Chapter 4

The Cost of Economic Non-Co-operation in South Asia[1]

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4.1 Introduction

One of the major hurdles in the South Asian trade liberalisation process has been hesitancy on the part of countries from the region to subject sectors/products of high intra-regional trade potential to the Trade Liberalization Programme (TLP) under the South Asian Free Trade Area (SAFTA) agreement. This has caused a high cost to consumers in South Asia in terms of avoidable high prices on imported goods which could have been sourced from regional trading partners at considerably lower prices. Loss of consumer welfare owing to lack of depth in intra-regional trade and non-co-operative economic relations has not been hitherto subjected to thorough research. This chapter carries out a quantitative assessment of potential consumer welfare gains from deeper trade integration in South Asia and presents the results of a perception survey analysis on the views of key stakeholders on the relevance of consumer welfare in trade discourse. The results of the quantitative assessment show that minimum static annual consumer welfare gains of US$1.9 billion could be realised from enhanced regional trade. The general perception of stakeholders is that bringing in consumer welfare aspects of trade will help to rebalance the SAFTA negotiations and, towards this goal, initiatives for awareness generation and networking among various stakeholder groups is of utmost importance.

The volume and impact of international trade in the world economy has grown phenomenally over the past few decades. Its share of world trade in world GDP has gone up from 39 per cent in 1985 to 50 per cent in 2010.[2] To a large extent, this growth was made possible by an upsurge in participation by developing countries in global trade, as they underwent a paradigm shift in their national economic policy outlook, embracing the hitherto familiar concept of 'trade – an engine of growth'. This is highlighted by the fact that lower-middle-income countries experienced a sharper rise in trade to GDP ratio, from 32 to 56 per cent, during the 1985–10 period.[3] Today, trade liberalisation has become a standard norm throughout the developing world as can be seen from the unprecedented growth in number of free trade agreements (FTAs), albeit with varying levels and degrees of success.

The South Asian regional initiative for regional economic co-operation is spearheaded by 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 so far failed to influence growth in intra-regional trade in a significant way. Between 1995 and 2005, intra-regional trade in South Asia hovered around 5 per cent of the total trade of these countries. On the other hand, such intra-regional trade ranged between 20 and 60 per cent in the case of many other regional economic blocs. SAFTA member states are also yet to initiate an institutional framework to move toward deeper economic integration beyond trade relations.

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 their 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 a mercantilist attitude – increasing exports, while still attempting to restrict imports (World Bank 2011). The protective tendency of the SAFTA member states is evident from the large sensitive lists containing products kept out of bounds of the agreement's TLP.[5]

The net result of economic non-co-operation among the South Asian countries is a high cost to consumers. Enhanced regional trade would bring down the prices of many key commodities significantly by avoiding the additional costs of importing from outside the region. For instance, certain previous estimates show that Pakistan stands to save between US$400 million and US$900 million on its import bill if it allows imports from India on several items to replace its present imports from other countries at a higher cost (Qamar 2005).[6]

This chapter addresses the issue of the impact on consumer welfare of regional trade liberalisation in South Asia. In the following section, a quantitative assessment of potential consumer welfare gains from full trade liberalisation under SAFTA is presented. The chapter also includes the main observations gathered from a perception survey analysis, examining the opinion of key stakeholders in the region on the role and relative importance of consumer welfare aspects in trade negotiations under SAFTA.

4.2 Potential impacts of SAFTA on consumer welfare: A quantitative assessment

Benefit from trade has two streams – gains to producers and gains to consumers – which are essentially inseparable. When it is said that the best producers in each trade sector will capture the market by outcompeting inefficient competitors and earning their right to sell, it necessarily also means that buyers get to choose from the best quality products at the lowest possible prices. But the consumer welfare effects of trade are often neglected, as consumers' savings due to imports are not as visible as producers' export earnings. Moreover, imports are often viewed with discontent owing to the uncertainty they pose on the survival 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 them only as a threat, trade negotiations most commonly face an impasse. This may be observed from the way many preferential trade agreements across the globe function.

A survey of existing literature reveals that assessment of consumer welfare gains from trade liberalisation has hardly been subjected to thorough research in the context of SAFTA. Neither have such considerations influenced the course of SAFTA negotiations in any significant manner (Ghani and Din 2006; Dayal et al. 2008). 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 as a policy tool to gain export markets but also as a significant source of economic benefits in its own right. In this chapter, an empirical exercise is undertaken to assess potential welfare gains to South Asian consumers arising out of enhanced intra-regional imports. Towards this end, an elementary method is used to measure the impact on consumer welfare of an increase in imports as currently reserved product categories are brought under the ambit of the tariff liberalisation scheme agreed 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 preferential trading arrangement (PTA), domestic lobbies work to ensure the exclusion of products in which they may not withstand competition from the partner countries, as is observed from the India–Sri Lanka FTA (Baysan et al. 2006).[7] Thus, sensitive lists of excluded products often give a good starting point for finding sectors of importance for intra-regional trade.

4.2.1 Assessment of consumer welfare gains: Methodology and product selection

One of the primary objectives sought through SAFTA, given the limitations of its predecessor SAPTA, was to generate sufficient tariff preferences by increasing product coverage under the agreement's TLP. Though member countries adopted reduced sensitive lists containing items which are not subject to tariff reduction, the lists are still large and include many items in which SAFTA trading partners exhibit comparative advantage.

With the exception of Bhutan, all the other seven members elected to exclude more than 10 per cent of total product lines (Harmonized System (HS) six-digit level) from the ambit of the TLP. At the time of commencement of preferential tariff reductions under SAFTA in 2006, all five major member countries (Bangladesh, Nepal, India, Pakistan and Sri Lanka) kept 15–25 per cent of total product lines out of bounds under their sensitive lists. Since then only a marginal reduction in the lists has been achieved. While India lowered the number of product lines in its lists for least developed countries (LDCs) from 744 to 484, the list for non-LDCs has remained at the same number, at around 860 product lines. Bangladesh, Nepal, Pakistan and Sri Lanka still retain more than 1000 product categories in their lists, with a hitherto unfulfilled commitment to a 20 per cent reduction.

The method adopted in this study for arriving at consumer welfare gains has two stages. In the first stage, an algorithmic process is followed to select products included in the sensitive lists of the five major SAFTA member nations for calculating figures of minimum gains for product categories with maximum potential effects on consumer welfare.

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

In the second stage, the potential consumer welfare gains for each SAFTA member are 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 the lower price currently offered by them.[8]

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

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 the potential for savings on imports leading to a 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 qualifies those products for removal from their sensitive lists.

One of the important features of this methodology is that it minimises the risk of displacement of domestic industries owing to imports – the single most important concern of an importing country – because it ensures the selection of product categories which already rank high in the import baskets of SAFTA members. Another objection often raised against the reduction of import tariffs is the loss of revenue from the same. However, because of the increase in intra-regional trade owing to tariff reductions on selected products in their respective sensitive lists, each SAFTA member stands to gain in terms of an increase in export earnings, which could be taxed to offset for the loss of customs revenue. Dependence on customs revenue is to be forgone in any case in the course of multilateral trade liberalisation to which the selected SAFTA members are committed as World Trade Organization (WTO) signatories.

The estimates arrived at using this method 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 a comparison of import costs with other trade costs and allow the relative merits of tariff liberalisation in each product category to be assessed in detail.

4.2.2 Results on consumer welfare gains

After identification of products which satisfied 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 4.1 gives the summary of aggregate results. A combined total of 355 product categories were identified from the sensitive lists of the five countries which had high regional trade potential and promised high welfare gains. The current aggregate import bills paid to RoW by the SAFTA members under consideration on these product categories amounted to US$6212.83 million. Intra-regional trade at reduced prices would generate a 31.36 per cent saving on this import expenditure, leading to annual savings of about US$1948.15 million for buyers in the region.

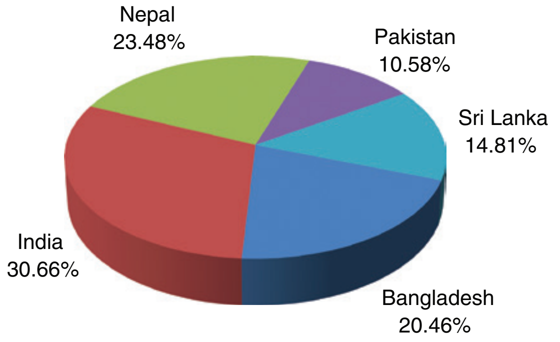
Figure 4.1 shows the share of each SAFTA member in aggregate welfare gains. India tops the list in terms of share in aggregate regional gains, accounting for about 30 per cent of the total. It is commensurate with the high number of product lines that qualified for removal from India's sensitive list. Despite the slight variation in share of 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 per cent of total gains, the lowest, it stands to save 59.04 per cent on its current import expenditure on selected products.

Fifty product lines qualify for removal from Bangladesh's sensitive list, bringing about US$398.5 million worth of savings on imports which is about 14 per cent of current expenditure (Table 4.2). Imports from SAFTA trading partners are almost evenly distributed in terms of product lines, but most of the gains accrue from imports from

Table 4.1 Summary of aggregate results on consumer welfare gains

Country	Product lines qualifying for removal from sensitive lists	Consumer welfare gains (US$ million)	Current value imports of country from RoW (US$ million)	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**

Figure 4.1 Country-wise share in aggregate regional consumer welfare gains



Pakistan (57 per cent) and India (36 per cent). Bangladesh stands to gain mostly through imports of mineral fuels and oil by-products. Other major items which would reduce its import bill are electrical equipment and pharmaceutical products. The contributions of imports at reduced prices from Sri Lanka and Nepal amounts to less than 7 per cent of the total gains for Bangladesh. However, in absolute terms, Bangladesh would save about 30 per cent each on its current aggregate spending on imports from Sri Lanka and Nepal on selected product categories.

Results for India show total gains of US$597.29 million (Table 4.2). Even though this figure is much higher in absolute terms than for other countries, relative gains for India may be lower than for its SAFTA trading partners, given its large economic and demographic size. An interesting feature is that more than 90 per cent of the gains accrue by way of imports from Pakistan of plastic-based articles. Though only 5 products (chiefly iron and steel-based articles) are eligible for welfare gains in India for imports from Nepal, India stands to gain 70 per cent on its import bill. Forty-one product lines eligible for imports from Bangladesh chiefly consist of articles of apparel. However, because of the comparatively low price differential between the two countries, the saving on these items together contributes to only 2.15 per cent of India's total welfare gains.

Nepal accounts for about 23.5 per cent of aggregate regional welfare gains. Through import displacement in 73 selected product categories, the landlocked state would save US$457.5 million, which is almost 50 per cent of its current import expenditure on these categories (Table 4.2). Imports from India and Pakistan account for the bulk of the country's welfare gains. The main 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 apparels. However, with all other countries, the there exists import opportunities for the country with a high prospect of welfare gains.

In the case of Pakistan, the results shows a selection of 44 product lines from its sensitive list with an aggregate saving of US$206.18 million, which is close to 60 per cent of its current import bills on the selected product categories (Table 4.2). As a reciprocal 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 4.2 Consumer welfare gains (country-wise results)

SAFTA trading partner	Applicable product lines from current sensitive lists	Percentage of product lines in total product lines	Potential consumer welfare (US$)	Percentage of consumer welfare in total consumer welfare	Current value imports by Bangladesh from RoW (US$)	Percentage of consumer welfare in imports
Bangladesh						
Pakistan	14	28.00	227012665.18	56.96	1317564000	17.23
India	9	18.00	143469447.53	36.00	1388535000	10.33
Sri Lanka	13	26.00	1210361.70	0.30	4142000	29.22
Nepal	14	28.00	26870146.30	6.74	71085000	37.80
Total	**50**	**100.00**	**398562620.71**	**100.00**	**2781326000**	**14.33**
India						
Pakistan	63	39.13	545005991.91	91.25	939533208	58.01
Sri Lanka	52	32.30	32005052.94	5.36	90735000	35.27
Bangladesh	41	25.47	12822800.40	2.15	54663000	23.46
Nepal	5	3.11	7459603.10	1.25	10519000	70.92
Total	**161**	**100.00**	**597293448.35**	**100.00**	**1095450208**	**54.52**
Nepal						
Bangladesh	45	61.64	11233014.82	2.46	25555000	43.96
Pakistan	20	27.40	255041185.55	55.75	586586000	43.48
Sri Lanka	4	5.48	107012.52	0.02	852000	12.56
India	4	5.48	191121724.49	41.77	455279000	41.98
Total	**73**	**100.00**	**457502937.38**	**100.00**	**1068272000**	**42.83**
Pakistan						
India	6	13.64	203878774.21	98.89	339251000	60.10
Sri Lanka	13	29.55	356850.25	0.17	1676000	21.29
Nepal	5	11.36	301170.78	0.15	1362000	22.11
Bangladesh	20	45.45	1639500.07	0.80	6949000	23.59
Total	**44**	**100.00**	**206176295.31**	**100.00**	**349238000**	**59.04**

(continued)

Table 4.2 Consumer welfare gains (country-wise results) (continued)

SAFTA trading partner	Applicable product lines from current sensitive lists	Percentage of product lines in total product lines	Potential consumer welfare (US$)	Percentage of consumer welfare in total consumer welfare	Current value imports by Bangladesh from RoW (US$)	Percentage of consumer welfare in imports
Sri Lanka						
India	12	44.44	286459853.66	99.25	914684000	31.32
Pakistan	5	18.52	277969.54	0.10	689000	40.34
Nepal	10	37.04	1876641.65	0.65	3168000	59.24
Total	**27**	**100.00**	**288614464.84**	**100.00**	**918541000**	**31.42**

Though aggregate welfare gains of Sri Lanka amount to the comparatively lower figure of US$288.61 million, per capita gains would be the highest, it being the least populated among the selected South Asian countries. On 27 product categories included in its sensitive lists, diverted imports from within the region would help Sri Lanka to save 31.42 per cent of its current import expenditure. Almost all of its expected 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 consists of articles of apparel that are price competitive and capable of capturing part of the South Asian textiles market with Bangladesh. Though welfare gains accruing to Sri Lanka by way of imports from Nepal are only US$1.88 million, the island nation is set to save close to 60 per cent on imports from RoW by choosing alternatives from Nepal on certain items.

4.2.3 Export opportunities in selected products and trade potential

Increase in intra-regional trade also implies enhanced export opportunities for each of the SAFTA members. As we have only considered the replacement of imports to the region with cheaper imports from within the region, 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 the South Asian region. This figure stands at around US$4 billion.

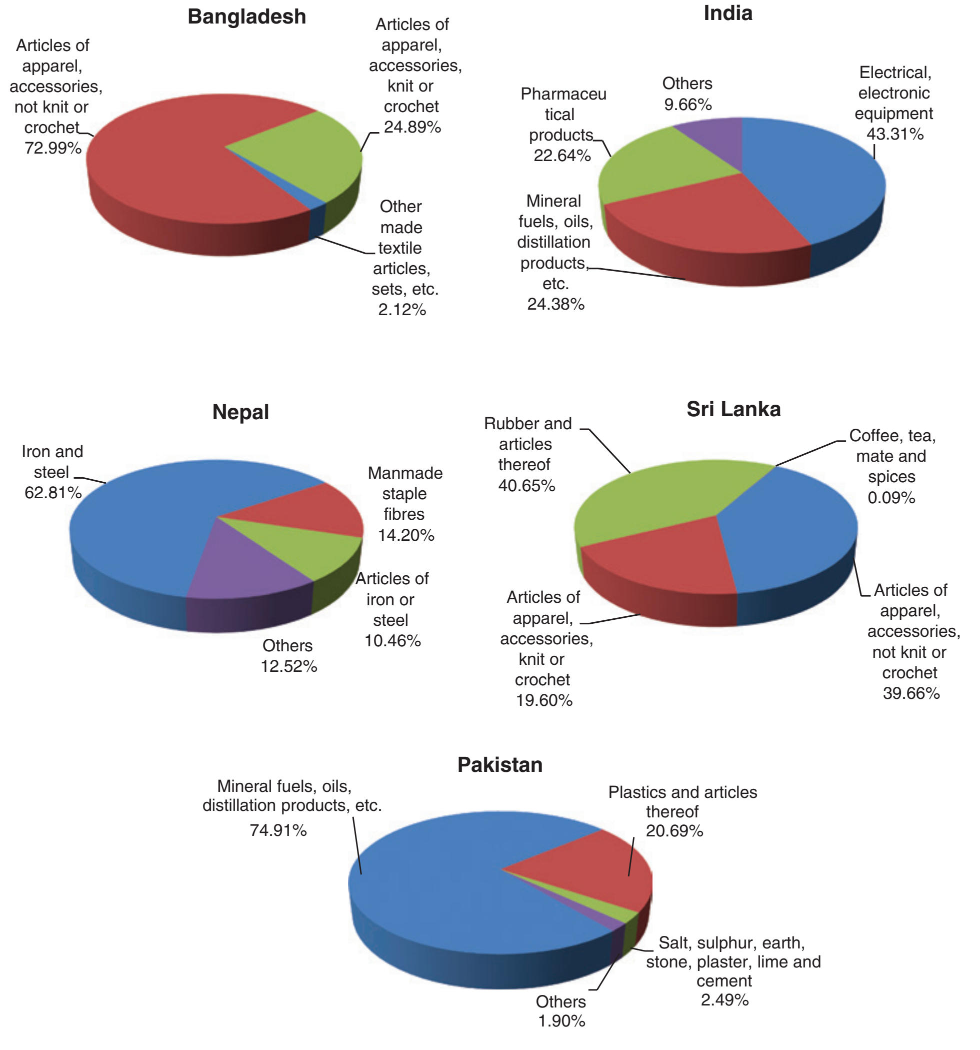
Though it may be argued that only internalisation of exports could occur in this scenario, without a real increase in export volume we must consider the dynamic effects on regional exports. The key issue that confronts intra-regional trade potential is the supply capacity of trading partners from the region. If the supply capacity remains static, the 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 raise 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 of the 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 could meet each other's 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 and 90 per cent of current imports from RoW.

There are two key elements to be considered here with respect to potential export market expansion. First, 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. Second, depending on the magnitude of the import price elasticity of the products in the importing countries, a lower price 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 4.2 shows 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 for the targeting of export promotion policies in the context of regional trade in South Asia.

Figure 4.2 Product category-wise export opportunities



4.2.4 From minimum to maximum gains

As stated earlier, the method used in this study gives the minimum consumer welfare gains accruing to South Asian consumers directly arising out of 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 popular discourse for which further clarification may be needed. More importantly, it needs to be noted that the assessment of consumer welfare gains herewith 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 could be no straightforward answer to this, at closer examination it could be seen that export price offered to RoW is likely to go down for regional trading partners. This is mainly for two reasons: first, export price to RoW covers mostly the most favoured nation (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 from 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. Since a preferential rate below MFN is on offer under SAFTA, there is no particular reason for the export price to rise. Second, if it is safe to assume that transportation costs would be less because of a 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. In case of the selected products mentioned in the preceding sections, the fact that at least one South Asian partner country has revealed a 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 with RoW, even before liberalisation, removal of these products from the sensitive lists is unlikely to result in them being replaced by 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 quantities of imports. But the initial changes in import prices owing to preferential trade are only a starting point which triggers other factors into action, with a combined effect of increasing consumer welfare gains to 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 South Asian Association for Regional Cooperation (SAARC) region following development of trade infrastructure.

The first effect here implies savings in consumer expenditure not only on imported products but also on domestically manufactured items facing import competition. A fall in import prices from within the South Asian region will have a competitive effect on domestic manufacturing in the selected sectors as well as on exports from RoW, leading to overall control effects on the prices of the commodities under consideration. The second effect, trade creation, is closely linked with this. Here, as the affordability of consumers rises because of a 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 to a greater extent than tariffs and that these NTBs hurt South Asian exporters more than RoW exporters. Intra-regional trade costs, because of poor connectivity, transport infrastructure, costly customs procedures and the 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 an 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.

4.3 Perceptions and expectations about regional economic co-operation in South Asia

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, with one of its main goals as the 'promotion and strengthening of collective self-reliance among the countries of South Asia'.[9] It has been heavily influenced by the ever tilting kaleidoscope of bilateral political relations between SAARC member states. As a result, objective analysis of the economic costs and benefits of open trade in South Asia without considering political implications has always remained inconsequential (Weerakoon 2010).

In the wake of the formation of the WTO in 1995, closely following policy reorientation in all the leading states in the region towards export-based growth strategies, participation by the South Asian countries in the multilateral negotiations to expand trade liberalisation was the immediate focus. Though SAPTA also came into force in 1995, regionalism took a back seat during this period, as an exploration of export markets in the neighbourhood was not considered worth the enormous negotiating capital required for keeping non-trade issues at bay. Proliferation of PTAs among WTO member nations and success stories elsewhere rekindled interest in SAPTA, leading to its subsequent graduation into SAFTA in 2004.

During this period, mercurial bilateral relations between India and Pakistan, the largest member states, have played a big role in shaping the expectations of various stakeholders from all over South Asia about the regional trade agreement. Consequently, around the turn of the century, it was widely believed that bilateral trade pacts would have better prospects and 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.

Because of this multifaceted approach towards trade policy, as well as a frequent change 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 various capacities in all South Asian countries. The diversity in viewpoints has naturally fed into the policy formulation process at the national level and has had a very deep bearing on the course of regional trade negotiations thus far. Analysing the perceptions of relevant stakeholder groups, thus, is highly rewarding for understanding the nuances of SAFTA negotiations.

The perception survey of key informants and stakeholders on regional trade integration in South Asia was carried out based on the premise that political economic aspects rooted in conflicting interests of diverse stakeholder groups eclipse pure economic reasoning when it comes to trade policy decision-making in the region. The different stakeholder groups selected for the survey were: (i) producers/traders/exporters, (ii) government officials, (iii) trade-related service professionals,[10] (iv) political persons, (v) academic/researchers, (vi) civil society organisations, (vii) business/industry organisations and (viii) media.[11]

4.3.1 How SAFTA is compared to alternatives

One of the common elements in perception is the way regionalism is compared to other alternative modes of trade liberalisation. Very few identify it with the maximisation of efficiency gains from multilateral liberalisation. Those who admit that self-selection of best producers at the global level results in best possible prices and quality discredit the participation of South Asian countries in the WTO process as uncertain and time consuming. Likewise, in a comparison between SAFTA and bilateral agreements, bilateral are preferred on the same grounds. For the 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. First, complexity of negotiations as reflected by reports in the popular media has an impact on opinions of stakeholders belonging to all categories. Second, those who find merit in trade agreements in the reverse order – from bilateral to multilateral – think so primarily because they see bilateral as a building block to regional, and subsequently multilateral, negotiations. Thus, complexity owing to intrusion of non-trade issues into trade talks could be resolved in a stage-by-stage process.

An overwhelming 96 per cent of the interviewees suggested that political priorities are far more influential 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 to be the second-best choice because there are more non-trade issues to be sorted out before negotiations can progress than with bilateral agreements. Following this reasoning, it may 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.

4.3.2 On the economics and politics of South Asian regionalism

As most of the stakeholders believe that trade talks could not be devoid of political tension, the overwhelming response is that better returns from SAFTA negotiations should contribute to lessen the intensity of international disputes in the region rather than to affect trade negotiations within. Through diverse expressions a common theme emerges; economics and politics of trade negotiations are necessarily complementary not competing ends. Political establishments establish strongholds in their domestic constituencies by proving themselves harvesters of commercial opportunities wherever available so as to improve the standard of living for the masses.

From the options present before the interviewees, lack of complementarity in production consumption patterns in South Asia and lack of economic potential were outcompeted by a huge margin by distrust among South Asian countries as the predominant reason why regional economic co-operation agenda stagnates. More than 75 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 the political prism and that leadership in the region failed to connect economic benefits with SAFTA negotiations. This fact is also evident from the fact that, while trade liberalisation has been aggressively pursued during the reform period, numerous agreements except SAFTA entered into by South Asian countries turned out to be progressive for whichever political leadership delivered on economic promises.

> A substantial transformation in course of SAFTA is highly probable if political leadership realises and uses potential of the agreement for the fulfilment of its non-economic objectives.

4.3.3 The place of consumer welfare in perceptions on trade impacts

Another striking observation is that consumer welfare gain is hardly recognised as a positive result of competitive trade. Across all stakeholder groups, including researchers on regional economic issues in South Asia, either ignorance or neglect of trade issues on the consumption side is widely prevalent. More than 60 per cent of the stakeholders interviewed were hardly aware of consumer welfare impacts of trade, far less the potential for such benefits out of SAFTA. Any estimation on 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 of the respondents who expressed ignorance about the topic, almost all agreed that consumer welfare aspects should also 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. The mere spread of awareness about this often forgotten topic has a powerful potential to sway the perceptions on trade objectives in general and regionalism in particular, from one way to another. Augmenting the highlighted result in Section 4.2, it may be stated that:

> A hitherto ignored catalyst for change in the 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.

4.3.4 Stakeholder's view on future steps

Apart from lack of inclusivity in trade, policy-making has been one of the main concerns raised by stakeholders. Omissions have been made in the past because of the partial or trivial levels of involvement of directly affected stakeholder groups due to a lack of an institutional mechanism to facilitate policy formation 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 term, it has been suggested that a proactive move on the part of stakeholder groups can make a difference by way of voluntary contribution of inputs to make the process at the governmental level better informed.

While business community, administrational and political representatives as stakeholders have direct access to the policy-making process at the national level, and the academic community has a relatively better chance of exerting influence, consumer organisations lack both awareness of trade issues concerning them and channels of influence. Given this scenario, it should be noted that ideas on steps for the future differed across groups. For the former categories, objective and in-depth studies on the effects of the agreement featured as the priority, while for consumer organisations the urgency was on awareness generation and usage of collective bargaining power to gain access to policy-making processes.

On the question of principal deterrents of regional trade negotiations, 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 the heavy cost of lagging traditional sectors ridden with productive inefficiencies.

4.3.5 Overcoming hurdles: Networking is the key

In a priority-based ordering of future steps, all stakeholder categories unequivocally agreed that national dialogues on a wider scale deserve the first consideration. Particularly, three aspects should be highlighted in such dialogues: (1) the prospects of peace dividends from economic co-operation, (2) the benefits of increase in imports and (3) the other benefits of regional integration, considering growing regionalism at the global level which increasingly threatens to restrict the market expansion plans of South Asian countries to 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 among consumer organisations at the national and regional levels, (2) media campaigns at national and regional level (3) networking among policy-makers, industry and consumer organisations at the national level.

4.4 Conclusions

From conceptual as well as practical viewpoints, consumer welfare and producer welfare are two inseparable results of open international trade, since efficiency gains in production would in turn benefit consumers by way of cheaper and better quality products. Increases in imports will also expand the choice sets of consumers. Moreover, trade agreements – the vehicles of liberalisation – can only function on the basis of reciprocal exchange of export opportunities for import concessions.

It is widely recognised that SAFTA members maintain large sensitive lists with high intra-regional trade potential. Protectionist tendencies continue at the regional level and benefits from increases 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 stagnating regional trade and recognition of the agreement as an ineffective tool.

Though literature is divided on the economic effects of South Asian regional trade, evidence exists to show 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 potential harmful trade diversion effects, are also shown as standing on unsure grounds by subsequent works.

As regards the consumer welfare impact of SAFTA, this aspect is almost completely ignored in earlier works. This study therefore attempted an empirical exercise for the assessment of consumer welfare gains from SAFTA arising out of subjecting currently excluded products to preferential rates under the agreement. Using an algorithmic process of selection, those products with high intra-regional trade potential in the sensitive lists of the five largest economies out of the eight 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$1.9 billion per annum to the South Asian region by way of savings on aggregate consumer expenditure. This figure (savings on consumer expenditure) is about 31 per cent of the total current import expenditure on these categories. The exercise helped to identify which products had the maximum potential to have consumer welfare gains for each country and, therefore, qualify for removal from their sensitive list. The estimated figures are only starting points or minimal assured gains and they will facilitate comparisons 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 and thereby would present a stronger case for application of preferential tariff rates at the regional level at the earliest.

The study also carried out a survey on the perceptions of key informants associated with trade issues in the region. It was found that opinions about regional trade vary widely between and within the different stakeholder groups in all South Asian countries and such perceptions had an important role in shaping the course of regional trade negotiations. Most notably, it came to the fore that most of the stakeholders believe that the lack of success from SAFTA to date is owing to political rather than economic reasons, for which there are solutions.

Primary focus should be on separating non-trade issues from trade negotiations as much as possible. Building widespread awareness about the untapped and forgotten aspects of consumer welfare gains will help to refocus on economic issues. It would also better inform the ongoing negotiations and help to check protectionist tendencies in the region. The most important complementary feature of this approach will be to shift the focus of the political aspirations of the regional leadership without actually having to eliminate them from SAFTA proceedings. Consumers as a group form a strong constituency; prospects of political dividends from catering to their needs will surface and, thus, political intervention could be constructive rather than damaging as was often experienced in the past. Initiatives for networking among consumer organisations at the national and international levels 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.

Notes

1 This chapter is an output of a research project carried out by CUTS International with the support of The Asia Foundation. The methodology used in this chapter for calculation of consumer welfare gains is adopted from Chatterjee and George (2012).

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

3 Ibid. Middle-income countries also registered a sharper growth in trade–GDP ratio and developing countries together now account for about 35 per cent of world trade.

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

5 SAFTA TLP stipulates reduction of tariff rates to upper limits of 20 and 30 per cent for developing and least developed countries, respectively, within 2 years from the date of enforcement of the Agreement (1 January 2006). It also requires an annual reduction of 10 per cent for developing countries and 5 per cent for least developed countries during this period for products with tariff rates less than the prescribed upper limits on the date of enforcement.

6 Based on 2003–04 data, Qamar (2005) shows that after excluding the items that are on the positive list for India, 45 per cent of the items could be imported by Pakistan from India at less than the current import cost from the rest of the world.

7 Baysan et al. (2006: para 2, page 11) have noted that, in the context of India–Sri Lanka FTA, domestic industrial lobbies have put pressure on their respective governments to put barriers on imports of products in which the threat of import surges is high. In other words, the sectors in which a country has high export capacity, and hence high propensity for trade, are the ones that are highly likely to get selected in the sensitive/negative lists of its partners under an FTA.

8 Country-wise trade data for the analysis is accessed from the UN commodity trade (Comtrade) database 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 six-digit level.

9 Article 1, Charter of SAARC.

10 Transport sector, insurance sector, banking sector, etc.

11 The survey was conducted in twelve cities across five South Asian countries that had a significant place in the political economy of regional trade integration in South Asia. In each city, about 25 questionnaires were executed. In all, about 300 stakeholders were targeted for this survey.

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