



# Roundup on 16<sup>th</sup> SAARC Summit

Deepening Economic Integration:  
*Strengthening Role of Private Sector in Regional Initiatives*  
30<sup>th</sup> September, 2010- Colombo, Sri Lanka

In Collaboration with



In partnership with

Friedrich Naumann  
STIFTUNG FÜR DIE FREIHEIT

## Background

The South Asian Regional Association of Regional Cooperation (SAARC) was incepted in 1985 by Heads of States of seven primary members with a commitment to bring about revolutionary changes in the socio-economics of the 1/5th of the World population living in South Asian landscape.

To re-affirm their commitment to make SAARC more functional, the Heads of States in 16th SAARC Summit met at Thimphu, Bhutan on April 28-29, 2010 and adopted declaration, wherein the Leaders reiterated the importance of sustainably managing environment and development through adoption of eco-friendly approaches and technologies and stressed that South Asia should become a world leader in low- carbon technology and renewable energies. The host country and the new Chair of SAARC, Bhutan sought for the implementation of the decision made so far under SAARC. The Declaration also emphasized for increasing regional cooperation on trade and tourism, improving inter-connectivity, promoting people-to-people contacts and evolving joint strategy for resolving issues in the region.

The Heads of states signed two important agreements-Agreements on Convention on Cooperation on Environment and an Agreement on Trade in Services, which was the longstanding demand of the Private Sector of South Asian nations under the umbrella of SAARC CCI. The Summit also reiterated the importance of the Private Sector and recommended its inclusion in implementation process of decisions taken at SAARC level.

## Round up on 16th SAARC Summit

As a response to the 16th SAARC summit, the SAARC Chamber of Commerce & Industry (SAARC CCI) in collaboration with Federation of Chambers of Commerce & Industry of Sri Lanka (FCCISL) and partnership with the Friedrich-Naumann-Stiftung für die Freiheit organized a one-day Roundup on 16th SAARC Summit under the theme “ “Deepening Economic Integration: Strengthening Role of Private Sector in Regional Initiatives” on 30th September, 2010 in Colombo (Sri Lanka).

## Objectives of the Roundup

The major objectives of the Roundup were;

- To analytically review the economic decisions taken at 16th SAARC Summit
- To evaluate the performance of SAARC in general
- To quantify the benefits of inclusion of Services in SAFTA
- To suggest implementation strategy to make SAARC a success

Eminent Speakers (Academician, Government officials, and representatives of Private sector, Media, NGOs and CSOs) shared their views on important economic issues.



Mr. Rishad Bathuideen, Honable Minister for Commerce and Industry, Govt. of Sri Lanka and Mr. Annisul Huq, President, SAARC CCI, at Lamp lightening ceremony. Mr. Kosala Wikramnayake, President FCCISL, Mr. Abdul Wassay Haqiqi, Senior Advisor to the Ministry of Economy, Govt. of Afghanistan, Mr. Madhukar SJB Rana, Former Finance Minister, Nepal & Mr. Tissa Jayaweera, Snr Vice President, FCCISL is also seen in the picture.

## Inaugural Session

The inaugural session was commenced with the remarks of Secretary General, SAARC CCI who said that the SAARC as an organization was not a failure; rather, it was lack of political commitment of the member nations, which had made this organization bit sluggish as compared with other leading trade blocs of the World.

Mr. Kosala Wickramanayake, President FCCISL in his welcome remarks said that the Sri Lankan Government had persuaded a highly liberal policy and the country opened up its market in the late eighties and the country after signing bilateral trade agreements with India and Pakistan has already been involved in complimenting the efforts for regional integration of SAARC.



Mr. Annisul Huq, President, SAARC CCI while addressing the inaugural session.

Mr. Annisul Huq, in his keynote address stated that Lack of political commitment, protectionists policies, non-resolution of issues have been regarded as the main hurdles in the process of development of South Asia. He was of the opinion that this approach has negatively affecting the formation and functioning of SAARC allied organizations. He said that Normally it takes 2-3 years to develop consensus for constituting an organization under SAARC, it take another 2-3 years to become functional. It is more difficult to reach on consensus as far as endorsement and implementation of Regional Agreements. It normally takes five to eight years to ratify an agreement. These factors, altogether, have made SAARC a dormant region, which although, is blessed with 45% of young labour force, forms the

largest market of the World and has the potential for sustainable growth, still contributes 1.5% and 1.2% in global GDP and exports respectively. This meager contribution is not compatible to the potential available. We see whole region of SAARC quite unfortunate when we compare it with a small country like Singapore, which with only 4.9 million population exported products of worth \$ 268 billion in 2009 while the region of 1.5 billion of population- the SAARC could collectively export only \$ 238 billion in the same period. This tells the story- where we stand today.

Chief Guest, Hon'ble Rishad Bathiudeen, Minister of Industry & Commerce, Government of Sri Lanka in his inaugural session highlighted the salient features of trade and investment policy while regarding it as the most investment friendly states particularly after the end of war against rebellions. He said that the Tourism sector in the country was growing with a rapid pace and the GDP growth could be gauged from the growth of Stock Market of the country. He said that the Government of Sri Lanka attaches the greatest importance to



Chief Guest, Hon'ble Ishad Badiudeen, Minister of Industry & Commerce, Government of Sri Lanka while addressing inaugural session of the seminar.

SAARC and has been proactively involved in promotion of intra-regional trade and Investment.

Mr. Tissa Jayaweera, Snr. VP FCCISL & GA Member SAARC CCI offered vote of thanks to the chief guests and appreciated the role of SAARC CCI in highlighting the core issues under SAFTA with the effective support of FNSt.

## Session 1:

### Evaluating decisions and implementation- historical perspective of SAARC:

Chaired by Mr. Nihal Rodrigo, Former Foreign Secretary and Secretary General SAARC, the session evaluated the performance of SAARC CCI in respect of implementation of decision of the Heads of States.

During Lecture on “Critical evaluation of economic decisions of SAARC Summits” Mr. Madhuka SJB Rana, Former Finance Minister, Nepal endorsed the remarks of SAARC CCI President Mr. Annisul Huq, which were the basic elements for below par performance of SAARC. He urged upon the need for change in mindset at both political and bureaucratic level and demanded for empowering SAARC Secretariat

Dr. Saman Kalegama, Executive Director, IPS- Sri Lanka said that the role of all stakeholders should be recognized through their inclusion in policy-making process. He emphasized the need for strengthening the role of Private sector both at policy level and promotion of public-private sector partnership in infrastructure development, energy and other important sectors, which could integrate the South Asian region.

The session found that the comparison of SAARC with other leading trade blocs like NAFTA, EU, ASEAN and COMESA was irrelevant in view of the fact that the success of the above economic groupings was the dividend of the consist endeavours, which in case of EU was more than 50 years that emerged from Coal and Steel Council of Europe constituted in 1955. ASEAN was established in 1967 while COMESA and other regional blocs like GCC, AMU and NAFTA through were later development. However, one common factor,



(L-R) Prof. Rohan Samarajeewa, Executive Director, Regional Research Organization, Mr. Madhukar SJB Rana, Former Finance Minister, Nepal, Mr. Nihal Rodrigo, Former Foreign Secretary and Secretary General SAARC, Dr. Saman Kalegama, Executive Director, IPS- Sri Lanka, Mr. Abdur Rob Khan, Associate Professor, International Relations, North South University, Bangladesh and Mr. Mujeeb Ahmed Khan, Head WTO Wing, Trade Development Authority of Pakistan during first technical session “Evaluating decisions and implementation- historical perspective of SAARC” of the seminar.

identified as element of their success was political will for economic integration and burial of political differences for the larger interest of humanity.

## Session 2:

### Making SAFTA a success - Dealing with core issues and implementation strategy

The session was chaired by Dr. Thusitha Tennakoon, Secretary General, FCCI, SL. The session mainly discussed three core areas like problems in smooth functioning of SAFTA, issues in regional connectivity and evaluation of SAFTA after inclusion of services.

Dr. Nawal K Paswan, Asst. Professor, Centre for South Asian Studies, Jawaharlal Nehru University, New Delhi –India in his presentation ““Are Bilateral FTAs complementing SAFTA?”” said that the case of South Asia was a little different when compared with the bilateral FTAs signed by members nations of other regional groupings. He said that despite being a vast economic powerhouse in terms of its market potential, natural resources (e.g. Water in Nepal and Bhutan, Natural gas of Bangladesh and Pakistan, Mineral

resources of India etc.), qualified human resources, varieties of technical and professional institutions and steady growing size of middle class, South Asia as a whole has suffered because of highly fragmented development efforts, poor vision and costly political squabbles in the past.



(L-R) Dr. Saj Mendis, Director General, Ministry of Economic Development, Sri Lanka Dr. Nawal K Paswan, Asst. Professor, Centre for South Asian Studies, Jawaharlal Nehru University, New Delhi, Mr. Abdul Wassay Haqiqi, Senior Advisor to the Ministry of Economy, Govt of Afghanistan, Dr. Thusitha Tennakoon, Secretary General, FCCISL Bangladesh, Mr. H.M. Wijeratne, Acting Director, Dept. of Commerce, Sri Lanka

Mr. Abdur Rob Khan, Associate Professor, International Relations, North South University, Bangladesh in his presentation “Regional Connectivity in South Asia: Resource deficiency or Security concern said that because of high transportation costs which outweigh tariffs and inadequate infrastructure and lack of regional transit, the Intra-South Asian trade was estimated only \$11 billion in the year 2009-09 whereas the potential was \$40 billion. He emphasized for focused interest of the Governments in South on promoting physical connectivity through improvement of infrastructure which would lead towards resumption of linkage through rail, road, sea and air. He regarded people-to-people connectivity as one of the strangest elements of the regional integration.

Mr. Mujeeb Ahmed Khan, Head research and Policy analysis Wing, Trade Development Authority of Pakistan in his Presentation “Agreement on Trade in Services: How to derive economic benefits?” quantified that after the inclusion of Services in SAFTA, the potential of economic cooperation in identified sectors could reach to \$ 18 billion per annum provided the members nations take compatible measures to implement agreement of Trade and Services in true spirit. He urged upon the need for establishing a workable framework for liberalizing and promoting trade in services in accordance with Article V of the GATS, which provides real and effective market access to all contracting states in an equitable manner. He suggested for adoption of adoption of positive list approach with negotiations for specific commitments for progressive liberalization based on ‘request-and-offer’ approach.



(L-R) Mr. Mujeeb Ahmed Khan, Head WTO Wing, Trade Development Authority of Pakistan, Mr. Deshal DeMel, Research Officer, IPS - Sri Lanka Mr. Macky Hashim, Past President SAARC CCI, Mr. Tilak Collure, Secretary, Ministry of Industry & Commerce, Government of Sri Lanka, Mr. Kumar Mallimaratchi, Vice President, FCCISL, Mr. Shahrukh Malik, Snr. Executive Guard Group & Chairman SYEF (Pakistan) during last technical session “SAFTA: Want of implementation Strategy” of the seminar.

Mr. Rohan Samarajiva in his presentation on connectivity through telecommunication referred 15th SAARC Summit wherein the Heads of State or Government had observed that an effective and economical regional tele-communication regime is an essential factor of connectivity, encouraging the growth of people-centric partnerships. In this background he suggested regional telecom strategy to move towards a uniformly applicable low tariff, for international direct dial calls within the region. He proposed introduction of SAARC SIM card, which would help connect the people across the region.

Mr. Deshal de Mel, Institute of Policy Studies, Sri Lanka in his presentation "SAFTA: the way forward" argued that the South Asia was plagued by transaction costs, which influence the extent of informal trade and absence of Trade facilitation Mechanism had further made SAFTA a complex set of document . Further more SAFTA agreement had extensive list of TF measures without binding commitments.

<b>WORLD / SAARC trade in services (values in \$ thousand)</b>			
<b>SAARC export of Services to the world</b>			
	<b>2006</b>	<b>2007</b>	<b>2008</b>
Total SAARC	77,184,285	95,345,113	111,957,534
Bangladesh	1,333,830	1,616,840	1,930,440
Bhutan	51,717	60,221	52,579
India	69,730,096	86,965,296	102,648,184
Maldives	551,870	649,090	704,000
Nepal	385,700	511,330	494,331
Pakistan	3,506,162	3,767,336	4,125,000
Sri Lanka	1,624,910	1,775,000	2,003,000
<b>SAARC import of Services to the world</b>			
Total SAARC	54,263,420	62,948,100	101,224,265
Bangladesh	2,340,480	2,884,760	3,836,790
Bhutan	64,524	57,008	108,487
India	40,324,000	47,592,400	83,598,552
Maldives	231,160	269,270	348,271
Nepal	492,840	722,590	840,165
Pakistan	8,416,806	8,820,322	9,491,000
Sri Lanka	2,393,610	2,601,750	3,001,000
Source: ITC trade map			

Mr. Abdul Wassay Haqiqi, Senior Advisor to the Ministry of Economy, Professor-American University of Afghanistan, Lecturer & VC-Bakhter University – Afghanistan, Mr. H.M. Wijeratne, Acting Director, Dept. of Commerce, Sri Lanka, Dr. Mr. Abdul Wassay Haqiqi, Senior Advisor to the Ministry of Economy, Professor-American University of Afghanistan, Lecturer & VC-Bakhter University - Afghanistan, - Mr. H.M. Wijeratne, Acting Director, Dept. of Commerce, Sri Lanka were respondents on the session.

## Key findings of the Roundtable

- Low level of intra-regional trade can largely be attributed to fairly high export similarity among the South Asian countries.
- The export similarity encourages South Asian countries to protect their local industries behind tariff walls, thereby narrowing the scope for intra-regional exports.
- High negative/sensitive list, 53% of the total import trade in SAFTA has been subjected to this list with India restricting 1,647 items, Sri Lanka 1,574 items and Pakistan 1,183 items
- The tradable products are mainly of primary, resource-based and low-technology nature hence diminishing the scope of developing strong regional linkages of production network.
- These products also exhibit identical pattern of revealed comparative advantage and low complementarity especially as destination for trade in South Asia.
- The composition of intra-regional trade hardly makes a case for strong regional linkages of production networks.
- India has maintained high tariff rates and non-tariff barriers on goods of particular interest to Pakistan.
- Bureaucratic regulations and restrictions have made trade so costly between the two countries that it has led to significant informal trade (2000 US\$ Million) through a third country or through smuggling.

## Intra-Regional Trade in South Asia

Year	Intra-SAARC Trade (A) (US \$ Billion)	South Asia's World Trade (B) (US \$ Billion)	% Share of Intra-SAARC Trade (A as % of B)
1980	1.21	39.88	3.19
1985	1.08	43.75	2.48
1990	1.79	66.23	2.7
1991	2.00	64.07	3.13
1992	2.62	72.72	3.60
1993	2.58	73.90	3.49
1994	3.06	82.32	3.71
1995	4.39	104.44	4.20
1996	5.08	111.75	4.54
1997	4.86	119.65	4.06
1998	5.79	118.78	4.87
1999	5.16	129.18	3.99
2000	6.27	142.83	4.39
2001	7.47	152.70	4.89
2002	7.77	158.16	4.91
2003	10.98	192.85	5.69
2004	13.39	244.70	5.47
2005	17.44	318.65	5.47
2006	20.42	413.13	4.94
2007	25.14	522.77	4.81

Source: Estimated from IMF; *Direction of Trade Statistics Yearbook* (CDROM) 2009.

## Identified issues/ Problems impeding smooth functioning of SAARC

The Roundtable identified following problems/issues, which have been impeding the growth of SAARC

- Longer period for implementation of decision taken at the Summits, which is due mainly to absence of doable implementation plan
- Inadequate and dormant infrastructure, which leads to higher transaction costs and increase in doing business within South Asia
- Major tradable items are out of SAFTA, which have swallowed negative list and thus limits the benefits of Free Trade
- A large proportion of trade in the region does not receive tariff preferences since they fall under negative lists.
- Article 7.3 (b) of SAFTA recommends review every 4 years but no commitment to reduce the size of these lists
- Over-regulation – safety standards, other safeguards
- Delays in transit due to border issues & Customs procedures and Entry point restrictions
- No mechanism to reduce NTBs – recent discussion to include notification
- Inadequate infrastructure services, such as poor telecommunications and transport networks or a weak financial system, are perceived as critical bottlenecks on sustainable development.
- Trade between India and Pakistan has been abnormally low. Pakistan accounts for less than 1% of India's trade and India accounts for approximately 5% of Pakistan's trade.
- Pakistan has maintained a narrow positive list of goods that India can export to Pakistan and has not granted MFN Status to India.

### Intra-SAARC Trade ( Country wise)

US MILLION DOLLAR	1990	1995	2000	2005	2006	2007
SAARC-8 Trade with World	66231.54	104439.3	142825.3	318648.4	413129.6	522773.3
Afghanistan	83.76	59.87	220.42	1324.22	1633.64	2027.32
Bangladesh	488.53	1260.64	1146.26	2074.01	2284.7	2942.47
Bhutan	8.33	35.32	29.23	194.44	237.68	292.44
India	582.16	1847.27	2859.93	7451.25	8415.1	10372.61
Maldives	18.93	45.25	145.78	118.67	140.15	174.21
Nepal	65.21	152.94	393.47	1215.87	1981.08	2466.85
Pakistan	276.33	407.23	632.4	2381.9	2935.63	3610.61
Sri Lanka	267.4	577.99	843.46	2683.95	2790.61	3256.43
INTRA-SAARC-8 TRADE (US \$ Million)	1790.65	4386.51	6270.95	17444.31	20418.59	25142.94
Intra-SAARC Trade (% share of World)	2.70	4.20	4.39	5.47	4.94	4.81



## Recommendations for workable SAFTA

- Tariff Liberalisation in goods - Fast track for key tariff lines of trade interest in the region
  - Binding commitment for the removal of NTBs & implementation and S&DT for LDCs required
  - Ceiling of 20% of tariff lines (Non-LDCs) should be cut down annually
  - Identify a few key trade facilitating measures and implement these with binding commitments
  - Common sub-sector approach to encourage commitments in trade in services
  - identify a few key measures producing tangible results in the short run
- 1) Simplify, improve transparency and where possible harmonize customs operation
  - 2) Transit simplification
  - 3) Standards Harmonization
    - Establishes a framework for liberalizing and promoting trade in services in accordance with Article V of the GATS.
    - Negotiations for schedule of specific commitments shall take place keeping in view the national policy objectives, the level of development and the size of economies of Contracting States both overall and in individual sectors.
    - Progressive liberalization of trade in services with broad-based and deeper coverage of majority of services sectors/sub-sectors.
    - Special and Differential treatment for LDCs should be introduced
    - Increasing contacts and interactions between the peoples of our region are an important aspect of the SAARC process and must receive the encouragement of Governments through more flexible Visa regime. Our specific proposal in this regard is increase in SAARC Visa Exemption Stickers from 100 to 500 and issuance of 500 multiple visa, exempted from city restrictions by each member state of South Asia
    - An efficient trade facilitation mechanism based on harmonization of Standards and Procedures should be implemented. We reiterate the need for Open sky policy, single mobile phone SIM for the region, improvement in infrastructure
    - Governments of SAARC should give effect to the implementation of already identified Multimodal transport system at the 15th SAARC Summit held in Colombo in 2008 in the interest of promoting intra-regional trade.
    - There is need to enhance cooperation from Production to Trade level through establishing Joint Marketing Strategy/Network to boost trade and investment cooperation between both countries.
    - Synergize Partnership especially at the level of business Enterprises for forging trade and investment linkages to realize existing potential.
    - The inclusion of services in SAFTA has though broadened its sphere, which will augment economic cooperation manifold, there is need for upgradation of SAFTA into a Comprehensive Economic Framework Agreement covering Regional Investment Treaty

## SAARC – Services Sector Potential

- It contributes more than 50% of GDP growth in South Asia.
- Employs around 35% of its population in the organized sector.
- South Asian countries are more competitive in different categories of services;
  - Pakistan and Sri Lanka in transport.
  - India in computer and information services.
  - Maldives and Nepal in travel services.
  - Bangladesh in financial services, and;
  - India, Pakistan, Bangladesh and Sri Lanka in communication services.
- Sectors like telecommunication, transport and financial services attract around 50% of the total FDI into the services sector.
- Services like BPO, outsourcing and professional services have grown steadily from the region.
- India accounts for the largest share of trade in services, followed by Pakistan and Sri Lanka.
- Computer and Information services now account for the bulk of exports of services from South Asia.



## **SAARC Chamber of Commerce and Industry**

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