

FIRST SOUTH ASIA ECONOMIC SUMMIT STATEMENT

Colombo, 28-30 August, 2008

The First South Asia Economic Summit was held in Colombo, as a follow up to the 15th SAARC Heads of State Summit. The Summit was organized by the Institute of Policy Studies Sri Lanka, and the Federation of Chambers of Commerce and Industry of Sri Lanka in partnership with RIS, SACEPS, SAWTEE, World Bank, Commonwealth Secretariat, UNDP, and ADB. The Conference brought together academics, private sector, civil society, and the policy makers from Afghanistan, Bhutan, Bangladesh, Pakistan, India, Nepal, Maldives and Sri Lanka.

The First South Asia Economic Summit debated and discussed regional development issues for three days. It was argued that despite progress in regional economic growth, poverty remains a problem in South Asia, particularly in rural and border areas. The importance of regional market integration to achieve higher growth leading to poverty alleviation in South Asia was stressed throughout the Summit. Increased market integration and inclusive, sustainable growth were highlighted as being critical to accelerating economic development, creating jobs, reducing poverty, and promoting peace and stability in the region.

A concluding resolution was signed by a cross section of the participants at the First South Asia Economic Summit. The resolution is aimed at building regional capacity, deepening understanding of regional development issues, promoting networking between policy makers, academics, private sector, and the civil society, and supporting the implementation of regional cooperation and development agenda. The Communiqué emphasized the following goals as high priority:

- Management of the current food crisis
- Enhance intra-regional trade in goods and services
- Improve connectivity, transport and trade facilitation
- Promote regional energy cooperation and trade
- Improve regional ICT network
- Facilitate regional remittance flows and management
- Improve regional cooperation in disaster management and climate change
- Promote cross-border flow of investments

1. Management of the Current Food Crisis

Food price inflation is a major concern because it threatens not only national and regional food security, but also macro-economic stability and poverty reduction. How South Asia deals with the food crisis would have a profound impact on the performance of the economy and society. In the past, managing food crises entailed imposing price controls, which in reality created food shortages that ultimately hurt the poor. Artificial price ceilings curtail the positive supply response to increased demand – resulting in an even higher food price. It is important to minimize the impact of high food price inflation on the poor in the short-run without losing sight of the need for medium/long term measures for improving agricultural productivity. It was suggested that South Asia will benefit from:

- Implementing short-term measures to expand existing social assistance programs that directly targets the poor households to protect South Asia's poor in the face of the dramatic increase in global food prices. Most South Asian countries have cash transfer programs that provide grains at lower costs directly to the poor. These programs could be expanded by increasing the amount of cash- transfers and the number of people receiving low cost grains while still passing on the price increase to other domestic consumers who can better afford it. The key to the success of such measures is the efficacy of targeting mechanisms.
- Acceleration of medium/long-term measures to reinforce market integration and increase agricultural productivity by: (i) stimulating domestic supply of food through investments in irrigation, improved seeds, fertilizer and mechanization, reducing infrastructural, logistical, and other barriers to domestic trade and improvement of domestic private food distribution networks, and improving access to rural financial institutions and risk management instruments. (ii) taking measures to increase trade in agricultural products to address food inflation. This applies to trade within countries, within the region and the rest of the world as well. The damaging effect of export bans for regional food security was also highlighted. (iii) Expedited implementation of a SAARC food bank to enhance regional food security.

2. Enhance Intra-regional trade in goods and services

The Summit recognizes the fact that intra-regional trade in South Asia is unacceptably low. Whilst acknowledging the fact that the South Asia Free Trade Agreement (SAFTA) has taken the first steps towards improving the situation, the Summit highlighted several steps required to enhance the efficacy of the Agreement in boosting intra-regional trade.

- Binding commitments on reduction of the sizes of negative lists
- Binding commitments on removal of non-tariff barriers within a time-based framework
- Enhanced trade facilitation measures including cooperation on standards harmonization, customs and transit simplification
- Fast-tracking the liberalization of trade in heavily traded products in the region
- Expediting the inclusion of trade in services and investment in the SAFTA
- Cooperation to enhance supply side capacities in weaker economies

There is a need to finalise the SAARC Agreement on Trade in Services (SAFAS) without further delay. Extending South Asia Free Trade Agreement (SAFTA) to include services would considerably broaden its scope and impact, and boost competitiveness in key emerging sectors such as banking, communications and aviation. Policy issues that still need to be addressed include:-

- Compatibility in the long-term with broader integration in WTO GATS
- Sequencing and prioritisation of policy initiatives and sectors. SAFTA would do well to follow the approach adopted by the Indo-Lanka CEPA where “softer” areas (tourism, etc.) are liberalised first, following the successful completion of which more advanced sectors could be considered
- Building data on intra-regional trade in services for smooth negotiations
- Taking account of the fact that a mode-wise approach does not fully reflect the economic reality of simultaneously supplying services through multiple modes and linkages between modes of supply for the delivery of services. Barriers to one mode translate into actual/potential barriers to other modes.
- Regulatory capacity is also weak in the region, especially in terms of ensuring standards of service supply and adherence to rules. It is important to address this issue through greater cooperation between the regulatory bodies within the region and also learning from regulatory bodies in other countries that have entered into agreements on trade in services

3. Improve Connectivity through Regional Cooperation in Trade Facilitation Measures, particularly Transport, Logistics, Customs and NTBs

High transaction costs have constrained the region’s ability to maximize trade particularly at the intra-regional level where South Asia’s level of intra-regional trade (5% of total trade) falls far behind that of other regions. The first South Asia Economic Summit has highlighted the importance of adequate infrastructure and trading environment in tapping potential trade across the region. This would assist lagging regions such as North East India, Nepal, Bhutan and Afghanistan to enhance access to both their traditional and new markets.

As such the participants of the First South Asia Economic Summit have discussed the role of transport in trade facilitation and have drawn the following conclusions;

- The participants endorse the Heads of Governments commitment at the 15th SAARC Summit to increase connectivity through the phased implementation of the findings of the South Asia Regional Multi-Modal Study. Corridors prioritized in the Study are those that have greatest potential for rapidly creating opportunities for intra-regional trade
- Alongside improvement in transport corridors, there is an urgent need to improve efficiency of border crossings through both the provision of infrastructure and more specifically, improvement in processing times at borders, thus reducing congestion
- It was also emphasized that improved air linkages in the region along with simplified visa processes would enhance the ability of citizen interaction, which is critical to effective regional cooperation
- Continued improvements in customs procedures including use of technology to reduce administrative barriers and opportunities for rent seeking is vital in building private sector confidence in the formal trade process
- Modernization in the trucking sector throughout the region is necessary in order to sufficiently address the increase in global demand and supply chain practices such as containerization. Creation of more modern supply chain approach to trade will create economies of scale, add value, reduce loss and damage, and have less detrimental impact on the environment
- Adequate land and sea access is a critical factor for a successful port. Creation of suitable access to ports in the region will create gateway choice for traders and inter-port competition
- The engagement of the private sector/civil society in the determination of trade-transport facilitation is a vital part of creating the incentives for continued multilateral dialogue. Investment in transport infrastructure and trade facilitation will only deliver returns if it has a firm basis in market-driven need
- Tariff and non-tariffs barriers reductions to encourage trade creation rather than trade diversion. Despite progress on liberalizing trade, South Asia remains the most highly protected region in the world. Tariff rates in the region are some of the highest among developing countries. The Summit focuses on three components—focusing on the removal of non-tariff barriers (NTBs)—including:
 - Improvement and harmonization of environment for trade and transit (e.g., transit treaties), policies and regulations to facilitate trade (e.g., customs procedures)
 - Improving trade supporting infrastructure (e.g., land border stations)
 - Improving trade supporting transport services (e.g., trucking industry)

4. Regional Energy Cooperation

Lack of adequate and reliable energy in South Asia is emerging as a key constraint to sustaining recent strong economic growth. India, Pakistan, Bangladesh, Sri Lanka, and Afghanistan have energy demand growth far outstripping domestic supply. At the same time, a number of the countries in the region (i.e. Bhutan and Nepal) have energy resources far in excess of their domestic needs.

Yet, the level of cross-border energy integration is very low and the national gas and electricity networks are largely isolated from each other. Significant electricity trade exists only between India and Bhutan; there are no gas pipelines crossing the national borders of any South Asian country. Investing in energy infrastructural linkages within the region will open up substantial opportunities for cooperation in energy in South Asia. In the longer term there will be scope for intra-regional trade in energy, which entails potential benefits through improved energy efficiency. Fostering of cross border energy investments and promotion of regional energy trade in order to take full advantage of the energy resources available within the region and its neighborhood are pertinent tools in dealing with energy shortages.

Increased regional cooperation in green energy will also yield substantial benefits in the long term. Cooperation in technology, investment and implementation of green energy solutions will enable optimal usage of the region's natural resources to fulfill the potential of bio-fuels, hydro-power and other clean fuels. This will undoubtedly have positive impacts on the region's energy and environmental concerns.

Major barriers to meaningful energy cooperation in the past included the lack of cross-border transmission links; the presence of bottlenecks in the domestic energy infrastructure; poor operational efficiency, financial performance and creditworthiness of the utilities; and long standing political disputes. These barriers have overshadowed favorable factors such as complementary primary energy endowments, complementarities in seasonality of demand; improved energy security; and economic efficiencies associated with larger integrated markets.

More favorable conditions for increased cross-border energy investment and trade have started to emerge: strong economic growth fueled by increased integration in global economy; increasing commercialization and structural reforms of national energy markets; and stronger role of private sector in energy supply.

5. Information Communication Technology ICT

South Asia has tremendous potential in developing a regional network on knowledge, research and innovation connecting all the countries of the region. There are untapped positive synergies at the South Asian regional level in terms of information sharing and competition in ideas between universities, non-university research and teaching entities, libraries, hospitals, and other knowledge institutions. A regional high-

bandwidth, high-speed Internet-based network could help spur such benefits, facilitating greater interactions between knowledge workers in areas such as high-energy physics, nanotechnology, and medical research.

It also could help in the building and sharing of regional databases, and in addressing regional and especially regional-rural problems, including multi-country initiatives such as flood control, disaster management, climate change, and infectious disease control. Importantly, such an effort could help spark higher and more sustainable regional growth.

To promote better regional collaboration and integration across South Asia, by supporting knowledge sharing activities across borders using existing and planned high-performance knowledge networks.

The Summit also recognizes the importance of laying the appropriate foundations that will make viable such integration through ICT. Reliable electricity and basic communication infrastructure are pre-requisites to ICT development that are often not available in key parts of the region. Whilst South Asia is known as a hub of human resource expertise in the IT sector, there are many countries and sub-regions that lag behind in this respect. Greater regional cooperation in human resource development and ICT related infrastructure development will go a long way towards achieving the potential benefits through enhanced ICT cooperation in South Asia.

6. Remittances and Migration

The total number of migrants from South Asia in the world is 22 million people. 1.5 percent of South Asian population, lived outside their country of birth in 2005, according to a recent study by the World Bank. Intra-regional migration (34.5%) covers the largest share of international migration movement in South Asia, while high-income non-OECD countries (25.3%) and high-income OECD countries (20.3%) are the second and third largest destinations. Bangladesh-India, India-United Arab Emirates and Afghanistan-Iran are the top three migration corridors in the region.

The benefits of migration from countries of origin are realized mostly through remittances. Remittances directly augment the income of the recipient households. They also indirectly affect poverty and welfare through their macroeconomic effects. Remittances have become increasingly prominent in South Asia. The official remittance inflows to South Asia have been increasing continuously over the past decade from \$5.6 billion (1.4% of GDP) in 1990 to \$43.8 billion (3.2% of GDP) in 2007.

In light of the above fact, there is a need to forge greater cooperation among the South Asia Association for Regional Cooperation (SAARC) authorities on issues of

migration, remittances and development. The First Summit has suggested that South Asia:

- Undertake a study to assess the impact of migration on development.
- Develop a Plan of Action for Cooperation on remittances issues to facilitate the flow of funds and to reduce the costs of transfer remittances
- To cooperate amongst Member Countries in the movement of labor, both skilled and unskilled
- Establish regional standards on collecting data on remittances and migration
- Undertake mutual recognition of professional qualifications to encourage skilled migration
- Develop a safe migration policy
- Include labour and migrant welfare in the SAARC Social Charter

7. Disaster Management and Climate change

Concerned by the high level of risk and the impact of recent large scale disasters in the region; learning from their own experiences the adverse impact natural disasters have on overall development and economic growth, while impeding poverty reduction efforts; and thereby realizing disaster risk reduction to be a crucial element of the economic growth agenda in the region, the First South Asia Economic Summit calls for increased collaboration in the field of disaster risk management. In particular, they urge the advancing and sharing of knowledge, transfer of technology, building human and institutional capacity, and implementing, where feasible, trans-boundary disaster risk reduction programs, such as early warning systems

The Summit also acknowledges the potentially significant impact of climate change on the South Asia Region economy, environment, and society, and the need to enhance scientific and developmental efforts to better understand the vulnerability and improve adaptation, and thus resolves to;

- Improve collaborative research and information sharing for an improved understanding of the climate change challenges and better prepare for and manage evolving climate risks such as droughts and floods, especially on regional climate change hotspots such as the Himalayas and the coastal systems
- Explore improved regional mobilization and access to finance climate change-related activities
- Support development and adoption of "green" technologies that reduce local and global adverse environmental impacts, especially where they also have economic and social benefits
- Urge the international community to support the region through financing and technology transfer on climate change
- Enhance capacity building in disaster management.

8. Improve regional cooperation in cross-border investments

Improving present low levels of cross border investment in the South Asia Region will benefit the region's economic growth. These low levels of cross border investment are attributable to: (i) a combination of regulatory barriers to investment (ii) contradictory and unhelpful industrial and investment policies (iii) capital market weaknesses (iv) poor market information and (v) general concerns on predictability and security.

Establishing a joint consultative mechanism to share experiences, learning from international best practice and encouraging reform is an important starting point to reaching the objective of greater cross border investment. The work agenda would be expected to include the following:

- Investigation into specific regulatory impediments to the flow of capital and investment across the region, including government procurement and Public – Private - Partnerships
- Developing a common understanding of appropriate investment incentives and industrial policies – “avoiding the race to the bottom”
- Building common monitoring and evaluation frameworks to measure the progress of investment climate reforms and levels of country competitiveness which will allow regional comparisons
- Investment promotion agency capacity building – building IPAs capacity to engage in policy dialogue and encourage promotion and facilitation
- Corporate governance – encouraging the establishment of a consistent corporate governance framework across the region. This is an important measure to encourage investment predictability.

Governments should continue economic reforms aimed at sustainable growth, job and wealth creation and adopt policies to promote inclusiveness, and wider access to low cost products and services for the poor. In order to enable the private sector to play a full role in economic growth, the investment climate in South Asian countries should be strengthened to reduce the cost of doing business, and create a competitive market environment supported by transparent and effective regulation and zero tolerance of corruption.

As countries move to second-generation reforms and focus on a long-term growth agenda, they increasingly reach to their diasporas as an entry point to articulate and implement such agendas. The South Asian diaspora can encourage governments in the region to pursue flexible, liberal and trade-friendly policies. They have a growing stake in the development of effective regional trading relationships and have a role to play in an emerging regional identity.

There need to be effective forums for dialogue: Government should engage in dialogue with the private sector on a wide range of investment climate reform matters such as trade policy – trade agreements between countries of the region, and at WTO

level; regulatory frameworks (including tax and competition policy); and strengthening public administration.

Legal and regulatory systems need to cater for the areas of essential interest to business and reduce the associated costs to business: company law, contract enforcement; time taken to open and close down a business (which vary widely between countries at present); competition policy (to address restrictive practices both by dominant companies and by governments e.g. in Government procurement which must be open and transparent). Investment and trade promotion and the reputation of the region need to be proactively built in thinking, policy and practice by pursuing an integrated approach taken to investment.

There needs to be a concerted, coherent and coordinated move to support investment promotion and reputation building for trade and investment in South Asia. This becomes more necessary given the growth of the service sector in the region, the emergence of regional corporate brands and the importance of regional and international media in changing perceptions. At the same time a knowledge base on trade and investment in South Asia should be developed by linking industry associations and trade promotion bodies and others including business schools and be freely available through the internet.

Useful levers to use include:-

- The imminent launch of the South Asian Federation of Exchanges Index (SAFE Index) with Dow Jones Indexes in 2008
- The OECD Policy Framework for Investment to whose development India and Pakistan contributed
- The development of a web resource for South Asia Regional Investment Promotion with the private sector, civil society and government playing key roles
- Building international awareness and promotion of developments in South Asia via media, think tanks / academia and private sector
- Engaging and using professional diaspora networks in the US, Europe, Asia and parts of Africa

The Next Steps

This communiqué will be sent to all the Heads of Governments in South Asia. It will also be published widely through both the electronic and print media. The communiqué will be available on the conference website (www.ips.lk/saes). It was agreed that the dialogue on regional cooperation will build on the solid foundations laid in this First South Asia Economic Summit with follow up annual events. The next summit will be held in 2009 and hosted by RIS, New Delhi.

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