Contents

Talks to open up services, investment in South Asia may end by Sept

Arun S., Hindu Business Line

New Delhi, August. 9, 2012: Talks to liberalise trade in services and investment in South Asia are likely to be concluded by September-end.

With India recently notifying its decision to permit foreign direct investment (FDI) from Pakistan, the talks have gained a new lease of life, official sources told *Business Line*.

Earlier, though India was keen on early conclusion of the negotiations, Islamabad had questioned New Delhi on how it could pitch for liberalisation of services and investment in the region when it was yet to accord non-discriminatory treatment to Pakistan on FDI.

The South Asian Association for Regional Cooperation (SAARC) members - India, Pakistan, Sri Lanka, Nepal, Bangladesh, Bhutan, Maldives and Afghanistan - already have a Free Trade Agreement (the Agreement on South Asian Free Trade Area or SAFTA) on trade in goods.

The talks now are on SAARC Agreement on Trade in Services (SATIS), as the members have realised that they can reap more benefits only if SAFTA is expanded by including trade in services as well as investment, the sources said.

The scheduling commitments (the extent of opening up various service sectors for investment; and keeping out some sensitive sectors, like space and atomic energy) will be finalised next month, the sources said.

The minimum that one can expect is the basic commitments given by SAARC member countries at the World Trade Organisation-level, they said, adding that in some sectors, SATIS can also go beyond what has been committed at the WTO.

Significantly, around 55 per cent of the value added to South Asia's GDP was on account of services. However, India's strength in the sector, including a high number of skilled professionals, is seen as a threat by other South Asian countries.

The other SAARC countries fear that opening up their services market would result in a huge influx of Indian service professionals in IT/ITeS, banking, accountancy, engineering, consulting and telecom.

[Back to top]

India now trade-surplus with all Saarc partners

Kirtika Suneja, Financial Express

22 October 2012, New Delhi: For the first time in years, India has become trade surplus with all the South Asian countries, besides registering a 12.2% annual increase in overall Intra-Saarc trade at $15.5 billion in 2011-12. While India's exports with its Saarc partners increased 11.78%, imports rose 14.96%, according to provisional figures obtained from the commerce ministry. New Delhi used to enjoy a surplus in trade with all the Saarc countries except Bhutan for the four years preceding 2011-12. Last year, it posted a surplus with the neighboring kingdom as well by $1.08 million.

Sri Lanka is India's largest trading partner in the Saarc followed by Bangladesh, Nepal and Pakistan. India has a free-trade pact with Sri Lanka, while Nepal enjoys duty-free access to Indian markets. Trade with other Saarc countries, namely Bhutan, Afghanistan and Maldives, is bolstered with their the least developed country (LDC) status. The potential of trade among Saarc nations is set to multiply with the increased focus of these countries to tap Asian markets more aggressively in the wake of the continuing global crisis that the resultant slump in trade with Europe and the US.

Another factor that would give an impetus to intra-Saarc trade is the recent decision of Pakistan to grant most-favoured nation (MFN) status to India, which means non-discriminatory treatment to the country's exporters.

Besides petroleum products, India exports pharmaceutical products, machinery, cotton and sugar, among others to all these countries. Petroleum products are not exported to Pakistan at present.

"We opened up the entire South Asian Free Trade Agreement (Safta) a few years back and the sensitive list in down to 25 tariff lines for the Least Developed Countries (LDCs) with the exception of liqueur and tobacco as they are considered demerit goods. Our intention is to increase trade with our neighbours," said a commerce ministry official.

In fact, the Cabinet recently approved the reduction of 30% (264 tariff lines,) from the Safta Sensitive list for Non Least Developed Countries (NLDCs), allowing the peak tariff rates to reduce to 5% within three years, as per agreed Safta process of tariff liberalization. Last year, India unilaterally reduced its sensitive list for the LDCs under Safta to 25 tariff lines, thus allowing all other imports at zero basic customs duty.
Afghanistan, Bangladesh, Bhutan, Maldives and Nepal benefited as a result of this trade liberalisation move.

However, the trend of increasing trade surpluses has worried the ministry and experts alike who fear that the favourable trade balance of $10.5 billon may lead to other countries becoming insecure about India pushing too much for its exports in the subcontinent.

"We urgently need to address the issue of adverse trade balance that every SAARC country has with us as we can't carry on with huge surpluses in our favour," the official added.

The impediment in increasing trade with The Saarc nations is twofold. First, all countries in the region produce similar products and in most cases India produces them cheapest except a few items. Second, even if imports grow faster, the base is so small that the absolute increase will not be much.

"We need a healthy balance of exports and imports and extend the Safta concessions else other countries might act against us for not creating market opportunities for them. We need to give more for greater political will," explained Ajay Sahai, director general and CEO, Federation of Indian Export Organisations. Another fear pertains to the slowdown in the US and European Union, which might affect Saarc and, thereby, intra-Saarc trade.

“If exports from Saarc decline, then the capacity to import will also fall. The Saarc nations will not flood the Indian markets with imports if global trade declines. So, it is not an opportunity for the regions,” noted Sahai.

[Back to top]