

Analysis of Margins of Preferences for Food and Agricultural Products Provided by South Asian Regional Trade Agreements (SAPTA): Sri Lankan Perspective

D. Hemachandra, B. Wijerathne¹ and J. Weerahewa¹
Department of Agricultural Economics and
Business Management, Faculty of Agriculture
University of Peradeniya, Peradeniya

ABSTRACT. *Sri Lanka has entered into a number of trade agreements in the South Asian region, namely the South Asian Preferential Trade Agreement (SAPTA), and, Indo-Lanka and Pakistan-Sri Lanka Free Trade Agreements. The objective of this study is to investigate the extent of tariff concessions granted for food and agricultural products by these agreements. Secondary data on bilateral tariff and trade values were obtained from Market Access Map and Trade Map of International Trade Centre of United Nations Conference on Trade and Development /World trade organization. The Margin of Preferences (MOP) given by South Asian Preferential Trade Agreement as opposed to tariff on non-SAPTA countries, and MOP given by the two bilateral agreements as opposed to non-SAPTA countries were calculated. The finding revealed that Sri Lanka has provided less tariff concessions for its imports from India and Pakistan than been given for its exports by those countries. Sri Lanka has provided more concession for its imports as per under SAPTA than what it has received for its exports. Moreover, Sri Lanka has given more tariff concessions for Pakistan than for India. Indo-Lanka Free Trade Agreement has provided a very high rate of concession for Sri Lankan exports. The sectors denoted by Harmonized System (HS) 21, 17 and 9 are the receivers of highest tariff concessions by Indo-Lanka Free trade agreement. Overall, South Asian Preferential Trade Agreement has provided a very minimal amount of concessions for both Sri Lankan imports and exports. Low level of intra-regional trade can be highlighted as a reason for the low value of weighted MOP experienced by SAPTA.*

INTRODUCTION

Regionalism can be broadly defined as a tendency towards some form of preferential trading between a numbers of countries usually belongs to a particular region. The word 'preferential' is the key word implying that countries not belong to a particular regional trade agreement (RTAs) is discriminated against (Lahiri, 1998). Scope of RTAs can vary from Preferential Trade Agreements (PTAs) to Free Trade Agreements (FTAs), Custom Unions, Common Markets and Economic Unions with increasing level of economic integration. Regional Trade Agreements have become a very prominent feature of the Multilateral Trading System (MTS) in recent years. Nearly all of the members of the World Trade Organization (WTO) have notified participation in one or more RTAs. There are

¹Department of Agricultural Economics and Business Management, Faculty of Agriculture University of Peradeniya, Peradeniya.

arguments for and against RTAs. A major concern is the possibility of these blocks to pose a challenge to the WTOs objectives of global free trade (Derosa and Govindan, 1997) while some believe that regional integration processes will become a building block for multilateralism (Bonapace, 2008). However, there are factors other than economic considerations that have compelled countries to form RTAs. Some of them are safe haven concerns, use of trade agreements to underpin security arrangements and tactical interplay between multilateral and regional negotiating positions (Whalley, 1996).

Though RTAs are not new to the world, they are quite new to the South Asian region. It is said that till 1985, there was not a single RTA in the region (Hossain and Duncan, 1998). Since the early 1990s the South Asian countries have initiated major economic reforms designed to lower protection levels. The aim of the reforms was to reduce or to eliminate, state trading, price control on imports, and import substitution policies such as high tariffs and extensive quotas (Derosa and Govindan, 1997). Such reforms are badly needed in South Asia since tariff rates and other charges levied on imports have averaged over 70% (Derosa and Govindan, 1997). The South Asian region consists of seven nations namely India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan and Maldives. The first regional trading agreement was experienced with the implementation of South Asian Preferential Trade Agreement (SAPTA) in 1995. It was followed by a number of Bilateral Trading Agreements (BTAs) and South Asian Free Trade Area in 2006. The BTAs include India-Nepal and India-Bhutan non-reciprocal FTAs, India-Bangladesh, Indo-Lanka and Pakistan-Sri Lanka FTAs.

South Asian RTAs are not considered as successful due to many reasons, some of which are low level of tariff concessions, negative lists, non-tariff barriers, phase-down approach, similarities in production structure and consumption pattern and illegal trade. Many studies have been carried out to evaluate the performance of the South Asian RTAs. However, a very limited number of studies have been carried out to investigate the MOP given by the South Asian RTAs. Hence, this study was carried to investigate MOP granted by the RTAs on the agricultural sectors from Sri Lankan perspective. Agricultural sectors were only considered since intraregional trade consists mainly of food commodities (37%) and agricultural raw material (17%) (Derosa and Govindan, 1997).

METHOD

The difference between the applied tariffs charged as per SAPTA, Indo-Lanka and Pakistan-Sri Lanka agreements and tariff on non-SAPTA countries was taken as the MOP for each agricultural sector. A weighted tariff (applied), weighted non-SAPTA tariff and weighted MOP were calculated using shares of exports or imports where appropriate to obtain an indicator for comparisons. Tariff data were obtained from Market Access Map of International Trade Centre of UNCTAD/WTO and values of imports and exports were obtained from Trade Map of the same. Year 2005 was taken as the year of analysis. Sri Lankan imports and exports to SAPTA countries (excluding India and Pakistan) as a whole and, for India and Pakistan separately were considered in the analysis. Agricultural sectors in Harmonized System (HS 2) level were only considered. The HS 2 level consists of 24 sectors of agricultural commodities.

RESULTS AND DISCUSSION

The weighted rate of tariff applied for Sri Lankan agricultural imports by Indo-Lanka and Pakistan-Sri Lanka FTAs and SAPTA are 18.85%, 13.17% and 12.72% respectively. The weighted non-SAPTA tariffs on agricultural imports are 20.45%, 18.22%, and 14.02% respectively for India, Pakistan and other SAPTA countries. The weighted MOP granted for Sri Lankan imports by Indo-Lanka and Pakistan-Sri Lanka FTAs and SAPTA are 1.6%, 5% and 1.3% respectively. The weighted rate of applied tariff for Sri Lankan agricultural exports by Indo-Lanka and Pakistan Sri Lanka FTAs and SAPTA are 0.14%, 6.92% and 18.14% respectively. The weighted non-SAPTA tariff charged for agricultural exports by Sri Lanka from India, Pakistan and other SAPTA countries are 72.54%, 12.89%, and 18.52% respectively. The weighted MOP granted for Sri Lankan agricultural exports by Indo-Lanka and Pakistan Sri Lanka FTAs and SAPTA are 72.41%, 5.97% and 0.38% respectively. Overall, Sri Lanka has given more concessions for its agricultural imports than what it received for its exports under SAPTA whereas it has received more concessions for its exports under Indo-Lanka and Pakistan Sri Lanka FTAs than what it has given for its imports under these agreements. The low level of weighted concessions granted by these agreements can be attributed to the low level of intra-regional trade.

The findings further revealed that the highest MOP was granted by Sri Lanka (for its imports) for the sector, residues and waste from the food industries and prepared animal fodder (HS 23) under Indo-Lanka FTA followed by the sectors, products of animal origin, not elsewhere specified or included (HS 5) and, products of the milling industry, malt, starches, inulin, wheat gluten (HS11) (See Table 2). Pakistan-Sri Lanka FTA has granted the highest rate for edible fruit and nuts, peel of citrus fruits or melons sector (HS 8) followed by the sectors coffee, tea, maté and spices (HS 9) and, cereals (HS 10). The agricultural sector that received highest MOP under SAPTA was edible fruit and nuts, peel of citrus fruits or melons (HS 8) followed by oil seeds and oleaginous fruits, miscellaneous grains, seeds and fruit, industrial or medicinal plants, straw and fodder (HS 12) and, fish and crustaceans, molluscs and other aquatic invertebrates (HS 3).

Among Sri Lankan exports, the highest MOP receiver by the Indo-Lanka FTA was miscellaneous edible preparations (HS 21) followed by sugars and sugar confectionery (HS 17) and coffee, tea, maté and spices (HS 9). As per Pakistan-Sri Lanka FTA, the highest MOPs were granted for miscellaneous edible preparations (HS 21) followed by preparations of vegetables, fruit, nuts or other parts of plants (HS 20) and, preparations of cereals, flour, starch or milk, pastrycooks' products (HS 19). The sector, tobacco and manufactured tobacco substitutes (HS 24) has received the highest MOP followed by the sector coffee, tea, maté and spices (HS 9), and preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates (HS 16).

Table 2. Comparison of Tariff Concessions Granted for Sri Lankan Imports and Exports of Agricultural Sectors

HS code	MOP (Sri Lankan Imports)			MOP (Sri Lankan Exports)		
	India (%)	Pakistan (%)	SAPTA (%)	India (%)	Pakistan (%)	SAPTA (%)
1	1.07	2.97	0.65	30.00	3.35	1.22
2	0.71	4.36	0.16	45.82	11.90	0.42
3	1.57	2.25	1.35	29.70	6.98	0.05
4	0.56	3.19	0.10	47.25	6.94	0.12
5	4.32	1.65	0.63	30.00	4.23	0.55
6	0.04	2.45	0.19	19.74	5.48	0.09
7	0.69	3.55	0.26	36.31	4.14	0.21
8	2.88	11.83	2.38	39.02	10.80	0.52
9	0.11	7.88	0.17	84.69	5.54	1.33
10	0.52	7.50	0.28	81.37	6.47	-0.01
11	3.74	5.62	1.11	36.17	7.76	-0.43
12	3.67	2.16	1.78	27.24	3.96	0.53
13	1.07	2.80	-0.05	29.57	11.13	-0.27
14	1.71	3.05	-0.62	30.00	8.20	0.66
15	0.04	5.77	-0.02	71.62	11.36	0.32
16	2.26	4.22	-0.13	35.84	13.97	1.24
17	0.21	2.74	0.00	86.77	8.28	-0.02
18	0.00	3.29	0.00	29.98	8.69	0.38
19	0.34	3.05	0.42	35.96	14.86	0.09
20	0.31	7.02	0.31	31.05	15.85	0.29
21	0.97	1.28	0.08	117.59	19.91	0.32
22	-0.63	-0.63	-1.09	6.60	13.28	0.36
23	6.95	3.70	1.01	30.00	8.75	0.09
24	-4.62	-4.62	0.26	30.00	-0.13	3.38
Average MOP	1.19	3.63	0.38	43.43	8.8	0.47

The findings further revealed that beverages, spirits and vinegar sector (HS 22) were given negative concessions under all the three agreements considered. Apart from that tobacco and manufactured tobacco substitutes sector was given negative concessions under the FTAs considered. Moreover, the sectors HS 13, 14, 15 and 16 was given negative concessions apart from HS 22 under SAPTA. When considering agricultural exports Sri Lanka has received no negative concessions from Indo-Lanka FTA. The sector HS 24 has received negative concessions under Pakistan-Sri Lanka FTA. Four sector namely, HS 10, 11, 13 and 17 have received negative concessions under SAPTA. The negative values imply that higher tariff concessions are given by trade agreements that these countries have entered into with other countries in the world than the agreements studied.

CONCLUSIONS

Weighted MOP granted by Sri Lanka under Indo-Lanka and Pakistan Sri Lanka FTAs and SAPTA are not substantial. Sri Lanka has not received a substantial level of tariff concessions by Pakistan-Sri Lanka and SAPTA. However, Indo-Lanka FTA has provided a very high rate of concessions for Sri Lankan agricultural exports. Overall, the bilateral FTAs considered have granted more concessions for both agricultural imports and exports of Sri Lanka than SAPTA. A reason for the inability to reap much benefit from the agreements has been the low level of intra-regional trade.

ACKNOWLEDGEMENT

Authors wish to acknowledge to S. Krishnal, P.M.E.K. Pathiraja, A.C.H. Athukorala, M. Egodawatte and S.S.P.K. Hewage for their work in the earlier version of the study.

REFERENCES

Bonapace, T. (2008). Trade as an Engine of Stable Growth in an Integrated Asia. Alerts on Emerging Policy Challenges. ESCAP, ARTNeT Alerts, Issue No.1, April 2008. <http://www.newasiaforum.org/opinions.html>, Access on 15.09.2008.

Derosa, D.A. and Govindan, K. (1997). Agriculture, Trade and Regionalism in South Asia. International Food Policy Research Institute. 2020 Vision Brief, 46.

Hossain, M.M. and Duncan, R.C. (1998). The Political Economy of Regionalism in South Asia. Economic Working Papers. National Centre for Development Studies. The Australian National University. Research School of Pacific and Asian Studies. National Centre for Development Studies. NCDS Publications.

Lahiri, S. (1998). Regionalism versus Multilaterarism: Will Preferential Agreements Undermine the Global Trading System. <http://www.res.org.uk/society/mediabriefings/pdfs/1998/July/lahiri.pdf>

Panagiriya, A. South Asia: Does Preferential Trade Liberalization Makes Sense. <http://www.columbia.edu/~ap2231/Policy%20Papers/Saarc-wb.pdf>

Whalley, J. (1996) Why Do Countries Seek Regional Trade Agreements ? NBER Working Paper No. *W5552*. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=4133

http://www.wto.org/english/tratop_e/region_e/region_e.htm