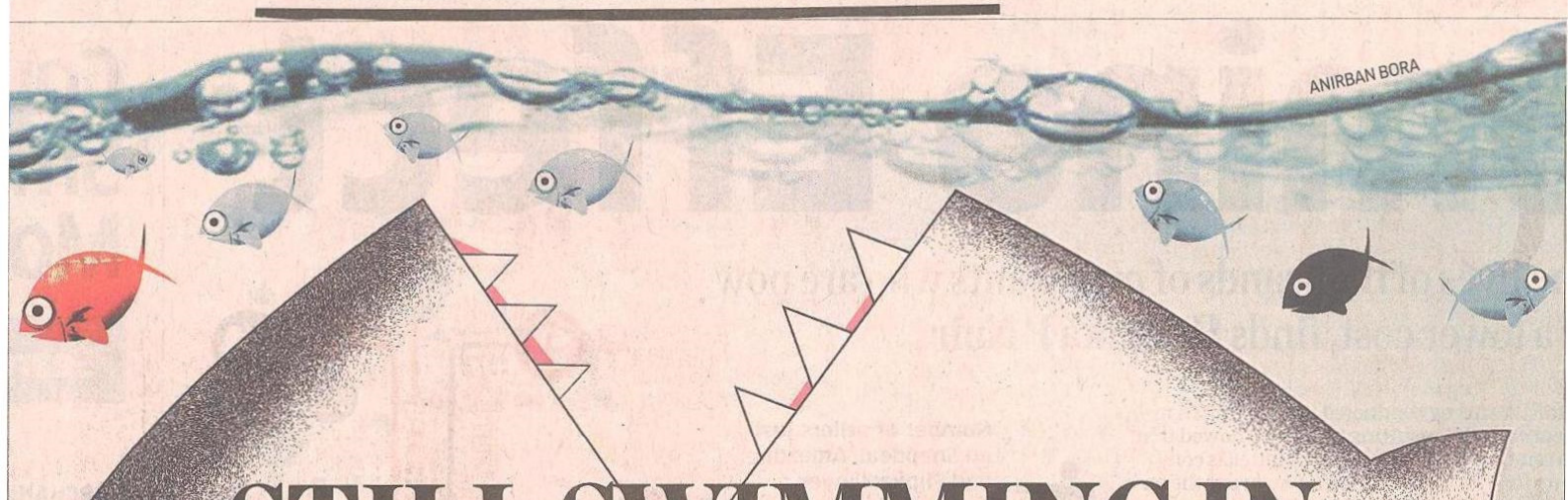

STILL SWIMMING IN SAARC-INFESTED WATERS

Chandrajit Banerjee

At the 18th South Asian Association for Region Cooperation (Saarc) Summit in Kathmandu, Prime Minister Narendra Modi made the point about how "we are neighbours but we are not together" and how "by staying together, our strength can increase manifold". This 'cynicism to optimism' approach also means regional economic integration being a key issue to serious bolster the institution of Saarc.

South Asia is one of the least integrated regions of the world. It accounts for just 2% of world trade and 1.7% of world foreign direct investment (FDI). Its intra-regional trade is less than 6% of its total trade and accounts for less than 2% of its GDP. Compare this with the more than 20% figure for East Asia. Intra-Saarc FDI accounted for a paltry 3% of total FDI inflows. This, despite the fact that the South Asian Free Trade Agreement (Safta) has been in place for some time now. Part of the problem stems from the fact that the tariff reductions undertaken within Safta have not been very deep, and the items that were offered concessions were not of trade interest to member countries.

REGIONAL TRADE

Efforts to build an effective economic cooperation model have been going on ever since the Saarc was established as a regional group that included Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka in 1985. However, it is only recently that there has been a greater emphasis on achieving a deeper regional economic integration.

Both the governments and businesses in South Asia have started recognising the benefits of greater economic ties in the region, especially in light of the global slowdown. They are trying to improve their business environments, facilitate cross-border trade and accelerate regional economic relations. The most noteworthy development is the rising interest of the private sector in a strong and explicit manner.

In order to help regional trade and investment achieve its potential, private sector firms seek more enabling policies and infrastructure support from their governments. They feel that timely additional support and facilitation by governments is necessary in order to achieve deeper regional cooperation and maximise its impact on regional and national development levels.

B2B DIALOGUE

To structure these requests for support, the private sector is organising itself to strengthen dialogue between business leaders across the region, exchange ideas with government bodies, and explore exciting new avenues for promoting regional cooperation, trade and investment. However, these business-to-business dialogues are happening more at a bilateral level rather than at a regional level.

South Asia has all relevant ingredients to emerge as one of the more successful examples of regional economic integration: a geographically contiguous region with a market of 1.5 billion people with rising incomes, consistent economic growth of 5-6% for close to two decades, significant convergence in their macro-economic policies and adoption of a similar approach towards diversifying their respective economies. In spite of so many enablers, South Asian countries have not been able to embark upon a journey towards economic integration.

Pakistan holding out on the Agreement for the Regulation of Passenger and Cargo Vehicular Traffic (Motor Vehicle Agreement), the Saarc Framework Agreement for Energy Cooperation (Electricity), and the Saarc Regional Railways Agreement tell you a story, as does Prime Minister Modi's subsequent comment, "The bonds will grow through Saarc or outside it, among us all or some of us."

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Another way to promote regional integration is by way of investment. This strategy has worked for a number of regional economic integration models such as the EU. There is potential for enhancing regional cooperation in the area of direct investment, both for expanding intra-Saarc investments, and for attracting FDI from outside the South Asian region.

DRAWING LESSONS

There is also a need to draw lessons from success stories such as the North American Free Trade Agreement (Nafta) and the Association of South East Asian Nations (Asean).

Like South Asia where India is a dominant economy, Nafta and Asean integration are also centred around large economies like the US and Thailand, Malaysia and Indonesia, respectively. While existence of a large economy helps in various ways in any integration process, smaller economies always fear threats from the larger industry sector of a big country. Nafta and Asean stand out as successful examples where smaller economies have benefitted significantly from regional integration.

Creating regional value chains holds importance in any economic integration process. However, poor trade facilitation infrastructure has become the main obstacle in both intra-regional trade and investment. Airports and maritime ports in South Asia are less advanced, resulting in longer waiting time in clearing consignments. Weak land networks across the region pose a formidable barrier to intra-regional trade. The region is also characterised by inefficient Customs procedures and excessive paperwork requirements.

South Asia has the world's largest working-age population and a quarter of middle-class consumers. With greater regional integration, seamless connectivity and removal of trade and investment bottlenecks, the region has the potential to break out.

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