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CHAPTER 1

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# Insights into regional issues

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South Asia remains a poorly integrated region economically even 33 years after it formally embarked on regional cooperation through the creation of the South Asian Association for Regional Cooperation (SAARC) in 1985. The regional body has been struggling to hold its annual summits as scheduled—none has been held since the 18th Summit in Kathmandu in 2014. Progress under SAARC has been held hostage chiefly to the ups and downs of bilateral relations between its two largest member states. The rise of subregional and transregional initiatives such as the Bangladesh, Bhutan, India and Nepal (BBIN) initiative or the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) should be seen partly in this context.

Yet, the relevance of SAARC remains intact. While subregional initiatives can potentially facilitate the regional cooperation process, they cannot be a substitute for the broader and more inclusive vision represented by SAARC. This came out strongly at the Tenth South Asia Economic Summit (SAES), held in Kathmandu on 14–16 November 2017. SAES is a civil society-led annual forum that seeks to keep the regional integration and cooperation agenda alive, by taking stock of the achievements thus far and identifying challenges and recommending ways to overcome them. It has been able to bring together a cross-section of stakeholders, from academics to policymakers, parliamentarians and ministers to private sector representatives and development partners, every year without fail since the first summit in 2008 in Colombo.

Those who have had a chance to sit through the first and tenth editions of the conference, a decade apart, must have noticed that some of the themes and issues discussed in the tenth edition were old topics—for example, trade, investment, connectivity, value chains, energy, migration—while others were new, or relatively new, ones—for example, the role of SAARC Observers, harnessing the potential of e-commerce, the 2030 Sustainable Development Agenda, and data for measuring economic performance as well as monitoring progress towards the Sustainable Development Goals.

Besides being extensively discussed in a session on utilizing SAARC Observers, the rise of China came up for discussion in other sessions, too. The Tenth SAES became the first to discuss the role of SAARC Observers in detail, with deliberations naturally centring around China—a major trade and investment partner of most South Asian countries—and the potential to leverage its resources to achieve SAARC’s regional integration goals. The importance of the subject is certain to grow in the coming years.

This book is a selection of insights into different aspects of regional cooperation in South Asia, generated from the Tenth SAES. Including this introductory chapter, it is spread over 14 chapters. Covering issues old and new, some give a regional treatment while others focus on individual countries or a group of countries within the region to make a regional point. The remainder of this chapter gives a summary of the rest of the book.

## **A tribute**

Saman Kelegama, a well-known economist and a passionate advocate of the regional integration agenda in South Asia, passed away, prematurely, on 23 June 2017. The South Asia Economic Summit owes its very conception to Kelegama. In Chapter 2, Rehman Sobhan pens a tribute to Saman, the man, the economist and a “citizen of South Asia.” In detailing Kelegama’s contribution to the cause of creating a South Asian community, the author provides a brief history of Track II initiatives for regional economic cooperation in South Asia.

Sobhan expresses concern over governments of SAARC member states, especially the larger ones, appearing to have lost faith in SAARC and to be looking towards alternative groupings. He urges those working on the regional integration agenda to invest their “skills with the same degree of passion and commitment which Saman brought to this mission.”

## **Future of SAARC**

In Chapter 3, Deepak Nayyar ponders the future of regional cooperation in South Asia against the backdrop of the slow progress so far. He argues that the logic of regional cooperation—rooted in benefits along both the economic and political dimensions—is as strong as ever. Of the three actors, he points out, governments are often the stumbling blocks to regional cooperation, whereas the other two—markets and people—want such cooperation. He senses a possibility that once the economic benefits of cooperation become visible, governments might be compelled to stop being roadblocks. The author sees a potential in subregional and transregional initiatives to revitalize the SAARC process by having powerful demonstration effects. He calls on civil society institutions, intellectuals and citizens in South Asian countries to come together to “preserve the spirit of SAARC as an organization and the idea of South Asia as a region.”

## **Role of Observers**

Against the backdrop of the “paralysis” the official SAARC process has fallen into, Debapriya Bhattacharya asks, in Chapter 4, whether the nine Observer states in the regional body can become a game changer in terms of giving it a shot in the arm. The question is based on the fact that the Observers have significant economic and political ties with the member states. Before suggesting an answer, he explores the mandate provided to these Observers and other partner institutions, compares the same with the role of Observers in other regional bodies, and reviews the state of engagement of

SAARC Observers. While SAARC Observers are allowed limited participation in SAARC ministerial meetings and Summits, the author points out, they are permitted to make proposals on cooperation and joint venture projects with the approval of the relevant SAARC committees. A moratorium is in place since 2008 on the induction of additional Observers.

Bhattacharya discusses China's seeking a special strategic role in South Asia, including through the SAARC process, and India's wariness of the idea of any upgradation of China's status in the regional body. The 18th SAARC Summit, in 2014, decided to give a greater role to Observers of SAARC, providing for their engagement in "productive, demand-driven and objective project based cooperation in priority areas as identified by the Member States." While this could pave the way for them to become Dialogue Partners, which would allow them a much deeper and strategic engagement, the author notes that a five-year moratorium was introduced in 2015, at India's initiative, on elevating the status of Observers. Given the pace of globalization and China's expanding ties with SAARC member states, the author considers India's reluctance to allow China a greater role in the regional body to be facing challenges.

Bhattacharya identifies two hindrances to utilizing the Observers and thereby revitalizing the SAARC process. He is sceptical that the Observers will be able to play the role of a game changer when the member states themselves are far from keen on the SAARC process. He is also of the view that the current gridlock in SAARC is unlikely to allow the clarification and strengthening of modalities on utilizing the Observers—critical for them to be able to engage more productively with the regional body.

## **Investment**

Low intraregional investment flows have long been identified as holding back greater intraregional trade. While regional economic integration initiatives under SAARC have traditionally focused on trade integration, in the last decade or so, there have been attempts

at reaching agreements on investment cooperation. Yet, the draft SAARC Agreement on Promotion and Protection of Investments has been in limbo. In Chapter 5, Indra Nath Mukherji examines the nature of intraregional investment flows, by countries of origin and destination, and the causes of low intraregional investment in South Asia. He also examines bilateral investment treaties in the region and the proposed draft SAARC Agreement on Promotion and Protection of Investments. The bilateral treaties are mostly of the vintage of the 1980s and 1990s, with no reference to sustainable development, or to dimensions of social investment such as human rights, labour, health and corporate social responsibility.

Mukherji also finds the draft SAARC investment agreement to be deficient in content and suggests a comprehensive redraft in consonance with the changes in jurisprudence and experiences gained by member states since it was drafted. As with the bilateral agreements, the draft regional agreement makes no reference to any regulatory measures aimed at social protection or sustainable development. It also adopts an asset-based definition of investment. It does not oblige a member state to extend to the investors of other member states benefits in any bilateral agreement relating to investment to which it is, or becomes, a party. Further, the clause on expropriation makes no reference to indirect appropriation.

The author then examines India's Model Bilateral Investment Treaty, released in December 2015, highlighting provisions that he believes are more in line with modern times, before briefly touching on the investment aspect of the SAARC Agreement on Trade in Services (SATIS). He observes that progress on the scheduling of commitments under SATIS has been lacklustre as offers made so far are "GATS- minus" and more restrictive than unilateral policies. He notes that services being a high-potential area for foreign investment, an early operationalization of SATIS is essential. At the bilateral level, he suggests India update its bilateral investment agreements with its South Asian neighbours in line with its model treaty. Joint Interpretive Notes, such as the one that India adopted with regard to its investment agreement with Bangladesh, giving further clarity to the interpretation of the agreement, should be

pursued with other neighbours, too. The chapter also identifies potential areas for investment cooperation in the region.

## **Connectivity**

Transport connectivity in the region has regressed in the last seven decades. In Chapter 6, Prabir De emphasizes an efficient, secure and integrated regional transport network as a prerequisite for intraregional trade growth and, ultimately, the formation of a South Asia Economic Union. He notes that while the South Asia connectivity agenda has moved from a trans-Asian architecture in the first two decades of SAARC to sectoral and region-specific connectivity, and measures have been taken to improve transport connectivity at the national level, a common set of region-wide facilitation measures is yet to be undertaken targeting compliance with a single standard. The chapter presents the basic principles that should guide South Asia's transport connectivity over the next decade, outlining the connectivity needed to facilitate the next phase of the South Asian integration process.

Development of transport corridors and transforming them first into trade corridors and then into economic corridors at the regional level will be key milestones in the move towards an economic union. Individual countries in the region have national priorities for corridor development (which feature, for example, building rural roads and rural growth centres), De notes, but turning national-level initiatives into even a narrow regional corridor, featuring seamless trade facilitation and logistics, requires the linking of national plans and corridors. South Asian countries must, therefore, get their act together to implement a regional trade facilitation and connectivity agenda comprising regional corridors, a regional single window, regional transit, a one-stop border post and coordinated border management. The author recommends a number of actions to be taken with priority. He suggests the creation of a project development facility to facilitate the planning and implementation of cross-border connectivity projects, with a focus on high-impact regional projects.

Other suggested actions include: movement towards paperless trade and national and regional single windows, beginning with electronic submission of all trade documents; removal of regulatory burden on exports and imports and streamlining of non-tariff measures; minimizing physical inspections; national and regional trade facilitation monitoring; harmonizing documentary requirements, rules, regulations and standards; synchronizing cross-border customs; facilitating intra- and inter-regional multimodal transportation; accession to international conventions; a subregional, followed by a regional, transit regime; and engaging SAARC Observers, learning from ASEAN's efforts at utilizing its Dialogue Partners. On the research front, De identifies the need for a regional study on a connectivity strategy for an economic union with the participation of SAARC member states, Observers and international organizations.

## **Value chains**

Participation in international production networks has seen select countries in different regions of the world achieve high economic growth. There is evidence that participation in regional value chains is a stepping stone for joining global value chains. Yet, South Asia is not only poorly integrated, overall, into global value chains; it has also failed to develop robust regional value chains (RVCs) on a substantive scale. Chapter 7, by Vaqar Ahmed, Syed Shujaat Ahmed and Asif Javed, highlights the challenges to developing RVCs in South Asia, focusing on the experience of Pakistan. It also suggests some steps to be taken to overcome them. Drawing on enterprise-level responses from entities that are already connected with global value chains, the authors are able to distinguish macro-level barriers that stunt the creation of RVCs from sector-specific ones. While some are Pakistan-specific, others have regional relevance.

A key macro-level constraint, unsurprisingly, is uncertainty in Pakistan's political relations with Bangladesh and India. Most business persons in Pakistan, as per the study, believe that the fail-



ure to hold the SAARC Summit in Pakistan in 2016, after a couple of member states boycotted it, derailed the regional cooperation process. Other macro-level barriers include: a lack of business-to-consumer channels; domestic regulatory burden that prevents small and medium-sized enterprises from becoming exporters; a lack of a foreign direct investment policy that incentivizes new entrants from the region; logistical constraints that bar, for example, Indian and Afghan manufacturers in a range of sectors from sourcing inputs from Pakistan despite the latter being the preferred source in principle; information gaps regarding special economic zones in Pakistan; weak financial intermediation; lack of business-to-business research and development linkages across South Asian countries; and uncertainty of tax and tariff regime. The sector-level barriers that the authors identify include: non-tariff barriers in manufacturing and services; low agricultural yields; high cost of electricity and gas in manufacturing; the existence of parallel informal trade channels that pose unfair competition to formal businesses; missing or inadequate trade-related infrastructure, such as cold storage; and a lack of international supplier certifications.

Upon identifying the major barriers, the chapter proceeds to suggest a few immediate steps that national governments in South Asia should take help develop regional value chains. Some are in the nature of regional initiatives; others can be taken purely at the national level. First and foremost, the stalled SAARC Summit needs to be convened. SAARC member states must liberalize their visa policies to not only enable in-person interactions among private sector representatives but also positively impact trade in services. The authors recommend, as a means of aiding agricultural value chains in the region, empowering the SAARC Food Bank to link itself with international institutions such as the International Fund for Agricultural Development. At the national level, Pakistan is advised to employ an intelligent tariff policy that would provide incentives to firms to source inputs from within the region, and back that measure up with a relaxation of non-tariff barriers. Also, a review of regulatory burden in industrial sectors is suggested, as

is streamlining the multiplicity of taxes on the same base at federal and provincial levels. A review of Pakistan's bilateral trade agreements with its South Asian neighbours is in order, incorporating provisions aimed at promoting, *inter alia*, investments and value chains. Next, helping small and medium-sized enterprises obtain international supplier certifications on affordable terms would help them integrate with RVCs. A recommended action that would be an example of leveraging other international initiatives towards advancing South Asian regional integration is fine-tuning industrial policies at the provincial level in Pakistan in order to utilize the planned special economic zones under the China-Pakistan Economic Corridor to foster trade and investment linkages with neighbouring economies such as Afghanistan, China, India and Iran. Other suggested actions are: expediting the national one-window programme to streamline the customs regime at trading points, and border-related infrastructure development projects; and an assessment of why Pakistani businesses are not optimally utilizing the existing dry ports in the country.

## **Agriculture mechanization**

While the share of agriculture in national output is declining, the sector remains the largest employer across the region. South Asian countries differ in their experiences with mechanization, progress in which is a potent tool to shore up agricultural productivity. In Chapter 8, Avinash Gupta explores the nuances of agriculture mechanization, comparing Nepal's experiences with those of other countries, particularly Bangladesh and India.

Gupta argues that while the dominant narrative on mechanization is essentially about large farms, capital-intensive equipment and canal irrigation system, a less-highlighted, "heterodox" narrative provides evidence that there are major differences in the way countries like India and Bangladesh have progressed in mechanization. Although there are overlaps between the two strategies, recognizing the differences is crucial for Nepal and for the rest of the region to devise an effective mechanization strategy. The author

observes that if India's mechanization is largely explained by the dominant approach, made feasible by its fiscal, institutional and industrial capacity, Bangladesh's mechanization is based on small, inexpensive and multipurpose equipment, focusing on smallholder farmers. Bangladesh achieving significant mechanization with the heterodox approach despite sustained land fragmentation has especial salience for Nepal, where smallholders form the bulk of farmers, fragmentation is on the rise, rapid emigration to foreign lands for work has created labour shortages on the farm, and imports of agricultural goods are soaring. Credible policy support is identified as having contributed to Bangladesh's success.

While much of the literature on Nepal finds that mechanization is low and confined to specific geography such as the Tarai plains, the author contends, using some novel estimates from a less-discussed strand of the literature, that the prevailing narrative may be simplistic, if not erroneous. He cites suggestive evidence from Nepal that progress in rural mechanization in the hills and mountains, driven by inexpensive small equipment, has resulted in efficient agronomic practices. To devise a mechanization strategy suitable to the local context, he emphasizes the need for more research on this dimension of farm mechanization, beginning with a credible analysis of rural capital goods that does not equate mechanization with the use of large equipment.

## **E-trade readiness**

Advancements in digital technology have seen the global e-commerce market grow by leaps and bounds, valued at nearly US\$28 trillion in 2016. With the exception of India, South Asian countries are yet to harness the potential of e-commerce. In Chapter 9, Ratnakar Adhikari and Daria Shatskova observe that South Asian least developed countries (LDCs) are even further down the e-commerce ladder, but because they start from a low base they possess tremendous potential to grow and expand. The authors examine the state of readiness of four South Asian LDCs (Afghanistan, Bangladesh, Bhutan and Nepal) and a recently graduated country (the

Maldives), which are being supported by the Enhanced Integrated Framework, of the World Trade Organization. The challenges facing these countries in realizing the fully potential of e-commerce include providing internet infrastructure and affordable devices, adopting digital policies and regulations, and generating digital awareness and skills. Official development assistance to these countries for the development of the information and communication technology (ICT) sector has been extremely limited.

The authors indicate there is scope for these countries to learn from each other's experiences. An example from Bhutan shows how firm government support, including thorough the provision of resources, to the ICT sector has led to tangible, positive results. With the support of the Enhanced Integrated Framework and through its e-Infrastructure for Trade and Services Development Project, Bhutan has launched an online commodity exchange system and piloted the auctioning of potatoes. Online auctions with new grading machines are reported to have helped cut processing and payment time and ensured better prices. The authors outline four priority actions for integrating the five above-mentioned South Asian countries into the global e-commerce arena: strong national ownership; a coordinated response across government agencies, the private sector and consumer groups; providing greater incentives for students to join the science, technology, engineering and mathematics streams, and greater collaboration between the ICT industry and universities; and provision of the first ICT infrastructure investment seeds through aid for trade, coupled with coordinating development assistance across different sectors beyond ICT.

## **Energy trade**

It is *de rigueur* in the discourse on South Asian cooperation to extol the potential benefits of regional energy cooperation, with a special focus on hydroelectricity trade. Chapter 10 begs to differ. Dipak Gyawali takes aim at what he calls the “hydrodollar fallacy” entrenched in a large section of policymakers and the thinking class:

that a country like Nepal can get rich simply by exporting hydroelectricity to its neighbours, particularly India.

At the centre of Gyawali's thesis is the argument that energy is a strategic and public good, with political and strategic considerations as important as obvious economic ones. India's 2016 guidelines allow imports of electricity only if the exporting entity has at least 51 percent Indian ownership. This, the author argues, reinforces the fact that India treats energy as a strategic commodity. For the exporting country, electricity not only allows the development of upstream areas of the national economy (i.e., survey, design, construction and maintenance capabilities) but also confers benefits to the economy downstream, helping in industrialization and job-creation. In exporting electricity, a poor country with a weak industrial base like Nepal will be exporting away the potential multiplier benefits. Further, Gyawali fears, without structural depth in various domains of the economy that is seeking to export electricity to more advanced economies and under monopsony market conditions, the terms of trade are stacked against the exporting countries, which could easily fall into the "dependencia" trap.

The author finds South Asia to be "very far from achieving any meaningful energy cooperation in the near future." For him, an appropriate starting point would be transboundary collaboration on water resources grounded in an understanding of the region's common monsoon regime and its vagaries, and eschewing the blinkered approach that treats mega storage dam projects as primarily hydroelectric projects rather than as full-fledged multipurpose ventures yielding benefits in, *inter alia*, irrigation and transportation.

## **Climate change**

South Asian countries are among the most vulnerable to the ravages of climate change. Within them, often the poorest and the most vulnerable societies are the ones with almost no adaptive and response capacity. In Chapter 11, Aneel Salman, Muhammad If-

tikhar ul Husnain and Sarah Siddiq Aneel generate insights from community-based adaptation practices in Pakistan. They hold that three perspectives are crucial for community-based adaptation: the stakeholders, the policy, and the challenges and opportunities that lie within its implementation. The community perspective includes its direct experience with climate-related risks and how it dealt with them. The policy perspective focuses on whether planned adaptation efforts should protect a country's gross domestic product or its most vulnerable people.

Unfortunately, the poorest are neither visible in economic analysis nor always the highest priority in national policy. For the most effective climate change adaptation interventions, the authors aver, the community-level ones are critical for autonomous adaptation. Community-level implementation offers effective planned adaptation. Conversely, while community behaviour is often a big factor in maladaptation, disjunction between state policies and governance can also lead to the latter. Hence, in order to overcome implementation challenges within community-based adaptation, the authors suggest, it must be kept in mind that lack of adaptation is not just a matter of awareness and understanding, but also of competing priorities. And, they further note, since the "usual no longer works", the two sources of knowledge (local/traditional and scientific) need to be bridged.

## **Migration**

South Asia is a major origin of international migrants as well as a major recipient of remittances. In Chapter 12, S Irudaya Rajan discusses the trends and patterns of migration flows from and remittance flows to South Asia, with a focus on the Gulf countries, a major destination and source of such flows. He then discusses the changes, including reforms, to the system of recruiting foreign workers in major destinations of the Gulf region in recent years. Restrictions on job-switching by foreign workers have been relaxed. Other protection measures for foreign workers have also been introduced. The author notes that while such reforms augur

well for South Asian migrants, measures, such as Saudization, that aim to increase the employment of locals should be factored into South Asian governments' migration-related strategies.

## **Economic measurement**

Reliably measuring the economy, from the level and growth of gross domestic product (GDP) to trends in employment, is key to effective policymaking. In Chapter 13, Robert Beyer and Martin Rama observe that although South Asian economists and statisticians have been pioneers in the measurement of economic wellbeing, there is considerable variation in statistical capacities across countries in the region. They see considerable room for statistical improvement in all countries through more rigorous analyses of existing data coupled with new sources of data, thanks to technological innovations. Two examples are provided to illustrate the possibility of improving economic measurement.

The first is measuring GDP with the aid of nightlight data, which points to the possibility of getting an estimate of GDP performance at subnational units and over periods of less than a year. This is important in a region characterized by widespread informality of economic activities, where only two countries produce quarterly GDP estimates, and subnational estimates, where available, are generated with significant lags. The second example is with regard to measuring employment rates and job creation across South Asian countries in a comparable manner. A “standardized” employment data is created from household and labour force surveys in select South Asian countries, by applying uniform definitions. The benefit: not only do we get an idea of whether economic growth in the region has been job-creating or jobless (the finding: it has created jobs), we can also analyse how economic growth has modified the types of jobs available (the finding: regular wage employment growth has been very modest).

The authors argue that data revolution is an institutional reform agenda—rather than just a good grasp of technology—to be pursued with a statistical development strategy, brokered at a high

level and as an integral part of overall growth strategy. Because government statistical agencies are likely to be the source of reliable high-quality data—a public good—for quite sometime, their institutional and technological upgrading, while ensuring their independence, will be critical. While noting that the steps being taken for improved economic measurement such as frequent surveys, standardized definition of variables, piloting of new questionnaires and capture of responses through electronic tablets rather than paper questionnaires are important, the authors also stress the importance of other potential upgrades such as the systematic georeferencing of data and the linking of government databases.

## **Development data constraints**

South Asian countries have embraced the 2030 Agenda for Sustainable Development. The Sustainable Development Goals (SDGs) are more comprehensive than their predecessor, the Millennium Development Goals. And the comprehensiveness implies a greater complexity in monitoring progress towards 17 goals and 169 targets, accompanied by 244 indicators. Highly disaggregated data are required, in terms of factors such as gender, age, location, race/ethnicity and disability. In Chapter 14, Ganga Tilakaratna analyses the data availability in South Asian countries for SDG indicators and suggests ways to overcome data constraints to measuring SDG progress in the region. Her analysis shows that all countries in the region lack data for more than 50 percent of the SDG indicators, with the Maldives and Afghanistan lacking data for over 60 percent of the indicators. Data availability varies considerably across the 17 goals and among the eight countries. The author also finds gaps in gender-disaggregated data in South Asia, much larger than gaps in spatially disaggregated data.

Tilakaratna notes that while official statistics will continue to be the primary source of data, it is critical to engage other stakeholders, too, for meeting the SDG data requirements. Greater coordination is needed within the government sector. The expertise of agencies that were not traditionally part of the national statis-



tics system must also be utilized. Big data is identified as an avenue worth exploring for supplementing traditional data, and this would require enlisting the participation of the private sector. The potential for regional cooperation is also highlighted. The variation in statistical capacities across South Asian countries, the author argues, indicates considerable scope for the sharing of knowledge and experiences among them. A platform for developing common standards and methodologies could be created under the aegis of SAARC. Collaborative research on data issues could yield regional solutions to SDG data challenges.