

Cost of Economic Non-cooperation to Consumers in South Asia

Background & Context

The efforts to enhance economic cooperation leading to better economic integration in the South Asian region have been facing a series of roadblocks. As a result the level of regional economic cooperation is stagnated for a long time.

In 1996 South Asian countries agreed to a preferential trade agreement which was a major step towards better regional economic cooperation. Though they fortified it with the initiation of the Agreement on South Asian Free

Trade Area in 2006, intra-regional trade in goods remains far below the potential.

The share of intra-regional trade is just about five per cent of total trade of South Asian countries. However, it increases to 18 per

cent if we exclude bilateral trade between India and Pakistan.

Recognising the importance of enhancing regional trade, which will result in huge welfare gains for consumers and producers of the region, CUTS has undertaken a long-term agenda titled “Cost of Economic Non-cooperation to Consumers in South Asia”.

Volatile diplomatic relations and lack of political will have often been cited as the main reasons behind sub-optimal results from various efforts to enhance regional integration. However and based on years of applied research and advocacy experience on issues of regional economic cooperation in South Asia, we understand that lack of proper knowledge and awareness amongst key

stakeholders, particularly consumers, about the benefits from better regional integration is the real reason. This, in turn, has adversely affected proactive engagement of our governments and other stakeholders in initiatives towards regional integration.

Therefore, we have calculated the extra costs that consumers as well as producers of the region are paying in terms of foregone welfare gains from trade and using this information to sensitise a diverse group of stakeholders the importance of enhanced regional integration.

Objectives

The overall objective is to analyse reasons for economic non-cooperation among South Asian countries, assess the costs thereof in terms of loss of consumer and producer welfares, and derive recommendations for minimising such welfare loss.

Some specific objectives are to:

- find out products that remain non-traded among South Asian countries despite having high intra-regional trade potential and undertake a quantitative assessment of the loss of consumer welfare due to lack of trade in these potential products
- examine the negative impact of non-tariff barriers to trade that hike up the cost of doing trade and undertake a quantitative assessment of the loss of producer welfare because of high trade costs due to procedural NTBs

Lack of proper knowledge and awareness amongst key stakeholders, particularly consumers, about the benefits from better regional integration

Extra costs that consumers as well as producers of the region are paying in terms of foregone welfare gains from trade

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- conduct advocacy for awareness generation amongst key stakeholders, especially consumer and producer groups and governments about the cost of economic non-cooperation and the need for reforming NTBs

Major Findings

- Because of lack of awareness about consumer welfare gains from trade, imports are looked at disapprovingly. Fear of imports has affected reciprocal exchange of export opportunities and exploration of regional value chains.
- There are many products which South Asian countries are importing from outside the region at higher prices and at the same time they are exported by them. Cost of sourcing those products would be much lower if they import them from within the region. Yet, this does not happen because preferential tariff rates under the Agreement on SAFTA are not

Potential consumer welfare gains is estimated to be almost US\$ 2 billion annually, which is about 31 per cent of the total current import expenditure

applied to such products.

- Tariff and non-tariff reforms as per the Agreement on SAFTA will result in a substantial rise in regional trade as it would then be possible for importers to

shift to less costly alternative sources within the region. This would allow consumers to enjoy access to cheaper alternatives. Also, there will not be any risk to domestic manufacturers due to such import as their scope is already high.

- Potential consumer welfare gains from this kind of import substitution is estimated to be almost US\$ 2 billion annually, which is about 31 per cent of the total current import expenditure on these categories of products imported by South Asian countries.

- Cost of trade due to NTBs is as high as 27 per cent of total value of intra-regional imports, which translates to approximately US\$ 5 billion annually.
- The mechanisms and processes to remove/ harmonise non-tariff barriers as per the Agreement on SAFTA suffer from a number of systemic issues, which can be overcome only by enhancing the participation of business communities in the process of reforming NTBs. Such a participatory approach is possible by broadening the membership and the scope of activities of the SAARC Chamber of Commerce & Industry.

Support of key stakeholder groups including trade policy-makers and business/trade associations for adopting a participatory approach towards reforming NTBs

Outputs are available at:

http://www.cuts-citee.org/pdf/Consumers_and_Economic_Cooperation-Cost_of_Economic_Non-cooperation_to_Consumers_in_South_Asia.pdf

http://www.cuts-citee.org/pdf/Reforming_Non-Tariff_Barriers_Case_for_a_Participatory_Approach_in_South_Asia.pdf

Outcomes

- Increased awareness about consumer and producer welfare gains from import promotion within South Asia amongst key stakeholder groups
- Better policy directions for applying preferential tariff rates on potential products available within the region which will quicken the pace of regional integration
- Support of key stakeholder groups including trade policy-makers and business/trade associations for adopting a participatory approach towards reforming NTBs
- Momentum to the process of furthering the objectives of the Agreement on SAFTA