



ORF ISSUE BRIEF

AUGUST 2015

ISSUE BRIEF # 102

SAARC: The Way Ahead

Jayshree Sengupta

Introduction

The South Asian Association for Regional Cooperation (SAARC)—comprising India, Bangladesh, Bhutan, Sri Lanka, Maldives, Nepal, Afghanistan and Pakistan—has been in existence as a regional grouping for almost 30 years (with Afghanistan joining in 2007). It has yet, however, to succeed in bringing about closer integration between the member countries. The idea behind SAARC—whose seed was sown by the late Bangladesh President Ziaur Rahman—was to promote regional cooperation and foster economic development and prosperity throughout the region.

While the objectives enunciated in the SAARC charter signed in Dhaka in 1985 were to accelerate economic growth in the region and build mutual trust among member states, serious problems of cohesion remain and South Asia now stands as one of the least integrated regions in the world. After three decades of existence, intra-regional trade in South Asia is lower than that of other regional groupings. Intra-regional trade as a share of South Asia's total foreign trade was only 5 percent in 2014, against 25.8 percent for Association of Southeast Asian Nations (ASEAN) member countries.¹

The outcome of the 18th summit of SAARC, held in Kathmandu, Nepal, in November 2014, was not exceptional in any way. No concrete action was taken on the issues of terrorism, trade and foreign investment to validate the theme of the conference, 'Deeper Integration for Peace and Prosperity.' It was, as always, full of fanfare and rhetoric, and plenty of handshakes and promises were exchanged. On top of the agenda were three connectivity agreements on road, rail and energy. Only that on energy was signed.

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The lack of political will among members to make SAARC a dynamic grouping has been evident since its inception and was again seen in Kathmandu.

South Asia is one of the most backward regions in the world and urgently needs development and a higher rate of economic growth. It is home to 23.4 percent of the world's population but accounts for only 6.66 percent of the world's gross domestic product (GDP) using the purchasing power parity (PPP) method of calculation. It is home to nearly 44 percent of the world's poor (570 million) who survive on less than \$1.25 a day.² Serious socioeconomic issues plague the region, including poverty, illiteracy, inequality, unemployment and malnutrition.

Table 1: Human Development Parameters - SAARC

	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Education and literacy								
Net enrolment rate in primary education (%) (2008)	77.2	85.5	95 (2011)	98.3 (2009-10)	95.5 (2010)	70 (2011)	56	97.5 (2006-07)
Literacy rate (6 years and above) (%)	NA	NA	NA	NA	93.8	76 (2011)	NA	92.7 (2012)
Adult literacy rate (15 years and above) (%)	NA	55.9 (2009)	52.8 (2005)	66.0 (2007-08)	95.8 (2006)	60 (2006)	55.0 (2011)	90.6 (2008)
Employment and labour force								
Labour force participation rate	54.2	58.5 (2006)	67.4 (2011)	59.6 (2009-10)	53.8 (2009)	71.5 (2008)	45.7 (2011)	47.2 (2012)
Unemployment rate	7	4.2 (2006)	3.1 (2011)	2.6 (2009-10)	11.7 (2009)	2.1 (2008)	6.0 (2011)	4.0 (2012)
Poverty and inequality								
Population living below the national poverty line	42 (2007)	40 (2005)	NA	37.2 (2004-05)	15	25.2 (2011)	22.3 (2006)	6.5 (2012)
Proportion of population living on less than \$1.25 (PPP) a day	NA	49.6 (2005)	26.2 (2003)	NA	8 (2010)	55.1 (2005)	21.4 (2008)	1.4 (2012)
Human Development Index (HDI) 2011	0.407	0.566	0.619 (2009)	0.547	0.714	0.458	0.504	0.715 (2012)
HDI rank in 2011	172	146	141	134	109	157	145	92 (2012)

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Child Health								
Infant mortality (per 1,000 live births)	134	41	40.1 (2010)	47	11 (2010)	46 (2011)	70.5	9 (2009)
Underweight children under five years (%)	39.3 (2004)	46.3 (2007)	18.7	42.5 (2005-06)	30.4 (2001)	28.8 (2011)	NA	26.9 (2006-07)
Productivity								
Employment in agriculture (%)	69.6 (2004)	48.1 (2006)	60.15 (2011)	53.2 (2009-10)	4.2 (2009)	73.9 (2008)	45.1 (2011)	31.0 (2012)
Value added by agriculture (2011) (%)	30.6	18.4	18.4	17.2	3.5	37.2	21.6	12.1

Source: SAARC Group on Statistics, 2013

Since the formation of SAARC in December 1985, member states have not been able to strengthen their economic ties so that they could work together towards the development of the region. Their attempts at collaboration on developing their industrial and social sectors, better connectivity and encouraging higher levels of investments have remained lacklustre and weak. The region is also rife with issues of national identity and internal consolidation that have caused political tensions and mistrust among member countries.

Increasing People-to-People Contact

People-to-people contact, essential for building greater trust among the members of SAARC, has also not moved fast enough. Visa restrictions exist as well as foreign exchange controls, holding back intra-regional tourism and promotion of business. There are major impediments to travelling from one country to another by road and rail as land connectivity is poor. The heads of state made substantial progress during the 18th SAARC Summit towards finalising the SAARC Motor Vehicles Agreement and SAARC Regional Railways Agreement. However, the tedious part of completing the agreements for approval is still pending.

Suspicion and mistrust prevail among all the members regarding the free movement of people and goods within the region. There is widespread smuggling and trafficking of goods across the borders of the member countries. But free, legitimate travel by citizens of SAARC countries within the region will allow them to realise their common cultural roots and develop a common South Asian identity that is highly important for any concept of regional integration to reach fruition.

More people-to-people contact can influence political leaders and foster high-level commitment for regional cooperation. It will allow for a greater exchange of ideas based on the diverse religious, cultural and philosophical traditions of South Asia, leading to a greater sharing of literature, music, films, culture and lifestyles. In recent years, whenever there has been more people-to-people contact

between Indians and Pakistanis, for example, there have been expressions of solidarity and appreciation of mutual traditions and cultures. Similar appreciation of their common culture and affinity especially in music, art and literature is evident between Indians from West Bengal and Bangladeshis. There are also similarities in culture between South Indians and Sri Lankans, Afghanis and Nepali people. One of the goals of SAARC is to strengthen these socio-cultural ties and this can only be done with more freedom of movement.

Pakistan and India

In the field of economic cooperation, Pakistan has not granted India the Most Favoured Nation (MFN) status though its Cabinet cleared the proposal in November 2011, or 15 years after India granted Pakistan that status. It means Pakistan continues to levy higher tariffs on Indian products compared to its other trade partners.

As India is a bigger economic power, Pakistan is concerned that its domestic market will get swamped with cheaper and better quality goods from India that could weaken its own industries. Pakistan's trade deficit with India is huge: A report by the State Bank of Pakistan pegged the deficit at \$1.158 billion in 2011, compared to \$802 million in 2010, marking an increase of 44 percent.³

Though Pakistan and India have not fought an open war in the last 40 years, (except for Kargil), the state of military preparedness and hostility on both sides stand in the way of bringing about deeper cooperation and trust in the region. Such obstacles have prevented the strengthening of SAARC. And, like in a vicious cycle, the progress of SAARC has not led to an India-Pakistan *entente cordiale* (friendly understanding).

Cooperation in Agriculture

As independent countries of the same geographical region, SAARC members do not have many complementarities. Instead, they have similar endowments in skills and produce the same type of products. Each of these countries has a strong agricultural base and similar crop patterns. Food security is a common problem in all the countries and more than 50 percent of the population in each country is dependent on agriculture.

Cooperation in agricultural practices will be beneficial to all the countries in SAARC. India, for example, has spearheaded agricultural research and can share its research outcomes with fellow SAARC members. Low agricultural productivity has sustained high levels of poverty in the region. The per-hectare yield of the main staples in all the countries is lower than the world average. Growth rate of agricultural productivity is also low.⁴ Along with higher agricultural productivity there is a need for food security. The Kathmandu Declaration has noted the urgent need to establish a food and a seed bank for the region. The leaders agreed to eliminate the threshold criteria from the SAARC Food Agreement Bank to enable member states to avail food grains especially during

disasters and emergencies. There was also a call for the early ratification of the SAARC Seed Bank Agreement and for constituting the Seed Bank Board, pending completion of ratification by all member states.

Trade

In trade, the first bold step towards freer trade was taken with the establishment of the South Asian Preferential Trading Arrangement (SAPTA), which was signed in 1993 and came into force in 1995. It was considered the main stepping stone towards a higher level of intra-regional trade liberalisation and economic cooperation. It was negotiated on a product-by-product basis but the stringent rules of origin clause was difficult to implement and eventually led to its failure.

SAPTA prescribed that for products that were not wholly produced or obtained within the country, the total value of the materials, parts or other inputs originating in non-member states used in the production of the exported products should not exceed 50 percent of the FoB value. Moreover, the final processing and manufacturing had to be done within the territory of the exporting member state. In order to encourage regional value addition, the rules permitted that if within SAARC, the cumulative content was not less than 60 percent of the FoB price, then the product was eligible for SAPTA preferential treatment. The SAPTA rules of origin remained contentious and after much resistance, mainly from India, in 1999, the local content requirement was reduced to 40 percent for non-LDC (Least Developed Country) members and 30 percent for the four LDC members. The cumulative origin requirement was reduced to 50 percent.

India and Pakistan still do not have a formal trade agreement and Pakistan follows a positive list approach under the South Asian Free Trade Area (SAFTA) with India. The positive list has consistently increased over the years and since 2010-11, it stood at 1,938 items.⁵

Table 2: FTA/PTA commitments in rules of origin

FTA/PTA	Rules of Origin		
	Bilateral	SAFTA (For non-LDC's exports)	SAFTA (For partner's exports)
India- Afghanistan PTA	CTH + 40%	CTH + 40% (Non-LDCs)	CTH + 30% (LDCs)
India- Bhutan FTA	Manufacturers of Bhutan	CTH + 40% (Non-LDCs)	CTH + 30% (LDCs)
India- Nepal FTA	CTH + 30%	CTH + 40% (Non-LDCs)	
India- Sri Lanka FTA	CTH + 35%	CTH + 40% (Non-LDCs)	CTH + 35% (Sri Lanka)
Pakistan- Sri Lanka FTA	CTSH + 35%	CTH + 40% (Non-LDCs)	Not yet committed (Afghanistan)

Source: Rules of Origin under Regional Trade Agreements, RIS (2010).

SAFTA came into existence on 6 January 2004. It aimed at the reduction of customs duties on all traded goods to zero by 2016. But the Sensitive lists of all the members on which there would be no tariff reduction has remained long. It was noted that 53 percent of the total intra-regional import trade was excluded from the Tariff Liberalisation Programme under SAFTA.⁶ The FTA, however, aims to shorten the Sensitive lists, reduce non-tariff barriers (NTBs) and tariff barriers, harmonise tariff codes and tackle the rules of origin issue. India has the shortest negative list. It has reduced tariffs to zero for most tradable commodities with the least developed countries in the grouping.⁷

Table 3: Number of products on the Sensitive list

Country	Number of products in the earlier Sensitive lists	Number of products in the revised Sensitive lists (Phase- III) w.e.f 1 January 2012
Afghanistan	1,072	858
Bangladesh	1,233 (LDCs) 1,241 (NLDCs)	987 (LDCs) 993 (NLDCs)
Bhutan	150	156
India	480 (LDCs) 868 (NLDCs)	25 (LDCs) 614 (NLDCs)
Maldives	681	154
Nepal	1,257 (LDCs) 1,295 (NLDCs)	998 (LDCs) 1,036 (NLDCs)
Pakistan	1,169	936
Sri Lanka	1,042	837 (LDCs) 963 (NLDCs)

Source: SAARC secretariat

Non-Tariff Barriers

Cooperation in reducing NTBs and dealing with SPS (sanitary phyto-sanitary) measures imposed by SAARC members on each other's products will lead to higher trade volumes. Modernising customs check posts and stations and installing testing labs in the vicinity will help expedite the flow of goods between the neighbours. Under the purview of SAFTA, a committee of experts (CoE) was formed to monitor, review and facilitate implementation of the agreement. A sub-group of the CoE will look into problems related to non-tariff measures (NTMs) and para-tariff measures (PTMs) faced by member countries while entering each other's territories.⁸ Further, in the 18th SAARC Summit Declaration, the leaders outlined their aim of creating a South Asian Economic Union (SAEU) in a phased and planned manner. This envisages a Free Trade Area, a Customs Union, a Common Market, and a Common Economic and Monetary Union.⁹

Bilateral trade agreements between members have been signed even though regional trading agreements are now the order of the day and are changing the world's economic landscape. More

than one-third of global trade takes place among countries that have some form of mutual regional trade agreements. Even after nearly 10 years of SAFTA and steep reductions in tariffs—at least by India—trade among SAARC countries has barely reached 5 percent of their total trade.

According to the World Bank, the reasons for the low level of trade include protectionist trade regimes that discriminate against trade among larger nations, continued conflict between India and Pakistan, and transport and trade facilitation constraints.

Trade liberalisation will result in increased scale and technological effects and can lead to innovations and a rise in productivity. Formal trade can grow from the current level of \$44 billion to \$66 billion. SAARC's potential for intra-regional trade is estimated at \$80 billion.¹⁰

Small and Medium Enterprises (SMEs)

All SAARC members have SMEs that need restructuring to become more competitive. As SMEs are a very important segment of the manufacturing sector in the region, cooperation in technology upgradation and marketing of products will increase competitiveness and reduce costs. The SME sector, however, is constrained by lack of access to finances and state of the art technology; their productivity remains low.

South Asia has to move up the value chain by progressively diversifying its export basket in favour of more rapidly growing and high value-added goods and services. A study by the SAARC Trade Promotional Network identified sectors on the basis of export potential and national priority to develop regional value chains in all SAARC nations. The nominated sectors are cumin seeds, juices, citrus fruits, and textiles and readymade garments. Thus, building competitive production capacities in micro, small and medium enterprises (MSMEs) becomes a key issue. Building regionally integrated value chains will enable South Asian countries to enhance efficiency of sourcing by reducing costs and lead times.

Cooperation between SAARC members in the SME segment will lead to higher productivity and incomes. Regional value chains can be private sector-driven as in South East Asia.

The SAARC Trade Promotion Network set up a working group to cater to the needs of SMEs in the region that are keen to explore business opportunities in other SAARC countries. The initiative will also focus on the empowerment of women entrepreneurs.

Energy

There can be cooperation in non-conventional sources of energy and in finding alternatives to fossil fuels. Cooperation on other forms of energy is also likely. Already, India has signed energy deals with

Bangladesh and Nepal. SAARC countries are net energy importers. Energy trade is essential if the region is to meet its growing energy requirements.

However, cross-border energy trade is limited to Bhutan, India and Nepal. In 2014, India signed a deal to build the 900 MW Arun III hydroelectric power project in eastern Nepal, which will cost \$1.04 billion. Under the Arun III agreement, Nepal will get 22 percent of the electricity free of charge. In September, a private Indian company (GMR Group) and Nepal signed a \$1.15-billion deal to build the 900 MW upper Karnali hydroelectric plant in the northwest of the country. It will start generation in 2021 and more than three-quarters of its output will be exported to India. Nepal, meanwhile, which faces an electricity shortfall of 600 MW and where power cuts can last up to 12 hours in a day, will get 12 percent of the power output for free. Further, Indian company GMR will build a separate power house to generate 2 MW of electricity that will be supplied to villagers in Achham, Surkhet and Dailekh districts where the project will be located.¹¹

India has agreed to supply 600 MW of power from the grid at Palatana (Tripura) to Bangladesh, which is one of the most energy-deficient regions in the world. In Bangladesh, only 47 percent of the population have access to electricity. Alternative sources of energy, such as wind, water and nuclear, will help industrialise the region.

Connectivity

Connectivity between the member countries is extremely important for the region's prosperity and for direct links with ASEAN, Central Asia and Europe. The revival of the Silk Route is an important development that India and its neighbours cannot ignore. China, which initiated the revival of the old Silk Route, has already declared the so-called 'One Belt One Road' (OBOR) as a new foreign policy initiative aimed at boosting international cooperation and joint development throughout Eurasia.¹²

China's trade volumes with India's South Asian neighbours are larger than India's trade with them. China is also financing major South Asian infrastructure projects and is a votary of an integrated trading network that will stretch from western China to Central Asia, South Asia, the Middle East and Europe.

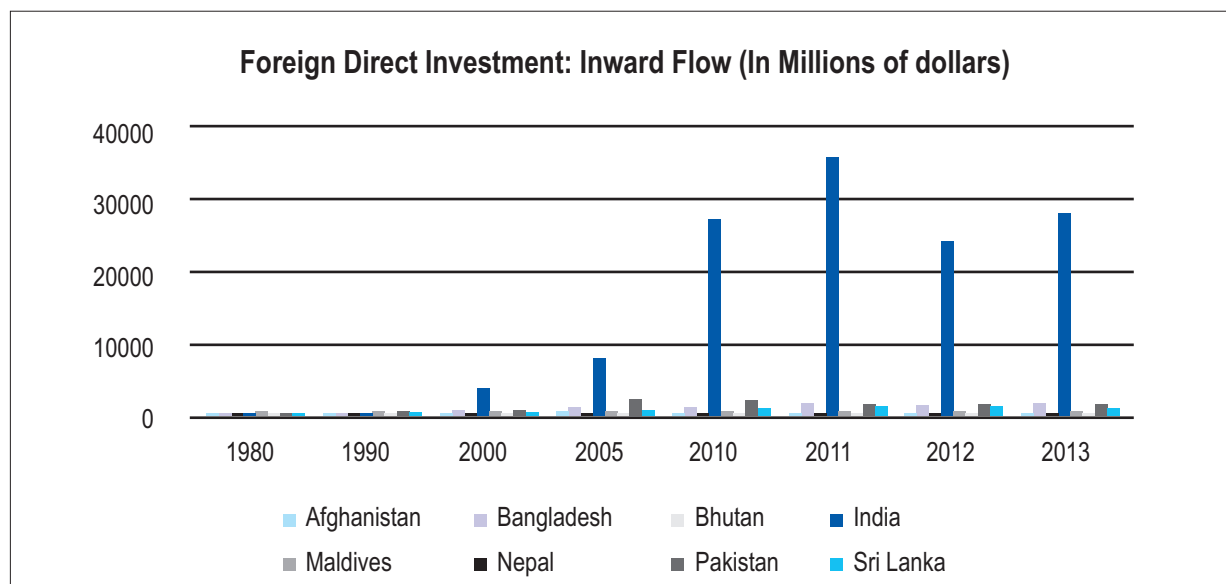
Many SAARC members (Afghanistan, Pakistan, the Maldives and Sri Lanka) have expressed interest in joining either OBOR or the Maritime Silk Road. Pakistan has accepted China's offer of building an economic corridor between Kashgar in China's Xinjiang province and Gwadar, a Pakistani sea port on the Arabian Sea. Pakistan, on the other hand, has been reluctant to clear India's request for transit of goods and passengers by road through Pakistani territory to Afghanistan. Clearly, this move is not going to increase connectivity in the region.

Foreign Direct Investments (FDI)

The region needs foreign direct investment for its infrastructure development. FDI inflows to South Asia dropped by 24 percent to \$34 billion in 2013 as the region saw sharp declines in both cross-border mergers and acquisitions (M&As) and greenfield investments. In encouraging investments between members of SAARC, there are many problems; foremost is the lack of multilateral investment guarantees. Various bilateral investment guarantee agreements have been signed between members for securing investments. As of 2011, there were a total of 105 bilateral investment treaties signed by South Asian countries.¹³

Within the region, FDI from small and medium businesses experience hurdles in transferring money back from the host countries to their home countries. This is especially true for India and Bangladesh investment ventures. Even between Sri Lanka and India, there are immense possibilities but again there are problems that need to be addressed. As Indian Prime Minister Narendra Modi said at the Kathmandu summit: “Indian companies are investing billions abroad but less than 1 percent flows into our region”.¹⁴ South Asia is among the regions receiving the least amount of FDI inflows with the total FDI received in 2012 being \$28.6 billion.¹⁵

South Asia is, however, the highest recipient of personal remittances and this contributes much more to the foreign exchange reserves of member countries than inward FDI flows. As mentioned earlier, intra-regional investment is constrained by the lack of investment guarantees. The SAARC draft on Promotion and Protection of investment remains inconclusive.



Source: UNCTAD Statistics, 2014

Climate Change

There is an urgent need to collaborate on climate change because SAARC members are likely to experience the most severe impact of climate change and many parts of the region could get

submerged in water, leading to mass migration within the region. The summit at Kathmandu thus saw a move for the effective implementation of the SAARC Convention on Cooperation on Environment and Thimphu Statement on Climate Change. This included taking into account the existential threats posed by climate change to some SAARC member States.

There is, however, no common SAARC position on climate change. Members must come together to keep up the pressure on developed countries with the aim of arriving at a deal that is not only climate-friendly but also takes into account development goals.

Trade in Services

At Kathmandu, the SAARC leaders called for the operationalisation of the SAARC Agreement on Trade in Services (SATIS) signed in Thimphu in 2010. A study undertaken by the Research and Information System for Developing Countries (RIS) in India has found that trade in services within SAARC is more balanced, bridging the asymmetries that prevail in trade in goods in the region. Moreover, the study shows that there are more complementarities in the services sector in the SAARC region compared to the goods sector. Liberalisation of the trade in services will provide an incentive for inward FDI flows in services in the region. Intra-SAARC trade in services was \$22 billion in 2013 compared to \$10 billion in 2008-2009.

The participation of the private sector is very important for the integration of the region. So far, members have followed a cautious approach to the liberalisation of trade in services.

SAARC Development Fund: The urgent need for human development

The leaders also agreed during the Kathmandu meeting to strengthen the social window of the SAARC Development Fund. There are many deep-seated social problems in the region that need to be addressed urgently and progress so far has been slow. For SAARC to be successful, a lot has to be done, and quickly, on the social-sector front. A major problem is achieving gender equality (addressed in SAARC's social charter) and more effort has to be made to empower South Asian women.

Gender inequality remains a serious problem in South Asia and there is a high incidence of exploitation of women, especially in low-paid professions. With the exception of the Maldives and Sri Lanka, the other SAARC members fare poorly on the United Nation Development Programme's Gender Inequality Index. Afghanistan is ranked lowest at 169, Pakistan is 146 and India is 135. Further, there is a lot to be desired in improving female-to-male earnings ratio in SAARC nations. The ratio is just above 50 percent for Bangladesh, Sri Lanka and Nepal: Women in these countries earn only a little more than 50 percent of what a man does for the same work. For India and Pakistan the figures are below 40 percent. Women's empowerment in all the countries is also necessary to balance the skewed sex ratio.

In 2014, SAARC and UN Women, the United Nations body dedicated to gender equality, signed a memorandum of understanding to work towards gender equality, gender justice and empowerment of women. The aim is to collaborate on the development and implementation of a SAARC Gender Equality and Empowerment Programme.

On the human development front, India is a laggard in SAARC, with Bangladesh, Nepal and Sri Lanka ahead of India in some human development indicators. India was ranked 135th in 2012, slipping from rank 134 in 2011. Maldives and Sri Lanka are ranked higher than India at 103 and 73, respectively.

Table 4: Education and health index

	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Education								
Mean years of schooling (years) (2012)	3.21	5.1	2.3	4.4	5.84	3.2	4.7	10.05
Expected years of schooling (years) (2012)	9.3	10	12.4	11.7	12.7	12.4	7.7	13.6
Expenditure on education (% of GDP) (2005-2012)	NA	2.2	4.7	3.3	7.2	4.7	2.4	2.0
Health Life expectancy at birth (Female) (2013)	62.2	71.5	68.7	68.3	79.0	69.6	67.5	77.4
Life expectancy at birth (Male) (2013)	59.7	69.9	68.0	64.7	76.9	67.3	65.7	71.2
Expenditure on health (% of GDP) (2011)	9.6	3.7	4.1	3.9	8.5	5.4	2.5	3.4

Source: United Nations Development Report, 2014

India's own problems are huge, especially as it has the highest percentage of malnourished children under the age of five in the world. According to the United Nations Development Report (2008-2012), 48 percent of children in India below the age of five are stunted.

In higher education however, the SAARC University has been established in New Delhi in 2010, though it has yet to prove itself as a chosen institution among the youth of the region. There is a need for an easier student visa regime.

The Option for Sub-Regional Cooperation

In view of the problems facing SAARC as a regional body, sub-regional cooperation seems a viable option. For example, the sub-region comprising Bangladesh, Nepal, Bhutan and India's Northeast,

Bihar and West Bengal can cooperate on a number of issues. Special economic zones can be established in the border areas and more trade and investment cooperation could be worked out, especially in food processing and small-scale manufacturing. Training centres can also be established in the border areas. These initiatives could lead to more employment opportunities for people in this sub-region.

A step in this direction is the South Asia Sub-regional Economic Cooperation (SASEC) Program established in 2001 by Bangladesh, Bhutan, India, the Maldives, Nepal and Sri Lanka. Since its implementation, 30 regional projects worth more than \$5 billion in the energy, transport, trade facilitation and information & communications technology (ICT) sectors have been initiated.

In trade and investment, eliminating NTBs will be important, especially para-tariff barriers among the countries of the sub-region. The Northeast region could experience higher rates of growth if transshipment is granted by Bangladesh for transport of Indian goods across its territory. The current product-wise trade between the Northeast and Bangladesh indicates the complementarity between the resources available in the Northeast and the finished products exported by Bangladesh.¹⁶ For example, India can increase its export of sugar, which is currently smuggled into Bangladesh from this country and Bangladesh can increase its exports of leather goods and ceramic products to India.¹⁷ This could lead to the creation of a growth corridor connecting the northeast of India to Bangladesh ports, enhance economic activity and lead to the creation of employment opportunities there.

The sub-region has huge potential to redefine not only its own economic geography, but also that of all other SAARC members through connectivity with East Asia, ASEAN and China, with Myanmar as the node. Thus, several regional and sub-regional groupings have emerged, namely: BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka and Thailand- Economic Cooperation); IOR (countries in the Indian Ocean Rim); BCIM (Bangladesh, China, India and Myanmar); SASEC (Bangladesh, Bhutan, India and Nepal); and the Mekong-Ganga Cooperation Group (comprising India, Cambodia, Laos, Myanmar, Vietnam and Thailand).

SAARC's Future

There are two forces at work in the South Asian region. Viewed from a gravity model perspective developed by economists and geographers, which makes predictions on bilateral trade flows based on the distance between two countries/regions as well as their respective economic dimensions, India is the most important country in the region. The size of the country, the dynamism of the economy and the close proximity of the smaller South Asian countries to India has led to the gravitational pull of the Indian economy, which is vital to their quest for cooperation and prosperity. There is an asymmetry arising in the region from the dominant power that India occupies as well as its strategic positioning as the only country with contiguous borders exclusively with six members

where none of others share borders with member countries other than India—with the exception of Pakistan and Afghanistan.

China Factor

China is the other economy that has a strong potential of exerting a strong gravitational pull in South Asia, especially for the smaller South Asian countries. China's economy has been on a high growth trajectory for over two decades and cooperation between the smaller countries in the region and China in different areas, especially in building infrastructure, has been on the rise.

Chinese President Xi Jinping has visited South Asia promoting the OBOR initiative. He became the first Chinese head of state to visit the Maldives where China is upgrading the Maldives' international airport following the cancellation of a deal with an Indian company in 2012. He also visited Sri Lanka where China is financing the \$1.4-billion Colombo Port City project.

The presence of a strong China, which is the second-largest economy in the world in PPP terms, is very important for the region and in the Kathmandu summit, there was pressure to include China in SAARC. China has promised SAARC nations part of a \$40-billion Silk Road Fund to finance infrastructure investments.¹⁹ China also promised an increase in trade between China and South Asia to \$150 billion in the next five years. Therefore, the influence of China in SAARC has been looming large. At the 2011 summit in Maldives, in an attempt to accommodate the aspiring status of China, SAARC settled for a “comprehensive review” of its engagement with observer states, including the prospect of dialogue partnership.²⁰

China was inducted as an observer into SAARC in 2005. The eight other observers are Australia, EU, Iran, Japan, Republic of Korea, Mauritius, Myanmar and US, making the number of observers higher than that of members. At the Kathmandu summit, Chinese Vice Foreign Minister Liu Zhenmin promised Chinese investment of \$30 billion in infrastructure in South Asia and 10,000 scholarships for young South Asians as a mark of Chinese commitment to the prosperity of the region.

China's \$46-billion China- Pakistan Economic Corridor (CPEC) project linking China and the port of Gwadar will go through Pakistan-occupied Kashmir and will be completed by 2017. This has been controversial in India. It seems like an offshoot of China's policy of OBOR. Since the details of OBOR remain unclear at present, India has not committed to joining the project initiated by a rival Asian power. Prime Minister Modi wants a 'new version' of SAARC that he has yet to elaborate upon.

According to experts, India is not prepared nor willing to open its strategic space in the South Asian region to Chinese presence and influence. At the Kathmandu summit, Pakistan, Bangladesh, Sri

Lanka and the Maldives showed support for upgrading China's status.²¹ India is resisting pressure from SAARC members to elevate China's observer status in the regional organisation. India, under the leadership of Prime Minister Modi, seems poised for spearheading a stronger regional integration plan without taking on the Chinese challenge for the present.

Since India occupies a specially important position in SAARC in terms of geography, population (occupying 70 percent of the area and accounting for a similar proportion of the population) and GDP, the future of SAARC seems linked to Prime Minister Modi's initiatives to cement closer ties and bring the members together as a cohesive regional entity with a strong South Asian identity. The Prime Minister's efforts at integrating SAARC began from day one when he invited all the SAARC heads of states to his swearing-in ceremony.

Modi's proposals at the 18th SAARC Summit are steps in the direction of further integration, including the Special Purpose Facility in India, SAARC Business Traveller Card, SAARC Supra Regional Supra Reference Laboratory, to name a few. The Prime Minister also toured the island nation of Sri Lanka, which is another concrete measure towards progress. Pakistan's cooperation is also vital for the future of SAARC as a strong regional entity.

In all probability, SAARC will become a strong regional entity once it sorts out its membership and leadership questions carefully. There can be new members who will add to, and not stall the spirit of regional cooperation. Smaller members have to play a more decisive and interactive role. SAARC can become a region with a huge population and large amounts of natural as well as capital resources in the future. But the human development indicators have to be improved through regional cooperation and more focused domestic development strategies that are aimed at improving health, education and skills training for the large youth population of the region.

The region lacks cooperation in sharing data on trade and economic variables in a common template within SAARC—a gap that needs to be filled. Also, the aim should be macroeconomic sustainability, which will go a long way towards achieving peace and ending conflict in the region.

*(The author wishes to acknowledge ORF's Research Intern, **Ujwal Ganguly**, for his proficient assistance in completing this paper.)*

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ABOUT THE AUTHOR

Jayshree Sengupta is a Senior Fellow at ORF's Centre for Economy and Development.



Observer Research Foundation,
20, Rouse Avenue, New Delhi-110 002
Phone: +91-11-43520020 Fax: +91-11-43520003
www.orfonline.org email: orf@orfonline.org