

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

Category of Services	Sector	Countries with Revealed Comparative Advantage (RCA>1)
Labour and resource intensive	Transport	India, Pakistan
Labour and resource intensive	Travel	Maldives, Nepal
Labour intensive	Construction	India, Bangladesh
Skill and technology intensive	Communications	Bangladesh, India, Nepal, Pakistan, Sri Lanka
Skill and technology intensive	Computer and information services	India, Sri Lanka
Skill and technology intensive	Financial and insurance services	India, Pakistan

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 50% to 40% which

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