

CONFERENCE ON SAFTA  
AGENDA FOR TRADE LIBERALIZATION

# SAFTA



Jointly Organized by  
SAARC Chamber of Commerce & Industry  
and  
The Federations of Bangladesh Chambers of Commerce & Industry  
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# SAARC

## Free Trade Area (SAFTA)

**S**AFTA is regarded as a very significant economic agreement amongst all the seven member countries Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, who have entered into this agreement motivated by the commitment to strengthen intra-SAARC economic cooperation by eliminating trade barriers. SAFTA will come into effect on 1st January 2006. The divisive tendencies in South Asia have long defined the process of regional economic integration the world over. In most regional economic blocs intra-regional trade today accounts for the bulk of their trade. For example, intra regional exports for North Atlantic Free Trade Area (NAFTA) is 51.7 per cent, for European Union (EU) it is 55.2 per cent, for MERCOSUR (Latin American trading bloc comprising of Argentina, Brazil, Paraguay and Uruguay) it is 25.1 per cent, for ASEAN it is 20.4 per cent but for SAARC it is only 5.3 per cent. The SAFTA agreement has the potentiality of going beyond its stated objective of freeing trade in goods. It can make South Asia a magnet for vastly enhanced foreign investment and lead to reconstruction of the economies making the region one of the fastest growing and most competitive economic blocs.

According to the agreement on SAFTA signed by the member countries, the objective is "to maximise the realization of the region's potential for trade and development for the benefit of people, in a spirit of mutual accommodation, with full respect for the principles of sovereign equality, independence and territorial integrity of all States." The member countries are convinced that preferential trading arrangements among themselves will act as a stimulus to the strengthening of national and SAARC economic resilience, and the development of the national economies of the contracting states by expanding investment and production opportunities, trade, and foreign exchange earnings as well as the development of economic and technological cooperation. The agreement has recognized that Least Developed Countries (LDCs) in the region need to be accorded special and differential treatment commensurate with their development needs.

Considering the importance of SAFTA agreement for private sector, SAARC Chamber of Commerce & Industry (SCCI) organized series of seminars/workshops in major business centers of the region to create awareness as well analyze private sector response to SAFTA.

SCCI and Federation of Bangladesh Chamber of Commerce and Industry (FBCCI) jointly organized a Conference on SAFTA: Agenda for Trade Liberalization on 27th June, 2005 in Dhaka, Bangladesh. Earlier seminars on SAFTA series have already been held in Lahore, New Delhi, Mumbai and Colombo during the year 2004. Seminar were designed to create awareness in the private sector of SAFTA, to identify areas to boost intra-regional trade for the common benefits of the region, to assist in implementing free trade area in the region (SAFTA) and to promote economic cooperation by eliminating trade barriers. Eminent speakers from South Asia shared their views on issues related to Non-Tariff Barriers, Formulation of Sensitive List, Dispute Settlement Mechanism, Revenue Compensations and Rule of Origin.

India should come up with more generous attitude towards its small neighbors. The meaningful negotiations of South Asia Free Trade Area (SAFTA) depended on India. Bangladesh is the third largest market for Indian products but its exports to India is very low; the whooping imbalance in trade is primarily due to a number of non-tariff barriers imposed by India. Although SAARC was created 20 years ago with the objective of fostering closer cooperation in economic, trade scientific and cultural fields, the progress so far has not been up to expectation. South Asian countries were at par or better in 50s and 60s in many areas in comparison with Malaysia, Korea and Thailand. These countries have now surpassed significantly and are cited as models of economic development while the South Asian Countries despite having brilliant political, administrative, military and entrepreneurial records have fallen sadly behind the race. It is imperative that the countries relook at their positions, assess their weaknesses in right earnest and closely work in a mutually supportive environment towards realization of the shared goals.

**Barrister Moudud Ahmed, Hon'ble Minister for Law, Justice and Parliamentary Affairs, Bangladesh**



**N**on Tariff Measures (NTMs) have emerged as less transparent measures of trade control as tariff levels are coming down gradually noting that some Non Tariff Barriers (NTBs) are WTO/GATT compatible when used on health safety, national security, BOP, STE (State trading enterprise) monopoly grounds. The NTBs resorted to by the SAARC member countries may be summarized as below:

Nature of NTBs	INDIA	BANGLADESH	PAKISTAN	SRI LANKA
Quantitative Restrictions Qrs	QRs phased out since April, 2001. Under a sensitive list of products prepared, imports are regularly monitored.	At HS 4-digit, the number of products came down to 63 in IPO 2003-2006 from 193 in 1991-1993. Protective items include agricultural products, packaging materials & textile products.	QRs eliminated with exception that imports from India of all products other than on a limited positive list are banned.	Abolished most of QRs since 1977 except some food crops: rice, potatoes, chilies, onions, tea & spices etc.
State trading enterprise (STE) monopoly	STE controls rice, wheat, all coarse grains except maize, barely & copra; vegetable fats, edible oil and petroleum products are canalized by public sector.	For petroleum & its products, Bangladesh petroleum corporation (BPC) is the only organization. Salt is imported by salt crushers association.	Eliminated parasitical import monopolies.	STE retains import monopoly of wheat
Standards, Technical regulations (SPS)	Plant, Livestock, agricultural & Food products require SPS certification. Bureau of Industrial Standards (BIS) Standardized 133 products & so require certification eg for food ingredients, steel products, electrical products, etc.	Bar/Restrictions on health, religion, environment, cultural grounds continue.	Restrictions on health and safety grounds. Ban on import of second hand consumer durable eg air conditioners, refrigerators, vehicles, etc.	Restrictions on health and safety grounds. Technical standards are applicable.
Access to ports	Access to ports limited for some sensitive products eg hilsha fish through air only and clothing & tea from Sri Lanka through some specified ports.	Access to ports for imports are made limited, eg from India of cotton yam, sugar, fish, milk and rice.		
Licensing	For about 600 items, it is required	Non-automatic licensing for some products		Drugs & Chemicals, Motor Vehicles, Photocopiers, etc.



Import ban/restrictions continue in case of products that are domestically produced, these are mainly intermediate items

Rules of Origin (ROO) are an essential adjunct to PTAs. ROOs might take the form of either trade deflection or NTBs. ROO's main developmental objectives may be promoted by facilitating value addition through backward linkages, preventing trade deflection and promoting balanced regional trade. Revised formulation of ROOs be put in place before the launching of SAFTA in January 2006. It was suggested that SAFTA ROOs adhere to multiple criteria with product specific flexibilities.

**Professor Indra Nath Mukherjee, School of International Studies, Jawaharlal Nehru University, New Delhi, India**

The region has entered into a new phase of cooperation after signing of the SAFTA in January 2004. Liberalizing the most important sectors first may yield better welfare effects rather than choosing the less important sectors first for liberalization. The absence of deadline for determining the negative list and the format for phasing out the negative list over the years, the lack of clarity in designing the rules of origin and in the removal of Non Tariff Barriers (NTBs), exclusion of trade in services and its reticence on how the existing Free Trade Agreements (FTAs) between some member countries would be integrated into SAFTA are some vital areas of contention that merit speedy

negotiation. Access to Indian market for goods from smaller economies by dismantling tariff and NTBs is needed, without significant change in the production structure. Least Developed Countries (LDCs) can not derive equitable benefit. LDCs should be assisted through finance, investment and technology transfer to build their supply capacity and diversify production base for export.

**Abdul Awal Mintoo, President, FBCCI**

SAARC intra-regional trade is covering 3% of the world's area and 21% of the world's total population and it has a very low intra-regional trade, sharing only 5% of their total trade against 21% in ASEAN, 66% in EU and 50% in NAFTA. The intra-regional trade, as estimated in 2003 at US\$ 3800 million, is heavily influenced by trade between India and Nepal, Sri Lanka and Bangladesh, India being the key supplier. Imports from India by Bangladesh and Sri Lanka accounted for about 50% of the total trade and total exports from India to other members accounted about 84% of the regional trade. 1% of India's imports comes from the region as against imports from India by Bangladesh, Sri Lanka, Nepal and Bhutan at 13-19%, 32%, 13% and 64% respectively, with Indo-Pakistan trade, which is largely a function of political consideration, being negligible.

**M. A. Rouf Chowdhury, Chairman, Rahima Food Corporation Limited, Dhaka, Bangladesh**



**D**ispute Settlement Mechanism" traced the history and forms of RTAs including formation of PTA, FTA, customs territory, customs union, common market etc. and endeavored to seek dispute settlement mechanisms as are generally seen in the bilateral and regional FTAs including those in the WTO. The matter is that if Europe, North America and South East Asian countries could strike a deal effectively on RTAs, why South Asian countries with similar political, cultural and administrative legacy should fail to do so. There is need to renew the determination to abide by the rules and procedures of the DSM and other WTO agreements in the conduct of trade relations and the settlement of disputes. The longer experience with the DSM, including the implementation of panel and appellate recommendations, will further enhance the effectiveness and credibility of the dispute settlement system.

**Abu Hena, Hon'ble Member of Parliament, Bangladesh**

**T**he major objective of bilateral, regional or multilateral arrangement is to attain market access. 60% of the total world trade is carried out through preferential arrangement and the rest 40% is on MFN (Most favored nation) basis and an increasing number of bilateral and regional trading arrangements across the world is being negotiated and put into place. SAFTA product coverage is as; India accounts for 48.9% against Pakistan's 12.9% and Bangladesh's 10.8% and Sri Lanka's as low as 3.7%. Need is to strengthen the bilateral trade relations precedent to RTAs as good and effective RTAs would not follow unless bilateral FTAs are sound.

**Huma Fakhar, Expert, WTO Laws and Policy Partner, Fakhar Law International, Lahore, Pakistan**

**P**olitical decisions should be pro-business in order that Bangladesh might maximize its gain from any bilateral or regional arrangement. Trade follows gravitational rule and hence the overarching need for trade with India can hardly be overemphasized.

**Syed Toufique Ali, Former Director, Dhaka Chamber of Commerce and Industry, Bangladesh**

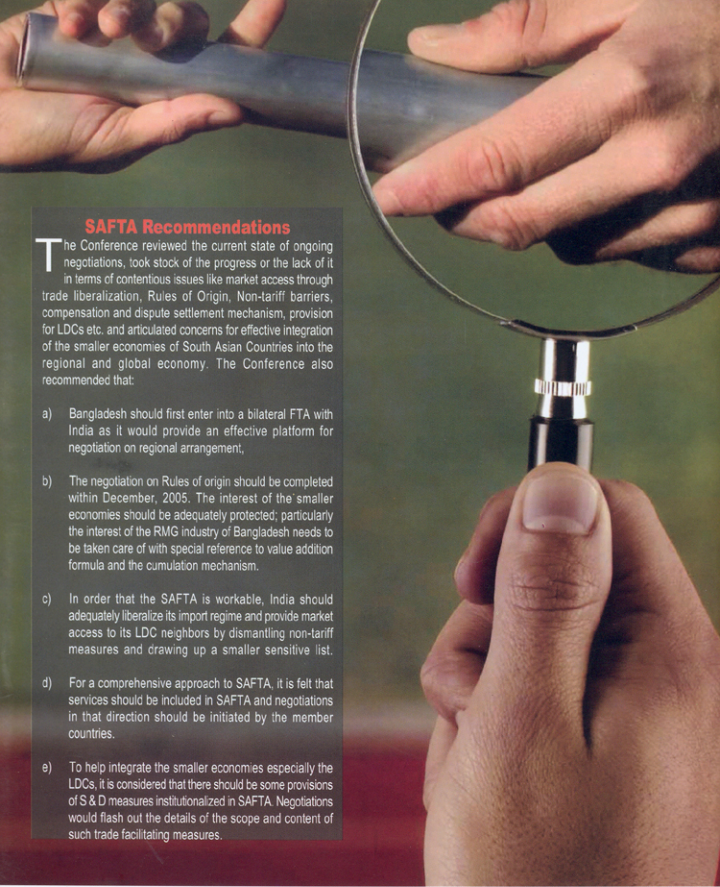
**T**elecasting with India, services including movement of unskilled labour to India which should be included in the SAFTA. There is need for private sector participation in the SAFTA / FTA negotiation process. The need for FDI into Bangladesh, the need for a change in mindset of the bigger economies particularly India is overwhelming. Investment by India in Bangladesh in all possible sectors including textile could go a long way to increase the bilateral regional trade.

**Mir Nasir Hossain, Director, FBCCI**

**W**orld Trade Organization (WTO) has shown the way how smaller economies like Bangladesh can integrate themselves into the multilateral trading system. Political economy was one of the major factors in operationalising the SAFTA pact. SAFTA's main objective should be the establishment of a Customs Union and an Economic Union in the region, home to one-fourth of the world's population.

**Amir Khosru Mahmud Chowdhury, Former Commerce Minister of Bangladesh**





### SAFTA Recommendations

The Conference reviewed the current state of ongoing negotiations, took stock of the progress or the lack of it in terms of contentious issues like market access through trade liberalization, Rules of Origin, Non-tariff barriers, compensation and dispute settlement mechanism, provision for LDCs etc. and articulated concerns for effective integration of the smaller economies of South Asian Countries into the regional and global economy. The Conference also recommended that:

- a) Bangladesh should first enter into a bilateral FTA with India as it would provide an effective platform for negotiation on regional arrangement,
- b) The negotiation on Rules of origin should be completed within December, 2005. The interest of the smaller economies should be adequately protected; particularly the interest of the RMG industry of Bangladesh needs to be taken care of with special reference to value addition formula and the cumulation mechanism.
- c) In order that the SAFTA is workable, India should adequately liberalize its import regime and provide market access to its LDC neighbors by dismantling non-tariff measures and drawing up a smaller sensitive list.
- d) For a comprehensive approach to SAFTA, it is felt that services should be included in SAFTA and negotiations in that direction should be initiated by the member countries.
- e) To help integrate the smaller economies especially the LDCs, it is considered that there should be some provisions of S & D measures institutionalized in SAFTA. Negotiations would flesh out the details of the scope and content of such trade facilitating measures.



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