilaterally among themselves. Therefore a network of bilateral agreements was formed centering on India. Among those, the Indo-Lanka Free Trade Area (ILFTA), in operation since 2000, is considered to be one of the more important agreements. It has led to an expansion of bilateral trade between the two countries. In addition, India has also had prior trade agreements with Nepal and Bhutan. Newly modified forms of these trade agreements (India-Bhutan, 2006; India-Nepal, 2002) have provided wider coverage for agricultural exports to India from Bhutan and Nepal. The other bilateral trade agreements of SAEs viz. ILFTA and Pakistan Sri Lanka Free Trade Area (PSLFTA, 2005) have included very few agricultural products for further liberalization. For instance, these agreements excluded many of the major agricultural products in which the countries had comparative advantage such as rice, wheat, sugar, cashew nuts, shrimps and prawns and imposed tariff-rate quotas⁵ on many others such as black tea and cotton (Baysan et al., 2006). Limited agricultural items are subjected to preferential tariffs in the PSLFTA as well. The inter-regional trade agreements of SAEs, such as the Asia Pacific Trade Agreement (APTA) and the Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BITST-EC) do not embody significant numbers of concessions

³ An RCA value greater than one indicates export specialization in that commodity or commodity group.

⁴ Agricultural trade increased from 1995 to 2004 by 228%, 135% and 79% in Bangladesh, Nepal and India respectively (based on current values data from UN COMTRADE).

⁵ The preferential tariff is applied up to a pre-specified quota while the 'Most Favored Nation' (MFN) tariff is applied to the out-of-quota imports.

Table 2: Description of trade regimes related to agricultural commodities

Country	Description
Bangladesh	<ul style="list-style-type: none"> ➤ Simple average tariff rates (%): 32.1 (Agriculture), 25.4 (Non-Agricultural) ➤ Trade related restrictions were limited mainly to three categories: agricultural products (chicks, eggs, salt), packaging materials, and textile products ➤ Tariff protection is augmented by other border levies and, in some instances, the discriminatory application of internal taxes
India	<ul style="list-style-type: none"> ➤ Simple average tariff rates (%): 40.1 (Agriculture), 19.7 (Non-Agricultural) ➤ India's tariff regime seems to be more liberal in 1990s, but was quite restrictive compared to the other South Asian countries in relation to agriculture ➤ State trading monopolies are being maintained over major food grains (rice, wheat, coarse grain except maize and barley) which is equal to 40 per cent of agricultural GDP ➤ TRQs have been imposed under different bilateral trade agreements for importation of tea, vanaspati and pepper (ILFTA), milk, maize, crude sunflower and safflower oils and refined rape and mustard oils (Indo-Nepal trade agreement) ➤ India maintains a list of about 300 sensitive items, imports including many agricultural products such as milk products, fruits and nuts, coffee, tea, spices, cereals, oilseeds and edible oils, alcoholic products and silk, of which are monitored. ➤ Technical standards and health & safety regulations are used for food ingredients, powdered milk and other milk products in India ➤ An SPS certificate is required on the imports of nearly all livestock, agricultural and food products in India. ➤ India has designated ports and inland custom points at which imports can be cleared (under ILFTA) ➤ Restrictions on imports of domestically produced intermediate inputs to India <p>Indian agricultural producers receive subsidies on fertilizer, power, irrigation, credit and certified seeds</p>
Nepal	<ul style="list-style-type: none"> ➤ Simple average tariff rates (%): 16.3 (Agriculture), 16.6 (Non-Agricultural) ➤ Nepal maintains liberal trade policies and the tariffs are generally low while agricultural trade is more liberal with low tariffs ➤ Nepal's trade policies are indirectly influenced by India's trade policies so that it is protected indirectly from trade policies of India
Pakistan	<ul style="list-style-type: none"> ➤ Simple average tariff rates (%): 18.1 (Agriculture), 16.6 (Non-Agricultural) ➤ Pakistan embarked on a radical new trade liberalization programme eliminating all remaining QRs and parastatal import monopolies since 1997/98 ➤ there are strong protectionist elements in agricultural policies in terms of the use of technical regulations and regulations based on health and safety ➤ Specific duties on edible oil and margarine ➤ long standing ban on imports from India ➤ In Pakistan, domestic support for agriculture has been largely aimed at fostering price support/stabilization, food security and raising productivity/competitiveness of the agricultural sector
Sri Lanka	<ul style="list-style-type: none"> ➤ Simple average tariff rates (%): 28.1 (Agriculture), 10.7 (Non-Agricultural) ➤ A marked reduction of Sri Lanka's tariff rates was observed after 1990 for intermediate and capital goods and after 1996 for agricultural goods ➤ Specific duties on rice, chili, potatoes and onion ➤ State trade monopolies on importation of wheat ➤ Sri Lanka's agricultural producers are receiving domestic support in terms of a fertilizer subsidy, irrigation and replanting (for tree crops)

Source: Various sources including World Bank (2004), WTO Trade Policy Reviews, Panagariya (1999), etc.

relevant to agricultural trade. In addition, none of these agreements have explicitly addressed domestic support and export subsidies in agriculture or the use of anti-dumping regulations.

The number of agricultural products covered in bilateral preferential trade agreements is very limited and the items negotiated have no significant trade interest to the contracting parties. Trade barriers in agriculture are mostly based on ad-valorem tariffs. The percentage of agricultural tariff lines with specific tariffs or tariff rate quotas (TRQs) is low. But, specific tariffs and TRQs have been used to protect sensitive (or high trade potential) agricultural commodities. Involvement of state trading monopolies, domestic support for agricultural production and

exports may have highly influenced the pattern of trade. The levels of support vary among the SAEs and they have not been taken into consideration in the preferential trade negotiations. Trade liberalization without due consideration to these issues may lead to unfair competition in agricultural sectors of these economies.

PROSPECTS FOR A MORE EFFECTIVE REGIONAL LIBERALIZATION IN AGRICULTURE

Since South Asian agricultural trade remains highly protected with high tariffs, non tariff barriers and heavy input subsidies, these countries should continue with the reduction of agricultural protection either regionally or multilaterally. Since international

trade distortions in agriculture are very high and domestic capabilities (institutional, etc.) are less developed, the reduction of protection will be gradual and will need more time. The WTO Agreement on Agriculture is less relevant for South Asia mainly due to (i) applied tariff rates that are well below the high bound rates, and (ii) agricultural support policies and subsidies that are not constrained by the rules on aggregate measures of support (AMS). Regional trade cooperation in the sub-region has been slow to develop and the South Asia's trade negotiations have yielded fewer opportunities for agricultural trade. The trade liberalization programme of the SAFTA offers only a very limited reduction in import duties for intra-regional trade, which is not much larger than what is offered under the WTO.

Though these institutional trading arrangements have included limited concessions for agricultural products, intra-regional agricultural trade has expanded during the past decade. The development of the agricultural trade within the region during the past decade and prevalence of higher tariff protection indicate the potential for expansion of agricultural trade. Moreover, it necessitates India and Bangladesh to provide more opportunities to promote agricultural trade in the region. Even though Indian agriculture is highly protected, India has shown some flexibility to liberalize with its neighbouring countries under bilateral arrangements.

The real agricultural trade interests of the SAEs are subjected to the sensitive lists in the RTAs and the BTAs. Therefore, a substantial development of agricultural trade in the region cannot be envisaged without any change in the sensitive or negative lists of these agreements. Reduction of specific tariffs, removal of TRQs, and improving market access for products with considerable export specialization can be considered as key issues for the regional and multilateral trade negotiations. Further, placing particular emphasis on trade facilitation measures to prevent impediments to regional agricultural trade and to expedite the movement, release and clearance of goods seems useful. This includes enhancing technical assistance and support for capacity building in areas such as quarantine and storage (refrigeration) facilities.

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