

Regional Cooperation in South Asia

India Perspectives

Sonu Jain

1. INTRODUCTION¹

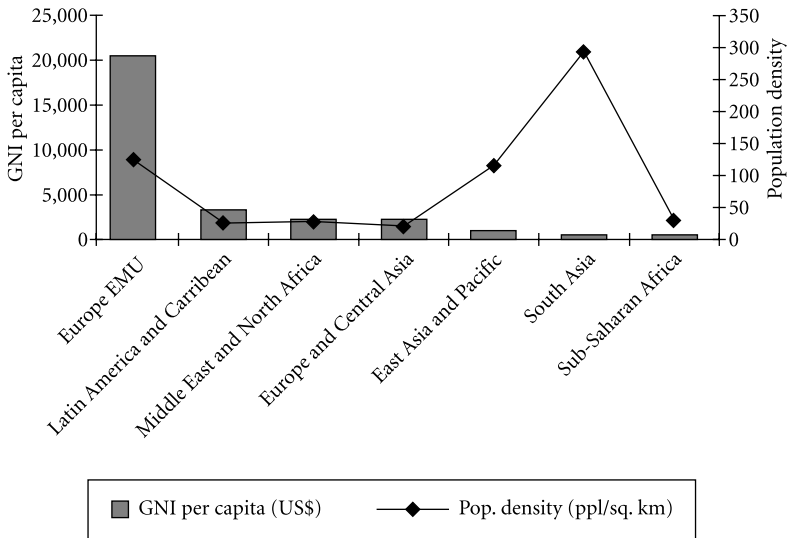
The South Asian region comprising eight countries (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka) is one of the most densely populated and poorest regions in the world. It has 23 percent of the world's population and accounts for a mere 2 percent of world output. The region has 40 percent of the poorest people in the world, and its relatively young population is one of the least literate and the most malnourished in the world (Figure 13.1; Table 13.1). Of these eight countries (excluding Afghanistan), seven are members of the South Asian Association for Regional Cooperation (SAARC), which was established in 1985.

2. RATIONALE FOR REGIONAL INTEGRATION

Regional cooperation and its more advanced form of regional economic integration would enable SAARC countries to integrate more efficiently

with the rest of the world and take fuller advantage of global flows of investment, technology, and trade opportunities. Regional integration permits diversification of individual economies and promotes development in their peripheral regions.

FIGURE 13.1 GNI Per Capita–Population Density



Source World Development Indicators, 2004 (World Bank 2004).

TABLE 13.1 Indicators of Poverty and Mortality

| | <i>Share of people living on less than US\$1 a day (2001)</i> | <i>Child mortality rate per 1,000 live births (2002)</i> | <i>Maternal mortality ratio per 100,000 live births (2000)</i> |
|------------------------------|---|--|--|
| East Asia and Pacific | 15.6% | 42 | 115 |
| Europe and Central Asia | 3.7% | 37 | 58 |
| Latin America | 9.5% | 34 | 193 |
| Middle East and North Africa | 2.4% | 54 | 165 |
| South Asia | 31.1% | 95 | 566 |
| Sub-Saharan Africa | 46.5% | 174 | 917 |
| Europe (EMU) | — | 6 | 10 |

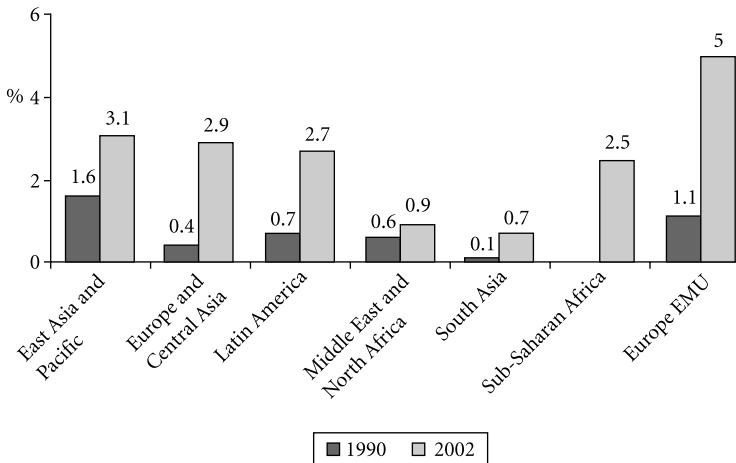
Source World Bank 2004.

Note EMU = European Monetary Union.

Regional economic cooperation permits countries to overcome constraints posed by the relatively small size of their individual markets and the

low purchasing power in their economies. Integrating smaller economies into larger regional economic space expands the size of the market and facilitates cost reductions through economies of scale and scope. Regional cooperation and economic integration result in the threshold scales necessary to attract larger volumes of foreign direct investment (FDI). Figure 13.2 shows that FDI as a percent of gross domestic product (GDP) in South Asia is among the lowest in all regions, and regional integration will help to improve South Asia's performance in attracting FDI.

FIGURE 13.2 FDI as a Percent of GDP



Source World Bank 2004.

Regional cooperation in South Asia will also help to increase the level of intraregional trade among South Asian economies. At present, this is at a low level of 4.2 percent and actually has been declining over the years, having been 4.8 percent in 1980 (World Bank 2004). Freer trade and lowering of trade barriers will help these countries take full advantage of their mutual comparative advantage.

Apart from the strong economic rationale for regional cooperation and integration, such cooperation enables the member countries to reduce negative externalities and conflicts. Transboundary challenges like trafficking of women and children, drug smuggling, wildlife trade, and cross-border terrorism can be overcome only through regional initiatives. Successful economic cooperation would yield a substantial peace dividend with direct welfare raising impact for the entire region.

2.1 Initiatives for South Asian Regional Cooperation

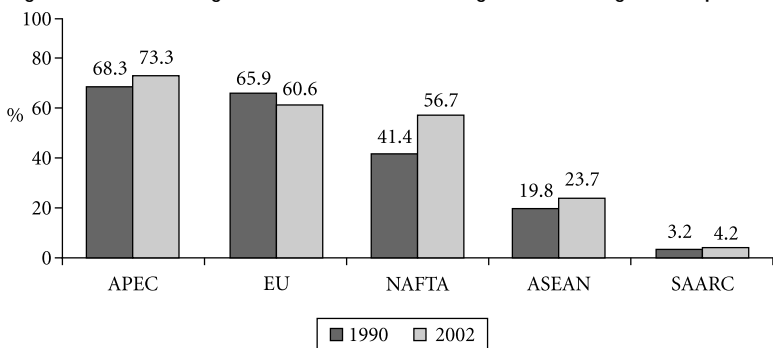
2.1.1 Regional Level

The initiative of South Asian regional cooperation was launched in 1985 with the establishment of SAARC. Initially, the focus was essentially on noneconomic areas, but economic cooperation formally entered the SAARC agenda in 1995 with the operationalization of SAARC Preferential Trading Agreement (SAPTA). So far, four rounds of trade negotiations have been concluded under SAPTA, covering more than 5,500 commodities. Even though each round has contributed to an incremental trend in the product coverage and the deepening of tariff concessions over previous rounds, intraregional trade continues to remain almost stagnant, at a mere 4 percent. This stagnation is due to the tariff concessions offered under SAPTA, which were too insignificant, or to the commodities covered under SAPTA, which do not form a significant part of the existing or potential trade basket of the SAARC countries.

Figure 13.3 illustrates that, at present, intraregional trade (as a percentage of total region export) among SAARC countries is less than 5 percent, whereas it is 73 percent for member countries in Asia-Pacific Economic Cooperation (APEC), 61 percent in the European Union, 57 percent in the North American Free Trade Agreement (NAFTA), and 23 percent in the Association of Southeast Asian Nations (ASEAN).

So far the progress in this region has been modest. But a major breakthrough has been made early this year, with the signing of the South Asia Free Trade Agreement (SAFTA), which came into force on 1 January 2006.

Figure 13.3 Intraregional Trade as a Percentage of Total Regional Exports



Source World Bank 2004.

Note APEC = Asia-Pacific Economic Cooperation; ASEAN = Association of Southeast Asian Nations; EU = European Union; NAFTA = North American Free Trade Agreement; SAARC = South Asian Association for Regional Cooperation.

The focus of SAFTA is primarily on tariff reduction and the trade of goods. Vital areas like the trade of services are left untouched. Many items that are critical for the success of SAFTA—such as the formulation of rules of origin, preparation of the negative list, creation of a fund to compensate least developed countries (LDCs) for the loss of revenue from eliminating customs duties, and the identification of areas for providing technical assistance to the relatively weaker countries—are left untouched. Moreover, no datelines have been fixed for concluding the negotiations on these items, except for the compensation fund that must be in place before the commencement of the SAFTA. The agreement does not subscribe to phasing out a negative list, but rather provides for the list to be reviewed after every 4 years. The agreement provides for the elimination of quantity restrictions (QRs) as soon as a 0 to 5 percent tariff level is achieved; however, it does not prescribe the elimination of other nontariff and paratariff restrictions. Some of the important measures missing from the agreement are the finalization of the pending draft investment agreement; the creation of a SAARC Investment Area, South Asian Development Fund, South Asian Development Bank, and South Asian Energy Grid; vertical industrial integration; and the harmonization of fiscal and monetary policies. These significant omissions point to the weak politics in pursuing regional cooperation.

2.1.2 Bilateral Level

With regional cooperation making only modest progress, bilateral free trade agreements are gaining momentum in this region. Although some bilateral initiatives are in place, including those between India and Sri Lanka, India and Nepal, and India and Bhutan, others are under negotiation, such as those between Pakistan and Sri Lanka and India and Bangladesh. Some sub-regional economic cooperation programs have been launched to bring together the four countries in the eastern part of South Asia. These four countries have joined together under the Growth Quadrangle (India, Nepal, Bangladesh, and Bhutan) and another possible sub-regional initiative is being considered between South India, Sri Lanka, and Maldives.

The *Indo–Sri Lanka Free Trade Agreement (FTA)*, which came into effect in 2000, has boosted bilateral trade between the two countries. Sri Lanka's export to India increased from US\$71 million in 2001 to US\$168 million in 2002, while India's export to Sri Lanka went up from US\$604 million in 2001 to US\$831 million in 2002 (UNCTAD 2003). Additionally,

FTA has made Sri Lanka a hot destination for FDI, because many foreign investors consider it to be the window into the vast Indian market. The Indo-Sri Lanka bilateral FTA has been advanced to an Indo-Sri Lanka Comprehensive Economic Partnership Agreement (CEPA) in which the liberalization of services (in addition to investment) has been included. The Indo-Sri Lanka case ought to be a model for similar agreements in South Asia.

Under the Indo-Bhutan relationship, Bhutan has built hydroelectricity ventures by collaborating with India for a buyback facility. Hydroelectricity exports from Bhutan to India provided more than 45 percent of the government's revenues and accounted for 30 percent of GDP in 2003.

Long-existing *Indo-Nepal treaties* were formalized as the Indo-Nepal Trade and Transit Treaty in 1996. The duty-free provision of the agreement induced Indian joint ventures to operate from Nepal. The volume of exports from Nepal has consequently increased considerably; specifically, few items were exported to India in bulk quantity. The need for value addition norms was introduced in 2002 to protect the Indian domestic industries and producers. As a consequence, rules of origin procedures were introduced in the renewed Treaty of Trade in 2002. The renewed treaty introduced specific modifications, including value addition requirements of 30 percent; quantitative restrictions on the export of vegetable ghee, acrylic yarn, copper, and zinc oxide; and the existence of a negative list. These developments have not only seen a degree of retrogression in Indo-Nepal bilateral trade but have also affected attempts at economic diversification in Nepal.

The South Asian Growth Quadrangle was launched in 1997 involving four countries of the region, namely Bhutan, Bangladesh, India, and Nepal, primarily aimed at creating an enabling environment for rapid economic development through the identification and implementation of specific projects. At the request of these four nations, the Asian Development Bank (ADB) launched assistance for sub-regional cooperation under the South Asia Sub-Regional Economic Cooperation (SASEC) Program in 2001. Technical assistance was provided to identify and prioritize sub-regional projects in five major sectors: transport and communication; energy and power; environment; tourism; and trade, investment, and private sector cooperation. The SASEC program is one of the most successful among all of the initiatives taken in the past. Last year, the ADB approved a US\$450,000 technical assistance grant to develop a tourism plan for the four countries belonging to SASEC, with ecotourism and Buddhist circuits as the common themes.

In addition to the activities under the SASEC program, the ADB has provided support for several standalone investment projects having significant sub-regional implications. These projects include the West Bengal Corridor Development Project² and the Road Network Development Project.³ In addition, the ADB's Private Sector Group has invested in Lafarge Surma Cement, the first sub-regional private sector project, which will transport limestone from Meghalaya, India, to a cement plant in Bangladesh through a cross-border conveyor system.

The World Bank has been actively involved in various poverty alleviation, health, infrastructure, social, and environmental projects in this region. Following Sub-Saharan Africa, South Asia is the largest regional recipient of concessional lending from the International Development Association (IDA), the World Bank affiliate that provides interest-free loans to the world's poorest countries. In FY03, new World Bank lending commitments to South Asian countries was US\$2.9 billion for 31 projects.

3. PROSPECTS AND PROBLEMS FOR SOUTH ASIAN REGIONAL COOPERATION: A PRIVATE SECTOR PERSPECTIVE

The private sector looked seriously at SAARC sometime in 1994 with the establishment of the SAARC Chamber of Commerce and Industry (SCCI). The objective of SCCI was to represent the private sector and promote regional trade and investment in this region. It has played a significant role in bringing together the national chambers of commerce and industry of the seven SAARC countries under one umbrella. The Federation of Indian Chambers of Commerce and Industry (FICCI) is a nodal point and Indian representative of SCCI. SCCI has undertaken a number of positive initiatives since its inception by commissioning studies and reports and publishing books, convening seminars, workshops, and trade fairs, and fostering a closer dialogue with the governments on trade and economic matters. SCCI has done outstanding work in forging a consensus in the private sector to facilitate regional cooperation.

The Confederation of Indian Industry has also taken some initiatives in the past for regional cooperation in South Asia. It is working actively with the Chambers of Commerce of Bangladesh, Nepal, and Sri Lanka through Joint Economic Councils to resolve bilateral issues since growth at the regional level was modest. At the regional level, it has brought together

the private sector through forums for chief executive officers, audio–video conferencing, trade fairs, missions, publications, and so on.

3.1 Prospective Areas of Regional Cooperation in South Asia

Questionnaires sent out by the Confederation of Indian Industry (CII) to a select group of members active in the region, reveal that a significant chunk (95 percent) of respondents would benefit substantially from greater regional cooperation in South Asia. The potential areas highlighted below are taken from the responses of the questionnaire and interviews conducted for the study (except for “Harmonizing Standards,” “Nontariff Barriers,” and “Common Currency for the Region,” which do not emerge from the survey of private sector but represent CII’s views on promoting regional economic cooperation in South Asia).

3.1.1 Harmonizing Standards

There is a need to accelerate adoption of best practices and international voluntary standards to have a stronger voice for the region in debates at the World Trade Organization (WTO) and other international standard-setting bodies. The lack of standardization in South Asia wastes efforts to export local products, because they do not meet regulations in other markets. In addition to this, harmonization of standards has played a critical role in the development of regional blocks and global marketplace. Eighty percent of world merchandise trade is affected by standards and regulations that embody standards. They are a means to ensure satisfactory compliance with health, safety, and environmental requirements. Standards were the principal element of EU’s Single Market Program as they provide a common language and framework for commerce and economic development worldwide. Movement toward SAFTA and standardization must be coordinated.

3.1.2 Nontariff Barriers

In the current scenario, as tariffs continue to decline, there has been emergence of nontariff barriers as a measure of protection. Given the extremely low negotiating power of the individual member states at WTO, there is a strong need for a collective strategy to this issue. The European Union, United States, and Japan are the principal export destinations for the four

South Asian countries, Bangladesh, India, Pakistan, and Sri Lanka, with the share of exports in these markets to the total exports reaching more than 50 percent. In 1998, up to 94 percent of the South Asian exports to these countries were facing nontariff measures (NTMs).

SAARC exports are severely impacted by NTMs in major markets. Also, for successful regional integration within SAARC, it is crucial to reduce technical and regulatory barriers to trade by countries within the region.

3.1.3 Enhancing Trade through the Negative List Approach

For successful regional cooperation, it is important to change the current approach, which involves lengthy negotiations for each sector and product. Instead, a negative list approach can be adopted, by which products not identified on this list can be subjected immediately to a tariff reduction. This is a more transparent approach and an appropriate step toward trade liberalization. *However*, it is important that negative list should be limited in scope and should be reviewed after every 2 years with a view toward reducing the number of items on these lists.

3.1.4 Trade Facilitation

According to a study by Pohit and Taneja (2000), the main sources of transaction costs in Indo-Nepal and Indo-Bangladesh trade are delays caused by complex customs and transit procedures. Delays in custom clearances happen on account of verification of Harmonized Commodity Description and Coding System (HCDCS) classification, chemical tests, customs valuation, and labeling requirements for carrying description (to enjoy tariff preferences). Because of these delays, informal trade has surged and the government is losing revenue. It is thus essential to work out harmonization arrangements in areas such as customs procedures, arbitration, double taxation, proper channels to access market information and legal systems, and electronic data exchange leading to paperless trade. These arrangements would help reduce transaction costs and make intra-SAARC trade more efficient and prosperous for business.

3.1.5 Transport Infrastructure

The availability of transport infrastructure is crucial in providing an impetus for economic activities, especially international trade. The

transport infrastructure has immensely helped the European Union to grow fast. Over the years, a number of initiatives have been taken by South Asian countries at the bilateral, sub-regional, and regional level, but trade is yet to grow at the expected rate. There is a need to strengthen trade instruments, such as transport linkages, among the members. The current level of trade can be doubled if appropriate regional agreements on roads, rail, shipping, and air are put in place, enabling seamless movement. To attain competitiveness, countries have to cooperate with each other in building and operating infrastructure facilities. The region is strategically situated at the crossroads of Asia between the oil-rich countries in West and Central Asia and the dynamic economies of Southeast Asia. The region should make full use of its geographic advantage.

3.1.6 Common Currency for the Region

A common currency is a characteristic of strong regional economic integration. Currency unification promotes intercountry trade and investment by reducing transaction costs arising from currency conversions and by eliminating exchange risk and uncertainty. However, the objective of common currency can be achieved only in a phased manner. The first and immediate step in this regard should be the introduction of a parallel currency. The region can create a reserve fund that can provide funding to regional public goods like transport, energy, information technology (IT), and so on to promote trade and investment. The provision of regional public goods and concessional assistance for the lagging regions will help build mutual trust and confidence in the region.

3.1.7 Development of Financial Sector

There is an acute need of adequate financial infrastructure, including banking, insurance, clearance mechanism, and capital market to facilitate trade and investment. This sector is not fully developed in this region and the existing network is both insufficient and fragile. The banking sector is saddled with huge non-performing assets, indicating the serious need for banking sector reforms. A well-developed banking sector will help simplify procedures for import financing as well. The state of development of the capital market is yet another area of concern. Most of the member states have a long way to go for appropriate development and modernization of capital market institutions. Because India has a relatively well-developed capital market, it may help smaller economies to develop stock exchanges

and to train stockbrokers and other intermediaries. To date, Sri Lanka is the only country with which India has executed a Memorandum of Understanding (MoU) for securities markets, although discussions are also under way with Pakistan, in addition to Nepal.⁴ In as much as this is a low-cost step toward market integration, it would be a straightforward recommendation that the Securities and Exchange Board of India (SEBI) enter into an MoU with all the SAARC countries.

3.1.8 Vertical Integration within the Region and Increasing Value Addition in Traditional Exports

Trade complementarities did not develop within the region because of the lack of vertical specialization through a production-sharing arrangement. Vertical specialization allows the countries to reap economies of scale by concentrating on a specific production process in the value addition chain. For example, trade can take place if one country specialized in yarn and fabrics, while another specializes in finished garment products. In the case of primary commodity exports, regional cooperation will allow greater value addition because South Asia is exporting these commodities in bulk, and value addition takes place in importing countries, thereby resulting in lower value realization. A good example of such cooperation and joint venture was the jute industry in which Bangladesh produced the jute and West Bengal had the processing mills. Joint ventures are an effective way to expand and diversify the production base and trade structure of the economy.

3.1.9 Electricity

Electricity demand in most of South Asia is currently outstripping supply. Despite having diversity of energy resources among South Asian countries, there is little energy and electricity trade in the region. The potential of cooperation in improving energy supply in South Asia is enormous. Hence, the development of regional energy resources by exploiting complementarities will result in greater welfare of the region as a whole.

Hydroelectricity

Nepal and Bhutan have substantial untapped hydroelectricity potential, estimated at 43,000 megawatts and 30,000 megawatts respectively, which could be developed both for domestic consumption as well as

for exports. The beneficial outcome for both India and Bhutan arising from cooperation between these two countries on the Chukha hydroelectricity project is an eye opener. In October 2002, Australia's Snowy Mountains Engineering Corporation (SMEC) signed an agreement with the Nepal government for the development of the 750-megawatt West Seti hydroelectric dam in one of the poorest provinces in Nepal. This plant will primarily export power to India. Presently, however, only a very small proportion (11 percent) of this plant's potential has been exploited.

Natural Gas Exploitation

There is likely to be a sizeable shortfall of gas in and around this region unless some major exploration happens or the shortfall is met through imports either via pipelines or liquid natural gas (LNG). Bangladesh is endowed with natural gas reserves, but the gas trade is constrained by the region's inadequate domestic infrastructure. Pakistan and Afghanistan also have an important role to play as transit states, as they provide the best route for access to Central Asia's energy. According to one study, Pakistan alone stands to benefit by at least US\$1.5 billion a year if trade in this sector is galvanized.

Nonconventional Energy

India has proven its capability in the field of wind energy, with its installed capacity of 900 megawatts, second only to the United States. This capability needs to be shared with other countries in the region where there is potential for tapping wind energy. For instance, Sindh province (in Pakistan) could make use of the wind power by cooperating with India.

Thermal Power

Thermal power is the dominant source of energy in this region and accounts for about 92 percent of the installed capacity in Bangladesh, 73 percent in India, and 69 percent in Pakistan. India has a large reserve of coal (206 billion tons), accounting for about 7 percent of world reserves. Because energy demand in these countries is likely to record higher growth in the years to come, there is scope for cooperation among countries for their mutual benefit. For example, Bangladesh could import coal from Raniganj (West Bengal, India) and reap the benefit of proximity because

coal can be transported at minimum cost by rail. There is also potential for cooperation between India and Pakistan in electricity generation using coal.

3.1.10 Water Resources

Economic cooperation initiatives can help the region's countries better harness and utilize the available natural resources. For example, South Asia, while being endowed by ample water resources, continues to suffer annually by both floods and droughts and faces an increasing shortage of potable and irrigation water. Greater regional cooperation in the utilization and harnessing of transboundary rivers (the Ganges, the Brahmaputra, and the Meghna) and a cooperative approach toward river basin development is needed to effectively address the water problems and other issues that cannot be addressed satisfactorily by countries acting independently.

3.1.11 Trade in Services

A free trade area in services in South Asia will complement the achievement of SAFTA, which is currently a free trade agreement in goods. One of the objectives of SAFTA is to increase the competitiveness of South Asian industries, thereby promoting growth in the region. A more liberal trading regime in services will increase the degree of competition among service suppliers in the region and make them more cost efficient, thereby benefiting people of this region. Numerous business opportunities are available in the services sector, which has been untouched so far. These sectors include health services, education services, rural banking services, environmental services, entertainment, and so on. The region has 40 percent of the poorest people in the world, and its relatively young population is one of the least literate in the world. Liberalization of education and health services will surely improve the life of people in this region. For rural development, the Grameen Bank model⁵ of Bangladesh should be replicated in other countries of South Asia.

3.1.12 Tourism

South Asia's diversity in its offerings of tourism products is well known. The main tourism activities in this region involve pleasure and sight seeing, trekking, mountaineering, rafting, wildlife, and cultural tourism. However, according to one study about 75 percent of tourists coming to

this region are conventional tourists coming for pleasure and sightseeing, and hence its large potential remains untapped. This sector has wide-ranging multiplier effects, as tourism cuts across several other sectors and generates new employment opportunities. If it is well managed, tourism development can contribute to the preservation of the culture and conservation of the ecology of the region. To exploit this sector's potential, tourism development is one of the priority areas under ADB's SASEC program. Since 2002, for the South Asia region, ADB has provided US\$3 million in Technical Assistance grants and about US\$20 million in concessional loans annually for regional and sub-regional cooperation projects for the tourism sector.

3.1.13 Information and Communication Technology

Across the globe there has been continued growth of information and communication technology (ICT). At this juncture, South Asian countries are at a crossroads: either these countries could ride the surging information wave or be swamped by it to be further marginalized in the global economy. South Asian regional cooperation for ICT is necessary because their combined resources, and shared gateways, will allow for more traffic to flow to the region and from the region. The electronic commerce within the region will help develop the skills, expertise, essential institutions (banking, arbitration, logistics), and unique solutions that will allow merchants of South Asia to access the world market for their goods and services. It will help simplify complex documentation procedures. Furthermore, it is desirable that all South Asian countries develop roaming facilities. Such an agreement can be the driving force in increasing intra- and interregional trade. ICT is being used to promote people-to-people contact among SAARC member countries through the audio-visual exchange of culture and ideas to promote awareness on literacy, health, participatory governance, and other socioeconomic issues.

3.1.14 Traditional Medicine and Pharmaceuticals

South Asian countries possess a competitive advantage in the field of traditional systems. Since ancient times, it has been a supplier of herbal, Ayurvedic, and Unani medicines throughout the world. The production and exports of pharmaceuticals have become more and more knowledge based around the world. According to one study, medicinal plants-related

trade is estimated at US\$60 billion per year, and growing at about 7 percent annually. There is considerable potential to further expand the market as well as the market share of South Asia in the future. Among the South Asian countries, India has emerged as a leading producer of pharmaceutical products. Because of the lower manufacturing costs and the research and development (R&D) expertise, Indian companies are able to produce and export drugs at extremely competitive prices. The progress of the Indian pharmaceutical sector is a positive reflection on South Asia as a whole and other countries can gain substantially by this.

3.1.15 Agro Food Processing

Agro food processing is one of the priorities of most of the South Asian countries. However, food processing as a business concept is yet to gain ground in the region. India has made considerable progress in this regard compared with its neighbors. But only 7 percent of the food produced in India is being value added, despite the fact that it is the second largest producer of food in the world. India should exploit its IT knowledge to enhance the productivity of the food-processing sector and to create more knowledge-based food-processing activities. In Sri Lanka, most of the food processing comes under the small and medium enterprise (SME) category, especially those making ready-to-serve beverages, squash, jam, chutney, pickles, and sauce. The industry by and large is into processing fruits and vegetables, cereals, milk, confectionery, oilseeds (coconut), and spices. Pakistan is doing well in fresh and dry fruits trade and made considerable advances in food processing. It is suggested to set up modern food machinery design and development centers in India and Pakistan with facilities for design R&D, pilot plant, fabrication workshops, and consultancy facilities. Thus, as a whole, South Asia has immense untapped business potential in this sector.

3.2 Issues in Regional Cooperation in South Asia

3.2.1 Hydroelectricity

Although Nepal has huge hydroelectric potential, investments are not happening. This is primarily due to the lack of political will and inconducive investment climate. Such projects require huge investments, the gestation period is long, and it involves high risks. There are other policy issues, such as sharing of cost and benefits of the projects, determination of power

tariff, cost of transmission line and its sharing mechanism, environmental issues, and funding arrangements. The Chukha model of power trading between India and Bhutan has worked well, however, and any power trading arrangement in the region should work on similar lines.

3.2.2 Natural Gas Exploitation

Projects with cross-border implications are more often treated along political lines rather than on commercial considerations. Because of the lack of political will of the Bangladesh government and strained relation between India and Pakistan, potential in this area has not been tapped till now.

3.2.3 Tourism

Because of indifferent policy initiatives, the real potential is not realized in the tourism sector. Each country is trying to carve out a niche without really taking advantage of synergies that may arise. Infrastructure connectivity, internal conflicts, and other bottlenecks continue to prevent this region from attracting high-profile tourists.

3.2.4 ICT

Many countries are unable to take full advantage of technologies to enhance the use of ICT because of high costs. Wider application of technology and rural penetration will reduce costs significantly as economies of scale are high and marginal costs are minimized. The private sector should take the lead in setting up the required infrastructure in the region.

3.2.5 Water Management

Water management between India and Bangladesh is on high priority, but progress has been held back because of mistrust.

3.3 Common Issues

3.3.1 Lack of Connectivity

No SAARC country has a common border other than India and intraregional transportation and communication links remain weak.

Improvements in these sectors are critical to derive the full benefits of geographic proximity. In the absence of road connectivity between Nepal–India–Bangladesh, Nepal cannot access ports in Bangladesh. Likewise, India cannot use Bangladeshi roads to access its north-eastern states, thereby resulting in increased transportation costs. No container trains are running between India and Pakistan and similarly between India and Bangladesh, although passenger trains are running among these countries. The infrastructure needs to be upgraded and developed.

3.3.2 Geopolitical Issues

The Indo-Pakistan conflict over Kashmir, conflicts between Sri Lankan government and Liberation Tigers of Tamil Eelam (LTTE), Maoist rebels in Nepal, the rise of global terrorism in Afghanistan (where Osama bin Laden and other terrorists have refuge) have threatened peace in this region and have made this region a less preferred option for the investor abroad. Presently, South Asian countries are spending a high proportion of their GDP (2.7 percent) on military expenditures and on handling local uprisings (World Bank 2004).

Trade relations between these countries will play a crucial role in subsiding tensions as countries realize the economic benefits from trade and cooperation. According to the India-Pakistan Chamber of Commerce and Industry, bilateral trade between India and Pakistan through formal channels is worth US\$230 million annually, but trade through illegal channels has flourished and is now estimated at about US\$1.5 billion annually. Experts believe that official trade between the two neighbors could go up to US\$4 billion in 2 to 3 years, if trade relations are normalized.

3.3.3 Asymmetry between Countries

There is a fear that India being a large nation accounting for 70 percent of the region's GDP will eat up the share of other countries. However, many experiences within the region demonstrate that advantages outweigh initial misgivings. Since India and Sri Lanka entered into bilateral agreement (in 1998), the trade gap between these two countries has reduced by two-third. Hydroelectricity export from Bhutan to India provided more than 45 percent of the government's revenues and accounted for 30 percent of GDP in 2003.

3.3.4 Free Movement of People

Visa regulations and inability of businessmen to visit freely within the region has hindered trade, investment, and tourism in the region. To facilitate trade, visas for business purposes should allow multiple entries, be for a minimum duration of 5 years, and should not contain any city-wise permission. For tourism promotion, a one-time visa can be given without delays. Work permits should be given to professionals, especially in some key sectors like IT and health care.

3.3.5 Lack of Information

Lack of knowledge about a country's trade and economic policies has hindered trade in this region. For instance, there is a strong feeling in Pakistan that Indian agriculture is highly subsidized at the production and export stages. However, estimates of the aggregate measure of support (AMS) put the AMS at between 5 and 7 percent (much lower than the 10 percent that is allowed under the WTO). Other estimates have even gone to the extent of saying that Indian agriculture is negatively subsidized and therefore can never be protected. Another example of the lack of information is that custom officials are not always aware of FTAs, resulting in delayed clearances.

4. PRIORITY SECTORS FOR COOPERATION: STEPS FORWARD

The prospects of the regional cooperation and related issues are discussed in the previous section. This section will shed some light on how to address the roadblocks in some of the priority sectors.

4.1 Tourism

The appropriate approach to the tourism sector will be to create a tourism product that makes traveling to the region a pleasant experience through an environment of peace, stability, and security and an integrated physical infrastructure that does not fail. Effective coordination of public and private efforts will achieve synergy in development of this sector.

A common marketing strategy and fund, human resource development through cross intraregional investments in hotel management, and a common policy related to fleet and charter flights will help achieve the desired results.

4.2 Trade Facilitation

Although a technical committee on transport was established in 1983, and 17 meetings have been held to date, the policies are yet to be implemented. The region needs a regional transportation and transit system that offers efficient transport options and low transaction costs. To ensure the seamless movement of goods, the region should identify additional routes by road and rail, augment shipping links, and increase flights and air cargo facilities. An open sky policy in South Asia would foster people-to-people contact in the region. There should be harmonization of procedures and green channel treatment of imports within the region. Harmonization of technical standards should include truck size, weight regulations, railway gauge, and rolling stocks across South Asia. Recommended modernization of land customs stations should include warehousing, parking facilities, and simplification of clearance procedures on a priority basis. A common transport policy for South Asia would result in free movement of goods vehicles in South Asian countries.

4.3 Hydroelectricity

Regional energy grids have to become a reality for growth in this region. This would entail setting up of power projects and then linking the transmission grids of all the countries of the region. A SAARC grid is one way to ensure quality power at low cost, as well as ensure mutual support during contingencies. Cooperation among South Asian countries should steer toward setting up a data bank to prevent duplication of R&D in the field of renewable energy. Countries like Nepal and Bhutan should invite the World Bank or ADB and thus initiate regional cooperation for the exploitation of its water resources.

4.4 Natural Gas Exploitation

Arrangements should be made on multilateral basis to enable and facilitate exchanges in natural gas. A trans-SAARC gas pipeline should be

constructed across this region. By sharing pipelines, countries would be able to share the operating costs of the projects and be able to reap benefits of economies of scale. It is crucial to promote cooperation within SAARC and between SAARC and the Economic Cooperation Organization (Afghanistan, Pakistan, and the Central Asian Republics).

4.5 Health Care

In India the public health care system is at a low level, and in other SAARC countries it is even worse. India, however, has seen a growing competence level in science and health and has developed various centers of excellence without any grand plan by individual efforts. SAARC countries can benefit from India's experience. Indian hospitals are training doctors and building state-of-the-art hospitals in other SAARC countries. Although some progress has been witnessed in the area of cardiology, much needs to be done in other fields as well. Since people residing in South Asia have a common gene pool, countries can benefit from collaborative research. Developing health care systems by building hospitals through joint ventures will lower the cost of medication and will provide better health care facilities to all individuals.

5. CONCLUSION

Despite trade barriers, informal trade has flourished across the South Asian frontiers. In 2002, this region's share in world output was merely 2 percent, and its share in FDI inflow in developing countries was just 2.8 percent. South Asia faces the danger of marginalization in the global economy. Regional cooperation is an effective modality that can put South Asia firmly on the global map and improve its access to financial and technology flows. Lots of theoretical work has been done so far on prospective areas in which countries in this region will gain and impediments have been identified, but no action has been taken to address these issues. The countries of Southeast Asia have achieved commendable success in development with regional cooperation, with ASEAN playing a key role in this process. Both NAFTA and the European Union are success stories for regional grouping. South Asia needs to speed up its arrangements for trade facilitation, and meaningful initiatives need to be taken by SAARC

in this direction. The private sector's interest is directly and substantially involved in the creation of a regional economic space. To achieve this, the sector expects the governments to take a long-term view of benefits arising from regional cooperation. Governments must ensure that economic progress takes precedence over political issues. Doing so will build confidence and trust.

NOTES

1. Draft incorporates inputs from SAARC Chamber of Commerce, RIS, CII, responses from questionnaire and interviews with industry people.
2. A north-south road corridor from Raiganj, near Siliguri, to Barasat, the north of Kolkata in West Bengal, India with links to border points in Bangladesh.
3. Nepal's east-west Highway, which links to India and Bangladesh through Kakarbita.
4. In the last fiscal year, the World Bank sponsored an exploratory mission of staff from SEBI to Nepal to review the capital markets and meet with Securities Board of Nepal (SEBON) officials with a view toward executing an MoU between the two regulatory bodies and extending cooperation and training in the field of securities market regulation (particularly relating to supervision, surveillance, and enforcement).
5. It helped in alleviating poverty and generating employment in Bangladesh.

REFERENCE

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