

South Asian Free Trade Agreement (SAFTA) – Options for Pakistan

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Regional trade is a huge opportunity for economic growth in Pakistan and must be assigned priority in Pakistan's economic policy. South Asia remained one of the least integrated regions in the world. Intra-regional trade accounts for only 5% of South Asia's GDP, compared to 25% of East Asia's. Meanwhile, with a population of 1.6 billion, South Asia hosts one of the largest untapped talent pools. Economic Integration in South Asia is necessary for intensifying growth rates, trade volumes and improving living standards. While other regional organizations such as the European Union (EU), North American Free Trade Association (NAFTA) and Association of South East Asian Nations (ASEAN) have successfully attained this goal, the South Asian Association of Regional countries (SAARC) despite its establishment over a quarter century ago is nowhere near achieving this goal. Political strains and certain procedural difficulties block the full implementation of the South Asian Preferential Trade Agreement (SAPTA) and the South Asian Free Trade Agreement (SAFTA) which could have advanced economic integration in the region. South Asian countries have a great deal of economic potential and possess the will to exploit it through cooperation. This study analyses the performance of SAFTA countries and offers policy recommendations for facilitating economic integration by reducing non-tariff barriers as we see that NTBs are by far the largest impediment to trade.

With this new backdrop, this study will use a global Computable General Equilibrium Model, well suited and tailor made for economy wide analysis. The latest available Global Trade Analysis Project (GTAP) Data base 9a and global GTAP model is used in this study. The Standard global GTAP Model assumes that all markets are perfectly competitive, all production and trade activities exhibit constant returns to scale, firms and household display profit and utility maximizing behavior respectively. Three alternate scenarios are designed to study the impact of reducing non-tariff barriers by complete removal of Trade-inhibiting affects; taxes, subsidies for Pakistan, India, Sri Lanka, Bangladesh and other South Asian countries under SAFTA agreement. The results show an overall huge positive impact on Pakistan's economy if the non-tariff barriers are removed by 14.7% as stated in the WTO report on 22 February, 2017. This will also raise real GDP in Pakistan, India, Sri Lanka and Bangladesh thereby offering a win-win solution for all.