

II. MAPPING AND ANALYSIS OF THE SOUTH ASIAN AGRICULTURAL TRADE LIBERALIZATION EFFORTS

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Introduction

The South Asian Economies (SAEs), comprising Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, represent 22 per cent of world's population but only account for just over 1 per cent of world trade. In 2003, agricultural trade in the SAEs amounted to US\$ 22 billion and accounted for approximately 4 per cent of global agricultural trade and 23 per cent of the regional trade. During the 1970s, SAEs had highly protected trade regimes supported by high tariffs, non-tariff barriers (NTBs) and stringent controls on exchange. The rationale for such protective policies was safeguarding domestic industries, improving the terms of trade, raising revenue, altering the income distribution and raising nutritional levels.

During the 1980s, the hitherto inward-looking policies of the SAEs made a marked shift towards outward-looking policies. Economic policies were aimed at export-led industrialization as a means of achieving rapid economic growth. Moreover, the SAEs by then had obtained memberships of various international organizations, and a range of reforms was implemented to meet international obligations. The exchange rate regimes of many SAEs changed from fixed to a managed float or free float, and the restrictions on current accounts and capital accounts were substantially reduced. The trade policy changes emphasized fewer trade restrictions and brought down tariff levels to a great extent in some SAEs, especially in the case of Sri Lanka, and in others to some extent.

During the late 1970s in Sri Lanka, and in the late 1990s in other SAEs, the tariff structures were simplified and the number of tariff bands was reduced. The changes in the SAE tariff structures and exchange rate regimes as well as relaxation of payment restrictions during the 1990s show that SAEs have moved towards greater openness in their trade.

All the SAEs, except Bhutan, are members of the World Trade Organization (WTO); under this multilateral trade agreement, the SAEs' bound agricultural tariffs are at considerably higher rates. During the first 10 years (1995-2004) after the establishment of WTO, the involvement of SAEs in regional trading arrangements rapidly expanded (table 1). The SAEs established the South Asian Association for Regional Cooperation (SAARC) in 1985. In 1993, SAARC established regional cooperation in trade and initiated the South Asian Preferential Trade Agreement (SAPTA). The SAEs envisage greater economic cooperation within member countries by establishing a free trade area (SAFTA) by 2010, a Custom Union by 2015 and economic union by 2020. The SAEs have also

formed bilateral free trade agreements, i.e., India-Sri Lanka, India-Nepal and Pakistan-Sri Lanka BTAs. Regional economic cooperation has been fostered further with interregional agreements such as the Asia-Pacific Trade Agreement (APTA), Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation (BIMSTEC), India-Thailand and India-ASEAN framework agreements and the Indian Ocean Rim Association for Regional Co-operation (IORA-RC).

Table 1. Preferential trading arrangements of South Asian countries

Country	RTA	BTA (FTA/EPA) ^a	Framework agreement ^b	Proposed ^c
Bangladesh	APTA, 1976 SAPTA, 1995 BIMSTEC, 1997		Bangladesh-India, 2006 Bangladesh-Morocco, 2005 United States-Bangladesh, 2005 Sri Lanka-Bangladesh	Bangladesh-Nepal Bangladesh-Pakistan Bangladesh-Islamic Republic of Iran Bangladesh-Egypt
Bhutan	SAPTA, 1995 BIMSTEC, 1997	India-Bhutan, 2006		
India	APTA, 1976 SAPTA, 1995 BIMSTEC, 1997	India-Sri Lanka, 2001 India-Mercosur PTA, 2005 India-Nepal, 1991	ASEAN-India, 2004 India-Afghanistan, 2003 India-Bangladesh, 2006 India-Singapore, 2005 India-SACU, 2004 India-Chile, 2006 India-GCC, 2006 India-Thailand, 2004	India-Malaysia India-Republic of Korea India-China India-Egypt
Nepal	BIMSTEC, 1997 SAPTA, 1995	India-Nepal, 1991		Bangladesh-Nepal
Pakistan	ECO, 1985 and ECOTA, 2003 SAPTA, 1995	Pakistan-Sri Lanka, 2005	China-Pakistan, 2005 Sri Lanka-Pakistan, 2005	Bangladesh-Pakistan Pakistan-Malaysia Pakistan-GCC Pakistan-Afghanistan
Sri Lanka	APTA, 1976 SAPTA, 1995 BIMSTEC, 1997	Islamic Republic of Iran-Sri Lanka, 2004 Sri Lanka-Pakistan, 2005	Singapore-Sri Lanka United States-Sri Lanka TIFA, 2002 Sri Lanka-Egypt Sri Lanka-Bangladesh	Sri Lanka-Singapore

Source: APTIAD (2007).

Note: RTA = regional trade agreement; BTA = bilateral trade agreement.

^a It is difficult to classify BTAs precisely as distinction between a free trade agreement (FTA), economic partnership agreement (EPA) and framework agreement (FA) is often blurred, and is often only distinguished by the name of the agreement itself.

^b Years refer to signing of the agreements; not all of them are being implemented.

^c Includes a documented unilateral perspective.

The SAEs, similar to other developing countries, had been taxing agricultural activities directly, through tax policies, and indirectly, through economy-wide policies. The higher indirect distortions in agriculture were the result of overvalued exchange rates and the protection provided to the manufacturing sector (Kruger and others, 1988). Despite the changes in economic policies in the 1980s and early 1990s, protectionist policies did not change sufficiently and relatively higher tariff rates remained on agricultural commodities. Since the agriculture sector is a very sensitive area for SAEs, the changes in economic policies and the structures of the economies have not changed the socio-economic importance of the sector. The institutional developments related to trade in the South Asian region have paved the way for some liberalization of agricultural trade.

This chapter maps the agricultural trade liberalization efforts of the SAEs. Section A discusses the nature of agricultural trade in the SAEs. Section B presents the agricultural policy changes and employs various approaches to measure the levels of agricultural trade liberalization. Section C reviews institutional development that has led to agricultural trade liberalization of SAEs while Section D presents conclusions based on the findings of the previous sections.

A. Agricultural trade in South Asia

The structural changes during the 1980s and 1990s placed non-agricultural sectors of the SAEs in the driving seat of economic growth. Nevertheless, the SAEs have also achieved a considerable growth in agriculture during the past few decades. Although the share of agriculture in national outputs has been declining, agriculture and agricultural trade still play a very important role in the SAEs (table 2). Agriculture contributes to about 26 per cent of the regional gross domestic product (GDP), (ranging from 21 per cent in Maldives to 41 per cent in Nepal). Rural populations on average account for more than two thirds of the regional population (64 per cent in Pakistan to 93 per cent in Bhutan). Nearly three-quarters of the labour force in the region is involved in agriculture and the prevalence of poverty in the rural sector is very high. The percentage of the population below the poverty line ranges from 25 per cent in Sri Lanka to 45 per cent in Nepal.

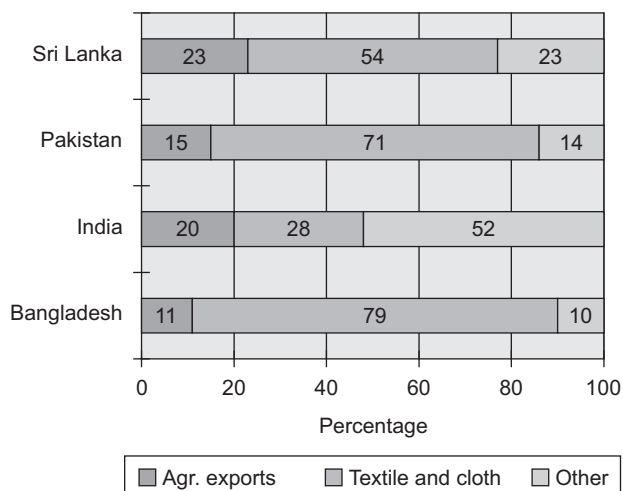
The SAEs have reported a favourable economic growth during past few decades, but these developments appear to have had a lesser effect on their rural sector. Rural poverty and income inequality have increased in Bangladesh and Sri Lanka (World Bank, 2004). This may be partly due to the decline in importance of the agricultural sector in SAEs due to their non-agricultural sectors being placed in the driving seat of economic growth. This decline of agricultural importance has resulted in greater inequality and poverty, since a larger share of population lives in rural areas and is involved mainly in agricultural activities as a livelihood. This becomes even more evident when changes in the share of merchandise exports are considered. Bangladesh, Pakistan and Sri Lanka depend more on a narrow base of manufactured exports, textile and clothes, and some other manufactured exports (figure 1).

Table 2. Agriculture and South Asian countries

	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Population (million)	128	0.8	998	0.3	22.9	135	19
Population density (per km ²)	981	48	336	956	164	175	294
Rural population (%)	77	93	72	75	89	64	77
Agriculture labour force (% of total)	58	94	60	03	95	54	45
GDP (US\$ billion)	46	0.4	4 477	0.3	5	58	16
GDP per capita (US\$)	362	490	450	1 220	220	508	814
Agricultural share of GDP (%)	25	18	28	16	38	27	21

Source: World Bank (2004).

Note: Data represent 2004-2005 for Bangladesh and India, 2002-2003 for Pakistan, and 2003-2004 for Sri Lanka and Nepal.

Figure I. Share of merchandise exports, 1995-1999

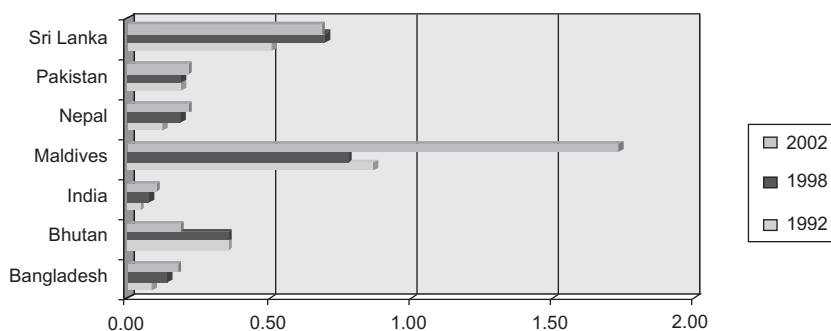
Source: Anderson (2002).

In order to obtain desirable benefits from liberal trade, the SAEs have placed greater emphasis on achieving macroeconomic stability. In addition to tariff protection, exchange rate policies as well as monetary and fiscal policies are employed in order to obtain direct and indirect protection for imports and exports. During the late 1990s, appreciation of real exchange rates was observed in Sri Lanka and Bangladesh, which has eroded the price incentives that were generated through exchange rate depreciation

(Karunagoda and others, 2002; World Bank, 2004). Consequently, these SAEs have taken certain protective measures, such as increasing para-tariffs, to avoid undesirable economy-wide impacts.

The agricultural tradeability index (ATI), the ratio of total agricultural imports and exports to agricultural GDP, measures the changes in the economy with respect to agricultural trade. It also indicates how vulnerable a country is to liberalization of agricultural trade (Valdes and McCalla, 1999). All SAEs, except Bhutan, show increased shares of agricultural trade in their economies. The ATI also indicates that Maldives and Sri Lanka are more open to agricultural trade while India is the least open country in the South Asia (figure II).

Figure II. Agricultural Tradeability Index, 1992, 1998 and 2002



Source: Author's calculations.

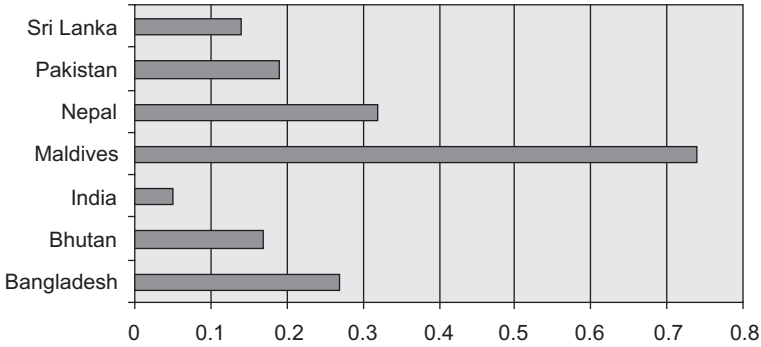
Note: ATI = Agriculture imports plus agriculture exports/agriculture GDP.

Food import capacity (FIC), the ratio of the value of food imports to that of total non-food exports, measures the capacity of a country to finance food imports by non-food exports (figure III) (Wilson, 2002). A low ratio indicates relatively low food imports (India) or relatively higher non-food sector exports (Sri Lanka). The net agricultural export index is positive for net exporters and negative for net importers. Among the SAEs, only India and Sri Lanka are net agricultural exporters while others are net agricultural importers (figure IV). The changes in the net agricultural export index show that Bangladesh and Pakistan have moved from net exporter to net importer status while India has moved from net importer to net exporter status.

1. Export specialization in agricultural products

Trade theory suggests that, basically, trade between countries is driven by the comparative advantages and differences in technology, economies of scale or preferences and, in some circumstances, by strategic trade policies. Prospects for trade expansion are likely to be poor for countries that share a comparative advantage in similar products. The comparative advantage for SAEs is estimated for the agricultural commodities/commodity

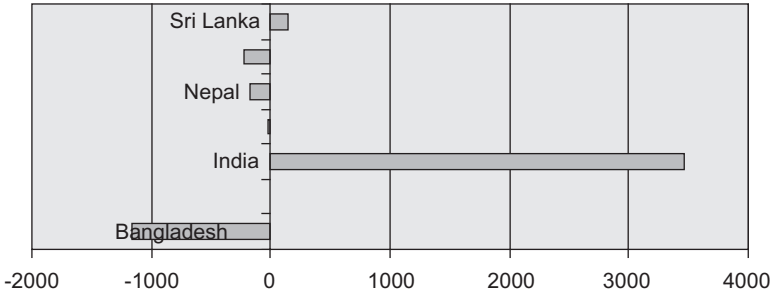
Figure III. Food Import Capacity Index



Source: Wilson (2002).

Note: FICI = Value of food imports/value of total non-food exports.

Figure IV. Agricultural Net Export Index, 2002
(US\$ million)



Source: Author's calculations.

Note: ANEI = Agricultural exports – agricultural imports (Bhutan = -3).

groups using a revealed comparative advantage (RCA)¹ index (table 3) (Balassa, 1965). The concept of RCA is based on the assumption that the pattern of commodity trade reflects relative costs and differences in non-price factors. The RCA index for a product is defined as the ratio of the share of a country's exports to its share in world exports. An RCA value greater than one indicates export specialization in that commodity or commodity group. The RCAs for some product categories show that SAEs have wide differences in export specialization and, thus, there is a potential for promotion of intraregional trade. However, similarity of export specialization observed in some product categories may pose a major constraint to agricultural trade development in the region. India has RCAs in a wide variety of agricultural goods, indicating a higher potential for India to benefit under

¹ The RCA index does not, however, give a true measure of the comparative advantage. The ratios are static measures and are influenced by the trade distortions of importing and exporting countries.

Table 3. Export indices of revealed comparative advantage – agricultural products*

Product	Bangladesh				India				Maldives			
	1995	1998	2001	2004	1995	1998	2001	2004	1995	1998	2001	2004
Live animals	0	0	0	0	0	0	0	0	0	0	0	0
Meat	0	0	0	0	1	1	1	1	0	0	0	0
Fish and crustaceans	10	7	8	12	3	0	4	3	78	87	74	74
Dairy products	0	0	0	0	0	0	0	0	0	0	0	0
Coffee, tea, cocoa, spices	2	1	1	1	5	6	5	3	0	0	0	0
Cut flowers and foliage	0	0	0	1	1	1	1	1	0	0	0	0
Vegetables and fruit	0	0	0	0	2	2	2	2	0	0	0	0
Cereals and cereal preparations	0	0	0	0	4	4	3	0	0	0	0	0
Oil seeds	0	0	0	0	2	1	2	2	0	0	0	0
Tobacco and tobacco manufactured	0	0	0	2	1	1	1	1	0	0	0	0
Sugar, sugar preparation and honey	0	0	0	0	1	0	3	2	0	0	0	0
Beverages	0	0	0	0	0	0	0	0	0	0	0	1
Product	Nepal				Pakistan				Sri Lanka			
	1995	1998	2001	2004	1995	1998	2001	2004	1995	1998	2001	2004
Live animals	2	1	0	2	0	0	0	0	0	0	0	0
Meat	0	0	0	0	0	0	0	0	0	0	0	0
Fish and crustaceans	0	0	0	0	2	2	2	1	2	2	3	3
Dairy products	0	0	10	0	0	0	0	0	0	0	0	0
Coffee, tea, cocoa, spices	1	2	2	7	0	0	0	0	23	24	41	37
Cut flowers and foliage	0	0	0	0	0	0	1	0	2	1	1	2
Vegetables and fruit	1	3	2	3	0	1	1	1	2	2	1	1
Cereals and cereal preparations	0	1	1	0	5	7	8	7	0	0	0	0
Oil seeds	7	2	0	0	1	1	1	1	1	1	1	1
Tobacco and tobacco manufactured	0	0	0	0	0	0	0	0	2	2	2	4
Sugar, sugar preparation and honey	0	0	0	5	7	10	3	4	0	0	0	0
Beverages	0	0	0	0	0	0	0	0	0	0	0	0

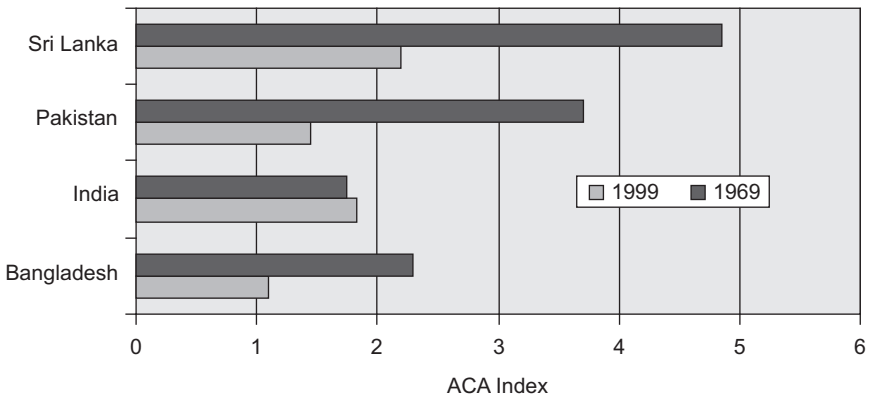
Source: Estimated using data in COMTRADE database.

Note: The value zero indicates no trade or lack of comparative advantage.

a more liberal trade environment. Agricultural products of Bangladesh show an RCA in limited product categories; however, higher protection levels by Bangladesh limit the potential for trade expansion. India and Pakistan show RCAs in cereals and sugar, but both these commodity groups are on the sensitive list of Sri Lanka.

The competitiveness of agricultural exports, measured by a comparative advantage index (CAI), shows a declining trend in the region (figure V). The reduction in the CAI of agricultural exports in the region indicates that the non-agricultural exports are growing much faster than agricultural exports. Bangladesh, Pakistan and Sri Lanka have faced greater constraints on maintaining or expanding agricultural exports with the expansion of global trade compared to India. This can be attributed to a higher concentration of agricultural exports by those countries of a lesser number of products as well as faster growth of textiles and other non-agricultural sector exports.

Figure V. Agricultural Comparative Advantage Index, 1969 and 1999



Source: Anderson (2002).

2. Concentration of agricultural trade

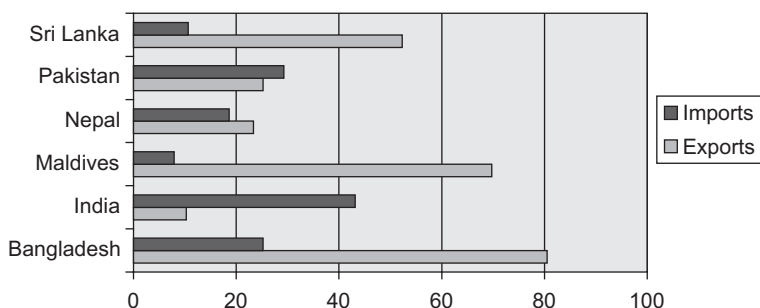
Historically, SAEs have traded similar types of agricultural products, and the concentration of exports within limited agricultural product groups is a common phenomenon in many SAEs. The level of trade concentration in specific products is measured using the Hirschmann-Herfindahl index (HHI), which is equal to the sum of the squared shares of all individual products exported.² HHI indicates that agricultural exports by Bangladesh,

²
$$HHI = \sum_i^n \left[\frac{X_i}{\sum_i^n X_i} \right]^2 * 100, i = \text{product } i, n = \text{total number of product.}$$
 When a single product produces

all revenue, HHI equals 100. When export revenues are distributed over many products, HHI approaches zero.

Maldives and Sri Lanka concentrate on few products while the diversity of agricultural imports is high in Maldives and Sri Lanka. India is the most diversified country in terms of agricultural exports and the least diversified in terms of imports (figure VI).

**Figure VI. Agricultural trade concentration in South Asia:
Hirschmann-Herfindahl Index**



All SAEs, except India, show less diversity in agricultural exports and more diversity in agricultural imports (figures VII and VIII). The export concentration is higher on beverages in Sri Lanka, cereals in Pakistan, fats and oils in Nepal, and fish and crustaceans in Maldives and Bangladesh. Sri Lanka shows higher import concentration on sugar, cereals and dairy products. Fats and oil, and cereals account for greater part of imports of Bangladesh. Pakistan mainly imports beverages, spices, oil seeds, and fats and oils. Meat, vegetables, fruits and dairy products are main imports of Maldives. The diversity of imports is higher in small economies while fat and oil dominates the imports in India, Bangladesh and Pakistan. The export and import concentrations indicate the potential for trade liberalization. In this respect, India could profit more due to higher diversity in exports (lesser diversity in imports) than other SAEs (figures VII and VIII).

3. Intraregional agricultural trade flows

All SAEs, except Pakistan, show remarkable progress in intraregional agricultural trade. With reference to the 1995 trade levels, Bangladesh has achieved the highest growth rate while India has established a prominent position in South Asia for its agricultural products. In 2004, total regional agricultural trade accounted for 22 per cent of regional trade, with India accounting for 80 per cent of that trade. Bangladesh and Sri Lanka are the main markets for Indian agricultural products. Pakistan and Sri Lanka account for 8 per cent and 4 per cent, respectively, of agricultural trade in the region. The decreasing share of the intraregional agricultural exports in the region indicates an increase in trade of intraregional non-agricultural products. There has been no major shift in intraregional agricultural trade pattern but all SAEs, except Pakistan, showed a remarkable growth in intraregional agricultural trade from 1995 to 2004 (table 4).

Figure VII. Agricultural export concentrations

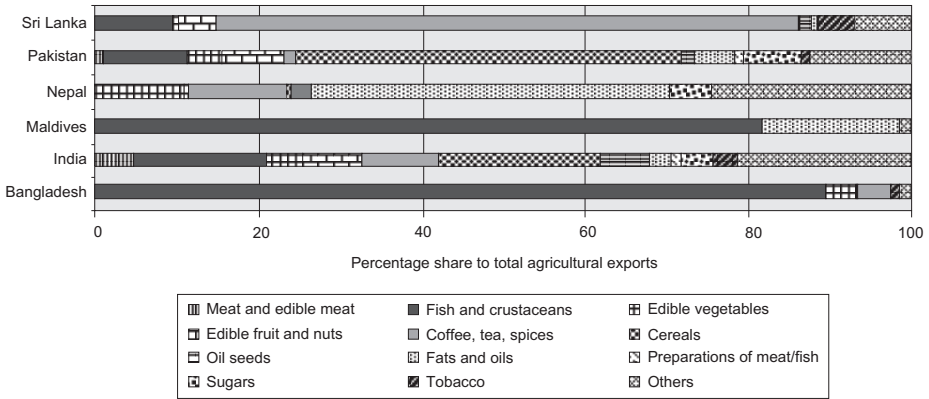
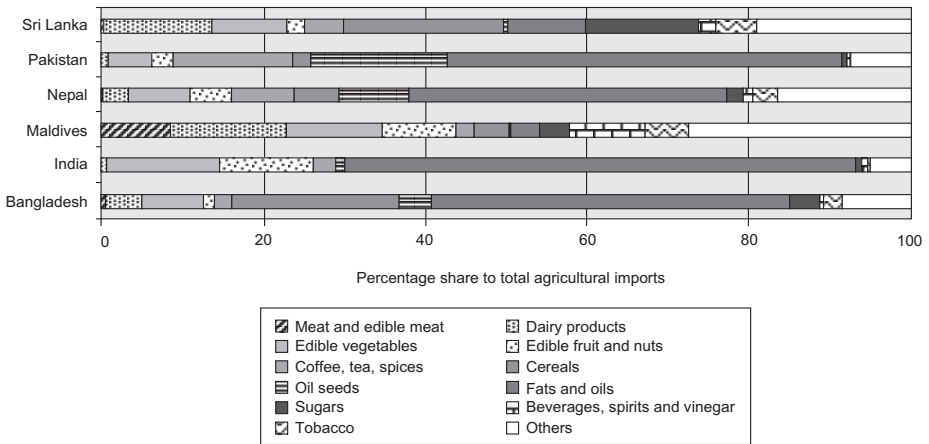


Figure VIII. Agricultural import concentrations



B. Policies and reforms related to agricultural trade

1. Changes in agricultural trade policies

The pre-Uruguay Round agricultural policies of the SAEs were characterized by direct public sector incentives for production, such as research and development, extension services and input subsidies (fertilizer, irrigation and credit). The parastatal organizations were directly involved in imports and exports. The structural adjustments of SAEs that started in the 1980s were mainly focused on manufactured exports, and trade reforms

Table 4. Intraregional trade and agricultural trade, 1995-2004

Country	Value of trade (US\$ million)				Percent change	Main market(s) (2004)
	1995	1998	2001	2004	1995-2004	
Bangladesh	6.85 (77.5)	10.36 (23.0)	11.52 (18.4)	21.85 (19.55)	228	Pakistan, India
Bhutan	15.25	15.68	n.a.	n.a.		India, Bangladesh
India	486 (28.3)	642 (38.2)	486 (23.7)	872 (21.2)	79	Bangladesh, Sri Lanka
Maldives	9.8 (87)	11.44 (88)	13.92 (92)	13.97 (77)	43	Sri Lanka
Nepal	14.81 (31)	26.08 (17)	62.4 (19)	34.79 (10)	135	India
Pakistan	87.96 (34)	266.03 (63)	74.99 (20)	87.85 (17)	-0.1	India, Sri Lanka
Sri Lanka	39.42 (45)	53.44 (42)	43.62 (28)	51.32 (10)	30	India, Pakistan, Maldives

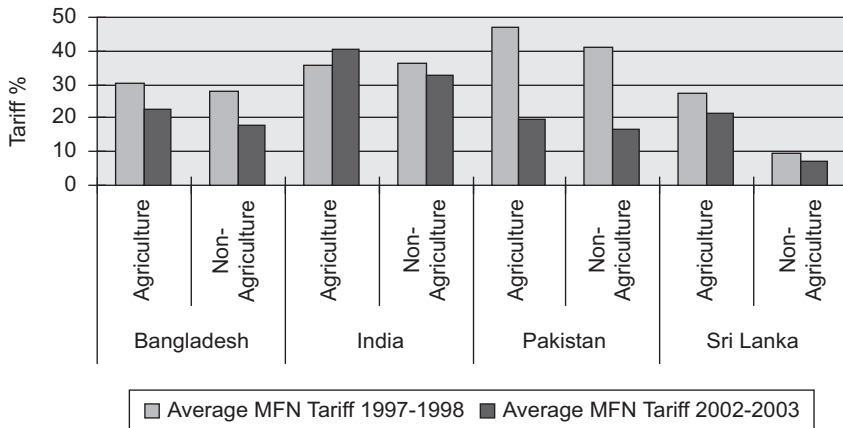
Source: Compiled from COMTRADE database.

Note: n.a. = not available, Figures in parentheses are percentages of agricultural trade with respect to total regional trade.

during this period were targeted at supporting that policy objective.³ The agricultural sector policies of SAEs generally remained highly protected (Blackhurst and others, 1996). The SAEs bound their agricultural tariffs at prohibitively high levels (100-300 per cent) in the WTO agreement on agriculture. However, the applied tariff rates of those economies were much less than the bound rates and, in many instances, the applied tariff rates on agricultural imports have been reduced over time. Sri Lanka and Nepal have been maintaining relatively lower applied tariff regimes than those of other SAEs, while substantial tariff reforms have taken place in Bangladesh and India. During 2002-2003, a slight decrease in agricultural tariff rates (MFN rates) were observed in all SAEs, except India (figure IX). At present, SAEs maintain a few tariff bands, whereas agricultural commodities have been subjected to relatively higher tariff rates (table 5).

The agricultural trade liberalization efforts of Bangladesh, which were initiated during the 1980s, showed a slowing down during the mid-1990s. In many instances, custom duties were reduced but these reductions were offset by a variety of other protective tariffs (World Bank, 2004). In 2000, para-tariffs accounted for more than one third of customs collections from protective import taxes. In addition, Bangladesh has retained a number of quantitative restrictions (QRs) based on balance of payment (BOP) grounds. Bangladesh maintains quantitative restrictions on 40 imported items while a large number of agricultural

³ Sri Lanka started the South Asian trade liberalization in the late 1970s. During the 1990s, other major South Asian countries initiated trade liberalization.

Figure IX. Comparison of most favoured tariffs (MFN) in SAEs

Source: World Bank (2004).

Table 5. Status of trade liberalization efforts in South Asia

	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka
General						
Exchange rate	Unified free float	Unified free float	Unified pegged to US dollar	Pegged to Indian rupee	Unified free float	Unified free float
Agriculture trade/ GDP (%)	3	2	25	7	3	10
Imports						
Quantitative restrictions (QR) on imports	Yes	Yes	Yes	Yes (minor)	Yes	Yes (minor)
Import restrictions – import licensing	Some restrictions	No	No	No	No	Yes (very few)
State import monopolies	No	Yes	Yes	No	No	No
Average custom duty rate	16.3	22.2	20.8	13.7	17.3	11.3
Use of anti-dumping	No	Yes	No	No	Yes	No
Agriculture tariff lines bound at WTO (%)	100	100	100	100	89.6	100
Average agriculture bound rate	188.3	115.7	30	42.3	101.6	50
Exports						
Export QRs	Yes	Yes	No	Yes	Yes	No
Export taxes	No	Yes	Yes	Yes	Yes	No
Direct export subsidies	Yes	Yes	No	No	No	No

Sources: World Bank, World Development Indicators, 2001; World Bank (2004); World Trade Organization Trade Policy Review – Bangladesh (2000); and World Trade Organization Trade Policy Review – Nepal (2002). Bangladesh's trade and its industrial sector depend more on export-oriented garment industries.

commodities are highly protected. In early 2004, as measured by its average unweighted protective import taxes, Bangladesh was the most protected of the SAEs, with high tariffs and other taxes on agriculture (World Bank, 2004).

The maximum tariff rates applied in India came down from a peak 355 per cent in 1990-1991 to 50.8 per cent in 1998-1999. The average weighted tariff rates came down from 87 per cent to 20 per cent during the same period. India's tariff regime appeared to be more liberal in the 1990s, but was quite restrictive compared to the other South Asian countries in relation to agriculture. In the late 1990s, more than 31 per cent of agricultural and fisheries products were subjected to import licensing, and a large number of products were restricted based on balance of payment grounds (Panagariya, 1999). Under the Uruguay Round agreement, India agreed to eliminate quantitative restrictions, which were maintained based on BOP grounds, on the majority of the remaining tariff lines by 2001; phasing out of non-tariff measures for most agricultural commodities was started in April 2001. However, India revised the tariff structure again in 2001 and the three-band tariff structure of 8, 16 and 24 per cent was replaced by a 16 per cent tariff band with an additional 4 per cent levy imposed on all imports. State trading monopolies are being maintained on major food grains (rice, wheat, and coarse grains except maize and barley). Tariff rate quotas (TRQs) have been imposed under different bilateral trade agreements on imports of tea (e.g., the Indo-Lanka Free Trade Agreement [ILFTA]), milk, maize, crude sunflower and safflower oils, and refined rape and mustard oils (e.g., the Indo-Nepal trade agreement). India reactivated its technical standards, and health and safety regulations on food imports. In addition, India has designated ports and inland custom points at which imports can be cleared. India maintains a list of about 300 sensitive items, the import of which it monitors. These items include many agricultural products such as milk products, fruits and nuts, coffee, tea, spices, cereals, oilseeds and edible oils, alcoholic products and silk. In addition, food grains and certain agricultural products are subject to procurement by state trading companies to guarantee farmers remunerative minimum support prices for these products (World Trade Organization, 2002). The maximum tariff was reduced from 35 per cent in 2001 to 20 per cent in 2004. However, agriculture was not included in the latest tariff revisions. The latest tariff reforms in India are associated with agricultural MFN tariffs increase and non-agricultural MFN tariffs fall (figure IX).

Pakistan started trade liberalization efforts in the 1980s and continued without serious interruptions. In 1996, a new, comprehensive trade liberalization programme was commenced and was continued until 2003. The general maximum customs duty was reduced to 25 per cent but, in contrast to other South Asian economies, strong protectionist elements in agricultural policies remained such as the use of technical regulations, regulations based on health and safety and, more specifically, a long-standing ban on imports from India (World Bank, 2004). Pakistan has minimum import controls on the grounds of health and safety reasons. Since 1988, Pakistan has granted unilateral duty exemptions in excess of 25 per cent ad valorem (i.e., the maximum rate is set at 25 per cent) to import 17 product categories arriving by land from Afghanistan, China, the Islamic Republic of Iran and Nepal.

Sri Lanka's trade and its manufacturing sector are dominated by its export-oriented garment industry. After 1990, a marked reduction of Sri Lankan tariff rates was observed for intermediate and capital goods and, after 1996, for agricultural goods (Central Bank of Sri Lanka, 1998). By 1998, tariff rates on investment and capital goods ranged from 5 per cent to 10 per cent while tariff rates on the majority of Sri Lanka's agricultural imports ranged from 20 per cent to 35 per cent. The quantitative restrictions were eliminated except for 12 items, which were restricted on the grounds of national security, health and environment.

The trade policies of Nepal and Bhutan are indirectly influenced by India's trade policies (World Bank, 2004). Nepal maintains liberal trade policies and tariffs are generally low, particularly in the case of agricultural trade. Most of Nepal's exports to India are free of duty. In 2002, the Government of Nepal added a "security tax" to its import tariffs and it has increased the tariff protection for local industries (World Bank, 2004). Exports of hydro-electricity form the principal driving force in the economy of Bhutan. The main trade partner of Bhutan is India. About 80 per cent of Bhutan's merchandise trade, 75 per cent of its imports and 95 per cent of its exports are with India. The FTA with India facilitates duty-free entry of exports by Bhutan to India, and imports from India are exempted from import licensing and tariffs. A sales tax, which is imposed only on imports, provides protection for Bhutan's domestic producers.

The economy of Maldives depends predominantly on tourism and fish exports. The average tariff is about 21 per cent and imports provide about two-thirds of government tax revenue. QRs on imports were removed in 1998 but state trading agencies are being used to regulate imports of rice, sugar and wheat flour. Sri Lanka and India are the main trade partners of Maldives; trade with Pakistan, Bangladesh, Nepal and Bhutan is zero or negligible. The principal role of the tariff system is to generate government revenue; hence, the tariff levels and protection for local industries have not been as important in Maldives as they have in the other SAEs (World Bank, 2004).

None of the SAEs used anti-dumping measures during the 1980s. India introduced anti-dumping measures in 1992. In 2002, Pakistan's first anti-dumping case was decided. Bangladesh, Nepal and Sri Lanka do not use anti-dumping regulations.

India, Pakistan, Bangladesh and Sri Lanka have used QRs on agricultural products for BOP reasons. With the improvement of the BOP situation, the SAEs could not maintain QRs and NTBs on BOP grounds. Consequently, most QRs have been removed. A summary of changes in QRs and NTBs during the 1980s, 1990s and 2000 is presented in box 1.

Box 1. Agricultural import restrictions (QRs and NTBs) in South Asian countries

Country	Quantitative restrictions and non-tariff barriers
<p>Bangladesh</p> <p>1980s</p> <p>1990s</p> <p>Early 2000s</p>	<p>QRs covered nearly 56 per cent of items at the HS six-digit level.</p> <p>During the 1990s, Bangladesh continued to liberalize its trade regime, reducing its tariffs and eliminating many quantitative restrictions on imports. Moreover, the lack of bindings and wide gaps between applied and bound rates imparted a strong degree of unpredictability to the tariff regime.</p> <p>Tariff protection was augmented by other border levies and, in some instances, discriminatory application of internal taxes. Additional protection at the border was provided by import bans or restrictions, affecting nearly 11.7 per cent of all national tariff lines.</p> <p>Trade-related restrictions were limited mainly to three categories: agricultural products (chicks, eggs, salt), packaging materials and textile products. Bangladesh was the only country in South Asia with QRs on imports still in place (63 items or 5.1 per cent of tariff lines).</p> <p>(The Government cash compensation scheme for selected exports at various rates on f.o.b. – 15 per cent for leather goods, agricultural and agro-processing products, and crushed bone, 10 per cent on frozen fish and 20 per cent on fresh fruit – constituted indirect barriers to imports).</p>
<p>Bhutan</p>	<p>India is the main trade partner, due its location. Bhutan is protected indirectly by the trade policies of India.</p>
<p>India</p> <p>1980s</p> <p>1990s</p> <p>2000s</p>	<p>India used the GATT balance of payment (BOP) provision (Article XVIII B) to justify quantitative restrictions.</p> <p>Nearly all consumer goods were subject to import licensing or parastatal import monopolies. QRs covered two thirds of GDP and 84 per cent of agricultural GDP.</p> <p>In the late 1990s, more than 30 per cent of India's imports were subject to licensing: 19 per cent on textiles and clothing; 51 per cent, industrial products; and 31per cent, agricultural and fisheries products. A large number of products were restricted, based on balance of payments grounds.</p> <p>India claimed exemption from the minimum access requirement of the Uruguay AOA. An understanding on Article XVIII: B reached at the end of the Uruguay Round required India to phase out QRs, which were maintained on balance of payments grounds.</p> <p>Since 2001, India has not used the GATT BOP provision to justify QRs.</p> <p>In 2001, India published a list of 300 sensitive goods. Domestic production of those products is protected by the use of high tariff rates or various non-tariff measures that are compatible under Article XX b (protection of human, animal or plant life or health) or Article XXI (security or defence reasons).</p>

	<p>QRs on 2,714 tariff lines maintained for BOP reasons were removed in April 2001. However, India has listed 600 tariff lines, justified under the articles of protection of human, animal or plant life or health and security and defence.</p> <p>Import monopolies existed for rice, copra, wheat and all coarse grains except maize and barley in early 2000s.</p> <p>TRQs are being used to protect domestic agricultural production but out-of-quota rates are compatible with the AOA commitments.</p> <p>India continues to maintain State Trading Enterprises (STE) for imports of urea and justifies it under the GATT STE rules that allow government-authorized import or export monopolies. Other non-tariff measures include the reactivation of quarantine regulations, standard certificates, and limiting number of entry ports.</p>
Maldives	<p>Imports of staple foods was a monopoly of the state trading organization (STO). Most of these restrictions were removed in 1998.</p> <p>Import quotas, most of which were allocated to STO, are still being used to regulate imports of rice, sugar and wheat flour.</p>
Nepal	<p>Not an active user of NTBs for protection. In 1997, the Agricultural Inputs Corporation, the parastatal over fertilizer imports, was abolished. Nepal indirectly protects through the trade policies of India.</p>
Pakistan 1980s/1990s	<p>Pakistan used import licensing and other non-tariff barriers to imports widely during its early import substitution period, and started removing QRs during the 1980s.</p> <p>Government-controlled import monopolies were maintained for most agricultural products and the fertilizer industry.</p> <p>In 1997, Pakistan embarked on a radical new trade liberalization programme. This eliminated all remaining traditional QRs and parastatal import monopolies.</p> <p>The most sweeping reforms occurred in the agricultural sector, where government trading monopolies were abolished and other government interventions were reduced.</p>
Sri Lanka 1980s 1990s	<p>The removal of quantitative restrictions started in 1977, but agricultural commodities remain subject to seasonal QRs. Parastatal import monopolies involved in agricultural imports.</p> <p>The private sector was allowed to import seasonally restricted agricultural commodities under an import licensing system. About 3 per cent of product lines remain subject to QRs. These QRs were applied to Sri Lanka's principal import substitution food crops of rice, potatoes, chillies and onions. Sri Lanka justified its QRs at WTO under GATT Article XVII1:B.</p>

	<p>In 1997, this justification was challenged by WTO. In 1998, Sri Lanka removed import licensing of these products. But high protection of the import substitution crops has continued with the use of seasonally varying tariffs and specific duties.</p> <p>By 1998, only 3.7 per cent of the tariff lines were still subject to traditional QRs.</p>
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Sources: World Bank (2004), Panagariya (1999) and Central Bank of Sri Lanka.

Although pressure from WTO resulted in many SAEs ending the use of QRs, they have been trying to maintain the level of protection for agriculture through alternative measures such as:

- (a) Higher tariffs;
- (b) The use of alternative clauses of the WTO agreement, such as protection for human, animal or plant life or health (article XX [b]), security and defence (article XXI) or the GATT STE rule etc., which are formally compatible with GATT rules.

Bangladesh, Nepal, Pakistan and Sri Lanka use other import taxes as well as custom duties with the intention of protecting domestic producers (table 6). The aim of these taxes is to increase revenue, but the absence of equivalent taxes on domestic agricultural production generates extra protection against imports. Due to these

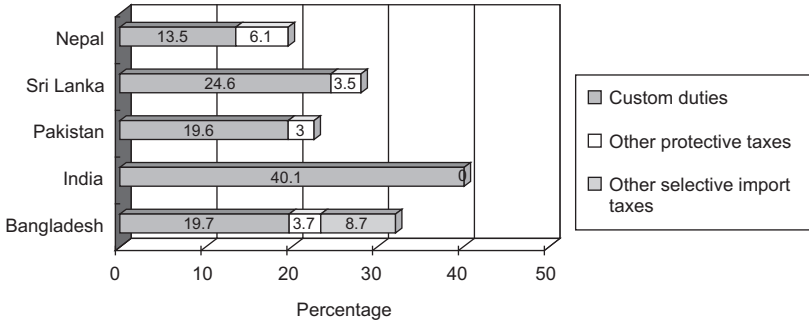
Table 6. Use of para-tariffs in South Asian countries

Country	Para-tariff
Bangladesh	Infrastructure development surcharge Supplementary duty Regulatory duty VAT exemption for specified domestic products
India	Specific duty (1996 to 1998) Surcharge (1999 to 2000) Special additional duty (1998 to 2004) All para-tariffs were abolished in January 2004
Nepal	Local development fee Special fee Agricultural development fee
Pakistan	Income withholding tax Sales tax
Sri Lanka	A levy to fund the Export Development Board (since 1981) Surcharge on custom duties (since 2001) Ports and airport levy (since 2002)

Source: World Bank (2004).

para-tariffs, the protection rates of SAEs have exceeded customs duty in Bangladesh, Nepal, Sri Lanka and Pakistan by 62 per cent, 18 per cent, 31 per cent and 8.7 per cent, respectively (figure X) (World Bank, 2004). India removed its para-tariffs in January 2004.

Figure X. Average custom duties and other protective import taxes (para-tariffs) on agricultural commodities



Source: World Bank (2004).

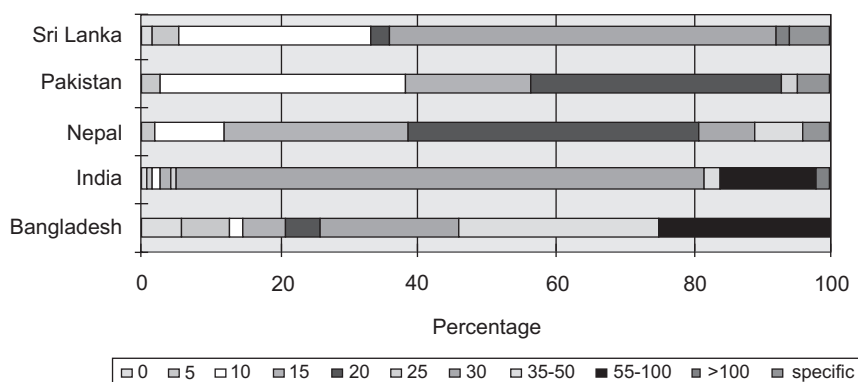
2. Comparative agricultural tariff structure

The distribution of MFN agricultural tariff lines shows that Pakistan maintains less than 20 per cent of tariffs for more than 90 per cent of MFN agricultural tariff lines (figure XI). Nepal maintains a higher percentage (80 per cent) of tariff lines within the less than 20 per cent level. The dispersion of Indian agricultural tariffs is higher than in other countries, but more than two-thirds of Indian agricultural tariffs are placed at 30 per cent. More than half of Sri Lankan tariff lines (56 per cent) receive 30 per cent protection from tariffs. Bangladesh maintains more than 55 per cent tariff protection for 25 per cent of agricultural tariff lines (figure XI).

The tariff levels on agricultural products are a broad indicator of the potential for trade development. The relative tariff ratio⁴ (RTR) index is constructed as the ratio between a country's faced tariffs and its imposed tariffs (Sandrey, 2000). The index considers a bilateral trade relationship, where each tariff line of country A is weighted by country B's share of total exports of the same tariff line and vice versa. The index being closed to one indicates that both countries have similar protection. The RTR index can be used as a practical tool to appraise trade agreements and as a starting point to identify a potential/

⁴ The RTR index = $\frac{\sum_{i=1}^n (X_i^B Y_i^A)}{\sum_{i=1}^n (X_i^A Y_i^B)}$ where, A, B = countries A and B, X_i = ad valorem equivalent tariff rate

for product i , Y_i = share of exports of product i in total exports.

Figure XI. MFN tariff structure in agriculture – frequency distribution

Source: World Bank (2004).

difficult sector for trade negotiations. Table 7 compares RTR indices for agricultural products of SAEs.

An RTR of 0.16 between India and Sri Lanka indicates that for every percentage point that India faces in Sri Lanka, Sri Lanka faces 6.17 in India. Conversely, the ratio between India and Sri Lanka is $1/6.17 (= 0.16)$. Bangladesh shows somewhat similar protection in agricultural products. The higher RTR of India and Bangladesh indicate that the other countries in the region face higher protection from India and Bangladesh for agricultural exports. Sri Lanka and Nepal provide relatively more access to agricultural products than those of other SAEs.

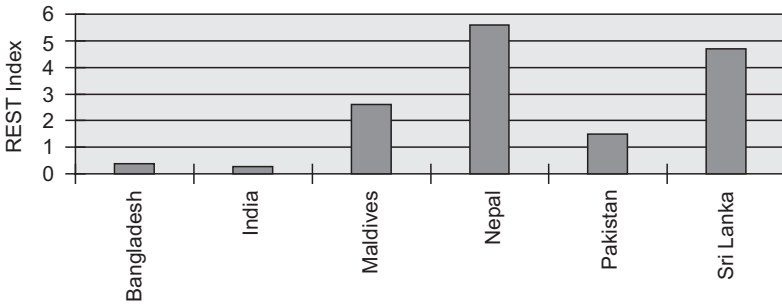
Table 7. Relative tariff ratio indices for the South Asian countries

RTR	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka
Bangladesh	0.60	0.03	0.22	0.25	0.12	
India	1.66		0.09	0.17	0.37	0.16
Maldives	31.64	10.51		5.60	3.91	1.94
Nepal	4.52	5.71	0.17		1.41	1.28
Pakistan	3.95	2.63	0.25	0.70		0.37
Sri Lanka	8.23	6.17	0.51	0.77	2.69	

Source: Estimated using data in COMTRADE, TRAIN database (2005).

The regional export-sensitive tariff index⁵ (REST) (Jank and others, 2002) can be used to measure the tariffs each country faces in exporting to its partners. The REST index aggregates all tariffs faced and imposed by each country in the region into a single indicator, representing a ratio of the weighted value of those tariffs. A REST ratio close to 1 can be interpreted as an overall evenness between a country’s tariff regime and that of its regional partners (Jank and others, 2002). Figure XII presents the calculation of the REST index for agricultural products using MFN tariffs for SAEs. It indicates that Bangladesh and India face lower tariffs in the region than that of imposed tariffs whereas Nepal, Sri Lanka and Maldives face higher tariffs than that of imposed tariffs. The REST values indicate that South Asian regional agricultural trade liberalization is uneven and that there is potential/opportunity for further agricultural trade liberalization/negotiations.

**Figure XII. Tariff protection in regional trade integration:
Regional export-sensitive tariff index**



Source: Author’s calculations.

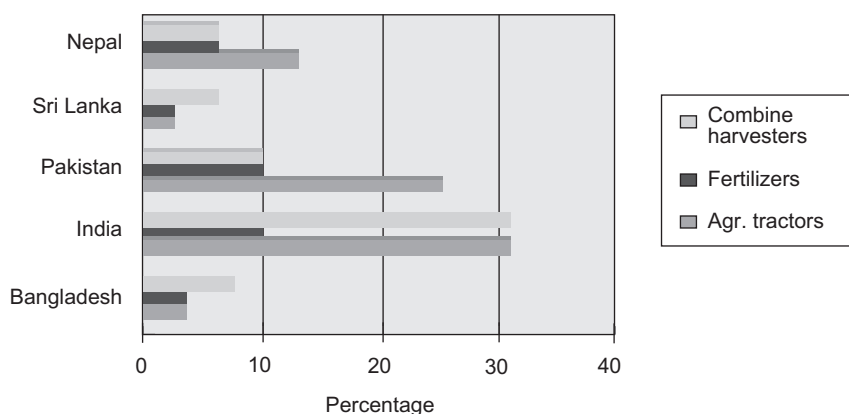
3. Domestic support

Domestic support for agricultural production could indirectly influence agricultural trade in the region. Bangladesh had a non-product specific support equivalent to 0.48 per cent of total agricultural value in 1995-1996, increasing to 0.49 per cent in 1999-2000. On the other hand, the total support or Aggregate Measure of Support (AMS) was US\$ 49 million (0.68 per cent) in 1995-1996 and was reduced to zero in 1999-2000. India granted sizeable agricultural subsidies compared with other countries in the region. Indian agricultural producers receive subsidies on fertilizer, power, irrigation, credit and certified seeds. Even though India’s AMS is negative, non-product specific support has been valued at 7.5 per cent of total value of production (Gulati, 2002). In Pakistan, domestic support for agriculture has been largely aimed at fostering price support/stabilization, food security and raising

$$REST_A = \frac{\left(\frac{X_B^A}{X_T^A}\right) * \sum_{i=1}^n (x_i^B y_i^A) + \left(\frac{X_C^A}{X_T^A}\right) * \sum_{i=1}^n (x_i^C y_i^A) + \left(\frac{X_N^A}{X_T^A}\right) * \sum_{i=1}^n (x_i^N y_i^A)}{\left(\frac{M_B^A}{M_T^A}\right) * \sum_{i=1}^n (x_i^A y_i^B) + \left(\frac{M_C^A}{M_T^A}\right) * \sum_{i=1}^n (x_i^A y_i^C) + \left(\frac{M_N^A}{M_T^A}\right) * \sum_{i=1}^n (x_i^A y_i^N)}$$

the productivity/competitiveness of the agricultural sector. The share of non-product specific support to the total value of Pakistan's agricultural output was equal to 0.06 per cent in 1995-1996, but it doubled to 0.13 per cent in 1997-1998 (World Trade Organization, 2001). Sri Lanka's agricultural producers are receiving domestic support in the form of a fertilizer subsidy, irrigation and replanting (for tree crops), but the level of subsidy has been very low (0.2 per cent to 1.6 per cent of total value) (Athukorala and Kelegama, 1996). SAEs promote agricultural production through lower tariffs for imports of agricultural inputs (figure XIII). They operate subsidies to promote agricultural exports. However, regional trade agreements have not included the conditions on domestic support and many SAEs do not use anti-dumping regulations. The available export incentives in the SAEs are summarized in table 8.

Figure XIII. MFN tariffs on agricultural intermediate inputs



Source: World Bank (2004).

Table 8. Restrictions/incentives for agricultural exports in South Asian economies

	Bangladesh	India	Nepal	Pakistan	Sri Lanka
Export restrictions					
Export NTBs	Agricultural livestock and fisheries products	Fertilizers, agricultural commodities	Wool carpets only	Yes (a few)	No
Export control by STEs	No	Maize, Niger seeds and onions	Oil crops	No	Yes (a few)
Restrictions on imports for re-export	No (10% value addition charge on re-exports)	No	No	No	Yes (Tea and spices)

Table 8 (continued)

	Bangladesh	India	Nepal	Pakistan	Sri Lanka
Export subsidies					
Direct export subsidies	Yes Cash subsidy of 15% (vegetables, dairy, poultry, fisheries)	Yes Wheat and rice	No	No	No
Transport and marketing subsidy	Yes Low air freight on national carrier	Yes	No	Yes 25% Freight	No
Indirect export subsidies	Yes Low interest loans	Yes	No	Yes Subsidy	No
Indirect export subsidy through policies affecting input policies	Yes Ban on exports of wet blue leather	Yes Leather products	Yes	Yes Leather products	No
Production by industry-specific schemes	Yes Vegetables	Yes Agricultural export zones	No	No	No

Source: World Bank (2004).

C. Preferential trade agreements and agricultural trade liberalization in South Asia

SAEs possess conditions such as higher tariffs and NTBs, and geographical closeness that provide potential for agricultural trade liberalization within the region. The trade agreements between India-Bhutan and India-Nepal have provided wider coverage for agricultural exports to India from Bhutan and Nepal. SAPTA includes 866 agricultural items for concessions, and offers 5-20 per cent margin of preferences (MOP) from MFN rates. SAFTA came into effect on 1 January 2006 with the aim of reducing tariffs for intraregional trade among the seven SAARC members. Pakistan and India are to complete implementation by 2012, Sri Lanka by 2013, and Bangladesh, Bhutan, Maldives and Nepal by 2015. SAFTA replaces the earlier SAPT and may eventually lead to a full-fledged South Asia Economic Union.

The other intra-/interregional and bilateral trade agreements of SAEs have included very few additional agricultural products for further liberalization. ILFTA and the Pakistan-Sri Lanka Free Trade Agreement (PSLFTA) take similar approaches to product coverage and Rules of Origin. These BTAs have classified agricultural commodities as sensitive and subject to reduced concessions or NTBs, or excluded them altogether from the scope

of the agreements. Under ILFTA, India has initially offered 50 per cent MOP for 53 tariff lines while Sri Lanka has offered only limited MOP for 22 agricultural products with the balance subject to the negative list. Under PSFTA, Sri Lanka has given limited concessions for a few agricultural products that not covered by ILFTA (rice and potatoes) while Pakistan has offered 100 per cent MOP for two Sri Lankan agricultural exports (tea and betel leaves) subject to TRQ.

The India-Nepal trade agreement stipulates quotas and rules of origin for Nepal's exports to India while Nepal's MOP preferences for Indian exports range from 10 per cent to 20 per cent. Bangladesh offers 23 per cent of MOP under the Bangladesh-Bhutan trade agreement for its principal imports (apples and apple juice) from Bhutan. The BTAs of SAEs offer more liberal concessions than the WTO and SAPTA agreements. The interregional trade agreements of SAEs, APTA, BIMSTEC and IOR-ARC do not include a significant number of concessions relevant to agricultural trade. However, none of these agreements has explicitly addressed the domestic support and export subsidies on agriculture. Only India and Pakistan currently use anti-dumping legislations. Table 9 summarizes the intra-South Asian regional trade arrangements and the coverage of agricultural products in these agreements.

1. Intra-regional trade arrangements

(a) *South Asian Preferential Trade Agreement*

South Asian intraregional trade accounts for only a small fraction of total trade in the region (table 10). In 1982, intraregional trade accounted for 2.5 per cent of regional trade, increasing to 6.3 per cent in 2004. Developed countries, particularly the United States, the European Union and Japan, account for the greater share of South Asian exports. The initiative for regional cooperation was started in 1985 with the establishment of SAARC. The seven SAARC member countries are Bangladesh, Bhutan, Maldives, Nepal, India, Pakistan and Sri Lanka. The idea of liberalizing trade among the SAARC countries was first discussed in 1991 at the sixth SAARC summit held in Colombo. SAPTA was signed in 1993 and put into operation in 1995. Bangladesh, Bhutan, Maldives and Nepal, which are designated as least developed countries (LDCs) under the agreement, are eligible for additional concessions. So far, three rounds of negotiations have been conducted and the outcomes of these negotiations are summarized in tables 11 and 12.

Trade preferences are based on the principle of overall reciprocity and mutuality of advantages. Although SAPTA has identified four components – tariffs, para-tariffs, non-tariffs and direct trade measures – tariff negotiation was considered as the initial step for trade promotion among members. The concessions negotiated and exchanged will be incorporated in the National Schedule of Concessions, in which special and more favourable treatment has been identified for LDCs. The concessions agreed upon, except those exclusively for LDCs, were to be multilateralized among all contracting members. The consensus incorporated in the national schedule could be altered or withdrawn only after three years. SAPTA has special provisions to assist LDCs to improve infrastructure

Table 9. Coverage of agricultural products in intra-South Asian regional trade arrangements

	Approach for listing concessions	Agricultural tariff lines eligible for concessions	Preferences as a percentage of MFN tariff	Rules of Origin	Inclusion of NTBs	Conditions on domestic support/ export subsidies*	Technical cooperation	Inclusion of services
SAPTA (1999)	Bilateral negotiations (multilateralized to all members)	866 (Bangladesh, 229; Bhutan, 61; India, 223; Maldives, 30; Nepal, 141; Pakistan, 107; Sri Lanka, 85)	5-20 (LDC 5-30)	40-50% of local content	Yes Sensitive list (Pakistan uses positive list for imports from India)	No	Yes	No
Indo-Lanka Free Trade Agreement (2000)	Negative list approach	India, 53 Sri Lanka, 23		25-35% local content	Yes TRQ and designated entry points India: Tea	No	Yes	No
Pakistan-Sri Lanka Free Trade Agreement (2005)	Negative list approach	Pakistan, 41 Sri Lanka, 21	Duty-free subject to TRQ	25-35% local content	Yes TRQ: Sri Lanka, rice and potatoes. Pakistan, tea and betel leaves	No	Yes	No

Table 9 (continued)

	Approach for listing concessions	Agricultural tariff lines eligible for concessions	Preferences as a percentage of MFN tariff	Rules of Origin	Inclusion of NTBs	Conditions on domestic support/ export subsidies*	Technical cooperation	Inclusion of services
India-Nepal (2002)			Duty-free access to Indian market: 10-20% tariff reductions from 10-110% tariff bands	30% minimum content of Nepalese or Indian products	TRQ: Quotas allocated to Indian state trading enterprises	No		No
India-Bhutan (2003)					Provisions for Bhutan to use NTB	No		No
Bangladesh-Bhutan (2003)		Bangladesh, 58	23% MOP (apples and apple juice)			No		No

* India and Pakistan use anti-dumping regulations, and safeguard measures have been included in all agreements. The interregional agreements provide few concessions for agricultural products.

facilities, communications, transport and transit facilities that will support trade within the region.

In order to qualify for preferential market access, products should satisfy the Rules of Origin condition and the direct consignment terms. The Rules of Origin state that products having a domestic value addition content of at least 50 per cent will qualify for preferential market access. In the case of LDCs, this limit is set at 35 per cent.

Table 10. South Asia's intraregional trade

Year	Intraregional trade of SAARC countries (US\$ million)	World trade of SAARC countries (US\$ million)	Share of intraregional trade in world trade (%)
1994	2 194	46 907	4.6
1999	2 431	51 713	4.7
2001	2 855	64 692	4.4
2004	5 572	88 512	6.3

Source: Compiled from COMTRADE database.

Table 11. SAPTA negotiations and outcomes

Year		Outcome
December 1995	SAPTA-1	The tariff prevailing in the region was relatively high. Tariff concessions on 226 products under the HS code system negotiated. Preferential tariffs offered as a percentage of available tariffs. Preferences offered were ranged from 10 per cent to 100 per cent from the prevailing MFN rates.
November 1996	SAPTA -2	Completed the negotiations on an additional 1,871 products. About 39 per cent of the product categories are only for LDC members. Tariff concessions offered in this round ranged from 10 per cent to 30 per cent.
November 1998	SAPTA-3	Tariff concessions offered on 3,456 tariff lines. LDCs offered more than 70 per cent of the total tariff lines under preferential treatment. India offered the largest number of tariff lines (1,975), but the majority (1,932) was only for LDCs.

Source: Central Bank of Sri Lanka (2003).

Table 12. SAPTA preferences: SAPTA 1-3*

	LDC		All		Total	
Bangladesh	144	(44)	407	(558)	521	(602)
Bhutan	124	(122)	109	(68)	233	(193)
India	2 082	(2 412)	472	(484)	2 554	(2 896)
Maldives	6	(369)	172	(19)	178	(388)
Nepal	163	(177)	328	(252)	491	(517)
Pakistan	229	(242)	262	(284)	491	(517)
Sri Lanka	44	(52)	155	(144)	199	(196)
SAARCC	2 762	(3 418)	1 095	(1 770)	4 667	(5 218)

Source: Weerakoon and Wijayasiri (2001).

* Preferences at the six-digit level of HS code. The figures in parentheses indicate concessions offered at the eight-digit level of HS code.

India has offered the largest number of tariff preferences. In 1997, India granted tariff preferences ranging from 5 per cent to 10 per cent. India provides further tariff reductions ranging from 10 per cent to 50 per cent for non-LDCs and up to 100 per cent in some instances for LDCs. India lifted all quantitative restrictions maintained for balance-of-payments reasons for SAPTA members on 1 August 1998.

The trade statistics for the region indicate that SAE intraregional trade increased during the 1990s (table 4). Regional trade is dominated by exports from India (74 per cent in 2004), which go mainly to Bangladesh and Sri Lanka. India's exports to the SAARC members account for about 6 per cent of its total exports. The low cost of Indian agricultural products provides a competitive advantage in agricultural trade in the region. However, imports from other SAEs to India have been low. India's economy is more diversified than other SAEs, and trade-related factors (tariffs, QRs, STE etc.) and non-trade-related factors (exchange rate, economies of scale etc.) have placed India in an advantageous position in regional trade. The real devaluation of the exchange rate with regard to currencies of other SAEs has also provided an impetus to India for expansion of exports in the region.

When compared with MFN tariffs, SAPTA has not offered substantial tariff reductions (table 13). The developed members offer tariff concessions in the range of 10 per cent to 100 per cent of the MFN level to the LDC members; the LDC members generally offer concessions in the range of 10 per cent and 15 per cent to other members. Agricultural products have a higher trade potential in the region. However, the most tariff preferences offered under SAPTA are irrelevant to the trade interests of the member countries. Plant-based products, the largest export product group of the region, have received only 191 concessions (table 14). but only a small number of these concessions is relevant to the member countries (Weerakoon and Wijayasiri, 2001).

Table 13. MFN rates and Margins of Preferences under SAPTA

	MFN rate	LDC/ non-LDC	SAPTA preferences (as percentage of MFN tariff)		
			SAPTA-1	SAPTA-2	SAPTA-3
Bangladesh	0-40	Non-LDCs	10	10	10
		LDCs	10	10	10
Bhutan	20-50	Non-LDCs	10	10	10-15
		LDCs	10-15	10-15	10-15
India	5-45	Non-LDCs	10-90	10-50	10-20
		LDCs	50-100	50-100	50
Maldives	0-40	Non-LDCs	7.5	7.5-10	10
		LDCs	7.5	7.5-10	..
Nepal	5-25	Non-LDCs	7.5-10	7.5-10	5-10
		LDCs	10	15	10-15
Pakistan	0-45	Non-LDCs	10	10-15	10-20
		LDCs	15	15	30
Sri Lanka	0-30	Non-LDCs	10-20	10-20	10
		LDCs	15-25	60	10-75
SAARC		Non-LDCs	7.5-90	7.5-50	5-25
		LDCs	7.5-100	7.5-100	10-75

Source: Weerakoon and Wijayasiri (2001).

Table 14. Distribution of preferences of agricultural products offered under SAPTA

Country	HS Code Chapter					Total
	01-05 Live animals and animal products	06-14 Plant- based products	15 Animal/ vegetable fats and oils	16-24 Prepared foodstuff	25-99 Non- agricultural products	
Bangladesh	142	35	3	49	292	521
Bhutan	1	6	0	54	172	233
India	88	38	46	41	2 331	2 554
Maldives	0	1	24	5	148	178
Nepal	6	66	0	69	350	491
Pakistan	10	35	4	58	384	491
Sri Lanka	73	10	1	1	114	199
SAARC	320	191	78	277	3 801	4 667

Source: Weerakoon and Wijayasiri (2001).

The SAARC members signed SAFTA in January 2004, envisaging that the agreement would be operational by January 2006. In order to ensure timely implementation of the agreement by 2006, the committee of experts (COE) appointed by the council of ministers has already drafted the agreement (such as the sensitive lists, technical assistance to LDCs, the mechanism for compensation of revenue loss for LDCs and finalization of the rules of origin) (Central Bank of Sri Lanka, 2004). A tentative plan has been formulated for phasing out of tariffs in two phases. The first phase covers the period from 1 January 2006 to 1 January 2008 while the second phase covers different timeframes for the LDCs (2008-2016) and other contracting members (2008-2013) (table 15). However, tariff cuts for SAFTA trade may not apply to items on each country's sensitive list. In the case of other SAE PTAs, sensitive lists contain agricultural products. Thus, a higher possibility exists for the inclusion of agricultural products in the sensitive lists.

Table 15. Planned tariff cuts in SAFTA

Country	First phase	Second phase	
	1 January 2006 to 1 January 2008	1 January 2008 to 1 January 2013	1 January 2008 to 1 January 2016
LDCs: Bangladesh, Nepal Bhutan and Maldives	Reduce maximum tariff to 30 per cent		Reduce tariffs to the 0-5 per cent in eight years
Non-LDCs: India, Pakistan and Sri Lanka	Reduce maximum tariff to 20 per cent	Reduce tariffs to 0-5 per cent in five years (Sri Lanka in six years)	

Source: World Bank (2004).

Note: Tariffs refer to customs duty only.

(b) Indo-Lanka Free Trade Agreement

India and Sri Lanka have relied more heavily on South Asian regional trade integration as a means of diversifying, boosting and stabilizing trade. The similarity of the economic structures of South Asian nations was considered the major bottleneck in the development of regional trade. Therefore, the benefits from improved trade relationships were expected to be marginal. In contrast, bilateral trade between India and Sri Lanka is growing faster than the overall economic growth of either country. In 2000, Sri Lanka and India finalized a bilateral free trade agreement, eliminating tariff barriers. ILFTA is widely seen as an important step because it has granted Sri Lanka greater access to the larger Indian market.

Bilateral trade in agricultural and non-agricultural goods between Sri Lanka and India can be used to describe the trends in trade between the two countries (table 16). During 1990-2004, Sri Lanka's exports to India showed a remarkable growth (1,380 per cent) in both agricultural (340 per cent) and non-agricultural goods (1,628 per cent). The

value of Sri Lanka's overall imports from India increased by 850 per cent during the past decade. Particularly significant has been the remarkable growth in agricultural goods (1,480 per cent), while non-agricultural goods increased by 800 per cent. In 2003, India accounted for 22 per cent of Sri Lanka's agricultural imports. The trade balance has therefore been in favour of India.

Table 16. India-Sri Lanka trade structure

(Unit: US\$ million)

Product	Indian exports to Sri Lanka			Sri Lankan exports to India		
	1990	1995	2004	1990	1995	2004
Agricultural products	10 (8)	93 (18)	158 (12)	5 (19)	10 (28)	22 (43)
Non-agricultural products	127 (92)	405 (82)	1 144 (85)	21 (81)	24 (72)	363 (57)
Total	137	498	1 302	26	34	385
Percentage of total	4.0	9.3	11.5	1.1	0.8	7.0

Source: Compiled From COMTRADE.

The RCA of Indian and Sri Lankan products followed a similar trend between 1995 and 2004 (table 3). This similarity of export specialization may pose a major constraint to Sri Lanka's drive to find new market opportunities in India. On the other hand, the development of a trade relationship may help India to supply Sri Lanka's main imports such as food (rice, spices, vegetables and fruit, and sugar), textile yarn and more capital-intensive manufactured items (iron and steel, and other manufactured products).

The composition of the manufacturing sector shows another important position of trade development. Sri Lanka depends more on food and textile products and therefore, is not diversified. As for India, apart from the textile sector, the engineering and chemical sectors play a prominent role in the economy. This further indicates the likelihood of India profiting from a wide range of products in the Sri Lankan market. Moreover, Indian firms have the advantage of economies of scale due to its market size.

The provisions of ILFTA are summarized in table 17. ILFTA is a preferential trade agreement, and both countries may maintain a negative list. The ILFTA Rules of Origin are less stringent than those of SAPTA. ILFTA provides concessions for products with at least 35 per cent of domestic value addition content, which qualify for tariff concessions. In addition, Sri Lankan exports with a domestic value addition of 25 per cent and a minimum Indian input content of 10 per cent also qualify for preferential concessions under the agreement.

Table 17. Commitments for duty concessions under Indo-Lanka Free Trade Agreement – all products

Level of duty reduction	No. of tariff lines (by 6-digit HS-code)	
	Sri Lankan commitments	Indian commitments
Nil (negative list)	1 180	429
– 50% (fixed) garments (quota) ^a	–	233
100% (zero duty)	319	1 351
50% (phased out in 2003) ^b	889	2 799
50% (fixed) – tea (quota) ^c	–	5
25% (fixed) – textile items	–	528
Up to 100% in eight years	2 724	–
Total	5 112	5 112

Source: Indo-Lanka Free Trade Agreement, Secretariat (www.indolankafta.org.html).

^a Garments imports are subject to an annual quota of 8 million pieces, of which a minimum of 6 million pieces should contain Indian fabrics.

^b Fifty per cent tariff preferences phased out in three years as 70 per cent, 90 per cent and 100 per cent, respectively, in 2001, 2002 and 2003.

^c Tea quota = 15 million kg/year.

At present, Sri Lanka imports about 2,900 products (62 per cent of active tariff lines) from India, of which about 20 per cent is on Sri Lanka's negative list. Concessions with 50 per cent tariff preferences belong to the category of intermediate and investment goods. The tariff levels maintained by Sri Lanka for these products are low (4 per cent in 2002); therefore, a large trade diversion may not have occurred due to ILFTA. However, at maturity, ILFTA will cover nearly 80 per cent of the tariff lines that are of trade interest to India (excluding the negative list). Sri Lanka exports about 380 items (15 per cent of the active tariff lines) to India and ILFTA has direct influence on 80 per cent of the currently traded items. A majority of concessions granted under duty-free access to India include prepared foodstuffs, chemical products, paper products, machinery and mechanical products. Sri Lankan agricultural products such as rubber products, tea and spices, which have higher export specialization, are subject to India's negative list.

The development of Indo-Lankan trade has proved that there is immense potential for the expansion of trade between the two countries. The diversity of the export structure, the comparative advantage in a range of products and the geographical location provide an advantageous position for India due to the liberal economic and trade policies of Sri Lanka.

Apart from the institutional changes, depreciation of the nominal and real exchange rate seems to favour the Indian trade flow to Sri Lanka. The economic structure of regional economies is similar to that of Sri Lanka and free trade agreements, thereby placing India in an advantageous position as a vibrant trade partner in South Asia. Sri Lanka has received substantial opportunities to promote exports to India, but current

exports have a limited influence on Sri Lanka's overall trade. Therefore, Sri Lanka should seek to diversify trade with India. India has become the major food supplier to Sri Lanka. The import-competing agriculture sector of Sri Lanka is highly influenced by trade developments with India. Sri Lankan producers have been competing under different incentive systems and have experienced the negative effects of the macroeconomic management.

(c) *Pakistan-Sri Lanka Free Trade Agreement*

The Pakistan and Sri Lankan joint economic commission covers a wide range of topics such as expansion of trade, market access, and agriculture scientific and technology cooperation. The framework for PSFTA was signed on 1 August 2002, and a free trade agreement was implemented on 9 February 2005. The basic objective of the trade agreement is to promote trade by providing fair conditions of competition for trade in goods and services as well as the harmonious development of economic relations between Pakistan and Sri Lanka. Pakistan is the second largest trading partner of Sri Lanka in the South Asian region. Sri Lanka's export share to Pakistan is about 0.5 per cent, which represents about 11 per cent of Sri Lanka's SAARC regional exports. In 2003, agricultural products such as copra, tea, natural rubber, desiccated coconut, cashew nuts, betel leaves, coconut in shell (fresh), tamarind and coconut oil represented 90 per cent of Sri Lankan exports to Pakistan. Among Pakistan's exports to Sri Lanka, agricultural products such as rice, potatoes, onions and fruit account for about 43 per cent of the total while woven cotton fabric accounts for about 27 per cent. The value of total trade between the two countries in 2003 was US\$ 104 million, which represented 30 per cent growth with respect to total trade in 2001.

The rules of origin conditions are similar to those of ILFTA, and products can qualify for preferences under two broad categories: wholly obtained and products not wholly obtained. The value added components of the latter category should satisfy the 35 per cent value-added level. The cumulative rules of origin condition holds for products originating from other contracting parties and the value addition of the exporting contracting parties should be a minimum 25 per cent of the FOB price of the product exported; and the value of inputs imported from other contracting parties should be a minimum 10 per cent of the FOB price.

Pakistan's commitments include 100 per cent immediate concessions on 206 products, duty-free TRQ for 10,000 metric tons (mt) of tea, TRQ for 1,200 mt of betel leaves with 35 per cent MOP on the applied MFN rate, TRQ for 3 million pieces of apparel with 35 per cent of MOP on the applied MFN rate etc. Pakistan's negative list contains 540 tariff lines at the six-digit HS level, out of 5,224 tariff lines. Tariffs on all remaining items will be phased out within a three-year period (table 18).

Sri Lanka's commitments include a 100 per cent immediate removal of tariffs on 102 products, duty-free TRQ for 6,000 mt of long-grain Pakistani rice and 1,000 mt of potatoes. Sri Lanka's negative list includes 697 tariff lines at the six-digit HS level, out of

5,224 tariff lines. The negative list includes agricultural products (rice, sugar, frozen chicken, fish products, vegetables, potatoes, onions and fruit). Sri Lanka is bound to remove tariffs on all other products within a five-year period (table 18).

Table 18. Commitments of Pakistan-Sri Lanka Free Trade Agreement (PSFTA)

Commitment	Sri Lanka	Pakistan
Immediate tariff removal	102 products (six-digit level)	206 products (six-digit level)
TRQ	10,000 mt of Basmati rice, duty-free (MFN rate: Rs. 9/kg)	10,000 mt of tea, duty-free (MFN rate: 10% for bulk tea, 20% for packed tea)
	1000 mt of potatoes, duty-free (MFN rate: Rs. 18/kg)	1,200 mt of betel leaves with 35% margin of preferences (MFN rate 150 Rs/kg). Three million pieces of apparel with 35% Margin of Preferences (MFN rate 25%)
Negative list	697 products	540 products
Tariff phasing out schedule	Within a five-year period: (Upon entry into FTA – 20%, first year – 30%, second year – 40%, third year – 60%, fourth year – 80% and fifth year – 100%)	Within a two-year period (Upon entry into FTA – 34%, first year – 67%, second year – 100%)

Source: Department of Commerce, Sri Lanka (2005).

The majority of agricultural products that are of trade interest to both countries are on the negative list or subject to TRQs. Pakistan has opened its market for coconut-based products, except for coconut oil, and the MFN rate for these products has been put at the 5 per cent level. Both countries have taken a step towards liberalization for some agricultural products and have agreed on concessions for agricultural products. Sri Lanka has offered TRQs for rice and potatoes, and these items are on the negative list of ILFTA. Pakistan provides 15 per cent MOP for betel leaves imported from Bangladesh under SAPTA (LDC) while under the PSFTA, Pakistan has offered duty-free TRQ for betel leaves.

Pakistan shows export specialization for fish, cereal and cereal preparations, vegetables and fruit, sugar, sugar preparations and honey, textile fibres, animal oil and fat, leather, textile yarn and fabrics, articles of apparel and clothing accessories. Sri Lanka shows export specialization in tea, oil seeds, crude rubber, rubber manufactures, articles of apparel and clothing accessories. Product categories that show export specialization have been excluded or subjected to NTBs under PSFTA.

(d) *India-Nepal Treaty of Trade*

The India-Nepal trade treaty was signed in 1951. It was renewed and formally suspended several times during trade and transit crises (Box 2). Initially, India allowed duty-free exports to Nepal but imposed a stringent rules of origin condition on Nepal (80 per cent local content requirement). However, subsequent revisions lowered the rules of origin condition to 55 per cent. In 1996, India removed the rules of origin condition and all exports from Nepal were exempted from Indian duties and QRs, provided that they were certified by the authorized agencies in Nepal. In 2002, India re-imposed the rules of origin condition, setting a maximum share of non-Nepalese, non-Indian material content of 70 per cent, and with quotas set for Indian STEs (World Bank, 2004). 2002 revision had put in place a quota system for the entry of four sensitive items namely vegetable fats (100,000 tons per year), acrylic fibre (10,000 tons per year), copper products (7,500 tons per year) and zinc oxide (2,500 tons per year) into India without payment of customs duties. Other agricultural goods not subject to TRQ have been exempted from duties if they are wholly produced in Nepal. Nepal has extended 10-20 per cent tariff reductions on 40-110 per cent and 40 per cent bands. The trade composition between the two countries shows that Nepal's agricultural export value share has been decreasing (table 19 and figure XIV).

Box 2. Summary of India-Nepal Trade and Transit Treaty

Year	Particulars
1951	Treaty of Trade was signed.
1961	The treaty was renewed in 1961.
1971	The treaty was renewed in 1971 with certain modifications to include a provision for transit facilities extended by India for Nepal's trade with a third country.
1991	The treaty was renewed in 1991.
1996	A new treaty was signed with the provision for automatic renewal every five years.
1999	A new treaty of transit was made with liberalized transit arrangements in Calcutta for Nepal's imports. The treaty is automatically renewable every seven years.
2002	The Protocol to the India-Nepal Treaty of Trade was renewed with some modifications in February 2002

Source: World Bank (2004).

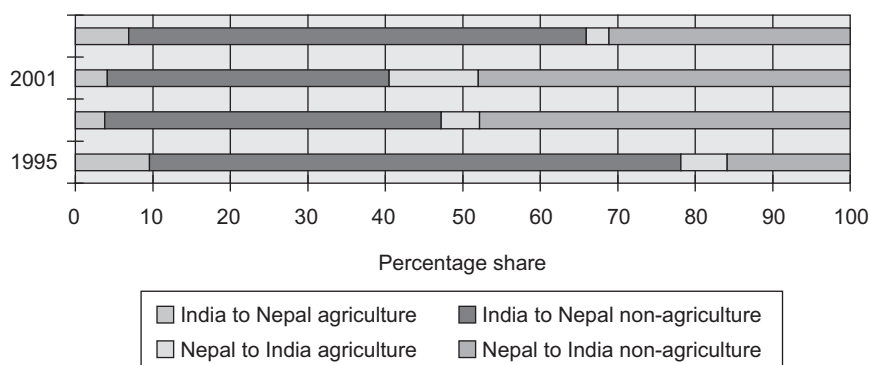
Table 19. India-Nepal trade value

(Unit: US\$ million)

India-Nepal bilateral trade	1995	1998	2001	2004
India				
Agricultural exports	19.5 (14) *	9.77 (8)	22 (11)	69 (12)
Non-agriculture exports	139.64 (86)	112.5 (92)	194.17 (89)	591.4 (88)
Total exports	159.14	122.27	216.17	660.4
Nepal				
Agricultural exports	12.17 (38)	12.8 (10)	61.2 (24)	29.5 (9)
Non-agricultural exports	32.33 (62)	123.85 (90)	256.2 (76)	311.61 (91)
Total exports	54.5	136.65	317.4	341.11

Source: COMTRADE (2004).

* Figures in parentheses are trade shares.

Figure XIV. Indian and Nepalese trade shares

Source: COMTRADE database (2004).

(e) Impact of intraregional trade agreements

The gravity model postulates that trade between countries is inversely related to the distance between two countries. Even though the impact of RTAs is rather uncertain, most empirical studies have shown that the trade creation effect dominates trade diversion.

The impact of regional trade agreements on agriculture was analysed using the gravity model⁶ (Tinbergen, 1962). The estimated coefficients on the log of the product of two countries gross domestic products (GDPs) and distances are 1.15 and 0.32 respectively. The results of the analysis indicate that the preferential trade agreement of SAPTA has had a significant agricultural trade creation effect in the South Asian region while ILFTA indicates a trade diversion effect (coefficient -0.15) to non-members. The other regional trade agreements such as BIMSTEC show no significant effect on agricultural trade.

Hassan (2001) showed a trade diversion among SAARC countries, indicating a reduction of trade among SAARC countries as well as with non-members. In contrast, Hirantha (2004) showed strong evidence of trade creation in the region under three levels of SAPTA and with no trade diversion with non-members. The estimated coefficients on the log of product of two countries GDPs and per capita GDPs are about 0.771 and 0.13, respectively, suggesting that trade increases with country size and income. Hirantha further showed the importance of distance and common borders in international trade (coefficient -0.641 and 0.171). He stated that the results augured well for the proposed SAFTA.

Rahman and others (2006) investigated the trade creation and diversion effects of several RTAs, with special emphasis on SAFTA. They found significant intra-bloc export creation in SAPTA as larger countries in the region (Bangladesh, India and Pakistan) gained from joining the RTA. However, Maldives, Nepal and Sri Lanka were found to be negatively affected, creating a net export diversion in SAPTA. APTA and BIMSTEC were found to be intra-bloc export diverting while only APTA was net export diverting. There is no evidence of net export creation or diversion under BIMSTEC.

According to Delgado (2007), SAFTA tariff liberalization influenced regional trade flows mainly by increasing India's exports and imports from Bangladesh and Nepal. The smallest countries (Bhutan and Maldives) experienced 2 per cent and 1 per cent of GDP increase in trade flows while it is less than 0.25 per cent of GDP in all the other countries. The customs revenue decrease was larger in the former two countries while India and Pakistan faced no significant changes. Delgado further argued that extending SAFTA to other RTAs such as NAFTA, the European Union and ASEAN, conferred significant benefits.

What these results imply is that although there are certain benefits from RTAs, all RTAs have not created benefits equally for all the countries and that benefit distribution is unfair towards smaller countries. Thus, a mechanism with a coordinated approach is needed to ensure that the small countries also benefit equally.

⁶ The gravity model postulates that trade between countries is proportional to the gross domestic product and is inversely related to the distance between two countries. $T_{ij} = f(Y_{ijt}, I_{ijt}, D, B, A_{ij})$, where T = Bilateral trade volume, Y = Product of GDP, I = Product of per capita Income, D = Distance between countries, A = Dummy Variable for membership in Trading Bloc. Subscript i and j represent two countries and t = time.

2. Extraregional preferential trade agreements

(a) *India-Thailand*

In November 2001, India and Thailand agreed to set up a Joint Working Group to undertake a feasibility study of an FTA. The Joint Working Group observed that both countries would benefit from bilateral economic integration and an FTA could prove to be a building block for both countries. A Framework Agreement for establishing a Free Trade Area between India and Thailand was signed on 9 October 2003. The key elements of the Framework Agreement cover goods, services, investment and areas of economic cooperation.

The agreement also provides for an Early Harvest Programme under which common items of export interest to both sides have been agreed on for tariff elimination on a fast track basis. The Early Harvest Programme items were finalized through negotiations based on full reciprocity in terms of trade value between India and Thailand. The Early Harvest Programme list includes 84 products (11 agricultural tariff lines) for tariff concessions. For 2001-2002, exports to Thailand of Early Harvest Programme items amounted to US\$ 33.3 million while imports from Thailand during the same period were US\$ 38.5 million. Tariffs on selected items were to be phased out by March 2006 (table 20). India and Thailand expect to establish an FTA by 2010.

Table 20. Time frame for tariff reduction for the Early Harvest Programme

Period	Tariff reduction on applied MFN tariff rates (as of 1 January 2004)
1 March 2004 to 28 February 2005	50 per cent
1 March 2005 to 28 February 2006	75 per cent
1 March 2006	100 per cent

Source: Agreement schedules.

(b) *India-ASEAN*

India became a sectoral dialogue partner of ASEAN in 1992 and a full dialogue partner in 1996. In November 2001, the ASEAN-India relationship was upgraded to the summit level. In September 2002, it was decided to establish an ASEAN-India economic linkages task force, and the first ASEAN-India summit was held in November 2002. India has expressed willingness to extend special and differential trade treatment to ASEAN countries, based on their levels of development, in order to improve their market access to India and establish an FTA within a 10-year timeframe. In addition, India is committed to aligning its peak tariffs to East Asian levels by 2005. A Framework Agreement on Comprehensive Economic Cooperation (FACEC) between ASEAN and India was signed in October 2003. The elements of FACEC cover FTA in goods, services and investment, as well as areas of economic cooperation.

The Agreement also provides for an Early Harvest Programme that covers areas of economic cooperation and a common list of items for exchange of tariff concessions as a confidence-building measure. The tariff reductions were to start from 1 January 2006 and MFN tariff rates were to be gradually eliminated. India will eliminate tariffs in 2011 for Brunei Darussalam, Cambodia, the Lao People's Democratic Republic, Indonesia, Malaysia, Myanmar, Singapore, Thailand and Viet Nam. Brunei Darussalam, Indonesia, Malaysia, Singapore and Thailand will eliminate tariffs for India in 2011 and the new ASEAN member States (Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam) will eliminate tariffs in 2016. India and the Philippines will eliminate tariffs for each other on a reciprocal basis by 2016. The progressive tariff reduction under the Early Harvest Programme commenced on 1 November 2004, and tariff elimination will be completed by 31 October 2007 for India and ASEAN 6, and by 31 October 2010 for the new ASEAN member States. The initial tariff reduction is based on full reciprocity between India and ASEAN 6 and covers 111 tariff lines (eight agricultural tariff lines) at the HS six-digit level. India accords 105 (six agricultural tariff lines) unilateral concessions to new ASEAN members.

(c) *Asia-Pacific Trade Agreement*

Agreement on APTA was reached in 1975 with the objective of fostering economic cooperation among members by relaxing barriers to trade. Seven countries were involved in the initial negotiations, but only five countries (Bangladesh, India, the Lao People's Democratic Republic, the Republic of Korea and Sri Lanka) became members of the agreement from the inception. At that time of inception, intraregional trade among members was less than 1 per cent of total trade. In 2001, the accession of China provided a boost to APTA. The scope of the arrangements is confined to a small range of goods, and services are not covered. The very low level of intra-trade is mainly due to the limited product coverage (box 3 and table 21). APTA became rather ineffective because of differences in approach, interpretation and perception among member countries. APTA, similar to, maintains special tariff concessions for the LDC members. Membership of APTA is open to all developing countries in the ESCAP region.

Box 3. Progress of the Bangkok Agreement (Asia Pacific Trade Agreement)

Negotiation/year	Outcomes of negotiation	Remarks
First Round, 1975	Negotiations completed for 104 products.	Intra-trade was less than 1 per cent.
Second Round, 1990	Negotiations completed for 438 products.	By the end of the 1990s, intra-trade had risen to 2.4 per cent for exports and 2.2 per cent for imports. The Republic of Korea accounted for more than 90 per cent of intra-member trade.

Third Round, 2004	Negotiations were aimed at offering a maximum 50 per cent margin of preferences on existing tariffs with regard to agreed items. Offer lists were exchanged among members.	The discussion was on an amended version of the agreement. The agreement was renamed the Asia-Pacific Trade Agreement. The domestic value-added criterion with regard to not wholly produced or obtained remains an outstanding issue to be negotiated.
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Sources: Samaratunga (2003); Central Bank of Sri Lanka (2004).

Under APTA, Bangladesh extends tariff preferences to India, the Republic of Korea and Sri Lanka on 119 tariff lines at the HS 8-digit level. Items covered by the agreement include agricultural products, chemicals, rubber and machinery. While the preferential margin varies from 10 per cent to 60 per cent, most of the preferences are 10-15 percentage points below the MFN rate.

Table 21. Agricultural concessions offered under the Asia-Pacific Trade Agreement

Country	Number of agricultural concessions	MFN (%)	Applied rate
Bangladesh	16	25	12.5
China	141	10-35	9-29.5
India*	84	35	0-30
Republic of Korea	18	3-40	2.4-22.5
Sri Lanka	9	10	5

Source: National Tariff Schedules of APTA.

Note: Includes only general concessions. Members have offered special concessions to LDC members. The number of agricultural concessions include: Sri Lanka to Bangladesh – 2; Republic of Korea to Bangladesh – 2; India to Bangladesh – 2; Sri Lanka to Lao People's Democratic Republic – 2; and Republic of Korea to Lao People's Democratic Republic – 2.

* Of India's 84 concessions, 75 items come under HS code 01-03. For these items, the applied rate is zero.

D. Conclusion

The SAEs have recorded favourable economic growth during the past few decades. Dependence of a higher proportion of population on agriculture, a continuous decline of farm income, changes in terms of trade in agriculture and the appreciation of real exchange rates have led many SAEs to maintain relatively higher tariff rates for agricultural products than for non-agricultural products. In addition, trade liberalization in agriculture is politically a very sensitive issue for SAEs. Thus, the South Asian trade negotiations have yielded

fewer opportunities for agricultural trade and the SAEs remain the most protective region when it comes to agricultural trade.

The number of agricultural products covered in trade negotiations is very limited and the items negotiated are of no significant trade interest to the contracting parties. Trade barriers in agriculture are mostly based on ad valorem tariffs. The percentage of agricultural tariff lines with specific tariffs or TRQ is low. However, specific tariffs and TRQ have been used to protect sensitive (or high trade potential) agricultural commodities. India dominates agricultural trade in the region and shows export specialization in a diverse group of agricultural products. SAE agricultural exports (except India) are concentrated in a small basket of goods. Involvement of state trading monopolies as well as domestic support for agricultural production and exports could strongly influence the pattern of trade. The level of these incentives varies among the SAEs. The issue of the differences in incentives has not been taken into consideration in PTA or BTA negotiations. Trade liberalization without due consideration of these issues will lead to unfair competition in agricultural production and trade.

Although these institutional developments to trade have included limited concessions for agricultural products, intraregional agricultural trade has expanded during the past decade. The expansion is attributed to multilateral trade liberalization as well as regional and bilateral trade agreements. The development of agricultural trade within the region during the past decade and the prevalence of higher tariff protection levels indicate the potential for the expansion of agricultural trade. RTR and REST indices indicate that there is potential for improving agricultural trade in the region, and India and Bangladesh can provide more opportunities to promote such agricultural trade. A reduction in the competitiveness of agricultural production is being experienced by Bangladesh and Sri Lanka due to exchange rate appreciation. These two countries have resorted to alternative methods of providing additional protection for domestic producers. The real agricultural trade interests of the SAEs are subject to the sensitive lists in RTA and BTA. Therefore, a substantial development of agricultural trade in the region cannot be envisaged without any change in the sensitive or negative lists of the SAEs. Reductions of specific tariffs, the removal of TRQs and improving market access for products with considerable export specialization can be considered as key issues for regional and multilateral trade negotiations.

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