

South Asia Development and Cooperation Report 2008

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The RIS has played a pioneering role in disseminating research on South-Asian economic cooperation and integration. Starting in 1990, with the publication: "Economic Cooperation in the SAARC Region: Potential, Constraints, and Policies", RIS embarked on producing the South Asia Development and Cooperation Report in the late 1990s. The report under review is the fourth South Asia Development Cooperation Report after 1998/1999, 2001/2002, and 2004 issues published earlier.

There are nine Chapters starting with a snapshot of the global economic environment, followed by the next three chapters which examine the macroeconomic performance, trade performance and competitiveness, and foreign direct investment (FDI) flows and investment climate in South Asia. The next four chapters are on deepening regional economic integration beyond South-Asian Free Trade Agreement (SAFTA) with especial focus on trade facilitation, transport networking, and energy integration. The last Chapter is on human development and social infrastructure in South Asia.

The report argues that there are opportunities for 'win-win' cooperation in the region which still remains unexploited. The existing pattern of intra-regional trade in South Asia fails to capture the extent of complementarities in the region due to high incidence of non-tariff barriers (NTBs) and informal

trade. The report argues that three-fourths of intra-regional trade potential remains to be exploited, which SAFTA can hope to realise. By assisting to create supply capacities in the lesser developed countries, regional economic integration can provide new opportunities for trade creation and fostering equitable development. It is argued that this will take place by a process of efficiency-seeking industrial restructuring that involves building production and supply capacities in relatively less developed countries through intra-regional investment.

In order to highlight the importance of the investment-trade nexus, the report highlights cases of Indian investment-induced trade from Sri Lanka to India under the India-Sri Lanka bilateral Free Trade Agreement (FTA). Of course, to reap similar benefits under SAFTA, South-Asian countries should remove NTBs and reduce the 'negative list'. Furthermore, Pakistan's imports from India are still governed by the positive list as Pakistan has not provided Most Favoured Nation treatment to India. Thus, there is an urgent need for extending the coverage of SAFTA to "substantially all trade" in the region as per the World Trade Organisation (WTO) requirements.

The South-Asian region has still not exploited the potential for intra-regional FDI inflows, especially with Indian companies undertaking relatively large investments in different parts of the

world. Intra-regional investment is tapped with the help of the Association of South East-Asian Nations (ASEAN) FTA and the ASEAN Investment Area in the ASEAN region, and South Asia should seriously look at this model to exploit the investment-trade nexus in the region. The report also shows that unlike East-Asian countries, South-Asian countries have been slow in upgrading their export profile in favour of knowledge-intensive and high value added goods that are fast moving. The production structure in South Asia is still dominated by labour-intensive, highly price-sensitive, and low value adding goods, such as, textiles, garments, leather goods, and primary products. The report argues the case for regional cooperation through intra-industry specialisation and vertical integration that has the potential in strengthening the competitiveness in the region.

Eventhough India has emerged as a global hub for outsourcing of Information and Communication Technology (ICT) services, other South-Asian countries are yet to exploit the full potential of trade in services. In this context, some of the findings of the RIS study for the South-Asian Association for Regional Cooperation (SAARC) Secretariat on 'Potential for Trade in Services in the Context of SAFTA' that are summarised in the report

are useful. A noteworthy finding is that the trade in services within the region was more balanced with smaller and less developed economies generally enjoying surpluses with larger economies, thus helping to bridge the asymmetries that exist in trade in goods in the region. The report also shows how autonomous liberalisation in services in the SAARC member countries has contributed to stimulating some trade in services in the region. In the case of India and Sri Lanka, deepening trade under the FTA has automatically triggered liberalisation in services which has further contributed to stimulating trade in goods.

Countries in South Asia experience high trade costs due to inadequacy in trade and transport facilitation. South-Asian trade is constrained by poor infrastructure, congestion, high costs, and lengthy delays. These problems are particularly severe at border crossings, many of which are post significant barriers to trade. Thus, improving connectivity to facilitate trade and investment flows in the region is important. In regard to transport connectivity, the report presents the case for a SAARC Regional Transport and Transit Agreement that would facilitate surface transport links throughout the region. It has been estimated that the potential transit revenue earned by Bangladesh from Indian trucks transiting through its territory to the North could be of the order of US\$ 1 billion a year. The report also makes the case for reviving an Afghanistan-Pakistan-India-Bangladesh- Myanmar international corridor, which could emerge as Asia's new 'silk route' connecting Central Asia with East Asia, besides facilitating intra-

SAARC trade, and making South Asia as the hub for Pan-Asia trade. The report recommends a South-Asian Common Transport Policy for providing a comprehensive framework for facilitating regional connectivity through different modes of transport. The report also recommends a South Asia Regional Infrastructure Development facility as a centre for cross-border infrastructure projects, within the ambit of the South Asia Development Fund.

The report shows that the region is vulnerable owing to inadequate energy endowments and overwhelming dependence on imported fossil fuels. For ensuring energy security, regional connectivity could assist. The complementary energy resource endowments in the region — Pakistan and Bangladesh — natural gas; India — coal and petroleum products; Nepal and Bhutan — hydropower — provides a basis for regional energy cooperation. For facilitating this, the SAARC Working Group on Energy needs to be strengthened. The report argues that the SAARC Energy Centre should foster collaboration with multilateral bodies, with other energy blocs, and also with sources of energy technology. As energy trade requires costly infrastructure involving large investment, the report makes a case for a regional cooperative framework for facilitating trade and investment in energy. It also recommends a SAARC Energy Charter Treaty to provide a legal basis and level playing field for all members.

South Asia has emerged as one of the fastest growing regions with an average growth rate of 8 per cent over the past five years. Yet, the region continues to be the home for

over 40 per cent of the world's poor and fares poorly in terms of different indicators of human development, such as, education, health, nutrition, and sanitation. This is worrying, and the danger is that the current downside risks posed by the deterioration of the external environment could slow down the South-Asian growth and further aggravate poverty and human development. The report argues that South Asia can face this challenge much more effectively with deeper regional economic integration as outlined in the earlier chapters.

The basic argument of the report is that for far too long, the economic logic of integration in South Asia has been overwhelmed by geo-political considerations and now with the deteriorating global economic environment, renewed effort must be made to give economic integration a chance in order realise fully South Asia's potential for rapid and inclusive growth. An integrated South Asia, the report argues, will be able to secure its due place in the emerging broader regional architecture in Asia, and above all, exercise its role in shaping global governance.

The report is rich with data, highlights (in boxes), and references, and has cogently articulated the case for deepening economic integration in the region. It is the most up-to-date report on South-Asian Development and Cooperation in the region. It is a timely report released just before the 15th SAARC Summit in Colombo and will be extremely useful for South-Asian policy makers, business leaders, development thinkers, and practitioners.

