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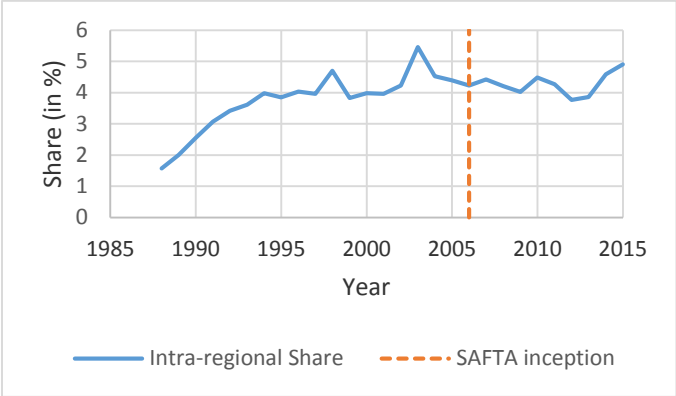
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OPINION IN LEAD

The inefficacy of SAFTA

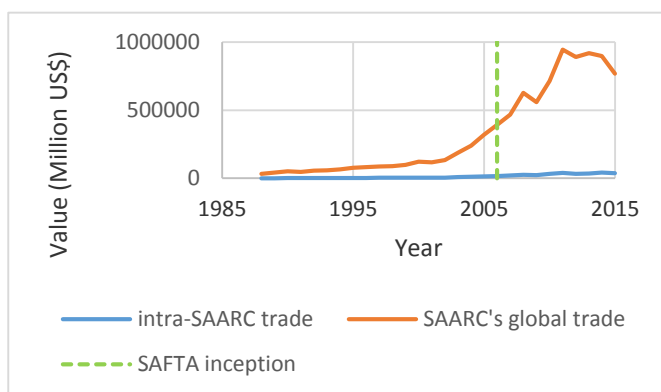
The South Asian Association for Regional Cooperation (SAARC) gave birth to the South Asian Free trade Agreement (SAFTA) in 2006 with an ambitious plan to integrate the region into the South Asian Economic Union (SAEU) by 2020. However, the achievements of SAFTA are modest, at best, and thus SAEU remains a pipe-dream. SAFTA aspired to prodigiously increase the level of trade and economic cooperation between SAARC nations by eliminating tariffs as well as trade barriers. Unfortunately, this commitment has not translated into a concomitant rise in the level of trade as South Asia remains the least integrated region with the regional trade share stagnating at around five percent of global trade (Figure 1&2). SAFTA's sole focus on tariff liberalization without concretely addressing important underpinnings to trade, like investment and connectivity, coupled with lack of strong political will to implement SAFTA in its entirety mostly contribute to its inefficacy.

Figure 1: SAARC's regional trade as a share of SAARC's global trade



Source: Author's computation from WITS.

Figure 2: Comparison of SAARC's global and regional trade



Source: Author's computation from WITS.

Tariff liberalization, by itself, cannot stimulate trade if other determinants of trade are not in place. One such fundamentals lacking in the region is extremely low level of investment. Investment, and especially Foreign Direct Investment (FDI), is crucial for stimulating trade as it can positively influence both the capital accumulation and technological improvement (through international technology transfer) and more importantly, it plays a pivotal role in integrating the country's economy with global economy. Unfortunately for South Asia, the region has the lowest FDI to GDP ratio among the developing nations. SAFTA could have addressed this issue through regional investment agreement but there are no such investment provisions in SAFTA. Lack of inter-regional investment hinders the creation of regional value chains, which could have provided experience and competency to South Asian firms to enter the global value chains.

The other crucial foundation that is extremely lacking in South Asia is the connectivity. The issue of connectivity is further compounded by transit issues like excessive border-clearance time, corruption, and extensive documentation. South Asia has one of the highest trade costs among any regions primarily due to poor connectivity and inefficient transit arrangements. A report by the World Bank mentions that India's trade with Brazil is 20 per cent cheaper than with its neighbour Pakistan. Similarly, a container shipped from New Delhi takes 30 days to reach Dhaka, but direct rail connectivity between New Delhi and Dhaka would reduce the same to 5-6 days. Against this backdrop of high trade costs resulting from poor connectivity and sub-par transit provisions, SAFTA needs to address these binding constraints with a regional transit agreement, which has been non-existent so far.

Although the primary focus of SAFTA is tariff liberalization, it does an extremely poor job even in regards to tariff elimination. SAFTA maintains provision for exceptions from tariff reduction for every country through what is called a "sensitive list". However, "sensitive list" has been against the tenets of free trade, especially because it is long and stringent, composed predominantly of products that have a high intra-SAARC trade potential. A study estimates that about 53 per cent of import trade, by value, among South Asian countries is excluded from tariff liberalization through the use of sensitive lists. The sensitive list is up for review every four years, but there are no specific plans or time limits for its phase-out. Although the

2012 revision reduced the size of the list, especially to benefit the least-developed countries (LDCs), it still remains large.

The rise in the use of non-tariff measures (NTMs) presents a huge impediment to the spirit of SAFTA as well. The proliferation of NTMs has resulted in cumbersome requirements like additional certification and testing. This coupled with inefficient customs and subsequent procedural obstacles have resulted in the SAARC countries looking elsewhere where NTMs do not cause such unnecessary burden. Furthermore, in cases where NTMs are justly implemented, many SAARC countries lack resources and capacity to ensure that standards and regulations are efficiently met. SAFTA requires the member states to notify the SAARC Secretariat of all non-tariff and para-tariff measures on an annual basis, but the implementation is half-hearted and comprehensive curtailing of non-tariff barriers is severely constrained by the fact it doesn't have any concrete timeline for it, as did other successful free-trade agreements (FTAs) like Association of Southeast Asian Nations (ASEAN).

Lastly, deadlocks arising from disagreements between two largest countries, Pakistan and India, because of their perpetual political conflicts are huge obstacles to strengthening SAFTA. A more flexible SAARC economic integration could be able to overcome this constraint. Under this multi-tier economic integration system, SAFTA at its current form would form the lower rung, with few countries free to advance towards customs union, and gradually towards economic union. There would be a freedom of movement to higher levels when any member state chooses to do so. Besides providing flexibility to overcome the impasse created by Indo-Pakistan disagreements, this system also provides the plasticity needed to accommodate the countries at differing stages of development and with vastly different economic and strategic interests.

Thus, SAFTA, at its current form, remains a very cautious approach lacking a strong political will as evidenced by increasing protectionist tendencies through the use of non-tariff measures and sensitive list, as well as lack of strong commitments to address non-tariff barriers. Furthermore, SAFTA hasn't effectively addressed the fundamental constraints to trade posed by poor investment and transit provisions. Without greater cooperation in other underpinnings required for seamless trade and without a bigger political cooperation to reform SAFTA and implement it in its entirety, it will remain stagnant at best, with SAEU existing only as a fantasy.

REPORT

Sustainable intensification of agriculture to overcome hunger and poverty

The most populous and vulnerable South Asia region is battling extreme hunger and poverty. Additional food production for the rapidly growing population has to come from the existing arable land and limited natural resource base. To meet the food demand, the region needs to produce more with minimum pressure on land, environment and biodiversity. If the existing conventional high-input agriculture is allowed to continue, it will continue polluting the environment, deplete the natural resources and increase greenhouse gas (GHG) emissions eventually contributing to global warming and further climate change. Thus, the agriculture sector faces a challenge of increasing food production with less resources and low impacts on environment.

The potential solution to this ever increasing problem lays in sustainable intensification of agriculture (SIA)—a new approach to food production. SIA aims at raising productivity or income through improving resource efficiency without increasing the level of inputs. This approach not only cares for resource use efficiency but also takes knowledge management into consideration. This knowledge-based approach is vital as it provides much needed knowledge of nature and ecosystem services on which agriculture relies.

Present system of agriculture can be changed by incorporating ecological principles with efficient use of resources, available on-farm, and low external inputs. The first step towards sustainable agricultural

intensification is a shift from high external input monoculture to farming system approach of multiple cropping and crop-livestock integration. Technologies for sustainable agriculture can be developed and needed to fit the conditions of farmers, particularly those of smallholders. Integrated soil nutrient management (ISNM), integrated pest management (IPM), micro-irrigation and rainwater harvest, and polycultural systems are some of the key technologies in promoting sustainability.

Similarly, responsible consumption such as actions to contain the per capita demands of most resource-intensive foods (such as meat and dairy products) is vital. Reduction of food waste throughout the agricultural value chain—from production to consumption is also important. Actions are also needed to reduce population growth rates and improving food governance and quality control.

For the SIA discourse, the idea of food self-sufficiency may not be an answer to national food security. Striving for food self-sufficiency in most cases means unsustainable intensification of agriculture, mostly by damaging the environment and causing more GHG emissions. Modern day agriculture and food systems are interconnected, and trade can take care of food availability in the event of food shortage. As there is always a possibility of movement of food from surplus regions to deficit areas, self-sufficiency at the environmental costs does not seem reasonable.

The scope of SIA is not limited to adopting measures to ensure efficient production and consumption of agriculture commodities but also concerns with protecting the livelihoods and wellbeing of smallholders. Moreover, agriculture policies need to be aligned with the wellbeing of farmers in order to meet the United Nations Sustainable Development Goals (SDGs) by 2030. The SDGS related to ending poverty, zero hunger, sustainable use of water, clean energy, responsible consumption and production, climate action, and life on land and below water are related to agriculture and promote the adoption of sustainable practices in farming for better livelihood.

Policies that are barriers to sustainable agricultural intensification needed to be reviewed. Inefficient and environmentally harmful subsidies that encourage overuse of inputs—chemical fertilizers, pesticides, water, hybrid seeds, livestock feeds etc.—require reconsideration. Subsidies if needed should be efficient and targeted, particularly towards poor and smallholders.

Despite the fact that the investment in agriculture is crucial for economic growth, poverty reduction and food security, South Asian countries are spending much lower share of their GDP in agricultural research and extension. The African Union in 2003 had already agreed upon the Maputo Declaration to allocate at least 10 per cent of the national budgetary resources to agriculture to achieve at least six per cent annual agricultural growth rate for Sub-Saharan countries. South Asia should not be late to learn from these and other experiences to invest more to boost their agricultural research and extension, and capacity building to achieve the goals of SIA in the region.

(This write-up is based on SAWTEE's ongoing study "Sustainable Intensification of Agriculture in South Asia".)

NEWS

Bhutan to facilitate entry of Bangladeshi products

Bangladesh and Bhutan inked five deals covering avoidance of double taxation, agriculture, standardisation of goods, cultural cooperation and waterways connectivity, on 20 April in Bhutan's capital Thimphu.

As per the agreement, Dhaka allowed transit to Bhutan to use its waterways for transportation of goods on cargoes imported through Chittagong and Mongla seaports. The three memorandums of understanding and two agreements would reportedly boost the bilateral ties between the two countries.

The deals were made following the official talks held between the parties led by Prime Minister Ms. Sheikh Hasina and her Bhutanese counterpart Mr. Tshering Tobgay.

Source: <http://www.thedailystar.net>, 21.04.2017.

IPPC adopts new global standard on international trade of plants, seeds

A United Nations commission overseeing plant health has adopted a new global standard to ensure that international trade in plants and seeds—vital to feed the world's population—is free from agricultural pests and disease-causing bugs.

The International Plant Protection Convention (IPPC)'s governing body, the Commission on Phytosanitary Measures (CPM), adopted the standard during its 12th session in Incheon, South Korea.

According to the UN Food and Agriculture Organization (FAO), the threat of transmission of pests—unwanted stowaways—on ships and containers transporting agricultural cargo, especially seeds, is a growing concern around the world. “Unlike other agricultural products that are destined for consumption, such as wheat, barley or lentils, seeds are a cause for greater concern,” said the UN agency in a news release.

Adopted last week by the CPM, the governing body of IPPC, the new standard will help harmonize the ways countries deal with the complexities of the international seed trade. The efforts are also expected to facilitate trade in seeds—valued at about US\$12 billion annually—while ensuring that such shipments safeguard food supplies for a growing global population.

In the news release, FAO further underscored that such steps are important to protect global food security as well as for the achievement of Sustainable Development Goals (SDGs), particularly those related to combatting hunger.

The twelfth session of the Commission on Phytosanitary Measures, which took place in April in Incheon, Republic of Korea, also discussed guidelines for an import regulatory system, and a series of treatments that stop pests from burrowing into wooden packaging materials and methods to stop fruit flies from attacking citrus fruits.

Source: <http://www.un.org>, 17.04.2017.

“Remove NTBs in SAARC for economic development”

South Asia's private sector representatives pointed out the need to remove non-tariff barriers, harmonizing customs rules and improved connectivity among the South Asian Association for Regional Cooperation (SAARC) member countries for economic development.

The views were expressed at a discussion titled “Unleashing South Asia: Imperatives for Action: Revitalising SAFTA: Beyond Barriers” organized by SAARC Chamber of Commerce and Industry (SAARC CCI) and the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) in Dhaka on 16 April.

During the discussion, participants stressed the need to involve the public and private sector stakeholders to deliberate upon the issues pertinent to implementation of South Asian Free Trade Agreement (SAFTA). They said that over the last 25 years, SAARC has managed to create situations, institutions and forums to hold each other's hands and go into talks together.

President of SAARC CCI Mr. Suraj Vaidya said that SAARC should aspire to become a bridge between East Asia, rich in its human resources and technology and West and Central Asia, rich in natural resources and finance.

Representatives from the private sector of SAARC countries and government officials, among others, were present in the programme.

Source: <http://www.thefinancialexpress-bd.com>, 16.04.2017.

BIMSTEC conference brings up stark truth of regional connectivity

Business leaders and experts sought government actions on minimizing trading costs that hamper the prospects of connectivity among countries in South and East Asia during a conference held in Dhaka on 11 April 2017.

“Distance is not everything when it comes to connectivity,” said Mr. Tanveer Islam, General Manager of Pran-RFL Group that has a strong presence in India’s northeast states with its consumer products. “If a truck loaded with goods reaches the Benapole border today, it will take 36 hours to cross the Indian border. It costs US\$600 to ship a consignment to neighbouring Yangon from Chittagong whereas the same costs only US\$20 for China and US\$30 for Singapore,” he said. He also called attention to expensive telecommunication tariff between these countries that hinders telecommunication connectivity.

Mr. Mohammad A Razzaque, head of Commonwealth Secretariat’s International Trade Policy Selection, called attention to higher trading costs that lowers the chances of connectivity. He said the trade cost between Bangladesh and Bhutan is 268 per cent while it is 345 per cent with Myanmar, 244 per cent with Nepal and 123 per cent with India, compared to that, it is 125 per cent when it comes to trade with the United Kingdom and the United States, he said, adding that “there is huge room to cut trade cost and it comes through connectivity”.

The one-day conference organised by CUTS International, Jaipur and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Secretariat in Dhaka brought together experts of the member states: Bangladesh, Bhutan, India, Nepal, Sri Lanka, Myanmar and Thailand. They pitched for greater linkages between national development plans and plans for regional connectivity to make BIMSTEC work.

Source: <http://bdnews24.com>, 11.04.2017.

“Facilitate cross-border power cooperation with Nepal”

Prime Minister of Bangladesh Ms. Sheikh Hasina has requested Indian Prime Minister Mr. Narendra Modi to facilitate the cross-border power sector cooperation with Nepal during her four-day official visit to India. Officials said, power deficit Bangladesh wants to purchase power directly from Nepal. For that purpose, Bangladesh wants India’s support for the transmission line.

This idea has already been discussed in the meetings of sub-regional body BBIN (Bhutan, Bangladesh, India and Nepal). Under the same framework agreement, some Bangladeshis have shown their interests in investing in Nepal’s hydropower projects. Nepal government is yet to take its call on the issue.

The two prime ministers also discussed the advantages of sub-regional cooperation in the areas of power, water resources, trade, transit and connectivity for the mutual benefit.

Source: <http://kathmandupost.ekantipur.com>, 09.04.2017.

Bangladesh, India sign nearly two dozen agreements

In a bid to boost ties, Bangladesh and India have inked nearly two dozen pacts comprising defence and civil nuclear cooperation during the India visit of Bangladeshi Prime Minister Ms. Sheikh Hasina. India has also announced a new line of concessional credit of US\$4.5 billion for implementation of projects in Bangladesh. India also announced an additional line of credit of US\$500 million to Bangladesh for military supplies.

However, the much delayed pact on the Teesta water sharing remained elusive. Admitting that the pact was “important” for India-Bangladesh ties, Mr. Modi promised India’s commitment to the issue and said an “early solution can and will be found”. The Teesta deal was set to be signed during then Prime Minister Dr. Manmohan Singh’s visit to Bangladesh in September 2011, but was postponed at the last minute due to objections by West Bengal Chief Minister Ms. Mamata Banerjee.

Teesta water is crucial for Bangladesh, especially in the lean period between December and March when the water flow often comes down to less than 1,000 cusecs from 5,000 cusecs.

Source: <http://www.thehindu.com>, 08.04.2017.

South Asian cooperation can increase GDP by US\$70 billion per year

The seven member countries of the South Asia Subregional Economic Cooperation (SASEC) on 3 April launched the SASEC Vision, a new strategic roadmap to guide the subregion’s development through 2025. The SASEC Vision was announced at the SASEC Finance Ministers’ Meeting in New Delhi, India.

“The inspiration for a SASEC Vision comes at a very promising time. South Asia was the fastest growing subregion in Asia in 2016, and economic activity has remained resilient despite global headwinds,” Asian Development Bank (ADB) Vice-President Mr. Wencai Zhang said. “There is a promising prospect of an active and productive labour force in the coming years as South Asia experiences a demographic dividend, raising its share of the working age population. The subregion also has geographic, resource advantages and industrial potential.”

The new strategy will help guide countries in the subregion to accelerate growth by unlocking the potential of its natural resources, industry, and infrastructure, with the aim of helping member countries achieve the Sustainable Development Goals. The recent inclusion of Myanmar as SASEC’s seventh and newest member will further promote the subregion’s ties with Southeast Asia and beyond.

The SASEC Vision for 2025 reflects member countries’ commitment to tap into latent industrial demand and promote subregional industry-to-industry links. These will foster the development of regional value chains and enhance competitiveness. The strategic roadmap will guide SASEC members in developing gateways and hubs to expand trade and commerce to regional and global markets, which can generate around US\$70 billion in incremental GDP annually and 20 million total jobs by 2025.

SASEC countries—Bangladesh, Bhutan, India, Maldives, Nepal, Sri Lanka, and, most recently, Myanmar—coordinate the planning of projects and activities to increase economic growth by building cross-border connectivity, facilitating faster and more efficient trade, and promoting cross-border power trade. ADB serves as the SASEC Secretariat.

Source: <https://www.adb.org/>, 3.04.2017.

ACTIVITIES

Stakeholder consultation on Nepal-India cross-border informal trade in agricultural inputs

SAWTEE organized a discussion programme in association with a Jaipur-based think-tank, CUTS International, to share the findings of a study “Linkages and impacts of cross-border informal trade in agricultural inputs between Nepal and India” on 2 May 2017 in Kathmandu. Under the project, a study was conducted to explore the extent of informal cross-border trade in agricultural inputs across specific locations along the India-Nepal border and figure out the impact and drivers of such informal trade.

The major finding of the study is that Nepali farmers are dependent on informal trade to meet their requirement of seeds, chemical fertilizers and agriculture machineries. The findings pointed out lack of timely and reliable availability of fertilizers as the major reason for farmers in these border areas to buy fertilizers from across the border. Moreover, difference in price, almost 20 per cent less in India than in Nepal due to Indian government’s subsidy, seem to be prompting Nepali farmers to buy fertilizer from India. Likewise, the study also found that farmers are buying restricted Indian varieties due to better productivity of those varieties.

During the programme, experts emphasized the need for providing timely inputs such as seeds and fertilizers to farmers so that their informal trade could be minimized at the Nepal-India border. Participants of the programme pointed out the need to regulate the amount of pesticides and other similar agro-chemical that enters Nepal in informal manner. The need to educate farmers on the health hazards of fertilizers was also emphasized.

Prospects of navigation in Koshi River discussed

SAWTEE organised a dialogue on the prospects and challenges of water transport on the Koshi River on 20 April, in Inaruwa, headquarter of Sunsari district, Nepal. The event was organised under the “Expanding Tradable Benefits of Trans-boundary Water: Promoting Navigational Usage of Inland Waterways in Ganga and Brahmaputra Basins (IW project)”.

The event saw lively discussion regarding challenges posed by river gradient and lack of enthusiasm by both public and private sector to explore the possibility of navigation. The participants pointed out that water transport would be beneficial to increase accessibility of the people living in the higher valleys of the Koshi River tributaries. They pointed out the prospect of increased income for the locals.

The event saw participation of representatives of local authorities, political parties, fishing community and organisations working on the environmental conservation in Sunsari, Spatari, Udaypur and Dhankuta districts.

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