CH- IV

REGIONAL COOPERATION AND INTEGRATION AS A PART OF THE STRATEGY TO INCREASE EXPORTS

One of the most important developments in the world trade system in the 1990s has been the emergence of regional cooperation. The end of the Cold War reduced political tensions between countries in Asia as well as globalizing production processes and increasing vertical integration. Cities like Bangkok, Kuala Lumpur, and Singapore have been lifting their populations out of poverty in part through cooperative arrangements with neighboring countries. Transnational economic zones have utilized the different endowments of the various countries of East Asia, exploiting cooperative trade and development opportunities. Transfer of technology and manufacturing between nations has allowed them to develop sequentially. Information technology has improved linkages between economies and put remote regions in contact with the world. The private sector provides capital for investment; the public sector provides infrastructure, fiscal incentives, and the administrative framework to attract industry. Regional cooperation is now considered the means of enhancing economic development and providing economic security within the regions. Trade among ASEAN members accounted for more than 23% of all trade by member nations in 1994, topping that of any of the group’s major trading partners.

Regional cooperation provides a competitive model to attract investment and technology. According to the secretary general of ASEAN, Ajit Singh, "These growth areas will have to be flexible to change where necessary, innovative, and always attentive to the needs of the investors and the businessmen. They also have to be aware that they are competing with much larger countries such as China and India, whose capacities for attracting investors are much greater than their own" (Kruger 1996, 17). Asian capital markets are now watching the global economy, and large companies recognize their need to be involved in this fastest growing region in the world.

A. Regional cooperation and integration strategy: four interrelated pillars.

Measures to boost economic integration will have limited success in the absence of regional or subregional infrastructure that adequately connects national markets. Physical connectivity is the bedrock of many economic cooperation and integration efforts. Physical connections particularly robust transport and communication links are essential for the movement of goods, services, capital, people,
and information across countries. There are immense potential benefits to greater connectivity in Asia in terms of economies of scale, larger markets, and greater cross-border economic transactions. Connectivity is hence a central element of regional and subregional cooperation programs in Asia and the Pacific.

Physical connectivity can be enhanced by a combination of cross-border hard infrastructure and related software—harmonization of regulations, procedures, and standards. Technical project-related software is always inseparable from hard infrastructure, but the concept of software is broader. Improvements in roads and railways can reduce transport and logistics costs, but they are not sufficient to encourage cross-border trade if different legal and regulatory frameworks, inefficient systems of customs clearance, and other barriers are not removed. In this sense, greater physical connectivity requires regional/subregional cooperation for both cross-border hard infrastructure and related software.

Regional and subregional programs typically involve an asymmetrical distribution of costs and benefits across countries. It is therefore critical to make objective quantitative assessments of benefits and costs, and of the distribution of benefits across countries, for any regional or subregional cross-border infrastructure project, and to set up a mechanism from inception that allows for fair distribution of costs across countries. In view of significant externalities in the provision of cross-border infrastructure, it is important that countries coordinate in the design, planning, and implementation of infrastructure, from a regional or subregional perspective. Countries must have sufficient incentives for regional infrastructure initiatives that can exploit economies of scale and externalities in a way that will overcome disparities in financial and technical capacity among the participating countries.

The focus will be on identifying commercially sound projects in energy, water, transport, tourism, and other sectors that span regions and subregions in Asia and promote connectivity, trade, and market integration.

B. Pillar 2: Trade and Investment Cooperation and Integration

In terms of trade liberalization, the WTO-led process of multilateral trade negotiation is the most important mechanism for Asia and the Pacific, as the region’s economic future depends to a significant extent on the openness of global markets. At the same time, new trade and investment frameworks have been rapidly emerging in Asia, particularly since 2000. Many economies have been increasingly participating in bilateral or regional free trade agreements (FTAs).
In terms of regional cooperation in trade facilitation, how to improve transparency, efficiency, and procedural uniformity of cross-border transportation of goods has increasingly become a major concern for DMCs. According to an APEC study, clearing the red tape at country borders would generate approximately twice as much GDP than tariff liberalization would. Trade facilitation measures would particularly benefit developing countries, where the inefficiencies are sometimes more costly to industries than are tariff barriers.

C. Pillar 3: Monetary and Financial Cooperation and Integration

It is also important to examine issues related to greater monetary and financial cooperation and integration. Given the large volumes of savings in the region, there are clear benefits to removing the institutional and regulatory impediments that continue to constrain the development of more integrated regional financial markets. A key focus is, therefore, to harmonize accounting, reporting, and regulatory standards; simplify tax and registration procedures; strengthen regional credit rating agencies; and remove regulatory hurdles that hamper the development of financial instruments. These measures will improve financial intermediation between savers and investors within Asia and the Pacific. Developing the basic financial infrastructure—credit enhancement agencies and clearance and settlement systems—requires consensus as part of a coordinated approach to developing regional financial markets. A further set of issues includes measures to promote greater exchange rate stability in the region and closer coordination of monetary policies for this purpose.

D. Pillar 4: Cooperation in Regional Public Goods

A regional public good (RPG) is a benefit shared by two or more countries in a region. RPGs can be promoted by (i) coordinated actions to supply RPGs such as clean air, environmental protection, control of communicable diseases, and management of natural disasters; and (ii) dissemination of analysis and research findings in the public domain through publications, workshops, and shared standards.

As greater connectivity results in higher flows of goods, traffic, and people across borders, regional integration brings benefits and costs. A negative side effect is the spread of communicable diseases as people move across regions. Avian influenza in 2004 and the rapid spread of HIV/AIDS along new economic corridors have severely affected the poor.

ADB’s support for providing RPGs will mainly focus on (i) supporting
regional and subregional policy dialogue and initiatives to protect the environment, control communicable diseases (e.g., avian influenza, HIV/AIDS, and SARS), manage the impact of natural disasters, promote clean energy and energy efficiency, improve governance, and prevent human and drug trafficking; (ii) conducting research on these cross-border issues; (iii) supporting capacity building and institutional strengthening of DMCs to respond to cross-border issues; and (iv) supporting regional partnership building through various regional forums and exchange programs.

E. Relationships among the Pillars

Increased physical connectivity (pillar 1) helps to link markets and resources. This sets the stage for corresponding benefits in terms of economies of scale and greater competition. However, benefits from improved physical connectivity may be constrained if the volume of trade and investment flows is small. Therefore RCI in trade and investment (pillar 2) is important to maximize the benefits of cross border and physical connectivity.

As more economies are physically connected, there is more cross-border trade and investment. Labor mobility across borders grows. Monetary and financial transactions increase through formal and informal channels. However, monetary and financial links mean that a country’s financial instability may be transmitted to its neighboring economies. The 1997–1998 Asian financial crisis showed clearly that, unless countries in Asia maintain macroeconomic and financial stability, their economic development is at risk. Greater monetary and financial cooperation and integration (pillar 3) is therefore essential to maintain macroeconomic and financial stability and prevent financial crises.

Improved cross-border physical connectivity, expansion of regional trade and investment bring major benefits to DMCs, but they may also have adverse crossborder impacts on the environment and people. Environmental degradation, threats of communicable diseases (e.g., avian influenza, HIV/AIDS, and SARS) and natural disasters can affect the poor disproportionately and undermine the economic gains that have been achieved. Prevention of these threats can protect the poor and help accelerate poverty reduction efforts. Consequently, the provision of RPGs (pillar 4) has become a key element of ADB’s approach to RCI.

Although, many trade and economic groups and associations have existed since quite some time, but in recent times many regional trade groups have come into existence and ground has been prepared for others. Competition is increasing
not only between countries but between trade groups as well. This competition has led to the rise of many regional trade and economic groups like European Union, NAFTA, COMESA, OPEC, ASEAN, SAARC, SAPTA etc.

4.1 European Union

The European Union (EU) is a sui generis supranational and intergovernmental union of 27 states. It was established in 1992 by the Treaty on European Union (The Maastricht Treaty), and is the de facto successor to the six-member European Economic Community founded in 1957. Since then new accessions have raised its number of member states, and competences have expanded. The EU is the current stage of a continuing open-ended process of European integration.

The EU is one of the largest economic and political entities in the world, with 493 million people and a combined nominal GDP of $15.4 trillion in 2006. The Union is a single market with a common trade policy, a Common Agricultural/Fisheries Policy, and a Regional policy to assist poorer regions. It introduced a single currency, the euro, adopted by 13 member states. The EU initiated a limited Common Foreign and Security Policy, and a limited Police and Judicial Co-operation in Criminal Matters.

Important EU institutions and bodies include the European Commission, the Council of the European Union, the European Council, the European Central Bank, the European Court of Justice, and the European Parliament. Citizens of EU member states are also EU citizens: they directly elect the European Parliament, once every five years. They can live, travel, work, and invest in other member states (with some restrictions on new member states). Passport control and customs checks at most internal borders were abolished by the Schengen Agreement.

The EU has evolved from a western European trade body into the supranational and intergovernmental body that it is today. After the Second World War, an impetus grew in western Europe for institutional forms of cooperation (through social, political and economic integration) between states, driven by the determination to rebuild Europe and eliminate the possibility of another World War. Eastern Europe, on the other hand, was largely within the Soviet sphere of influence, and only in the 1990s did the EU see central and eastern European states as potential members.

European Economic Community

The Euro is adopted by 13 countries and is used by 315 million people

A prominent policy goal of the European Union is the development and maintenance of an effective single market. Significant efforts have been made to create
harmonized standards designed to bring economic benefits through creating larger, more efficient markets. Since the Treaty of Rome, policies have implemented free trade of goods and services among member states, and continue to do so. Common EU competition law restricts anti-competitive activities of companies (through antitrust law and merger control) and member states (through the State Aids regime). The EU promotes free movement of capital between member states. The members have a common system of indirect taxation, the VAT, as well as common customs duties and excises on various products.

They have a Common Agricultural Policy (with the Common Fisheries Policy) and the structural and cohesion funds, which improve infrastructure and assist disadvantaged regions. Together they are known as the cohesion policies. The EU also has funds for emergency financial aid, for instance after natural disasters.

**European Community**

European Communities was the name given collectively to the European Economic Community (EEC), the European Atomic Energy Community (Euratom) and the European Coal and Steel Community (ECSC), when in 1967, their organs were merged with the Merger Treaty. The term now technically only refers to the EEC and Euratom, as the ECSC expired in 2002.

The EEC, established in 1958, soon became the most important of these three communities, subsequent treaties added further areas of competence extending beyond the purely economic. The other two communities remained extremely limited.

With the entry into force of the Maastricht Treaty in November of 1993, the European Economic Community changed its name and became the European Community. The European Community, along with the ECSC and Euratom, became known as the European Community and, together with the two other pillars, became collectively known as the European Union which exists today.

**Community Pillar**

The Maastricht treaty turned the European communities as a whole into the first of three pillars of the European union. As the known as the Community Pillar or Communities Pillar. In Community Pillar policy areas decisions are made collectively by Qualified Majority Voting (QMV).

**Institutions and bodies**

The European Union is governed by a number of institutions, these primarily being the Commission, Council and Parliament.
The **European Commission** acts as an executive or civil service of sorts. It is currently composed of one member from each state (currently 27) and is responsible for drafting all proposed law, a duty on which it maintains a monopoly in order to co-ordinate European Law. It also controls some agencies and the day-to-day running of the Union. Its president is nominated by the European Council then elected by the Parliament.

The **Council of the European Union** (aka the Council of Ministers) forms one half of the Union's legislative branch (the other being the Parliament). It is composed of the national ministers responsible for the area of EU law being addressed, for example a law regarding agriculture would go to a Council composed of national agriculture ministers. This body should not to be confused with the European Council below or the non-EU body, the Council of Europe. The body's presidency rotates between the member-states every 6 months, though the current president member-state co-operates with the previous and future president member-state, to provide continuity.

The **European Parliament** is the only Union body composed of officials directly elected on European issues. Every 5 years citizens in all member-states vote across a few days for 785 "MEPs" who form the second half of the Union's legislative branch. Its members sit according to political groups rather than nationality and its president is elected by its members.

The **European Central Bank** is controlling the monetary policy within the Eurozone, consisting of 13 member states. The ECB was established in 1998 and its headquarters are located in Frankfurt, Germany.

The Judicial branch of the Union consists primarily of the **European Court of Justice** composed of one judge nominated by each member-state with the president elected from among those nominees. Below the Court of Justice there is a lower court called the **Court of First Instance** created to lift some of the work load of the Court of Justice. There is also the **European Court of Auditors** which monitors the Union's accounts.

Another major body, though not an official institution, is the **European Council**, composed of the heads of government (along with the President of the European Commission) meeting 4 times a year. It shares its presidency with that of the Council of the European Union. There are also the two advisory committees; the Committee of the Regions and the Economic and Social Committee.

There is no official European capital, with institutions spread across a
number of cities. However, Brussels is often considered the *de facto* capital as it hosts most of the primary institutions, including the Commission and the Council. The Parliament also has its second seat in the city. Strasbourg is the official seat of the European Parliament, meeting there for twelve week-long plenary sessions each year. Luxembourg City plays host to the Secretariat of the European Parliament as well as the European Court of Justice, the Court of First Instance and the European Court of Auditors.

**India's FDI and Trade with the EU: Key Macroeconomic Findings**

FDI inflows total € 16 bn for 1989 to 2001, with annual flows at about € 2.2 to 3.4 bn in recent years. The total stock of FDI amounts to a tiny 3.6% of GDP, a much smaller share than in almost all large developing countries despite the increase since the beginning of the 90s.

![FDI STOCK AS A PROPORTION OF GDP. INDIA versus THE ARITHMETIC AVERAGE OF 10 LARGE DEVELOPING COUNTRIES](image)

Inflows would need to rise to € 6.7 bn annually to reach the average foreign investment stock of these ten developing countries within ten years.

**Trade Openness**

India is still characterised by high direct and indirect tariffs, with an average protection above 30%. Regulation and their effective application appear to remain a problem. The access to imported inputs is still difficult, with subsequent
competitiveness problems for both domestic and foreign invested companies. Symmetrically, increased transparency and homogeneity of rules for access to the European market would strongly benefit Indian exports.

**EU Companies, once invested in India, are satisfied**

55% of surveyed European companies operating in India say they are "very satisfied" or "satisfied", and 41% are "moderately successful". Only 4% declare a "failure". In parallel, average after-tax return on equity invested was given as 13% for 1999/2000, with net profits up 17% over the previous year. The dominant perception of EU companies about the country: "you have to be in India" but "you have to know the rules".

**India's Competitiveness as an Investment Destination**

EU-invested companies clearly identify very positive "competitive factors" in their Indian operation: favorable labor costs and productivity, and low costs of locally sourced inputs. Conversely, they point at the lack of infrastructure, especially transport and energy, and the high costs of imported inputs as major negative factors.

**Major Factors for Future Investment: EU companies' perception**

<table>
<thead>
<tr>
<th>Key factors</th>
<th>Important factors</th>
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<tbody>
<tr>
<td>Economic and political stability</td>
<td>Easier and cheaper access to imported input</td>
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<tr>
<td>Growth of the Indian market</td>
<td>Improvement in other infrastructure</td>
</tr>
<tr>
<td>Reduction in bureaucratic hurdles</td>
<td>Improvement in present operation's performance</td>
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<tr>
<td>Improvement in Energy Infrastructure</td>
<td>Easier labor regulators</td>
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<td>Improvement in legal system incl. Execution</td>
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**Mechanical Engineering**

India has a well-diversified engineering goods sector consisting of automobiles and auto components, capital goods, power plant/prime mover equipment, and industrial processing machinery, representing a market of Rs 1.1 trillion, with
annual growth averaging nearly 6% during the last five years. Growth in engineering goods industries is dependent on factors driving growth in the end-use industries, especially capital investment trends in automobiles, infrastructure and consumer goods manufacturing, which are currently on a decline.

The engineering sector is among the principal recipients of FDI inflows into India (€ 1.1 billion since 1991). Government-owned undertakings as well as imports play an important role, each accounting for more 20% of the sector's output. India offers a large base of technically trained personnel and attractive labor costs that support creation of a competitive base in industrial manufacturing. However, its competitive potential remains under utilized due to factors like: absence of adequate investments in applied research and design facilities, high costs of capital, inflexibility in labor laws, weak intellectual property rights, and inconsistencies in quality and delivery standards, especially among SMEs.

Government policies and regulations are favorable for both trade and investment, notwithstanding difficulties in application:

- FDI is fully liberalised: up to 100% foreign equity holding is allowed in the sector, on automatic route.
- Import of new as well as second hand goods (less than 10 years old) is allowed freely, with import tariffs 26-63% in capital goods.
- Concessional import duty schemes are available for export-linked imports.
- Tax incentives for in-house R&D

**Food Processing**
Food processing is a key industrial sector, with an output of more than Rs 1.2 trillion (€ 28 bn). However, the bulk of food consumption is in primary unprocessed form, comprising of cereal grains, fruit and vegetables, and milk, with packaged processed foods accounting for Rs 300 billion in consumer expenditure, i.e. less than € 10 per year per person. Rising incomes, lifestyle changes and aspirations of a new generation drive the growth of the processed food sector.

A large agriculture resource base under a centrally planned agriculture system has helped India attain food self-sufficiency for its one-billion population. The government continues to play a major role in facilitating farmers through agriculture credit, subsidies, price-support schemes and extension services. While there are no food security concerns at present, increasing agriculture productivity holds the key to stable growth in food production, given the limits of the resource base. Food exports are also an important foreign exchange earner for India, accounting for close to 15% of total exports. Rice, marine products, spices and processed fruits & vegetables are the major export items from India.

Government regulations in the sector apply to investment, trade, food safety, storage and inspection standards.

- Foreign investment is not allowed in primary cultivation/livestock farming and retail trading activities, but is freely allowed up to 100% foreign holding in processing, except for a few items reserved for exclusive manufacture in small
enterprises.

- Investment and trade in alcoholic products attract special conditions, besides import tariffs up to 706%.
- Quantitative restrictions have been removed on import of all food products since April 2001, but imports are subject of pre-entry tests, and require mandatory certification under Indian standards.

Since 1991, some € 0.6 billion FDI has been approved, of which dairy, confectionery and beverages have a substantial share.

**Telecommunications**

India's telecom sector consists of a services market of Rs 340 billion, and an equipment market of Rs 180 billion, growing by more than 20% annually. With more than 32 million fixed lines, India is the world's sixth largest fixed line network. In the last ten years, several value-added services- cellular services, radio paging, VSATs, Internet services, etc.- have been introduced, and are available nationally.

India is still a nascent market with a fixed line teledensity of 3.5%. Meeting the target teledensity of 7% by 2007 calls for an investment of more than € 40 billion, in creating additional network of 75 million lines. A significant share of this investment is targeted to come from private sector participation, including foreign investment. The market is expected to double in size to Rs. 700 billion if the target teledensity is to be attained by 2007.

Phased and progressive privatisation, including foreign participation, has been a major highlight of the 1990s. The National Telecom Policy spells out the
procedural aspects of licensing, service standards and obligations governing telephony and other value added services, under the supervision of a regulatory authority. With the exception of international long distance, private sector participation is allowed in all services, as well as in manufacture of telecom equipment.

Foreign investment is capped at 49% in basic, paging and cellular services, and up to 100% in Internet services, infrastructure provision and telecom equipment manufacture. International long distance services as well as Internet telephony are targeted to be opened up in April 2002. The telecom sector received FDI inflows of €1 billion, of which nearly 50% is in cellular services.

**Information Technology**

India's information technology sector is an example of a developing country's global competitiveness in a high technology domain. India ranks as the most competitive supply of skilled information technology professionals today and is the preferred supplier of software solutions to the developed world, and Indian companies have earned credibility in delivering to mission-critical requirements, following the successful implementation of Y2K and Euro conversion solutions.

<table>
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<tr>
<th>INFORMATION TECHNOLOGY (Bn EURO)</th>
<th>Total Market</th>
<th>Software</th>
<th>Hardware</th>
<th>Training</th>
<th>Exports</th>
<th>FDI</th>
</tr>
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<tr>
<td>11.6</td>
<td>7</td>
<td>3.5</td>
<td>1.1</td>
<td>6.1</td>
<td>0.67</td>
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In 2000-01, India's Info tech sector posted gross revenue of Rs 497 billion, of which exports, at Rs. 231 billion accounted for 53% of the total sector output. Driven by exports, the sector has grown by an average 40% annually during in the 1990s and represents nearly 3% of India's GDP. Based on its current strengths, software is projected to become India's largest sector, contributing 28% of GDP by 2020. India's IT vision has a target of US$ 80 billion for 2008, of which exports will
account for € 56 billion. New areas especially IT-enabled services are estimated to bring revenues exceeding € 22.5 billion by 2008. Meeting the vision requires substantial investments, of the order of € 28 billion in infrastructure and other areas.

The government has played an extremely supportive role in the growth of the sector, through favorable investment policies, capital market regulations including ESOPs, access to venture capital funds, and attractive financial incentives for export.

The EU receives only 25% of India’s IT exports, mainly because of lower conversancy in European languages other than English. There is therefore a need to introduce initiatives to harness India's talent and potential to enable greater participation in languages other than English, as well as identify and develop suitable strategies to tap the substantial non-English European market.

4.2 SAARC

The South Asian Association for Regional Cooperation (SAARC) was established when its Charter was formally adopted on December 8, 1985 by the Heads of State or Government of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

SAARC provides a platform for the peoples of South Asia to work together in a spirit of friendship, trust and understanding. It aims to accelerate the process of economic and social development in Member States.

AREAS OF COOPERATION

At the inception of the Association, the Integrated Programme of Action (IPA) consisting of a number of Technical Committees (TCs) was identified as the core areas of cooperation. Over the period of years, the number of TCs were changed as per the requirement. The current areas of cooperation under the reconstituted Regional Integrated Programme of Action which is pursued through the Technical Committees cover:

1. Agriculture and Rural Development;
2. Health and Population Activities;
3. Women, Youth and Children;
4. Environment and Forestry;
5. Science and Technology and Meteorology;
6. Human Resources Development; and
7. Transport.
Recently, high level Working Groups have also been established to strengthen cooperation in the areas of Information and Communications Technology, Biotechnology, Intellectual Property Rights, Tourism, and Energy.

Given the emphasis laid down at successive Summits on the need to expand the areas of cooperation and strengthen the regional cooperation, a number of other areas have been included in the SAARC agenda. Several Ministerial level meetings have taken place to give due emphasis in various fields. The details of work programme under each agreed areas of cooperation can be viewed by clicking the respective links.

**Technical Committee on Agriculture and Rural Development (TCARD)**

As per the reconstituted SAARC Integrated Programme of Action (SIPA), the two Technical Committees on Agriculture and Rural Development were merged into one as the Technical Committee on Agriculture and Rural Development. The reconstituted Committee under the chairmanship of Nepal started functioning in 2000 and held two meetings.

Following adoption of the Regional Integrated Programme of Action (RIPA) by the Twenty-fourth Session of the Council of Ministers in Islamabad in January 2004, India hosted the First Meeting of the Technical Committee on Agriculture and Rural Development (including Livestock and Fisheries) under RIPA in New Delhi on 22-23 June 2004. The Meeting reviewed activities under the mandate of the Technical Committee during the year 2003-2004. It discussed a theme paper namely "Water Resources Management for Agriculture in SAARC Countries". Amongst others, it also discussed the draft TOR on establishing a "SAARC Quadrangle Milk Grid" and the concept paper on "Exchange of Rural Development Volunteers in the SAARC Countries" as well as follow-up of the decisions related to Agriculture and Rural Development emanating from the Twelfth SAARC Summit and the Twenty-fourth Session of the Council of Ministers, such as framing of modalities for the establishment of Regional Food Bank.

India hosted the Second Meeting of the SAARC Technical Committee on Agriculture and Rural Development in New Delhi from 27-28 June 2005. It had discussion on a theme paper titled “Water for Agriculture in SAARC Countries”. It deliberated on the Concept Paper prepared by India on the establishment of Regional Food Bank on the basis. The Meeting considered the Report of the SAARC-FAO Expert Level Meeting on Food Security, Integrated Pest Management (IPM) and
Transboundary Animal Diseases (TAD). The Meeting recommended some changes in the three draft project proposals. It made recommendations on the location of the three diagnostic (PPR and HPAI), one Epidemiological Centre and a Regional Support Unit under the proposed project to combat transboundary animal diseases in collaboration with FAO, who would serve as the link with these proposed entities.

Besides the Meeting discussed on establishment of a “SAARC Quadrangle Milk Grid” and also discussed Concept Paper on “Exchange of Rural Development Volunteers in the SAARC Countries”. The role of the SAARC Agricultural Information Centre (SAIC) was also discussed during the Meeting.

Subsequently, the preceding meetings of the Thirteenth SAARC Summit, approved the three projects jointly identified with FAO with some observations. SAARC and FAO are in consultations for early implementation of the projects, mentioned below:

a) Control of Trans-boundary Animal Diseases
b) Enhancement of Integrated Pest Management
c) Regional Strategy and Regional Programme for Food Security

**Biotechnology**

The issue of institutionalizing cooperation on Biotechnology has been on SAARC Agenda for some time. It was first mooted during the Fifth SAARC Summit in 1990 and successive Summits reiterated the call for concrete collaboration in this field. Leaders during the Tenth Summit in 1998, reiterated their call for intensifying cooperation in biotechnology. The erstwhile Technical Committee on Science and Technology gave focused treatment of the subject of biotechnology, in view of the immense potential in improving the quality of life in the region, given its vast reservoir of biodiversity and conducive climate. With the restructuring of the Integrated Programme of Action as RIPA, the Working Group on Biotechnology was formed in January 2004 to coordinate regional cooperation in this important field.

**Plan of Action for Cooperation in Biotechnology**

Member States have agreed to develop a Plan of Action for Cooperation in Biotechnology. The six areas of collaboration identified for the Plan of Action are Plant Tissue Culture, Medicinal and Aromatic Plants, Plant Biotechnology including Therapeutic and Edible Vaccines, Vaccines and Diagnostics for Human Health, Aquaculture, and Human Resource Development. Concept papers are being prepared by Member States in each of these. Once prepared, a Group of Experts would examine
those. The Group of Experts will finalize the proposed Plan of Action, which will be regional in character and will clearly outline modalities of cooperation.

**New Areas in Biotechnology**

In view of the importance of regional cooperation in Biotechnology, a proposal to draw a regional framework for Biosafety Procedures and Protocols is being considered in the context of the rules and regulations prevailing in the Member States. Member States are in the process of sharing information in this important area. A concept paper on a regional framework for Biosafety Procedures and Protocols will be finalized.

**Communications**

During the Ninth SAARC Summit (Male, May 1997), the Heads of State or Government noted that inadequate communications facilities amongst the Member States were a major hindrance to closer economic cooperation. They stressed on the importance of developing infrastructure and adequate communications networks among Member Countries to reinforce the process of economic cooperation. In this context, they highlighted the need for the simplification of complex documentation procedures and transactional software to facilitate economic interaction across the region.

Pursuant to the above decision, the First SAARC Communications Ministers' Conference was held in Colombo in May 1998. It adopted a Plan of Action on Telecommunications to give impetus to the telecommunications sector in the region.

The Second Meeting of the Communications Ministers held in Islamabad in June 2004 adopted the SAARC Plan of Action in 2004. It has these goals and objectives: (a) to promote cooperation in the enhancement of telecommunication links and utilization of information technologies within the region; (b) to minimize disparities within and among Member States in the telecommunications field; (c) to harness telecommunication technology for the social and economic upliftment of the region through infrastructure development by optimal sharing of available resources and enhanced cooperation in technology transfer, standardization and human resource development; and (d) to evolve a coordinated approach on issues of common concern in international telecommunications fora.

The Ministers agreed to adopt the following SAARC Plan of Action on Telecommunications: (i) Telecom tariffs within the SAARC region should be reduced to the lowest extent feasible within the framework of cost orientation based on International benchmarks; (ii) For Intra-regional traffic within SAARC countries,
efforts should be made to utilize either direct links or hubbing / transit facility within the region by 2005; (iii) Member States should offer special rates for transiting /hubbing regional traffic and utilize the facilities of other members for their overflow traffic. For this purpose, licensed International long distance operators should be encouraged to frequently negotiate agreements for offering lowest possible tariffs; and (iv) Intra-regional communications for the traveller and entrepreneur should be facilitated by promotion of country direct services, calling cards, cellular roaming and liberalized leased lines within the regulatory frameworks of the Member States. Besides, the Plan envisages complete digitalization of inter-country links, human resource development in telecom sector; development of rural services with affordable tariffs etc...

The Second Conference also adopted Common Position on issues of concern to the region in Telecommunications sector to be presented at the World Summit for Information Society (WSIS), Tunis, November 2005. The Conference also considered the current situation in the SAARC Member States on digital divide and decided that more concerted efforts were required to improve the situation. It urged the Member States to share their successful initiatives for development of ICT within the region. The task of developing performance indicators was assigned to the SAARC Working Group on Telecommunications, and ICT. It was further decided that fellowships and training programmes would be offered by Member States. SAARC Secretariat would coordinate this activity. The need to utilize training facility at SAARC Human Resource Development Centre, Islamabad was also underlined. Besides, the Conference recognized the need for continued cooperation with Asia Pacific Telecommunity.

It was decided that the Third Conference would be held in India in the first quarter of 2005. An exhibition of ICT related products developed and manufactured in the region would also be organized concomitantly with the Conference.

In view of growing importance of telecommunications, during the Twelfth SAARC Summit (Islamabad, January 2004) it was decided to create a new Working Group on Telecommunication, and Information and Communications Technology. The First Meeting of the Group is to be held in New Delhi on 20-21 September 2004.

**Economic**

The acceleration of economic growth is a Charter objective of SAARC.
Cooperation in the core economic areas among SAARC Member Countries was initiated following the Study on Trade, Manufactures and Services (TMS), which was completed in June 1991. The Study considered economic cooperation among the countries of the SAARC region as an imperative for promoting all-round development of the region. The Council of Ministers at its Ninth Session in Male in July 1991 endorsed the Study and established the Committee on Economic Cooperation (CEC) comprising Commerce/Trade Secretaries of Member States.

**Energy**

During the Twelfth SAARC Summit, the Council of Ministers at its Twenty-Fourth Session approved the most recent restructuring of the SAARC Integrated Programme of Action. Under the new Regional Integrated Programme of Action, (RIPA), seven Technical Committees were reorganized. At the same time five new Working Groups were created. The idea of Working Groups is new in SAARC. Working Groups have been especially created to focus on five new and emerging areas, namely, Energy, Tourism, ICT, Intellectual Property Rights and Biotechnology.

The Working Groups are intended to have higher profiles than the Technical Committees and to function along the lines of the Committee on Economic Cooperation that has been functioning for over a decade now.

As early as its Fifth Session (Dhaka, 4 December 1985) the Standing Committee approved the recommendation of the then Technical Committee on Science and Technology to hold a workshop on Renewable Energy. Since then, various activities were held in the energy sector under the auspices of the Technical Committee on Science and Technology.

Subsequently, cooperation in the energy sector was brought directly under the purview of the SAARC Integrated Programme of Action (SIPA) in January 2000 by establishing a new Technical Committee on Energy. The erstwhile Technical Committee on energy held two meetings to discuss issues related to cooperation in this field in the region. While focusing on the main mandate entrusted to this Working Group by the Leaders at their Twelfth Summit to study various possibilities for cooperation in the field of energy, including the concept of an Energy Ring.

Modalities in creating a South Asia Energy Cooperation included the concept of an Energy Ring. (Mandated by the Twelfth SAARC Summit (Islamabad 4-6 January 2004)

The Twenty-fifth Session of the Council of Ministers (Islamabad, 20-21
July 2004) approved the Report of the First Meeting of the Working Group on Energy (WORGEN) and recommended the following Plan of Action:

i. A South Asia Energy Forum at Ministerial level may be formed under the SAARC umbrella for exchange of views on policy issues and cooperation;

ii. The possibility of setting up a SAARC Energy Centre may be explored;

iii. A study may be carried out on options, benefits and constraints of energy trade in the region;

iv. Exchange of information and technical discussions are prerequisites for cooperation and may be encouraged by the respective Governments;

v. Joint strategies may be evolved for global energy forums for the benefit of the Member States;

vi. Countries of the region may benefit from each other’s experiences in institutional and pricing reforms in the energy sector;

vii. In the long term, transnational energy lines (electricity, gas and oil) could provide basis for an integrated and prosperous economic future of South Asia;

viii. Special focus is required on energy availability in rural areas, including conventional and non-conventional forms of energy for economic development and poverty reduction;

ix. Non-conventional and renewable sources of energy may be promoted through sharing of manpower, expertise, know-how and training programmes;

x. Feasibility of establishing a Regional Fund for promoting non-conventional energy may be explored;

xi. Energy efficiency and conservation may be promoted as a least cost option;

xii. Cooperation on CNG use in transport may be promoted;

xiii. Lessons may be learnt from innovative projects in Member states such as Nepal electricity rickshaw project, Bangladesh rural electrification cooperative societies etc., and

xiv. A quarterly internet based SAARC Energy Newsletter may be posted by the Secretariat based on the information provided by the Member States.

The Group noted with appreciation that the recommendations made at the erstwhile Technical Committee Meeting merits continuity under the new framework of the Working Group. They decided to pursue cooperation in all recommended areas i.e.
a. Exchange of Energy information;
b. Environment friendly energy;
c. Creation of a Regional Power-Grid; and
d. Cooperation regarding renewable energy.

Environment

Environment has remained as an important agenda in the SAARC process. Successive Summits have underscored the need for intensification of regional cooperation in the area of preservation of environment and disaster management to ensure that development process in the Member States were not undermined. Six SAARC Ministerial Meetings on Environment have been held so far. These meetings have been held annually with a different thematic focus each year.

Soon after the establishment of SAARC, a Technical Committee on Environment was formed in 1992 to coordinate regional cooperation in Environment and related areas. One of the first tangible outcomes of cooperation in the field of environment saw the production of two Studies as mandated by the Leaders. The Studies have since provided a strong basis for cooperative regional initiatives.

Human Resources Development

The significance of Human Resource in socio-economic development of the region has been recognized since the inception of SAARC. The leaders at the First SAARC Summit in 1985 reaffirmed that their fundamental goal was to accelerate the process of economic and social development through the optimum utilization of human and material resources to promote the welfare and prosperity of people and to improve their quality of life.

At the Second Summit in 1986, the leaders recognized that meeting the needs of children was the principal means of human resource development. They decided that children should be given highest priority in national development planning.

The leaders recognized at the Fourth Summit in 1988 that HRD was one of the means of achieve the objectives of SAARC. In this context they welcomed the offer of Pakistan to host the SAARC Human Resource Development Centre in Islamabad. The Centre undertakes research, imparts training, and disseminate information on HRD issues and advises Member States on HRD related policies and strategies.

SAARC countries have been cooperating in the development of various
dimensions of human resource. Such cooperation started as early as August 1982 in the fields of sports, arts and culture. In 1998, the SAARC leaders decided to include education in the agreed areas of cooperation and a Technical Committee was formed to deal with the principal area requiring urgent attention in the region. This Technical Committee was re-organized in 1992. The further re-structuring of the SAARC Integrated Programme of Action (SIPA) in 1999 resulted in the creation of the Technical Committee on Human Resource Development. This was reconstituted in January 2004 to deal with matters pertaining to education, skill development, arts, culture and sports. The Technical Committee met in March 2004 and made a number of concrete and result oriented recommendations for regional cooperation in the vital area of human resource development.

At the Twelfth SAARC Summit held in Islamabad in January 2004, the leaders underlined that investment in human resource development was critical for future development of South Asia. It was, therefore, essential to establish a network of centers of higher learning and training, and Skill Development Institutes across South Asia.

Legal

The Standing Committee at its Twenty Eighth Session (Kathmandu, 19-20 August 2002) recommended that Legal Advisers of SAARC Member States prepare a draft of an Additional Protocol to the SAARC Convention on the Suppression of Terrorism. This is in recognition of the need to update the Convention on account of the obligations devolving on Member States in terms of UN Security Council Resolution 1373 (2001) and the International Convention for Suppression of Financing of Terrorism. Given the priority accorded by the SAARC Heads of State/Government at the Eleventh Summit to global initiatives to combat terrorism and organized criminal activities, the Standing Committee recommended that a Ministerial level meeting be convened to deal with the issues.

The SAARC Council of Ministers at their Twenty-Third Session, (Kathmandu, 21-22 August 2002) endorsed the Standing Committee’s recommendations to mandate the Senior Officials assisted by Legal Experts of SAARC Member States to prepare an Additional Protocol to the SAARC Regional Convention on Suppression of Terrorism, recognizing the importance of updating the Convention in order to meet obligations devolving on Member States in terms of Security Council Resolution 1373 (2001) and the international Convention for Suppression of Financing of Terrorism. The
Council of Ministers called for the convening of a Ministerial Meeting to discuss these issues, following careful preparation, including its agenda, through intergovernmental consultations.

Pursuant to their mandate, the Senior Officials assisted by Legal Experts met in Colombo (27-29 August 2003) to prepare a draft Additional Protocol to the SAARC Regional Convention on Suppression of Terrorism.

During the Twelfth SAARC Summit (Islamabad, 4-6 January 2004) the Council of Ministers signed the Additional Protocol to the SAARC Regional Convention on Suppression of Terrorism. The purpose of this Additional Protocol is to strengthen the SAARC Regional Convention on Suppression of Terrorism, particularly by criminalizing the provision, collection or acquisition of funds for the purpose of committing terrorist acts and taking further measures to prevent and suppress financing of such acts.


The Thirtieth Session of the Standing Committee (Islamabad, 18-19 July 2004) recommended that a Ministerial Meeting on cooperation among SAARC countries on combating terrorism and transnational crimes including drug trafficking, human smuggling, etc., be convened at an early date. The Ministerial Meeting is scheduled to be held in Bangladesh in 2006.

**Poverty Alleviation**

Recognizing the imperative to address poverty related issues and to suggest strategies and measures to alleviate poverty in the region, the SAARC Leaders at their Sixth Summit (Colombo, 1991) established an Independent South Asian Commission on Poverty Alleviation (ISACPA). The Commission, while reporting to the Seventh Summit (Dhaka, 1993), provided a radical conceptual framework for poverty alleviation through social mobilization and empowerment in South Asia. The Seventy Summit welcomed the report and expressed its commitment to eradicate poverty from South Asia through an agenda of action which would, inter-alia, include a strategy of social mobilization, and a policy of decentralized agricultural development, village reawakening, small-scale labor-intensive industrialization and human development. The Summit also stressed that within the conceptual approach of “Daal-Bhaat”, the right to work and primary education should receive priority.

The Eighth SAARC Summit (New Delhi, 1995) approved the
establishment of a Three-tier mechanism for dealing with poverty issues. The first-tier comprised the Secretaries to the governments concerned with poverty eradication and social development in SAARC countries. The second-tier comprised Finance/Planning Secretaries and the third-tier comprised Finance/Planning Ministers. By January 1996, the first round of meetings under the three-tier mechanism was completed.

The Ministerial Meeting in New Delhi in 1996 recommended Member States to designate appropriate nodal agencies for the establishment of networking arrangements to regularly exchange information and share experiences on poverty alleviation.

The Tenth SAARC Summit in Colombo (July 1998) noted that human resources development is a key element in any poverty eradication programme. The Summit thus directed the SAARC Human Resources Development Centre in Islamabad to look into the possibility of its contributing to the strengthening of the human resources development component of regional poverty eradication programmes.

During the Eleventh Summit, the Leaders felt that the widespread and debilitating poverty continued to be the most formidable developmental challenge for the region. The Leaders made a review of the SAARC activities aimed at poverty alleviation and decided to reinvigorate them in the context of the regional and global commitments to poverty reduction. They expressed their firm resolve to combat the problem of poverty with a new sense of urgency by actively promoting the synergetic partnership among national governments, international agencies, the private sector and the civil society. They agreed to take immediate steps for the effective implementation of the programs for social mobilization and decentralization, and for strengthening institution building and support mechanisms to ensure participation of the poor, both as stakeholders and beneficiaries, in governance and the development process. The Summit reconstituted the Independent South Asian Commission on Poverty Alleviation (ISACPA) with Nepal as its Convener and Bangladesh as Co-Convener.

Subsequently, the Council of Ministers at its Twenty-third Session held in Kathmandu in August 2002 recognized poverty alleviation as the over-arching goal of SAARC for which a concerted, sustained and collective action was required. This steadfast commitment of the Council will have a far-reaching impact on all future SAARC activities.

The Third Meeting of the SAARC Finance/Planning Ministers on Poverty Alleviation held in Islamabad in April 2002 recognized that the problem of poverty in
South Asia needed to be tackled from a multi-dimensional aspect and agreed that a focused and action-oriented plan was the need of the hour and resolved on Plan of Action on Poverty Alleviation. The Ministers, united in their determination to reduce poverty, drawing upon the experience of the Member States and committed to achieve the Millennium Development Goals (MDGs). The Twelfth SAARC Summit approved the Plan of Action on Poverty Alleviation that was recommended by the Ministers in January 2004 in Islamabad. The Plan of Action identified some policy actions to be pursued at the domestic levels. Such internal policies, the Plan, identifies: a) good governance; b) sound macro-economic management; c) human development; d) combating rural and urban poverty; e) promotion of multi-culturism, pluralism and mass education; f) expansion of social safety nets; g) investment in human capital and social sectors; h) prudent empowerment of local communities and governments; j) intra-regional trade and capital flows etc. The Plan also identified some external policies that affect poverty alleviation efforts such as increased ODA, increased market access, reduction of debt burden etc.

At the Twelfth Summit, the Leaders declared poverty alleviation as the overarching goal of all SAARC activities. The reconstituted ISACPA submitted its Report-Our Future Our Responsibility to the Twelfth Summit. The Summit commended the work done by the Commission and decided that ISACPA should continue its advocacy role and it should prepare and submit to the next Summit a comprehensive and realistic blue-print setting out SAARC Development Goals (SDGs) for the next five years in the areas of poverty alleviation, education, health and environment giving due regard, among others, to the suggestions made in the ISACPA Report.

Accordingly, ISACPA identified 22 regional goals as the SAARC Development Goals (SDGs) and submitted those to the Thirteenth Summit. The Twenty-sixth Session of the Council of Ministers (Dhaka, 11 November 2005) advised that the Commission may further recommended that the ISACPA may continue its advisory and advocacy role and advised that the Commission may further elaborate the SDGs.

Underlining the need for an exclusive forum for focused and comprehensive examination of poverty related issues, the Heads of State/ Government decided to replace the three-tier mechanism on poverty alleviation by a two-tier one, comprising the Ministers and the Secretaries dealing with poverty alleviation at the national level.
Science and Technology, and Meteorology

The Heads of State or Government, conscious of the vast potential being afforded by current advances in scientific research for the application of science and technology towards the well-being of the peoples of South Asia, agreed during the Sixth SAARC Summit (Colombo, December 1991), that scientific and technological cooperation should transcend national frontiers to derive the maximum benefit for the region. They emphasized that cooperation in the field of Science and Technology was of utmost importance in order to accelerate the process of development in South Asia. At the Eighth Summit (New Delhi, May 1995), while noting that some progress had been made towards establishment of networking arrangements, inter-alia, in the fields of Bio-Technology, Genetic Engineering, Energy Modelling Techniques and Low-Cost Housing and Building Technologies, the Leaders called for further acceleration of this process. The Leaders at the Tenth Summit (Colombo, July 1998), noted that the development of a regional self-reliance capability for South Asia in scientific research and development was essential, given a global context in which barriers to the free flow of technology still remained in place. They appreciated the efforts to foster collective co-operation in this field under the SAARC umbrella.

Social Agenda

The SAARC Charter envisages acceleration of social progress through active collaboration and mutual assistance amongst Member States in the field. Focus on social issues under the broad heading of Health and Population Activities were one of the five original areas of cooperation identified by Member States.

The Association promotes social agenda in the region through cooperation in the following areas:

- Gender Related Issues
- Children and Youth
- Health and Population Activities
- SAARC Social Charter

Tourism

There is enormous potential for tourism in the SAARC region. The centuries old civilization, rich and unique cultural diversity, exquisite cuisine, extremely diverse and vast array of geography, splendid archaeological monuments, historic sites of religious significance and above all very hospitable people of South Asia, make the region a very attractive place for intra-regional as well as international
tourism.

The SAARC Leaders have always recognized the importance of tourism and emphasized the need to take measures for promoting tourism in the region. During the Second Summit, the Leaders underscored that concrete steps should be taken to facilitate tourism in the region. Tourism has been an important dimension of most of the subsequent Summits. At the Twelfth Summit held in Islamabad in January 2004, the Leaders were of the view that development of tourism within South Asia could bring economic, social and cultural dividends. There is a need for increasing cooperation to jointly promote tourism with South Asia as well as to promote South Asia as a tourism destination, inter alia, by improved air links, they stated in the Declaration. To achieve this and to commemorate the twentieth year of the establishment of SAARC, the year 2005 was designated by the Leaders as “South Asia Tourism Year”. Member States are required to individually and jointly organize special events to celebrate it.

Cooperation Troubles

SAARC is structured in a way that often makes regional cooperation difficult. Thomas Thornton argues that in regional organizations it is difficult for “countries to establish balanced relations when one has a significant advantage in power over the other states.” In the case of SAARC, India is the most powerful country in terms of its economic might, military power and international influence. Thus, India’s potential as a regional hegemon gives SAARC a unique dynamic compared to an organization such as ASEAN. Pakistan was initially reluctant to join SAARC due to fears of SAARC succumbing to Indian hegemony. Indeed, if India does take a prominent role in SAARC, it could further fears that India will use SAARC for hegemonic purposes. While the smaller states in South Asia recognize that they will need India’s help to facilitate faster economic growth, they are reluctant to work with India, fearing that such cooperation will admit Indian dominance in SAARC.

Disputes between South Asian states have undermined SAARC efforts to promote regional trade. These disagreements make consensus building and cooperation among SAARC states complicated. Attempting to promote regional cooperation while doing little to resolve regional conflicts makes SAARC’s mission looks nearly impossible. Moreover, SAARC has no institutional mechanisms or punishments capable of preventing or fully resolving a dispute.

India has recently attempted to improve its relationship with the rest of South Asia. Under the Gujral Doctrine established by former Indian Prime Minister I.K
Gujral, India signed a 30-year water sharing treaty with Bangladesh and a trade and transit treaty with Nepal. India also joined a sub regional group within SAARC comprising of Bangladesh, Bhutan, Nepal and India. Despite political impediments to trade, value of goods smuggled from India to Pakistan via a third party generally totals 250-500 million per year. If trade between the states was opened, Pakistan would receive cheaper imports due to lower transport costs and the absence of payments to a middleman. This implies that there is potential for lucrative trade between India and Pakistan. Moreover, if these two states, arguably the largest powers in SAARC, pushed for economic cooperation, it is likely that other states will follow their lead. Therefore, it is not surprising that the Indo-Pakistani dispute over Kashmir is considered a primary cause of SAARC’s impotence.

**A Bi-lateral Alternative**

To counter SAARC’s ineffectiveness, individual states have used bi-lateral agreements to advance their economic interests. Due to their conflicts, it is not surprising that trade between India and Pakistan has only occurred through the smuggling of goods by a third party, usually Dubai. However, Pakistan and Bangladesh maintained relatively lucrative trade relations with one another in the 1980’s. Approximately 60 percent of Bangladesh’s exports during this decade went to Pakistan. Bangladesh also saw an upswing in bi-lateral trade with India during the 1990’s. While the trade between India and Bangladesh was characterized by a significant trade gap, over $1 billion in goods a year went back and forth between these states. India also signed an agreement with Nepal in December of 1996 that allowed Nepal duty free access to the Indian market. Moreover, on April 1, 1995, India reduced customs on goods imported from Sri Lanka. Therefore, bi-lateral, not multi-lateral, agreements have facilitated much of the trade that does occur in South Asia.

In essence, the growing movement of emphasis on economic development in foreign policy is changing the priorities of South Asian states. South Asian countries are emphasizing the importance of access to open markets and increasing foreign investment in their businesses. It seems likely then that economic growth and development will be central to the future of the South Asian state. However, whether growth and development occurs because of economic cooperation in the region is another question. Currently, trade between South Asian states remains relatively low when compared to other regional blocks. Moreover, political and economic ties between states rest on shaky foundations. Divisions among South Asian countries have made
regional cooperation difficult and have lead states to pursue their economic goals bilaterally. SAARC is still a valuable forum for political dialogue in South Asia, but its economic role in the region has been mitigated by conflict and tension among its member states.

4.3 ASEAN

The Association of Southeast Asian Nations or ASEAN was established on 8 August 1967 in Bangkok by the five original Member Countries, namely, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Lao PDR and Myanmar on 23 July 1997, and Cambodia on 30 April 1999.

The ASEAN region has a population of about 500 million, a total area of 4.5 million square kilometers, a combined gross domestic product of almost US$ 700 billion, and a total trade of about US$ 850 billion.

OBJECTIVES

The ASEAN Declaration states that the aims and purposes of the Association are: (1) to accelerate economic growth, social progress and cultural development in the region and (2) to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations Charter.

The ASEAN Vision 2020, adopted by the ASEAN Leaders on the 30th Anniversary of ASEAN, agreed on a shared vision of ASEAN as a concert of Southeast Asian nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies.

In 2003, the ASEAN Leaders resolved that an ASEAN Community shall be established comprising three pillars, namely, ASEAN Security Community, ASEAN Economic Community and ASEAN Socio-Cultural Community.

ASEAN SECURITY COMMUNITY

Through political dialogue and confidence building, no tension has escalated into armed confrontation among ASEAN Member Countries since its establishment more than three decades ago.

To build on what has been constructed over the years in the field of political and security cooperation, the ASEAN Leaders have agreed to establish the ASEAN Security Community (ASC). The ASC shall aim to ensure that countries in the
region live at peace with one another and with the world in a just, democratic and harmonious environment.

The members of the Community pledge to rely exclusively on peaceful processes in the settlement of intra-regional differences and regard their security as fundamentally linked to one another and bound by geographic location, common vision and objectives. It has the following components: political development; shaping and sharing of norms; conflict prevention; conflict resolution; post-conflict peace building; and implementing mechanisms. It will be built on the strong foundation of ASEAN processes, principles, agreements, and structures, which evolved over the years and are contained in the following major political agreements:

- ASEAN Declaration, Bangkok, 8 August 1967;
- Zone of Peace, Freedom and Neutrality Declaration, Kuala Lumpur, 27 November 1971;
- Declaration of ASEAN Concord, Bali, 24 February 1976;
- Treaty of Amity and Cooperation in Southeast Asia, Bali, 24 February 1976;
- ASEAN Declaration on the South China Sea, Manila, 22 July 1992;
- Treaty on the Southeast Asia Nuclear Weapon-Free Zone, Bangkok, 15 December 1997;
- ASEAN Vision 2020, Kuala Lumpur, 15 December 1997; and
- Declaration of ASEAN Concord II, Bali, 7 October 2003.

In recognition of security interdependence in the Asia-Pacific region, ASEAN established the ASEAN Regional Forum (ARF) in 1994. The ARF’s agenda aims to evolve in three broad stages, namely the promotion of confidence building, development of preventive diplomacy and elaboration of approaches to conflicts.

The present participants in the ARF include: Australia, Brunei Darussalam, Cambodia, Canada, China, European Union, India, Indonesia, Japan, Democratic Republic of Korea, Republic of Korea (ROK), Lao PDR, Malaysia, Mongolia, Myanmar, New Zealand, Pakistan, Papua New Guinea, the Philippines, the Russian Federation, Singapore, Thailand, the United States, and Viet Nam.

The ARF discusses major regional security issues in the region, including the relationship amongst the major powers, non-proliferation, counter-terrorism, transnational crime, South China Sea and the Korean Peninsula, among others.

ASEAN ECONOMIC COMMUNITY
The ASEAN Economic Community shall be the end-goal of economic integration measures as outlined in the ASEAN Vision 2020. Its goal is to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020.

The ASEAN Economic Community shall establish ASEAN as a single market and production base, turning the diversity that characterizes the region into opportunities for business complementation and making the ASEAN a more dynamic and stronger segment of the global supply chain. ASEAN’s strategy shall consist of the integration of ASEAN and enhancing ASEAN’s economic competitiveness.

In moving towards the ASEAN Economic Community, ASEAN has agreed on the following:

- institute new mechanisms and measures to strengthen the implementation of its existing economic initiatives including the ASEAN Free Trade Area (AFTA), ASEAN Framework Agreement on Services (AFAS) and ASEAN Investment Area (AIA);
- accelerate regional integration in the following priority sectors by 2010: air travel, agro-based products, automotives, e-commerce, electronics, fisheries, healthcare, rubber-based products, textiles and apparels, tourism, and wood-based products.
- facilitate movement of business persons, skilled labor and talents; and
- strengthen the institutional mechanisms of ASEAN, including the improvement of the existing ASEAN Dispute Settlement Mechanism to ensure expeditious and legally-binding resolution of any economic disputes.

Launched in 1992, the ASEAN Free Trade Area (AFTA) is now in place. It aims to promote the region’s competitive advantage as a single production unit. The elimination of tariff and non-tariff barriers among Member Countries is expected to promote greater economic efficiency, productivity, and competitiveness.

As of 1 January 2005, tariffs on almost 99 percent of the products in the Inclusion List of the ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) have been reduced to no more than 5 percent. More than 60 percent of these products have zero tariffs. The average tariff for ASEAN-6 has been brought down from more than 12 percent when AFTA started to 2 percent today. For the newer Member Countries, namely, Cambodia, Lao PDR,
Myanmar, and Viet Nam (CLMV), tariffs on about 81 percent of their Inclusion List have been brought down to within the 0-5 percent range.

Other major integration-related economic activities of ASEAN include the following:

- Roadmap for Financial and Monetary Integration of ASEAN in four areas, namely, capital market development, capital account liberalization, liberalization of financial services and currency cooperation;
- trans-ASEAN transportation network consisting of major inter-state highway and railway networks, including the Singapore to Kunming Rail-Link, principal ports, and sea lanes for maritime traffic, inland waterway transport, and major civil aviation links;
- Roadmap for Integration of Air Travel Sector;
- interoperability and interconnectivity of national telecommunications equipment and services, including the ASEAN Telecommunications Regulators Council Sectoral Mutual Recognition Arrangement (ATRC-MRA) on Conformity Assessment for Telecommunications Equipment;
- trans-ASEAN energy networks, which consist of the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline Projects;
- Initiative for ASEAN Integration (IAI) focusing on infrastructure, human resource development, information and communications technology, and regional economic integration primarily in the CLMV countries;
- Visit ASEAN Campaign and the private sector-led ASEAN Hip-Hop Pass to promote intra-ASEAN tourism; and
- Agreement on the ASEAN Food Security Reserve.

EXTERNAL RELATIONS

The ASEAN Vision 2020 affirmed an outward-looking ASEAN playing a pivotal role in the international community and advancing ASEAN’s common interests.

Building on the Joint Statement on East Asia Cooperation of 1999, cooperation between the Southeast and Northeast Asian countries has accelerated with the holding of an annual summit among the leaders of ASEAN, China, Japan, and the Republic of Korea (ROK) within the ASEAN Plus Three process.

ASEAN Plus Three relations continue to expand and deepen in the areas of security dialogue and cooperation, transnational crime, trade and investment,
environment, finance and monetary, agriculture and forestry, energy, tourism, health, labor, culture and the arts, science and technology, information and communication technology, social welfare and development, youth, and rural development and poverty eradication. There are now thirteen ministerial-level meetings under the ASEAN Plus Three process.

Bilateral trading arrangements have been or are being forged between ASEAN Member Countries and China, Japan, and the ROK. These arrangements will serve as the building blocks of an East Asian Free Trade Area as a long term goal.

ASEAN continues to develop cooperative relations with its Dialogue Partners, namely, Australia, Canada, China, the European Union, India, Japan, the ROK, New Zealand, the Russian Federation, the United States of America, and the United Nations Development Programme. ASEAN also promotes cooperation with Pakistan in some areas of mutual interest.

Consistent with its resolve to enhance cooperation with other developing regions, ASEAN maintains contact with other inter-governmental organisations, namely, the Economic Cooperation Organization, the Gulf Cooperation Council, the Rio Group, the South Asian Association for Regional Cooperation, the South Pacific Forum, and through the recently established Asian-African Sub-Regional Organization Conference.

Most ASEAN Member Countries also participate actively in the activities of the Asia-Pacific Economic Cooperation (APEC), the Asia-Europe Meeting (ASEM), and the East Asia-Latin America Forum (EALAF).

STRUCTURES AND MECHANISMS

The highest decision-making organ of ASEAN is the Meeting of the ASEAN Heads of State and Government. The ASEAN Summit is convened every year. The ASEAN Ministerial Meeting (Foreign Ministers) is held annually.

Ministerial meetings on the following sectors are also held regularly: agriculture and forestry, economics (trade), energy, environment, finance, health, information, investment, labor, law, regional haze, rural development and poverty alleviation, science and technology, social welfare, telecommunications, transnational crime, transportation, tourism, youth. Supporting these ministerial bodies are committees of senior officials, technical working groups and task forces.

To support the conduct of ASEAN’s external relations, ASEAN has established committees composed of heads of diplomatic missions in the following

The Secretary-General of ASEAN is appointed on merit and accorded ministerial status. The Secretary-General of ASEAN, who has a five-year term, is mandated to initiate, advise, coordinate, and implement ASEAN activities. The members of the professional staff of the ASEAN Secretariat are appointed on the principle of open recruitment and region-wide competition.

ASEAN has several specialized bodies and arrangements promoting inter-governmental cooperation in various fields including the following: ASEAN Agricultural Development Planning Centre, ASEAN-EC Management Centre, ASEAN Centre for Energy, ASEAN Earthquake Information Centre, ASEAN Foundation, ASEAN Poultry Research and Training Centre, ASEAN Regional Centre for Biodiversity Conservation, ASEAN Rural Youth Development Centre, ASEAN Specialized Meteorological Centre, ASEAN Timber Technology Centre, ASEAN Tourism Information Centre, and the ASEAN University Network.

In addition, ASEAN promotes dialogue and consultations with professional and business organisations with related aims and purposes, such as the ASEAN-Chambers of Commerce and Industry, ASEAN Business Forum, ASEAN Tourism Association, ASEAN Council on Petroleum, ASEAN Ports Association, Federation of ASEAN Shipowners, ASEAN Confederation of Employers, ASEAN Fisheries Federation, ASEAN Vegetable Oils Club, ASEAN Intellectual Property Association, and the ASEAN-Institutes for Strategic and International Studies. Furthermore, there are 58 Non-Governmental Organizations (NGOs), which have formal affiliations with ASEAN.

The ASEAN Regional Forum (ARF)

The Twenty-Sixty ASEAN Ministerial Meeting and Post Ministerial Conference, which were held in Singapore on 23-25 July 1993, agreed to establish the ASEAN Regional Forum (ARF). The inaugural meeting of the AFR was held in Bangkok on 25 July 1994.

Objectives

The objectives of the ASEAN Regional Forum are outlined in the First ARF Chairman’s Statement (1994), namely;

a. to foster constructive dialogue and consultation on political and security
issues of common interest and concern; and

b. to make significant contributions to efforts towards confidence-building and preventive diplomacy in the Asia-Pacific region.

The 27th ASEAN Ministerial Meeting (1994) stated that “The ARF could become an effective consultative Asia-Pacific Forum for promoting open dialogue on political and security cooperation in the region. In this context, ASEAN should work with its ARF partners to bring about a more predictable and constructive pattern of relations in the Asia Pacific”.

Achievements

On the tenth year of the ASEAN Regional Forum, the ARF Ministers met in Phnom Penh on 18 June 2003 and declared that “despite the great diversity of its membership, the forum had attained a record of achievements that have contributed to the maintenance of peace, security and cooperation in the region”. They cited in particular:

- The usefulness of the ARF as a venue for multilateral and bilateral dialogue and consultations and the establishment of effective principles for dialogue and cooperation, featuring decision-making by consensus, non-interference, incremental progress and moving at a pace comfortable to all;
- The willingness among ARF participants to discuss a wide range of security issues in a multilateral setting;
- The mutual confidence gradually built by cooperative activities;
- The cultivation of habits of dialogue and consultation on political and security issues;
- The transparency promoted by such ARF measures as the exchange of information relating to defense policy and the publication of defense white paper; and
- The networking developed among national security, defense and military officials of ARF participants.

Participants

The current participants in the ARF are as follows: Australia, Bangladesh, Brunei Darussalam, Cambodia, Canada, China, European Union, India, Indonesia, Japan, Democratic Peoples, Republic of Korea, Laos, Malaysia, Myanmar, Mongolia, New Zealand, Pakistan, Papua New Guinea, Philippines, Russian Federation, Singapore, Thailand, Timor Leste, United States, Vietnam.
a) General Economy and Policy Initiatives in ASEAN & India

Though the region boasts of centuries-old politico-economic and cultural ties, it is the period since the early 1990s that has witnessed a perceptible shift in positive direction in the relations between India and the Members of ASEAN, which is rather different from the situation prevailing during the Cold War era; this has been aided to a large extent by India’s ‘Look East’ Policy, enunciated in 1991. The economic and political interactions have increased manifold ever since, in particular after India was invited to be a full dialogue partner with ASEAN at the Fifth ASEAN Summit in Bangkok in December 1995 and India’s becoming a Member of the ASEAN Regional Forum (ARF), and the two parties have agreed to explore avenues of taking advantage of the emerging economic opportunities for mutual benefits.

As a precursor to attaining the stated long-term objective of a India-ASEAN Regional Trade and Investment Area (RTIA), and recognizing the need to further promote and facilitate their cooperation and utilization of greater business opportunities provided by the India-ASEAN RTIA, India and the ten Member countries of ASEAN signed the India-ASEAN Framework Agreement on Comprehensive Economic Cooperation (CECA) in Bali, on 8th October, 2003. This forward-looking Agreement is aimed at forging a closer economic partnership in the 21st century between the ASEAN Member countries and the Republic of India by minimizing barriers and deepening economic linkages between the trading partners, lowering costs, increasing intra-regional trade, investment and productive efficiency, and carries forward the historical economic and commercial ties established between the peoples of the two regions since time immemorial. The CECA is expected to create a large market of over 1.5 billion people, with a combined current GDP of $1.2 trillion, and will cover agreements in investment and services, in addition to trade in goods. Accepting that the total size of the market is an important determinant of realization of the potential gains from a RTA, the India-ASEAN CECA is a step forward in the attempt by the East Asian economies to carve out a trading block which can somewhat counter the distortions created by the existing trading blocks in the Western hemisphere, viz. NAFTA and the EU25.
Table 4.1: Macro Indicators (2003)

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP at Current Prices (Million US$)</th>
<th>Rate of Growth in GDP (%)</th>
<th>GDP per capita (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>600,658</td>
<td>8.2</td>
<td>508</td>
</tr>
<tr>
<td>ASEAN</td>
<td>685,981</td>
<td>5.0</td>
<td>1,266</td>
</tr>
<tr>
<td>Brunei</td>
<td>4,715</td>
<td>3.2</td>
<td>12,971</td>
</tr>
<tr>
<td>Cambodia</td>
<td>4,215</td>
<td>5.0</td>
<td>310</td>
</tr>
<tr>
<td>Indonesia</td>
<td>208,625</td>
<td>4.1</td>
<td>973</td>
</tr>
<tr>
<td>Laos</td>
<td>2,043</td>
<td>5.9</td>
<td>362</td>
</tr>
<tr>
<td>Malaysia</td>
<td>103,737</td>
<td>5.3</td>
<td>4,198</td>
</tr>
<tr>
<td>Myanmar</td>
<td>9,605</td>
<td>5.1</td>
<td>179</td>
</tr>
<tr>
<td>Philippines</td>
<td>79,270</td>
<td>4.7</td>
<td>973</td>
</tr>
<tr>
<td>Singapore</td>
<td>91,355</td>
<td>1.1</td>
<td>20,987</td>
</tr>
<tr>
<td>Thailand</td>
<td>143,303</td>
<td>6.8</td>
<td>2,291</td>
</tr>
<tr>
<td>Vietnam</td>
<td>39,021</td>
<td>7.2</td>
<td>481</td>
</tr>
</tbody>
</table>

Source: ASEAN Statistical Yearbook, 2005; RBI Handbook of Statistics (Values converted from Rupees to Dollar using $1 = Rs 45.95)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU25</td>
<td>8,240.25</td>
<td>8,311.21</td>
<td>9,060.77</td>
<td>11,004.48</td>
<td>12,690.64</td>
</tr>
<tr>
<td>NAFTA</td>
<td>11,060.02</td>
<td>11,375.77</td>
<td>1,802.93</td>
<td>12,444.15</td>
<td>13,323.77</td>
</tr>
<tr>
<td>ASEAN+India</td>
<td>1,054.18</td>
<td>1,053.74</td>
<td>1,150.29</td>
<td>1,317.26</td>
<td></td>
</tr>
<tr>
<td>ASEAN+China</td>
<td>1,677.55</td>
<td>1,750.93</td>
<td>1,912.00</td>
<td>2,133.21</td>
<td></td>
</tr>
</tbody>
</table>

Source: World Development Indicators, 2005

The combined GDP of ASEAN Members in 2004 was US$ 800,735 million, approximately 1.17 times India’s recorded GDP in the same year, and is poised
for sustained growth. The region’s economy has finally come out of the shadow of the Asian Crisis of 1997, and is expected to continue its upswing; most economists believe that the region will expand at an average 5-6% for the next few years. The growth is likely to be a broad-based one, with both domestic and external demand providing the impetus for expansion. Within the ASEAN and for individual Member countries, integration has been facilitated mainly by trade, in particular in the manufacturing products (and unfortunately also in a narrow range of commodities); trade openness of the region has been very high in the last three decades or so, (Data source: www.aseansec.org) and on an average for the region, is over 150% of the combined GDP of the Members. However, intra-regional trade continues to be small at less than 30% of total ASEAN trade (Table 4.1), and the Members are often dependent on the US and EU for their export markets; this is a crude indicator of the imperfect integration that ASEAN Members have achieved so far. Hence, the key to ASEAN’s economic competitiveness and future growth is expected to lie in ‘economic integration’ with the rest of Asia, an agenda which the Members are following vigorously by forming groupings like ASEAN+1 with several countries, ASEAN+3 with China, Korea and Japan, and an East Asian Community (EAS); necessary policy reforms are being undertaken to complement the growth and export targets of Members and for effecting the regional integration.

Within the regional block, the ASEAN Members are working towards realizing the aim of establishing an ASEAN Economic Community (AEC) by the year 2020, when ASEAN will be a single market and production base, with free flow of goods, services (people) and investment and freer flow of capital. The ASEAN Leaders have reiterated this at their Bali Summit in October 2003, when they adopted the landmark Bali Concord II in which the AEC, the ASEAN Security Community and the ASEAN Socio-Cultural Community are affirmed as the three key pillars supporting the ASEAN Community. ASEAN is formulating detailed medium to long-term programs and activities for achieving the AEC. The ASEAN Economic and Investment Ministers met in Sentosa (Singapore) in April 2004 to review the progress made in the implementation of various initiatives mandated by the ASEAN Leaders to strengthen the AEC, and endorsed a plan for finalizing the roadmaps for the integration of 11 priority sectors which ASEAN enjoys competitive advantage. These 11 priority sectors are automotive, wood-based products, air travel and tourism, e-ASEAN, electronics, rubber-based products, textile and apparels, agro-based products, fisheries, information
and communications technology (ICT) and healthcare. The respective Country Coordinators in these 11 priority integration sectors are as follows:

(i) **Indonesia**: wood-based and automotive products;
(ii) **Malaysia**: rubber-based products, and textiles and apparels;
(iii) **Myanmar**: agro-based products and fisheries;
(iv) **The Philippines**: electronics;
(v) **Singapore**: e-ASEAN and healthcare;
(vi) **Thailand**: air travel and tourism.

The Ministers, in November 2004, at the 10th ASEAN Summit in Vientiane have signed the legally-binding agreements to implement the measures to integrate the 11 priority sectors, expected to be completed by 2012, and the roadmaps for integration of these sectors have been clearly outlined. These would cover some 4273 tariff lines at a 6-digit level in 12 key product categories. To settle differences and disputes in implementing the economic agreements, the Ministers also endorsed the provisions for establishing the ASEAN Dispute Settlement Mechanism (DSM).

In the case of India, services have been one of the thrust areas for over a decade. While agriculture continues to hold the most important position in the economy, given the high employment-generating ability and livelihood-insurer character of the sector in India, it is services that have become the growth engine in the economy in the last decade or so. Not only has the sector been growing at a steady pace of close to 10% for the last decade and contributing over half of India’s GDP growth each year, services exports from India has seen double digit growth in the last decade and has continued to be one of the main sources of foreign exchange earning in the country. In 2004, exports of services from India grew by 16%. According to WTO International Trade Statistics 2005, India’s share in world services trade stands at 1.9% vis-à-vis a 1.0% for merchandise trade; India also exhibits a strong revealed comparative advantage (RCA) in services relative to goods, with the competitiveness and contribution emanating primarily from the other business services category.

India’s Foreign Trade Policy (FTP) 2004-09 recognizes the importance of services in the overall trade performance of the country, by proposing to create a ‘Served from India’ brand, and setting up an exclusive export promotion council for services sector along with schemes to assist and promote home-grown service providers. The Council is expected to map opportunities for key services in key markets, and develop strategic market access programmes, including brand-building in
co-ordination with sectoral players and recognized nodal bodies of the service industries. Also, Common Facility Centres are proposed to be set up for use by home-based service providers, particularly in areas like engineering and architectural design, multi-media operations, software developers etc. to draw a vast multitude of home-based professionals into services export arena. It is expected that the new policy will help broad-base services exports from the country, to include as many of the 161 tradable services covered under the General Agreement on Trade in Services and where payment for such services is received in free foreign exchange; service sector exports from India are currently dominated by software exports. The expectation is that services exports will grow to US$ 150 billion by 2009 in which software services will account for about US$ 65 billion.

India’s services-led export boom in the last decade and the surplus of the increased invisible earnings had in fact fully offset the net merchandise trade deficit till last year, and is the consequence of a more liberalised policy regime in services as compared to manufacturing. The emergence of India as one of the fastest growing economies in the world during 1990s was attributable to a significant part to the rapid growth of its services sector, which grew at an annual average of 9%. In services, India pursued significant reforms, especially in telecommunications, and, to some extent, in financial services and infrastructure services, such as power and transport. The result also was that, at over 17% annually in the 1990s (with exports of software and IT enables services growing at around 46% since mid-1990s), India’s services exports have experienced one of the fastest growths globally in the last decade, compared to the world average of 5.6%. In 2004, India’s service exports constituted 34.4% of the country’s global exports (goods and services) (at US$ 39.64 billions out of US$ 115.23 billion total exports), while service imports were 29.61% of total imports (at $40.95 billions out of $138.29 billion total exports); however, globally, India remained a net importer of services (though, in 2004, the service trade deficit was only 5.69% of the total trade deficit of US$ 23.1 billion). In services, the areas of policy focus, liberalization and high growth in India have been: software, ITeS (including financial IT services) & BPO, besides emerging areas as healthcare (in particular diagnostics and surgeries), telecommunication, and more recently in professional services, distribution and government services. It should be noted here that unilateral service sector liberalization in India has been most focused in mode 3 (or commercial presence), and mode 4 access (movement of natural persons) is still restricted in many services sectors.
India is also working hard to offset its current disproportionately low participation in bilateral and regional agreements with trade partners by engaging into discussions on economic and trade cooperation with a multitude of countries and regions across the world. While retaining its support and commitment to multilateralism per se, most of these agreements under the forge-closer-regional-integration initiative are focused on enhancing non-MFN merchandise trade opportunities with its key trade partners, as also improved market access for services and investment, and preferential liberalization thereof. India has signed limited free trade agreements with Sri Lanka (1998) and Thailand (2003) plus a number of preferential trade agreements (tariff concession schemes) with countries such as Afghanistan, Chile, North Korea, Mongolia, Mauritius, Japan and Maldives; India also has transit agreements with its immediate neighbors in the SAARC region. At the end of June 2005, the government signed a Comprehensive Economic Cooperation Agreement (CECA) with Singapore, what many consider India’s first "comprehensive" FTA. By the end of 2005, India expects to upgrade its pact with Sri Lanka into a Comprehensive Economic Partnership Agreement. Currently, other than the ASEAN, bilateral negotiations are going on with Bangladesh and Korea, about to start with Mauritius and the GCC, and India is also considering talks with Egypt, MERCOSUR and SACU (Southern African Customs Union). In the most recent development, there has been discussions on the feasibility of India’s working out a Services-Only Agreement with the US & EU, the two largest trade partners of India in services.

The other area of gain and strategic cooperation lies in energy-trade and energy services cooperation. Taking forward the Asia-Pacific Energy Cooperation would be critical to the long-term growth and development in the two trade partners, as well as the Asian region as a whole. The Trade and Economic Relations Committee (TERC) headed by the Prime Minister of India Dr Manmohan Singh, is strongly in favor of a rapid conclusion of the FTA negotiations to enhance economic relations with the neighboring countries.

III India-ASEAN Service Trade Potential

Despite challenges, the India-ASEAN bilateral (primarily merchandise) trade has been growing; in 2003-04 bilateral trade was about US$ 13.25 billion (with India’s exports to ASEAN at US$ 5.8 billion and imports at about US$ 7.4 billion), which is over 5 times the 1993-94 trade figure of US$ 2.5 billion. Since the start of formal engagements to establish the India-ASEAN CECA in 2002, bilateral trade has
grown annually by 22.2%; in 2003-04, bilateral trade increased by a phenomenal 40.8%. In the current year, bilateral trade is estimated at around US$ 19 billion; however, the balance of trade continues to remain in favor of ASEAN. Compared to other regional groupings, ASEAN is the fifth most important market in the world in terms of Indian exports and fourth in terms of imports. India accounts for less than 2% of ASEAN global trade, while India’s trade with ASEAN Members constitutes about 9.5% of India’s global trade. Compound annual growth rate (CAGR) of India-ASEAN total trade for the period 1991-2001 has been a robust 11.1%, which is more than the CAGR recorded by India’s total trade in the same period; CAGR calculated for the years 2001 to 2004 at 17.05% shows a promising increase that needs to be further accelerated. India expects trade with the block to cross US$ 19 billion in 2005, as the trend growth rate of bilateral trade continues to be around 48% in the first two quarters of the current fiscal year. Studies show that if India-ASEAN trade maintains a CAGR of 32% in the next three years, bilateral trade would reach US$ 30 billion.

Services are a sizable and continuously expanding component in ASEAN countries, and a typical ASEAN country generates between 40~50% of its GDP from services. At approximately 50% of ASEAN GDP, the services pie in ASEAN therefore comes to over US$ 400.4 billion. ASEAN is also an important market of trade in services. Though services constitute respectively 13.74% and 18.15% of ASEANs total combined global exports and imports (as opposed to 34.40% and 29.61% respectively for India), ASEAN’s total trade in commercially traded services in 2.47 times of India global trade in services; however, its imports of commercial services are 2.72 times India’s imports.

4.4 NAFTA

In January 1994, Canada, the United States and Mexico launched the North American Free Trade Agreement (NAFTA) and formed the world’s largest free trade area. The Agreement has brought economic growth and rising standards of living for people in all three countries. In addition, NAFTA has established a strong foundation for future growth and has set a valuable example of the benefits of trade liberalization.

The North American Free Trade Area is the trade bloc in North America created by the North American Free Trade Agreement (NAFTA) and its tow supplements, the North American Agreement on Environmental Cooperation (NAAEC) and the North American Agreement on Labor Cooperation (NAALC), whose members
are Canada, Mexico and the United States. It came into effect on 1 January 1994.

NAFTA called for immediately eliminating duties on the majority of tariffs between products traded among the United States, Canada and Mexico, and gradually phasing out other tariffs, over a period of about 14 years. Restrictions were to be removed from many categories, including motor vehicles and automotive parts, computers, textiles, and agriculture. The treaty also protected intellectual property rights (patents, copyrights, and trademarks), and outlined the removal of investment restrictions among the three countries. The agreement is trilateral in nature which stipulation, tariff reduction phase-out periods and protection of selected industries, were negotiated bilaterally. Provisions regarding worker and environmental protection were added later as a result of supplemental agreements signed in 1993.

This agreement was an expansion of the earlier Canada-U.S. Free Trade Agreement of 1988. Unlike the European Union, NAFTA does not create a set of supranational governmental bodies, nor does it create a body of law superior to national law. NAFTA is a treaty under international law. Under United States law it is classed as a congressional-executive agreement rather than a treaty, reflecting a peculiar sense of the term "treaty" in United States constitutional law that is not followed by international law or the laws of other nations.

Trade

Trade has increased dramatically amongst the three nations since NAFTA. In the period of 1993–2004, total trade between the United States and its NAFTA partners increased 129.3% (110.1% with Canada and 100.9% with Mexico), yet total trade between the United States and non-NAFTA partners increased 123.8% in the same period, a roughly similar figure. According to Hufbauer (2005), overall, NAFTA has not caused trade diversion, aside from a few select industries such as textiles and apparel, in which rules of origin negotiated in the agreement were specifically designed to make U.S. firms prefer Mexican manufacturers. The World Bank also showed that the aggregate NAFTA imports' percentage growth was accompanied by an almost similar increase of non-NAFTA imports, thus suggesting that increase in trade was not diversionary.

In December 1991, the Sixth Summit held in Colombo approved the establishment of an Inter-Governmental Group (IGG) to formulate an agreement to establish a SAARC Preferential Arrangement (SAPTA) by 1997. Given the consensus
within SAARC, the Agreement on SAPTA was signed on 11 April 1993 and entered into force on 7 December 1995 well in advance of the date stipulated by the Colombo Summit. The Agreement reflected the desire of the Member States to promote and sustain mutual trade and economic cooperation within the SAARC region through the exchange of concessions.

The basic principles underlying SAPTA are:

a. overall reciprocity and mutuality of advantages so as to benefit equitably all Contracting States, taking into account their respective level of economic and industrial development, the pattern of their external trade, and trade and tariff policies and systems;

b. negotiation of tariff reform step by step, improved and extended in successive stages through periodic reviews;

c. recognition of the special needs of the Least Developed Contracting States and agreement on concrete preferential measures in their favor; and

d. inclusion of all products, manufactures and commodities in their raw, semi-processed and processed forms.

So far, four rounds of trade negotiations have been concluded under SAPTA covering over 5000 commodities. Each Round contributed to an incremental trend in the product coverage and the deepening of tariff concessions over previous Rounds. The Member States are in the process of completing the necessary procedural formalities to give effect to the concessions extended in the Fourth Round.

4.5 SAPTA

For promoting intra-regional trade, a preferential treaty (SAPTA) was signed in 1994 and in the first round that came into effect in 1995. Concessions were granted on 226 products in 1995 after the first round. It took four rounds to agree on 4700 products out of 6000 by the year 2000, with India leading the table, Maldives being the last as is evidenced in Table 4.2

Table 4.2  Concessional Products Under SAPTA

<table>
<thead>
<tr>
<th></th>
<th>Number of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>521</td>
</tr>
<tr>
<td>Bhutan</td>
<td>233</td>
</tr>
</tbody>
</table>
India & 2554 \\
Maldives & 178 \\
Nepal & 491 \\
Pakistan & 491 \\
Sri Lanka & 199 \\
SAARC & 4667 \\


Despite the concessions to a large number of products, there has hardly been any increase in intra-regional trade in the total international trade of the region. This is because firstly, negotiations under SAPTA have been conducted mainly on a product-by-product basis, which allows some flexibility to each member country, but takes a lot of time. Second, the tariff cuts offered under SAPTA have not been enough. For example, India has offered the preferences on many products and the margins have been maximum but its MFN rates are typically higher than those of its partners, and as such concessions had very little impact. Third, most of the products to which were given concessions are not widely traded in the region. Confining solely to the tariffs and leaving para-tariff and non-tariff measures out of the negotiations has limited the growth of intra-regional trade as has high local content criterion. The countries have comparative advantage in similar products which also tends to reduce the trade potential.

CONSTRAINTS TO INTRA-REGIONAL TRADE

Identical comparative advantage, lack of communication link, restrictive trade policies, lack of finances and political problems cause weak trade linkages in South Asia.

IDENTICAL COMPARATIVE ADVANTAGE

The South Asian countries have an almost identical pattern of comparative advantage in a relatively narrow range of products. Similarly, their bilateral trade structures hardly show any complementarities in the trade structure. Together with absence of comparative advantage in capital intensive and high value-added products, which are normally imported by countries in the region, they act as
structural constraints on expanding intra-regional trade.

Though South Asian countries have undergone major structural reforms and share of industrial sector has increased sharply, their industry is not diversified. With the exception of India and, to some extent Pakistan, these resource constraints have prevented the South Asian countries to invest in high value-added exportable products, and have made these countries dependent on industrialized countries for their capital goods and technology. The regional exports largely consist of raw materials and traditional products, such as textiles and garments, and some regional countries are direct competitors in the world export market for these products. The import requirements of the region mainly consist of capital goods and high-tech products. In this way, the trade pattern of the South Asian countries is tilted towards the developed countries.

Despite the demand for the South Asian products in the region, there is a rather limited capacity to generate exportable surpluses of the product in accordance with the specifications. It has marred the growth of intra-regional trade. The specifications of products imported and exported are different.

LACK OF COMMUNICATION LINKS

There are no communication links between the South Asian countries and as such the production, consumption and trade patterns of potential trading partners within the region may not be known. There are hardly any ships which call on specifically for the export of South Asia to other regional countries. Similarly, inadequate trade facilitation mechanisms contribute to the unrealized potential of intra-regional trade in certain areas. For example, Nepal's trade with other countries in the region depends on transit facilities provided by India. These facilities often involve high handling and transportation charges and delays in delivery, thus hampering the flow of trade between Nepal and its trading partners in the region.

RESTRICTIVE TRADE POLICIES

Restrictive trade policies also cause the low level of intra-regional trade. The restrictions have been more severe on the export interest of South Asia. However, the South Asian countries have substantially liberalised their economies in the past decade or so. Some trade liberalization has also occurred under the SAPTA regime, according to which almost 5000 products from all SAARC member countries are entitled to preferential duty treatment. The trade regimes of South Asia are still quite restrictive. There is, however, a general perception that the trade liberalization episodes
including SAPTA have not made any significant impact on intra-regional trade in South Asia.

**POLITICAL PROBLEMS**

Political differences have also undermined efforts to foster regional economic cooperation in South Asia. India and Pakistan, the two largest economies of the region, have not been able to realize the full potential of their bilateral trade owing to various political compulsions. The small South Asian countries have been skeptical towards regional economic cooperation initiatives, fearing that a large trading partner like India will dominate the region economically to the detriment of their domestic industries. The political conflicts as well as differences in economic outlooks have hindered intra-regional trade in South Asia. The prospects of trade cooperation have enhanced with improved Pak-India relationships and signing of SAFTA.

**SAFTA AGREEMENTS AND POSSIBILITIES OF INTRA-REGIONAL TRADE**

SAARC’s Islamabad declaration in 1994 promises South Asian Free Trade Area (SAFTA) which would come into force on January 1, 2006, to be fully implemented by the end of 2015. Under the agreement, tariff reductions, rules of origin, safeguards, institutional structures, and dispute settlement will be sorted out by various committees. It also calls for harmonization of standards and customs procedures, mutual recognition of test results and transport infrastructure cooperation. These measures would hopefully help in promoting the intra-regional trade.

SAFTA’s tariff reduction program calls upon India, Pakistan, and Sri Lanka, more developed countries, to reduce tariffs to 20 per cent by 2006. While Nepal, Bhutan, Bangladesh and Maldives, less developed countries, are required to reduce tariffs to 30 per cent by 2006. Following that Pakistan and India in five years, Sri Lanka in six years and other SAARC countries in 8 years shall have to reduce their tariffs to 0-5 per cent. Moreover, India, Pakistan, and Sri Lanka will reduce their tariffs on imports from the relatively less developed countries to 0-5 per cent by January 1, 2009. The agreement calls for elimination of all quantitative restrictions for products on the tariff liberalization list. The agreement allows a negative list, but it provides for reviewing the number of products on the sensitive list at four-year intervals to reduce the list and expand the free trade coverage of the Agreement.

Regional groupings have proliferated around the globe. While some have been successful, others have not. World Bank (2004) reviews the regional experiences around the world and points out six broad conclusions for the success of such groupings
of free trade. Firstly, a regional trade agreement does not automatically result in increased trade and growth. Whereas the intention at the time of formation of the group is always to promote intra-regional trade and economic cooperation in all the fields, a large number of interest groups emerge who on the grounds of injury to their industry, call for exemption of reduction in the import duties. The experience with SAPTA has been disappointing for this reason. SAFTA allows a sensitive list and if the list is large, then it may not see higher intra-regional trade. Whenever trade would be promoted, the industries in which the country does not have comparative advantage will close down. Moreover, agreements that kept in place high external border barriers, protect inefficient activities and undermine the competitiveness of all countries.

Second, the trading arrangements with unilateral efforts among members to reduce external protection have been more successful. Reducing trade barriers vis-à-vis the rest of the world creates an incentive for all members to export. It augments competition that drives domestic productivity [see Muendler (2002)]. When external protection is generally low, trade creation usually dominates trade diversion, and so the risk that regional agreements will be a drag on growth is substantially reduced. Indeed regional agreements where members have had low external protection have enjoyed greatest success [see Baldwin and Venables (1995) and Burfisher, et al, (2003)].

Third, the agreements between the countries with different factor endowments have shown more consistent success because of the opportunities to exploit different comparative wage rates, capital availability, technological levels that give rise to differing factor proportions in production [Schiff and Winters (2003) and Lederman et al, (2003)]. However, this conclusion runs contrary to the success of EU. The promotion of intra-industry trade would result in higher growth even if factor endowments are similar. Fourth, a regional integration framework that helps in trade creation and competition amongst regional countries would help in lowering domestic prices and providing new technology. It is impossible to have the benefits of a regional agreement without exposing the member economies to new competition [Hoekman and Schiff (2002)].

Fifth, competition in services also results in successful integration. Lowering the cost of telecommunications, finance, business services, and retail and wholesale commerce would result in productivity gains. Finally, there is a need to streamline borders transactions through trade facilitation. Increase in efficiency within the region often spills over into trade outside the region as well, because improving customs or
improving efficiency of ports helps both intraregional trade and international trade.

To ensure the success of SAFTA, the member countries have to take a number of initiatives. Firstly, all countries must have very small negative list. If the list is large, the SAFTA would become redundant. There should be a firm basis to exclude products and ground rules should be laid down and be transparent. Second, keeping rules of origin simple and transparent and they must not become devices of protection and impediments to trade. The SAPTA rules, which are quite stringent, need to be revised. Third, ambitious agreements to establish detailed investors' protections and separate dispute panel resolution systems should be left for the future, because it could delay the progress unnecessarily. Fourth, since some of the SAARC members may dump and some may provide subsidies to exports and hence unfair competition, the transparent anti-dumping and countervailing methods may be necessary. However, anti-dumping actions and countervailing duties against regional partners can bring back the protectionist tendencies; anti-dumping mechanisms can stifle the benefits for SAFTA arrangements.

Studies suggest that complete elimination of tariffs under SAFTA may increase the intra-regional trade by 1.6 times. It further suggests that in the dynamic framework the gains from liberalization are at least 25 per cent higher than the static gains. However, these gains are grossly in view of SAARC's large trade potential; it exists both in trade diversion from traditional sources towards SAARC countries by removing the constraints and trade creation and expansion by easing import restrictions on products which SAARC countries are not trading in but are their major exports. While more than half the exports of manufactured goods from South Asia consist of textiles and leather products, they are subject to very high rates of import duties and/or quantitative restrictions and even outright bans in South Asia.

Similarly, rather limited trade in engineering goods is owing to a number of factors including reliance on foreign aid to finance the import of capital goods, poor quality of goods and heavy import duties on capital goods even by the countries who are themselves exporters of capital goods.

Intra-industry trade can play an important role in bolstering economic and trade relations within the region. This is because intra-industry trade can take place even in situations where the trade and production structures of the trading partners lack strong complementarities, as observed in South Asian countries. Whereas the intensity of intra-industry trade is low, the potential for widening the scope of this type of trade
within the region is rather large. However, that can only be realized if the import duties are low. Intra-industry trade is largely driven by product differentiation and increasing returns to scale. Therefore, an increased level of intra-industry trade in the region can only be achieved if the regional countries develop the technological capacity to produce different product varieties at declining average cost.

Lack of trade complementarities causes weak trade linkages in South Asia. However, trade complementarities can be developed within the region if countries achieve vertical specialization through production sharing arrangements. The manufacturing of components for automobile and engineering industries would be quite helpful. Similarly, in chemical industries the possibilities exist. Vertical specialization would not only allow the regional trading partners to strengthen their trade ties, but also enable them to reap economies of scale by concentrating on a specific production process in the value-addition chain. Therefore, as in the case of various regional trading groups around the world, the South Asian countries can boost economic cooperation by developing vertically integrated production structures, thereby attaining vertical specialization.

Joint ventures can pool regional resources to promote industrialization and economic growth in South Asia. Since the South Asian countries have collectively gained substantial experience in agro-based industries, textiles and clothing, paper and pulp, and light engineering, there seems to be scope for joint ventures in these areas. The establishment of joint ventures will particularly benefit the small South Asian countries because they lack the resources to undertake industrial investment efficiently.

The signing of SAFTA has created euphoria in the South Asian countries. However, there are, at least, two possibilities which may make the agreement redundant. Firstly, all the countries are members of WTO and would reduce the tariff levels. If their MFN tariffs are close to preferential tariffs under SAFTA, intra-regional trade may not grow rapidly. Though one could argue that at lower rate of import duty, with or without SAFTA, the intra-regional and trade outside the region would flourish. Second and more importantly, if the negative list is large and includes most of the products of export interest of South Asian countries, trade would not flourish. The SAARC countries must make an effort to make SAFTA a success to expedite economic development, mainly because of the problems in global market access and the higher transaction costs of producing for the world market. The expansion of regional trade yields gains in production specialization, efficiency and improved quality of exports,
which benefit the countries participating in the regional co-operation effort.

The SAFTA has great potential and South Asian countries should accept the short-term costs for long-term benefits.

The Group of Fifteen (G-15) was established at a Summit Level Group of Developing Countries in September 1989, following the conclusion of the Ninth Non-Aligned Summit Meeting in Belgrade. The Group was originally founded by 15 developing countries. While there are now 19 member countries, the original name of the Group has been retained.

The Group was conceived as a small cohesive body of developing countries, but at the same time, fairly representative and having sufficient economic and political weight and countervailing power, to meet on a regular basis at the highest level and make authoritative pronouncements reflecting their common standpoint on the major developments in the world economy and international economic relations. A long-term goal of the G-15 was to be recognized as a logical dialogue partner of the Group of 7 (G-7 now G-8) highly industrialized countries.

AIMS AND OBJECTIVES

Therefore, the G-15 was established in the firm belief of the considerable potential for greater and mutually beneficial cooperation among developing countries, especially in the areas of investment, trade and technology.

By acting as a catalyst for greater South-South cooperation, the G-15 aims at facilitating national efforts for development and economic progress. This cooperation is also expected to lend greater cohesion and credibility to developing
countries in their efforts to pursue a more positive and productive North-South dialogue. As such, it is envisaged that the G-15 will both serve as a forum for regular consultations among developing countries with a view to coordinating policies and action of South countries at the global level, and assist in the formulation and implementation of programmes of cooperation.

The world economic and political situation has changed dramatically since the Group was launched at the time of the NAM Belgrade Summit in 1989 and since it held its First Summit in Kuala Lumpur in 1990. One of the most important changes has been the significant enhancement of the economic weight of the developing countries and hence of the G-15, in the world economy.

The developing countries have increased their shares of the world GDP and trade. Much of the increase is accounted for by the members of the G-15, many of which have registered more than proportionate growth in their GDP as compared to developed countries. The G-15 today is thus poised to play its collective role in the international arena more effectively than at the time when it came into existence. During the last decade-and-a-half, the modern technological revolution has gathered further momentum. This has been particularly so in the realms of Information and Communications Technologies (ICT), biotechnology, genetics and genomics.

The ICT revolution is the harbinger of great promise, but at the same time, it also carries with it the danger of relegating the vast majority of developing countries to the wrong side of the digital divide. Some of the members of the G-15 have made spectacular advances in this technology, giving the entire Group a new countervailing power and opening up vast opportunities for mutual cooperation.

Another development of momentous significance has been the acceleration in the pace of globalization which, on the one hand, provides unprecedented opportunities for the developing countries to enhance the efficiency and competitiveness of their economies by integrating with the global economy, but which, on the other hand, has the effect of the further marginalization of those who were already marginalized and outside the pale of the market. Through solidarity and cooperation, the G-15 has the potential to take full advantage of the opportunities presented by globalization and to deal effectively with its discontents.

The 1990s have also witnessed the accentuation of the phenomenon of volatility in the financial markets, exposing developing countries to the risk of frequent economic crises, and even economic meltdown as witnessed in Mexico in 1994, the

This has coincided with a virtual dismantling of the international support system for these countries to cope with such crises. The new international financial architecture that is in the process of being put in place is discretionary in character and not rule-based. As a result, political factors, more than economic factors, have come to play a greater role in decision-making on bailing out countries facing such crises. This has created a situation of extreme uncertainty and vulnerability for developing countries, including the members of the G-15. There is clearly a need for a common strategy to face this situation and for working for an arrangement which is equitable and rule-based. The G-15 has been, and will remain engaged in this crucial area.

The G-15 today has a much enhanced prospect and potentiality to influence events and policies in favor of the member countries of the Group as well as the developing countries as a whole. The Group is more relevant today than when it was originally created. The Group has therefore continued to adapt itself to the new circumstances and the changed global situation, while maintaining its overall purpose and objective.

**MEMBER COUNTRIES OF THE G-15**

1. Algeria
2. Argentina
3. Brazil
4. Chile
5. Egypt
6. India
7. Indonesia
8. Iran
9. Jamaica
10. Kenya
11. Malaysia
12. Mexico
13. Nigeria
14. Peru
15. Senegal
16. Sri Lanka
17. Venezuela
18. Zimbabwe

4.7 G-7

The members of the Group of Seven (G-7) are Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, which together account for about two-thirds of the world's economic output.

The leaders of these largest industrialized democracies have met annually since 1975 to discuss major economic and political issues. The participants at the first meeting in Rambouillet, France in November 1975 were France, West Germany, Italy, Japan, the United Kingdom and the United States. Canada joined at the 1976 Dorado Beach, Puerto Rico Summit what came to be known as the G-7. Ever since, the site of the yearly Summit of the leaders has rotated among the seven countries. Since 1977, the President of the European Commission has also been represented at the Summit table.

The Group of Eight (G-8) comprises the G-7 nations plus Russia. Russia began to participate in a portion of the meetings at the 1994 G-7 Summit in Naples. Russia officially became the eighth member at the 1997 Denver, Colorado, "Summit of the Eight." While Russia is a G-8 member, it does not participate in financial and economic discussions, which continue to be conducted by the G-7. Russia has the G-8's smallest economy. (The Size of the G-8 Economies).

G-7 Finance Ministers meet four times a year to review developments in their economies and the world economy and to develop common approaches on international economic and financial policy issues.

The G-7 Central Bank Governors join the Finance Ministers at three of these meetings. The three are the first meeting of the year, held in January or February, then the gatherings just before both International Monetary Fund(IMF)/World Bank meetings, which are usually in April and in September. At the conclusion of these meetings, the G-7 ministers usually issue a statement on economic conditions and policies. On rare occasions, the finance ministers hold additional unscheduled consultations during the year and issue statements on specific economic issues.

The G-7 Finance Ministers also meet shortly before the G-8 Summit to discuss issues that will be taken up at the Summit. At the conclusion of this meeting, the G-7 Ministers typically release reports to the leaders on subjects that are on the Summit's agenda.
With the launching of the euro, the common currency of G-7 members France, Germany and Italy, and nine other countries, the presidents of the European Central Bank and the Euro-Group, representing the finance ministers of the 12 euro countries, have participated in certain portions the meetings of the G-7 Finance Ministers and Central Bank Governors.

Separately, other G-8 ministers, such as those dealing with labor and environmental issues, meet to discuss common approaches to global issues.

**Evolution of the Summit Process**

Since the annual Summits began in 1975, they have served as a forum for the heads of state or government of the leading democracies to seek consensus on ways to address the major economic and political issues facing their nations and the international community.

Issues that appear on the agenda at one Summit may be raised again at subsequent Summits as the leaders work to develop and implement strategies for reforms and to respond to economic and political concerns. By setting priorities, forging common policies and establishing patterns of cooperation on transnational issues, the Summit leaders also seek to influence other industrialized countries, the larger international community and global institutions such as the International Monetary Fund, the World Bank and the United Nations.

When the Summits began in 1975, the main focus was economic and financial issues -- macroeconomic management, international trade, international financial institutions and relations with developing countries. From this initial foundation, the Summit's economic agenda has expanded considerably to include microeconomic issues ranging from employment to electronic commerce.

While the early Summits issued some statements on political issues, this focus has become much broader. The group's foreign ministers, like the finance ministers, meet prior to the Summit and issue statements and reports covering issues that range from terrorism to financial crime, nuclear safety and security, non-proliferation, human rights, arms control and regional security. Bilateral meetings among the different leaders are also an important feature of the Summit gatherings.

Neither the G-7 nor the G-8 has a permanent staff or budget. The government of the country that is hosting the Summit in a given year also provides facilities for other G-7 and G-8 meetings during that year.
4.8 COMESA

The treaty establishing the Commonwealth of Eastern and South African countries or COMESA was signed on 5th November 1993 in Kampala, Uganda and was ratified a year later in Lilongwe, Malawi on 8th December 1994. Member countries are Angola, Burundi comoros, D.R. Congo, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

COMESA replaced the former Preferential Trade Area (PTA) which had existed from the earlier days of 1981. COMESA was established 'as an organization of free independent sovereign states which have agreed to co-operate in developing their natural and human resources for the good of all their people.'

Its main focus is on the formation of a large economic and trading unit that is capable of overcoming some of the barriers that are faced by individual states.

The aims and objectives of COMESA have been designed so as to remove the structural and institutional weaknesses in the member States by pooling their resources together in order to sustain their development efforts either individually or collectively. These are as follows:

- to attain sustainable growth and development of the member States by promoting a more balanced and harmonious development of its production and marketing structures;
- to promote joint development in all fields of economic activity and the joint adoption of macro-economic policies and programmes; to raise the standard of living of its peoples, and to foster closer relations among its member States;
- to co-operate in the creation of an enabling environment for foreign, cross-border and domestic investment, including the joint promotion of research and adaptation of science and technology for development;
- to co-operate in the promotion of peace, security and stability among the member States in order to enhance economic development in the region;
- to co-operate in strengthening the relations between the Common Market and the rest of the world and the adoption of common positions in international fora; and
- to contribute towards the establishment, progress and the realization of the objectives of the African Economic Community.

The COMESA agenda is to deepen and broaden the integration process.
among member States through the adoption of more comprehensive trade liberation measures such as the complete elimination of tariff and non-tariff barriers to trade and elimination of customs duties; through the free movement of capital, labor, goods and the right of establishment; by promoting standardized technical specifications, standardization and quality control; through the elimination of controls on the movement of goods and individuals; by standardizing taxation rates (including value added tax and excise duties), and conditions regarding industrial co-operation, particularly on company laws, intellectual property rights and investment laws; through the promotion of the adoption of a single currency and the establishment of a Monetary Union; and through the adoption of a Common External Tariff (CET).

By agreeing to the above, member States have agreed on the need to create and maintain:

- a full free trade area guaranteeing the free movement of goods and services produced within COMESA and the removal of all tariffs and non-tariff barriers;
- a customs union under which goods and services imported from non-COMESA countries will attract an agreed single tariff all COMESA States;
- free movement of capital and investment supported by the adoption of common investment practices as to create a more favorable investment climate for the entire COMESA region;
- a gradual establishment of a payments union based on the COMESA Cleaning House and the eventual establishment of a common monetary union with a common currency;
- the adoption of a common visa arrangement, including the right of establishment leading eventually to free movement of bona fide persons.

**COMESA Achievements**

- COMESA, as well as its predecessor the PTA, has achieved a lot in the area of trade, customs, transport, development finance and technical co-operation. Impressive progress has also been made in the productive sectors of industry and agriculture.

- Trade facilitation and trade liberalization measures are bearing fruit. Intra-COMESA trade has grown from US$834 million in 1985 to US$ 1.7 billion in 1994, an annual growth rate of 14%, and studies indicate that this can increase to about US$4 billion annually. The challenge facing COMESA is to exploit this potential further.
• As a result of COMESA traffic facilitation measures, transport costs have been reduced by a factor of about 25% and efforts are underway to reduce them further.

• In the sector of telecommunications, special emphasis has been placed on network development to enable direct telecommunication links through more reliable infrastructure in order to avoid third country transit systems, which prove to be very costly.

• COMESA has established several important institutions including the PTA Trade and Development Bank, the COMESA Clearing House, the COMESA Re-insurance Company and the COMESA Leather and Leather Products Institute.

• The PTA Bank has, over the years, been very active in promoting investments and providing trade financing facilities. The Bank's cumulative project approvals, 1995-1996, stand at US$148 million and cumulative trade finance activities, 1992 - 1996 totaled US$345 million.

• A number of decisions have been taken to make the COMESA Clearing House more responsive to the current needs of member States, especially the private sector, including the introduction of the COMESA Dollar to replace the UAPTA as the new Unit of Account of the Clearing House.

• The Re-Insurance Company (ZEP-RE) has, since its establishment in 1992, been able to carve out a reasonable share of the regional insurance business and is now transacting business in some nineteen (19) countries. The share capital has risen to US$6.07 million. By the end of 1995, the premium income realized had increased to US$7.5 million. Two additional member States acceded to the ZEP-RE Agreement in August 1996. This shows the great business potential of the COMESA region in terms of re-insurance.

• COMESA now recognizes that in order to increase levels of intra-regional trade, there is a need to address the regulatory and policy aspects of transport and communications to make the movement of goods, services and people between countries in the region easier and cheaper; to create a legal framework and enabling environment within which private sector business can operate effectively in the region, and to harmonize macro-economic and monetary policies.

• COMESA also recognizes the need to promote investment in the region and addresses this issue through facilitation of bilateral agreements; promoting
export drives by individual member States, and identifying specific projects which have the potential to act as growth poles between two or more member States.

4.9 **OPEC**

The Organization of the Petroleum Exporting Countries (OPEC) is a permanent, intergovernmental Organization, created at the Baghdad Conference on September 10–14, 1960, by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The five Founding Members were later joined by nine other Members: Qatar (1961); Indonesia (1962); Socialist Peoples Libyan Arab Jamahiriya (1962); United Arab Emirates (1967); Algeria (1969); Nigeria (1971); Ecuador (1973–1992); Gabon (1975–1994) and Angola (2007). OPEC had its headquarters in Geneva, Switzerland, in the first five years of its existence. This was moved to Vienna, Austria, on September 1, 1965.

OPEC's objective is to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry.

The 1960s were OPEC’s formative years, with the Organization, which had started life as a group of five oil-producing, developing countries, seeking to assert its Member Countries’ legitimate rights in an international oil market dominated by the ‘Seven Sisters’ multinational companies. Activities were generally of a low-profile nature, as OPEC set out its objectives, established its Secretariat, which moved from Geneva to Vienna in 1965, adopted resolutions and engaged in negotiations with the companies. Membership grew to ten during the decade.

OPEC rose to international prominence during the 70s, as its Member Countries took control of their domestic petroleum industries and acquired a major say in the pricing of crude oil on world markets. There were two oil pricing crises, triggered by the Arab oil embargo in 1973 and the outbreak of the Iranian Revolution in 1979, but fed by fundamental imbalances in the market; both resulted in oil prices rising steeply. The first Summit of OPEC Sovereigns and Heads of State was held in Algiers in March 1975. OPEC acquired its 11th and final current Member, Nigeria, in 1971.

Prices peaked at the beginning of the 80s, before beginning a dramatic decline, which culminated in a collapse in 1986 — the third oil pricing crisis. Prices rallied in the final years of the decade, without approaching the high levels of the early-
1980s, as awareness grew of the need for joint action among oil producers if market stability with reasonable prices was to be achieved in the future. Environmental issues began to appear on the international agenda.

A fourth pricing crisis was averted at the beginning of the 90s, on the outbreak of hostilities in the Middle East, when a sudden steep rise in prices on panic-stricken markets was moderated by output increases from OPEC Members. Prices then remained relatively stable until 1998, when there was a collapse, in the wake of the economic downturn in South-East Asia. Collective action by OPEC and some leading non-OPEC producers brought about a recovery. As the decade ended, there was a spate of mega-mergers among the major international oil companies in an industry that was experiencing major technological advances. For most of the 1990s, the ongoing international climate change negotiations threatened heavy decreases in future oil demand.

**The Central Asian Context**

The Central Asia has been at the crossroads of regional politics for centuries. With the recent developments in Afghanistan, Central Asia has once again gained a key position in world politics. Attempted efforts to stabilize Afghanistan are sure to span the new geopolitical challenges for countries in the region. Today, Central Asia has become an arena of the “bigpower- smallpower syndrome”. The region has become an area of immense importance to Europe, USA, Russia, China, Iran, and Turkey. The US has provided a new direction to cementing a new partnership with some of these Central Asian Republics (CARs). Russia is trying to build a new cooperative framework with this region. China has committed billions of dollars for the development of Central Asian oilfields to fulfill its future energy needs. Europe wants to extend its influence by expanding North Atlantic Treaty Organization (NATO) eastwards and through the Partnership for Peace (PFP) Programme. Pakistan considers the CARs as a diplomatic and commercial opportunity and as an expanded ‘strategic depth’, though there is little apparent enthusiasm in Central Asia for taking sides in South Asia.

India, as a pre-eminent regional power in South Asia is naturally interested in any changes occurring within or close to the CARs, which may have implications for its security. India, as an extended neighbor of the CARs, has major interests in this region. Peace and stability in the CARs is vital for India’s security. India has been a victim of extremism and cross-border terrorism in Kashmir for more
than ten years. The CARs too, are engaged in a fierce struggle against Islamic radicals trying to destabilize the region. Any advance by Islamic extremist groups in the CARs could invigorate similar elements active in Kashmir. For reasons of geography, India’s strategic concerns are focused on its north and northwest. In its northwest Pakistan continues to be antagonistic towards India, sponsoring cross-border terrorism in Kashmir against India. The Kashmir issue pertains not to the four million Muslims living in the Kashmir valley alone but to the peace and security of 130 million Muslims living elsewhere in India.

Central Asia is also a transit route of considerable significance for Asia. Throughout history the Central Asians lived in mutual economic symbiosis with neighboring India, China, Iran, and Europe. Today, these old ties need to be strengthened once again.

The trade and economic relations between India and the CARs are, at the moment, dismally low. There is insignificant trade, limited number of joint ventures, and no worthwhile investment in Central Asia by Indian business and industry, though there are small government credit lines. Nevertheless, the potential for mutual economic advantages for the two regions from an enhanced trade and economic relationship is vast. Central Asia is a huge consumer market. There are a range of goods and services which India can provide. Both India and Central Asia have economic complementarily in terms of resources, manpower, and market. These diverse resources can be pooled for a broader regional cooperation in Asia and to realize the potential of both regions fully. For India, economic cooperation is possible through joint ventures in banking, insurance, agriculture, information technology, and pharmaceuticals. Certain Indian commodities, for example, tea and drugs, pharmaceuticals and fine chemicals have established a foothold in the Central Asian market.

An additional reason for developing friendly relations with CARs is India’s need to ensure its energy security. It is estimated that the Caspian region holds 6,000-12,000 mtoe (4-7 per cent of global reserve) of oil and 5,000-9,000 mtoe (5-8 per cent of global reserve) of gas. Some Central Asian sources report that the confirmed oil deposits are 13-15 billion barrels, which is 2.7 per cent of all the confirmed deposits in the world, and around 270-360 trillion cubic feet of confirmed deposits of natural gas, which constitutes around seven per cent of world deposits. Another view is that the actual reserves of oil in the Central Asian region are in the range of 60-140 billion barrels. The main oil and gas deposits in the CARs are in Kazakhstan, Turkmenistan,
and Uzbekistan. Kyrghyzstan and Tajikistan have enormous hydel resources, the figure for Tajikistan being up to two million kwh of hydel resources for every square kilometer. The average for the Commonwealth of Independent States (CIS) countries is 150 - 200 kwh per sq. km of hydel resources. This energy resource can be of use to India if it can be reached through a viable route. It has been suggested that with consumption growth expected to be over six per cent per annum, India’s reliance on imports (currently 60 per cent or 75 million tonnes) will double to 150 million tonnes per annum by 2010. India has already overtaken UK as the sixth largest consumer of energy, and by the first half of the century, it is projected to be among the top five consumers of energy. India’s Gross Domestic Product (GDP) growth rate is expected to average around seven to eight per cent for the next few decades. To sustain this economic growth, India will need a vast amount of energy. Thus, in this sense, Caspian energy resources make this region a place of great significance to India.

4.10 OECD

The OECD grew out of the Organization for European Economic Co-operation (OEEC), which was set up in 1948 with support from the United States and Canada to co-ordinate the Marshall Plan for the reconstruction of Europe after World War II.

Created as an economic counterpart to NATO, the OECD took over from the OEEC in 1961 and, since then, its mission has been to help governments achieve sustainable economic growth and employment and rising standards of living in member countries while maintaining financial stability, so contributing to the development of the world economy. Its founding Convention also calls on the OECD to assist sound economic expansion in member countries and other countries in the process of economic development, and to contribute to growth in world trade on a multilateral, non-discriminatory basis.

In recent years, the OECD has moved beyond a focus on its 30 member countries to offer its analytical expertise and accumulated experience to more than 70 developing and emerging market economies.

Globalization has seen the scope of the OECD’s work move from examination of each policy area within each member country to analysis of how various policy areas interact with each other, between countries and beyond the OECD area. This is reflected in work on issues such as sustainable development, bringing together environmental, economic and social concerns across national frontiers for a better
understanding of the problems and the best way to tackle them together.

The Organization is also expanding its relationship with civil society. Initially focused on relations with business and labor, these have broadened to include a wide range of non-government organisations. The OECD also increasingly invites public comment on various aspects of its work.

In a rapidly-changing globalize economy, the OECD is changing too. The Organization is reforming its management, including complex issues such as burden-sharing of the OECD budget, rules on decision-making and how to respond to pressures to enlarge the OECD membership. It is also renovating its Paris headquarters, including construction of a new conference centre. All these efforts are directed towards making the OECD a more effective instrument of international co-operation.

The OECD secretariat staff in Paris carry out research and analysis at the request of the OECD’s 30 member countries. Representatives of member countries meet and exchange information in committees devoted to key issues. Decision-making power lies with the OECD Council.

Committees

Representatives of the 30 member countries meet in specialized committees to advance ideas and review progress in specific policy areas, such as economics, trade, science, employment, education or financial markets. There are about 200 committees, working groups and expert groups in all.

Some 40000 senior officials from national administrations come to OECD committee meetings each year to request, review and contribute to work undertaken by the OECD Secretariat. Once they return home, the national officials have online access to OECD documents and can exchange information through a special network (OLISnet).

The Council

Decision-making power is vested in the OECD’s Council. It is made up of one representative per member country, plus a representative of the European Commission (www.oecd.org/eu). The Council meets regularly at the level of permanent representatives to the OECD and decisions are taken by consensus. The Council meets at ministerial level once a year to discuss key issues and set priorities for OECD work. The work mandated by the Council is carried out by the OECD secretariat.

The OECD secretariat

Some 2000 staff of the OECD secretariat in Paris work to support the
activities of committees. They include about 700 economists, lawyers, scientists and other professionals, mainly based in a dozen substantive directorates, who provide research and analysis.

The secretariat is headed by a Secretary-General, assisted by four Deputy Secretaries-General. The Secretary-General also chairs the Council, providing the crucial link between national delegations and the secretariat.

The OECD works in two official languages: English and French. Staff members are citizens of OECD member countries but serve as international civil servants with no national affiliation during their OECD posting. There is no quota system for national representation; there is simply an equal opportunity policy of employing highly qualified men and women with a cross-section of experience and nationalities.

**Funding**

The OECD is funded by its 30 member countries. National contributions to the annual budget are based on a formula related to the size of each member’s economy. The largest contributor is the United States, which provides approximately 25% of the budget, followed by Japan. With the approval of the Council, countries may also make separate contributions to particular programmes not funded from the main budget.

The size of the OECD budget – around 336 million euros a year – as well as its programme of work is determined by the Council.

**The work of the OECD**

The OECD provides a setting for reflection and discussion, based on policy research and analysis that helps governments shape policy that may lead to a formal agreement among member governments or be acted on in domestic or other international fora. Unlike the World Bank or the International Monetary Fund, the OECD does not dispense money.

The OECD’s way of working consists of a highly effective process that begins with data collection and analysis and moves on to collective discussion of policy, then decision-making and implementation. Mutual examination by governments, multilateral surveillance and peer pressure to conform or reform are at the heart of OECD effectiveness in areas such as its Convention on Combating Bribery in International Business Transactions. OECD analysis of how the information technology revolution contributes to economic growth helps governments craft economic policy,
while work on the causes and cures for unemployment helps give political impetus to policies to reduce it. Crucial analytical work and consensus-building on trade issues, such as trade in services, feed into the success of international trade negotiations.

Discussions at the OECD sometimes evolve into negotiations where OECD countries agree on rules of the game for international co-operation. They can culminate in formal agreements, for example on combating bribery, on export credits, or on capital movements; or they may produce standards and models for international taxation or recommendations and guidelines covering corporate governance or environmental practices.

Much of the material collected and analyzed at the OECD is published on paper or online; from press releases and regular compilations of data and projections to one-time publications or monographs on particular issues; from economic surveys of each member country to regular reviews of education systems, science and technology policies or environmental performance. The OECD Internet site (http://www.oecd.org/) enables any member of the public to access a wide range of OECD information, analysis and data.

4.11 Indian Ocean Rim Association for Regional Cooperation (IORARC)

ORGANISATION BACKGROUND

The Indian Ocean Rim Association for Regional Cooperation was launched in Mauritius in 1997. The Association comprises 18 member states: Australia; Bangladesh; India; Indonesia; Iran; Kenya; Madagascar; Malaysia; Mauritius; Mozambique; Oman; Singapore; South Africa; Sri Lanka; Tanzania; Thailand; UAE and Yemen. Egypt, Japan, China, France and the United Kingdom are dialogue partners while the Indian Ocean Tourism Organization is an observer. Seychelles withdrew as a member on 1 July 2003.

The Association aims to facilitate trade and investment in the region. Working groups have business and academic representatives to ensure that different points of view and interests are fully reflected in IOR-ARC's work program.

IOR-ARC provides a mechanism for furthering Australia's trade interests and business links around the Indian Ocean Rim. The Association disseminates information on trade and investment regimes, with a view to helping the region's business community to understand better the impediments to trade and investment within the region. These exchanges of information have been intended to serve as a base to expand intra-regional trade.
The Australian Department of Foreign Affairs and Trade has funded two major projects within IOR-ARC. In 2002, the Department commissioned a project to develop training and reference materials targeted at developing economies within IOR-ARC. It includes reference materials focused on trade policy, trade liberalization and the Doha round of World Trade Organization (WTO) negotiations. The training package facilitates trade and investment within IOR-ARC by seeking to deepen the skills base of trade negotiators, policy-makers, industry and sectoral groups.

The Department also funded the research report Barriers to Trade in Indian Ocean Rim Countries. The report includes the compilation of a tariff compendium focusing on tariff levels on a country by country basis across a variety of sectors.

The association includes bodies known as the Indian Ocean Rim Business Forum (IORBF) and the Indian Ocean Rim Academic Group (IORAG) in accordance with the tripartite nature of the Association. They may meet together with Council of Ministers and the committee of Senior Officials as mutually decided. They may also meet as and when they deem it necessary. They will interact with the Committee of Senior Officials and the secretariat in the consideration, formulation and implementation of the policies and Work Programmes of the Association. The IORBF and the IORAG may draw upon co-located non-governmental regional business and academic networks, as necessary.

**RECENT DEVELOPMENTS**


A total of 143 representatives of IOR-ARC's 18 members examined strategies for further strengthening intra-regional trade and investment linkages and promoting economic development. In addition to the existing fisheries program sponsored by Oman, members considered cooperation on tourism, electronic commerce, small and medium enterprises and shipping. It was also agreed to fast-track IOR-ARC's work program by enabling countries to initiate and implement projects within a group of five or more members. The commercial sector will play an increasingly important role in ensuring that IOR-ARC's policies accurately reflect business needs.