

Impediments to Regional Economic Cooperation in South Asia

Editor

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**IMPEDIMENTS TO REGIONAL ECONOMIC COOPERATION IN
SOUTH ASIA**

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Preface

At a time when South Asia faces daunting challenges of tackling the problems of poverty and deprivation and when the region is lagging behind in almost all areas of human endeavour, the prospects of purposeful regional cooperation have remained uncertain and SAARC's progress slow and unspectacular. SAARC's inability to meet regularly at a time of rapidly evolving global economic and political architecture has created a situation in which the region has been unable to address the existing impediments to regional cooperation.

The Citizen's Commission for South Asia headed by the former Prime Minister of India, Hon. I. K. Gujral, met in December 2000 in Kathmandu, Nepal. The Commission noted that SAARC's progress had largely remained inter-governmental and wanted a people's focus to be given to SAARC activities and to broad base it by involving all segments of South Asian societies. Among the recommendations made was that the inter-governmental decision to finalize and operationalize the SAFTA Treaty by the agreed deadline of December 2001 should be implemented. In this context, the Preparatory Committee of the Citizen's Commission under its work plan requested Sri Lanka to coordinate a study on "Impediments to Regional Economic Cooperation in South Asia". Accordingly, the Coalition for Action for South Asian Cooperation (CASAC) - Sri Lanka Chapter decided to organize a workshop to identify the key impediments to economic cooperation in South Asia and to examine them in the light of the Group of Eminent Persons (GEP) Report recommendations and the challenges posed by the Information Technology (IT) revolution and the emergence of the Knowledge-Based Economies (KBes). The papers presented in this Workshop make up this volume.

In Chapter 1, Dushni Weerakoon provides an overview of the impediments to economic cooperation in South Asia. Weerakoon shows that South Asia was slow to take up the issue of regional economic cooperation. Although SAARC was established in 1985, the South Asian Preferential Trade Agreement (SAPTA) was accepted only in 1993 and came into operation in 1995. So far, there have been 3 rounds of negotiations under SAPTA with a total of about 5000 tariff lines negotiated but there are inherent problems of using preferential trade concessions. Despite the rhetoric on strengthening trade between SAARC countries, Weerakoon argues that little by the way of benefits were gained as a result of intra-SAARC trade liberalization. Intra-SAARC trade as a percentage of South Asian trade with the rest of the world has stagnated at around 4 per cent in the 1990s. Given the experience of SAPTA negotiations to date and the political constraints to economic cooperation in the region, there has been a trend towards forming bilateral agreements between member countries, which in the author's view is likely to

undermine support for economic cooperation at a regional level. Moreover, there is the greater danger of widening rather than bridging differences in the region as both India and Pakistan appear to be intent on signing separate agreements with their smaller South Asian partners. As such, the author argues it is time for SAARC to wake up and determine the future path of economic cooperation in the region and take action before it finds itself redundant in the process of regional integration in South Asia.

In Chapter 2, Saman Udagedera looks more specifically at the three rounds of SAPTA negotiations that have taken place up to date, and identifies the constraints encountered in the negotiations and challenges that need to be addressed in future negotiations. Udagedera argues that trade liberalization among the SAARC countries has not progressed as desired due to a number of constraints, which have hampered the SAPTA process. These constraints include political distrust; economic asymmetries and limited trade complementarities among the member countries; lack of commitment; lack of information; and the existence of a spectra of trade arrangements among member countries. The relevance of SAPTA to member countries depends on its ability to promote intra-regional trade and the author shows that to this end a number of urgent steps need to be taken. These include widening product coverage and deepening tariff cuts, ensuring equitable distribution of benefits among the members, and removal of structural impediments to trade. However, according to the author, the main challenge for SAPTA is to pave the way for SAFTA.

In Chapter 3, Jayasekera evaluates the economic aspects of the Group of Eminent Persons (GEP) Report, which was a landmark document in that it provided an appraisal of SAARC activities to date and a vision for the Association beyond the year 2000. The GEP is very ambitious as it envisages a South Asian Economic Union by year 2020 – a move from a preferential trading area, which is where SAARC is at the moment, to an Economic Union in just twenty years. Given the deep political divisions in the region, Jayasekera argues that this may appear to be unattainable and highlights the fact that it has taken Europe forty years to move from the European Coal and Steel Community of the 1950s to the present day European Union.

Knowledge is increasingly becoming an important source of economic growth all over the world and the world is increasingly making a transition from an industrial to a knowledge-based economy (KBE). In Chapter 4, Wijayasiri and Dias-Desinghe examine the extent to which South Asian countries have progressed as KBEs in comparison to the rest of the world and the prospects for regional cooperation in promoting KBEs in the region and the likely challenges facing the countries in their transition to knowledge based economies. They show that the region is weak with respect to the four key dimensions of a KBE, namely business environment, innovation systems, human resource development and information and communication technology (ICT) infrastructure, which are likely to hinder the prospects of the region in its movement to a KBE. Although the impediments are largely domestic in nature and need to be

addressed as such, the authors argue that regional cooperation could facilitate the promotion of KBEs in the member countries. SAARC has been involved in promoting KBE related activities, directly and indirectly, in the past, and the authors argue that these need to be consolidated and better focused to promote the development of KBEs.

Members of the staff of the Institute of Policy Studies (IPS) facilitated the preparation of this Conference volume. Particular thanks go to Janaka Wijayasiri, Dushni Weerakoon, Tilani Dias Desinghe, and Anoja Jayasuriya. Thanks also go to the main sponsor of the Conference-- Friedrich Ebert Stiftung (FES), Colombo. The IPS and FES hope that the Citizen's Commission as well as other researchers interested in South Asian regionalism from an economic perspective would find the contents of this volume useful in their pursuits.

Saman Kelegama

Editor

October 2001

Welcome Address

In making his welcome address Dr. Saman Kelegama stated that the Chief Guest, Hon. Harindra Corea, Deputy Minister of Foreign Affairs, was unable to be present today, due to another engagement. However, we are privileged to have Dr. Gamani Corea, as the Guest of Honour to make the Keynote address. Dr. Corea has played a key role in promoting South South Cooperation. He was also appointed by H.E. the President in 1997 as the Head of a Task Force to consider the implications of the South Asian Preferential Trading Arrangements on the Sri Lankan economy. A comprehensive report was submitted by the Task Force just before the 10th SAARC Summit in Colombo in July 1998.

At the 10th SAARC Summit, it was decided to concentrate on the topic "South Asia in the Global Economy". It was also decided to set up a SAARC Research Network and the Institute of Policy Studies was selected to chair this network. The subjects selected for study by the network were to be within the broad parameters of the topic "South Asia in the Global Economy". Meanwhile the Coalition for Action on South Asian Cooperation (CASAC) had also done substantial research in South Asian Cooperation, supported and funded by the Friedrich Ebert Stiftung (FES). At the meeting of CASAC in Kathmandu in December 1999, it was considered that a new impetus should be given to South Asian Cooperation, since SAARC Cooperation was at a standstill. Accordingly, a Citizens Commission for South Asia was established to strengthen the voice of civil society groups in South Asia. The Citizens Commission was headed by the former Indian Prime Minister, Dr. I.K. Gujral, and consisted of 21 eminent personalities from South Asia. The Citizens Commission met in Kathmandu in December 2000 and in their report in January 2001, proposed strategies and studies to review regional cooperation in South Asia. One of the studies was on "Impediments to Regional Economic Cooperation in South Asia" which was assigned to the Institute of Policy Studies. At the Sri Lanka chapter meeting of CASAC in Colombo in April 2001, it was decided that the Institute of Policy Studies, together with CASAC, should organize a Seminar on this subject. We are grateful to the Friedrich Ebert Stiftung for sponsoring and supporting this event.

Keynote Address

Dr. Gamani Corea, who delivered the keynote address, was of the view that the subject of the Seminar deserved more attention than it had received up to now. He thanked the sponsors for supporting this event. When he considered the subject matter of the seminar, his mind went back to Raul Prebisch and the work of the Economic Commission for Latin America (ECLA). The ECLA wrote of the distortions in the Centre - Periphery relationship. When ECLA spoke of regional cooperation, it was meant to be a stepping-stone to industrialization through import substitution. On the contrary, regional cooperation now is considered as a means of strengthening countries, in order to participate in the global economy. Almost all developing countries in Latin America, Africa and Asia - Asia came in later than the others - were members of some regional grouping or the other and most of them were inspired by the example of the European Economic Community (now Union). Europe in his opinion was different, since the intra trade and other linkages were already strong, prior to integration. Unlike in the case of Europe, developing countries for the most part, had to launch and stimulate new linkages in their regional groupings.

As far as impediments to regional economic cooperation in South Asia were concerned, he did not consider them in a negative way, but more as constraints and obstacles that could be overcome.

- The political stresses and tensions among the larger members of the region particularly Indo/Pakistan has stood in the way of even arranging summits and other meetings. When SAARC was established, it was felt that it would help to defuse political tensions, but there has been only partial success.
- There is a low level of intra trade among the South Asian countries. All these countries were part of the British Empire, and their trade had been geared and oriented towards the latter, rather than towards each other.

- Low per capita income of the countries and low purchasing power have constrained utilizing the markets in the region.
- Disparities in the region, India preponderant in terms of size, population, economic activities etc. If countries were of similar size, scope for expansion of contacts and linkages are greater. A big country like India has much less to gain from a regional grouping, than smaller countries, which could target the vast Indian market.
- Lack of infrastructure in the SAARC countries. The development of infrastructure, and establishment of linkages should be a means of giving momentum to SAARC.
- Some of the members of SAARC are also in parallel groups, such as BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Community) and IOR-ARC (Indian Ocean Rim Association for Regional Cooperation) which includes some developed countries as well. Both groupings are also committed to further their economic and trade cooperation. There could be opportunities in these regional groupings, but there could be problems too.
- Issues arise due to membership of regional groupings and membership of the WTO (World Trade Organization). Regional groups like SAARC now say that their aim is to strengthen themselves to better face global challenges, rather than to replace the global trade system. There is also the problem of bilateral agreements vis-a-vis regional arrangements. Bilateral arrangements should be 'fast track' in order to facilitate regional integration, and not be a substitute.
- Position of Least Developed Countries (LDCs). Within the group of the seven SAARC countries, four are LDCs (Bangladesh, Nepal, Bhutan and Maldives). LDCs are now entitled in the European Union to duty free and quota free trade, except for armaments. These concessions may soon be extended to other developed countries. Bangladesh is a large country and the concessions, which they receive, may enable them to attract foreign investments.

- The emphasis each country may give to WTO agreements may differ. Not all SAARC countries would have a similar position as regards to the phasing out of quotas under the Multi Fibre Arrangement (MFA) India and Pakistan would have preferred an early phasing out, while the newer smaller exporting countries like Sri Lanka and Bangladesh may have preferred a longer timeframe.
- Finally, the emphasis on the question of considering impediments was to flag issues for deliberation,. It was not to weaken the need for cooperation but rather it was the need to minimize obstacles and impediments to regional cooperation, thereby to ensure the success of regional cooperation in South Asia.

Part I

Chapter I

Impediments to Economic Cooperation in South Asia: An Overview

Dushni Weerakoon

1. Introduction

Between 1948 and 1998, 153 regional trade agreements have been notified to the GATT or the WTO, of which most are still in force. Almost a half of these agreements – *albeit* revisions of previous agreements in some instances – have been set up since the 1990s. The reason for this global explosion in regional trade arrangements remains contentious; there are many who argue that as the UR negotiations appeared to falter, undermining confidence in the multilateral trading system, interest in regionalism saw a resurgence. Nevertheless, even with the successful conclusion of the UR in 1993, interest in regionalism did not wane. In fact, it appeared to strengthen, with more and more countries signing up for preferential or free trade access.

South Asia, on the other hand, was slow to take up the issue of regional economic cooperation. Although SAARC was established in 1985, the South Asian Preferential Trade Agreement (SAPTA) was accepted only in 1993 and came into operation with the ratification of the first round of negotiations only in December 1995. Developments in the global trading system undoubtedly exerted their own influence on South Asian policymakers. South Asia was increasingly being marginalized as a region – Europe, North America, Latin America and East Asia were all moving either in the direction of forming new regional trade arrangements or strengthening existing ones. For South Asian countries, in the absence of an entry point into a more dynamic regional body, the second best option appeared to be to cooperate amongst themselves in the hope that it would generate political goodwill, if not actual economic benefits in the medium to longer term.

The first round of trade negotiations covered only 226 products, largely of little relevance to the actual trade that was taking place amongst the member countries.¹ But it was

¹ Mukherji, I.N., 1996, 'South Asian Preferential Trading Arrangement: Assessing Trade Flows in the First Round of Trade Negotiations', Friedrich Naumann Stiftung, New Delhi.

sufficient to build enough confidence amongst the regional partners to actually initiate a dialogue of taking South Asia from a preferential agreement to a more intense level of integration in the form of a regional free trade area. In principle, the concept was accepted by member states in 1996 and a date of 2000 but not later than 2005 was proposed for the establishment of SAFTA. Thereafter, at the 1997 Summit in Male, the date was inexplicably brought forward to 2001. However, in the following year – voicing concerns of some member states – the Eminent Persons Group proposed a longer timeframe of 2008. But the constant reversals of dates did not help in instilling confidence that SAARC had carefully thought out its agenda. Rather, it appeared far too hasty in setting itself an ambitious timeframe for the establishment of SAFTA, without due consideration to overcome the problems and challenges it was likely to face.

2. SAPTA Negotiations

An analysis of the SAPTA negotiations underlines the constraints that South Asia faces in attempting to integrate as a regional entity. There have been 3 rounds of negotiations under SAPTA; with the conclusion of the third and final round in November 1998, over 5000 tariff lines of a total of 6500 have been covered by preferences to member countries (Table 1). India has offered the largest number of concessions followed by Bangladesh and Pakistan. The LDC member states within SAARC (that is, Bangladesh, Bhutan, Maldives and Nepal) have also been offered a larger share of such concessions *vis-à-vis* the non-LDC states.

Table 1
SAPTA Preferences

	LDC	Non-LDC	Total
Bangladesh	44	558	602
Bhutan	122	68	190
India	2412	484	2896
Maldives	369	19	388
Nepal	177	252	429
Pakistan	242	284	526
Sri Lanka	52	144	196
SAARC	3418	1809	5227

Source: Compiled from the Consolidated National Schedule of Concessions of Member States.

There are inherent problems of using preferential trade concessions as a means of increasing trade volume within any given regional framework. Countries can appear very generous simply on the basis of the number of concessions given, but what is more relevant is the actual trade coverage of those preferences. Similarly, the depth of tariff cuts offered under a preferential agreement can again be limiting. The South Asian Preferential Trade Agreement suffers from both these factors.²

Looking purely at the examples of India and Sri Lanka and their concessions offered under SAPTA illustrates the point clearly. Sri Lanka's major exports to India are in agricultural related exports, base metals, plastics and rubber, textiles and paper products, but the number of concessions of actual trade interest to Sri Lanka on these items are minimal under SAPTA (Table 2). India has offered concessions on a total of nearly 2900 products, of which non-LDC members like Sri Lanka are eligible for concessions under 484 products. In terms of the trade that is taking place between Sri Lanka and India, only 30 items of that 484 are of actual trade interest to Sri Lanka.

And similarly, while India's major exports to Sri Lanka are again in agricultural products, textiles, transport goods, machinery and base metals, Sri Lanka has offered concessions on 11 items of animal products which account for 1 per cent of total Indian exports to the country. The only item on which Sri Lanka appears to have offered significant concessions is in base metals where India has an export interest. In total, of the 144 items offered by Sri Lanka to non-LDCs, only 63 items are of actual trade interest to India. The bilateral example of India and Sri Lanka illustrates the irrelevance of much of the goods on which South Asian countries have offered concessions to each other under the SAPTA process. And this is true for other countries within SAPTA as well.

Sri Lanka's exports to South Asia as a percentage of its total exports was 2.5 per cent in 1995; it declined in the following year to 2.2 per cent before recording an increase to 2.8 per cent in 1999. The percentage of such exports falling under SAPTA concessions in the meantime has indicated a steady decline from 33.9 per cent in 1997 to 24.6 per cent in 1999. What it appears to suggest is that exporters are taking advantage of the SAPTA

² See also Weerakoon, D., 1998, SAPTA/SAFTA: Implications for Sri Lanka, *Upanathi*, Vol. 9, Nos. 1&2; Kelegama, S., 1999, 'SAPTA and its Future' in E. Gonsalves and N. Jetley (eds.) *The Dynamics of South Asia: Regional Cooperation and SAARC*, Sage Publications, New Delhi; Institute of Policy Studies, 1999, *State of the Economy*, IPS, Colombo.

preferences, but that those preferences are too limited in both the depth of tariff cuts and coverage of traded items to have any impact in actually increasing the volume of Sri Lankan exports to the rest of South Asia.

Table 2
Distribution of Traded Goods Eligible for Concessions under SAPTA

	Indian Concessions to SL		SL Concessions to India	
	Of trade interest	Composition of SL exports to India	Of trade interest	Composition of Indian exports to SL
Live animals, animal products		2.2	11	1.0
Vegetable products	6	38.8	3	19.3
Animal or vegetable fats and oils		7.3		0.1
Prepared foodstuffs	4	0.8		3.8
Mineral products	2	0.2		0.8
Chemical products	6	1.0	7	9.6
Plastics & rubber	4	11.3	1	3.1
Leather products		0.2	2	0.1
Wood products	3	0.1		0.4
Paper products	2	9.6		3.8
Textile articles		10.9	6	18.7
Footwear	1	0.2		0.1
Stone, plaster, cement		1.0		1.8
Pearls		0.3		0.4
Base metal	1	14.0	23	10.3
Machinery & mechanical goods		1.7	6	11.4
Transport equipment	1	0.0	4	13.7
Optical, photographic equip.		0.1		0.7
Arms & ammunition		0.0		0.0
Misc. manufactured articles		0.2		0.8
Works of art		0.0		0.0
Total	30	100.0	63	100.0

Source: Compiled from the Consolidated National Schedule of Concessions of Member States.

In terms of SAPTA's impact on imports, Sri Lanka's imports from South Asia as a share of its total imports have declined marginally from 11.8 per cent in 1997 to 11.7 per cent in 1999. The percentage of such imports falling under SAPTA concessions have again shown a decline from 12.4 per cent in 1997 to 11.7 per cent in 1999. Therefore, as in the case of exports, there has been no change in the share of imports originating from South

Asia as a result of concessions offered under SAPTA. Hence, it is very clear that despite the rhetoric on strengthening trade links between SAARC countries, the reality is that very little by way of benefits has emerged. For the most part, intra-SAARC trade as a percentage of South Asia trade with the rest of the world has stagnated at around 4 per cent in the latter half of the 1990s.

3. South Asian Economic Cooperation: is there a future?

The question the experience of SAPTA negotiations raise is whether South Asian countries are genuinely committed to regional trade liberalization or whether it is merely a confidence building exercise that is being pursued as a means of easing political tensions in the region. Some take the argument further to insist that economic cooperation will inevitably lead to greater political cohesion in the region and therefore should be pursued even if initial trade related benefits of SAPTA prove very limited. Is this argument valid for South Asia? Are South Asian interests best served by pursuing economic cooperation? Or are the political obstacles too deeply ingrained to justify the costs of negotiating, administering and implementing a regional trade arrangement?

Some political economists have drawn what seems to be an inevitable conclusion that the most likely scenario for South Asia is that it will remain locked in an unstable situation. Their argument is that given the Indo-centric nature of the region, any change will require that India becomes more accommodating, but that India may regard accommodation as unnecessary given that it considers itself powerful enough to cope with any tension in the subcontinent.³ Such reluctance will then serve to strengthen anti-Indian hawks in Pakistan and as a consequence, South Asia may never benefit from a spirit of regionalism. These arguments have been taken even further. There are those who argue that in the case of India, for example, even with increase in trade within SAARC, it will not fulfill the needs of the Indian economy. In the case of Pakistan, it is suggested that a real integration with SAARC that has India as the dominant member can threaten to blur Pakistan's political and strategic identity and, therefore, will not be fully acceptable.

And these sentiments are largely true of the South Asian political landscape. No doubt SAARC may have a useful role to play in easing tensions in the region by at least getting

³ Maass, C.D., 1999, 'South Asia: Drawn Between Cooperation and Conflict' in E. Gonsalves and N. Jetley (eds.) *The Dynamics of South Asia: Regional Cooperation and SAARC*, Sage Publications, New Delhi.

its major actors together. But a regional trade agenda that is being dictated to by political expedience is unlikely to generate the benefits that will build support for it amongst the South Asian people. The agenda for SAARC economic cooperation remains very much a discussion between government officials, researchers and limited participants from the private sector. If economic imperatives are to put pressure on the political process, then wider participation of civil society and stakeholders are no doubt essential. But that will come only with proven benefits of economic cooperation – a factor that is unfortunately missing in South Asia's experience with the SAPTA process to date.

The political constraints to economic cooperation is most clearly evident from the recent experience where the SAARC agenda has come to a virtual standstill since the nuclear test explosions of early 1998. A resultant development of that stand-off has been the shift in focus to bilateral trade agreements between SAARC member countries. It is not an exaggeration to suggest that the sudden decision to sign the Indo-Lanka Free Trade Agreement (ILFTA) in December 1998 was driven by political considerations on the part of India. For Sri Lanka, the driving imperative was in terms of first mover access to the Indian market. Bilateral free trade agreements have been far more generous in freeing trade between South Asian economies.⁴ So far, bilateral arrangements have been confined to three specific trade agreements, that of the free trade agreements India has signed with Bhutan, Nepal and Sri Lanka. But all the signs are that the trend is catching on; Sri Lanka and Pakistan are currently holding talks on a bilateral free trade agreement and there is speculation that India also may consider a bilateral arrangement of some sort with Bangladesh at some not too distant date.

What then are the implications of pursuing an essentially bilateral agenda in the context of efforts to promote economic cooperation at a regional level? There is very little evidence of similar trends in other regional groups; the vast majority of regional blocs have started from an agreed base on the intensity or degree of cooperation and have progressed from there, taking collective decisions with regard to either the speed of integration or admission of new entrants to the bloc. In those situations, the members of the regional grouping set specific guidelines and time frames within which potential

⁴ Weerakoon, D., 2001, 'Indo-Sri Lanka Free Trade Agreement: How Free is it?', *Economic and Political Weekly*, Vol. XXXVI, No.8.; Kelegama, S., 2000, 'Indo-Sri Lankan Trade and Bilateral Free Trade Agreement: A Sri Lankan Perspective' *Asia-Pacific Development Journal*, Vol.6, No.1.

members have to meet targets in order to qualify for membership. This is clearly the path that has been followed by the more successful regional groupings such as the European Union and ASEAN member countries.

But South Asia is currently faced with the spectre of countries within an existing regional trade arrangement moving ahead to form bilateral agreements that are far more liberal and substantial than anything under the regional framework. The concept of some countries within SAARC forging ahead with liberalization on a fast-track basis has been discussed for sometime. The idea behind was to allow, say for example, the non-LDC members of SAARC to implement SAFTA at a quicker pace and allow LDC countries a longer period of adjustment. But this has now been overtaken by the conversion to bilateral agreements that are effectively outside the SAARC process itself.

But where does this take us in the context of SAFTA? First and foremost, bilateral arrangements can undermine broad support for the formation of a South Asian Free Trade Area. In the case of Sri Lanka, for example, its support for SAFTA was prompted largely by the desire to gain access to the Indian market. Having already achieved that under the ILFTA – with the prospect of signing a similar agreement with Pakistan, Sri Lanka's other major trading partner in South Asia – there is a real danger that SAFTA will become marginal to its trade interests. And this is not only true of Sri Lanka, it is likely to be the case for other South Asian economies as more such bilateral agreements are entered into.

Secondly, it raises the issue of how these bilateral agreements are to be treated *vis-à-vis* SAFTA negotiations? Will they be incorporated into the SAFTA process or will they stand as separate bilateral trade agreements? If they are to be incorporated, then they will have to be used as the starting base from which to begin negotiations. If not, they will then exist as parallel trade agreements. The Indo-Nepal FTA, however, offers far more liberal terms to Nepal than does the Indo-Lanka FTA. It effectively has no negative list safeguards – what it has is a very minimal negative list – and this is unlikely to be acceptable to a majority of the SAARC countries.

There are important lessons to be learnt from the bilateral negotiating process. There was little discussion prior to the signing of the Indo-Lanka FTA. This has been defended on the grounds that were it to have been made public, then interest group pressure may have

led to lengthy negotiations or that opposition could have ultimately killed off the agreement altogether. Even with this backdrop, it took more than a year after the agreement was signed for India and Sri Lanka to agree on a negative list that was at least partially acceptable to both countries. The compromise solution arrived at compelled Sri Lanka to accept some form of quantitative restrictions on its exports of tea and garments into India under the ILFTA. Now that this process is multiplied to include all seven countries of SAARC, the task of agreeing to a formula with regard to negative lists is going to involve intense negotiations. Are negative lists to be worked out after signing the bare skeletons of the agreement such as under the ILFTA or will they be worked out before the agreement is signed? Whatever the procedure adopted, it will mean that SAARC countries have to show a greater commitment to open their markets to other member countries than has been the case under the SAPTA process. Whether such a commitment will be forthcoming given the political backdrop to the SAARC process, is debatable.

Alternatively, if bilateral agreements are to continue alongside the SAFTA process, this will mean that countries will have to contend with a multitude of bilateral and regional agreements – what some economists have referred to as a ‘spaghetti bowl’ of overlapping trade agreements. Whether South Asian interests will be best served by such arrangements is again questionable; it will mean a greater administrative burden, as well as less cohesion in marketing South Asia as a region to foreign investors. Do the customs authorities have the capacity or should they even be called upon to deal with multiple trade agreements? Even in the case of SAPTA and the ILFTA, there are instances where Sri Lankan exporters are eligible for tariff concessions under SAPTA but where those same items fall within the Indian negative list under the ILFTA. Multiple trade agreements will only serve to confuse exporters and investors alike.

Hence any potential benefits of bilateral agreements have to be weighed against the political fallout in a wider South Asian context. Not only is there the real danger that bilateral agreements may undermine commitment to a greater South Asian economic area, but there is a far greater danger of alienating key players even further. For the moment at least, it appears that both India and Pakistan are intent on signing agreements with their smaller South Asian partners. To some extent this is driven by the political imperatives that drive the SAARC process, but such a strategy will only serve to widen rather than bridge, existing differences between these two key players.

It is undoubtedly time for SAARC to clearly determine the future path of economic integration in South Asia. Inaction will mean that more and more countries will seek the bilateral path to serve their own national interests. If more bilateral agreements come into play – and all indications are that there will be a few more – then the situation becomes highly complex. To complicate matters further, most South Asian countries are not confining themselves to South Asia alone. They are also seeking membership of other regional bodies and trade blocs, both within Asia and outside. Unless SAARC wakes up and takes the initiative, it may find itself redundant in the whole process of regional integration of South Asian economies.

Table 3
Value of Exports from Sri Lanka: 1999 (Rs. Mn.)

	Exports under SAPTA	Total exports to SAARC	Total exports of Sri Lanka
Live animals, animal products		235.8	5306
Vegetable products	2070.7	3754.8	58110
Animal or vegetable fats and oils		417.2	450
Prepared foodstuffs	33.4	116.6	4073
Mineral products	21.5	32.6	1660
Chemical products		177.8	1956
Plastics & rubber	32.4	792.4	15960
Leather products		6.3	9336
Wood products	2.5	17.6	730
Paper products		318.8	1431
Textile articles	6.4	1748.3	166500
Footwear		21.7	12580
Stone, plaster, cement	22.0	126.8	3538
Pearls	10.1	137.9	9921
Base metal	2.4	451.1	1381
Machinery & mechanical goods		176.3	12070
Transport equipment		348.1	1368
Optical, photographic equip.		6.7	181
Arms & ammunition		0.0	3
Misc. manufactured articles	12.0	39.6	4978
Works of art		0.0	4086
Total	2196.7	8926.2	315619

Source: Estimated from data available from the Department of Customs.

Table 4
Value of Imports to Sri Lanka: 1999 (Rs. Mn.)

	Imports under SAPTA	Total imports from SAARC	Total imports to Sri Lanka
Live animals, animal products	6.7	1606.1	10610
Vegetable products	2288.9	10529.1	24690
Animal or vegetable fats and oils		63.1	5033
Prepared foodstuffs		1482.5	18380
Mineral products		387.7	27500
Chemical products	1935.1	3772.8	23920
Plastics & rubber	72.0	1153.8	16930
Leather products	3.7	90.9	1610
Wood products		149.0	1914
Paper products		1363.9	11910
Textile articles	228.4	8694.3	99290
Footwear		355.7	1304
Stone, plaster, cement		671.9	3383
Pearls		158.3	13950
Base metal	86.4	3851.3	19000
Machinery & mechanical goods	203.3	4383.2	58460
Transport equipment	375.4	4980.8	29160
Optical, photographic equip.		258.4	4382
Arms & ammunition		0.0	6
Misc. manufactured articles		300.5	6824
Works of art		0.6	255
Total	5199.9	44253.9	378521

Source: Estimated from data available from the Department of Customs.

