

# Daily News

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## Issues for Thimpu SAARC Summit 2010

The 16th SAARC Summit will take place in Thimpu, Bhutan on April 28 - 29. It will be preceded by the Foreign Ministers meeting on April 27, Standing Committee meeting during April 25 - 26, and Programming Committee meeting of Senior Officials on April 24. SAARC has now functioned for 25 years. What is its progress, what needs to be done, and where is it heading? The Daily News Business spoke to Institute of Policy Studies of Sri Lanka (IPS) Executive Director Dr. Saman Kelegama on the subject.



Dr. Saman  
Kelegama

**Q:** It is once again a SAARC Summit time. How do you see the 25 Year track record of SAARC?

**A:** To bring India and its six neighbours together under an Association called SAARC was an achievement. The neighbours always feared India's domination as it accounted for 80 percent of land area, population, GDP, of the region. This fear was strengthened by historical events too. On the other hand, India feared the neighbours ganging up against India under a regional arrangement. All these fears were put aside when SAARC was formed in 1985.

SAARC has certainly brought South Asian people to interact more than prior to its formation. Nihal Rodrigo, former Secretary General of SAARC, once told me that in 1999 - soon after the Indo-Pak nuclear explosions when the SAARC process came to a standstill - there took place around 360 meetings of various SAARC and South Asian related associations/forums, viz., cardiologists, architects, town planners, election commissioners, lawyers, and the like.

This clearly shows the desire among professionals to interact with one another and to be in close touch across borders. It is SAARC that triggered these interactions.

Having said that, I am afraid, the achievements on other areas such as economic integration, is far from satisfactory. South Asia remains the least integrated region in the world despite SAPTA/SAFTA and other initiatives - intraregional trade is a mere 5 percent of total official trade as compared to 25 percent in ASEAN. This is less than 1 percent of South Asia's GDP compared to 20 percent in ASEAN.

So overall, SAARC has a long way to go for people of the region to appreciate the benefits of regional integration like visa free travel as in the EU.

Q: End of this week, the 16th SAARC Summit will commence in Bhutan. What is in store for the Summit?

A: Every SAARC Summit has a theme. In the 14th SAARC Summit in Delhi in 2007 the theme was "Improving the Connectivity in the Region and Beyond," the 15th SAARC Summit in Colombo in 2008 had the theme; "Partnership for Our People."

The theme for the forthcoming 16th Summit will be "Conservation of Environment and Climate." I have seen some news items that interpret the theme as: "Towards a Green and Happy South Asia."

So climate change and environment will become a key topic of discussion.

Studies have shown that rising sea levels (due to melting polar ice caps) might submerge some islands in the Maldives and that Bangladesh will lose 20 percent of low-lying areas in the Bay of Bengal resulting in displacing 25 million people. The 16th Summit will finalize a SAARC declaration on Climate Change.

What is important in a SAARC Summit is not the Declaration related to the theme but follow-up work and the progress in specific areas related to economic cooperation. I am afraid, in these areas the progress is far from satisfactory.

Q: Sri Lanka held the SAARC Chair since August 2008. What were the major achievements?

A: SAARC had its usual meetings during the course of the year.

The third meeting of the SAARC Energy Ministers met in Colombo in January 2009, the 31st Session of the SAARC Council of Ministers took place in February 2009, the SAARC Cultural Centre was initiated in March 2009 and it will be located in Matara, three meetings took place in July 2009, viz., Third Meeting of the SAARC Working Group on Biotechnology, the Fourth Ministerial Conference on SAARC Children, the Second Meeting of SAARC Ministers of Transport, etc.

The actual outcomes of these meetings are difficult to measure. Suffice it to say that they have laid the foundation for further discussion and decision-making in the future.

Then there is the SAARC Ministerial Declaration on Cooperation in Combating Terrorism. SAARC



members have been afflicted by terrorism with loss of human life, destruction, and damage to property. Sri Lanka's success story in combating terrorism last year will be a good example to all other SAARC nations to make the declaration a reality.

Q: What are the reasons for the slow progress of the SAARC economic agenda?

A: First, the regional politics overwhelms to dilute economic issues in the SAARC agenda. The key political impediment is the Indo-Pakistani conflict. Since they are the largest members of SAARC their problems have ramifications on the SAARC work program.

Second, there are too many LDCs in SAARC. To be precise, there are five LDCs (Least Developed Countries), viz., Bangladesh, Bhutan, Nepal, Maldives and Afghanistan. The LDCs always demand special and differential treatment and when allowance is made for such treatment, the progress of various programs like SAFTA (South Asia Free Trade Agreement) gets slowed down.

Third, is the overload of 'soft issues' and 'housekeeping matters' in the agenda that dominate the SAARC deliberations. Consequently, core issues especially in trade and investment integration, gets undermined during the deliberations.

Q: What will be the key economic issues that will be discussed in the 16th SAARC Summit?

A: As mentioned, the environment and the economy will feature prominently as it is the theme of the Summit. In addition, they may sign the agreement on South Asia Trade in Services (SATIS).

The permanent Secretariat for the SAARC Development Fund (SDF) will be inaugurated in Thimpu. The fund will have US\$ 300 mn to start with and will expand over the years.

If SATIS comes through it will be good for expediting economic integration. Some argue that SAFTA should be fully operational with duty free movement of goods before services come into liberalization, but this argument is misplaced because services liberalization support trade in goods and in fact will further strengthen SAFTA to deliver more trade flows.

The SDF will have a new 'Infrastructure Window' in addition to the existing 'Social Window.' The former will play a role in developing the supply capacity of SAARC LDCs.

It is important to recall that there are seven 'observer status' members of the SAARC (China, Japan, South Korea, Iran, Mauritius, USA and EU). So far, these observer members have not played an active role in supporting SAARC. The SDF provides them an opportunity to make a generous financial contribution and thereby strengthening SAARC.

Another area is the SAARC Social Charter where the SAARC observer members can contribute. Technical support to implement and monitor the Social Charter can go a long way in SAARC nations fulfilling the MDG goals.

Q: What can the business community do to strengthen SAARC?

A: Non-tariff barriers (NTBs) are strong among SAARC countries. The business community via the SAARC Chamber of Commerce and Industry (SCCI) can play a major role in pressurizing member nations to remove these NTBs.

Trade facilitation measures are poor in SAARC. Selected trade facilitation measures with binding commitments and time frames should be brought into the SAFTA agenda and the business community can play a role here. It should be noted that some trade facilitation measures are more effective than preferential tariffs in moving trade.

It is time that investment liberalization with Investment Protection and Double Taxation Agreements came into the SAFTA agenda. Here again the SCCI can play a vital role.

Q: What are the prospects for trade and investment in the region?

A: I would say very good in the medium term. Studies show that only one-fourth of the trade potential of South Asia has been so far exploited due to non-tariff barriers and lack of intra-regional investment. South Asia is yet to exploit the strong nexus between trade and investment.

ASEAN countries, for instance, benefited from efficiency seeking industrial restructuring that took place in the region thereby contributing to vertical and horizontal integration of regional industries. They also contributed to developing supply chains. Literature shows that cross-border production sharing and intra-industry trade assist countries to more fully integrate into regional markets and also act as a catalyst for industrialization and growth. South Asia is in the early stages of such investment driven trade.

India is going to be a giant within the next 40 years. It already has FTAs with Singapore, Thailand and ASEAN. India-EU FTA will be a reality soon. India is the largest exporter of services in the world.

So basically, trading in South Asia boils down to trading with India and that is why Sri Lanka signed an FTA with India in 1998. Be that as it may, South Asian small countries will have good prospects of doing business with India.

It is a different art compared to doing business in EU or USA, but once you get used to doing business in India the opportunities keep expanding.

Q: Can you highlight some measures that SAARC should implement to increase trade and investment?

A: First, improve air connectivity. This can be done by SAARC nations offering the Freedom to South Asian airlines flying to destinations within South Asia.

Second, expand the issuance of SAARC visa to cover a larger group of businessmen to increase their movement within the region.

Third, sign mutual recognition agreements on standards to overcome the problem of non-tariff barriers.

Fourth, SAARC has become very bureaucratic during the last decade and consequently, the decision making process has slowed down. The time is ripe to prune out the unnecessary committees/working groups and strengthen the Secretariat and increase the power of the SAARC Secretary General to take forward the agenda with minimum bureaucratic obstacles.