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Regional trade

Saarc trade bloc: a tool to boost relations

REFAYET ULLAH MIRDHA

WHILE Bangladesh and India have launched shuttle diplomacy to boost bilateral trade, the regional trade issues remained undiscussed among the Saarc (South Asian Association for Regional Cooperation) nations even though this region is a trade bloc with the lowest trade worldwide.

To boost trade further, both India and Bangladesh are now negotiating transit and transhipment through regional connectivity.

A high-powered core committee headed by Bangladesh Tariff Commission Chief Dr Mojibur Rahman has already submitted a report to the commerce ministry on transit and transhipment. The report will act as guidelines for the Bangladesh government on the issue.

In the last three months, several high-powered business teams from India, including the Indian Commerce Minister Anand Sharma, visited Bangladesh.

Keeping up the spirit of trade diplomacy, leaders of the Confederation of Indian Industries (CII), a high-powered body of industrial conglomerates from India, visited Bangladesh last month.

During the visit, the CII delegates demanded a special economic zone (SEZ) at Chhatak under Sunamganj district to set up industrial units. These units would produce goods for both Bangladesh and the north-eastern markets of India.

However, the intra-regional trade among the eight Saarc nations is still too low, even though the bloc was formed on December 8, 1985.

After years of negotiation, the Saarc nations agreed to forge a South Asian Free Trade Area (Safta) that came into effect from July 1, 2006.

Under the Safta agreement, the participating countries were scheduled to reduce duties on the import of different products from neighbouring countries, but progress in this regard has been very little to date.

To make the Saarc regional trade bloc effective, the progress in duty-concession by the nations is not adequate yet



Work is in progress at Chittagong Port. The Saarc region has huge potential for using economic integration to reduce poverty and move to unique prosperity.

An estimate shows that the Saarc nations traded only \$6 billion, or 5 percent of their total overseas trade, in a year, which is one of the lowest intra-regional trade volumes in any particular bloc.

Such trade under the Association of South East Asian Nations (Asean) is 32 percent, while it is 52 percent in the EU bloc, 68 percent in the USA and Canadian bloc, and 10 percent in the African bloc.

It is apparent that regional trade is being prioritised among the other trade blocs. Regional trade blocs have also proved to be a tool for development for the participating countries.

The Saarc nations are yet to tap the trade potential because of various problems. Different trade barriers like tariff, non-tariff and para-tariff, visa problems, political barriers, bilateral transit problems (India-Bangladesh), transit issues, negative list issues and testing issues are apparently acting as trade deterrents among the Saarc nations.

As a measure to reducing the barriers to regional trade, only 100 Saarc visas are issued to Bangladeshi businessmen a year, although they demand increasing the number to at least 1,000 a year to ensure hassle-free travel to the eight Saarc nations -- Bangladesh, India, Pakistan, Sri Lanka, Bhutan, Nepal, the Maldives and Afghanistan.

The region has an immense potential for using economic integration to reduce poverty and

move to unique prosperity. The share of South Asia in world economy is dismally less than 2 percent because all eight nations of the region contribute only 1.7 percent to global trade.

To make the Saarc regional trade bloc effective, the progress in duty-concession by the nations is not adequate yet. The participating countries were supposed to reduce the number of products from the negative list year-on-year, so that the nations could enjoy a zero-duty facility under the Saarc umbrella after a certain period. But, progress in this regard is still very little.

India has given duty-free entry to eight million pieces of ready-made garment (RMG) products from Bangladesh under an agreement inked in September 2007. Anand Sharma, during his visit, agreed to increase the number of duty-free RMG products to 10 million pieces a year.

Data from the state-owned Export Promotion Bureau (EPB) show that Bangladesh exported knitwear products worth \$5.24 million and woven garments worth \$16.91 million to India in the first nine months (July-March) of the current fiscal year.

The export of knitwear products and woven garments to India was \$2.54 million and \$9.99 million in fiscal 2009-10. In 2008-09, Bangladesh exported knitwear goods worth \$1.70 million and woven garments worth \$10.25 million.

Business leaders of different trade bodies of

the Saarc nations have been urging their governments to liberalise the economy, which will help augment intra-regional trade, consequently effecting development of the region.

Dr Zaid Bakht, research director of Bangladesh Institute of Development Studies (BIDS), said a lack of trust and political goodwill, and underperformance in leadership by the dominant economies are mainly responsible for not making the Saarc a success as a regional trade bloc.

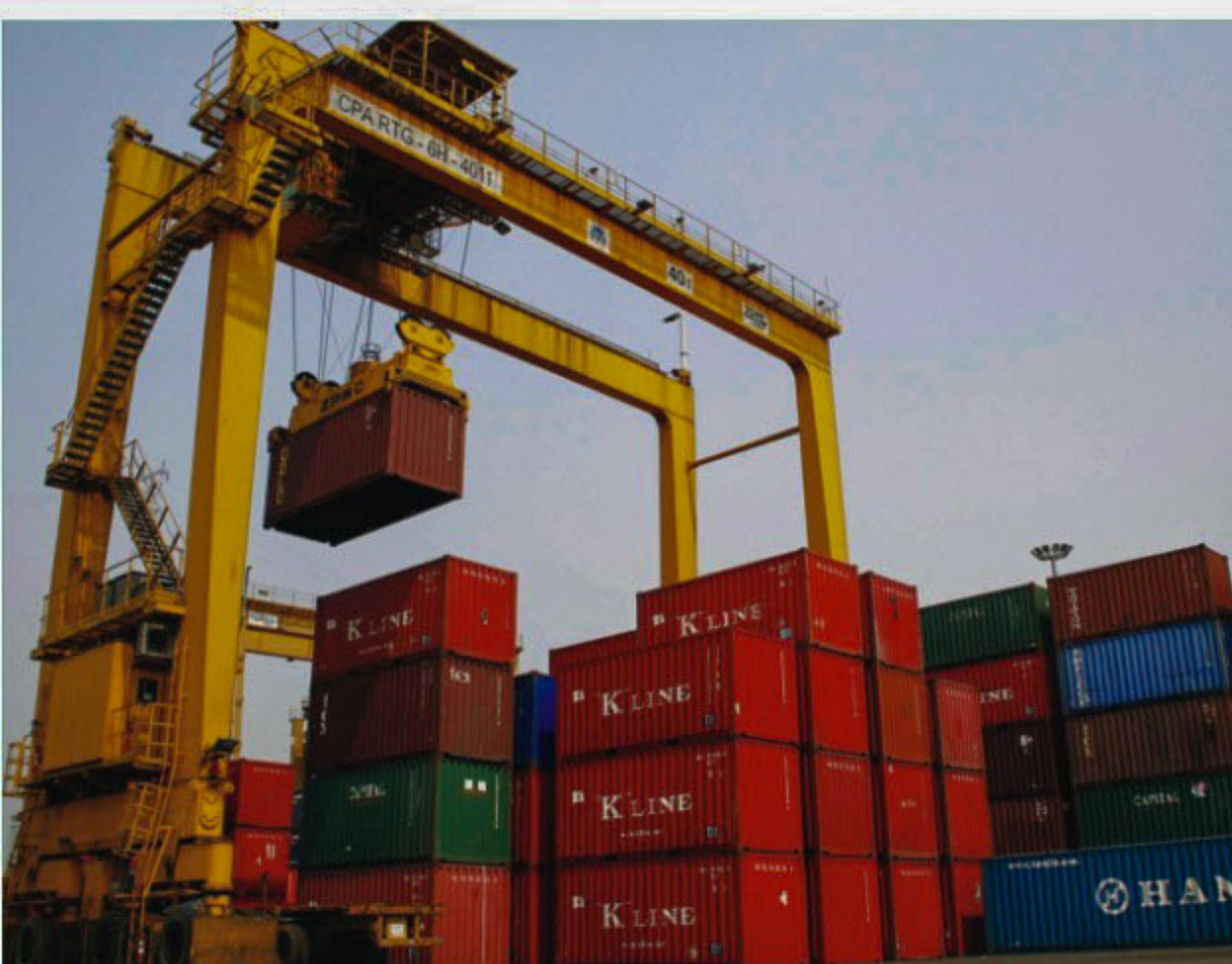
For example, there is a lack of trust among nations such as India, Pakistan and Bangladesh, on different issues. As a result, the major players are not participating actively in making Saarc an effective trade bloc, he said.

"But, Saarc has good trade potential as the economies of the Saarc nations are growing fast," Bakht said.

He said India, being a dominant economy among the Saarc nations, could have played a more vital role in making the Saarc trade bloc effective. "The prevalent mindset and lack of political will are also major barriers."

Experts are hopeful that some good decisions on regional trade among the Saarc nations will come in the next summit in the Maldives later this year.

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Hope for Saarc summit

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SOUTH Asian regional trade is taking place at levels much below the standards set by other prominent trade blocs across the world. The South Asian Association for Regional Cooperation (Saarc) has the potential to become a much more effective regional trade bloc -- if some barriers are removed. Annisul Huq, president of Saarc Chamber of Commerce and Industry, explains in an interview how the barriers can be removed. Huq, a Bangladeshi national, was formerly the president of the Federation of Bangladesh Chambers of Commerce and Industry and Bangladesh Garment Manufacturers and Exporters Association.

A) Trade among the Saarc nations is minimal. Why?

It is true that trade among the Saarc nations is lower compared to other trade blocs like North American Free Trade Agreement, European Union and the Association of Southeast Asian Nations. All the other trade blocs have already reached milestones in regional trades, but Saarc is lagging behind for many reasons. Among other barriers, some are higher negative or sensitive lists of products, preference of bilateral trade rather than multilateral trade, higher border trade and of course the political mindset. These reasons are mainly responsible for the low trade volume among the nations, although the forum has great potential.

B) Do you think downsizing the negative list by the Saarc nations will expedite regional trade?

Yes, it is possible to expedite regional trade by downsizing the negative lists by the participating countries. But every country must downsize the list to make it effective. Meaning, the move should be done in such a way that it will benefit the other countries under the same umbrella. Here, bureaucracy of the respective countries plays a vital role.

C) What are the major barriers to expansion of trade among the Saarc nations?

In a nutshell, the five barriers are political mindset, ineffectiveness of the agreement on South Asian Free Trade Area (Safta), non-tariff barriers (NTBs), weak infrastructure in the bordering areas and procrastination in the implementation of decisions.

D) How could the Saarc nations be benefitted from the Safta deal?

Safta was signed with a view to facilitating trade among the participating countries. But the countries are not coming forward to make Safta an effective tool in boosting regional trade. Although bilateral trade is increasing, regional trade is not coming into focus. As a result, border trade, which is mainly done through informal channels, is increasing among the Saarc nations. If the nations follow Safta religiously, the whole region will be benefitted a lot.

E) Why is the Saarc not becoming an effective trade bloc, whereas the other trade blocs are playing a pivotal role in regional development?

The South Asian region has a lot of problems. First of all, the mindset should be changed. Increasing people-to-people contact is a must for regional cooperation. Almost all the nations are very tight in issuing visas to people from neighbouring countries. As a result, the people-to-people contact is not taking place and ultimately, businessmen lose their interest in striking deals with their neighbouring partners. The businessmen have to wait for a good number of days to get visas to travel to other Saarc nations, whereas the businessmen of other trade blocs need not face such problems.

F) Would you explain the duties of the political leaders of this region in making the forum an effective tool for boosting trade?

The leaders of the South Asian countries have to be very cautious for different reasons. Terrorism and border tensions are major causes of concern. The border tensions of India and Pakistan, two major participating countries under the Saarc umbrella, have become frequent newspaper headlines. As a result, they have to occupy themselves with issues other than trade. The trade issues never come to the forefront during discussions among the leaders. Of course, the leaders of the nations have to play a vital role in making the forum effective.



Annisul Huq

G) What are the possible outcomes (regarding trade) of the 17th Saarc summit to be held in the Maldives in November this year?

Saarc was formed in 1985. There are still some decisions that need to be implemented. The summit is at a very important stage to implement the decision. I hope the Saarc leaders will approve the pending issues at the summit. I hope the leaders will also take time-bound decisions, so that the decisions are implemented within a certain period.

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