

"Trade potentials and Non-tariff Measures (NTMs) in South Asia Region"

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Outline

- ❖ Perception of NTMs as the major trade barrier in the region
- ❖ Historical Transformation into a No-Trade Zone
- ❖ Critical Factors affecting Trade in South Asia
- ❖ Initiatives to monitor NTMs and address the NTBs
- ❖ Suggested Remedial Actions

Popular Perceptions about NTMs

❖ **Now that tariff levels in SAARC countries have come down to a reasonable level under SAFTA, since 2006, but the volume of intra-regional trade remains the dismal <5%, the blame goes on Non-Tariff Measures (NTMs) in lieu of tariffs, as the reason.**

❖ Question remains, 'how valid is this perception'?

- ❖ If this perception is valid, how costly is the NTBs, arising from NTMs in this region?
- ❖ If invalid, then what are the other key factors affecting trade(FAT) in the region?
- ❖ Does the 'SAFTA Sensitive List' has anything to do with poor volume of intra-region trade?
- ❖ What are the correlations between the NTMs/NTBs/PTBs and these FAT?

NTMs as a Cost ...

- ❖ GTAP simulation(2014: Raihan et al) tells us that if the transactions costs in the regional trade among the South Asian countries are reduced by 25% in bilateral trade, welfare gains for all countries will be worth \$ 14.62 billion, compared to a hypothetical zero-tariff scenario of a welfare gain of \$ 3.67 billion under SAFTA bilateral trade in goods.
- ❖ It can therefore be argued that there are much larger welfare gains (about 4 times) from reduction of transaction costs in bilateral trade than mere tariff cuts.
- ❖ There is no denying that NTMs manifested as Non-Tariff Barriers and in form of Para-Tariff Barriers (PTBs) are responsible for high degree of transaction costs in bilateral cross-border trade in South Asia.
- ❖ But it remains to examine how large a portion of the transaction costs are arising from NTMs/NTBs/PTBs, and what are the sources of other transaction costs.
- ❖ Poor infrastructure, procedural redundancies, and obsolete bureaucratic and banking practices, which are not NTMs by its standard and accepted definition could also be the sources of high transaction costs.

Welfare Effects

(Equivalent variation in US\$ million at 2007 prices)

Country	SAFTA at zero tariff	SAFTA with 25% reduction In transaction cost in intra-regional trade
Bangladesh	-111.77	1479.56
India	1810.73	5452.03
Nepal	485.03	1654.21
Pakistan	1121.67	2618.38
Sri Lanka	71.88	2173.12
Rest of South Asia	298.21	1265.02

Factors Affecting Trade (FAT)

Infrastructure - Trade Facilitation	Market	Regulations
Transportation	Supply Capacity	Quality Standards
Shipping	Competition	Investment Regime
Customs Procedures	Product Promotion	Banking & Financial
Port Handling	Consumer Preferences	Incentive Schemes

Historical Transformation into a No-Trade Zone

- ❖ Prior to and under the British regime, this region was a vibrant economic powerhouse producing the bulk of agricultural products and industrial raw materials.
- ❖ Enjoying a contiguous vast territory and one single authority, niches for value addition developed across the region (e.g., cotton produced in Punjab was processed in Bengal to seek market at home and abroad, timber from Assam decorated the halls of Rajsthan maharajas, Sultans, and British aristocrats, etc.

Transformation into No-Trade Zone ...

- ❖ The British regime, colonial and profit-seeking, quickly exhausted the indigenous economic drivers in their motive for fast wealth accumulation.
- ❖ The exhausted economic drivers, acting as limbs to the massive production giant of British India, lost their head and other vital organs (management capacity and technical ability including book-keeping) once the colonists left.

Transformation into No-Trade Zone ...

- ❖ The political partition in 1947 resulted in economic downsizing in the region. The smaller economies were pretty much under-developed at that time.
- ❖ The India-Pakistan war in 1965 and the Independence of Bangladesh was COSTLY to all in terms of life, wealth, infrastructure, and so forth, and had triggered significant loss of economic partnership and intra-regional trade in later decades.

Transformation into No-Trade Zone ...

- ❖ At present, all 8 member states of South Asia region have divergent policy and regulatory regime suitable for competing with one another, and not suitable for complimentary and integrated economy.
- ❖ This discourages market access, resists development and emergence of regional value chain of the same/similar products.

Prevalence of SAFTA Sensitive Lists and NTMS

- ❖ Due to this divergent economic and trade policies and competitive interests among the member states, there is this extensive 'Sensitive List' since formation of SAFTA in 2006.
- ❖ As one of the team members for the technical team formed in Bangladesh to reduce the number of items from the sensitive list (in phases), I am familiar how redundant many of the items in the list are...

Initiatives to Address NTM Issues in the Region

- ❖ The Group of Eminent Persons report (GEP, 1998) had proposes elimination of NTBs within 7 years of the signing of SAFTA.
- ❖ A study by Dr. Nisha Taneja (2007) identified NTBs as a major obstacle between India-Pakistan bilateral trade.
- ❖ The 2010 study of ADB-FICCI highlighted that decline of tariffs in South Asia shifted the focus on NTBs as alarming measures of protection, disguising as regulatory policy instruments.

Initiatives to Address NTM Issues in the Region...

- ❖ A study on the NTMs in South Asia: Assessment and Analysis was initiated by the Working Group Regional Trade Facilitation Working Group (WG-RTF) of SAARC Trade Promotion Network (SAARC-TPN) in 2012;
- ❖ In due process, the study was assigned to MCCI-SANEM team.
- ❖ In about 8 months, with support from all 28 partners of SAARC-TPN, and technical team of ITC-Geneva, a study report was completed.

Initiatives to Address NTM Issues in the Region...

- ❖ This NTM report (published in 2014) contains country-wise information on:
 - ❖ Inventory of NTMs;
 - ❖ List of priority products that have both supply capacity and export potential in the region but with no or limited intra-regional trade, while identifying the related NTMs;
 - ❖ A unique analysis of export potential versus actual exports of each member country with India as a partner;
 - ❖ GTAP simulation of welfare gains in absence of tariffs versus 25% reduction of transaction costs;
 - ❖ A unique framework of monitoring mechanism for NTMs, including a template for product-specific Monitoring Tool for NTMs in terms of cost, time, and number of procedural steps.

- ❖ Following the recommendations of the report on framework of monitoring mechanisms, specialized desks to monitor NTMs were established.

NTM Desks in the Region

- ❖ NTM Desks manned by NTM Desk Officers in the region have been set up:
 - ❖ Afghanistan: ACCI
 - ❖ Bangladesh: FBCCI
 - ❖ Bhutan: BCCI
 - ❖ India: FICCI
 - ❖ Nepal: CNI
 - ❖ Pakistan: FPCCI
 - ❖ Sri Lanka: FSLCCI

- ❖ Since January 2016, there is a regional desk established at SCCI with responsibility to coordinate the 7 desks, and reporting on regional issues to SAARC Secretariat. MCCI had the responsibility to train and coordinate the desks till December, 2015.

Suggested Remedial Actions

- ❖ Continued monitoring of NTBs and related advocacy at national, bilateral and SAARC levels.
- ❖ The 12 key FAT, need to be examined for deciding on the strategy for regional economic integration.
- ❖ Examine the SAFTA sensitive list critically, and analyze the offensive and defensive trade interests vis a vis the regional value chain potential, consumer welfare, and remove the obsolete items with no significant trade interests.