

Towards Effective Regional Integration in South Asia: Role of Trade Facilitation

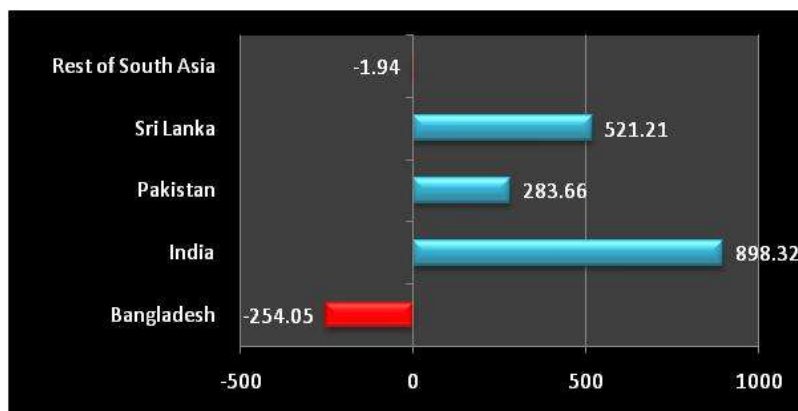
Selim Raihan
Associate Professor
Department of Economics
University of Dhaka

Presented at the Third South Asian Economic Summit, December 17-19, 2010,
Kathmandu, Nepal

Trade and Welfare Effects from RTA

- Ambiguous effects
- Not always trade creating or welfare enhancing
- Distribution of gains is an issue
- Concerns in the RTAs in South Asia: Is SAFTA welfare enhancing for all members?

Welfare Effects of SAFTA



Source: Raihan (2010), Full SAFTA Simulation, using the GTAP model

Mitigating the adverse consequences and benefiting from the regional cooperation

- Is reducing the MFN Tariff an easy option for the relatively weaker economies in South Asia?
- These countries recognize the need to provide protection to some of their domestic industries, and they are dependent on these tariff revenues.
- However, despite the associated difficulties, unilateral and multilateral liberalization is likely to remain a critical factor in mitigating some of the adverse welfare consequences.

NTBs

- Nontariff and para-tariff barriers
- Cooperation is needed to create harmonization of standards and policies. Lack of harmonization of policies is currently a major nontariff barrier obstructing trade flows.
- The cost of trading across borders is high
- Importance of trade facilitation

Why Non-Tariff Based Issues of Trade Facilitation Are Important?

- Import duties are continuously falling in most product categories and there is limitation to trade gain through Tariff reductions.
- Gains from reducing transaction costs and expedited transportation. *An Illustration**
 - Customs clearance: One day less equals 0.5 percent reduction in tariff.
 - EDI at customs: up to 0.5% Trade cost reduction
 - E-Commerce: 10% increase in web hosts increases trade by 1%

*Source: OECD Secrétariat

The Enabling Trade Index 2010

Country/Economy	SUBINDEXES									
	OVERALL INDEX		Market access		Border administration		Transport and communication infrastructure		Business environment	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
India	84	3.81	115	3.42	88	3.98	81	3.34	98	4.48
Sri Lanka	99	3.59	107	3.68	79	3.71	86	3.27	100	3.68
Pakistan	112	3.39	126	3.24	73	3.85	82	3.14	117	3.31
Bangladesh	113	3.38	52	4.37	100	3.21	117	2.53	114	3.41
Nepal	118	3.27	49	4.42	118	2.71	107	2.78	121	3.19

World Economic Forum

Logistic Performance Index

Int. LPI Rank	Country	LPI	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
47	India	3.12	2.7	2.91	3.13	3.16	3.14	3.61
79	Bangladesh	2.74	2.33	2.49	2.99	2.44	2.64	3.46
110	Pakistan	2.53	2.05	2.08	2.91	2.28	2.64	3.08
137	Sri Lanka	2.29	1.96	1.88	2.48	2.09	2.23	2.98
143	Afghanistan	2.24	2.22	1.87	2.24	2.09	2.37	2.61
147	Nepal	2.2	2.07	1.8	2.21	2.07	2.26	2.74

Source: World Bank

LPI: South Asia vs. other Regions

Int. LPI Rank	Country	LPI	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
1	Europe & Central Asia	2.74	2.35	2.41	2.92	2.6	2.75	3.33
2	Latin America & Caribbean	2.74	2.38	2.46	2.7	2.62	2.84	3.41
3	East Asia & Pacific	2.73	2.41	2.46	2.79	2.58	2.74	3.33
4	Middle East & North Africa	2.6	2.33	2.36	2.65	2.53	2.46	3.22
5	South Asia	2.49	2.22	2.13	2.61	2.33	2.53	3.04
6	Sub-Saharan Africa	2.42	2.18	2.05	2.51	2.28	2.49	2.94

Source: World Bank

Trade Facilitation Simulation in SAFTA

- Simulation exercise based on GTAP model
- Database: GTAP version 7
- Full SAFTA scenario of tariff cut

+ cut in trade cost for intra-SAARC agricultural and manufacturing trade by 25%

Welfare Effects of SAFTA: Incorporation of trade facilitation and services trade liberalisation

Million US\$ in 2004 price	Tariff cut	Trade facilitation	Total gain
Bangladesh	-254.05	1080.24	826.19
India	898.32	2185.42	3083.74
Pakistan	283.66	769.49	1053.15
Sri Lanka	521.21	1406.52	1927.73
Rest of South Asia	-1.94	1311.71	1309.77

GTAP Simulation results