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Enhancing Regional Trade Potentials and Economic Cooperation Among the Saarc Countries: Exploring Major Challenges and Propositions

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Enhancing Regional Trade Potentials and Economic Cooperation Among the Saarc Countries: Exploring Major Challenges and Propositions

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Abstract- Sustainable economic growth of countries nowadays relies much on the regional economic alliance developed among countries. This type of integration is gradually spreading to different parts of the world including the South Asia. SAARC is an organization of South Asian countries, mainly institutionalized as an economic alliance to work with collaboration and accelerate their socio-economic development. But, since the inception of SAARC, the achievement in regional economic integration is insignificant and the level of intra-regional trade flow among SAARC countries is still very low compared to the rest of the world. The region accounts for a very insignificant share of world trade but persistent high levels of tariff barriers. The present study attempts to examine the prospects and briefly reviews and identifies constraints to intra-regional trade and modes of economic cooperation in the region. It aims to enhance cooperation amongst members in order to improve competitiveness and put forward a set of recommendations for the policy makers requiring relentless determination to make the alliance successful in future.

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I. INTRODUCTION

Most of the countries of the world are members of a bloc, and many belong to more than one. In South Asia, South Asian Association for Regional Cooperation (SAARC) is an emerging trading bloc. South Asia being one of the most densely populated regions in the world is a large regional bloc with huge potential. The eight member countries of SAARC (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) span a land area of 4,428,119 square kilometers with a population of 1,484 million people. In South Asia, regional trade was initiated through the Agreement on SAARC Preferential Trading Arrangement (SAPTA). Bilateral free trade

agreements play an increasingly significant role in enhancing trade liberalization and economic growth in Asia. SAPTA has proper rules of origins and no formal dispute settlement mechanism. The fourth round of SAPTA negotiations was completed in 2002 and studies have indicated that the process has not been very effective as concessions offered have been less attractive (Mohanty, 2003). Conventional trade measures indicate that the region is engaged in trade with the outside world - not within the economies of the region. In a static sense, small countries may lose and large countries may gain from a free trade area. Findings indicate that, with the existing low level of bilateral and intra-original trade shares and low trade with South Asian countries, the gains from free trade arrangements in this region are likely to be minimal. Compared to the rest of the world, this region is not open enough in international trade, rather, it is very much inward oriented. Intra-region's trade flow in this region is also very insignificant. The region accounts for a very insignificant share of world trade but persistent high levels of tariff barriers.

However, since the inception of SAARC, the achievement has been considered very insignificant and the level of intra-regional trade among SAARC countries is still very low (Ali and Talukdar 2009). With the present low level of intra-regional trade and the perceived competitiveness among the SAARC countries, a question has arisen whether regionalism would benefit the member countries. Very few studies are carried out in South Asian region to search for the basic problems faced by SAARC and the key factors of failure of SAARC; so, there is a need to carry out a study to find out the basic hurdles for SAARC and to suggest certain guidelines for the betterment. This study contributes to this literature by explaining further in-depth challenges of preferential trade liberalization in South Asian region. Moreover, this study attempts to analyze the potential of regional economic integration in South Asia under a broader and economic perspective.

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II. OBJECTIVES OF THE STUDY

The objectives of the present study are described below:

1. To have a brief review on the SAARC and SAARC intra regional trade prospects.
2. To identify the challenges in the intra-regional trade and other modes of economic cooperation in the region.
3. Take an attempt to analyze the potential of regional economic integration in South Asia to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields.
4. Aiming at enhancing cooperation amongst members in order to improve competitiveness.
5. Put forward a set of recommendations for the policy makers requiring relentless determination to make the alliance successful in future.

The challenging issues concerning regional trade liberalization are many, and to understand the ground realities, there is a need for having varieties of databases and adoption of number of suitable approaches. Hence it is much important to forecast the obstacles in liberalization of trade and achieving regional and economic integration in South Asia (Das, 2008). In this study the authors have attempted to examine intra-regional trade potential and thereby identify the shortcomings in the context of existing Intra-regional trade for future direction strengthening cooperation amongst member countries in order to improve competitiveness.

III. RESEARCH METHODOLOGY

This paper is an analytical one. Only secondary data has been used for this research work. Content Analysis Method, which is commonly known as the review of the previous literature, has been followed in the preparation of this article. Data related to SAARC activities and policies have been collected by focusing on trade and other economic issues from the Foreign Ministry of Bangladesh, Bangladesh Bank, Export Promotion Bureau Bangladesh, Bangladesh Bureau of Statistics, and Bangladesh Economic Review. Full use of relevant books, journals and internet sources is made in order to make this study informative and meaningful. Several global business and economic articles relating to the topic are studied and criticized. No empirical data is used. Some information has also been collected from the daily newspapers and Internet sources.

IV. SAARC - AT A GLANCE

The South Asian Association for Regional Cooperation (SAARC) is a political and economical organization in South Asia. The objective of the establishment of SAARC is to provide platform to the

people of Southern Asia to make joint efforts to promote harmony, conviction, and understanding among states (Alam et. al 2011). It is the largest regional organization established on December 8, 1985 by member states - Bangladesh, Bhutan, Maldives, Nepal, Pakistan, India, and Sri Lanka. Eighth country Afghanistan was added at the 13th Annual summit in 2005 on the request of India and became a member of SAARC on April 3, 2007. The idea of regional cooperation in South Asia was first raised in November 1980. The first concrete proposal for establishing a framework for regional cooperation in South Asia was made by the late president of Bangladesh, Ziaur Rahman, on May 2, 1980. Several factors such as political, economic, security and potentiality of mutual economic benefit through regionalism seem to have influenced President Ziaur Rahman's thinking about establishing a regional organization in South Asia (Kishore 1996). After consultations, the foreign secretaries of the seven founding countries met for the first time in Colombo in April 1981. The foreign ministers, at their first meeting in New Delhi in August 1983, adopted the Declaration on South Asian Association for Regional Co-operation (SAARC) and formally launched the Integrated Program of Action (IPA) in the five agreed areas of cooperation: agriculture; rural development; telecommunications; meteorology; and health and population activities. Later, transport; postal services; scientific and technological cooperation; and sports, arts, and culture were added to the IPA. SAARC was entered in regional trade agreement in 2004. The establishment of SAARC in 1985 was an attempt to reverse the conflicting tendencies of the post-independence era. The move was initiated by Ziaur Rahman in Bangladesh and taken forward by young leaders like Benazir Bhutto in Pakistan and Rajiv Gandhi in India. Before entering in the (RTA), South Asian Preferential Trading Agreement (SAPTA) was formed in 1993 and it would be changed into South Asian Free Trade Agreement (SAFTA) in January 6, 2004 on the 12th Summit at Islamabad (Ali & Talukder, 2009 and Chaturvedi et al., 2007).

V. SAARC - ECONOMIC STATUS AND INTRA-REGIONAL TRADE

Increasing rationalization of world trade and the fluidity of the emerging global system has increased trade within each trade bloc and those countries that do not belong to any trade blocs are likely to be the losers (Shreekantaradhya, 1993). This also provides a strong rationale for sustaining the SAARC vis-à-vis future trade prospects of South Asia. The South Asian region is the home of 23 percent of the world's population comprising an area of only 3.8 percent of the total global land. Considering the market-size in terms of population, SAARC is one of the largest economic blocs in the world. This region covers almost 67 percent of the

low income population of the world economy. South Asia's economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of support services. SAARC, tragically, is the world's only region, which has failed to tap the potential for social-cultural exchange and economic cooperation, with the continuation of war and cold war in the region between India and Pakistan (ADB, 2005). Under the World Bank designated category, four economies namely Bangladesh, Bhutan, Maldives and Nepal, are least developed countries (LDCs); and India, Pakistan Sri Lanka are considered developing countries. On the basis of income Bhutan, Maldives and Sri Lanka are lower-middle-income countries; and Bangladesh, India, Nepal and Pakistan are low-income countries (Das, 2007; World Bank, 2007). Conventional trade measures indicate that the region is engaged in trade with the outside world- not within the economies of the region. The region's export and import shares destined to and originated from, this region have been in declining trend over the last few years. Compared to the rest of the world, this region is not open enough in international trade, rather, it is very much inward oriented. Intra-region's trade flow in this region is also very insignificant. This is partly because the major economies such as India, Pakistan and Bangladesh are not outward-oriented (Ali, E. & Talukder D. K. 2009). The very concerning matter to the researchers is that in the regional groups, intra-regional trade accounts for a very

low proportion percent of total trade and a low and insignificant level of involvement in bilateral trade by the region's large countries such as India and Pakistan.

The member countries have diverse economic conditions and India and Pakistan are the two largest economies in terms of the regional GDP and population. Regional trade can increase significantly with regional cooperation. Gravity models indicate that India's bilateral trade potential with its neighbors remains largely untapped (Batra 2004). India has nearly 77.8 % of the region's GDP, accounts for 40.3 % of its trade and 75.8 % of incoming foreign direct investment (Kumar, Rajiv 2009). India's dominance in nearly all respects is a central and special feature of the region that can be seen as both a positive and negative feature in the context of promoting greater economic cooperation. India's size and central location in South Asia makes the region quite unique and complicates the case for regional integration. For instance, in 2006 India accounted close to four fifths of the regional GDP by value, while Bhutan and Maldives accounted for less than one-hundredth. Pakistan, the next largest economy after India, accounted for 11 % of the regional GDP, followed by Bangladesh and Sri Lanka. The low share of South Asia in total world trade is largely driven by the low share of India as well as Pakistan, Bangladesh and Sri Lanka in world trade flows. Within the region too, the persistence of trade barriers has led to abysmally low levels of intra-SAARC trade.

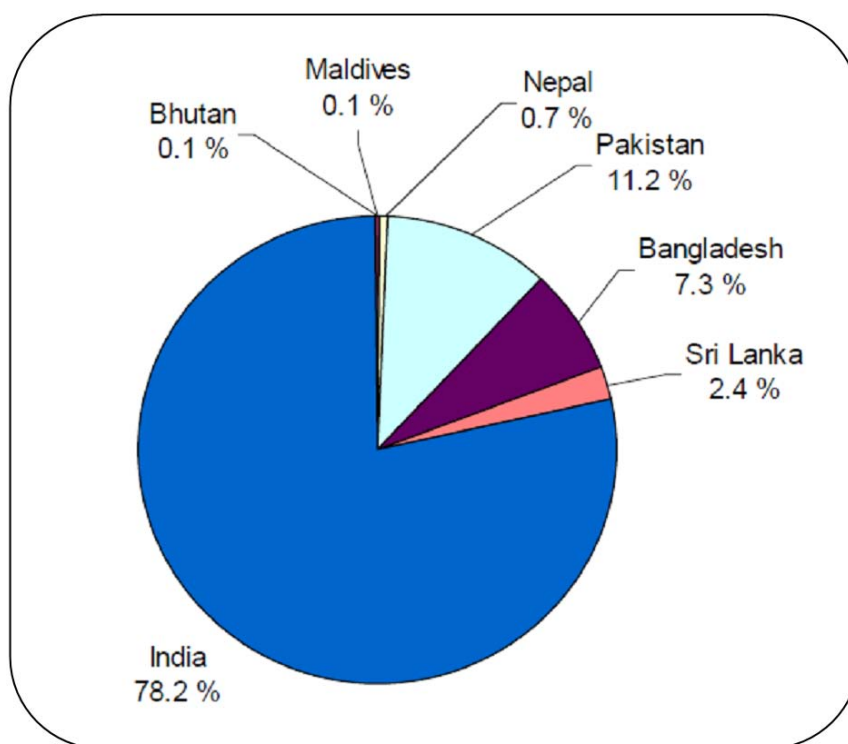


Figure : SAARC country shares of regional gross domestic product, 2006

Source: World Bank (2008), World Development Indicators 2008, Washington, DC

The following table shows the country wise Contribution to GDP by Sectors. It is found that decline in the share of agriculture sector was compensated by an increase in the share of both the industrial as well as services sectors. The share of agriculture sector has decreased and that of the services sector has risen over the last two decades for almost all the economies. Services play a major role in all modern economies.

Indeed, it would be difficult for any economic activity to take place without services such as telecommunications, banking and freight logistics. There has been a greater increase in the share of the industrial sector over the period stated here which shows a major change in the structural economies of SAARC (Cited from Sawhney Upinder, 2010).

Table : Contribution to GDP by Sectors

Country	Agriculture (% of GDP)			Industry (% of GDP)			Services (% of GDP)		
Year	1988	1998	2008	1988	1998	2008	1988	1998	2008
Bangladesh	31.1	25.4	19.0	21.2	25.8	28.5	47.8	48.7	52.5
Bhutan	38.0	31.6	18.7	24.3	32.7	46.1	37.7	35.7	35.2
II India	30.5	26.0	17.5	26.2	26.1	28.8	43.4	47.9	53.7
Maldives	-	-	6.2	-	-	17.7	-	-	76.1
Nepal	50.9	39.9	33.7	16.2	22.5	16.7	32.9	37.6	49.6
Pakistan	26.0	27.3	20.4	24.4	23.8	26.9	49.6	48.9	52.7
Sri Lanka	26.3	21.1	13.4	26.7	27.5	29.4	47.0	51.4	57.3

Source: Adapted from World Development Indicators, 2009 and Key Indicators of Asia and Pacific, 2009 World Bank (2009), World Development Indicators, <http://data.worldbank.org/indicator>.

Another data on average annual growth of different sectors gathered from Asian Development Bank (2009), *Key Indicators for the Asia and the Pacific*, show almost similar picture. Agricultural sector in all the countries has grown at a slower pace as compared to the industrial and services sector. The rates of growth of industrial and service sectors show similar trends in all

the economies. As a region, the South Asia's growth status was dominated by the services sector, but industry sector growth accelerated in regional big economies India, Pakistan, Bangladesh and Sri Lanka, reinforcing the sustainability of high growth rates into the future (Central Bank of Sri Lanka, 2008).

Table : Average Annual Growth of different Sectors

Country	Agriculture		Industry		Services	
	1988-98	1998-08	1988-98	1998-08	1988-98	1998-08
Bangladesh	2.7	3.5	7.2	7.5	4.1	5.9
Bhutan	1.8	2.4	5.3	11.1	7.7	9.2
India	3.1	2.7	6.1	7.6	7.0	8.9
Maldives	2.4	3.1	9.5	8.3	8.9	6.5
Nepal	2.6	3.4	7.8	3.3	6.3	3.9
Pakistan	4.5	3.1	4.7	6.6	4.7	5.7
Sri Lanka	2.0	2.0	7.0	4.8	5.7	5.9

Source: Adapted from WDI, 2009 and Asian Development Bank (2009), Key Indicators for the Asia and the Pacific, www.adb.org/documents/books/key_indicators,

Intra-SAARC trade is not at the satisfactory as per the expectation level. The South Asia region remains a small player in global markets, accounting for a little over 1 % of total global trade. During the period 1995 to 2006 South Asia's share in world merchandise exports marginally increased from 0.9% to 1.3 % (WDI 2008). During 1991 to 2006, the intra-SAARC merchandise

trade has been stagnating between 3-5% of the region's total world trade.

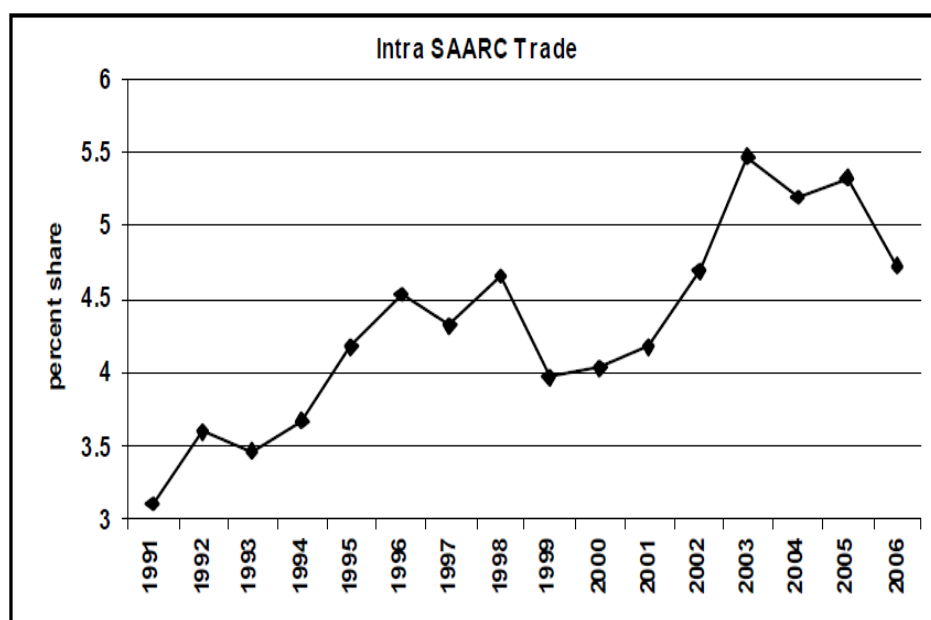


Figure : Share of intra-regional trade in total trade of SAARC, 1991–2006

Source: Calculated with data from IMF DoTS

However, the recent trade trend shows that the intra regional trade volume is fluctuating for Sri Lanka, increasing for India, whereas it is falling for Bangladesh and Pakistan due to high level of border protection maintained by India and partly because these countries are trying to strengthen their trade with industrial countries outside the region (Pitigala, 2005).

VI. CHALLENGING ISSUES AND CONSTRAINTS FACING SAARC

a) Increasing Energy Deficit

The significant driver of economic integration in South Asia is the need for greater energy security. Shortages of energy have an adverse impact on industrial and economic growth. All the member countries are heavily dependent on energy imports and even more specifically on hydrocarbon imports from West Asia. The first and foremost energy challenge faced by the region is persistent energy deficit. The entire region faces either crude oil or petroleum product supply deficit. Even natural gas consumption is very limited in the region primarily due to the lack of infrastructure like gas pipelines. Member countries currently using natural gas also face shortfall. Bangladesh and India are currently natural gas deficient. The suggestion to measure gas reserves of Bangladesh holds promise. At the greater Asian regional level the SAARC economies can be seen to offer a unified market for hydrocarbon imports from Central and West Asian gas and oil fields by overland pipelines. Energy trade in the region can also be seen as a confidence-building measure and a lock-in mechanism for irreversible economic interdependence (Pandian 2005). India is a

pioneer in exploring renewable energy sources like solar, wind energy etc. There are also other areas where India has proved its expertise. For instance, while countries of South Asia use bio-mass inefficiently, India is a leader in biomass energy resources.

b) Tariff and Non-tariff Barriers

Rules of origin in preferential or free trade agreements help determine the products for tariff preferences, but tighter rules of origin often reflect protectionist intention. The co-existence of high tariff barriers and tight rules of origin raises the risk of trade-diversion (Kumar, Rajiv 2009). The second RTA lacks the mandate and prospect of ensuring greater relaxation of trade relations between the member countries. In the words of a former Indian senior Foreign Service bureaucrat SAFTA is a 'wholly inadequate framework for trade liberalization within South Asia.' According to him very low range of tariff cuts, long periods of tariff reductions and higher number of goods on the 'negative list' are the major constraints in realizing a genuine free trade regime in South Asia. (Rajiv Sikri, 2009). Non-Tariff Barriers are restrictive to trade and not only add to costs but also increase time for delivery. Subject to "enabling environment" a review of this situation would be desirable. A review of all the non-tariff barriers shows that India's certification procedures are convoluted, leading to import constraints. This is the main concern and fear of other SAARC countries. But the process has started with textile and food processing in Bangladesh, and cement in Pakistan. However, the tariff rates among various sectors of the economies of various member countries of SAARC is declining very fast with the passage of years from 1995 to 2006 and up till now it is

decreasing, that facilitate and enhance the trade activities over the borders of different member states.

c) *Poor Port and Transport Infrastructure*

The poor port and transport infrastructure is one of the major reasons for low-integration in the region which can be referred as an obstacle to growth for the region (De, P., 2005). One estimate shows that if South Asia's infrastructure capacity is increased even halfway to East Asia's level, then intra-regional trade can increase by 60 % (Wilson & Ostuki 2005). Delays in transit due to road or port congestion, customs procedures and other non-tariff barriers raise the costs for exporters. The limitations are in both physical (lack of cargo/ship handling equipment) as well as nonphysical infrastructure (excessive and cumbersome border procedures). The structural constraints may be presented such as low export supply capabilities, shortage of investable resources, technological backwardness, as being responsible for the slow growth of intra-SAARC trade. These factors would inhibit not only intra-regional exports but also overall export growth. Lack of market access is another constraint. Though there are attempts to remove NTBs these remain by far the most significant barrier to trade. Such NTBs have survived due to the gap between policy decisions and its implementations within SAARC. LDCs such as Bangladesh should be given zero-duty market access on a non-reciprocal basis. To enhance Intra-SAARC business and trade, adequate infrastructure is needed for transportation of goods. Regional banking facilities and mutual certification measures and standards might help expedite intra-regional business transactions.

d) *Political Issues*

SAARC has not been able to realize its full potential because of the existence of serious political differences and disputes in the region giving rise to tensions and mistrust among member states. Major disagreements at the political levels among the South Asian countries acted as a constraint in building effective cooperation among these countries. For example, Harshe (2005) mentioned that India refused to attend the 13th summit of SAARC and the reason was shaped by two main factors. First, recently events occurred in Bangladesh such as attack on Sheikh Hasina, the deaths of Bilal-ud-din, a journalist and former finance minister Shah A.M. S Kibria in two separate bomb blasts. Second, through suspension of the democratic and constitutional processes King Gyanendr's seizures of power in Nepal also promoted India to refrain from sharing the platform with the Gyanendra regime. Although all countries follow the democratic procedure in forming governments, armed forces of some of the countries have an undue influence on state policy in this region. Some of the countries are involved in open hostilities and various bilateral issues causing temporary tensions in the region. All these

SAARC countries were colonies of imperial power at a certain stage in their political history. All these countries have some forms of ethnic problems since the countries are to a varying degree, ethnically heterogeneous. Afghanistan has also seen enormous instability and disruption over the last three decades.

e) *Disintegration in the Culture and Cooperativeness*

Differences in cultural values and customs among the member countries might have impact on the imbalanced SAARC regional development. The Addu Declaration dwells on "the plurality of cultures and diversities within the region", emphasizing the "need to promote intercultural harmony through greater contact and interaction between peoples" (17th SAARC Summit in Addu City, Maldives, SAARC: Towards Meaningful Cooperation). South Asia can be poised at a critical juncture in its history in that it has in hand the norm-setting process in different areas and is now in the phase of active implementation. The very critical issue to the success of regional economic cooperation and integration is the development of the culture of cooperative thinking. India shares ethnic, language, cultural and religious histories. In order to promote regional cooperation, India binds the neighboring states in ties of different networks through the project of SAARC. It is true that it faces numerous developmental challenges; but it is also a fact that South Asian countries may count among the relatively faster-growth regions capable of substantial economic achievements if integration of the Culture and Cooperative attitude could be established significantly.

f) *Facts of Intra-regional and Inter-regional Connectivity*

Connectivity is a vital imperative for South Asia's future and its acceptance at the highest political levels will be an essential component in the region's development. Connectivity is not a narrow idea and should be perceived as a key to regional development. As a way forward, it includes much more than issues including travel. Trade issues are dependent on visa issues. And visa processes are so cumbersome that it becomes difficult for people to interact with each other. The danger inherent in a move towards greater regional connectivity however, is a spurt in terrorist activity that is bound to have a global as well as regional impact. Terrorism has developed its own deadly. Sri Lankan ports, geographically in the virtual centre of the Indian Ocean Region, provide strategic economic connectivity between East Asia, South-East Asia and the West. Terrorism across the Indian Ocean Region collaborates with globalised criminal cartels specializing in people-smuggling, illegal arms-transfers, drug-trafficking, "kappan" collections, and passport/visa/credit-card fraud and cyber crime. Somali pirates pose security and livelihood threats to Indian, Maldivian and Sri Lankan fishing communities.

g) *Intra-countries Tensions and Conflicts*

Conflicts among the member states or the neighboring states are quite unacceptable in building SAARC alliance and harmony. Pakistan and India the two prominent countries in the region are commonly known as traditional rivals, since 1947. The most important conflict is the Kashmir issue. Wars of 1965, 1971 and Kargil war broke between Pakistan and India. Indian government opposed Nepal's step towards gaining atomic energy i.e. weapons from China. Indian government started to compassionate a specific class in Sri Lanka (Tamils) that raised many conflicts between these countries. There exist conflicts between India and Bangladesh such as disputes on Farrakka barrage, on river island of Mahurichar, on building fence on the international border by India. All these issues are still unsolved.

h) *Low level of integration in South Asia*

Over the last fifteen years, between 1991 through 2005, the intra-SAARC merchandise trade has been stagnating between 3-5% of the region's total world trade (World Bank, 2006). Much of the low level of intra-regional trade observed in South Asia stems from the restrictions directly imposed within the agreements. Asymmetric benefits and costs associated with regional integration create political tension and leads to defaults in commitment among the member countries. In South Asia, in particular, the economic gains from integration are perceived to be asymmetric and potentially adverse in the smaller members. SAARC remains marginalized at the periphery of the emerging Asian resurgence. The SAARC has been bogged by traditional problems and disputes among its member countries for which it has not been able to take advantage of synergies. It has not achieved satisfactory results within its present parameters of regional cooperation. It has also not succeeded in establishing meaningful cooperation with other regional groupings in South East and Central Asia and around the Gulf. It also faces resource constraints. All these have made the SAARC process slow, uncompetitive and inward looking.

i) *Trade Creation and Trade Diversion*

Regional trade agreements can be welfare reducing when it results in substantial trade diversion, and given the relatively high levels of protection in the region, most analysts predicted that trade diversion would be a dominant effect of SAFTA (Hirantha, 2003). Formation of a free trade area in South Asia has raised intensive debates on welfare gains and losses from this arrangement by member countries. Welfare gains arise from trade creation resulting from reduction of tariffs on imports from the rest of the world. Differences in welfare gains among the countries depend on the trade creation and trade diversion effects. Factors that influence trade creation are the elasticity of import demand, the pre-agreement level of protection and import from the rest of

the world. It is argued that large countries like India and Pakistan have relatively high levels of trade with the rest of the world and their import demands are relatively elastic and, therefore, they gain more from trade creation than they lose from trade diversion. In this entire schematic, the role of India is very critical. India is now making very strong strides on the economic front. It is a major source of reverse flow of technology as depicted by the huge jump in the export of information technology. Small countries like Bangladesh and Sri Lanka lose because of relatively low level of trade creation and diversion capability. The other three countries Bhutan, Maldives and Nepal have very insignificant influence over intra-regional trade due to their very small size of their economy (Hossain 1997; Newfarmer and Pierola 2007).

j) *Cross Border and Regional Migration and Connectivity*

There has been no cross border connectivity among the member states. This not only affects the economics of scale of its operations but also makes linkages highly cost ineffective. India's geographical location is key to the physical linkages to the entire South East and East Asia. In the context of regional road corridors, one of the most crucial non physical barriers has been the lack of bilateral transport agreements to facilitate uninterrupted movement of goods and vehicles across the borders between India and Bangladesh, as well as between Pakistan and India. As a result, goods are required to be transshipped at the border between the trucks of neighboring countries. There are ample opportunities in regional inland waterway corridors, maritime transport, and air transport that could not only integrate the region but link this region with other regions very effectively.

k) *Economic Transition*

Structural transformation of the South Asian economies can also be addressed here as a role influencing SAARC's effectiveness. The share of agriculture in GDP has declined steadily, while shares of industry and services sectors have increased significantly in almost all the South Asian countries. It is noteworthy that despite the fall in its relative importance over the years, the performance of agriculture continues to influence the overall growth rate of GDP in the South Asian countries. Growth has been sluggish in the agricultural sector whilst the growth in the industrial sector has remained much below its potential. An increase in private debt, excessive liberalization of the financial sector, a weak banking sector, poor governance and political instability were the main causes of the South Asian economic crisis. Regional integration agreements and free trade agreements in particular, may also fail when the impact of liberalization is asymmetric across partners and corrective redistribution mechanisms are absent. Savings and

investment rates in the member states were found very low in comparison to the rates prevailing in other parts of Asia, especially in the East Asian countries and also tended to fluctuate widely on a year to year basis. Again there was considerable variation across countries in the savings and investment rates as well as in their changes.

l) Trade Intensity Index and Complementarities

Trade intensity index concentrates attention on variations in bilateral trade levels that result from differential resistances by abstracting from the effects of the size of the exporting and importing countries. The higher value of this index means the higher bilateral trade (Drysdale and Garnaut, 1982). In order to explore the potentials of intra-regional trade expansion within SAARC, Bhalla and Bhalla (1996) have estimated trade intensities for the SAARC countries individually and for the region as a whole. They have found that except India, all other major SAARC countries like Bangladesh, Pakistan and Sri Lanka show a low and declining trend of trade intensity index. Das (2007) has found that the evidence of trade complementarities in South Asia is mixed. India's and Pakistan's exports are complementarities to the imports of some South Asian countries such as Bangladesh and Sri Lanka. Other economies show efficiency in only a small number of export areas and cannot be considered complementarities to India's imports, or any other country's imports. Increase in Trade Intensity Index for India seems to be due to trade reforms as part of economic reform resulting in the increase in economic growth. The declining values of trade intensity for other countries suggest low trade complementarities among themselves as well as continuing barriers to intra-SAARC trade. Lacking in complementarities in trade, South Asian economies compete in their export markets in a narrow range of products, particularly in textiles and apparel and other light manufactured goods. Thus, the prospects of regional integration are seriously inhibited by this trade structure.

m) Challenges to Sino-SAARC Links

China shares an extended border geographically with five of the eight SAARC countries, namely Afghanistan, Pakistan, India, Nepal and Bhutan. ASEAN's economic success was facilitated by its planned association with China, Japan, and Republic of Korea called "The +3" arrangement. "The 3" have Observer status in SAARC. Coordinated international action against globalized corporate criminal activities posing extensive non-traditional security threats in the Indian Ocean Region should be a major priority. ASEAN and European Union have already had seminar interactions/ dialogues with SAARC for mutually beneficial cooperation. China has also contributed to the SAARC Development Fund. China bears a number of intrinsic connections to the South Asian region in the

context of historical and geographical issues (Rahul Karmakar, 2008). At the 14th SAARC Summit, China outlined a five-point proposal for improving Sino-SAARC cooperation, a plan which consists of a collaborative approach to the issues of poverty alleviation and disaster relief, as well as an attempt at promoting a multilateral human resources training programs, bilateral infrastructure development and bilateral energy cooperation. A great deal of debate was held around the question of what role China should play in relation to SAARC. Since China's initial expressions of interest in aligning itself more closely with SAARC, three possible positions have frequently been considered in this respect, namely those of dialogue partner, observer and full member. China's request for observer status in 2005 was supported by several SAARC states including Nepal, Pakistan and Bangladesh but gave rise to issues concerning the desired extent of its participation in SAARC. The other members of SAARC have long held suspicions of hegemonic tendencies on India's part, harboring fears that the regional giant intends using SAARC as a means of exercising control over its neighbors. China's inclusion would facilitate a greater balance of power by diminishing India's dominance in South Asia. However, the restoration of a balance of power in the region would facilitate greater openness to regional trade and investment (particularly with India), thereby benefiting the region as a whole.

VII. POLICY IMPLICATIONS OF THE STUDY

1. Lower tariff rates should be established. The tariff level in SAARC countries is still high. Therefore, to reap the fullest benefit of the trade bloc tariff could be reduced further. However, the tariff rates existing in different sectors of the economies of the member countries of SAARC is till now declining, that facilitates and enhances the trade activities over the borders. Lowest tariff rates are prevailing among the three renowned economies - Bangladesh, India, and Pakistan. At last the government minimizes the tariffs under the statutory regulations. In Pakistan tariff rates are reduced like that of the leading states of Nepal and Sri Lanka.
2. Adequate infrastructure should be developed for smooth transportation of goods and enhancing intra-SAARC trade and business. Intra-regional banking facilities and mutual certification measures and recognized standards might help expedite regional business transactions. In the energy sector, transit facilitation measures for oil and gas pipelines and other energy resources including access to international markets should be pursued in keeping with the region's interests without succumbing to outside pressures for vested interests. Procedural constraints include lengthy and complicated customs clearance procedures that cause delays at

ports, thereby disrupting delivery schedules and increasing costs. These constraints, which are responsible for the low volume of trade and also breed corruption, should be removed.

3. The political matters and conflicts surrounding the countries of a South Asia draw a question of uncertainty and challenge to the formation of SAARC. For peace and tranquility in the region efforts will have to be made to promote mutual trust, confidence-building and conflict resolution. The realization of durable peace and the future of economic integration through SAARC depend upon the ability and interest of South Asian leaders to resolve domestic as well as long-standing differences through peaceful deliberations. For an enabling environment, South Asia must free itself of tensions, conflicts and confrontations and escalating military budgets. SAARC could be an appropriate forum to generate mutuality of interest and common benefit in regional approach. Such conflicts can be handled by the mutual agreements among the SAARC member states. That will be beneficial for both of the bilaterally conflicting states. Combined efforts of Pakistan and India would be able to facilitate trade by solving political and economic issues. Their combined efforts improve trade by eliminating visa problems, tariff and nontariff obstacles, by exploring various other routes of trades and by developing relations among financial institutions (Sheel Kant Sharma, 2011).
4. The issue of trade imbalances among the SAARC countries should be approached in a pragmatic manner. Viewing imbalances from a negative connotation could become counterproductive to the process of trade integration in the SAARC. SAARC countries were exposed to higher costs due to possible extra-regional sources of supply for many of their import requirements. The cost of non-cooperation within SAARC could be high. Larger countries' exports to smaller countries' could thus be viewed as a catalyst in promoting industrialization in smaller countries' as well as stimulating the overall development process. For reducing the trade imbalance, it would require an agenda to build production and export supply capabilities in the smaller countries of SAARC.
5. South Asia is composed of varied and interacting cultures, civilizations, and ideas that can become the stepping stone towards a common South Asian identity. In this context, the journey of South Asian University a thankful initiative of the Prime Minister of India commenced in Delhi its first session in 2010, will go a long way in bringing together the academia and younger generations of South Asia. The project envisages in the fullness of time campuses in all SAARC countries and is ambitious enough to see the enrolment of South Asian students to go up to 5000. The SAARC needs to address the critical question of repositioning itself as a community in the changing Asian and global context. In due course, the SAARC needs to explore the possibility of becoming an essential link in the new "Asianism". It is pertinent to reflect on SAARC's past successes and failures and also formulate a vision for the future.
6. Intra-regional travel fares need to be standardized and more intense dialogues are required with regard to SAPTA and SAFTA. It is now increasingly felt that visa requirements must be waived for all SAARC citizens while traveling within the region and in case of security concerns, people must at least be allowed to apply for VISAs at the point of entry. The SAARC Visa Exemption Scheme that was initiated in 1988 and became operational on 1 March 1992 was designed to facilitate closer interaction and cooperation among the peoples of the region. Adequate measures to implement relevant provisions of SAARC Conventions against terrorism, arms smuggling, narcotics trade, human trafficking, and illegal financial transactions need to be developed. Economic connectivity needs to extend beyond South Asia as well.
7. Establishment of a SAARC Investment Area would encourage the business community of the SAARC region and also the international investment community to explore the possibilities of finding optimum locations for their investment activities in different countries of the South Asia region. Building a regional technological base in different phases would meet the challenges of technologies and strengthen export supply capabilities within SAARC. Technological cooperation among the SAARC countries is prerequisite for building a common platform facilitating investment arena. Combined efforts of Pakistan and India may enhance trade by solving political and economic issues. Their combined efforts improve trade by eliminating visa problems, tariff and nontariff obstacles, by exploring various other routes of trades and by developing relations among financial institutions. (Naqvi & Schuler, 2007)
8. SAARC needs to actualize a vision of integration that expands security, economic opportunity and political freedom throughout South Asia and in its neighborhood. This will imply willingness on the part of member states to have a little less sovereignty, more engaged regional diplomacy, more consistent support to South Asian Economic Community, and a well-structured security dialogue and a concrete plan of action for all this. Through wisdom and foresight, the SAARC leaders can work with their counterparts from neighboring regions for establishing inter-regional connectivity, building a peaceful, increasingly cooperating and prosperous

Asia where each country and region has its fair part. This will enable member countries of the SAARC to optimize prospects of growth and prosperity by fostering such cooperation within the SAARC framework.

9. The South Asian region has been harshly hit by terrorist activities. It is recommended that the region should consider the possibility of establishing a multilateral mechanism to effectively combat terrorism. It is important that political leaders of the SAARC countries embrace both a vision and a strategy for change in political atmosphere and economic setting. Strategic decision-making is required rather than short-term partisan tactics. Beyond trade and investment, there were other opportunities available now to the SAARC for cooperation with Asian countries outside the region in areas such as terrorism, drug smuggling, environment, rural development and poverty reduction. The SAARC countries could also develop with neighboring countries sister city relationships and sister province relationships.
10. With a view to attracting investments, the countries in the SAARC region have effective measures initiatives. Though foreign direct investment inflow is increasing in the SAARC region, it is still low in volumes. Therefore, adequate steps could be taken to attract more FDI into the region. Progressive removal of trade barriers within the region keeping in view the experiences of other regions, global economic trends and international commitments undertaken by the member states. Regional integration will provide a larger market and also scope for intra-industry trade. They must build capacity to foster economic growth not only within each country but also in the entire region.

VIII. CONCLUSION

The success of states in today's world is not so much measured in terms of capacity for defending borders or creating uniquely national institutions, but in terms of ability to adapt to regional and global trends, promote exports, attract investments, and skilled labor, provide a beneficial environment for transnational companies, build attractive institutions of research and higher learning, wield political influence on the regional and global scene, and also brand the nation culturally in the international market-place (Stein Tonnesson, 2004). Regional cooperation agreements may sometimes be difficult to achieve or fail to deliver results owing weak institutions and the lack of proper enforcement mechanisms for ensuring the fulfillment of commitments. The rationale for regional cooperation is based on a number of factors, not all of which are necessarily economic in nature. In many cases, regionalism brings the same benefits, however on a much smaller scale, as

those resulting from multilateralism. (Islam and Chowdhury, 2012).

Indeed, increasing rationalization of world trade and the fluidity of the emerging global system has increased trade within each trade bloc and those countries that do not belong to any trade blocs are likely to be the losers (Shreekantardhya, 1993). Expansion of trade as well as efficiency and improved quality of exports would benefit the countries participating in the regional co-operation effort. (A. R. Kemal 2004). This study highlights the main trade barriers among SAARC member states. Cooperation between the SAARC and its neighboring countries is both essential and inevitable. This would firm up connectivity and enable its member countries to leverage the opportunities provided by the current Asian dynamism. SAARC as a regional institution needs to foster and consolidate the process of regional cooperation and integration within itself. But this task should be undertaken against the challenging backdrop of deepening of globalization process, resurgence and growing dynamism of Asia, new outward looking trends and changing realities in South Asia. Intensifying cooperation between countries and creating a viable regional organization can facilitate peace, stability, and progress. Indeed the prospects for SAARC are better today than perhaps at any time in its history. In order to achieve the objectives the SAARC would have to evolve into a full-fledged 'regional entity' that can cultivate peace in the region. The union should allow free movement of people; common currency and common foreign and economic policies which ultimately will sow the seeds of peace and prosperity.

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