

# South Asian Free Trade Area (SAFTA)

The South Asian Free Trade Area (SAFTA) is a free trade agreement reached between the members of the South Asian Association of Regional Cooperation (SAARC) on January 6, 2004.

South Asian Free Trade Area is an important topic in the International Relations segment of the UPSC Mains Exam.

## Overview of SAFTA

The South Asian Free Trade Area was signed in 2004 and came in to effect on January 1st 2006. The members of SAARC signed the agreement in order to promote and sustain mutual trade and economic cooperation within the region.

SAFTA required the developing countries in South Asia (India, Pakistan and Sri Lanka) to bring their duties down to 20 per cent in the first phase of the two-year period ending in 2007.

While the least developing countries (LDC) consisting of Nepal, Bhutan, Bangladesh, Afghanistan and the Maldives had an additional three years to reduce tariffs

The basic principles regarding SAFTA are as follows:

1. Reciprocity and mutuality of advantages in order to benefit equally by considering the level of economic trade, industrial development and trade and tariff systems
2. Negotiation of tariff reform which will be implemented in successive stages through periodic reviews.
3. Recognition of the special needs of the Least Developed countries and agreement on concrete preferential measures in their favour
4. Inclusion of all products, manufactures and commodities in their raw forms

The purpose of the SAFTA is to encourage and elevate common contract among countries such as medium and long-term contracts. Contracts involving trade operated by states, supply and import assurance in respect of specific products etc.

## The objective of the South Asian Free Trade Area

The primary objective of the agreement is to promote competition in the region while providing proper benefits to the countries involved. The agreement will benefit the people of South Asia by

bringing transparency and integrity among the nations by reducing tariff and trade barriers. Ultimately it establishes a robust framework for regional cooperation

The instruments to help fulfil these objectives are as follows:

1. Trade Liberalisation Programme
2. Rules of origin
3. Institutional Arrangements
4. Consultations and Dispute Settlement Procedures
5. Safeguard Measures
6. Any other instrument that may be agreed upon.

To stay updated about events of national and international importance visit the Current Affairs page.

## Benefits and Concerns regarding SAFTA

The South Asian Free Trade Area agreement could boost foreign investment in SAARC Nations provided such investments don't harm the domestic industries of member-nations.

The World Bank in its reports has shown that nations who have been involved in Free Trade Agreements have had higher instances of economic growth compared to countries that were not.

The European Union trade bloc, for instance, led to the formation of the single European market and substantial restructuring of industry on a pan-European basis. The EU also enabled member-countries to exploit economies of scale, scope and specialisation.

The underlying concern is that certain items can be rerouted through the nations involved in SAFTA. One example is the Palm Oil trade in which India had restricted its import from Malaysia. But Malaysia's had apparently circumvented this loophole by rerouting their trade through other member nations of SAARC.

\