

Cost of Economic Non-Cooperation to Consumers in South Asia



The Project

With support from The Asia Foundation and in partnership with a group of like-minded organisations, CUTS International implemented a project entitled “Cost of Economic Non-Cooperation to Consumers in South Asia”.

The objective of the project is to assess potential benefits to consumers from enhanced trade among the South Asian countries. The study covered five of the eight South Asian countries, viz. Bangladesh, India, Nepal, Pakistan and Sri Lanka.

Based on a meta-analysis of the existing literature on economic integration in South Asia, a quantitative analysis, and a survey of some key stakeholders on their perception on regional trade integration, the study estimated the gains that would accrue to consumers from enhanced intra-regional trade.

Key Findings

Gains from trade fundamentally treat consumer welfare gains inseparable from producer welfare gains, both being equally important beneficial outcomes of trade liberalisation process. Furthermore, net positive consumer welfare gains following a more open and predictable international trade regime is considered as assured.

Literature on the functioning of trade agreements categorically shows that reciprocity is the most elementary principle of ideal trade agreements, wherein exchange of import concessions for export opportunities is a key. Despite this understanding, imports are often viewed disapprovingly owing to the challenges they may pose to domestic industries. This is observed in successive rounds of negotiations on the South Asian Free Trade Agreement.

A general reason identified for relative non-success of SAFTA (as compared to other regional trade agreements in different parts of the world) is existence of a large number of products with intra-regional trade potential under respective sensitive lists by SAFTA member countries with the objective of resisting possible import surges. Consumer welfare on account of trade liberalisation is largely ignored.

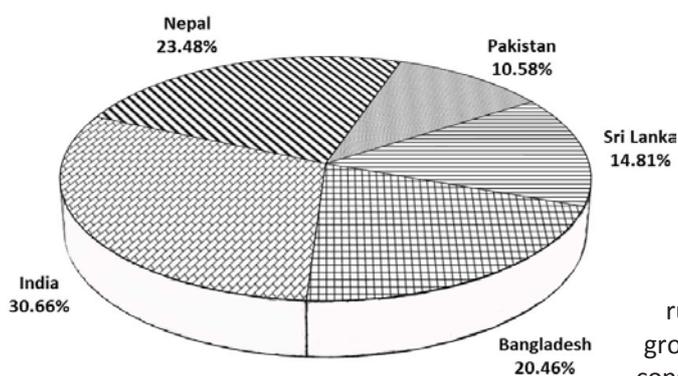
The quantitative assessment of the COENCOSA study shows a minimum consumer welfare gain of approximately US\$ 2 billion a year by way of savings on aggregate consumer expenditure on imported products in selected categories. This gain represents about 31 percent of total current import expenditure on the selected product categories.

Potential consumer welfare accruing to each country is derived by taking the difference between the total import expenditure in the selected products incurred by the country under consideration and likely import expenditure if that country were to import the same products from SAFTA trading partners at a lower price.

However, the estimated figure represents only the minimum gains which will increase exponentially if the long-run impacts of positive cycle of growth in intra-regional are considered.

A survey of some key stakeholders on their perception about enhanced intra-regional trade reveals that lack of reference to consumer welfare gains in the academic literature as well as in popular media has heavily influenced the perception of all categories of respondents.

Consumer Welfare Gains*



* As percentage of current import expenditure on the selected products categories

Generally, there exist very low expectations about consumer welfare gains, owing to either ignorance about the issue or negligence as an unimportant issue.

While among producers/exporters and their associations, consumer groups and media ignorance about the issue is the main reason for low expectations, it is negligence among government officials and academia.

Most respondents, irrespective of categories, believe that intra-regional trade in South Asia is currently under-performing and its potential is highly under-rated.

A striking observation is that representatives of consumer groups in general are more unaware about consumer welfare gains from a more open and balanced international trade regime than most other groups.

This is because most of them have less knowledge and little/no representation in trade policy making process in their countries and hence, have minimal exposure to the subject.

Learning

Research

- In order to generate more informed discussion for mainstreaming consumer interests in trade policymaking process it is crucial to do detailed studies on the subject of consumer welfare gains from trade liberalisation by addressing trade costs owing to tariff and non-tariff barriers

Networking

- Lack of awareness about consumer welfare gains and lack of involvement of consumer organisations in trade policy issues are equally important causes of oversight of gains from imports
- Build network of consumer organisations in the region to discuss and spread awareness about consumer welfare gains from trade liberalisation

Advocacy

- Consumer concerns on trade policy matters should be adequately represented at national, regional and international level
- Producer concerns such as safeguards to import sensitive sectors, non-tariff barriers including procedural barriers should be taken into account for a balanced approach to trade liberalisation
- Publicise consumer welfare impact of enhanced intra-regional trade through popular media
- SAARC Secretariat should facilitate trade policy related dialogues between national trade policy making bodies, industry associations and civil society organisations with the objective of aligning consumers' interest, producers' interest and government's concern about revenue generation
- SAARC Chamber of Commerce and Industry should conduct targeted consultations with industry associations and consumer groups

KEY MESSAGES

- One fifth of the world's poor live in South Asia and they are bearing the brunt of cost of economic non-cooperation
- Intra-regional trade in South Asia has potential to enhance consumer welfare gains
- Influence of protectionism on imports marginalises prospects of consumer welfare gains
- Trade policies and agreements have not highlighted consumers' gains from trade liberalisation
- Lack of awareness about consumer welfare gains from trade liberalisation lowers stakeholders' expectations from intra-regional trade
- Increased media and policy spaces on consumer welfare gains will change stakeholders' perceptions on the virtues of enhanced and improved intra-regional trade
- Turn around is possible: Let us separate political issues plaguing the region for better economic cooperation