

Address by

H.E. Dr. Sheel Kant Sharma

Secretary General, SAARC

on

South Asian Regionalism: Prospects and Challenges

at

Indian Council of World Affairs

Sapru House, New Delhi

14 September 2010 (1130 hrs)

1. I would like to, at the outset, thank the Indian Council for World Affairs (ICWA) and Ambassador Devare for organizing this talk on South Asian regionalism and giving me this opportunity to address this august gathering. SAARC is in its twenty-fifth anniversary year now and it is timely that it receives adequate attention of the think tanks, diplomats and media. ICWA deserves compliments for taking this initiative.

2. South Asian regionalism had a slow start with setting up of SAARC in 1980s with a clear acknowledgement of interdependence in its Charter. Though under the shadow of cold war, it registered modest gains in the first few years. Subsequently, regional cooperation had to negotiate the road-blocks arising out of terrorism and its impact on bilateral relations. Economic liberalization and deregulation in the 1990s should have created a conducive atmosphere as action in the economic field moved out of government control – however, the policy frame compelled work to go to inevitable formal official committees which took to a slow slog. Further spurt was given by globalization and its benefits to South Asian economies in terms of trade, investment and remittances flow. India, Sri Lanka, Bangladesh and Pakistan registered impressive growth indices in most of the last decade. The reason and purpose of South Asian regionalism got a fuller boost in the wake of this latest round of globalization around the turn of century. Studies on regional cooperation brought out political benefits for all, particularly to smaller countries, of better trade and economic cooperation. SAFTA was borne out of this in 2004 and went into force in 2006. It showed a way forward despite lingering bilateral issues between India and Pakistan. SAFTA's entry into force was quick with ratifications coming forth from all countries, including India and Pakistan.

3. A whole range of activities under SAARC framework are underway within the SAFTA but more of it later. Not only in SAFTA but in other areas too, there is a fair amount on SAARC's plate to chew on and energize regional cooperation – but progress is also stumbling on issues in national infrastructure, governance and bureaucratic inertia. This also hampers exploiting the windows of opportunity offered by bilateral détente and relaxation of political situation. Media in South Asia need to understand the enormous value of the SAARC paradigm of interdependence, engagement and pursuit of mutual benefits instead of zero-sum policies. South Asia's 1.5 billion population offers a formidable demographic challenge, but an opportunity too, if, and only if, SAARC and associated processes are viewed in enlightened self interest by Governments, civil societies and media. Costs of underestimating or neglecting SAARC or undermining regional cooperation are mounting by the year. The larger economies in the region have influential voices espousing rapid growth, despite the negative factors that imperil regional peace. As Prime Minister Dr. Manmohan Singh stated at Sixteenth SAARC Summit in Thimphu, "In looking back at these two and a half decades we can claim the glass is half full, and compliment ourselves, or, we can admit the glass is half empty and challenge ourselves. I believe we should challenge ourselves ...". True to the words, the Government of India has consistently more than India's proportionate share to SAARC and has offered to take asymmetric burden for growth of South Asian regionalism.

4. In the past 25 years the paradigm of regional cooperation has been clearly accepted and even promoted through 16 Summits, numerous Ministerial meetings and a whole range of activities sponsored by civil society organizations in diverse fields.

5. Recent SAARC Summits however have increasingly focused on implementation and delivery. Implementation demands adequate empowerment of regional institutions – that is an investment of both faith and wisdom. We need to address ourselves as to how the institutional

framework can be strengthened to meet the imperative of delivery? How to develop due ownership of empowered SAARC institutions including SAARC Secretariat, among its Member States in South Asia?

Regional Institutions in South Asia

6. South Asia requires institutions that would foster cooperation as institutions in other regions have done, institutions which are backed by also stronger ownership and commitment by Governments and broad-based stakeholders in all the countries. So far, regionalism has had to avoid foundering on the rocks of non-delivery and non-implementation.

7. In other successful regions, wherewithal of regional cooperation also had ownership and support at the political level with active regular commitments of Governments. In South Asia, the active support of Governments has been mostly expected in a playing by the ear mode as a by-product of gradual evolution and is contingent of success of SAARC. SAARC as an institution was also seen somewhat through sufferance at various stages of its evolution in the past twenty-five years. Avoidance of political and divisive issues have been basic to SAARC's viability, because disputes and deep-rooted political problems could wreck South Asian regionalism even before it commences. As a result, SAARC's focus has been mostly on cooperation in the socio-economic fields and in tackling the common problems afflicting all South Asian societies, i.e., problems of poverty alleviation, economic development, employment generation, education, public health, empowerment and protection of women and children, and energy. These areas might sound less difficult at the surface, but they have deep and extensive dependence on governance. So, SAARC institutions have also had to cope with challenges in governance impacting on implementation of SAARC programmes. Strengthening and empowering of SAARC and South Asian regional institutions is intimately connected with performance of line Ministries in the areas concerned.

8. South Asia's population and size make for a vast market in the world. The economies of the region vary considerably in their size and complexity and offer much greater room to coalesce than is normally realized.

Current status of regional cooperation in different areas:

9. Let me briefly touch upon the salient features of current SAARC agenda. I do so primarily to highlight the distance that the Association has travelled and the ground it has covered since its inception. Also, these do give further testimony to the objective merits of the SAARC paradigm, in the face of political problems. The key issues of focus on SAARC's Agenda are:

- Poverty Alleviation and developmental Activities
- SAARC Development Fund
- Trade, Economy and Finance
- Transport and intra-Regional Connectivity
- Narcotics, Drugs, Terrorism and Legal Matters
- Environment, Forestry and prevention of natural disasters
- Agriculture and Rural Development
- Energy
- Social Development: including Health, Education, Women and Children etc

10. In the age of liberalization and deregulation, trade promotion remains one fertile field for growth of regionalism. Therefore, SAFTA does constitute a vital forward step. Optimism about SAFTA rests on stakeholders in the broader public domain outside Governments. However, policy institutions, norms-setting and legal frameworks to facilitate broader private sector stakes in regional trade have occupied the main focus so far. The entire gamut of trade relations in South Asia comprises not only policies about tariff and non-tariff barriers, customs harmonization, and harmonization of standards, but also physical transit and transport infrastructure border controls, banking and investment. Successes in trade, transit and transport would have their impact all along the value chain. Therefore, trade, transport and related investment remain key to SAARC's success.

11. One key feature of our recent focus which cuts to the root of regional cooperation is project based cooperation through the modality of SAARC Development Fund, a US\$ 300 million funding mechanism. This has been one of the main and visible achievements of SAARC in recent years. Development and implementation of greater number of projects that touch the lives of peoples of the region is now one of the key regional priorities in SAARC. In this regard, two projects, on women empowerment; and on maternal and child health are already under implementation and another on improving the quality of education through focussing on teachers training is being initiated. The Permanent Secretariat of the Fund in Thimphu and is duly operationalized under a full-fledged CEO.

12. The goals of poverty alleviation, food security, employment generation etc. are also connected to progress in regional trade and investment. This explains the emphasis in the SAARC Development Fund on economy, infrastructure and social development as areas for project-based cooperation which would contribute to these goals.

13. In addition to the funding mechanism, the South Asian trade and economic cooperation has several important pillars. I believe that creation of Free Trade Area in SAARC through implementation of SAFTA is a starting grid for development of lateral and vertical linkages in other fields of regional cooperation. SAFTA has allowed us to take regional view of trade linkages rather than view them from national perspective. Initial figures of intra-SAARC trade under SAFTA have been encouraging. By end of 2009 total trade under SAFTA certificates of origin was about 687 m \$, which is rather modest but significant for the initial years.

14. SAFTA is leading to development of new network of regional trading patterns in different products. Currently, bulk of trade cooperation in South Asia is accounted for trade links between India-Nepal; India-Bangladesh; India-Sri Lanka; India-Afghanistan; Bangladesh-Pakistan; India-Pakistan; India-Bhutan; Pakistan-Bangladesh; Pakistan-Afghanistan and Pakistan-Sri Lanka. An ADB study done in 2008 pegs potential of trade under SAFTA at US\$ 85.1 billion. Large volumes of informal trade are also indicative of potential trade under SAFTA. The fact that intra-SAARC trade volumes are far lower compared to other regions is not a critique of SAFTA. I would say it rather reflects on structural problems of industry and infrastructure in our region.

15. Within the SAARC process, our effort has been two fold. One, rectify the technical flaws of SAFTA to smoothen its implementation. And, secondly to establish as early as possible a region wide trade facilitation regime that allows faster and more cost effective flow of goods, services and capital through out the region. Let me just mention a couple of them.

16. In the last couple of meetings of SAFTA Committee of Experts we have been focusing on reducing the large size of Sensitive Lists under SAFTA. We have urged the Committee of Experts that in this process they should focus in taking out those products out of the Sensitive Lists that have high regional tradability. The idea is to bring a larger percentage of goods under regional preferential trading regime. We have also been asking them to accelerate the trade liberalization programme. In this context, unilateral efforts announced by India not only speed up its trade liberalization programme for the LDC countries of South Asia but reduce the size of Sensitive lists for them.

17. We have also been working hard to get rid of high walls of non-tariff and para-tariff barriers. The multiplicity of trading regimes in South Asia adds to the complexity of these barriers. It has been estimated that around 85% of such barriers pertain to TBT, Phyto-sanitary and related quality control measures. This only adds to already high costs of trade transaction in the region. It is also one of the contributory factors for the large volumes of informal trade in the region.

18. I should mention here that the SAARC processes have focused on taking specific measures to address this challenge such as a Draft Regional Mutual Recognition Agreement on Product Certification as also a draft of Multilateral Agreement on Conformity Assessment Activities. Once finalized, these agreements would largely address the problems due to lack of harmonized product standards in the Region. The South Asian Regional Standards Organization (SARSO) is another concrete step to address the problem of high levels of non-tariff and para-tariff barriers to intra-SAARC trade. In parallel, a SAARC Customs Group is working to develop modalities in which intra-SAARC consignments could be cleared on a fast track. It is also working to harmonize Harmonized Tariff code at the eight digit level.

19. SAARC has also recognized the imperative of incorporating Trade in Services in regional trading regime. A framework Agreement on Trade in Services was concluded at the 16th SAARC Summit. I believe that Trade in Services can spur additional lateral and vertical trade linkages and help open up new vistas.

20. One of the key structural impediments to strengthening of regional economic cooperation is lack of physical and soft connectivity. Infrastructure constraints like power shortages, underdeveloped road and rail transport constraints; port congestion etc seriously hinder full realization of regional trade potential. It is now acknowledged that reduction in transport and infrastructure related costs have the same effect as tariff liberalization in providing stimulus to trade. It is estimated that for every 1% reduction in cost, trade stimulus is about 5%. The good point is that this benefit is passed along the entire supply chain be they shippers, truckers, traders or end users. Another illustration of deficiencies in soft connectivity is that only 7% of international calls in South Asia are in the region whereas in East Asia the figure is 71%.

21. There is a sense of urgency in SAARC processes to deal with this issue at two levels. On the first track, efforts are being made to develop regional trade and transit agreements. In this regard, I may observe that two agreements on Regional Motor Vehicles and Railways are under consideration with an Expert Group. We hoped that these would be finalized before the Sixteenth SAARC Summit. We are also focusing to expeditiously implement regional infrastructure projects including through operationalization of infrastructure window of the SDF. Through a second strand, we are urging the Member States to strengthen trade related infrastructure in their respective countries. It is important to note that regional efforts have to

complemented by national action to build infrastructure. Countries of South Asia appreciate that unless we are fully connected among ourselves in the true sense of the word, and better connected with the outside world, our collective efforts to knit together the region would only produce sub-optimal gains.

22. Another crucial aspect of our economic endeavours is work towards establishing short and long term food security for the region. To this end we have operationalized the SAARC Food Bank. It provides a mechanism for governments to support each other during emergencies, natural disasters and even normal conditions where countries would make request as per the Agreement. Through the mechanism, countries also obtain an early assessment of production of major food grains in the Region vis-a-vis also the scenario obtaining beyond the Region

23. For some of the countries of the world including in South Asia, climate change is an existential challenge. Issues related to Climate Change question the very legacy that we might leave behind for our successive generations. Let me say it for record that SAARC has been acutely conscious of environmental conservation and related issues and this has been a priority area in the regional discourse.

24. One area which in my view is critical to the success of regional economic cooperation and integration is the development of culture of cooperative thinking. Strengthen economic cooperation and integration in South Asia is a win-win situation. Both the wins are of SAARC Member States. In this context, the initiative of the Honourable Prime Minister of India to establish a South Asian University which has commenced its first session last month will go a long way in bringing together the academia and younger generations of South Asia.

25. South Asia is poised at a critical juncture in its history in that it has in hand the norm setting process in different areas and is now in the phase of active implementation. It is true that we face huge developmental challenges. But it is also a fact that we are one of the fastest growing regions capable of substantial economic achievements. Internationally too, climate is good for resurgence of regionalism.

26. Good analysis and information in public domain about the benefits of regional cooperation is lacking in South Asia. Pride and prejudice have produced negative perceptions and misapprehensions about the consequences of increased regional cooperation. For instance, fears of greater domination of India are often rooted in these negative perceptions borne out of lack of information. Such fears have proved to be largely unfounded in other successful regional groupings such as EU, ASEAN, MERCUSOR . . .

27. Regional cooperation has also suffered as being secondary to bilateral agenda, the latter being inevitably politically driven. Bilateral political approaches have done little to remove suspicions and misapprehensions about regional cooperation. The two success stories of regionalism, namely, European and ASEAN show that bilateral political constraints, historical disputes, need not hinder development of cooperation. Economic strengths of individual members of ASEAN have also varied considerably, but that has not prevented the 600 million population of ASEAN to have a combined GDP of 3 trillion dollars and intra-ASEAN trade taking a large share of the GDP.

Looking at the future:

28. I would like to end with enumerating a few pertinent points:

Benefits of market integration:

- Small land-locked countries like Afghanistan, Bangladesh, Nepal benefit most from improved access to the markets of others, from openness to overcome the handicap of size;
- Geographical situation also provides benefits for sub-regions within a country from market integration;
- Inherent advantages of other sub-regions can be tapped through specializing of diverse task which would produce vertical integration (even in specific areas such as textiles, there could be compatibilities too, not only competition);

Pre-conditions of market integration:

- Rapid growth may not take place in all regions and some may develop faster than the other;
- Lack of infrastructure would delay the evening out of the gains;
- Given the stark poverty of several sub-regions in South Asia, a threshold level of development of capacities and capabilities is necessary;
- The watchword is harmonious interaction, or coherence in improved trade, better physical and soft connectivity and convergence to institutions that would fast pace growth and bring benefits to sub-regions which are lagging behind;
- Three priority areas for regional cooperation in infrastructure consist of inter-net and telecoms, energy and transport;
- In 1980, India had higher infrastructure stakes – in power, roads and telecoms than China—but China invested massively in infrastructure and the gap is currently ever widening;
- It is estimated that to sustain a growth rate target of 8 per cent the South Asian region would need investment in infrastructure up to 7.6 per cent of GDP.
- A regional network can improve education, innovation, health benefiting from better flow of ideas, technology, investments, goods and services. This could also help addressing regional problems such as flood control, disaster management, climate change, and infectious diseases;
- Regional vulnerabilities to climate change and disaster need to be looked at from the standpoint of present-day technology and present-day dangers; Coping with these vulnerabilities requires trans-national coherence and synergy. National level actions by themselves may not prove sustainable in the long run without proper cooperation and coordination among regional countries. For instance, cross-border cooperation on water among India, Bangladesh and Nepal and the watershed management and storage on the tributaries of the Ganga in Nepal could, inter alia, provide flood mitigation to India and Bangladesh. Similarly, management of water in North East India could provide hydropower and flood benefits to India and Bangladesh.

29. Success of institutional arrangements will rest on identification and pursuit of the core projects which could yield tangible results and these projects can be easily identified in the area of trade facilitation, removal of barriers, improvement of regional transport, removal of transit restrictions, opening up of port facilities and promotion of trade in energy in a comprehensive way comprising regional grids for electricity, hydro-power and gas pipelines.

Cross-broader transactions must be depoliticized and pursued purely on economic terms. Wherever in SAARC these pursuits have gone into operation, such as India and Sri Lanka, between India and Nepal, India and Bhutan, private investors have flocked to build up much greater promise of success. South Asian regionalism is in need of tangible success stories of a magnitude which is proportionate to its larger population. There has to be greater focus on “how-to” of the plans of action in SAARC to spur implementation.
