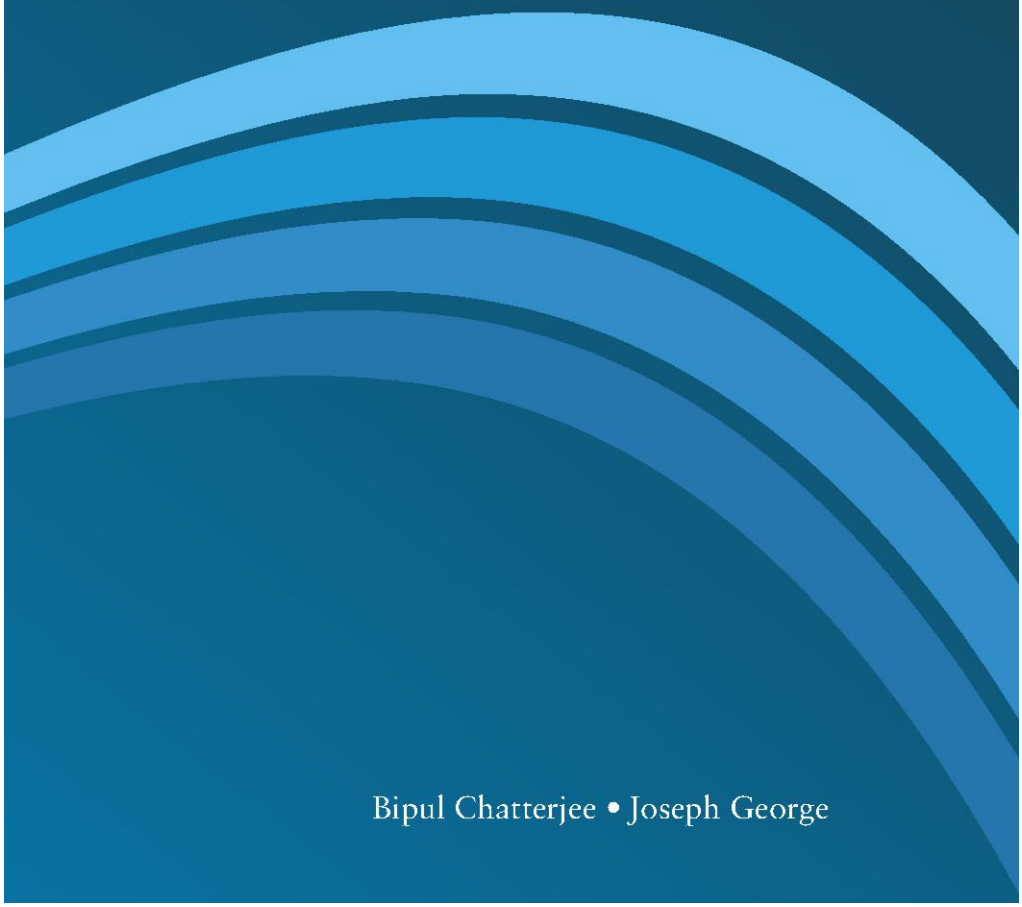
Consumers and Economic Cooperation

Cost of Economic Non-cooperation to Consumers in South Asia



Bipul Chatterjee • Joseph George

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Abbreviations

ADB	Asian Development Bank
BA	Bangkok Agreement
BFTAs	Bilateral Free Trade Agreements
BIMSTEC	Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation
CGE	Computable General Equilibrium
DFQF	Duty Free Quota Free
EDI	Electronic Data Interchange
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GTAP	Global Trade Analysis Project
IOR-ARC	Indian Ocean Rim Association for Regional Cooperation
ISFTA	India Sri Lanka Free Trade Agreement
IT	Information Technology

LDCs	Least Developed Countries
MFN	Most-Favoured-Nation
MTAs	Multilateral Agreements
NTBs	Non-tariff Barriers
NTT	New Trade Theories
PTAs	Preferential Trade Agreements
RoO	Rules of Origin
RoW	Rest of the World
RTAs	Regional Trade Agreements
SAARC	South Asian Association for Regional Cooperation
SAFTA	SAARC Preferential trading Arrangement
SAPTA	South Asian Free Trade Area
SCOE	SAFTA Committee of Experts
SMC	SAFTA Ministerial Council
T&C	Textiles and Clothing
TII	Trade Intensity Index
TLP	Tariff Liberalisation Programme
UNCOMTRADE	UN Commodity Trade
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

Foreword

I am happy to learn that CUTS International has undertaken a study on the costs of economic non cooperation in South Asia showing the benefits that South Asia could derive from enhancing trade and other forms of economic cooperation within the sub-region.

South Asia faces major policy challenges in reducing poverty, and is home to more than 20 percent of the world's poor. All the countries of South Asia have recognised that mutually beneficial cooperation is a powerful instrument to help us to achieve our economic goals, and that regional cooperation determination has been expressed in the South Asia Free Trade Agreement, the implementation of which is progressing.

It is, in this context, that the present study is valuable, looking also at the benefits of Trade in enhancing consumer welfare. The study thus offers a powerful argument for further trade liberalisation and integration in South Asia.

I congratulate CUTS International, India and its partner like-minded organisations in other South Asian countries on this timely initiative and hope that it will spur enhanced regional integration.

Shivshanker Menon
National Security Adviser
Prime Minister's Office
New Delhi, India

Preface

In mid 90s we did a study on cost of non-cooperation to consumers in South Asia. We found that our consumers were unnecessarily paying a huge cost. It sets our agenda to challenge the conventional notion that "exports are good, imports are bad".

Our aim is to ensure that consumer welfare agenda is firmly placed at the centre of a country's trade policy. This project is a significant milestone in that direction.

We understand that a single-point agenda of export expansion is neither in conjunction with *gains from trade,* nor is it practically feasible because it can lead to *beggar-thy-neighbour*.

Surprisingly, very little credit is given in the vast body of trade literature to the notion of "growth through imports". Those who are ignorant of this notion overlook the circular nature of basic income generation – the most basic fundamental of macroeconomics. A major source of productive investment is savings on the part of consumers. When prices of consumption items come down through competitive imports and other means they raise the real income of consumers and some of it is ploughed back into the real economy through more consumption and investment.

An economy cannot sustain its growth unless saving-investment-growth cycle and consumption-production-growth cycle work in tandem.

It is true that as a result of trade liberalisation import competing sectors will experience a painful phase of transition. But their transition to efficient producers and/or gradual death to take rebirth in other sectors is absolutely necessary for the vitality and sustainability of any aspiring economy. A major challenge before trade policy maker is to not lose sight of huge gains by way of long-run resource efficiency, superior production possibility structure, institutionalisation of practices and systems which more and gradual exposure to trade can bring along with greater consumer satisfaction.

How do South Asian countries feature in respect to their trade liberalisation and concomitant consumer welfare enhancement efforts? The implementation of the South Asian Free Trade Agreement is progressing in a right direction. Its agenda is also expanding to include services and investment liberalisation.

In spite of this, there is hardly any discussion at the political level about the benefits that enhanced intra-regional trade would bring to consumers of our region. It is this vacuum that this study addresses. By employing a simple analytical framework, it shows how much gain would accrue to our consumers if some imports, sourced from outside the region, are sourced from within the region.

Our estimated total gain to consumers is US$2bn per year. And this is a static gain. By effectively addressing non-tariff measures and other costs of doing trade, the dynamic gain would be at least five times this amount.

Given that trade liberalisation efforts always get politicised, in this study we are not advocating for any blind increase in imports. We are also aware of the implication of our recommendations on government revenue, particularly in relatively more poor countries of the region.

Based on the results of this study, we will step up our advocacy for enhanced regional integration of South Asia.

Being aware of political economy aspects of this work, we will take forward the larger message that "Good Economics is Good Politics".

I thank The Asia Foundation for its support; not just for this project but, more importantly, to this cause. We look forward to strengthen our partnership. Last but not the least I thank my colleagues who have made this study possible

May this study be widely read, may it generate more interest on this subject and may it ultimately lead to well informed policy choices free of cynicism.

Pradeep S Mehta
Secretary General
CUTS International

Acknowledgement

The idea of this study germinated during a group discussion between CUTS staff and Nick Langton and Bruce J. Tolentino of The Asia Foundation in November 2010.

We express our gratitude to The Asia Foundation for supporting the implementation of this project. Special thanks are due to Nick Langton, Bruce J. Tolentino, Gareth Aicken, George Varughese, Saima Anwer, Shahid Fiaz, Syed Al-Muti, Veronique Salze-Lozach, Nina Merchant, Katherine Loh and Mandakini D. Surie of The Asia Foundation for their deep involvement. We thank them and others at the Foundation for thoroughly reviewing our drafts as well as providing useful suggestions for their improvement.

The study benefited from unreserved assistance extended by our partner organisations from other South Asian countries. Their valuable contributions including conducting the perception survey of stakeholders, organising regional meetings, facilitating media briefings and reviewing the technical content of the study are acknowledged. We express our gratitude to them, particularly:

- Syed Munir Khasru, Arbaaz Nayeem, Tahmid Zami, Zarif Islam and Ayman Chowdhury of Institute for Policy, Advocacy and Governance, Dhaka, Bangladesh
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- Vaqar Ahmed, Sustainable Development Policy Institute, Pakistan

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Kathmandu in February, 2012. A draft version of our study was presented at the 14th Sustainable Development Conference of the Sustainable Development Policy Institute, Islamabad in December 2011. We acknowledge valuable comments received from the participants of our session on this subject.

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Many other names deserve special mention, but could not be referred here for want of space. A large number of stakeholders have participated in the perception survey and gave valuable suggestions for taking forward the agenda of enhanced regional integration. We thank all of them.

Finally, any error that may have remained is solely ours.

Executive Summary

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 COENCOSA 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 qualitative 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 (SAFTA).

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$2bn a year by way of savings on aggregate consumer expenditure on imported products in selected 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 currently offered by them.

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. In other words, gains to consumers, as estimated in this study, is a static gain as it is based on existing tariff structure. It is a well-known fact that today tariff accounts for about 15-20 percent of the cost of doing trade of a commodity.

Non-tariff measures including customs procedures and other procedural non-tariff measures account for more than 80 percent of cost of doing trade. In South Asia, if non-tariff

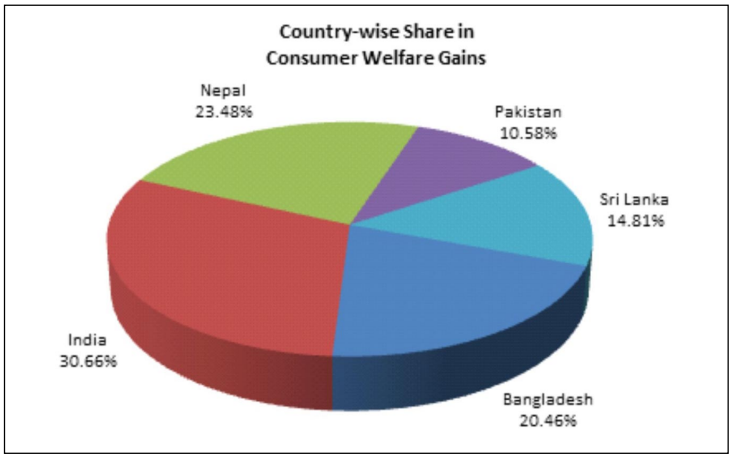
measures affecting the cost of doing trade are addressed properly then gains to consumers from an enhanced intra-regional trade regime would be much than static gains. Further gains can be achieved from gradual liberalisation of intra-regional trade in services and investment.

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.

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

Consumer Welfare Gains				
Country	**Number of Product Linesin Sensitive Lists Qualified for Tariff Reduction**	**Current Value Imports of Country from Rest of the World (US$ million)**	**Aggregate Consumer Welfare Gains (US$ million)**	**Consumer Welfare Gains as a Percentage of Current Value of Imports**
Bangladesh	50	2781.33	398.56	14.33
India	161	1095.45	597.29	54.52
Nepal	73	1068.27	457.50	42.83
Pakistan	44	349.24	206.18	59.04
Sri Lanka	27	918.54	288.61	31.42
Total	**355**	**6212.83**	**1948.15**	**31.36**

Source: Author's calculations based on trade data 2009-10, Trade Map; International Trade Centre, Geneva & UN Comtrade Database.



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

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

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

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

Chapter 1
Impact of Trade Liberalisation on Consumer Welfare in South Asia

Introduction

The volume and impact of international trade in the world economy has grown phenomenally over the past few decades. The share of global trade in world GDP has gone up from 39 percent in 1985 to 50 percent in 2010.[1]

To a large extent, this growth was made possible by an upsurge in the participation of developing countries in global trade, as they underwent a paradigm shift in their national economic policy outlook, embracing the now familiar concept of 'trade – an engine of growth'. This is vindicated by the fact that lower middle income countries experienced a sharper rise in trade to GDP ratio, from 32 to 56 percent during period 1985-2010.[2] Today, trade liberalisation has become a standard norm throughout the developing world, albeit with varying degrees of levels and success.

Though numerous factors, including technology-led reduction in transaction costs, development of production

networks, better transportation facilities, etc., have contributed to the expansion of trade in developing countries, new trade agreements, and the role they have played in reducing trade barriers, have been fundamental. The birth of the World Trade Organisation (WTO) in 1995 is the single most important event in this context.

With a strong current membership of 153 countries, the WTO popularised the importance of trade in economic growth, reinforced worldwide faith in multilateral trade negotiations and created strong institutional support and legal instruments for conducting trade negotiations based on the principles of reciprocity and non-discrimination.

Multilateral trade liberalisation is generally considered the best possible way for advancing the agenda of removing trade barriers globally. It ensures market opportunities for the most efficient and competitive producers in the world, as market access to each member country are provided to all trading partners on a non-discriminatory basis.

However, in recent times, mediating the reciprocal exchange of trade concessions has been increasingly difficult at the multilateral level. It would be incorrect to single out one particular reason for this trend, but a closer look reveals that a fundamentally incorrect approach towards trade liberalisation – wherein countries look to expand their export markets while preventing an increase in imports to their domestic markets - is one of the basic problems which often clouds economic reasoning.

Benefit from trade has two streams – gains to producers and gains to consumers – which are essentially inseparable. When it is said about trade that the best amongst producers in each traded sector will capture the market by out-competing inefficient competitors and earn their right to sell, it necessarily also means that buyers get to choose from the best quality products at the lowest possible prices. But, consumer welfare

effects of trade are often neglected, as consumers' savings due to imports are not as visible as producers' export earnings. Moreover, import is often viewed with discontent, owing to the challenge it may pose to the sustainability of domestic industries.

Irrespective of the expectations and goals of participating countries and of the level at which it operates (multilateral, preferential/regional or bilateral), a trade agreement cannot operate without reciprocal exchange of an import concession for an export opportunity. Trade agreements, by design, cannot serve a unilateral agenda of export promotion along with import substitution. When signatories undermine the importance of imports and view it only as a threat, trade negotiations most likely face an impasse. This may be observed from the way many preferential trade agreements across the globe function.

South Asian regional economic cooperation is spearheaded by the SAFTA. Despite this and other bilateral trade agreements currently in operation in the region, South Asia remains one of the least integrated regions in the world. Trade negotiations under SAFTA have failed to influence growth in intra-regional trade in a significant way so far. The share of intra-regional trade in total trade in the region has only marginally improved from 2.5 percent to 4.8 percent during 1995 to 2010. Though political tensions in the region are often blamed for slow progress in negotiations, the propensity of member states to resist import risks can be found as an equally major cause for the limited success of SAFTA.[3]

It is generally recognised that SAFTA failed to achieve its intended objective of enhancing intra-regional trade as a result of limited product coverage.[4] Though South Asian countries shifted to more outward looking policies in the 1990s, reducing restrictions on private sector involvement in business and trade, remnants from the previous economic policy approaches still

remain. Export promotion has replaced import substitution as the central theme for most governments in the region, but there are echoes of mercantilist attitude – increasing exports, while still attempting to restrict imports (World Bank, 2010).[5]

Protective tendency of the SAFTA member states is evident from the large sensitive lists maintained by them containing products kept out of bounds of the Agreement's Tariff Liberalisation programme.

Concerns of unequal distribution of gains and unbalanced negotiating outcomes have also affected the interests in SAFTA for its members. India being the largest economy by far, it has always been deemed that political involvement, particularly that of India, has to be delicately balanced, so to not threaten the negotiating positions of smaller members for the success of the Agreement (Weerakoon, 2010).

Failure to arrive at this delicate balance is often cited as another reason for the slow rate of progress in regional trade. Longstanding border disputes and political discord, particularly Indo-Pak conflicts, have been accused of having affected economic relations as well.

While these factors have contributed to the weak regional integration of South Asia, one of the notable and often overlooked results of economic non-cooperation among countries in the region are the high costs to consumers.

Enhanced regional trade would bring down prices of many key commodities significantly by avoiding additional costs of imports from outside the region. For instance, certain estimates show that Pakistan stands to save between US$400mn and US$900mn on its import bill if it allows imports from India on several items replacing its present imports from other countries at higher cost (Qamar, 2005).[6]

This study analyse the consumer welfare impacts of regional trade liberalisation in South Asia. It enquires into the results of previous studies on this topic as well as attempts a

quantitative assessment of potential consumer welfare gains from enhanced intra-regional trade. The study also includes the results from a perception survey which was conducted to ascertain the opinions of key stakeholders in the region on the role and relative importance of consumer welfare in trade negotiations under SAFTA.

Trade Liberalisation and Consumer Welfare: What Does Theory Say?

Consumer Welfare in International Trade Theory

Mercantilism, a pre-classical school of economic thought which had widespread influence in Europe during the period 1500-1750, did place significant importance on international trade, but only as a means of expanding the wealth of sovereign states and maintain their military power. It was important for a country to maintain a positive trade balance – exports more than imports – in order to ensure the net inflow of earnings from trade to the country were positive.[7]

The mercantilists prescribed that wages and other input costs should be kept low, so as to keep the prices of goods lower in the international markets and facilitate exports. There was hardly any place for consumer welfare effects of trade in this approach.

The early classical economists, particularly David Hume (Political Discourses, 1752), pointed out a fundamental flaw in the mercantilistic approach to trade. A continued inflow of export earnings will lead to a situation in which more money will be in circulation in the domestic market than is needed to clear the total goods and services available for purchase. This will lead to inflation in the domestic market and, as prices go up, their price competence in the international market diminishes, eroding the state's positive trade balance.[8]

A new approach to trade, proposed by Adam Smith (An Enquiry into the Nature and Causes of the Wealth of Nations,

1776), popularly known as the absolute advantage theory, replaced the merchantilistic approach by pointing out hitherto unrecognised benefits of trade between countries. The central thesis is that if countries allocate their productive resources to produce only those goods in which they are best at and thereafter trade their surpluses with each other, it is possible for consumers in each country to consume more of all goods.[9]

Since this system entrusts production of each good to the best producers, not only will consumers benefit from greater quantities available for consumption but also will have the luxury of choosing the best quality products at the lowest possible prices.

The absolute advantage theory was a radical departure from the earlier understanding of benefits from trade and it put consumer welfare impact on trade centre stage.[10] A subsequent qualification was made to it by the theory of comparative advantage proposed by David Ricardo (The Principles of Political Economy and Taxation, 1817).

Comparative advantage theory reaffirmed the importance of international trade and advances a better case for it by stating that, even if a country possesses an absolute advantage in producing all or most varieties of goods in demand, it should allocate its resources to produce only those goods in which it has an advantage compared to other goods and leave production of the rest to its trading partners. This also results in a win-win situation for all partner countries engaged in trade as total availability of all goods for consumption increases.

The Ricardian theory is based on productivity differences between countries. But, it did not offer an explanation for the underlying dynamics of how such productivity differences originate or the role of consumer demand in sustaining trade. A series of propositions on both demand and production/supply sides of the classical trade theory augmented it and threw further light on potential gains from trade.[11]

Supply-side analysis basically enquired into the origins of a country's comparative advantages arising from its endowment of the underlying factors of production.[12] Accordingly, differences in technology and usage of factor proportions determine the inter-country variation in production costs and hence prices, leading up to determination of relative market competence of products originating from a country. Low prices trigger demand for a particular good in the international market and factors of production (labour and capital) seeking better returns naturally get reallocated to that sector in the producing country.

This version of neo-classical trade theory continues to have a special appeal to economists championing the cause of free trade on the grounds of optimisation at a global level, of productive efficiency, consumption and the automatic utilisation of factors of production at full capacity. Here, consumer preference for goods is as important as the supply factors in determining price competitiveness of goods for trading nations.

Thus, the classical trade theory and its modern variants, centred on the concept of comparative advantage, essentially treat consumer welfare as an integral part of benefits of open trade and as inseparable from producer welfare.

Furthermore, positive consumer welfare gains following open international trade can be treated as more predictable and assured in the classical approach, while net producer welfare gains depend on the result of redistribution of income of factors of production, as they are reallocated from non-tradable sectors to tradable sectors, which could be positive or negative. It may additionally be noted that, while lower prices directly contribute to consumer welfare gains, the rise in returns to productive factors resulting from trade also enhance the same by raising purchasing power.

In the later period, post the development of neoclassical trade theories, empirical testing of real world trade patterns revealed many interesting facts which could not be explained solely by the factor endowment models and their corollaries derived from classical theory. These include occurrences like trade between countries with similar factor endowment and productivity levels, intra-industry trade or export and import of same product categories, trade in intermediate goods or large amounts of multinational production, etc. A large body of literature, which is often classified as New Trade Theories (NTT), helped to provide partial explanations to such phenomenon and predict patterns of trade flows (Sen, 2005).

NTTs attempt to explain the role of market structures and scale economies in determining trade patterns. Natural preferences of industry location and trade with movement of factors across borders are some of the areas of enquiry. But, as various commentators have noted, new theories are in consonance with traditional classical theory and have focused on analysing the exceptions in the traditional theory which call for better explanations.

Hence, the foundation of classical comparative advantage theory, inherently embedded in the notion of consumer welfare, still remains the single most important influence on real world trade policy-making.

Consumer Welfare and Theory of Trade Agreements

Theoretical literature on the purpose and role of trade agreements cite 'terms-of-trade' as the major motivation and explanation for the existence of trade agreements. A country, in an attempt to improve its terms-of-trade or in other words lower the costs of its imports relative to earnings from its exports, affects the terms-of-trade of its trading partners and thereby causes a negative externality on their aggregate national welfare.

Retaliation in kind from trading partners triggers a trade war. The basic premise of the terms-of-trade approach is that, without mediation and legally enforceable commitments to undertake trade liberalisation, trading partners will competitively engage in a race to improve their relative terms-of-trade with each other, causing global welfare loss (Grossman and Helpman, 1995).

Trade agreements provide necessary legal instruments to prevent countries from falling into terms-of-trade-driven trade wars. Two of the most important principles underlying the legal instruments of an ideal trade agreement are non-discrimination and reciprocity (Bagwell and Staiger, 1999 and 2001).[13]

Reciprocity forms the fundamental basis of trade negotiations, where import allowances are exchanged for export opportunities, guaranteeing restriction of unilateral attempts to influence own terms-of-trade by trading partners. Thus, the elementary theory of trade agreements necessitates import relaxation as an integral part of the trade liberalisation process and underscores the essential fact that producer welfare can only coexist with consumer welfare.

One of the key questions addressed in the literature on trade agreements is whether multilateral agreements (MTAs) are superior to preferential trade agreements (PTAs), in which participation is restricted to only a small subset of countries across the world. Multilateral trade liberalisation under the WTO is often considered as the first best option, as non-discriminatory market access granted to all countries spanning the WTO membership ensures self-selection of the best producers from a global pool. PTAs thus stand the risk of diverting imports from possibly more efficient producers outside the preferential region to those enjoying preferences within the preferential region.

But, PTAs have proliferated and thrived across the world even as the membership and scope of the multilateral system has widened since the formation of the WTO in 1995. A

number of alternative explanations exist to explain this. The relative ease of negotiations with smaller membership compared to multilateral system, the motive of advancing trade policy reforms in stages, quicker way to increasing market size, a means to signal openness to foreign investors, etc., are factors which make PTAs a more attractive option. A country may sign PTAs to lock-in its trade policy reforms and to weaken the chances of reversal of trade liberalisation policies at the national level. The relative ease of negotiations also means that deeper levels of trade liberalisation, beyond mere tariff reduction in goods, may be more easily achieved at the regional level and hence PTAs are preferred to multilateral agreements to purse the goals of cross-border investments and trade in services (Bhagwati and Panagariya, 1996).

A number of political motives are also attributed to the growth of PTAs. PTAs are often used as a tool to reinforce diplomatic relationships between countries. Such agreements are entered into with the intention of pooling common resources, warding off external threats, by showing regional solidarity and increasing collective bargaining power at the multilateral level (Rodrik, 1995).

Some empirical research studies discount the negative trade diversion effects of PTAs and find economic justification in PTAs signed between countries closer to each other in terms of physical distance, complementary export and import baskets and those with comparable economic size (see WTO, 2011).

Irrespective of their relative economic merits, the multilateral trading system and PTAs function under the same guiding principles and share many common objectives. The basic construct of reciprocity is necessarily the backbone of PTAs as well. Without realising the importance of imports in a mutually beneficial trade relationship, PTAs cannot function, despite their advantage in terms of smaller administration costs. Thus, consumer welfare, though often overlooked, is an imperative at all levels of trade liberalisation.

Regional Economic Cooperation in South Asia

South Asian countries with relatively open economies in the immediate post-independence period in the 1940s generally resorted to inward-looking policies subsequently and ranked amongst some of the most protected countries in the world by the 1970s. Government interventions in economic activity were high and tariff and non-tariff barriers made South Asian markets inaccessible, until a gradual reversal in economic outlook started in the region from the 1980s onwards.

Nevertheless, the move towards opening up and liberalising state control has been gradual and countries in the region focused on exploring other export markets outside the region rather than within. From the early 1990s, led by the reform process in India, trade liberalisation in the region expanded, resulting in high growth in trade and domestic income (Weerakoon, 2010).

The *South Asian Association for Regional Cooperation (SAARC)* comprising seven South Asian countries, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, was formed in 1985 with the adoption of its Charter at its first Summit in Dhaka, Bangladesh. It was created to enable and facilitate periodic, regional consultations on matters of mutual interest and to explore the possibility of cooperation in economic, social, cultural and other fields.

In April 1993, the proposal to set up a *SAARC Preferential Trading Agreement (SAPTA)* was accepted by all seven member states and SAPTA came into formal operation in December 1995. SAPTA was initially viewed as an instrument that could transform the South Asian trade landscape through greater regional integration. This optimism began to wane with the slow progress of SAPTA under four rounds of trade negotiations, as it did not increase the volume of intra-regional trade and investment flows. This was mainly because of the limited tariff preferences extended to a country's trading

interest, limited depth in tariff cuts and prevalence of non-tariff barriers (NTBs).

Contrary to general belief, the rules of origin of SAPTA were more liberal compared to other PTAs, as a product would be considered as originating from a country if it generated a local value-added content of 40 percent (30 percent for LDCs). This also included profit made not only by the manufacturers but also by the traders. The non-qualifying/minimal operations were confined to packaging and transportation operations only.

These problems were visible in the first preferential trading arrangement in Asia, the Bangkok Agreement (BA), and were highlighted before SAPTA came into operation.[14] Free trade agreements make substantial provisions on simplification of banking facilities for import financing, transit facilities for the landlocked countries, removal of barriers to intra-SAARC investments, macroeconomic consultation, rules for fair competition and promotion of venture capital, development of communication systems and transportation infrastructure, easing foreign exchange controls on repatriation of profits and simplification of procedures for business visa, etc., that may remove existing impediments to further expansion of intra-regional trade.

Intra-regional trade remains disappointingly low, accounting for about four percent of trade in South Asia. Political tensions in the region, particularly between India and Pakistan, have only served to undermine regional economic cooperation (Weerakoon and Wijayasiri, 2001). A number of SAARC member countries decided to embark on bilateral free trade agreements (BFTAs). The Indo-Lanka BFTA was signed in late 1998 and came into operation in early 2000. Long existing Indo-Nepal treaties were formalised as a BFTA in 1996 (RIS, 2004).[15]

In addition, several South Asian countries joined wider regional groupings in Asia such as the Indian Ocean Rim

Association for Regional Cooperation (IOR-ARC initiated in 1997) and BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation initiated in 1997). Both these groupings were not preferential trading blocs – IOR-ARC was based on open regionalism, where unilateral trade liberalisation was advocated, while BIMSTEC was initially based on sectoral cooperation. Membership in such pan-Asian regional groupings was obtained by some South Asian countries in the hope of gaining more economic benefits, which the SAPTA process was not delivering. These regional groupings were also not very effective in generating trade among member countries.

The SAFTA Agreement was signed in January 2004 during the twelfth SAARC Summit in Pakistan. The Agreement came into force in January 2006. The Agreement has come at a time when the trading environment in South Asia was complicated by the slow progress of SAPTA and a number of parallel regional and pan-regional initiatives were being put in place. Hence it consists of far-reaching trade and investment liberalisation measures that go beyond the removal of tariffs and NTBs (Hirantha, 2002).

The SAFTA Ministerial Council (SMC) has also been established, which comprises of the Commerce Ministers of all the Member States. To assist SMC, a SAFTA Committee of Experts (SCOE) has been formed. So far, seven meetings of the SAFTA Committee of Experts have been held. The seventh meeting is scheduled to be held in 2012 in Pakistan. In August 2011, the total value of exports of Member States of SAFTA has reached around US$1.3bn since the launching of SAFTA Trade Liberalisation Programme in July 2006.

The member countries in SAFTA not only have close cultural and historical ties but also follow similar trade policies after their independence. When comparing in terms of economic structure, namely, savings as a percentage of GDP,

demographic profile and labour mobility, SAFTA member countries have many similarities. Although a majority of the population still lives in rural areas, all of these countries are becoming increasingly urbanised. With the exception of Sri Lanka, which had undertaken significant liberalisation in the late 1970s, restrictive trade policies remained dominant in this region for nearly four decades. Recognising the importance of international trade, unilateral trade liberalisation policies began to be introduced in the second-half of the 1980s. However, a more systematic liberalisation started in the 1990s in almost all countries.

Table 1.1: Key Indicators of South Asia

Economic Indicators	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	South Asia
Surface Area (sq. km) (2009)	144000	38390	3287260	300	147180	796100	65610	5131070
Population (millions)	148.69	0.725	1170.94	0.315885	29.959	173.59	20.859	1579.46
% GDP Growth	5.83	7.44	9.72	4.78	4.55	4.36	8.01	8.83
Gini Index*	31.00	46.80	36.80	37.40	47.30	32.70	40.30	
% Population >$2 a day**	81.30	49.50	75.60	12.20	77.60	61.00	29.10	73.90
GNP per capita (constant 2000 US$)***	546.66	732.87	817.13	2645.84	225.99	629.94	853.52	758.80

*Survey Years: * Bangladesh, India (2005), Bhutan (2003), Maldives, Nepal (2004), Pakistan (2006) and Sri Lanka (2007).*

*** Bangladesh, India, South Asia (2005), Bhutan (2003), Maldives, Nepal (2004), Pakistan (2006) and Sri Lanka (2007).*

**** Bangladesh, India, Pakistan, South Asia(2010), World (2009), Maldives (2004), Sri Lanka (2002), Bhutan and Nepal (2000).*

Economic growth accelerated in many of these countries post-1990s and the average annual growth of GDP per capita improved in almost all countries in the period 1996-2006. High GDP growth rates did not contribute to the improvement in per capita income in these countries, reflecting a high population growth rate, with the exception of Bhutan. India is the largest country, followed by Pakistan, in terms of both surface area and population. Therefore, India and Pakistan have crucial roles to play in ensuring successful regional cooperation in the South Asian region (Hirantha 2002).

Trade in the SAFTA region is currently low. Most of the SAFTA member countries have a low trade-GDP ratio and have initiated external sector liberalisation (that is, bringing down tariff barriers), starting only in the 1990s. A large number of NTBs currently exist in the region (Banik, 2001).

As McCombie and Thirlwall (1997) and Paulino and Thirlwall (2004) point out, robust economic growth encourages a more liberalised trade regime. With a similar export profile, trading partners are better off with fewer restrictions. Because countries in the SAFTA region share a similar export profile, they also face the same types of NTBs.

Hence, they share a similar negotiating stance for removing these barriers. Most countries in SAFTA are undertaking considerable external sector liberalisation (ESCAP, 2006).

South Asian countries exhibit many similarities in economic activity, implying that long run movements in real output are likely to be similar. Such co-movements of outputs may be due to common factors such as geographical proximity and similar industrial profile. When countries share a similar industrial profile and are located closely, demand shocks in one country may spread regionally. This could also arise as these economies all share common trade linkages with major export markets such as the EU and the Middle East.

Table 1.2: Average Annual Growth of GDP, GDP Per Capita and Exports and Imports of Goods and Services, 1990-2010

	1990-1999				2000-2010			
Country	GDP (%)	GDP per Capita (%)	Export of Goods and Services (%)	Import of Goods and Services (%)	GDP (%)	GDP per Capita (%)	Export of Goods and Services (%)	Import of Goods and Services (%)
Bangladesh	4.80	2.58	12.65	8.44	5.81	4.32	9.87	6.92
Bhutan	5.28	5.24	-	-	8.40	5.79	20.26	9.58
India	5.63	3.72	11.97	13.31	7.44	5.90	13.58	13.09
Maldives	9.13	7.05	9.41	12.42	5.64	4.09	8.42	7.35
Nepal	4.84	2.29	-	-	4.10	1.95	1.95	4.46
Pakistan	3.98	1.28	3.66	2.68	4.62	2.68	8.38	5.53
Sri Lanka	5.26	4.39	6.99	8.52	5.27	4.19	6.33	5.53
South Asia	5.32	3.29	9.92	10.03	6.93	5.31	12.43	11.75
World	2.74	1.25	6.40	6.14	2.71	1.49	5.22	4.97

Source: World Development Indicators, World Bank.
Survey Years: Maldives (1996-1999).

Another reason for the presence of common economic trends and hence co-movements of output could be explained through intra-industry trade. As far as the trade structure is representative of the output structure, the cycles should become more synchronised because they would be affected by common shocks. This is the argument of Kenen (1969), who stated that when countries trade in similar commodities, this increases the synchronicity of their output.[16]

In fact, this aforementioned economic characteristic of South Asian countries will enable them to go beyond the FTA framework and work for deeper economic integration, such as forming a common market and economic union (Banik, Biswas and Saunders, 2006).

More liberal government policies are likely to be beneficial for an FTA. There is a general consensus in the literature that trade volume, for both exports and imports, increases following external sector liberalisation (Agosin and Kohli, 1991). Higher trade volume resulting from external sector liberalisation is expected to increase the likelihood of FTA formation.

Today, South Asia accounts for only three percent of global gross domestic product (GDP), even though one-fifth of the world's population lives in the region (UNCTAD 2008a). In the area of investment, according to ADB's Asian Development Outlook (2007), South Asia has averaged more than 7.5 percent growth since 2003.

In 2004-06, FDI to South Asia increased by an average of US$13.3bn per year. FDI inflows to South Asia in 2006 amounted to US$22274mn – a paltry 2.1 percent of the region's GDP and a mere 1.6 percent of world FDI. South Asia's FDI share is not even an eighth of East Asia's US$214.2bn (UNCTAD 2008a).

In 2006, FDI outflows from South Asia amounted to US$9820mn. These numbers show the extent of untapped opportunity, in terms of foreign markets and investments, which exist for South Asia.

South Asian Free Trade Agreement: A Review of Literature

Because of the current low levels of intraregional trade in South Asia and the limitations of the SAFTA process to provide dynamism to regional trade, many observers believe that regional economic integration in South Asia is likely to remain a distant dream. However, many researchers are of the view that SAFTA should be better judged by its unexploited potential, rather than by its achievements so far. Accordingly, the performance of the Agreement so far may not be the ideal measuring road for evaluating its desirability.

While there is a rich body of literature on the benefits and feasibility of SAFTA, there is no consensus on the potential economic effects of SAFTA. Nevertheless, international institutions and bodies recognise it is vital for the region's growth aspirations. The Asian Development Bank (ADB) recognises the critical role of regional cooperation and integration in South Asia in achieving the Millennium Development Goals by 2015, in that they can help in unlocking the region's vast economic potential, in achieving sustained and rapid growth and in reducing poverty (ADB, 2008). [17]

It is widely recognised that irrespective of precise economic outcomes in the short run, in the long term, regional cooperation and integration will enable South Asia to play a more effective role in wider Asian integration (Kelegama and Adhikari, 2002, Kemal, 2004, Delgado, 2007, Kabir, 2007, ADB and UNCTAD, 2008, Lee, 2008 and De, 2009). Even studies which are sceptical about the monetary outcomes of the initiative, find benefits in terms of regional peace and other non-economic dividends (Panagaria, 2003, and Nag, 2008).

Since it is not practical to cover the entire gamut of issues coming under the purview of regional economic cooperation, focus in each work has been restricted to a numbered part of them and hence the outcomes and predictions also vary across studies because of the partial nature of analysis. In the sections below, a review is offered which distinguishes between conceptual arguments and empirical results in the literature on South Asian trade. It is followed by an assessment of the key gaps in existing literature on regional economic integration in South Asia.

Economic Case of SAFTA

Many studies have analysed the success of SAFTA on the basis of the existence of necessary economic conditions for success of RTAs like trade complementarities and differences

in competitiveness of the countries. Indices of trade complementarity, which indicate reciprocal demand for trading partners' exported products, are used to assess whether a proposed regional trade agreement will succeed. Kemal et al. (2000) used such indices for all five leading South Asian countries and found that there is a lack of strong trade complementarity in the bilateral trade structures of South Asia and hence expressed low expectations from the future prospects of SAFTA.

Pitgala (2005) addresses the issue of whether the South Asian countries possess the requisite conditions to become a successful trading block by going beyond simple complementarity, using the 'natural trading block' hypothesis. The study uses three definitions of the 'natural trading block' hypothesis, i.e. the trade volume, geographic proximity and the complementarily approaches. By trade volume approach, which suggests that members of a regional agreement should trade disproportionately with each other in order to be a successful bloc, it was found that the South Asian economies fall short.

Evidence from this work does not support the 'geographical proximity' hypothesis, reflected by the trade intensity index (TII), either, with the South Asian countries demonstrating an increased tendency to trade with industrial countries due to cultural ethnic or religious affiliations. Results of the application of complementarity criterion also confirmed earlier results that prospects of regional trade are quite low.[18]

Krueger (2004) puts forward a similar view that, although potential gains exist from SAFTA, the South Asian region does not meet most of the theory-based criteria for successful trade agreements. The study concludes that, since the profile of regional trade indicates trade in similar goods, SAFTA has limited capability to increase intra-regional or extra-regional trade for its member states.

Nevertheless, there are counter arguments which critique such claims. One of the major problems of analysis in the application of various criteria in the studies mentioned above is that they account for only past trends in goods trade from the era of regional trade restrictions. Despite reforms in the external sector, trade among South Asian countries is still restrictive, especially considering the sectors where opportunities for trade exist (Ghani and Din, 2006).

The comparative advantage of these countries lies in the low technology-intensive items such as agricultural products, leather footwear, textiles and clothing. As the level of economic development increased following reforms, the region has exhibited diversification in export baskets and trends in intra-industry trade have also changed (Hassan, 2001, Rodriguez-Delgado, 2007).

One of the most frequent arguments levelled against SAFTA is that the Agreement is expected to increase regional trade (trade creation) but may do so at the expense of trade flows from more efficient non-regional suppliers (trade diversion). Baysan et al, (2006), examine the economic case for SAFTA in the light of other preferential trading arrangements in the region, particularly India Sri Lanka Free Trade Agreement (ISFTA).

The study suggests that SAFTA is unlikely to find the most efficient suppliers within the region and harmful trade diversion may result. But, SAFTA will present firms in member countries with the opportunity to exploit economies of scale through access to an enlarged and diversified market.

Complementarities which previously did not exist would be found in such a scenario. Some quantitative studies based on Global Trade Analysis Project (GTAP) modelling point to net welfare gains for the region as a whole and suggest that SAFTA will be trade-creating, which, in turn, would offer dynamic gains (Derosa and Govindan, (1996). Some studies demonstrate that such gains would be much larger for the region when liberalisation is on a non-discriminatory basis.

Currently, the level of protection amongst SAARC countries is very high and barriers to intra-regional trade are especially high. Much of the unexploited potential thus cannot be unearthed by observing past trends. One of the reasons which makes the economic case for SAFTA appear weak is the political economy of selection of the excluded sectors from application of preferential rates and rules of origin (RoO) issue.

As domestic lobbies make sure that the sectors that do not withstand competition are excluded from tariff preferences and go along free trade in sectors in which they are competitive, inefficient selection of excluded products is the outcome which subsequently results in weak possibilities for actual trade and thus real potential remains hidden.

A similar outcome occurs due to strict RoO. One of the main arguments advanced in favour of SAFTA is that there is substantial informal trade between countries. An FTA may make formal trade even more expensive than informal trade by adding to the costs of complying with the RoO. Simplified ROOs and application of preferential trade thus may make formal trade viable and thus a major chunk of the unaccounted trade will surface to the effect that the Agreement's role in advancing trade relations will be found much more than conventional expectations (Weerakoon, 2010).

It has often been argued, particularly in earlier studies, that the move toward SAFTA gained momentum due to political reasons. Following a trend around the world, SAFTA was conceived with a political agenda, rather than economic. SAFTA is often seen as a vehicle for promoting political ties between India and Pakistan.

Bandara and Wusheng (2001) and Hossain (2006) express the view that the possibility of free trade will not be operational without resolving political issues between member countries. Frail diplomatic relations between India and Pakistan have been analysed as a major hindrance to the success and future

of SAFTA in South Asia (Hussain, 1999, Mukherjee, 2004, and Dhungel, 2008). It should be noted that trade negotiations are often seen as a means of resolving political conflict, even as political tensions are accused of preventing the progress of negotiations.

SAFTA is likely to lead to stronger economic growth, notwithstanding the controversies pertaining to trade and development policies and the mixed results of specific impacts from various studies. The Agreement would help to promote policy credibility by 'locking in' uniform trade and investment policies among member countries (Ahmed and Ghani, 2008).[19]

Group action may influence all members to abide by a common reform agenda. Of course, RTAs do not guarantee equal distribution of benefits to members. Since India is a large and rapidly growing member country of SAFTA, it has the potential to serve as a 'growth-pole' for the region and could have growth-enhancing effects for the region.

In addition, further inroads towards smoother functioning of SAFTA are yet to be made by bringing trade in services under its purview. This is necessary in view of the fact that about 50 percent of the value added to South Asian GDP originates from the services sector. The content and meaning of the discussion on the viability of regional trade based on indicators like complementarity will change substantially, once the scope of the Agreement increases.

Quantitative Assessments

As mentioned in the previous section, one of the most pressing questions is whether the regional agreement would result in overall inefficiency induced by trade diversion. Hirantha (2002) examined the progress of SAPTA and the prospects of SAFTA using trade data for 1996 to 2002, using a gravity model. The gravity model results show strong evidence of trade creation in the region under SAPTA with no

trade diversion effects, as far as trade with non-members is concerned. According to the study, this is because an increase in intra-regional trade would be accompanied by an increase in trade with non-members.

Based on studies conducted using the framework of the gravity model, RIS (2004) reports similar results. In conformity with previous studies, RIS suggests that complete elimination of tariffs under SAFTA may increase the intra-regional trade 1.6 times. It further suggests that, in the dynamic framework, the gains from liberalisation are at least 25 percent higher than the static gains and the long run trade diversion effects would be minimal, as a competitive environment would help domestic industries to mature in due course.

SAFTA consists of far reaching trade and investment liberalisation measures that go beyond the removal of tariffs and NTBs. Free trade agreements make substantial provisions on simplification of banking facilities for import financing, transit facilities for landlocked countries, removal of barriers to intra-SAARC investments, macroeconomic consultation, rules for fair competition and promotion of venture capital, development of communication systems and transportation infrastructure, easing foreign exchange controls on repatriation of profits, simplification of procedures for business visa, etc., that may remove existing impediments to further expansion of intra-regional trade.

A series of studies incorporated the effects of such dimensions in the traditional analysis and found that a number of factors would contribute to generating welfare-generating outcomes from trade in the long run.

Further, some of these studies also suggest that long run efficiency gains in export industries due to positive spillover effects from intra-regional trade will enhance trade with non-members.

It is, therefore, suggested that efforts are made to expedite necessary structural adjustments in member states and trade policy reforms and allied facilitation measures should necessarily be adopted with tariff negotiations. Thus, the proposition that comprehensive regional integration will bring about substantial benefits to SAARC region is well founded in the literature.

Raihan and Razzaque (2007), using computable general equilibrium (CGE) modelling, estimated the trade creation and trade diversion effects of SAFTA. They show that a full implementation of SAFTA will lead to welfare gains for India, Sri Lanka and other South Asian countries, though Bangladesh will suffer from welfare loss. Bangladesh's welfare loss is mainly driven by the negative trade diversion effect.

However, the simulation results also suggest that the negative trade diversion effect can be undermined by some associated unilateral trade liberalisation measures. Bangladesh and other LDCs in South Asia will have to raise their export share into the Indian market substantially, in order to increase welfare through positive terms of trade effect. Export diversification in this regard is very important.

Kumar and Saini (2007) examined different scenarios for SAFTA and its implications on the welfare of each country. They find that a South Asian Free Trade Area, as envisaged under SAFTA, does not result in equal welfare gains for all the member countries. SAFTA results in small welfare gains for all the South Asian countries, with the exception of Bangladesh. The rest of South Asia gains by about half-a-billion dollars, while India gains by about US$204mn and Sri Lanka by just US$89mn. Bangladesh, on the other hand, suffers welfare losses of about US$225mn. The gains in welfare for India and Sri Lanka are basically due to gains in terms of trade and, to a lesser extent, from improvements in allocative efficiency.

The results of this study also show that Bangladesh's apparel sector gains more on account of its increase in global exports, which could increase as much as six percent on account of SAFTA. As a result of SAFTA phase II, Bangladesh's global exports of wearing apparel show increase of about US$262mn, of which only US$3mn are apparel exports to South Asian countries. Thus, 98 percent of wearing apparel exports are to the rest of the world. This is also corroborated by the fact that, in SAFTA phase II, India's textiles exports to Bangladesh increase by 84 percent and 90 percent of India's total South Asian textile exports increase goes to Bangladesh.

Certain studies show sectoral gains in agricultural and chemical products, electrical and electronic equipment, etc.[20] Sectoral predictions include India's gains in agricultural sectors like sugar, poultry, dairy and manufacturing, including motor vehicle parts. There are losses to sectors like wearing apparel and leather. Pakistan gains mainly in wheat, horticulture and textiles, with setbacks likely in sugar and wearing apparel. Sri Lankan gains would be less pronounced, since it already has an FTA with India, and is about to conclude an FTA with Pakistan. There is likely to be a similar situation with Bhutan and Nepal.

One of the most important observations from sectoral studies is that India's gains would suffer if Pakistan partially participates in SAFTA. These results indicate that predicted losses to LDCs can be offset by exploiting key sectors of competence. Even studies which foresee marginal welfare losses predict overall positive employment generation effects for LDCs, particularly Bangladesh (Gilbert, 2008, and Bouet et al., 2010).

In addition, quantitative studies acknowledge the limitations of subjecting the potential benefits from greater rapprochement, diplomacy and stability owing to greater involvement through SAFTA.[21] However, despite such

omissions owing to methodological limitations, the net economic impact of SAFTA can be seen as beneficial. All countries experience welfare gains albeit at varying degrees, but it would be important to give some flexibility to countries to protect their vulnerable sectors – this is particularly the case for the manufacturing sector in the smaller LDCs (Dayal et al., 2008).

Even in the case of LDCs, gains are generally predicted to be modest only in the initial phase of liberalisation and would turn out to be significant subsequently, once there is comprehensive liberalisation.

Omissions in the Traditional Analysis

A larger role of a free trade agreement for the overall benefit of South Asia with its wide-ranging potential impacts has been well recognised in the literature, though all the previous studies miss out on certain specific positive outcomes, which are extremely difficult to quantify. It is crucial to pay attention to the main observations on intangible benefits, which are often forgotten, in order to truly appreciate the prospects of SAFTA.

Zalazar-Xirinachs (2004) observes in the context of an extensive survey on Latin American trade agreements that a major positive influence of RTAs on domestic policy reform is by way of positive behavioural changes in the traditionally rent-seeking behaviour by the business communities. The study notes that 'in many countries, the prospect and the reality of increased import competition has led the local business communities to be more interested in reducing domestic distortions in transportation costs, the costs of telephone calls, electricity rates and interest rates that hinder their ability to compete with firms from countries with which FTAs have been entered'.

A joint report by ADB and UNCTAD (2008) predicts this possibility in the case of South Asia. SAFTA, to the extent

that it reduces rents for high tariff protected intermediate products, will reduce costs for downstream finished product manufacturers and make them more cost competitive, both regionally and globally. Regional Trade Agreements can, therefore, help countries build on their comparative advantages, sharpen their industrial efficiency and act as a springboard to integrate into the world economy. It has been argued that increased economic integration would carry with it the ability not only to secure new and larger markets for traditional products but also to enable the diversification of domestic economic structures.

More recent studies have highlighted this aspect and have, therefore, argued for pursuing deeper economic integration in South Asia, not only in trade in goods but also in services and investment (Chanda, 2005, De, 2005, 2009) and Mehta, 2005.

Trade facilitation, covering a wide range of reforms for easing trade flows, is a sensitive issue which has not been adequately examined in existing literature. Transportation is perhaps the most troublesome aspect of trade facilitation in the region. Roy and Banerjee (2010) note that, despite an integrated road and rail network that connected most of South Asia during the colonial era, overland connectivity between South Asian countries today is suffering and is hostage to the political climate prevailing in the region.

The most important observation on this topic is in fact that, in South Asia, unlike most other developing regions in the world, lack of adequate transport infrastructure is not the most pressing issue (Weeraheva, 2009, Hertel and Mirza, 2009), but an antipathy towards putting it to use is a much greater hurdle.[22]

Pakistan's refusal to allow overland traffic to India from Afghanistan and Bangladesh's reluctance to open an overland route connecting north-east India to the rest of South Asia

and the port of Chittagong has prevented a trans-South Asian road network from emerging. Even where overland routes do exist, such as between Bangladesh and Nepal and Bangladesh and Bhutan through India, rent-seeking officialdom is identified to have made trade unduly expensive. Like roads, railways also suffer from behind-the-border issues like:

- Lack of efficient railway dry ports with logistical support;
- Rent-seeking and theft of cargo while in transit;
- Lack of multi-modal linkages with railways; and
- Lack of efficient and cheap trans-shipment facilities between rail hubs and seaports (in some cases).

Smooth transit is of very high intrinsic value and should necessarily be an integral element of any cross-border movement of goods and vehicles and yields significant influence on national and regional economies.[23] The present arrangement of transit in South Asia is bilateral, where India provides overland transit to Bangladesh, Nepal and Bhutan for their bilateral trade and maritime transit to Nepal and Bhutan for their international trade. The prospect of growth in trade volume is definitely going to focus attention on to transit-related administrative reform, governance and security. Improvement in these areas will hike the current modest estimates of trade benefits in unimaginable ways. These factors need to be taken into consideration in the traditional analysis.

An efficient overland infrastructure would allow goods to move smoothly across South Asia, reaching out to the most efficient hub using multi-modal means. The resultant competition would lead to the emergence of efficient hub and feeder route combinations, using rail, road, and regional shipping routes, greatly reducing the transaction costs imposed on South Asia's entrepreneurs. Many of these entrepreneurs are left out of the global and the regional market precisely because they are priced out of it by the incidence of transaction costs on trading (Banerjee and Roy, 2010).[24]

As can be seen from the global trend of reforms of customs administrations, South Asian countries too have seen improvements in the overall quality of their customs-related bureaucracy, though it still leaves scope for improvement by a huge margin. With the exception of Afghanistan and Bhutan, the widespread use of electronic data interchange (EDI) and the increasing use of paperless transactions has become the norm in South Asia's customs administration.

However, the scope of EDI and the use of information technology (IT) are still limited and there is ample room for improving the level of procedural simplicity and documentation requirements. In all countries, many agencies, apart from customs, involved with the clearance of goods, are not yet up to the mark in automation and hence paper trails remain. It is not so much the absence of an IT infrastructure, which increasingly is less of a concern, but rather the lack of movement in procedural reforms that is holding up further efficiency gains at South Asia's customs gateways (Banerjee and Roy, 2010).

South Asian economies are aiming to undertake trade facilitation measures that will greatly reduce current physical and non-physical barriers to trade by means of both visible infrastructure (such as multi-modal corridors and terminals) and invisible infrastructure (such as reformed policies, procedures and regulations).

Due to the lack of adequate research on trade facilitation, not much information is available on either the multiplier effects it will generate or on the benefits through inter-industry linkages such a situation will kick-start. This is not only an area of research that needs special attention from scholars in South Asia but is also a key consideration for policy makers taking decisions on the issue.

Conclusions

In classical trade theory and its modern variants, centred on the concept of comparative advantage, consumer welfare is treated as inseparable from producer welfare. Further, positive consumer welfare gains, following open international trade, are considered as more predictable and assured, as net producer welfare gains depend on the results of redistribution of productive factors from non-tradable sectors to tradable sectors, which can be positive or negative.

New Trade Theories, which attempt to explain phenomena like intra-industry trade, effects of externalities, technological advancements, increasing returns to scale owing to trade, etc., go beyond the restrictive assumptions of classical comparative advantage theory, but none of these schools of thought can be observed to critique, in any way, the potential positive consumer welfare gains arising out of open international trade.

Theories of trade agreements (principally, the terms-of-trade theory) show that the primary function of trade agreements is to resolve the mistrust between trading partners driven by terms-of-trade wars which lead to sub-optimal trade relations between them.

For this, these theories predict that reciprocity and transparency are the most crucial or inevitable principles of ideal trade agreements. This strand of theoretical literature also reveals that consumer and producer welfare gains are often wrongly treated separately, because they accrue distinctly to the importing and exporting countries respectively.

The critical observation here is that it is both theoretically and practically impossible for a trade agreement to function if one or more of participating countries expect either only producer welfare gains or only consumer welfare gains out of it. Each member state must show willingness to accept a mixture of both.

A frequently cited reason for the hitherto failure of SAFTA is the preservation by member countries of a large number of products with intra-regional trade potential under sensitive or protective lists. Quantitative assessments on the economic impacts of SAFTA, are by and large inconclusive, as studies find both overall positive as well as negative impacts. Empirical results depend primarily on the assumptions made in the underlying modes used for the analysis and they vary widely between studies.

Similarly, there exist arguments for and against the positive potential effects of SAFTA in the studies using theoretical and political economy approaches. For instance there are compelling counter arguments in the literature to prove that there need not be any negative trade diversion impact as a result of trade liberalisation under SAFTA, which has been often cited as a major concern.

The consumer welfare impact of SAFTA is almost completely ignored in the literature so far. Consumer welfare gains find a mention only in quantitative studies using general equilibrium models. Even in such studies, this concept is treated only partially as general equilibrium models generate only overall gains net of producer and consumer welfare gains.

Chapter 2
Potential Impacts of SAFTA on Consumer Welfare: A Quantitative Assessment

Introduction

As narrated in the previous chapter, though existing literature on potential impact of SAFTA remains inconclusive, most of the available research results do not discount the possibility of member countries drawing high economic and political dividends from the initiative. Many researchers are of the view that the potential of SAFTA to contribute towards economic growth and development in the region is hidden by the Agreement's inability so far to generate actual trade preferences within the region, sufficient enough to stimulate the minimum level of intra-regional trade flows which would kick-start a positive vicious cycle of trade leading to more trade.

The rapid growth in world trade during the past two decades has been achieved not only by reduction in trade restrictions but also by the transformation of production patterns and processes. The current global trend of

specialisation and fragmentation of production processes is the result of access to efficient, reliable and low cost supply chains and the cause of competitiveness of both firms and countries.

Transport and other supply chain costs have been significantly reduced because of scale economies as trade grew and this has further inspired more trade and commerce. This circular link is missing in South Asia, as SAFTA members are still grappling with preferential market access issues in goods trade and are yet to embark on services trade liberalisation and other complementing trade policy reforms.

Though South Asian countries have shifted to more outward looking policies in 1990s, reducing restrictions on private sector involvement in business and trade, remnants from the previous economic policy approaches still remain. Export promotion has replaced import substitution as the central theme for most governments in the region, but there are echoes of mercantilist attitude, increasing exports, while still attempting to restrict imports (World Bank, 2008).

The review of select literature carried out under this study has also revealed that an assessment of the consumer welfare gains from trade liberalisation has not been adequately researched in the context of SAFTA. A change in this attitude is imperative to push the tariff liberalisation agenda forward, without which deeper economic integration will remain unattainable.

The first step towards this is to realise the importance of granting import concessions, not only just as a policy tool to gain export markets but also as a significant source of economic benefits on its own. In this chapter, an empirical analysis is undertaken to assess potential welfare gains to South Asian consumers arising out of enhanced intra-regional imports. The analysis uses a basic method to measure consumer welfare impacts from an increase in imports, as currently reserved

product categories are brought under the ambit of the tariff liberalisation scheme under SAFTA.

The basis for this analysis is drawn from the notion that, when countries are allowed to choose sectors that can be excluded from tariff preferences under a PTA, domestic lobbies work to ensure exclusion of products in which they may not withstand competition from the partner countries, as is observed from India-Sri Lanka FTA (Baysan, Panagaria and Pitgala, 2006). Thus lists of excluded products often provide a good starting point for identifying sectors of importance for intra-regional trade.

Assessing Consumer Welfare Gains under SAFTA: Methodology and Product Selection

It is generally recognised that SAPTA, the predecessor of SAFTA, failed to achieve its intended objective of enhancing intra-regional trade as a result of limited product coverage and limited extent of tariff concessions exchanged among member countries. The primary objective sought through SAFTA was, therefore, to generate sufficient tariff preferences by increasing product coverage under the Agreement's tariff liberalisation programme (TLP).[25]

Though member countries adopted a reduced sensitive list containing items which are not subject to tariff reduction, the respective lists maintained are still large and include many items in which SAFTA trading partners' exhibits 'revealed comparative advantage'.

With the exception of Bhutan, all other seven members elected to exclude more than 10 percent of total product lines (HS 6-Digit Level) from the ambit of the TLP. At the time preferential tariff reductions were initiated under SAFTA in 2006, all the major five member countries kept 15 to 25 percent of total product lines out of bounds under their respective

sensitive lists. Since then, only a marginal reduction in the list of restricted product lines has been achieved. While India brought down it lists for LDCs from 744 to 484 product lines, the list for non-LDCs has remained the same at around 860 product lines. Bangladesh, Nepal, Pakistan and Sri Lanka still retain more than 1000 product categories in their lists, with an unfulfilled commitment to bring about a 20-percent reduction.

In this study, a two stage method has been used to determine the consumer welfare gains from enhanced intra-regional trade in the region. In the first stage, an algorithmic process is used to select products from the sensitive lists of five major SAFTA member nations (Bangladesh, Nepal, India, Pakistan and Sri Lanka), in order to calculate figures of minimum gains for product categories with maximum potential effects on consumer welfare.

The selection of products is carried out by sequentially applying two criteria: (i) products in sensitive lists of a SAFTA member country (m) with high shares in the total exports of SAFTA partner countries (p) to rest of the world (RoW), reflecting the export potential of partner countries in such products, (ii) the list thus selected is further filtered by selecting products in which exports of partner countries to the member country is minimal and imports of the member country are high, reflecting high intra-regional trade potential in future.

In the second stage, the potential consumer welfare gains for each SAFTA member is calculated as the difference between current import expenditure incurred by the member country on the selected products and likely import expenditure if that country were to import the same products from SAFTA trading partners at a lower price currently offered by them.[26]

$\sum CW^{mi} = ? (P^{mi}Q^{mi} - P^{pi}Q^{mi})$, where;

CW^{mi} – Consumer Welfare due to change in import price of country m in product i

P^{mi} – Import price of member country m in product i from ROW

P^{pi} – Export price of SAFTA partner country (p) in product (i) to ROW[27]

Q^{mi} – Import Quantity of member country (m) in product (i) from ROW

In the second stage calculation process, those product categories will automatically get eliminated in which the current export price of the SAFTA trading partner to RoW exceeds the current import price of a member country from RoW. Only those products with potential for savings on imports leading to reduction in consumer expenditure are considered and thus the estimation method helps to identify products with maximum potential consumer welfare gains for each country and, therefore, qualify for removal from their respective sensitive lists.

One of the important features of this methodology is that it minimises the risks of displacement of domestic industries owing to imports – the single most important concern of an importing country – because it ensures selection of product categories which already rank high in the import baskets of the respective SAFTA members. Another objection often raised against reduction of imports tariffs is the loss of revenue from the same.

As will be dealt with in the next section, the intra-regional trade scenario emerging from tariff reductions on selected products in their sensitive lists, each SAFTA member stands to gain in terms of an increase in export earnings which could be taxed to offset the loss of customs revenue. Dependence on customs revenue is to be forgone in any case with the progress of multilateral trade liberalisation to which the selected SAFTA members are committed as WTO signatories.

The estimates arrived at using this method would form the basis for more detailed studies on the effects of reduction in

transportation costs and other trade facilitation measures, which would further reduce the import costs and subsequently prices facing consumers. Thus, the stated methodology used for the study and selection of products based on the mentioned criteria will facilitate comparison of import costs with other trade costs and relative merits of tariff liberalisation in each product category could be assessed in detail.

Results of Consumer Welfare Gains

After identification of products which satisfy the aforementioned criteria from the sensitive lists of each of the five major SAFTA members (Bangladesh, India, Nepal, Pakistan and Sri Lanka), consumer welfare gains, represented by reduced import bills, arising for each country in each product category were calculated. Table 2.1 summarises the aggregate results. A combined total of 355 product categories are identified from the sensitive lists of the five countries which have high regional trade potential and promise high welfare gains. The current aggregate import bills paid to RoW by the

Table 2.1: Summary of Results on Aggregate Consumer Welfare Gains (analysis of products in the sensitive lists)

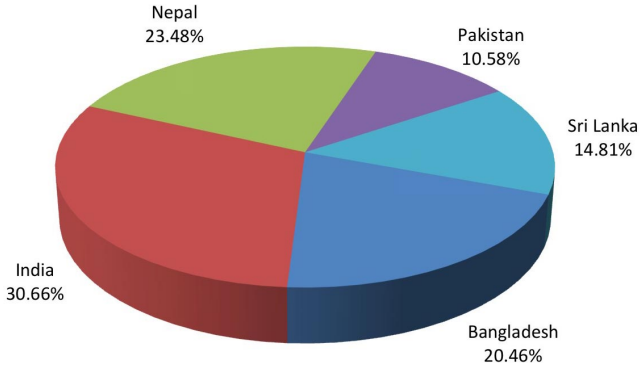
Country	Product Lines in Sensitive Lists	Consumer Welfare Gains (in US$mn)	Current Value Imports of Country from ROW (in US$mn)	Percentage of Consumer Welfare Gains in Imports
Bangladesh	50	398.56	2781.33	14.33
India	161	597.29	1095.45	54.52
Nepal	73	457.50	1068.27	42.83
Pakistan	44	206.18	349.24	59.04
Sri Lanka	27	288.61	918.54	31.42
Total	355	1948.15	6212.83	31.36

Source: Author's calculations based on trade data 2009-10, Trade Map; International Trade Centre, Geneva & UN Comtrade Database.

SAFTA members under consideration on these product categories amount to US$6212.83mn. Intra-regional trade at reduced prices would generate 31.36 percent savings on this import expenditure, leading to annual savings of about US$1948.15mn for buyers belonging to the region.

Figure 2.1 shows the share of each SAFTA member in aggregate welfare gains. India tops the list in terms of share in aggregate regional gains, accounting for about 30 percent. It is commensurate with the high number of product lines that qualified for removal from India's sensitive list. Despite the slight variation in share on total gains, all countries stand to gain substantially in terms of gains per capita, in proportion with their economic size and population. Though Pakistan receives only 10.5 percent of total gains, the lowest, it stands to save 59.04 percent on its current import expenditure on selected products.

Figure 2.1: Country-wise share in Aggregate Regional Consumer Welfare Gains

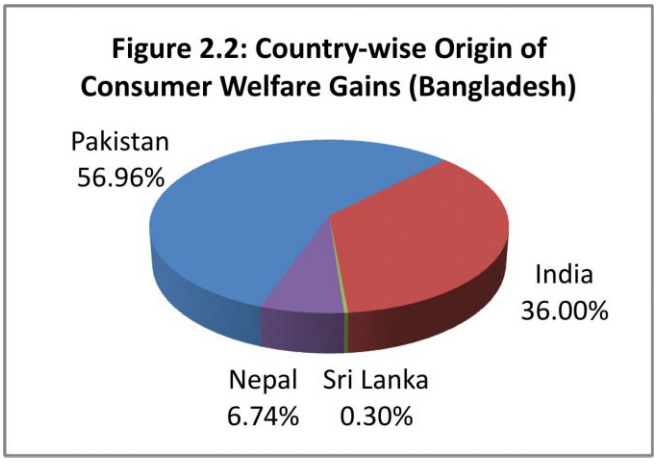


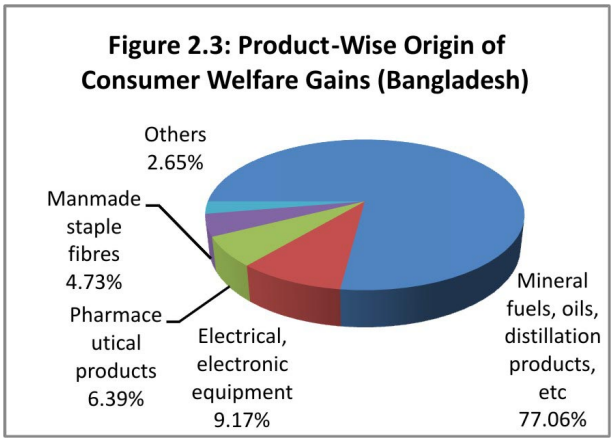
Bangladesh

50 product lines qualify for removal from Bangladesh's sensitive list, bringing about US$398.5mn worth of savings on imports, which is about 14 percent of current expenditure

Table 2.2: Summary of Results on Consumer Welfare Gains for Bangladesh				
SAFTA Trading Partner	Product Lines in Sensitive List	Consumer Welfare Gains (in of US$mn)	Current Value of Imports by Bangladesh from ROW (in US$mn)	Percentage of Consumer Welfare Gains in Imports
Pakistan	14	227.01	1317.56	17.23
India	9	143.47	1388.53	10.33
Sri Lanka	13	1.21	4.14	29.22
Nepal	14	26.870	71.08	37.80
Total	50	398.56	2781.33	14.33
Source: Author's calculations based on trade data 2009-10, Trade Map; International Trade Centre, Geneva & UN Comtrade Database.				

(Table 2.2). Import from SAFTA trading partners is almost evenly distributed in terms of product lines, but most of the gains accrue from imports from Pakistan (57 percent) and India (36 percent). Bangladesh stands to gain mostly through imports of mineral fuels and oil by-products (Figures 2.2 and 2.3).





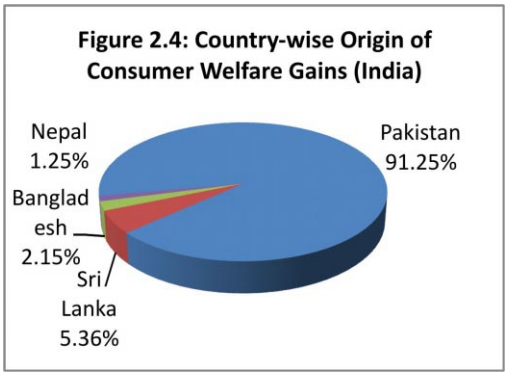
Other major items which would reduce import bills are electrical equipment and pharmaceutical products. Though the contribution of imports from Sri Lanka and Nepal amount to only less than seven percent of total gains, Bangladesh would save about 30 percent on current import spending by importing from these two regional trading partners.

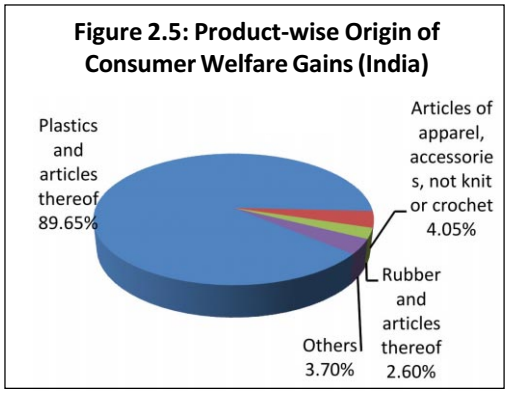
India

Results for India show total gains worth US$597.29mn (Table 2.3). Even though this figure is much higher in absolute terms, compared to other countries, relative gains for India may be lower than its SAFTA trading partners, given its large economic and demographic size. An interesting feature is that more than 90 percent of the gains accrue by way of imports from Pakistan of plastic-based articles.

Though only five products (chiefly iron and steel-based articles) are eligible for imports from Nepal, India stands to gain 70 percent on their import bills. Forty-one product lines eligible for imports from Bangladesh chiefly consist of articles of apparel. However, because of comparatively low price differential between the two countries saving on these items together contribute to only 2.15 percent of India's total welfare gains.

Table 2.3: Summary of Results on Consumer Welfare Gains for India				
SAFTA Trading Partner	Product Lines in Sensitive List	Consumer Welfare Gains (in US$mn)	Current Value of Imports by India from ROW (in US$ mn)	Percentage of Consumer Welfare Gains in Imports
Pakistan	63	545.00	939.53	58.01
Sri Lanka	52	32.01	90.74	35.27
Bangladesh	41	12.82	54.66	23.46
Nepal	5	7.46	10.52	70.92
Total	161	597.29	1095.45	54.52
Source: Author's calculations based on trade data 2009-10, Trade Map; International Trade Centre, Geneva & UN Comtrade Database.				





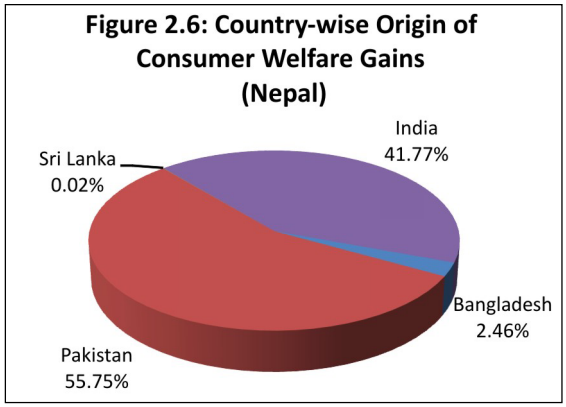
Nepal

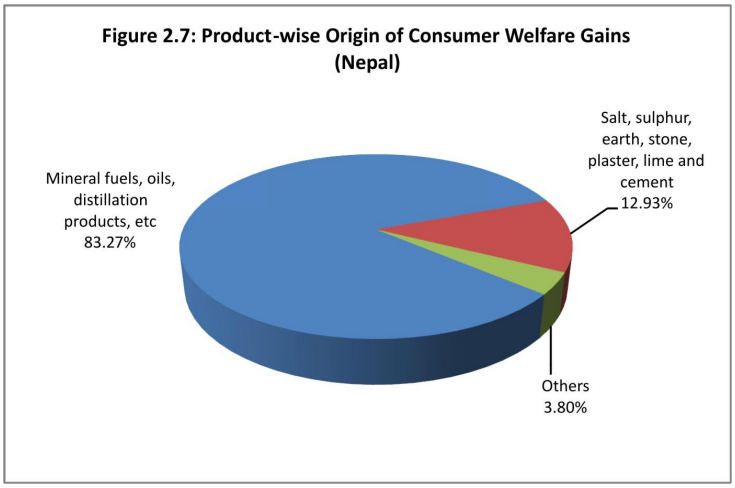
Nepal accounts for about 23.5 percent of aggregate regional welfare gains. Through import displacement in 73 selected product categories, the landlocked state would save US$475.5mn, which is almost 50 percent of their current import expenditure on these categories (Table 2.4). Imports

Table 2.4: Summary of Results on Consumer Welfare Gains for Nepal

SAFTA Trading Partner	Product Lines in Sensitive List	Consumer Welfare Gains (in US$mn)	Current Value of Imports by Nepal from ROW (in US$mn)	Percentage of Consumer Welfare Gains in Imports
Bangladesh	45	11.23	25.55	43.96
Pakistan	20	255.04	586.59	43.48
Sri Lanka	4	0.12	0.85	12.56
India	4	191.12	455.28	41.98
Total	73	457.50	1068.27	42.83

Source: Author's calculations based on trade data 2009-10, Trade Map; International Trade Centre, Geneva & UN Comtrade Database.



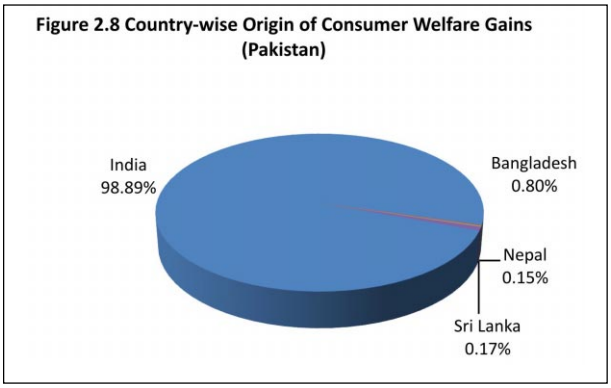


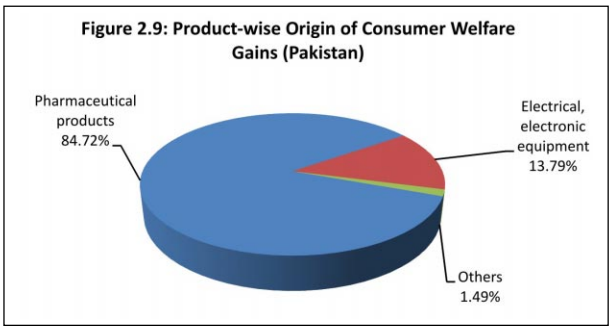
from India and Pakistan account for the bulk of the country's welfare gains. The key items which would help Nepal save on spending are mineral fuels and minerals including salt, sulphur and limestone. Nepal's trade prospects with Sri Lanka seem to be weak, as the latter's export opportunities lie in rubber-based products and apparel. However, with other countries in the region, there exist import opportunities for Nepal with good prospects for welfare gains.

Pakistan

In the case of Pakistan, the results show a selection of 44 product lines from its sensitive list with an aggregate saving of US$206.18mn, which is close to 60 percent of its current import bills on the selected product categories (Table 2.5). As in the case of India, Pakistan stands to gain predominantly through imports from India, accounting for almost all of its total welfare gains. Pharmaceuticals and electrical items would constitute most of its new import basket from South Asian trading partners.

Table 2.5: Summary of Results on Consumer Welfare Gains for Pakistan				
SAFTA Trading Partner	Product Lines in Sensitive List	Consumer Welfare Gains (in US$mn)	Current Value of Imports by Pakistan from ROW (in US$mn)	Percentage of Consumer Welfare Gains in Imports
India	6	203.88	339.25	60.10
Sri Lanka	13	0.36	1.68	21.29
Nepal	5	0.30	1.36	22.11
Bangladesh	20	1.64	6.95	23.59
Total	44	206.18	349.24	59.04
Source: Author's calculations based on trade data 2009-10, Trade Map; International Trade Centre, Geneva & UN Comtrade Database.				





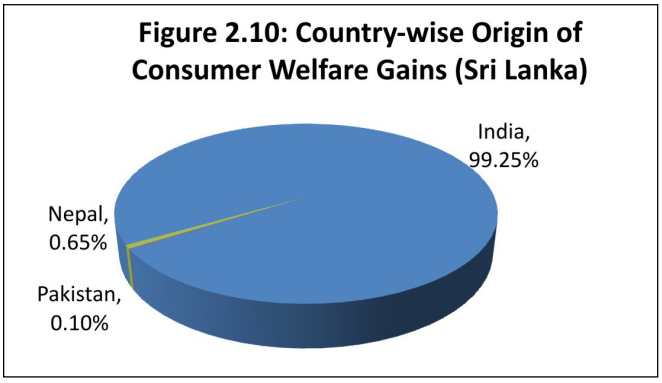
Sri Lanka

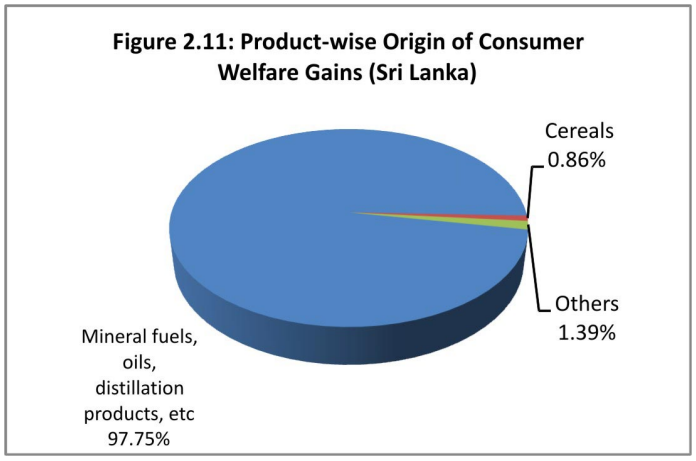
Though aggregate welfare gains of Sri Lanka amount to a comparatively lower figure of US$288.61mn, per capita gains to the country would be the highest, as it is the least populated amongst the selected South Asian countries. On the 27 product categories included in its sensitive lists, diverted imports from within the region would help Sri Lanka to save 31.42 percent of its current import expenditure. Almost all of its expected

Table 2.6: Summary of Results on Consumer Welfare Gains for Sri Lanka

SAFTA Trading Partner	Product Lines in Sensitive List	Consumer Welfare Gains (in US$mn)	Current Value of Imports by Sri Lanka from ROW (in US$mn)	Percentage of Consumer Welfare Gains in Imports
India	12	286.46	914.68	31.32
Pakistan	5	0.28	0.69	40.34
Nepal	10	1.88	3.17	59.24
Total	27	288.61	918.54	31.42

Source: Author's calculations based on trade data 2009-10, Trade Map; International Trade Centre, Geneva & UN Comtrade Database.





gains come through imports from India in mineral fuels and oil by-products. Sri Lanka would not gain by imports from Bangladesh, as its own export basket constitutes articles of apparel and is price competitive and capable of capturing part of the South Asian textile market with Bangladesh. Though the welfare gains accruing to Sri Lanka, by way of imports from Nepal, are only US$1.88mn, the island nation is set to save close to 60 percent of imports from RoW by choosing alternatives from Nepal on certain items.

Export Opportunities in Selected Products and Trade Potential

An increase in intra-regional trade also implies enhanced export opportunities for each of the SAFTA members. As we have only considered replacement of imports to the region from RoW with cheaper imports from within, the difference between current total import expenditure on the selected products and the aggregate savings on import bills by all countries should amount to the total exports that would be internalised by South Asian region. This figure stands at around US$4000mn.

While it may be argued that only internalisation of exports could occur in this scenario, without a real increase in export volume, we must consider the dynamic effects on regional exports. The key issue that confronts intra-regional trade potential is the supply capacity of trading partners from the region. If the supply capacity remains static, mere diversion of exports to RoW with exports to SAFTA partners is the probable result which may lower the aggregate nominal export earnings for a country, but, in all likelihood, it raises the profitability in real terms, since lower preferential tariffs within the SAFTA region allow producers/exporters to lower their price, while raising profit margins.

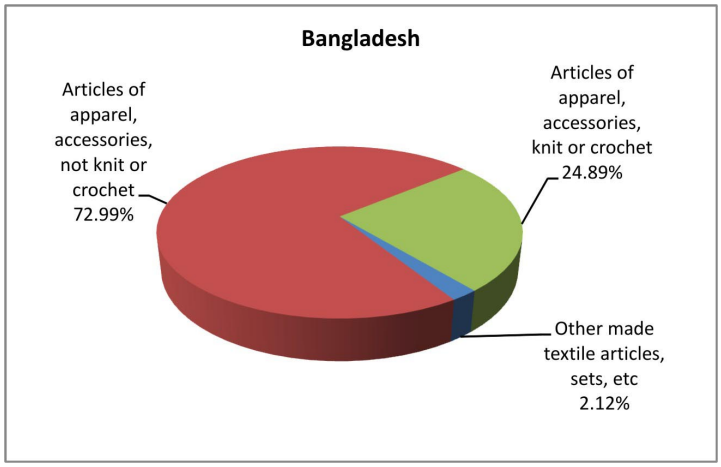
Trade potential in a particular product category with a static supply capacity scenario can be assessed as the difference between the minimum set (importing country's total world imports, exporting South Asian partner's total world exports) and existing imports of the importing country from that particular partner country, where exports and imports are in quantity terms. This simplistic measure shows whether South Asian trading partners can meet each others' import requirements with their current export quantity. Though required data on all the selected product categories is not available, intra-regional trade potential assessed using this measure stands between 80 to 90 percent of current imports from RoW.

There are two key elements to be considered here with respect to potential export market expansion. Firstly, assuming that global market conditions remain the same, there is no particular reason why existing export markets in RoW cannot be retained by South Asian countries, while new export opportunities emerge within the region. Secondly, depending on the magnitude of the import price elasticity of the respective products in the importing countries, lower prices would increase import demand and thereby expand the intra-regional

export markets further. Therefore, huge opportunities for substantial export expansion in many product lines are available to SAFTA members which may be tapped by addressing supply constraints.

Figure 2.12 shows the main product categories in which export opportunities emerge for each SAFTA member country under consideration. Bangladesh's export basket is heavily skewed with textile products. For India, the export basket is fairly balanced with pharmaceuticals, electrical items and mineral fuels. While for Nepal articles of iron and steel as well as industrial inputs based on iron feature prominently in its potential export profile, for Pakistan, mineral fuels dominate, accounting for two-thirds of its total export prospects. Sri Lanka's prospects are spread between textile items and cash crops, including rubber, tea and spices. The potential export baskets give a clear indication of targeting of export promotion policies in the context of regional trade in South Asia.

Figure 2.12: Product Category-wise Export Opportunities



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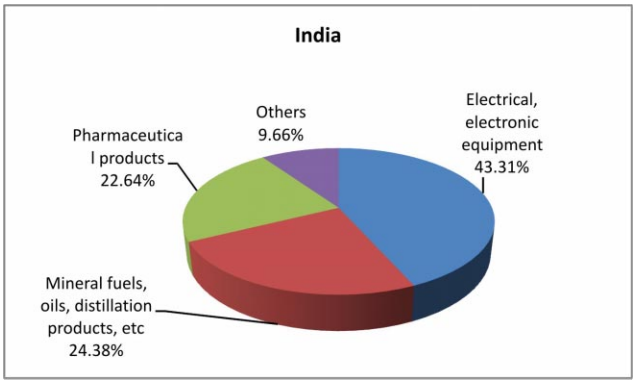
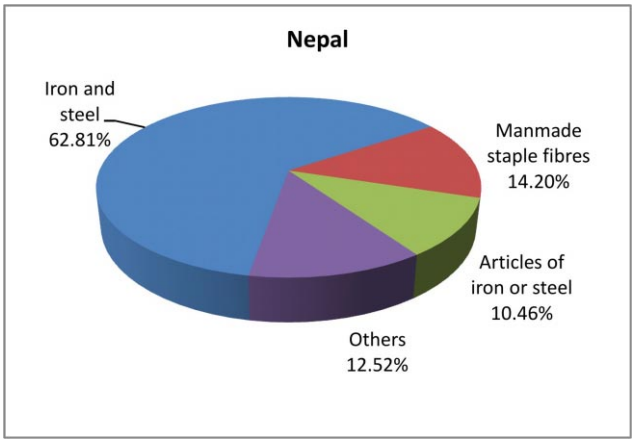
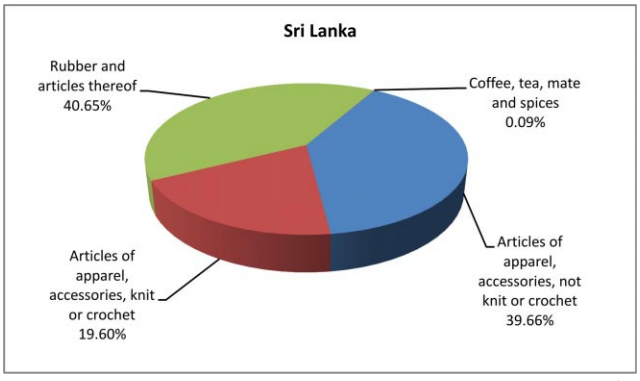

India
Others
9.66%
Electrical,
electronic
equipment
43.31%
Pharmaceutica
l products
22.64%
Mineral fuels,
oils, distillation
products, etc
24.38%


Nepal
Iron and
steel
62.81%
Manmade
staple fibres
14.20%
Articles of
iron or steel
10.46%
Others
12.52%


Sri Lanka
Rubber and
articles thereof
40.65%
Coffee, tea, mate
and spices
0.09%
Articles of
apparel,
accessories, not
knit or crochet
39.66%
Articles of
apparel,
accessories, knit
or crochet
19.60%

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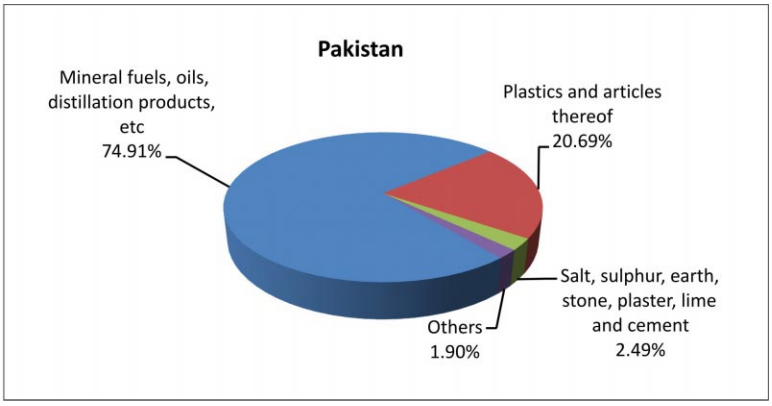


From Minimum to Maximum Gains

As stated at the outset, the method used in this study provides the minimum consumer welfare gains accruing to South Asian consumers directly from preferential tariff reduction under SAFTA. Even though we have only selected product categories which assure the figures given in the preceding sections, certain counter arguments are often raised in the popular discourse for which further clarification may be needed. More importantly, it needs to be noted that the assessment of consumer welfare gains here omits certain crucial aspects because of data limitations, implying that the actual welfare gains could be much higher.

One of the first questions raised is whether the South Asian export price will hold for regional trading partners once preferential trading within the region comes into operation. While there can be no straightforward answers to this, on a closer examination, it can be seen that the export price offered to RoW is likely to go down for regional trading partners. This is mainly due to two reasons.

Firstly, the export price to RoW covers mostly the MFN tariffs rates, as South Asian exporters hardly enjoy preferential rates in their main export destinations. Even in the case of Bangladesh and Nepal, who benefit out of Duty Free Quota

Free (DFQF) rates applicable to LDCs in certain developed country markets, preferential market access is limited to a fixed number of product lines.

Secondly, since a preferential rate below MFN is on offer under SAFTA, there is no particular reason for the export price to rise. Further, if it is safe to assume that transportation costs would be less because of proximity to each other within the region, export prices (South Asia to RoW) may actually fall when it comes to intra-regional trade.

Another major concern raised is the possibility of trade diversion. With respect to selected products mentioned in the preceding sections, the fact that at least one South Asian partner country has revealed comparative advantage in terms of its current export performance in global markets lessens the probability of negative trade diversion effects. Since South Asian exporters are already price competitive, compared to RoW even before liberalisation, removal of these products from the sensitive list is unlikely to replace more efficient producers from outside the preferential region.

Further, the figures for consumer welfare gains generated under this study only show the effects of change in import price with fixed quantity of imports. But, the initial changes in import prices owing to preferential trade are only a starting point, which trigger other factors into action, with a combined effect of increasing consumer welfare gains several times the initial figures. Specifically, the following three main effects should be considered:

- Effects of domestic price reduction due to enhanced import competition,
- Effects of trade creation due to increase in import demand, and
- Effects of reduction in trade costs and subsequently import prices within the SAARC region following development of trade infrastructure.

The first effect here implies savings on consumer expenditure on not only imported products but also domestically manufactured items facing import competition. A fall in import prices within the South Asian region will have a competitive effect on domestic manufacturing in the selected sectors as well as exports from RoW, leading to overall control effects on prices of the commodities under consideration. The second effect of trade creation is closely linked with this. Here, as the affordability of consumers rises because of fall in prices, more of the imported product will be in demand, implying possible trade creation. In general, irrespective of whether trade creation actually occurs or not, consumption baskets of buyers expand, as their real income increases.

The third effect refers to an often hidden positive impact on consumption. The fact that South Asian countries are importing the selected products from RoW, although regional trading partners are relatively more price competitive, suggests that non-tariff barriers (NTBs) could be impeding trade in such products more than tariffs and that these NTBs hurt South Asian exporters more than RoW exporters. As noted in the previous chapter, intra-regional trade costs because of poor connectivity, transport infrastructure, costly customs procedures and absence of adequate trade finance are very high in South Asia.

There is a dire need for trade policy reforms at the regional level to improve this situation, which could not be initiated without actual increase in trade volume between South Asian countries. As trade volume increases, it would naturally fuel growth of trade relationships, resulting in better trade facilitation measures, procedural ease and economies of scale in the transport sector, better returns and rents from investments in trade infrastructure and additional incentives for private enterprises to explore regional markets. Substantial cuts in trade costs can surely be expected from such a virtuous cycle of trade to more trade.

Extension of Analysis beyond Sensitive Lists: Implications for Non-Tariff Reforms

Since the efforts to reintegrate South Asia are still stuck at the first stage of tariff reforms, physical blockades maintained for four decades at the international borders in the region preceding the formation of SAARC continue to be left unattended. As exposed in Chapter 1, there exists evidence in abundance in the literature for numerous barriers which restrict trade even after the application of preferential tariff rates.

As mentioned in detail earlier, the most commonly cited non-tariff barriers in South Asia are poor trade infrastructure at borders and ports, lack of transit arrangements and procedural delays on account of border security measures. It is noted that such trade impediments are common throughout the Asia Pacific region and, in addition, documentation requirements for accessing the benefits of preferential rates make it extremely difficult for traders to take advantage of trade agreements without incurring significant compliance costs (James, 2007).

It has been reported in the context of the functioning of many Asian regional trade agreements that a major part of the existing trade happens outside the preference regime. Such a trend is visible in the case of SAFTA as well. Many stakeholders and researchers have raised an important concern that, even after the application of preferential rates, traders prefer not to avail because of strict rules and costs associated with documentation for proving local manufacturing content of exported products. Thus, many products outside the sensitive lists also face significant levels of trade barriers and are not regionally sourced, even though there are cheaper alternatives, in the absence of avoidable trade barriers and consequent costs.

In order to examine whether preferential rates available under SAFTA are underutilised in the case of products outside the sensitive lists, the analytical method used for selecting products in the sensitive list is extended to all products under this study. Following the methodology, explained in section 2.2, products were selected from the non-sensitive list category in which high import demand and export capacity are exhibited by SAFTA trading partners and, at the same time, trade is almost non-existent between them.

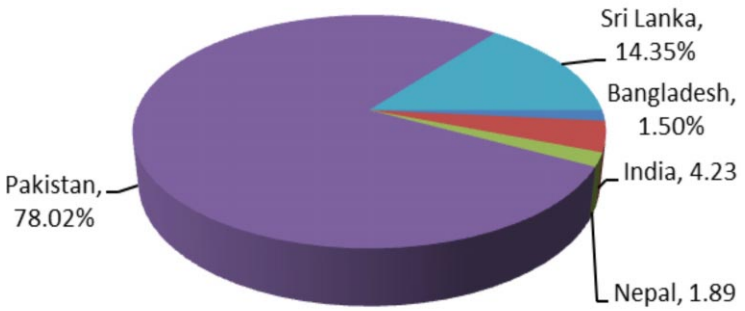
This selection is further filtered by applying the criterion that export price of a SAFTA member to Rest of the World (RoW) is lower than the import price offered by RoW. The difference between export price and import price quoted in trade with RoW is then multiplied with the import quantity to arrive at consumer welfare gains or savings on import expenditure. The aggregate results for the region generated through this exercise are given in Table 2.7.

Table 2.7: Summary of Results of Aggregate Consumer Welfare Gains (analysis of products outside the sensitive lists)

Country	Product Lines	Percentage of Product Lines in Total Lines	Consumer Welfare (in US$mn)	Current Value of Imports from ROW (in US$mn)	Percentage of Consumer Welfare in Imports
Bangladesh	12	3.54	30.28	74.76	40.51
India	27	7.96	85.39	134.27	63.59
Nepal	50	14.75	38.19	75.04	50.89
Pakistan	71	20.94	1574.09	7600.14	20.71
Sri Lanka	179	52.80	289.58	677.67	42.73
Total	339	100.00	2017.53	8561.88	23.56

Source: Author's calculations based on trade data 2009-10, Trade Map; International Trade Centre, Geneva & UN Comtrade Database.

Figure 2.13: Country-wise Share in Aggregate Regional Consumer Welfare Gains (Non-Sensetive List Products)



In summary, 339 product lines could be found to have satisfied the criterion and through the re-sourcing of these products from within the region more than US$200mn could be saved by all the SAFTA members together, by way of reduction in import costs. Sri Lanka ranks first in term of the number of products eligible for imports. The island nation stands to save about US$290mn annually by importing 179 product categories from SAFTA trading partners, instead of importing from RoW at a higher price, as it presently does. The country-wise share in aggregate welfare gains (Figure 2.13) is highest for Pakistan at 78.02 percent (US$1574mn), followed by Sri Lanka at 14.35 percent. In this case, India, Bangladesh and Nepal together account for only less than eight percent of the total gains.

It is of particluar importance that Pakistan and Sri lanka stand to gain the most in the category of enhanced trade in non-sensitive list products in which preferential rates are already applicable. Unharvested gains in this category indicate the existence of highly restrictive non-tariff barriers. This result is also a pronouncement of utilisation rate of SAFTA provisions

by individual member states. The lower the unharvested gains, the more accessibly their markets have been thrown up for SAFTA trading partners after bringing products under the tariff reduction scheme of the Agreement. Thus, the scope for improvement in accessibility of their own markets through non-tariff reforms is huge for Pakistan and Sri lanka.

Cotton features as an important product for the import baskets of India, Nepal and Sri Lanka. As much as 64 percent of India's potential gains lies in opening up imports in the cotton sector. For Pakistan, the main product category is mineral fuels, oils and distillation by-products, accounting for more than 90 percent of gains credited to Pakistan. The prominent import product category for Bangladesh is precious stones and metal-based articles (86.32 percent of gains) and that for Nepal is electrical and electronic equipments (69.57 percent). Table 2.8 gives country-wise summary of consumer welfare gains in the non-sensitive list category.

Table 2.8: Country-Wise Summary of Results of Consumer Welfare Gains

Bangladesh

SAFTA Member Country	Product Lines	Percentage of Product Lines in Total Product Lines	Consumer Welfare (in US$mn)	Percentage of Consumer Welfare in Total Consumer welfare	Current Value Imports by Bangladesh from ROW (in US$mn)	Percentage of Consumer Welfare in Imports
Pakistan	3	25.00	3.80	12.54	31.57	12.03
India	4	33.33	25.27	83.44	39.96	63.24
Sri Lanka	2	16.67	0.00	0.01	0.17	2.02
Nepal	3	25.00	1.21	4.01	3.06	39.70
Total	12	100.00	30.28	100.00	74.76	40.51

Contd...

India						
SAFTA Member Country	Product Lines	Percentage of Product Lines in Total Product Lines	Consumer Welfare (in US$mn)	Percentage of Consumer Welfare in Total Consumer welfare	Current Value Imports by India from ROW (in US$mn)	Percentage of Consumer Welfare in Imports
Pakistan	13	48.15	80.19	93.32	120.43	66.58
Sri Lanka	8	29.63	5.04	5.86	13.41	37.57
Bangladesh	6	22.22	0.16	0.19	0.43	37.87
Total	27	100.00	85.39	99.37	134.27	63.59
Pakistan						
FTA Member Country	Product Lines	Percentage of Product Lines in Total Product Lines	Consumer Welfare (in US$mn)	Percentage of Consumer Welfare in Total Consumer welfare	Current Value Imports by Pakistan from ROW (in US$mn)	Percentage of Consumer Welfare in Imports
India	10	14.08	1495.69	95.02	7477.11	20.00
Sri Lanka	18	25.35	21.10	1.34	36.90	57.20
Nepal	20	28.17	35.33	2.24	52.81	66.89
Bangladesh	23	32.39	21.97	1.40	33.32	65.93
Total	71	100.00	1574.09	100.00	7600.14	20.71

Contd...

Nepal						
SAFTA Member Country	Product Lines	Percentage of Product Lines in Total Product Lines	Consumer Welfare (in US$mn)	Percentage of Consumer Welfare in Total Consumer welfare	Current Value Imports by Nepal from ROW (in US$mn)	Percentage of Consumer Welfare in Imports
Bangladesh	2	4.00	0.04	0.09	0.04	87.36
Pakistan	41	82.00	11.29	29.57	20.97	53.86
India	7	14.00	26.86	70.33	54.03	49.71
Total	50	100.00	38.19	100.00	75.04	50.89
Sri Lanka						
SAFTA Member Country	Product Lines	Percentage of Product Lines in Total Product Lines	Consumer Welfare (in US$mn)	Percentage of Consumer Welfare in Total Consumer welfare	Current Value Imports by Sri Lanka from ROW (in US$mn)	Percentage of Consumer Welfare in Imports
India	10	5.59	38.58	13.32	205.53	18.77
Pakistan	59	32.96	162.62	56.16	328.70	49.47
Nepal	33	18.44	55.75	19.25	80.37	69.37
Bangladesh	77	43.02	32.63	11.27	63.08	51.73
Total	179	100.00	289.58	100.00	677.67	42.73

Source: Author's calculations based on trade data 2009-10, Trade Map; International Trade Centre, Geneva & UN Comtrade Database.

Summary and Conclusions

The method used for assessing potential consumer welfare gains of SAFTA in this study, started by selecting those products with high intraregional trade potential, which are currently retained in the sensitive lists of the 5 largest economies out of the 8 member states of SAFTA (Bangladesh, India, Nepal, Pakistan and Sri Lanka). Such products were selected from the respective sensitive lists of each of the five countries by applying two criteria to assess intraregional trade potential: (i) high import demand for such products in the country under consideration as reflected by their current imports from the non-SAFTA region, and (ii) high export capacity in such products by one or more of other SAFTA members as reflected by their exports to the non-SAFTA region.

The 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 currently offered by them.

Results show an aggregate minimum consumer welfare gain of US$1948.15mn per annum to the South Asian region by way of savings on aggregate consumer expenditure on imported products in the selected categories. This figure (savings on consumer expenditure) is about 31 percent of the total current import expenditure on these categories. In certain product categories, the savings go up to more than 80 percent of the current import expenditure.

When the analysis was extended to non-sensitive list products, it was found that there is scope to increase trade even in product categories where tariff liberalisation under SAFTA is already being implemented. This provides empirical support to the argument that the lack of non-tariff trade reforms and adequate trade facilitation measures is currently

undercutting the advantages of preferential tariff rates, and thereby leading to the underutilisation of the provisions of the Agreement. Such underutilisation is seen most prominently in the case of Pakistan, followed by Sri Lanka.

The estimation method used in this study helps to identify products with the maximum potential consumer welfare gains for each country and therefore, qualify for removal from their respective sensitive lists. The estimates form the basis for more detailed studies on the potential effects of reduction in transportation costs and other trade facilitation measures which will augment consumer welfare gains and will facilitate comparison with other trade costs and relative merits of tariff liberalisation in each product category.

Chapter 3
Perceptions and Expectations about Regional Economic Cooperation in South Asia

Introduction

The popular discourse on South Asian economic relations has undergone many transformations since the idea of SAARC was proposed and realised in the early 1980s. One of the main goals of SAARC was the 'promotion and strengthening of collective self-reliance among the countries of South Asia'.[28] However, the discourse has been heavily influenced by the ever-tilting kaleidoscope of bilateral political relations between SAARC member states. As a result, an objective analysis of the economic costs and benefits of open trade in South Asia without considering political implications has always remained inconsequential.

In the wake of the formation of WTO in 1995, closely following policy reorientation in all the leading countries in the region towards export-based growth strategies, the immediate focus was their participation in the multilateral negotiations to expand trade liberalisation. Though SAPTA also came into force in 1995, regionalism took backseat during

this period, as exploration of export markers in the neighbourhood was not considered worth the enormous negotiating capital required for keeping non-trade issues at bay. Proliferation of PTAs amongst WTO member nations and success stories elsewhere rekindled interest in SAPTA, leading to its subsequent upgradation to SAFTA in 2004.

During this period, mercurial bilateral relations between India and Pakistan, the largest member states, played a big role in shaping the expectations of various stakeholders from all over South Asia about the potential of a regional trade agreement. Consequently, around the turn of the century, it was widely believed that bilateral trade pacts would have better prospects and these were pursued with greater emphasis. India-Sri Lanka (1998), Pakistan-Sri Lanka (2002), India-Bangladesh (amended Agreement, 2006), Bhutan-India (2006) etc. were the major developments in this direction.

Due to this multifaceted approach towards trade policy as well as frequent changes in the focus of dialogues on trade-related issues, opinions about regional trade vary widely between and within different stakeholder groups directly associated with trade in South Asia. The diversity in viewpoints has naturally fed into the policy formulation process at the national level and has had a strong bearing on the course of regional trade negotiations thus far. Analysing the perceptions of relevant stakeholder groups is useful in understanding the nuances of SAFTA negotiations. The findings from a perceptions survey conducted as a part of this study are presented and discussed in the following sections.

Perception Survey: Method

The perception survey of key informants and stakeholders on regional trade integration in South Asia was carried out based on the premise that political economy considerations

rooted in conflicting interests of diverse stakeholder group eclipse pure economic reasoning, when it comes to decision-making on trade policy decision in the region. The stakeholder groups selected as part of the survey included: (i) Producers/ Traders/Exporters, (ii) Government Officials, (iii) Trade-Related Service Professionals[29] (iv)Political Persons, (v) Academics/Researchers, (vi) Civil Society Organisations, (vii) Business/Industry Organisations and (viii) the Media.

The survey was conducted in 12 cities across Bangladesh, India, Nepal, Pakistan and Sri Lanka :

- Bangladesh: Dhaka and Chittagong;
- India: Chennai, Delhi, Kolkata and Mumbai;
- Nepal: Biratnagar and Kathmandu;
- Pakistan: Islamabad, Karachi and Lahore; and
- Sri Lanka: Colombo.

In each city, about 25 interviews were conducted. In all, about 250 stakeholders were targeted across the five focus countries for the survey. From an initial list, potential interviewees were selected based on the extent and importance of the involvement of respective stakeholder

Figure 3.1 Country-wise share of responses

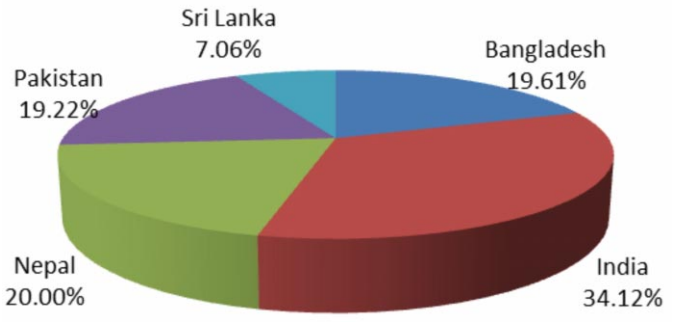
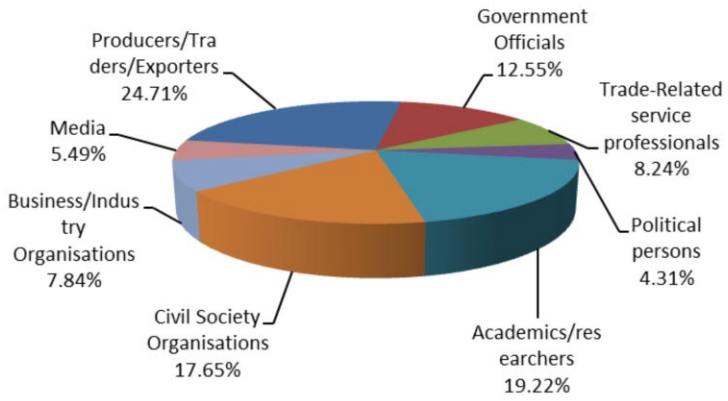


Figure 3.2 Group-wise share of responses



groups in South Asian regional trade. Efforts were made to ensure a balanced representation from each stakeholder group. A primary list of stakeholders was filtered after grouping respondents, based on their observed attitude/approach toward trade policy and perceived degree of involvement in trade policy-making. This exercise was done with the objective of capturing the diversity of views. Figure three gives the country-wise and group-wise share of responses.[30]

Perception Study
Qualitative Mapping of Diverse Views

Stakeholders from five South Asian countries interviewed in the study were selected based on their direct association with intra-regional trade in various capacities. Thus their views based on experiences are very diverse in nature. Also, the sample size forms only a small part of the size of the population. Hence, a strictly qualitative mapping of responses has been carried out along with limited quantitative assessment based of the following methods.

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a) Categorisation – Responses for each questions are grouped into categories; eg; 4 categories for those who favour and disfavour SAFTA as an effective instrument for regional integration with high and low awareness levels, 4 categories for those who favour and disfavour SAFTA as an effective instrument for regional integration with optimistic and pessimistic opinion on political feasibility of the Agreement.
b) Cross-Correlations – A measure of similarity (ranging between -1 to 1; high negative to high positive) for recognising patterns; eg; cross-correlation between awareness and optimism about political feasibility of SAFTA amongst those who favour SAFTA on the grounds of economic potential.
c) Paraphrasing – Transcripts of selected representative responses in largest categories with high cross correlation between relevant variables, awareness, general opinion about political feasibility and economic potential etc.

The perception survey results helps to gauge the overall outlook of stakeholders in general and are not representative of the outlook of any particular stakeholder category.

Perceptions and Expectations of SAFTA

The feedback form used for the survey consisted of questions addressing two broad objectives: (i) gauge the perceptions of stakeholders about the merits of instruments of economic cooperation in South Asia in general and the relative merits of SAFTA, and (ii) gauge stakeholder expectations about the future prospects of intra-regional trade in South Asia.

As regards the first objective, the perception assessment is linked to two possible underlying factors; (a) awareness about

SAFTA and its relative economic merits and demerits, and (b) the influence of political realities on perceptions, as compared to economic arguments. An additional emphasis has been given to the awareness of the economic merits and consumer welfare impacts of SAFTA. Similarly, stakeholders' expectations from intra-regional trade are assessed on the basis of dependency of such expectations on (a) objective economic reasoning and (b) perceptions based on past experiences.

At the outset, it is instructive to note the relationship between perceptions and expectations using a simple correlation indicator. While 61 percent of the respondents believed SAFTA has not been an effective instrument for gaining benefits from trade in the region, 82 percent were of the opinion that intra-regional trade is currently far below the expectations. From this pool, a correlation check between the rating of SAFTA (high, low) and economic potential of the regional trade pact (high, low) returns a low coefficient of 0.01. The observation to be noted here is as follows:

> *In general, for the majority of stakeholders, opinions about SAFTA as an effective instrument for enhancing regional trade are not linked to their opinions on the importance of regional trade integration.*

A starting point for enquiry would be to ask why faith in benefits of regional trade sustains, while the most significant instrument for harnessing the same does not elicit the same confidence from stakeholders. One of the straightforward answers is that bilateral agreements are now seen as a relatively less complicated way of enhancing trade in the neighbourhood, while not discounting the importance of market integration of the region as a whole. This view is founded on recent success of bilateral arrangements as well as the stalling of SAFTA and WTO negotiations. But, it is still neither clear whether the South Asian trade community sees the problems of SAFTA negotiations perceived by them as unsolvable nor evident

whether they are rightly informed opinions. A deeper look into the nature of opinions is needed for a clearer picture.

What Shapes Perceptions

A key observation which emerged from the survey is that ideas about trade and its effects are highly influenced by the nature of stakeholder engagement with the topic. There is a marked difference between viewpoints across stakeholder groups. A majority of the respondents from academia and policy groups reported that regional trade liberalisation is inferior to the multilateral route. These views appear to be largely based on what has been stated in existing literature on the subject. Traders directly associated with the export-import sector, on the other hand find bilateral agreements, with administrative efficiency and faster results, to be more transparent and beneficial. By matching stakeholder responses to different issues, certain common themes could however be identified.

How SAFTA Is Compared to Alternatives

One of the common elements in perceptions is the way regionalism is compared to other alternative modes of trade liberalisation. Very few identified their opinion with maximisation of efficiency gains from multilateral liberalisation. Most of those who do admit that self-selection of best producers at the global level results in best possible prices and quality discredit participation of South Asian countries in the WTO process as uncertain and time consuming. Likewise, in a comparison between SAFTA and bilateral agreements, bilateral agreements are preferred on the same grounds. For beneficiaries, actual and speedy results matter more than what theorists say about the pros and cons of an international trade agreement at all levels.

There are two particular aspects noticeable from comparative viewpoints. Firstly, complexity of negotiations, as reflected by reports in the popular media, has much larger impact on the opinions of stakeholders belonging to all categories. Secondly, those who find merit in trade agreements in the reverse order – from bilateral to multilateral – think so primarily because they see bilateral as building blocks to regional and subsequently multilateral negotiations. Thus, complexity owing to intrusion of non-trade issues[31] into trade talks could be resolved in a stage by stage process.

An overwhelming 96 percent of the interviewees suggested that political priorities influence far more than economic logic in trade talks at all levels. Variability of comparative perspectives with reasons for failure of SAFTA returns a high correlation between the two (0.86), showing that SAFTA is considered the second-best choice because of more non-trade issues to be sorted out before negotiations can progress, compared to bilateral negotiations. Following this reasoning, it may so be generalised that:

> *There is hardly any resistance to SAFTA on the grounds that the Agreement lacks economic merits, rather popular support for it, which would determine its success in the future, critically depends on the extent to which non-trade issues are disentangled from trade negotiations.*

On Economics and Politics of South Asian Regionalism

As most stakeholders believe that trade talks cannot be separated from political considerations, the overwhelming response was that better returns from SAFTA negotiations should contribute to lessen the intensity of other international disputes in the region, rather than trade negotiations getting affected by them. Through diverse expressions, a common theme emerges - economics and politics of trade negotiations are necessarily complementary, not competing, ends. Political

establishments create strongholds in their domestic constituencies by proving themselves harvesters of commercial opportunities wherever available, so as to improve the standard of living of the masses.

When asked about the predominant reason why the regional economic cooperation agenda continues to stagnate in South Asia, interviewees selected distrust among South Asia countries as the key factor over other issues such as the lack of complementarity in production consumption patterns in South Asia and the lack of economic potential. More than 75 percent of the respondents who held this view also raised doubts about the effectiveness of SAFTA in bringing about a change in the scenario.

In conjunction with the earlier observation, it clearly shows that regional trade negotiations have always been seen through a political prism and leadership in the region has failed to effectively connect economic benefits from trade with SAFTA negotiations. This is evident from the fact that while trade liberalisation has been aggressively pursued during the reform period, numerous agreements (with the exception of SAFTA) between South Asian countries have turned out to be progressive whenever political leadership delivered on economic promises.

> *A substantial transformation in the course of SAFTA is highly probable if political leadership realises and uses the potential of the Agreement for the fulfilment of their non-economic objectives.*[32]

Place of Consumer Welfare in Perceptions of Trade Impacts

Another striking observation is that consumer welfare gain is rarely recognised as a positive result of open trade. The general discourse on trade only deals with the production side. Across all stakeholder groups, including researchers on regional economic issues, there is a lack of understanding and/or neglect of the consumption aspects of trade. More than 60

percent of the stakeholders interviewed were unaware of consumer welfare impacts of trade, and even less so of the potential for such benefits from SAFTA. Any estimation of reduction in import bills due to cheaper goods in the context of regional trade could not be recalled.

One of the most interesting results from the survey is that, out of the respondents who expressed ignorance about the topic, almost all agreed that consumer welfare aspects also should be considered in future analysis to get a clearer and balanced picture about the potential of the Agreement. Though the conviction behind such opinion in the context of the survey may be questioned, it goes undisputed that a phenomenal avenue for change lies on this point. Spreading awareness about this often-forgotten topic has the potential to sway the perceptions of trade objectives, in general, and regionalism, in particular, from one way to another. Augmenting the highlighted result in previous section, it may be stated that:

> *A hitherto ignored catalyst for change in political utilisation of SAFTA is awareness generation on consumer welfare gains from the Agreement, given the fact that consumers, as a group, constitute the entire electorate.*

Stakeholders' Views on Future Steps

Apart from a lack of awareness, a lack of inclusivity in trade policy making was one of the main concerns raised by stakeholders. Omissions have been made in the past because of partial or limited involvement of affected stakeholder groups due to the lack of institutional mechanisms to facilitate the same in South Asian countries. While it is recognised that a change in the policy formulation process by way of institutional and procedural restructuring is not possible in the short run, it has been suggested that stakeholder groups can proactively make efforts to provide inputs to make the process at the governmental level better informed.

While members of the business community and administrative and political representatives as stakeholders have direct access to policy-making processes at the national level and the academic community has relatively better chance of exerting influence, consumer organisations lack both awareness of trade issues concerning them and channels of influence.

Given this scenario, ideas on steps for the future differed across groups. For the former categories, objective and in-depth studies on effects of the Agreement featured as the priority, while, for consumer groups, the urgency was on awareness generation and usage of collective bargaining power to gain access to policy-making process.

On the question of the principal deterrents of regional trade negotiations, the lack of adequate representation of all categories of beneficiaries was ranked as the second most important factor after political distrust. The majority reported that an attitudinal change is warranted. Protectionism still obscures the right approach to trade negotiations and comes with heavy cost of lagging traditional sectors ridden with productive inefficiencies.

Overcoming Hurdles: Networking Is the Key

All stakeholder categories unequivocally agreed that, as a first step, national dialogues on a wide scale deserve consideration. In such dialogues, three aspects should be highlighted: (1) prospects of peace dividends from economic cooperation, (2) benefits from increases in imports and (3) other benefits of regional integration, considering growing regionalism at the global level which increasingly threatens to restrict market expansion plans of South Asian countries outside the region.

As far as the promotion of such dialogues across countries is concerned, networking and discussion with the objective of

awareness generation at the national level should strengthen international initiatives of composite dialogues. The order of priority is: (1) networking amongst consumer organisations at the national and regional level, (2) media campaigns at national and regional level and (3) networking amongst policy makers, industry and consumer organisations at the national level.

With the objective of weaving in consumer welfare as an important consideration in the trade policy-making process, deeper research results on the topic are imperative. Richer literature is the starting point for advocacy and the academic community as a stakeholder group should contribute in the respect.

It is critical to inspire further detailed studies on the topic of consumer welfare gains, generating more informed discussions and subsequently mainstreaming the issue in the policy-making process. With the objective of inspiring further studies, a workshop specifically targeting trade economists from within and outside the region shall be conducted, which should have a snowballing effect.

As observed from the survey and unlike the popular notion, most stakeholders in the region have positive expectations from SAFTA, which is only hidden by pessimism about intergovernmental political relations in the region. This general positive expectation can be tapped best by building networks of producer/exporter and consumer organisations in the region.

Since consumer welfare is an issue dearer to consumer groups, who lack liaison with trade policy-making mechanisms and producer groups, though they have strong liaison with the trade policy-making process, are ignorant about how much important pursuing consumer welfare is to their on interest, the missing link is proper communication between these two groups. Advocacy efforts in the future should tap into the

complementarity of mutual interests of consumer and producer groups in regional trade liberalisation and use the existing strong channels of trade/industry organisations to influence policy-making.

Conclusions

Perceptions about regional trade vary widely between and within different stakeholder groups associated with trade in all South Asian countries and such perceptions have directly and indirectly influenced the progress of regional trade negotiations. The survey suggests that stakeholder opinion about SAFTA is largely pessimistic. This is largely due to scepticism on its political feasibility, rather than a reflection of the lack of the Agreement's economic merits.

Most stakeholders believe in SAFTA's economic potential and are of the opinion that the future of the Agreement depends on the extent to which non-trade issues are disentangled from trade negotiations.

Consumer welfare has not been prioritised in trade talks in the region and remains a widely ignored issue. Awareness generation on the benefits of imports is necessary to bring inclusiveness and balance to discussions on trade policy formation at the national level. Subsequently, it would help to ensure informed participation of different stakeholders in regional negotiations. Consideration of consumer welfare gains is also necessary for resolving protectionist tendencies in South Asian countries.

In addition, consumers as a group form a strong political constituency and the prospects of consumption benefits have the potential to bring about a major attitudinal change in the approach of political leadership towards regional trade liberalisation. Networking amongst consumer organisations and awareness generation campaigns are the starting points for bringing about this change.

Chapter 4
Conclusions

From a conceptual as well as practical view point, consumer welfare and producer welfare are two inseparable outcomes of open international trade, since efficiency gains in production in turn benefit consumers through the availability of cheaper and better quality products. An increase in imports will also expand consumer choice.

Moreover, trade agreements – the vehicles of liberalisation – can only function on the basis of a reciprocal exchange of export opportunities for import concessions. Though consumer welfare gain following open international trade is often more predictable and assured it is not given due consideration in the mainstream discourse on trade and its impacts on economic development.

It is widely recognised that SAFTA members maintain large sensitive lists with high intra-regional trade potential. While protectionist tendencies continue at the regional level, benefits from an increase in imports are disregarded in policy circles, despite the fact that denying such benefits is detrimental to the expansion of production and exports as well. The end result is stagnant regional trade and recognition of the Agreement as an ineffective tool.

While existing literature is divided on the economic effects of South Asian regional trade, evidence suggests positive net

gains on many counts which are often not considered under traditional analysis done for predictive purposes because of methodological and practical limitations. Moreover many arguments raised in the literature such as the potential harmful trade diversion effects have been shown to stand on uncertain grounds in later works.

The consumer welfare impact of SAFTA is almost completely ignored in much of the existing literature. This study has therefore attempted an empirical exercise to assess the consumer welfare gains from SAFTA arising out of subjecting currently excluded products to preferential rates under the Agreement.

Using an algorithmic process of selection, products with high intraregional trade potential currently retained in the sensitive lists of 5 largest economies out of the 8 member states of SAFTA (Bangladesh, India, Nepal, Pakistan and Sri Lanka) were chosen. Potential consumer welfare accruing to each country was then 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 currently offered by them.

Results show an aggregate minimum consumer welfare gain of more than US$1.9bn per annum to the South Asian region by way of savings on aggregate consumer expenditure. This figure (savings on consumer expenditure) is about 31 percent of the total current import expenditure on these categories. The exercise helped to identify products with maximum potential consumer welfare gains for each country and therefore, qualify for removal from their respective sensitive list. The estimated figures are only the starting point or minimal assured gains and enlisting them will facilitate comparison with other trade costs and relative merits of tariff liberalisation in

each product category. More detailed studies on the effects of reduction in transportation costs and other trade facilitation measures would inflate these figures.

The analysis was extended for products outside the sensitive lists in order to find out whether there are products with high trade potential which remain non-traded even after application of preferential tariff rates under SAFTA because of high trade costs owing to numerous NTBs including poor trade infrastructure at borders and ports, lack of transit arrangements and procedural delays on account of testing and documentation requirements. A total of 339 product lines could be found to be in this category, implying high underutilisation of tariff liberalisation because of lack of matching reforms for reducing non-tariff barriers. An additional US$2bn per annum could be saved by facilitating trade in these products. This figure of consumer welfare gains is also reflective of avoidable trade costs owing to NTBs within South Asian region.

The study also carried out a perceptions survey of key stakeholders associated with trade issues in the region. The survey found that opinions about regional trade varies widely between and within different stakeholder groups in all South Asian countries and such perceptions play important role in shaping the course of regional trade negotiations. Most notably, it came to the fore that most stakeholders believe the lack of SAFTA's success till date is largely because of political rather than economic reasons, for which solutions do exist.

Policy makers should focus on separating non-trade issues from trade negotiations as much as possible. Building widespread awareness about the untapped and neglected aspects of consumer welfare gains will help to refocus the debate on economic issues. It will also serve to better inform on-going negotiations and thereby help to check protectionist tendencies in the region. The most important complementary

feature of this approach will be to shift the focus of political aspirations of the regional leadership without actually having to eliminate it from SAFTA proceedings.

As consumers as a group form a strong constituency, the prospects of political dividends from catering to their needs will surface and thus political intervention on trade issues could be constructive rather than obstructive as it has been in the past. Initiatives for networking amongst consumer organisations at the national and international level in South Asia with this objective in mind offer the prospect of bringing about a long awaited change in the history of regionalism in South Asia.

Priorities for Future Research

Consumer gains have not received adequate attention in literature on regional trade in South Asia and are generally implicitly expressed in studies based on general equilibrium models. This study is an effort towards analysing the consumer welfare gains of trade in isolation.

Existing studies mostly describe trade processes and trade constraints and provide empirical assessments of the outcomes of trade liberalisation. They cover mainly goods, with only limited coverage of trade in services and cross-border investment. Extending the existing line of analysis to the consumer welfare outcomes of deeper economic integration, including services trade and investment flows, is one of the most important priorities for further research.

A comparison of the South Asian scenario with the experiences of other trading blocs as well as the identification of trade complementarities are two useful additional analytical exercises. This study can also be advanced by moving on to sector specific analysis. A more formal and full analytical structure can be adopted to analyse product substitutability

including an analysis of product quality differences as well as supply side capacity.

Analytical extension linking future growth of regional trade under alternative scenarios and changes in consumer welfare gains will help to unfold the dynamic scenario as against the static analysis carried out under this study.

One of the main concerns is loss of government revenue owing to tariff reduction. This issue can be addressed by searching for ways in which trade costs can be minimised without inflicting drastic cuts in tariff revenue. Growth in trade can also be linked to growth in income and employment which will offset revenue losses. By highlighting the cases in which neighbors are natural trading partners, a better understanding about the most profitable sectors from regional trade can be obtained.

Further research should be done with the objective of supporting informative policy actions. Studies on trade liberalisation must be linked to its developmental outcomes and must be presented in non-technical ways. Research on issues such as product variety and increase in consumer choices and allied benefits, possibility of reduction in trade coasts by non-tariff trade reforms, identification of consumers' gains through trade in non-traditional sectors, value added services, tourism, BPOs etc. can be of immense value to policy makers.

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Endnotes

1 World Development Indicators (WDI Database), World Bank, 2011.

2 *Ibid*. Middle income countries also registered a sharper growth in trade-GDP ratio and developing countries together now account for about 35 percent of world trade.

3 This is evident from the reluctance on the part of SAFTA members to reduce items in their sensitive lists on which tariff reduction is not applied. Detailed exposition is given in Chapter 2.

4 See Moinuddin (2008) and Moktan (2008).

5 For similar view, see also 'Fact Sheet- South Asia Growth and Regional Integration', World Bank, 2007.

6 Based on 2003-2004 data, Qamar (2005) shows that after excluding the items that are on the positive list for India, 45 percent of the items could be imported by Pakistan at a lowerr cost from India than the current cost of import from the rest of the world.

7 Mercantilist thinking is based on the view that national wealth corresponds to the country's holdings of precious metals and positive trade balance is a means of accumulating it.

8 This argument by Hume is based on his proposition based on price-specie flow mechanism. For detailed exposition on mercatilistic approach to trade and its shortcomings, see Appleyard and Field (2001).

9 *Ibid*. On the production side, divisions of labour and scale economies are the driving forces behind efficiency gains in terms of lesser input costs per unit of output.

10 For detailed exposition, see Coats (1975) and Irvin (1996).

11 For important contributions towards the development of classical trade theory, see Chipman (1965).

12 *Ibid*. Supply-side analysis referred to encompasses the Heckscher-Ohlin model and subsequent qualifications inspired by it.

13 Most Favoured Nation (MFN) and National Treatment clauses stand for non-discrimination principle. Reciprocity is designed into the method of negotiations under a trade agreement. For a critical review of the traditional theory of trade agreements see Ethier (2007).

14 It was highlighted that the Bangkok Agreement failed to be an effective preferential agreement due to such shortcomings and SAPTA should take due caution of this (Kelegama, 1996).

15 A number of other sub-regional initiatives such as growth quadrangles (Bangladesh, Bhutan, Nepal and India) and triangles (Sri Lanka, Maldives and South India) were mooted. These sub-regional initiatives were not considered for preferential trading but for sectoral cooperation.

16 Symmetry in economic activity also implies that there is a lesser contradiction in terms of formulating internal and external macroeconomic policies.

17 ADB has launched Strategy 2020 for South Asia, which includes regional integration as one of the three development agendas (the others are inclusive economic growth and environmentally sustainable growth), see ADB (2008) for details.

18 Lack of complementarities is generally attributed to the fact that most of the countries in the region are competitors in the export markets, dominated by textile and apparel exports.

19 For a conceptual exposure on trade costs due to lack of accompanying reforms see Anderson and Wincoop (2004). The positive impacts of trade agreement on domestic policy reforms in the South Asian context have been extensively dealt with in Ahmed et al. (2004), Kemal (2004), Chanda (2005) and ADB (2007).

20 See Bandara and Yu (2003), Rahman et al., (2006), Rahman and Amin (2009) and Moktan (2008).

21 Almost all quantitative studies have duly acknowledged this aspect. See Pitgala (2005) and Kalicharan (2007).

22 Among the major causes of high trade transaction costs in eastern South Asia are the cumbersome and complex cross-border trading practices, which also increase the possibility of corruption. The goods carried by road in South Asia are largely subject to transshipment at the border, which imposes serious impediments to regional and multilateral trade. The position is further compounded by lack of harmonisation of technical standards. It is argued that with only accompanying reforms in these areas will SAFTA would function to achieve the eventual benefits of moving to a Customs Union in 2015 and an Economic Union in 2020 (Chaturvedi, 2006, and De, 2008).

23 A general overview of experiences from world over on this topic and a conceptual treatment on benefits of trade facilitation are available in Walkrenhorst and Yasui (2003) and Wilson et al. (2004).

24 For instance, it has been documented that exports from Nepal headed to Europe or North America would benefit if they could effectively access Mumbai port, rather than using Kolkata/Haldia. The cost of exporting a carpet from Nepal to Europe using Mumbai instead of Kolkata would save US$1,300, a substantial amount equaling 30 to 40 percent of the total value of export and would save 7-10 days in terms of time (Subramanian and Arnold, 2001).

25 SAFTA TLP stipulates reduction of tariff rates to upper limits of 20 and 30 percent for developing and least developed countries respectively within 2 years from the date of enforcement of the Agreement (1.1.2006). It also requires annual reduction of 10 percent for developing countries and 5 percent for least developed countries during this period for products with tariff rates less than the prescribed upper limits on the date of enforcement.

26 Country wise trade data for the analysis is accessed from UN Commodity Trade database (UNCOMTRADE) and data on import and export prices and quantity for the year 2009 is accessed from Trade Maps, International Trade Centre. The analysis is carried out at HS07 6-Digit level

27 Export price of SAFTA member is taken as the current import prices faced by their RoW partners in selected products. These price figures include MFN tariff rates and transportation charges which are deemed higher for countries outside the region. Therefore, it is implied here that these figures are likely to be even lower for SAFTA trading partners because of geographical proximity.

28 Article 1, Charter of SAARC.

29 Sectors such as transport, insurance, banking etc.

30 A strictly qualitative assessment of the survey responses is carried out in the following sections.

31 Non-trade issues here refer to border disputes, water-sharing arrangements, etc., and allied differences in the political front.

32 This implies political class would have the incentive to mainstream consumer welfare gains in trade policy discourse, consumers being their largest constituency. Thus, by changing the incentive structure of key stakeholders in terms of their participation in the regional trade negotiations, the direction and rate of progress of the negotiations are likely to change, as the relative position of consumers as a stakeholder group improves.

Annexure Tables

Partner Country-wise and Product-wise consumer welfare gains for five major South Asian Countries (analysis of products in the sensitive lists)							
Bangladesh							
SAFTA Member Country	HS CODE (6 Digit) Level	Product Description	Price Difference	Quantity Imported by Bangladesh from ROW (in Tons)	Consumer Welfare (in US$)	Current Value Imports by Bangladesh from ROW (in US$)	Percentage of Consumer Welfare in Imports
Pakistan	100620	Rice, husked (brown)	273	1.00	273.00	1000	27.30
	252321	Portland cement, white, whether or not artificially coloured	55	426.47	23455.88	58000	40.44
	271011	Aviation spirit	50	77509.92	3875496.18	50769000	7.63
	271019	Light petroleum distillates nes	118	1883865.96	222296183.73	1250887000	17.77
	520812	Plain weave cotton fabric,>/=85%, >100 g/m2 to 200 g/m2, unbleached	23	2422.79	55724.23	12458000	0.45
	520813	Twill weave cotton fabric,>/=85%, not more than 200 g/m2, unbleached	221	367.42	81200.29	1994000	4.07
	630221	Bed linen, of cotton, printed, not knitted	6022	46.00	277019.83	566000	48.94
	630231	Bed linen, of cotton, nes	1650	41.00	67650.68	300000	22.55

Contd...

	630232	Bed linen, of man-made fibres, nes	6616	11.00	72776.56	131000	55.55
	630240	Table linen, of textile knitted or crocheted materials	4372	1.00	4372.00	11000	39.75
	630251	Table linen, of cotton, not knitted	502	1.00	502.00	5000	10.04
	630253	Table linen, of man-made fibres, not knitted	8864	6.00	53185.28	83000	64.08
	630291	Toilet and kitchen linen, of cotton, nes	6860	24.00	164645.51	239000	68.89
	630293	Toilet and kitchen linen, of man-made fibres	8036	5.00	40180.00	62000	64.81
Total				**1964728.58**	**227012665.18**	**1317564000**	**17.23**
India	100620	Rice, husked (brown)	74	1.00	823.00	1000	82.30
	271011	Aviation spirit	32	77509.92	5735734.35	50769000	11.30
	271019	Light petroleum distillates nes	43415	2351291.35	75241323.31	1250887000	6.02
	300490	Medicaments nes, in dosage	1988	586.17	25448496.90	30377000	83.78
	851718	Telephone sets (excl. line telephone sets with cordless handsets	27171	25.00	49700.00	2841000	1.75
	851769	Apparatus for the transmission or reception of voice, images or other	73713	11.00	298881.43	3504000	8.53

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	851770	Parts of telephone sets, telephones for cellular networks or for other	7484	490.97	36190806.18	36289000	99.73
	870324	Automobiles with reciprocating piston engine displacing > 3000 cc	25	65.00	486457.18	1726000	28.18
	870333	Automobiles with diesel engine displacing more than 2500 cc	823	689.01	17225.19	12141000	0.14
Total				**2430669.42**	**143469447.53**	**1388535000**	**10.33**
Sri Lanka	090230	Black tea (fermented)&partly fermented tea in packages not exceeding 3 kg	352	13.00	4575.93	66000	6.93
	610422	Women/girls ensembles, of cotton, knitted	4667	3.00	14000.87	104000	13.46
	610442	Women/girls dresses, of cotton, knitted	24944	1.00	24944.00	68000	36.68
	610462	Women/girls trousers and shorts, of cotton, knitted	271	33.08	8964.54	960000	0.93
	610463	Women/girls trousers and shorts, of synthetic fibres, knitted	2609	7.00	18263.06	328000	5.57
	610910	T-shirts, singlet's and other vests, of cotton, knitted	20088	4.00	80352.00	201000	39.98

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	611020	Pullovers, cardigans and similar articles of cotton, knitted	45871	12.00	550452.00	969000	56.81
	620413	Women/girls suits, of synthetic fibres, not knitted	6969	2.00	13938.00	113000	12.33
	620443	Women/girls dresses, of synthetic fibres, not knitted	44518	1.00	44518.00	118000	37.73
	620452	Women/girls skirts, of cotton, not knitted	12640	1.00	12640.00	62000	20.39
	620453	Women/girls skirts, of synthetic fibres, not knitted	21564	1.00	21564.00	72000	29.95
	620462	Women/girls trousers and shorts, of cotton, not knitted	21188	12.00	254257.35	754000	33.72
	620520	Men/boys shirts, of cotton, not knitted	53964	3.00	161892.00	327000	49.51
Total				**93.08**	**1210361.74**	**4142000**	**29.22**
Nepal	200931	Single citrus fruit juice, unfermented, Brix value <= 20 at 20°C, whet	295	25.00	7375.00	23000	32.07
	200949	Pineapple juice, unfermented, Brix value > 20 at 20°C, whether or not	200	5.00	1000.00	3000	33.33

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	200980	Fruit &veg juice nes (exc mx) unfermented inspirited, whether/not sugar/sweet	272	184.92	50297.52	179000	28.10
	200990	Mixtures of juices unfermented &not spirited whether or not sugared or sweet	149	266.84	39759.07	206000	19.30
	540792	Woven fabrics of synthetic filaments, dyed, nes	7262	733.99	5330215.32	6211000	85.82
	550921	Yarn,>/=85% of polyester staple fibres, single, not put up	2749	2215.35	6089989.98	6409000	95.02
	550922	Yarn,>/=85% of polyester staple fibres, multiple, not put up, nes	1687	7182.26	12116475.39	16196000	74.81
	550951	Yarn of polyester staple fibres mixed w/ arti staple fibre ,not put up, nes	206	1096.11	225797.93	2224000	10.15
	550992	Yarn of other synthetic staple fibres mixed with cotton, not put up, nes	1127	381.99	430507.53	1065000	40.42
	630533	Sacks, bags, packing, of strip plastic material	282	39.00	10998.17	128000	8.59
	721012	Flat rolled prod,i/nas,platd or coated with tin,>/=600mm wide,<0.5mm thk	30	35077.35	1052320.44	31745000	3.31

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	730630	Tubes, pipe & hollow profiles, iron or nas, welded, of circ cross sect,nes	105	6258.52	657144.89	4406000	14.91
	730640	Tube, pipe &hollow profile, stainless steel, welded, of circ cross sect, nes	126	1693.83	213422.22	1372000	15.56
	730690	Tubes, pipe & hollow profiles, iron or steel, welded, nes	805	801.05	644842.93	918000	70.24
Total				**55961.20**	**26870146.38**	**71085000**	**37.80**
Grand Total				**4451452.28**	**39856620.80**	**2781326000**	**14.33**

India							
SAFTA Member Country	HS CODE (6 Digit) Level	Product Description	Price Difference	Quantity Imported by India from ROW (in Tons)	Consumer Welfare (in US$)	Current Value Imports by India from ROW (in US$)	Percentage of Consumer Welfare in Imports
Pakistan	100620	Rice, husked (brown)	620	697.21	432270.92	700000	61.75
	100630	Rice, semi-milled or wholly milled, whether or not polished or glazed	264	288.26	76099.64	162000	46.98
	100640	Rice, broken	77	280.94	21632.11	84000	25.75
	391510	Polyethylene waste and scrap	49	5848.10	286556.96	2310000	12.41
	391590	Plastics waste and scrap nes	166	158400.80	26294533.07	79042000	33.27
	391610	Monofilaments >1 mm, profile shapes etc of polymers of ethylene	2535	368.03	932966.05	1301000	71.71
	391690	Monofilaments >1 mm, profile shapes etc of plastics nes	7262	1157.95	8409047.93	9567000	87.90
	391721	Tubes, pipes and hoses, rigid; of polyethylene	2572	1224.07	3148312.42	4780000	65.86

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	391722	Tubes, pipes and hoses, rigid; of polypropylene	4274	25.00	106850.00	147000	72.69
	391723	Tubes, pipes and hoses, rigid; of polyvinyl chloride	3388	1489.08	5045019.03	7435000	67.85
	391729	Tubes, pipes and hoses, rigid; of plastics nes	4723	2147.82	10144175.43	12292000	82.53
	391731	Tubes, pipes& hoses, flexible, plastic, minimum burst pressure of 27.6 MPa	4592	1974.98	9069090.91	12470000	72.73
	391732	Tubes, pipes and hoses nes, plastic, not reinforced etc, without fittings	5542	1920.10	10641211.34	14155000	75.18
	391733	Tubes, pipes and hoses nes, plastic, not reinforced etc, with fittings	4217	66.00	278338.49	405000	68.73
	391739	Tubes, pipes and hoses nes, plastic	2357	3549.20	8365475.65	14282000	58.57
	391740	Fittings, plastic	3782	2752.82	10411176.91	13164000	79.09
	391810	Floor, wall and ceiling coverings etc, of polymers of vinyl chloride	1191	3681.82	4385045.45	9072000	48.34

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	391890	Floor, wall and ceiling coverings etc, of plastics nes	3679	2978.84	10959158.37	13938000	78.63
	391910	Self-adhesive plates, sheets, film etc, of plastic in rolls <20 cm wide	3351	1488.85	4989146.86	6478000	77.02
	392010	Film and sheet etc, non-cellular etc, of polymers of ethylene	936	9803.81	9176370.57	28784000	31.88
	392030	Film and sheet etc, non-cellular etc, of polymers of styrene	1395	3509.39	4895605.43	8405000	58.25
	392061	Film and sheet etc, non-cellular etc, of polycarbonates	1407	3545.64	4988717.35	12080000	41.30
	392062	Film and sheet etc, non-cellular etc, of polyethylene terephthalates	1143	7501.70	8574446.08	19827000	43.25
	392063	Film and sheet etc, non-cellular etc, of unsaturated polyesters	1864	879.87	1640071.19	2373000	69.11
	392069	Film and sheet etc, non-cellular etc, of polyesters nes	485	16670.02	8084959.76	41425000	19.52

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	392111	Film and sheet etc, cellular of polymers of styrene	964	281.04	270921.73	833000	32.52
	392112	Film and sheet etc, cellular of polymers of vinyl chloride	1629	1794.98	2924020.92	4719000	61.96
	392113	Film and sheet etc, cellular of polyurethane	3212	2393.16	7686837.61	10080000	76.26
	392114	Film and sheet etc, cellular of regenerated cellulose	5613	31.00	174000.79	236000	73.73
	392119	Film and sheet etc, cellular of plastics nes	2756	2601.88	7170793.16	11875000	60.39
	392190	Film and sheet etc, nes of plastics	2170	29183.91	63329088.33	92513000	68.45
	392210	Baths, shower-baths and wash basins, of plastics	2712	792.02	2147950.81	3671000	58.51
	392220	Lavatory seats and covers of plastics	2574	745.08	1917838.22	3408000	56.27
	392290	Bidets, lavatory pans, flushing cisterns & similar plastic sanitary ware	2559	3575.13	9148747.75	16299000	56.13
	392310	Boxes, cases, crates & similar articles of plastic	1330	5883.39	7824911.66	16650000	47.00

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	392321	Sacks and bags (including cones) of polymers of ethylene	1703	3045.14	5185864.96	8231000	63.00
	392330	Carboys, bottles, flasks and similar articles of plastics	3045	4705.50	14328249.65	16681000	85.90
	392340	Spools, cops, bobbins and similar supports, of plastics	34	1354.97	46068.83	2756000	1.67
	392350	Stoppers, lids, caps and other closures of plastics	1935	9633.04	18639926.30	37906000	49.17
	392490	Household and toilet articles nes, of plastics	1145	2590.30	2965888.36	7100000	41.77
	392510	Reservoirs, tanks, vats etc of a capacity exceeding 300 l, of plastics	3314	159.99	530211.14	735000	72.14
	392520	Doors, windows and their frames and thresholds for doors, of plastics	220	1176.84	258904.41	3201000	8.09
	392530	Shutters, blinds (incl Venetian) & similar articles & parts of plastics	2575	379.99	978473.64	1485000	65.89
	392590	Builders' ware nes, of plastics	465	5604.53	2606107.85	14342000	18.17

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	392610	Office or school supplies, of plastics	1263	2062.83	2605348.76	6731000	38.71
	392630	Fittings for furniture, coachwork or the like, of plastics	828	1142.86	946285.71	2432000	38.91
	392640	Statuettes and other ornamental articles, of plastics	396	3550.79	1406113.70	7620000	18.45
	392690	Articles of plastics or of other materials of Nos 39.01 to 39.14 nes	2392	96773.29	231481709.91	328255000	70.52
	520511	Cotton yarn,>/=85%,single,uncombd, >/=714.29 dtex, not put up	764	2506.00	1914584.00	5360334	35.72
	520528	Cotton yarn >85% single combed <83.33 dtex, not retail	1479	227.00	335733.00	1499108	22.40
	520547	Cotton yarn >85% multiple combed 106- 83 dtex, not ret.	2783	12.00	33396.00	78996	42.28
	551221	Woven fabrics, containing>/=85% of acrylic staple fibres, unbleached or bl	2385	13.00	31004.22	200000	15.50
	551291	Woven fabrics, containing>/=85% of oth synthetic staple fibres, unbl/bl	9500	2.00	19000.00	51000	37.25

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	551311	Plain weave polyest staple fib fab,<85%, mixd w/cottn,</=170g/m2,unbl/bl	544	272.01	147971.83	1236000	11.97
	551412	Twill weave polyest stapl fib fab,<85%,mixd w/cotton,>170g/m2,unbl/bl	1000	6.00	6000.00	42000	14.29
	551611	Woven fabrics, containing>/=85% of artificial staple fibres, unbleached/bl	4556	3.00	13667.32	20000	68.34
	551634	Woven fab of arti staple fib,<85% mixed w/wool/fine animal hair, printed	39462	1.00	39462.00	40000	98.66
	551641	Woven fabrics of artificial staple fib,<85% mixed with cotton, unbl or bl	6150	10.00	61500.00	79000	77.85
	551691	Woven fabrics of artificial staple fibres, unbleached or bleached, nes	7560	6.00	45361.40	65000	69.79
	620329	Men/boys ensembles, of other textile materials, not knitted	125000	6.00	750000.00	1146000	65.45
	620333	Men/boys jackets and blazers, of synthetic fibres, not knitted	28444	14.00	398216.00	734216	54.24
	620339	Men/boys jackets and blazers, of other textile materials, not knitted	185000	11.00	2035000.00	2739000	74.30

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	620342	Men/boys trousers and shorts, of cotton, not knitted	9063	358.00	3244554.00	13805554	23.50
Total				415158.99	545005991.91	939533208	58.01
Sri Lanka	400300	Reclaimed rubber in primary forms or in plates, sheets or strip	1064	263.05	279883.09	378000	74.04
	400510	Rubber compounded with carbon black or silica (unvulcanised)	879	6502.93	5716073.94	17766000	32.17
	400520	Rubber solutions; dispersions oth than those of No 400510 (unvul)	635	2499.37	1587097.59	1972000	80.48
	400591	Compounded rubber in plates, sheets and strip (unvulcanised)	78	1500.93	117072.36	1618000	7.24
	400599	Compounded rubber, unvulcanised in primary forms nes	708	3468.75	2455875.00	7659000	32.07
	400811	Plates, sheets and strip of cellular rubber (vulcanised)	1582	1335.87	2113350.02	3683000	57.38
	400819	Rods and profile shapes of cellular rubber (vulcanised)	871	58.99	51384.56	162000	31.72

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	400829	Rods and profile shapes of non-cellular rubber (vulcanised)	1137	1085.08	1233733.97	4923000	25.06
	401220	Pneumatic tires used	19	213.94	4064.77	218000	1.86
	401290	Solid o cushiond tires, interchangeable tire treads &tire flaps of rbr	2373	303.00	719008.69	1325000	54.26
	401695	Rubber articles inflatable nes, vulcanised rubber	8203	157.99	1296019.82	1770000	73.22
	610432	Women/girls jackets, of cotton, knitted	7000	4.00	28000.00	120000	23.33
	610433	Women/girls jackets, of synthetic fibres, knitted	2500	4.00	10000.00	166000	6.02
	610439	Women/girls jackets, of other textile materials, knitted	54000	0.72	38969.07	70000	55.67
	610442	Women/girls dresses, of cotton, knitted	8000	5.00	40000.00	180000	22.22
	610443	Women/girls dresses, of synthetic fibres, knitted	4429	7.00	31002.67	283000	10.96
	610452	Women/girls skirts, of cotton, knitted	22000	1.00	22000.00	42000	52.38
	610453	Women/girls skirts, of synthetic fibres, knitted	8000	0.25	2039.22	13000	15.69

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	610462	Women/girls trousers and shorts, of cotton, knitted	12000	16.00	192000.00	432000	44.44
	610463	Women/girls trousers and shorts, of synthetic fibres, knitted	9833	6.00	58998.58	203000	29.06
	610469	Women/girls trousers and shorts, of other textile materials, knitted	7500	4.00	30000.00	122000	24.59
	610821	Women/girls briefs and panties, of cotton, knitted	12143	14.00	170001.19	422000	40.28
	610822	Women/girls briefs and panties, of man-made fibres, knitted	22500	2.00	45000.00	134000	33.58
	610829	Women/girls briefs and panties, of other textile materials, knitted	3250	4.00	13000.00	117000	11.11
	610831	Women/girls nightdresses and pyjamas, of cotton, knitted	2333	4.60	10740.03	89000	12.07
	610832	Women/girls nightdresses & pyjamas, of other textile materials, knitted	22444	0.30	6765.48	14000	48.32
	610892	Women/girls bathrobes, dressing gowns, etc, of man-made fibres, knitted	214	14.00	2996.03	395000	0.76

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	610910	T-shirts, singlet and other vests, of cotton, knitted	10448	210.00	2194048.40	5554000	39.50
	610990	T-shirts, singlet and other vests, of other textile materials, knitted	18657	105.00	1958991.88	4269000	45.89
	611011	Jerseys, pullovers, cardigans, waistcoats and similar articles, of woo	13533	15.00	202996.18	863000	23.52
	611020	Pullovers, cardigans and similar articles of cotton, knitted	12534	58.00	726983.49	1771000	41.05
	611030	Pullovers, cardigans and similar articles of man-made fibres, knitted	10143	49.00	497004.72	1526000	32.57
	620332	Men/boys jackets and blazers, of cotton, not knitted	10868	38.00	412988.25	1553000	26.59
	620333	Men/boys jackets and blazers, of synthetic fibres, not knitted	12929	14.00	181003.90	517000	35.01
	620339	Men/boys jackets and blazers, of other textile materials, not knitted	7455	11.00	82004.38	665000	12.33
	620341	Men/boys trousers and shorts, of wool or fine animal hair, not knitted	3500	6.00	21000.00	381000	5.51

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	620342	Men/boys trousers and shorts, of cotton, not knitted	8123	358.00	2908023.82	9710000	29.95
	620349	Men/boys trousers and shorts, of other textile materials, not knitted	3967	30.00	119008.80	989000	12.03
	620423	Women/girls ensembles, of synthetic fibres, not knitted	29429	1.64	48353.94	73000	66.24
	620429	Women/girls ensembles, of other textile materials, not knitted	26000	0.43	11142.86	15000	74.29
	620433	Women/girls jackets, of synthetic fibres, not knitted	20667	6.00	124001.23	322000	38.51
	620443	Women/girls dresses, of synthetic fibres, not knitted	14833	6.00	88998.50	359000	24.79
	620444	Women/girls dresses, of artificial fibres, not knitted	8500	1.00	8500.00	95000	8.95
	620453	Women/girls skirts, of synthetic fibres, not knitted	20000	4.00	80000.00	192000	41.67
	620459	Women/girls skirts, of other textile materials, not knitted	7333	3.00	21999.12	178000	12.36

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	620462	Women/girls trousers and shorts, of cotton, not knitted	13278	151.00	2004986.52	5176000	38.74
	620463	Women/girls trousers and shorts, of synthetic fibres, not knitted	9625	16.00	154000.00	554000	27.80
	620469	Women/girls trousers & shorts, of other textile materials, not knitted	12813	16.00	205005.76	733000	27.97
	620520	Men/boys shirts, of cotton, not knitted	14962	213.00	3186937.28	9577000	33.28
	620530	Men/boys shirts, of man-made fibres, not knitted	3100	20.00	62000.00	402000	15.42
	621220	Girdles, panty girdles and parts thereof, of textile materials	20571	14.00	287996.68	645000	44.65
	621290	Corsets, braces & similar articles & parts thereof, of textile materials	23667	6.00	142001.16	340000	41.77
Total				18828.84	32005052.94	90735000	35.27
Bangladesh	610413	Women/girls suits, of synthetic fibres, knitted	16632	0.10	1584.00	2000	79.20
	610422	Women/girls ensembles, of cotton, knitted	2067	2.06	4268.17	53000	8.05

Contd...

	610423	Women/girls ensembles, of synthetic fibres, knitted	1300	0.08	100.78	2000	5.04
	610432	Women/girls jackets, of cotton, knitted	11000	4.00	44000.00	120000	36.67
	610433	Women/girls jackets, of synthetic fibres, knitted	6167	4.00	24668.00	166000	14.86
	610442	Women/girls dresses, of cotton, knitted	18500	4.80	88800.00	180000	49.33
	610443	Women/girls dresses, of synthetic fibres, knitted	9429	7.00	66002.30	283000	23.32
	610452	Women/girls skirts, of cotton, knitted	21000	1.00	21000.00	42000	50.00
	610453	Women/girls skirts, of synthetic fibres, knitted	8000	0.34	2736.84	13000	21.05
	610510	Men/boys shirts, of cotton, knitted	4810	102.29	492027.05	2231000	22.05
	610520	Men/boys shirts, of man-made fibres, knitted	6917	13.17	91100.68	315000	28.92
	610590	Men/boys shirts, of other textile materials, knitted	28200	8.05	226975.61	264000	85.98
	610910	T-shirts, singlet and other vests, of cotton, knitted	6289	273.74	1721578.49	5554000	31.00

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	610990	T-shirts, singlet and other vests, of other textile materials, knitted	11647	134.89	1571113.94	4269000	36.80
	611020	Pullovers, cardigans and similar articles of cotton, knitted	2147	79.97	171686.32	1771000	9.69
	611030	Pullovers, cardigans and similar articles of man-made fibres, knitted	10250	58.13	595866.67	1526000	39.05
	611090	Pullovers, cardigans &similar articles of oth textile materials, knitted	10333	7.63	78865.68	346000	22.79
	620332	Men/boys jackets and blazers, of cotton, not knitted	10621	42.41	450408.59	1553000	29.00
	620333	Men/boys jackets and blazers, of synthetic fibres, not knitted	18929	14.00	265002.92	517000	51.26
	620339	Men/boys jackets and blazers, of other textile materials, not knitted	19455	11.00	214003.39	665000	32.18
	620341	Men/boys trousers and shorts ,of wool or fine animal hair, not knitted	27500	7.26	199571.43	381000	52.38
	620342	Men/boys trousers and shorts, of cotton, not knitted	2041	569.80	1162966.38	9710000	11.98

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	620412	Women/girls suits, of cotton, not knitted	9667	0.64	6198.64	28000	22.14
	620413	Women/girls suits, of synthetic fibres,	11000	0.90	9912.09	41000	24.18
		not knitted					
	620433	Women/girls jackets, of synthetic fibres, not knitted	22875	7.02	160561.31	322000	49.86
	620439	Women/girls jackets, of other textile materials, not knitted	47583	12.00	570998.42	943000	60.55
	620442	Women/girls dresses, of cotton, not knitted	16609	23.00	382004.79	1210000	31.57
	620443	Women/girls dresses, of synthetic fibres, not knitted	28833	6.00	172998.96	359000	48.19
	620444	Women/girls dresses, of artificial fibres, not knitted	46000	1.00	46000.00	95000	48.42
	620452	Women/girls skirts, of cotton, not knitted	9789	21.01	205701.72	668000	30.79
	620453	Women/girls skirts, of synthetic fibres, not knitted	21000	4.00	84000.00	192000	43.75
	620459	Women/girls skirts, of other textile materials, not knitted	23250	3.06	71047.21	178000	39.91

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	620462	Women/girls trousers and shorts, of cotton, not knitted	3679	228.23	839653.60	5176000	16.22
	620463	Women/girls trousers and shorts, of synthetic fibres, not knitted	2546	19.87	50593.06	554000	9.13
	620469	Women/girls trousers & shorts ,of other textile materials, not knitted	10833	20.46	221599.89	733000	30.23
	620520	Men/boys shirts, of cotton, not knitted	4093	353.49	1446818.77	9577000	15.11
	620530	Men/boys shirts, of man-made fibres, not knitted	2333	20.79	48511.15	402000	12.07
	620590	Men/boys shirts, of other textile materials, not knitted	5436	45.25	245982.41	1513000	16.26
	620630	Women/girls blouses and shirts, of cotton, not knitted	8370	46.10	385888.19	1769000	21.81
	620640	Women/girls blouses and shirts, of man-made fibres, not knitted	19067	15.00	286002.93	691000	41.39
	620690	Women/girls blouses and shirts, of other textile materials, not knitted	18800	5.00	94000.00	249000	37.75
Total				2178.55	12822800.40	54663000	23.46

Contd...

Nepal	090220	Green tea (not fermented) in packages exceeding 3 kg	1631	499.05	813950.21	1313000	61.99
	090620	Cinnamon and cinnamon-tree flowers crushed or ground	2545	4.57	11634.29	16000	72.71
	090930	Cumin seeds	1565	4233.26	6625046.19	9165000	72.29
	230610	Cotton seed oil-cake & oth solid residues, whether or not ground or pellet	91	78.82	7172.41	16000	44.83
	621440	Shawls, scarves, veils and the like, of artificial fibres, not knitted	2000	0.90	1800.00	9000	20.00
Total				**4816.60**	**7459603.10**	**10519000**	**70.92**
Grand Total				**440982.98**	**597293448.35**	**1095450208**	**54.52**

Nepal							
SAFTA Member Country	HS CODE (6 Digit Level)	Product Description	Price Difference	Quantity Imported by Nepal from ROW (in Tons)	Consumer Welfare (in US$)	Current Value Imports by Nepal from ROW (in US$)	Percentage of Consumer Welfare in Imports
Bangladesh	610442	Women/girls dresses, of cotton, knitted	39527	0.02	693.46	1000	69.35
	610462	Women/girls trousers and shorts, of cotton, knitted	13041	0.04	483.00	1000	48.30
	610510	Men/boys shirts, of cotton, knitted	34181	0.21	7023.45	10000	70.23
	610910	T-shirts, singlet and other vests, of cotton, knitted	14222	34.00	483549.07	906000	53.37
	611011	Jerseys, pullovers, cardigans, waistcoats and similar articles, of woo	26907	2.00	53814.00	102000	52.76
	611019	Jerseys, pullovers, cardigans, waistcoats and similar articles, of fin	15563	1.00	15563.00	35000	44.47
	611030	Pullovers, cardigans and similar articles of man-made fibres, knitted	15777	29.00	457537.53	910000	50.28

Contd...

	611090	Pullovers, cardigans &similar articles of oth textile materials, knitted	35028	2.00	70056.00	114000	61.45
	620322	Men/boys ensembles, of cotton, not knitted	7254	327.01	2372109.30	6289000	37.72
	620323	Men/boys ensembles, of synthetic fibres, not knitted	8279	15.00	124182.76	277000	44.83
	620332	Men/boys jackets and blazers, of cotton, not knitted	23846	8.00	190768.00	334000	57.12
	620333	Men/boys jackets and blazers, of synthetic fibres, not knitted	10882	128.00	1392880.06	4893000	28.47
	620339	Men/boys jackets and blazers, of other textile materials, not knitted	38819	3.00	116457.00	174000	66.93
	620341	Men/boys trousers and shorts, of wool or fine animal hair, not knitted	35261	9.00	317350.19	533000	59.54
	620342	Men/boys trousers and shorts, of cotton, not knitted	13815	101.00	1395316.02	2747000	50.79
	620349	Men/boys trousers and shorts, of other textile materials, not knitted	16079	15.00	241187.43	497000	48.53

Contd...

	620413	Women/girls suits, of synthetic fibres, not knitted	33309	16.00	532944.00	672000	79.31
	620432	Women/girls jackets, of cotton, not knitted	31792	2.00	63584.00	98000	64.88
	620433	Women/girls jackets, of synthetic fibres, not knitted	30224	7.00	211568.56	377000	56.12
	620439	Women/girls jackets, of other textile materials, not knitted	34950	2.00	69900.00	120000	58.25
	620442	Women/girls dresses, of cotton, not knitted	29263	16.00	468203.52	837000	55.94
	620449	Women/girls dresses, of other textile materials, not knitted	139085	1.00	139085.00	145000	95.92
	620453	Women/girls skirts, of synthetic fibres, not knitted	32449	2.00	64898.00	91000	71.32
	620462	Women/girls trousers and shorts, of cotton, not knitted	17372	30.00	521160.00	1023000	50.94
	620463	Women/girls trousers and shorts, of synthetic fibres, not knitted	18382	6.00	110290.92	205000	53.80

Contd...

	620469	Women/girls trousers & shorts, of other textile materials, not knitted	19643	2.00	39286.00	77000	51.02
	620520	Men/boys shirts, of cotton, not knitted	27160	16.00	434560.00	716000	60.69
	620530	Men/boys shirts, of man-made fibres, not knitted	7007	37.00	259257.59	736000	35.23
	620590	Men/boys shirts, of other textile materials, not knitted	21876	8.00	175008.00	346000	50.58
	620620	Women/girls blouses & shirts, of wool or fine animal hair, not knitted	3353	1.00	3353.00	44000	7.62
	620630	Women/girls blouses and shirts, of cotton, not knitted	32466	6.00	194797.17	332000	58.67
	620690	Women/girls blouses and shirts, of other textile materials, not knitted	35948	2.00	71896.00	108000	66.57
	630210	Bed linen, of textile knitted or crocheted materials	2669	8.00	21352.00	65000	32.85
	630221	Bed linen, of cotton, printed, not knitted	3139	47.00	147530.94	502000	29.39
	630222	Bed linen, of man-made fibres, printed, not knitted	2968	2.00	5936.00	18000	32.98

Contd...

	630229	Bed linen, of other textile materials, printed, not knitted	570	26.00	14821.05	170000	8.72
	630231	Bed linen, of cotton, nes	3761	3.00	11283.33	34000	33.19
	630232	Bed linen, of man-made fibres, nes	2083	25.00	52075.00	207000	25.16
	630239	Bed linen, of other textile materials, nes	6556	18.00	118005.77	212000	55.66
	630240	Table linen, of textile knitted or crocheted materials	9250	1.00	9250.00	13000	71.15
	630251	Table linen, of cotton, not knitted	9540	0.34	3289.66	5000	65.79
	630260	Toilet &kitchen linen, of terry towels or similar terry fab, of cotton	3458	51.00	176354.36	388000	45.45
	630291	Toilet and kitchen linen, of cotton, nes	3587	17.00	60976.69	132000	46.19
	630293	Toilet and kitchen linen, of man-made fibres	2958	1.00	2958.00	10000	29.58
	630299	Toilet and kitchen linen, of other textile materials	2084	5.00	10420.00	49000	21.27
Total				1032.61	11233014.82	25555000	43.96

Contd...

Pakistan	252310	Cement clinkers	58	489242.72	28376077.67	50392000	56.31
	252321	Portland cement, white, whether or not artificially coloured	86	9652.69	830131.74	1612000	51.50
	252329	Portland cement nes	70	427655.74	29935901.64	52174000	57.38
	271011	Aviation spirit	387	452093.75	174960281.25	448477000	39.01
	271019	Light petroleum distillates nes	917	21883.80	20067444.98	32016000	62.68
	630210	Bed linen, of textile knitted or crocheted materials	3221	8.00	25768.00	65000	39.64
	630221	Bed linen, of cotton, printed, not knitted	4399	47.00	206750.12	502000	41.19
	630222	Bed linen, of man-made fibres, printed, not knitted	3698	2.00	7396.00	18000	41.09
	630229	Bed linen, of other textile materials, printed, not knitted	910	26.00	23661.67	170000	13.92
	630231	Bed linen, of cotton, nes	5666	3.00	16998.50	34000	50.00
	630232	Bed linen, of man-made fibres, nes	2987	25.00	74675.00	207000	36.07
	630239	Bed linen, of other textile materials, nes	6671	18.00	120075.73	212000	56.64
	630240	Table linen, of textile knitted or crocheted materials	6372	1.00	6372.00	13000	49.02

Contd...

	630251	Table linen, of cotton, not knitted	10002	0.34	3448.97	5000	68.98
	630253	Table linen, of man-made fibres, not knitted	5888	7.00	41216.54	76000	54.23
	630259	Table linen, of other textile materials, not knitted	11980	2.00	23960.00	34000	70.47
	630260	Toilet &kitchen linen, of terry towels or similar terry fab, of cotton	4038	51.00	205933.75	388000	53.08
	630291	Toilet and kitchen linen, of cotton, nes	4667	17.00	79335.99	132000	60.10
	630293	Toilet and kitchen linen, of man-made fibres	5636	1.00	5636.00	10000	56.36
	630299	Toilet and kitchen linen, of other textile materials	6024	5.00	30120.00	49000	61.47
Total				1400742.05	255041185.55	586586000	43.48
Sri Lanka	610442	Women/girls dresses, of cotton, knitted	13944	0.02	244.63	1000	24.46
	611020	Pullovers, cardigans and similar articles of cotton, knitted	11371	0.32	3687.89	15000	24.59
	621210	Brassieres and parts thereof, of textile materials	4508	10.00	45080.00	726000	6.21

Contd...

	621220	Girdles, panty girdles and parts thereof, of textile materials	29000	2.00	58000.00	110000	52.73
Total				12.34	107012.52	852000	12.56
India	271011	Aviation spirit	411	452093.75	185810531.25	448477000	41.43
	300410	Penicillin or streptomycin and their derivatives, in dosage	41622	6.00	249730.53	340000	73.45
	300420	Antibiotics nes, in dosage	74763	64.86	4849022.71	6201000	78.20
	300450	Vitamins and their derivatives, in dosage	42488	5.00	212440.00	261000	81.39
Total				**452169.61**	**191121724.49**	**455279000**	**41.98**
Grand Total				**1853956.61**	**457502937.40**	**1068272000**	**42.83**

Pakistan							
SAFTA Member Country	HS CODE (6 Digit Level)	Product Description	Price Difference	Quantity Imported by Pakistan from ROW (in Tons)	Consumer Welfare (in US$)	Current Value Imports by Pakistan from ROW (in US$)	Percentage of Consumer Welfare in Imports
India	300490	Medicaments nes, in dosage	27527	6344.93	174656842.49	228005000	76.60
	851719	Telephone sets, nes	19181	41.16	789563.70	2589000	30.50
	851730	Telephonic or telegraphic switching apparatus	65833	3.00	197499.44	445000	44.38
	851750	Apparatus for carrier-current/digital line systems	130711	210.00	27449254.10	44190000	62.12
	870323	Automobiles w reciprocate piston engine displace > 1500 cc to 3000 cc	147	5243.14	770741.03	63594000	1.21
	870331	Automobiles with diesel engine displacing not more than 1500 cc	402	37.00	14873.44	428000	3.48
Total				11879.23	203878774.21	339251000	60.10

Contd...

Sri Lanka	610821	Women/girls briefs and panties, of cotton, knitted	4885	0.18	876.79	7000	12.53
	610831	Women/girls nightdresses and pyjamas, of cotton, knitted	17964	0.17	3036.19	8000	37.95
	610891	Women/girls bathrobes, dressing gowns, etc, of cotton, knitted	3579	0.07	265.11	2000	13.26
	611020	Pullovers, cardigans and similar articles of cotton, knitted	17121	0.94	16133.25	49000	32.93
	620312	Men/boys suits, of synthetic fibres, not knitted	157000	0.19	29074.07	40000	72.69
	620331	Men/boys jackets and blazers, of wool or fine animal hair, not knitted	46500	0.57	26514.89	67000	39.57
	620342	Men/boys trousers and shorts, of cotton, not knitted	34610	4.71	162955.42	339000	48.07
	620343	Men/boys trousers and shorts, of synthetic fibres, not knitted	5815	1.00	5815.00	38000	15.30
	620429	Women/girls ensembles, of other textile materials, not knitted	30167	0.13	3860.22	18000	21.45

Contd...

	620520	Men/boys shirts, of cotton, not knitted	3097	0.79	2450.62	46000	5.33
	620530	Men/boys shirts, of man-made fibres, not knitted	12663	1.35	17067.52	62000	27.53
	621210	Brassieres and parts thereof, of textile materials	3677	13.00	47801.15	933000	5.12
	621220	Girdles, panty girdles and parts thereof, of textile materials	41000	1.00	41000.00	67000	61.19
Total				24.10	356850.25	1676000	21.29
Nepal	200990	Mixtures of juices unfermented &not spirited whether or not sugared or sweet	167	934.18	156007.59	738000	21.14
	540792	Woven fabrics of synthetic filaments, dyed, nes	12583	8.91	112171.02	130000	86.29
	621410	Shawls, scarves, veils and the like, of silk or silk waste, not knitted	57800	0.03	1879.67	12000	15.66
	630510	Sacks & bags, for packs of goods, of jute or of other textile bast fibres	569	51.00	29017.00	87000	33.35

Contd...

	721011	Flat rolled prod,i/nas, platd or coated with tin,w>/=600mm,>/=0.5mm thk	4	523.87	2095.49	395000	0.53
Total				1517.99	301170.78	1362000	22.11
Bangladesh	610510	Men/boys shirts, of cotton, knitted	3825	9.00	34424.89	323000	10.66
	610520	Men/boys shirts, of man-made fibres, knitted	6254	2.00	12508.00	74000	16.90
	610910	T-shirts, singlet and other vests, of cotton, knitted	3078	40.00	123120.00	1058000	11.64
	610990	T-shirts, singlet and other vests, of other textile materials, knitted	5481	29.00	158950.22	1171000	13.57
	611011	Jerseys, pullovers, cardigans, waistcoats and similar articles, of woo	592	0.28	164.73	16000	1.03
	611030	Pullovers, cardigans and similar articles of man-made fibres, knitted	2668	2.00	5336.00	68000	7.85
	620312	Men/boys suits, of synthetic fibres, not knitted	9193	1.00	9193.00	40000	22.98
	620331	Men/boys jackets and blazers, of wool or fine animal hair, not knitted	9622	1.00	9622.00	67000	14.36

Contd...

	620339	Men/boys jackets and blazers, of other textile materials, not knitted	418	5.00	2090.00	314000	0.67
	620341	Men/boys trousers and shorts, of wool or fine animal hair, not knitted	26507	38.64	1024201.03	2782000	36.82
	620342	Men/boys trousers and shorts, of cotton, not knitted	1740	12.00	20880.00	339000	6.16
	620343	Men/boys trousers and shorts, of synthetic fibres, not knitted	11602	1.00	11602.00	38000	30.53
	620419	Women/girls suits, of other textile materials, not knitted	24892	0.66	16376.32	50000	32.75
	620429	Women/girls ensembles, of other textile materials, not knitted	62084	0.13	7944.38	18000	44.14
	620439	Women/girls jackets, of other textile materials, not knitted	25026	2.00	50052.00	170000	29.44
	620449	Women/girls dresses, of other textile materials, not knitted	10029	0.38	3774.08	6000	62.90
	620469	Women/girls trousers & shorts, of other textile materials, not knitted	5861	1.00	5861.00	44000	13.32

Contd...

	620520	Men/boys shirts, of cotton, not knitted	2276	1.00	2276.00	46000	4.95
	620630	Women/girls blouses and shirts, of cotton, not knitted	3460	1.00	3460.00	56000	6.18
	630222	Bed linen, of man-made fibres, printed, not knitted	5612	24.53	137664.42	269000	51.18
Total				**171.61**	**1639500.07**	**6949000**	**23.59**
Grand Total				**13592.93**	**206176295.31**	**349238000**	**59.04**

Sri Lanka							
SAFTA Member Country	HS CODE (6 Digit Level)	Product Description	Price Difference	Quantity Imported by Sri Lanka from ROW (in Tons)	Consumer Welfare (in US$)	Current Value Imports by Sri Lanka from ROW (in US$)	Percentage of Consumer Welfare in Imports
India	100610	Rice in the husk (paddy or rough)	4231	1.00	4231.00	5000	84.62
	100620	Rice, husked (brown)	560	37.99	21275.44	28000	75.98
	100630	Rice, semi-milled or wholly milled, whether or not polished or glazed	46	51475.86	2367889.66	22392000	10.57
	100640	Rice, broken	104	303.76	31591.40	113000	27.96
	271011	Aviation spirit	204	240184.71	48997681.53	188545000	25.99
	271019	Light petroleum distillates nes	260	895944.74	232945631.58	680918000	34.21
	271099	Petroleum oils and products nes	1618	58.99	95450.36	123000	77.60
	711411	Articles of gold/silversmith & prt of silver w/n plated/clad w/o prec met	1683	1000.00	1683000.00	15000000	11.22
	870310	Snowmobiles, golf cars and similar vehicles	3661	1.00	3661.00	18000	20.34
	870323	Automobiles w reciprocate piston engine displace > 1500 cc to 3000 cc	166	270.99	44984.52	3292000	1.37

Contd...

	870324	Automobiles with reciprocating piston engine displacing > 3000 cc	3321	47.39	157365.95	1061000	14.83
	870331	Automobiles with diesel engine displacing not more than 1500 cc	388	276.01	107091.22	3189000	3.36
Total				1189602.44	286459853.66	914684000	31.32
Pakistan	100610	Rice in the husk (paddy or rough)	4317	17.60	75979.20	88000	86.34
	100620	Rice, husked (brown)	118	37.99	4483.04	28000	16.01
	252321	Portland cement, white, whether or not artificially coloured	46	3165.35	145606.30	402000	36.22
	271099	Petroleum oils and products nes	894	21.00	29989.00	55000	54.53
	420329	Gloves mittens& mitts,o/t for sport, of leather o of composition leather	2739	8.00	21912.00	116000	18.89
Total				3249.95	277969.54	689000	40.34
Nepal	071333	Kidney beans white pea beans dried shelled, whether or not skinned o split	87	40.00	3480.00	40000	8.70
	200911	Orange juice, unfermented & not spirited, whether not sugared sweet, frozen	652	211.07	137615.81	267000	51.54

Contd...

	200912	Orange juice, unfermented, Brix value <= 20 at 20°C, whether or not co	63	52.92	3334.07	48000	6.95
	200919	Orange juice & nes, unfermented not spirited, whether or not sugared or sweet	1054	737.88	777728.32	1157000	67.22
	200929	Grapefruit juice, unfermented, Brix value > 20 at 20°C, whether or not	21	17.01	357.14	10000	3.57
	200939	Single citrus fruit juice, unfermented, Brix value > 20 at 20°C, whether	1016	84.00	85344.00	105000	81.28
	200969	Grape juice, incl. grape must, unfermented, Brix value > 30 at 20°C, w	459	100.97	46345.63	104000	44.56
	200980	Fruit& veg juice nes (exc mx) unfermented inspirited, whether/not sugar/sweet	716	453.97	325039.66	641000	50.71
	200990	Mixtures of juices unfermented &not spirited whether or not sugared o sweet	1015	474.97	482094.02	778000	61.97
	721041	Flat rolled prod,i/nas,pltd or ctd w zinc, corrugated,>/=600m wide, nes	5101	3.00	15303.00	18000	85.02
Total				**2175.78**	**1876641.65**	**3168000**	**59.24**
Grand Total				**1195028.18**	**288614464.84**	**918541000**	**31.42**

Cost of Economic Non-Cooperation to Consumers in South Asia Questionnaire

(Perception Survey)

General Information

i) Name of Respondent

ii) Education: Graduation ( ); Post Graduation and above ( )

iii) Age

iv) Sex: Male ( ); Female ( )

v) City

vi) Country

vii) Respondent's Profile: Producer/Trader/Exporter ( ); Government Official ( ); Trade-Related Service ( ); Political Person ( ); Academic/Researcher ( ); Civil Society Organisation ( ); Business/ Industry Organisation ( ); Media ( )

viii) Name of the Organisation

ix) Email Address

Questions

1. **What is your thinking about overall impact of trade agreements signed by your country?**

   Multilateral Trade Agreement (World Trade Organisation Agreement):

   Regional Trade Agreement (South Asian Free Trade Agreement):

   Bilateral Trade Agreements:

2. **How do you perceive the current trade and regional cooperation scenario among South Asian countries? Explain your choice.**

   As per expectations ( )

Below expectations ( )
Above expectations ( )

3. **Are regional/bilateral trade negotiations among and between South Asian countries influenced by political priorities rather than economic logic? Explain your Argument.**
   Yes ( )
   No ( )

4. **Do you believe that more trade liberalisation at the regional (South Asian) level is beneficial to consumers of your country? Explain your Point.**
   Yes ( )
   No ( )

5. **Is trade-related consumer welfare ignored by trade policy makers of your country? Explain your Argument.**
   Yes ( )
   No ( )

6. **What ought to be the volume of intra-regional trade among South Asian countries in 2020? Explain your Choice.**
   5-10% ( )
   10-20% ( )
   20-30% ( )
   Above 30% ( )

7. **What do you think is the best mode to deepen trade integration in the South Asian region? Explain your Choice.**
   Multilateral Trade Liberalisation (WTO) ( )
   Regional Trade Agreement (SAFTA) ( )
   Bilateral Trade Agreements ( )

8. **Can economic and political relations in South Asia be complimentary to each other to enhance trade and regional economic cooperation? Explain your Choice.**

   Yes ( )

   No ( )

9. **What factors hinder South Asian countries to enhance regional trade and economic cooperation? Explain your Choice.**

   Please select what do you thinking most important factor (by marking 1) and what do you think least important factor (by marking 2)

   Distrust among South Asian countries ( )

   Lack of complementarity in production and consumption ( )

   Lack of awareness about consumer benefits from regional economic cooperation ( )

   Lack of expectations about other economic benefits from regional economic cooperation ( )

10. **Do you think that consumer welfare impact analysis needs to be taken into account in trade policy making? Explain your Argument.**

    Yes ( )

    No ( )

11. **What do you think about generating more awareness about positive consumer welfare impact of greater regional trade cooperation? Explain your Choice.**

    Rank them in order of your choice – 1 = Lowest priority; 4 = Highest priority

    Media campaign at national and regional level ( )

    Networking among consumer organisations at national and regional level ( )

    Networking among producers and consumers at national and regional level ( )

    Dialogue between politicians, producers and consumers at national level ( )

12. What kind of steps must be taken by the political leadership of South Asian countries to enhance regional trade and economic cooperation? Explain your Choice.

Rank them in order of your choice – 1 = Lowest priority; 3 = Highest priority

Stop distrusting each other ( )

Highlight peace dividends from enhanced regional economic cooperation in their actions ( )

Take part in civil society initiatives toward enhancing regional economic cooperation ( )

13. State some of your general views on the values and virtues of greater regional trade and economic cooperation.

About the Book

For long, growth through trade meant only an unmindful drive of expanding exports for developing regions across the world including South Asia. They took guard against imports, on the ground of safeguarding domestic industries, without realising growth dividends that imports can deliver and potential gains to consumers. And they failed to bear in mind that in the commercial world which works on reciprocity, export opportunities will remain out of reach without matching import concessions.

South Asian aspiration on regional economic cooperation remains as a hope because of sheer neglect of the import side of trade, though institutional and legal mechanisms exist to facilitate the same. This book enquires into consumer's gains from intra-regional trade and found that a bare minimum of about US$1.9bn per annum can be saved by the region by applying preferential tariff rates on selected safeguarded products. An additional US$2 bn can be saved through simple trade facilitating measures. These figures are just a tip of the iceberg, considering the business growth waiting to be unleashed following trade policy reforms.

This publication offers new insights into simple ways in which South Asian countries can harness the benefits of imports by relying on each other's export competencies. They would only be required to re-source their current costlier imports from rest of the world with cheaper alternatives available in the neighbourhood, with no risk to domestic industries. As the prospect of making new inroad into regional markets through a more open trade regime increases, producers will have reasons to cheer.

About CUTS

With its headquarters and three programme centres in Jaipur, Chittorgarh, a liaison office in New Delhi, and resource centres in Calcutta, India; Lusaka, Zambia; Nairobi, Kenya; Hanoi, Vietnam and in Geneva, Switzerland, the organisation has established its relevance and impact in the policy-making circles and among the larger development community in the developing world and at the international level.

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