



# Regional Cooperation in South Asia

## Sri Lanka Perspective

---

*Chandra Jayaratne*

### 1. BACKGROUND

For the past decade, South Asia has been the second fastest-growing region in the world, after East Asia, with an average annual growth rate of 5.3 percent. Yet it remains one of the poorest regions. Forty-five percent of the population lives below the international poverty line of US\$1 a day, comprising about 40 percent of the world's poor. South Asia's extremely poor reduced by only 14 million between 1990 and 2002 and in the best case and worst case scenarios the extremely poor in South Asia in 2015 is estimated to reach 140 million and 327 million, respectively, compared with 434 million in 2002 (ADB 2004).

Countries in the South Asian region have emphasized the need for greater regional integration in areas related to trade and investment. The private sectors of all South Asian nations, at the level of chambers of commerce, appear to have a consensus that a greater flow of goods and services and investment resources between countries in the region will accelerate growth, reduce poverty, and enhance competitiveness.

However, individual member groups of the private sector and product associations express significantly different views.

The regional integration initiatives commenced with the formation of the South Asian Association of Regional Cooperation (SAARC). The most recent 12th Summit of the leaders of SAARC held in Islamabad led to a commitment for further regional integration initiatives. However, regional integration has been slow. South Asia has lagged behind other regions in enacting essential investment climate reforms. India was among the 10 top reformers in 2003, yet it remains in the bottom quartile in rank among 145 countries. In South Asian countries, it takes nine procedures, 45 percent of income per capita, and 47 days to start a business, whereas in the industrial nations the comparatives are six procedures, 8 percent, and 27 days, respectively (World Bank 2005). Intraregional trade has remained stagnant at less than 2 percent of total trade in the last 25 years. Slow integration is not only true of trade but also in other areas of cooperation. For example, the South Asia Co-operative Environment Programme (SACEP) established in 1982 has been largely ineffective in promoting environmental protection and management.

The private sectors of all South Asian nations recognize that political, economic, and implementation capacity; social, cultural, and other similar factors; business environment, including country risk ratings for trade and investments; and global perceptions have a significant impact on regional integration-led trade, investments, and growth.

## 2. PRIVATE SECTOR EXPECTATIONS FROM REGIONAL INTEGRATION

The private sector believes that the right political, economic, and social policy framework, and accompanying governance framework, can lead to political stability, peace and harmony, networking for economic growth, poverty alleviation, and improved living standards. This, in turn, will enhance regional integration, including cross-border trade and investment opportunities, yielding growth options for the private sectors of the region. In light of the above, the Sri Lankan private sector has set the following expectations as the outcome of regional integration initiatives:

- From low intraregional trading and investments to a set of nations that optimize intraregional cooperation.

- From a set of nations that do not effectively cooperate and network, seeking to improve global competitiveness in trade (goods and services) to a region that effectively integrates and cooperates in penetrating global trading market opportunities.
- From business entities domestically competing at the firm level supported by fragmented chambers of commerce, to regional resource allocation optimization focused on global competitiveness and seeking a regional integration strategy that leverages chambers of commerce, *think(s) beyond boundaries*, and drives production and services initiatives toward the value added export of goods and services.
- From low-quality, low-productivity, low-technology leveraging production systems, with low costs as the only competitive advantage, to a set of nations that benchmark China for productivity, quality, and technology.
- From a set of nations with high unemployment and low human development indexes to a high people-engaged, high human development-oriented region.
- From shortages of food supplies and resources and at times a famine-affected region, to a self-sufficient resource-rich, food security assured region.
- From weak macro economies to sustainable surplus-yielding economies, continuously accelerating the pace of transformation and structural reforms.
- From a set of nations with low indexation in achievement of millennium development goals, to full realization of such goals.
- From a low level of per capita income and large disparity in incomes and wealth among citizens, to a prosperous region with all citizens enjoying an acceptable standard of living, education, and health, registering more than US\$3,000 per capita by the year 2020 with a low Gini coefficient, where less than 10 percent of the population is below the poverty line and thus the most admired, advanced, and fastest-developing region of the world.

The private sector in Sri Lanka sees definite benefits of regional integration in enhancing cross-border trade and investments and recognizes value enhancement for the private sector and growth for the nation. Integration has been in the forefront of making submissions, leading the way with action strategies and pressurizing the Sri Lankan government and officials to seek greater integration and achieve the stated expectations.

The Sri Lankan chambers of commerce have linked up with local embassies of regional nations, visiting officials, and business delegations from these countries, and have networked with regional chambers of commerce and trade (for example, Indian and Pakistan Chambers of Commerce, especially the Confederation of Indian Industry [CII] and the Federation of Indian Chambers of Commerce and Industry [FICCI]). The Sri Lankan private sector has canvassed publicly and actively worked toward regional integration and, pending such integration, has actively promoted cross-border trade and investments among its membership. The SCII has failed to realize the leadership role expected to support network development and promote trade and investments.

### 3. ISSUES AFFECTING EFFECTIVE REGIONAL INTEGRATION AND REGIONAL INTEGRATION-LED GROWTH AND DEVELOPMENT

A variety of issues have prevented effective regional integration and have prevented South Asian nations from more rapid development and benefitting from cross-border and global trade and investments.

#### 3.1 Political Disputes, Mistrust, and Tension

Disputes, mistrust, and tension have affected development in the following ways:

- Despite many agreements and conventions executed at the leadership level, regional leaders have low commitment and political will, and lack a common binding value system.
- The disparity in size (that is, area) among nations of South Asia has led to mistrust and tension, with India a towering neighbor seen as a constant hegemonic threat.
- Private sector business leaders share a common belief that the Indian bureaucracy will not permit any integration, unless their own dominance in decision making is preserved.
- Some of the nations being established are separated by wars.
- Cross-border terrorism, internal conflict, and strife are compounded by perceptions of support for troublesome elements coming from neighboring countries.

- Diversity and divisiveness exists among and within countries in ethnicity, caste systems, religious, social, and cultural dimensions.
- Leaders leverage the above issues to win votes and elections and in the process create prejudices and hatred among ethnic, religious, and other groups.

### 3.2 Economic Conditions

The following economic conditions have affected development:

- Disparity in the state of economic development.
- Macroeconomic instability.
- A low level of infrastructure development, poor transportation, and transshipment facilities.
- Competing economies for the same resource pools and markets and the consequential rivalry.
- Failures in economic integration initiatives among South Asian nations, including ineffective implementation of SAARC and South Asian Free Trade Agreement (SAFTA) commitments.
- Competition with other regional economic groupings like Indian Ocean Rim Countries, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and bilateral trade and investment agreements diluting SAARC implementation.

### 3.3 Policy and Regulatory Deficiencies

The following policy and regulatory deficiencies have affected development:

- Short-term and unpredictable policies and regulatory frameworks resulting partly from unstable political structures; South Asian nations need clear, consistent, long-term applicable policies on trade and investments.
- Protective barriers (established by politically powerful network business groups) affecting cross-border trade and investments (that is, both tariff and nontariff barriers); protectionist-based inflexible tariff regimes and nontariff barriers prevailing among member nations, despite SAFTA initiatives and other bilateral trade agreements.

- Weak and ineffective regulatory and enforcement mechanisms.
- A lack of many elements of the essential framework for attracting investment (for example, intellectual property protection and arbitration mechanisms).
- A shortage of investment capital with regulatory, legal, and administrative issues negatively affecting capital mobility and the ease of entry and exit.

### 3.4 Lack of a Common Position, and Uniform Rules and Practices

The following disparities among position, rules, and practices have affected development:

- The lack of an agreed regional position in international forums (for example, World Trade Organization [WTO], World Intellectual Property Organization [WIPO]), leading to an ineffective bargaining capacity in these forums.
- Conflicting focus of nations, with some preferring individually negotiated bilateral trade and investment regimes in preference to regional initiatives.
- Nonuniform taxation systems, customs rules and practices, administrative inefficiencies, and ineffective application of incentive regimes.
- Complex and nontransparent rules and regulations, standards, procedures, and documentation.

### 3.5 Low Implementation Capability

Low implementation capability has affected development in the following ways:

- Low efficiency and effectiveness of policy implementation and project management.
- Low capability of the public sector.

### 3.6 Other Factors

The following other factors have affected development:

- A lack of recognition in the United States and Europe of the SAARC as a region for trade and investment opportunities.
- Difficulties of regional travel, transportation and human resource mobility, and travel-related barriers.
- Law, order, and internal security concerns.
- The lack of a binding value system to build pillars of integration, in the wake of diversity and the lack of nationalistic feeling and a commitment to regionalism with some elements openly opposing regionalism.
- Ineffective media and communications.
- A lack of initiatives to optimize on regional natural resources and capability, including unique social, religious, cultural, environmental, and eco treasures.
- Low effectiveness of multilateral agencies in getting individual nations to achieve commitments and address macroeconomic, social, poverty alleviation, and development goals, and a lack of focused support for regional integration within programs and initiatives of these institutions.

## 4. THE WAY FORWARD

### 4.1 Political Leadership Initiatives

The following leadership initiatives should be taken:

- Following a Summit, leaders of all nations in the grouping (especially India and Pakistan) should agree to a way forward for implementation with commitment to address the bilateral political issues, border disputes, cross-border terrorism and trade in arms, drugs, and human trafficking issues. These issues should be negotiated and resolved with commitment under an internationally mediated support framework that is facilitated through a special joint initiative of the SAARC Secretariat and the Commonwealth Secretariat, symbolically given leadership by Nelson Mandela and Lee Kuan Yew, with the Secretary General of the Common Wealth Secretariat acting as the Convenor.
- The leaders of the SAARC should recognize that the previous commitment to establish a South Asian Economic Union by 2010 will not be a reality. Leaders should then agree that regional integration

could be achieved by 2020, to match the political, economic, social, and other integration benchmarks of the European Union. The benchmark assessments should target the respective drivers of integration embedded in the European Union, and for this purpose, current benchmark webs of the region as a whole and each member country in the areas of governance, trade, and investments should be mapped and reassessed twice a year and placed before the meetings of the heads of state and prime ministers.<sup>1</sup>

- The SAARC Secretariat should arrange separate annual meetings, alternating in each member nation, in which the heads of state, deputy heads of state/prime ministers, and leaders of opposition; foreign ministers, finance ministers, trade, commerce, industry, and science and technology ministers; health, education, employment, and environment ministers; and respective shadow ministers compulsorily devote some time for a retreat, where network relationships are developed, progress on previously agreed action programs is assessed, and additional commitments required are determined.

## 4.2 Strategic Analysis and Review

The following analyses and reviews should be made:

- The SAARC Secretariat, supported by Consultants with expertise, should conduct an audit review and strategic analysis of all issues that have affected the effective implementation of SAFTA, especially nontariff barriers and inefficient and ineffective national facilitation initiatives. This review should lead to an agreed-upon strategy to be implemented in stages, with a regular half-yearly post-audit process to support the implementation framework.<sup>2</sup> This initiative may be broadened in scope to include an agreed-upon time frame for the liberalization of services, including personal and professional services as well.
- The SCCI, facilitated by the SAARC Secretariat, should develop a set of proposals for a reform agenda and regional action program to make the region an attractive investment destination globally. This should build on a review of the Global Competitiveness Report, comparative regional competitiveness, and business studies.
- Retired and senior public officials (ministry secretaries, service commanders, Central Bank governors, and research scientists)

should establish a think tank under the Regional Strategic Review Council framework to develop policy papers and act as consultants and advisors for the implementation of regional initiatives of the SAARC Secretariat.

### 4.3 Harmonization of Policies, Standards, and Procedures

The following action should be taken to harmonize policies, standards, and procedures:

- Ensure that a group of experts agrees on the global conventions and practices that should be adopted regionally for achievement of the objectives of SAARC, and also on the harmonization of national policies, treaties, and agreements that optimize regional integration-led value enhancement (for example, anti-money laundering, intellectual property protection, investment protection, and so on) and to the harmonization of commercial, arbitration, and regulatory structures.
- Ensure standardization, simplification, and streamlining of trade, investment, registration, customs, and other impacting administrative procedures across the region, to reduce service delivery time and transaction costs and to encourage trade and investments; establish a Union Integration Customs group, tasked with the responsibility of facilitation, removal of barriers, harmonization, standardization, and administration of the rules of origin.
- Pursue trade facilitation initiatives, expediting border crossings and quick customs clearances.
- Encouraging intraregional trade through the maintenance of regional customs bonds, efficient port facilities, and improved transport links.
- Implement the commitments to establish a SAARC Regional Standards Board.

### 4.4 Education, Training, and Skills Development

Recognizing that one of the most important resources in the region is its people, all countries together and individually should pursue the following education, training, and skills development:

- Network with the private sector and agree to a strategy for the region to have required skills by 2010 to be globally competitive and attract investments and outsourcing opportunities (special emphasis on English, IT, science, and technology).
- Provide training and development needs to citizens to leverage overseas skilled job opportunities and meet the skill development needs of returning overseas employed, unskilled laborers.

## 4.5 Banking and Finance

The following banking and finance initiatives should be taken:

- Establish a closer network among the Central Banks of the region to expedite structural reforms, gradually remove capital controls, and ensure price stability (exchange rates, interest rates, and inflation).
- Negotiate a line of support from the International Monetary Fund (IMF) for South Asian nations to drawdown in defending currency under agreed-upon contingencies, and each member country should contribute 10 percent of the expatriate worker remittances (estimated at US\$20 billion) to this foreign exchange reserve fund and invest such funds in bonds tracking returns linked to petroleum prices.
- Remove present restrictions on intraregional capital market transactions as a first step toward establishing a regional stock exchange for capital mobilization and enhanced foreign direct investments in the region.
- Enhance the efficiency and effectiveness of the Asian Clearing Union processes, eliminating the long delays experienced at present, and terminate failing arrangements; abandon South Asian common currency (SAEURO) initiatives for the present.
- Facilitate early adoption by all South Asian countries of the International Accounting Standards, improving the integration of financial information and facilitation of regional stock market transactions and a common listing process (leveraging the South Asian Federation of Accountants).

## 4.6 Development Funds

The following actions should be taken to improve development funds:

- Establish a regional fund for price support and technology transfer support during the period of adjustment (related to trade liberalization) to help small farmers and small and medium enterprises (SMEs) improve competitiveness (this fund may be established with the help of the multilateral agencies).
- Obtain a commitment among the nations of South Asia to contribute annually to a South Asian Resource Development Fund (operated as a Regional Development Bank under the aegis of the World Bank and supported by all multilateral agencies), an agreed-upon percentage of the gross domestic product (GDP) of the prior year, based on the principle of capacity to pay, with the Fund objectives being to support the South Asian nations' regional integration-led growth and development.

#### 4.7 Transportation and Communication Linkages

The following actions should be taken to enhance transportation and communication linkages:

- Research and develop the most cost-effective regional transport and transshipment options (including rail, ferry, and road) and strategies, benchmarked with the best advantaged global hub centers.
- Apply open skies and competitive shipping liberalization policies across the region.

#### 4.8 Information Technology

The following action should be taken to ensure connectivity across the region:

- Significantly leverage ICT on a regional basis, leveraging the high strides achieved by India in e-governance, e-education and training, e-driven back offices and call centers, and the associated capabilities and skills development of human resources.
- Establish a regional intranet for all government and private sector trade and contract opportunities in all South Asian nations and post all cross-border employment resource opportunities (both available and wanted).
- Support the regional integration-led growth and development by extending the World Bank-supported Global Information Gateway

project in Sri Lanka to become a single gateway link for information, technology and best practice transfers and knowledge sharing, and trade and investment facilitation and networking with the diaspora around the world.

- Encourage the International Trade Centre (ITC) to make available specific South Asian market analysis tools, including Trade Map and Product Map facilities, and encourage the SCCI to facilitate regional chambers to leverage access via a centralized server.

## 4.9 Research, Development, and Innovation

The following research, development, and innovation initiatives should be taken:

- Develop a structure for technology and intellectual property-related value options to be acquired by a central source and made available to business entities on rental terms, thus optimizing the collective resource acquisition advantages, as practiced in China.
- Establish a center for research, commercial exploitation, sustainable growth, extraction, and promotion of medicinal and herbal plants, spices, and allied plants of value in western markets, including traditional and herbal teas.
- Develop Ayurveda through research, education, and training to become the foremost natural medicinal practice recognized in the world and leverage global competitive advantages.

## 4.10 Energy, Natural Resources, and Environment

The following energy, natural resources, and environment initiatives should be pursued:

- Develop regional joint initiatives to exploit the region's resources of the sea, natural gas, and oil both on shore and off shore on a sustainable basis with care for the environment.
- Make South Asian Energy Cooperation initiatives a priority of regional integration, as energy availability and costs are a key impacting factor of competitiveness, and optimize all options of least cost production of electricity using the hydropower potential of some nations, the alternate energy potential of the region (solar, dendro, wind, and sea waves), and integrated coal and nuclear plants.

- Actively pursue the SAARC Energy Grid proposal with regional buyback arrangements; closely network with the U.S.-funded South Asian Regional Initiative for Energy Cooperation and development.
- Encourage the SAARC and SACEP to agree on a common action program to be implemented with commitment in ensuring regional environmental protection and effective management, and implement this program with commitment (special attention to be focused on water management).

#### 4.11 Judicial Reforms and Governance

The following measures should be taken to encourage judicial reforms and improve governance:

- Establish a Regional Judicial and Good Governance framework linked to the International Court of Justice and Transparency International, whereby:
  - mediation and settlement of disputes and complaints arising from SAARC trade, investment, and political integration initiatives are resolved by the nations collectively;
  - a judicial system reviews regional constitutional issues affecting the regional integration effectiveness, serious internal conflict, and related national legal issues;
  - a regional bribery and corruption control initiative is pursued;
  - a regional audit and control system guides and arbitrates on national audit and governance effectiveness; and
  - a regional commercial arbitration and dispute settlement system is in place.
- Establish a regional Institute of Directors affiliated with the SCCI to facilitate the management of talent development, effective networking, and commitment to the enforcement of good governance codes of practice.
- Promote a regional university to become a center of excellence for regional development and integration relations studies, public administration, management and good governance education, training, and research with a specific emphasis on capacity building in the public sector.

- Encourage Transparency International to set up a regional center and focus attention on promoting good governance and control of bribery and corruption.
- Establish a regional media complaints and media freedom assurance council.
- Establish the monitoring of regional elections and a control support system.

## 4.12 Liberalization of Travel-related Regulations

The following travel-related regulations should be liberalized:

- Support regional integration initiatives and cross-border movement of people by withdrawing visa requirements for travel among South Asian countries by their respective citizens.
- Extend to all visitors to the region the benefit of applying for a South Asian Union visa via any visa-issuing South Asian embassy over-seas; as a first step, negotiate and remove the strict controls now applied to travel between India and Pakistan for their respective citizens.
- Allow settlement of hotel, entertainment, and hospital bills by residents of South Asian countries using local currency credit cards.

## 4.13 Tourism

The following action should be taken to encourage tourism in the region:

- Promote the South Asian region as a unique high-value experience option, offering ecotourism destinations; for this purpose, levy an additional tax from every tourist, and channel the receipts via the Regional Development Fund for tourism promotion.
- Exploit the potential of care services-related business options targeting the rich, elderly, and aged citizens from the Western Hemisphere.
- Network regional airlines and the travel/tourism trade to encourage intraregional tourism, form alliances among national carriers, and create SAARC hotel pass systems and incentive programs; target the region as an attractive destination for conventions and meetings.

- Establish links among regional nations, historical, cultural, and leisure/sports bodies; develop a value option for the world and tourists of a unique presentation of the region's history, culture, leisure, and sporting activities; and develop a SAARC cultural troupe in each nation.

## 4.15 Cultural and Social Aspects

The following cultural and social initiatives should be taken:

- Establish a South Asian regional television channel to promote regional integration, positive and value adding news, competitiveness enhancing skills and knowledge dissemination, education, and preventive health care promotion; seek the promotion of a “South Asian Value System.”
- Establish in each nation a peace, conflict resolution, interracial-interreligious dialogue, compassion, and mindfulness development centers, with a network coordination center, to become the global leader in extending research and promoting the spread of Buddhism, Hinduism, Muslim, and allied faiths.
- Initiate a high-level composite task force to implement the SAARC Social Charter with specific reference to children, women, and gender issues.
- Convene a group of experts to determine the best strategy for sustainable population control measures that will not be rejected regionally if implemented, because of religious or cultural value systems, while ensuring a productive workforce for regional competitiveness.
- Encourage, communicate, and build on the value system of voluntary giving to the poor and deserving, in a spirit of caring and sharing, with the deep affiliation to religious values in the people of South Asia, acknowledging that each of the major religions encourage these values (*Dana* in Buddhism, *Sadhana* in Hinduism, *Sakath* in Islam, and Charity in Christianity).
- Target a regional integration strategy for supportive value system development, especially focusing on the young and on women, and initiate regional contests of talent, sports, culture, and art.
- Prioritize poverty alleviation as the regional Millennium Development Goal commitment through a regional task force initiated by

the SAARC Secretariat, with representation by the prime ministers and a key minister alternate, key officials, the SCII, and nongovernmental organizations (NGOs), along with multilateral and other donor agencies, coordinating the adoption and implementation of pro-poor growth strategies and policy interventions and resource pooling; optimize cost benefits from initiatives across the region, with specific reference to the implementation of the suggestions made in the Independent South Asian Commission on Poverty Alleviation's report *Our Future Our Responsibility*.

#### 4.16 Global Competitiveness

Global competitiveness should be enhanced as follows:

- Establish a Regional Competitiveness Council that will track and facilitate the removal of barriers to competitiveness and also lead the initiative in (a) determining the global competitiveness by enhancing best resource allocation among the nations of the region in export trade; (b) developing market access information databases and promotional strategies; and (c) determining the nations and the states with the optimum competitiveness in resource sourcing, processing, value addition, packaging, and transshipment so that countries can plug into relevant parts of the global supply chain.
- Develop competitiveness-related quality and productivity benchmarks to match China (by 2010).
- Attract foreign investments and encourage trade by developing and publicizing long-term sustainable and predictable macroeconomic, employment, investment, and trade policies and associated incentive packages for the region and each nation, and embody such policies within legislative and regulatory structures.
- Focus special attention on shared services for the region as a whole as a part of the competitiveness initiative.
- Benchmark Japanese skilled workers and work practices with the facilitation of multi-lateral agencies established in each nation, centers that transfer best practices, and values that enhance skills, productivity, and quality.
- Agree to minimum benchmarks for environmental health and safety standards complying with international labor standards.

## 4.17 Other Initiatives

Other initiatives to pursue are as follows:

- Promote and regionally commit to the concept of a “South Asian Inc.,” as a way of life, regional integration, leadership focus, international investment and trade, tourism promotion, and vertical and horizontal coordination of initiatives, to enhance productivity and minimize resource waste.
- Position South Asia as a market with a middle class the size of the population of the United States, rich in historical, cultural, and spiritual values and ecofriendly, as well as rich in diversity experiences, where the mobilized capability of people match the best in the world.
- Better focus, coordinate, and enrich the experiences and capabilities of regional community-based development entities and microfinance initiatives by a collective network of regional initiatives for value chain enhancement.
- Arrange a well-coordinated economic and social research network with other NGOs and multilateral agencies.

## 5. AREAS OF CAUTION WITH REGIONAL INTEGRATION INITIATIVES

It is important that regional leaders and officials are accountable for integration initiatives. Several areas of caution must be effectively managed in order to ensure optimum benefits and to meet these integration goals. These areas include the following:

- Recognize that multilateral trade initiatives as opposed to regional trade initiatives have yielded higher sustainable economic growth rates. The importance of western markets to a majority of South Asian nations underscores the fact that more liberal trade practices as a whole must be given due priority, even if a drive for regionalism is adopted as the focus strategy. Therefore leaders must ensure that regional integration initiatives are not a stumbling block but rather a building block toward effective rule-based multilateral trading systems.

- Encourage the SAARC Secretariat to set up panels of experts to regularly meet and review the risks associated with the regional initiatives, with specific reference to those areas that have greater national and other sensitivities, balancing the rights and privileges of the bigger nations with those of the smaller and economically weaker nations.
- Encourage fair and quick dispute resolution by independent panels, which will be necessary to ensure top priority to the principles of the SAARC, encompassing Sovereign Equality, Territorial Integrity, Political Independence, and Noninterference in Internal Affairs of other states and to the mutual benefit of the region.
- Recognize that for a free trade area to be *trade creating and welfare improving*, members of such a union must be least cost producers of exportables.
- Consider the impact of presently concluded bilateral trade agreements and Most Favored Nation status concessions available to some countries from the key western investment and trade partners.
- Ensure that the landlocked and least developed member nations of South Asia are dealt with on an inclusive basis in all union integration negotiations and are seen by all to have received an equitable sharing of resources with due care and concern.
- Ensure that regional shared manufacturing and services initiatives do not result in a loss of competitiveness out of economies of scale, and support production in the least cost-producing quality-assuring set of nations, as referred to by Michael Porter in his theory of comparative advantages of nations.
- Acknowledge that most South Asian economies have traditionally been agrarian based, with states adopting protectionist policies on agricultural produce. The dominance of agricultural products in regional economic output, competing at most times, reduces the comparative advantages of exportables for each state.
- Understand that the majority of the population and voters living in rural areas are engaged in agriculture and small and microindustries; that these populations comprise the majority of those affected by poverty, lack of education, low skills, access to technology and markets, and poor health and other infrastructure; and that they may find regional integration-led reforms with long-term economic and social benefits not to be acceptable options.
- Prepare for the fact that regional integration-led reforms may lead to the emergence of new groups of extremists focusing on nationalism,

religious, and other discrimination complaints and they may hold back the strategy for implementation.

- Address the negative impact on rural poor, small farmers and SMEs to prevent the integration process itself from being rejected.
- Recognize that improved human resource mobility and cross-border movements may increase the dangers of the spread of AIDS and other communicable diseases.
- Acknowledge that the market economy model with taxation as the means to ensure equitable distribution of wealth in the region may be unacceptable within a time frame expected by the poor.
- Select the leadership of the SAARC Secretariat, SCCI, and other regional bodies and task forces only on meritocracy criteria to ensure that only the best suited persons fill the positions.
- Manage the risk of the regional integration strategies being rejected by small peer groups by carefully positioning institutionally well-planned and timely national referendum processes.

## 5.1 Role of the Private Sector in Regional Integration-led Growth and Development

The private sector must be a key committed partner in the process of regional integration-led growth and development initiatives, recognizing that political and bureaucratic stumbling blocks need to be overcome to reach the established goals. The following initiatives should be taken by the private sector:

- Establish a binding network commitment facilitated by national chambers of commerce and industry, effectively linking up, benefiting from, and discharging obligations via facilities integrated through the SCCI.
- Establish well-represented task forces to commit and agree to strategies and implementation follow-up, toward SCCI becoming the voice of business of the region, nationally, regionally, and globally, and encouraging economic cooperation, investments, and trade based on regional value enhancement (with a special emphasis on global market opportunities to promote regional capability).
- Set up a regional initiative as a networked task force for the empowered promotion and removal of roadblocks to optimize regional trade and investment (intraregional as well as global) and develop strategies to promote trade and investments. The long-term value-realizing strategy should optimize global and intraregional trade

via free trade agreements, with regional trade agreements to be determined in the context of current country commitments and WTO implementations.

- Set up a regional initiative of employee relations via a special task force, which will handle all social charter issues relevant to employment and compliance with International Labour Organization (ILO) standards.
- Set up three task forces to support the achievement of the Millennium Development Goals and the promotion of good Corporate Governance and Corporate Social Responsibility across the region.
- Set up a chief executive officer round table, consisting of the top 20 companies of India, the top 10 of Pakistan, the top five of Sri Lanka and Bangladesh, and the top two companies of all other member nations, tasked with the responsibility of acting as an independent review and strategy development support group for the above initiatives, with the objective of realizing the vision of the South Asian business becoming the newly emerging, low-cost, quality-optimized, manufacturing and outsourcing partner hub of the advanced economies.

## 5.2 Role of the Multilateral Agencies in Regional Integration-led Growth and Development

Multilateral agencies have a significant influence over macroeconomic, social, and political structures, and good governance in individual nations of South Asia. A commitment toward regional integration and networking among the multilateral agencies with a focus toward achieving this key objective is a necessary prerequisite for growth and development. Multilateral agencies may be able to support this initiative by having a regional coordinating center led by a regional director. This director would provide leadership to the focus of regional integration in the respective country programs and ensure effective networking to achieve objectives.

## 5.3 Role of the Civil Society in Regional Integration-led Growth and Development

Civil society groups and NGOs must be encouraged and given incentives by the nations and multilaterals and other funding donors to work in tandem with regional programs. These organizations should coordinate

and network to ensure that the focus of regional integration objectives is met. Through mass media, the charismatic leaders of South Asian nations must instill in the people of the region a regional commitment to growth and development, and at all times should leverage the agreed-upon value system as the core binding agent. Civil society must, through its effective voice and collective action, be the watchdog and independent assessor of progress in pursuing the reform and other processes in the respective nations.

## 6. CONCLUSION

The private sector's hopes for regional integration-led growth and development lie in farsighted visionary leadership of the region's nations. By effectively networking with all stakeholders, a united initiative can be pursued to achieve these goals with commitment. Toward reaching these goals, in addition to leadership commitment, there is an urgent need for the following:

- An implementation action plan for the agreed SAARC initiatives, with time targets and accountability to be developed.
- Networks and alliances strengthened between bureaucrats and chambers and the private sector.
- The enhancement of effective communication, positioning South Asia as the next wave of global trade investment and a travel option after China and Vietnam.

## NOTES

1. Refer to the specimen spider-web assessment criteria for each area as shown in Appendix 14.1.
2. As a first step toward implementing this initiative of trade liberalization, remove by the end of 2004 (well before the next phase change of SAFTA trade liberalization-led tariff reductions became effective in 2006) the significantly high-impact quantitative restrictions on trade enforced by SAARC countries, and deepen the concessionary framework interim both in terms of trade coverage and level of concessions, giving priority to the respective producer country competitive advantages and complementary product ranges from the perspective of the exporting nations of the region.

Recognizing the current SAARC commitment to an Economic Union by 2010, review and revise with accountability, the phase 1 and phase 2 liberalizations presently aimed at reducing the tariff by 0 to 5 percent by January 2016 for the least developed countries.

## REFERENCES

- Asian Development Bank (ADB). 2004. *Poverty in Asia: Measurements, Estimates, and Prospects*. Manila: ADB.
- DeRosa, D. A. 2007. "The Trade Effects and Preferential Agreements: New Evidence from the Australia Productivity Commission." Working Paper No. 07-01, Peterson Institute for International Economics, Washington, DC.
- Independent South Asian Commission on Poverty Alleviation (ISACPA). 2002. *Our Future Our Responsibility*. Kathmandu: SAARC.
- United Nations Conference on Trade and Development (UNCTAD). 2003. *Handbook of Statistics 2003*. Geneva: UNCTAD.
- World Bank. 2004. *World Development Indicators 2004*. Washington, DC: World Bank.
- . 2005. *Doing Business in 2005*. Washington, DC: World Bank.