

## Regional Cooperation in South Asia *Can Prospects Outweigh Problems?*

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## **Abstract**

The objective of regional cooperation is to enhance each member state's security, economic growth and cultural harmonisation. Prior to 1950s and 1960s, most of the Asian region was a single entity and after the end of colonialism in this region it was divided into multiple sovereign states. This new arrangement has resulted into tariff barriers, slow progress in intra-regional trade, continuous armed conflicts and negligible cross-cultural cooperation. But after the formation of South Asian Association for Regional Cooperation (SAARC) and dawning of the global financial crisis, and continuous onslaught of natural calamities of epic proportions, such as Tsunami and earthquakes in the region, there came a realisation on the part of the South Asian states that natural disasters and environmental problems like global warming, melting of glaciers could not be tackled within the boundaries of a nation-states. Further, to acquire better bargaining powers *vis-à-vis* world forums like the World Trade Organisation (WTO), where they face steep competition from other regional blocs like the European Union (EU), the South Asian nations have to make an attempt to rise above their mutual differences and cooperate at the regional-level to have effective solutions to these problems. In light of above, this paper discusses South Asian regionalism with its future prospects followed by its current issues and opportunities.

## **Introduction**

The notion of regional cooperation or regionalism in the South Asian region first emerged in 1980s. The South Asian region experienced extensive physical and human connectivity like Spice Trade, Silk Road or the Scholarly and Religious Diffusion, such as Buddhism or Sufism. Further, the region also witnessed the legacy of European imperialism, colonial loot of resources and after the independence the states in the region had some strong policies to sustain sovereignty, territorial boundaries and protection of their economies from each other. Despite tariff reductions, exchange of financial information, discussions at ministerial levels and even after signing of trade agreements, the process of regional cooperation is too slow in the South Asian region. South Asia is possibly the least integrated region in the world. This failure could be attributed to lack of willingness on the part of the regional states to strive for the collective good of the region, as a whole (Tshering 2013). An explanation behind the disinterest towards regional cooperation includes severe inter and intra-state conflicts in which the region is engaged.

In this context, the South Asian Association for Regional Cooperation (SAARC) was founded on the premise that this 'region is derived from geographical structures, which contribute it a harmony within which cultural, religious, economic, and social process of cooperation can arise'. Moreover, the region is also a home of large number of people living below poverty line (around 70.9 percent), which is higher than Sub-Saharan Africa, and also has the problem of malnourished children, lacks basic education facilities, has weak infrastructure and low intra-regional trade. While on the other hand, India is World's largest arms importer in 2007-11 with 10 percent of all imports, Pakistan takes the third place with 5 percent on arms imports (Hussain 2010). The region has experienced a growth rate of 5-6 percent in 2008-2010 despite a global recession and debt crisis in Europe. The region also attracts a large number of remittances, its investment plans are driven by domestic savings (Gopalan and Rajan 2010; World Bank 2011).

## **Why Regional Cooperation in South Asia?**

Apart from economic gains, regional cooperation is needed for maintenance of peace and security, social unity, promotion of cultural synthesis and also for religious integrity. Theoretically, India has been advocating for an Asian community for years but less has been done.<sup>1</sup> Former head of Asian Development Bank (ADB) Haruhiko Kuroda has also supported the regional cooperation processes that are on-going in various parts of Asia. Kuroda (2005) in a speech at Oxford: "Some skeptics might call this vision of deeply integrated Asia a pipe dream. Some might point out that the disparities are too wide, the political divides too deep. But strong bridges for a united Asia, open to the world, are already being built". Acquiring regional integration mainly depends on the factors given below:

### ***Security and Peace***

One of the major obstacles towards regional integration is political and military conflicts between the states of this region. Bilateral political relations in this region are defined by suspicion, strife, rivalry and antagonism. Tensions between India and Pakistan on Kashmir

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<sup>1</sup> Jawaharlal Nehru convened the Asian Relations Conference even before the independence of India in 1947. Asian Relations Conference of 1947 was followed by a conference in 1949 in Indonesia and another one in Bandung in 1955. This became the pillar for the establishment of the Non-Aligned Movement (NAM) in 1961 (For NAM See: <<http://www.e-nam.org.my/mainb.php?pg=map?>>).

and terrorism issues, between India and Nepal on border issue, between India and Sri Lanka on Tamil diaspora issue, between India and Bangladesh on River Ganga and refugee issue are some examples of this mistrust and antagonism.

Another major problem is comparably India is much larger than its neighbours in terms of population, geographical area, natural resources, and military capability and has a vision of becoming a 'Great Power'. Hence, its neighbours always have a threat perception as far as their relation with India is concerned. On the contrary, India perceives its small neighbours, such as Nepal as major security threat, since it shares its borders with China and Sri Lanka and has close relations with Pakistan, China and US (Wiggins *et al.* 1992:132; Muni 1985; Dixit 2003; Singh 2007:25).

Furthermore, even Bhutan is not free from the menaces of terrorism. It was not only confronted with some serious terrorist movements from within, but also had to deal with Indian outfits that had illegally occupied the thick jungles along the Indo-Bhutan border, posing great risks to the nation's sovereignty as well as its relations with India (Tshering 2013).

Afghanistan – the newest member of SAARC is the one most deeply beset with conflict, internal as well as international (Burki 2011). After the 9/11 attack, *Al-Qaeda* (a terrorist group), which has its roots in Afghanistan became a major cause of concern globally and since then Afghanistan has been become a full-fledged battle ground with American and other Western soldiers launching attacks on *Al-Qaeda* using neighbouring soils like Pakistan.

As many states in the region host ethnic minorities and large number of refugees, Sri Lanka hosts Indian ethnic group Tamils and India has Bangladeshi refugees. Gooneratne (2007) argues that these ethnic and religious groups have larger political and economic implications that contribute to tension and suspicion between states as India have witnessed it in Sri Lankan case of Liberation Tigers of Tamil Eelam (LTTE) or recent violence in the North-eastern part of the Indian State of Assam. Ethnicity is a major reason why *Bengalis* in East Pakistan felt the need for a separate state. They fought a bitter civil war in 1971 and finally created an independent state for themselves – Bangladesh (Burki 2011).

Further, the growing nuclear capabilities in the region also results into many complications. India and Pakistan have nuclear weapons and spend enormous amount on arms and military. High military expenditure reduces the volume of spending on social sector; it also creates a fear among neighbour nations. However, new security threats, such as cybercrimes forced the states to change their viewpoint from the sole provider of security to organiser.

Economic nationalism remains pervasive and widely used by the Governments as a tool to garner domestic support for their short term targets. Regional cooperation could impose obligations and commitments on states for reforms both in economy and also in politics.

### ***Religious and Cultural Interrelation***

South Asian region has uniqueness in shared history, heritage, literature, culture, religion and language. The commonality of culture and religion provides a strong motive for regional cooperation as it has similar lifestyle, fashion and clothing trends, music, food or even cinema. Even the people have family relations across borders that were formed before partition and have sympathy towards them. So this cross-religious, cross-cultural pattern also

demands cooperation at regional-level to provide better access and opportunity to people for harmony and religious beliefs.

South Asia develops greater economic and political cooperation it is also possible that the notion of pan-South Asian identity will emerge at local and global level and trickle down to the people. That is why Amartya Sen (2006) gives notion of cultural identity where people could have multiple identities.

### ***Economic Acquisitions***

In regional cooperation processes trade must be a means not an aim *per se* to increase the productive power of a state (List 1856). A long-term economic strategy of any developing state must have diversion in trade destinations including its neighbour destinations, diversity in trade pattern/products including both labour intensive and capital intensive. Most states in this region lack skills, research capacity, financial and technical resources for research and education, in this context establishment of South Asian University and signing of South Asia Free Trade Area agreement (SAFTA) are significant step (Mehta and Kumar 2004; Banik 2006; Ratna and Sidhu 2008; Taneja *et al.* 2011).<sup>2</sup>

The share of intra-regional trade is very low in South Asia with comparison to intra-Association of Southeast Asian Nations (ASEAN) or intra-EU trade. See Table 1 for intra-regional trade of SAARC nations; also refer Table 2 for SAARC trade with rest of the World. The share of SAARC trade has remained same ranging from 4-6 percent between 2000 and 2013. This low intra-regional trade has been on account of positive list based approach on exchange of tariff preferences, small product coverage, narrow margins of preferences and inability to address non-tariff barriers.

**Table 1: Intra-SAARC Trade (Percent of Total Trade)**

<b>Year</b>	<b>1970</b>	<b>1975</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2010</b>	<b>2013</b>
<b>Export</b>	3.7	5.1	4.8	4.89	3.45	4.52	4.56	6.60	6.08	5.82
<b>Import</b>	3.3	3.2	2.3	2.11	2.18	3.94	4.26	4.70	3.57	3.81
<b>Total Trade</b>	3.5	3.9	3.2	3.04	2.70	4.20	4.39	5.47	4.52	4.63

*Source: Kelegama et al. (2012); Bandara and Yu (2001) and ITC trade map, Geneva (2015)*

<sup>2</sup> In 1995, seven SAARC nations initiated a multilateral framework for region wide integration, under the South Asian Preferential Trade Agreement (SAPTA). Following SAPTA the SAFTA commenced in 2006, envisaging a duty-free area for all member states by 2016.

**Table 2: SAARC Trade with the World (in Million)**

<b>Year</b>	<b>Imports</b>	<b>Exports</b>	<b>Balance</b>
<b>2007</b>	185843	286592	-100749
<b>2008</b>	228494	395432	-166938
<b>2009</b>	211534	337729	-126194
<b>2010</b>	267563	440440	-172877

Source: ITC Trademap, Geneva (2015)

Market liberalisation, emphasis on agriculture, question of aid, issue of infrastructure, the Millennium Development Goals (MDG) in developing states, particularly among Bhutan, Nepal and Bangladesh is a crucial one. All South Asian states including India are at different stages of development and are encountering various economic hurdles.

As India plays a crucial role in the region, the development in South Asian cooperation process depends on, how much market access India is giving to its neighbours. The trade complementarities in the bilateral trade flows and similarity in comparative advantage in many trade patterns are also great issues.

Competitiveness rather than complementary nature of products is a major prohibiting factor. States in the South Asia mainly export labour intensive products, such as agriculture products and imports capital intensive products. Although formal and informal trade (Taneja 2001) between the nations of the region has increased but direct trade in products like steel, machinery, chemicals and agro-products being directed through third nation could produce significant benefits in time, quality and price if traded directly between India and Pakistan (Chatterjee and George 2012).

Fear of global financial crisis and recession is also a major reason to promote regional cooperation. South Asian states have never experienced a severe financial crisis that is why they do not realise the urgency of cooperation.<sup>3</sup> The region attracts large capital inflows and also has large domestic savings that has to be managed through a proper mechanism. Refer Table 3 for annual net capital inflow of the region.

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<sup>3</sup> At the 12<sup>th</sup> SAARC Summit held in Islamabad on 04 January 2004, Indian Prime Minister Atal Bihari Vajpayee expressed the need of common currency saying: "... development of greater economic stakes in each other... would pave the way for more ambitious, but entirely achievable, goals, such as free trade area and economic union, open borders and common currency for the region". At the 14<sup>th</sup> SAARC Summit Sri Lankan President Rajapaksa also expressed the same views (see The Hindu 2003; The Sunday Observer 2007; www.saarc-sec.org).

**Table 3: Annual Net Capital Inflow to South Asia (in US\$bn)**

Content	2008	2009	2010	2011
<b>Capital Inflows</b>	64.8	86.2	111.5	90.5
<b>(A) Private Inflows</b>	55.9	75.2	101.9	83.7
<b>(B) Official Inflows</b>	8.8	11.0	9.6	6.8
<b>I. World Bank</b>	1.4	2.4	3.3	2
<b>II. IMF</b>	3.2	3.6	2.0	0.5
<b>III. Other Official Inflows</b>	4.2	5.0	4.4	4.3

Source: World Bank 2012.

South Asia has experienced a period of robust economic growth of about 6 percent annually since 2000 and the fact that the Indian economy is growing at a steady rate of 6-8 percent presents a vast opportunity in the region (Tshering 2013). A shift in Indian policy towards its neighbour could be observed in the past few projects that were discussed in the region to reduce energy shortage through gas pipelines.<sup>4</sup>

If these projects were implemented then it could have brought three important results: (1) reduction of mistrust, (2) energy and economic gain; (3) spill over effect in different sectors of economy. For example, India and Bangladesh have different energy endowments and their neighbours Myanmar, Bhutan and Nepal are in a position to fulfil India and Bangladesh's energy requirements. India needs to import hydrocarbon from Myanmar, but the adverse geographical position between the two states, doing business is not easy.

However, Bangladesh can bridge this gap owing to its excellent geographical location. Similarly, India is also in a position to mitigate Bangladesh's chronic power dearth to some degree by allowing the country to import hydro-power from Bhutan and Nepal as they have vast hydro energy potential (Islam 2009). These arrangements could also assist the landlocked Himalayan states to develop their economic structures by selling hydro power to their neighbours (Pun 2008; Dhakal and Jenkins 2008; Tshering and Tamang 2004; Arya 2007).

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<sup>4</sup> Iran-Pakistan-India gas pipeline was conceived in 1989; a lot discussion on technical, price and economic issues had been done on it but in 2006 after the US pressure, India came out of the project as the US was against Iran's nuclear projects and India's increasing close relationship with Iran. The project was a win-win situation for both India and Pakistan as India could have fulfilled its energy needs while Pakistan could have got energy from Iran and transit fees from India (Jayaraman 2006; Talmiz 2006). In 2005, Myanmar-Bangladesh-India gas pipeline project was signed but later no progress has been made as Bangladesh tried to include bilateral issues with India in the discussion (see also Lama 2005).

So the hydro power web between India-Nepal and Bhutan can provide gains to all these three states. India, Sri Lanka and Nepal have started to move forward in energy cooperation. Sri Lanka and India's joint venture in electricity and India-Nepal joint venture on gas pipeline are the example that could be cited in this regard (The Hindu 2009; Business Line 2011). Refer Table 4 for energy needs of the South Asian region in 2020.

**Table 4: Energy Demand of SAARC in 2020**

<b>Countries</b>	<b>Electricity (in million kilowatt hours)</b>	<b>Oil (in million tons of oil equivalent)</b>	<b>Gas (in million tons of oil equivalent)</b>
<b>Afghanistan</b>	3897	3.4	0.9
<b>Bangladesh</b>	72791	11.6	44.0
<b>Bhutan</b>	6876	0.6	0.0
<b>India</b>	1755685	246.9	101.8
<b>Maldives</b>	1571	1.6	0.0
<b>Nepal</b>	8076	1.6	0.0
<b>Pakistan</b>	251039	30.9	72.7
<b>Sri Lanka</b>	23876	7.8	0.0

*Source: South Asia Initiative for Energy 2011; Tripathi 2011.*

## **Conclusion and Way Forward**

A preeminent method to enhance regional cooperation in the region could be the creation of regional fund or regional Bank to finance aid projects, crisis prevention and to provide finance to the private sector. South Asia could take lessons from the experience of ASEAN states trying to attract intra-regional investments with the help of ASEAN investment area. Mobilising foreign exchange reserves for development projects and crisis prevention could play an important role. Secondly, initiating regional bodies to manage size, directions and spill over effect could be an effective dose to boost regional cooperation in South Asia. Regional institutions are not only outcome of negotiation processes but also drivers of negotiation processes. Some good examples of regional bodies in other regions of the world are European Commission (EC) and European Central Bank (ECB) in EU, Chiang Mai Initiative Multilateralisation (CMIM) in East Asian and ASEAN+3 Macroeconomic Research Office (AMRO). A possible solution to increase financial cooperation can be the building and implementing the mechanisms like Asian Clearing Union (ACU). The idea did not provide enough incentives because of limited coverage of products and limited scope of agreements.

A major obstacle to cooperation is that it included state of a low-level of development and similar resource endowment. There is no much scope for intra industry specialisation between member states of South Asia region. Cooperation could be more successful if there

is much scope for market driven integration. In South Asian region transaction cost are high due to high share of raw material, high transportation costs, weak infrastructure and fragile financial service.

The lack of scope for direct investment has been another obstacle in the market driven cooperation. Non-tariff barriers, such as inefficient border procedures, excessive documentations, burdensome custom procedures, inefficient port operations add significantly to the transaction costs of intra-regional trade. A key lesson for India under current scenario is that it has to play a greater and firmer role in the regional cooperation process as it is the hegemon. It has to avoid periodic provocations, such as Mumbai attacks or random economic shocks. India has to enhance its stance by granting unilateral concessions. India's approach towards cooperation could be and must be 'responsible' that might create a functional platform making comparable connections of interdependence having common norms and confidence building. In this context, South Asia Sub-regional Economic Cooperation programme (SASEC) that was started in 1996 between Bhutan, Bangladesh, India and Nepal for sustainable economic development, under the banner of Asian Development Bank (ADB) could be extended to other areas of cooperation and states of the region.

Furthermore, governments need to initiate a plan and negotiate with other governments on the one hand, and with domestic political lobbies on the other (Desai 2010:8-9). Such perspectives on regional cooperation emerged after the Islamabad Summit but after that less progress has been made as it needs endorsement by the political leaders. The spill over of armed conflicts has created rigidities in intra-regional relations in South Asia. To prevent the armed conflicts in South Asia it is necessary to give a big push to the process of regional cooperation both within and beyond the agenda of the SAARC. Establishment of peace was a primary reason in war affected Western Europe to start regional cooperation process in the 1950s.

Civil societies can act as catalysts in the initiation of regional cooperation initiatives as they generally have a significant voice in the policy-making processes of their respective states and are also recognised across borders for their philanthropic activities. Civil societies could therefore influence the regional cooperation process by providing a vision, interpreting and explaining that vision to different stakeholders, especially opposition parties in their respective nations. They can inform, educate and advocate the agenda of political groups, to achieve a consensus on different regional issues (Gujral 2007).<sup>5</sup>

Indian and Pakistani Diaspora is also evolving as a significant group in major Industrialised states, such as the US, Canada, Germany and Gulf region and it could be observed that it plays a significant role in elections and policy-making and consultation processes of these states. On the same line, these NRIs (Non-resident Indians) or overseas groups could also initiate some programmes of regional cooperation either at their land or at their homeland.

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<sup>5</sup> In this context, initiatives taken by CUTS International on consumer awareness and intra-regional trade are noteworthy. These include but not limited to joint study and training programmes on trade and WTO issue with partnership with the think tanks of Pakistan, Nepal, Sri Lanka and Bangladesh. Such partnerships include South Asia Watch on Trade, Economics and Environment (SAWTEE) and South Asian Network on Economic Modelling (SANEM) and linking the civil societies on WTO issues. Other initiative by other groups and organisations include South Asia Partnership International, with its member organisations in Bangladesh, Canada, India, Sri Lanka, Nepal and Pakistan. This network has been organising People's Summit, since 2001.

As many decisions are taken at bureaucratic levels they are far removed from the daily lives of the people. Issues like migration, business and education have direct impact on different lobbies, groups and people who currently have little voice in the decision-making procedure of the SAARC.

Traditionally, the South Asian region experienced extensive physical and human connectivity like Spice trade, Silk Road or the scholarly and religious diffusion, such as Buddhism or Sufism. Although the states in the region have made significant progress in economic growth and development but at the same time they have also produced violence and mistrust. In this context, regional cooperation could be an attempt to reduce this mistrust and hatred. This is also reflected in Jawaharlal Nehru's foreign policy or in I K Gujral's 'Gujral Doctrine' where they emphasise that India will follow the consensual participation and approach in South Asian politics. But the pathway of regional cooperation and integration could not be made without effective regional institutional framework and solid regional agreements. Regional cooperation is thus no magic potion to achieve commonly shared objectives of encouraging economic liberalisation between and among participating states. It is a long process in the hope of producing economic and political gains.

Although, the practical problems of implementing regional cooperation could not be overstated yet these are not the problems that could not be overcome. Regional cooperation can offer substantial benefits to all the small states of South Asia. Not only in the areas of trade and investment but also in the areas of cross-border project specific coordination, macro-economic policy harmonisation and people to people contacts must be encouraged. This coordination of efforts would assist in mobilising scarce economic and natural resources. The regional cooperation processes demands an effective participation of all sectors of the economy along with the governments, the business lobby, the civil society organisations (CSOs), labour unions, religious and cultural groups.

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