

## Reforming Non-Tariff Barriers *Case for a Participatory Approach in South Asia*

### Introduction

Trade costs in South Asia are very high compared to other regions of the world, rendering the exchange of products with high trade potential between South Asian countries infeasible. Though the overall cost of intra-regional trade in South Asia has tariff and non-

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tariff components, non-tariff barriers (NTBs) pose a bigger threat. Trade reforms to address NTBs have been an integral part of the regional trade liberalisation agenda under the South Asian Free Trade Agreement (SAFTA).

However, progress made on this front is found to be inadequate, prompting a rethink on existing trade policy tools, trade governance systems and procedures that are used for NTB reforms in the region.

### Why reform NTBs?

There are two important reasons behind the urgency of bringing about effective NTB reforms in the context of South Asia's regional trade liberalisation programme.

First, because of the fast-changing external market environment, South Asia's traditional export markets are increasingly becoming difficult to access. Deepening regional trade integration in other parts of the world is unsettling expansion of market access of South Asian countries in those regions, forcing the region to look for markets within South Asia.

Secondly, because of insufficient attention paid by member countries in the past, the policy

tools, systems and institutions created for regional trade liberalisation in South Asia remain underdeveloped and far less prepared than other similar policy tools, systems and institutions that exist elsewhere in the world.

Looking at the shortcomings of regional trade policy reforms in South Asia, this study finds that the SAFTA system is roughly modeled upon the GATT/WTO system, albeit without the expanse of policy tools that the multilateral body has. At the WTO level, two different streams of approaches towards NTB reforms are adopted. The first one deals with non-tariff measures (NTMs) or policy-induced obstacles to trade, some of which are adopted on illegitimate grounds. There are several specific legal disciplines that exist under the WTO to regulate such trade-distorting policies.

But many NTBs hardly get addressed through the enforcement of such disciplines. The second one deals with barriers resulting from deficits in trade infrastructure.

Remedies to such barriers fall under trade facilitation measures, which are addressed through Aid for Trade as well as other capacity-building and technical assistance programmes.

In the SAFTA context, elaborate legal disciplines to streamline NTMs, dispute settlement mechanisms and funds for trade-related infrastructure development to help

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member countries with trade facilitation measures are scarcely present. Because of these shortcomings, the system is inadequate to tackle NTBs.

Besides these systemic challenges, the current approaches are found to suffer from a number of inherent problems, such as lack of clarity in

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definition, fragmented policy responses towards inter-related NTBs, unavailability of data, difficulties in quantifying costs and benefits of reforms, etc.

Furthermore, mismatch of interests, inadequate incentive structure, weak enforcement

powers and non-inclusiveness of relevant stakeholders in the process of trade policy reforms have affected the progress to NTB reforms. As a result, many NTBs even fail to get notified in the formal review process.

### Case for a Participatory Approach

Given that systemic problems are undermining the current approaches to NTB reforms, a participatory approach is proposed in this study. It is based on a comparative principle that compares current trade conditions to possible cheaper alternatives. A simple dictum can be adopted to identify barriers: if it can be found that there is a cheaper alternative to a particular condition which influences trade, then that condition may be judged as a barrier to trade.

A greater level of involvement of the private sector in the formal system of NTB reforms is necessary for the success of this approach. This is because businesses possess data quantitative as well as qualitative on trade costs and they regularly undertake cost assessments, consider all potential alternatives and explore possible cost-saving avenues.

The proposed participatory approach has several advantages over the current approaches. It solve issues relating to definition and fragmentation of NTB reforms as all trade-distorting conditions can be raised as NTB complaints under one holistic framework. As this approach is based on cost calculations and comparison with benefits of possible remedial measures, it also helps to overcome the constraints of data deficiency. The system will automatically ensure that all barriers worth reporting will get registered as it is in the self-interest of business to do so.

Moreover, since this approach will create an incentive driven system, problems related to lack of incentives and enforceability, etc. that poses problems to the current approaches will get self-corrected.

The SAARC Chamber of Commerce and Industry (SAARC CCI), which is officially recognised by all the member governments of SAARC as the apex body of all national federations and chambers of industries in the SAARC region, can play an important role towards realising this participatory approach.

Being created with a broader objective of *encouraging Member Countries to accord preferential terms of trade to each other and finally strive towards the gradual realisation of the SAARC Economic and Monetary Union*, the SAARC CCI should be entrusted with the responsibility to raise NTB-related concerns of individual stakeholders at the highest level within the framework of SAFTA.

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The SAARC CCI is mandated to focus on awareness building on key economic issues, such as trade facilitation, NTBs, harmonisation of customs procedures, intra-regional investment, and such others pertaining to the promotion of economic cooperation at the regional level. Therefore, there is a

responsibility on the part of SAARC CCI to act as an industry voice on NTB reforms at the regional level.

However, an institutional reorganisation is required in order to enable the SAARC CCI to deliver its responsibility in a binding and forward-looking manner. A strengthened institutional mechanism will also help scrutinise NTB related complaints at each level. As the SAARC CCI receives any complaint that has been notified by a national federation of commerce and industry, it can review it on the grounds already provided by the national federations. If it finds them meritorious, it can notify the SAFTA Committee of Experts (CoE).

This participatory approach requires that the national apex chambers of commerce of South Asian Association for Regional Cooperation (SAARC) member countries be given due representation in its institutional mechanism. Being important stakeholders in the overall process of NTB reforms and representing the views of the private sector on NTBs, the role of these national apex organisations should be duly defined under the existing framework.

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should be suitably empowered to tackle the issues of NTBs being faced by their members in neighbouring countries. In addition, the membership base of the SAARC CCI has to be broadened, giving more access to other major trade and industry associations across South Asia.

In order to assess the scope of operationalising this proposed participatory approach - that is in terms of potential benefits that can be reaped from removing procedural NTBs through this approach - a calculation of aggregate benefits from NTB reforms was undertaken in this study by using a database on trade cost indicators developed by the United Nations Economic and Social Commission for Asia and the Pacific and the World Bank.

This database allows us to calculate the difference between the current level of intra-regional trade costs and possible lower level of trade costs as is revealed by improved bilateral trade conditions of South Asian countries in their trade with partners outside the region. The lowest exhibited trade cost of a South Asian country from a pool of bilateral cases was taken as a benchmark or revealed 'cheaper alternative'. Thereafter, savings on trade costs when South Asian countries adopt reforms so as to keep costs to the level of their respective benchmarks were quantified.

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### Impact of the Proposed Reforms

The result shows that if South Asian countries undertake a bare minimum set of reforms so as to match intra-regional trade conditions with that of their respective and existing best case scenario of trade with partners outside the region, as much as 7.26 percent of the value of their total intra-regional trade can be saved.

When we extend this analysis to further reforms that would match world ideals that are achievable, the minimum aggregate reduction in trade cost was found to be as high as 27.61 percent of the import value of intra-region trade in South Asia.

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This means an annual saving of more than US\$4.6bn for the year 2011. It is argued that reforms suggested above will reduce intra-regional import prices substantially, which will translate into more demand-induced growth in regional trade. These figures also indicate the immense scope for

adopting this proposed ‘participatory approach’, as this study demonstrates that cheaper alternatives to the way South Asian countries trade with each other do exist.

Furthermore, in order to understand the impact of NTBs on producers and consumers, this study has conducted product-specific analysis for each country. Key products/sectors such as iron and steel, pharmaceuticals, textiles, sugar and vegetables have been selected for this purpose on the basis of their trade potential, measured by supply capacity and matching import demand within South Asia.

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Sector-specific survey results from five countries, viz., Bangladesh, India, Nepal, Pakistan and Sri Lanka show widespread prevalence of several types of

procedural NTBs that are affecting small and medium-sized businesses and traders in particular. Besides the identification of procedural NTBs in the selected sectors, the

survey analysis generated a case for giving more representation to traders in the official process of NTB reforms in South Asia so that they can raise their grievances, which is vital for the future course of NTB reforms.

## **A Business Plan to Reform NTBs**

Finally, this study presents a Business Plan for reforming NTBs in South Asia, to which a participatory and inclusive approach is central. It calls for more focused use of national trade policy instruments for building supply capacity in sectors that are important for regional trade and urge for better use of SAFTA instruments to enhance market access for such products within the region. It contains specific policy recommendations with an overarching message that the initial phase of this proposed NTB reforms must be sector specific, targeting a select group of products that have highest trade potential.

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The underlying argument is this approach would help to establish trade linkages within the region

and transaction costs of doing trade in South Asia will be gradually reduced over a period of time because of increasing and qualitatively better market information flow and the scope for improving the scalability of trading channels.

This will, in turn, raise the volume of intra-regional trade flow to reach a minimal threshold level that is needed to kick-start incentive-driven trade-led growth in the region. Rate of export diversification and expansion will increase along with decreasing transaction costs. As a natural consequence, a virtuous cycle of trade creation will be in place.