



***SACEPS Task Force Report on  
The Implications of Building a South Asian Free Trade Area:  
Challenges and Constraints to Regionalism in South Asia***

**Executive Summary**

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## **Executive Summary**

Three rounds of negotiations under SAPTA have been completed, with an exchange of about 5000 tariff concessions between the member countries, but SPATA to date has had little impact on promoting intra-SAARC trade. Trade within the region is still very low and accounts for less than 5 percent of total trade of the region. Effectiveness of tariff preferences under SAPTA has been limited largely due to the irrelevance of tariff preferences extended to country's trading interests, limited depth of tariff cuts, restrictive rules of origin and the existence of non-tariff barriers which continue to be a deterrent to trade promotion in the region. At the 11th Summit of South Asian Association for Regional Cooperation (SAARC), member countries agreed that the process for South Asian Preferential Trade Arrangement (SAPTA) be accelerated by holding the fourth round of negotiations. A much more important step taken forward, albeit a small one, for regional economic cooperation, was the decision to have the SAFTA framework treaty ready by the end of 2002.

The paper explores some of the issues that SAARC countries have to consider in implementing moves towards a free trade area, taking into account relevant lessons that South Asia can learn from other regional arrangements such as the ASEAN Free Trade Agreement (AFTA) and the Indo-Lanka Free Trade Agreement (ILFTA), which has been already initiated

Timetable: For drawing up of the treaty, the Group of Experts (GEP) Report provides a possible blueprint for SAFTA treaty. The Report recommends that the SAFTA Agreement should be completed by the year 2008 for non-LDC members and 2010 for LDC members. It is desirable that the proposed time frame for the implementation of SAFTA suggested by the GEP Report is adopted in light of the ILFTA and other bilateral agreements in the pipeline, such as the Sri Lanka-Pakistan FTA, which will be completed by 2008.

Modalities of Tariff Reduction: The GEP Report recommends reductions are to be across-the-board but this may be a contentious issue, given sensitive sectors such as agriculture. Most realistic option to hasten liberalisation in the transition to a free trade area appears to be a combination of negative and inclusive lists as applied in both the Indo-Lanka Free Trade Agreement and the ASEAN Common Effective Preferential Tariff (CEPT) scheme.

Negative List: A critical issue to be worked out is whether negative lists are to be worked out before or after the treaty is signed. It may be prudent to consider the same formula followed under the ILFTA whereby negative lists will be worked out within a specified time frame following the ratification of the treaty by member countries.

Rules of Origin (ROO): ROO have proved relatively restrictive given the limited resource base of many smaller South Asian economies and have therefore eroded the effectiveness of tariff preferences under the three rounds of tariff negotiations. It seems desirable that SAFTA adopts the most liberal ROO that is in operation under existing bilateral agreements in the region, particularly in view of the experience of the SAPTA process to date and other bilateral arrangements, with lower ROO, already in place in South Asia.

Non-Tariff Barriers (NTBs) and Trade Facilitation: Non-tariff barriers have been a serious deterrent to intra-regional trade, perhaps even more so than tariffs – and as such they need to be identified and eliminated in the movement to a FTA. SAARC has also already initiated a series of measures to facilitate the process of economic integration but more needs to be done with respect customs and technical barriers to trade (standards and regulations).

Safeguards: Free trade agreements often contain provisions which allow member countries the right to impose border restrictions in order to provide temporary relief from import surges that cause or threaten to cause serious injury to domestic producers by increasing tariff rates up to the level from which the tariff were reduced. A similar clause in the SAFTA treaty appears to be warranted.

Dispute Settlement: An effective dispute settlement system is of crucial importance to the success of a FTA agreement. Disagreements are invariably likely to arise regarding the interpretation of the basic agreement, technical rules and regulations and as such there is a need for a mechanism to resolve trade disputes. For any free trade regime to work, it is

necessary to put in place review and monitoring mechanisms and a dispute settlement mechanism.

**Revenue Loss:** An important issue in the move to a FTA may be a substantial loss in revenue that countries would incur and this needs to be addressed in the SAFTA Treaty.

**Special Measures for LDCs and Small Country:** For sharing equitable benefits and also for making the transition to SAFTA less painful to the least developed member countries, special measures should be considered from the beginning such as a longer time-frame for freeing trade, safeguard measures for longer period of time, a special fund for compensating revenue loss resulting from tariff elimination, etc. Special measures should also be extended to an economy such as Sri Lanka, which is not an LDC, but a small economy with a limited resource base.

**Other Issues:** While the SAFTA treaty will be confined to issues of trade, South Asia will have to bear in mind that its future economic agenda may have to look at some 'deeper' issues as the process of integration proceeds. ASEAN has already begun the process of examining issues of liberalization of services, investment, etc. that compliment the process of trade liberalisation.