

# SAFTA

## South Asian Free Trade Area

GLEF3020 - Global and Regional Economic Integration

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### Outline

- Background knowledge SAFTA and SAARC
- Economic Analysis
- Geopolitical and Institutional Challenges
- Distinction of this specific agreement
- Conclusion

# SAARC

- South Asian Association for Regional Cooperation
- Founded in 1985
- Dedicated to economical, technological, social and cultural development

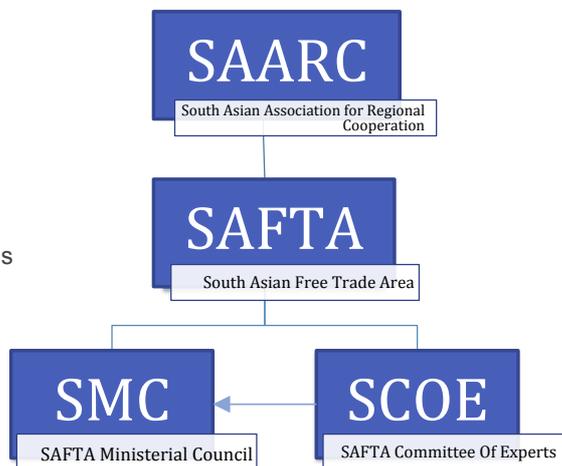


Afghanistan Maldives Bangladesh Bhutan Sri Lanka Pakistan India Nepal

SAARC

## Structure

- SAFTA Ministerial Council (SMC)
  - Discusses tariffs and further actions
  - Meets at least once a year
- SAFTA Committee Of Experts (SCOE)
  - To assist the SMC with data
  - Reports to the SMC every six months



## SAFTA

### *Incentives for this trade agreement*

- Improve cooperation between the countries
- Improve trade: SAPTA to SAFTA → Preferential to free trade
- Improve own infrastructure and institutions
- Facilitate future trade with major trading countries like China

### *Goals*

- Reduce tariff to 0
  - Down to 20% after a two-year period in 2007 through annual cuts
  - Down to 0% during five-year phase ending in 2012  
→ Least developed nations SAFTA had until 2016
- Reduce non-tariff barriers → Quotas, exemption/sensitive list

### *Fact Sheet*

- Trade area of 1.6 billion people
- Consists of all 7 SAARC countries
- Agreement reached on January 6 2004, in force on January 1 2006
- All developing countries
- Countries mostly depend on tariffs as revenue

## SAFTA

The SAFTA Agreement will be implemented through the following instruments:

- Trade Liberalisation Programme → Reduction of sensitive list, reduction trade tariff
- Rules of Origin → Standardize to decrease trade barriers
- Institutional Arrangements → Organizational setup
- Consultations and Dispute Settlement Procedures → Monitor and facilitate implementation
- Safeguard Measures → Temporary measures to decrease threat or injury of competing domestic industry due to imports

## Economic Analysis

- Trade numbers 2001-2012
- Why caused these?
- Would an extension be favourable?

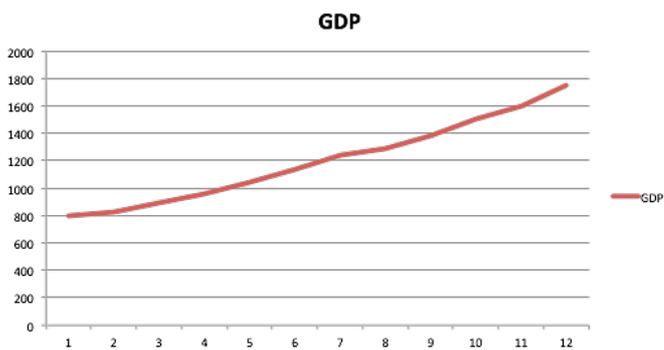
## Total trade



2001: 4633,19  
2006: 16670,21  
2012: 21441,8947

2001-2012: 362,8 %  
2006-2012: 28 %

## SAARC Total GDP



120 % 2001-2012  
43 % 2001-2006  
54 % 2006-2012

## Total trade/GDP



2001-2012: 110 %  
2001-2006: 153.63 %  
2006-2012: -16%

## Reliable ?

Country	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	SriLanka
Afghanistan								
Bangladesh	13.2668	54.8980		2333.8915	0.0057	0.1515	189.1154	15.6541
Bhutan		1.8179		365.3937		2.4475		0.0432
India	76.0518	233.3113	202.1174		3.5788	469.7883	286.6896	441.3648
Maldives		0.0746	0.0002	125.8911		0.0022	3.9331	75.9671
Nepal								
Pakistan	89.4928	62.3351	0.0713	1266.2277	0.0024	1.5179		59.7892
Sri Lanka		10.9133	0.0163	2781.3772	15.4477	0.0746	179.2102	

## Why did the trade not increase?

- Geopolitical issues – Elaborated later
- The agreement do not include their biggest trade partners
- Similar exports

## Top 10 Countries of SAARC Exports 2006

SN	Afganistan		Bangladesh		Bhutan		India		Maldives		N
	Country	Values	Country	Values	Country	Values	Country	Values	Country	Values	
1	-	-	USA	3,123,244,405	Hong Kong SAR	63,190,577	USA	18,351,938,178	Thailand	35,321,965	
2	-	-	Germany	1,758,079,287	Singapore	12,906,271	United Arab Emirates	11,451,552,055	Japan	20,405,931	
3	-	-	United Kingdom	1,050,581,785	Thailand	6,226,585	China	6,757,794,122	United Kingdom	13,192,597	
4	-	-	China	776,651,543	Japan	182,147	Singapore	5,835,632,427	France	6,886,717	
5	-	-	France	708,840,782	United Kingdom	142,346	United Kingdom	5,383,828,837	Germany	5,181,686	
6	-	-	Italy	476,078,647	USA	35,110	Germany	3,851,692,854	United Arab Emirates	5,067,176	
7	-	-	Spain	451,360,516	Germany	34,683	Hong Kong SAR	3,564,307,387	Italy	4,986,218	
8	-	-	Canada	420,659,728	Viet Nam	28,086	Italy	3,386,164,001	Singapore	4,675,620	
9	-	-	Belgium	399,904,329	Denmark	21,903	Belgium	3,326,620,600	Rep. of Korea	3,936,648	
10	-	-	Netherlands	385,226,574	France	18,533	Japan	2,804,219,759	Netherlands	2,596,845	

## Top 10 Countries of SAARC Exports 2012

SN	Afganistan		Bangladesh		Bhutan		India		Maldives	
	Country	Values	Country	Values	Country	Values	Country	Values	Country	Values
1	Russian Federation	33,033,623	-	-	Hong Kong SAR	73,288,242	China	45,688,835,515	Thailand	471,377,234
2	Iran	19,533,078	-	-	Japan	2,799,872	USA	18,912,243,991	France	295,587,503
3	Iraq	15,424,456	-	-	Italy	2,568,414	Germany	13,899,254,774	Italy	177,242,355
4	Turkey	11,456,047	-	-	Germany	1,753,245	United Arab Emirates	11,302,625,381	United Kingdom	125,746,905
5	Finland	6,098,307	-	-	United Kingdom	558,630	Rep. of Korea	10,716,014,129	Taiwan, Republic of China	99,143,380
6	China	5,872,095	-	-	Singapore	260,752	Japan	10,349,242,835	Ireland	58,254,643
7	Tajikistan	5,312,168	-	-	China	132,657	Switzerland	7,422,489,158	Japan	54,258,660
8	Turkmenistan	3,845,923	-	-	USA	101,713	Malaysia	6,928,777,078	Netherlands	48,266,869
9	USA	3,540,350	-	-	Thailand	100,518	United Kingdom	6,894,331,646	Germany	45,612,352
10	United Arab Emirates	3,245,391	-	-	Netherlands	84,959	Indonesia	6,579,175,659	Spain	42,375,936

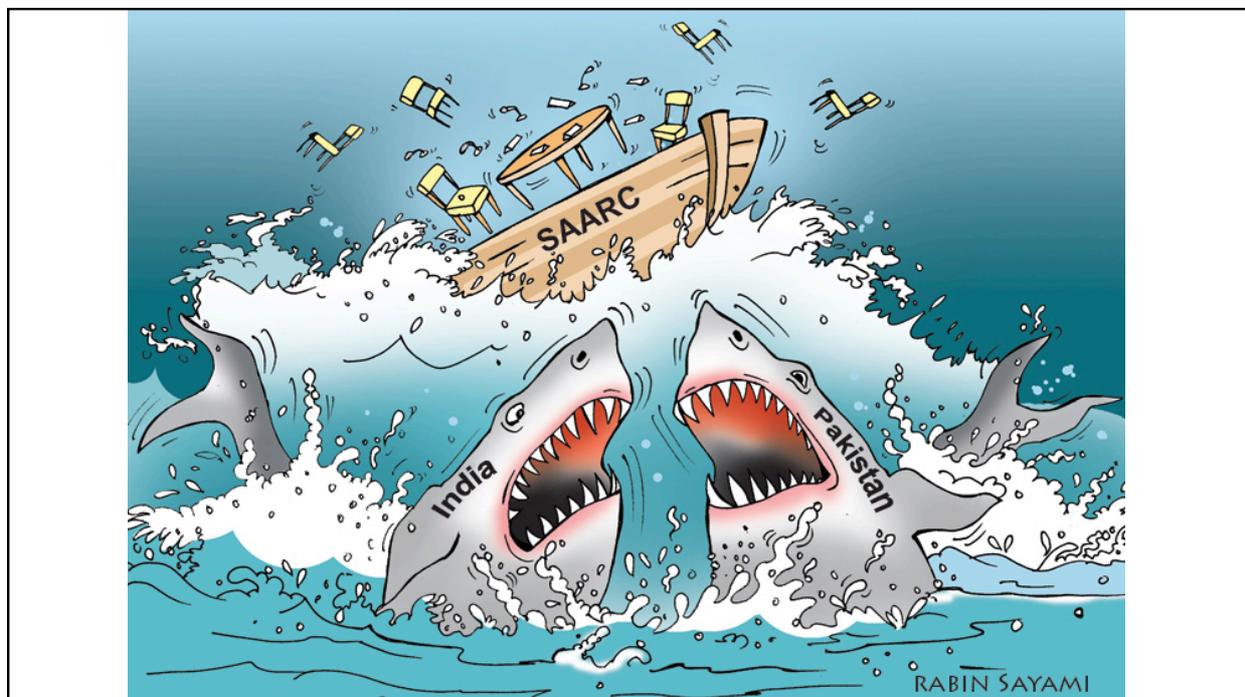
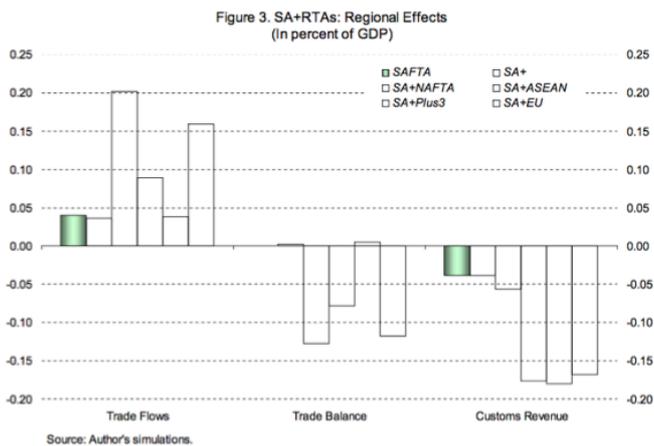
## Top 5 Countries of SAARC Imports 2006

SN	Afganistan		Bangladesh		Bhutan		India		Maldives	
	Country	Values	Country	Values	Country	Values	Country	Values	Country	Values
1	-	-	China	2,570,720,886	Indonesia	29,333,382	China	15,639,063,491	Singapore	221,183,800
2	-	-	Kuwait	1,457,557,639	Russian Federation	19,275,465	USA	11,321,477,554	United Arab Emirates	195,230,783
3	-	-	Japan	888,380,406	Singapore	11,350,319	Germany	7,187,473,859	Malaysia	60,945,914
4	-	-	Rep. of Korea	664,180,914	Rep. of Korea	10,121,390	United Arab Emirates	6,831,194,870	Thailand	56,044,932
5	-	-	Indonesia	631,686,338	Japan	8,724,083	Australia	6,502,159,018	Japan	32,779,354
6	-	-	Malaysia	559,618,658	Malaysia	7,751,821	Switzerland	5,821,876,544	USA	24,196,618
7	-	-	Singapore	503,830,383	China	6,207,840	Singapore	5,184,561,853	Australia	20,733,969
8	-	-	USA	484,881,837	Thailand	5,681,157	Rep. of Korea	4,891,838,344	Indonesia	18,758,752
9	-	-	Uzbekistan	439,752,836	Germany	4,413,922	Japan	4,743,468,579	China	17,498,694
10	-	-	Germany	425,937,857	Sweden	3,893,147	Malaysia	4,655,925,085	France	16,926,526

## Top exports in SAARC



## What if they extended?



## Geopolitical Challenges

*"Achieving what SAFTA had envisioned a decade back has been next to impossible"*

Tenuous geopolitical relationships between India & Pakistan:

Violent partition of British India in 1947 has resulted in constant border conflicts

Kashmir conflict

Numerous terrorist claims

Samjhauta Express, 2007; Mumbai, 2008; Pathankot, 2016

Pakistan continues to withhold MFN status from India



India & Bangladesh:

- Illegal immigration towards India
- Contested sharing of the Ganges water

India & Sri Lanka:

- Political tensions related to the rights of



## Geopolitical Challenges

*"Not much thought was given to the conceptualization of the SAARC in the mid 1980s"*

South Asia can be divided into 3 subregions:

1. India - Maldives - Sri Lanka (IMS)
2. India - Pakistan - Afghanistan (IPA)
3. Bangladesh - Bhutan - India - Nepal (BBIN)

Sub-regional initiatives and bilateral agreements conflict with SAFTA's primary goal

Ex: BBIN's has important taken economic initiatives. Perceived as a preferential trade agreement because it others the rest of the member states

China-Pakistan Economic Corridor (CPEC)

The purpose of SAFTA was to promote common contract and provide equitable benefits to all members.

## Geopolitical Challenges

A summit hasn't been held since 2014

Following terrorist attacks in Uri town, India announced it would not participate in the 19th SAARC summit, meant to be held this November in Islamabad



Bhutan, Bangladesh, and Afghanistan have also refused to participate because of a perceived terrorist threat posed by Pakistan: *"One country has created conditions that are not conducive to safety."*

SAARC summits have been cancelled numerous times

## Institutional Challenges

*Tariff structures in South Asia remain more restrictive and much higher than those of other trading regions*

Policy Barriers:

The "Positive List" maintained by Pakistan for Indian exports

This list is constantly changing, adding to the confusion and uncertainty of the items allowed for export from India

This approach lacks transparency and raises transaction costs significantly: it is a direct violation of SAFTA and WTO regulations

This encourages trade through illegal routes

Visa requirements & custom procedures

Banking regulations

Percent share of sensitive list items in total SAARC imports:

Country	Share of imports from SAARC of SAFTA sensitive list items in total imports from SAARC	Share of imports from SAARC of SAFTA sensitive list items in total imports from world
Bangladesh	55.8%	25.97%
India	47.82%	5.04%
Maldives	67.25	26.98%
Nepal	29.47%	60.34%
Pakistan	18.84%	2.34%
Sri Lanka	26.99%	18.17%

Source: (Das 2009)

## Institutional Challenges

Infrastructure-related barriers:

Many South Asian states lack the capability and institutional framework to control non-tariff barriers

They lack the human resources needed for negotiations

They haven't invested in improving trading routes within the regions

Informal trade:

Because of the high costs of formal trade between many of the member states, there is a large proportion of informal trade

Bribery and high levels of underground trade undermines the integrity of the institution

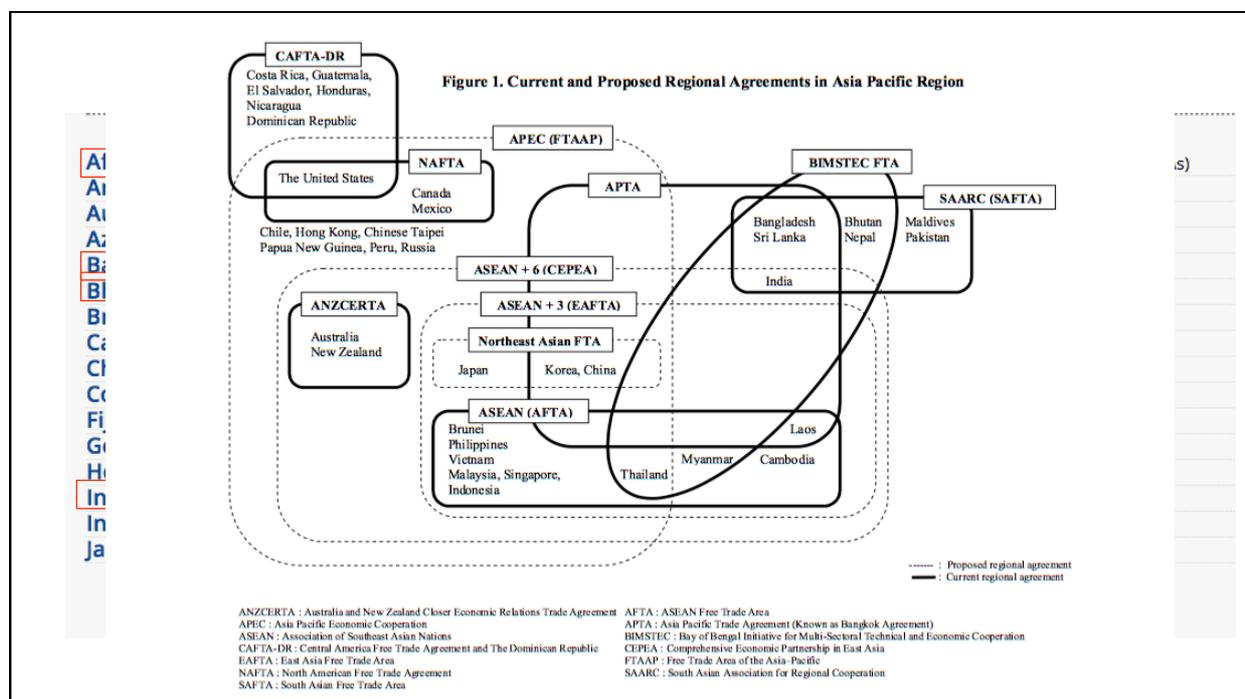
## Distinctions of this agreement (I)

- Least integrated region in the world (around 5% of total trade)
  - Negative lists, concessions, non-tariff barriers
  - Infrastructural deficits
  - Geopolitical & historical
- Began later than most other regional agreements we have today
- China plays important influencer



## Distinctions of this agreement (II)

- A branch of a regional agreement
- Conflicting agreements
  - Sub-regional
    - SASEC, Motor vehicle agreement
  - External
    - SCO, CPEC
- Unified trading block to simplify trade with larger powers



## Conclusion

- Last two summits were canceled
- Tariffs should have been 0 by now → 8%-22% in 2010
- War Pakistan India
- Trade more with non-SAFTA countries
- Agreement is not working
- Positive: has had trade growth (not much), sensitive lists have been reduced (not much)
- More agreements to improve for example infrastructure, however not all