

Agriculture, Trade, and Regionalism in South Asia

by Dean A. DeRosa and Kumaresan Govindan

An important debate is under way among the countries of the world about the relative merits of pursuing regionalism through preferential trading arrangements versus more outward-oriented approaches to expanding trade. This debate has significant implications not only for food security but also for other dimensions of economic welfare and poverty alleviation in developing countries.

Under the aegis of the General Agreement on Tariffs and Trade (GATT) and the new World Trade Organization (WTO), most countries have been moving toward general liberalization of trade policies and practices in recent years. At the same time, regional trading blocs--most prominently the "single market" of the European Union and the North American Free Trade Agreement among Canada, Mexico, and the United States--have also grown in importance. These blocs pose a possible challenge to the WTO's objective of global free trade.

The countries of South Asia (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka) have established a formal body for economic cooperation known as the South Asian Association for Regional Cooperation (SAARC) and have agreed to create an areawide trading bloc to be known as the SAARC Preferential Trading Arrangement (SAPTA).

For policymakers in South Asia, it is important to consider whether the proposed regional trading bloc, which would align the South Asian economies more closely with one another, will provide greater benefits than trade liberalization on a most-favored-nation basis, which forms the cornerstone of the GATT and WTO and which would align the South Asian economies more closely not only with one another but also with the economies of the greater Asia-Pacific region and the world at large.

Current Regional Trade Patterns

Although primary commodities are particularly significant exports of Pakistan and Sri Lanka, the export base of the four major South Asian countries (Bangladesh, India, Pakistan, and Sri Lanka) is more diversified than that of many low-income countries. Bangladesh and India are often classified as predominantly exporters of manufactured goods, particularly labor-intensive and light manufactured goods.

Imports of food commodities are substantial. They account for 10 percent of total imports for India, 15 to 20 percent for Pakistan and Sri Lanka, and 30 percent for Bangladesh. The manufactured imports of the four countries are concentrated mainly in light manufactures and capital-intensive machinery and equipment.

The South Asian countries exchange goods principally with countries outside the region. Their largest trading partners, accounting for more than 50 percent of their total trade, are the major industrial countries in the European Union, along with the United States and Japan. A substantial portion (40 percent) of the region's trade is with countries in the Asia-Pacific region, including China, the Southeast Asian countries, Australia, New Zealand, and the high-income East Asian countries (Hong Kong, Japan, Korea, Singapore, and Taiwan).

The South Asian countries do not trade extensively with one another. As a share of the total imports of South Asia, intraregional trade amounts to no more than 3 percent, a reflection of the particularly limited trade between India and Pakistan. Intraregional trade consists mainly of food commodities (37 percent) and agricultural raw materials (17 percent).

Protection Policies

Since the early 1990s the South Asian countries have initiated major economic reforms designed to lower protection levels. The aim of the reforms is to reduce or eliminate state trading, price controls on imports, and import-substitution policies such as high tariffs and extensive quotas. Such reforms are badly needed in South Asia, since all the countries in the region (with the exception of Sri Lanka) have historically maintained high levels of protection. According to 1992 United Nations data, tariff rates and other charges levied on imports have averaged over 70 percent. Quantitative restrictions and other nontariff barriers have also been common.

SAPTA, the proposed regional trade agreement, would set preferential terms for all traded goods, including agricultural and other primary commodities in their semiprocessed as well as raw forms.

Is SAPTA the Best Option for the Region?

An open question is whether a regional trading arrangement founded on tariffs and other trade preferences, rather than on nondiscrimination consistent with the most-favored-nation principle, offers the greatest benefits for the region.

Modeling analysis based on a simple import demand framework raises some important questions about the SAPTA approach. The analysis considers two preferential approaches to trade liberalization. First, it looks at the effects of removing the tariffs and other charges on imports within the bloc. This approach discriminates against imports from outside the region by creating strong incentives to substitute regionally produced goods for other, possibly lower-cost, foreign goods. Second, the analysis looks at the implications of closer economic relations between South Asia and the Asia-Pacific Economic Cooperation (APEC) forum, achieved through the South Asian countries' unilateral lowering of their barriers to imports from Asia-Pacific countries. Finally, the analysis looks at the implications of reducing protection in South Asia for imports from all countries--that is, general trade liberalization on a nondiscriminatory basis. Under each of these three approaches, it is assumed that tariffs and other charges are reduced to zero and that nontariff barriers are liberalized.

The model finds that under the SAPTA approach overall trade among the South Asian nations would increase by about US\$0.841 billion. Intraregional trade in manufactures would increase by US\$0.2 billion, and intraregional trade in primary commodities by US\$0.6 billion (of which food commodities are US\$0.4 billion). However, about 75 percent of the total increase in trade (US\$0.628 billion) is a result of the diversion of trade from countries outside South Asia to countries within the region. SAARC imports from all countries grow by only US\$0.213 billion, or 1 percent (Figure 1).

In comparison, SAARC trade liberalization with the Asia-Pacific nations produces a total increase in South Asian imports of US\$4.8 billion: US\$3 billion in manufactures and US\$1.8 billion in imports of primary commodities (of which US\$1.3 billion are food imports). Trade diversion is estimated to account for about 55 percent of the total expansion--much less than the 75 percent estimated under SAPTA.

The liberalization of SAARC trade with the world at large would create a US\$12.5 billion increase in South Asian imports, with no accompanying diversion of trade. The increase includes US\$7.6 billion in manufactures and US\$4.8 billion in primary commodities (of which US\$1.7 billion are food imports). Such increases would add significantly not only to food security but also to the general economic welfare of the region. The model finds that economic welfare, as measured by consumer surplus, would improve by US\$5.6 billion, or more than 25 times the improvement in economic welfare that would occur under SAPTA and one-and-a-half times that under SAARC-APEC liberalization (Figure 2).

Finally, intrabloc trade in South Asia would see a larger expansion under SAPTA than under the Asia-Pacific or nondiscriminatory trade liberalization options. With these latter two options, however, food security in the region would improve as a result of the greater specialization of production and the expansion of SAARC exports to the world.

This analysis suggests that the SAPTA agreement could provide substantial benefits for the region, but that the South Asian nations might achieve much larger gains in trade and economic welfare by intensifying their efforts to integrate their economies with the world economy or with the fast-growing economies of the greater Asia-Pacific region. Furthermore, focusing on regional trade preferences could jeopardize the progress of more general trade liberalization in the region and its potential for promoting agriculture and food security.

Dean A. DeRosa is principal economist at ADR International, Ltd., an international trade policy consulting firm in Falls Church, Virginia, U.S.A. Kumaresan Govindan is a research analyst in the Markets and Structural Studies Division of the International Food Policy Research Institute.

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