



## **Background**

Almost ten years after the idea was first mooted to form a free trade area, the South Asian Free Trade Agreement (SAFTA) came into operation in July 2006, renewing hopes of greater economic cooperation within the region in an increasingly globalizing world. Under the Agreement, the South Asian region will move to a free trade area by 2016 with the implementation of the tariff liberalization programme, bringing 1.4 billion people in Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka closer together (Afghanistan will come on board once it formally embraces SAFTA) in the web of economic cooperation.

While trade within South Asia has improved with time, it still remains low and intra-regional trade has failed to rise beyond 6 per cent of South Asia's total trade despite the existence of a South Asian Preferential Trade Agreement (SAPTA) amongst the member countries since 1995. The movement of the region to a free trade area is expected to boost intra-regional trade and bring about significant benefits to member countries. However, benefits will flow only if the Agreement ensures greater access to each other's markets. This would require member countries going beyond committing to the tariff liberalization programme. It is imperative that countries in the region also strengthen the regional liberalization process by pruning down the extensive negative list specified under the Agreement as well as accelerating the implementation of the Agreement to make it more meaningful to the trading interests of countries in light of the rise of bilateral and other regional initiatives in South Asia. Non-tariff barriers tend to be widespread in the region and as such, these challenges to greater economic cooperation need to be addressed if SAFTA is to be effectively implemented in its letter and spirit.

For SAFTA to be able to deliver the benefits of trade expansion in the region, the Agreement needs to be accompanied by improvements in the connectivity within the region which is poor and leaves much to be desired at the moment. Improvements in connectivity would require member countries to undertake trade facilitation measures including development of transport and communication links to improve the flow of goods and services. South Asia as a region has been beset with large transaction costs to trade, and the adoption of trade facilitation measures and development of communication infrastructure amongst countries in the region would support and complement the movement to a free trade area.

As SAFTA currently stands, the Agreement covers only trade in goods and effectively excludes trade in the services sector. The services sector accounts for a high proportion of the region's

economies and trade in services is the fastest growing form of trade in the world. In this regard, efforts should be made towards incorporating trade in services including investments as they could further facilitate intra-regional trade in goods. It is encouraging to note in the context that a study has been commissioned by the SAARC secretariat to examine the potential for including services in the SAFTA Agreement. Whilst the region will stand to benefit from services trade liberalization, integrating it into the SAFTA would be a challenging task which would require careful thought and consideration.

Investment follows trade but a conducive environment for investment is essential for more investment flows in the region. Double taxation agreements, investment protection agreements, pre-establishment treatment, etc., are well-known issues in the context of creating a stable and conducive environment for large scale investment flows that would in turn invigorate the dormant complementarities in South Asia. With the emergence of India as a source of foreign direct investment, Indian FDI can play a significant role in the SAARC countries akin to the role Japanese FDI played in stimulating intra-ASEAN trade. In this context, it is imperative that the SAARC Investment Agreement is finalized at the earliest which would lead to the creation of a "SAARC Investment Area". This idea needs discussion so that investment integration could also be built into SAFTA in a future date.

In addition to the abovementioned issues, sub-regional cooperation, promoting tourism, LDC issues, ICT connectivity, global food price escalation and its impact on South Asia, while factoring in the human development orientation of the process of regional integration are some of the other themes that will receive attention in the deliberations at the Summit, as indicated in the programme.

## **Objectives**

The 15th SAARC Summit will take place in Colombo, Sri Lanka during 28 July - 03 August 2008 and Sri Lanka will be holding the SAARC Chair till the 16th SAARC Summit. The Government of Sri Lanka is committed to take the SAARC process forward by strengthening economic integration in the region. For this purpose, the new ideas emerging from the academia, private sector, and the civil society of the South Asian region will be important. In this regard, the 1st South Asia Economic Summit (SAES) will be organized in Colombo following the SAARC Summit.

The main objectives of the South Asia Economic Summit are as follows: (a) take stock of the new economic-related issues emerging from the 15th SAARC Summit; (b) follow up of the major theme of the 14th SAARC Summit in 2007, i.e., improving "connectivity" in the region (transport, energy, and trade facilitation); (c) looking at deepening and broadening economic integration by fast tracking goods liberalization under SAFTA and incorporating services and investment for liberalization in the region, respectively; (d) how to strengthen the SAARC process by empowering the SAARC institutions and the Secretariat; (e) how to integrate sub-regional economic cooperation to a broader South Asian framework; (f) analyzing ways and means of encouraging more people-to-people contact by promoting tourism and other means; and (g)

analyze the emerging new issues in South Asian economic cooperation. These issues will be discussed in the context of achieving the SAARC Development Goals (SDGs).

### **Organizers**

The SAES will be jointly organized by the Institute of Policy Studies of Sri Lanka (IPS) and the Federation of Chambers of Commerce and Industry in Sri Lanka (FCCISL) in collaboration with a number of institutes in the region: Research and Information System for Developing Countries (RIS), India; South Asia Centre for Policy Studies (SACEPS), Nepal; and South Asia Watch on Trade, Economics & Environment (SAWTEE), Nepal. The SAES will also have collaboration and technical inputs from the World Bank, Commonwealth Secretariat, UNDP- Regional Centre Colombo, and the ADB.

The SAES would be organized to coincide with the 8th SAARC Trade Fair in Colombo during 28-30 August, 2008 ([www.saarctradefairsl.com](http://www.saarctradefairsl.com)). The event would be attended by participants from all the seven countries (and Afghanistan) and would bring together a cross section of stakeholders from the government, private sector and research institutes in the region to review and reflect on the economic cooperation within South Asia to date and how the process can be further strengthened by incorporating trade in services, extending cooperation to investment, trade facilitation, transport, energy, etc.