

Give us a good region

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Since its inception almost three decades ago, the South Asian Association for Regional Cooperation (Saarc) has gained some modest progress in ensuring greater cooperation among its member countries in some politically-less-sensitive areas. However, its achievement in increasing mutually beneficial crossborder trade that could have made a significant contribution in the region's economic development has not been inspiring.

Although the internal trade volume between Saarc members has risen over the years, it is uncertain to what extent this is an outcome of the trade agreements signed under the auspices of the Saarc. Studies typically consider trade flows between countries, not under what legal regime the trade is flowing. Thus, it is quite possible that much of the trade between Saarc countries has taken place because of their trade liberalisation commitment in the WTO, bilateral free trade agreements (FTAs) or simply the unilateral trade liberalisation undertaken by member countries. As a consequence, the Saarc treaty regime's contribution to regional trade in South Asia may be overestimated.

One very curious feature of trade policies in the region is that despite there being an FTA encompassing all parties to the Saarc, there seems to be an insatiable demand for more bilateral FTAs involving two Saarc countries. There are at least five bilateral FTAs between Saarc countries and the number may increase even more as Bangladesh and Sri Lanka are considering the case for concluding a bilateral FTA. This South Asian appetite for bilateral FTAs is in sharp contrast to the major regional trade blocs in Asia and beyond, namely the Asean, the EU, the Mercosur and the Nafta.

I Have a Bigger Umbrella

Generally, when a number of regional state parties sign an FTA, they terminate all existing bilateral FTAs between two of them. Even when bilateral FTAs are officially not terminated, most of the trade between the state parties may take place under the regional FTA anyway and the bilateral FTA may become defunct. If either of these does not occur, still it would be quite

rare that following the signing of an FTA involving a number of countries within a region, two of the parties to that regional FTA would sign a bilateral FTA between them.

Bilateral FTAs between Saarc countries can be problematic for various reasons. Most importantly, every FTA — except those that entail a deep integration of the markets of the concerned countries and harmonise their external trade policies — has a set of ‘rules of origin’ prescribing the criteria that a business must fulfil for obtaining preferential access in the market of its FTA partner. These rules set the minimum percentage of the inputs in the finished product, which must come from the parties to the FTA. Thus, the producers who want to take the opportunity of market access offered by an FTA must make sure that their exports qualify under the rules of origin of the FTA.

For example, an exporter of T-shirts from Bangladesh who wants to benefit from the Saarc FTA must make sure that the T-shirts qualify under the rules of origin of the respective FTA — that is, a minimum percentage of the value of the various inputs used in the production of the T-shirt must originate from one or more Saarc countries.

Therefore, the more FTAs will have criss-crossing state parties, the more will be the complexities for producers in deciding the sourcing of inputs for their exportable products. The customs administrators also face difficulties in determining the applicable tariff rate for imported products. A regional FTA regime also complicates matters, but bilateral FTAs between parties to that regional FTA complicates it further.

Bilateral vs Regional FTA

There is another adverse effect of negotiations for, or conclusion of, new bilateral FTAs involving two parties to a regional FTA. This type of a bilateral FTA would naturally mean that the bilateral FTA involves some exclusive exchange of preferential treatments in exclusion of the other parties to the regional FTA. This would likely have some adverse psychological effect on the investors. It would be very difficult for the investors to rely on the market access benefits offered by a regional FTA whose signatory countries would by their conduct imply that they feel that the regional FTA is not doing enough to cater to the needs of regional businesses.

Cohesion, Not Congestion

The fact is that FTAs are for the benefit of the businesses and consumers. The true measure of their efficacy is increasing more efficient allocation of economic resources. There is little reason to think that some new feathers in the crown of the South Asian trade negotiators — more bilateral FTAs involving two Saarc parties — would be able to make any contribution to this end. South Asian trade policymakers would better serve the businesses of South Asia by integrating the South Asian markets more. Further segregating the markets in the name of freer trade cannot serve the South Asian public.

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