

Acknowledgements

This book would not have been possible without the help and encouragement of various agencies, groups and individuals. Substantial research and groundwork involved in fleshing out this book and I sincerely thank all those concerned whose assistance and support were essential in the research.

I would like to thank all my student of 11th Batch of BBA of IBA, University of Dhaka, specifically Ms. Dureen Fatema Quayyum for her significant contribution. I would also especially like to thank Mr. Syed Anwar Hossain, a noted scholar and former GM of Shilpa Bank of Bangladesh, who has effectively helped me in constructing the framework of this book. Further thanks goes to Tanjir Dilwar, my student Asfia Mahin and to Mr. Rais Uddin for co-ordinating the works in publishing the book.

For the second edition of this book, I am profoundly indebted to Mr. Mohammad Barikul Islam, a final year MBA student of mine, who has recently joined the Foreign Service as Assistant Secretary. He has played an integral role in bringing about this new iteration by embellishing it with the recent activities and data. I would also like to thank Mr. Shahed Ibne Mahbub for his contribution in the second edition.

In fine, I would record my sincerest gratitude to the Almighty Allah for giving me the strength and ability to envision and realise this literary work.

Preface

Twenty years have elapsed since the south Asian association for Regional Co-operation or SAARC came into being, twelve Summits and good number of meetings have been held, but its achievement towards advancement and well-being of the people is rather modest. Enlightened conscience may find it difficult to understand why the South Asian countries, constituting more than one fifth of mankind, having great cultural affinities, economic complementarities and similar problems have failed for so long to unite in order to create a better quality of life for their people.

In most other parts of the world, regionalisation has been accepted as the fastest route to prosperity. But within SAARC, there has been little progress even in respect of intra-regional trade.

Many reasons exist for the uneven progress of SAARC: most have to do with intra-regional political tensions, and most involve India. India as the largest country with boundaries with all the other member states without doubt bears a disproportionate responsibility for the success or failure of SAARC as compared with the others.

SAARC holds immense potentials in trade for all its member countries. In the presence of the various hindrances, these potentials get overshadowed. A thread-bare analysis in this report reflects that they can be effectively dealt with if the political will for co-operation is present. Needless to over-emphasise, that even if all the member countries do realise their benefits in free intra-regional trade, they do not have the economic power to go ahead unaided. This is where India's role dwells. India as the largest economic power in the region has to come out of the "Big brother" attitude and concentrate on efforts to enhance trade in the region.

India's neighbours, on the far side, must realise that India is their opportunity to prosper. It has one of the most dynamic and fastest growing economies in the world. It is already an

acknowledged leader in IT, pharmaceutical and knowledge based industries. Its growing strategic linkages with the US, China, Japan, EU in addition to the traditional ties with Russia are potential windows for SAARC as well. They should also realise that the de-politicisation of activity is a sine qua non of economic growth and indeed greater regional security, through cross-border projects.

There is no denying that India is looking towards the west for its economic development. What it may fail to realise is that if it does open up and encourage trade with its neighbours, then it would be to its own gain. If India's current attitude prevails in the long run then the other member countries of SAARC will be prompted to look elsewhere for their economic development. Hence the entire concept of SAARC will turn into a self-defeated proposition.

It is generally thought that SAARC has a bleak future. But in reality it can survive and help the development of all its member countries. For a new lease of life, a more credible long-term commitment to SAARC is of paramount importance. Thus, a change of mindsets both on the part of India as well as its smaller neighbours is a must.

Let us look forward for a joyous moment when good sense of co-operation shall prevail among the SAARC member Countries.

Dhaka, May 2011

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SUMMARY OF THE STUDY

The South Asian Association for Regional Co-operation or SAARC was formally inaugurated as an association of seven states in December, 1985. It was initially established for regional co-operation in agriculture, rural development, telecommunications, meteorology, health and population control initiatives. Today it has been expanded to encompass more activities including trade.

The South Asian region has been growing at over 6% annually in the last ten years. As existing or acceding members to the WTO, South Asian countries have undertaken significant liberalisation of their economy, including external trade policies. This has resulted in a substantial increase in the trade openness index (trade as a share of GDP) for the region. But, this overall picture conceals an important element—the low intra-regional trade in the region. When the ASEAN and the SAARC are compared, we can see that ASEAN could come out as a successful trading bloc, in spite of the fact that it started out with almost no commonality between the member states. On the other hand, SAARC was formed by countries, with cultural similarities and common heritage. But over the years the performance of SAARC to promote regional integration has left a lot to be desired. SAARC as an organisation has been comparatively slow in taking advantage of the various benefits that usually comes with the establishment of such organisations.

The SAFTA Agreement holds a lot of potential for the SAARC member countries. With the tariff barriers reduced, trade can flourish, as passage of goods through nations can be more liberalised. Better communication links should develop which will enhance greater FDI inflows into the hard-to access resource rich regions. The integration will enable transfer of technology to improve the service sectors and contribute to the HR development of the region. This will in turn lead to greater productivity within the region and SAARC can export to the international markets as a trading bloc, where the more developed partners can fill up the export

quota for the LDC partners. Energy co-operation can help in the development of the region as a whole, where the energy surplus regions can assist the energy deficient ones. All the member countries have vast potentials in trade with each other that can be made possible only by effective integration of the region. This economic integration will not only help the individual economies but also contribute to the development of the region.

Although the potentials for trade are immense, the obstacles cannot be altogether ignored. The economies are relatively small in relation to the world both in terms of the GDP and trade flows. There are relatively high levels of protection among the SAARC economies, which have restrictive trade policies. Most of the countries share identical comparative advantage. Lack of viable communication links in the region also affects trade. Customs and border crossing are also hassles and time consuming procedures. The barriers to energy trade include the different pricing policies of the members, lack of proper database, standards and complicated legal procedures. But what top the list of obstacles are the political problems that exist between member countries and even within the countries themselves. Political tension lies between India, Pakistan, Bangladesh, Sri Lanka and Nepal. This political instability has slowed the process for economic integration and hindered regional co-operation.

India's size and geographic reach greatly influence trade arrangements in SAARC. India shares borders with all SAARC countries, except Maldives and Sri Lanka—but is closer to both than the other countries in South Asia. India's bilateral trade agreements with SAARC countries cover trade and other areas of economic co-operation. It is a member of all regional and sub regional groupings that include other SAARC members, accounts for a large share of intra-regional trade, and is the major trading partner for most SAARC members. Thus, it comes as little surprise that most trade-related issues involve India.

If India sheds its "big brother" and hegemonist attitude and changes its political outlook towards cooperation in trade with its neighbours, then an assortment of bilateral and multi lateral trade arrangements can be set up which will be mutually beneficial for India and its trading partners. Providing transit and communication

facilities is another sector India can look at, since opening up borders can help countries like Nepal and Pakistan to carry trade effectively with the eastern countries. India can influence the trade in the energy sector as well as reducing the restrictive trade practices prevailing in SAARC by setting examples that the others will be more than willing to follow. India can help in the opening of new trade areas, which will help to develop the Seven Sisters of India. The transition of India to the production of higher value added goods will help the other members to develop on the low value added production processes. Hence countries can co-ordinate and enable maximum utilisation of their resources through joint ventures. The research and development of processes and products can be undertaken with research results shared to benefit the region as a whole in terms of lower costs of production.

India has a big role to play in the success of SAARC. It has so far looked to the west for its development and formed strategic alliances with the USA. But in ignoring the potentials in trade with its neighbours, it probably has committed a grave mistake, as these smaller neighbours with enormous trade potentials are now looking elsewhere for their economic development. This is where China has stepped in. By forming trade relationships with the LDCs, China has been able to play a big role in SAARC. Even though India may not like China's interference, it will not be able to stop China from influencing SAARC. India now stands at a delicate position where it has to balance its alliances with USA, China, Japan, EEU, as well as look into the interest of SAARC countries.

There is no denying the fact that the recent execution of Nuclear Treaty between the USA and India has opened a new area of discussion for the SAARC member countries. Three key reasons appear to have prompted India to execute the said treaty:

- i. Access to non-military nuclear technology of the USA through which she can get out of the problem of insufficient atomic fuel.
- ii. To become a permanent member of the security council of the UNO.
- iii. To turn herself as a world-power.

It is high-time for India to re-assess its stance in the intra-regional and inter-regional issues. India's friendship with the USA may not be without a cost. History reveals that no country can attain long-term sustainable development in isolation ignoring its neighbours having common history, socio-cultural affinity, heritage and access. Apart from India, SAARC member countries constitute a stupendous market of 600 million people. But these countries except Pakistan could not develop their manufacturing sector to a desired level. Their level of technological development is far behind that of India. Concurrently, it is India who is to harness the potential of this big market to its own benefit.

Historically, SAARC member countries were interrelated and inter-dependent economies. These economies were unified and inter-twined under the British rule.

While gauging Indo-American relationship India should not lose sight that the USA is a vast economy owning about 60% of the total natural resources of the world. It is more likely for her to explore new market for its products every now and then. Added to this, the country has the absolute strength of dictating terms with any country. It may not be out of place to mention here that it was possible for USA to develop its economy ignoring Latin American Countries because she has abundance of natural resources coupled with developed technology. Unfortunately what is sauce for the goose is not always sauce for the gander. As for India, the move for unilateral and isolated development may compel the other SAARC member countries to reach out to the developed economies that are competing with India such as the People's Republic of China. If such a move comes to fruition, India may then suffer in the long run on two fronts: economic and political. Without the flow of intra-regional investment, technological and marketing collaboration, co-operation in the field of infrastructure development and transit facilities in India may not find any radical break-through in its trade with the outside world.

It may also happen that imbued with the spirit of self-survival the neglected small economies may form a common market. In this context, the weak small economies should also think about what benefit they will derive if developed economies like China only export to and import nothing. However, it may be hoped that

mutual economic cooperation may gradually lead towards solution of unsolved political issues. Recent opening up of the silk-route between India and China may be an eye opener in this respect.

What is left to be seen is how India sorts out its priorities. The success of SAARC depends crucially on India. If India does not realise this, then the vast potentials of trade and development of India and the South Asian region will remain confined to paper.