

'Look East' Summit

Pursuing 2C's – Commerce & Connectivity

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"Regional Integration in South & South East Asia"

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Let me at the outset thank ICC for inviting me to speak at the Look East Summit representing the BIMSTEC Chamber of Commerce and Industry. Let me on behalf of the National Chamber of Commerce of **Sri Lanka** and all the chambers of the member countries involved in BIMSTEC Chamber of Commerce express our thanks for this initiative. There is hope for the future unveiled in the theme 'Pursuing 2Cs – Commerce & Connectivity' of this Summit. When **India** is emerging as a pivotal point in the new globalization axis leveraging commerce, 'Look East' is timely and BIMSTEC is in the right direction. Moreover India ASEAN FTA would be a special conduit to a larger market attracting trade and investments in that region as well as bringing benefits to other trading partners of India.

Let me throw some light on the definitions at the outset. Southeast Asia consists of the countries that are geographically south of China, east of **India** and north of Australia made up of **Myanmar**, Cambodia, Laos, **Thailand**, Vietnam, Malaysia, Brunei, East Timor, Indonesia, Papua New Guinea, Philippines, and Singapore. South Asia consists of **Bangladesh**, **Bhutan**, **India**, Maldives, **Nepal**, Pakistan and **Sri Lanka**. Some definitions may also include Afghanistan, Burma, Tibet, and the British Indian Ocean Territories. Iran is also included in the UN sub region of "Southern Asia" but some do not agree. Regional integration is therefore presented in the context of these countries.

A process that activates countries together for economic, political, security, technology, social and cultural gains within a set of rules agreed among the member states of a region could be referred to as regional integration. Initiatives of integration commence with the political will of extrovert political leaders. Such a process is not necessarily holistic so as to embrace each one of the aforesaid areas. It could start with several other sectoral activities and later enter into specific trade and economy related activities. Members can choose to participate as they wish in activities and decide on a time frame for full integration. The depth and breadth of the rules and the political will of the nations would clearly pave the way for the intensity of interactive activity taking place. Naturally the beneficiaries of regional integration are the people from the region by improving standards of living and alleviating poverty.

The degree of integration can be categorized into six stages. Stage 1 is setting up of a Preferential Trading Area by giving preferential access to certain products. Stage 2 is when it is extended to a Free Trade Area (FTA) by partially or fully removing tariff barriers crossing internal borders and then establishing a Customs Union in Stage 3 by introducing unified tariffs on the external borders

¹ Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC)

of the region. FTA with Customs Union can evolve into a Single Market in Stage 4 by taking measures on tax, welfare and benefits through unified economic policies. Stage 5 is reached when an Economic and Monetary Union could be established with supranational bodies and single currency. Finally in Stage 6 Complete Economic Integration takes effect with the establishment of political union.

On 6 June 1997, **Bangladesh, India, Sri Lanka, and Thailand** formed a new sub-regional grouping identifying itself by the name BIST-EC. **Myanmar** joined the organization as a full member on 22 December 1997 and the name BIMST-EC was adopted. **Nepal** and **Bhutan** joined in 2004. The grouping then took the name **Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation BIMSTEC** at the first Summit on 31 July 2004. The BIMSTEC Chamber of Commerce and Industry was formed before that event on 30 Nov 2003.

BIMSTEC was initiated aiming to combine the 'Look West' policy of Thailand and ASEAN with the 'Look East' policy of India and South Asia. So it could be explained that BIMSTEC is a link between ASEAN and SARRC. Seven members of BIMSTEC cover 13 Priority Sectors led by member countries in a voluntary manner namely, Trade & Investment, Technology, Energy, Transport & Communication, Tourism, Fisheries, Agriculture, Cultural Cooperation, Environment and Disaster Management, Public Health, People-to-People Contract, Poverty Alleviation and Counter-Terrorism and Transnational Crimes.

BIMSTEC provides an opportunity for integration of South Asia and Southeast Asia bringing together 1.3 billion people - 21 percent of the world population, a combined GDP of US\$750 billion, and a considerable amount of complementarities.

It was my great privilege to have been associated with the activities of BIMSTEC business community since about 1997, having chaired the Business Forum and then being the founder President of the BIMSTEC Chamber of Commerce and Industry in 2002 with other founder members.

Let me also briefly outline the outcome of the twelfth BIMSTEC Ministerial Meeting held in Nay Pyi Taw in Dec 09. The joint statement indicates progressive cooperative action taken on security, crime prevention and drug trafficking, energy, climate and cultural industries. In the area of Trade and Investment the countries have reaffirmed the importance of the FTA and welcomed the finalization of the text of the agreement on Trade in Goods and other provisions relating to Rules of Origin, Operational Certification Procedures and the Agreement on Customs Cooperation. The Agreement on Services and Investments under the FTA is still ongoing and the Ministers have urged the member states to expedite. ADB²² has concluded the Transport Infrastructure and Logistics Study (BTILS) and is entering the implementation stage. Plan of action on Tourism Cooperation for the tourism working group now have their Terms of Reference defined. Energy security for the member states has been of value to member states and an Energy Centre is likely to be established. A similar effort is underway to establish a Centre for Technology Transfer/Exchange Facility. Member states are committed to the sustainable use of marine resources through effective conservation and management of resources in the Bay of Bengal through research. Food security is of importance for poverty alleviation and the Centre for Poverty Alleviation is to be setup. In this context it is important to note the aspiration of the Ministers that concrete activities and projects be implemented expeditiously in Agriculture cooperation. There is an initiative to setup a BIMSTEC

²² Asian Development Bank

Network of Policy Think Tanks to enhance mutual understanding through people to people contact. Up to now the BIMSTEC is without a permanent Secretariat.

BIMSTEC appointed a Trade Negotiating Committee (BIMSTEC TNC) and the 18th TNC meeting was held in June 2009. TNC Meeting is now working on the List of Goods regarding the Framework Agreement that has been signed in 2004. So far, BIMSTEC has been working on the FTA. According to DOC³ Sri Lanka a study shows the potential of US\$ 43 to 59 billion trade creation under BIMSTEC FTA. **It is almost 13 years since BIMSTEC first met and the region has yet to enter Stage 2 of the regional economic integration process.**

Realization of the spirit of Regional Cooperation in BIMSTEC would result only when we could show increasing benefits in measurable terms to each and every country as a result of the efforts. It is clear that the BIMSTEC is taking a rather listless approach to progress real trade related activities. The listlessness is due to the South and South East Asian model of economic integration being export oriented and excruciating protectionism. On the contrary the Latin American model maintains open doors to imports eventually engaging local manufacturers to increase their standards of production. Somehow the absence of high entrepreneurial capacity among majority of South and South East Asians also contributes in their protectionist attitude.

Chances of connectivity improving are high due to the BTILS⁴ study. Specifically recommended actions in BTILS are developing road connection to facilitate transport from Bay of Bengal to South China Sea, enhancing regional rail connectivity by ensuring compatibility of rail networks and developing new links, facilitating increased air traffic for passengers and cargo, improving cross border trade and reducing transport costs, and developing logistics hubs at main BIMSTEC ports. The next step appears to be to appoint the Expert Groups in these five areas of transport and logistics. Feasibility of investment projects and financing arrangements are part of the key success factors while action coordination by the implementing authorities is essential.

There are number of agreements covering trade involving the BIMSTEC countries including the one **Sri Lanka** signed with **India** ISFTA. India has bilateral agreements with the following countries and blocs ASEAN, Thailand, Malaysia and South Korea. Thailand has bilateral agreements with Australia, Peru, New Zealand and India. Sri Lanka is negotiating a bilateral agreement with Singapore. The list is not comprehensive though indicative of the integration taking place within the region and outside.

The private sector plays a significant role in SAARC led by SAARC Chamber of Commerce and Industry in contributing to integration in the region. BIMSTEC CCI started with great enthusiasm but somehow stalled after the initial two years mainly due to lack of response from several members to key issues such as membership contribution, updates and advertising for the website, inaction on invitations to participate at meetings, etc., I don't blame anyone. It may also be due to the lethargy in progress of the main BIMSTEC processes. Business community wants action and speedy action. It is now time appropriate for getting back into action.

Several countries have taken unilateral liberalization measure and Sri Lanka is an example. The unilateral liberalization measures and cross border trade and investment induced by high growth contributes to strengthening connectivity and causes the natural integration in the markets. Trade

³ Department of Commerce

⁴ Transport Infrastructure and Logistics Study conducted by ADB

in Services is taking place with unilateral liberalization in some countries including Sri Lanka enhancing connectivity. The mobile and telecom services are examples of improving trade in services due to unilateral action particularly in Sri Lanka. There is great scope for Higher Education in Sri Lanka as seen by the increasing number of players from the region in the private market for higher education. There is also a university being established under SAFTA in India. There is no tangible visa facility other than that of SAARC for facilitating mobility of people. Natural market integration and bilateral track also has caused increasing economic connectivity in the region e.g. ISFTA.

BIMSTEC held a Business Convention in Colombo on 1 Dec 2003 attended by Bangladesh, India and Thailand. Several sectors came under discussion after presentations by country representatives. Several highlights were on Trade and Industry to identify non tariff and para tariff barriers, customs harmonization and simplification, dispute settlement mechanisms and studying comparative advantages and competitive edges, and developing common position for WTO negotiations. On Travel and Tourism it agreed to develop tourism packages to attract tourists, introducing direct flights to all capitals from major cities, liberalization of freight capacity, adopting an open sky policy, introducing a Travel Card/Visa and provision of visa on arrival for delegates of MICE. There were many other decisions taken on Funding, Processed Food, Quality Standards, Corporate Governance, ICT and e-Governance, Infrastructure Development and Human Resources Development. Details are available on the BIMSTEC Website⁵. Delegates agreed to conduct detailed studies on each one of these areas and submit recommendations to the Senior Officials of the respective Economic Ministries. They also agreed to hold another similar convention to review and facilitate implementation of initiatives. Some of the ideas such as the Trans Asia Road connection and Energy Cooperation are underway for implementation.

Some of the other regional agreements in force are Asia-Pacific Trade Agreement (APTA), ASEAN Free Trade Area (AFTA), ASEAN China Agreement, ASEAN **India** Agreement, and South Asia Free Trade Agreement (SAFTA).

Apart from BIMSTEC there are several other agreements in the pipeline connecting South and South East Asian countries with the rest. Among these Comprehensive Economic Partnership for East Asia (CEPEA) and Free Trade Area of the Asia Pacific (FTAAP) are significant efforts.

The oldest trade agreement in the region The Asia-Pacific Trade Agreement (APTA) was signed in 1975 as Bangkok Agreement. Its aim is to promote economic development and cooperation through the adoption of mutually beneficial trade liberalization measures. **As such it uses a list of concessions rather than a negative list.** APTA is open to all developing members of the United Nations Economic and Social Commission for Asia and the Pacific, which serves as the APTA Secretariat. Members of APTA are **Bangladesh, India, Republic of Korea, Lao PDR, Sri Lanka** since 1975, and China since 2001. The grouping works on concessions on tariff on more than 4,000 items and aims to widen the coverage of preferences to at least 50 per cent of the number of tariff lines of each member, and at least 20-25 per cent the value of bilateral trade. It also aims to provide average tariff concession of at least 50 per cent. Currently they are working on three framework agreements on trade facilitation, trade in services, and investments. In addition, APTA members are exchanging information on non-tariff measures. I personally feel that APTA is an effective mature grouping realizing benefits already, and should be progressed carefully for regional integration.

⁵ www.bimstec.org maintained by the National Chamber of Commerce of Sri Lanka, 450, D.R.Wijewardene Mawatha, Colombo 10, Sri Lanka

The ASEAN-**India** Free Trade Area (AIFTA) is a free trade area with the ten member states of the Association of Southeast Asian Nations (ASEAN) and **India**. The ten members are Indonesia, Malaysia, Philippines, Singapore, **Thailand**, Brunei, **Myanmar**, Cambodia, Laos, and Vietnam. It took only seven years from 2003 when the Framework Agreement was signed to get the Free Trade Area to come into effect on 1 January 2010. ASEAN has Free Trade agreements with China, Korea, Japan, Australia, New Zealand and most recently **India**. It is currently negotiating with European Union to establish a free trade agreement. The 'ASEAN Plus Three' is a conference held by ASEAN, with China, Japan, and South Korea during ASEAN Summit meetings.

ASEAN professes the "three pillars" of ASEAN integration; security, socio-cultural and economic integration. ASEAN aims to create an ASEAN Economic Community (AEC) by 2015 reaching Stage 5 of Economic Integration. AFTA the ASEAN Free Trade Area was established in 1992 and forms the foundation of the AEC today. Even though all members have not fulfilled the conditions required for AFTA it is expected that they will fall in line and reduce tariffs before it eventually gets launched.

ACIA, the ASEAN Comprehensive Investment Area will encourage the free flow of investment within ASEAN. It will open up all industries for investment and grant National treatment to investors, with exclusions to be phased out according to schedules. It will remove impediments, simplify procedures, increase transparency and facilitate investments. During the current year 2010 temporary exclusions in manufacturing, agriculture, fisheries, forestry and mining will be removed for most ASEAN members and for others by 2015.

AFAS, the ASEAN Framework Agreement Trade in Services has already concluded seven packages of commitments to liberalize Trade in Services and more packages are under negotiation.

SAM represents the Single Aviation Market arrangement aiming at an open sky arrangement by 2015. SAM will liberalize aviation up to the 'fifth freedom traffic rights' between all capital cities of ASEAN by 2011.

The participating members in the formation of Preferential and Free Trade Areas, agreements on Trade Facilitation, and beyond become skeptical during economic down cycles. This is an unfounded fear. The negotiations must continue assuming normalcy as the end result would justify the means. This is illustrated by the commitment and progress demonstrated by ASEAN members.

This is the era of knowledge economy founded on the boundless strengths of ICT and S&T⁶. There are no geographical boundaries or tariff barriers here. It is seamless integration if technology prevails. A think tank is required to use such technology to facilitate integration in all sectors of activities in the South and South East.

This Forum is also about Connectivity. Tourism is a great stimulus of connectivity. The New York Times on January 10, 2010 named Sri Lanka the No. 1 travel destination in 2010, noting that the long conflict against the LTTE terrorist is over and that there is no better time to travel to Sri Lanka's unspoiled beaches, mountainous terrain and wildlife parks. Also in January, the luxury-living website www.DailyCandy.com raved about Sri Lanka, reporting that, "Really, there's only one downside to Sri Lanka: Eventually, you have to leave." In Mar 2010 The National Geographic ranked Sri Lanka as the second 'Best New Trips for 2010.' National Geographic said, "After the tsunami of 2004 and the resolution of a decades-long civil war, Sri Lanka is finally starting to look like its old

⁶ Science and Technology

self: a peaceful destination where surf lineups are nonexistent despite world-class waves and centuries old tea estates are lined with mountain bike ready trails. 'The silver lining of the civil war is that the land and wildlife have remained untouched'. So the region has a fresh asset base for tourism promotion.

Here I like to quote Saman Kelegama from 'Towards Greater Economic Connectivity in South Asia' where he says 'The natural market integration process that started in South Asia with the high growth in India particular can give an impetus to strengthening economic connectivity.' He also implies that by removing impediments to trade the entire region can grow with more intra-regional trade and this can automatically trigger measures for deepening integration move towards higher stages of regional economic cooperation. However for this to happen there has to be a political will to see south Asia as a deeply integrated region. It is only then that economic connectivity in south Asia will achieve the status of contemporary Europe in the near future'. He wrote this in the SAARC context but these statements hold true in fact for South and South East.

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