

ADB Working Paper Series on Regional Economic Integration



The Political Economy of Regional Cooperation in South Asia

V. V. Desai

No. 54 | July 2010

Asian Development Bank



ADB Working Paper Series on Regional Economic Integration

The Political Economy of Regional Cooperation in South Asia

V. V. Desai⁺
No. 54 | July 2010

⁺V. V. Desai is an independent consultant.
vdesai2@gmail.com

Asian Development Bank

The ADB Working Paper Series on Regional Economic Integration focuses on topics relating to regional cooperation and integration in the areas of infrastructure and software, trade and investment, money and finance, and regional public goods. The Series is a quick-disseminating, informal publication that seeks to provide information, generate discussion, and elicit comments. Working papers published under this Series may subsequently be published elsewhere.

Disclaimer:

The views expressed in this paper are those of the author and do not necessarily reflect the views and policies of the Asian Development Bank or its Board of Governors or the governments they represent.

The Asian Development Bank does not guarantee the accuracy of the data included in this publication and accepts no responsibility for any consequence of their use.

Use of the term “country” does not imply any judgment by the authors or the Asian Development Bank as to the legal or other status of any territorial entity.

Unless otherwise noted, \$ refers to US dollars.

© 2010 by Asian Development Bank
July 2010
Publication Stock No.

Contents

Abstract	iv
Summary	v
1. Introduction	1
2. Regionalism Defined	2
2.1 Power-Centric View	2
2.2 Institutional View	4
3. Forces Underlying RCAs	5
3.1 Power Balance	5
3.2 National Decision-Making	7
3.2.1 Constituencies	8
3.2.2 Government's Role	8
3.2.3 Special Interests	9
3.2.4 Strategic Policy Groups	9
3.2.5 Public Opinion	9
3.3 Objectives of RCAs	10
3.3.1 External Security Threats	11
3.3.2 Regional Stability and Peace	11
3.3.3 Regional Opportunities and Issues	13
3.3.4 Need for a Comprehensive Approach	14
4. South Asian Association for Regional Cooperation	15
4.1 Background	15
5. SAARC Performance and Prospects	19
5.1 Performance	19
5.2 Platform for Leaders' Meetings	21
5.3 The Prospects	21
5.4 Optimal Development of Water Resources	24
5.5 Environmental Concerns	25
6. Issues	26
6.1 Trust Deficit	26
6.2 Trade Deficit	28
6.3 Institutional Capacity Deficit	29
References	31
ADB Working Paper Series on Regional Economic Integration	34

Abstract

Regional cooperation arrangements (RCAs) have produced vastly dissimilar performances; some have spurred remarkable expansion in trade and cooperation among members, while several others have achieved little. Studies show that performances vary because RCAs differ from one another in important characteristics, namely the (i) objectives they aim to achieve, (ii) balance of power among member states, and (iii) political structures and processes of decision-making within individual member states. Subject characteristics uniquely influence and condition the functioning of RCAs. An assessment of the performance of the South Asian Association for Regional Cooperation (SAARC) reveals that the extremely skewed balance of power within the region and antagonistic inter-state relations among member states have stunted the organization's effectiveness. To reverse the situation, SAARC's member countries need to repair the prevailing atmosphere of distrust and suspicion, and build cordial inter-state relations. They also need to empower the SAARC Secretariat to function as a competent and neutral facilitator of cooperation in South Asia.

Keywords: South Asia, regional cooperation arrangements, South Asian Association for Regional Cooperation, SAARC, political economy, trade, economic integration

JEL Classification: F53, F59

Summary

- The number of regional cooperation arrangements (RCAs) has grown multifold since the early 1990s, with several new ones are being formed every year. Despite their popularity, however, RCAs have not always lived up to expectations. Some have been very successful while several have been less so, and still others have collapsed or become dysfunctional not long after being established. Research into the relative performance of RCAs tends to consider all RCAs to be identical and aimed at promoting trade and economic integration among member countries, and, as such, primarily driven by the logic of trade and economic opportunities. In reality, however, all RCAs are not identical and they differ from one another in several important aspects, including the pursuit of non-economic objectives such as regional stability and protection against external threats. Moreover, the balance of power among member states, as well as their respective political structures and processes, uniquely conditions the functioning of individual RCAs. A thorough assessment of RCA performance needs to take all of these factors into account.
- An assessment of the 25-year performance of the South Asian Association for Regional Cooperation (SAARC) using the above approach reveals the dominant influence of interstate power relationships and the impact of internal political forces. SAARC is characterized by an extreme imbalance of power among member states, with India enjoying more than a threefold advantage over all other members combined in terms of gross domestic product (GDP) and population, as well as considerable military prowess. Several SAARC members, therefore, perceive India as a risk to their security and a source of possible economic domination. Such perceptions are aggravated by a lack of trust and poor interstate relations, particularly between India and Pakistan. Consequently, several SAARC members have made security arrangements with extra-regional players and externalized bilateral issues vis-à-vis India, which has further strained relations with India and exacerbated an environment of suspicion and distrust in the region.
- These regional dynamics have stunted trade and cooperation by (i) pushing members to restrict trade and economic exchanges with India in order to moderate the risk of economic domination; and (ii) making the progress of regional cooperation dependent upon the status of relations among member states, rather than on economic opportunities, thereby introducing uncertainty and arbitrary factors into the cooperation process. This severely hampers SAARC's achievements in promoting trade and economic integration. SAARC, however, has succeeded in contributing to the moderation of tensions among member states by enabling the region's leaders to interact in a cooperative framework through its summit meetings. These occasions have helped the region's leaders to develop firsthand assessments of one another's views and, in some instances, facilitated high-level political decision-making.

- Uncertainty about further progress in cooperation has prompted individual member states—mainly India and (to a lesser extent) Pakistan—to conclude preferential trade and cooperation arrangements with willing states from within and outside the region. This trend will likely contribute to trade liberalization and integration in South Asia, albeit in a fragmented manner that bypasses the South Asia Free Trade Area (SAFTA) and SAARC platforms.
- Trade liberalization and integration in the region, even in a truncated form, has the potential to yield considerable benefits to participating SAARC members. However, given the defining constraints of interstate relations on cooperation in South Asia, further progress will be contingent upon erasing the “trust deficit” that exists and creating improved relations among member states. If distrust and suspicion persist and interstate relations remain shaky, smaller SAARC members will continue to be wary of further deepening their integration with the Indian economy. As the preeminent member state, India needs to take the initiative in building better relations in the region by allaying other members’ security concerns and fears of domination. Other members, in turn, need to acknowledge India’s primacy in the region and recognize that integration with the Indian economy could help them overcome the constraints of market size and geography.
- Improved interstate relations would provide an enabling environment for economic cooperation. Yet, it is also necessary to effectively address two other deficits in the region: the “institutional capacity deficit” and the “trade account deficit.” The lack of institutional capacity to support and implement cooperative programs in the region has hampered progress towards integration. Such capacity needs to be rapidly built-up by empowering and strengthening the SAARC Secretariat to promote, support, and monitor SAARC initiatives, and persuade members to work together in managing the region’s collective challenges and exploiting its opportunities. Proposals of critical significance to the region, such as development of the region’s shared rivers, are unlikely to move forward without a strong and effective Secretariat.
- The progress of cooperation within SAARC, particularly in intra-regional trade, is facing the constraint of widening trade account deficits between India and smaller member economies. Lower tariffs and trade barriers in these smaller economies have led to rapidly expanding imports from India, while supply constraints in partner countries have failed to expand exports proportionately. There is a need to upgrade and diversify the supply structures of smaller member economies to expand their export capacity and attain sustainable trade account balances with India and others. Towards this purpose, the smaller member countries need to introduce policies and measure to attract foreign direct investment (FDI) and technology from all sources, including India. It is also necessary to ramp up operations of the SAARC Development Fund to provide adequate support to member countries’ programs for upgrading and diversifying their respective economies.

1. Introduction

The number of regional cooperation arrangements (RCAs)¹ in effect around the globe has more than doubled since the early 1990s to about 380 by 2007.² Several developments have contributed to the explosive growth in these regional initiatives. Arguably, the demonstrated success of European nations in building a prosperous and stable European Union (EU) has been the most influential factor.

Dissatisfaction with the slow and complex process of multilateral trade negotiations, in which most members have only indirect and limited participation, has also prompted several countries to embrace RCAs as their preferred option for strengthening market access and trade growth. The RCA process offers a relatively expeditious and clear negotiating path, active participation and a voice for individual members, and customized and flexible arrangements (Fiorentino, Verdeja, and Toqueboeuf, 2007). Moreover, developing countries are concerned about growing protectionist sentiment in developed economies and the evolution of the North American Free Trade Association (NAFTA) and EU into powerful trading blocs. Regionalism is seen as a means of safeguarding individual members' access to regional markets and leveraging their collective strength in trade negotiations. At a more basic level, the declining influence of hegemonic powers such as the United States (US) in global affairs has probably resulted in a reduced supply of public goods (e.g., the resolution of collective problems) needed for the smooth functioning of the international system and prompted the growth of regionalism.

The formation of an RCA heralds potential changes in pre-existing political and economic relationships among member states, as well as between them and the rest of the world. For this reason, the explosive growth of RCAs could be counted among the most important developments in world politics during the past 25 years (Dash, 2008). Moreover, the proliferation of RCAs, of which more than 85% are reportedly focused on trade, has significant implications on the global trading system. Notwithstanding the enthusiasm with which RCAs have been embraced by most countries around the world, the track record of RCAs' achievements has been mixed. More than 40% of notified RCAs have become obsolete or extinct since their establishment. Formation of the European Coal and Steel Community (ECSC) in 1957, for instance, was accompanied by formation of two equally large and ambitious RCAs: the European Free Trade Association (EFTA) and the Latin American Free Trade Association (LAFTA). While the ECSC evolved into the highly effective EU over the following 5 decades, the latter two RCAs became dysfunctional within a few years after coming into existence.

¹ The term "regional cooperation arrangement" (RCA) is used to include all forms of cooperation structures between two or more nations that are usually from a common geographic region, although RCAs among cross-regional nations are rising in number. Nation states form RCAs to achieve economic and non-economic objectives, which may include some or all of the following: trade liberalization and economic integration, enhancement of regional peace and stability, security cooperation, management of common opportunities and challenges, and development of shared resources, infrastructure and facilities.

² This estimate is reported by the World Trade Organization (WTO). The actual number of RCAs is likely to be higher since the WTO data reports only trade-related RCAs.

The Association of Southeast Asian Nations (ASEAN) has successfully evolved into a well-knit and dynamic regional entity that is now a major force behind several economic cooperation initiatives between the Southeast Asian economies and the rest of the world. ASEAN has also begun to actively promote interaction with non-members on issues of regional security. Likewise, the younger Greater Mekong Sub-Regional (GMS) arrangement has registered impressive achievements on a more modest scale. For example, GMS has been effective in catalyzing cooperation among once adversarial countries to develop joint infrastructure facilities and systems in the sub-region, and is seen as a model for flexible yet effective cooperation by many developing countries. Moreover, the groundwork for cooperation established under the GMS is facilitating smoother integration of some of Southeast Asia's least developed economies into ASEAN. On the other hand, several other RCAs in the region—including Asia–Pacific Economic Cooperation (APEC), Asia–Pacific Trade Agreement (APTA), the Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC), and the South Asian Association for Regional Cooperation (SAARC)—appear to be works-in-progress as their achievements to date have been limited. This raises an interesting question: why do performances vary significantly among RCAs.

This paper suggests that performances vary from one RCA to another because the underlying forces that characterize and influence the arrangements vary as well. To understand variations in RCA performances, therefore, it is necessary to examine the underlying forces that characterise individual RCAs.

The paper is organized as follows. Section 2 briefly outlines major explanations of the logic and process of regionalism. Section 3 discusses the underlying economic and non-economic forces that characterize and condition individual RCAs. This section also looks at the evolution and performance of selected RCAs, and attempts to relate their experience to the outlined explanations. Section 4 takes a closer look at the background in which SAARC was established, and discusses conditions in which it operates. Section 5 reviews SAARC's past performance and emerging trends in the region, and offers observations on the likely course of developments for SAARC. The last section outlines issues for consideration.

2. Regionalism Defined

International relations theorists offer several explanations of regionalism to answer the following question: why do states cooperate and commit themselves to comply with agreed sets of rules, thereby accepting some constraint on their policy autonomy and even sovereignty. The explanations are briefly outlined below in two broad categories: (i) power-centric and (ii) institutionalist.

2.1 Power-Centric View

The power-centric view of regionalism considers the international system to be anarchic by nature, which pressures individual nation states to acquire power and maximize self interest to ensure their own security. As a result, the political–military power of nation states and its distribution among them holds critical influence over inter-state relations.

Coexistence among nation states in such situations can only be achieved through frequent realignments of the balance of power against each other. Following this reasoning, power-centrists see regionalism as a response of nation states within a region to power projection by powerful (hegemonic) state/s from outside the region. When such actions are perceived to threaten their security, the states may form an RCA to pool their resources together for collectively countering the external adversary. If the hegemonic state happens to be from within the region, the states may also consider forming a RCA in order to involve the subject state in a cooperative framework so as to moderate its exercise of power. Likewise, they may form RCAs when such arrangements reflect a convergence of their respective national interests, such as when states band together to leverage their collective strength in international forums for obtaining better terms than they possibly would individually. Lastly, a hegemonic state may itself encourage formation of an RCA to reduce the costs of coordination it has traditionally provided to its smaller allies. The power-centric view also maintains that the presence of a powerful or hegemonic state is highly desirable since it can act as focal, or pivotal, player and resolve the collective action problem.

Power-centric views thus provide important insights into how power relations among member states influence RCA performance.

Power-centric views, however, offer only a partial explanation of why nation states cooperate. While power relations among states are important, they do not seem to explain establishment of several RCAs in recent years. Moreover, research finds that the presence of a hegemonic state is neither necessary nor sufficient to ensure an RCA's success. Perhaps the main criticism of the power-centric explanation is that it visualizes the state to be a unified, undifferentiated entity that alone defines what constitutes national interests and pursues these interests through its international relations, including RCAs. The assumption of a unified state can be challenged since it ignores the various constituents of a state, their influences on and preferences for defining national interests, and the role and motivations of national decision-makers.

Despite such limitations, the power-centric viewpoint offer three important insights that have significant bearing on the performance of RCAs. It finds that nation states will pursue regional integration only to the extent they can enhance their national interests. This can result in uneven commitment to regional integration on the part of individual members. Secondly, since trade can potentially enhance the political–military capacities of states through efficiency gains, it can also influence power relations among member states. For this reason, states are more likely to expand trade with political–military allies than with actual or potential adversaries (Mansfield and Bronson, 1997). This finding suggests that the effectiveness of an RCA to promote trade and cooperation may depend on the political–military relations among its member states. If subject relations are cordial, cooperation may progress more than in instances where relations are less cordial.

Power-centrists also find that the (real or perceived) unequal distribution of gains from RCAs among member states is likely to limit cooperation, unless measures to compensate the disadvantaged states are put in place. The reality or perception of unequal gains for weaker members may arise because the more powerful members may

appropriate to themselves the bulk of the gains owing to their greater market power and bargaining clout. However, similar outcome could also result from the process of trade and economic liberalization, since a disproportionately higher burden of adjustment costs may sometimes fall on the smaller and weaker economies. This highlights the critical importance of compensation mechanisms for sustaining the process of regional integration, especially when member states are at starkly different levels of income and development.

2.2 Institutional View

Institutionalist explanations are premised on the view that interdependence among nations is so complex and overwhelming that it is beyond the capabilities of any single nation to solve its external problems by itself. Thus, there is a need to create regional and global institutions that can effectively deal with international economic and non-economic problems facing nation states by resolving the collective action problem. Moreover, such institutions can also supply technical expertise to solve problems in identified issue areas. These considerations encourage states to cooperate and form institutions to meet specific functional needs. Further, when member states begin to receive benefits of efficiency and expertise from an institution in one issue area, they become willing to create similar institutions to deal with problems in other areas. Beneficiary interest groups, political and civil society groups, and outsiders with vested interest (e.g., multinational corporations, global institutions, and foreign powers) contribute to articulating the demand for new institutions. Spillovers of this kind lead to the development of multiple institutions to manage problems in different issue areas. The spread of functional institutions across different issue areas creates cross sectoral linkages and promotes economic integration among member states, laying a foundation for their eventual political union as well.

While the institutionalist view demonstrates the need for regional and global institutions and the important role these now play in global economic and non-economic spheres, it has also been criticized on various grounds. The main criticism is that institutionalists do not adequately appreciate the role of politics in the decision-making processes of nation states. Institutionalists seem to assume that decision-makers in member states are free to select and pursue the best technical solutions to the problems they face. Such an assumption effectively limits the power and function of decision-makers to selecting one of the technocratic solutions offered by functional institutions. In reality, however, several considerations—such as preferences of the public (voters); pressures from political parties, business, and other interest groups, including the military and the bureaucracy; and pressures from external allies—need to be taken into account in making decisions. This requires decision-makers to weigh different considerations and reconcile the conflicts and tensions among them, garner requisite support from relevant constituencies, and calibrate decisions to address the problem under consideration. This requires national decision-makers to go far beyond any given menu of technocratic solutions and exercise political judgment and leadership. For this reason, the nation states and their political systems and processes continue to hold decisive influence on the pace and direction of regionalism (Dash, 2008).

Dougherty and Pfaltzcraft (1990) put this point in a broader perspective by noting that “it is difficult, if not impossible, to separate economic and social tasks from the political...that certain economic and social tasks do not ramify or ‘spill-over’ into the political sector; and that the road to political integration lies through ‘acts of political will’ rather than functional integration in economic and social sectors.” The centrality of political factors to decision-making in regionalism was also confirmed by the European experience with the integration process. A study of the early years of European integration (Pentland, 1973) concluded that political considerations weighted heavily in the decision-making process and that “there was little or nothing that was ‘non-political’ in the integration experience of Western Europe.”

Theoretical explanations of why nations cooperate, as outlined above, do not provide a complete framework to explain why regionalism occurs. They also seem to offer dissimilar sets of objectives that individual RCAs choose to pursue. Power-centric explanations accord primacy to security-related objectives, while the institutionalists focus on trade and economic integration objectives. While a large majority of recent RCAs are driven more by economic objectives, there is evidence that security-related objectives also enjoy high priority in several RCAs. The two sets of explanations have thus identified important forces that underlie regionalism and influence the performance of RCAs. The identified forces include the (i) power balance among nation states, (ii) role of domestic considerations in national decision-making, and (iii) objectives of an RCA. How these forces manifest and influence the performance of RCAs is discussed in the following section.

3. Forces Underlying RCAs

3.1 Power Balance

The relative size (area and population), gross domestic product (GDP), and military might of nation states generally reflect the distribution of power among them. The relationships among the member states of an RCA, level of mutual trust and cohesion, ease of negotiating, and willingness to compromise and reach agreements are influenced by the underlying balance of power among them. When member states are broadly comparable in size and military strength, their relative power is balanced and concerns about security and domination from one another are moderated.

Yet, in several instances RCAs have satisfactorily functioned even with a noticeable power imbalance among members. In such situations, smaller member states tacitly recognize the pre-eminent position of the powerful member in exchange for its commitment to non-interference and peaceful resolution of bilateral and regional problems. In fact, when such understanding exists, the powerful member can bring coherence to regional security and other agenda items, and may act as a pivotal state providing leadership within the RCA. Moreover, the smaller states are able to draw comfort from having a stronger and larger fellow member that enhances their collective strength in dealing with the rest of the world. West Germany and Indonesia for instance, played such a role, respectively, in the European Economic Community/EU and ASEAN.

On the other hand, whenever a powerful member's primacy is disputed or its legitimacy challenged, it enhances disharmony in the RCA. The smaller states may aggravate the situation by countervailing its power and restricting trade and economic exchanges (Ayoob, 1995).

When the power balance among members is highly asymmetric, anxiety about the hegemonic designs of the most powerful member state is felt by other member states. Such concerns are considered inherent to the "large neighbor–small neighbor" dynamic and are calibrated at high or low levels depending on the history of experiences between the sets of states. If there is a substantial trust deficit among members vis-à-vis the most powerful state, the former will resort to involving extra-regional players in their security arrangements to countervail the influence of the latter. Such arrangements are resented by the powerful state, especially when these appear to adversely affect its own security. This leads to the development of a security complex in the region in which the two sets of states keep on enhancing their respective security in an action–reaction sequence.

Given the finding of power-centrists that states are unlikely to promote trade and cooperation with actual or potential adversary states, a highly-skewed power balance is likely to retard the progress of an RCA. The ineffectiveness of the Southern African Development Coordination Conference (SADCC) is attributed to the severe imbalance of power that exists between South Africa and the smaller member states of the SADCC. Similarly, a highly skewed power balance between India and other member states has been a major constraint on the performance of SAARC since its inception.

Apart from concerns on security aspects, smaller members also worry about economic domination by the larger economy of the powerful state because economic power usually translates into wider systemic or hegemonic influence. Fears of deindustrialization are raised effectively by industries likely to be affected by increased trade with a dominant economy that may be more diversified while possessing scale advantage in several industries.³ Moreover, the losing industries are usually able to mobilize public support for protection by appealing to nationalist sentiments. Concerns of economic domination are aggravated if the larger economy also happens to be the relatively more developed one. In such instances, it would likely have more capital to invest in smaller member economies, stoking fears of a takeover of the smaller economies by the dominant economy. To prevent this, businesses that are likely to lose from trade liberalization can mobilize public opinion to slow the pace of cooperation among member economies.

At another level, governments in smaller economies themselves are likely to be wary of deepening integration since it eventually boils down to integration with the dominant economy (Kelegama, 2008). To moderate the risk of overdependence, governments may also attempt to restrict trade and investment with the dominant economy through adoption of nontrade barriers (NTBs) and dilatory practices, as well as by encouraging alternative sources of imports even at considerable disadvantage to themselves (IDRC, 2008).

³ Mercosur members, particularly Paraguay, complain of deindustrialization being caused by Brazil's overwhelmingly large and diverse industrial sector.

Most member states of ASEAN are small- to medium-sized, with the largest state, Indonesia, accounting for about two-fifth of ASEAN's population and a one third of its GDP. As such, the power balance among them is not too skewed, although Indonesia does possess considerable military prowess vis-à-vis its neighbors. Despite Indonesia's record of having aggressively deployed force against another state in the region, Malaysia, Southeast Asian states found it possible to continue working with Indonesia and accord it the recognition its size and power commanded in the region. Three considerations probably contributed to this outcome:

- (i) Regime change in Indonesia allowed the new regime to end conflict with Malaysia, claim credit for dismantling the earlier aggressor regime, and seek legitimacy by making a fresh start.
- (ii) Being small- to medium-sized countries, ASEAN's other member states realized that a friendly Indonesia would substantially add to their collective strength in standing up to the perceived external threat from communism.
- (iii) Lastly, being opposed to communism, there was no acceptable alternative power for Southeast countries to turn to other than the US, which was already working with Indonesia at that time.

In addition to the factors listed above, ASEAN's founding fathers showed remarkable vision and maturity in setting aside their ongoing disputes and pushing ahead with regional cooperation.

3.2 National Decision-Making

The major theoretical explanations of regionalism based on the assumption of either the unitary state as decision-maker (power-centric view) or technocratic solutions being the main basis of decision-making are seriously flawed in one major respect: a state is not unitary but comprises several constituents that influence the decision-making process. Accordingly, national decision-makers cannot make decisions based mainly on technocratic considerations, but rather need to accommodate the policy preferences of several constituents. Thus, the main flaw in both sets of explanations is that they fail to understand the critical role played by the political actors and societal groups in the process of national decision-making.

In most states, the decision-making authority to enter negotiations and accept or reject international and regional agreements rests with the executive head of government. However, the power of such decision-makers is not absolute since the executive has to depend on the bureaucracy for inputs and advice in policymaking and negotiations, and, subsequently, for execution. If the state's bureaucracy is not supportive, it can effectively frustrate an executive's policies. The executive, therefore, needs to win the bureaucracy's support by showing some receptivity to its views. Likewise, since a negotiated regional agreement may need to be ratified in a country's legislature, a decision-maker is required to accommodate the policy preferences and interests of legislators to the extent necessary to win their support for ratification. Even when formal ratification is not needed, the decision-maker as well as legislators have to be sensitive

to the reactions of various societal groups for two reasons. First, they depend on the support (votes) of societal groups to get elected. If there is widespread unhappiness among societal groups about any agreement, it may translate into a loss of votes and perhaps power for the political players concerned. Moreover, the implementation of unpopular agreements can become problematic, if not impossible, and cause embarrassment to decision-makers.

3.2.1 Constituencies

Decision-makers and legislators need to be sensitive to the views of special interests, especially big business, since their help is needed for funding political activities and maintaining a healthy economy. In a non-democratic state, decision-makers may not have to depend on the support of societal groups to remain in power and can show indifference to their policy preferences. However, even in such systems, the decision-maker needs the support of key constituencies such as the military, bureaucracy, big business, and opinion-makers.

Decision-making in domestic policies is thus dispersed. Every societal segment may have a stake in the decision. Hence, accommodation of their views and interests is important for the success of domestic policy. The concept of a unitary state defining what constitutes its national interests and making decisions by itself is, therefore, not tenable, nor is that of decisions being guided mainly by technocratic options. Several stakeholders exercise influence and power over national decision-making, effectively bringing an international policy agenda within the ambit of the domestic struggle for power and the search for internal compromise (Milner, 1997).

The extent of influence exercised by different stakeholders on decision-making depends on the respective strengths of the decision-maker (executive), legislators, and different societal groups including the general public, businesses, professionals, and labor and religious leaders. A governments based on broad-based public support and having a stable majority in the legislature, as well as an individual leader enjoying a high level of personal popularity, can exercise greater control over decision-making as they are confident of garnering adequate support from societal groups. Confident governments and decision-makers may also use RCAs as a “commitment mechanism” to lock-in certain policies—on foreign direct investment, for example—to safeguard these from future backlash and assure foreign investors of policy continuity. Weak governments on the other hand are likely to be much more accommodative of societal groups’ concerns and generally remain passive about promoting regional cooperation unless it is specifically demanded by the latter.

3.2.2 Government’s Role

For regional cooperation to progress, governments need to proactively promote it since there is little revealed demand for it. Except in situations involving urgent issues of intra-regional and/or external security, or where the negative externalities of neighboring states pose immediate concerns (e.g. acid rain, haze), the pursuit of regional cooperation does not appear to be a pressing matter for most governments. In fact, since regional cooperation involves some erosion of policy autonomy and the potential

for negative reactions from some domestic constituencies, governments often tend to adopt an unhurried approach to its pursuit. However, for regional cooperation to progress, governments need to initiate an agenda and negotiate over it with fellow member governments on the one hand, and with domestic constituencies on the other. Hence, when member governments are weak and passive, regional cooperation is unlikely to make much progress.

3.2.3 Special Interests

Among different societal groups, the better resourced and organized groups such as industry and business associations, labor unions, and religious and social activists usually exercise considerable influence over decision-making in their respective areas of interest. Usually, industries and businesses receiving tariff protection and the labor unions associated with them oppose trade and investment liberalization under RCAs. However, sections of industries and businesses that stand to benefit from such measures become champions of such policies. Industries with the scope to capture increasing returns to scale, in particular, often proactively lobby for trade liberalization to access new markets and scale up their operations. Notwithstanding such internal differences, business groups wield considerable power over decision-making. For instance, sustained pressure from business groups successfully pushed for the re-launching of European integration in the mid-1980s. Similarly, business interests in North America and Mexico heavily lobbied for the creation of NAFTA in the mid-1990s. Some studies also show that several provisions in NAFTA were designed specifically to protect the concerns of sections of the US automobile and textiles industries.

3.2.4 Strategic Policy Groups

Influence on the establishment and/or adoption of RCAs is also exerted by strategic and security policy groups comprising experts in relevant disciplines and former senior members of the military and intelligence community, and foreign service establishments. These groups exercise significant influence in decision-making through their domain expertise, contacts in the government, and role as opinion-makers in the public space. To the extent that members of such groups tend to be inherently overcautious in approach, they often support the status quo and resist initiatives to re-examine established paradigms of relationships with other member states.

3.2.5 Public Opinion

The general public does not often exercise visible influence over decision-making on international or regional issues since these often appear complex and somewhat remote from the public's day-to-day concerns. Some scholars, however, make an important distinction between public attitudes to international policy issues versus regional ones, observing that the general public is more engaged with regional policy issues (Dash, 2008). This is because unlike the case with international policy issues, regional cooperation can have pronounced implications on a nation's domestic arrangements. For instance, the free movement of goods and people across borders, joint projects, and cooperative security arrangements can have implications for the distribution and use of internal resources affecting the daily life of sections of the general public. (Admittedly,

similar observation can be made about international policy issues, but with very limited salience.)

Another channel through which the general public is connected with regional issues is through its attitudes toward the country's neighbors. Most countries have a long history of co-existing with neighboring states comprising traditional trade and exchange; common ethnic bonds, especially near respective border areas; and similar cultural and linguistic traditions. Such history might also include disputes and conflicts over borders, common rivers, and other matters. Because of geographic proximity, travel, and accumulated historical experience, citizens of a particular country usually receive considerably more information about its neighboring countries than about most others in the world. Through such information, folklore, hearsay, and in some cases personal experience, nationals of a country come to form their perceptions and attitudes about neighboring states.

The public's perceptions about a partner state/s regarding (i) motives towards their own country, (ii) trustworthiness, (iii) economic and military capacity, and (iv) international credibility become important in developing the public's attitude toward cooperation with the partner state/s. If perceptions are negative, the public's attitude will be one of unfriendliness, if not hostility, towards the state/s concerned and the public will likely be unenthusiastic about proposals involving the subject state/s as a matter of precaution. Ominously, however, passively negative public attitudes towards partner state/s can be stirred up through disinformation and chauvinistic appeals from special interest groups. As a result, interest groups can use such public hostility to oppose specific RCA proposals for their own reasons. In this process, the passively negative public perceptions and attitudes are gradually turned into an issue-blind, permanent barrier to progress on cooperation with the concerned partner state/s. Even a determined and powerful decision-maker may have to expend considerable energy and political capital to persuade the public to re-examine its attitudes and support RCA proposals under such conditions.

Which policies a decision-maker will ultimately pursue in the regional and international arena will be determined by a state's political system; bureaucracy; different societal groups, including special interests; opinion-makers; and public attitudes.

3.3 Objectives of RCAs

The expansion of trade and economic exchanges, and deeper integration with member economies have been dominant objectives of most RCAs, especially since the 1980s. Besides these economic objectives, important non-economic objectives are often also pursued by member states through RCAs, including

- (i) countering common external threats to security,
- (ii) minimizing interstate conflicts and building stability and peace in the region, and
- (iii) harvesting opportunities and managing issues in the region that require collaboration between two or more states.

3.3.1 External Security Threats

Countering external security threats has been an important motivation behind the creation of several RCAs. The threat may be perceived in terms of territorial, ideological, or political dominance. The member states may come together to leverage their collective strength against a perceived common threat in any form. While member states may be individually too small and feeble to counter the threat, collectively they may be in better position to respond. Expectedly, the motivation to minimize ongoing differences and disputes among the member states themselves, and their willingness to work together against the external threat will correspond to a threat's gravity. For instance, fear of the growing power of the Soviet Union in Eastern Europe after the Second World War was among the considerations that pushed Western European nations to work with their former adversaries, (West) Germany and Italy. Likewise, concerns over the growing power and influence of the People's Republic of China (PRC), prompted Southeast Asian states to form ASEAN and embrace Indonesia into their fold, despite the latter's aggressive behavior in the recent past. There are a number of other instances in which an external security threat contributed to the formation of an RCA. Fear of the powerful apartheid regime in South Africa led to the creation of the Southern African Development Cooperation Conference (SADCC), South American concerns over US hegemony led to Mercosur, and fear of Iran and Iraq among the smaller Persian Gulf states led to the Gulf Cooperation Council (IDRC, 2008). External threat perception seems to act as glue to bring (and hold) together even hostile and recalcitrant neighboring states, and can be seen as a positive force for regional cooperation. Contrarily, it seems likely that in its absence, member states may tend to magnify rather than moderate their bilateral and plurilateral differences, which may act to stunt regional cooperation.

3.3.2 Regional Stability and Peace

Another important security-related objective that states pursue through regional cooperation is the build-up of stability and peace in the region. Apart from the obvious value of conflict-free relations with neighbors and reduced defense expenditure, regional stability and peace is a key requirement for attracting foreign and local investment (Wanandi, 2001). Regional peace is likewise critical if the region is confronted by an external security threat. While regional stability and peace are highly desirable, nation states are often at odds with their neighbors. This is because nation states, almost always have ongoing differences with neighbors regarding land and maritime borders, ownership of resources straddling these borders, and the (illegal) entry of goods and humans, among other issues. Mutual suspicion about each other's territorial ambitions is also not uncommon among neighbors. Moreover, internal problems and instability in one state usually tend to spill over into a neighboring state/s, especially when there is a sympathetic ethnic group in its own population.

Many such events often cause serious tensions among neighbors on account of the politics of the moment, miscommunication, and misunderstandings; threatening to explode into open conflict if allowed to fester unchecked. However, in cases where an RCA provides informal channels of communications and opportunities for frequent contacts among neighbors, the possibilities increase for diffusing such tensions before they escalate excessively. This is because the RCA framework fosters more free and

frequent communication among members, and contributes to improved interpersonal contacts and the gradual building of trust among members. This helps in minimizing misunderstandings and miscommunication, and enhances appreciation of each other's positions. In addition, this encourages more understanding and patience on the part of all parties, thereby improving chances for the diffusion of tensions should they arise. Even when such matters may be bilateral and hence formally excluded from the scope of an RCA, contending states remain conscious of the fact that their actions are subject to the informal scrutiny and quiet judgment of their peers.

The objective of building regional stability and peace has provided strong motivation for the formation of several RCAs. One of the oldest and most successful RCAs—the EU—was initiated with the primary objective of securing peace and stability in Europe following the devastation suffered during the Second World War. The EU was borne of the notion that the possibility of future conflicts among European nations could be minimized if they worked together to build a unified community of European states. The quest for regional stability and peace was so compelling that they agreed to put aside the enmities and bitterness of their recent experiences. In addition, the perceived security threat from the growing power of the Soviet Union in Eastern Europe also exerted pressure on them to cooperate.

Establishment of ASEAN was likewise prompted by member states' desire to avoid potential inter-state conflicts among them, especially as they perceived a threat to their security from the growing influence and power in the region of the PRC. In the mid-1960s when ASEAN was formed, Southeast Asia was a seriously troubled region that prompted observers to call it the "Balkans of Asia" (Wanandi, 2001). Every Southeast Asian country was fighting an insurgency and mired in economic problems and ethnic tensions that had the potential to spill across borders and fuel interstate feuds. Thailand, for example, was a reluctant host to a flood of refugees and other fallout from the ongoing conflicts in Cambodia, the Lao People's Democratic Republic (Lao PDR), and Viet Nam; Malaysia and Singapore had just endured an acrimonious separation; Malaysia and Philippines were threatening each other over competing claims to Sabah on the island of Borneo; and Indonesia had taken up arms in the "Konfrontasi" to subdue Malaysia. Although the Konfrontasi fortuitously ended with the fall of Soekarno in Indonesia, it had shown the potential of what could happen in the region. All of these developments contributed to uncertainty and serious concern among the states of Southeast Asia about their individual and collective security.

The combination of the potential for continued inter-state conflicts within ASEAN and the perception of growing external security threats persuaded the subject states to put aside their ongoing disputes with one another and urgently forge a unified regional entity. This entity would seek to avoid inter-state conflicts by resolving disputes through peaceful dialogue and consultations among members, while also demonstrating their solidarity against any threats to the region from external sources. Moreover, perhaps there was also recognition in the region that, Indonesia needed to maintain a certain level of military might for safeguarding its territorial integrity. To do so without causing undue concerns among its neighbors, it was desirable to engage Indonesia in a cooperative network. Such arrangements enhance mutual interactions and the flow of information for developing relationships of understanding and trust in the region. The formation of

ASEAN was thus prompted mainly to minimize the prospects of inter-state conflicts and achieve stability and peace across the region.

The formation of the GMS RCA was also prompted primarily by the goal of developing peaceful relations among the formerly adversarial countries of Indochina. Given the extreme asymmetry of power and economic development among them, and their history of frequent conflicts, continued instability was likely to characterize the sub-region, jeopardizing the welfare of the people in the GMS as well as Asia as a whole. To avoid such an outcome, the donor community, headed by the Asian Development Bank (ADB), encouraged the concerned countries to work together for regional stability and peace.

Several other RCAs were likewise established primarily for preventing inter-state conflicts and promoting peace in their respective region (IDRC, 2008). For instance, Mercosur was formed to reduce frequent tensions between two large neighbors: Argentina and Brazil. Egypt, Morocco, and Tunisia signed an agreement with the EU as a means to contain the threatened spread of religious fundamentalism. The US signed a trade protocol with Egypt and Israel to accelerate rapprochement between them. Under the protocol, the US offered easy access to its markets for the products of their joint ventures. Building stability and peace in a region has thus been an important goal for many RCAs.

3.3.3 Regional Opportunities and Issues

Harvesting opportunities and addressing issues in the region that require two or more states to collaborate is an important objective in most, if not all, RCAs. Opportunities exist in the form of coordinated and joint development of resources such as rivers and bodies of water that straddle more than one state, and protecting regional ecosystems that can be best managed through cooperative approach. In an increasingly interconnected world, where norms and rules for global and national governance in critical areas (e.g. trade and capital flows, intellectual property rights, climate change, global financial architecture) evolve through negotiations among groups of nations, member states of an RCA are more likely to have their voices heard collectively rather than as individual states. As in the case of ASEAN, “regional cooperation allowed the group of small and medium powers to unite and engage more powerful states and economies than would have been possible for 10 small states individually” (Tay and Estanislao, 2001).

In addition, there are additional regional issues that require two or more (and sometimes all) RCA member states working together for their effective management. These issues include controlling cross-border terrorism; halting trafficking in drugs, weapons, and humans; preventing the spread of infectious diseases; and mitigating the effects of acid rain, haze, and other pollutants. Mercosur, for instance, has the explicit goal of providing a platform for its members to discuss common security issues such as drug trafficking. The management of these issues through regional cooperation has the potential to enhance regional and global welfare. While such opportunities have not yet adequately engaged the attention of member states of several RCAs, they should gain greater attention and priority in the future.

3.3.4 Need for a Comprehensive Approach

The foregoing discussion shows that important structural characteristics, such as the role of the state and societal groups in national decision-making, inter-state power relationships, and the priority objectives being pursued, differ among RCAs. As such, all RCAs are not alike and they differ from one another in terms of built-in strengths and constraints inherited from their unique characteristics. Much of the ongoing debate over regionalism, however, treats RCAs mainly as instruments of economic forces and processes, built to achieve the single goal of economic integration. Yet, for example, the EU was founded for the purpose of minimizing inter-state conflicts in Europe, while economic cooperation was used as a tool for achieving it. Likewise, ASEAN was established for strengthening the internal stability and external security of Southeast Asia, and it only began to seriously pursue economic cooperation 25 years after coming into existence.

The approach that pays inadequate attention to the non-economic characteristics of RCAs results in incomplete assessments and comparisons of their performances. For instance, ASEAN was established to achieve peace and stability in the region, in which it succeeded remarkably well. However, when it attracted criticism for not making significant achievements in economic and environmental areas, then Secretary General of ASEAN, Rodolfo Severino pointed out in 1998 that the performance of an RCA should relate to its own characteristics and objectives and that “we must first of all be clear about what ASEAN is and what it is not, what it can and what it cannot or was not meant to do....The important thing is that ASEAN has to be measured against the purposes that it has set for itself and the limitations it has imposed on itself.” In a similar manner, Estanislao and Tay (2001) reject such criticism by explaining that “critics misunderstand the intentions and self-imposed limits of ASEAN. ASEAN never functioned in any way other than a ‘soft’ association, and it was wrong to expect it to have behaved as a ‘strong’ union even in crises. ASEAN was never meant to evolve in the way the EU did. Norms of non-interference and aversion of strong bureaucracy meant that ASEAN is more an association than an institution.”

More importantly, a narrow approach to RCA assessment also risks not being able to recognize valuable achievements and opportunities for cooperation in non-economic spheres that sometimes might be the only realizable ones under conditions of a given RCA. For instance, ASEAN made significant contributions to the sustained high growth of member economies through maintaining peace and stability in the region, and in attracting FDI and global production networks. However, such contributions have often remained underappreciated. Likewise, SAARC’s role in providing a valuable (and sole) platform for informal high-level contacts among South Asian decision-makers and, thereby, helping to reduce tensions among them also deserves due recognition. By concentrating too heavily on economic objectives, inadequate attention is given to conceptualization and encouragement of other forms of regional cooperation of a less intensive, yet more realizable, nature (Palmer, 1991).

4. South Asian Association for Regional Cooperation

4.1 Background

SAARC, which was established in 1985, has now been in existence for a quarter century. SAARC is characterized by India's centrality to the region and the extreme asymmetry of power balance among member states. India accounts for 75% of SAARC's population and nearly 80% of GDP, while the next largest SAARC member state accounts for about 11% of each. India also holds an overwhelming advantage in military power over all other SAARC members combined. India shares borders with all other member states (except Afghanistan and the Maldives), while no other member (except Pakistan) shares a border with any country other than India. Two member states, Nepal and Bhutan, are land-locked and depend on India for transit to the outside world. Another member, Bangladesh, has direct access to international seas from one side but is surrounded by India on all other sides. There are also unresolved bilateral disputes among members that mostly involve India. The combination of these structural features generates security concerns and domination fears in other SAARC member states.

Concerns are also aggravated by the recent historical experience of the region. The partition of India on the basis of the Two-Nation Theory created a deep ideological divide between the two largest nations in the region: secular India and an Islamic Pakistan. The Kashmir issue became a test of the respective creeds of the two countries. Pakistan feared that if a Muslim majority province could remain a part of India, then the very *raison d'être* of Pakistan would collapse, eventually leading to the collapse of Pakistan itself (Bhutto, 1969). India, on the other hand, feared that giving up Kashmir would undercut its secular construct and promote separatists tendencies. In the past 6 decades, the two countries have fought three wars over Kashmir, while a low-level insurgency has persisted more or less throughout this period. With such history between them, many in Pakistan consider India as not only a threat to its security but to its very existence as well.

The security concerns of other smaller states vis-à-vis India are perhaps less intense but equally serious. At least two of these states (Bangladesh and Nepal) also worry about economic domination by India. Bangladesh, which was formerly the eastern part of Bengal in colonial India, had a longstanding dependency on the western part of Bengal, which was to remain in India after independence. This led to the exploitation of eastern Bengal, which largely comprised poor Muslim farmers and tenants, by the primarily Hindu landlords and merchants of western Bengal. This history is still bitterly remembered in Bangladesh (Sobhan, 1991).

Nepal, being effectively land-locked, is nearly wholly dependent on India for transit to the outside world as well as for much of its essential imports. Such dependency gives India considerable leverage over Nepal in all areas of its life, which puts Nepal at a disadvantage in dealing with its far larger neighbor. Because of their geography and lack of economic development, a certain degree of dependence on India seems unavoidable for both Bangladesh and Nepal. However, these circumstances also heighten their fears

about dependence on India and possible domination. Other smaller states within SAARC share similar concerns, although perhaps in smaller measure.

Consequently, India is perceived as a threat and potential (or actual) adversary by most states in South Asia, and SAARC member countries' inter-state relations with India are generally fraught with distrust and apprehension, and even latent (or overt) hostility.

Against the backdrop of such regional dynamics, the proposal for an RCA was first mooted by Bangladesh on the grounds of achieving peace, stability, and security in the region. The proposal was thus likely aimed more at achieving regional stability and peace, and improved inter-state relations, than promotion of trade among member economies. In the 1970s, when efforts to launch an RCA were initiated, South Asian nations were committed to the goal of self-sufficiency through import substitution. Hence, trade was probably not very high on their agenda. More likely, the region's smaller states wanted a bulwark against the threat of real or perceived dominance by India more than they sought access to markets in India and Pakistan.

The RCA proposal received enthusiastic support from all states except India and Pakistan, which feared that any regional arrangements might restrict their policy autonomy. However, both finally agreed to join on the condition that security issues and bilateral matters would be excluded from the scope of the RCA.

Therefore, while security concerns and fear of dominance by India were acutely felt in South Asia at the time of SAARC's establishment, both of these had to be excluded from the SAARC framework in order to win agreement from India and Pakistan. Such exclusions rendered SAARC incapable of addressing issues that were urgent and important to most member states, and confined it to focus on trade and economic cooperation, which was not the immediate priority of its members.

While the issues of security and Indian domination disappeared from SAARC's agenda, they did not disappear from the real world and, in fact, spawned conditions that severely restricted cooperation in the region. Security concerns about India did not abate as India was not able to engender enough confidence and trust among its neighbors about its commitment to non-interference and peaceful resolution of bilateral disputes. On the contrary, several events exacerbated such concerns over the years, including India's posture towards the Liberation Tigers of Tamil Eelam (LTTE) movement in Sri Lanka, its perceived interference in political developments in Nepal, and continued stalemate over several bilateral issues. To the extent that member states continued to see India as a threat and possible adversary, there was little incentive for them to cooperate on other issues as long as their security concerns remained unresolved.

Moreover, as a consequence of their continuing concerns, several SAARC members concluded security arrangements with extra-regional powers that were eager to insert themselves in South Asia. Member states also began to externalize their bilateral issues with India. Since India considered such externalization to adversely affect its own security, mutual distrust and tension among members continued to escalate. Involving outside powers in regional disputes, instead of seeking their resolution within the region,

also diluted member states' commitment to SAARC and impeded its potential evolution into an effective regional entity.

Disharmony and a lack of consensus on India's primacy and leadership role in the region meant that there was no "focal state" to facilitate the coordination of policies and activities among members.⁴ While the presence of a focal state is seen to help in resolving coordination problems and providing momentum to an RCA, its absence can create a "coordination dilemma," promote disharmony among members, and lead to an RCA's failure. Ayoob (1999) suggests that several RCAs including LAFTA, the Andean Pact, Caribbean Community, Arab Common Market, and the Economic Community of West African States (ECOWAS) were affected by the absence of leadership from a focal state.

An unintended consequence of the absence of a focal state in SAARC was that there were no resources to compensate poorer states that were not in a position to bear the costs associated with trade liberalization. This created a degree of built-in reluctance among such states to support SAARC's agenda on trade liberalization.

Yet another consequence of the failure to address the security and domination fears of smaller states in the region was that inter-state relations between India and several SAARC states continued to be marked by distrust and suspicion. Such an atmosphere reinforced and even further escalated negative public attitudes towards partner states in the region in general and between India and other states in particular. As noted earlier, negative public perceptions of partner state/s can turn into an issue-blind barrier to cooperation with them, as seems to happen from time to time within SAARC, particularly between India and other member states. A recent survey of public attitudes in SAARC member countries towards fellow member states and the RCA itself revealed considerable negativity towards both, suggesting a lack of strong public support for regional cooperation (Dash, 2008).

Since India and Pakistan view each other as adversaries, neither has had much incentive to trade with the other based on the view that nation states are disinclined to trade with present or potential adversaries. Studies of trade possibilities and barriers between the two countries confirm that India and Pakistan limit their mutual trade. Pakistan does not accord most-favored nation (MFN) status to India and reportedly also maintains a substantial negative list specific to Indian goods, thereby effectively banning or crippling potential trade between the two countries. India, on the other hand, effectively discriminates against Pakistani products through several NTBs.

⁴ Interestingly, the European and the Southeast Asian states had been able to include former aggressor states into their respective RCAs and accept their role as focal states in tacit recognition of their primacy in the region. However, this did not happen in South Asia even though India was only a perceived expansionist and not a proven aggressor. The difference is probably explained by the absence of a perception of an external threat among South Asian states. This absence has meant there is no pressure on SAARC member states to unite in the face of a common threat, which may have encouraged them to magnify, rather than moderate, their internal differences, thereby making compromises difficult if not impossible.

A study by the State Bank of Pakistan in 2005 found that 32% of the types of products exported by Pakistan were imported by India from countries other than Pakistan even though the unit price of Pakistani products was lower than that of the competing imports to India. Likewise, nearly 50% of India's export products were imported by Pakistan from countries other than India even though the Indian products were cheaper. The 2005 study estimated that Pakistan was losing between US\$400 million and US\$900 million annually by obtaining such imports from alternative sources. A similar study in India (Taneja, 2007) found that of the top 50 export items from Pakistan, India imported 45 of these items from the rest of the world, but not from Pakistan. A similar examination of India's top 50 export items showed that nearly two-thirds of these items were excluded by Pakistan from its "positive" list of imports allowed from India, effectively preventing their import. It also found that while India's "sensitive" products list was small, it included many textile products of high export interest to Pakistan, which slowed their import into India. Moreover, continuing neglect of infrastructure for overland trade by both countries reflects the collective lack of serious intent to promote mutual trade. As a result, only about 10% of the estimated trade potential between the two countries is considered to be presently realized.

A somewhat comparable situation is observed with regard to trade and cooperation between India and Bangladesh, and India and Nepal. Although an MFN agreement exists between itself and India, Bangladesh continues to maintain a restrictive trade regime vis-à-vis India and—in defiance of trade logic—has sometimes refused to trade with India, even in commodities in which it possesses a comparative advantage (IDRC, 2008). There is resistance to allowing greater trade with India on the part of Bangladesh, presumably because it would only further increase its dependence on India.

Bangladesh's trade with India also results in large trade balance in India's favor. Studies by the Research and Information System for Developing Countries (RIS) in 2008 showed that these trade imbalances result from supply constraints in Bangladesh's export industries. However, Bangladesh is reluctant to accept value-adding investments from India in industries of import interest to India. Investment proposals for the development of gas-based industries in Bangladesh from Indian corporates have been under discussion since 1975 without any agreement reached to date.

Likewise, despite the FTA and an investment agreement between India and Nepal, and Nepal's need for FDI, it has shown considerable reluctance to accept Indian investments. Hydropower (potential capacity > 70,000 MW) is Nepal's major resource and its development could become an important source of export revenue for Nepal. Moreover, energy-deficient India is potentially an eager buyer for the energy produced by Nepal. However, during the past several decades, capacity of less than 700 MW (or 1% of its potential capacity) has been jointly developed by the two countries.

On the other hand, following the signing of an FTA between India and Sri Lanka in 1999, there has been considerable expansion in trade and investment between the two countries.

Owing to fears of Indian domination, Bangladesh and Nepal aim to restrict their dependence on the Indian economy to a minimum. As a result, attempts to deepen trade

(and investments) with India are held in check by imports from extra-regional suppliers, even at higher costs. Pakistan likewise restricts trade with India to limit the penetration of Indian products into its market and restrain the growth of mutuality and interdependence. Moreover, almost since independence, Pakistan's economic structure has been shaped by the objective of moving away from its historical links with the Indian economy. Development of intensive trade and investment with India would require an economic re-orientation, at least in certain sectors, which is bound to meet resistance from a section of population, as well as investors and companies operating in the affected sectors.

The underlying reluctance of SAARC member states to allow the free flow of trade among themselves is reflected in the very low level of intra-regional trade at about 5% of members' total trade. While studies confirm the huge potential for expansion of intra-regional trade, there has been only a mild response from member countries in seeking to realize it. In fact, the business environment and infrastructure for trade and exchange within the region pose serious impediments to the growth of intra-regional trade. Private sector participants have identified several key impediments such as restrictive business visa rules, dysfunctional land customs stations, the lack of regional vehicular agreements, and unclear and vague NTBs (ADB, 2010a). Actions to remedy such impediments would go a long way towards facilitating stronger trade flows among SAARC members.

5. SAARC Performance and Prospects

5.1 Performance

According to Dubey (2008), "If political differences among countries can be ignored, South Asia offers several desirable features for regional cooperation. It is a contiguous land mass, with several rivers crisscrossing the region. The region has a common history, languages, and cultures, as well as common inherited legal and administrative systems. And over the last decade, all of the region's economies have been liberalizing and generally growing at respectable rates, which should further facilitate deeper cooperation in the region." However, politics continues to play a role in deeply constraining SAARC's performance.

Within a few years of its establishment, SAARC launched dozens of initiatives for promoting regional cooperation in several priority areas, including region-level action on food security, poverty alleviation, the suppression of terrorism, energy development, and the environment.

The initiatives also aimed at creating SAARC Regional Centers, people-to-people contact programs, and a SAARC Development Fund. While some visible progress has been made, much of it remains on paper and comprises the repeated summit declarations of members' commitment to underlying objectives. Even very important regional initiatives such as poverty alleviation, food security, and the suppression of terrorism have made little progress over the past 2 decades. As a result, "none of the activities and initiatives has had any major direct impact on strengthening the regional cooperation and integration process in South Asia" (Mahendra, 2010). Moreover,

SAARC's attempt to fast-track trade liberalization among members under a Preferential Trading Arrangement (SAPTA) also failed to produce worthwhile growth in intra-regional trade. As a result, SAARC's achievements to date have remained very modest.

Several factors have contributed to this sub-par performance in regional cooperation. The constraining influence of regional politics and poor inter-state relations among members have been the most important factors. Disharmony among member states and their fluctuating levels of commitment to SAARC has affected implementation of even agreed-upon programs. Progress has also often been hampered because of a divergence among members about the priority goals of SAARC. India has attached primacy to the goal of economic cooperation, while the other members are focused on issues of regional stability, security, and development. Moreover, SAARC has suffered from a leadership vacuum since members cannot develop consensus on specific issues. Consequently, SAARC initiatives have made progress only when tensions among members were low and political relations were relatively normal. Whenever inter-state relations deteriorated, progress stopped altogether. The constraining role of regional politics on SAARC operations is reflected in the fact that 10 out of 24 possible SAARC Summits since the organization's founding have had to be cancelled or postponed because of poor political conditions.⁵

Another major constraint on SAARC's performance has been the lack of institutional capacity to support and monitor implementation of its initiatives.⁶ The SAARC Secretariat, while well organized, suffers from inadequate budgetary and human resources, and lacks technical and professional expertise to plan, monitor, and support implementation of SAARC initiatives. Moreover, the Secretariat also lacks a mandate to initiate proposals and explore possibilities for expanding cooperation. As such, it has been unable to actively help in converting high-level recommendations and summit meeting declarations into actionable programs and concrete achievements.

The absence of civil society champions for regional cooperation has also been a factor in SAARC's mediocre performance. While substantial support for regional cooperation exists among constituents of civil societies in all member countries, this has not as yet crystallized into informal but effective support groups for cooperation at the regional or national levels. As a result, support for regional cooperation from sections of civil society (e.g., private sector, nongovernmental organizations [NGOs], professionals, and academia) does not aggregate into effective demand for cooperation. On the other hand, the presence of such groups within SAARC would contribute to the more effective articulation of public demand for regional cooperation and put pressure on governments to pursue it more vigorously.

⁵ Holding the annual summit meetings is mandatory for SAARC members.

⁶ A recent study by the Asian Development Bank (ADB, 2010b) finds that to sustain and guide the fast-paced growth of regional/sub-regional cooperation, there is an urgent need to strengthen institutional capacity in Asia.

5.2 Platform for Leaders' Meetings

SAARC's failure to effectively promote cooperation in trade and other economic areas has been sufficiently highlighted in several studies. However, SAARC's significant achievements in non-economic areas have remained largely unappreciated. SAARC Summits offer an extremely useful platform for the region's political leaders to come together and interact with one another in an informal atmosphere. During summits, leaders are free to discuss issues they may choose, form impressions about one another, and revisit their own preconceived ideas and perceptions. The importance of such interactions cannot be overstated in a region marked by persistent mutual suspicion, recrimination, and confusion. In such an environment there are very few occasions for leaders to meet and informally sound out their counterparts without the pressure of having to bargain hard that usually accompanies bilateral meetings in the region.

Thanks to SAARC, the region's leaders have had opportunities to meet and interact with one another dozens of times over the past 2 decades. On a majority of these occasions, the leaders' informal interactions on the sidelines of SAARC Summits contributed to lowered tensions and improved understanding, which in some instances also led to important breakthroughs and political initiatives. In particular, a meeting between the Indian Prime Minister and Sri Lankan President at the 1986 SAARC Summit produced a significant peace accord between the two countries in the following year. Likewise, meetings of the leaders of India and Pakistan at various summits have led to important outcomes, including the diffusion of tensions, agreement on mutual nuclear installations, and a re-launching of the peace process, among others. Some observers have noted that such outcomes probably may not have materialized in the absence of SAARC Summits. Perhaps in recognition of SAARC's unique role in this respect, no member has shown indifference to its fate. Whenever SAARC's continued existence has come under threat, all members have collectively acted to diffuse the crisis and save SAARC from any potential fallout.

SAARC's unique ability to bring leaders together in a broader regional framework is in itself a highly significant contribution to strengthening the spirit and process of cooperation in the region. The idea of regional cooperation may be getting stronger among SAARC members. For instance, members' willingness to establish the South Asia Free Trade Area (SAFTA), despite the unsatisfactory outcomes of SAPTA, probably reflects their assessment that SAARC can effectively safeguard and possibly expand their market access in the region, rather than waiting indefinitely for multilateral negotiations to be completed. While SAFTA is not free from issues and problems, there seems to be greater commitment to its implementation than was evident for SAPTA.

5.3 The Prospects

The introduction of SAFTA in 2006 is one of the most significant achievements of SAARC. The SAARC Secretary General observed in 2009 that SAFTA "creates an enabling basis, hitherto non-existent, for regional trade in South Asia. It is path breaking in that sense. SAFTA thus has the potential to drive SAARC economies towards building a tariff-free trade regime in South Asia. Moreover, tariff liberalization in [the] goods trade

under SAFTA can be expected to be accompanied by the similar liberalization of trade in services and investment activities, and in general contribute to accelerated deepening of cooperation and integration in South Asia.”

The performance of SAFTA to date, however, does not support such expectations. To begin with, deficiencies in SAFTA's design have affected its functioning and effectiveness. Adoption of the “negative lists” approach has resulted in keeping more than one-half of current trade from being affected by tariff reduction commitments made under SAFTA. Moreover, as there is no formal and binding provision requiring members to shrink their respective negative lists by an agreed date, there is a tendency to perpetuate such lists. In order to jump start the process of dismantling negative lists, India announced in 2008 a unilateral reduction in its negative list for least developed countries (LDCs) by removing 264 items and promised further reductions of 20% every year. The response from other members, however, has not been encouraging. Secondly, SAFTA's unhurried and back-loaded schedule for tariff reduction over a 7–10 year period has also reduced the incentive for members to initiate tariff cutting in early years since the benefits from tariff reductions are likely to be realized only in later years. Moreover, SAFTA remains confined only to the trade in goods and it has not vigorously attempted to bring into its scope the trade in services and investments.

In addition to such problems, the pace of trade liberalization and expansion in the region remains heavily governed by inter-state relations among SAARC members, particularly those between India and Pakistan. Both countries continue to maintain special lists and restrictive trade policies and practices against each other, effectively negating the prospects of major trade expansion under SAFTA.

Perhaps as a result of these constraints, the introduction of SAFTA has not yet made much contribution to the expansion of intra-regional trade. It is estimated to have generated less than US\$300 million in additional intra-regional trade, which is only about 1% of total trade since SAFTA's inception (Weerakoon, 2009). More importantly, the persistence of problematic inter-state relations means that agreement on any significant initiative for trade liberalization and economic integration under SAFTA will be extremely slow in arriving.

Perhaps prompted by this consideration, several SAARC members have begun to vigorously pursue bilateral and plurilateral trade arrangements with fellow SAARC members as well as with non-members. India, for instance, has concluded bilateral free trade agreements with all SAARC members except Bangladesh and Pakistan. Since it has made an offer to negotiate an FTA with Bangladesh, it may soon have an FTA with all SAARC members except Pakistan. These other SAARC members are exploring similar arrangements with one or more fellow SAARC members. Five SAARC members are also actively pursuing an FTA together with two non-SAARC members under a plurilateral arrangement known as the Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC).⁷ Likewise, three SAARC members

⁷ The Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC) comprises five SAARC countries (Bangladesh, Bhutan, India, Nepal and Sri Lanka) and two non-SAARC countries (Myanmar and Thailand).

(Bangladesh, India, and Sri Lanka) are exploring opportunities available under the Asia Pacific Trade Agreement (APTA), which also has three non-SAARC countries as members (the PRC, Republic of Korea, and Lao PDR). The obvious advantage of this strategy for India and other SAARC members is to make progress on major issues, such as the liberalization of trade in services and investment activities, through bilateral or plurilateral platforms, with those who are ready to join rather than settle for the lowest common area of agreement among all members.

The other strand of this development is the deepening of India's trade and economic relations with the ASEAN+3 states.⁸ India has signed an FTA with ASEAN as a whole as well as with some of its individual members. India's trade with ASEAN+3 has risen much faster than with fellow SAARC members between 2000 and 2007. The share of trade with ASEAN+3 in India's total trade increased from about 17% to 27%, while intra-SAARC trade barely increased from 2.4% to 2.7% during the same period. Moreover, India is also involved in FTA discussions with several other members of ASEAN as well as with the PRC, Japan and Republic of Korea, among others. India seems engaged in rapidly building up a more comprehensive and deeper relationship with ASEAN+3 that would also include trade in services and investment activities, which makes it an important player in the Pan-Asian economic integration process that appears to be emerging (Francois, Wignaraja, and Rana [eds.], 2009).

Such developments could lead to India becoming a bridge connecting South Asia to East Asia, given that it accounts for nearly 78% of intra-SAARC trade. If such a development eventuates, smaller SAARC economies may find it attractive to plug into broader Asian markets through their preferential bilateral ties with India rather than under their own strength. The considerable market access unilaterally granted by India to smaller SAARC member countries through several bilateral and regional arrangements is expected to facilitate such a process.

This situation could have significant implications for SAFTA. The market access provided by India to smaller SAARC economies under bilateral and regional arrangements considerably exceeds that available under SAFTA. As such, Bhutan, the Maldives, and Sri Lanka show little interest in making use of SAFTA. At present, only Bangladesh, which has so far not entered into any preferential bilateral arrangement with India, has shown a keenness for trading under SAFTA. However, it remains to be seen whether this keenness can be sustained in the event it concludes any preferential trade arrangements with India. It is, therefore, likely that much of the prospective trade liberalization and growth in South Asia may take place outside the framework of SAFTA.

Pakistan is absent from much of the bilateral and plurilateral preferential arrangements among SAARC members, especially those involving India. However, Pakistan is also in discussions with several SAARC members for making preferential arrangements. Moreover, it has already signed an FTA with the PRC and is in discussions with the Gulf Coordination Council, ASEAN, and several member countries of ASEAN. Therefore, Pakistan also appears to be pursuing trade liberalization and economic integration under

⁸ ASEAN+3 comprises the 10 member countries of ASEAN plus the PRC, Japan, and Republic of Korea.

bilateral and plurilateral arrangements within and outside South Asia, perhaps at a slower pace than India.

Significant progress towards trade liberalization and economic cooperation can be expected in South Asia in the near future. However, such progress will likely come mostly in a fragmented manner from SAARC members working individually or in subgroups, rather than together under SAARC's auspices. These emerging trends in member countries' respective strategies for trade growth and liberalization will likely dilute SAARC's role in that dimension. Nonetheless, as the only entity capable of bringing the region's leaders together, SAARC is in a unique position to play a very important role by actively soliciting consideration of regional issues that can only be resolved with the cooperation of several or all members. In the absence of members agreeing to cooperate, such issues will continue to remain unresolved, thereby causing damage to all. By acting as an objective intermediary, the SAARC Secretariat can present an issue directly to the region's leaders and fast-track the processes of consideration and in-principle endorsement (or rejection) at the highest level. For example, one such issue that needs urgent cooperative action by SAARC members concerns the development and management of shared water resources in the region.

5.4 Optimal Development of Water Resources

The Ganges–Brahmaputra–Meghna (GBM) and the Indus rivers are the major shared river systems within SAARC. While both originate in the Tibet region of the PRC, they are of critical importance to several SAARC countries, including Bangladesh, Bhutan, India, Nepal, and Pakistan. Together, two river basins touch the lives of about 700 million people and can potentially impact nearly 100 million hectares of arable land. They also hold identified hydropower potential of more than 100,000 MW and supply 25% to 65% of water available to different riparian. As such, these water resources constitute an extremely valuable asset within the SAARC region (Rangachari, 2009).

The optimal development and management of these water resources has the potential to change the face of the SAARC region by (i) bringing under control the annually recurring destructive floods, (ii) providing irrigation for several million hectares of arable land, (iii) generating thousands of megawatts of electrical energy, and (iv) opening up extensive networks of waterways and fisheries. Such developments can generate livelihoods for millions and fight the massive poverty that characterizes the SAARC region. Extensive technical work and investigations by expert groups confirm the potential for and urgency of launching cooperative action.

Expectedly, however, there are also longstanding disputes and conflicts among SAARC members regarding the development and sharing of these water resources. Unilateral and bilateral efforts by members over the last 6 decades have not led to worthwhile cooperation in the matter. The two major regional agreements covering these resources—the World-Bank-brokered Indus River Treaty (1960) between India and Pakistan, and the Farakka Treaty (1996) between India and Bangladesh—focused on finding a workable formula to share water between two countries. There was, however, no attempt to address the larger issue of cooperation for optimal development and management of the water resources of the two river systems. As there has been not

much progress in this area to date, there is an urgent need to launch major new initiatives to push for cooperation among SAARC members.

SAARC can mobilize members to address two major constraints that have been identified as preventing cooperation among member states: (i) the lack of trust among countries and (ii) the absence of a collective stake in cooperation among member states (Vergese and Iyer [eds.], 1993).

The building of trust has to be undertaken by the countries themselves since trust is a product of multiple interrelated events and experiences—historical as well as contemporary. However, SAARC, as a multilateral entity, can take the initiative to highlight an objective assessment of what can be achieved by each member country through cooperation with others. Through analyses and dialogue, SAARC can also demonstrate that substantial and mutually reinforcing interests can emerge under its cooperative framework. SAARC can mobilize the expertise and funds needed for this work by engaging multilateral and bilateral development partners, and ensuring that efforts remain transparent and credible. Development partners, particularly the World Bank and ADB, should also promote the development of joint projects in the region—hydropower, gas, power transmission lines, cross-border transit routes—to strengthen cooperation and highlight the gains from regional cooperation.

5.5 Environmental Concerns

A related aspect of water resources development is the need to respond to environmental concerns regarding the Himalayas—the mountain range where the two river systems originate. Current assessments indicate that climate change will begin to have an adverse impact on snow and glacial melts in the Himalayas, although there is presently some dispute about when this may begin to happen. Because such melts are an important source of water for the two river basins, especially in dry seasons, the International Centre for Integrated Mountain Development has strongly recommended that SAARC member countries undertake a cooperative program to monitor the changes and formulate an effective response.

As the pre-eminent multilateral entity in South Asia, SAARC can play a pivotal role in bringing the member states together to take needed action in this extremely important area. In doing so, SAARC could leverage its two-fold advantage: (i) access to the region's leaders and (ii) status as an objective multi-state institution. The failure of SAARC members to work together in harnessing the enormous potential of this resource, even as grinding poverty persists in the region, would be most unfortunate. Since it appears likely that member states will not be able to overcome their differences unless seriously prodded by a neutral and competent intermediary, SAARC can make a significant contribution by acquiring a mandate for this effort from members and taking up the challenge.

6. Issues

Progress in regional cooperation and integration, even in a truncated form, can bring significant benefits to the region. Even more substantial benefits could accrue to South Asia if SAARC were to become an effective catalyst for bringing its members together to harness shared resources and manage the major issues confronting the region. However, such outcomes are predicated on the successful management of three deficits that challenge the region's policymakers: (i) the trust deficit among all SAARC members, (ii) the trade account deficit of smaller SAARC economies with India, and (iii) the institutional capacity deficit to support regional cooperation.

6.1 Trust Deficit

An extreme imbalance of power among member states has given rise to fears over security resulting from domination by India, and fostered an environment of suspicion and mistrust. Such a situation generates built-in retardants to cooperation among members. In the case of SAARC, this process has given rise to several distortions such as avoiding and/or restricting trade with India, discouraging FDI coming from India, creating an unwillingness to work together to resolve regional issues, and externalizing bilateral and regional issues.

If the environment of mistrust and suspicion among SAARC members remains unaddressed, it will be a long time before significant progress in regional cooperation and economic integration can be realized. This is because cooperation and integration requires aligning member states' economic structures more closely with that of the Indian economy, which would further deepen interdependence with India. In the absence of trust and amid prevalent fears of Indian domination, however, smaller SAARC members will continue to tread this path very cautiously.

The critical need to develop congenial interstate relations for deepening and accelerating the process of cooperation in the region cannot be over-emphasized. While a growing awareness of the economic costs of the lack of cooperation seems to have pushed SAARC members towards increased cooperation in recent years, the overarching influence of inter-state relations cannot be overlooked. All major achievements in cooperation in the region have materialized only when such relations were reasonably favorable. The finalization of SAFTA was delayed for several years because of the deterioration of India–Pakistan relations during 1998–2001. The signing of the India–Sri Lanka FTA and progress towards a possible Comprehensive Economic Partnership Agreement (CEPA) was underpinned by India's "hands-off policy" on the sensitive issue of the Tamil insurgency after its controversial Indian Peace Keeping Force (IPKF) experience. Similarly, the significant India–Bangladesh initiatives launched in early 2010 could have only materialized on the back of a major shift in political relations between the two countries. As noted earlier, cooperation in South Asia has progressed more along the lines of a bilateral and/or plurilateral basis than on a region-wide SAARC platform.

As the pre-eminent power in South Asia, and hence a party to a majority of other member countries' respective concerns, India should proactively initiate the process of

trust building in South Asia. To start, India could show openness and seriousness in exploring arrangements to allay the security and domination concerns of its neighbors. This could involve formal ministerial-level discussions, agreements, and pacts, as well as including informal channels provided by civil society organizations and people-to-people contacts. Likewise, India could also give consideration to revisiting past reservations about the inclusion of security issues, and perhaps also bilateral issues, in the SAARC agenda. Such efforts would signal India's firm intent to develop closer and collegial relationships with neighbors, and help dispel their misunderstandings while building confidence in Indian intentions.

Such developments would require significant changes in India's traditional policy towards neighboring countries. Fortunately, there is now increasing recognition in India that it has much more to gain than just a marginal increase in its exports from a more congenial South Asia. India would also significantly benefit from valuable externalities emanating from improved regional cooperation. For example, India is likely to gain enhanced credibility in global forums if and when it is seen to be the anchor in a stable and congenial region, rather than a hostile one. Such gains would strengthen India's claims to assuming a bigger role on the global stage. India would also gain by reducing the space for non-regional players to insert themselves into regional matters, thereby alleviating security and strategic pressures currently facing India. In order to realize these gains, India should be prepared to be accommodating, if not generous, whenever possible in negotiating with its neighbors by avoiding the temptation to insist on strict reciprocities and technicalities in all matters.

India seems to have signaled a major shift towards such an approach during the recent visit of the Bangladeshi Prime Minister. In a spirit of cooperation and appreciation of each other's needs, several important and long-pending issues were addressed during this visit.⁹ If this spirit is sustained and consistently adopted by India, and if it inspires other SAARC states to do likewise, the Bangladeshi Prime Minister's visit could turn out to be a game-changing event for SAARC.

Of course, other SAARC members would also need to fully involve themselves in the process of trust building and re-examine their own long-held attitudes and strategies towards cooperation with India and other fellow member states. On their part, they would need to acknowledge India's centrality to the South Asian region. They need to appreciate that an approach of accommodation and cooperation is likely to be more productive and sustainable in the long run than that of suspicion and externalization.

Improved political relations and cohesion among member states should reduce tensions and promote stability in the SAARC region. While economic integration would result in enhanced mutual dependency vis-à-vis India, it would also promote faster growth and peaceful co-existence. Integration can thus become an effective option for SAARC

⁹ These include agreements on (i) access for Bangladesh, Nepal, and Bhutan to each other's territory through Indian territory; (ii) access to India to its Northeast region through Bangladeshi ports; (iii) a grant of US\$1.0 billion credit to Bangladesh; (iv) a commitment to the early resolution of water-sharing issues, and (v) the signing of the Bangladesh-India Trade Agreement (BITA) and the Bilateral Investment Promotion and Protection Agreement (BIPPA).

member countries to overcome impediments imposed by their respective market sizes and geography. More importantly, several issues of critical importance to member states—such as the development of common water resources, protection of the Himalayan environment, prevention of cross-border crime and terrorism, and health epidemics—cannot be adequately resolved without cooperation among members, especially India. The failure to cooperate can only result in sub-optimal solutions that deprive the region and its residents of the significant gains that could otherwise be realized through cooperation.

6.2 Trade Deficit

Between 60% and 90% of the intra-regional trade of all SAARC member states, except Pakistan and Afghanistan, is with India. India's more diversified and relatively-better-developed economy makes it a competitive supplier of several imports to SAARC's smaller economies. With trade liberalization, the imports of smaller economies from India are growing very rapidly. On the other hand, owing to their relatively narrow resource base and less diversified economies, they are unable to increase exports to India in a corresponding manner. This imbalance between imports and exports vis-à-vis India is in the ratio of 10:1 and even widening in some instances. This has given rise to unacceptably high and mounting trade deficits with India and prompted serious concerns across the region. However, to the extent that less expensive Indian imports replace more costly imports from other sources, the trade balance of importing countries would improve on a global basis even while it may deteriorate vis-à-vis India. While such a shift might make for sound economics, practical considerations—such as the availability of tied bilateral grants and export credits from other sources, and concerns about overdependence on a single supply source—dictate that a trade deficit with any single country cannot be sustained beyond a certain point. This means that trade imbalances with India have to be addressed if the goal of more free trade in South Asia is to be pursued.

To correct trade imbalances with India and others in a sustainable manner, the smaller SAARC economies need to offer similar products of interest at competitive prices. These smaller economies need to diversify and upgrade production structures by investing large amounts of capital and harnessing newer technologies. This underscores the urgent need for smaller countries to put in place policies and facilities to attract large amounts of FDI, including from India.¹⁰ Similarly, it also argues strongly for operating a well-funded development assistance facility by India and other SAARC members, with support from bilateral and multilateral donors to help LDC members to diversify and upgrade their economies. Thus, there is an urgent need to activate and sufficiently strengthen the SAARC Development Fund. Meanwhile, progress towards market openings on the part of the smaller SAARC economies will be governed by their ability to maintain an acceptable trade balance with India and other trade partners.

¹⁰ The India–Sri Lanka FTA has encouraged FDI flows in both directions and led to enhanced Sri Lankan exports to India. This has contributed to a reduction in the adverse trade balance of Sri Lanka with India.

6.3 Institutional Capacity Deficit

Major SAARC initiatives—such as on poverty alleviation and the suppression of terrorism—failed to deliver the intended benefits to the region because of ineffective implementation. It is, therefore, necessary for SAARC to develop capacity for monitoring the implementation of its initiatives if it is to deliver better results to the region. SAARC needs to provide its Secretariat with the necessary mandate and resources to monitor and evaluate implementation of its programs and initiatives. A strengthened Secretariat would monitor implementation of the agreed-upon initiatives, identify problems, and suggest necessary corrective actions for consideration by concerned member governments. Such a process would help in eliciting needed attention to implementation problems and enhance the chances for the successful and timely achievement of objectives. It would replace the existing apathetic attitude to implementation and make the national and regional implementing entities more accountable to member governments and SAARC. Consistent oversight by the Secretariat can be expected to improve the implementation and outcomes of SAARC activities.

A strengthened Secretariat could also be expected to guide and support the activities of various regional centers more effectively. This would enable regional centers to undertake valuable cooperative groundwork in their respective issue areas. The ready availability of such outputs would facilitate the quicker crystallization of specific opportunities for bilateral and regional cooperation. For instance, India and Bangladesh's recent decision to enter into a power sharing and transmission agreement across the border could be fast-tracked by the ready availability of relevant studies and a blueprint drawn up as part of the Secretariat's work over the past few years.¹¹ With its closer interactions with regional centers and national implementing entities in the region, the Secretariat could also undertake the exchange of information and best practices across member countries, particularly in areas such as rural development, income generation for the poor, and primary health and education.

To successfully carry out such functions, however, the Secretariat would need to have access to high quality and experienced expertise in different fields relevant to SAARC activities. It would also need to develop its capacity to offer competent analysis and objective advice to member governments on the problems and issues encountered. Over time, when the Secretariat gains recognition as a source of competent analysis and objective advice, the smaller states would use its products to supplement their own inadequate capacity and expertise in various fields. Such support could improve interactions among SAARC members, since all would have an enhanced understanding of the issues under consideration.

SAARC member states would need to find modalities for delegating enhanced authority to the Secretariat and empowering it to undertake such activities on its behalf if SAARC were to serve its population more effectively. Member states would need to also consider

¹¹ The author is grateful to Mr. Ashis Bannerji of Global Equations Allahabad for bringing this example to the author's attention and sharing ideas on enhancing institutional capacity for regional cooperation.

creating enhanced self-standing budgets for the Secretariat with support from the donor community.

Donors can play a very important role not only by making additional resources available to Secretariat, but also by helping to strengthen its professionalism in preparing and driving policy inputs through interactions with civil society and other institutions in member countries. Donor involvement would also help to enhance the transparency and credibility of the Secretariat's products.

Another action that would significantly contribute to improving SAARC's performance concerns the development of support groups representing various elements from civil society in favor of regional cooperation. Such groups exist in all member countries and comprise sections of the private sector, academia, professionals, and non-governmental organizations from different fields. These groups need to be encouraged to evolve into informal networks within and across SAARC member countries to more effectively represent the cause of regional cooperation. Through public education and advocacy, such groups could generate a supportive environment for cooperation, articulate public demand, and strengthen governments' commitment to cooperation even while demanding greater accountability for results. Participating individuals and institutions, such as think tanks, would contribute to preparing studies, analysis, and other knowledge products on issues and opportunities for regional cooperation; and encouraging wider public discussion of and participation in the regional cooperation process.

References

- Asian Development Bank (ADB) and the Federation of Indian Chambers of Commerce and Industry (FICCI). 2010. *Key Proposals for Harnessing Business Opportunities in South Asia*. Manila: ADB.
- ADB. 2010. *Institutions for Regionalism* (Synopsis). Manila: ADB.
- M. Ayoob. 1995. *The Third World Security Predicament*. London: L. Rienner.
- Z. A. Bhutto. 1969. *The Myth of Independence*. London: Oxford University Press.
- K. C. Dash. 2008. *Routledge Contemporary South Asia Series: Regionalism in South Asia - Negotiating Cooperation, Institutional Structures*. London: Routledge.
- J. E. Dougherty and R.L. Pfaltzcraft. 1990. *Contending Theories of International Relations*. New York: Harper and Row Publishers.
- M. Dubey. 2008. Regional Economic Integration in South Asia: Principal Issues and the Role of Political Factors in Does South Asia Exist? Prospects for Regionalism in South Asia. *Mimeo*.
- M. Eriksson, X. Jianchu, A. B. Shrestha, R. Vaidya, S. Nepal, and K. Sandstrom. 2009. *The Changing Himalayas: Impact of Climate Change on Water Resources and Livelihoods in the Greater Himalayas*. Kathmandu: International Centre for Integrated Mountain Development.
- J. P. Estanislao and S. Tay. 2001. The Relevance of ASEAN, Crisis and Change. In S. Tay, J.P. Estanislao, and H. Soesastro, eds. *Reinventing ASEAN*. Singapore: Institute of Southern Asian Studies.
- R. Fiorentino, V. Luis, and T. Cristelle. 2007. *The Changing Landscape of Regional Trade Agreements: 2006 Update*. Geneva: World Trade Organization.
- J. P. Francois, G. Wignaraja, and P.B. Rana, eds. 2009. *Pan-Asian Integration: Linking East and South Asia*. Manila: ADB and Palgrave MacMillan.
- S. Kelegama. 2008. South Asian Vision for Regionalism in Does South Asia Exist? Prospects for Regionalism in South Asia. *Mimeo*.
- S. R. Khan, ed. 2009. *Regional Trade Integration and Conflict Resolution*. New York: Routledge and International Development Research Center (IDRC).
- L. Mahendra. 2010. SAARC Programs and Activities. In S. Ahmed, S. Kelegama, and E. Ghani, eds. *Promoting Economic Cooperation in South Asia: Beyond SAFTA*. New Delhi: World Bank and SAGE Publications.

- E. Mansfield and R. Bronson. 1997. The Political Economy of Major-Power Trade Flows. In E. D. Mansfield and H. V. Milner, eds. *The Political Economy of Regionalism*. New York: Columbia University Press.
- H. Milner. 1997. *Interests, Institutions and Information: Domestic Policies and International Relations*. Princeton: Princeton University Press.
- N. D. Palmer. 1991. *The New Regionalism in Asia and the Pacific*. Lexington, MA: D.C. Heath Company.
- C. Pentland. 1973. *International Theory and European Integration*. New York: The Free Press.
- R. Rangachari. 2009. Development of Water Resources Shared by India and Its Neighbors. *Mimeo*.
- S. Rehman. 1991. Political Dimensions of South Asian Cooperation: The Perspective for Bangladesh. In V. Kanesalingam, ed. *Political Dimensions of South Asian Cooperation*. New Delhi: Macmillan India Ltd.
- Research and Information System for Developing Countries (RIS). 2008. *South Asia Development and Cooperation Report*. New Delhi: RIS and Oxford University Press.
- S. Rodolfo. 1998. What ASEAN Is and What it Stands For. Speech delivered at the Research Institute for Asia and the Pacific at the University of Sydney.
- South Asian Association for Regional Cooperation (SAARC), Secretary General. 2009. Speech delivered at Conference on Harnessing Business Opportunities for South Asian Economic Integration. New Delhi.
- State Bank of Pakistan. 2005. *Implications of Liberalising Trade and Investment with India*. Cited in SDPI Research and News Bulletin. Vol. 14.
- Taneja. N. 2007. Trade Possibilities and Non-Tariff Barriers to Indo-Pak Trade. *Working Paper No. 200*. New Delhi: Indian Council for Research in International and Economic Relations
- S. Tay and J. P. Estanislao, eds. 2001. *Reinventing ASEAN*. Singapore: Institute of Southern Asian Studies
- B. Vergese and R. Iyer, eds. 1993. *Harnessing the Eastern Himalayan Rivers: Regional Cooperation in South Asia*. New Delhi: Konark Publishers.

- J. Wanadi. 2001. ASEAN's Past and the Challenges Ahead. In S. Tay, J. P. Estanislao, and H. Soesastro, eds. *Reinventing ASEAN*. Singapore: Institute of Southern Asian Studies.
- D. Weerakoon. 2009. Regional Economic Integration: Deepening of SAFTA. Paper presented in the 2nd South Asia Economic Summit. New Delhi. 11-12 December.

ADB Working Paper Series on Regional Economic Integration*

1. "The ASEAN Economic Community and the European Experience" by Michael G. Plummer
2. "Economic Integration in East Asia: Trends, Prospects, and a Possible Roadmap" by Pradumna B. Rana
3. "Central Asia after Fifteen Years of Transition: Growth, Regional Cooperation, and Policy Choices" by Malcolm Dowling and Ganeshan Wignaraja
4. "Global Imbalances and the Asian Economies: Implications for Regional Cooperation" by Barry Eichengreen
5. "Toward Win-Win Regionalism in Asia: Issues and Challenges in Forming Efficient Trade Agreements" by Michael G. Plummer
6. "Liberalizing Cross-Border Capital Flows: How Effective Are Institutional Arrangements against Crisis in Southeast Asia" by Alfred Steinherr, Alessandro Cisotta, Erik Klär, and Kenan Šehović
7. "Managing the Noodle Bowl: The Fragility of East Asian Regionalism" by Richard E. Baldwin
8. "Measuring Regional Market Integration in Developing Asia: a Dynamic Factor Error Correction Model (DF-ECM) Approach" by Duo Qin, Marie Anne Cagas, Geoffrey Ducanes, Nedelyn Magtibay-Ramos, and Pilipinas F. Quising
9. "The Post-Crisis Sequencing of Economic Integration in Asia: Trade as a Complement to a Monetary Future" by Michael G. Plummer and Ganeshan Wignaraja
10. "Trade Intensity and Business Cycle Synchronization: The Case of East Asia" by Pradumna B. Rana
11. "Inequality and Growth Revisited" by Robert J. Barro
12. "Securitization in East Asia" by Paul Lejot, Douglas Arner, and Lotte Schou-Zibell
13. "Patterns and Determinants of Cross-border Financial Asset Holdings in East Asia" by Jong-Wha Lee
14. "Regionalism as an Engine of Multilateralism: A Case for a Single East Asian FTA" by Masahiro Kawai and Ganeshan Wignaraja

15. "The Impact of Capital Inflows on Emerging East Asian Economies: Is Too Much Money Chasing Too Little Good?" by Soyoung Kim and Doo Yong Yang
16. "Emerging East Asian Banking Systems Ten Years after the 1997/98 Crisis" by Charles Adams
17. "Real and Financial Integration in East Asia" by Soyoung Kim and Jong-Wha Lee
18. "Global Financial Turmoil: Impact and Challenges for Asia's Financial Systems" by Jong-Wha Lee and Cyn-Young Park
19. "Cambodia's Persistent Dollarization: Causes and Policy Options" by Jayant Menon
20. "Welfare Implications of International Financial Integration" by Jong-Wha Lee and Kwanho Shin
21. "Is the ASEAN-Korea Free Trade Area (AKFTA) an Optimal Free Trade Area?" by Donghyun Park, Inwon Park, and Gemma Esther B. Estrada
22. "India's Bond Market—Developments and Challenges Ahead" by Stephen Wells and Lotte Schou- Zibell
23. "Commodity Prices and Monetary Policy in Emerging East Asia" by Hsiao Chink Tang
24. "Does Trade Integration Contribute to Peace?" by Jong-Wha Lee and Ju Hyun Pyun
25. "Aging in Asia: Trends, Impacts, and Responses" by Jayant Menon and Anna Melendez-Nakamura
26. "Re-considering Asian Financial Regionalism in the 1990s" by Shintaro Hamanaka
27. "Managing Success in Viet Nam: Macroeconomic Consequences of Large Capital Inflows with Limited Policy Tools" by Jayant Menon
28. "The Building Block versus Stumbling Block Debate of Regionalism: From the Perspective of Service Trade Liberalization in Asia" by Shintaro Hamanaka
29. "East Asian and European Economic Integration: A Comparative Analysis" by Giovanni Capannelli and Carlo Filippini
30. "Promoting Trade and Investment in India's Northeastern Region" by M. Govinda Rao

31. "Emerging Asia: Decoupling or Recoupling" by Soyoung Kim, Jong-Wha Lee, and Cyn-Young Park
32. "India's Role in South Asia Trade and Investment Integration" by Rajiv Kumar and Manjeeta Singh
33. "Developing Indicators for Regional Economic Integration and Cooperation" by Giovanni Capannelli, Jong-Wha Lee, and Peter Petri
34. "Beyond the Crisis: Financial Regulatory Reform in Emerging Asia" by Chee Sung Lee and Cyn-Young Park
35. "Regional Economic Impacts of Cross-Border Infrastructure: A General Equilibrium Application to Thailand and Lao PDR" by Peter Warr, Jayant Menon, and Arief Anshory Yusuf
36. "Exchange Rate Regimes in the Asia-Pacific Region and the Global Financial Crisis" by Warwick J. McKibbin and Waranya Pim Chanthapun
37. "Roads for Asian Integration: Measuring ADB's Contribution to the Asian Highway Network" by Srinivasa Madhur, Ganeshan Wignaraja, and Peter Darjes
38. "The Financial Crisis and Money Markets in Emerging Asia" by Robert Rigg and Lotte Schou-Zibell
39. "Complements or Substitutes? Preferential and Multilateral Trade Liberalization at the Sectoral Level" by Mitsuyo Ando, Antoni Esteveordal, and Christian Volpe Martincus
40. "Regulatory Reforms for Improving the Business Environment in Selected Asian Economies—How Monitoring and Comparative Benchmarking can Provide Incentive for Reform" by Lotte Schou-Zibell and Srinivasa Madhur
41. "Global Production Sharing, Trade Patterns, and Determinants of Trade Flows in East Asia" by Prema-Chandra Athukorala and Jayant Menon
42. "Regionalism Cycle in Asia (-Pacific): A Game Theory Approach to the Rise and Fall of Asian Regional Institutions" by Shintaro Hamanaka
43. "A Macroprudential Framework for Monitoring and Examining Financial Soundness" by Lotte Schou-Zibell, Jose Ramon Albert, and Lei Lei Song
44. "A Macroprudential Framework for the Early Detection of Banking Problems in Emerging Economies" by Claudio Loser, Miguel Kiguel, and David Mermelstein
45. "The 2008 Financial Crisis and Potential Output in Asia: Impact and Policy Implications" by Cyn-Young Park, Ruperto Majuca, and Josef Yap

46. "Do Hub-and-Spoke Free Trade Agreements Increase Trade? A Panel Data Analysis" by Jung Hur, Joseph Alba, and Donghyun Park
47. "Does a Leapfrogging Growth Strategy Raise Growth Rate? Some International Evidence" by Zhi Wang, Shang-Jin Wei, and Anna Wong
48. "Crises in Asia: Recovery and Policy Responses" by Kiseok Hong and Hsiao Chink Tang
49. "A New Multi-Dimensional Framework for Analyzing Regional Integration: Regional Integration Evaluation (RIE) Methodology" by Donghyun Park and Mario Arturo Ruiz Estrada
50. "Regional Surveillance for East Asia: How Can It Be Designed to Complement Global Surveillance?" by Shinji Takagi
51. "Poverty Impacts of Government Expenditure from Natural Resource Revenues" by Peter Warr, Jayant Menon, and Arief Anshory Yusuf
52. "Methods for Ex Ante Economic Evaluation of Free Trade Agreements" by David Cheong
53. "The Role of Membership Rules in Regional Organizations" by Judith Kelley

* These papers can be downloaded from: (ARIC) <http://aric.adb.org/reipapers/> or (ADB) www.adb.org/publications/category.asp?id=2805

The Political Economy of Regional Cooperation in South Asia

Not all regional cooperation arrangements (RCAs) are identical, nor are they driven by economic forces alone. RCAs are driven by their own unique sets of objectives, combinations of power and political relations among member states, and the decision-making structures and processes within individual member states. These factors affect the performances of RCAs and cause differentials among them. This paper shows that an extreme imbalance of power and the antagonistic relations prevalent among member states of the South Asian Association for Regional Cooperation (SAARC) have led to its sub-par performance. Hence, building cordial inter-state relations is a critical first step to improving SAARC's future performance.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.