## Contents

List of Tabl	les and Figures	x			
List of Abbi	reviations	xiii			
Acknowled	Acknowledgements				
Preface		xix			
	Summary of the Study	1			
Chapter 1	Introduction to Global Trade and Trade Blocks	7			
	1.1 Introduction	7			
	1.2 Theory of Economic Integration	7			
	1.3 South Asian Association for Regional Cooperation	9			
	1.4 Intra-Regional Trade in SAARC	18			
	1.5 A Comparing of SAARC and ASEAN	23			
	1.6 Asian Economic Cooperation and Integration	27			
	1.7 Challenges of the Second Generation Reforms	28			
Chapter 2	South Asian Association for Regional Cooperation	37			
	2.1 Problems Facing SAARC	37			
	2.2 Countries Seek Economic Benefits Elsewhere	68			
Chapter 3	Opportunities of SAFTA	81			
	3.1 Gross National Income in South Asian Countries	81			
	3.2 Tariff Rates in the South Asian Economics	82			
	3.3 Trade Preferences	84			
	3.4 Hydropower from Nepal and Bhutan	91			
	3.5 Natural Gas	93			
	3.6 Trade between India, Bangladesh and Myanmar	96			
	3.7 Benefits for India	97			
	3.8 Despite the Substantial Benefits, Why are These Projects not being Realized?	97			
	3.9 Oil Resources	98			
	3.10 Thermal Power and Coal	99			
	3.11 SAARC Grid	100			

#### viii SAARC: Will It Survive?

	3.12 Trade Between India, Bangladesh, Bhutan and Nepal (SAGQ)	101
	3.13 Economic Gains from Power Trading will Help	
	Members to Cut Back on Costs	102
	3.14 Financial Loss Reduction	102
	3.15 Power Trading Revenues	102
	3.16 GDP Gains	102
	3.17 Foreign Exchange Gains	103
	3.18 Increasing Investment within South Asia Through Join Venture Projects	t 103
	3.19 Intra Industry Trade	105
	3.20 The Seven Sisters	106
	3.21 Trade Potentials in North-Eastern Region	106
	3.22 Trade Routes	109
	3.23 Barriers	110
	3.24 Competitive Advantage of Bangladesh	111
	3.25 Tourism	114
	3.26 Trade of Services	116
	3.27 Readymade Garments	117
	3.28 Infrastructure with Emphasis on Transportation	117
Chapter 4	India as a Major Player	123
	4.1 Overview of the Indian Economy	123
	4.2 India's Trade with SAARC Countries	127
	4.3 Trade Intensity for India in Bilateral Trade within the Region	129
	4.4 Non-Tariff Barriers Faced by India in South Asia	131
	4.5 Bilateral and Multilateral Agreements in SAARC	133
	4.6 Benefits of SAFTA for India	134
	4.7 India's Major Opportunities in Trade	138
	4.8 India and Bangladesh Trade Opportunities	138
	4.9 India and Sri Lanka Trade Opportunities	143
	4.10 India and Pakistan Trade Opportunities	145
	4.11 India's Role to Develop and Strengthen SAARC	147
	4.12 India-Bangladesh Political Tension Regarding Tipaimukh Dam	157
	4.13 Details of the Project	159
	4.14 Impact on Bangladesh	160
	4.15 Protests in India	162

			Contents ix
	4.16	Protests in Bangladesh	162
	4.17	Current Progress	163
	4.18	India's Politics and SAARC	164
Chapter 5	Inf	luence of Other Economic Powers on SAARC	167
	5.1	The China Threat for SAARC	167
	5.2	The USA-India Relationship	179
	5.3	Japan's Interest in SAARC	192
	5.4	Balancing the Economic Powers	195
	5.5	Impact of Global Financial Crisis in South Asia	201
Chapter 6	Cor	nclusion	205
	6.1	Recommendations: Making SAFTA a Success	210
	6.2	Agenda for the Future of SAARC	217
	6.3	Agenda for Future Research	218
	6.4	Realistic Future Dimensions of SAARC	219
Reference	s		229
Index			233

### x SAARC: Will It Survive?

# List of Tables and Figures

### Tables

1.1	Current Scenarios of the Trading Blocs	10
1.2	Intra-regional Total Trade, 2004	19
1.3	Total Trade of South Asian Countries, 2004	19
1.4	Trades as Percentage of GDP	21
1.5	Main Tradable Products in the Context of SAARC Nations	22
1.6	Infrastructure Stocks in South Asia, East Asia and China, 2003	35
2.1	Population, GDP and Trade in SAARC-5	38
2.2	Comparison of SAARC with Other Trade Blocs	38
2.3	Informal Trade between India and its SAARC Partners	39
2.4	Doing Business Report, 2008	43
2.5	Enforcing Contracts	43
2.6	SAPTA Concessions on Number of Products	48
2.7	Item Negotiated for Tariff Concession	49
2.8	Nepal-China Trade	75
3.1	Gross National Income (GNI) in 2004	81
3.2	Tariff Rates in the South Asian Economies	82
3.3	Current Rate of Extraction or Installed Capacity	90
3.4	Share of Energy Sources in Total Consumption	91
3.5	Commercial Energy Consumption	91
4.1	Competitiveness Indices Ranking	124
4.2	Share of Developing and Asian Countries in India's Trade	124
4.3	India's Top 10 Export Destinations: India's Export Growth Rate and Destinations' GDP Growth	125
4.4	Structure of India's Imports 1990-2003	125
4.5	Major Sources of India's Imports	127
4.6	Average Growth Rate of Trade in Selected Countries	128
4.7	Country Profile of Tariff Structure	132
5.1	GDP of Rich Countries in 2008 and 2050	198
5.2	BRIC Countries among the Countries of the World	198
F 2	Van Francis Indicators of Couth Asian Francisco	203

### Figures

1.1	Degrees of Economic Integration	10
1.2	Share of South Asian Firms Reporting the Issues as a 'Major' or 'Severe' Constraint on the Operation of their Business	29
1.3	Cost of Doing Business is High in South Asia	30
1.4	Rule of Law and Per Capita Incomes	31
1.5	Overall Knowledge Economy Index for South Asia: 1995 vs. the Most Recent	33
1.6	Comparison of KEI Components Parts for World Regions with South Asian Countries	33
1.7	Comparative System Losses is South Asia and China	35
2.1	Higher Transport Costs in South Asia	45
5.1	Ahead of the Neighbours Consumer Prices, % Increase on Previous Year	202

Contents xi

### List of Abbreviations

ADB Asian Development Bank

APEC Asia Pacific Economic Co-operation

ASEAN Association of South East Asian Nations

BIMSTEC Bengal Initiative for Multi-Sectoral Technical & Economic

Co-operation

BUMSTEC Bangladesh India Myanmar Sri Lanka Thailand Economic

Co-operation

CAREC Central Asia Regional Economic Co-operation

CARICOM Caribbean Community and Common Market

CHT Chittagong Hill Tracts

CIS Commonwealth of Independent States

CNG Compressed Natural Gas
CPD Centre for Policy Dialogue
EEU European Economic Union

EU European Union

FCI Food Corporation of India FDI Foreign Direct Investment

FSI Failed State Index

FTA Free Trade Agreement

GAIL Gas Authority of India Ltd

GATT General Agreement on Tariff and Trade

GBM Ganges-Brahmaputra-Meghna

GDP Gross Domestic Product

GNP Gross National Product

GTCL Gas Transmission Company Limited

HSBC Hong Kong and Shanghai Banking Corporation

HTI High-Technology-Intensive

#### xiv SAARC: Will It Survive?

IAEA International Atomic Energy Agency
IBM International Business Machines
IMF International Monitory Fund

IORARC Indian Origin Rim Association for Regional Co-operation

ISLFTA India Sri Lanka Free Trade Agreement

IT Information Technology

JICA Japan International Co-operation Agency

JITCO Japan International Training Corporation Organisation

KTI Knowledge Trade Initiative
LCS Land Customs Stations
LDC Least Developed Countries
LDM Least Developed Members
LNG Liquefied Natural Gas
MFN Most Favoured Nations

MMSCMD Million Standard Cubic Meter Per Day

MOU Memorandum of Understanding
MTI Medium-Technology-Intensive

NAFTA North American Free Trade Agreement

NATO North Atlantic Treaty Organisation

NEI North East India

NELP New Exploration Licensing Policy NLDM Non-Least Developed Members

NSG Nuclear Supplier's Group

OIC Organisation Islamic Conference
ONGC Oil & Natural Gas Corporation

PARTA Pacific Regional Trade Acceptation

PARTA Pacific Regional Trade Association

PPI Progressive Policy Institute
PPP Purchasing Power Parity
PRC Peoples Republic of China

PSA Production Sharing Arrangements

R&D Research & Development

RCD Regional Co-operation for Development

RIS Research & Information System

RMG Readymade Garments

ROO Rules of Origin ROW Rest of World

RTA Rational Trade Agreement

SAARC South Asian Association for Regional Co-operation SACEPS South Asian Co-operative Environmental Programme

SAFTA South Asian Free Trade Agreement

SAGQ South Asia Growth Quadrangle

SAPTA South Asian Preferential Trade Agreement

SDF SAARC Development Fund
SME Small and Medium Enterprises
SPS Sanitary and Phytosanitary

TRIMS Trade Related Investment Matters

TRQ Tariff Rate Quota
UK United Kingdom
UN United Nations

UNCTAD United Nations Conference on Trade and Development

UNO United Nations Organisation

US United States

USA United States of America

USAID United States Agency for International Development

USIBC US & India Business Council

WAPDA Water and Power Development Authority

WMD Weapons of Mass Destruction

WTO World Trade Organisation