

### SAFTA promotes free trade only for the NLDCs but not for the LDCs



#### Campaign in association with

Equity and Justice Working Group, Bangladesh (equitybd) [www.equitybd.org](http://www.equitybd.org)

Rural Reconstruction Nepal [www.rrn.org.np](http://www.rrn.org.np)

#### Background

Under a broader objective to reduce trade gap among SAARC countries and also protect the countries from the negative effects of trade liberalization and trade aggression of multinational companies the member countries agreed on a South Asian Free Trade Agreement-SAFTA which has made effective from 01 January 2006. It was also a sequence of linkage with the era of globalization in respect of free trade and the SAARC leaders expressed their desire to make SAARC regions as South Asian Economic Union by 2020. But regrettably we find that no effective progress has been made till date. The following are the root causes of the slow pace of SAFTA.

- Most of the countries are yet to formulate the policy to reduce tariffs and there is no timeline to do it. So it is very difficult to measure when SAFTA would be made effective.

- The meeting of SAFTA ministerial and expert council did not held as per agreement; which is why effective decision on the different principles of SAFTA have been remaining pending. Since its implementation SAFTA ministerial met twice only; in April 2006 in Dhaka and in December 2007 in Katmandu. These meetings even could not reach on a consensus due to conflict of interest between India and Pakistan.

#### Average tariff rate among SAARC Countries after signing SAFTA Agreement:

India	-	39%
Pakistan	-	25%
Bangladesh	-	20%
Sri Lanka	-	18%
Nepal	-	25 %
Maldives	-	- %
Bhutan	-	- %

Source: Daily Ittefaq, 07 December 2005

- Implementation of SAFTA prerequisites to the member countries for simplification and harmonization of standards, customs clearance, import licensing, import financing by banks, transit facilities especially for landlocked countries, promoting intra-SAARC investments, development of communications and transport, and speedy grant of business visas. These arrangements are not fulfilled in many SAARC member countries.
- According to rules, the SAFTA signatories would allow free trade of 4,200 items approximately. Many member countries haven't fulfilled this compliance. This is happening due to prevailing of some contentious issue among NLDC's. For example in the second SAFTA ministerial meeting India blamed Pakistan for allowing free trade of only 773 items instead of 4200 items.
- Nevertheless Bangladesh has been enjoying tax reduction facilities on some export goods, but other member countries are continuing trade among themselves without implementation of major SAFTA policy and rules.
- A big portion of South Asian trade (about 70% of trade) is happening between India and Pakistan which is being remained out of SAFTA deal. Therefore, to make SAFTA effective it is important to incorporate this transaction under SAFTA avoiding bilateral strategy.

#### SAPTA: Step toward free trade

To make greater integration of export import business among the countries the SAARC leaders reached to an agreement to establish an institutional frame 'South Asia Preferential Trade Agreement (SAPTA)' in 1993. Major objective of this preferential trade agreement are;

- Trade expansion among the member countries especially with India of transporting, engineering & technical products and information technology etc.
- Formulation of a long term perspective on trade liberalizing program which will result boosting up of foreign trade and economy

- c. Removal of trade and non-trade barrier and ensure free access & cross movement of products
- d. Reduction of illegal trade among the member countries and to divert the existing trade as legal

But the institutional policy and implementation strategies of SAPTA was not able to bring any of the expected results, especially educing trade gap with India. Even this gap has been increasing as SAPTA facilitating trade expansion in some specific sectors. Considering this situation, the performance of SAPTA evaluated and in the 10th SAARC summit SAPTA redesigned as South Asia Free Trade Agreement (SAFTA) to establish an absolute free trade in the South Asian countries in all aspect of export import activities. The new agreement made effected from 1st January, 2006. The objectives of SAFTA are ; a. Elimination of all sort of barrier in trade and facilitation of free and fair movement of products b. Promoting fair competition and free trade environment in respect of the existing economic condition which will ensure the maximum benefit. c. Establishment of an institutional frame to promote and expand regional cooperation.

#### **No sufficient space in SAFTA to benefit LDCs**

It is still a concern how SAFTA would benefit the least developed countries like Bangladesh? The SAARC inter-regional trade only contributes 2 percent of export earnings of the SAARC member countries. Besides, the trade gap among the countries is widening. The analysis of the latest trade situation between Bangladesh and India shows that;

- a. According to the agreement Bangladesh reduced tariff on 4200 imported items. This tariff reduction caused loss of revenue earning approximately Tk.100 million per year
- b. India didn't fulfill the SAFTA agreement of tariff reduction on the same number of import items, even due to exist of different non tariff barrier (like lab test, chemical test, packaging and certification etc) Bangladesh is not able to make notable increase in export to India.
- c. In regards to export, in SAARC region India is a preferential country for Bangladesh. But the main exportable product of Bangladesh, the readymade garments, is listed as sensitive product in Indian

#### **Steps of the Trade liberalization program**

- a. The developed countries (here refers as NLDC) will reduce their tariff rate on import up to 20% within 1st 02 years period of enforcing the agreement as 1st phase
- b. The least developed countries (here refers as LDC) will reduce their tariff rate on import up to 30% within 1st 02 years period of enforcing the agreement as 1st phase
- c. The NLDCs will reduce their tariff rate up to 0-05% within next 05 years period as 2nd phase
- d. The LDCs will reduce their tariff rate up to 0-5% within next 08 years period as 2nd phase

Fulfilling the above conditions of tariff reducing program by 2015 the import duties will be in the range of 0-5% among the SAARC member's countries and ensure the free market.

import. That's why Bangladesh has been depriving to have the facilities of increasing their export under SAFTA and losing benefit. Though India has given a facility to export 05 million pieces of garments from Bangladesh but due to conditionalities Bangladesh could not be able to export this .

- d. After signing SAFTA Bangladesh faced the export import deficit balance amounting 1600 million US\$ with India in fiscal year 2005-06. In the fiscal year 2007-08 this deficit reached to 2000 million US\$.
- e. India is now showing interest on bilateral agreement rather promoting SAFTA through enactment of all compliance. That's why Bangladesh facing problem to increase its export to other member countries. India made bilateral trade agreement with Sri Lanka, Nepal, Pakistan, Afghanistan and Bhutan which is really an obstacle for Bangladesh for increasing its export through SAFTA as these bilateral agreements are obstructing the development of a common tariff system under SAFTA.
- f. The exportable products of Bangladesh are few and even in many cases the exportable products are homogeneous of SAARC member countries. That's why the possibility of increasing Bangladesh's export to other SAARC countries is becoming flicker.

#### **An Overview of Inter Regional Trade among SAARC Countries**

Bangladesh	-	2.5%
India	-	5.7%
Maldives	-	16.5%
Nepal	-	68.1%
Pakistan	-	4.3%
Sri Lanka	-	8.9%
Bhutan	-	-
SAARC Regional Poverty Profile (Annex-03, P-17)		

#### **Issues to be considered to make SAFTA significant**

- a) Countries that haven't fulfilled the compliance of allowing free trade of 4,200 items should fulfill this commitment.
- b. The Article -08 of agreement has clearly stressed that the non tariff barrier will be harmonized in case of import from all countries. Thus the Article-08 of SAFTA agreement has to be implemented fully which would be conducive for multilateral trade among the countries.
- c. Trade liberalization program may impact domestic producer and entrepreneurs. The NLDC's should keep on their commitment to give necessary technical cooperation (according the article-11) to LDC's for overcoming this negative effect.

#### **Written by**

Syed Aminul Hoque, Rezaul Karim Chowdhury

#### **Contact Address**

Equity and Justice Working Group (equitybd)  
House 9/4, Road 2, Shyamoli, Dhaka 1207, Bangladesh  
Tel: 88-02-8125181, Fax : 88-02-9129395  
E-mail: info@equitybd.org, Web: www.equitybd.org