

Economic Cooperation The Emerging Scenario

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Abstract

[Considering China continuously increasing importance for the global level, increased economic cooptation between China and SAARC member countries will be mutually beneficial, particularly for the South Asia. SAARC's own success in achieving desired level of regionalism has been limited, and China's involvement can become a catalyst in this regard. While trade between China and SAARC has been increasing in recent years, the potential of economic cooptation is much more beyond trade alone. China's engagement can address some of SAARC's fundamental shortfalls such as inability to generate funds for crucial projects and no progress towards knowledge and technology transfers. Regardless of China's full membership of SAARC, its active involvement in South Asia will continue to grow. – Eds.]

Introduction

Since its creation in 1987, the South Asian Association for Regional Cooperation (SAARC) has struggled to establish itself as a meaningful actor in the politico-economic sphere of the South Asian region. During this time, it has consistently been plagued by such factors as a highly bureaucratic and poorly structured administration, parochial and exclusive policy-making processes, an historical inheritance of suspicion and hostility between states, and a lack of commitment on the part of its members, with particular regard to the regional giant, India. The confluence of such undesirable circumstances has severely hampered the organization's effectiveness and limited its progress. Despite a few small successes, the majority of SAARC activity remains trapped in the stagnant space between idea and action. Nevertheless, in recent years, a number of new opportunities have emerged which, if suitably harnessed, could provide SAARC with a much-needed leg up out of impotence. Key among these is the interest displayed of late by China in becoming more closely integrated with the organization. Given China's growing preponderance in the global economy, its involvement with SAARC has enormous potential benefits for the latter party. This paper will discuss the nature and scope of China's current engagement with SAARC. It will then consider the range of economic benefits which would accrue to the organization as a result of deeper integration with China, as well as the many challenges which threaten to impede the realization of such strengthened ties.

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Sino-SAARC Links

Despite the fact that China does not fall within the traditionally acknowledged boundary lines of South Asia, it has a long history of engagement with its neighbors in that region. Commercial activity between China and the Indian sub-continent has been recorded as early as 221 B.C.¹ The ancient Silk Road later facilitated the development of trade, with overland routes passing from China through India, Afghanistan and Pakistan, while also connecting Sri Lanka via sea routes. Strong cultural ties, forged predominantly through a shared platform of Buddhism and the cross-border flows of people and ideas which this engendered, exist in particular between India and China. A mutual past of subjugation to British colonialism also unites these two states. Additionally, China shares a geographical border with five of the eight SAARC states, namely Afghanistan, Pakistan, India, Nepal and Bhutan. Both historically and geographically, therefore, China bears a number of intrinsic connections to the South Asian region.

More recently, China has sought further involvement in South Asian affairs through SAARC. In 2005, China was approved as an 'observer' state of the organization. This is a position it now shares with eight others, including the United States, Japan and the European Union. In the same year, Manmohan Singh and Wen Jiabo agreed to forge a 'strategic and cooperative partnership for peace and prosperity' between India and China, in an effort to move away from their erstwhile troubled relations, the nadir of which might be considered the Sino-Indian Border Conflict of 1962. At the 14th SAARC Summit, China outlined a five-point proposal for improving Sino-SAARC cooperation, a plan which consists of a collaborative approach to the issues of poverty alleviation and disaster relief, as well as an attempt at promoting a multilateral human resources training programme, bilateral infrastructure development and bilateral energy cooperation.² It has further expressed an interest in obtaining 'a bigger role' in SAARC activity in the future.³ In recognition of the potential benefits afforded by a Chinese alliance, the SAARC Chamber of Commerce and Industry proposed in early 2011 a nine-point plan for cooperation between SAARC states and China's Sichuan province, an important area for foreign trade with a 2010 nominal GDP value of approximately US\$249 billion. This agenda includes measures to improve Sino-SAARC trade – including the removal of non-tariff and para-tariff barriers, the granting of preferential market access to South Asian states and the relocation of labor-intensive industries from China to South Asia – as well as measures to improve investment – such as the sharing of information

¹Abbasi, "China's South Asian Curiosities and Strategies," 112.

²Panda, "China-SAARC Relations," 59.

³Rahul Karmakar, "China Seeks Bigger Role in SAARC", *Hindustan Times*, May 23, 2008, <http://www.hindustantimes.com/News-Feed/restofasia/China-seeks-bigger-role-in-Saarc/Article1-312557.aspx> (accessed May 26, 2011).

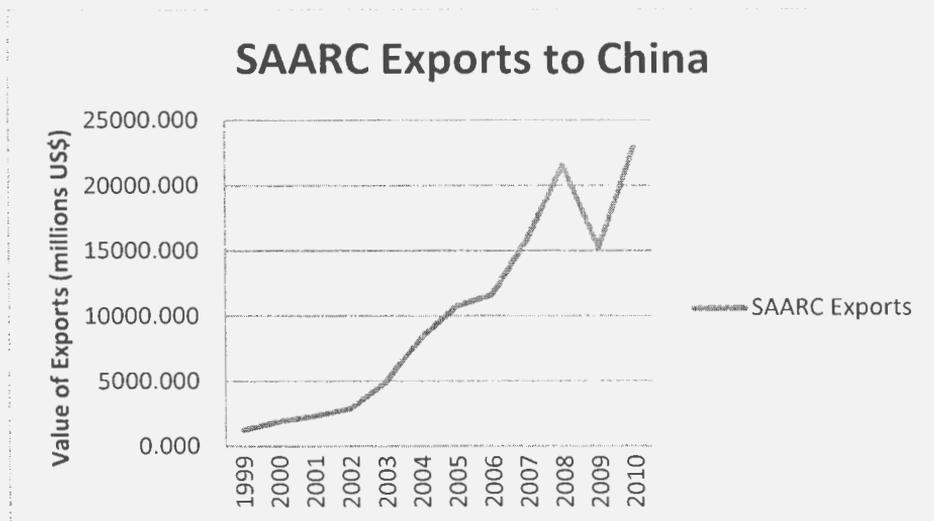
and the exchange of fact-finding missions to uncover potential investment opportunities, investment in infrastructure-building projects and a general increase in investment flows from China to South Asia.⁴

The Economic Benefits of Sino-SAARC Integration

An important first point to make with regard to the prospect of deeper economic integration between China and the SAARC nations is the vast scale of the potential benefits involved. Together, SAARC and China account for approximately a third of the global population. Furthermore, both are characterized by high levels of extreme and moderate poverty. Thus, if they are able to integrate successfully, in a manner that generates mutual gains for both regions, these benefits would accrue to an immense cluster of societies and individuals, ideally with sizeable consequences for poverty alleviation efforts. At this fundamental level, therefore, an alliance between SAARC and China is highly desirable.

The potential benefits to China of securing an integrated partnership with SAARC are multiform. Firstly, South Asia is an important destination for Chinese exports. As an indicator, imports from China by the collectivity of SAARC nations in 2009 were valued at approximately US\$ 57.6 billion. Moreover, the value of such trade has been consistently increasing over time, as Figures 1 and 2 show.⁵

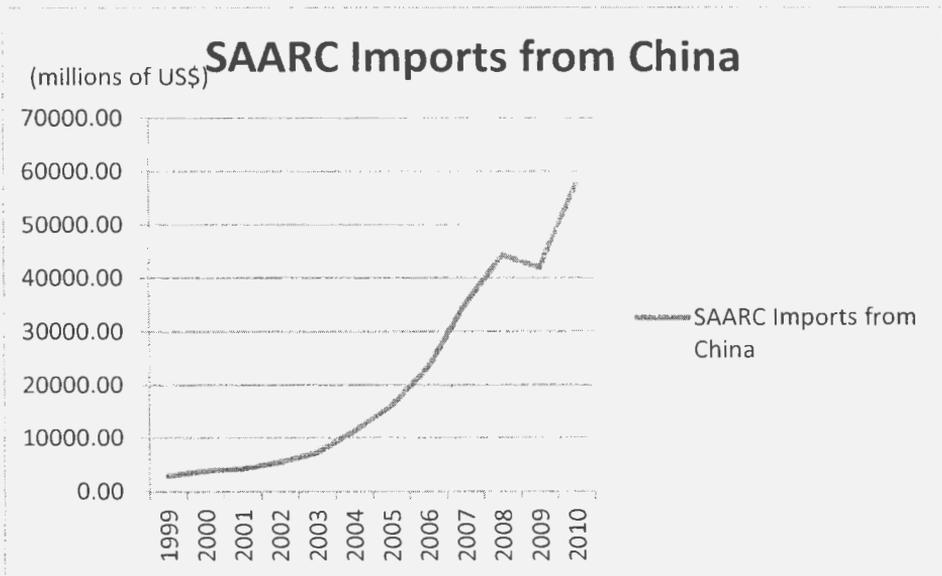
Figure 1



⁴Muhammad Iqbal Tahish, "SAARC CCI Proposes Agenda for Economic Cooperation with China" (Press Release), February 26, 2011, <http://www.saarcchamber.org/> (accessed May 26, 2011).

⁵These figures are based on data from the IMF Direction of Trade Online Statistics, <http://www2.imfstatistics.org/DOT/> (accessed May 16, 2011).

Figure 2



China's trade with India is particularly important in this regard. In 2004, for example, trade with India constituted approximately 70% of all Sino-SAARC trade.⁶ Besides India being China's largest South Asian trade partner in terms of trade volume, the fact that the two nations collectively account for about a third of the global population and are the fastest growing economies in the arena of contemporary global economics lends particular weight and interest to the notion of enhanced ties between the two states. Furthermore, China's rapid growth in recent years has resulted in a surging domestic demand for energy and other resources. Thus, the availability of copper and iron in Pakistan and of copper in Afghanistan has led Chinese mining companies to increase investment in these areas. The strategic location of Pakistan's Gwadar Port at the entrance to the Persian Gulf (a region that is the source of a large proportion of China's oil imports) has also attracted a large amount of Chinese investment for the purpose of its construction. Another consideration is the fact that China's growth boom in recent years has been geographically uneven. The greatest beneficiaries of increased trade and foreign investment in China have largely been its coastal cities, such as Shanghai and Guangzhou, while the provinces on its landlocked western border – which suffer from high transport costs and greater distance from China's major export markets – have generally experienced lower growth. Closer integration with

⁶Based on IMF Direction of Trade data.

South Asia (a far more proximate market) might provide China with a means of achieving more widespread growth.⁷

Nevertheless, at an aggregate level, the economic benefits which would accrue to China as a result of deeper engagement with South Asia seem limited, given the obstacle of its inherent rivalries with India as well as the fact that SAARC accounted for merely about 2.7% of total Chinese trade in 2010.⁸ Indeed, several scholars argue that China's interests in South Asia are primarily geopolitical, rather than economic, in nature.⁹ The desire to maintain energy security in the Indian Ocean and overland, through Pakistan and Afghanistan to the Middle East, might be considered pivotal in this respect. The pursuance of close ties amongst the nuclear triad of India, Pakistan and China is also desirable for purposes of national and regional security. Moreover, in light of the current widespread threat of global terrorism, an alliance with SAARC would enable China better to secure its western border. The fairly recent emergence of other challenges which require a collaborative response, such as climate change (a particularly relevant concern for China, whose rapid growth and industrialisation has had adverse impacts upon the environment), further increases the benefits to China of regional cooperation with its South Asian neighbours.

By contrast, the South Asian states' interests in fostering deeper integration with China are based primarily upon the anticipation of economic gains. SAARC's effectiveness in achieving improved regionalism has been limited during the twenty-five years of its existence. This has largely been due to challenges which have limited India's engagement with the other member states in this regional forum. Thus, China's trade volume with these other SAARC states has, since about 2000, begun to be comparable to India's, despite the former not being a member of SAARC.¹⁰ Lamentably, given the inadequacy of India's participation, SAARC not only lacks the resources to initiate meaningful projects for regional integration but also misses out on a large proportion of the spill-over benefits which India could afford its neighbours, such as knowledge and technology transfers from its booming services sector. China's engagement with SAARC could, therefore, address some of these shortfalls. As a state which has made a successful transition from extreme poverty to impressive growth since the beginning of its market reforms in 1978, and which also shares some economic commonalities with the member states of SAARC, China is viewed by many as a desirable role model for the collectivity of South Asian states. Indeed, the president of SAARC's Chamber for Commerce and Industry (CCI) expressed just this notion in a statement at the 2nd Sichuan-South Asia business promotion seminar, held in February

⁷For instance, Sachs writes that the majority of FDI flows to China is directed towards its eastern coastal cities. See Sachs, *The End of Poverty*, 7.

⁸Based on IMF Direction of Trade data.

⁹Abbasi, op. cit., 111.

¹⁰Sahoo et al., "China's Growing Presence in India's Neighbourhood."

2011. He describes, for instance, China's reduction of extreme poverty from 40% to 8% of its total population over the last two decades as being 'perhaps one of the wonders of the 21st century'.¹¹ The implication is, of course, that there are valuable lessons to be learned by South Asia from China, and that the latter's close association with SAARC would effectively facilitate such a learning process.

Moreover, China's rapid economic growth holds potential benefits for SAARC states in the context of international trade opportunities. The magnitude of the Chinese economy and, by extension, its demand for imports, provides (potentially) a virtually unlimited market for exports of the much smaller SAARC economies. Fittingly, the president of the SAARC CCI describes China as an 'economic ocean' from whose vast waters, presumably, the South Asian economies might drink to satiation while still barely skimming the surface.¹²

A factor that has long hindered the process of intra-SAARC trade is the weight of historical trade rivalries between member states. Traditionally, SAARC states have largely produced similar goods which then compete with one another for sale in Western markets. Laying aside past competitiveness to embrace each other as trade partners in the pursuance of mutual economic gain has proved difficult for these countries. By contrast, China is far less subject to such historical rivalries with South Asia and so, is more readily viewed as a potential trade partner. The extent of trade complementarities is, equally, larger between China and the SAARC states than it is within the SAARC collectivity. This feature is particularly marked in Sino-Indian relations. China has, over the course of many years, fashioned itself as a manufacturing hub, while India has developed into a hub for knowledge-based services such as pharmaceuticals, IT and engineering. Such specialisations are indicative of large mutual gains to be had from bilateral trade. For instance, a 2005 ADB report on trade and investment opportunities between India and China observes the high degree of complementarities which exists in particular between China's south-western provinces (SWC) and India's north-eastern region (NER).¹³ One of the most important complementarities in this regard concerns the IT sector. China specialises in the manufacture of computer hardware, while India is involved in software development. Similarly, China's growing construction sector would find an important market in India's NER, while growing demand for processed resources in the SWC could be met by the NER's large stock of natural resources.

In fact, Sino-SAARC trade has been growing consistently in recent years. In 2008, India was recorded as being China's 11th largest

¹¹Muhammad Iqbal Tahish, *op. cit.*

¹²*Ibid.*

¹³Bhattacharyay and De, "Promotion of Trade and Investment between People's Republic of China and India," 61-67.

trade partner. China also remains Bangladesh's largest trade partner. India and Pakistan represent the largest and second-largest shares of Sino-SAARC trade respectively, and the aggregate value of SAARC exports to China stands at approximately US\$ 23 billion. The total value of trade is approximately US\$ 80.5 billion, more or less in line with a prediction made by the SAARC CCI president in January 2010.¹⁴ An important point to note in this context is the trade relationship between the two major players in this arena: India and China. In fact, the greatest potential benefits to SAARC and to China of Sino-SAARC integration are centred on the closer integration of the Chinese and Indian economies. Despite Sino-Indian trade exceeding the 2010 target of US\$ 60 billion, these bilateral trade flows account for relatively small portions of each country's total foreign trade. As an indicator, trade with India constituted only about 2.1% of China's 2010 trade volume. Therefore, there is enormous potential for growth in trade between the two economies. In recognition of the mutual benefits which such an expansion would afford, New Delhi and Beijing have recently agreed upon a bilateral trade target of US\$ 100 billion for 2015.¹⁵ A caveat in this respect, however, is the fact that a large proportion of this trade volume currently consists of Chinese exports, with Indian exports lagging far behind. In 2010, for instance, Chinese exports to India were valued at US\$ 40.8 billion – nearly twice as much as Indian exports to China, which stood at only US\$ 20.8 billion. This latter figure actually represents a decline from its 2008 level of US\$ 23 billion, a fall which has largely been attributed to lower iron ore exports by India to China in 2010.¹⁶ A 2007 study by Bhattacharya and Bhattacharyay notes, nonetheless, that there exist noteworthy long-run benefits to both states from expanded bilateral trade.¹⁷ Yet, despite Prime Minister Wen Jiabo's promise during a recent visit to New Delhi to 'seriously address the trade gap', unless China takes appropriate action – such as opening its markets to Indian services exports – in the near future it is possible that this trade disparity could hinder a fuller expansion of bilateral trade between the two nations. As previously noted, such a state of affairs is highly undesirable, as it would deprive not only China and India, but the entire South Asian region, of sizeable economic benefits.

The potential for integration between China and SAARC is not limited to trade, however. Important opportunities also exist for investment, technology transfer and infrastructure development, all of which could produce large regional gains. Here again, the relationship

¹⁴Star Business Desk, "SAARC China Trade May Cross \$75 b this Year, Hopes FBCCI Chief," *The Daily Star*, January 31, 2010, <http://www.thedailystar.net/newDesign/news-details.php?nid=124146> (accessed May 26, 2011).

¹⁵"Sino-Indian Trade Volume Exceeds USD 60 bn Target," *Jagran Post*, January 27, 2011, <http://post.jagran.com/SinoIndia-trade-volume-exceeds-USD-60-bn-target-1296141127> (accessed 26 May 2011).

¹⁶Ibid.

¹⁷Bhattacharya and Bhattacharyay, "Gains and Losses of India-China Trade Cooperation."

between India and China takes centre stage. Bhattacharyay and De point to the potential for hydropower and energy transmission projects in India's NER, for example.¹⁸ China's investment in these areas would strongly benefit the regional energy grid. Given the high levels of poverty which persist around the India-China border, investment in infrastructure in these areas has important implications for poverty alleviation. The transfer of software, human resource and English language skills from India to China's SWC is also desirable, as the latter region experiences notable shortages in these areas.¹⁹

Another important facet of China's involvement in SAARC is the strong position which the former enjoys in other significant multilateral organisations. Despite the efforts of SAARC over the years, Shesheng notes that South Asia remains the 'least integrated region in the world' with, for instance, intra-SAARC trade accounting for a meagre 4.7% share of the region's total international trade in 2004.²⁰ Thus, the cultivation of alliances with other multilateral institutions is important for SAARC, not merely as a means of learning, but also in order to consolidate its position and gain some much-needed credibility as a regional actor. Consequently, China's position as a permanent member of the United Nations Security Council and its involvement in other regional blocs such as ASEAN (through ASEAN Plus Three) and APTA are likely to benefit SAARC's standing in the international arena, where currently it is frequently dismissed as being a 'poor man's club' and therefore ineffectual in its efforts at achieving any substantive action.

Thus, realist politics do play a role in SAARC's Chinese interests. The other members of SAARC have long held suspicions of hegemonic tendencies on India's part, harboring fears that the regional giant intends using SAARC as a means of exercising control over its neighbors. China's entry into the equation of regional integration would facilitate a greater balance of power by diminishing India's dominance in South Asia. Nevertheless, even such socio-political concerns are grounded upon the desire for economic gain: ideally, the restoration of a balance of power in the region would facilitate greater openness to regional trade and investment (particularly with India), thereby benefiting the region as a whole. In fact, the threat of China's impingement on India's neighborhood has – to a certain extent – already urged the latter towards a closer engagement with SAARC. For instance, India recently contributed US\$ 100 million to the SAARC Development Fund. It has also begun to relax some of the trade barriers it previously upheld with respect to SAARC states, permitting duty-free market access on over 4800 items to SAARC's LDCs from 2008, for instance, and reducing customs tariffs on the same imports from Pakistan and Sri Lanka.²¹ Thus, the potential gains from China's

¹⁸Bhattacharyay and De, *op. cit.*, 63-64.

¹⁹*Ibid.*, 61-66.

²⁰Shesheng, "Role of SAARC Observers: A Chinese Perspective," 300.

²¹Shesheng, *op. cit.*, 296.

integration with South Asia are far greater than merely those resulting directly from China-SAARC commercial activity. Rather, they also include the sizeable indirect benefits of a deeper engagement of the other SAARC states with India.

Whether or not these benefits will be available depends, however, on the manner in which Indo-Chinese relations crystallize within such a changed dynamic of power within the region. If the developing relations between China and India's neighbors alienate India from SAARC rather than strengthen its commitment to the institution and to the development of better economic relations with China, SAARC would face a host of economic losses and renewed challenges to regional integration. India has, in the past, 'punished' its neighbours – notably Nepal, in the form of economic sanctions in 1989/1990, and Sri Lanka – for enjoying what it has deemed overly-friendly relations with Beijing.²² Thus, one of the greatest challenges for SAARC – both politically and economically – will be to find a way to turn these two Asian giants' traditional rivalries into a regionally beneficial partnership that has at its centre the mediating hub of SAARC.

Challenges to Sino-SAARC Integration

A great deal of scholarly and political debate centers around the question of what role China should play in relation to SAARC. Since China's initial expressions of interest in aligning itself more closely with SAARC, three possible positions have frequently been considered in this respect, namely those of dialogue partner, observer and full member. China's request for observer status in 2005 was supported by several SAARC states including Nepal, Pakistan and Bangladesh but, equally, necessarily gave rise to issues concerning the desired extent of its participation in SAARC. Despite cultural similarities and a lengthy history of commerce between China and its South Asian neighbors, as well as the emergence of shared concerns such as climate change and the spread of global terrorism, the former is not traditionally considered to be a part of South Asia. It is largely on these grounds that some South Asian countries continue to argue against its further integration with SAARC, including the awarding of full SAARC membership to China.

In fact, the opposition to a SAARC organization in which China enjoys considerable political and economic clout has been one of the obstacles to enhanced interactions between China and the SAARC states in their collective capacity (despite the positive trend in bilateral relations between China and individual SAARC nations). Given that the greatest share of potential economic benefits from Sino-SAARC interaction are attached to a collaborative partnership between India and China, it is – ironically – the case that increased attempts to link

²²Garver, "China's South Asian Interests and Policies," 4.

China and SAARC could actually dissipate these desired benefits, by damaging the fragile cooperation which India and China have begun to edge towards in recent years.

The continued lack of a consensus regarding China's current role in SAARC is another factor which might be considered to have limited the potential benefits of a Sino-SAARC partnership. For instance, despite being named a 'SAARC observer', the desired extent of China's involvement in SAARC in the capacity of 'observer' has only been defined in the most nebulous of terms. Such a state of affairs has arisen partially because the administrative inefficiencies which have historically blocked lines of communication within SAARC equally problematise effective communication between SAARC and China. The issue may also (to some extent) be ascribed to India's reluctance to engage too deeply with China as previously discussed. The SAARC CCI's proposal of a nine-point cooperation plan in February 2011 has gone some way towards redressing this shortcoming, but a more comprehensive agenda is required if SAARC is to reap the full economic benefits of its engagement with China.

Another impediment to Sino-SAARC integration is the insufficient development of transportation links between the two regions, a fact which limits the potential for trade. This issue is particularly marked in the case of overland routes between India and China. The enormous potential for trade between India's NER and China's SWC has already been discussed. The improvement of road links between the two regions is, therefore, highly desirable for the facilitation of such trade opportunities and, consequently, the alleviation of poverty in these areas. However, the realization of such improvements depends upon the implementation of cross-border infrastructure projects between India and China. This in turn relies crucially upon mutual trust and cooperation between the two states. One example of a successful cross-border road development in this regard is the reconstruction of the Ledo Road. This was originally created as a military supply route for the Western Allies to China during World War II, and was rebuilt and opened in 2005. The road links China's Yunnan province to the town of Ledo in Assam, India, and has reduced the distance for transportation of goods between these two points by approximately 1200 km.²³ If Indo-Chinese state suspicions could be sufficiently circumvented to allow further developments of this nature, the entire SAARC region could benefit from the resultant improvements in trade with China.

The fact that SAARC's progress towards regional integration has been fractured and generally unsatisfactory over the twenty-five years since its inception also impacts negatively upon its ability to engage in any form of meaningful cooperation with China. If SAARC is truly to benefit from, for instance, Chinese investment in regional energy and infrastructure development projects, it must be prepared to take

²³Bhattacharyay and De, *op. cit.*, " 66.

collective action to facilitate such initiatives. In the continued presence of an India-Pakistan political divide and a general atmosphere of mistrust and limited commitment on the part of its member states, however, such unified action seems difficult to achieve.

Finally, the existence of alternative platforms for cooperation between China and several of SAARC's member states somewhat reduces the likelihood of Sino-SAARC relations deepening significantly in the future. From the perspective of individual SAARC members, engagement with China on a bilateral footing is more desirable and effective, given the absence in this approach of such previously discussed impediments as hostility and shortfalls in SAARC communication and administration. The fruitful economic partnerships enjoyed by each of Sri Lanka and Pakistan with China are good examples of such successful bilateral ties. Furthermore, Bangladesh, India and Sri Lanka are all able to engage with China through the alternative channel of the Asia-Pacific Trade Agreement (APTA). Thus, the urgency for fostering closer Sino-SAARC ties is somewhat limited on the part of individual member states.

The Future of Sino-SAARC Integration

Just as the importance of engaging Track II processes (i.e. involvement of the civil society in policy-making and project development) has been highlighted in efforts to improve intra-SAARC integration, a similar approach is desirable in furthering SAARC's interactions with China. Such efforts could go some way towards countering stagnation in official channels. Accordingly, in 2002, the first international seminar on 'SAARC and China' was held in Kathmandu. The seminar brought together a group of academics and experts from China and the SAARC region to consider opportunities for deepening Sino-SAARC ties in the future. Two seminars on Sichuan-South Asia business promotion, the last of which was held in February 2011, have also contributed to these efforts. For instance, the previously discussed nine-point cooperation plan between South Asia and the Sichuan Province was mooted at this second seminar.

In the context of continued opposition by some SAARC members to China's greater impingement on the South Asian neighborhood, however, it seems unlikely that China will be granted full SAARC membership in the near future. Yet China's presence in South Asia continues to grow, despite the lack of such a concession. Bilaterally, its commercial ties with SAARC states have been strong in the past, and continue to develop steadily. China's long-standing friendship with Pakistan has given rise over the years to a China-Pakistan FTA (signed in 2006), as well as to several Bilateral Investment Treaties (BIT) and Memorandums of Understanding (MoU) between the two states. China invested heavily in the development of Pakistan's Chashma Nuclear Power Plant, among other projects. In

Afghanistan, China is currently the largest foreign investor; the China Metallurgical Group recently invested US\$ 3.5 billion in Anyak's copper field development project, for instance.²⁴ A range of exports from Bangladesh have been granted duty-free access into China under the aegis of APTA. Further, despite a history of competition between the two countries in terms of their respective textile manufacturing industries, China has begun to ease tensions by outsourcing some textile jobs to Bangladesh, which has a comparatively low cost of labour.²⁵ In return, Bangladesh has awarded China exploration rights to its reserves of coal, natural gas and oil. Further, the construction of a bridge that connects northern Bangladesh with its southern region was completed in 2008 with a grant of approximately 60 million yuan and an interest free loan of about 100 million Yuan from China.²⁶

In the case of China-Sri Lanka relations, both countries have long enjoyed the fruits of a well-established friendship. Trade between the two states is growing steadily, with total trade figures nearly doubling from US\$ 660 million in 2005 to US\$ 1138.3 million in 2008.²⁷ China also represents an important source of FDI in Sri Lanka, with China and Hong Kong collectively holding the position of Sri Lanka's fourth-largest FDI source in 2008.²⁸ China's investment in infrastructure development is also noteworthy here: for example, Chinese loans have been provided for Sri Lanka's Hambantota Port Development Project (to the amount of approximately US\$ 306.7 million), as well as for the development of the Norochcholai power station.²⁹ China is the largest aid donor to Sri Lanka since 2009. China also consistently provides development aid to Pakistan, Nepal, Sri Lanka and Bangladesh, a fact which goes a significant way towards ensuring the mutual nature of its relationships with these states, especially in light of the trade surplus which China enjoys with respect to most of its South Asian trade partners.

By contrast, India has been accused in the past by some of its neighbors (as previously noted) of engaging in heavily protectionist policies and thereby hampering the process of regional integration and the diffusion of its consequent benefits to SAARC's other members. Even though India has now begun to relax several of these strict measures, there has already been a distinct shift in approaches to regionalism in South Asia as these states begin to look to China – rather than India – as the economic role model, leader and catalyst for achieving integrated growth within the region.

²⁴Anita Inder Singh, "China's Expanding Influence in South Asia," *The Tribune*, October 13, 2010, <http://www.tribuneindia.com/2010/20101013/edit.htm#6> (accessed May 26 2011).

²⁵Niazi, "China, India and the Future of South Asia."

²⁶Sahoo et al., op. cit.

²⁷Kelegama, "China-Sri Lanka Economic Relations: An Overview."

²⁸Ibid.

²⁹Sahoo et al., op. cit.

Consequently, regardless of the extent of its integration with the SAARC collectivity, China's presence in the South Asian region is growing, and will probably continue to do so in the future. China's affiliation with SAARC in its current form does little more than place an institutionalized framework upon an already-burgeoning network of commercial links between China and South Asia. Indeed, China not having full membership rights in SAARC certainly does not appear to have impeded the progress of this phenomenon. The implication of such a state of affairs, however, is that states that wish to benefit as fully as possible from engagement with China will likely do so in bilateral contexts, or through alternative multilateral channels such as APTA, rather than through SAARC. Regional benefits can still accrue as a result of such engagements; if, in particular, the bilateral relationship between China and India truly develops into the 'strategic partnership' Manmohan Singh and Wen Jiabo articulated in 2005, the states of South Asia could enter a new phase of collective and inclusive growth within the region, in line with the original SAARC vision.

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