

India's Role in SAARC Integration and Way Ahead

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Asymmetric Treatment: SAFTA vs. Bilateral FTAs

ISFTA	SAFTA
SL allowed negative list of 25% of tariff lines; India maintained 8%	Non-LDCs maintain 20% of tariff lines; LDCs approximately 25%
India offered immediate zero duty concessions on 25% of tariff lines; SL offered only about 6%	No such immediate zero duty concessions
SL gets additional 5 yrs. to implement	LDCs get additional 3 yrs.

Bilateral FTA has proven to be far more liberal

- ISFTA: Less than 14% of SLs exports to India restricted under Indian negative list
- SAFTA: Nearly 42% of SLs exports to India restricted under Indian negative list.
- At present, 93% of SLs exports to India enter under zero duty under ISFTA

SL sees significant export expansion to India following ISFTA

- Export earnings increase from US\$ 60mn in 2000 to US\$ 570mn by 2005.
 - Increase of 64% p.a. on average compared to increase of 3.3% to ROW.
- However, expansion driven by 2 commodities
 - Vanaspathi jumps from 1% of exports to 25%
 - Copper/articles jumps from 3% of exports to 50%

Growing opportunities for intra-industry links clear

- Automobile industry
 - Influx of Indian-made automobiles into SL
 - Plans to set up assembly operations in SL
 - Joint ventures already established in ancillary products like tyres
 - Chinese automobile assembly also entering SL market
- ISFTA gave initial boost to encourage expansion of such activities

Spillovers into FDI

- Indian FDI in SL accounts for 6% p.a. during 2004-06 compared to 1% p.a. earlier
- Over 70% of Indian FDI now in services
- Prompted moves to negotiate a bilateral CEPA

Table 2: Bilateral Trade Restriction under SAFTA

% NL	BAN	IND	MAL	NEP	PAK	SRI
BAN		11.2	0.0	29.7	31.3	45.2
IND	66.0		65.2	64.2	14.5	53.5
MAL	72.9	3.6		0.0	0.0	59.2
NEP	87.8	46.2	0.0		25.4	17.6
PAK	54.5	16.4	15.5	30.0		28.4
SRI	66.6	41.5	85.4	37.6	29.7	
Total	65.0	38.4	74.5	64.0	17.2	51.7
Intra-SAARC Imports	16.7	0.8	21.1	42.4	3.1	25.9

Source: Weerakoon and Thennakoon, 2008, "SAFTA: Which Way Forward?", Journal of South Asian Development, Vol. 1, No. 3 (forthcoming).

Will SAARC provide way forward?

- Negative list
 - Provision only to ‘review’; does not require a binding commitment to reduce over time.
- Time frame
 - SAFTA to be fully implemented by 2016
 - More dynamic bilateral/other regional FTAs emerging
 - Some of the smaller SAARC countries may stand to benefit from FTAs with India