

From New Delhi by Ramtanu Maitra

Trade pact will boost regional ties

India and Sri Lanka have agreed to set up a tariff-free trade regime beginning in March 1999.

The much-maligned Vajpayee government in New Delhi has given momentum to the process of improving bilateral relations with neighboring countries. On Dec. 28, 1998, Indian Prime Minister Atal Behari Vajpayee and Sri Lankan President Chandrika Kumaratunga, who was visiting India, signed a bilateral free trade agreement, paving the way for a future full-fledged South Asian Free Trade Area. Subsequently, the Bangladesh government indicated that it is reading the fine print of the India-Sri Lanka agreement and will be drawing up a similar agreement to bolster its bilateral trade with India.

The Indo-Sri Lanka free trade agreement, which followed up the initiatives taken by the former United Front government led by Prime Minister I.K. Gujral, is in line with similar agreements that New Delhi has already worked out with Nepal and Bhutan—India's two landlocked neighbors to the north.

The Indo-Sri Lanka agreement will take effect on March 1, 1999. Trade officials from India and Sri Lanka have been given two months to work out the list of items to be excluded from the agreement. The agreement says that India will allow the import of about 1,000 items at zero duty, as opposed to only about 300 by Sri Lanka. New Delhi has agreed to phase out the negative list in three years, while Sri Lanka would do so in eight years.

The agreement has received bipartisan support in Sri Lanka, and both nations have agreed to work out a common marketing strategy for such items

as tea and rubber. It has been pointed out by Sri Lanka's top industrial body, the Ceylon Chamber of Commerce, that the agreement will help to attract more foreign investment into the region, as well as to promote cross-border flows of investment and joint ventures.

The agreement, according to the leading Indian business dailies, demonstrates New Delhi's political will push the region into a free-trade area. Bangladesh's interest in working out a similar bilateral agreement, proposed by Prime Minister Vajpayee at the last South Asian Association of Regional Cooperation (SAARC) summit in Colombo, Sri Lanka, is a further indicator.

But there are some worries. The bilateral trade agreements, some fear, will go against the charter of the SAARC, set up more than a decade ago. The SAARC charter calls for setting up a preferential trade agreement between the seven member-nations—Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. However, three rounds of trade talks to do this have so far produced nothing.

Notwithstanding the unstable condition of the coalition government in India, and reigning political uncertainties in Nepal and Pakistan, some positive developments in South Asia have become discernible. In a recently concluded workshop organized in Dhaka, the capital of Bangladesh, under the aegis of the Federation of Institution of Engineers of South Asia and Central Asia, it was revealed that preparatory conceptual work to set up large-scale power projects in the re-

gion, and to link the countries with transmission grids, have made some progress. Reports indicate that the Asian Development Bank (ADB) is supporting such efforts to optimize energy utilization through a subcontinental power grid.

The ADB has also said that it may fund a highway network to link countries belonging to the regional association Bimstec (the acronym for Bangladesh, India, Myanmar, Sri Lanka, and Thailand Economic Cooperation), to promote closer trade ties between the countries in the region.

According to the Deputy Prime Minister and Commerce Minister of Thailand, Dr. Supachai Panitchpakdi, the highway network will lead to the establishment of an intra-regional highway which will facilitate a free-trade area along the model of the ASEAN (Association of Southeast Asian Nations) Free Trade Area (AFTA).

In early January, Prime Minister Vajpayee laid the foundation stone in Bangalore for one of the biggest road projects ever undertaken in the country—a 12,000 kilometer, four-lane highway—at an estimated cost of 500 billion rupees (roughly \$13 billion). This network of east-west and north-south highways, when completed, will play a major role in making the intra-regional trade route a success.

Dr. Supachai also pointed out that Bimstec will focus economic cooperation in areas such as telecommunications, tourism, and automobile and energy production. In the energy sector, Supachai pointed out that there is a proposal to pipe gas into Myanmar from Bangladesh's vast natural gas reserves. A similar proposal exists to pipe Bangladeshi gas into India. Moreover, on the energy front, India is currently negotiating with Pakistan on a proposal to buy 500 megawatts of electrical power on a regular basis.