

Report of the Project Review Meeting
Cost of Economic Non-Cooperation to Consumers in South Asia
(COENCOSA)
28 June 2011, Dhaka, Bangladesh

Executive Summary

The COENCOSA project is supported by The Asia Foundation. Consumers as a stakeholder group is often unrepresented in the policy-making process. This project is expected to fill this gap.

Many studies have been done to assess the potential benefits of more and better regional integration in South Asia but none have assess the extra costs that South Asian consumers are paying due to lack of progress in trade integration in the region.

According to Muhammad Faruk Khan, Commerce Minister of Bangladesh: “South Asia was well integrated during the pre-independence era when value chains and trade in intermediate goods was prominent across the region and it is high time that South Asian countries take steps to reverse the situation of erecting barriers for cross-border trade.”

There is an urgent need for conducting research on evaluating the impact of SAFTA on consumer welfare. It is also important to identifying key policy and structural bottlenecks. A perception based survey may yield valuable and insightful information. However, researchers have to be careful about perception bias that may cloud such analysis.

Preliminary estimates of cost of economic non-cooperation to consumers in South Asia give only minimum figures of consumer welfare gains that are guaranteed and actual welfare gains will increase considerably if certain omitted factors are also taken into consideration. However, the estimates of consumer welfare should not be the only parameter and these figures must be compared with costs associated with imports to arrive at a better case for the removal of products from the respective sensitive lists.

Perception analysis as a tool has seldom been used to understand the functioning of trade agreements and thus, this study is expected to generate certain unique insights regarding the problems associated with implementation of SAFTA in particular and regional integration in South Asia in general.

Inaugural

Syed Munir Khasru, Chief Executive, Institute for Policy, Advocacy and Governance, Bangladesh, delivered the welcome address. He said that initiatives of regional economic cooperation in other parts of the world including NAFTA (North American Free Trade Area) and in the European Union have progressed and delivered immense economic benefits, while South Asian initiatives failed to match their expectations. Therefore, the COENCOSA project is conceived with a timely objective of seeking the much needed solutions for resolving the deadlocks in South Asian regional integration.

Rashid Kaukab, Associate Director & Research Coordinator, CUTS Geneva Resource Centre and Hasan Mazumdar, Country Representative, The Asia Foundation, Bangladesh gave introductory remarks. Rashid said that from his experience of working closely with regional cooperation agreements in the African region, all FTAs go through rough patches and it takes time and concerted efforts to make progress in enhancing regional trade through FTAs. He expressed an optimistic view that with the involvement of all stakeholders including consumers who are most affected by economic non-cooperation, South Asian regional integration will progress and bring benefits to the region.

Hasan Mazumdar introduced the activities of The Asia Foundation in South Asia and explained the motivation to support this project. He gave examples of successful initiatives by the Foundation which brought policy changes through focused research and advocacy.

Speaking as a special guest, Gowher Rizvi, Adviser on International Affairs to the Prime Minister of Bangladesh said that even though many studies have been done in the past about potential benefits of South Asian Free Trade Agreement but none has been initiated to assess the costs that South Asian consumers are paying for the lack of progress in SAFTA. He said that consumers as a stakeholder group is often unrepresented in economic policy making and the efforts such as the COENCOSA project to fill this void is unique and commendable.

Muhammad Faruk Khan, Commerce Minister of Bangladesh and chief guest to this event criticised the indifferent attitude of policy makers of South Asian countries toward regional cooperation on economic affairs. He said that cross-border trade and investment relations in South Asia are progressing at a snail's pace, as regional trade in South Asia registered only a marginal increase from 2.5 percent to 5 percent over the last two decades. He reminded that South Asia was well integrated during the pre-independence era when value chains and trade in intermediate goods was prominent across the region and it is high time that South Asian countries take steps to reverse the situation of erecting barriers for cross-border trade.

SAFTA: Issues and Implications

Mohammad Muaz Jalil, Senior Researcher and Trade Specialist, Institute for Policy, Advocacy and Governance, Bangladesh gave an overview of the main issues associated with SAFTA. He provided a historical evolution of SAFTA and dealt with the main differences between SAFTA and its predecessor: South Asian Preferential Trade Agreement.

SAFTA's objectives are as follows:

- eliminating barriers to trade and facilitating cross-border movement of goods;
- promoting conditions of fair competition and ensuring equitable benefits;
- creating effective mechanisms for the implementation and application of the agreement; and
- establishing a framework for further regional cooperation to expand and enhance mutual benefits.

Jalil explained that SAFTA has six core elements: trade liberalisation, sensitive lists, rules of origin, non-tariff barriers, revenue compensation mechanism, and technical assistance to least developed countries. Also, it has safeguard measures including partial or full withdrawal of preferences.

He underlined that the main issues concerning SAFTA is reluctance in reducing the number of products in their respective sensitive lists and lack of progress in developing mechanisms to address non-tariff barriers.

He substantiated that there exists immense potential for increasing intra-regional trade in South Asia, as reflected by their trade complimentarily indicators. For instance, certain studies show that trade between India and Pakistan could have been 70% more than what it is today. However, there are other studies, which expressed pessimistic views about prospects of South Asian Trade. He pointed out the gaps in the literature and said that technical studies suffer from many drawbacks like usage of restrictive assumptions and data unavailability. Also, very little research has been done in area of consumer welfare impacts of SAFTA.

Concluding his presentation, Jalil recommended that there is an urgent need for conducting research on evaluating the impact of SAFTA on consumer welfare. It is also important to identifying key policy and structural bottlenecks. A perception based survey may yield valuable and insightful information. However, researchers have to be careful about perception bias that may cloud such analysis.

This presentation is available at:

www.cuts-citee.org/COENCOSA/ppt/SAFTA_Issues_and_Implications.ppt

Trade Liberalisation and Consumer Welfare in South Asia

Chair: *Mustafizur Rahman, Executive Director, Centre for Policy Dialogue, Bangladesh*

Presentation: *Joseph George, Research Associate, CUTS International*

Discussants

Rupa Chanda, Professor, Department of Economics & Social Science, Indian Institute of Management, Bangalore

Chandan Sapkota, Research Officer, South Asia Watch on Trade, Economics and Environment, Nepal

Ashani Abayasekara, Research Associate, Institute of Policy Studies, Sri Lanka

Mustafizur Rahman gave a short introduction to the session, introduced the panellists and invited the presenter. Joseph George started his presentation by delineating the background and objective of the COENCOSA project.

He said that the past research experience of CUTS on economic affairs in South Asia has revealed that consumer welfare is almost completely ignored in the context of SAFTA and CUTS' commitment toward enhancing consumer welfare motivated it to undertake this project. He said that, in order to fulfil the objectives of this project, research activities will be undertaken based on desk research using secondary data analysis as well as field research based on a primary survey on perceptions of stakeholders which will be undertaken in selected important cities of five South Asian countries viz., Bangladesh, India, Nepal, Pakistan and Sri Lanka.

He presented the main results of the literature survey undertaken by the CUTS team on the topic of potential impact of SAFTA. He said that a contrasting picture is emerging from the survey as many arguments and counter-arguments are available in regard to potential impacts and whether the overall impact will be positive or negative remains unresolved.

One of the main arguments against SAFTA is that the Agreement will lead to harmful trade diversion effects in the region. He presented several arguments against this claim and said that empirical evidences also exists to prove that trade diversion effects will be negligible.

Joseph said that existing studies lack consensus on several issues like this and also suffers from drawbacks in the sense that they are partial studies which does not take into account positive factors like spillover effects of comprehensive economic integration including simplification of banking facilities for import financing, transit facilities for the landlocked countries, removal of barriers to intra-SAARC investment, rules for fair competition and promotion of venture capital, development of better communication systems and transportation infrastructure, easing foreign exchange controls on repatriation of profits, simplification of procedures for business visas, etc.

The presentation revealed the absence of measurement of consumer welfare gains in the literature and explained the methodology used by the CUTS team to measure the same. The CUTS method takes the difference between current import expenditure by a South Asian country on items included in the sensitive lists of SAFTA trading partners and the possible import expenditure by the same country if such products were imported from a SAFTA trading partner at lower existing prices.

He presented the results of this analysis done on India-Bangladesh bilateral trade and showed that in some product categories the potential savings by consumers by importing from a SAFTA trading partner goes up to about 80 percent of the current import expenditure.

He said that these preliminary estimates give only minimum figures of consumer welfare gains that are guaranteed and actual welfare gains will increase considerably if certain omitted factors (in this analysis) are also taken into consideration. Concluding his presentation, Joseph outlined the future plan of incorporating these omitted factors into the analysis and thereby expanding the scope and reliability of the study.

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Rupa Chanda stated that while an approach to analyse SAFTA from the point of view of consumer welfare is commendable, one should not fail to remember that it is not the only side of the whole scenario. Given the current political economy scenario which shapes SAFTA proceedings and the emphasis on producer welfare by the relevant authorities, it may not be easy to push forward the concerns of consumers in the policy making circle.

Commenting on the methodology of the study, she pointed out that SAFTA trading partners may not be able to retain the export price within the region as they export to rest of the world. Therefore, it may not be a right approach to substitute current export price to SAFTA partners with export price to rest of the world. She further stated that it is time that we move ahead from the paradigms of tariffs and sensitive lists associated with goods trade but also bring non-tariff barriers and services trade under the purview of economic cooperation within the South Asia region.

Chandan Sapkota said that the methodology needs to be qualified and improved further by taking into account the impact of trade openness on domestic prices, etc and the analysis should also consider possible negative impacts of imports on domestic producers.

Ashani Abayasekara raised the issue of absence of strong consumer organisations in the region, without which advocacy for consumer welfare will be difficult. Regarding the methodology of estimation of consumer welfare, she drew attention toward an important point that there are many instances of trade in intermediate goods in the region wherein consumers of imported goods in turn becomes producers of exportables. Such cases deserve a special attention in the study as those consumers are expected to become an important constituency in the context of this project.

Many pertinent points were discussed during the ensuing floor discussion. One of the major concerns expressed by the participants was costs like job losses in the importing country may outweigh consumer welfare gains in certain product categories.

Mustafizur Rahman and Joseph George responded to the questions and expressed the view that the estimates of consumer welfare should not be the only parameter and these figures must be compared with costs associated with imports to arrive at a better case for the removal of products from the respective sensitive lists. The project research can accommodate these concerns by expanding its scope further. Nevertheless, Mustafizur Rahman concluded the session by saying that preliminary estimates give a good starting point for proceeding further.

Perception Survey on Cost of Economic Non-Cooperation to Consumers in South Asia

Chair: *Sajal Mathur, Professor, Centre for WTO Studies, Indian Institute of Foreign Trade, New Delhi*

Presentation: *Rashid Kaukab, Associate Director & Research Coordinator, CUTS Geneva Resource Centre*

Discussants

Amrit Lugun, Director, SAARC Secretariat, Kathmandu

Khalid Jamil, Executive Director, Journalists for Democracy and Human Rights, Pakistan

Pramod Dev, Fellow, CUTS International

Sajal Mathur introduced the session by stating its purpose – that is to fine-tune the proposed perception survey method under the COENCOSA project. He said that perception analysis as a tool has seldom been used to understand the functioning of trade agreements and thus, this study is expected to generate certain unique insights regarding the problems associated with implementation of SAFTA in particular and regional integration in South Asia in general. This is important as it has been observed in the past that political economy aspects rooted in conflicting interests of diverse stakeholder group eclipses pure economic reasoning when it comes to trade policy decision making in the region.

Rashid Kaukab started his presentation with an introduction to the objectives of perception survey in general. At the outset, he said that there exists variations between reality and perception or ideology and hence, identifying the differences between the two and matching them is important for optimal decision making.

Through this survey, the level of misinformation/misperception that persists among stakeholders on trade liberalisation and its effects to consumers in South Asia is expected to be measured and appropriate solutions can be formulated through focused advocacy efforts. Also, it will facilitate framing policy suggestions backed by insights drawn from practical experiences of stakeholders in various capacities

He then explained the plan of execution. He said that a total of about 300 respondents will be selected from selected cities in five countries, with about 25 respondents from each city. Stakeholder groups to be surveyed include government officials (dealing with issues of regional trade integration), politicians, academicians, trade and industry representatives/associations, representatives of consumer organisations and media.

A list of interviewees will be prepared so as to have balanced representation from each stakeholder group. Selection will be based on the extent and importance of the involvement of respective stakeholder groups in South Asian regional trade. A primary list will be further screened based on the criteria of their attitude/approach toward trade policy and perceived degree of influence on trade policy making. This will help to capture the diversity of views.

Kaukab said that CUTS has prepared a semi-structured questionnaire, which is circulated amongst the participants for their comments and accordingly it will be revised in consultation with partners for this proposed perception survey. CUTS and partner organisations will be responsible for conducting interviews and preparing transcripts in respective countries and based on that CUTS team will undertake a qualitative analysis. The results thus obtained will be juxtaposed with meta-analysis results on regional trade integration in South Asia. He also presented the timeline for completing this exercise. In conclusion he said that the survey will help to develop a forward-looking agenda for further trade liberalisation through an understanding of political-economic scenario of regional trade integration in South Asia.

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Amrit Lugun echoed the concern of the SAARC Secretariat that policy advice by the Secretariat could be far more effective if well researched studies keep on informing the Secretariat staff. Currently, there is a lacuna which exists in the form of research deficit. Many of the research reports which reach the Secretariat fall short of focus and convincing presentation. He expressed optimism that the COENCOSA report, by approaching the regional economic cooperation through a new angle, will make positive contributions with new perspectives and insights which will benefit the trade-related initiatives of the Secretariat. He also give references of recent studies based on perception surveys, notably by the Organisation for Economic Cooperation and the Asian Development Bank, which can be referred by the researchers for modelling their survey.

Khalid Jamil called for simplifying the technical discussions which takes at the policy level and present them in laymen's language. Many a times media personnel like him fail to follow what is happening at the policy level and thus, they become unsuccessful in involving the masses, which is very crucial.

He suggested that the approach taken by the COENCOSA project, the success of which depends on mobilising the support of consumers, will only be effective if its results are translated into a reader-friendly report and requested the analysis and results of the survey be kept accessible to non-technical readers.

Pramod Dev dealt with the technicalities of conducting perception survey and said that perception bias is one of the major problems that has to be taken care of. There is a general tendency on the part of majority of the respondents to exaggerate the view points held by them. This has to be kept in mind while analysing the responses.

He further expressed the doubt that the relatively small sample size may be inadequate for the purpose of the study. Commenting on the draft questionnaire, he said that some of the questions have to be reframed so that respondents are not automatically prompted to give certain particular answers and they must answer with an open mind.

A strategy has to be formed beforehand as to the exact analysis methods to be used after the survey, because a huge amount of heterogeneity in the data is expected from open ended questions which will be answered by respondents with different experiences from different countries as well as enumerated by surveyors having different skill levels.

In the ensuing floor discussion various suggestions for improving the survey method were made. CUTS representatives expressed that there is no need to increase the sample size because the number of respondents is irrelevant for the study as long as the current sample size includes as many respondents with different background and experience as possible, since capturing the diversity of perceptions is the primary objective.

Conclusion

Arbaaz Naeem, Fellow, Institute for Policy, Advocacy and Governance, Bangladesh recapitulated the discussions and thanked the speakers and participants. He said that I-PAG and other partner organisations will continue to extend all support to the CUTS team for future activities of the project and will remain committed to its successful completion.