



ISSUE BRIEF

"Advancing the Strategic Potential of India-US Relations, Accelerating India's Economic Development"

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Accelerating co-prosperity in South Asia

by Amb. Hemant Krishan Singh



Faced with an uncertain economic outlook in 2012, the countries of the South Asian

Association for Regional Cooperation (SAARC) require to take stock of their halting and incomplete efforts at regionalism. After 26 years of summitry, the peoples of South Asia, comprising one fifth of humanity, deserve the promise of a better future.

With emerging economies in Asia having outperformed the rest of the world over the past three decades, the centre of economic gravity is gradually moving eastwards. SAARC faces the uncomfortable reality of being the odd region out even as an Asian century beckons.

The world economic scenario today is marked by globalisation and economic integration. As a contiguous region, SAARC perhaps enjoys more overlapping commonalities than other regional blocks in terms of shared history, culture and language. SAARC countries also face common challenges of poverty, illiteracy, malnutrition, frequent natural

disasters, impact of global warming and climate change and security threats from terrorism. Despite SAARC's potential for meaningful cooperation, it has the dubious distinction of being an underperforming regional community.

Following a successful 17th Summit in the Maldives, 2012 offers SAARC a renewed opportunity to chart a different course and advance economic linkages. The region can leverage geographical advantages to foster growth and co-prosperity not merely confined to South Asia but going well beyond the Indian sub-continent. The SAARC region can work as an effective bridge between East and Southeast Asia on the one side and West and Central Asia on the other.

SAARC countries enjoy among the healthiest demographic profiles in the world, if not the very best (Table 1). This key asset of South Asia means that SAARC will have a youthful population well into the second half of the 21st century, providing its member countries the unparalleled advantage of a demographic dividend which, if harnessed with skills, jobs and growth, can transform the region economically.

Again, to see the positive aspect of what is today a dismal statistic, there is tremendous potential for intra-regional

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trade within SAARC. The current volume of SAARC intra-regional trade (Table 2) remains perhaps the lowest among major regional groups (Table 3). India's trade with its SAARC neighbours stands at a meagre \$12.7 billion (Table 4).

Factors inhibiting economic integration in South Asia include barriers to trade, investment and movement of people; poor intra-regional connectivity in terms of transport infrastructure and highway networks; and high trading and transportation costs compared to other regions because of border restrictions.

That said, the principal impediment to successful SAARC regionalism remains a history of antagonism and distrust which blocks common

strategies to face shared challenges collectively. South Asia's major security challenges can best be tackled only if all member states work to build a critical mass of mutual trust and political understanding. This desirable outcome can be greatly facilitated by accelerating economic partnership and integration. Building of connectivity infrastructure, harnessing of abundant mineral and water resources and revival of people-to-people linkages through business and tourism can bring the dividend of economic progress to the entire region.

As South Asia's most empowered economy, India bears the largest responsibility to

transform SAARC through a more dynamic and purposive regional diplomacy. India has assumed asymmetrical commitments to signal its proactive intent. Hopefully, the dire state of its economy may persuade Pakistan to embrace the benefits of regional economic integration in the long term interests of its own people, the sooner the better.

In this **Issue Brief** for January 2012, Dr. Sheelkant Sharma, former Secretary General of SAARC, assesses the results of the recent SAARC Summit as well as imperatives and prospects for successful regionalism in South Asia.

❖ *Ambassador Hemant Krishan Singh holds the ICRIER-Wadhvani Chair in India-US Policy Studies.*

Share of Age-group 15-64 in Total Population

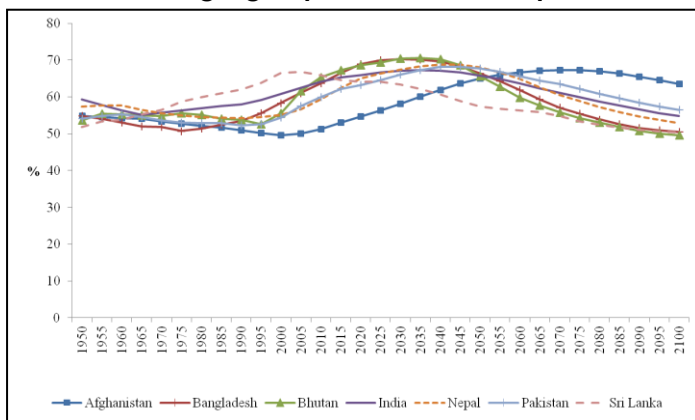


Table 1

Source: United Nations Population Division

Intra-regional Trade as share of South Asia's Total Trade (%)

Country	1985	1990	1995	2000	2004	2007
1	2	3	4	5	6	7
Afghanistan	11.4	14.5	11.1	29.7	35.3	43.1
Bangladesh	4.7	6.0	12.8	7.9	10.5	9.4
Bhutan	----- N/A -----					
India	1.7	1.6	2.7	2.5	3.0	2.7
Maldives	12.5	12.7	14.3	22.2	19.8	12.2
Nepal	34.3	11.9	14.8	22.3	47.2	60.5
Pakistan	3.1	2.7	2.3	3.6	5.0	6.6
Sri Lanka	5.5	5.6	7.8	7.4	15.1	18.9

Table 2

Source: Regional Co-operation Strategy and Programme, South Asia (2006-2008), ADB.

Trends in Intra - Regional Group Trade (%)

Regional Group	1950	1960	1970	1980	1990	1995	2000	2008
1	2	3	4	5	6	7	8	9
MERCOSUR	6.1	7.6	9.4	9.7	11.0	19.2	19.9	15.5
NAFTA	35.5	30.4	36.0	33.2	37.2	42.0	46.8	40.0
ASEAN	2.8	12.7	22.4	15.9	17.0	21.0	22.7	25.8
ASEAN +3	16.1	21.9	25.8	29.0	26.8	34.9	33.7	34.0#
GCC	...	...	4.6	3.9	8.1	7.5	6.2	5.5
SAARC	11.6	5.0	3.2	3.5	2.7	4.3	4.5	4.8
EU 25	47.9	51.8	61.0	61.8	67.4	66.4	67.2	66.7#
Euro Zone	36.1	41.2	53.7	48.1	54.5	53.2	50.3	49.3
APEC	44.2	47.0	57.9	57.5	67.7	71.7	72.5	65.5
CIS	...	...	...	...	...	33.4	28.4	22.7

Table 3

: For 2006.
Source: UNCTAD.

India's Trade with South Asian countries (US\$ Million): 2010

Countries	Exports	Imports	Total Trade	Share in total trade (%)
Afghanistan	391.6	107.5	499.1	3.9
Bangladesh	3016.6	288.5	3305.1	26.0
Bhutan	159.2	142.3	301.5	2.4
Sri Lanka	3305.1	369.0	3674.1	28.9
Maldives	100.0	30.9	130.9	1.0
Nepal	1904.9	397.5	2302.4	18.1
Pakistan	2235.8	248.4	2484.2	19.6
Total	11113.3	1584.2	12697.4	100.0

Table 4

Source: UNCOMTRADE database

South Asian Regionalism: Imperatives and Prospects

by Amb. Sheelkant Sharma



A pro-active approach to its neighbourhood in South Asia is a vital component of India's diplomacy. Harmonious relations within South Asia constitute a valuable public good which can transcend the boundaries of the region and have a positive impact on wider Asia and the world. SAARC as the main vehicle for regional cooperation in South Asia has completed 25 years in 2010. It exudes a new optimism today and holds much promise for the future.

The successful conclusion of the 17th SAARC Summit in Maldives in November, 2011 was assessed positively in all member states of SAARC. As summits go, it once again underlined the considerable default value of SAARC as an institution. Maldives, the smallest nation in the region, hosted the Summit in an island south of the equator, showcasing a vital maritime dimension of South Asia and the geographical reach of its members beyond the equator. The Summit also benefited from a modestly improving outlook in India-Pakistan relations as well as the all-round upgradation of India's bilateral relations with Afghanistan, Bangladesh, Nepal and Sri Lanka, in addition to its existing close ties with Bhutan and Maldives. It confirmed SAARC's inherent ability to coax and cajole the region to summit diplomacy every year and a half, a pattern more or less set by

now with seven summits being held over the past decade.

The optimism, comfort level and progressively greater convergence of interests of the Summit leaders should now spur demand for matching follow-up action with greater focus and speed. Going by the trends witnessed after past summits, the host as Chair of SAARC is left largely alone to carry the burden of being pro-active. Maldives as SAARC Chair will have to muster its dynamism in the coming months to nudge its larger neighbours towards greater tangible cooperation. India has taken the initiative to offer all support to Maldives in this process, right from the hosting of the summit to walking the talk towards targets set till the next summit in Nepal. This augurs well.

The Summit Declaration as well as statements of all South Asian leaders emphasized the need for real deliverables: on enhancing intra-regional trade, advancing connectivity, promoting SAARC tourism, activating energy linkages, and launching project-based cooperation within strict timelines. If there was optimism for stepping up intra-SAARC trade, it was bolstered by the recent gain of traction in trade prospects between India and Pakistan. India has also announced major unilateral measures for zero tariffs and drastic cuts in sensitive lists for the LDCs in SAARC, namely, Nepal, Bangladesh, Sri Lanka and Maldives.

The stage is set for progress on mutually reinforcing steps under the

auspices of SAFTA to proceed with agreed lowering in tariff and non-tariff barriers, harmonization of standards, reduction in the sensitive lists for tradable goods and streamlining cumbersome border and customs procedures. As it stands today, intra-SAARC trade under SAFTA certificates of origin is not even half a billion dollars annually, even though it has been growing slowly and with some consistency from a low starting base of 14 million dollars in 2006.

An ADB study in 2008 placed the potential of trade under SAFTA at \$85 billion. A vigorously pursued SAFTA will lead to the development of new networks of regional trading partnerships in diverse products. Besides, in terms of distribution of trade gains, estimates are that smaller and least developed economies like Bangladesh, Nepal and Sri Lanka would tap the access to larger economies relatively more gainfully than the latter. The impact of trade growth on the development of sub-regions within each country falling close to borders can also be considerable.

The SAARC Agreement on Trade in Services (SATIS) can add substantially to the gains from trade in goods if work on its schedules is accelerated within a fixed timeline; a good marker may be April 2012 when it will be two years since the signing of the SATIS agreement. Recent RIS¹ studies have also pointed to disaggregated analysis of intra-

SAARC trade to suggest that the potential of the region for exports from countries within could benefit all members immensely.



Parallel measures for upgrading physical connectivity by rail and road for carriers/container traffic and soft connectivity through facilitation of currency, visa and communication links are feasible and long overdue. Energy, trade, tourism and transport are areas underlined by the Summit for quick, result-oriented work. The mechanisms which have been created over the past decade have envisaged reasonable pathways in this regard. Care must be taken to activate these in the coming months and to push for convergence of views of member states on feasible steps – for instance, if the region as a whole is not ready, action can commence for a sub-region as stressed in the Summit Declaration. There is basic agreement on starting a ferry service among India, Sri Lanka and Maldives. This can be showcased as a trendsetter. Similarly, on development of a transport corridor in the north east of the region, an existing ADB study is waiting to be moved to the feasibility stage involving India, Bangladesh, Nepal and Bhutan to begin with.

The nine observer states too approached the Summit with mounting interest in South Asia. The UN system agencies such as UNDP, UNODC, ESCAP and FAO as also the ADB and World Bank are forthcoming to contribute to South Asian integration. Imparting traction and sustaining momentum to regional cooperation calls for greater focus and effort at working levels, which should be empowered.

On the wider development agenda, the latest World Development Index 2011 is revealing (Amartya Sen and Jean Drèze, "Putting Growth in its Place", *OUTLOOK* Nov. 14, 2011). In terms of progress from 1990 to 2010 on basic social indicators like life expectancy, child survival, fertility rates, immunization and average years of schooling, Bangladesh,

Nepal, Bhutan and Maldives figure better than India and Pakistan. Sri Lanka has been ahead of all other SAARC countries in any case for a considerable time. Thus, India's higher growth rate in the past two decades has not translated into better social development indicators. Pakistan's performance has probably been a shade worse. The smaller countries within SAARC can provide valuable lessons for the region with their greater success in the human development agenda.

The 17th Summit's focus on trade, connectivity and other areas of active regional engagement can mark a departure from the "Christmas tree" approach followed thus far. Member states have over the first 25 years tended to place all kinds of development agendas onto the SAARC template, despite responsibility for action on most being exclusively in the national domain. Such motherhood issues might have been good for a timid start to regional cooperation a quarter century back, but today they risk losing the enthusiasm of member states and their public which would like to see real benefits from regional engagement. Climate change, pandemics and preparedness for natural disasters are other trans-boundary issues requiring regional attention.

It is time for imparting greater urgency to re-establish South Asian trade, transport and tourism links which had been fairly extensive as recently as the early sixties. Following the India-Pakistan wars in 1965 and 1971 and the birth of Bangladesh, the Cold War aftermath of the Soviet invasion of Afghanistan in 1979, and the menace of the Sri Lankan LTTE militancy in the 1980s, the South Asian region had emerged with the dubious distinction of being the least connected neighbourhood. While trade within this region just after independence from the British was about 20% of the region's international trade, it came down to less than 2% at its worst and is presently around 5%.



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1. *RIS: Research and Information Systems*, New Delhi
2. Quote from Jean Monnet, 1953

It is also time to examine the South Asian experience in building regional cooperation which has progressed rather timidly since 1985 in the shape of ideals and principles, instead of being anchored in concrete achievements. This lack of ambition is inherent in SAARC's charter which bases itself on consensus, and its declaratory cant on a spectrum of socioeconomic activities for the well-being of regional peoples.



In contrast, the early institutions of European regionalism were envisaged to be built "through concrete realisations, creating at first a *de facto* solidarity,....essential to develop habits of cooperation among nations which had so far only known relationships based on power."² While the European Union (EU) progressed through what could be akin to "integration by parts" in the language of school calculus, South Asia took upon itself the horrendously complicated task of integrating a lump of seven factors, each independently variable and vulnerable at any point to dropping to zero and thus reducing the whole to naught. It would have been better if SAARC had followed the European example of beginning modestly but concretely and adding on as it progressed. In terms of institutional machinery too, while the EU was meticulously created and crafted by thousands of hours of dedicated effort by combined national bureaucracies working side by side with the Commission and its Eurocrats, no such thing has been made possible so far in the SAARC context.

The SAARC Secretariat is a full time body dedicated to push the agenda for cooperation but it remains poorly resourced in terms of staff and funding. The latest Summit Declaration has underlined that ways and means must be found to reform, strengthen and speed up the SAARC system. Of course, as the overall economic situation in the region is not so sanguine today, there will be an inevitable tightening of regional cooperation budgets – both at the national levels and for the SAARC Secretariat.

This is another inherent challenge for the developing economies in South Asia: they need to make the most of the windows of opportunity while they remain open. South Asians must get their act together this time and carry out the positive mandate handed down by the 17th SAARC Summit through real value addition to South Asian cooperation. Successful regionalism in South Asia can overcome bilateral straitjackets and dispel misplaced fears and apprehensions. As South Asia's largest country and economy, India bears the greatest responsibility in moving SAARC regional cooperation forward.

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❖ *Ambassador Sheelkant Sharma was Secretary General of SAARC from March 2008 to February 2011. He has earlier served as India's Ambassador to Austria and Governor on the IAEA Board.*