

Consultation Meeting on

Promoting Participatory Approaches for Removing Regional Trade Barriers in South Asia

07 February, 2013

Chennai, India

Report

The consultation meeting under the project entitled ‘Promoting Participatory Approaches for Removing Regional Trade Barriers in South Asia’ was held with the objective of presenting the research results issues relating to Non-Tariff Barriers (NTBs) in South Asia as well as policy recommendations 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. The meeting was jointly organised by Consumer Unity and Trust Society (CUTS) and Federation of Indian Export Organisations (FIEO), with the support of The Asia Foundation.

Mr. K. Unnikrishnan, Director, FIEO Southern Region introduced the theme of the meeting and briefed the audience about the importance of addressing the non-tariff trade barriers (NTBs) for enhancing intra-regional trade in South Asia. He highlighted that the savings accruing to traders on account of NTB reforms could be more than 16 percent of the total value of South Asia’s intra-regional trade. Among others, that lack of transit agreement between the SAARC members hinders regional trade. Quoting an example of leather trade in south Asia, Mr. Unnikrishnan, told that India is facing a shortage of raw material, while Bangladesh on the other side has sufficient raw material to cater the Indian needs, yet due to hurdles at the governmental level, the same could not be eased out and as a result China is importing raw material from Bangladesh and exporting finished products to both India and Bangladesh.



Mr. Joseph George, Assistant Policy Analyst, CUTS, gave a background to the initiative for improving South Asian trade, which CUTS and its partner organisations in five major South Asian Countries are implementing together with the support of The Asia Foundation. Extensive research carried out under the first phase of this initiative entitled ‘Cost of Economic Non-cooperation to Consumers in South Asia (COENCOSA)’ has revealed huge amount of benefits if tariff liberalisation under the South Asian Free Trade Agreement (SAFTA) is extended to

products which are of high intra-regional trade potential. Though tariff liberalisation has achieved significant progress in 2012, accompanying reforms to bring down non-tariff barriers is equally necessary and should be the next focus for South Asian governments.

Mr. Somi Hazari, Managing Director of Shosova Properties Pvt. Ltd. and former president of India - ASEAN - Sri Lanka Chamber of Commerce and Industries pointed towards the fact that policy reforms for bringing down NTBs cannot be left by the trade/business community as the sole responsibility of governments. Using examples, he showed the ever increasing bearing of NTBs on trade and delineated the importance of having more proactive actions from the part of the business chambers for complementing and strengthening reform measures by governments.

The observations of CUTS research report in the second phase of the COENCOSA project were presented by Mr. Joseph George as follows;

- National trade policies of SA countries give excessive focus to expansion of traditional export market outside South Asia and need for trade policy reforms for realising the high potential of intra-regional trade within the region has been ignored. But deepening regionalism in other parts of the world is threatening markets for SA exports and promotion of regional trade has now become a necessity
- More than 320 products with high intra-regional trade potential could be identified, on which trade does not take place despite application of preferential tariff rates under SAFTA, because of NTBs. NTBs hindering trade in South Asia include commonly reported and accounted barriers like excessive logistic costs, excessive trade financing costs etc. and often unreported and unaccounted barriers like paucity of information, lack of trust etc.
- In all international ratings on the basis of trade indicators, South Asia lags behind other regions and countries of similar economic status
- As per calculations made on the basis of recently developed database on trade costs by UNESCAP, the additional cost of trade in South Asia on account of NTBs could be found within the range of 30 to 45 percent of original (pre-trade) value of traded goods. This is far higher than global standards.

Given the urgency of NTB reforms, deficiencies in the current system for reforms were presented. The institutional arrangements, rules and procedures for addressing NTBs still remain underdeveloped at the multilateral (WTO) level. The multilateral approach for addressing NTBs is broadly bifurcated between policy induced and non-policy induced NTBs, wherein the former are attempted to be resolved through mandatory rules, laws, guidelines, standards and practices and the latter through non-mandatory and voluntary reforms, aid, technical assistance and capacity building. In both categories, difficulties such as costly and time consuming litigation processes, budget-constraints, lack of incentives for reforms etc. are faced. Besides these, only limited involvement of directly affected private businesses is allowed by the system.

Regional Trade Agreements including SAFTA generally follows the multilateral system for NTB reforms and therefore they suffer from similar shortcomings. A Dispute Settlement Mechanism is yet to be instituted under SAFTA and currently the Committee of Experts (CoE established under Article 10 of SAFTA) with limited mandate undertakes a review of NTB/NTMs related complaints. Less number of NTMs/NTBs is notified by member states and the process of their review is also slow. Businesses have no direct access to the institutional mechanism for NTB reviews under SAFTA.

The research results of the present study shows that trade barriers can be identified and remedied effectively only by checking whether there are cheaper and better alternatives to existing policies as well as existing trade infrastructure, facilities and systems etc. It is important to enhance the involvement of businesses in the NTB resolution system as they can provide data and information regarding cheaper alternatives. They also have the incentive to raise complaints related to NTBs as the directly affected group. Such a participatory approach will have the following additional benefits.

- Promotes transparency and efficiency, permits accessibility of primary complainant or victim (businesses) to the complaint resolution system, allows more information flow and facilitates cross-fertilisation of ideas
- Offers a simple and administratively easier system because the admitted complaint automatically comes with possible solutions (cheaper alternatives), against which reform decisions can be made. It also allows prioritisation of reform measures as relative costs and benefits of different reform requirements can be compared and inter-linkages between different reform requirements becomes visible under a monolithic framework
- Facilitates responsibility sharing and reduces the burden of governments with respect to reform process, as private sector get involved in the process starting from identification of barriers to implementation of reforms. Involvement of private sector can facilitate private-public partnership in financing reforms and thereby overcome budget-constraints
- Brings back the focus of policy makers on economic costs and benefits and limits politicisation of trade reforms which has been damaging South Asia's aspirations on regional economic cooperation in the past

The final part of the presentation dealt with a plan for implementing participatory approach towards NTB reforms in South Asia. It was pointed out that Article 3 (Objectives and Principles) and Article 10 (Institutional Arrangements) of SAFTA already have adequate provisions for creating a participatory system. Accordingly businesses from various South Asian countries can access the NTB resolution authority under SAFTA through their membership in various national level business and trade organisations, which in turn are members of the regional apex body of businesses, the SAARC Chamber of Commerce and Industry (SAARC CCI). The charter of SAARC empowers it to represent the concerns of businesses on trade related issues before the SAFTA CoE.

During the open floor discussions the scope of involvement of businesses in matters of governance was discussed. The interventions of business/trade organisations have to be constructive and supportive to the role of governments. As claims for losses to traders due to NTBs is time consuming, therefore the alternative channel of direct appeal to the apex authority under SAFTA for NTB resolution by businesses would be very helpful. Certain cases of losses due to wilful default, shipping damage and delay in transit were shared by exporters.

Specific issues related to duties imposed on edible oil varieties in Malaysia and Sri Lanka, export losses due to ban on export of onion and pulses etc. were raised as examples of barriers. One of the most important issues was non-harmonisation of HS codes. Traders often suffer huge losses because of different product codes ascribed to same products in different countries. Examples of NTBs affecting trade in high potential sectors of tea and pharmaceutical as well as certain non-conventional barriers in Indo-Sri Lanka trade were also discussed. It was agreed that though listing of sector specific issues should be undertaken, a long run plan for correcting the systemic problems in NTB resolution mechanism under SAFTA.

The discussions underlined the need for a participatory approach, which would be possible only by concerted efforts of various prominent business/trade organisations. Such organisations, including FIEO have to enhance their liaison with the SARCC CCI and subsequently obtain membership in the South Asian apex body. The policy plan ahead involve awareness generation about the harmful effects of NTBs on intra-regional trade and the urgency of addressing them as well as the potential role businesses can play through a participatory approach. Some recent initiatives to promote the involvement of private sector in trade liberalisation process in other regions (EU, SACU, MERCOSUR) are to be studied in detail for designing appropriate modalities for a participatory approach under SAFTA. The SAARC Secretariat and the SAARC CCI have to take proactive steps for sensitising member governments and organisations across the SA region and thereby generate consensus for a participatory approach.