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SAARC Summit concludes with pacts on regional cooperation

PTI

Nov 11, 2011,Addu (Maldives): The eight-nation SAARC Summit today reached a series of agreements on regional cooperation and decided to consider reducing non-tariff barriers and ad valorem duties to promote freer trade. The announcement on the agreements was made by host Maldivian President Mohammad Nasheed in the concluding session of the two-day 17th SAARC Summit, which was held for the first time in the southern most point of the island lying south of equator. Nasheed said the Summit agreed that the SAARC Ministerial Council will work on reducing non-tariff barriers and ad valorem duties to promote trade in the region. In this context, Nasheed welcomed Prime Minister Manmohan Singh's announcement yesterday of India's decision to slash the sensitive list for Least Developed Countries under SAFTA from 480 tariff lines to just 25. Singh had also announced that zero basic customs duty access will be given for all items removed with immediate effect. The Maldivian President said the Summit also mandated the Finance Ministers to discuss a mechanism to promote capital flows and investment. With 'Building Bridges' as its theme, the Summit agreed to move ahead on a regional railways agreement and a motor vehicle pact, which will make travel among SAARC nations much easier than it is today. The Summit also agreed to set up a South Asian Postal Union whose Secretariat will be established in India. On security issues, the 8-nation grouping agreed on rapid response to natural disasters and to combat maritime piracy.

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Immense potential for intra-Saarc trade

Chandrajit Banerjee, Business Standard

November 13, 2011: For too long, members of the South Asian Association for Regional Cooperation (Saarc) have deprived themselves of the benefits of regional economic integration. With one-fifth of the world's population, the Saarc region is home to two-fifths of the world's poor. However, it accounts for only 3 per cent of global output and 2 per cent of world exports. Intra-regional trade has stagnated at around 5 per cent of its total trade, compared to over 50 per cent in East Asia and around 20 per cent in Latin America. Even Sub-Saharan Africa, with poor transport and telecommunication infrastructure, scores over South Asia, with over 10 per cent of its trade being intra-regional. Regional economic cooperation is an acknowledged tool for regional prosperity. This was recognised by Saarc as early as 1993, when the South Asian Preferential Trading Agreement was signed. Since then, it has evolved into the South Asian Free Trade Area (Safta) in 2004, coming into effect in 2006. Bilateral and sub-regional trading agreements also exist between various members. At the previous Summit in Thimpu, the commitment to implement Safta was reiterated and a Saarc Agreement on Trade in Services was signed.

Despite these initiatives, members have retained a plethora of tariff and non-tariff barriers, which greatly inhibits trade and investments in the region. With a large list of negative items, the trade basket remains very narrow, with little value addition.

According to a CII paper, the major cross-border structural rigidities include 'behind-the-border' barriers in customs procedures, poor transport links, weak networking of private sectors, and administrative issues such as visas. Foreign direct investment (FDI) too is minimal, due to regulatory issues and a non-facilitative business environment. India, a connecting land mass and the largest economy of the region, has a special responsibility in increasing intra-regional economic integration and must facilitate access to its large markets for Saarc members. Its above-average growth, expanding middle-class population, and demand for global goods can prove to be an engine of growth for the region. India's trade with South Asian countries has increased encouragingly, from $7 billion in 2005-06 to $15 billion in 2010-11, but much trade is below the official radar. Further, India's trade with countries such as Nepal, Bangladesh, Sri Lanka and Afghanistan remains heavily skewed in its own favour. The services trade further adds to the trade imbalance, leading to concerns among other South Asian countries about trade sustainability. India must make every effort to minimise tariff and non-tariff barriers and source goods from its neighbours. Three areas offer large potential for economic cooperation —the services trade, energy cooperation, and logistical connectivity. Many South Asian economies source services from India directly by obtaining those services in India — primarily healthcare and education. However, consumption abroad is expensive. An improved FDI regime and business environment would help regional firms to provide such services directly to other South Asian countries, through direct investments or joint ventures in hospitals, schools and transport services. Tourism, a major growth opportunity for countries like Afghanistan and Nepal, remains constrained by security problems. Allowing intra-regional trade in services would enable South-Asian economies to become more globally competitive. The services component of Safta should be made a priority and many more services should be brought under its ambit. Energy and electricity cooperation are non-traditional areas of trade relationship development. Bhutan has managed to balance its trade with India with large exports of hydro-electric power, and similar potential exists for Bangladesh and Nepal. An integration of electricity grids across South Asia will reduce power costs and enhance manufacturing competitiveness for all members, and should be high priority. Huge hydro-electric potential exists in Nepal, Bhutan, Afghanistan and India, which could be tapped for intra-regional power trade. Further, major finds of natural gas are arising across South Asia. Countries bordering South Asia —i.e. Myanmar, Iran and Turkmenistan —also have excess capacity of natural gas. A pan-South Asian pipeline infrastructure would enable South Asia to transit to natural gas as the fuel of choice, with pipelines connecting parts of South Asia to neighbouring resources. Transit fees earned could be substantial and would help rectify the trade balance with power-deficient India to a certain extent. The development of logistical hubs that facilitate the flow of trade across the region would greatly reduce the costs of doing business. Such hubs should be multi-modal, incorporating containerised and non-containerised cargo and moving via rail, road, air and shipping links. These logistical hubs would connect critical regional corridors, especially with countries having no common borders. Finally, private sector connectivity must be systematically encouraged. The Saarc Summit process should include a parallel business conference for linking business communities. We look forward to the regional leadership for realising this potential. Intra-regional economic cooperation can serve well as a credible instrument for poverty alleviation, prosperity, and, ultimately, peace. The author is Director General of the Confederation of Indian Industry.

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Time intra-SAARC trade improved

Ritesh Kumar Singh, Hindu Business Line

Amidst global recession, the future lies in regional trade. Reduced distances make it a low carbon option

January 8, 2012:Intra-regional trade accounts for roughly 65 per cent of European Union's total trade; it is 51 per cent in the North American Free Trade Agreement (NAFTA) area, 25 per cent in the Association of South East Asian Nations (ASEAN) and 16 per cent in the Latin American trade bloc, Mercosur. However, this ratio is just 5 per cent in the South Asian Free Trade Area (SAFTA) despite the existence of logistical advantages.

Is it political hostility alone, especially between two major partners, India and Pakistan, that has kept intra-regional trade and investment flows among SAARC nations low? This question acquires significance when developed countries, faced with economic slowdown and rising unemployment, are resorting to growing use of non-tariff barriers, e.g. tighter emission controls to check imports into their territories.

This leaves developing nations with no other option but to look for increasing trade among themselves. In the absence of large domestic markets, intra-regional trade can help to achieve economies of scale (more so in case of smaller nations such as Nepal or Bhutan) and rapid economic growth.

Increasing trade can also help to reduce political animosities. Besides, intra-SAARC trade can be a low carbon option compared with, say, India-Latin America trade because of geographical proximity and low transport cost among SAARC nations.

Roadblocks to Trade

Over the years, several attempts have been made to increase intra-regional trade through preferential trading arrangements. The agreement covering South Asian Free Trade Area (SAFTA), which became operational on January 1, 2006, is the most important among all such attempts.

Yet, India's trade with South Asia has not kept pace with its otherwise rapidly growing external trade. As shown in the accompanying chart, the share of SAARC region in India's export remained stagnant over the last decade. Its import share has, in fact, declined. This is expected as SAFTA is limited in nature and focuses mainly on gradual duty reduction for promotion of trade, which is only one of the trade barriers. SAFTA has not been successful in addressing other trade barriers affecting growth of intra-regional trade flows.

What has kept intra-regional trade so low?

While politics is certainly one of the key factors to restrict growth of trade among South Asian nations, there are other factors probably more important, such as enabling policy environment and supporting infrastructural facilities which have not let intra-SAARC trade, including between India and Pakistan, the two major nations of the region, take off.

India-Pak trade routes: At present, India-Pakistan trade can take place either through Atari (by rail) or Wagah (by road) or Mumbai-Karachi sea route. Trucks carrying goods are not permitted to cross over one side to another, adding to the cost of cargo loading/unloading, damage and delays. Again, moving goods from Delhi to Mumbai by rail and then to Karachi by sea route costs almost three times that of moving them directly from Delhi to Atari by rail route. This has to change if we want India-Pakistan trade to realise its true potential, which is several times higher than the current $2.6 billion.

Transit trade problems: While goods from Afghanistan may come to India via Pakistan (through land route) Indian goods are not allowed into Afghanistan via Pakistan. Similarly, Pakistani goods are not allowed to go to Bangladesh or Nepal via India. Only Nepal and Bhutan have got transit facilities from India for their trade with Bangladesh. Intra-SAARC trade can easily multiply if seamless movement of goods and services across the region is ensured.

Further, complex rules of origin make it difficult to benefit from SAFTA duty preference. Many a time, exporters, especially SMEs, forego preferential duty access because of the difficulties associated with compliance in terms of time and cost.

Poor infrastructure: Infrastructure is a key determinant of trade competitiveness. Most SAARC countries, except Sri Lanka to an extent, fare badly in terms of trade-friendly infrastructure, in particular export-import formalities, time/cost of documentation, Customs procedures, efficiency of ports and inland connectivity, as shown by World Bank's Ease of Doing Business reports.

These factors keep intra-SAARC trade low. Restriction on transit movement of merchandise further adds to the transaction cost.

Areas of potential

Given the poor record of South Asia in infrastructure, especially port-related infrastructure, its development needs urgent attention for businesses to benefit from progressive duty reduction under SAFTA. Experience of South-East Asia shows that trade and investment go hand in hand, so it is time policy-makers contemplated deepening the existing FTA into a comprehensive cooperation agreement covering not only trade in goods but also services and trans-border movement of investment and personnel. The other areas that need immediate attention are rationalisation of trade documentation and removal of non-tariff barriers.

Considering the shared cultural heritage and similar demand patterns, there are immense possibilities to multiply intra-regional trade in South Asia.

Nepal can supply its surplus hydroelectricity to India for greener manufacturing. Bangladesh has natural gas which Indian producers of fertilisers and power badly need. Pakistan can cater to large Indian markets for wheat, cotton and other agricultural goods. Sri Lanka can supplement Indian supply of natural rubber for tyre manufacturers.

With growing awareness about carbon content in trade leading to preference for low carbon goods, it makes more sense for pushing intra-SAARC trade through every possible means.

While Pakistan granting MFN status to India is certainly a welcome step, we need to do more to take intra-SAARC trade from the current level of 5 per cent to, say, 10 per cent by 2015 and to 20 per cent by 2020.

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SAFTA: You take one step, we will take two, says Anand Sharma

Amiti Sen, ET Bureau

Feb 17, 2012, Islamabad: India has said it has been unilaterally taking steps to integrate with countries in the Saarc region, but it was time others reciprocate by reducing their list of protected items under the South Asian Free Trade Area, or SAFTA.

New Delhi also sought quick conclusion of the Saarc agreement on trade and services that will encourage private commercial flow of capital. "Many countries import substantially from India and we do not get any trade preferences under Safta. Enhancement of trade in Saarc region may only remain an elusive dream unless these steps are taken," Commerce and Industry Minister Anand Sharma said at the sixth Safta ministerial meeting in Islamabad on Thursday. Sharma said India was in favour of implementing the Safta protocol, but it has been taking asymmetrical steps.

"We understand the sensitivities of other countries. If they take one step, we are prepared to take two steps," Sharma said. India has reduced the sensitive list for the least developed countries (LDCs) from 480 to 25 items and a zero duty regime has been introduced for all items not on the sensitive list. "This has completely addressed the concerns of all Saarc LDC members as all items of their export interest are now allowed for import in India at zero duty," Sharma said. The minister said that he hoped to mitigate the trade deficit that Saarc LDCs suffered with India through these measures. The least developed countries in Saarc include Maldives, Bhutan, Bangladesh, Nepal and Afghanistan while Pakistan, Sri Lanka and India are developing country members.

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