

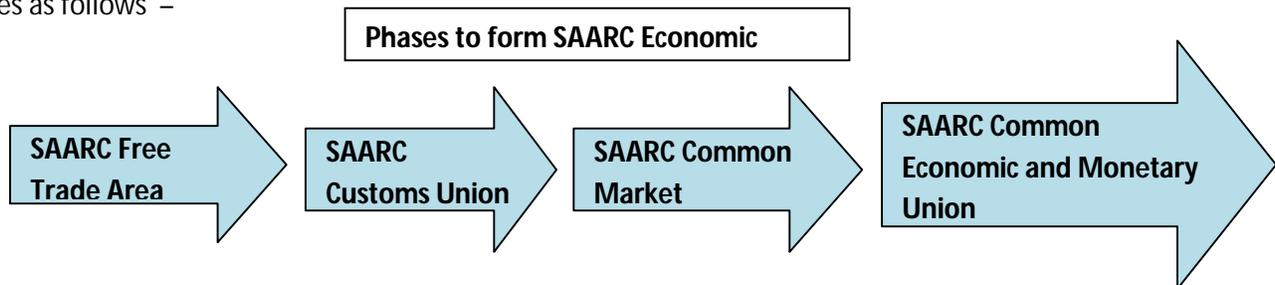


Overcoming Challenges To Strengthen SAARC Co-operation

By World Trade Centre Mumbai

The South Asian Association for Regional Cooperation (SAARC) is a social, economic and cultural partnership of eight countries in South Asia. The association was formed in 1985 and the member countries include Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. SAARC countries have 23.93% of the world population and they account for 8.62% of world economic output¹, of which India accounts for 6.97%. However, the share of SAARC countries in world trade is only 2.64%² in 2015.

Dialogue on economic co-operation took a new turn in 2010 when leaders of the SAARC countries declared 2010-2020 as the 'Decade of Intra-Regional Connectivity' at the 16th SAARC Summit held at Bhutan in 2010. At the 17th SAARC Summit held at Maldives in 2011, member countries committed to establish a South Asian Economic Union (SAEU) by 2020. The 18th SAARC Summit, which took place in Nepal in November 2014, also reaffirmed the resolve of the member countries to form economic union in phases as follows –



Key Facts About SAARC
The 8-Country South Asian Association for Regional Cooperation (SAARC) was established in 1985
SAARC Preferential Trading Arrangement (SAPTA) was signed in April 1993
Agreement on South Asian Free Trade Area (SAFTA) was signed in 2004 and implemented in 2006
SAARC Agreement on Trade in Services was signed in 2010
SAARC Arbitration Council commenced operation in 2010
Agreement on South Asian Regional Standards Organisation (SARSO) entered into force on 25 August 2011
SAARC Seed Bank Agreement was signed at the 17 th SAARC Summit in 2011
So far, 18 SAARC Summits have been held. These Summits are attended by Heads of State of every member country. The 19 th SAARC Summit, which was scheduled to be held in 2016, has been postponed.
Source: The SAARC Secretariat

Recent initiatives

In recent years, the leaders of SAARC countries initiated several measures to promote economic, social and cultural co-operation within the member countries. SAARC countries are endowed with rich natural

and human resources. Most of the countries share borders with each other. Almost all these countries face similar development challenges such as poverty, poor infrastructure, low rank in human development index and so on. Effective co-ordination among policymakers in these countries can help them address these challenges collectively.

Sustainable development is an area of focus for leaders in SAARC countries. More than 65% of people in SAARC countries reside in rural areas and almost half of the labour force is employed in the agriculture sector. More significantly, farmland constitutes 42% of landmass in South Asia. The SAARC Agricultural Centre (SAC) is exploring avenues for mutual co-operation in agriculture and allied sectors such as fisheries, animal husbandry and management of natural resources. Policymakers in member countries are also holding dialogues on collaboration in agricultural research, extension and farmers linkages.

In June 2016, member countries enforced the Agreement on establishing the SAARC Seed Bank to facilitate exchange of seeds. Food security is a matter of heightened policy priority for member countries. In order to meet the food requirement of member countries during crisis, SAARC countries set up the regional food bank and have eliminated some of the hindrances in operationalising it.

In August 2016, the Finance Ministers of SAARC countries gathered in Islamabad to review the progress of the co-operation mechanisms that were agreed in the earlier meetings. During the meeting, it was agreed to expedite the adoption of the SAARC Agreement on Trade in Services by finalizing the schedules of specific commitments.

In November 2014, at the Eighteenth SAARC Summit, the Heads of State or Government agreed to promote regional cooperation in vocational education and training. Following this, the member countries are developing a Regional Strategy to upgrade the quality of education.

In order to promote co-operation in arts and culture, SAARC leaders declared the year 2016 as the SAARC Year of Cultural Heritage and the member countries are working on action plan for effective collaboration in this area.

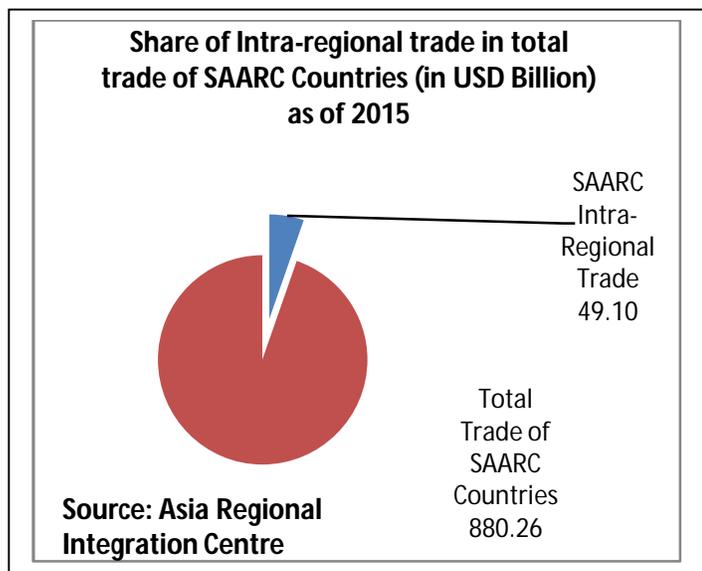
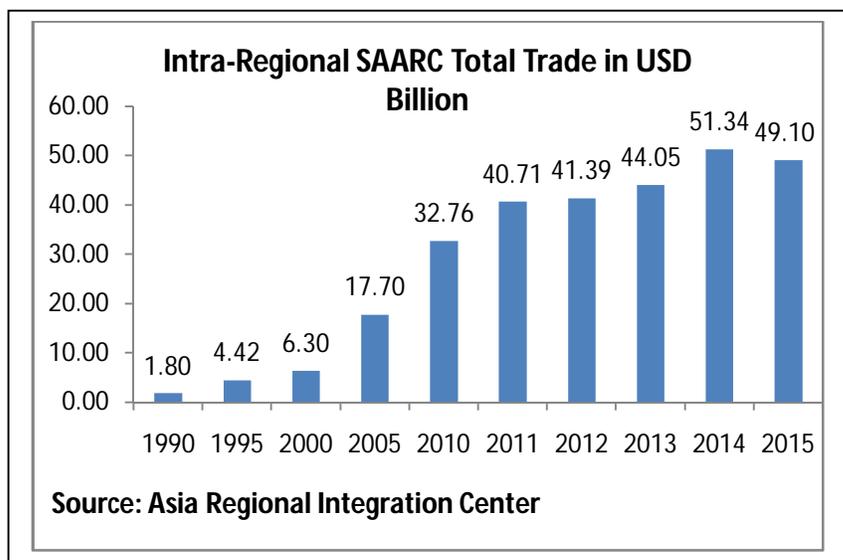
On May 4, 2017, the Indian Space Research Organisation (ISRO) launched the South Asia Geostationary Communication Satellite (GSAT-9) to strengthen communication among all SAARC countries, other than Pakistan. The satellite will enable greater co-operation among SAARC countries in areas such as telemedicine and education. Besides, SAARC countries can also benefit from better mapping of terrain, identification of natural resources and disaster prediction and management from this satellite.

In April 2016, the Small Industries Development Bank of India (SIDBI) signed an agreement with SAARC Development Fund (SDF) for mutual co-operation and collaboration to enhance funding for micro, small and medium enterprises. As part of this agreement, both the organizations will collaborate to develop suitable financial products for SME financing in SAARC countries, technology transfer and capacity development.

In May 2016, SDF signed an agreement with Asian Development Bank (ADB) for co-financing of projects, regional connectivity and development of the SAARC region. SDF is an umbrella financial institution of SAARC projects and programs established in April 2010 to promote welfare of the people in member states.

SAARC Intra-Regional Trade

The annual intra-regional trade of SAARC countries has expanded from USD 1.8 billion in 1990 to USD 49.10 billion as of 2015, at a compounded annual growth rate of 14% (see the chart below). Although intra-regional trade among SAARC countries has expanded considerably, its share in the total trade of these countries has increased only to 5.58% in 2015 from 2.72% in 1990. This pales in comparison to the share of intra-regional trade in total trade of ASEAN and European Union. In ASEAN, the share of intra-regional trade in total trade has grown from 16% in 1990 to 23% in 2015. The corresponding figure for the European Union is 59% and 62%, in both the years respectively.



Experts feel that the eight South Asian countries are the least economically integrated despite having necessary bilateral agreements on economic co-operation. As can be seen from the following table, the share of SAARC region in total trade of member countries is very less, except for Afghanistan and Nepal. Afghanistan has improved the share of SAARC countries in its overall trade from 14.5% in 1990 to 49.6% in 2015. Similarly, for Nepal, the share of SAARC countries in overall trade increased from 11.9% to 61.5% between 1990 and 2015. However, other countries witnessed comparatively less growth in the share of SAARC countries in their overall trade during this period.

Country-wise share of SAARC Trade in Total Global Trade				
Countries	1990	2000	2005	2015
Afghanistan	14.5%	30.1%	43.4%	49.6%
Bangladesh	6.0%	7.9%	10.3%	9.8%
India	1.6%	2.5%	2.8%	3.1%
Maldives	12.7%	22.2%	17.4%	15.5%
Nepal	11.9%	39.1%	61.9%	61.5%
Pakistan	2.7%	3.5%	6.2%	6.7%
Sri Lanka	5.6%	7.4%	17.3%	20.9%

**Source: Asia Regional Integration Centre, Asian
Development Bank
Data for Bhutan is not available**

One of the main impediments for growth in intra-SAARC trade is the considerable size of the sensitive list in the South Asian Free Trade Agreement (SAFTA). Negotiation for liberalizing trade among the SAARC countries started with the launch of the South Asian Preferential Trade Agreement (SAPTA) in 1995. Further liberalization of trade was achieved with the signing of SAFTA in 2004 and its subsequent implementation in 2006. However, the concessions granted by the countries under this agreement were not substantial enough to increase the overall trade of the region. Member countries, many of whom are less developed economies, retained large number of tradeable goods in the sensitive list in order to protect local industries.

India has removed almost 100% of its tariff lines (at 6 digit level) out of the sensitive list⁴. However, Sri Lanka and Pakistan still retain 16% and 18% respectively of their tariff lines under the sensitive list. Retention of goods under sensitive list impedes trade in such goods. Similarly, Afghanistan, Bangladesh and Nepal, being less developed countries, have retained at least 17% of tariff lines under the sensitive list. Many SAARC countries are hesitant to eliminate the sensitive list on concern that it would lead to cheap imports of these goods from member countries and threaten the livelihood of local enterprises.

One of the obstacles for strengthening trade ties between India and Pakistan is the negative list of 1200 items introduced by the latter. Consequently, India cannot export 1200 items that feature in the negative list introduced by Pakistan in 2012. Therefore, India's total trade with Pakistan stands at only USD 2.61 billion, compared to its trade volume of more than USD 6.0 billion, each with Bangladesh and Sri Lanka and more than USD 4.0 billion with Nepal.

Key Trade Partners

Among the SAARC countries, only Nepal, Bhutan and Afghanistan have fellow member countries as major trade partners. As the following table illustrates, 63% of the total merchandise exports of Nepal goes to India. Also, Nepal buys 60% of its total imports from India. Similarly, Bhutan ships 93% of its total exports to India, while it buys 78% of its total imports from India. Afghanistan, on the other hand, exports more than 72% of its total shipment to Pakistan and India. However, its major import partner is Iran, followed by Pakistan and China

Countries	Top export partners for goods	Top Import Partners for goods
Bangladesh	EU 28 (53%), USA (21%), Canada (4.2%)	Thailand (22.8%), India (11.2%), China (8.8%)
India	EU28 (16.9%), USA (15.2%), UAE (11.3%)	China (15.8%), EU (11.2%), Saudi Arabia (5.5%)
Pakistan	EU 28 (30.1%), USA (16.6%), China (8.8%)	China (25%), UAE (13%), EU 28 (9.7%)
Nepal	India (63.5%), EU 28 (12.6%), USA (10.7%)	India (60.6%), China (13.9%), UAE (4%)
Sri Lanka	EU 28 (29.1%), USA (26.8%), India (6.8%)	India (22.5%), China (19.7%), EU 28 (9.5%)
Bhutan	India (93.7%), Bangladesh (4.1%), EU 28 (0.9%)	India (78.8%), EU 28 (4.7%), South Korea (3.1%)
Maldives	EU 28 (38.1%), Thailand (25.4%), Sri Lanka (12%)	UAE (21.4%), Singapore (14.7%), India (11%)
Afghanistan	Pakistan (39.7%), India (33.1%), Iran (5.1%)	Iran (23.4%), Pakistan (17.4%), China (13.5%)
Source: World Trade Organisation		

The major trade partners of other SAARC countries are economies in the developed world such as USA, European Union and Canada. This is because these SAARC countries avail preferential access to developed countries for various goods. SAARC countries such as Bangladesh, Pakistan and Sri Lanka have the privilege to export various goods duty-free to the European Union and USA under the Generalised System of Preference (GSP).

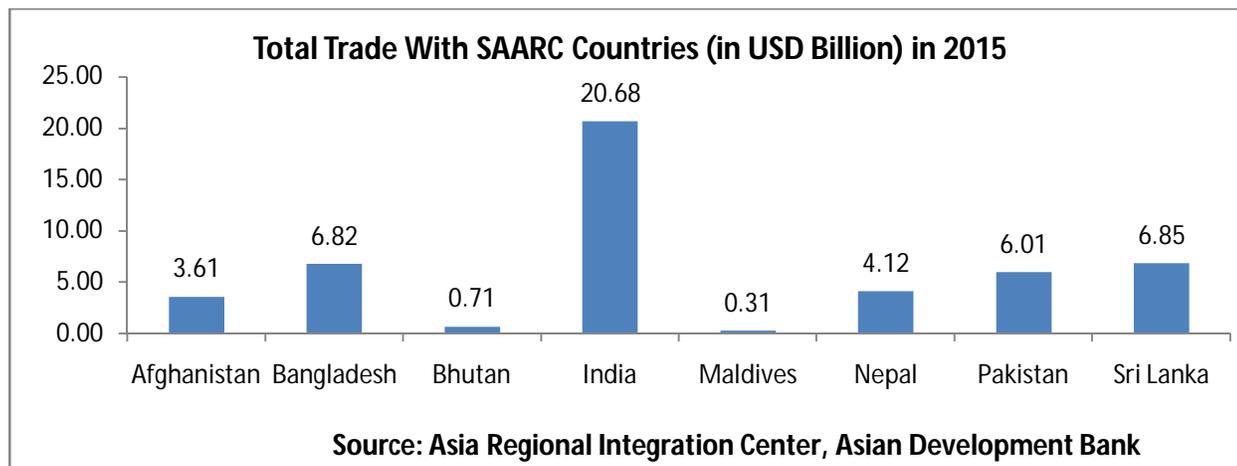
For example, Sri Lanka gets duty-free access to the European Union for its textile and food exports. Textiles and clothing account for 61.9% of Sri Lanka's exports to the EU, followed by food products with 12.3% in 2016⁵. Similarly, Pakistan is a beneficiary of the GSP+ scheme of the European Union under which the latter provides generous tariff preference for more than 66% of tariff lines including textiles and fisheries. Bangladesh is another beneficiary of the GSP offered by the EU. Therefore, Bangladesh is a major exporter of textile to the EU. Textile and clothing constitute around 93% of exports from Bangladesh to the EU.

Another reason for the lack of growth in intra-SAARC trade could be that the member countries are negotiating free trade agreements with countries outside the SAARC group. This could divert trade volume away from the SAARC countries. For example, India, which is the largest economy among the SAARC countries has 28 FTAs, some of which are in force, while others are being negotiated. India has signed trade agreements with South Korea, Singapore, Japan, Malaysia and MERCOSUR countries. Similarly, Pakistan has signed trade agreements with Malaysia, Indonesia, Mauritius, MERCOSUR, China and many other countries. Sri Lanka has eight FTAs, some of which are in force, while others are being negotiated.

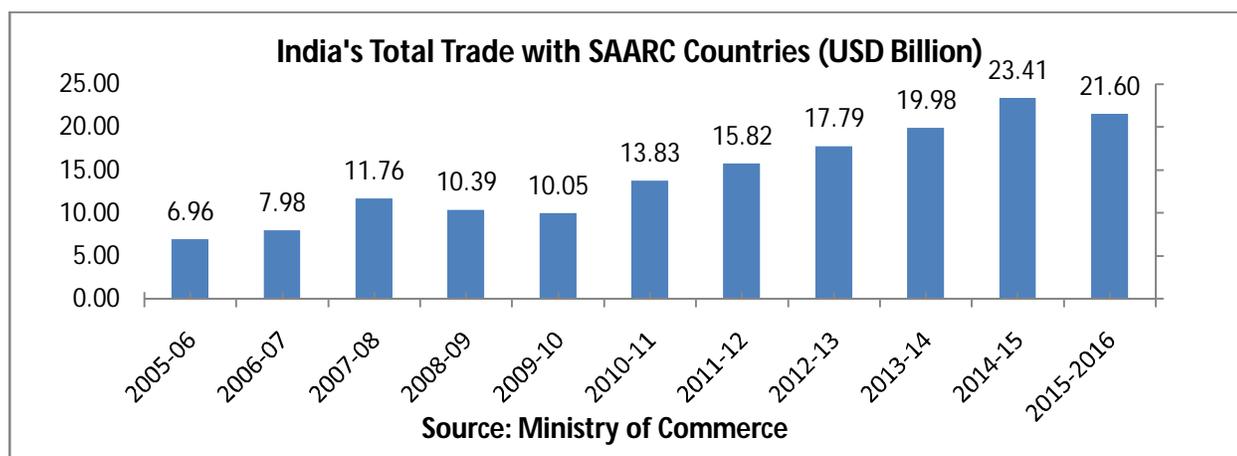
Countries	Number of Free Trade Agreements signed or being negotiated
India	28
Bangladesh	6
Pakistan	17
Nepal	3
Sri Lanka	8
Bhutan	3
Maldives	2
Afghanistan	2
Source: Asia Regional Integration Centre	

India and SAARC

India is the largest economy among the 8 SAARC countries and it is also the largest trade partner for member countries within the bloc. As can be seen from the following chart, India's total trade with the other SAARC countries stood at USD 20.68 billion in 2015, compared to USD 6.85 billion for Sri Lanka, USD 6.82 billion for Bangladesh, USD 6.01 billion for Pakistan and so on.



India's trade volume with SAARC countries almost tripled during the decadal period of 2006-2015. In 2015-16, India's total trade with SAARC countries fell marginally to USD 21.6 billion from USD 23.41 billion in the previous year, because of decline in exports of mineral fuels, vehicles, farm commodities and metals & metal products.



SAARC countries account for 3.35% of India's total goods trade volume as of 2015-16. This is slightly higher than 2.76% in 2005-06. Significantly, share of SAARC countries in India's overall goods exports rose to 7.10% by 2015-16 from 5.38% in 2005-06.

Seven categories of commodities constitute almost 70% of India's total goods exports to SAARC countries. Automobile and auto components are the major items, with a share of 19%, in India's overall exports to SAARC countries. Other major goods exported by India to this region are agriculture and processed food (14%), cotton (14%), mineral fuels or petroleum products (10%), iron and steel (5%) and so on. As can be seen from the following table, the share of mineral fuels and agriculture and processed foods in the overall export basket to SAARC countries has declined between 2005 and 2016. During 2005-06, mineral fuel was the dominant commodity in the export basket to SAARC countries, with a share of 21%. In 2015-16, its share in the overall export basket halved to 10%. On the other hand, the share of automobile and auto-components and cotton have risen considerably during this period.

Top six Commodities that have largest share in India's overall exports to SAARC Countries in 2015-16		
Items	2015-16	2005-06
Automobile and auto-components*	19%	9%
Agriculture, Processed Food and Live Animals^	14%	19%
Cotton	14%	8%
Mineral Fuels	10%	21%
Iron and Steel	5%	5%
Machinery and mechanical appliances (including their parts)	5%	3%
Pharmaceuticals	2%	3%
Total	69%	68%
^ Includes tobacco, vegetables, meat and other edible products * Including components of spacecrafts, aircrafts, ships, boats and floating structures Source: Ministry of Commerce, Government of India		

SAARC region is the major destination for India's export of knitted or crocheted fabrics. The region accounts for 67% of India's total export of these goods. Among other goods, SAARC countries constitute at least 35% of India's total export of edible vegetables, cotton, aircraft and spacecraft.

Share of SAARC Countries in India's export of different commodities (as of 2015-16)	
Commodities	Share (in %) of SAARC Countries
Knitted or Crocheted Fabrics	67%
Edible vegetables, roots and tubers	37%
Cotton	37%
Aircraft and Spacecraft and its parts	35%
Residues and waste from food industries; Animal Fodder	27%
Railway/Tramway locomotives and its components	25%
Live Animals	23%
Man-made staple fibres	22%
Soaps, detergents, wax and related products	21%
Source: Ministry of Commerce, Government of India	

Agriculture exports

Bangladesh, Nepal, Pakistan, Maldives and Afghanistan are the major importers of agriculture and processed food products from India. Bangladesh is the largest importer (in the world) of India's fresh vegetables, fruits and vegetable seeds, and oil meals. Bangladesh is the 2nd largest importer of wheat and other cereals from India. Nepal is the largest importer (in the world) of India's wheat. Maldives is the 2nd largest importer (in the world) of India's poultry products. Afghanistan is the 2nd largest importer (in the world) of India's manufactured tobacco. Pakistan is the 2nd largest importer of India's fresh fruits and vegetable seeds.

In future, SAARC countries must upgrade their co-operation in agriculture sector from mere traders of farm commodities to creation of sustainable farm value chain. Special focus must be given to upgrade rural infrastructure, including irrigation, road connectivity, post-harvest processing units, state-of-the art storage facilities and so on. SAARC countries must also promote collaboration at the grassroot level, which includes connecting farmer producer co-operatives, women farmer organizations and food processing companies in the member countries to create viable value chains.

Future Collaboration – Some Recommendations

Focus Areas	Comments
Energy (Specifically Renewable Energy)	<p>There is tremendous opportunity for collaboration among SAARC countries in the areas of renewable energy. All the South Asian countries fall in the tropical zone where solar energy can be harnessed for generation of power. In Nepal and Bhutan, there is tremendous potential to harness hydel energy. Presently, SAARC co-operation in energy sector is restricted to only a few countries such as India-Nepal and India-Bhutan. SAARC countries must learn from the ASEAN Plan of Action for Energy Co-operation. ASEAN countries have set up ASEAN Power Grid to ensure inter-country power transmission. ASEAN is also working towards various programmes in clean coal technologies, renewable energy and so on.</p>
<p>Make use of Duty Free Access to European Union by shifting manufacturing base to Afghanistan, Bangladesh, Bhutan and Nepal</p>	<p>The European Union has offered duty-free, quota-free access to all products (except arms and ammunition) exported by four countries viz. Afghanistan, Bangladesh, Bhutan and Nepal in the SAARC region. The European Union has offered this benefit to the above countries because of their status as least developed countries. For other countries in SAARC region such as India, Pakistan and Sri Lanka, the European Union has allowed duty-free access for only select commodities under the Generalised System of Preference Scheme. On the other hand, Maldives does not enjoy any of the above benefits from the European Union as it is classified as upper middle income country by the World bank.</p> <p>Therefore, exporters from India, Pakistan, Sri Lanka and Maldives, who are subject to import duty in European Union, can explore the possibility of setting up manufacturing operations in the other four countries of the SAARC region. By setting up manufacturing operation in these four countries, exporters can avail duty free access to the European markets.</p>
<p>Promoting FDI among SAARC members</p>	<p>Cross-border investment among SAARC countries can enhance trade and promote economic</p>

	<p>integration among member countries. Government and industry bodies in the member countries must organize B2B meetings, trade shows, exchange of trade missions to promote intra-regional investment.</p> <p>Also, SAARC countries must soon adopt an investment treaty that will protect the rights of foreign investors. Such a treaty would inspire confidence among investors in member countries and promote intra-regional investment.</p>
<p>Trade Facilitation</p>	<p>Simplifying customs procedures by introducing paperless trade, avoiding unnecessary inspection at borders will reduce cost of intra-regional trade. High trading cost acts as a non-tariff barrier and impede trade among member countries.</p> <p>In this context, it is worth mentioning that Government of India will soon implement a pilot run of the Electronic Cargo Tracking System (ECTS) between India and Nepal. This system will eliminate physical inspection of goods that move from the Major Port in Kolkata to Nepal through road. The system will use modern technologies such as satellite positioning systems, radio frequency (RF) identification and web-based software for tracking movement of cargoes. This system should be adopted to move cargoes across borders of other member countries in the SAARC region</p>

Conclusion

The 8 SAARC countries are more or less on similar stages of economic development. The competitive advantage of these countries lie in similar categories of goods such as garments, agriculture and food products. The limited complementarities among these countries pose challenge to enhance trading relationship within SAARC. The scope for cross-border investment among SAARC countries is also limited given that many are least developed countries and they depend on developed countries for inward investment.

In this context, promoting seamless transport connectivity among SAARC countries and simplifying customs procedures could address at least one of the challenges, which is huge cost and time involved in transportation of goods.

Physical Connectivity

As early as 2005, a study conducted by SAARC Secretariat recommended the removal of restriction for movement of people, goods and services across the borders of SAARC countries. According to a finding by the World Bank³, trading within SAARC region costs more than trading outside the region. It is 20%

cheaper for India to trade with Brazil than with its neighbour Pakistan. Strengthening transport connectivity among the SAARC countries can enhance intra-regional trade and investment.

The 18th SAARC Summit discussed the establishment of seamless transport connectivity among member countries by proposing the SAARC Motor Vehicles Agreement and SAARC Regional Railways Agreement. However, both these agreements were not signed because of opposition from Pakistan. Following this, Bangladesh, Bhutan, India and Nepal (BBIN countries) signed the Motor Vehicle Agreement to enable vehicles from member countries to pass each other's borders in 2015. However, even this initiative has not seen the light of the day as the Government of Bhutan has not ratified this agreement. The agreement was not ratified by the Parliament of Bhutan because some section of law makers raised concern that allowing trucks from other countries to enter Bhutan would increase air pollution and degrade environment. With the fate of Motor Vehicles Agreement and Railways Agreement hanging in balance, the vision of SAARC leaders to strengthen regional connectivity remains unfulfilled.

India shares borders with Bangladesh, Bhutan and Nepal. Therefore, it is necessary to ensure seamless movement of goods and people across these borders to promote greater economic integration. Some progress has been achieved in promoting free movement of cargo vehicles between India and Bangladesh. Trucks loaded with cargoes are allowed to enter into India from Bangladesh. These trucks are provided electronic seal at the customs station in the Indian side of the border and they are monitored using GPS system.

However, traders of goods between India and Bhutan have to change vehicles at the borders. If an exporter has to send cargo to Bhutan, he has to transport it by truck till the India-Bhutan border, unload goods from the truck and load it in another vehicle at the other side of the border and transport it to the end consumer in Bhutan. The requirement of changing vehicles at the border delays delivery of goods. Also, the customs procedure at the land customs stations in India and Bhutan are tedious and not harmonized. This adds to delay in transport of goods. Lack of seamless transport connectivity increases cost of trading for member countries.

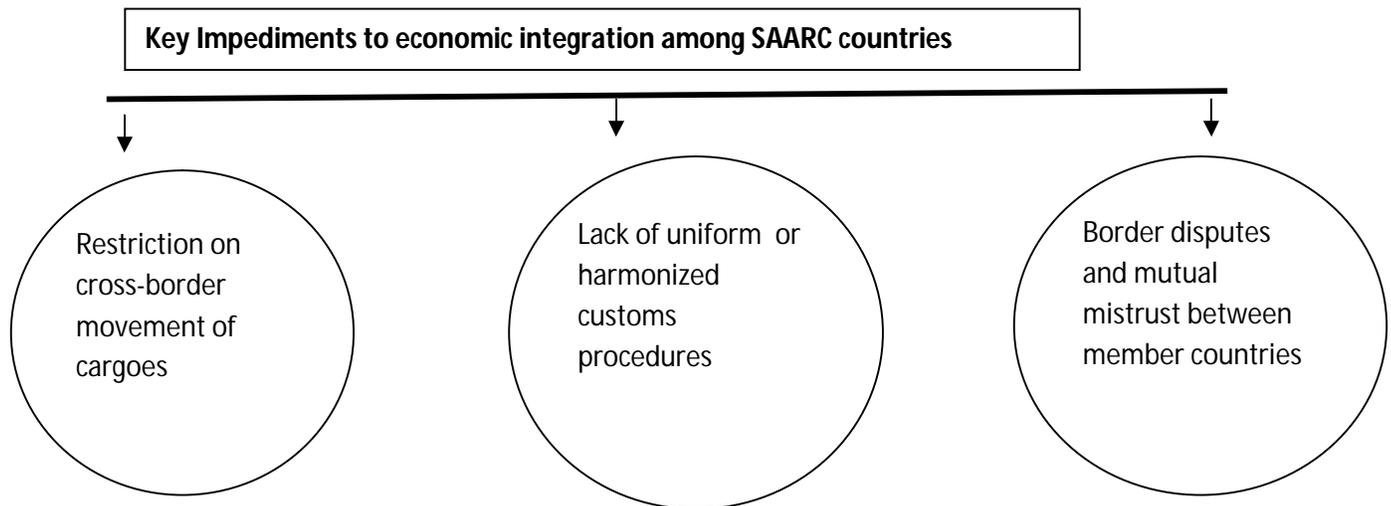
SAARC countries must upgrade transport infrastructure, strengthen warehousing facilities along borders and equip land customs stations with cutting edge information technologies. Adoption of information and communication technologies at customs post and land customs stations would eliminate unnecessary paperwork involved in clearance of cargoes. Member countries must also develop the capacity of personnels posted in the border check posts by providing them adequate training on latest technologies and best practices to be followed in customs clearance.

In future, seamless connectivity among Afghanistan, Pakistan, India and Bangladesh would sow the seeds for developing regional value chain among other neighbouring countries in Asia. For example, India can transport cargoes to Central Asia by using land route through Pakistan and Afghanistan. Similarly, Pakistan and Afghanistan can send goods to Myanmar, Vietnam and Thailand by using land route passing India and Bangladesh. This would lead to regional integration of all neighbouring economies in Central Asia, South Asia and South East Asia.

However, mutual distrust and border issues between India and Pakistan, growing menace of terrorism, India's water sharing issue with Bangladesh are some of the challenges hindering progress in regional connectivity. Other concerns that may hinder progress on this front are illicit drug trafficking across

borders of India and Pakistan, exchange of counterfeit currency notes across borders of India and Bangladesh, infiltration of illegal immigrants from neighbouring countries etc.

The aim of forming SAARC Common Economic and Monetary Union by 2020 is possible only if member countries set aside their political differences and mutual mistrust and develop a sense of common purpose. The role of business community in the member countries is to highlight the benefits of regional integration among the political class and advance the agenda of seamless transport connectivity.



References

¹ Gross domestic product based on purchasing-power-parity (PPP) share of world total , World Economic Outlook Database April 2017, IMF

² Source: 2015 Data from Asia Regional Indicator Center

³ <http://www.worldbank.org/en/news/infographic/2016/05/24/the-potential-of-intra-regional-trade-for-south-asia>

⁴ SAFTA - Country Presentation by India, UNESCAP, September 2015

⁵ European Commission, Generalised Scheme of Preferences (GSP)