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CHAPTER 3

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# Whither SAARC?

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The past three decades have witnessed rapid economic growth in South Asian countries, which is impressive in comparison with their own performance in the past and with other developing countries in the present. Gross domestic product (GDP) growth rates since the mid-1980s provide a sharp contrast with near-stagnation in the colonial era and modest growth in the preceding four decades in South Asia, and are much higher than in other parts of the developing world, particularly Africa and Latin America. This has led to a significant reduction in absolute poverty and some improvement in the living conditions of people. But economic growth has not been transformed into meaningful development which improves the wellbeing of ordinary people. The underlying reason is the triangular relationship between growth, poverty and inequality. Rapid growth did help reduce absolute poverty in South Asia but not as much it could have, in part because the initial income distribution was unequal and in part because of rising income inequality. At the same time, economic growth did not lead to commensurate employment creation. Indeed, employment growth was slower than output growth and the gap widened over time.

Almost one fourth of the people on earth live in South Asia. But the contribution of this region to world GDP, in current prices at market exchange rates, is barely one thirtieth. It is no surprise that South Asia is home to 40–45 percent of the world's poor, depending on where we draw the poverty line. For the region as a whole, in 2011, 25 percent of its population lived below the poverty

line of PPP\$1.25 per day, while 60 percent of its population lived below the poverty line of PPP\$2 per day. The former are the perennial poor probably unable to reach the critical minimum even in terms of nutrition, while the latter might have been able to reach the critical minimum in terms of food and clothing plus some basic needs but not appropriate shelter or adequate healthcare and education. The people between the two poverty lines, as many as 580 million people in South Asia, were vulnerable to any shock such as a bad harvest, high inflation, job loss, or an illness in the family. But that is not all. Our social indicators of development, on health and education status, are still among the worst in the world, with the possible exception of sub-Saharan Africa. Clearly, we have miles to go in our journey if the destination is the wellbeing of our people.

## **Economics and politics**

It is obvious that South Asia has much to learn from the rest of Asia about industrialization as an imperative, the critical importance of employment, a focus on human development, and the fundamental role of governments in transforming economies. In this quest for development, there are many things that must be done. Let me simply highlight the importance of regional cooperation as a means in the sphere of economics and an end in the realm of politics.

The logic and benefits of economic cooperation between South Asian countries are obvious enough. To begin with, almost everyone thought of economic cooperation in terms of trade. Thus, the essential idea underlining the South Asian Association for Regional Cooperation (SAARC) was a South Asian Free Trade Area, that is, free trade among countries in South Asia. It is another matter that it did not materialize in any meaningful way. The argument then was largely based on gains from trade in goods. The world has changed since then. Economic transactions extend much beyond trade to cross-border movements of services, investment, technology and people. There is, in addition, the wider political context and purpose in a subcontinent where harmony has been elusive, as contradiction and conflict have tended to surface time and again.

There is something that we can learn from Europe as well, on how to get away from political conflicts embedded in history. It is worth remembering that six countries in Western Europe, including France and Germany, signed the Treaty of Rome in 1957 just 12 years after the end of World War II to establish the European Economic Community, which went through successive stages of economic integration. The outcome was the European Union as a single market. It was a political project for peace in Europe. It was also an economic project for prosperity in Europe. Nearer home, the Association of Southeast Asian Nations (ASEAN), set up in 1967, has also made significant progress.

SAARC was established as late as 1985. It has been more than three decades since then. Yet, the progress, even in terms of minimal forms of economic cooperation, has been, at best, modest. Trade in goods, let alone services, between South Asian countries is a disproportionately small fraction of their total trade. Cross-border investments or movements of people are negligible. Of course, India and Nepal, an economic union in terms of labour mobility, are an exception. This near-absence of an economic engagement with each other provides a sharp contrast not only with Asia and the world, but also with South Asian countries themselves in their engagement with the world economy. The constraints are embedded ultimately in politics, which has turned out to be a stumbling block. The present impasse, like many before, has pushed the official SAARC process into a meltdown yet again.

There are three propositions I wish to set out and develop as ideas. First, the logic of regional cooperation. Second, the actors and the stage. And, third, the next steps that I would contemplate for our elusive quest.

## **Cooperation logic**

The logic of regional cooperation has two dimensions: political and economic. The political benefits of cooperation are obvious. The peace dividend, or the reduced-conflict dividend, will accrue to all countries. The resources so saved will benefit people at large. At the

same time, it would provide South Asia as a region with a collective bargaining power vis-à-vis the outside world. That has been the logic of the European Union or ASEAN. In the international context, this bargaining power will come from the size of the market which is large in terms of the number of people even if not in terms of their average income levels. But the potential is enormous, as everybody everywhere in the world eyes South Asia as a market. In the multilateral context, it might help South Asia exercise influence on rules and practices in multilateral institutions. In the bilateral context, too, I believe it could help South Asia enormously, as China is seeking to influence each country separately and driving a separate but harder bargain. What is more, the connectivity across the countries in South Asia that could emerge from a political entente will have major economic spinoffs.

In the economic dimension, the logic is just as obvious. We are a region of geographical proximity and economic complementarities, which was a single market just 70 years ago, although in a much less developed world. It is this enormous potential that we could exploit, whether in trade, investment, technology or services. Such gains are not only static gains from trade. There are also dynamic gains from trade that arise from economies of scale and of time. There is also an intersection between international transactions and national connectivity, both of which can drive economic development in South Asia. For example, if you think of Bangladesh, Bhutan, Nepal, Myanmar and Northeast of India, there are enormous synergies. So, it is not just about regional cooperation between countries but it is also about regional cooperation among contiguous regions within these countries. Economic interaction will also lead to learning from each other: whether best practices or appropriate technologies. We in South Asia, even if much derided by the rest of the world, can lead the world in some domains. It could be micro credit. It could be space. It could be informational technology. And there are other possibilities. Last but not least, this is about managing negative externalities that spill over across national borders and capturing positive externalities that spill over across borders. If we think about negative externalities, it is envi-

ronmental degradation and climate change that need cooperation among us. If we think of positive externalities that could be exploited, it is about sharing river waters, it is about trade in power. The examples could be multiplied. The logic is overwhelming.

## **Actors**

Consider next, the actors and the stage. There are three sets of actors: governments, markets and people.

Governments, more often than not, are the stumbling blocks. Their behaviour is driven often by domestic political concerns and compulsions, sometimes perceived rather than real, as governments and political parties seek to mobilize support from the people. This could be driven by conflicts and contradictions, where perceptions diverge from realities, which are often embedded in history. The divides could be religious, ethnic, linguistic, or take other different forms. But I think that governments are often driven by short-term political considerations, rather than long-term thinking. It is plausible to argue that if political parties and governments begin to think beyond the next month, the next year, or the next elections, they might see this logic more easily. Yet, there is a real problem. Any form of economic cooperation between countries requires some ceding of national sovereignty. International cooperation does need to cede some sovereign economic and political space. Understandably, there is a huge reluctance in countries that are poor. Ceding this space is seen as a loss of face and an economic loss. Potential gains are lost sight of as a distant prospect.

Markets would always seek to exploit economic complementarities reinforced by geographical proximities. It is in the logic of markets. For corporate entities or business, people are buyers, irrespective of where they live. In spite of barriers, smuggling thrives because transactors derive benefits. Hence, trade between South Asian countries is much larger than it seems to be. But it could be even more if it was not restrained by borders, barriers and restrictions.

Among the people of countries in South Asia, there are cultural similarities and linguistic intersections. Punjabi, Bangla,

Urdu and Hindi are shared languages. There are natural similarities between our people in music, arts, values, cultures and cuisines that are embedded in history. There is perhaps less diversity among people in South Asia than there is among people in Europe. It is the irony of our lives that we are so near and yet so far from each other.

In sum, even if governments are not willing or able to foster regional economic cooperation, markets and people both want such cooperation. If they are not restrained from doing so, they will find ways of doing it. Markets have the ability to circumvent rules or regulations. So do people if they wish to. Once the economic benefits of such cooperation, however fragmented, become visible, governments might have no choice but to follow in the footsteps of markets and people.

## **Next steps**

Let me, in conclusion, reflect on the next steps in our elusive quest. In this pursuit, I cannot stress enough the importance of building blocks or baby steps. We need to strengthen subregional economic cooperation in South Asia such as the Bangladesh, Bhutan, India and Nepal (BBIN) initiative or the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). Tangible, visible, benefits, in any dimension of these emerging arrangements would have powerful demonstration effects. It might lead, say Pakistan, to consider connectivity to West Asia, opening it up to the rest of South Asia.

There also has to be an effort from the part of business and firms to consider cross-border transactions and investment, recognizing the short-term costs but banking on the long-term benefits. Many corporate leaders whom I talk to in India are tempted by markets in South Asia, by comparative advantage, by geographical proximity, but shy away because the risks are too high or the gestation lags are too long. Given this reality, civil society institutions, intellectuals and citizens in our countries should come together to preserve the spirit of SAARC as an organization and the idea of South Asia as a region. The South Asia Economic Summit is an

example. So is SACEPS, the South Asia Centre for Policy Studies. Our objective should be to create a meeting space, to facilitate interaction between parliamentarians, policymakers, media persons and business communities, reaching out to a wider constituency of people with some commitment to the promotion of regional cooperation in South Asia.

In game-theoretic terms, there is no reason for South Asia to be locked into Prisoners' Dilemma outcomes. The choice between a situation where everybody is worse-off and a situation where everybody is better-off is obvious. Why do such cooperative solutions have to wait until the cost of non-cooperation crosses thresholds of tolerance among people? Citizens and people are conscious of the dangers implicit in pollution and environmental degradation. Do mind-sets in governments change only if there are crises such as famine or war or can they come from enlightened self-interest?

I am convinced that a better world is possible for South Asia. If this does not materialize in the next decade, at the South Asia Economic Summit ten years later, we might have to change the question in a plenary session from "Whither SAARC?" to "Why did SAARC wither away?"

*This is based on a keynote speech delivered by Dr Nayyar at a plenary session (15 November 2017) at the Tenth South Asia Economic Summit, Kathmandu.*