

## Consultation Meeting

# Promoting Participatory Approaches for Removing Regional Trade Barriers in South Asia

### Objective

To present the issues relating to Non-Tariff Barriers (NTBs) in South Asia as well as to present proposals for enhancing the process of NTB reforms in the region through a participatory approach and to elicit the views and concerns of multiple set of stakeholders, particularly those of the private sector, on the said proposals.

### Context

As tariff walls are gradually succumbing to multilateral and growing number of regional trade agreements, trade liberalization increasingly faces the far more difficult challenge of NTBs. The case of South Asia is no different. Ridden with a wide range of barriers other than tariffs, the region's efforts to enhance intra-regional trade by reducing tariffs are under the threat of subversion by NTBs. The fact that regional trade has failed to rise to the expected levels and stagnated at a very low level for the past two decades, despite actively pursuing trade liberalization through a formal legal and institutional system, indicates certain systemic shortcomings.

South Asia broadly follows the general approaches to NTB reforms. The current approaches are found to suffer from a number of inherent problems such as lack of clarity in definition, fragmented policy responses towards interrelated NTBs, lack of data, difficulties in quantifying costs and benefits of reforms and subsequent problems related to incentives and enforcements. Hence their influence on reduction of trade cost due to NTBs remains sub-optimal. Further, mismatch of interests, inadequate incentive structure, weak enforcement powers and non-inclusiveness of relevant stakeholders in the process etc. have affected progress. Many NTBs fail to get notified in the formal review process because of lack of adequate representation of industry organizations.

Furthermore, the available figures on cost of NTBs are largely under-estimated because of data and methodological limitations. Since most of the studies focus only on cost incurred by currently traded items, the opportunity cost of not bringing about reforms to enhance commercial relations is ignored. Thus a major part of the cost in the form of unrealized trade potential remains unrepresented in the existing literature. Considering this fact, the benefits of reforms will be much larger than that predicted by past studies.

In order to understand the extent and magnitude of the NTB issue and the need for NTB reform in South Asia, a research study has been conducted under this project. The study has assessed the aggregate benefits that can accrue to South Asia from undertaking NTB reforms. The results reveal that if South Asian countries undertake a bare minimum set of reforms so as

to match intraregional trade conditions with that of their respective best existing conditions in trade with rest of the world, as much as 16.32 percent of their total intraregional trade value can be saved. When the analysis was extended to the case of further reforms that would match world ideal standards that are achievable, the minimum aggregate possible reduction in trade costs was found to be as high as 34.81 percent of the import value when trade occurs within South Asia. Annual savings of more than US\$ 3 billion for the region was calculated on this basis for the year 2009.

The study further looked into possible ways through which NTBs affecting regional trade could be addressed more effectively. It was found that a greater level of involvement of the private sector in the formal system for NTB reforms is needed. Such involvement would strengthen the existing systems by providing data on cost of NTBs and information on potential alternatives to costly and ineffective trade regulations and by facilitating responsibility sharing between governments and private sector. This approach would make the NTB reform process more inclusive, while it requires only minimal institutional reforms. An examination of the present system designed under SAARC and the legal provisions of SAFTA reveals that setting up of an inclusive system is already sufficiently provided for. Implementation of an inclusive and participatory approach to NTB reforms only requires more awareness generation and collective action.

The proposed country meeting of various stakeholders, with particular representation of producers and traders, will provide a platform to discuss the proposals for a participatory approach. As an outcome of this consultation, CUTS and its partners will prepare an advocacy agenda for the improvement of NTB reforms in South Asia.