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Customs Mapping and Analysis of South Asian Agricultural Trade Liberalization Effort

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Mapping and Analysis of South Asian Agricultural Trade Liberalization Effort

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Table of Contents

Introduction.....	2
I. Agricultural Trade in South Asia.....	4
A. Export specialization in agricultural products.....	7
B. Concentration of agricultural trade.....	8
C. Intra–regional agricultural trade flows.....	10
II. Policies and Reforms Related to Agricultural Trade.....	11
A. Changes in agricultural trade policies.....	11
B. Comparative agricultural tariff structure.....	18
C. Domestic Support.....	20
III. Preferential Trade Agreements and Agricultural Trade Liberalization in South Asia.....	21
A. Intra-regional trade arrangements.....	26
1. South Asian Preferential Trade Agreement.....	26
2. Indo-Lanka Free Trade Agreement.....	30
3. Pakistan-Sri Lanka Free Trade Agreement.....	32
4. India-Nepal Treaties of Trade.....	33
5. Impact of intra-regional trade agreements.....	35
B. Extra-Regional Preferential Trade Agreements.....	35
1. India-Thailand.....	35
2. India- ASEAN.....	36
3. Asia-Pacific Trade Agreement.....	36
Conclusions.....	38
References.....	39

Introduction

The South Asian Economies comprising Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka (SAEs) represent 22 percent of world's population but they only account for just over 1 percent of world's trade. In 2003, agricultural trade in the SAEs amounted to US\$ 22 billion and it accounted for approximately 4 percent of world's agricultural trade and 23 percent 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 protective policies was safeguarding domestic industries, improving the terms of trade, raising revenue, altering the income distribution and raising nutritional levels. During 1980s, the hitherto inward looking policies of SAEs took a marked shift towards outward looking policies. Economic policies were aimed at export-led industrialization as a means of achieving rapid economic growth. Moreover, SAEs by then had obtained memberships of various international organizations and various reforms were carried out to meet international obligations. The exchange rate regimes of many SAEs changed from fixed to managed float or free float and the restrictions on current account and capital accounts were substantially reduced. The trade policy changes emphasized on fewer trade restrictions and brought down tariff levels to a large extent 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 made simple and the number of tariff bands was reduced. The changes of the SAE's tariff structures and exchange rate regimes and 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 WTO and under this multilateral trade agreement SAEs bound agricultural tariffs at considerably higher rates. During the first ten years (1995-2004) since the establishment of the WTO, the involvement of SAEs in regional trading arrangements has rapidly expanded (Table 1). The SAEs established the South Asian Association of Regional Cooperation (SAARC) in 1985. In 1993, the SAARC set up a regional cooperation in trade and initiated South Asian Preferential Trade Agreement (SAPTA). The SAEs envisage greater economic cooperation within member-countries by establishing a free trade area (SAFTA) by the year 2010, custom union by 2015 and economic union by 2020. The SAEs have also formed bilateral free-trade agreements; India-Sri Lanka, India-Nepal and Pakistan-Sri Lanka. Regional economic cooperation was fostered further with inter-regional agreements; Asia-Pacific Trade Agreement (APTA), Bay of Bengal Initiative for Multi-Sectorial Technical and economic Cooperation (BIMSTEC), India-Thailand, India-ASEAN, Indian Ocean Rim Association for Regional Co-operation (IORA-RC) among others.

Table 1: Preferential trading arrangements of South Asian countries

RTA= regional trade agreement; BTA= bilateral trade agreement

Country	RTA	BTA (FTA / EPA) ¹	Framework agreement ²	Proposed ³
Bangladesh	APTA (1976) SAPTA (1995) BIMSTEC (1997)		Bangladesh-India (2006) Bangladesh-Morocco (2005) US-Bangladesh (2005) Sri Lanka-Bangladesh	Bangladesh-Nepal Bangladesh-Pakistan Bangladesh-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 (April 2005) Sri Lanka – Pakistan (2005)	Bangladesh-Pakistan Pakistan-Malaysia Pakistan-GCC Pakistan-Afghanistan
Sri Lanka	APTA (1976) SAPTA (1995) BIMSTEC (1997)	Iran-Sri Lanka (25/11/04) Sri Lanka – Pakistan (2005)	Singapore-Sri Lanka US–Sri Lanka TIFA (2002) Sri Lanka - Egypt Sri Lanka - Bangladesh	Sri Lanka-Singapore

Source: APTIAD 2007

The SAEs, similar to other developing countries, had been taxing agricultural activities directly through tax polices and indirectly through economy-wide policies. The higher indirect distortions on agriculture were the result of over-valued exchange rates and the protection provided to the manufacturing sector (Kruger *et al.* 1988). Despite the changes in economic polices in 1980s and early 1990s protectionist policies did not change sufficiently and relatively higher tariff rates remained on agricultural commodities. Since

¹ It is difficult to classify BTAs precisely as distinction between an 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.

² Years refer to when agreements were signed; not all of them are being implemented.

³ Includes a documented unilateral perspective.

agriculture sector is a very sensitive sector for SAEs, the changes in economic policies and the structures of the economies have not changed the socio-economic importance of it. The institutional developments related to trade in the South Asian region have paved way to some liberalization of agricultural trade.

This chapter maps the agricultural trade liberalization effort of the SAEs and it consists of four sections. The second section presents the nature of agricultural trade in the SAEs. The third section presents the agricultural policy changes and employs various approaches to measure the levels of agricultural trade liberalization. The fourth section presents institutional development that has led to agricultural trade liberalization of SAEs and the final section presents conclusions, based on the findings of the previous sections.

I. Agricultural Trade in South Asia

The structural changes during 1980s and 1990s placed non-agricultural sectors of the SAEs in the driving seat of economic growth. Nevertheless, the SAEs have achieved a considerable growth in agriculture during the past few decades as well. Though the shares of agriculture in national outputs have been declining, agriculture and agricultural trade still play a very important role in the SAEs (Table 2). The agriculture contributes to about 26 per cent of regional GDP (21 per cent in Maldives to 41 per cent in Nepal). Rural populations on average account for more than two thirds of 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 population below poverty line ranges from 25 per cent (Sri Lanka) to 45 per cent (Nepal).

Table 2: Agriculture and South Asian Economies

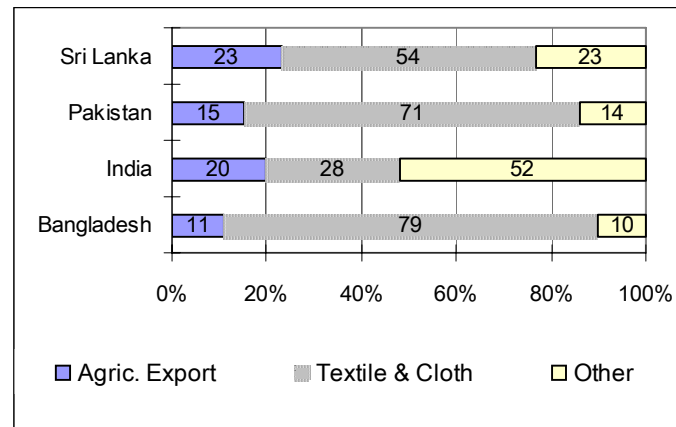
	Bangladesh	India	Pakistan	Sri Lanka	Nepal	Maldives	Bhutan
Population (million)	128	998	135	19	22.9	0.3	0.8
Population density (per sq. km)	981	336	175	294	164	956	48
Rural population (%)	77	72	64	77	89	75	93
Agriculture labor force (% of total)	58	60	54	45	95	03	94
GDP (US\$ billion)	46	4477	58	16	5.0	0.3	0.4
GDP per capita (US \$)	362	450	508	814	220	1220	490
Agriculture share of GDP (%)	25	28	27	21	38	16	18

Note: Data represent 2004-05 for Bangladesh and India, 2002-03 for Pakistan, 2003-04 for Sri Lanka and Nepal. Source: World Bank (2004).

The SAEs have reported a favorable economic growth during past few decades, but, these developments seem to have 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 agricultural sector in SAEs due to their non-agricultural sectors being placed in the driving seat of economic growth. This decline of

importance of agriculture has resulted in greater inequality and poverty since a larger share of population is living in rural areas and is involved mainly in agricultural activities for their livelihood. This becomes further evident when changes in the share of merchandize 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).

Figure 1. Share of Merchandize Exports (%) 1995-1999



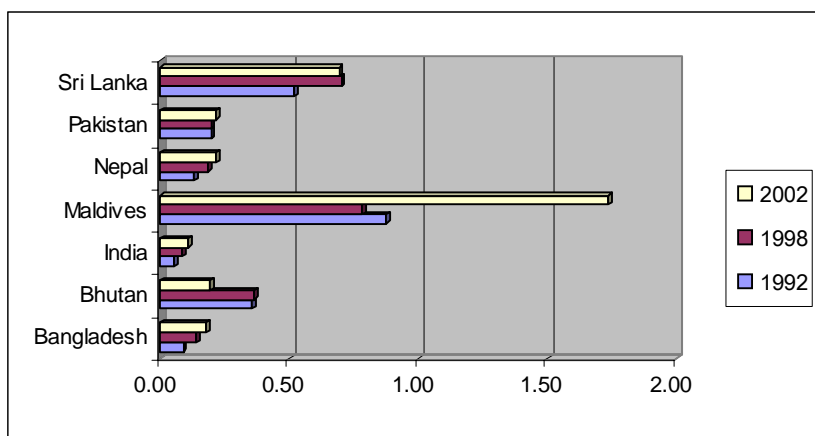
Source: Anderson (2002)

In order to obtain desirable benefits from liberal trade, the SAEs have given more emphasis to achieve macroeconomic stability. In addition to tariff protection, exchange rate policies and monetary and fiscal polices are employed to obtain direct and indirect protection for importables and exportables. During late 1990s, appreciation of real exchange rates was observed in Sri Lanka and Bangladesh and it has eroded the price incentives that generated through exchange rate depreciation (Karunagoda *et al.*, 2003; World Bank, 2004). Consequently, these SAEs have taken certain protective measures, such as increase of para-tariffs, to avoid undesirable impacts of economy wide effects.

The Agricultural Tradability 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 2).

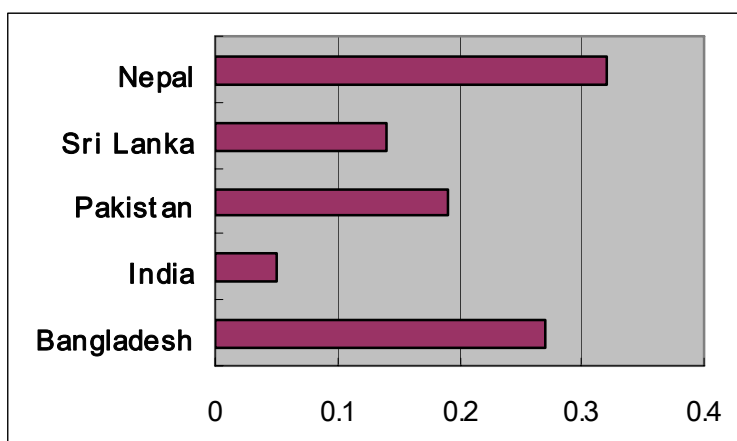
The Food Import Capacity (FIC), the ratio of the value of food imports to that of total non-food exports, measures the capacity of a country to finance food imports by non-food exports (Figure 3.) (Wilson 2002). A low ratio indicates relative low food imports (India) or relatively higher non-food sector exports (Sri Lanka). The net agricultural export index is positive for net exporters and it is negative for net importers. Among SAEs, only India and Sri Lanka are net agricultural exporters while others are net agricultural importers (Figure 4). The changes in 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 over time.

Figure 2. Agricultural Tradability Index (ATI) 1992, 1998 and 2002



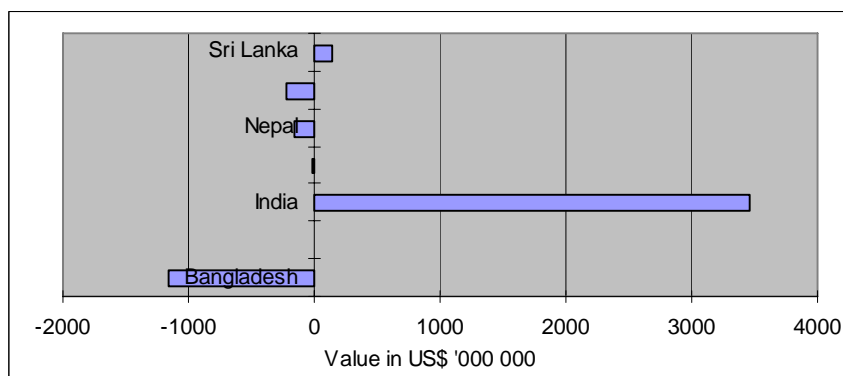
Note: $ATI = (Agriculture\ Imports + Agriculture\ Exports) / Agriculture\ GDP$.
Source : authors calculations

Figure 3. Food Import Capacity Index (FICI)



Note: $FICI = Value\ of\ food\ imports / Value\ of\ total\ non-food\ exports$.
Source: Wilson 2002

Figure 4. Agricultural Net Export Index (ANEI) (2002)



Note: $ANEI = Agriculture\ Exports - Agriculture\ Imports$ (Bhutan = -3)
Source: authors calculations

A. Export specialization in agricultural products

Trade theory suggests that trade between countries is basically driven by the comparative advantages and differences in technology, economies of scale or tastes 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 groups using an index of Revealed Comparative Advantage⁴ (RCA) (Balassa, 1965) (Table 3). 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 index of RCA for a product is defined as the ratio of the share of a country's exports to its share in world exports. A RCA value greater than one indicates export specialization in that commodity or commodity group. The RCA for some product categories show that SAEs have wide differences in export specialization and thus, there is a potential for promotion of intra-regional trade. However, similarity of export specialization observed in some product categories may pose a major constraint on agricultural trade development in the region. India has RCA in a wide variety of agricultural goods and it indicates the presence of higher potential for India to benefit under more liberal trade environment. Agricultural products of Bangladesh show RCA in limited product categories but higher protection levels of Bangladesh limit the potential for trade expansion. India and Pakistan show RCA in cereals and sugar but both these commodity groups are in the sensitive list of Sri Lanka.

Table 3: Export Indices of Revealed Comparative Advantage (RCA): 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 foliages	0	0	0	1	1	1	1	1	0	0	0	0
Vegetables and fruits	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 & tobacco manufactured	0	0	0	2	1	1	1	1	0	0	0	0
Sugar, sugar preparation & 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

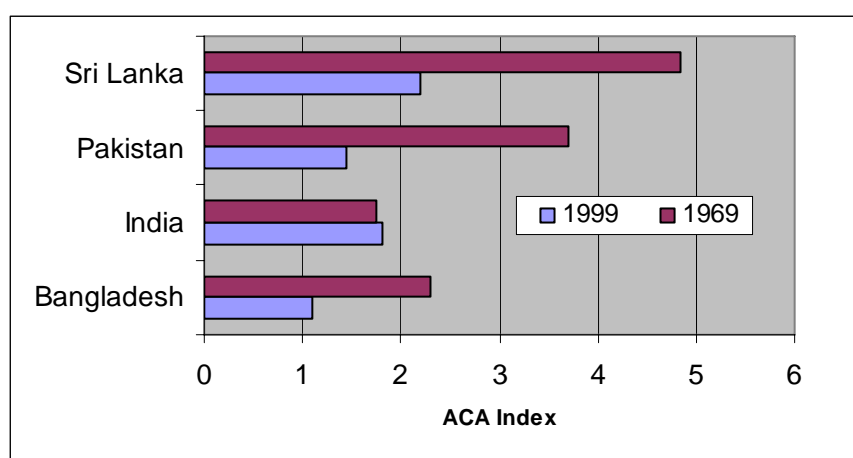
⁴ The RCA index does not, however, give a true measure of the comparative advantage. The ratios are static measures and are influenced by the trade distortions of importing and exporting countries.

Coffee, Tea, Cocoa, Spices	1	2	2	7	0	0	0	0	23	24	41	37
Cut flowers and foliages	0	0	0	0	0	0	1	0	2	1	1	2
Vegetables and fruits	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 & tobacco manufactured	0	0	0	0	0	0	0	0	2	2	2	4
Sugar, sugar preparation & 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

Note: The value zero indicates no trade or lack of comparative advantage. Source: Estimated using data in COMTRADE data base

The competitiveness of agricultural exports, measured by a comparative advantage index, shows a declining trend in the region (Figure 5). The reduction in comparative advantage index of agricultural exports in the region indicates that the non agricultural exports are growing much faster than agricultural exports. Bangladesh, Sri Lanka and Pakistan have faced greater constraints on maintaining or expanding agricultural exports with the expansion of global trade compared to India. This can be attributed to higher concentration of agricultural exports in these countries to a lesser number of products and faster growth of textiles and other non agricultural sector exports.

Figure 5. Agricultural Comparative Advantage Index (ACAI) 1969 and 1999



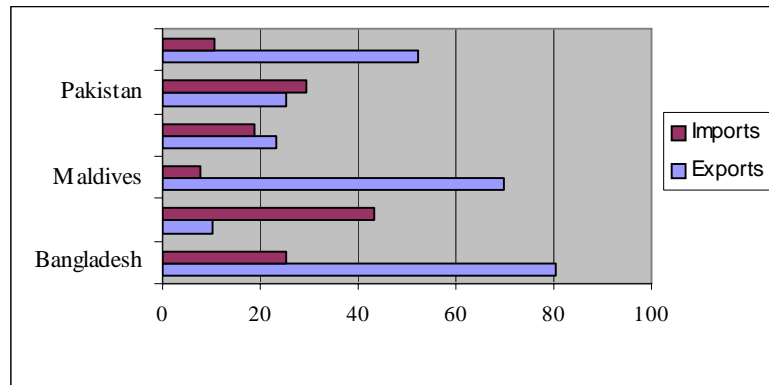
Source: Anderson 2002

B. Concentration of agricultural trade

Historically, SAEs trade similar types of agricultural products and the concentration of exports within limited agricultural products groups is a common phenomenon in many SAEs. The level of trade concentration in specific products is measured using the Hirschmann-Herfindahl Index (HHI). The HHI is equal to the sum of the squared shares of all

individual products exported⁵. The HHI indicates that agricultural exports of Bangladesh, Maldives and Sri Lanka are concentrated 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 imports (Figure 6).

Figure 6. Agricultural Trade Concentration in South Asia: The Hirschmann-Herfindahl Index



All SAEs, except India, show less diversity in agricultural exports and more diversity in agricultural imports (Figure 7 and Figure 8). 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 (Figure 7 and Figure 8).

⁵ $HHI = \sum_i^n \left[\frac{X_i}{\sum_i^n X_i} \right]^2 * 100$, $i =$ product i . $n =$ 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.

Figure 7. Agricultural Export Concentrations

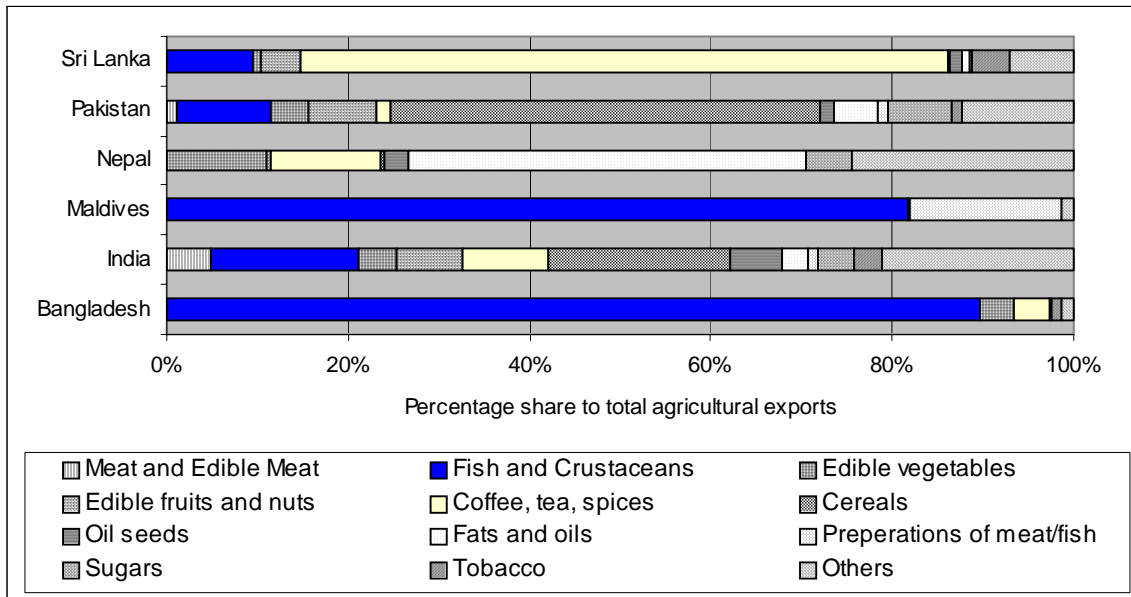
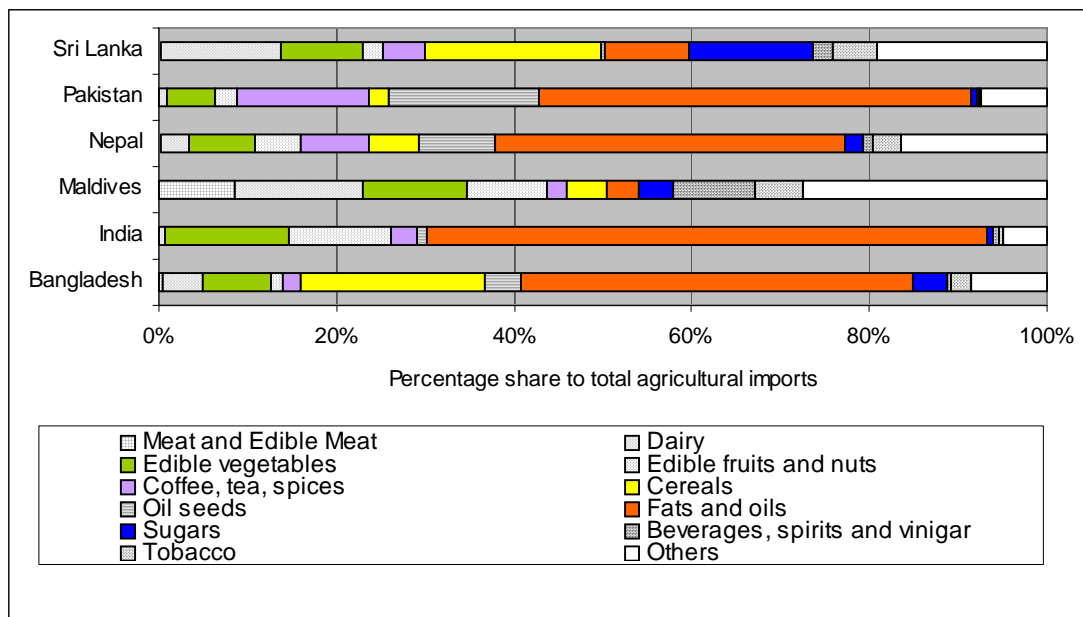


Figure 8. Agricultural Import Concentrations



C. Intra-regional agricultural trade flows

All SAEs, except Pakistan, show a remarkable progress in intra-regional agricultural trade. With reference to the 1995 trade levels, Bangladesh has achieved the highest growth rate while India has established a prominent position in the South Asia for its agricultural products. In 2004, regional agricultural trade accounted for 22 per cent of regional trade

and India accounts for 80 per cent of the regional agricultural 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 of agricultural trade in the region respectively. The decreasing share of the intra-regional agricultural exports in the region indicates an increase in intra-regional non-agricultural products' trade. There is no major shift in intra-regional agricultural trade pattern but all SAEs, except Pakistan, show a remarkable growth in intra-regional agricultural trade from 1995 to 2004 (Table 4).

Table 4: Intra-regional Trade and Agricultural Trade: 1995-2004

Country	Value of Trade (US\$ million)				% Change 1995-2004	Main Market(s) (2004)
	1995	1998	2001	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	NA	NA		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

Note: NA- Not available, Figures in the parentheses are percentage of agricultural trade with respect to total regional trade.

Source: Compiled from COMTRADE Data base

II. Policies and Reforms Related to Agricultural Trade

A. 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 which started in 1980s, mainly focused on manufactured exports and trade reforms during this period targeted at supporting this policy objective⁶. The agricultural sector policies of SAEs generally remained highly protected (Blackhurt *et al.*, 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 these economies are much less than the bound rates and in many instances the applied tariff rates on agricultural imports have been

⁶ Sri Lanka started the South Asian trade liberalization in late 1970s while during 1990s other major South Asian countries initiated liberalizing trade.

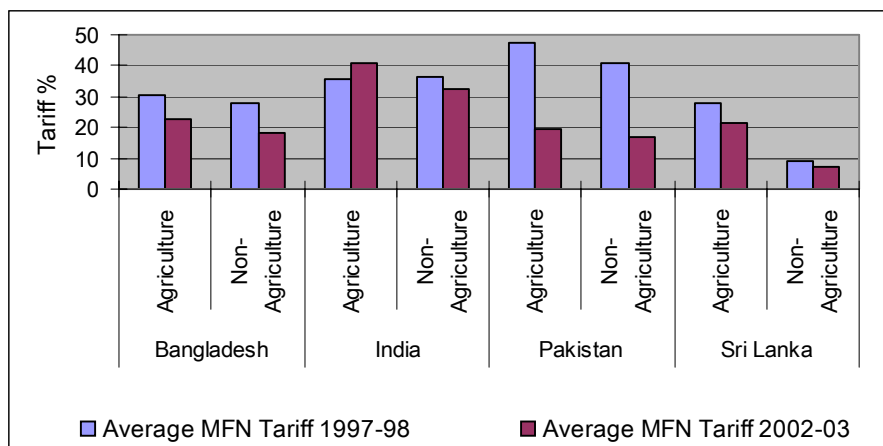
reduced over time. Sri Lanka and Nepal have been maintaining relatively lower applied tariff regimes than those of other SAEs while substantial tariff reforms have taken place in Bangladesh and India. During the period of 2002-2003, a slight decrease in agricultural tariff rates (MFN rates) could be observed in all SAEs, except in India (Figure 9). At present, SAEs maintain basically a few tariff bands whereas agricultural commodities have been subjected to relatively higher tariff rates (Table 5).

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 \$	Pegged to Indian Rupee	Unified Free Float	Unified Free Float
Agriculture Trade / GDP (%)	3	2	25	7	3	10
Import						
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

Source: World Bank (2004), World Development Indicators (2001), TPR (2000), TPR-Nepal (2002)
Bangladesh's trade and its industrial sector depends more on export-oriented garment industries.

Figure 9. A Comparison of Most Favored Tariffs (MFN) in SAEs



Data Source: World Bank 2004

The agricultural trade liberalization efforts of Bangladesh which were initiated during 1980s, showed a slowing down during mid 1990s. In many instances, custom duties have been reduced but these reductions were offset by a variety of other protective tariffs (World Bank, 2004). In 2000, the 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 the balance of payment (BOP) grounds. Bangladesh maintains quantitative restrictions on 40 imported items while a large number of agricultural 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 have come down from a peak 355 per cent in 1990-91 to 50.8 per cent in 1998-99. The average weighted tariff rates have come down from 87 per cent to 20 per cent for the same period. India's tariff regime seems to be more liberal in 1990s, but was quite restrictive compared to the other South Asian countries in relation to agriculture. In 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 UR agreement, India agreed to eliminate quantitative restrictions, which maintained on the basis of BOP grounds, on the majority of the remaining tariff lines by 2001 and phasing out of non-tariff measures for most of the agricultural commodities was started in April 2001. However, India revised the tariff structure again in 2001 and the three-band tariff structure, 8, 16, and 24 per cent, was replaced with a 16 per cent tariff band with an additional 4 per cent levy imposed on all imports. State trading monopolies are being maintained over major food grains (rice, wheat, coarse grain except maize and barley). Tariff rate quotas (TRQs) have been imposed under different bilateral trade agreements for importation of tea (e.g. ILFTA), milk, maize, crude sunflower and safflower oils and refined rape and mustard oils (e.g. Indo-Nepal trade agreement). India reactivated its technical standards and health and safety regulations on food imports. Further, India has designated ports and inland custom points at which imports can be cleared. India maintains a list of about 300 sensitive items, whose import 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. Further, food

grains and certain agricultural products are subjected to procurement by state trading companies to guarantee remunerative minimum support prices to farmers for these products (TPR, 2003). The maximum tariff was reduced from 35 per cent in 2001 to 20 per cent in 2004. However, agriculture was not included in latest tariff revisions. The latest tariff reforms show that India's agricultural tariffs (MFN) have been increasing while non-agricultural tariffs were going down (Figure 9).

Pakistan started trade liberalization efforts in the 1980s and it continued without serious interruptions. In 1996, a new, comprehensive trade liberalization program was commenced and it continued until 2003. The general maximum customs duty was reduced to 25 per cent but, in contrast to other South Asian economies, there are strong protectionist elements in agricultural policies such as the use of technical regulations, regulation based on health and safety and more specifically 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, Islamic Republic of Iran, and Nepal.

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

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

Maldives' economy predominantly depends on tourism and fish exports. The average tariff is about 21 per cent and imports provide about two-thirds of government tax revenue. The 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 while 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 it has been in the other SAEs (World Bank, 2004).

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

The SAEs India, Pakistan, Bangladesh and Sri Lanka had used Quantitative Restrictions (QRs) for agricultural products for Balance of Payment (BOP) reasons. With the improvement of the BOP situation, the SAEs could not be maintained QRs and NTBs on BOP grounds. Consequently, most of these QRs have removed. A summary of changes in QRs and NTBs during 1980s, 1990s and 2000 is presented in the Box 1.

Box 1. Agricultural Import Restrictions (QRs and NTB) in South Asian Economies

Country	Quantitative Restrictions and Non-Tariff Barriers
Bangladesh	
1980s	QRs covered nearly 56 per cent of items at HS 6-digit level.
1990s	<p>During the 1990s, Bangladesh has 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 impart a strong degree of unpredictability to the tariff regime.</p> <p>Tariff protection is augmented by other border levies and, in some instances, the discriminatory application of internal taxes. Additional protection at the border is provided by import bans or restrictions that affect nearly 11.7% of all national tariff lines.</p>
Early 2000s	<p>Trade related restrictions were limited mainly to three categories: agricultural products (chicks, eggs, salt), packaging materials, and textile products. Bangladesh is 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's cash compensation scheme for selected exports at various rates on fob, 15 per cent for leather goods, agricultural and agro-processing products, crushed bone, 10 per cent on frozen fish; and 20 per cent on fresh fruit, constitute indirect barriers to imports).</p>
India	
1980s	India had used GATT balance of payment (BOP) provision (Article XVIII B) to justify quantitative restrictions.
1990s	<p>Nearly all consumer goods were subjected to import licensing or parastatal import monopolies. The QRs covered two third of GDP and 84% of agricultural GDP.</p> <p>In the late 1990s, more than 30 per cent of India's imports were subjected to licensing: 19 per cent textiles and clothing, 51 per cent industrial products, 31 per cent agricultural and fisheries products, and a large number of products were restricted based on balance of payment grounds</p> <p>India claimed exemption from minimum access requirement of the Uruguay AOA.</p> <p>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 payment grounds.</p>
2000s	<p>Since 2001, India does not use GATT's BOP provision to justify QRs.</p> <p>In 2001, India published a list of 300 sensitive goods. Domestic production of these products are protected by use of high tariff rates or various non-tariff measures which are compatible under the article XX b (protection of human, animal or plant life or health) or article XXI (security or defense reasons)</p>

	<p>QRs on 2714 tariff lines maintained for BOP reasons were removed in April 2001. But, India has listed 600 tariff lines, justified under the articles of protection of human, animal or plant life or health and security and defense.</p> <p>Import monopolies exist for rice, copra, wheat and all coarse grains except for 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 maintaining 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 reactivation of quarantine regulations, standard certificates, and limiting number of entry ports.</p>
Sri Lanka	
1980s	The removal of quantitative restrictions started in 1977 but agricultural commodities are subjected to the seasonal QRs. Parastatal import monopolies involved in agricultural imports.
1990s	<p>The private sector was allowed to import seasonally restricted agricultural commodities under an import licensing system. About 3 per cent of product lines are subjected to QRs. These QRs applied to Sri Lanka's principal import substitution food crops: rice, potatoes, chilies, and onions. Sri Lanka had justified its QRs at the WTO under the GATT Article XVIII:B.</p> <p>In 1997 this justification was challenged at the 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 its tariff lines were still subject to traditional QRs.</p>
Pakistan	
1980s	Pakistan used import licensing and other non-tariff barriers to imports widely during its early import substitution period and started the removal of QRs during the 1980s.
1990s	<p>Government-controlled import monopolies were maintained for most of agricultural products and the fertilizer industry.</p> <p>In 1997, Pakistan embarked on a radical new trade liberalization program. This had 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>
Nepal	Not an active user of NTBs for protection. In 1997, the Agricultural Inputs Corporation, the parastatal held over fertilizer imports was abolished. Nepal indirectly protects by trade policies of India
Bhutan	India is the main trade partner, due its location, Bhutan is protected indirectly by trade policies of India
Maldives	<p>The import 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, were still being used to regulate imports of rice, sugar and wheat flour.</p>

Source: World Bank (2004), Panagariya (1999), CBSL.

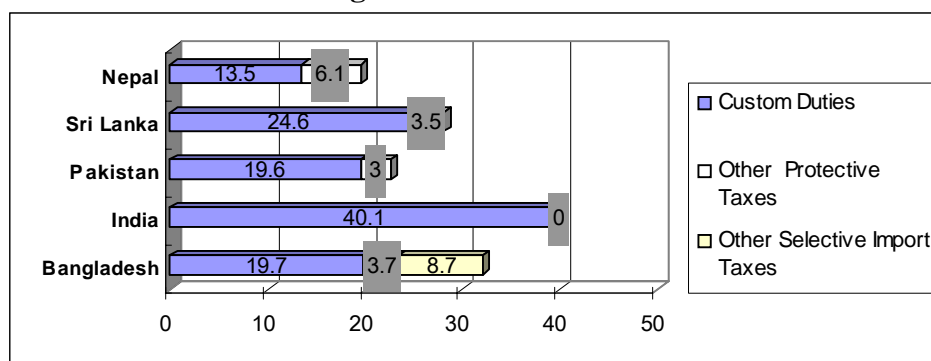
The pressure from the WTO made many SAEs give up the use of QRs but they have been trying to maintain the level of protection to agriculture through alternative measures such as higher tariffs, use of alternative clauses of the WTO agreement such as protection for human, animal or plant life or health (article XX (b), security and defense (article XXI)) or GATT STE rule etc., which are formally compatible with GATT rules. Pakistan, Bangladesh, Sri Lanka and Nepal use other import taxes as well as custom duties with the intention of protecting domestic producers (Table 6). These taxes intend to increase revenue, but absence of equivalent taxes on domestic agricultural production generates extra protection against imports. Due to these para-tariffs, the protection rates of SAEs have exceeded Customs duty by 62, 18, 31 and 8.7 per cent respectively in Bangladesh, Nepal, Sri Lanka and Pakistan (Figure 10) (World Bank 2004). India has removed these other taxes in January 2004.

Table 6: Use of Para-tariffs in South Asian Countries

Country	Para Tariff
India	Specific Duty (1996 to 1998) Surcharge (1999 to 2000) Special Additional Duty (1998 to 2004) All para-tariffs were abolished in January 2004
Pakistan	Income Withholding Tax Sales Tax
Sri Lanka	Cess to fund the Export Development Board (Since 1981) Surcharge on Custom duties (Since 2001) Ports and Airport Levy (Since 2002)
Bangladesh	Infrastructure Development Surcharge Supplementary Duty Regulatory Duty VAT Exemption for Specified Domestic Products
Nepal	Local Development Fee Special Fee Agricultural Development Fee

Source World Bank, 2004

Figure 10. Average Custom Duties and other Protective Import Taxes (Para-tariffs) (%) on Agricultural Commodities

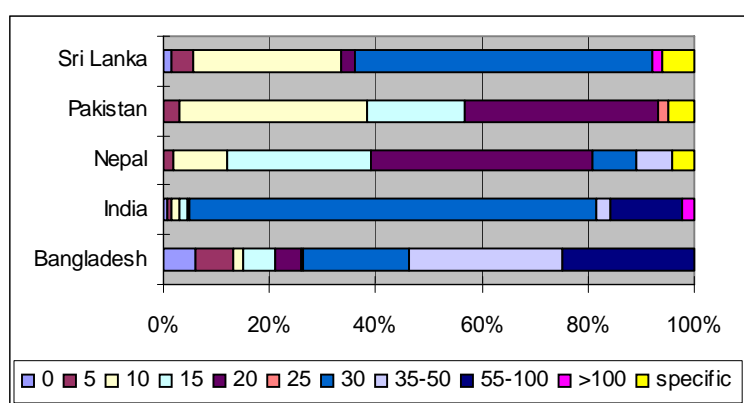


Source: World Bank 2004

B. Comparative agricultural tariff structure

The distribution of MFN agricultural tariff lines shows that Pakistan maintains less than 20 percent of tariff for more than 90 percent of MFN agricultural tariff lines (Figure 11). Nepal maintains a higher percentage (80 percent) of tariff lines within less than 20 percent level. The dispersion of Indian agricultural tariffs is higher than those of other countries but more than two third of Indian agricultural tariffs are placed at 30 percent. More than a half of Sri Lankan tariff lines (56 percent) receive 30 percent protection from tariffs. Bangladesh maintains more than 55 percent tariff protection for 25 percent of agricultural tariff lines (Figure 11).

Figure 11. MFN Tariff Structure in Agriculture: Frequency Distribution



Source: World Bank 2004

The tariff levels on agricultural products give a broad indicator of potentials for trade development. The Relative Tariff Ratio⁷ (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 also as a starting point to identify potential/difficult sector for trade negotiations. Table 7 compares RTR indices for SAEs for agricultural products.

Table 7: Relative Tariff Ratio Indices for the South Asian Countries

$${}^7 \text{ The RTR index} = \frac{\sum_{i=1}^n (X_i^B Y_i^A)}{\sum_{i=1}^n (X_i^A Y_i^B)} \quad \text{where, A,B = Countries A and B, } X_i = \text{Ad-valorem equivalent tariff rate for product } i, Y_i = \text{Share of exports of product } i \text{ in total exports}$$

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	

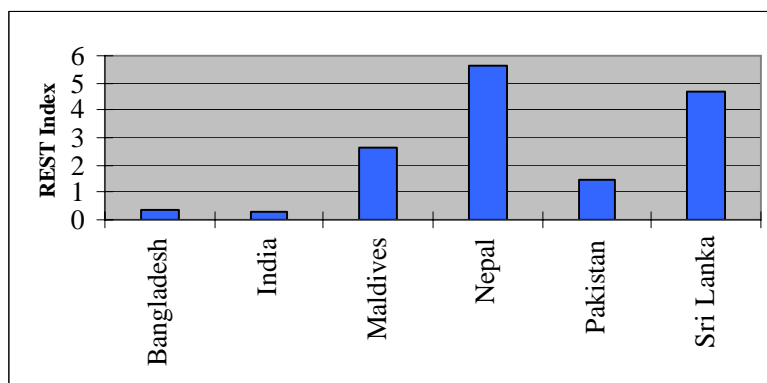
Source: Estimated using data in COMTRADE, TRAIN data base (2005)

A 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.

Regional Export Sensitive Tariff Index⁸ (REST) (Jank *et al.*, 2002) can be used to measure each country's faced tariff from its partners. The REST index aggregates all tariff 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 one can be interpreted as an overall evenness between a country's tariff regime and that of its regional partners ((Jank *et al.*, 2002). Figure 12. presents the calculation of the REST index for agricultural products using MFN tariff for SAEs. It indicates that Bangladesh and India face lower tariff in the region than that of imposed tariffs whereas Nepal, and Sri Lanka and Maldives face higher tariffs than that of imposed tariffs. The values of the REST indicate that the South Asia's regional agricultural trade liberalization is uneven and there is a potential/opportunity for further agricultural trade liberalizations/negotiations.

$${}^8 \text{ REST}_A = \frac{\left(\frac{X_B^A}{X_T^A}\right) * \sum_{i=1}^n (x_i^B y_i^A) + \left(\frac{X_C^A}{X_T^A}\right) * \sum_{i=1}^n (x_i^C y_i^A) + \left(\frac{X_N^A}{X_T^A}\right) * \sum_{i=1}^n (x_i^N y_i^A)}{\left(\frac{M_B^A}{M_T^A}\right) * \sum_{i=1}^n (x_i^A y_i^B) + \left(\frac{M_C^A}{M_T^A}\right) * \sum_{i=1}^n (x_i^A y_i^C) + \left(\frac{M_N^A}{M_T^A}\right) * \sum_{i=1}^n (x_i^A y_i^N)}$$

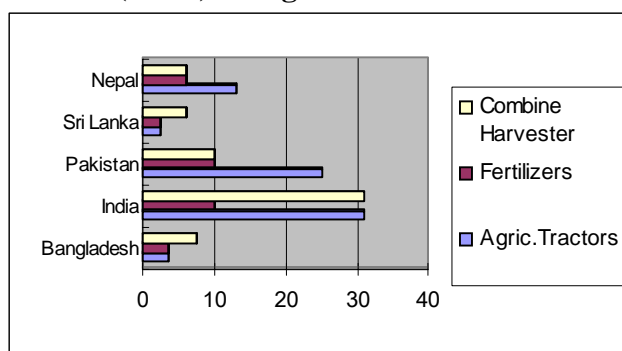
Figure 12. Tariff Protection in Regional Trade Integration: The Regional Export Sensitive Tariff Index



C. Domestic Support

The domestic support for agricultural production could indirectly influence agricultural trade in the region. Bangladesh had non-product specific support equivalent to 0.48 percent of total agricultural value in 1995-96, increasing to 0.49 percent in 1999-2000. On the other hand, the total support or Aggregate Measure of Support (AMS) was US\$ 49 million (0.68 per cent) and it was reduced to zero in 1999-2000 (Rahman and Deb, 2003). India granted sizeable agricultural subsidies compared to 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 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 (TPR, 2001). Sri Lanka's agricultural producers are receiving domestic support in terms 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). The SAEs promote agricultural production through lower tariff for imports of agricultural inputs (Figure 13). 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 13. Tariffs (MFN) on Agricultural Intermediate Inputs (%)



Source: World Bank 2004

Table 8: Restrictions/Incentives for Agricultural Exports in South Asian Economies

	India	Pakistan	Bangladesh	Sri Lanka	Nepal
Export Restrictions					
Export NTBs	Fertilizers Agric. Commodities	Yes (a few)	Agricultural Livestock and Fisheries products	No	Wool Carpets only
Export Control by STEs	Maize, Niger seeds and Onion	No	No	Yes (a few)	Oil Crops
Restrictions on Imports for Re-exports	No	No	No (10% value addition charge on re-exports)	Yes (Tea and Spices)	No
Export Subsidies					
Direct Export Subsidies	Yes Wheat and Rice	No	Yes 15% cash subsidy (vegetables, dairy, poultry, fisheries)	No	No
Transport and Marketing subsidy	Yes	Yes 25% Freight	Yes Low air freight on National Carrier	No	No
Indirect Export Subsidies	Yes	Yes Subsidy	Yes Low interest loans	No	No
Indirect export subsidy through policies affecting input policies	Yes Leather products	Yes Leather products	Yes Ban on export of wet blue leather	No	Yes
Production at Industry specific schemes	Yes Agricultural Export Zones	No	Yes Vegetables	No	No

Source: World Bank 2004

III. Preferential Trade Agreements and Agricultural Trade Liberalization in South Asia

The SAEs possess conditions such as presence of higher tariff and NTBs and geographical closeness that provide potential for agricultural trade liberalization within the region. The trade agreements between India-Bhutan, India-Nepal have provided wider coverage for agricultural exports to India from Bhutan and Nepal. SAPTA includes a total of 866 agricultural items for concessions. SAPTA has offered 5-20 per cent Margin of Preferences (MOP) from Most Favored Nation (MFN) rates. SAFTA came in to effect on 1st 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. It replaces the earlier South Asia Preferential Trade Agreement (SAPTA) and may eventually lead to a full-fledged South Asia Economic Union.

The other intra/inter regional and bilateral trade agreements of SAEs have included very few additional agricultural products for further liberalization. Indo-Lanka Free Trade Agreement (ILFTA) and Pakistan Sri Lanka Free Trade Agreement (PSLFTA) take similar approaches to product coverage and Rules of Origin (ROO). These bilateral trade agreements have classified agricultural commodities as sensitive and subjected to reduced concessions or NTBs or excluded altogether from the scope of agreements. Under the ILFTA, India has initially offered 50 per cent MOP for 53 tariff lines and Sri Lanka has offered only limited MOP for 22 agricultural products and the balance is subjected to the negative list. Under the PSFTA, Sri Lanka has given limited concessions for a few agricultural products and these products are not covered by the ISLFTA (rice and potatoes) and Pakistan has offered 100 per cent MOP for two Sri Lankan agricultural exports, tea and betel leaves, subjected to TRQ. India-Nepal trade agreement stipulates quotas and ROO for Nepal's exports to India while Nepal's MOP preferences for Indian exports range from 10-20 per cent. Bangladesh offers 23 per cent of MOP, under Bangladesh-Bhutan trade agreement for its principal imports (apple and apple juice) from Bhutan. The BTAs of SAEs have offered liberal concessions than WTO and SAPTA agreements. The inter-regional trade agreements of SAEs, the Bangkok Agreement, BMITST-EC and IOR-ARC have not included 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. The summary of intra-South Asian regional trade arrangements and coverage of agricultural products in these agreements is presented in Table 9.

Table 9: Coverage of Agricultural Products in Intra- South Asian Regional Trade Arrangements

Agreement (Reference Year)	Approach for Listing Concessions	Agricultural tariff lines eligible for concessions	Preferences as a % of MFN tariff	Rules of Origin	Inclusion of NTBs	Conditions on Domestic Support/Export subsidies ¹⁾	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 subjected to TRQ	25-35% local content	Yes TRQ: Sri Lanka: Rice, Potato. Pakistan:-Tea, Betel leaves	No	Yes	No
India-Nepal (2002)			Duty-free access to Indian Market Nepal: 10-20 % tariff reductions form 10-110% tariff bands	30% minimum content of Nepalese or Indian products	TRQ-Quotas allocate 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 (apple and apple juice)			No		No

Notes: 1. India and Pakistan use anti-dumping regulations and safeguard measures have included in all agreements. The inter-regional agreements have hardly provided concessions on agricultural products.

A. Intra-regional trade arrangements

1. South Asian Preferential Trade Agreement

South Asia's intra-regional trade accounts only for a small fraction of total trade in the region (Table 10). In 1982, the intra-regional trade accounted for 2.5 per cent of regional trade and it increased up to 6.3 per cent in 2004. Developed countries, the USA, the EU and Japan, account for the greater share of South Asia's exports. The initiative for regional cooperation was started in 1985 with the establishment of South Asian Association for Regional Cooperation (SAARC). The seven SAARC member-countries are Bangladesh, Bhutan, Maldives, Nepal, India, Pakistan and Sri Lanka. The idea of liberalizing trade among SAARC countries was first discussed in 1991, at the sixth SAARC summit held in Colombo. The South Asian Preferential Trade Agreement (SAPTA) was signed in 1993 and put into operation in 1995. Bangladesh, Bhutan, Maldives and Nepal, designated as least developed countries under the agreement, are eligible for additional concessions. So far, three rounds of negotiations have been conducted and outcomes of these negotiations are summarized in the Table 11 and Table 12.

Trade preferences are based on the principle of overall reciprocity and mutuality of advantages. Although SAPTA has identified four components, tariff, para-tariff, non-tariff 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 and in this; a special and more favorable treatment has been identified for the Least Developed Countries (LDCs). The concessions agreed upon, except those exclusively made for LDCs, were to be multilateralised among all contracting members. The consensus incorporated in the national schedule could be altered or withdrawn only after a period of three years. SAPTA agreement has special provisions to assist the LDCs to improve infrastructure facilities, communication, transport and transit facilities that would support trade within the region.

In order to qualify for preferential market access, products should satisfy the Rule of Origin condition (ROO) and the direct consignment terms. The ROO requires that products having a domestic value addition content of at least 50 per cent will qualify for preferential market access. In case of LDC, this limit was set at 35 per cent.

Table 10: The South Asia's Intra-regional Trade

Year	Intra-Regional Trade of SAARC Countries (US \$ million)	World Trade of SAARC Countries (US \$ million)	Share of Intra Regional Trade in World Trade (%)
1994	2194	46907	4.6
1999	2431	51713	4.7
2001	2855	64692	4.4
2004	5572	88512	6.3

Source: Compiled from COMTRADE data base

Table 11: SAPTA Negotiations and Outcomes

Year		Outcome
December 1995	SAPTA-1	The tariff prevailed in the region was relatively high. Tariff concessions on 226 products under HS code system negotiated. Preferential tariffs were offered as a percentage of available tariffs. Preferences offered were ranged from 10-100% from the prevailing Most Favored Nation (MFN) rates.
November 1996	SAPTA-2	Completed the negotiations on additional 1871 products. About 39% of product categories are only for LDC members. Tariff concessions offered in this round ranged from 10-30%.
November 1998	SAPTA-3	Tariff concessions were offered on 3456 tariff lines. LDCs were offered over 70% of the total tariff lines under preferential treatment. India offered the largest number of tariff lines (1975) but majority (1932) was only for LDC

Source: CBSL, 2003

Table 12: SAPTA Preferences: SAPTA 1-3^a

	LDC		ALL		Total	
Bangladesh	144	(44)	407	(558)	521	(602)
Bhutan	124	(122)	109	(68)	233	(193)
India	2082	(2412)	472	(484)	2554	(2896)
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)
	2762	(3418)	1095	(1770)	4667	(5218)

Note:a) Preferences at six-digit level of HS code. The figures in parentheses indicate concessions offered at 8-digit level of HS code. Source: Weerakoon and Wijayasiri (2001)

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 of the region indicate that intra-regional trade of SAEs has been increasing during the 1990s (Table 4). The regional trade is dominated by exports from India (74 per cent in 2004) and exports of India mainly go to Bangladesh and Sri Lanka. India's exports to the SAARC members account for about 6 per cent of its total exports. Low cost of Indian agricultural products provides competitive advantage in agricultural trade in the region. However, the imports from other SAEs to India have been low. India's economy is more diversified than other SAEs and trade related factors (tariff, 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 exchange rate with respect to currencies of other SAEs also provided an impetus to India for expansion of exports in the region.

When compared with the 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 higher trade potentials 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). However, only a small fraction of these concessions is relevant to member countries (Weerakoon and Wijayasiri, 2001).

Table 13: MFN Rates and Margins of Preferences under SAPTA

	MFN Rate		SAPTA Preferences (As a % 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

	HS Code Chapter					Total
	01-05 Live animals Animal Products	06-14 Plant based Products	15 Animal Vegetable fats and oils	16-24 Prepared Food Stuff	25-99 Non-agricultural products	
Bangladesh	142	35	3	49	292	521
Bhutan	1	6	0	54	172	233
India	88	38	46	41	2331	2554
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	3801	4667

Source: Weerakoon and Wijayasiri (2001)

The SAARC members signed the South Asia Free Trade Agreement (SAFTA) agreement in January 2004 envisaging that the SAFTA will be operational by January 2006. No further rounds of SAPTA negotiations will be held in view of finalization of the agreement. In order to ensure timely implementation of the agreement by 2006, the committee of experts appointed by the council of ministers has already commenced negotiation of the agreement such as the sensitive lists, technical assistance to the LDCs, the mechanism for compensation of revenue loss for LDCs and finalization of rules of origin (CBSL, 2004). A tentative plan has been made for phasing out of tariffs in two phases: the initial phase covers the period from January 01st 2006 to January 01st 2008 and the second phase covers different time frames 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 case of other PTAs of the SAEs, 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 on SAFTA

Country	1 st Phase	2 nd Phase	
	January 01 st 2006 to 01 January 2008	January 01 st 2008 to January 01 st 2013	January 01 st 2008 to January 01 st 2016
LDCs: Bangladesh Nepal Bhutan Maldiva	Reduce Maximum Tariff to 30%		Reduce Tariff to the 0-5% in 8 Years
For Non-LDCs India, Pakistan, Sri Lanka	Reduce Maximum Tariff to 20%	Reduce Tariff to the 0-5% in 5 years (Sri Lanka in 6 years)	

Note: Tariffs refer to the Customs duty only. Source: World Bank 2004

2. Indo-Lanka Free Trade Agreement

India and Sri Lanka have relied more on South Asian regional trade integration as a means of diversifying, boosting and stabilizing trade. The similarity of economic structures of South Asian nations was considered to be 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. The Indo-Lanka Free Trade Agreement 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 (1380 per cent) in both agricultural (340 per cent) and non-agricultural goods (1628 per cent). The value of Sri Lanka's overall imports from India increased by 850 per cent during the past decade with a remarkable growth in agricultural goods (1480 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 been in favor of India.

Table 16: India- Sri Lanka Trade Structure (US\$ Millions)

Product	India's Exports to Sri Lanka			Sri Lanka's 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)	1144(85)	21(81)	24(72)	363 (57)
Total	137	498	1302	26	34	385
% of Total	4.0	9.3	11.5	1.1	0.8	7.0

Source: Compiled From COMTRADE

RCA of products of India and Sri Lanka followed a similar trend between 1995 and 2004 (Table 3). This similarity of export specialization may pose a major constraint on 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 fruits 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. The ILFTA is a preferential trade agreement and both countries may maintain a negative list. The ROO

of ILFTA is less stringent than that of SAPTA. ILFTA provides concessions for products with at least 35 per cent of domestic value addition content qualify for tariff concessions. In addition, Sri Lanka's 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 Lanka's Commitments	India's Commitments
Nil (Negative list)	1180	429
-50% (Fixed) Garments (Quota) ¹	-	233
100% (Zero duty)	319	1351
50% (Phased out in 2003) ²	889	2799
50% (Fixed)-Tea (Quota) ³	-	5
25% (Fixed)- textile items	-	528
Up to 100% in 8 years	2724	-
Total	5112	5112

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

Notes:1): Garments imports are subjected to annual quota of 8 million pieces of which a minimum of 6 million pieces should contain Indian fabrics. 2): 50% tariff preferences phased out in 3 years as 70%, 90% and 100% respectively in 2001, 2002 and 2003. 3): Tea quota =15 million kg/year.

At present, there are about 2,900 products (62 per cent of active tariff lines) Sri Lanka imports from India and about 20 per cent of these products are 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) and 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-Lanka trade has proven that there is immense potential for the expansion of trade between the two countries. Diversity of export structure, comparative advantage in a range of products and 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 Nominal and Real

Exchange Rate (RER) seems to favor the Indian trade flow to Sri Lanka. The economic structure of regional economies is similar to that of Sri Lanka and free trade agreements, therefore, placing India at 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 also have experienced the negative effects of the macroeconomic management.

3. Pakistan-Sri Lanka Free Trade Agreement

Pakistan and Sri Lankan joint economic commission covers a wide range of topics such as expansion of trade, market access, agriculture scientific and technology co-operation. The frame work for Pakistan Sri Lanka trade agreement (PSFTA) was signed on 1st August 2002, and a free trade agreement was implemented on 9th February 2005. The basic objective the trade agreement is to promote trade by providing fair conditions of competition for trade in goods and services and 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 and it 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, represent 90 percent of Sri Lankan exports to Pakistan. Among Pakistan's exports to Sri Lanka, agricultural products such as rice, potatoes, onions and fruits account for about 43 per cent and woven cotton fabric accounts for about 27 per cent of exports to Sri Lanka. The value of total trade between the two countries in 2003 was US \$ 104 millions and it shows a 30 per cent growth with respect to total trade in 2001.

The ROO conditions are similar to that 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 ROO condition holds for products originating from other contracting party and the value addition in the exporting contracting party should be minimum 25 per cent of the FOB price of the product exported and value of inputs imported from other contracting party should be 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 mt of tea, TRQ for 1200 mt of betel leaves with 35 per cent Margin of Preferences (MOP) on applied MFN rate, TRQ for 3 million pieces of apparels with 35 per cent of MOP on applied MFN rate etc. The Pakistan's negative list contains 540 tariff lines at six digit HS level out of 5224 tariff lines. Tariff on all remaining items will be phased out within a three-year period (Table 18).

Sri Lanka's commitments include 100 per cent immediate tariff removal of 102 products, duty-free TRQ for 6000 tons of long grain Pakistani rice and 1000 tons of potatoes. Sri Lanka's negative list includes 697 tariff lines at six-digit level out of 5224

tariff lines. The negative list includes agricultural products (rice, sugar, frozen chicken, fish products, vegetables, potatoes, onions, fruits). Sri Lanka is bound to remove tariff 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 product (six digit level)
TRQ	10,000 mt of Basmati rice, duty free (MFN rate Rs. 9/kg) 1000 mt of potatoes, duty free (MFN rate 18 Rs/kg)	10,000 mt of tea, duty-free (MFN rate 10% for bulk tea, 20% for packed tea) 1200 mt of betel leaves with 35% margin of preferences (MFN rate 150 Rs/kg). Three million pieces of apparels with 35% margin of preferences (MFN rate 25%)
Negative List	697 products	540 products
Tariff Phasing out Schedule	Within a five year period: (20% upon entry in to FTA, 1 st year 30%, 2 nd year 40%, 3 rd year 60%, 4 th year 80% and 5 th year 100%)	Within a two year period (34% Upon entry in to FTA, 1 st year 67%, 2 nd year 100%)

Source: Department of Commerce, Sri Lanka (2005)

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

Pakistan shows that export specialization for fish, cereal and cereal preparations, vegetables and fruits, sugar, sugar preparations and honey, textile fibers, 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 apparels and clothing accessories. Product categories that show export specialization have been excluded or subjected to NTBs under the PSFTA.

4. India-Nepal Treaties of Trade

India-Nepal trade treaty was signed in 1950 and it was renewed several times and also formally suspended several times during trade and transit crisis (Box 2). Initially, India allowed duty-free exports to Nepal but imposed stringent ROO conditions on Nepal (80 per cent local content requirement). However, subsequent revisions lowered the ROO

condition to 55 per cent. In 1996, India removed the ROO conditions and all exports from Nepal were exempted from Indian duties and QRs, provided they were certified by the authorized agencies in Nepal. In 2002, India re-imposed the ROO condition to maximum share of Non-Nepalese Non-Indian material content to 70 per cent and quotas were set for Indian STEs (World Bank 2004). Other Agricultural goods, those are not subjected 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 over time (Table 19 and Figure 14).

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

Period/Year	Particulars
1950	Treaty of Trade was signed
1960	Treaty was renewed in 1961
1971	The treaty was renewed in 1971 with certain modification to include provision on transit facilities extended by India for Nepal's trade with 3 rd country.
1990	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 with liberalized transit arrangement in Calcutta for Nepal's imports was made. The treaty was made automatically renewable every seven years.

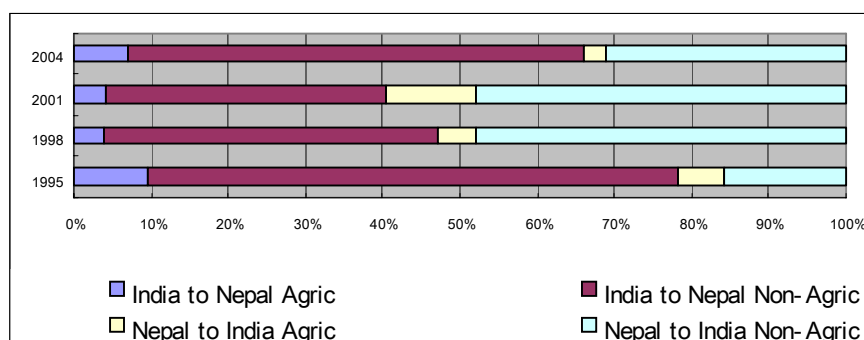
Source: World Bank, 2004

Table 19: India-Nepal Trade: Value (US\$ million)

India-Nepal Bilateral Trade	1995	1998	2001	2004
India's Agric. Exports	19.5	9.77	22	69
	(14)	(8)	(11)	(12)
India's Non-Agric. Exports	139.64	112.5	194.17	591.4
	(86)	(92)	(89)	(88)
India's Total Exports	159.14	122.27	216.17	660.4
Nepal's Agric. Exports	12.17	12.8	61.2	29.5
	(38)	(10)	(24)	(9)
Nepal's Non-Agric. Exports	32.33	123.85	256.2	311.61
	(62)	(90)	(76)	(91)
Nepal's Total Exports	54.5	136.65	317.4	341.11

Note: Figures in the parentheses are Trade Shares. Source: COMTRADE, 2004

Figure 14. Indian and Nepalese Trade Shares



Source: COMTRADE data base (2004)

5. Impact of intra-regional trade agreements

The impact of intra-regional trade agreements on agriculture was analyzed using the Gravity Model⁹ (Tinbergen, 1962). Gravity model postulates that trade between countries is inversely related to the distance between two countries. The estimated coefficients on the log of product of GDP and distance are 1.15 and 0.32 respectively. The results of the analysis indicate that preferential trade agreement SAPTA has had a significant agricultural trade creation effects 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.

B. Extra-Regional Preferential Trade Agreements

1. India-Thailand

In November 2001, India and Thailand agreed to set up a Joint Working Group (JWG) to undertake a feasibility study on a Free Trade Agreement (FTA). The JWG observed that both countries would benefit from bilateral economic integration and a FTA could prove to be a building block for both countries. A Framework Agreement for establishing Free Trade Area between India and Thailand was signed on 9th October, 2003. The key elements of the Framework Agreement cover goods, services, investment and areas of economic cooperation. The framework agreement also provides for an Early Harvest Program (EHP) under which common items of export interest to both sides have been agreed for elimination of tariffs on a fast track basis. The EHP items were finalized through negotiations based on full reciprocity in terms of trade value between India and Thailand. The EHP list includes 84 product (11 agricultural tariff lines) items for tariff concessions. For the period 2001-2002, exports to Thailand on the EHP items amounted to US\$ 33.3 million while imports from Thailand during the same period were to the tune of US\$ 38.5 million. Tariffs on selected items will be phased out by March 2006 (Table 20). India and Thailand expect to establish a FTA by 2010.

⁹ Gravity model postulates that trade between countries is proportional to the GDP and it inversely related to the distance between two countries. $T_{ij} = f(Y_{ij}, I_{ij}, D, B, A_{ij})$ 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 Block. Subscript i and j represent two countries and t = time.

Table 20: Time Frame for Tariff reduction: for EHP

Period	Tariff Reduction on Applied MFN Tariff Rates (as of 1st January 2004)
1 st March 2004 to 28 th February 2005	50%
1 st March 2005 to 28 th February 2006	75%
1 st March 2006	100%

Source: Agreement Schedules

2. India- ASEAN

India became a sectoral dialogue partner of ASEAN in 1992 and 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 to improve their market access to India and establish a FTA within 10 years timeframe. Further, India is committed to align its peak tariffs to East-Asian levels by 2005. A Framework Agreement on Comprehensive Economic Cooperation (FACEC) between the ASEAN and India was signed in October 2003. The elements of the FACEC cover FTA in goods, services and investment, as well as areas of economic cooperation. The agreement also provides for an EHP, which covers areas of economic cooperation and a common list of items for exchange of tariff concessions as a confidence building measure. The tariff reductions will start from 1 January, 2006 and MFN tariff rates to be gradually eliminated. India will eliminate tariffs in 2011 for Brunei Darussalam, Cambodia, Lao PDR, Indonesia, Malaysia, Myanmar, Singapore, Thailand and Vietnam. Brunei Darussalam, Indonesia, Malaysia, Singapore and Thailand will eliminate tariff in 2011 and new ASEAN Member States (Cambodia, Lao, Myanmar and Vietnam) will eliminate tariff in 2016, for India. India and Philippines will eliminate tariffs for each other on a reciprocal basis by 2016. The progressive tariff reduction under EHP commenced from 1 November 2004, and tariff elimination will be completed by 31 October 2007 for India and ASEAN-6, and 31 October 2010 for the new ASEAN member States. The initial tariff reduction is based on full reciprocity between India and ASEAN-6 and it covers 111 tariff lines (8 agricultural tariff lines) at HS six digits level. India accords 105 (6 agricultural tariff lines) unilateral concessions to new ASEAN members.

3. Asia-Pacific Trade Agreement.

The Asia-Pacific Trade Agreement (APTA) was agreed upon in 1975 with the objective of fostering economic co-operation among members by relaxing barriers to trade. Seven countries were involved in the initial negotiations but, only five countries viz. Bangladesh, India, Laos, Republic of Korea and Sri Lanka became members of the agreement from the inception. At the time of inception, the intra-regional trade among members was less than 1 per cent of total trade. In 2001, the accession of China provided a boost to the APTA. The scope of the arrangements is confined to 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). The APTA became rather ineffective on account

of differences in approach, interpretation and perception among member countries (Samaratunga, 2003). The APTA, similar to SAPTA, maintains special tariff concessions for the least developed members. The membership of the APTA is opened to the all developing countries in the ESCAP region.

Box 3: Progress of Bangkok Agreement (Asia Pacific Trade Agreement)

Negotiation, Year	Outcomes of Negotiation	Remarks
1 st Round, 1975	Negotiations completed for 104 products.	Intra-trade was less than 1%
2 nd Round , 1990	Negotiations completed for 438 products	By end of 1990s, Intra-trade rose up to 2.4% for exports and 2.2% for imports. Korea accounted for more than 90% of intra-member trade.
3 rd Round, 2004	Negotiations were aimed at offering a maximum 50% margin of preferences on existing tariffs in respect to agreed items. Offer lists were exchanged among members.	The discussion on amended version of BA. The agreement was renamed as Asia-Pacific Trade Agreement. The domestic value added criterion in respect of not wholly produced or obtained remains as an outstanding issue to be negotiated.

Source: Samaratunga (2003). CBSL, 2004

Under the APTA, Bangladesh extends tariff preferences to India, the Republic of Korea and Sri Lanka on 119 tariff lines at the HS8-digit level. Items covered under 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 per cent 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
India*	84	35	0-30
Sri Lanka	9	10	5
Republic of Korea	18	3-40	2.4-22.5
China	141	10-35	9-29.5

Note: Include only general concessions. Members have offered special concessions to least developed members (The number of agricultural concessions include: Sri Lanka to Bangladesh: 2, ROK to Bangladesh: 2, India to Bangladesh: 2, Sri Lanka to Laos: 2, ROK to Laos:2. * out of India's 84 concessions 75 items come under HS code 01-03 and for these items the applied rate is zero.

Source: National Tariff Schedules of APTA

Conclusions

The SAEs have recorded a favorable economic growth during past few decades. Dependence of a higher proportion of population on agriculture, continuous declining of farm income, changes in terms of trade in agriculture and appreciation of Real Exchange Rates (RERs) have led many SAEs to maintain relatively higher tariff rates for agricultural products than those for non-agricultural products. Further, trade liberalization in agriculture is a politically very sensitive issue in SAEs. Thus, the South Asia's trade negotiations have yielded fewer opportunities for agricultural trade and the SAEs remain the most protective region for agricultural trade.

The number of agricultural products covered in trade negotiations is very limited and the items negotiated have 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. But, specific tariffs and TRQ have been used to protect sensitive (or high trade potential) agricultural commodities. India dominates the agricultural trade in the region and shows export specialization in a diverse group of agricultural products. Agricultural exports of the SAEs (except India) are concentrated in a small basket of goods. Involvement of state trading monopolies, domestic supports for agricultural production and exports could highly 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 the PTA or BTA negotiations. Trade liberalization without due consideration on these issues would lead to unfair competition on agricultural production and trade.

Though these institutional developments to trade have included limited concessions for agricultural products, intra-regional agricultural trade has expanded during the past decade. It is attributed to multilateral trade liberalization as well as regional and bilateral trade agreements. The development of the agricultural trade within the region during the past decade and prevalence of higher tariff protection indicate the potential for expansion of agricultural trade. The RTR and REST indices indicate that there is a potential for improving agricultural trade in the region and India and Bangladesh can provide more opportunities to promote agricultural trade in the region. The reduction in competitiveness of agricultural production is experienced by Bangladesh and Sri Lanka due to exchange rates appreciations. These countries have resorted to alternative methods to provide additional protection to the domestic producers. The real agricultural trade interests of the SAEs are subjected to the sensitive lists in the RTA and the BTAs. 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. Reduction of specific tariffs, removal of TRQs, and improving market access for products with considerable export specialization can be considered as key issues for the regional and multilateral trade negotiations.

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