

# SAFTA fails if not supporting to LDC's capability

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## 1. Background

The main objective of regional cooperation among the South Asian countries was to develop socio economic condition through adopting multilateral activities. To achieve this objective a regional free trade was need to form as a part of strategy which was also complementary to reduce trade gap among SAARC countries and save from the negative effect of trade aggression of multinational companies under so called neo liberal economic theory of riches countries.

## 2. SAPTA was the first step of taking Free Trade Arrangement

In the South Asian countries except India, their main exportable products are based on primary commodities and textile goods especially ready made garments. On the other hand they have to import the petroleum product, capital goods and the raw materials for their main export item of ready made garments. Such type of narrow based of export business made vulnerable the Balance of Payment system of the countries every year and going weaker the condition of national economy.

In this context the South Asian leaders assumed that the greater integration of export import business among the SAARC countries would play a vital role of reducing the Balance of Payment, expansion of future export market and increase the national income respectively. They also assume that such trade integration will make the national economy dynamic and stable along with offsetting the gape in other markets.

Emphasizing the above goal the SAARC leaders come into a common ground and taken the decision to establish an institutional frame as South Asia Preferential trade Agreement (SAPTA) in 1993 as following objectives,

- Trade expansion among the member countries especially with India of transporting, engineering & technical products and information technology etc.
- Formulate a long term perspective trade liberalizing program resulting economic and foreign trade will be boosted up
- Trade and non-trade barrier will be removed and ensure free access & cross movement of any products
- Overall the illegal trade will be reduced with India among other member's countries and the existing trade will be diverted as legal

But the institutional policy and implementation strategies of SAPTA was not able to bring any expected result of reducing trade gap with India. Even this gap was increasing barely due to trade has been expanded in some specific sector according SAPTA.

## 3. Transitioned SAFTA from SAPTA

Considering the situation, the SAPTA is reevaluated its

performance and in 10th SAARC summit it's redesigned as South Asia Free Trade Agreement (SAFTA) and signed the new agreement in order to establish the absolute free trade in all aspect of export import activities. The new agreement is effected from 1st January, 2006.

**The main objectives of SAFTA are following,**

- Eliminate all sort of barrier in trade and facilitate to free and fair movement of products;
- Promoting fair competition and free trade environment in respect of the existing economic condition which will ensure the maximum benefit;
- Establish an institutional frame to promote and expansion of regional cooperation.

## 4. SAFTA objectives will be implemented maintaining the following principles (According Article-04)

- Trade liberalization programme
- Rules of Origin Procedures
- Institutional Arrangement
- Dispute settlement Policy
- Safe Guard Measure
- Others Instruments (if agreed upon)

## 5. The Trade liberalization program will implement through adopting of following steps,

- The developed countries (here refers as NLDC) will reduce their tariff rate on import up to 20% within 1st 02 years period of enforcing the agreement as 1st phase
- The least developed countries (here refers as LDC) will reduce their tariff rate on import up to 30% within 1st 02 years period of enforcing the agreement as 1st phase
- The NLDCs will reduce their tariff rate up to 0-05% within next 05 years period as 2nd phase
- The LDCs will reduce their tariff rate up to 0-5% within next 08 years period as 2nd phase

Fulfilling the above conditions of tariff reducing program by 2015 the import duties will be in the range of 0-5% among the SAARC member's countries and ensure the free market.

## 6. How much preparation are taken by the least developed countries towards benefited from SAFTA

But this is a question remained unsolved that, how benefit will gain from SAFTA agreement by the least developed countries like Bangladesh? If we assess the trade capacity of Bangladesh can see that, It has huge trade gap among SAARC members countries. Secondly the major portion (near 98%) of export earnings is coming from out of SAARC inter-regional trade. From this view the analysis of latest trade situation of Bangladesh with India as major partner is following,

- After sign the agreement Bangladesh has been

reduced their tariff on near 4000 imported items. This reduce of tariff causes the loss of earning revenue approximately 1000 corer per year;

- b. India has also reduced their tariff on import, but due to exist of different non tariff barrier (like lab test, chemical test, packaging and certification etc) Bangladesh is not able to notable increase their export to India;
- c. India deemed a preferential country for export from Bangladesh in SAARC region. But the main exportable product of Bangladesh especially ready made garments is listed as sensitive product in Indian import. That's why Bangladesh deprived to have the facilities of increasing their export under SAFTA and losing benefit;
- d. After sign this agreement Bangladesh had to face the export import deficit balance amounting \$ 160 corer with India in fiscal year 2005-06. This deficit would be higher in the fiscal year 2006-07 obviously;
- e. Overall the exportable products of Bangladesh are few and in many cases the exportable products are homogeneous of SAARC member countries. That's why the possibility of promoting export of Bangladesh is very flicker.

#### An Overview of Inter Regional Trade among SAARC Countries

Bangladesh	-	2.5%
India	-	5.7%
Maldives	-	16.5%
Nepal	-	68.1%
Pakistan	-	4.3%
Sri Lanka	-	8.9%
Bhutan	-	-

SAARC Regional Poverty Profile (Annex-03, P-17)

#### 7. Ensuring equal benefited really, the following issue should be resolved through SAARC

- a. The main exportable product especially readymade garments of Bangladesh is remained as sensitive list of other neighbored countries of SAARC which is hindered of increasing export. So that, we demanding to cut off the ready made garments item from the sensitive list of India and others. Bangladesh should bargain with this issue in SAARC Summit.
- b. The Article -08 of agreement has clearly stressed that the non tariff barrier will be harmonized in case of import from all countries. But this issue is reflected severe for Bangladesh to export in India. We think that the Article-08 of SAFTA agreement has to be implemented fully which would be conducive for Bangladesh trade.
- c. Domestic producer and entrepreneurs might faced loss due to trade liberalization program. The NLDCs are committed to give necessary technical cooperation (according the article-11) to LDCs for overcoming this negative effect.

This is also true that there are no alternative to make the country capable economically and sustainable to meet the challenge of globalization or so called liberalization. So the way have to find out to ensure effective cooperation on technical, production and marketing side for domestic entrepreneurs of LDCs through SAARC.

#### 8. SAFTA accorded with Poverty Alleviation & our expectation

The SAARC leaders have expected that the SAFTA will play an effective role for poverty alleviation in South Asia. This agreement will ensure free trade, enhance the foreign direct investment in LDCs and create employment. Govt. revenue will increase and will be deployed for poverty eradication program.

SAFTA agreement is enacted from 01st January, 2006. many of the clauses of agreement are still to be implement and planned for full phase implementation by 2015.

This is very important issue for least developed countries like Bangladesh and others of SAARC to increase their national income and achieve the poverty eradication goal by using the opportunity of SAFTA.

But the analyses of social context of SAARC countries are giving a clear picture of deprivation. There are 400 million people are living under the poverty line and they are not able to enjoy the result of increasing national income from SAFTA trade. The main cause of this deprivation is existence of income disparity between rich and poor in the state. If the state fail to reduce the income disparity, SAFTA trade would be meaning less for poor and also poverty eradication. So SAARC leaders of course have to highlight the following issue related absolutely poverty eradication if we want to see the SAFTA as an effective tool for poor,

- a. Effective cooperation has to give by NLDCs for export diversification of LDCs
- b. State will give and ensure the possible trade facilitation to develop the entrepreneur
- c. State will reform their tax & revenue collection system and income distribution policy which will remove the income disparity
- d. State will adopt the investment policy on how to invest the foreign remittance in productive sectors.
- e. The labor law and working environment have to ensure in their respective countries
- f. SAARC will be declared as free of GM food and trade area and MNCs will be band for investment those are proved as environmentally degraded