

Q.A.M.A. Rahim

ECONOMIC COOPERATION IN SAARC: GETTING OUR ACT TOGETHER*

*Hon'ble Chairman, BISS
Director General, BISS
Distinguished Participants,
Ladies and Gentlemen,*

It is indeed a great pleasure to be back here in Dhaka and in particular, at the BISS where I had the privilege of attending many seminars. Interacting with some of the finest minds had been an immensely rewarding experience. We debated a variety of issues. Sometimes we tried to objectively assess why rapid development eluded us in this part of the world. This has been a mystery to me for many years. Our intellect and our abilities can match the best in the world, but somehow when we look at hard facts and statistical indicators, we are placed at the bottom of the list.

2. I have been asked to speak today on the theme of regional economic cooperation, with particular emphasis on SAARC. What I will try to do is to be candid in my presentation, so that we can look at the obstacles clearly in the eye and then, assess if these are insurmountable. To my mind, they are not. South Asia has all the potentials and capabilities of emerging as an economic force.

* Speech by H.E. Mr. Q.A.M.A. Rahim, Secretary General, South Asian Association for Regional Cooperation (SAARC), delivered at the Bangladesh Institute of International and Strategic Studies (BISS), Dhaka on June 26, 2002.

3. Let us begin with January of this year. The 11th SAARC Summit was held and the good news was that the Summit renewed commitment to regional economic cooperation. This elated many and especially those who had critically pointed out that after sixteen years, SAARC had little to show by way of cooperation on the trade and economic front. They drew references to ASEAN and NAFTA and lamented that intra-SAARC trade today stood at an abysmal 5% of the region's total exports compared to 22% of ASEAN and 55% of NAFTA. Something, they argued, needed to be done and quickly.
4. However, it is not widely known that cooperation in economic areas is relatively recent in SAARC. While SAARC came into being in 1985 with the signing of the SAARC Charter at the Summit in Dhaka, the economic cooperation formally entered the SAARC agenda as an agreed area of cooperation only in 1995, with the operationalization of SAPTA. It is, therefore, barely six years old. During this six-year period, there has been progress in a number of areas. A lot more needs to be done but critics of 'the slow pace' need to bear in mind that six years, by any standard, is a short period to carry out critical assessments.
5. However, having said this, the importance of accelerated economic cooperation cannot be over-emphasized. How we achieve this depends on some important principles. Let me briefly enumerate them before I move to the current state of economic cooperation in SAARC.
6. First, we need to be realistic. Enthusiasm is a good thing but we should not get carried away by it. To say that a Free Trade Area (FTA) would be created in South Asia by 2001 or that poverty would be eradicated by 2002 were clearly over-ambitious promises, even when the commitments were made. Once you have goals ahead of you, any failure to achieve them results in

disappointment. We need goals therefore, that are clearly feasible and achievable.

7. Second, we need to stay focused once goals are agreed upon. A goal is an end objective. To arrive at the final destination, there is a series of milestones that need to be passed. In the case of SAFTA, the end objective for 2002 is the draft Treaty Texts but this can be prepared only by going into various complex issues such as implementation schedule, phased introduction of a FTA, mechanisms for the compensation of revenue loss, enabling legislation, etc. Some of these subjects require national level studies, others require regional studies. A schedule is accordingly required with clearly defined milestones over the remaining 6-month period. Unfortunately, on account of some developments, it is possible that the new deadline of 2002 may not be met.
8. Third, we should introduce a monitoring mechanism. The reason why Europe is moving so rapidly towards a Single Market is because all the countries are jointly committed to the process and every Presidency has clear-cut goals and objectives. Time tables and milestones are agreed upon and if these are not adhered to, explanations are sought. In our case, this is simply not the case. We make declarations of intent, but the real progress that we have to show is peripheral.
9. Fourth, we should be aware that time is running out. Let me just say that it would be a sad commentary if my son or your son or daughter were to stand at this platform fifteen to twenty years later and say exactly the same words. If he or she did so, we would have failed in our duties because it would clearly indicate that we would not have progressed at all over time. Have no illusions that the rest of the world have left us far behind. We would remain where we are today, near the bottom.

10. Let me now briefly enumerate plus and minus points, as I see it, of the current state of SAARC economic cooperation and its future.
11. In terms of gains, three rounds of trade negotiations have so far been conducted under SAPTA covering more than 5500 products with tariff concessions ranging from 5% to 100%. Each round has seen an incremental increase in the product coverage and the tariff cuts. However, for the first three rounds the negotiations were essentially on a product-by-product basis. This restricts expansion of the trading basket. Furthermore, analysis of the first two rounds of the trade negotiations demonstrated that while the first round was essentially 'symbolic' in nature, the second round attempted to identify quota restrictions and other barriers to trade. However, the product coverage in both rounds essentially reflected the 'snow plough syndrome' meaning thereby, that there was hardly any demand for the products in the lists.
12. Since the third round was concluded, enough time has not passed to enable a detailed analysis of its impact. However, current estimates indicate that the third round was a major departure in that the product identification for concessions was clearly made with a view to boosting intra-regional trade. It is hoped that the fourth round would follow and indeed, build upon such a trend.
13. The SAARC Commerce Ministers recommended that in the fourth round it was essential that the negotiations focused on moving away from the product-by-product approach, that they specifically targeted products that would be actively traded or were likely to be actively traded, and finally, that the tariff concessions already granted should be further deepened.
14. It needs, however, to be remembered that the SAPTA agreement is restricted to a trade in goods. Furthermore, while such trade may be agreed to in negotiations, it can be restricted through

non-tariff measures and other barriers. Identification and the dismantling of such barriers are thus critical elements of trade facilitation. And finally, the logical progression of SAPTA is towards SAFTA or a Free Trade Area. I would also add that the negative assessments of intra-regional trade (5%) need to point towards supply constraints and the limited trade basket. Both these elements are crucial if intra-regional trade is to be addressed effectively. In addition, there is also need for caution because increasing intra-regional trade cannot per se be our objective. What we want is trade creation and not trade diversion.

15. This leads us to trade facilitation measures as a means of boosting intra-SAARC trade. A series of areas need to be covered in this regard. Some of these (illustratively and not exhaustively) would be first, the streamlining and simplification of documentation and procedural requirements. Studies have indicated that cumbersome procedures increase transaction time and cost, thereby making business well-near unprofitable. According to a WTO study on global trade, in some instances 100 documents and 20 different organizations were involved in conducting international transactions. Savings from more efficient data processing could be as high as US\$100 billion. In 1996, the APEC Business Advisory Council estimated that to effect an average international trade transaction then required 27-30 different parties, around 40 documents, 200 data elements (of which 30% were repeated at least 30 time) and re-keying of 60-70% of all data at least once. Trade facilitation is thus, a procedure by which the 'invisible' trade barriers are dismantled and the business of doing business made user- friendlier. The Committee of Participants provided for in SAPTA would be addressing this issue.
16. The issue of quick movement of goods is equally important as a trade facilitation measure. In the case of perishable commodities

such as cut flowers or unprocessed agricultural and food items, delays in movement and the lack of proper facilities (such as refrigeration) can cause considerable loss. Transportation is thus, a major element that needs to be addressed in this regard. This requires a proper system of networking rail and road links in particular. For the external market, the shipping sector needs to be addressed with a sharp reduction in turn-around time. At present, the harbours in the South Asian region, other than the Colombo port and Nava Shiva port in Mumbai result in considerable loss in time and thus add to cost because of the high turn-around time for the vessels. Ports also require systems in place not only for the quick loading and unloading of cargo but also for mandatory customs checks and formalities, and for transportation to the end destination within the region through rail/road. Issues such as containerized movement of goods therefore, need to be urgently addressed. The SAARC Technical Committee on Transport and Communications is addressing this issue.

17. Customs rules and regulations, including documentation, require simplification and harmonization. This would first be dealt with by a Consultant to be appointed shortly by me, who would comprehensively study the Customs legislation in each Member State and make a series of recommendations. The report of the Consultant would thereafter be examined by the Group on Customs Cooperation at its next meeting.
18. To handle trade disputes, a proposal for the setting up of a SAARC Arbitration Council is under examination. Similarly, with a view to encouraging and acceleration of intra-regional investment, a draft Agreement on the Promotion and Protection of Investments within the SAARC Region has been prepared and this is under examination. The feasibility of entering into an Agreement on the Avoidance of Double Taxation is also under

consideration. It is felt that these two agreements would deepen the process of regional cooperation.

19. The issue of standards is being separately dealt with by a Standing Group. This refers not only with regard to manufactured goods but also to food and agricultural items. The Group has also proposed regional standards to address the potential of intra-SAARC trade. Subjects such as training and capacity building in this area are included in the Group's mandate.
20. The trade facilitation measures are therefore, an integral part of successful SAPTA and SAFTA. Neither the PTA nor the FTA can succeed unless the non-tariff measures are dismantled. This brings us to SAFTA, which as I said earlier, is the logical movement from SAPTA. Since SAPTA is restricted to trade in goods, unless SAFTA is expanded to cover trade in services, there is very danger of SAFTA not being a genuine FTA. However, there is a fear that trade in services might place the bigger economies at a special advantage as compared to LDCs. This is not true in either the short or medium run. Indeed, if it were true for services, it should have been true for goods as well. Besides, when I propose inclusion of services in SAFTA. I do not advocate introduction of free trade in all the services from the very beginning, nor that free trade in services, as in case of goods, should be without adequate safeguard measure for the disadvantaged parties. Furthermore, trade in services, as in case of trade goods, encourages competition and thus, the drive towards economic efficiencies. There are bound to be adjustment costs involved but such costs would be inevitable overtime through globalized trade and requirements of WTO. Expanding SAFTA to include trade in services provides the SAARC countries the adjustment time to cope with and prepare for such international pressure. It is also relevant to mention that for land-

locked countries, the services sector is much more viable and cost-effective as compared to the manufacturing sector.

21. SAFTA does not come about only by agreeing to a draft treaty framework. The treaty framework is the first, albeit difficult step. The framework would need to discuss and agree on a series of very difficult issues such as rules of origin, identification and dismantling of non-tariff and para tariff measures, a mechanism for the compensation for revenue loss, implementation schedule, monitoring mechanism, protection of bilateral agreements and treaties, etc. None of this is as easy as it may sound. Take the case of revenue compensation for instance. Enabling legislation needs to be enacted and this takes time. There is currently no system or mechanism in SAARC for ensuring that targets or milestones agreed to are strictly adhered to, unlike the European Commission for instance. How would the monitoring be done therefore?
22. Once trade in goods and in services is addressed through SAPTA and SAFTA, and a frontier free movement is ensured, we enter into a Customs Union. Movement of the other two factors of production thereafter need to be addressed i.e. capital and people. As regards capital, consultations are underway through SAARCINANCE which is a network of Governors of Central Banks. This network is currently addressing the impact of crises such as the East Asian financial crisis, the external of a new financial architecture, the implications of the Euro, etc. Examination of such external factors is extremely important as they assist the region in responding to contagion and insulating itself from spill-over effects. At a much later stage, such consultations could result in the free movement of currency within the region and finally in the evolution of a single currency unit. This would result in an Economic and Monetary Union, the ultimate goal to which the Leaders at the Katmandu Summit

committed the Member Countries. However, as mentioned, this is neither realistic nor feasible at the present point of time and it is essential to move step by step. In this regard therefore, the first step is the consolidation of SAPTA and the parallel step is the movement towards SAFTA.

23. The compulsions of globalized trade should not be underestimated. In this regard, SAARC countries have been regularly consulting prior to WTO Ministerial Conferences and such consultations have been most useful. Many have argued that the consultations prior to the Seattle Conference ensured that the developing countries prevented the expansion of the trade agenda to include items and areas that would disadvantage them. It is today being argued that the intensified consultations prior to the Doha Conference helped developing countries win several gains, in particular ensuring the developmental focus and thus, paving the way for a fairer distribution of gains from the trading system. It is important that the momentum be kept up as there are areas in which the SAARC countries have common interests. Some of these include market access, anti-dumping, dispute settlement mechanism, 'new issues' particularly the linkage between trade and environment, exclusion of the social clause (labour standards) from the trade agenda, the Agreement on Agriculture with particular reference to food security, the use of sanitary and phytosanitary measures as barriers to trade protection of intellectual property particularly with regard to traditional knowledge and medicine, relaxation of the TRIPS Agreement on grounds of public health, the phase-out of the Multi Fiber Agreement, etc. Addressing these concerns is therefore, critical if the region is to protect itself from the enormous power that multinational companies based in rich countries wield.
24. The question is, how do we do so. For one, we need to be fully prepared. Our knowledge of the Agreements, and in particular of

the fine prints, needs to be thorough. This means that we should consult with all concerned stake-holders. We should be fully cognizant with the implications of the Agreements. We should not come away from the negotiating table, as we did after the Uruguay Round negotiations, giving away more than we received. Second, we need to frequently consult with one another and coordinate statements that we make. This would allow us to put up a united position in Geneva and elsewhere.

25. Identifying stake-holders is, therefore, important. One of our principal stake-holders, in this regard, is the business community. Interactions with the SAARC Chamber of Commerce and Industry (SCCI) have been most useful in this regard. They have provided inputs into various issues that concern the economic agenda. At the same time, the Secretary General and the Secretariat have also held very useful consultations with other representatives of the business community, such as the Confederation of Indian Industry (CII). Such dialogue helps consultations to become more and more holistic and thus, comprehensive.
26. To summarize, economic issues are a recent entrant into the SAARC agenda. Tangible results therefore are modest at present. In addition, many on-going initiatives would only fructify after sometime and as such, prejudging progress on this front is premature. However, it is important to note that the compulsions of the international trading regime do not afford us the luxury of delayed action.