




SAARC Chamber of Commerce and Industry

Conference on

SAFTA: OPPORTUNITIES & CHALLENGES

March 13, 2006, New Delhi, India

A faint, light blue world map is visible in the background of the central section of the cover. The map shows the outlines of the continents, with a focus on the South Asian region where the conference is taking place.

Jointly organized by

SAARC Chamber of Commerce and Industry (SCCI)

&

Federation of Indian Chamber of Commerce and Industry (FICCI)

The Delhi Conference: Themes

Conference focused on the following themes:

- * Analysis of SAFTA and its implications
- * Strengthening Trade Infrastructure in SAARC
- * Creating Trade Facilitation Mechanism In SAARC
- * SAFTA : Private Sector Perspective
- * Harmonization of Standards and Custom Procedures

SAFTA: Opportunities and Challenges

March 13, 2006 - New Delhi



Introduction

The agreement on South Asian Free Trade Area (SAFTA), which was signed in January 2004 at the 12th SAARC Summit in Islamabad, Pakistan, expresses the commitment of the SAARC governments to facilitate trade in the region. SAFTA aims at strengthening the economic cooperation in the South Asian region through the elimination of trade barriers. Today SAFTA is considered the most important regional economic initiative since the formation of SAARC.

The first phase of tariff reductions under SAFTA which will come in to effect from July 01, 2006, is expected to bring the current level of intra regional trade from \$ 6 billion to \$ 14 billion. It will make South Asia a magnet for foreign investment and will lead to the reconstruction of economies, making the region one of the fastest growing and most competitive economic blocs in the world.

Considering the importance of SAFTA agreement in expanding trade to accelerate economic growth in SAARC region, SAARC Chamber of Commerce and Industry (SCCI) has been playing a dominant role in creating awareness about SAFTA particularly among the private sector in South Asia. SCCI has successfully organized various seminars for dissemination of information and advocacy purposes. Similarly, SCCI organized a regional conference on "SAFTA: Opportunities and Challenges" in New Delhi, India on March 13, 2006, which was an effort to raise awareness and further deepening and widening economic cooperation under SAARC. This conference was a joint venture with the Federation of Indian Chamber of Commerce and Industry (FICCI) and was successful in advocating the need to create an atmosphere for trade liberalization as well as to enhance investment and trade in services amongst the member nations. The conference was inaugurated by Jairam Ramesh, Hon'ble Minister of State for Commerce, Government of India and addressed by Mohamed Jaliel, Hon'ble Minister of Economic Development and Trade, Maldives. The President SCCI, Dasho Ugen Tsechup Dorji, delivered the welcome address. Speakers outlined the challenges in the implementation of SAFTA and the impacts it would make on specific sectors of the economies of the member nations.

SAFTA aims at strengthening the economic cooperation in the South Asian region through the elimination of trade barriers.

SAARC Chamber of Commerce and Industry (SCCI) has been playing a dominant role in creating awareness about SAFTA in South Asia.

Views at the Conference

There is a high need to put in place a trade compensation mechanism in each of the SAARC nations to provide for adjustment assistance to compensate for the loss of trade revenue arising from the implementation of SAFTA. Each country needs to be sensitive to the concerns and possible effects on their businesses due to the implementation of SAFTA and therefore trade compensation assumes vital importance. India's commitment to SAFTA would be "cohesive, contributive and supportive" to the objectives of the regional agreement.

Hon'ble Jairam Ramesh, Minister of State for Commerce of India

Free trade in South Asia is a key pillar of regional integration. SAFTA is a vehicle of promoting trade among SAARC countries and a crucial milestone that must be crossed. Given that the South Asian countries do not trade much with each other, SAFTA will help to bring about greater trade diversification. Through this platform, we hope to develop new mindsets and change attitudes in SAARC region to ensure economic and social stability. With globalization at a fast pace, it is imperative that we now work towards creating a dynamic South Asia by harnessing the comparative advantage and utilizing the vast pool of our human capacity. Economic cooperation will lead to greater mutual prosperity and further strengthen the agreement itself.

Dasho Ugen Tsechup Dorji, President SCCI

It's high time for freedom of trade without any barriers, freedom to invest across borders and freedom to travel seamlessly. We should now move forward to create a world class infrastructure with open skies, open roads and open seas. Furthermore, there should be a common strategy to face the challenges of globalization along with sharing of resources. The role of governments is crucial in order to gain maximum benefits for all member countries. If SAFTA comes to its expected level of success, only then would each country gain a mutual benefit and it would ultimately lead to an economic union in South Asian region.

Saroj Kumar Poddar, President FICCI

Trade facilitation measures by SAARC nations are important to cut transaction costs, improve transport and communications links and streamline customs and immigration procedures. Tourism and fisheries offer immense scope for investment in Maldives. The SAARC countries could take advantage of the liberalized trading environment in the country and make Maldives a hub for shipping and services.

Hon'ble Mohamed Jaleel, Minister of Economic Development & Trade, Maldives

There are issues related to SAFTA that need to be urgently addressed and the member countries should come to a consensus on how to tackle these issues to achieve maximum effectiveness. While SAFTA is a useful vehicle for increased trade, it also faces many challenges such as port inefficiency and lack of customs cooperation. However improvement in exchange of information along with mutual recognition of standards will help to promote cross border trade. The region may want to consider establishing a Trade Compensation Fund that will compensate smaller countries for the loss of trade revenue arising from the implementation of SAFTA.

Michael F Carter, Country Director, World Bank

It is not the state or other social institutions, which could solely determine a successful, innovative and responsive economy; but private businesses fulfill this role. This is why for many years; the Friedrich Naumann Foundation has been supporting the strengthening of the private sector in regional economic affairs in South Asia. The SAFTA agreement is an important step in this direction and now we have to work to make South Asia a successful free trade area; based on the existing possibilities, fairness and common understanding, as there is no other better opportunity available for the liberalization of the economies of South Asia.

Dr Rene Klaff, Regional Director, Friedrich Naumann Stiftung (FNST), India

A smooth implementation of the agreement on SAFTA can prove to be the harbinger of sustainable growth by synergizing the complementary economic strengths of the member countries. The experience of other regional trade agreements has revealed that the harmonization of standards and customs procedures along with reduction in the transaction costs has played a large role in effectively enhancing the trade. In order to sustain any such progress in the long run and to ensure tangible improvement in the integration of regional countries, it is imperative that we all now squarely address the relevant issues of SAFTA

H. E. Aziz Ahmad Khan, High Commissioner of Pakistan



Emphasis should be placed on concerns related to the revenues lost due to implementation of trade liberalization program under SAFTA agreement. The moot issue, however, is to identify and mobilize the required resources by utilizing the SAARC Development Fund for technical assistance. More to the point, SAARC countries must take advantage of the WTO Development Package to address the technical assistance areas.

Syed Ahamed, Senior Research Associate, Centre for Policy Dialogue, Dhaka, Bangladesh

A smooth implementation of SAFTA can prove to be the herald of sustainable growth. This agreement is a stepping stone to multilateral trade liberalization and regional economic integration but it also becomes crucial to address the problems of trade. One such related concern is regarding the number of products in the sensitive list, as it should be minimized so that maximum products are included in the trade process. Also there is a need to establish simple and transparent rules of origin. In addition to this, reduction in tariff and non-tariff barriers is increasingly becoming front stage market access concerns and that the decision to reduce tariff barriers must go along with genuine desire to remove NTB's.

Dushni Weerakoon, Deputy Director & Fellow, Institute of Policy Studies, Sri Lanka

The challenge ahead is to make the region more outward oriented, with a view to forging stronger links with ASEAN and the ECO region. This would definitely foster long term cooperation between the SAARC countries and turn this important part of the world in to an economically integrated region. In this context harmonization of standards across the region will play a vital role in achieving meaningful progress on this front. Moreover, harmonization of regional standards will not only facilitate international trade but will also act as powerful impetus towards sustainable economic development and global prosperity.

SK Chaudhuri, Deputy Director General, Technical Bureau of Indian Standards, New Delhi

The business opportunities can be maximized principally by resolving disputes in the SAARC region. Nevertheless, there should be consistency and predictability in the application of rules. SAARC Arbitration should be constituted on priority basis by means of adopting UNICTRAL arbitration rules. In order to ensure that arbitration evolves as an effective means of resolving regional commercial disputes, the focus will have to be two fold: first, creating an effective regional arbitration institution; second, creating an enabling environment in member states by removing the legal impediments under domestic law that undermine the efficacy of arbitration as dispute resolution body.

Babar Sattar, AJURIS, Advocate and Corporate Counsel, Pakistan



As the process of economic integration moves forward and trade expands between the SAARC countries, it is imperative to address the practical problems of trade whether it is tariffs or non-tariff barriers, infrastructure, taxation or settlement of commercial disputes. Accordingly, emphasis should be laid on the use of arbitration as a means of resolving disputes both at domestic level and at international level. The SAARC arbitration council must be based on strong nation-specific arbitration laws. If all SAARC countries base their respective Arbitration Acts on UNCITRAL Arbitration rules, it will promote uniformity within the region and disputes may be solved more effectively and efficiently.

Hemant Batra, Secretary General SAARC Law

There should be adaptation of a harmonized system for commodity identification. Simplified and harmonized procedures result in expeditious clearances and predictability of trade regarding regulatory requirements. Moreover, regular consultation among customs and trade facilitation experts should be promoted as a means to exchange information and further strengthening economic bonds. Nonetheless, the personnel working on reforms projects in customs administrations should be associated in the analysis phase, so that harmonization becomes part of the national reforms plan.

Azhar Majeed Khalid, Project Director, Customs Administrative Reforms (CARE), Pakistan Customs

The suggestions gathered from the conference are:

- There should be consistency and predictability in the application of rules. SAARC Arbitration should be constituted on priority basis with emphasis to resolve disputes both at the domestic level and at the international level.
- The number of products in the sensitive lists shall be subject to maximum ceiling to be mutually agreed among contracting states with flexibility. Moreover, the sensitive list should be reduced to an amount where it is beneficial for all member countries.
- All member countries must ensure to put in place a Trade Compensation Mechanism with an aim to provide assistance to compensate for the loss of trade revenues arising from the implementation of SAFTA.
- There should be simplification and harmonization of standards and custom rules. This would surely boost the business activity amongst the member states. For the reason that an integrated South Asia would be an important building bloc of an emerging broader Asian Regional group.
- A cut in the transaction cost, improved transport mechanism, better communication links and developed immigration procedures will help to promote increased cross border trade.
- Emphasis should be laid on the establishment of simple and transparent rules of origin so that complexities do not arise.
- Non-tariff and para-tariff barriers that have been hindering trade among the SAFTA contracting states need to be identified and there should be a set dateline for the elimination of such barriers.
- The role of the governments and potential commitments to overcome the problems of SAFTA is essential in order to gain the maximum benefits for all the member countries.



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