Impact of Non-Tariff Measures on Agricultural Trade in BIMSTEC Member Countries

Introduction

BIMSTEC contains one fifth of the world’s population, including diverse cultures and economies. The inter-regional grouping BIMSTEC aimed to serve as a bridge between the five SAARC and two ASEAN economies. The main objective of the formation of BIMSTEC is the attaining of economic and social affluence, enrichment of mutual economic, social, cultural and political benefits [1].

Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is a regional organization comprising seven member states lying in the littoral and adjacent areas of the Bay of Bengal: Bangladesh, Bhutan, India, Nepal, and Sri Lanka in South Asia; and Myanmar and Thailand in Southeast Asia. The organization began its journey in 1997 through the Bangkok Declaration with the objective of harnessing shared and accelerated growth through cooperation in 14 areas of common interests including trade, transport, energy, technology, tourism, agriculture, public health, environment, and climate change. The regional group bridges South Asia and Southeast Asia and reinforces relations among these countries [1]. Trade and Investment was one of the initial six sectors of BIMSTEC cooperation as identified by the 2nd BIMSTEC Ministerial Meeting held in Dhaka, Bangladesh on 19 December 1998. Bangladesh acts as the Lead Country for this sector. Trade and Investment was one of the initial six sectors of BIMSTEC cooperation as identified by the 2nd BIMSTEC Ministerial Meeting held in Dhaka, Bangladesh on 19 December 1998. Bangladesh acts as the Lead Country for this sector [2].

Bangladesh’s trade in agricultural products was about 11.4 per cent of its global trade in FY2015-16 (ITC, 2017). Despite significant potential, opportunities of raising productivity have remained untapped and agro-processing industry is yet to take a firm foothold in Bangladesh. Forward linkage of agriculture is strong in jute (jute industries) and to some extent shrimp (export-oriented shrimp industry). The major part of the agricultural trade was with India, both formal and informal. Weak linkage between agriculture and industry is mainly on account of low levels of technology, low productivity, weakness in maintaining the needed sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) standards and the resultant weak competitiveness.

Of late the Bay of Bengal Initiative for Multi-Sectoral Technical and Economics Cooperation (BIMSTEC) is receiving sincere attention from its member coun- tries as an organisation that has the potential to transform the region’s political and economic future. This is because there are several bilateral and sub-regional ongoing projects that are seeking to connect the region and bind them together into one economic whole. Apart from this, after the cancellation of the SAARC (South Asian Association for Regional Cooperation) summit in 2017, many would see the BIMSTEC as an alternative to SAARC. Though the Ministry of External Affairs of India continues to consider SAARC as an important regional cooperation mechanism and emphasises its relevance, BIMSTEC appears to be the flavour of the season. The general belief is that BIMSTEC does not have the limitations that the India-Pakistan conflict imposes on SAARC; therefore, it can be transformative institutional mechanism for regional cooperation. However, the fact that this forum has been in existence for more than 20 years without any significant achievement to its credit, would tell us a different story. This commentary seeks to analyse whether SAARC’s failure can be BIMSTEC’s gain? It examines the challenges before the BIMSTEC and its possible future as a regional cooperation mechanism [Transforming Eastern South Asia: Relevance of BIMSTEC].

Total GDP of BIMSTEC countries………….

Bangladesh

GDP at current market price 30,110,646 (million Taka)

India

Trade in BIMSTEC Countries

OBJECTIVES:

1. To see the evidence of growth on agricultural trade among the region.
2. To examine the effects of particular NTMs on agricultural trade among BIMSTEC member countries
3. To understand the patterns of sub-regional trade vis-à-vis Bangladesh;
4. To give an analytical overview of SPS-TBT structure in Bangladesh in terms of infrastructure and institutional capacities, legislative and regulatory framework, outreach.

LITERATURE REVIEW

Agricultural Trade in BIMSTEC Member Countries

South Asia is regarded as the most food insecure region in the world where about an estimated 323 million people live on less than USD 1.90 a day and 280 million people remain undernourished (Rahman et al., 2017).

NTMs

NTMs are defined as policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both.

As a result, NTMs cover a broad range of policies including traditional trade policy instruments, such as quotas or price controls.

However, they also comprise technical regulatory measures that pursue important non-trade objectives that relate to health and environmental protection, such as Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT). NTMs matter for exporters (and importers) because the ability to gain and to benefit from market access depends increasingly on compliance with trade regulatory measures such as sanitary requirements and goods standards.

[https://unctad.org/topic/trade-analysis/non-tariff-measures/NTMs-Introduction]

According to the definition proposed by UNCTAD (2012), NTMs are policy measures, other than ordinary customs tariffs, that may have economic effects on international trade of goods, changing traded quantities and/or prices. NTMs may also have a corrective role, by reducing asymmetric information (Technical Barriers to Trade, TBTs), mitigating risks in consumption, improving the sustainability of eco-systems (Sanitary and Phytosanitary Standards, SPSs), and influencing the competition and the decision to import or export (non-technical NTMs).

Due to the proliferation of various non-tariff rules and regulations affecting international trade, trade policy is becoming increasingly complex and multifaceted. Understanding the uses and implications of these trade policy instruments is essential for the formulation and implementation of effective development strategies. This is particularly important for developing countries, as their market access depends to a great extent on compliance with trade regulatory measures that are beyond the scope of traditional tariffs and existing preferential schemes. Restrictive and distortionary effects of non-tariff measures may be systematically biased, although in many cases unintentionally, against developing countries and more so against low-income and least developed countries. Non-tariff measures are also becoming a key topic of negotiations not only in North-South, but also in South-South contexts. Therefore, it is crucial for developing countries to be fully aware of the effects of non-tariff measures, in regard to both market access and import competition. Unfortunately, the impacts of non-tariff measures on international trade, or more generally on social welfare, are not always well understood. In fact, the analysis related to nontariff measures has not kept pace with their increasing complexity, resulting in a knowledge gap [<https://unctad.org/system/files/official-document/ditctab20121_en.pdf>].

Although the regional economic integration within the Bay of Bengal region has bright promises, considerable hurdles still remain. Infrastructure, trade rules, logistical systems, and institutional gaps continue to limit trade to a fraction of its potential [<https://www.facebook.com/selim.raihan>].

NTMs were started with non-trade objectives like protecting health and environment and looking beyond the objectives of NTBs which were only for trade restricting purposes. But in South Asia, the case is found different. Here, NTMs have turned into NTBs. It was found that post-SAFTA; member countries have not successfully reaped the benefits of trade due to emerging hidden trade barriers. Almost all the trading partners have witnessed trade barriers within the SAARC region. Exporting countries of South Asia are unable to meet the technical requirements of standards due to poor infrastructure, defective accreditation boards and testing and laboratory at the land custom check points, etc., Nepal and Bhutan have remained landlocked for long period of time due to no transit route for investment opportunities with the neighbouring countries. Removing NTMs from agriculture in South Asia is difficult because a large population is dependent on agriculture for employment. Lack of NTMs awareness is one of the major reasons behind trade restrictions. Thus, each country must be aware of different trade procedures and regulations of one another. Trading partners must aim to revamp the policies and regulations, identify, evaluate and eliminate NTMs for rapid growth. Sensitive products should be identified and extensively promoted for fast intra-regional trade in South Asia. Regional cooperation may be an important tool to bring productive endeavours and new dimensions. Mukherji (2015) suggested that countries like India, Pakistan and Afghanistan must try to seize the emerging trade opportunities through removing NTMs and ensuring that NTMs are used in a transparent manner otherwise NTMs may turn into a NTB. Based on our own findings and also by other authors cited above, the focus should be given to reduce NTMs, increase product competitiveness and diversification. Connectivity, collaborations, international standards and trade agreements must be developed to achieve high trade benefits within South Asia. To conclude, it was pointed out that although SAARC members had agreed to follow SAFTA but when it came to investing NTMs in agri-trade, results gave a different picture. It is noteworthy to mention that the major objectives and commitments of SAFTA are yet to be achieved and import penetration within the members of South Asia is low. This article provides a concerted effort to show that agri-trade between India and selected SAARC trading partners are poorly disseminated with low shares. Trade barriers are present within South Asia in spite of trade potential present in many agro-products between India and rest SAEs (see Table 7). RTB index confirmed that low exports were present due to existing trade barriers (as evident from Tables 5 and 6). This was also supported by Tables 3 and 4. Study proves that post-SAFTA, NTMs have emerged as a key challenge and substantially reduced intra-regional agri-trade in South Asia. Trade of wheat between India and SAARC countries was severely affected during 2002–2012. Export ban was one of the major reasons that India had put in 2007. Kumar and Bharti 17 Trade potential as well as RTB value for wheat between both the trading partners was also nil during the same period. NTMs are also extensively used by rest SAARC countries to restrict India’s agri-trade (see Figure 1). On the other side, it was also revealed that India too restricted agro-products of trading partners like Nepal and Pakistan (see Figures 2 and 3). CR of Sri Lanka as exporting country to India was found in very few products (see Figure 4). Thus, in spite of recent trade liberalisation, high levels of protection and export pessimism is found in agri-trade in South Asia and, therefore, further reduction is required in trade barriers. This study has implications for policy architect and agricultural exporters of South Asia as it suggests ensuring transparency in NTMs in agriculture sector. Finally, a proper trade facilitation may also be framed for each South Asian country to reduce present trade impediments through simplifying, harmonizing and standardizing trade procedures. Pro-active initiatives by each country can bring more regional integration and future conformity amongst each other. This study provides a future scope for quantifying NTMs in South Asia in other sector by exploring repercussions with other methods [1].

The study concentrates on measures relating to sanitary and phytosanitary standards (SPS) and technical barriers to trade (TBT), because these account for a majority of the nontariff barriers in South Asia. In South Asia, much of the concern centers around SPS and TBT measures. According to one study, SPS and TBT measures account for 85 percent of all nontariff barriers in South Asia (ADB and UNCTAD 2008). , the study is more narrowly focused on two major import-related NTMs, that is, SPS and TBT measures, that have been an important concern in regional trade [2].

SPS measures have six categories of TRs and one category of CAMs. TRs include prohibitions or restrictions on imports for SPS reasons; tolerance limits for residues and restricted use of substances to ensure food safety; hygiene requirements; treatment to eliminate pests and disease-causing organisms; other requirements on production or postproduction processes; and requirements for packaging, marking, and labeling [2].

TBT measures include TRs related to the prohibition or restriction of imports for TBT reasons; tolerance limits for substances; production or postproduction requirements; product identity requirements; product quality or performance requirements; and requirements for labeling, packaging, and marking [2].

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Literature Review

**Trade protection and the role of non‑tariff barriers [3]**

A growing share of modern trade policy instruments is shaped by non-tariff barriers (NTBs).

Different types of NTBs affect trade to a different extent.

According to Niu et al. (2017), even though tariffs have generally fallen between 1997 and 2015, the

increase in the use of NTBs has meant that the overall level of protection for countries and products has not decreased. Hoekman and Nicita (2011) find that on average trade decreases more strongly if NTBs are implemented rather than tariffs.

With regard to the studies examining the effects of specific types of NTBs, a large strand of literature investigates the effects of TBT as well as SPS on trade. Crivelli and Gröschl (2016) use a gravity model in order to investigate the intensive as well as extensive margin effects of SPS on agricultural and food trade. They find that SPS reduce the probability of exporting to a protected market but increase exports of incumbents, indicating that they serve as a barrier to market entry.

Ghodsi et al. (2017) study different types of NTBs. Covering the period from 1995 to 2014, the authors estimate average trade reducing effects that vary between 5 and 30% depending on the type of NTB. They conclude that the trade reducing effects of NTBs can be similar to those of traditional **TDI**s. However, 82% of NTBs investigated are SPS or TBT measures.

The authors find that border controls (defined as non-tariff and tariff measures) reduce trade by about 8% [3].

Our empirical analysis provides evidence that NTBs significantly decrease the level of trade. For the period from 2010 to 2015, our baseline results show that NTBs implemented by a country reduce imports of affected products from targeted exporters by 4–12%, depending on the estimation method used. This effect is partly offset by FTAs between the imposing country and the exporter. Overall, the paper illustrates the importance of exploiting new data on NTBs to reveal the significant protectionist impact of non-standard trade policies, which can however be mitigated through FTAs [3].

**Transforming Eastern South Asia: Relevance of BIMSTEC [4].**

**The Effects of Non-tariff Measures on Agri-food Trade: A Review and Meta-analysis of Empirical Evidence [5].**

The empirical literature provides contrasting and heterogeneous evidence, with some studies supporting the ‘standards as catalysts’ view, and others favouring the ‘standards as barriers’ explanation. To the extent that NTMs can influence trade, understanding the prevailing effect, and the motivations behind one effect or the

other, is a pressing issue. Overall, we found that the effects of NTMs vary across types of NTM, proxies used for NTMs, and levels of detail of studies.

Trade Effect of Non-tariff Measures:

For exporters, a NTM implemented in the destination country implies higher costs of compliance and a higher import price. If the difference between import price pre- and post-NTM is greater (smaller) than the difference between domestic price pre- and post-NTM, domestic producers face smaller (greater) implementation

costs and obtain greater (lower) profits than foreign producers. The NTM acts as barrier (catalyst) for trade if it reduces (increases) domestic imports (Swinnen, 2017).

Methodology

*Xijkt* = *exp*[*\_*1*NTBijkt*−1 + *\_*2*TDIijkt*−1 + *\_ln*(1 + *tijkt*−1) + *\_ikt* + *\_jkt* + *\_ijk* + *\_ijt*]*\_ijkt* ,

Structure

|  | Introduction |
| --- | --- |
|  | Background |
|  | Rational |
|  | Objectives |
|  |  |

Rationale for choosing Agricultural product

1. Global statistics

2. Though RMG is huge export item, but very few NTMs are observed with this item.

3. Agricultural product relates to SPS and TBT

4.

<https://iimk.ac.in/research/wmc2021/>

<http://eiitf.iift.ac.in/eiitf7N/eiitf.asp?menunav=3>

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