

Challenges to Regional Cooperation in South Asia: An Overview

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Abstract

The devastating effects of the Second World War significantly affected states, their resources and the overall balance of peace. As a result, states began to search for a new model that would not only promote and expand trade but would also contribute to world peace. Since the 1980s there has been an increase in regional cooperative projects all over the world. The concept of regional cooperation revolves around the idea that states in a shared geographical space cooperate with each other in order to achieve goals that go beyond the capacity of individual national attainment. Regional cooperation eventually found its place in South Asia. As a result, South Asian Association for Regional Cooperation (SAARC) was established in 1985 and the South Asian Free Trade Area (SAFTA) agreement came into force in 2006. Despite these mechanisms, regional cooperation remained relatively low. Both economic and non-economic factors are responsible for this situation. Factors that range from tariff and non-tariff barriers to physical connectivity to asymmetric power relations and security concerns have served as obstacles to achieve regional cooperation in South Asia. In order to overcome these barriers, South Asian states must maintain flexibility in dealing with highly political issues in order to make way for regional growth and economic development.

Keywords: South Asia, Regional Cooperation, SAARC, SAFTA

Introduction

Following the Second World War, there has been a significant shift in understanding trade and inter-state relations. States have slowly veered away from the realist thinking that trade was merely a zero-sum game of either a win or lose situation. Moreover, the effects caused by the Second World War devastated states, their resources, and the overall global peace. As a result, states became eager for a new model that would not only promote and expand trade but would also contribute to world peace by establishing international cooperative agreements and institutions to support them. Since the 1980s there has been a noteworthy increase in regional cooperative projects all over the world.

This pushed the developing world to explore the possibilities and opportunities of regional cooperation. However, it was important for states to recognize certain requirements in order to forge an effective regional group. One of these requirements was the need to look outward and limit self-centered interests that may hinder collective goals. However, this seems to be easier said than done. Every state has its own history and national priority, which may conflict with regional priorities. So much so, internal or domestic factors must be taken into consideration when analyzing the dynamics of regional cooperation.

Like elsewhere, the concept of regional cooperation gained attraction and acceptance in South Asia. South Asian Association for Regional Cooperation (SAARC) was established in 1985 to enhance and promote intra-regional trade and economic cooperation. Later, South Asian Preferential Trading Arrangement (SAPTA) was signed in 1993. This was then followed by the South Asian Free Trade Area (SAFTA) agreement, which came into force in 2006.

Despite the enthusiasm brought by the spread of regional cooperation, the results have not been entirely homogenous. It is crucial to understand that each region consists of its own dynamics and characteristics. Both external and internal factors must be taken into consideration when evaluating the success and effectiveness of regional cooperation. South Asian states have similar geographical, cultural, and societal features that are supposed to create a conducive environment for effective cooperation. However, despite such advantageous factors, South Asia is one of the least integrated regions in the world. There must be attempts to find the real reasons behind this.

This paper aims to investigate why regional cooperation in South Asia has not progressed significantly. Issues of informal trade, asymmetric economic potential, non-tariff barriers and limited transport connectivity are well under the scope of this paper. However, it is just as

crucial to evaluate other factors as well in order to conduct a well-rounded research of the issue area. Issues such as power imbalance and security threats are also present in the region.

Regional cooperation

In order to understand regional cooperation, it is important to know what constitutes a region. The term 'region' can be defined as a group or cluster of states that share a common space on the globe based on common identity, territorial affinities or other identifiable patterns of behavior (Holsti 1996: 142-143). Furthermore, regional cooperation implies that states in the same geographical area cooperate with each other in order to resolve common issues or to achieve certain goals beyond the capacity of individual national attainment (Weigall 2002: 191).

Looking at developing states from the perspective of regional cooperation may be a challenge, given that these regions are home to a wide array of interstate conflicts. This is especially so because the political realm is always at a premium and the socio-economic and cultural realms are seen as mere dependent variables. However, the international relations theory of functionalism proposes a more optimistic take on achieving regional cooperation, despite these factors. The functionalist school, established by those like David Mitrany, argues against the excitement propagated by internationalists or supranationalists, who seek to compromise the concept of sovereignty of a state for the purpose of regional cooperation (Mitrany 1975: 123-132). The functionalist school applies a more realistic take on the concept of sovereignty and argues for an indirect approach of functional cooperation among states. It is important to note that the functionalists still hope that by cooperating in non-political areas, states would eventually create a conducive environment to eventually cooperate in political areas as well.

Despite the advantage of this approach, the issue of mistrust becomes an arduous obstacle in achieving an effective form of regional cooperation. States may pull out of their regional obligations if their respective national interests are compromised. In addition, slow multilateral processes and weak institutions may further hamper the chances of having an effective environment for regional cooperation even in functional areas. These obstacles are very much present in the South Asian region. Moreover, these conditions create hurdles for the South Asian states to achieve a significant degree of regional cooperation.

Overview of South Asian Regional Cooperation

Seven South Asian states – Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka

– formed the South Asian Association for Regional Cooperation (SAARC) in 1985. The eighth, Afghanistan, got its membership only in 2007. South Asian Preferential Trading Arrangement (SAPTA) was put in force in 1995 to further the cause of intraregional trade among the SAARC countries. In 2004, a framework agreement was signed to set up a South Asian Free Trade Area (SAFTA). SAFTA came into force in 2006.

As explained in the previous section, South Asia consists of common physical and socio-cultural features that can serve as grounds for efficient cooperation. Geographically, all states, except Sri Lanka and Maldives, are in a single landmass. In addition, these states share a common history, culture and heritage, which inevitably bind them together. These conditions are supposed to be conducive for cooperation. However, objective indicators such as regional trade statistics show that South Asia is not faring well, as compared to other regions around the globe.

Even with the establishment of Free Trade Areas (FTA), South Asian states have not been able to maximize their regional economic potential. It is thus crucial to address the areas that hinder the development of South Asian economic cooperation. Identifying these bottlenecks will allow policy makers to restructure, reevaluate, and redesign strategies to provide a more appropriate environment for regional cooperation in South Asia.

Status of regional cooperation in South Asia

History shows that South Asia was no stranger to policies of import substitution and protectionism. However, recently, South Asian states have tried to significantly restructure their policies and strategies. The region, with the leadership of India, spearheaded economic liberalization policies to promote and encourage trade and investment. The years 2003-2008 marked a period of economic growth for the South Asian region. With an average annual growth rate of 7.8 per cent for the given period, South Asia's growth was the second highest following only East Asia (ADB 2009: 8). Despite these accomplishments, much work still needed to be done.

Approximately 40 per cent of the world's poor live in South Asia (Thapa 2004: 1). With a quarter of the world's population living in the region, South Asia shared only an average of 3.3 per cent of the global gross domestic product (GDP) as of 2017 (World Bank 2019: 10). This illustrates how much economic potential remains relatively untapped. South Asia's intra-regional trade rose from 4.5 per cent in 2008 to 7.6 per cent in 2015 (Ahmed 2018: 78) and

moderated to 6.9 per cent in 2018 (South Asia Economic Focus 2019: 10). These levels are still significantly low, compared to the intraregional trade of other regional blocks in Asia Pacific and Europe.

Challenges to regional cooperation in South Asia

A. Trade barriers

Despite the attempts to liberalize their economies, South Asian states maintain rigid and tight trade barriers among themselves be it tariff or non-tariff. Through the liberalization under SAFTA the direction of tariff negotiations shifted from product-based to negative lists and other procedures such as rules of origin. The outcome, however, was not parallel to what was expected. Despite attempts to redirect tariff negotiations, the sensitive lists still remained relatively long, which ironically consist of products with high potential for regional trade (Weerakoon 2010: 78).

As of 2016, South Asia's average tariffs were at 13.6 per cent, which are significantly higher than the world average (6.3 per cent). In relation to the sensitive lists, 44 per cent to 45 per cent of the imports from other SAARC members fall under the sensitive lists of both Bangladesh and Sri Lanka. For example, more than 39 per cent of India's exports to the region fall under the sensitive lists of various South Asian states (Kathuria and Mathur 2018: 13).

Non-tariff barriers are a notorious obstacle to South Asian economic cooperation. Control measures, such as sanitary and phyto-sanitary (SPS) measures, which were meant to protect humans, animals and plants, together with technical barriers have gone beyond accepted norms in the multilateral level. This has resulted in serious constraints in intraregional trade flow. In addition, dealing with these technical barriers is often seen as a very time consuming and tedious process due to lack of bureaucratic efficiency (Weerahewa 2009: 1).

Bangladesh imposes non-automatic licensing and prohibitions as a measure to control its imports. Obtaining a Letter of Credit Authorization (LCA) is a mandatory requirement for imports that are listed as restricted (Weerahewa 2009: 7). These prohibitions apply to a wide array of products from drugs to animal products. Bangladesh has also become strict on technical requirements for processed food. In addition, the packaging, labeling and marking must be in accordance with the country's standards.

Bhutan uses non-automatic import licensing on a variety of agricultural products. Like Bangladesh, Bhutan has also tightened its requirements for packaging and labeling of goods. This is also a potent trade barrier for South Asian countries. Maldives uses non-automatic licensing for various products. However, what tighten the requirements are its quality control measures with respect to environmental, health, security and religious factors. Sanitary and phyto-sanitary certificates are needed for live animals and plants. Similarly, packaging and labeling of food items have become a major requirement for the importation of food products. Sri Lanka has also imposed licensing for agricultural products and genetically modified (GM) food in addition to prohibitions for certain types of meat. Proper packaging and labeling are also pre-requisites in Sri Lanka (Weerahewa 2009: 7-8).

India has imposed restrictive measures on its imports to protect domestic production. Prior authorization is needed for the import of products in the sensitive category, which include GM foods. The Bureau of Indian Standards (BIS) is tasked to create mandatory requirements for imports in the country. So much so, any form of goods that enter India must fulfill the requirements and standards of the country, which include marking and labeling as well (Weerahewa 2009: 7).

B. Infrastructures

Transportation is a crucial element of regional cooperation. Without efficient and effective physical links between countries, trade becomes an arduous and expensive process. Geographical proximity makes transportation relatively easier. The most evident advantage of proper physical connectivity is a significant decrease in additional cost and expenses. Physical connectivity remains a big obstacle for South Asian regional cooperation despite existing railroad and road networks.

Bangladesh, India, and Pakistan have extensive railway networks. Bhutan, however, does not have any. India and Bangladesh did not have any container trains running between them initially. It would take approximately 45 days to transport a container from Delhi (India) to Dhaka (Bangladesh) as the container had to move via Singapore. Fortunately, Bangladesh and India flagged off a trial run for the first container train to run between the two countries in 2018 (Mazumdar 2018).

Besides railways, roads are the dominant means of trade connectivity among South Asian countries. However, there are major hindrances limiting this mode of transport and preventing trade from reaching its full potential. There is very little movement of goods between India and

Pakistan because of historical enmity and rivalry between these two countries. The border between India and Bangladesh has ten road-based check posts, but freight traffic to and from Bangladesh by road needs trans-shipment at the border. It is because trucks from other countries are prohibited to pass through or use the road networks of Bangladesh due to differences in the axle load limit. (Subramanian and Arnold 2001: 35-36; Rasul 2009:11).

India and Nepal have a trade agreement allowing 22 border ports for the movement of goods between the two states and 15 ports for transit traffic (Rasul 2009: 12). However, out of all these, only six are being used consistently, because India's territory is constrained to operating only within fixed hours of the day. Bhutan's roads are of good quality, but the width and the structure of the roads do not allow high speed travels or axle loads. As a result, trucks that have capacities below 10 tons are used instead. This process involves additional costs and time. Trucks from Nepal and Bhutan are allowed in India, but Nepali trucks need to possess a license before entry, and these licenses are only valid for three months (Rasul 2009: 18). The renewal of the licenses is extremely time-consuming. These are some of the most common reasons for the slowing down of regional cooperation in South Asia.

C. Lack of comparative advantage

South Asian states have been observed to prioritize extra-regional trade over intra-regional trade. The region's priority for trade with North America or Europe significantly outweighs its priority for intraregional trade. It is important to note that the exports of South Asian states to other regions consist of relatively similar products: textile, readymade garments, leather, and agricultural products (Kher 2012: 7). The outcome is that the states tend to become more competitive against each other rather than complementary. In other words, a large portion of their trade is dependent on a few similar or same products. This dependence of the region gets added vulnerability if its other vulnerabilities are taken into account. These states have abundant labour, but they are lacking in financial resources, meaning that the whole regional workforce, or capital, comes into severe stress, were some regulatory or other export market mishap to hit only one product.

This is the common economic dilemma South Asia is facing. There is conflict among Bangladesh, Pakistan and Sri Lanka regarding textiles and apparel exports, which constitute the biggest share of their comparative advantage. Additionally, India opposes any move to liberalize textiles and apparels under any regional agreement (Pitagala 2005: 41). The higher the rate of comparative advantage among states, the better their prospects will be to effectively

trade among themselves (Yeats 1998: 9). States with different regional comparative advantage profiles tend to trade more among each other compared to states with relatively similar regional comparative advantage profiles.

D. Power asymmetry and geography

One major challenge to regional cooperation is power asymmetry existing within a region. There is a significant power imbalance in South Asia. This has been the cause of tension, mistrust, and a lack of openness among states. India possesses 75 per cent of SAARC's population and accounts for an estimate of 80 per cent of its GDP, while the second and third largest states only make up 10 per cent and seven per cent, respectively (Kher 2012: 8).

India's unparalleled military and economic power in the region has heightened the apprehension and distrust among other South Asian states. The smaller South Asian states tend to look outwards, away from the region, to form a counterweight against India's dominance. Another crucial point to consider is geography. In South Asia, all countries, except Afghanistan, Sri Lanka and Maldives, share a common border with India. This geographical dependency affects these countries' internal and external decision-making capabilities.

This obvious imbalance has pushed policy makers to formulate policies and have legislative frameworks based on their country's strategic and political interests. Pakistan and other South Asian states have been opposed to the hierarchical order India has been trying to project in regional affairs. This becomes a hard gap to fill when it comes to economic cooperation.

E. India and Pakistan relations

The relationship between Pakistan and India has been tumultuous since the 1947 partition. There were several unsuccessful attempts to alleviate and iron out their differences. The dispute between the two over the Kashmir region has not only thwarted such attempts but continue to sour their relations to this day. Three wars have already been fought between them over the disputed territory- in 1947, 1965 and 1971

For some time after 1947, there was a sizeable amount of trade between the two states with half of Pakistan's imports coming from India and around two thirds of its exports going to India (Kher 2012: 6). Their failure to address the challenges posed by security and political issues have led to a significant deterioration of their bilateral economic relations as well. Consequently, this tension has spilled over to become an obstacle for effective regional cooperation.

The proliferation of terrorism, particularly Pakistan-based, has also significantly dented the chances of forwarding economic discussions (Dash 2008:114). India and Pakistan have constantly locked heads over pending security and border issues. As a result, both states find it necessary to solve these issues before advancing any kind of significant economic agreement. These issues of security and high politics have cast a great shadow on economic cooperation between the two states and the entire region.

Conclusion

South Asia's political history and security environment have led to it being the least integrated region in the world. They have, in fact, become hurdles in achieving a sustainable platform to advance regional cooperation. Despite SAARC's establishment and SAFTA's operationalization, several gaps remain in forging closer intra-regional economic ties. Economic decisions rest on state actors who lack the momentum in stimulating regional economic activity. In addition, South Asian states tend to look inwards vis-à-vis each other due to the asymmetric nature of interstate relations. This has led South Asian states to prioritize issues of high politics rather than collective socio-economic development.

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