Political economy of South Asia
Commonalities overshadowed by conflict

Amita Batra

South Asia, comprising eight member countries – Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka – of the South Asian Association for Regional Cooperation (SAARC), is a geographically coherent region. The northern boundary is defined by the Himalayan mountains and thick forests along the Myanmar border, and the southern boundary is defined by the Bay of Bengal, Indian Ocean and Arabian Sea. The western boundary is relatively open, with deserts and mountains. The South Asian countries share a common historical and colonial past. Of these, the countries India, Pakistan and Bangladesh were part of one country – India – until 1947 when independence from British colonial rule divided the country into two, the other country being Pakistan. Bangladesh, the erstwhile East Pakistan, is an outcome of its war of liberation in 1971. Overlapping cultures, religious traditions, social norms and linguistic affinity are therefore characteristic of the region.

India’s centrality

A unique feature of South Asia is the geographical and economic largeness and centrality of India. Stretching over 64 percent of the land area, India has a common border with almost all countries in the region. Pakistan, Bangladesh, Nepal and Bhutan have a common land border with India, and two other countries, Sri Lanka and the Maldives, share a maritime border with India. None of these countries share a common border with each other. Bhutan and Nepal are landlocked by India. Afghanistan and Pakistan have geographical access to other SAARC members only through India. Sri Lanka is an island, and the Maldives is an archipelago of low-lying coral islands in the central Indian Ocean. Further, India is home to 74 percent of the regional population, contributes nearly 80 percent of the regional gross domestic product (GDP) and is the fastest growing economy, not only in South Asia but in the world. In the last two years, India, with a growth rate of 6.5 percent, has surpassed China, the economy with the fastest rate of growth for over two decades. India’s GDP in purchasing power parity (ppp) terms is third largest in the world. None of the other South Asian countries are among the top 20 in the global GDP ppp ranking. Pakistan, at rank 24, has a GDP that is almost a tenth of India’s GDP (data.worldbank.org/data-catalog/GDP-PPP-based-table).
India is central to regional trade and capital flows as well. Given its faster growth, a large market and a diversified manufacturing base, India corners about 65 percent of regional trade and accounts for about 80 percent of capital inflows received by South Asia. A predominant share of 87 percent in intra-South Asia exports is cornered by India. In intra-regional imports, though, its share of 13 percent is much smaller (Batra 2013). Bilateral trade is therefore naturally in favour of India. It is among the major trading partners for all regional economies, while the reverse doesn’t hold true. For India though, trade with South Asian countries constitutes less than 3 percent of its total trade – exports to and imports from South Asia have about 7 percent and less than 1 percent shares of its total exports and imports, respectively (https://aric.adb.org/integrationindicators). Bilateral trade among other economies in South Asia is small and majorly dependent on India granting transit rights for them to trade with each other. India has bilateral preferential trade treaties with Nepal, Bhutan and Sri Lanka, and has unilaterally offered all least developed countries (LDCs) in the region duty-free and quota-free access to its market. Pakistan has a transit trade treaty with Afghanistan–Pakistan Transit Trade Agreement (APTTA), signed in 2010, which allows movement of goods up to the Pakistan–India border but not across to India as well as a free trade agreement (FTA) with Sri Lanka, with fewer economic gains relative to the India–Sri Lanka bilateral FTA. India is a member of all subregional and inter-subregional (South Asia–Southeast Asia) groupings, like the Bangladesh–Bhutan–India–Nepal (BBIN), Bangladesh–China–India–Myanmar (BCIM), Mekong Ganga Cooperation (MGC) and Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). Intra-regional foreign direct investment (FDI) in South Asia is small, with India as the dominant SAARC country investor in the region. Its investments have been significant in Bhutan, Nepal and, post the bilateral FTA, in Sri Lanka. Pakistan, Bangladesh and Sri Lanka are also coming up as a source of FDI outflows from the region but with smaller shares (https://aric.adb.org/integrationindicators).

India’s largeness and centrality and the consequent economic and geographical asymmetry in the region have to a large extent worked against regional economic integration. Fear of being overtaken by the larger economy and potentially enlarged trade deficits, even when not necessarily justified by economic rationale, has dominated the psyche of smaller economies and thereby limited regional economic interactions. Conflictual and friction-laden bilateral relations combined with smaller states’ hypersensitivity about issues of sovereignty are reflected in India’s not being accepted as a regional leader. However, it may also not be incorrect to say that India itself has been reluctant to assume the regional leadership in South Asia.

**Growth models: inward-looking, socialist orientation and the transformation to economic liberalization**

India’s growth has outpaced other regional economies, despite the fact that, post-independence, all South Asian economies followed a broadly similar inward-looking economic growth model aimed at self-reliance through import substitution-based industrialization. To a large extent, emphasis on self-reliance as a primary objective of the growth process was an outcome of long years of colonial subjugation. During this phase, large-scale production and resource ownership was largely controlled and operated by the state through public-sector enterprises, and the market process was highly regulated. There was minimal emphasis on the external sector. Some attempts at reform and liberalization were initiated in India in the late 1970s and early 1980s, but these were more in the nature of easing out business
restrictions than aimed at any reorientation of the policy framework. Until the late 1980s/early 1990s, the economic functioning of the South Asian countries was within an overarching socialist framework, that is, a mixed economy predominantly led by state, with varying degrees of private sector participation across the region. In Pakistan, the military regimes were more private sector-oriented, with a clear delineation towards the socialist orientation’s being adopted in the 1970s during the Bhutto regime. Sri Lanka made an early start towards liberalization and trade integration with the global economy in the late 1970s. Although a fitful start to economic liberalization was short-lived on account of increasing fiscal stress and excessive government expenditure on welfare schemes and programmes, it did lead to a significant development in establishing the Export Processing Zones and a programme of privatization that, pursued later in the late 1980s, helped make Sri Lanka more attractive for export-oriented firms.

The socialist orientation of the South Asian economies until the 1970s did not result in any spectacular growth outcomes. Growth in India, after a positive start in the 1950s, was inhibited in the 1960s by natural calamities, like famines, followed by the wars with China and Pakistan in the same decade. The 1970s did not see any improvement, despite the green revolution contributing to productivity growth in the agriculture sector. By this time, the inefficiencies of the large public sector that controlled heavy industries had become apparent. Restrictive trade policies combined with extensive state control of the commanding heights of the economy and excessive bureaucratic regulations for industrial expansion were ultimately reflected in an inefficient, high-cost economy with few gains in terms of productivity growth. In the latter half of the 1980s, India did register a higher rate of growth, but it was accompanied by increased fiscal deficit. By the end of the decade, the burden of government borrowing was exacerbated by a series of external events, including the disintegration of the USSR, India’s thus far economic role model/ally, and the Gulf War. While the former created pressure on the external sector through the sudden cessation of rupee trade, the latter meant a reduction in remittance inflows that had thus far been the largest source of foreign exchange earnings for India. With foreign exchange reserves thus reduced to allow less than a week of imports in July 1991, India, on the brink of a balance of payment crisis, was forced to borrow from the International Monetary Fund (IMF). The bailout loan from the IMF came with the commitment by India towards implementation of the Washington Consensus as part of the Structural Adjustment Programme of the IMF. Thus began India’s economic reorientation towards integrating with the global economy and establishing regional partnerships. In its quest for alternative growth models, India, now free of Cold War divisions, reoriented its foreign policy with the new ‘Look East’ formulation. There were many lessons of economic liberalization and export-led growth that it now wanted to learn from the successful miracle economies of Southeast/East Asia. The other South Asian economies followed course, looking east, though only in the next decade.

Pakistan, although off to a slower start on account of poorer resource base relative to India post-partition, made good progress in the 1960s. While it continued to protect domestic industry, there was also some push given to export expansion. Industry and agriculture both flourished in the 1960s. However, the gains were soon eroded when the political regime transitioned to a more socialist one under Z.A. Bhutto in the 1970s. Coupled with external events, like the oil price shock of the 1970s, breaking away of East Pakistan (until then a captive market) and a series of famines, the decade of 1970s saw a dismal performance. Bhutto’s programme of avowed socialism and nationalization of large industry and the financial sector did not do any good for the economy (Osmani 2008).
Economic liberalization in India was undertaken in the 1990s, with unilateral policy liberalization being the mode of outward orientation. The reforms, systemic in nature, were an outcome of a democratic process that, though gradual, was based on strong political consensus (Ahluwalia 2002). From dismantling the license-permit raj in the industrial sector, it extended to rationalization of the direct and indirect tax system. Trade policy was the other major plank of the reform process, with the elimination of quantitative restrictions and reduction in peak and average tariff rates first in capital and intermediate goods followed by that in consumer goods and agricultural goods. The first set of reforms was soon followed by liberalization of the financial sector in the next few years. The market-oriented reforms led to a greater participation of the private sector – domestic and foreign – and hence an element of competitiveness in economic activity. Led by India, other countries in South Asia followed with their own liberalization programmes in the 1990s.

The economic liberalization in South Asia was followed by an unprecedented growth momentum, largely on account of India’s growth performance, which peaked in the period of 2000–2007 with an annual average growth rate of 6.5 percent and a peak growth rate of 8.9 percent, which was observed in 2006–2007. Macroeconomic stability was maintained during this time with the inflation rate, fiscal balance and trade deficit well within a manageable range. Alongside positive growth, the process was accompanied by a sectoral transformation in the South Asian economies. The share of agriculture in GDP declined to less than a quarter, and that of services increased to over 50 percent for all South Asian economies. The industrial sector did not see much growth during this phase, contributing about a fifth to a quarter of the GDP. The onset of the global financial crisis in 2007–2008 did come as a setback to the growth process, but then South Asia was among the earliest to recover in 2009, with a growth rate of 8 percent (Batra 2013).

While these broad similarities exist among the South Asian countries, there have also been some aspects that are distinct in each economy’s growth trajectory.

In the case of Pakistan, the economic transformation has been limited, if at all sustainable. Pakistan has seen growth in spurts, with the 1960s and 1980s being relatively better and with the military regimes having encouraged private participation in the economy in contrast with the democratic regimes that have been more socialist in orientation. Irrespective of the kind of political regime in Pakistan, growth continues to be propelled by remittance earnings and foreign-aid inflows (owing to its geostrategic advantages: the Afghan War in the 1980s and the fight against terrorism in the 2000s). This dependence on external finance has, in turn, contributed to increased volatility in growth, such as in times of external crisis, like the Gulf War, and/or the imposition of sanctions consequent upon the nuclear tests. This is even more apparent today as Pakistan becomes home to the over $50 billion Chinese investment (www.business-standard.com/article/pti-stories/chinese-cast-a-shadow-on-indo-pak-trade-prospects-zaidi) in the China-Pakistan Economic Corridor (CPEC). While Chinese investment has the potential to ameliorate Pakistan’s power and infrastructure woes, the major constraints to its manufacturing growth, there are fears that this would imply incurring huge loans, the repayment of which may be most difficult in the long run, given that the gestation period for these projects is long, there are security risks in many locations and the domestic capability of Pakistan’s economy to repay is limited. Pakistan may therefore continue to depend on external financial assistance rather than develop a self-sustained growth path.

In Sri Lanka, the economic performance during the second phase of reforms in the late 1980s and early 1990s, while restoring growth, was constrained by the impact of a long-drawn-out civil war in its northern and eastern provinces, and after the 2009 ceasefire, the impact of global financial crisis has meant the shrinking of traditional markets like the
European Union (EU) for its large export sectors. Bangladesh, coming into existence only in 1971, had a slow start with its growth process, but it gathered momentum in the 1980s. A three-year structural adjustment facility under the IMF started in 1986 and included reforms in agriculture, trade and industry. The process gained momentum in the 1990s. Bangladesh has a fairly liberalized trade and FDI regime. A significant highlight of its experience has been the government's facilitating the participation of non-governmental organizations (NGOs) in economic activity and the extent to which this sector has contributed to developmental goals. The NGOs that started with rehabilitation, relief and social-sector activities in the 1970s gradually, in the next decade, expanded to credit delivery and financial services, evolving in the process a unique group-based participatory approach to service delivery (Zohir 2004). In that sense, Bangladesh was able to provide an exemplary model of innovation in providing basic services and inclusive developmental practices, even when the growth rates were not spectacular. In Nepal, with the restoration of multiparty democracy in 1990, the subsequent years were aimed at liberalizing the economy, participating in the global economy and accelerating economic growth. Nepal’s accession to the World Trade Organisation (WTO) was undertaken relatively more recently in 2004. Among the South Asian economies, Nepal is yet to emerge out of its low level of economic growth. Even during the peak growth period (2000–2008) of South Asia, Nepal was the only country to have registered an average rate of growth of less than 5 percent (databank.worldbank.org/datdata/reports.aspx?Code=NY.GDP.MKTP.KD.ZG&ida).

**Developmental challenges**

Notwithstanding diversity in growth outcomes, developmental challenges such as poverty, food security and malnourishment are common to all South Asian economies. India, Bangladesh, Bhutan, Afghanistan and Sri Lanka are included in the Food and Agriculture Organisation (FAO) list of Low-Income Food-Deficit countries. Almost 60 percent of the undernourished in the world live in Low-Income Food-Deficit countries. Of the total undernourished people in developing countries, about 35 percent reside in South Asia. The majority of the undernourished in South Asia, that is, 69 percent of South Asia’s poor, live in India, followed by Pakistan with a much smaller proportion of 14 percent and Bangladesh with a still smaller percentage of about 9 percent. Of the 106.9 million undernourished people residing in landlocked developing countries, a little over 10 percent reside in the landlocked countries of South Asia. There has been little change in these numbers since 2010, notwithstanding the Millennium Development Goal commitments of reducing hunger by half by 2015.

Forty percent of the world’s poor reside in South Asia. In addition, a majority (67 percent in 2015: http://data.worldbank.org/indicator/SP.RUR.TOTL.ZS) of the South Asian population continues to reside in rural areas and depend on agriculture as the major source of employment and income, despite its declining contribution to GDP. Of the total employment in India and Pakistan, 51 percent and 45 percent is in agriculture, respectively. Fifty-eight percent of the total employment in Bhutan is in the agriculture sector (http://databank.worldbank.org/data/reports). In comparison with other regions of the world agricultural population density in South Asia is not only among the highest but has increased in the past two decades. The agricultural population density in South Asia is also close to, though higher than, the average level in low-income countries (www.fao.org). Despite the continuing importance of agriculture to a large section of the population, public expenditure on its development has been stagnant or declining. Instead, the South Asian governments have spent more on safety net programmes with diverse components and variants in terms
of targeting, nutrition base, gender classification, etc. These programmes, plagued by problems of leakage, pilferage and poor targeting, have led to huge subsidization and increased fiscal burdens on the exchequer in the process, implying reduced expenditure on research and development or investment in productivity enhancement initiatives for the agriculture sector. Agriculture research has been low priority for public expenditure in South Asia. As a proportion of agriculture GDP, public research spending on agriculture is less than 50 percent for all South Asian economies (IFPRI 2017). Agriculture production continues to be characterized by small and marginal landholdings, with the average size of less than one hectare in most economies of the region. Land reforms and redistribution are difficult, given vote bank politics in these countries. The challenge of food security in South Asia has been further compounded by the adverse repercussions of climate change on crop yield and output, particularly of staples like wheat and rice.

At the bilateral level, trade in foodgrains in South Asia is small. In times of food crisis, its governments have increased trade barriers rather than facilitate trade across the region. In order to manage domestic foodgrain shortfall/prices, export control measures, including a ban on export of staples, have been used, resulting in the negative externality of sometimes unbearable high prices in import-dependent countries of the region. This was evident in the increased 2007–2008 wheat price in Afghanistan largely as a result of Pakistan’s export ban on wheat and wheat flour and of the rice price in Bangladesh on account of high prices of imports from India, again as a consequence of its restrictions on rice exports during the 2006–2008 food price increase (World Bank 2010).

At the regional level, SAARC has provided for an institutional arrangement for food security under the 2007 ‘Agreement on Establishing the SAARC Food Bank’, which is to act as a regional food security reserve for the SAARC member countries during normal times, food shortages/emergencies and provide regional support for national food security efforts fostering inter-country partnerships through collective action. Under the Agreement, the Food Bank has been authorized to start functioning with a total reserve of 241,580 metric tonnes of foodgrains made up of contributions from all member countries with a decision to increase the strategic reserve later given the region’s population increase and the number of hungry therein exceeding the availability of agricultural land in South Asia. Potentially, therefore, the Food Bank is capable of reducing the region’s vulnerability to food shortages, particularly in times of crisis. However, thus far, there is no experience of withdrawal of foodgrains from the Bank even during critical periods of food shortage. The food reserve has not been activated as the SAARC member countries have failed to resolve the operational and procedural ambiguities. The SAARC Food Bank has thus not been concretized beyond the conceptual level. This is true of many other SAARC programmes and agreements as well, including the SAARC initiative on poverty, a development fund and the 1987 SAARC Regional Convention on Suppression of Terrorism that have not progressed beyond conception. Even regional centres such as those for agriculture information and ecological research in Dhaka and disaster management and documentation in Delhi have not shown any credible progress towards the stated objectives and in the context of developmental challenges in the region. Actually, there exists a larger challenge to successful collective action in South Asia, which is, the predominance of conflict over economic rationality.

**Conflict in South Asia and the challenge to collective action**

Conflict in South Asia has been long-standing and multidimensional. Border, boundary and territorial disputes between India and Pakistan, India and Bangladesh, India and Nepal, and
Pakistan and Afghanistan have persisted over the years. There have also been resource disputes. Many river- and water-sharing arrangements have been at the centre of conflict between India and Pakistan and between India and Bangladesh (Batra 2013). The region has also been characterized by ethnic domestic strife with spillover implications for bilateral relations.\footnote{11} Terrorist threats and nuclear and missile rivalry in the region have been both a consequence and cause of conflict. Bilateral conflict has been persistent, difficult to resolve and unlike in other regions has not been subsumed in the larger interest of peace for development in South Asia. Regional leadership has not taken the initiative to unite the region or steer the regional organization towards peace or development. India’s most recent attempts of invitation to all the SAARC heads of government for the prime minister’s oath-taking ceremony in 2014 have been brought to a null by continued cross-border terrorism. In other regions, large economies have come together or given up territorial claims, such as in the case of the EU and Association of Southeast Asian Nations (ASEAN), in pursuit of a larger objective of peaceful prosperity. This has not happened in South Asia where the relationship between the two large economies, India and Pakistan, has been the most enduring strategic rivalry (Batra 2013). Therefore, even a common traumatic past like the partition has not been sufficient cause to allow supremacy to cooperative forces to work towards regional development in South Asia. This is unlike the experience in the case of the EU, where the ravages of war were sought to be overcome through increasing economic interdependence between rival countries. On the contrary, for South Asia, the partition with its man-made boundaries has meant that the countries define themselves as distinct rather than evolve along a common developmental path.

Conflict has inflicted a cost on the region in terms of limiting intra-regional economic exchange and trade. South Asian experience has defied the logic of shared borders, physical proximity and common language and history as the basis of identifying natural trading partners with low transaction costs. As borders are disputed, adjacent countries have actually substituted trade with regional partners by trading with the rest of the world. Longer and more circuitous routes\footnote{12} have been adopted for trade rather than allowing movement of goods across common borders within the region at much lower transportation costs. Instruments of economic integration, although formulated, have not progressed successfully towards trade liberalization or creation of a free trade area in the region. The South Asian Preferential Trade Agreement (SAPTA) initiated in 1993 was suspended in 1999 after three rounds of negotiation, owing to rising India-Pakistan tensions and a military coup in Pakistan. As bilateral relations between India and Pakistan normalized in the early 2000s, an announcement for the South Asian Free Trade Area (SAFTA) was made at the 2004 SAARC summit held in Islamabad. It took two years for the FTA agreement to be implemented in 2006. After over a decade of its implementation, the FTA is not yet anywhere close to fruition. Trade liberalization under both SAPTA and SAFTA was inhibited, in the case of the former by an inherently prolonged positive list-based approach to negotiations and in the latter case by large negative lists that invariably included the most tradable goods among these economies. Granting concessional market access to regional partners for goods where they have a comparative advantage while making economic sense is not politically gainful in these countries. In addition, Pakistan in violation of the spirit of the SAFTA agreement provisions, until 2011, specified a small positive list for trade liberalization with India. Unsurprisingly therefore, intra-regional trade in South Asia continues to be low and stagnant at around 5–6 percent, below the levels achieved by even sub-Saharan Africa. Further, India with its unilateral offer of duty-free and quota-free market access to all LDCs in the region and bilateral preferential trading arrangements with Bhutan and Nepal and an FTA with Sri Lanka leaves little advantage in utilization of the SAFTA.
The overriding importance of politics over economic rationality is also due partly to the political regimes in South Asia being other than democracies. Democracy has not been the norm in the region. Only India and Sri Lanka have experienced democracy on a sustained basis. Other countries have only recently made a more substantive shift to democracy after long runs of monarchy in Bhutan and Nepal and autarkic and military regimes in the case of Pakistan and Bangladesh. In autocratic or military rule policy orientation towards maximization of economic welfare of the median voter may not be a given. So, even if economic rationality may justify regional trade integration, political regimes may do otherwise. The adamant policy stance of the Pakistan government to not grant India the most favoured nation (MFN) status is an example in this context. As WTO members, India and Pakistan are required to grant MFN status to all their trading partners so as to conduct trade on a non-discriminatory basis. India granted MFN status to Pakistan in 1996. Pakistan has not granted India the MFN status thus far, arguing that this may lead to an enlargement of an existing trade deficit with India. The argument is based on narrow political gains. Importing from India may lead to a larger bilateral deficit but will, in turn, reduce Pakistan’s overall trade deficit with the rest of the world as imports from other countries are substituted by those from India at lower transportation costs. Announcement towards granting India the MFN status in 2011 made during the Pakistan PM’s visit to India was retracted soon after his return home. On the grounds that the MFN term is not politically acceptable, an alternative Non-Discriminatory Market Access (NDMA) status was proposed as a workable option. However, even the NDMA has not seen full implementation to date.

In the case of India-Bhutan and India-Nepal, heterogeneity of political regimes notwithstanding, to a large extent geography has contributed to shaping economic relations. Both Bhutan and Nepal are landlocked countries. Bhutan is an example of successful cooperation with India where the smaller country has been able to develop its hydropower potential that is far in excess of its domestic demand with financial and technical assistance from India. This has helped create income and employment for Bhutan, while export of hydropower to India has been advantageous for energy-deficient India. With Nepal, India’s relations are defined by economic dependence in the arena of trade. The long-standing trade treaty, last revised in 2009, has allowed free movement of goods across the open border with stricter rules of origin being introduced by India only in the last decade owing to increased import of certain commodities and fears of trade deflection. In the context of water-sharing arrangements however, domestic politics and issues of sovereignty have outweighed economic rationality.

In fact, apart from India-Bhutan, sharing of water resources and hydropower project development for energy cooperation in South Asia has always been contentious. Water-sharing arrangements have been necessitated by the cross-boundary nature of the rivers often a result of arbitrary territorial boundaries that have been drawn at the time of partition. Disputes have arisen on issues related to storage structures (height and design), release/flow of water in dry and wet seasons, and compensation. Cooperative behaviour that could be in the interest of both countries has often been rejected over misplaced perceptions of infringement of territorial sovereignty as in the case of India-Nepal dispute over the construction of the Tanakpur barrage and India-Pakistan disputes vis-à-vis the Indus Water Treaty (IWT).

Signed in 1960, the IWT between India and Pakistan is otherwise considered as a successful model of bilateral cooperation. Three wars, a minor war and frequent border skirmishes have not been able to dislodge the treaty. That the treaty has been an outcome of third-party (World Bank) mediation contributes to its uniqueness as India and Pakistan have otherwise refrained from third-party involvement in bilateral issues. While the two countries broadly abide by the agreement, disputes have arisen based on complaints by Pakistan on water flow
being restricted by India owing to its upstream status. This derives its significance from the fact that Indus and its tributaries are the only source of surface water for Pakistan, particularly for its agriculture sector. However, disputes related to technical interpretation of the treaty, particularly where dam construction is involved, may be otherwise motivated, given that the rivers Indus, Jhelum and Chenab all flow through J&K, the site of a long-standing and core territorial dispute between India and Pakistan (Batra 2013). The construction of the Baglihar dam, Tulbul navigation/wullar barrage and Kishanganga dam project have been some of the more prominent disputes in this category.

In the broader context of regional energy cooperation, South Asia has both energy-deficient (India, Pakistan and Sri Lanka) and energy-surplus countries (Bangladesh, Nepal and Bhutan), alongside transit economies like Afghanistan (for South Asia-Central Asia, with Central Asia as the energy resource-rich region) and Pakistan. Energy cooperation, though highly desirable in the region, given the growing demand and pace of industrialization, has not happened. Existing high dependence on oil imports that increases vulnerability to oil market volatilities and fossil fuel dependence that has adverse environmental implication makes energy security through alternative resources an imperative for South Asia. But not just hydropower projects even gas pipeline projects like Turkmenistan-Afghanistan-Pakistan-India (TAPI) and Iran-Pakistan-India (IPI) have been stalled for years over issues like construction and security of pipelines, transit routes and fee and per-unit gas pricing – with bilateral political relations having added and contributed further to the complexities and delays.

**Conflict over cooperation in South Asian regionalism and evolving alternatives**

Addressing the essential question at a larger level on whether these states in constant conflict have been able to shift into a mode of regional cooperation is important considering that other regions have progressed in their pursuit of economic regionalism through collaborative action of member states and the regional organization facilitating the process either through peace building as in ASEAN or by establishing rules of economic interaction as in the case of the EU. As ASEAN members entered a phase of peaceful coexistence, the process was carried forward by market forces. The dynamism that has accompanied South-east Asia through interactive and interconnected industrial development: the flying geese model (Akamatsu 1962) that followed the initial export-led and, for second-tier newly industrialized economies (NIEs), FDI-led industrial growth models is not evident in the case of South Asia. Intra-regional FDI in South Asia is small, manufacturing base of member economies is not yet diversified enough for complementary comparative advantages to have evolved so as to form regional supply chains, and intra-regional trade liberalization is not complete subject as it is to political factors and bilateral conflicts rather than to economic rationale.

In South Asia, regionalism has not been accorded the primacy it has received in other regions. With many other regions already having seen successful regional economic integration initiatives, it was largely the fear of isolation that compelled member countries to establish the SAARC in 1985. In over three decades of its existence, it has seen little success in terms of its stated objectives at the time of initiation, the economic agenda adopted much later in the early 1990s or even in terms of the number of summit meetings held so far. Only eighteen summits have been held in over three decades of SAARC’s existence. Strangely enough, while the Charter itself specified that bilateral and contentious issues will be kept out of the deliberations, it is the bilateral tensions that have inhibited the
organization from making progress (Indian Foreign Affairs Journal 2014). With even the FTA not yet fully implemented, the vision of creating a South Asia Economic Union (SAEU) reiterated at the 18th SAARC summit in Kathmandu in 2014 remains an unrealistic goal. In fact, the 18th SAARC summit ended with Pakistan’s refusal to sign the three connectivity agreements proposed by India citing ‘lack of domestic preparedness’. The 19th SAARC summit that was to be held in Pakistan in 2016 was suspended when India’s stance of abstaining from the summit post terrorist attack on its army base camp in Uri was supported by other member countries.

Notwithstanding its limited success, the SAARC has seen an expansion in its membership with Afghanistan as a new member in 2006 and China making a serious bid for membership. While China’s bid for membership and greater role in the SAARC has not materialized, it has made inroads into the South Asian region through its various investment projects over the last half a decade and now, more significantly through its One Belt One Road (OBOR) connectivity strategy that has all South Asian nations except India as participants and potential beneficiaries. There is now a balancing act at evidence in the region that the smaller economies are attempting vis-à-vis their relations with the larger South Asian economy India and the other power desirous of a regional status that is China. Simultaneously, it is also interesting to note that India has over the last decade been increasingly sought by the Southeast Asian countries as a counterbalancing power vis-à-vis China. India’s trade integration with the region has been consolidated through its FTA with ASEAN and the ASEAN-centric Pan Asian formulation – the regional comprehensive economic partnership (RCEP). With the Look East policy reformulated by India in 2014 as the ‘Act East’ policy, there is an even greater emphasis on economic integration with ASEAN and East Asian economies through regional value chains. At the same time reformulating its strategy for South Asia, India, with willing regional partners, is now leading the way forward through subregional cooperation.

Conclusion and reflections

The chapter highlights that South Asia is a region where conflict has dominated cooperation. Despite the many similarities – history, geography, culture and religion – South Asia has not been able to unite with a common cause. Even though faced with common developmental challenges of poverty, malnutrition and energy demand, the countries have not been able to design or operationalize collaborative solutions either through or independent of the regional organization, the SAARC, that has been in existence now for over three decades. The geographically and economically central country India is also a participant in almost all bilateral conflicts in South Asia, centred as they are around issues of territory, resource sharing and cross-border ethnic strife. Smaller countries have therefore often subjected benefits of bilateral and regional economic interactions and decisions to domestic political gains. Instruments of economic integration have had little success as conflict has played an overriding role in both the negotiation and implementation processes.

The South Asian countries have always looked at the rest of the world for economic interaction rather than within the region. However, India with its relatively more diversified economy is now looking east with greater focus and attention to consolidate a process that was initiated in the 1990s with its economic liberalization. Having paid positive dividends in increasing India’s engagement with the dynamic ASEAN and East Asian economies, the policy has now not just been rechristened as the Act East policy, but there is also further strengthening of economic relations given the post global financial crisis global scenario of growth.
yet to pick up in the advanced economies and the fact that India is sought as a counterbalance to China’s growing influence in the evolving Pan Asian regional context. Additionally, India having attempted and not succeeded to revive the South Asian regionalism and SAARC through its positive overtures to Pakistan (Indian PM’s visit to Pakistan in December 2015) and regional initiatives (invitation to all SAARC heads to the new government’s oath-taking ceremony in 2014 and the three connectivity agreements prepared and presented by India at the 18th SAARC summit in 2014) has now realigned its neighbourhood policy towards subregional cooperation. Connectivity and transport corridors are being proposed as means to development cooperation. Groupings like the BBIN and BIMSTEC are showing gainful momentum. The BBIN member countries have signed a motor vehicle agreement in 2015 to facilitate movement of passenger, personal and cargo vehicles across borders. Simultaneously, Pakistan has moved ahead, notwithstanding its potential debt enhancing possibilities, with the CPEC connectivity project with Chinese financial assistance. While the outcomes of these projects may not be easy to predict, the developments in South Asia, as always, reinforce the divergence more than the commonalities in the region.

Notes

1 Afghanistan joined SAARC in 2007. The other seven countries are founder members of the regional organization.
2 India has now (in 2017) established an air freight corridor to facilitate the movement of goods from Afghanistan to India, thus overcoming the trade barrier in the APTTA.
3 Member countries – BBIN: Bangladesh, Bhutan, India and Nepal; BCIM: Bangladesh, China, India and Myanmar; MGC: Cambodia, Laos, Myanmar, Vietnam, Thailand and India; BIMSTEC: Bangladesh, Bhutan, India, Nepal, Myanmar, Thailand and Sri Lanka.
4 Coined in 1989, the term was used by John Williamson to describe a set of ten policy reform measures that were required in Latin America. The term over time has come to be associated with reforms under the structural adjustment programme of the IMF for countries that borrow to avert/overcome a financial crisis (Williamson 2004).
5 During the early 1990s, India’s unilateral trade liberalization was restricted to the manufacturing sector. During 1995–2001, the remaining restrictions (QRs) on imports were gradually removed in a large measure in response to international pressures. The first of these pressures came from Uruguay Round negotiations on textiles and clothing (Agreement on Textiles and Clothing), phasing out the multi-fibre agreement (MFA), the second from a dispute brought against India at the WTO in the matter of imposing quantitative restrictions on imports under the balance-of payments clause of the General Agreement on Tariffs and Trade (GATT) (Article XVIII (B)) (Goldar 2005).
6 Based on the income criterion, net food trade position of a country reflecting trade volumes of a broad basket of basic food stuffs converted and aggregated by the calorie content of individual constituent commodities and a self-exclusion request in case they satisfy the first two criteria.
8 Agricultural population per hectare of arable land and permanent crop land.
9 Initially in 2008, assessed as India (153,000 tonnes), Bangladesh (40,000 tonnes), Pakistan (40,000 tonnes), Nepal (4,000 tonnes), Sri Lanka (4,000 tonnes), Bhutan (180 tonnes) and the Maldives (200 tonnes). The quantum was doubled in 2009: SAARC-sec.org: A Guide to the SAARC Food Bank.
10 Such as floods in Nepal in 2008 and in Pakistan in 2010 and earthquake in Nepal in 2015.
11 Examples of such intra-state issues with inter-state implications include the insurgency movement in Indian Punjab (India-Pakistan), Tamil issues in Sri Lanka (India-Sri Lanka) and insurgency movements in India’s north-eastern states (India-Bangladesh).
12 For example, India-Dubai-Iran-Afghanistan-Pakistan (Batra 2013).
13 Translated in local Urdu language, MFN is stated to mean ‘most favoured friend (nation)’ and hence not a politically acceptable term in Pakistan vis-à-vis India.
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14 After the attack on Indian army base camp in Uri by cross-border terrorists in 2016, revision of the Treaty was considered as also its use by India as an instrument of sanctions against Pakistan, but then it was left unchanged.

15 Apart from eight member countries, the regional organization has nine observers inclusive of Australia, China, US, EU, Korea, Japan, Myanmar, Mauritius and South Korea.

16 Bhutan has expressed reservation for environmental reasons and is yet to ratify the agreement.

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