

# Regional Integration in South Asia: Problems, Challenges, and Outlook

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## Vision articulated by the Group of Eminent Persons (GEP) Report

- GEP Report: South Asia (SA) Economic Union by 2020. EU model based economic integration (functionalist approach) with interim support for LDCs by Special & Differential Treatment
- Studies highlighting the Cost of Non-Cooperation in SA available (ADB-UNCTAD study)

## Deepening Economic Integration via broader cooperation

- GEP views have been mooted from time to time, SA Common currency, SA visa, etc.
- Creating a SAARC Investment Area to exploit the trade-investment nexus has been discussed
- Going beyond trade integration: Integration of transport, labour markets, energy markets,... has been mooted to deepen integration

## Moving towards the Vision

- SA can move towards the GEP vision via cooperation among SA member states.
- The main vehicle for cooperation among member states is SAARC
- SAARC: 25 year old organization with 8 members and 9 'observer' nations; SAFTA and SATIS in place
- SAARC has to be geared to achieve the vision articulated in the GEP

## SAARC Record: Not Impressive

- SAARC has proved to be a slow process vulnerable to regional politics
- SAARC decisions are clouded by regional politics
- SAARC decisions are not properly implemented
- Majority of the South Asian people is yet to feel the impact of SAARC cooperation

## Member Level Problems

- Nation state is evolving in the region thus an extra-national entity seems something to be reluctantly embraced
- Suspicion: Fear of Indian domination prevails among the smaller nations, and smaller nations ganging up against India is also a fear
- No binding commitments, thus commitments are most often not implemented

## Member Level Problems

- “trust deficit” a major problem
- Lack of commitment for regional cooperation – enthusiasm fades away after a SAARC Summit
- Little involvement of the business and academia in the SAARC process

## Problems of SAARC

- Charter – State centric cooperation
- SAARC Secretariat has limited powers to drive the organization in between Summits
- Inter-governmental decision making structure has not kept up with global trends and South Asian demands

## SAARC Organization Structure

- Heavily bureaucratic with many layers of decision making – IGG, IGEG, CEA, etc. – decision making takes time
- SAARC institutions not accountable – Documentation Centre, Food Reserve, Meteorological Centre, etc.
- There is no accountability

## New Challenges Emerging

- Climate change: melting of Himalayan glaciers, coastal erosion, etc. – common SAARC position at Copenhagen Summit
- Food security – global food prices are once again on the rise – SAARC Food Bank established a Seed Bank is mooted
- Internal migration/influx of internally displaced people

## Parallel Tracks to SAARC operate amidst these problems and challenges

- Tracks: Civil society, private sector, academia – ahead of member governments in regional cooperation
- Knowledge creation by track II – SACEPS, SANEI, ICSAC, CASAC, etc. Papers to assist policy makers to make a better informed decision and intervening from the top
- Intervening from the bottom -- mostly track III – civil society organizations – SAPNA, SAFMA, SAPM, etc.

## Parallel Tracks

- These tracks (initiatives) have created a fraternity of South Asian academics, businesspersons, professionals, and others. They meet regularly even when Track I activities are dormant
- Journals (e.g., South Asian Survey), Magazines (e.g., HIMAL) – give an extra-national perspective of the region to keep people informed of regional developments

## Problems in Track II-Track I Interactions

- Track II (& III) initiatives have not produced a dramatic breakthrough on contentious regional issues or made a qualitative difference in regional cooperation
- Communication between Track II and Track I is informal, ad hoc, and personalized
- Capacity for Track I to absorb Track II suggestions limited due to the usual overload of the agenda with housekeeping and populist slogans

## What Can be Done ?

- Restructure the SAARC Organization structure, Charter, Secretariat ?  
Difficult
- Improve Track II and Track I interactions – can do -- based on the ASEAN Model – officials take part in Track II dialogues in non-official capacity, officials are released on sabbatical leave to work in Track II
- SCCI Business Conclave, South Asia Economic Summit – where the politicians could interact with Track

## Areas for Cooperation for more confidence building

- Focus on soft areas and projects with visibility -- achieve some success stories – South Asia University, Citizens Committee on the Social Charter, Airport channel for SAARC citizens, Green Channel at Customs for SAFTA goods, etc
- Focus on less controversial areas: Promote more air connectivity and intra-regional tourism in SA: "ASEAN Pass" ? "ASEAN Hip Hop" ?, consolidate the cricket-tourism nexus in South Asia, etc.

## Economic gains overcoming politics

- SA: economics cannot dominate over political factors ?
- In ASEAN economic gains managed to push political differences aside at crucial times
- In the India-Sri Lanka Bilateral FTA too the economic gains for SL overcame political problems
- SAARC needs to reap some economic gains -- this will assist it to move forward to deepen economic integration

## New Opportunities Emerging

- India emerging as a new power in the world
- India showing a positive attitude towards SAARC
- Global economic crisis weakening the export-led development model. Countries increasingly looking for a mix of export-led growth and domestic-demand led growth – a case for regionalism

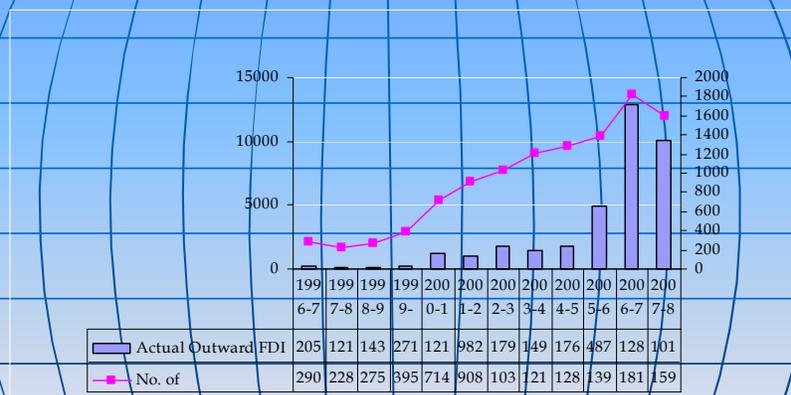
## India Emerging as a Global Power

- India emerging as a services hub
- India's share in global trade in commercial services increased from 1% in 1999 to 2.7% in 2006. Although India's rank in global exports was 28 in 2006, its ranking in global commercial service exports was 10 in 2006 -- surplus in trade in services –US US\$ 10 bn. in 2006

# ICT lead of India and Spillovers

- India's exports of IT services has increased from \$ 4 bn in 2000 to \$ 40.4 bn in 2007/08
- Global Services Location Index by AT Kearney puts India in Rank No. 1 among all developing countries as the best off-shore location
- India now engages in high value specialized services: bio-information, drug testing, pharmaceutical research, engineering design & financial analysis
- Flying geese impact on other South Asian countries is a possibility if the conducive environment prevails (ADB Study)

Outward FDI by Indian Enterprises, 1996-2008  
(US\$ Million and Nos.)



Note: \*for April-December 2007  
Source: Kumar (2008) based on Ministry of Finance and RBI data.

## India's Increasingly Positive Attitude for SAARC

- India's gesture for SAARC LDCs by providing duty free access to the Indian market with effect from 01 January 2008
- India's contribution of US \$ 100 million for the SAARC Development Fund
- India seeking a seat in the UN Security Council

## GEC – Case for regional integration

- New export markets have to be found in the Southern markets -- regional market provides a starting point
- Domestic demand generated growth will work best if we see the region as a market – this too will best take place with deeper economic integration

- Make best use of the opportunities to overcome the challenges
- Thank you
- [www.ips.lk](http://www.ips.lk)