

Dissemination Meeting

Cost of Economic Non-Cooperation to Consumers in South Asia

Kathmandu, 3-4 February 2012

Objective

To disseminate the findings of The Asia Foundation supported project entitled *Cost of Economic Non-Cooperation to Consumers in South Asia* and discuss future course of action on its recommendations and further research on intra-regional trade costs in South Asia

Background & Context

Enhancing intra-regional trade and economic cooperation in South Asia is one of the main objectives of the South Asian Association for Regional Cooperation but hardly any significant advancement in this direction took place till date. Between 1995 and now, intra-regional trade in South Asia has stagnated at around 5 percent of total trade volume of the region, while many other regional economic blocs much younger than SAARC were successful in raising regional trade to 50 percent or more. There are evidences showing huge unexplored potential for increased trade relationship between and among South Asian countries, which will help to improve the economic status of millions in the sub-continent which accounts for the largest concentration of global poverty.

Longstanding political tension and fragile diplomatic relations are often cited as the main reason behind lack of progress in implementing the South Asian Free Trade Agreement. At a closer look, it could be observed that South Asian countries, especially the big ones, are maintaining a large number of products with high regional trade potential under their negative lists, keeping them out of bounds of preferential tariff rates under the Agreement. Though South Asian countries have long been embarked on the path of economic reforms, moving towards a liberal trade regime, a skeptical approach towards imports still persists. This, in turn, prevents reciprocal exchange of export opportunities for import concessions hurting the progress of regional trade in a major way.

Keeping this Background and Context in mind, CUTS International initiated this project to enquire into the potential benefits of increase in intra-regional trade to consumers in the region, based on a hypothesis that ineffective and insufficient trade liberalisation in South Asia is resulting in high cost by way of loss of consumer welfare. The purpose is to analyse reasons for economic non-cooperation among South Asian countries, assess the costs thereof in terms of loss of consumer welfare and derive recommendations for enhancing trade and investment relations in the South Asian region so as to maximise welfare gains from trade.

Methodology

The study included a rigorous meta-analysis of past studies on economic integration in South Asia, a quantitative assessment of potential benefits to consumers by way of reduction in import bills owing to enhanced intra-regional trade, and a methodically designed perception survey of key informants and stakeholders on the virtues of regional trade integration in South Asia and factors hindering them which was conducted in selected cities of five major South Asian countries namely, Bangladesh, India, Nepal, Pakistan and Sri Lanka.

Major Findings

Consumer welfare impact of trade has neither been subjected to thorough analysis in previous studies on South Asian trade, nor has it been considered seriously in the context of SAFTA negotiations. Through an algorithmic process, a total of 355 product categories could be identified from the sensitive lists of SAFTA members which have both high intra-regional trade potential and high prospects for improving consumer welfare. Trade in these categories at preferential rates would help South Asian consumers to save a minimum of about US\$ 2 billion per annum.

Further, it will generate many spill-over effects, including reduction expansion of production, generation of job opportunities, and improvement in competitiveness and productive efficiency. Above all, this scenario will help to raise the trade flow between South Asian borders to a minimum threshold level required for establishing trade channels with improved trade infrastructure and procedures.

The perception survey revealed that though most of the stakeholders including government officials (dealing with issues of regional trade integration), politicians, trade and industry representatives, and consumer representatives believe in the merits of regional economic cooperation, optimism about economic possibilities is hidden in pessimism about political feasibility. Also, awareness about the benefits of imports and its potential for consumer welfare is very low among some key stakeholders. More objective discussion on economic benefits can discredit many unjustified belief about regional economic cooperation and bringing the dimension of consumer welfare gains into the ambit of such discussion can influence the course of future regional integration substantially, making it more inclusive, participatory and progressive.

Way Forward

National and regional level campaigns are necessary to generate awareness about loss of consumer welfare on account of regional economic non-cooperation and enhance participation of stakeholder groups, especially consumer organisations, in trade policy making process and its implementation. Further studies on consumer welfare aspects of intra-regional trade particularly in respect to trade costs in South Asia and communication of the results thereof through a regular consultative mechanism are also needed to bring about a positive change.

Deeper studies encompassing emerging issues concerning regional integration in South Asia including that on non-tariff barriers (especially procedural ones), trade in services, trade logistics, capital and labour mobility, and functioning of trade-related institution are needed to take forward this agenda.