

**Welcome and Introductory Address by Dr. Saman Kelegama, Executive Director, Institute of Policy Studies of Sri Lanka (IPS), at the Book Launch – “Promoting Economic Cooperation in South Asia: Beyond SAFTA”, Galadhari Hotel, 01 March 2009**

On behalf of the IPS, I welcome all of you to this book launch. This is the third book on South Asian issues that we are launching today. Last year we launched a book on ‘Trade in Services in South Asia’ and in 2007 we released a book on WTO issues relevant to South Asia. For the production of this book titled: ‘Promoting Economic Cooperation: Beyond SAFTA’ we had the support of the World Bank, UNDP-RCC, and the ADB and it is in that context we have made this a joint event among these institutions .

This book is a product of selected papers that were presented at the 1<sup>st</sup> South Asia Economic Summit held in Colombo during August 2008, which was organized jointly by the IPS and the Federation of Chambers of Commerce and Industry of Sri Lanka. The 1<sup>st</sup> South Asian Economic Summit brought together leading economists of South Asia, policy makers, and private sector leaders to discuss the key issues relevant for economic integration in South Asia. This summit was sponsored by many international and regional intuitions that included the World Bank, UNDP-RCC, and the ADB. It was decided that a publication should be brought out for wider dissemination of some of the ideas that came out of the 1<sup>st</sup> South Asia Economic Summit and this task was undertaken by the IPS and the World Bank with the support of the ADB and UNDP-RCC.

South Asia has emerged as one of the fastest growing regions with an average growth rate of 7 per cent over the past five years. Yet, the region continues to be the home for over 40 per cent of the world’s poor and fares poorly in terms of different indicators of human development, such as education, health, nutrition, and sanitation. This is worrying and the danger is that the current downside risks posed by the slow recovery of the external environment could slow down the South Asian growth and further aggravate poverty and human development. The book argues that South Asia can face this challenge much more effectively with deeper regional economic integration.

The dichotomy of high growth and high poverty in South Asia has two faces: one is highly urbanized and well-linked to global markets, and the other is rural, isolated from the global economy, and growing very slowly. The large bulk of South Asia’s poor live in the latter environment. The book shows that in addition to policy and institutional reforms aimed at removing domestic constraints to growth and job creation, regional market integration ought to be a key element of a strategy for removing the dichotomy and eliminating poverty in the longer term.

The book shows that South Asia is one of the least integrated regions in the world. Intra-SAARC trade still hovers around 5 per cent compared to 25 per cent of intra-regional trade in ASEAN, 54 per cent in EU, and 59 per cent in NAFTA. Moreover, the South Asian intra-regional trade is less than 1 per cent of South Asia's GDP compared to 20 per cent in ASEAN. The existing pattern of intra-regional trade in South Asia fails to capture the extent of complementarities in the region due to the high incidence of non-tariff barriers (NTBs) and informal trade. The book argues that three-fourth of intra-regional trade potential remains to be exploited, which SAFTA can hope to realize.

Of course, to reap similar benefits like ASEAN, South Asian countries should remove NTBs and reduce the 'negative list'. Thus, there is an urgent need for extending the coverage of SAFTA to "substantially all trade" in the region as per the WTO requirements. In this context, the incorporation of trade in services to the SAFTA agenda in 2008 was a positive step.

The book goes beyond SAFTA. For SAFTA to be meaningful it is important to have many supporting policies in place. In this context, the book highlights the importance of developing supply capacities of LDCs, improving trade facilitation measures, promoting transport connectivity, promoting people-to-people contact, etc.

By assisting to create supply capacities in the lesser developed countries, regional economic integration can provide new opportunities for trade creation and fostering equitable development. Under the SAARC Development Fund (SDF) the "Infrastructure Window" was specifically created for funding the supply capacity of LDCs. The SAARC "Observer Status" members can make a valuable contribution to strengthen the SDF and thereby assist the LDCs for more effective integration in the region.

The South Asian region has still not exploited the potential for intra-regional FDI inflows, especially with Indian companies undertaking relatively large investments in different parts of the world. Intra-regional investment is tapped with the help of ASEAN FTA and the ASEAN Investment Area in the ASEAN region, and South Asia should seriously look at this model to exploit the investment-trade nexus in the region. The book also shows that unlike East Asian countries, South Asian countries have been slow in upgrading their export profile in favour of knowledge-intensive and high value added goods that are fast moving. The production structure in South Asia is still dominated by labour-intensive, highly price-sensitive, and low value adding goods such as textiles, garments, leather goods, and primary products. The book argues the case for regional cooperation through intra-industry specialization and vertical integration that has the potential in strengthening the competitiveness in the region.

The book shows that Trade Facilitation measures could be equally effective, if not more than tariff preferences in moving trade in the region. The book shows that for many of US trade partners the transport cost barriers outweighed the trade barriers. Countries in South Asia experience high trade costs due to inadequacy in transport facilitation. South Asian trade is constrained by poor infrastructure, congestion, high costs, and lengthy delays. These problems are particularly severe at border crossings, many of which post significant barriers to trade. Thus, improving connectivity to facilitate trade and investment flows in the region is important.

Sri Lanka after assuming the SAARC Chair in August 2008 hosted important SAARC Inter-Ministerial Meetings: on transport, energy, etc. The SAARC Transport Ministers have identified to build and strengthen intra-regional connectivity. The Inter-Governmental Expert Group on Transport has draft agreements on motor vehicles and railways. They have identified project deliverables at national, bilateral, and regional levels. These include specific projects on development of roads, railways, and waterways infrastructure along the agreed corridors cutting across South Asia.

While Sri Lanka will be relinquishing its Chairmanship of SAARC on 28<sup>th</sup> April 2010, the in-coming Chair of Bhutan will have to carry on with the agenda to strengthen SAFTA, for the region is at a crucial juncture as far as deepening trade integration is concerned.

For Sri Lanka, South Asia is increasingly becoming important as a trading partner. The largest import source for Sri Lanka is India and the third largest destination for Sri Lankan exports is also India. Sri Lanka already has Bilateral FTAs with both India and Pakistan and is in the process of strengthening its trade links with other South Asian countries. This is particularly important at a time when preferential access to EU market via GSP-Plus is in doubt. We should not forget that out of the regional population of 1.5 billion, 550 million of them belong to the middle class category which is a bigger consumer market than EU and NAFTA combined. The book argues that this market still remains unexploited and there are opportunities for 'win-win' cooperation.

Let me thank the World Bank, ADB, and the UNDP-RCC for the financial support that we received for compiling, editing and publishing this book. I would also like to thank my joint editors, Sadiq Ahmed and Ejaz Ghani for the collaboration in the editing exercise and Sage Publications for agreeing to publish the book. I hope the book will be a useful reference for researchers, scholars, and practitioners and will provide useful information for further strengthening economic cooperation in the region.