

**ECONOMIC COOPERATION AMONG SAARC MEMBER COUNTRIES:
PROBLEMS AND PROSPECTS****Puspanjali Misra**

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South Asian Association for Regional Cooperation (SAARC), which was established in 1985 at Dhaka owes its birth to the pioneering initiative taken by the Late President Zia Ur Rahman of Bangladesh. It was initially a group of seven South Asian countries, viz., India, Pakistan, Bangladesh, Nepal, Bhutan, Sri Lanka and Maldives, and expanded to include Afghanistan as the eighth member in the SAARC Summit held in Dhaka on November 13, 2005. The assumption of SAARC was that a common culture, civilization and heritage among all the seven post colonial states of South Asia would bring about unity and cooperation among them, gradually bringing about social and economic development in the region.

SAARC was conceptualized as an organization that would accelerate economic growth, gradually bring about the formation of a unified market, promote a regional transportation network, and bring about social development in the region. It was believed that regional cooperation would bring about economic cooperation despite the political differences existing among them.

Objectives Relating Economic Cooperation

Among other objectives of SAARC include the below said two clauses highlighting economic cooperation:

- To accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potential.
- To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields.

Regional Economic Cooperation: Definition

The terms 'economic cooperation' and 'economic integration' are often used synonymously. But these two concepts are different. Regional economic cooperation is an evolutionary process consisting of several stages. Economic integration represents the most advanced or ultimate stage of economic cooperation.

Areas of Cooperation

In the area of development, SAARC has gradually begun to make progress towards achieving regional cooperation in the socio-economic and cultural spheres in a structured and organized way. The aim is to select such areas of cooperation in which there would be mutual benefit for all member states, irrespective of levels of economic development and other fiscal disparities. It first evolved an Integrated Programme of Action in nine fields of nation-building activities, namely agriculture, rural development, meteorology, telecommunications, postal services, transport, science and technology, health and population, and sports, arts and culture. These originally agreed areas of cooperation have been gradually expanded to 12 with the inclusion of three new areas, viz., prevention of drug trafficking and drug abuse, women in development, and education. Programmes are also being implemented in five new areas, identified at the Bangalore Summit in 1986, which aim at greater social, cultural and economic interaction in the region and at making the fruits of such interaction available at the mass level for reinforcing regional harmony and homogeneity.

Regional Economic Cooperation: An Overview

In the first decade of SAARC (1985-1995), concern was more with the creation of the infrastructure for cooperation rather than a clear-cut identification of certain core areas where deeper interaction could be envisaged. Importantly initiated two concrete projects: the Independent South Asian Commission on Poverty Alleviation (ISACPA) and South Asian Preferential Trade Agreement (SAPTA). These initiatives provided the only visible signs that the grouping was willing to take on issues which formed the core of regional interaction. Secondly, the mode of interaction remains purely exchange or dialogue-oriented rather than action-oriented. SAARC meetings at all levels remain confined to workshops and meetings that began with the resolve to explore the areas of cooperation and ended with a commitment to continue working on specific areas of cooperation, without outlining what actions were to be taken at the ground level.

In the second decade (1995-2005) several conflicting trends have been seen which had a crucial bearing on the progress of the grouping. There was explicit realization that the association had to adopt a more concrete agenda or else run the risk of being marginalized and becoming irrelevant at a time when other regional groupings were marching ahead. There was clear evidence that SAARC's progress depended too deeply on the political temperature between the two large members of the group, India and Pakistan. The former was keen on injecting greater economic urgency and trade liberalization into the organization. The only innovation in the SAARC process was its policy of granting recognition to other non-governmental regional bodies, which responded more for people-led initiatives. The second decade, therefore, built up on the infirmities of the first decade competing pressures, did not allow the regional process to take off in South Asia.

In the third decade (1995-2005) and the recent SAARC summits, however, focus was laid on implementation and delivery. Implementation demands adequate empowerment of regional institutions – that is, an investment of both faith and wisdom. In South Asia the strong political interest for regional cooperation in a given area does not necessarily translate into corresponding prioritization by the bureaucracies. Mostly it may be because regional programmes tend to get generally low priorities among the ministries of the region. Sometimes, however, the cause simply is attitudinal. Another related point concerns the interaction between the governmental processes

and non-government stakeholders. While we do have substantial think-tank activities devoted to regional cooperation in South Asia.

Economic Cooperation: Regional Integration Agreements

South Asia constitutes an ideal grouping for economic integration. It is a huge contiguous land mass crisscrossed by mighty rivers, with a wealth of natural resources, a verity of climatic conditions, and a common history and heritage as also shared languages, literatures and religions. South Asia has a market consisting of 1.3 billion consumers with rising incomes. Over the last two decades, there has been a convergence of macro- economic policies of these countries and also diversification of their economies along similar lines.

Over past years SAARC has gradually expanded its area of cooperation from ineffective social and developmental issues to closer economic cooperation. This shift reflects the organization's ability to adjust to the new geo-strategic economic imperatives of globalization. Some of the initiatives, launched at the SAARC Summit of 2005 in Dhaka, hold the prospect of a more meaningful regional cooperation. These include South Asian Free Trade Area, the SAARC convention on terrorism, cooperation on the issue of trade and transit, energy cooperation and lastly the issue of the admission of new member (Afghanistan) to SAARC and granting observer status to China and Japan.

The worthwhile measures of deeper integration help in operationalising and giving meaning and sustenance to free trade agreements. For example, the investment flows can realize the dynamic advantages of an FTA. Moreover, deeper integration can be pursued even if the process of free trade is interrupted due to unforeseen circumstances. Finally, if South Asia is to move towards an economic union or community, it will not be possible without cooperation in all major economic domains. Through integration and enlarging the market by removing barriers to trade, there is possibility for full exploitation of foreign investment and technology transfer which can substantially improve the competitiveness of the region and help the economies of SAARC countries.

Cooperation under SAARC has not suffered on account of dearth of ideas, schemes, or vision; in fact, a variety of proposals have been advanced either by experts and think tanks or by the member governments themselves. Some of these have been brought on the agenda of SAARC; concrete schemes, legal instruments and declarations have been adopted. To mention a few are: 1) the SAARC food security reserve, 2) agenda of action for poverty eradication, 3) programme for disaster management, 4) conventions on suppression of terrorism, drug trafficking and trafficking in women and children, 5) declaration on the girl child and 6) SAPTA and SAFTA

SAPTA (South Asian Preferential Trade Agreement)

Developing economic synergies between countries of the region was the primary motive for the formation of SAARC. Though the hard core economic areas were deliberately kept out of the agenda of the SAARC during the formative years, the adoption of the South Asian Preferential Trading Agreement (SAPTA) in 1993 has provided a framework for the exchange of tariff concessions and also liberalization in para-tariff and non-tariff measures.

South Asian Preferential Trade Agreement (SAPTA) came into existence in 1995. This agreement is considered to be major stepping –stone towards higher level of intra-regional trade liberalization and economic cooperation among the member countries. The main objective of

SAPTA was to promote regional cooperation for the benefit of the people of the region by strengthening intra-regional economic cooperation and development of national economies. SAPTA was expected to provide all the SAARC member countries preferential treatment by way of reducing import tariffs on eligible items. This arrangement provides special and the most favourable treatment to the least developed countries in the region.

The 10th Summit at Colombo in 1998, besides constituting a committee of experts from member states finalized a comprehensive agreement for creating a free trade area.

SAFTA (South Asian Free Trade Agreement)

In order to further strengthen the regional economic cooperation, a new agreement called South Asian Free Trade Agreement (SAFTA) officially came into existence in 2006. The signing of agreement of SAFTA has increased considerable interest in regional economic integration in South Asian countries. The SAFTA has become a parallel initiative to the multilateral trade liberalization commitments of the South Asian countries.

The SAFTA's objectives include elimination of all sorts of barriers in trade and facilitation of free and fair movement of products, promoting fair competition and free trade environment in respect of the existing economic conditions which will ensure the maximum benefit, and establishing an institutional framework to promote and expand regional cooperation.

Although the SAFTA progression has spawn some degree of interest in the region, some concerns about the very usefulness of SAFTA have however been mounting in recent years in light of more liberal bilateral free trade agreements (FTAs)—as well as preferential access that could conceivably be granted through alternative trading arrangements—among SAARC countries. The inability of the member countries to diversify their export structure in favour of more modern products has resulted in slower export growth and lower value realization.

SAFTA aims to reduce tariffs to 0 to 5 percent over ten year period. It requires member countries like India, Pakistan and Sri Lanka to set their custom tariff under 5 percent by 2013, where as it has allowed the least developed countries of the region namely Afghanistan, Bangladesh, Bhutan, Maldives and Nepal longer time frames to reduce or eliminate tariffs by 2016. This provision has been argued to be favourable especially to LDC members. But concerns have been raised on two grounds; firstly the first stage of tariff reduction seems to be redundant for all South Asian countries. And secondly, there are also concerns about the second stage of tariff liberalization. Because the three year gap between LDC and NLDC members appears to be low, as the presence of negative/sensitive lists and so called "non or para tariff" barrier by the NLDC members restricts significantly the potentials of the market access of the products from LDC members to the non- LDCs.

One of the key highlights of SAFTA is the compensation for revenue loses for smaller regional economies in the event of tariff reductions. By the end of first two years of SAFTA's implementation (2006-07), the developing countries in South Asia were to bring their duties down to 20 per cent. In the final five-year phase ending in 2012, the 20% duty will be reduced to zero in series of annual cuts. On the other hand, the least developing group in South Asia consisting of Nepal, Bhutan, Bangladesh and Maldives, get an additional three years to reach zero duty, till 2017.

Economic cooperation, particularly trade, may become the centrepiece of regional cooperation. SAPTA and SAFTA are going forward, despite economic asymmetry between India and the others. SAPTA and SAFTA could be configured to ensure more or less equitable gains and to advance trade prospects. The smaller states, led by Sri Lanka, have formed into a lobby for SAPTA because they have been left out of all the major regional trade and economic blocs (e.g. ASEAN, APEC). Under the impact of its economic reforms, Bangladesh, which for years was ambivalent on trade because of its fear of India, is keen to do more business within the region. It is already India's ninth largest trading partner. Similarly, Pakistan has come round to the idea of a trade regime for South Asia even if this means greater interaction with India. There are two forces operating on Islamabad. First of all, Pakistani businessmen are increasingly vocal about the need for freer trade when informal trade is estimated at US \$1.5 billion.

The growing desire for economic integration, one of the greatest changes to occur in South Asia over the past decade, serves as a counter point to the disintegrative trends internally where ethnic and religious divisions are on the rise. If the trade between South Asians grows at a decent rate and reaches the levels beyond 2 to 4 per cent of total trade maintained over the last 50 years or so, the economic and political changes would be a factor for a more secure region. Despite the societies being more amenable to dissent and diversity, there have been transitions to electoral democracy in Bangladesh, Nepal and Pakistan since 1988. These developments shall afford a space within which they could work for a more rational approach.

Reasons for Slow Progress

There is no doubt that there are important economic reasons behind the slow progress of SAARC, particularly in the field of trade, industry and finance.

- There has been a feeling among the elite of most of the members of SAARC that cooperation in these fields would mainly benefit India and not the other countries. Of the region whose interests might indeed suffer as a consequence of it.
- Non-Tariff Barriers (NTBs) have been another stumbling block. Any measure other than tariffs imposed or sponsored by the government is defined as an NTB. These measures thwart the impact of reduced tariffs and provide protection to a domestic activity by another name.
- Regional Cooperation is the subject of central governments of the member states. Even when these governments have the desire to move ahead in key areas, they are unable to develop national consensus in the enormously diverse populations.
- Smaller neighbours are suspicious have designed measures to safeguard the interests against the possible adverse effects on them of such cooperation.
- Though there is a scope that the smaller countries will immensely be gaining access to a much larger market than can be provided by their own territories if the entire region of South Asia becomes available to them for free sale of their goods and services, this opportunity was not utilised due to mistrust and suspicion.

Before concluding, it would be worthwhile enumerating a few pertinent points:

- We need to prioritize regional objectives and streamline them with national priorities.
- We need to develop policy approaches that take into account the political and economic complexities of SAARC, in particular the needs and developmental

priorities of the less developed countries Trade Integration needs to be expedited through faster implementation of SAFTA.

- The focus needs to be on taking practical and quantifiable steps; to associate all stakeholders, especially the private sector and think-tanks in the formulation and implementation of regional policies in different areas.

Conclusion

Economic regionalism has emerged as the driving force for sustaining economic networking around the globe. But, lack of cooperation in South Asia is attributed to lack of economic complementarities among the states of the region. Despite major economic challenges and impediments, economic cooperation in South Asia still has gained momentum. The countries of the region have realized that economic sustainability is assured through collective efforts sailing with the global economic high tide. Trade complementarities are created through joint ventures in the region. In recent years while continuation of sound policies and prudent macro-economic management is prerequisite there are several challenges ahead, which have to be confronted by each of our countries.

Most regional economic integration arrangements went through a step by step process. There are no quick fixes. This is especially so when the region has a history of conflict. The important thing is to keep engaged. SAARC has not made any significant progress in extending regional economic collaboration. The benefits intended with the agreements of SAPTA and SAFTA should be achieved with mutual cooperation and should be free from the whims of politics of the region.

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