

Dynamism of South Asian Preferential Trading Arrangement (SAPTA)

G.S. KUSHWAHA

The international economic environment is changing fast. Liberalization, globalization and rationalization are taking place rapidly in the world economy, in which so far South Asia is lagging behind. In this context, SAPTA may be considered as a landmark in the process of trade cooperation among the SAARC countries. It will, on the one hand silence the critics that SAARC is only for resolutions and recommendations and on the other hand, it will pave the way for intensive trade cooperation. SAPTA, using Rostow's terminology, can be considered as a 'take off stage' in the process of trade cooperation. It will gradually and smoothly lead not only to a free trade area but beginning with a free trade area and moving to a common market, it will ultimately result in the forming of a South Asian Economic Union. This will fulfill the aspirations expressed in the 11th SAARC Summit, held in January 2002 at Kathmandu.

SAPTA occupies a crucial place in the South Asian Regional Trade Cooperation. We will give the salient features of SAPTA in brief.¹

Basic Principles and objectives

The basic principles and objectives of SAPTA are given in the Agreement. The Preamble of the Agreement rightly points out,

... that the expansion of trade could act as a powerful stimulus to the development of their national economies by expanding investment and production, providing greater opportunities of employment and help, securing higher living standard for their population.... Bearing in mind the urgent need to promote the intra-regional trade, which presently constitutes a negligible share in the total volume of the South Asian Trade, [it was rightly recognized in the Summit that] preferential Trading Arrangements is the first step towards higher levels of trade and economic cooperation in the region.

Article 3 of the Agreement states the basic principles—

‘SAPTA shall be based and applied on the principles of overall reciprocity and mutuality of advantages in such a way as to benefit equitably all contracting State’. (3a).

SAPTA shall be negotiated step by step, improved and *extended* in successive stages with periodic reviews’. (3b). SAPTA has taken care of the special problems of least developed members of the SAARC also.

Article (3c) states, ‘the special needs of the Least Developed Contracting States shall be clearly recognized and concrete preferential measures in their favour should be agreed upon’.

Article (3d) further states that SAPTA ‘shall include all products, manufactures and commodities in their raw, semi processed and processed forms’.

Thus, the purpose of SAPTA is not only well defined and broad based but is according to the needs and requirements of South Asian Countries. SAPTA is the step in the right direction.

‘Components’ and ‘Additional Measures’ of the Preferential Agreement

Articles 4 and 6 are important in the Agreement as they contain ‘component’ (Article 4) and ‘Additional Measures’ (Article 6) for the preferential agreement. SAPTA will include arrangements relating to tariffs, para-tariffs, non-tariff measures and direct trade measures. It is obvious that the inclusion of all these aspects in the preferential agreement will give a boost to trade expansion and trade may become a leading sector in the South Asian economies. In addition to these, as is clear from Article 6 (1), ‘the adoption of trade facilitation and other measures to support and complement SAPTA to mutual benefit’ will further help in expanding trade.

Special Consideration to the Least Developing Members of the SAARC

Article 10 of the SAPTA provides special Treatment for the least Developed Contracting State and Annex 1 provides ‘additional measures in favour of least developed contracting States’. This is important in any arrangement/agreement for cooperation in general and trade cooperation in particular. As all the member countries are at different levels of development, it is necessary and important that precautions must be taken to avoid any harmful aspect or distortion in their markets as a result of equal or proportionate tariff cuts applicable to all members. Besides, some preferential treatment has

to be given. In fact, the policy of non-discrimination requires discrimination between least developed and other members. This alone will ensure non-discrimination. SAPTA has adopted this attitude so that the benefits are equally distributed among member countries to enable all member countries to move onto a higher level of development. Article 10 of the SAPTA outlines the measures regarding 'special treatment for the least developed contracting States.

Besides special treatment to Least Developed Members, Article 12 is very significant as it will accelerate and intensify the process of cooperation for mutual benefit and advantage. South Asia, geographically speaking, is almost compact and therefore any agreement will require an efficient and economical system of transport and communications including transit facilities. According to Article 12, 'Contracting States agree to undertake appropriate steps and measures for developing and improving communication system, transport infrastructure and transit facilities for accelerating the growth of trade within the region'. In fact, this is a pre-condition for any scheme of regional trade cooperation. As almost all the South Asian countries have common boundaries, it is necessary that the transport and communication system must be very efficient.

Tariff Negotiations

Tariff Negotiations are the most important as liberalization of trade will open up vast opportunities for developmental cooperation in the SAARC region. Article 5 deals with negotiations for the preferential arrangement among the SAARC countries. The Agreement has left the option to member countries to follow any one or a combination of the following approaches and procedures. There are four alternative approaches, namely: Product-by-Product basis, Across-the-Board tariff reductions, Sectoral basis and Direct Trade Measures. It was agreed upon by the South Asian Countries to negotiate tariff preferences initially on a Product-by-Product basis.

Rules of Origin are important and significant as the determining factor for the success of the Preferential Agreement. Article 16 deals with the rules of origin, which are set out in Annex III of the Agreement. Products can either be wholly-produced or Not wholly-produced. The real issue is about 'Not wholly-produced or obtained products'. The basic rule is that 50% of the Free on Board (F.O.B) value of the products, is added within the territory of the exporting member countries.

SAPTA has been ratified by all the members and as per the provisions of the Article 22 Entry into force, the SAPTA agreement entered into force with effect from December 1995, on the eve of the Completion of First Decade of SAARC.

Operationalizing of SAPTA in the New Millennium

Towards the close of the last century, SAARC members have taken a momentous decision, which will show results in the new century. Thus, the SAPTA must be considered as an outstanding achievement of the South Asian countries. It is neither a transitional approach nor a historical necessity—transitional approach in the sense of tiding over certain problems and historical necessity as there is trend towards regionalism. It is however a means to an end. The end is rapid economic development. A Preferential agreement will increase the overall efficacy and productivity in South Asia on the one hand, and will enable these countries to face external competition, on the other. Technically speaking, keeping in the mind the different stages of Trade Cooperation, it comes very close to the formation of a free trade area. In a free trade area, goods and commodities move freely within the area and in this case preferential treatment will be given to the South Asian products to increase intra regional trade.

SAARC's intention, rather determination to form a free trade area by 2005 will depend upon the successful outcome of SAPTA. We must admit, and there is no doubt, that SAPTA marks the first major initiative towards enabling South Asia to emerge as a trading block. Gamiini Corea, former Secretary General of UNCTAD at a country Seminar on SAPTA held in Colombo on 3 August 1994 expressed his opinion as follows:

I greatly welcome the SAPTA agreement. I think it is a milestone in the evolution of SAARC. SAARC was set up in 1985 and it was surely in need of some evidence of concrete progress. Now with the SAPTA agreement, with the initiatives taken on poverty alleviation and in the realm of other activities, . . . I think that the logic of SAPTA is essentially to provide what I would call a transact within a liberalisation process that is in any case under way, but which, by virtue of its concentration on the region will help to speed up and intensify that process. SAPTA is not a defensive programme as it might have been ten or fifteen years ago. It is one, which is now trying to incorporate the SAARC region itself in its own interchanges with processes and trends that are taking place on a wider canvas.

It is important to quote the inaugural address of P.V. Narasimha Rao, the then Prime Minister of India in the SAARC Commerce

Ministers Meeting held in January 1996. His observation is important. 'More than everything else, our aim should be to develop that indefinable yet very palpable, SAARC Personality both for our own purpose, and for the whole world outside the region'. The term 'SAARC Personality' has very important and significant implications. In trade, it can be interpreted to imply SAARC goods, i.e. goods manufactured in SAARC region without naming any member country for example, SAARC Tea, SAARC Jute, SAARC Steel and so on. It can be experimented in some select goods to begin with. The world market will consider the quality and the standard of the product. SAARC has to ensure this. SAARC's chambers of Commerce and Industry can take initiative in this regard.

Tariff Negotiations/Concessions

Three rounds of tariff negotiations have taken place and the Fourth Round is almost complete and may be announced any day. Regarding the Fourth Round, it has been decided that the negotiations would, as far as possible be conducted on a Chapter-wise, Sectoral and Across-the-Board basis. The Tenth Summit (Colombo 1998) decided in favour of deeper tariff cuts for products, which are being actively traded or are likely to be traded among members. Further, discriminatory practices and non-tariff barriers should also be removed on the items included for tariff concessions. Attempts should also be made to remove structural impediments to facilitate the goal of a South Asian Free Trade Area. The First Meeting of the Inter-Governmental Group on Trade liberalization to initiate the Fourth Round of Trade Negotiations was held at SAARC Secretariat (Kathmandu) on 27th and 28th March 2002. Member Delegates from all SAARC countries participated and exchanged request lists (for Tariff concessions).

The Colombo Summit also gave directions to prepare a text for creating a Free Trade Area. A committee of experts for drafting a comprehensive Treaty Regime on a South Asian Free Trade Area has been constituted. The Committee, in its first meeting, which was held in July 1999 at Kathmandu, worked out its Broad Terms of Reference. The Treaty will include binding time frames for freeing trade and measures to facilitate Trade. The First Working Draft of the SAFTA has been prepared and is under consideration of the member states.

In the First Round, 226 commodities were taken up for concession, in the Second and Third Round, tariffs were reduced on 1868 and 3456 commodities, totaling to 5550. While making concessions,

SAARC has taken care of the needs of the least developed countries (LDCs). There are concessions, which are made to all countries, and there are concessions made only to LDCs. Concessions made to all countries are applicable to LDCs also but concessions made to LDCs are not applicable to other SAARC members.

Table 1

Total concessions in the three rounds of tariff negotiations and depth of tariff concessions with percentage share in brackets

<i>Countries</i>	<i>Least Developed members only (LDCs)</i>	<i>All Members</i>	<i>Total</i>	<i>Depth Of Tariff Concessions</i>
Bangladesh	155 (04.5)	564 (26.9)	719 (12.9)	10% and 15%
Bhutan	188 (03.4)	64 (03.0)	182 (03.2)	10%, 13%, 15%, 18% and 20%
India	2450 (70.8)	477 (22.8)	2927 (52.7)	10%, 15%, 20%, 30%, 40%, 50%, 90% and 100%
Maldives	20 (0.6)	370 (17.7)	390 (07.0)	5%, 7.5%, 10% and 15%
Nepal	208 (06.0)	228 (10.8)	436 (07.9)	10% and 15%
Pakistan	417 (12.1)	271 (12.8)	688 (12.4)	10%, 15%, 20% and 30%
Srilanka	88 (02.6)	120 (05.7)	208 (3.8)	10%, 15%, 20%, 30%, 50%, 60% and 75%
Total	3456 (62.3)	2094 (37.7)	5550	

Source – SAARC Publications.

Note: Figures in brackets are in percentages.

Out of 5550 concessions, 2094 concessions are for all member countries and 3456 of those are for LDCs only. Thus, 62.3% of concessions are for LDCs only. If we analyse this country wise, India accounts for 52.7% of the total concessions and more than 70% of all the concessions made to LDCs only. LDCs among the SAARC are actively participating in tariff concessions. Bangladesh and Nepal have granted concessions to a large number of commodities. In fact, Bangladesh occupies the second place in total concessions and the first place in concessions given to all members of the SAARC. The Maldives occupy the third place in concessions given to all members. Pakistan comes after the Maldives and is closely followed by Nepal.

It is not only that a maximum number of concessions are granted to LDCs in SAARC but all members also make higher reductions in tariff for LDCs. India again heads the list in terms of tariff concessions granted to LDCs that range from 10% to 100% on different commodities. Further, the number of commodities involving tariff concessions to LDCs has increased in the successive rounds of tariff negotiations. SAPTA has, therefore, taken care of the needs and requirements of Least Developed Members of the SAARC.

If we examine these concessions commodity group wise, we find that Food and Live Animals (SITC-0), Chemicals and Related Goods (SITC-5), Manufactured Goods Chiefly classified by Material (SITC-6), and Miscellaneous Manufactured Goods (SITC-8) account for more than three fourth ($\frac{3}{4}$) of the total concessions. It is interesting to add that Least Developed Members have given concessions in the commodity group of Crude Materials Inedible except Fuels (SITC-2). The percentage share of this group is higher among the LDCs as compared to other members.

Thus, it can be said that the progress of SAPTA in tariff concessions is harmonious and equitable. In some cases, LDCs account for a higher percentage share. This explains its gradual and steady progress. This is true that SAARC achievements in the first decade prior to SAPTA were not outstanding. But the fact remains that it was never dormant for many years like the ASEAN. There was no crisis, as in the case of European Economic Community (now European Union) in the initial stages of tariff cuts. SAARC's existence was never in doubt as was the case with the EEC when France boycotted its meetings. SAPTA has considered all products, and is not limited to industrial products only as was the case with the European Free Trade Area and European Economic Community. This aspect of SAPTA makes it an entirely different and separate example of Regional Trade Cooperation.

This built in stability has imparted dynamism to SAPTA. It is necessary that SAARC should also consider trade-related problems and minimize its limiting effects to make SAPTA effectively operational. Two points need immediate attention.

1. *Value addition in traditional and other commodities*

- (a) There are a number of commodities, (Tea, for example), which

are exported in bulk or at an early stage of processing. South Asian countries export tea in bulk and its processing, blending and packaging is done elsewhere. As a result there is low realization of export value. Similarly, much of the value addition in garments takes place at the place of branding and marketing. These are the areas where individually little can be done. SAARC country exporters can take joint action. It will avoid mutual disadvantage. This should form a part of regional strategy (cooperation) and will enable South Asia to move to higher stages of regional cooperation.

(b) Moreover, 'Upgrading the Technology Profile of South Asian Exports' is a necessity. The RIS² has rightly pointed it out. Most of the SAARC countries' exports consist of labour intensive goods, using simple technology. The crux of the problem is that SAARC countries in general have paid little and inadequate attention to Science and Technology and Research and Development. This needs greater attention.

2. SAARC's planning and cooperation:

This is necessary to meet the challenge in a Post MFA era. Under the Multi Fibre Agreement, quotas were allotted to regulate imports of textile and clothing into developed countries from developing countries. It may sound strange but the fact remains that MFA quotas have helped many SAARC countries like Bangladesh, Nepal and Sri Lanka. The South Asian countries' share of textile garments in their manufacturing exports is relatively higher. But as per the WTO Agreement on Textile and Clothing (ATC), MFA has to be phased out from January 1995 in four stages within ten years. It means by 2005, these quotas will not be there. As a result there will be greater competition for exports. SAARC must take early action to face this challenge because South Asia will have to face ASEAN, China and other developing countries in the export market.

SAARC must give serious and immediate consideration to these problems. Thus, the advantages of freeing of trade will be limited unless accompanied by changes in production structure. The fact is that tariff reductions and changes in production structure go together. SAARC countries require both, otherwise not only will the gains be limited from Tariff Concessions, it will also not lead to further intensive trade cooperation. The crux of the problem is that tariff concessions will increase the size of the market and provide greater opportunities to increase investment and induce technological

change. Induced technological change may follow autonomous change. In fact, tariff concessions have short-run and long-run effects. The immediate advantage of tariff cuts will give a price advantage. But to utilize this price advantage, technological changes are necessary. Unless these changes take place the immediate gains of tariff cuts will be limited and may not be sustained over time. The immediate gains are sometimes called static effects while the later gain are called dynamic changes. These dynamic changes are necessary for the success of tariff preferences. SAPTA will become dynamic only if followed by these changes/improvements. Therefore, dynamism in SAPTA consists in taking a comprehensive view of these short-run and long-run changes in the structure of production as also of the interdependent changes in the economies of SAARC countries. Dynamic changes are necessary (rather a pre-condition for the success of tariff preferences). SAPTA will become dynamic only if followed by these improvements. It is only in this way Viner's 'Trade creation' will be maximized and 'Trade diversion' will be minimized.

Last but not the least, Article 12 of SAPTA must be considered on a priority basis. South Asia must undertake and pay active attention to developing and improving the communication system, transport infrastructure and transit facilities for accelerating the growth of trade within the region.

SAARC has taken another important decision in the implementation of SAPTA by reducing the percentage determining the Rules of Origin. The agreement provided that the domestic content of intra-regional exports should be 50%. Now it has been reduced to 40% for all members and for LDCs from 40% to 30%. This decision of the SAARC council of ministers in March 1999 will give a further boost to increase intra-regional trade.

Some Myths about SAARC's Intra-regional Trade

Among the South Asian countries political considerations often tend to dominate economic decisions. It is sheer commonsense that political differences should not stand in the way of economic relations particularly where crores of people will benefit economically. Of course, there should not be any political motive to trade relations among the participating countries. Mahbub ul Haq³ had exploded many myths about Indo-Pak trade. The unfortunate fact is that there is a small legal and sizable illegal trade. It shows that even as

government is restricting trade, people are trading. The estimates of illegal trade ranges from \$ 100 million to \$ 1 billion. This is unfortunate. Recent estimates show that consumers in Pakistan can decrease their food bill by 20% to 30% through increased trade with India. For every agricultural product sold for Rs. 100 in Pakistan, it can be made available at less than Rs. 40. There will be economy/saving in transport/freight charges because of geographical proximity. For example, if wheat is imported from India by Pakistan instead of from Canada/America, there will be a saving of at least \$ 25 on every ton of imported wheat. It is pointed out that the combined producer and consumer losses in Pakistan alone are estimated to Rs. 800 million. This can be used elsewhere and will increase the overall welfare of the people. The same logic will be applicable to India. Official trade between India and Pakistan is barely \$ 200-250 million a year, less than half of India's \$ 600 million trade with Nepal. Indian and Pakistani business groups estimate bilateral trade could swell to 8 billion a year if all restrictions were removed. We have the example of America and China. Despite political differences, economic relations have assumed new dimensions between these two nations. The argument that India being a big country will gain advantages is not true. In the case of the North American Free Trade Area, America is economically very strong yet there is a trade deficit with Canada and Mexico.

In fact between neighbours trade is a natural phenomenon that benefits both the partners. Restrictions will lead to corrupt practices particularly when there is a long boundary between the countries. Let us take another example of price advantage. If Sri Lanka imports the Indian-made Hero-Honda or Kawasaki Bajaj bike, Sri Lankans will be paying almost half of the Japanese price.

Thus, economic considerations require greater cooperation among the SAARC members. Non-economic considerations should not restrict or neutralize the economic well being of crores of people in South Asia. SAARC members have suffered from common misfortunes in the past. Culturally and socially they are close. The most important problem of all the SAARC members is poverty. Although the percentage of the poor (having income less than \$ 1 a day) has decreased from 45% in 1987 to 40% in 1998 yet, the number of poor has increased from 474.4 million in 1987 to 533.0 million in 1998.⁴ It is expected that they will join hands to eradicate poverty. History should not stand in the way of prosperity. It is futile to quarrel over history that we cannot

change. But we can make History. Let us move forward in this direction. South Asian politicians must realize it.

It may also be added that Asian countries have greater links in economic, social and political terms. The similarities of the societies emanate from the concepts of family. It is observed that the western self is egocentric. The differences of East and West can clearly be found out in every walk of life. The different identity of the East makes a workable case to substantiate the concept of 'Asianization'. The diversity of the resources base of Asia further substantiates Asianization to be a complete world. There is a need rather a necessity to explore the opportunities of Asianization to speed up the process of 'catch up' between all developed and developing economies of Asia. Trade can act as a leading sector in this direction and through SAPTA, South Asian countries can initiate the process for restoring the pride, prestige and prosperity of Asia.

NOTES AND REFERENCES

1. Agreement on SAARC Preferential Trading Arrangements (SAPTA), SAARC Kathmandu, Nepal.
2. *South Asia Development Cooperation Report 2001/2002*, Research and Information System for the Non-Aligned and other Developing Countries. (RIS) p. 89.
3. Source HDC, 1999, based on speeches and statements of Mahbub ul Haq, quoted in Box, pp. 168-169, RIS.
4. *World Development Report 2000-2001*, Table 1, p. 23.