

**Remarks by the High Commissioner of India Mr. Alok Prasad, to the 1st
South Asia Economic Summit “Economic Integration in South Asia :
SAFTA and Beyond” at BMICH, Colombo,
on 29th August 2008**

Dr. Saman Kelegama, my good friend Naoko Ishii, distinguished participants.

2. Thank you very much for your invitation to speak at this pioneering conference. I would like to congratulate IPS Colombo, and all the participating institutions for this important and timely initiative. Come as it does two weeks after the festivities of the 15th SAARC Summit, one is tempted to say that after the party it is now time for the hangover!

3. Many of the papers prepared for this conference bring out that South Asia is one of the least integrated regions in the world. We do not trade enough with each other or invest in each others countries. We generally travel outside the region rather than within it. Even our knowledge of each others societies is often simplistic and rudimentary. I am happy to say that between India and Sri Lanka we are probably doing better than what might be called the “regional average”. But even there we have a long way to go. Your inputs and suggestions in moving the process of economic integration forward would therefore be very welcome and valuable.

4. While recognizing these realities, however it is also not necessary to be unduly despondent or harsh with ourselves. The fact remains that we cannot really move economic integration very much faster than we are willing and able to remove structural rigidities in our domestic economies. That perhaps still remains the primary challenge for most South Asian countries. Unless for example, we have efficient road or rail networks domestically how do we expect to do it regionally? If our national customs administrations remain antiquated, how do we move into trade facilitation at the regional level.

5. To give you one example there has been a long standing demand from Sri Lankan exporters, to lift port entry restrictions in India, on export of Sri Lankan tea. Now the fact is that, in India there was simply no mechanism to monitor imports of tea across the country. Now that the Customs in India have been computerized, with electronic filing of documents and various ports have been linked electronically, it has become possible to agree to this request.

6. In fact we are now preparing to go much further. Since there will now be multiple points of entry for tea consignments, we have started negotiating a Mutual Recognition Agreement (MRA) on Standards and Quality of Tea, so that only pre-shipment inspection and certification would suffice. All this while highly desirable, would simply not be possible if the necessary infrastructure and modernization was not in place.

7. In short, regional co-operation and economic integration cannot be viewed as something independent of domestic economies. It will come about as a result of the removal of some of these inadequacies and can also be a tool to address some of these issues, and provide added incentive for such action.

8. I think it is also true to say that we are making progress, albeit slowly. At the 15th Summit there was a growing sense that SAARC is finally moving from the declaratory stage to one of implementation of various projects.

9. The SAARC Development Fund has come into existence and has begun work on two maternal and child healthcare projects. SAARC model villages have now been set up in each of the member countries to showcase regional best practices. Navalpittya in Sri Lanka was the latest such model village launched during the summit. Air links within the region are improving. Sri Lanka is an important example, with more than 100 connections a week between Colombo and different destinations in India. We expect early finalization of the agreements on motor vehicles to allow for seamless movement. SAFTA however limited has come into effect. Some of the projects identified under the multi-modal transport study are being implemented. India is implementing tele medicine, tele education, water harvesting and solar energy projects in each of the member countries. In Sri Lanka for example there is an ongoing tele education project in Colombo, a tele medicine project in Peredeniya a seed testing laboratory in Kandy and a water harvesting project in Katunayake.

Friends,

10. The vision of SAARC leaders for an inter connected region has always included not only physical connectivity, but connectivity also in people to people contacts and the flow of knowledge and ideas. The popularity of recently introduced SAARC youth camps and SAARC cultural festivals is a case in this point. Another major step will be setting up of the South Asian University in New Delhi. Land for the University has been allotted and a project office set up. The University is expected to become functional from 2010.

11. Also in the non-economic field, the signing of the SAARC Convention on Mutual Assistance on Criminal Matters was a major step forward during the Colombo Summit.

12. As I was glancing through some of the papers prepared for this conference I came across an important point that has been raised for discussion, namely that given the asymmetric composition of the region, whether regional or bilateral approaches would be more effective in bringing about greater economic integration. Frankly we do not have the luxury of choice, action at all levels, regional sub-regional and bilateral is necessary. As far as India is concerned, we understand our responsibility of being the largest country in the region and will act accordingly.

13. Our vision as articulated by Prime Minister Manmohan Singh at the Colombo Summit is one of inclusive and sustainable growth throughout the region. We strongly believe that the prosperity of the region is indivisible, and that our neighbours can and should derive real benefits from India's growth, and India in turn will be benefited from a stable and prosperous neighbourhood. To this end we have been and will remain ready to act asymmetrically – I can mention our unilateral decision to grant zero duty access to LDC member countries of SAARC from 1 January 2008.

14. The India-Sri Lanka Free Trade Agreement is another example of a highly successful asymmetric agreement, and I would like to elaborate this briefly.

15. Since the FTA came into operation :

- (i) The overall trade turnover has grown five times and crossed USD 3 billion in 2007.
- (ii) India has emerged as the largest trade partner of Sri Lanka. Sri Lanka has also emerged as India's largest trade partner in South Asia, displacing Bangladesh from that position a few years ago.
- (iii) India was the largest exporter to Sri Lanka even before the FTA. But India became the third largest export destination for Sri Lankan products (rising from 16th rank) as a result of FTA.
- (iv) If we look at trade under FTA between India and Sri Lanka alone, that is only in areas where concessions have been granted, the figures emerge as fairly balanced, with Sri Lankan exports at about USD 460 million and Indian exports at USD 600 million.

- (v) More interestingly, let us look at what would have happened in the absence of an FTA. Non-FTA exports from Sri Lanka to India are at about US\$ 50 million, the same as it was in 2000, when the FTA came into force. Non-FTA exports from India to Sri Lanka are substantial, standing at about US \$ 2 billion, up from about US\$ 500 million in 2000. This would seem to imply that without the FTA, Sri Lankan exports to India would have remained stagnant while Indian exports, which are largely on the non-FTA route, would have grown four times from the year 2000 level. The differential could have been 1:40 rather 1:4.5 which it is today.
- (vi) Overall Sri Lankan exports to India have grown 10 times since 2000 while Indian exports, mostly on the non-FTA route, have grown 5 times.
- (vii) Sri Lankan exports to India have largely been of new products where Sri Lanka did not traditionally have capacities. Therefore, FTA has created new export capacities in Sri Lanka that hitherto did not exist.

16. All these desirable outcomes have happened not by accident but by design, as asymmetry was built into the structure of the FTA. The same approach has been followed by India in the negotiations regarding CEPA.

17. CEPA incorporates the same principles of asymmetry of commitments, of moving at a pace that Sri Lanka is comfortable with, and in areas which clearly are of benefit to Sri Lanka. As in the case of the FTA, India is willing to accept much deeper cuts and in much larger number of areas than Sri Lanka is expected to. We have no doubt that CEPA will bring even greater benefits to Sri Lanka, which is comparatively far more competitive in services.

18. Beyond trade, let us also look at some other sectors, where a very natural process of economic integration has been taking place. I have already spoken of aviation links. In tourism, India is now by far the largest source of tourists into Sri Lanka, numbering over 1,20,000 visitors annually, as compared to the next highest of around 55,000. The two tourist boards are discussing ways to link certain tourist destinations so that a Japanese visitor to Bodh Gaya, for example, could seamlessly visit Anuradhapura

or Kandy as part of the same package. We could then think joint promotions in third countries.

19. If we look at ports, some 70% of the cargo handled at Colombo port is comprised of transshipment cargo in and out of India. We are now discussing how to extend this link to areas like ship repair and dockyard facilities at Colombo.

20. My short point is, that like in many regions of the world, a very natural process of economic integration is taking place which we need to facilitate and encourage. So let us by all means be impatient and let us demand more action, but let us also not completely ignore all that has been happening on the ground. In that respect I hope the Sri Lanka-India relationship will prove to be something of a model, for SAARC as a whole.

I Thank you.