

**Seminar on the ADB-UNCTAD STUDY ON REGIONAL COOPERATION IN SOUTH ASIA: BENEFITS FROM SAFTA AND THE WAY AHEAD**  
**Organized by the Institute of Policy Studies of Sri Lanka (IPS)**

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**by Nihal Rodrigo** (former Foreign Secretary and Ambassador and former Secretary General of SAARC)

I value the opportunity to be present here today to speak a few words at this Seminar on the ADB-UNCTAD Study on Regional Cooperation in South Asia: Benefits from the South Asian Free Trade Agreement (SAFTA) and the Way Ahead.

Not being myself an economist by profession, I look forward to an in-depth analysis of the Study by the eminent participants gathered here. I am particularly hopeful for a placement and projection of SAFTA in the deeper perspective of South Asia's economic and indeed human development. SAFTA needs to be related to this larger context. It was bearing in mind the asymmetries in development within South Asia, and recognising the need to determine realistic and achievable phased goals and targets, that the 10<sup>th</sup> SAARC Summit, in Colombo, in 1998, set up a Committee to consider and draft a comprehensive treaty regime for a South Asian free trade area.

The preamble to the South Asian Free Trade Agreement eventually signed in Islamabad, on 6<sup>th</sup> January 2004, speaks of the agreement being "motivated by the commitment to strengthen intra-SAARC economic cooperation to maximise the realisation of the region's potential for trade and development for the benefit of their people, in a spirit of mutual accommodation". SAFTA has also been cast as the natural heir to the SAARC Preferential Trading Arrangement (SAPTA) signed about a decade earlier. It is to be acting as a "stimulus to the strengthening of national and SAARC resilience and the development of the national economies by expanding investment and production opportunities, trade, foreign exchange earnings as well as the development of economic and technical cooperation".

Beyond that, a SAARC-authorized study by the Group of Eminent Persons projected SAFTA as a staging post on the highway to a customs union, a common currency, and finally, to a South Asian Economic Union as the eventual destination.

I should now shift gear, realistically, down to the speed of the current regional progress of SAFTA. Benefiting by the ADB-UNCTAD study, we should frankly assess where we now stand, and as importantly, realistically engage what obstacles we collectively face in a steady progression towards effectively implementing SAFTA. I am glad that all stakeholders, including the corporate sector, academics, civil society, diplomats and the media are involved at this event today. As you have said, Mr. Chairman, the results of this close encounter of the economic kind should be passed on to the Sri Lanka Government which is working on the broad people-based themes of the Colombo Summit.

The Study seeks, first, to assess whether trade affected areas are currently “under stress or boom in the region as a whole”. The statistics relating to intra-regional trade in South Asia are not very encouraging. Last week, the Indian Minister of Agriculture, the Hon. Sharad Pawar observed that “as regards regional trade, South Asia is the least integrated when measured as a share of GDP”. Intra-regional trade in South Asia is 0.8 per cent of GDP in contrast to East Asia’s nearly 27 per cent. Intra-SAARC trade, which has been calculated to be around US\$ 20 billion, is about 5 per cent of the region’s total trade. The Minister also commented that bilateral trade is significant and rising in the smaller SAARC countries like Sri Lanka, which has bilateral Free Trade Agreements with both India and Pakistan, but that SAFTA should be strengthened.

The Minister related progress in SAFTA to the broader context of development, and particularly, considering his portfolio, to the state of agriculture. He observed that about 60 per cent of South Asian people are still dependent on agriculture which was a sector slow in improvement due to inadequate investment and rural infrastructure, limited research and development and insufficient diversification to high-value crops. He also said that the real challenges in the way of agriculture becoming an instrument of development, lie outside agriculture. These challenges, he said, are “managing the political economy of agricultural policies and strengthening the governance for implementation of these policies.”

What was said about agriculture holds true for the efficacy and implementation of SAFTA as well. Political factors have also been an impediment to greater intra-regional trade. Non-tariff barriers, for example, have been erected on what seem like political considerations. Happily now, political factors are being addressed and this could impact favourably in time on SAPTA.

Speaking at the 3<sup>rd</sup> Session of the SAFTA Ministerial Council earlier this month in New Delhi, the Nepali Finance Minister Dr. Ram Sharan Mahat emphasised the need to establish parameters to review the products on the sensitive list. A large number of the export items of the Least Developed Countries are included in the sensitive list of the non-LDC members. Here too, factors extraneous to the strict ambit of SAFTA could be operative.

The Ministerial Council has mandated the SAFTA Committee of Experts to meet in June 2008 to review the trade liberalisation programme and to formulate modalities for the reduction of the sensitive lists.

The good news is that at the same meeting, the Indian Minister of Commerce and Industry, the Hon. Kamal Nath officially confirmed that India had unilaterally decided to reduce its negative list items from 744 to around 500 in respect of the LDCs.

The Ministerial Council has also mandated the Research and Information System for Developing Countries (RIS) to work on a draft framework Agreement on trade in services under the SAFTA.

The ADB-UNCTAD Study is, secondly, to focus on whether significant economic impacts are likely to be linked to trade matters. The process is a two-way street. Increased trade will have a significant impact on overall economic development including on aspects such as poverty alleviation which is a high priority for all SAARC states. Conversely, investment flows, higher

productivity, spread of infrastructure, development of the services sector including tourism and ICT, technological advances and so on would impact favourably on trade. However, the flow, volume and direction of the trade so engendered would not be necessarily towards the SAFTA zone.

In Sri Lanka's case, despite current security concerns, the economy has maintained growth. While seeking to benefit from SAFTA and indeed contributing to its development, Sri Lanka has also signed bilateral Free Trade Agreements, respectively, with India and Pakistan despite the economic disparities and asymmetries in scale that both countries have in respect of Sri Lanka.

Asymmetry between South Asian states is a fact to be acknowledged, but not a reality to be feared. Sri Lanka President H.E. Mahinda Rajapaksa, at the last SAARC Summit in New Delhi, described South Asia as "a region of contrasts... with significant disparities in Gross Domestic Product, income levels, national resources and population". Indian Prime Minister H.E. Manmohan Singh on the occasion proclaimed his country's willingness "to accept asymmetrical responsibility". In terms of the service sector, India's aviation policy has provided SriLankan Airlines, the national carrier, the largest network of air-links into India of any airline. This presents a practical example of "asymmetrical responsibility", apart from the connectivity it fosters in areas such as tourism, cargo facilities boosting trade, people-to-people contacts, corporate linkages and so on.

The next SAARC Summit will take place in Colombo in August this year. The broad themes are under consideration. Ensuring practical, constructive connectivity will surely be a major focus, including securing broader results from SAFTA for all member-states.

Asymmetries within South Asia are extensive. Permit me, in conclusion, to repeat an observation I made at the International Conference on Greater Connectivity in SAARC, held in New Delhi in January. It links the economic development theme with those of asymmetry and connectivity.

It deals with what is perhaps the most challenging aspect of connectivity – one which has escaped millions of people in our region. In the way ahead, this is the deeper connectivity that still needs to be closer established between millions of South Asia's powerless poor and the current economic processes that have undeniably brought progress as well. This reflects the discrepancy evident within SAARC societies between progressive prosperity and desperate deprivation. Sri Lanka President H.E. Mahinda Rajapaksa spoke at the last SAARC Summit of the rural poor, noting that "for most people in the region, life is far from satisfactory". The gap is large between rapid economic development, as expressed in impressive growth statistics on the one hand, and on the other, slow, even stagnant areas of human development. The challenge is an old one – to engage the millions of South Asians to whom the benefits of growth do not percolate. In Sri Lanka, despite our having the highest rating in South Asia on the UN Human Development Index, efforts are being made, to ensure better balanced development in all areas of the country.