



10 Years of SAFTA & Beyond

Saman Kelegama
8th South Asia Economic Summit,
Islamabad, 7-8 December 2015

Outline

- Evolution & Progress of SAFTA
 - Updates to the Agreement: Schedule, Commitments
 - Sensitive Lists, TLP, NTBs, ROO
- Intra-regional Trends
 - Trade: Exports, Imports, Trade Balance
 - Services
 - Investments
- Implications
 - Direction of Trade: Creation/Diversion
 - Institutional Framework: Bottlenecks/Issues in Implementing the Agreement
- Way Forward

Evolution & Progress of SAFTA



In Retrospect: Progress of SAFTA

- Signed in 2004, entered into force on 1 January 2006
- **TLP** commenced from 1 July 2006:
 - India completed its TLP one year ahead of the schedule by reducing its tariff to 0% for LDCs under SAFTA with effect from 1 January 2008.
 - Other Non-LDCs, i.e. Pakistan & Sri Lanka completed their TLP for LDCs by bringing their customs tariff down in the range of 0 to 5% as per agreed schedule.
- **SAFTA Ministerial Council (SMC)** established & **SAFTA Committee of Experts (SCOE)** formed to assist SMC
- **Sensitive List:**
 - First 20% reduction in Sensitive List taken nearly 4 years to complete & discussions for the next round of reduction has begun.
 - SAARC member states have agreed to reduce their respective Sensitive Lists & agreement must now be reached on the degree & in which sectors

In Retrospect: Progress of TLP

Member State	Status of TLP Customs Notification
Afghanistan	TLP commenced <u>w.e.f. 7 August 2011</u> TLP Notification issued till the end of 2021
Bangladesh	TLP Notification issued for 2013
Bhutan	Action taken till the end of TLP (<u>vide notification No. MOF/TIS/SAC/58 dated 29 June 2006</u>)
India	Customs Notifications No. 68/2012 dated 31 December 2012 concerning customs duty to be charged under SAFTA with effect from 1 January 2013.
Maldives	Notification containing SAFTA Customs Duty Rates for the year 2014 would be provided to the SAARC Secretariat by 30 August 2014.
Nepal	TLP Notification issued for the financial year 2013-14
Pakistan	TLP Notification issued till the end of 2013-2014. (<u>vide SRO 1073(I)/2013 dated 27 December 2013</u>).
Sri Lanka	National Imports Tariff Guide 2014 indicates SAFTA Rates for 2014.

In Retrospect: Progress of Sensitive Lists

- The current status of the number of products covered in the Sensitive Lists of Member States before and after the 20% or more reduction is as follows

Member State (1)	Number of Products in the original Sensitive Lists (2)	Number of Products in the Revised Sensitive Lists (Phase-II) (3)	Status of Receipt of Revised Sensitive Lists as per HS-2012 (4)
Afghanistan	1072	850	Not received
Bangladesh	1233 (LDCs) 1241 (NLDCs)	987 (LDCs) 993 (NLDCs)	Received
Bhutan	150	156	Received
India	480 (LDCs) 868 (NLDCs)	25 (LDCs) 614 (NLDCs)	Received
Maldives	681	154	Received
Nepal	1257 (LDCs) 1295 (NLDCs)	998 (LDCs) 1036 (NLDCs)	Not received
Pakistan	1169	936	Received
Sri Lanka	1042	837 (LDCs) 963 (NLDCs)	Received

SAARC Secretariat. (Online). Available at: <http://saarc-sec.org/SAARC-Secretariat/18/>

- Phase-II reduction in the Sensitive Lists has already been implemented by all Member States

In Retrospect: Progress of Removal of NTBs

- SCOE at its 1st Meeting set up a Sub-Group on NTMs to address NTBs in intra-regional trade. 6 meetings held as at January 2015.
- At the last meeting in June 2011 in Maldives, Sub Group completed its task of identifying NTMs/PTMs.
- It was agreed that remaining task of categorization of NTMs/PTMs & their possible elimination & to see whether they are compatible with WTO or not would be taken up by the regular Meetings of SCOE.
- Special Meeting of the SCOE on NTMs/PTMs was held at the SAARC Secretariat on 31 July – 1 August 2013 to go through the Notification of each Member State & to see how those can be eliminated. Observation:
 - NTMs & PTMs affecting their exports to other Member States fall into the following broad categories i.e. (a) Procedures; (b) Variations in Standards; (c) Transit, transport & infrastructural difficulties; (d) PTMs; &(e) Dispute Settlement Mechanism.
- 8th Meeting of SCOE agreed that a consultant may be appointed to:
 - Categorize various NTMs
 - Identify whether they are compatible with WTO provisions or not
 - Make suggestions for removing or reducing them for smooth flow of intra-SAARC trade flows under SAFTA
- Meeting noted that under Article VII (4) of SAFTA Agreement, the Member States are also to notify NTMs/PTMs being faced by their export products under SAFTA on an annual basis to the Secretariat.

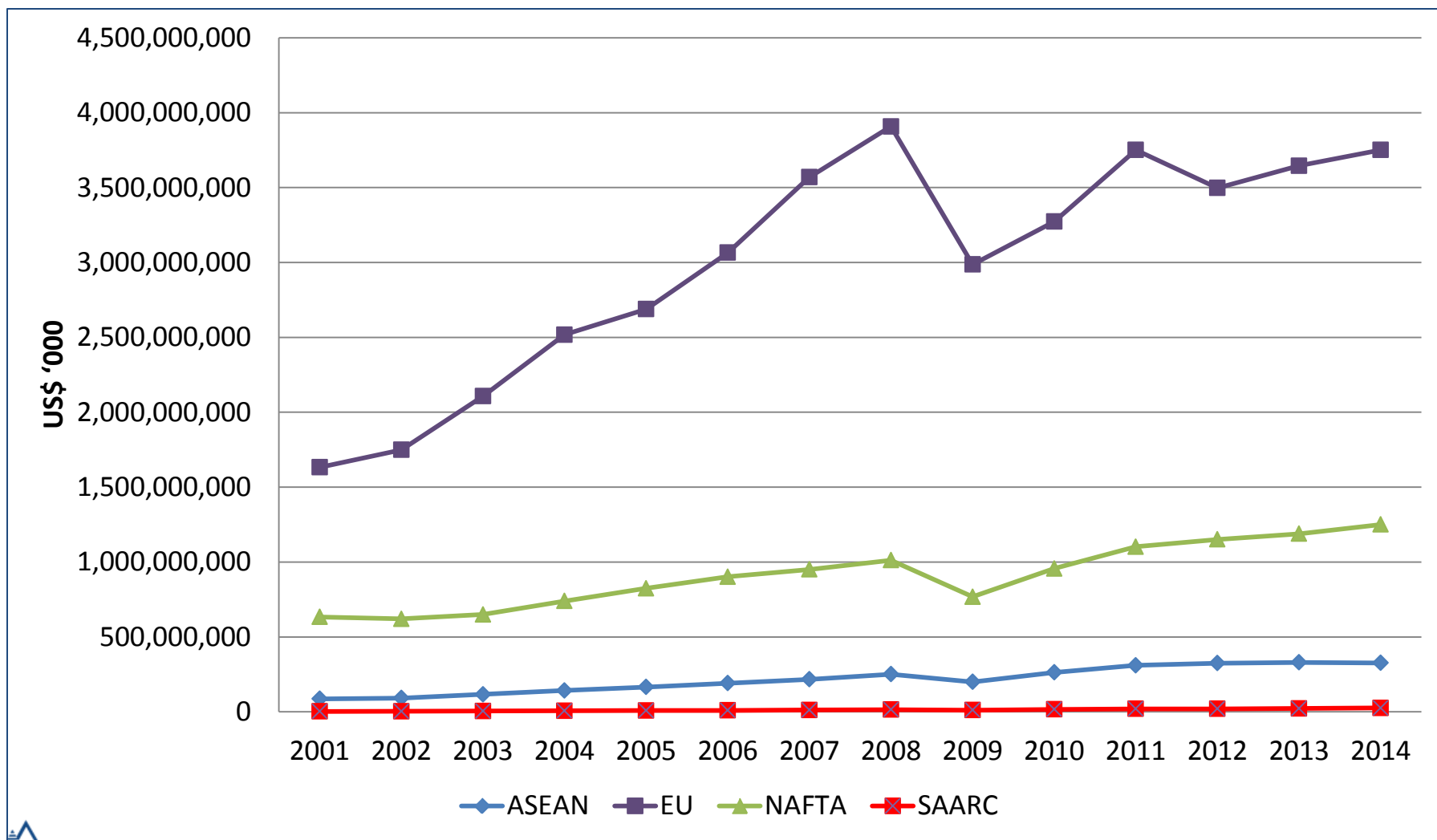
In Retrospect: Progress of Services

- **SAARC Agreement on Trade in Services (SATIS)**
 - Signed at 16th SAARC Summit, 2010.
 - Ratified & entered into force in November, 2012.
 - 10 Meetings of the Expert Group on SATIS held as at January, 2015
 - Agreed that at 11th Meeting all Member States would table their final offer lists & Schedules of Specific Commitments will also be finalized & adopted.
- 9th Meeting of the SCOE noted that so far only Bangladesh, Bhutan & India are ready with their Final Offer List.
- Urged remaining Member States to submit their Final Offer Lists by 31 December, 2014

Intra-Regional Trends

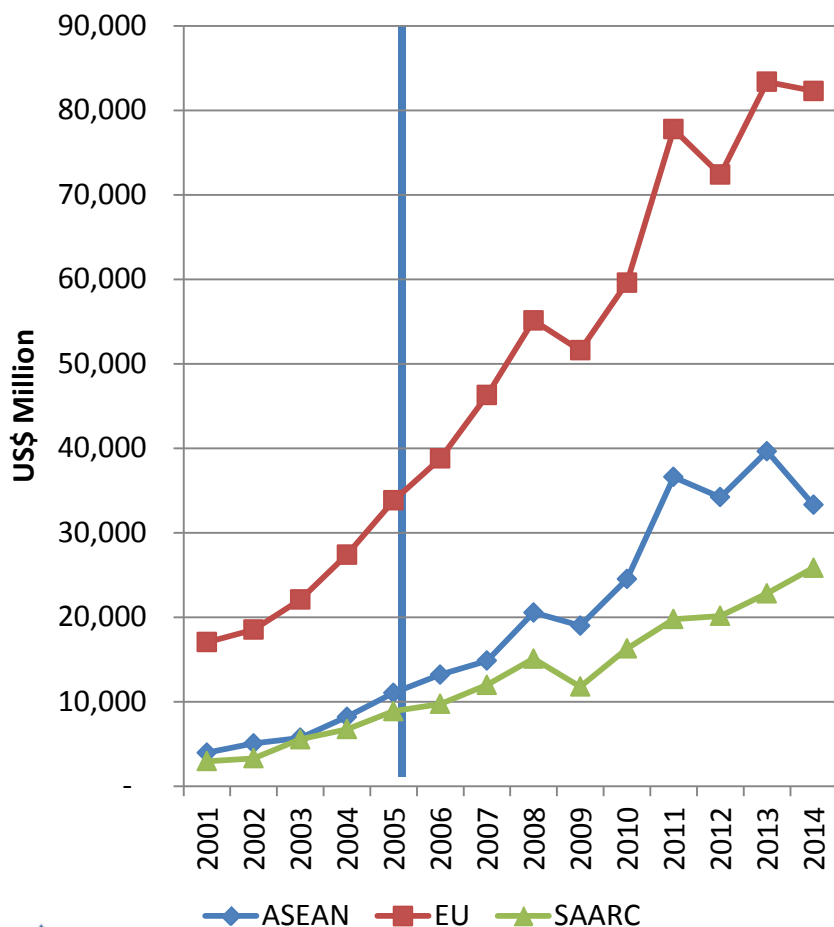


Intra-regional Exports of major Regional Groupings

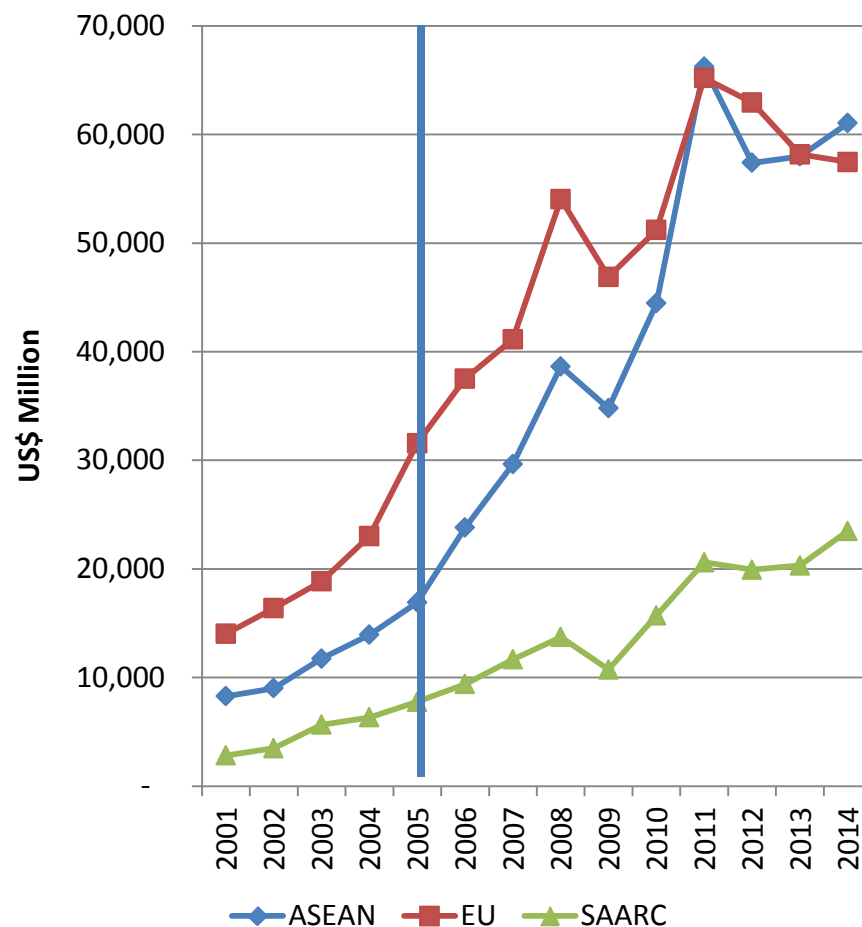


SAARC Trade with Major Regional Groupings

Exports

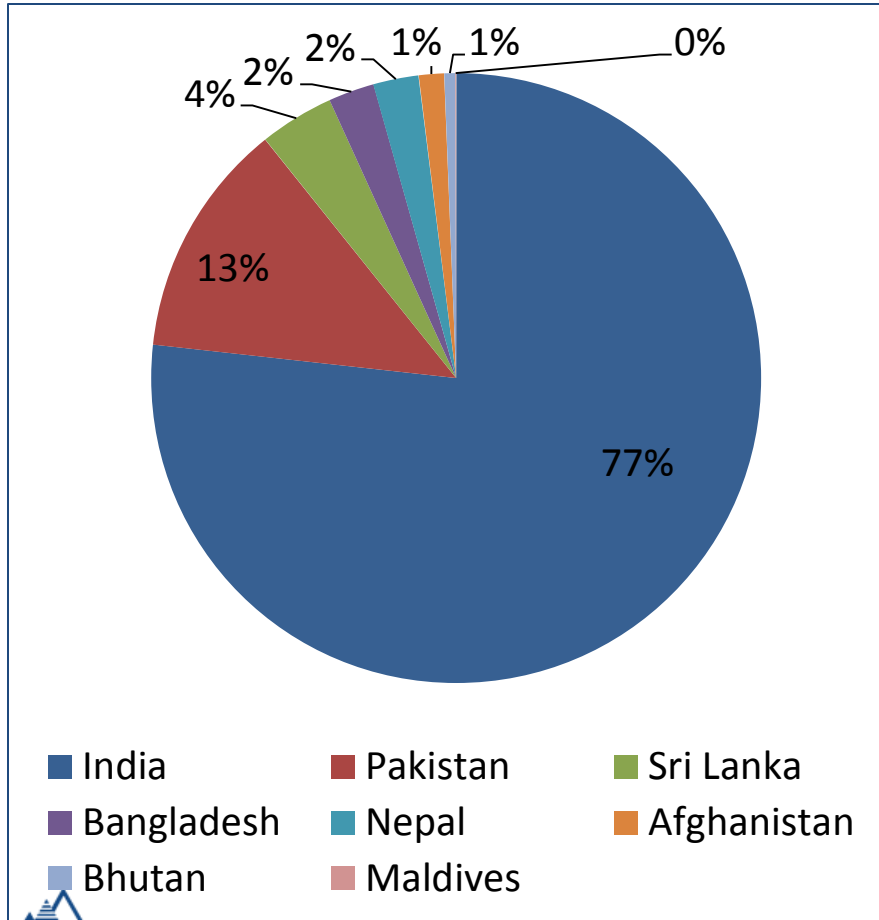


Imports

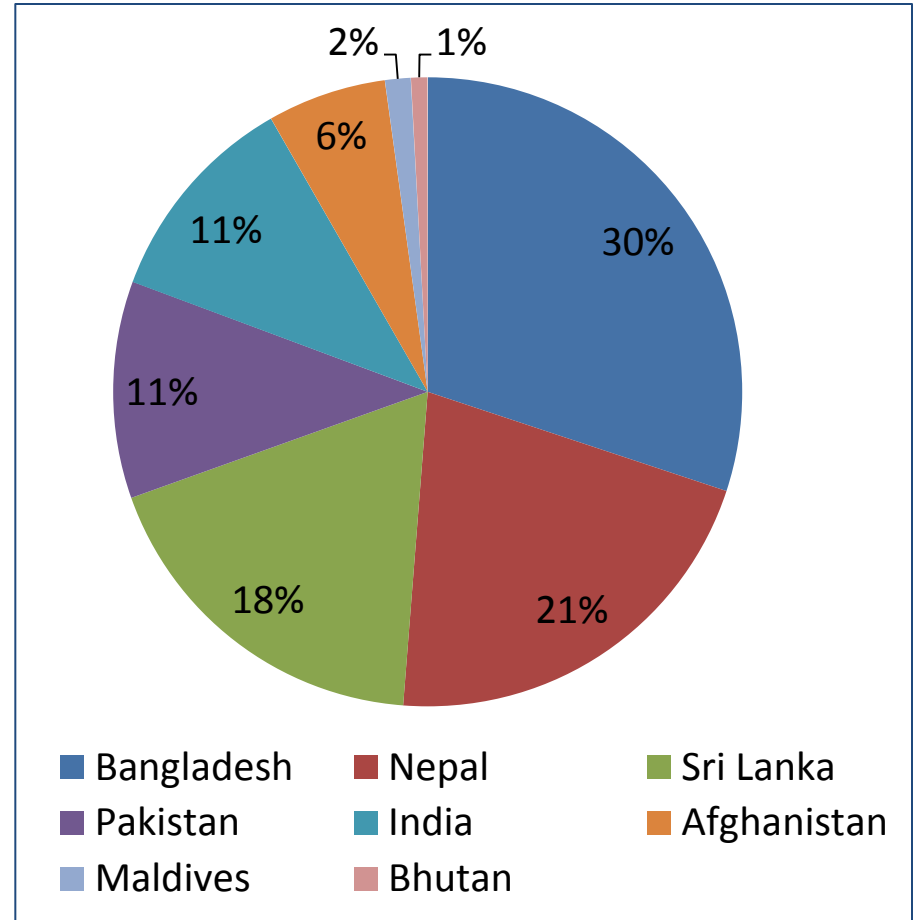


Share In Intra-SAARC Trade

Exports in 2014

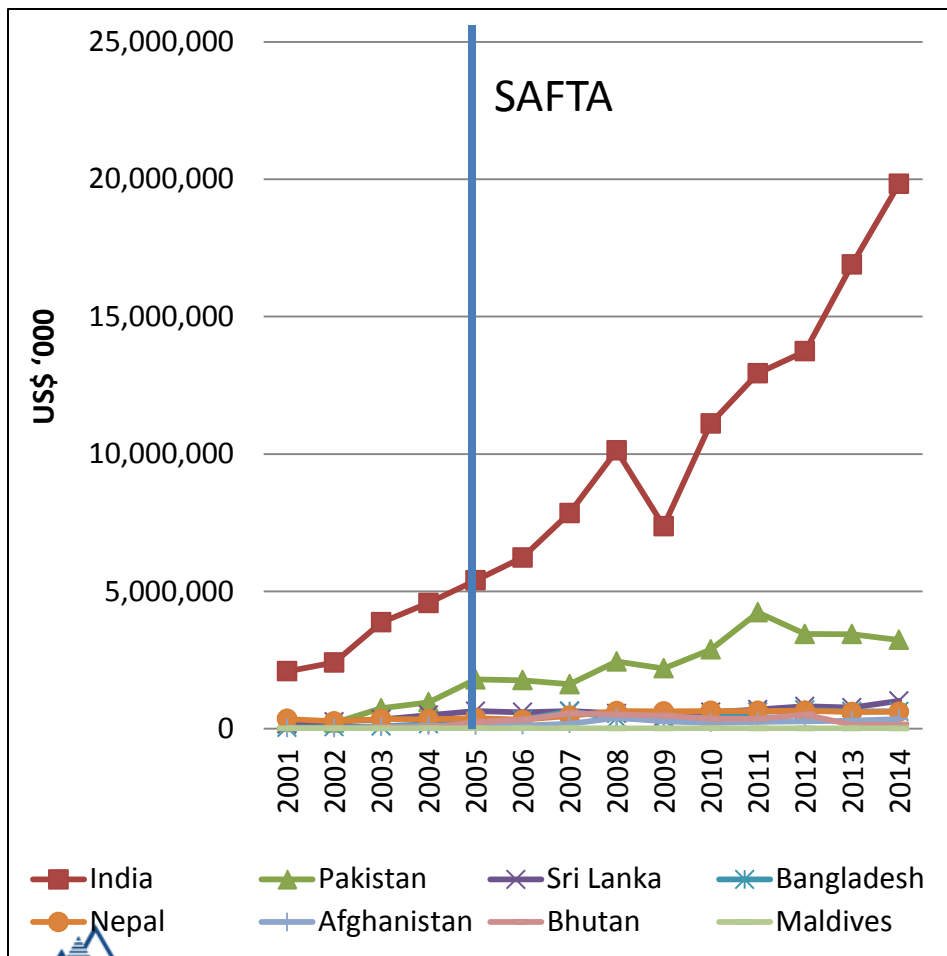


Imports in 2014

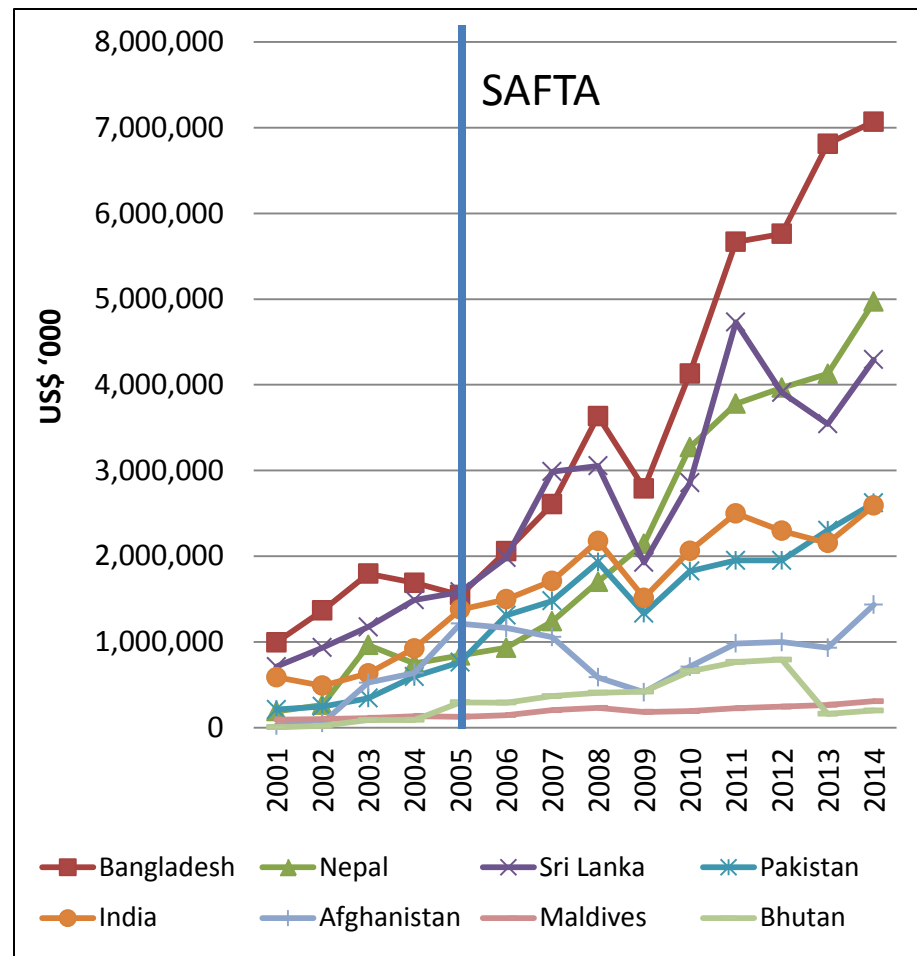


Intra-SAARC Trade In Goods

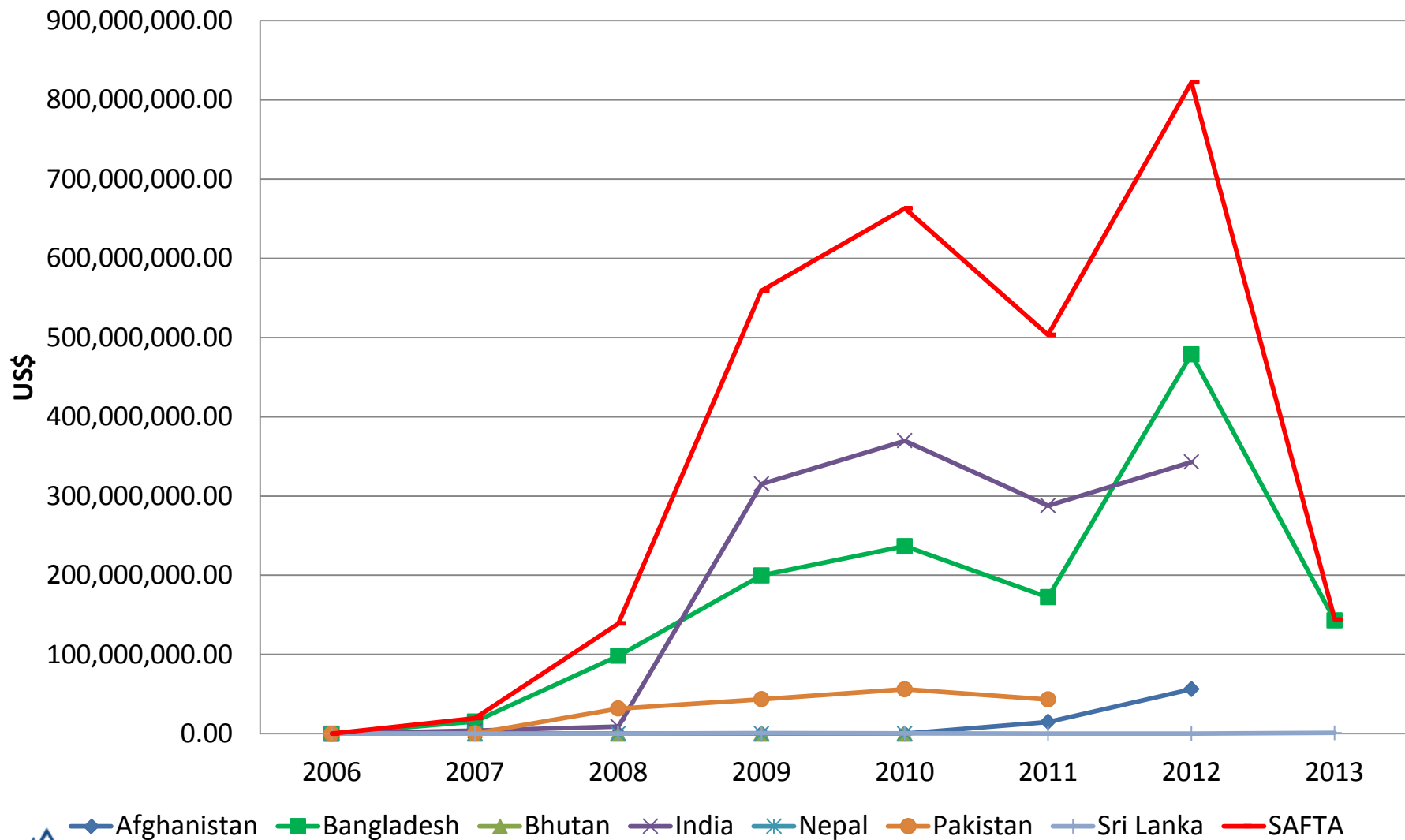
Exports



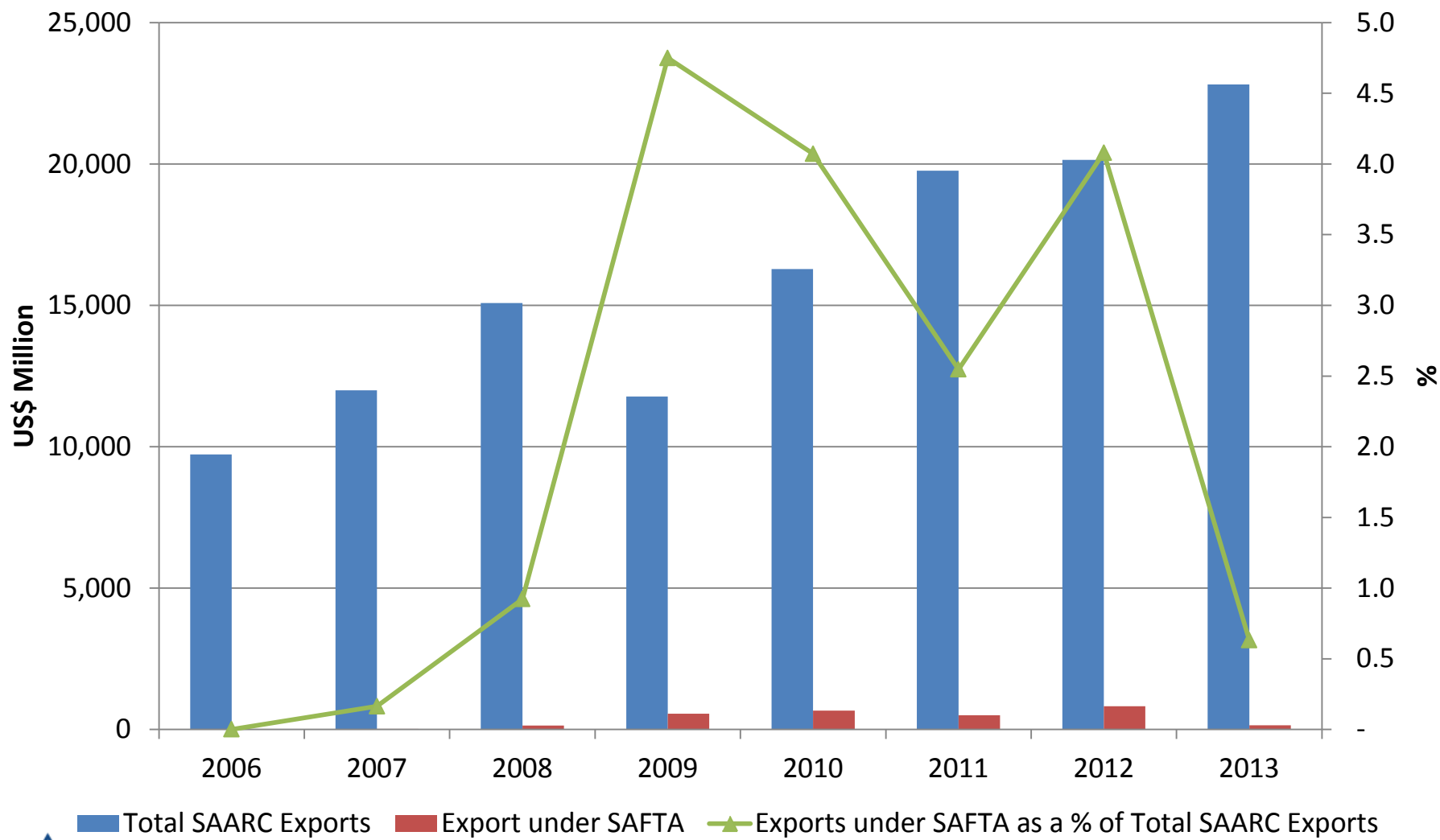
Imports



Exports Under SAFTA



Total SAARC Exports Vs. Exports Under SAFTA



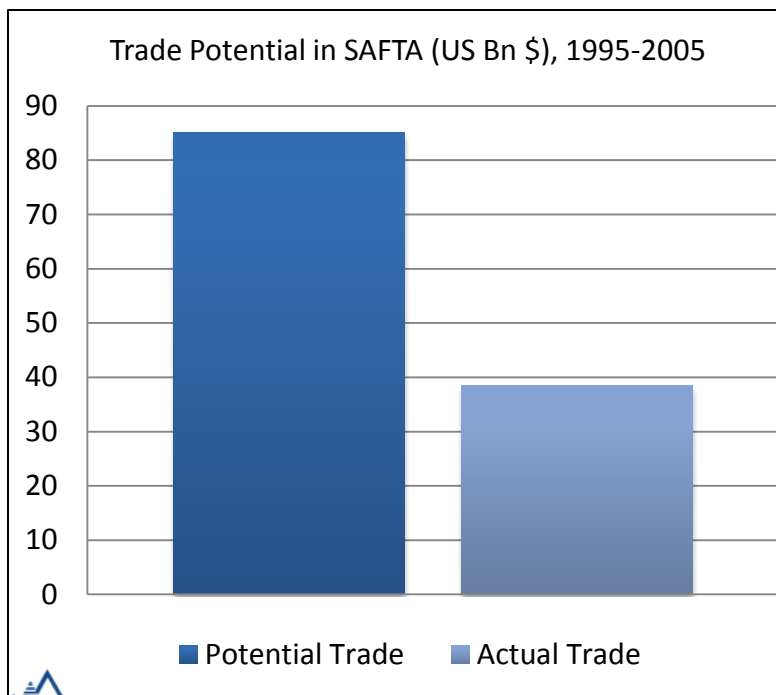
INSTITUTE OF POLICY STUDIES OF SRI LANKA

Source: Calculated based on ITC, Trade Map. (Online). Available at: <http://www.trademap.org/Index.aspx?AspxAutoDetectCookieSupport=1>

and SAARC Secretariat. Online (Available at: http://saarc-sec.org/areaofcooperation/detail.php?activity_id=5)

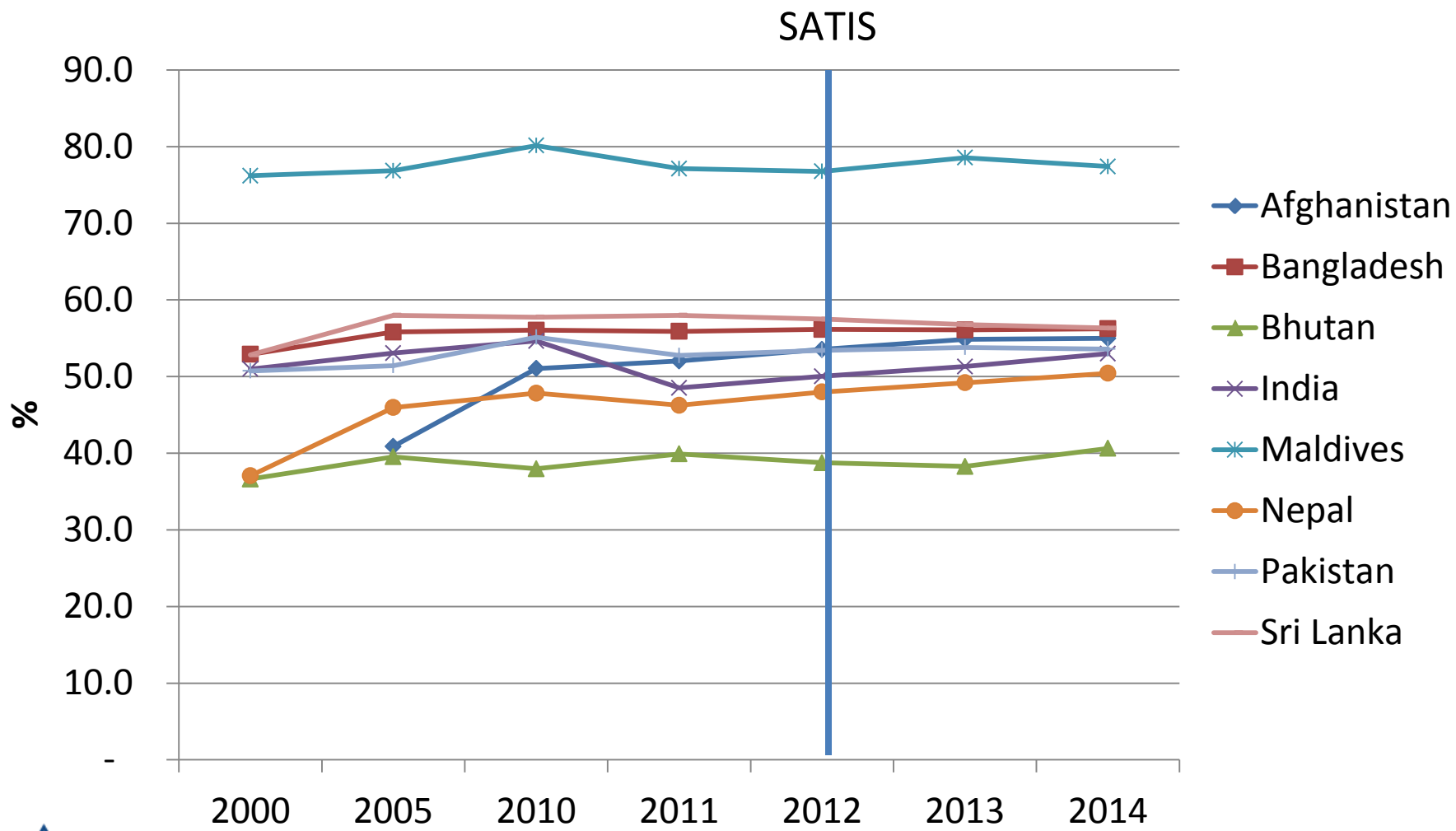
Intra-Regional Trade: Forecasts

- Full implementation of SAFTA was projected to generate significant increases in intra-regional trade & income gains for all SAARC member countries
- All SAARC countries would experience measurable increases in their total exports, with the largest increase by Nepal (32%) followed by Bangladesh (5%), Pakistan (5%), Sri Lanka (3%) and India (1.3%). It is estimated that intra-regional trade could triple over current levels, providing more than a \$30 billion boost to the region annually (SAARC Secretariat, 2013)
- Gap between potential and actual trade in SAFTA has been estimated to be considerably large (Dayal, P et al., 2008)

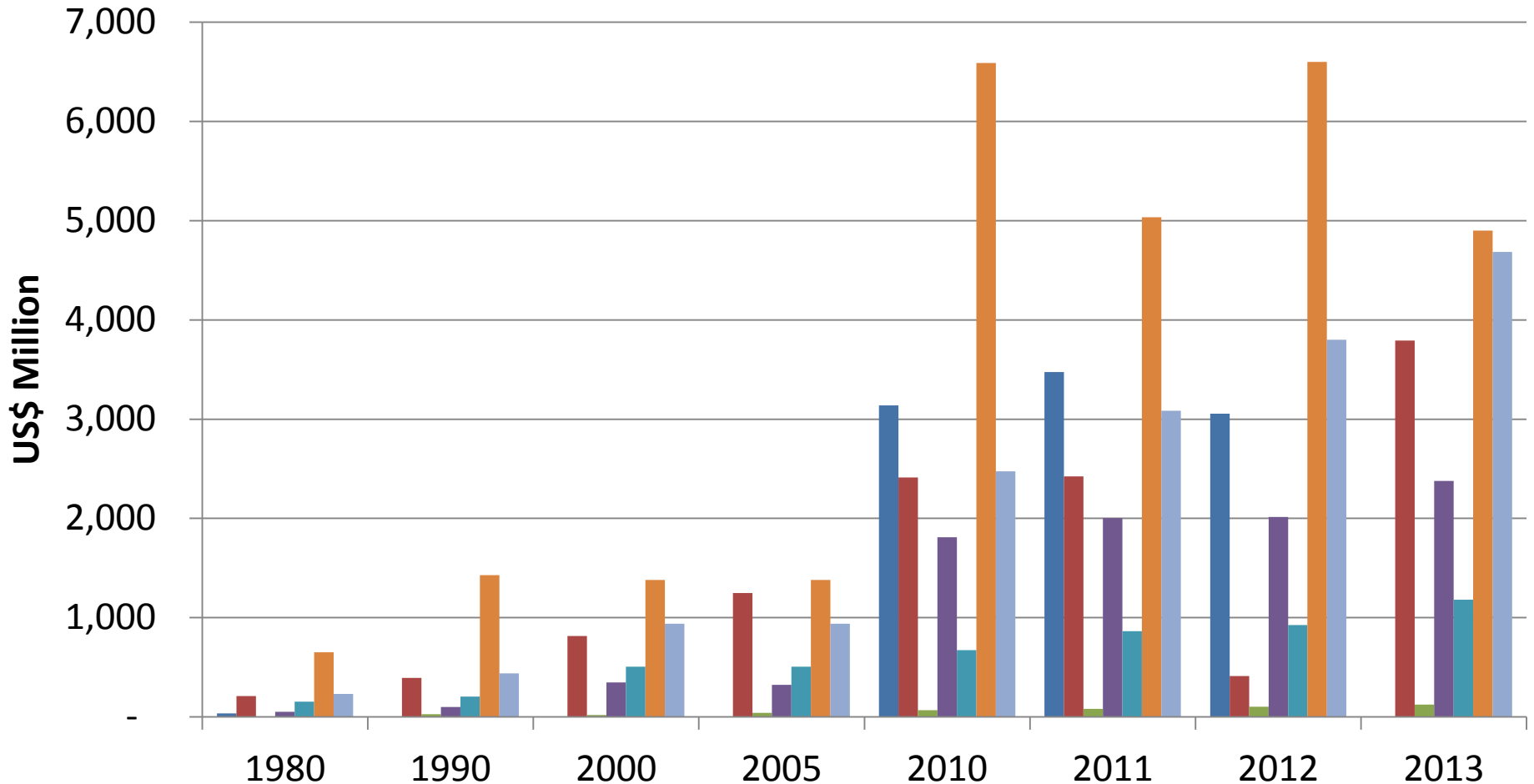


Trading Partners		Potential Trade (US\$)	Actual Trade(US\$)	GAP between Actual and Potential Trade (%)
Bangladesh	Bhutan	74,122,629	1,851,748	97.5
Bangladesh	India	1,649,726,827	1,169,270,758	29.1
Bangladesh	Maldives	62,313,028	33,754	99.9
Bangladesh	Nepal	260,668,335	5,151,398	98.0
Bangladesh	Pakistan	707,113,385	176,874,180	75.0
Bangladesh	Sri Lanka	337,726,970	17,630,354	94.8
Bhutan	India	203,427,095	89,076,530	56.2
Bhutan	Maldives	7,757,506	794	100.0
Bhutan	Nepal	31,459,064	301,755	99.0
Bhutan	Pakistan	84,788,140	369,448	99.6
Bhutan	Sri Lanka	39,226,671	3,192	100.0
India	Maldives	172,314,889	26,263,194	84.8
India	Nepal	699,049,061	571,226,702	18.3
India	Pakistan	1,884,185,017	340,488,988	81.9
India	Sri Lanka	871,776,252	969,255,660	-11.2
Sri Lanka	Pakistan	383,773,384	127,775,924	66.7
Sri Lanka	Maldives	35,445,306	59,066,225	-66.6
Sri Lanka	Nepal	142,559,703	1,375,802	99.0
Maldives	Nepal	27,397,294	468	100.0
Maldives	Pakistan	73,840,899	1,988,579	97.3
Nepal	Pakistan	299,656,776	3,955,535	98.7
Average Intra-Regional Trade		8,048,328,229	3,561,960,989	55.7

Contribution of Services Value-Added (as a % of GDP)



Services Exports: South Asia

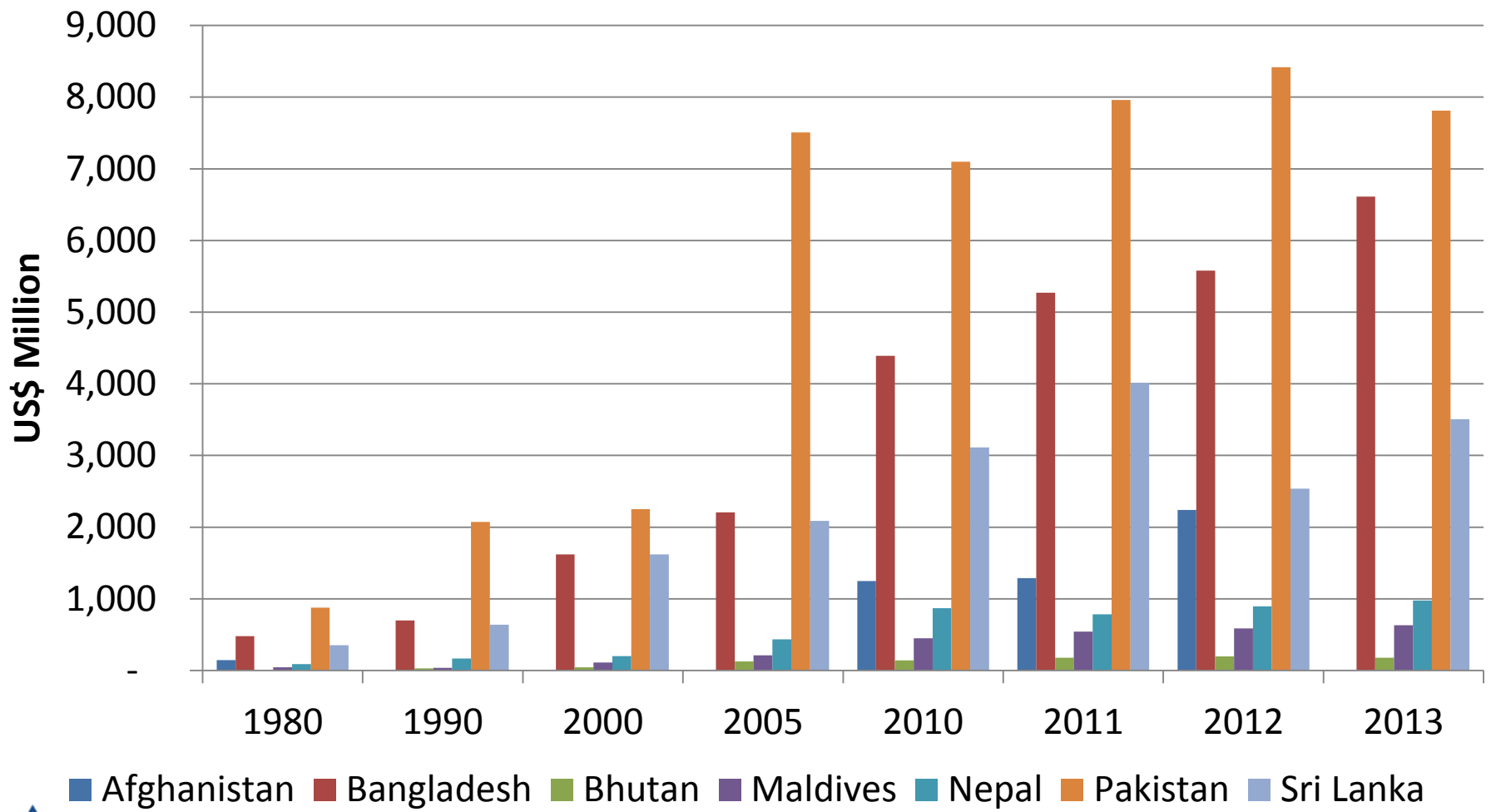


■ Afghanistan ■ Bangladesh ■ Bhutan ■ Maldives ■ Nepal ■ Pakistan ■ Sri Lanka

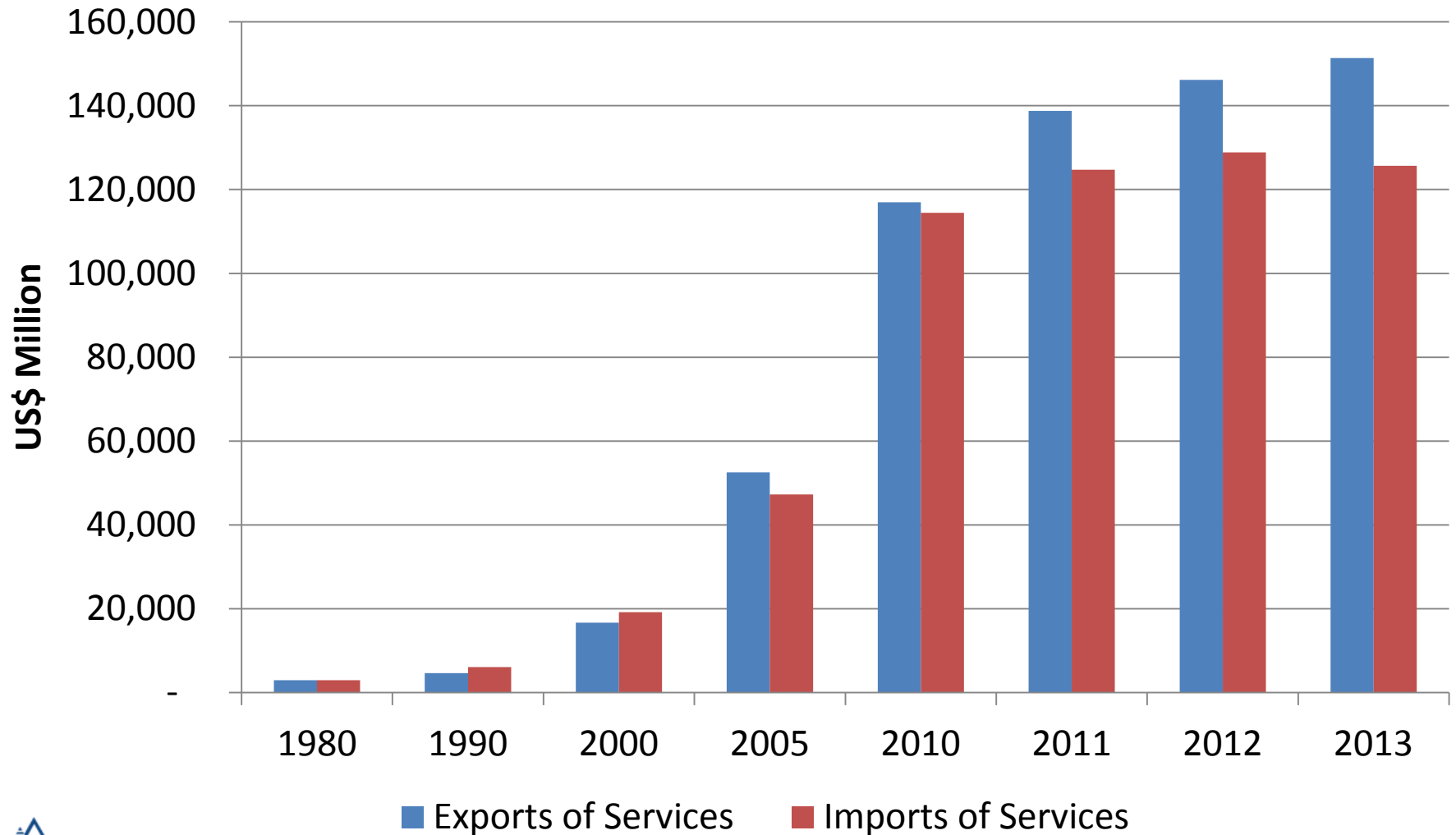
IPS INSTITUTE OF POLICY STUDIES OF SRI LANKA

Source: UNCTAD, Handbook of Statistics, 2014

Services Imports: South Asia



Services Trade: India



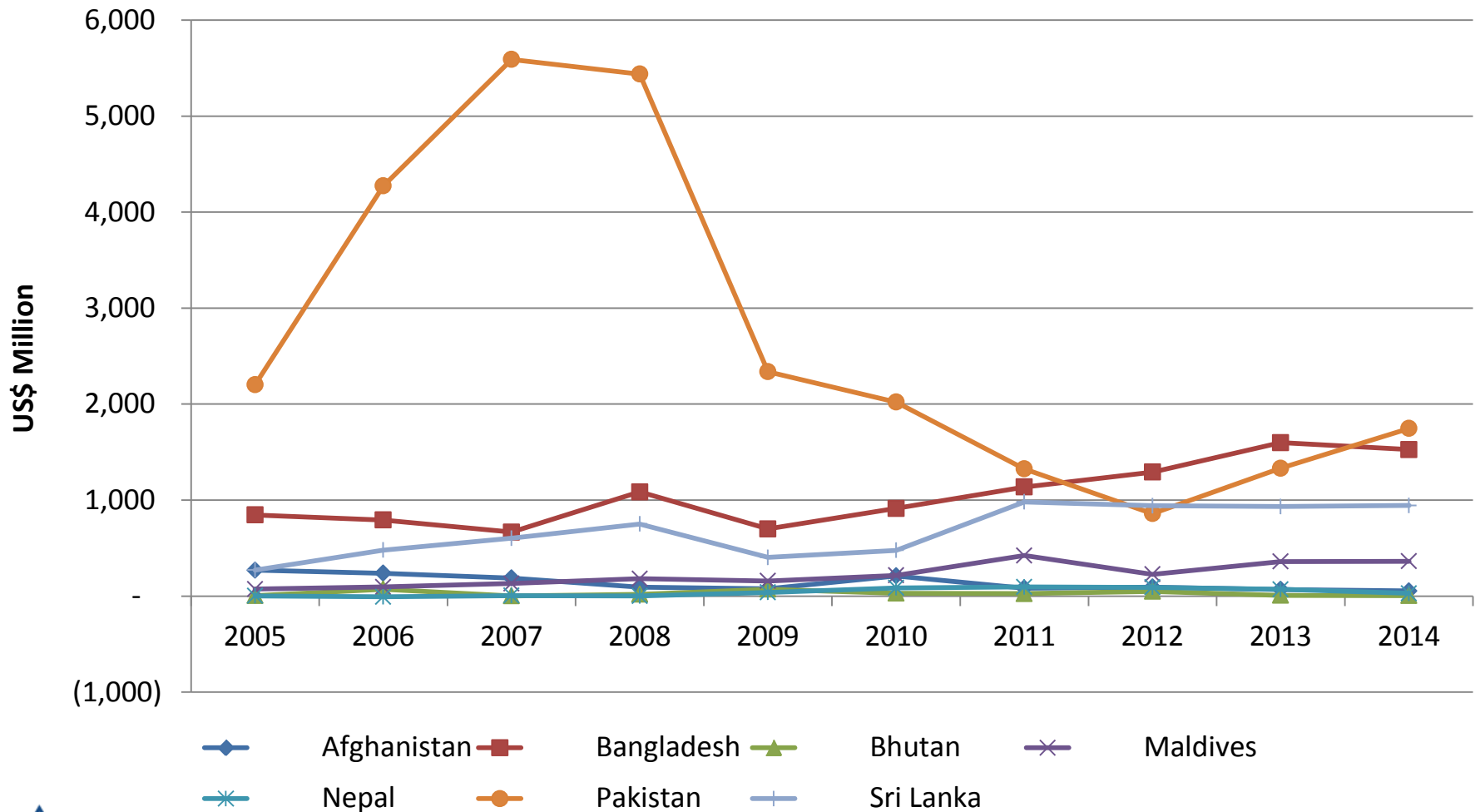
Intra-Regional FDI of Regional Groupings

Regional Grouping	Contribution to Global FDI Inflow, 2000-2013
SAARC	1.7 %
ASEAN	4.79 %
MERCOSUR	3.55 %
FTAA	25.5 %

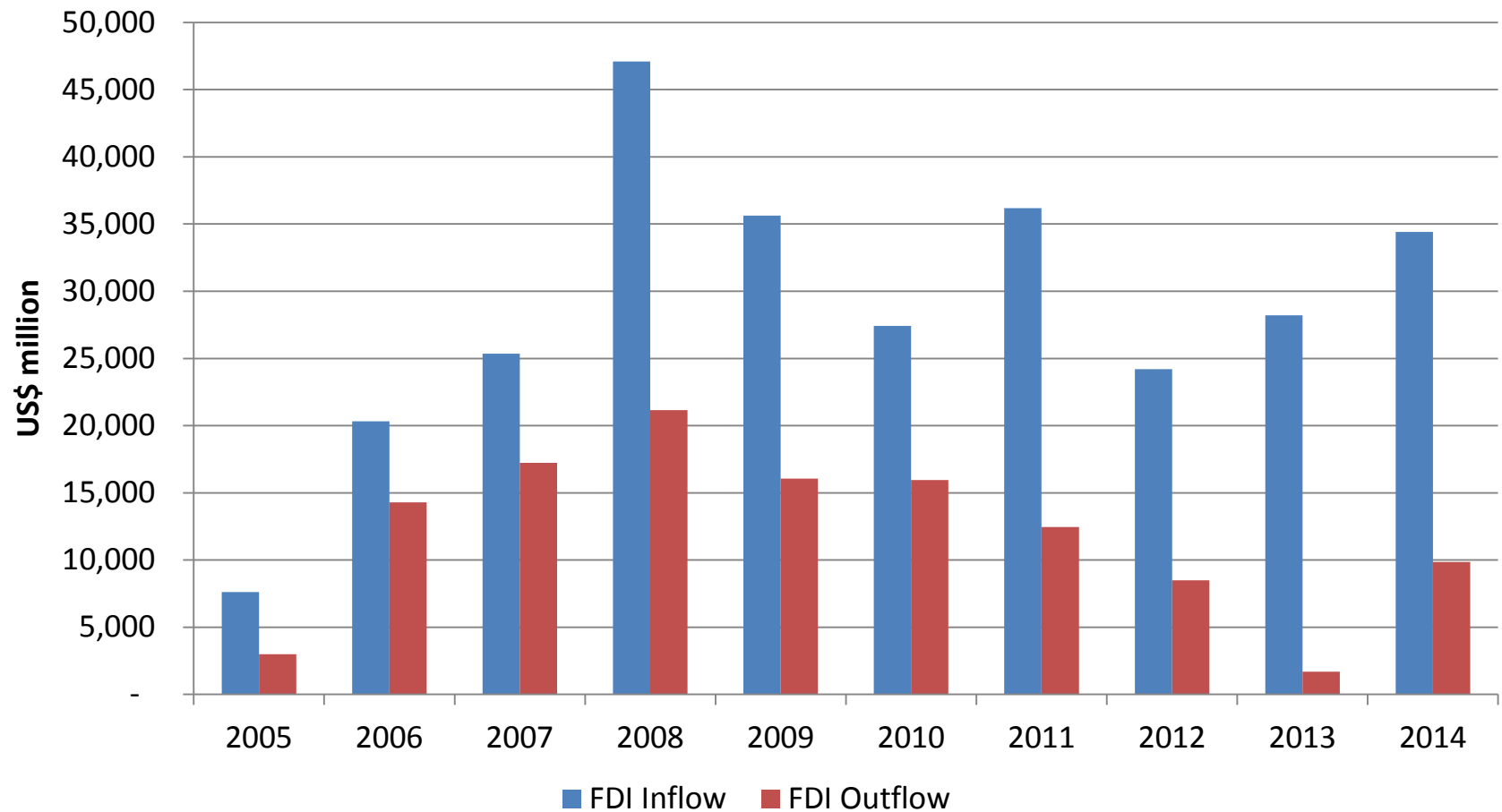
Source: Ekanayake & Perera, *Stimulating Intra-regional Investment in SAARC: Is a Regional Investment Agreement the Way Forward?*, 2015

- South Asia's contribution to global OFDI for the period 2010-2013 is as low as **0.5%**
(Ekanayake & Perera, 2015)
- Significant disparities exist in FDI flows between countries in South Asia: Mostly concentrated among India, Pakistan, Bangladesh & SL
- Bulk of FDI inflow to major SAARC economies, India, Pakistan and Bangladesh originate from outside SAARC region.

FDI Inflows to SAARC Countries



FDI Inflow & Outflow: India



Country-wise share of SAARC Inwards FDI flows, share in total

Economy/Year	1970–1980	1980–1990	1990–2000	2000–2010	2010–2013
Afghanistan	0.50	0.46	0.02	0.84	0.36
Bangladesh	-2.33	0.84	4.85	5.11	3.83
Bhutan	0.06	0.00	0.05	0.08	0.08
India	87.91	38.76	54.29	79.29	87.87
Maldives	-0.49	0.43	0.59	0.45	0.84
Nepal	0.13	0.16	0.30	0.06	0.27
Pakistan	9.65	37.93	30.95	11.70	4.22
Sri Lanka	4.58	21.40	8.97	2.48	2.54

Source: Ekanayake & Perera, *Stimulating Intra-regional Investment in SAARC: Is a Regional Investment Agreement the Way Forward?*, 2015

Sources of FDI for selected SAARC Countries, % share

Country/Year	2010		2012	
Country	Intra-regional	Extra-regional	Intra-regional	Extra-regional
Bangladesh	7.77	92.23	3.79	96.21
India	0.03	99.97	0.02	99.98
Bhutan	51.93	48.07	64.12	35.88
Pakistan	NA	NA	0.12	99.88

Source: Ekanayake & Perera, *Stimulating Intra-regional Investment in SAARC: Is a Regional Investment Agreement the Way Forward?*, 2015

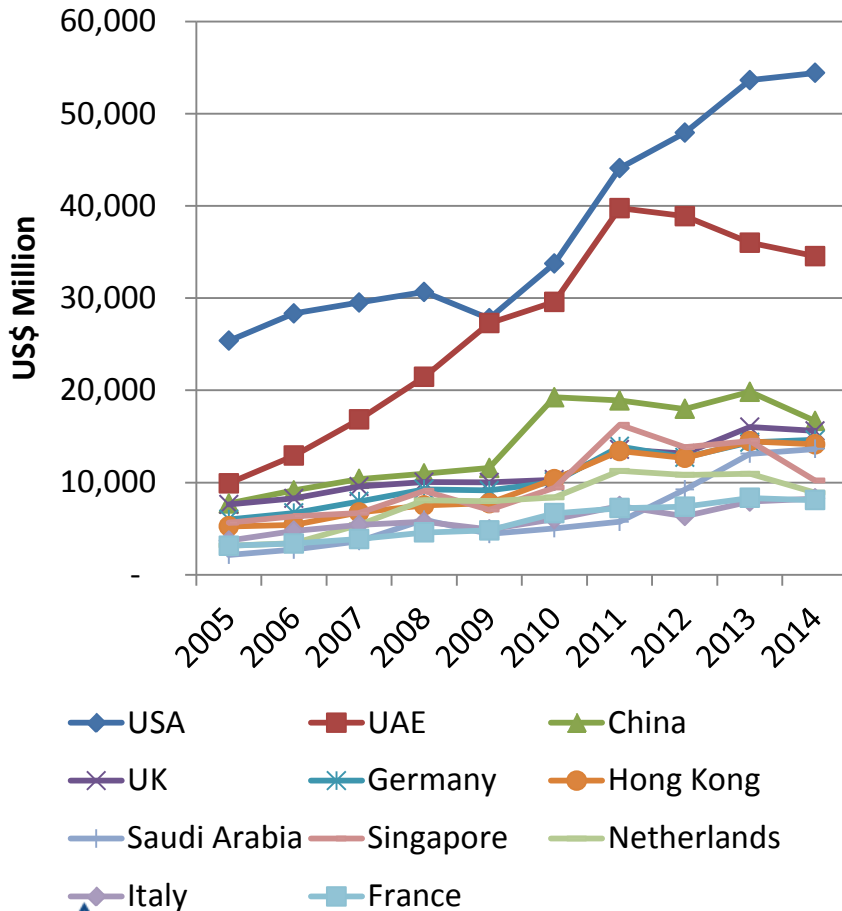
Implications



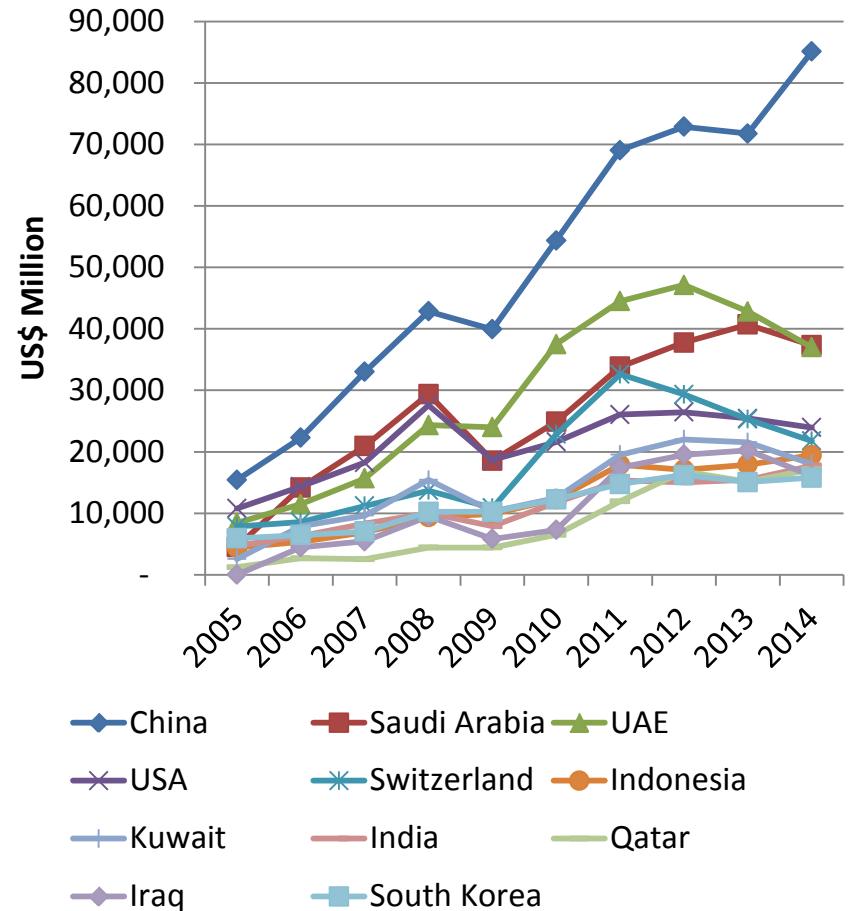
INSTITUTE OF POLICY STUDIES OF SRI LANKA

Top Export/Import Destinations of SAARC

Exports



Imports



SAFTA Less Attractive Than Bilateral FTAs

- **Longer Tariff Phase-out Period:** E.g. Sri Lanka obtained duty-free access to Indian & Pakistani markets in 3 years of implementing ISFTA & PSFTA, except for products included in negative list.

Prevalence of NTBs

- SAFTA requires member countries to notify SCOE of NTBs & PTMs. Yet Committee can only make a recommendation on their removal & this recommendation is not a binding commitment.
- NTMs are in place among SAFTA members even after implementing SAFTA:
 - India has maintained tariff rate quotas on 14 tariff lines at HS 8-digit level, licenses & import restrictions.
 - Pakistan has maintained technical & safety regulations.
 - Bangladesh has applied a significant rate of para-tariffs (industrial development surcharges, supplementary duties etc.)
 - Sri Lanka has implemented bans on certain imports from South Asia, such as tea & spices, to protect the quality of Ceylon tea & spices.
- Several barriers to trade at border points in South Asia due to the lack of MRAs for standards among members.
 - Resulted in additional checks/ certifications on the goods at the importing country although they have been previously tested & certified by the relevant, approved authorities in the home country.

Overlapping ROO Criteria

- Rules of origin criteria varies among bilateral FTAs & SAFTA.
 - Eg. SAFTA & ILFTA require a change of tariff classification at 4-digit level. This rule had a detrimental effect on value-added products.
 - Contrarily, PSFTA offered a change in tariff classification requirement of HS 6-digit. Consequently, more value-added exports from Sri Lanka received duty-free access to Pakistani market under PSFTA than SAFTA.

Restrictive Negative Lists

- Bilateral FTAs in the region have outdone SAFTA. Provisions made in bilateral FTAs are far more generous than provisions made under SAFTA.
 - E.g. While 42% of Sri Lanka's exports to India are restricted by the Indian Negative List in SAFTA, only 3.3% of Sri Lanka's exports to India fall under Negative List in ILFTA.
 - 44% of imports from India fall under the Negative List of Sri Lanka in ILFTA & while 54% of India's imports to Sri Lanka fall under Negative list in SAFTA.

Trade Facilitation & Connectivity Issues

- Low port efficiency & less competitiveness
- Poor port infrastructure
- Lack of cross-border transit points
- Poor management & administrative issues at Customs & border points
- Lack of transparency & consistency in trade related procedures & regulations
- Lack of adequate testing facilities
- Visa & other issues related to people mobility

Other Drawbacks

- Request-offer in sectors for trade in services under SATIS at a standstill/incomplete
- Draft SAARC Agreement on Promotion & Protection of Investment still inconclusive

Way Forward



INSTITUTE OF POLICY STUDIES OF SRI LANKA

What's Needed?

- **An integrated approach towards trade in goods & services, and boost FDI within SAFTA**
 - Identify & assess the inter-linkages between goods, services & FDI
- **Promote the SAARC Investment Area: Attract efficiency seeking FDI to the region**
 - Improve productivity
 - Invest in innovation: Science and Technology
- **Way towards a SAARC Economic Union**
 - Emphasis on expediting negotiations on Mode 3 & 4 of SATIS to leverage trade in goods, services & FDI inflows
 - Investment protection
 - Effectively eliminate the prevailing NTBs
 - Cooperation in Science & Technology to tackle the challenges in energy security and climate change

What's Needed? Cont.

- **Enhance Development Cooperation**

- Set out the development priorities in the region via a SAARC Development Forum
- Share best practices/ country experiences
- Identify viable projects that need priority and funding needs for adequate implementation

- **Focus on achieving better connectivity beyond the means of physical infrastructure development**

- Improve customs and IT-enabled processes
- Undertake regulatory reforms & maintain transparency and predictability of regulations
- Simplify country-specific tax regimes
- Adopt common/harmonized customs procedures for trade in goods and services

Thank You!



Institute of Policy Studies of Sri Lanka
100/2 Independence Avenue,
Colombo 7, Sri Lanka
T: +94 11 2143100

www.ips.lk

 www.ips.lk/talkingeconomics

 [/instituteofpolicystudies](https://www.facebook.com/instituteofpolicystudies)

 [@TalkEconomicsSL](https://twitter.com/TalkEconomicsSL)