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Build windows on those fences

The countries of the region need to think in terms of a collective South Asian market, collective regional endowments and combined growth, says **Tarun Das**

INTERDEPENDENCE of economies, a process supported equally by cooperation and competition, has taken an interesting turn, with emergence of regionalism as an important driving force. In this, South Asia, however, has been slow, with minimal integration of its heterogeneous economies. A measure of limited economic integration within South Asia is that intra-South Asia trade accounts for only about 5% of total trade of the region in spite of bilateral FTAs between some of the South Asian nations.

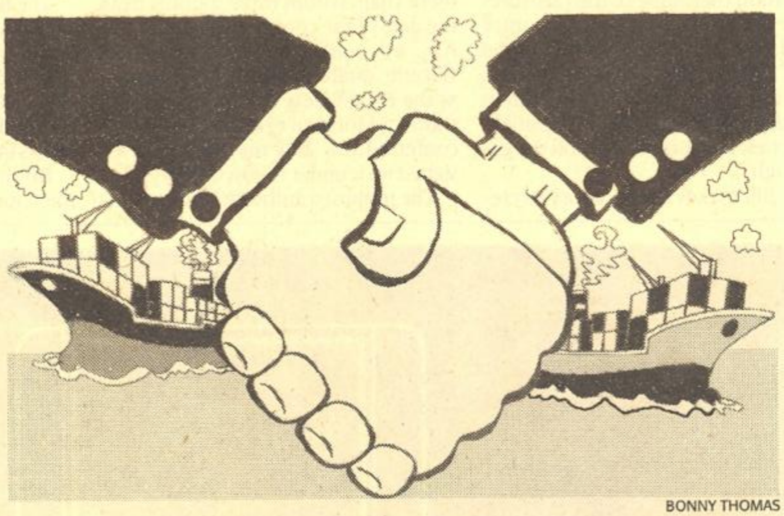
Some of the recent trends are encouraging. For instance, and it often goes unnoticed, intra-Saarc trade is growing at a faster rate, compared to growth in its overall trade, which by itself has been moderately high. During 1994-2001, while total exports and imports of big-five (B-5) South Asian countries (India, Bangladesh, Nepal, Sri Lanka and Pakistan) had been growing at average annual rates of 8.2% and 9.4% respectively, intra-B5 exports and imports were seen to be growing at 11.7% and 12.4% respectively. Similarly, growth of intra-regional trade has a positive linkage with growth in regional trade. In many ways, there is a unique structural similarity between intra-Asean and intra-South Asian trade pattern.

The countries of the region are not averse to trading with each; nor is there any kind of averseness to deeper economic integration. Signing of the South Asian Free Trade Agreement (Safta) in January 2004 is an indication of the desire to forge closer economic integration. What then is holding the pace of integration? There are a couple of factors, but mainly two need particular attention.

First, the heterogeneity factor, especially the heterogeneity in development levels within the region. This has its own challenge. When we discuss economic integration within South Asia, the challenge, in its extreme, is that of integrating the odd pairs e.g., Indian economy with its subcontinental size with that of a tiny single-sector economy (of 3-4 lakh population) of the Maldives. Second, heterogeneity breeds apprehensions, that tend to make integration a slow process. Often, the apprehensions are so deep-rooted that they tend to blur the vision and make us overlook the potential benefits of economic integration. Thus, the benefits of integration, remains to be fully appreciated by the countries of the region, including in India.

Also, most of us fail to look at ourselves as a single community of South Asians, and are often oblivious of our regional identity. The countries of the region need to think in terms of a collective South Asian market, collective regional endowments and combined growth. Opportunities are unlimited, resources are in plenty, but there are constraints of free mobility and connectivity. There are several disconnects at work in South Asia. But this is what underlines the need for faster and extensive cooperation. Towards enhancing the much-needed cooperation, every country has a role to play according to capacity, but the larger ones have to take up larger responsibilities.

In this context, there is something to learn from the Asean experience, which is based on (6+4) formula, whereby the four LDCs (Cambodia, Lao PDR, Myanmar and Vietnam) are given a differential treatment, even though in the final leg of integration all 10 Asean countries will be on equal footing. For South Asia, the prescribed formula could be (3+4), whereby three large economies (India, Pakistan and Sri Lanka) could proportionately share the lead responsibilities. This may go a long way in building confidence among the four LDC members of the region.



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IT IS good that India and Sri Lanka have already entered into an FTA, working well in spite of the initial hitches. It also demonstrates what 'political will' can really achieve. India and Sri Lanka are dissimilar economies having an FTA between them. This model of success can be replicated between India, Pakistan and Sri Lanka, and Pakistan, Sri Lanka and Bangladesh. India and Bangladesh are also exploring the possibility. More of bilateral FTAs within South Asia are likely to accelerate the process of regional cooperation. Indo-Pak FTA can provide the momentum that Safta is lacking in.

There are, however, certain pre-conditions to be met for accelerating the pace of South Asian cooperation, in which India has a major role to play. There is need for accelerated cooperation in capacity building within the region, focusing on development of human capital including manpower training and entrepreneurship development. An imperative in this context is the need for extensive technological cooperation, with focus on greater use of technological capabilities available within the region. A beginning can be made by institutionalising of the South Asian Technology Mission, besides establishing a technology bank for South Asia. Such initiatives in the field of technology acquire some urgency in view of the new IPR regime, which will encompass the whole of South Asia by 2016. A South Asian Intellectual Property Organisation, a miniature form of WIPO, can be set up to encourage R&D initiatives within the region.

Another imperative is cooperation in investment. South Asia's share in global FDI inflow is insignificant at around 1% in spite of liberal FDI policies adopted by all the countries. Investment is an act of confidence, and it is for South Asian investors to prove that they have confidence in their own regional economy. It is, therefore, imperative that investment cooperation is accelerated first. Needless to say, if there are investments, there will be more tradeable surplus and larger the tradeable surplus, larger is the scope for trade. The two-way relationship between trade and investment has to be fully exploited for larger benefits to the regional economy.

In this context, certain basic initiatives may be called for. First, the South Asian nations should get into an investment agreement, which should ensure protection of investments. Second, the capital flows within the region should be liberalised to facilitate free movement of capital. Third, there is need for developing an integrated capital market. Fourth, investment rules and regulations need to be harmonised. Last but not the least, is the need for extensive cooperation in developing infrastructural connectivity and facilitating transit of goods within the region. The outlook, in the long term is to emulate the European Union and build a single, integrated economic community.