

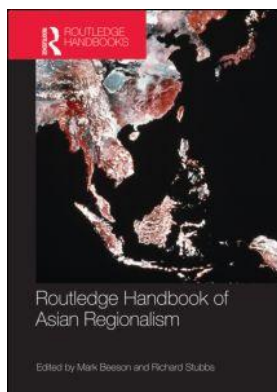
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Mark Beeson, Richard Stubbs

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Kishore C. Dash

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Dynamics of South Asian regionalism

Kishore C. Dash

A framework agreement on regional cooperation in South Asia was first reached between seven South Asian countries – Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka – in 1983. Two years later, after further planning and negotiation, the South Asian Association for Regional Cooperation (SAARC) was launched at the first regional summit in Dhaka in December 1985 to advance the dual goals of promoting peace and development in South Asia. Afghanistan was admitted as the eighth member in 2007. However, after 25 years of existence, SAARC's progress remains slow and its achievements in terms of programme implementation and regional institutional arrangements can be described as modest at best. SAARC's 'turbulent nongrowth' (Haas 1990) over the past decades, coupled with the existence of mutual hostility and trust deficit among South Asian countries, has led many observers to question if South Asian leaders will be able to pursue deeper regional cooperation that involves taking concrete initiatives to strengthen the existing regional arrangements and building new regional institutions to achieve mutual benefit (see Lawrence 1996).

Why has SAARC not grown over the past decades? What are the prospects of growth of regionalism in South Asia? Scholars on regional integration agree that development of regional institutions is a key indicator of growth of regionalism. However, the creation of regional institutions typically entails a lengthy process of establishing regional rules, regulations and policies, which are neither easy nor automatic. Thus what are some of the important driving forces that shape the preferences of members of a regional grouping for the creation or strengthening of regional institutions?

In this chapter, I examine three arguments in the context of the South Asian regional system in order to explain the dynamics of regionalism and evaluate prospects of regional institutionalization. Specifically, I draw on the theoretical literature on regionalism to explore the following questions: (1) what are the implications of India's regional pre-eminence for alliance formation and growth of regional institutionalization in South Asia; (2) how has the perception of economic-capability-shift in favour of India affected the growth of regionalism; and (3) to what extent will South Asian countries be motivated to improve their intraregional trade performance given India's new economic interests in the post-Cold War period?

In examining these questions, this chapter first discusses the origin and evolution of SAARC to explain various factors that have influenced its creation and to evaluate the growth of the major

institutional arrangements under its auspices. Second, I discuss India's regional power preponderance and its implications for alliance formation among South Asian states. Third, I examine if there is any shift in economic capabilities of South Asian states since the formation of SAARC and the extent to which this factor affects the growth of regionalism in South Asia. Fourth, examining the current level of intraregional trade, I highlight the sources of tension among SAARC members and India's recent drives to address this issue. The concluding section examines the prospects of regional institutionalization and growth of regionalism in South Asia.

Origins and evolution of SAARC

South Asian leaders discussed the idea of regional cooperation at various conferences around Asia from the late 1940s onwards (Dash 2008). However, the first concrete proposal for establishing a framework of regional cooperation in South Asia was made by the late president of Bangladesh, Ziaur Rahman, on 2 May 1980. President Rahman's preference for a regional cooperation scheme in South Asia seems to have been shaped by several domestic, regional and extra-regional issues during 1975–9 (Dash 1996). These issues included: the Bangladeshi president's need for India's support to legitimize his coup d'état regime and ensure stability and growth; the need for mobilization of regional resources to deal with an acute balance of payment crisis faced by Bangladesh and other South Asian countries; the failure of the North–South dialogues and increasing protectionism by developed countries; the renewed momentum of the Association of Southeast Asian Nations (ASEAN) at the Bali summit in 1976 and his own failure to join ASEAN as a member; the change in political regimes in India, Pakistan and Sri Lanka in 1977 and the new political leaders' willingness to pursue accommodative diplomacy with neighbouring countries (Muni and Muni 1984: 22); the publication of a comprehensive report in September 1978 by the Committee on Studies for Cooperation in Development in South Asia (CSCD) that identified several feasible areas of cooperation (M. Haas 1989: 277; Saksena 1989: 82); the assurance of the US President Jimmy Carter and British Prime Minister James Callaghan – during their visits to India, Pakistan and Bangladesh in January 1978 – of substantial economic assistance for multilateral cooperative projects in South Asia (Muni and Muni 1984: 26); and the Soviet military intervention in Afghanistan in December 1979 and the consequent rapid deterioration of regional security environment in South Asia, making regional security cooperation more desirable.

While the smaller states in South Asia – Nepal, Sri Lanka, Maldives and Bhutan – promptly endorsed the Bangladeshi proposal for establishing a framework for regional cooperation, both India and Pakistan showed initial reservations. India's was based on two primary concerns: the proposal's reference to regional security cooperation, and a perceived fear that the Bangladeshi proposal might provide an opportunity for the small neighbours to regionalize all bilateral issues and to join with Pakistan to 'gang up' against India. Like India, Pakistan's scepticism was based on two assumptions. First, Pakistani leaders assumed that the Bangladeshi proposal was an Indian ploy to marginalize Pakistan by gathering support from other South Asian states. Second, the proposed cooperation scheme would ensure a regional market for Indian products thereby consolidating and further strengthening India's economic dominance in the region (Wriggins 1992: 132–133). However, after a series of quiet diplomatic consultations between the South Asian foreign ministers at the UN headquarters in New York from August to September 1980 (Muni and Muni 1984: 34), it was agreed that Bangladesh would prepare the draft of a working paper for discussion among the foreign secretaries. Given the opposition to security issues by both India and Pakistan, the new Bangladeshi draft paper dropped all references to security matters and suggested 11 potential non-controversial areas for cooperation in the economic, cultural and scientific spheres (Muni and Muni 1984: 35).

After three years of preparatory discussions at various official levels, the first foreign ministers' conference was held at New Delhi from 1–3 August 1983, signalling the political momentum of regional cooperation in South Asia. At the completion of this meeting, the foreign ministers launched the Integrated Programme of Action (IPA) and adopted a Declaration on Regional Cooperation, formally beginning an organization known as the South Asian Regional Cooperation (SARC). The Delhi Declaration marked the completion of the preparatory phase and the beginning of a new phase of active implementation of joint programmes in a number of specific areas, which required political will and cooperation of the South Asian leaders. Following the New Delhi meeting, three more meetings of the foreign ministers were held at Male (10–11 July 1984), Thimphu (13–14 May 1985) and Dhaka (5 December 1985) to discuss institutionalization issues and determine a date and place for the first meeting of South Asian heads of state. Given the role of Bangladesh in initiating the proposal for regional cooperation, the Male foreign ministers' meeting decided to hold the first summit meeting of SARC at Dhaka in the last quarter of 1985. At the meeting in Dhaka, held from 7–8 December 1985, a decision was taken to change the name of the organization from South Asian Regional Cooperation (SARC) to South Asian Association for Regional Cooperation (SAARC). The main rationale for this change was that while SARC represented the process of South Asian Regional Cooperation, SAARC marked the establishment of an organization to promote such cooperation. The Charter of SAARC was adopted at this meeting with three primary goals for the South Asian region: economic growth; collective self-reliance; and collaboration in the economic, social, cultural, technical and scientific fields (<http://www.saarc-sec.org/SAARC-Charter/5/>).

During the past 25 years of its existence, SAARC's progress in terms of institutional arrangements and programme implementation to achieve these objectives of economic growth, social progress and cultural development has remained slow and limited. The progress of the much talked about South Asian Free Trade Area (SAFTA) agreement remains limited as member countries have shown more preferences for parallel trading, and demonstrated a lack of urgency in implementing reductions in tariff barriers and number of negative lists (Bandara and Yu 2003; Weerakoon and Thennakoon 2006). Another important agreement, the convention and protocol on suppression of terrorism, appears to be a failure, as both India and Pakistan have failed to curtail the movement of terrorists across their borders. The SAARC Food Security Reserve has not been utilized to meet the needs of member countries. Although there has been a proliferation of SAARC-related meetings and declarations over the past 25 years, most of these activities are confined to 'soft' areas of cooperation and to the holding of seminars, workshops and short training programmes. These activities may be useful, but they do not address priority core areas of trade and security and therefore lack visibility and regional focus. Most importantly, SAARC suffers from an acute resource crunch, leading to non-implementation of most of its projects. Mired in domestic politics, the South Asian Development Fund has met with limited success in funding and implementing regional projects of critical importance.

Although the secretariat of SAARC, which is patterned after the ASEAN secretariat, was established only two years after the first summit in 1985, the role and scope of this institution remains limited. Unlike ASEAN and the European Union, where the secretariat has the authority to initiate programmes and coordinate projects to strengthen regional cooperation, SAARC secretariat performs none of these roles. In case of SAARC, South Asian leaders have not shown any preference for a stronger secretariat and secretary-general. The reasons for this, as identified by the former secretary-general of SAARC, Abul Ahsan (1992, 2004), rest with two issues: lack of confidence and trust among SAARC leaders, and the unwillingness of SAARC leaders to part with their sovereignty. In the absence of a strong secretariat and secretary-general it is difficult to move forward SAARC's agenda.

One of the most significant achievements of SAARC relates to its annual summit meetings. The primary objective of these meetings is to facilitate face-to-face interaction and communication between heads of South Asian states or governments that would not have been otherwise possible. There are several occasions where it seems fairly clear that SAARC's annual summits and summit-related activities have allowed South Asian political leaders to find mutually acceptable solutions to their many domestic and regional problems (Dash 2008: 89–108). However, in the period from 1985–2010, ten annual summits – three during 1985–95 and seven during 1995–2010 – were cancelled because of political tensions between India and its neighbours, in particular between India and Pakistan. Failure to hold these annual summits has, undoubtedly, deprived the South Asian leaders of an important opportunity for constructing relationships based on shared interests, and has generally worked against moving SAARC's agenda forward.

What are the future prospects of SAARC? In order to answer this question it is necessary to examine two important features of the organization. First, unlike the cases of the European Union, ASEAN, MERCOSUR and the Gulf Cooperation Council, external actors or developments played only marginal roles in the emergence of SAARC. Second, SAARC came into existence primarily as a response to domestic and regional political and economic issues. Consequently, SAARC's future growth in terms of institutional arrangements is not likely to be shaped by extraneous factors. Rather, domestic and regional issues in South Asia will primarily drive SAARC's future growth. It is in this context that the following sections seek to apply power-oriented variables to the regional level of analysis in order to evaluate SAARC's prospects.

Alliance and regional cooperation

Extant analyses on alliance and economic transactions have demonstrated that economic cooperation in terms of trade flows are generally higher among countries that are allies and lower among countries that are actual or potential adversaries (Gowa 1994; Mansfield and Bronson 1997). The centrepiece of this research supports a virtuous cycle argument – that is, alliances with a pre-eminent power help to minimize the security risk associated with trade and thus bolster trade flows and other economic activities among the members of the alliance, which, in turn, generate substantial economic benefits, contributing to further strengthening of the alliance. Further, this literature shows that alliance with a pre-eminent power within a region is most likely to emerge as a preferred strategy for small states when regional dynamics exist: geographical proximity, great power asymmetries and common external threat perception (Gilpin 1987; Bhagwati 1991).

Figure 33.1 shows India's overall regional hegemony measured in terms of its relative share of Gross Domestic Product (GDP) in the SAARC region. All the South Asian states share a common border with India – thus, given the geographical proximity, great power disparity and the potential for economic and security benefits from an alliance with India, it would seem that alliance would be a preferred strategy for South Asian countries. Yet, except for Bhutan and Maldives, other states in South Asia – for example, Pakistan, Nepal, Sri Lanka and Bangladesh – have not pursued this strategy. Three factors can be outlined here to explain why alliance formation has not been embraced as a policy preference by South Asian leaders: (1) Pakistan's consistent opposition to India's domination in South Asia; (2) lack of external threat perception; and (3) cross-border ethnic identities and tension.

First, South Asia's structural imbalance has led policymakers to pursue contrasting policy objectives. Given its enormous size and the Indo-centric geographic structure of South Asia, Indian leaders, since independence, have shown a preference for the nineteenth-century American Monroe Doctrine as a model for Indian foreign policy to pursue their goal of regional pre-eminence (Hagerty 1991; Raja Mohan 2005). The essence of this foreign policy doctrine, as

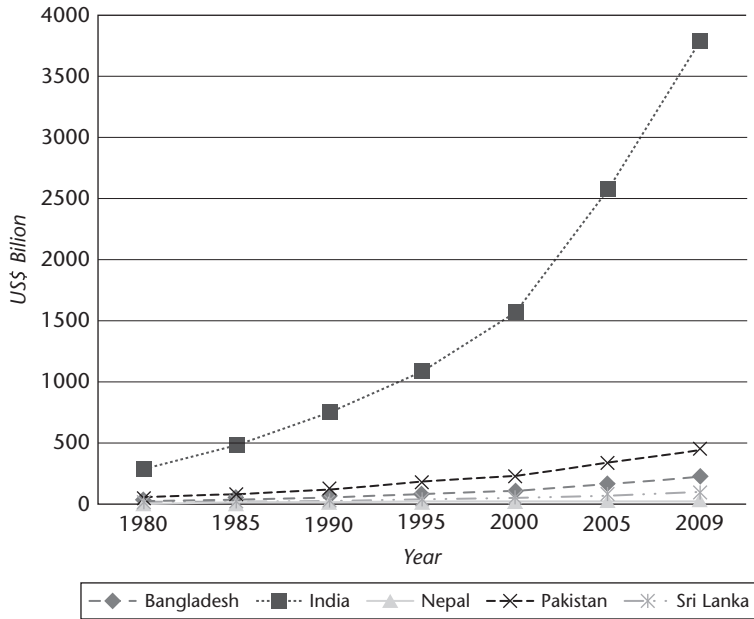


Figure 33.1 Gross domestic product of SAARC members, 1980–2009

Source: World Data Bank, World Development Indicators & Global Development Finance, 2010

articulated by Prime Minister Jawaharlal Nehru in his speech in 1961, is that India will not tolerate outside intervention in South Asian affairs and India will oppose interference by external powers whose goals are perceived to be inimical to Indian interest (Nehru 1961: 113–115). Further, this doctrine argues that for regional peace and stability, South Asian countries should work with India instead of seeking external assistance to resolve domestic or regional issues. Some recent manifestations of this doctrine include: India's deployment of its troops in Sri Lanka to fight against Tamil insurgents from 1983–90; 'Operation Brasstacks' (India's massive military exercises on the Indo-Pakistan border) in 1987 and 1999; and India's joint military exercises with the United States in the Indian Ocean on a regular basis since 1992. The primary rationale for these actions is based on a belief by Indian policymakers that India's sphere of influence in South Asia remains strong and that once India's military superiority is recognized by its neighbours, regional peace, security and stability will prevail in the region.

However, India's desire to maintain a hierarchical regional order has been opposed by Pakistan and other South Asian countries. Of all the South Asian countries, Pakistan's opposition to India's predominance in South Asia has remained the most substantial and has contributed to a classic *security dilemma* in the region (Buzan and Rizvi 1986: 8). This has led to an unhealthy arms race, including nuclear weapons development between India and Pakistan, making regional cooperation a prime casualty. Since independence, Pakistan's regional policy has revolved around two objectives: to achieve balance of power *vis-à-vis* India; and to liberate Kashmir to prove the validity of Jinnah's Two-Nation theory (Bose and Jalal 1998). In order to achieve these objectives, Pakistan has always sought external support. Indeed from 1947 to 1970, despite India's relative victory in two Indo-Pakistan wars on Kashmir in 1948 and 1965, Pakistan was largely successful in challenging India's predominance in the region, with economic and military support from the United States, China and Turkey. But the emergence of Bangladesh as an independent state in

1971, with India's military intervention, marked a strategic victory for India and changed the structural dynamics of power in South Asia, strengthening further India's dominance in the region. Significantly, Pakistan suffered a substantial reduction in its structural strength and the Two-Nation theory became irrelevant to South Asian body politics. As a result, after 1971, Pakistan sought to offset India's dominance in the region by seeking increased military and economic support from China, the United States and the Gulf countries; developing a clandestine nuclear programme; and internationalizing the Kashmir issue. The overt nuclearization of India and Pakistan in May 1998 may have partially fulfilled Pakistan's objective of improving the balance of power with India. The development of nuclear weapons by India and Pakistan, however, does not guarantee a lasting peace or growth of cooperative activities in the region. On the contrary, it has introduced a regional 'stability/instability paradox' into South Asia (Ganguly 2001: 126–129). On the one hand, policymakers' realization of the devastating consequences of the use of nuclear weapons makes the execution of a full-scale war most unlikely. On the other hand, the deterrent insurance provided by possession of nuclear weapons may tempt both sides to engage in military adventurism along the line of control (LoC) across the Kashmir border. The Kashmir issue still remains the major bone of contention between India and Pakistan. Episodes such as the Kargil war of 1999, where both India and Pakistan fought a limited conflict, are likely to occur until a political resolution is found in the Kashmir issue.

The second factor that explains South Asian policymakers' recalcitrance to form an alliance with India is related to a lack of common external-threat perception among South Asian countries. Instead, most South Asian countries perceive their main threat to be India, sharing a concern for India's unsolicited intrusion into their domestic affairs. This perceived fear, contrary to what neorealist literature suggests, has made any alliance with India an unattractive strategy (Waltz 1993: 54–61). However, it is reasonable to argue that Bangladesh's initiative to create SAARC in the late 1970s and the enthusiastic endorsement of this initiative by Bhutan, Maldives, Nepal and Sri Lanka seems to have been at least partly guided by a regionalist containment or entrapment sentiment *vis-à-vis* India. According to regionalist entrapment strategy, weaker states in a regional system often take initiatives to create regional institutions in order to contain the hegemonic power of a dominant state in a region. The regionalist entrapment logic seems to explain why Bangladesh, after hearing of India's opposition to the inclusion of security matters as an area of regional cooperation, dropped all references to security matters and suggested only uncontroversial areas for cooperation in its draft proposal of 1980. Moreover, the fear that SAARC forum can be used by South Asian neighbours to constrain India's autonomy in the region seems to explain India's lack of enthusiasm and only a minimalist commitment for the growth of regional institutions during the 1980s and 1990s.

Except for Bhutan and Maldives, all SAARC member countries had sought external assistance to limit India's exercise of hegemonic power in the region. After the 1975 assassination of Bangladesh's democratically elected president, Mujibur Rahman, military and civilian rulers in the country have often sought external involvement from the US, the United Nations and member countries of the Organization of Islamic Conferences (OIC) to resolve the Ganges water dispute with India. During the early 1980s, Sri Lanka made consistent efforts to involve external powers in the sponsorship of a UN resolution to make the Indian Ocean a nuclear-free zone. Despite the existence of an Indo-Nepal Friendship Treaty since 1950, and India's serious objection to the proposal of declaring Nepal a 'zone of peace', Nepal's monarchy during the late 1980s sought continuous support from the US and China to make this proposal a reality. The South Asian ruling elites' policies of externalization and external mediation of bilateral disputes are designed to limit India's sphere of influence in South Asia (Buzan and Rizvi 1986). In this context, China's growing influence in South Asia during the past decade is worth noting. China's

success in making strategic inroads into India's neighbours can be partly attributed to South Asian countries' policy of involving an external power in order to contain India's regional domination.

The paradox of ethno-politics is the third factor that explains the difficulties of South Asian countries in forming alliance with India. Since ethnic minorities in all states of South Asia have close affiliation with their kinfolk in neighbouring states, cross-border ethnic identities are prevalent in the region. This aspect of ethnic relations has several negative implications for interstate relations in South Asia and consequently for SAARC's growth. First, ethnic conflicts in one state draw natural support from the co-ethnic groups in neighbouring states, contributing to the growing strength of ethnic subnationalism, or as Amitai Etzioni (1992: 25) would prefer to say, 'micro-nationalism' in South Asian countries. This trans-border spillover effect has led, on many occasions, to a proliferation of separatist movements and the destabilization of governments in South Asia. Not surprisingly, each country blames the other for assisting separatist movements on its soil. India accuses Pakistan of encouraging separatist movements in Kashmir and Punjab, while Pakistan blames India for the separatist movements in Sindh province. Until the signing of the Chakma Peace Accord in November 1997, Bangladesh blamed India for assisting separatist movements in the Chittagong Hill Tracts, while India counter-accused Bangladesh of supporting terrorist groups in India's eastern state of Tripura. Sri Lanka blames India for its support of the Tamil rebels' demand for an independent state. Consequently, an atmosphere of mutual distrust and suspicion prevails in South Asia, making the goal of regionalism difficult to achieve.

A second negative implication for SAARC's growth is that since India's ethnic groups overflow into all neighbouring states, other South Asian governments strongly suspect India in all ethnic conflicts. The ethnic composition of South Asia is such that the majority of groups in small South Asian states suffer from a minority complex (Sen Gupta 1988: 4-17; Ghosh 1991). The Indian Nepalese of the Tarai region together with their co-ethnics in the Indian states of Bihar and Uttar Pradesh outnumber the Nepalese of Nepal. Sri Lankan Tamils together with the Tamils of India's southern state of Tamil Nadu outnumber the Sinhalese in Sri Lanka. Bhutan's Nepalese groups together with Indian Nepalese outnumber Bhutan's majority Drukpas. Although Pakistan and Bangladesh do not suffer from such a complex, the activities of Sindhis in northern India and of Bengali Hindu refugees in West Bengal do sometimes cause worries for these two neighbouring states. Such an ethnopolitical configuration in South Asia has led to a common fear about India's tacit support for and involvement in ethnic conflicts across the region, accentuating the distrust of its neighbours towards India's role in the region and any India-led initiatives for the creation of regional institutions.

Economic capability shift

Comparing the development of regional institutionalization in Western Europe, East Asia and the Americas, Joseph Grieco (1997) demonstrates that shifting relative disparity in capabilities of states within a region may lead disadvantaged states to oppose development of formal regional institutions. In contrast, relative stability of power capabilities contributes to the development and deepening of formal regional institutions. The main rationale of this argument is that if intraregional economic interactions over a period of time do not produce any significant shift in relative economic capabilities of member states, weaker states within a region may become less fearful of further erosion of their power as a result of their economic ties with the stronger regional partner. This, in turn, may not deter states from developing institutionalized arrangements at a regional level as there is less concern among weaker regional states about the prospects of a strong regional partner getting stronger as a result of closer institutional ties. In contrast, any significant change in shift of capabilities in favour of the stronger regional partner will strengthen fear of

further erosion of power among weak member states and thus will contribute to a dampening of enthusiasm among these countries for the growth of regional institutions. Given this argument, the following section investigates the occurrence of any shifts in capabilities of South Asian states to explain the prospects of regional institutionalization in South Asia. Two measures are employed here to determine the level of shift in economic capabilities among South Asian countries: (1) by estimating the relative share of each SAARC-5 countries' GDP *vis-à-vis* regional GDPs; and (2) by calculating the ratio of GDP per capita of the larger and relatively more developed country (India) to other SAARC-4 countries – i.e. Pakistan, Bangladesh, Sri Lanka and Nepal.

As Part A of Table 33.1 indicates, India was the source of around 80 per cent of South Asian GDP from 1980 to 2009. Measured in terms of relative share of GDP, the level of Indian economic predominance in South Asia has increased from 77 per cent in 1980 to 82 per cent in 2009. This modest increase in India's economic capabilities, however, assumes critical significance given India's overwhelming economic domination in the region and the overall decline of economic capabilities for all South Asian states during this period. These trends in economic capabilities favouring India may have strengthened South Asian governments' fear of India's regional domination and may help account for their reluctance to deepen regional institutionalization in South Asia over the past three decades. Part B of Table 33.1 offers additional analysis of shifts in relative capabilities among South Asian states over the past three decades. This table presents data on changes in the ratio of the per capita GDP of the most developed state in the region, i.e. India, to comparatively less developed SAARC-4 states: Bangladesh, Nepal, Pakistan and Sri Lanka. As with changes in overall GDP, the data in this table indicates only a marginal increase in the gap that has developed over the past 30 years in per capita income between India and SAARC-4 nations. Grieco's (1997: 178–179) findings suggest that regional institutionalization in such regions as the EC, MERCOSUR and even NAFTA has not been adversely affected by this level of increase in per capita income of one country over other regional partners. But in South Asia, given India's enormous size and population, even this marginal level of shift in per capita GDP is seen by other SAARC countries as a major capability shift favouring India and seems to have significantly contributed to the slow process of regional institutionalization.

Table 33.1 Change in economic asymmetries in South Asia, 1980–2009

Part A. Changes in Level of Overall Economic Capabilities

Country	Country GDP/Regional GDP (%)			
	1980	1990	2000	2009
Bangladesh	6.90%	5.76%	5.51%	5.01%
India	76.92%	77.39%	79.29%	82.42%
Nepal	1.06%	1.03%	0.82%	0.74%
Pakistan	12.20%	13.26%	11.72%	9.71%
Sri Lanka	2.92%	2.57%	2.53%	2.11%

Part B. Changes in Asymmetries in Distribution of Wealth

Regional Arrangement	Ratio of Real GDP/capita of India to Bangladesh, Nepal, Pakistan, and Sri Lanka			
	1980	1990	2000	2009
SAARC-5	0.23	0.24	0.26	0.32

Source: World Data Bank, World Development Indicators & Global Development Finance, 2010.

Trade performance

While this perception of relative disparity shift in favour of India may shed some light on why SAARC has achieved only modest institutionalization to date, another explanation for this modest track record should include the actual trade performances of South Asian countries both within and outside the SAARC region. In particular, the extent to which policymakers in South Asian countries are persuaded that their country is likely to benefit more as a result of increased intraregional trade, they may demonstrate more commitment to institutionalization of intraregional trade arrangements. In contrast, any perception of larger trade benefits to the dominant regional partner may lead policymakers in smaller states to shy away from institutionalization of regional trade arrangements.

As shown in Table 33.2, the level of intraregional trade among South Asian countries is quite insignificant from 1980 to 2009. During this period, intraregional trade among South Asian countries, as compared to their world trade, has remained low at under 5 per cent. Intraregional trade among SAARC countries as percentage of their world trade represented 3.2 per cent in 1980. Two decades later, there was hardly any increase in intraregional trade among SAARC countries. Despite the signing of SAARC Preferential Trade Agreement (SAPTA) in 1993, intraregional trade showed only a marginal increase during 1990–2000. What is even more striking is the fact that there is a decline in intra-SAARC trade from 4.5 per cent to 3.3 per cent during the period 2005–9, contrary to a general expectation of increase as a result of the signing of SAFTA in 2004. Clearly, SAFTA has not resulted in any positive intraregional trade increase. The low level of intraregional imports and exports among SAARC countries suggests two dynamic trade patterns in South Asia. First, SAARC countries are not each other's preferred trading partners. By contrast, the industrialized countries – the US and the EU in particular – remain the major trading partners for SAARC countries. Second, the low level of intraregional imports and exports of India and Pakistan from the SAARC region indicates how little these two relatively developed economies in South Asia depend on the region's markets. Pakistan's imports and exports to SAARC countries during 1980–2009 period remained less than 5 per cent. Lack of substantial improvement in Pakistan's trade performance during this period, despite the signing of SAPTA in 1993 and SAFTA in 2004, is clearly disappointing as far as growth of institutionalized trading arrangements is concerned. This low level of trade performance of Pakistan shows how over a period of three decades Pakistani elites seem to have developed a stable belief that SAARC is a regional arrangement through which Pakistan is least likely to benefit. Similarly, India's exports

Table 33.2 Intra-SAARC trade in relation to world trade

<i>year</i>	<i>Intra-SAARC Trade (Exports+Imports) (US\$ Million)</i>	<i>World Trade of SAARC Countries (Exports+Imports) (US\$ Million)</i>	<i>Percentage Share of Intra-SAARC Trade in World Trade</i>
1980	1210.0	37885.3	3.2
1985	1088.7	43759.5	2.4
1990	1584.7	65490.0	2.4
1995	2919.0	83110.0	3.5
2000	5315.0	141494.0	3.7
2005	14165.4	317796.6	4.5
2009	17585.3	53251.7	3.3

Source: Estimated from The IMF Direction of Trade Statistics Yearbook 1985, 1992, 1995, 2007, 2010, International Monetary Fund, Washington, D.C.

Table 33.3 SAARC members' exports to India (in percentage), 1980–2009

	1980	1990	2000	2009
Bangladesh	1.0	1.2	1.0	2.1
Nepal	30.0	29.0	26.9	40.6
Pakistan	2.7	0.5	0.6	1.6
Sri Lanka	3.3	0.6	1.0	4.7

Source: Estimated from IMF Direction of Trade Statistics Yearbook 1985, 1999, 2003, 2005, 2010.

to and imports from SAARC countries, which remained at less than 5 per cent of its total trade during 1980–2009, remains quite uninspiring. India's low level of intraregional trade performance during this period is indicative of Indian elites' lack of belief that SAARC's institutional framework is actually beneficial to India.

Research on hegemony and regional cooperation suggests that regional groupings with the preponderant power as the largest recipient of exports from its regional trading partners are likely to succeed more in achieving higher levels of institutionalization than groupings of countries without a preponderant power (Grieco 1997: 174–175). The role of Germany in the EC, the United States in NAFTA and Brazil in MERCOSUR provides evidence to support this claim. However as Table 33.3 indicates, SAARC members' exports to India, the largest economy in the region, have been quite modest from 1980 to 2009 except for Nepal. Nepal's exports to India have been consistently high during this period because of a special treaty of peace and friendship with India signed in 1950. Nepal's exports to India jumped further from 26.9 in 2000 to 40.6 in 2009 as a result of a free trade agreement signed between India and Nepal on 6 March 2002. Sri Lanka's exports to India declined in the 1990s because of a strained relationship between the two countries caused by the civil war in Sri Lanka and India's tacit support for Tamil demand. However, Sri Lanka's exports to India slightly increased from 1 per cent in 2000 to 4.7 per cent in 2009. This increase can be attributed to the India–Sri Lanka free trade agreement signed on 1 March 2000 rather than to any SAARC-related trade arrangements. While there is a marginal increase in Bangladesh's exports to India during the period 1980–2009, Pakistan's exports to India has shown a declining trend during the same period. Thus, while India remains vastly more important to its trading partners in bilateral trade agreements with Nepal and Sri Lanka, its importance seems to be significantly diminished for other SAARC members, notably Pakistan and Bangladesh. Based on this evidence, it is reasonable to argue that low levels of exports from SAARC partners to the largest South Asian economy, India, may partially explain this modest growth of SAARC/SAFTA so far. In addition, at least four other factors can be mentioned here to account for this low level of intraregional trade in South Asia. First, with the exception of India and Pakistan, SAARC countries do not have a diversified product base. Being primary producers, they tend to export similar items and thus compete with each other. Second, the existence of high tariff rates and non-tariff barriers in South Asian countries (Sri Lanka is an exception), has become an important factor constraining the expansion of intraregional trade (Panagariya 1999). Third, the lack of adequate transport and information links among the South Asian countries poses serious problems for major imports and exports. Finally, political differences and a lack of willingness to create trade complementarities among the leaders of the South Asian countries contribute to the current low level of intraregional trade. In this context, the persistent hostility between India and Pakistan is particularly important. Despite great potential for trade between the two countries, the volume of trade is insignificant because of political tension and Pakistan's unwillingness to expand its regional trade with India. The share of total trade between Pakistan and India, measured by

their bilateral exports, amounts to only 0.4 per cent of their total exports. This is only one-fifth of the bilateral trade between Malaysia and China, two countries of comparable GDP and proximity and only one-sixteenth of the trade that occurs between Argentina and Brazil, two other countries of comparable size (Newfarmer 2004). Furthermore, Pakistani elites fear that any regional trade arrangement would provide potential opportunities for India to advance collective initiatives according to its own interests.

During the 1980s and early 1990s, India's policymakers chose to take only a cautious approach to any regional cooperation initiative in South Asia, because of their belief that India is unlikely to accrue substantial economic and security benefits from any SAARC arrangement. However, there has been a marked shift in India's attitude towards SAARC's potential in the post-1990 period. At least five issues can be discussed to account for this shifting attitude of Indian elites. First, India's economic liberalization policies since the early 1990s have produced significant economic growth and export opportunities. Indian leaders know well that the success of their country's economic liberalization largely depends upon its ability to increase exports to new markets in the developed and developing countries. Until mid-1990s, India had achieved only restricted access to the markets of Japan, North America and Western Europe due to these countries' protectionist policies and various kinds of non-tariff barriers against Indian products (Rizvi 1993: 159–162). With the collapse of the Soviet Union and the gradual incorporation of Eastern Europe into the West European economy, India has lost two of its privileged markets. In an effort to expand its market links, India has recently taken many initiatives, some of which include its active diplomatic role in the formation of the Indian Ocean Rim Association for Regional Cooperation (IORARC) in March 1997; its consistent efforts to increase trade and sign a free trade pact with ASEAN since mid-1990s, which finally culminated in the signing of India-ASEAN Free Trade Agreement in August 2009; its active interest in joining the Asia-Pacific Economic Cooperation; its partnership with the East Asian Summit; and its renewed focus on the 'Look East' policy in order to strengthen its trade ties with East Asian and Southeast Asian countries.

However, although India will continue to explore markets in other regions, it can no longer ignore its own base in South Asia, where it enjoys a comparative advantage in almost every economic sector. With this advantage, Indian leaders realize that it is in India's interest to promote intraregional trade for the expansion of regional market. Not surprisingly, in the post-1990 period, India has shown increased willingness to implement SAPTA and to expedite the process of SAFTA (South Asian Free Trade Area) agreement. India's keen interest to boost trade ties with South Asian countries is evident in what is now known as the 'Gujral Doctrine', named after I. K. Gujral, India's prime minister from 1996–7. The doctrine, which is the basis of India's recent push for a policy of positive unilateralism, stipulates that India, as the region's dominant power, should be willing to grant its neighbours concessions without expecting reciprocity. India's free trade agreements with its neighbours since early 2000 are based on this principle.

Second, with the end of the Cold War, India's great power ambition has received a serious setback as a result of: (1) the Soviet Union's demise, and consequently, India's loss of a strong ally in international forums; (2) growing acceptance of China's strategic capability and leadership by the world community; (3) declining relevance of the Non-aligned Movement; and (4) the rise of Australia, Malaysia, Brazil and South Africa as new leaders on Third World-related matters, eclipsing India's role in such multilateral forums as Commonwealth meetings and Group of 15 (G-15). Indian leaders seem to have realized that India needs to demonstrate its leadership first in South Asia to generate legitimacy for its leadership in the international arena. As stated by I. K. Gujral, 'India's future depends on what its neighbors think of it. If India's energies are wasted in fights with neighbors, India will never become a world power' (Basu 1998). Successive Indian prime ministers – A. B. Vajpayee and Manmohan Singh – have echoed this sentiment and

have shown their willingness to improve relations with India's neighbours in order to accomplish the larger goal of regional and global leadership.

Third, China's rising influence in South Asia, which seems to be an indictment of India's past policy of benign neglect toward its neighbours, appears to have increased a fear of encirclement among Indian leaders. In the post-1990 period, New Delhi's anxieties have been exacerbated by China's growing investment in all of India's neighbors – for example, China has been building roads and deep-water ports in Sri Lanka, Pakistan and Bangladesh; roads in Nepal; oil and gas pipelines in Myanmar; two nuclear power plants in Pakistan; in addition to supplying fighter jets, guided missile frigates, weapon-grade fissile material and tested bomb design as a part of its nuclear support to Pakistan (Financial Times 2009; The Times of India 2010). Indian leaders seem to be convinced that the major strategic objective of China's 'string of pearls' – that refers to China's methodical mapping out of the Indian Ocean and its environ by building or financing ports, energy routes and other infrastructure facilities from Southeast Asia to South Asia and the Middle East – is to throttle India's influence and increase China's sphere of influence in South Asia and the Indian Ocean region. Concerned with these new developments that directly challenge India's long-held policy of strategic autonomy in South Asia, India has shown active interest in boosting trade ties with Sri Lanka, Bangladesh, Nepal and Bhutan in the post-2000 period.

Finally, it is a widely shared belief in South Asia that the political tension between India and Pakistan has contributed to a lack of substantial progress in regional cooperation and regional trading arrangements. Because of this political tension, ruling coalitions of both India and Pakistan have shown greater interests in the growth of subregional and 'spoke-spoke' integration initiatives rather than focusing exclusively on the growth of SAARC (Haggard 1997: 41–42). These 'spoke-spoke' cooperation initiatives have taken a variety of forms. Some initiatives can be described as 'hub-and-spoke' type of cooperation, in which the largest country in a region signs bilateral agreements with many small countries. India's initiatives for the growth of bilateral FTAs with Sri Lanka, Nepal, Bangladesh and Bhutan are examples of 'hub-and-spoke' type of cooperation. Similarly, Pakistan has also taken initiatives in signing bilateral FTAs with Sri Lanka and Bangladesh. A second variant of 'spoke-spoke' pattern of cooperation is the growth of subregional grouping within a regional grouping. India's initiatives for the formation of South Asian Growth Quadrangle (SAGQ) with Bangladesh, Bhutan and Nepal are an example of this type of cooperation initiative. While this pattern of cooperation may lead to an improvement of market access of smaller countries and can facilitate bilateral trading arrangements, it can also diminish the relevance of regional free trade agreement.

In addition, both India and Pakistan are involved in other transregional economic arrangements. These arrangements include Indian Ocean Rim Association for Regional Cooperation (IORARC), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and the East Asian Summit (EAS) – in the case of India – and Economic Cooperation Organization (ECO) and Organization of Islamic Countries (OIC) in the case of Pakistan. India's involvement in a 'noodle bowl' of bilateral trade agreements with Singapore, Thailand, Vietnam, Japan, China, South Korea, Sri Lanka, Nepal, Bhutan and Bangladesh, and initiatives for the 'spoke-spoke' pattern of economic cooperation among subgroups of South Asian countries – for example, SAGQ – are motivated in part by India's growing need for greater market access and in part by Pakistan's unwillingness to increase the speed of free trade negotiation with India. While the underlying logic of India's push for such transregional and 'spoke-spoke' pattern of trade cooperation may be compelling and may provide some solutions to India's need for trade expansion and market access, such actions can potentially be seen by South Asian neighbours as a proof of India's lack of serious commitment towards the growth of SAARC and SAFTA.

Conclusion

Regional institutional arrangements, a key indicator of the growth of regional cooperation, typically entail a lengthy process of establishing regional rules, regulations and policies, which are neither easy nor automatic. This paper has focused on three catalyst forces for the building of regional institutions: alliance with a regional preponderant power; relative stability of economic capabilities; and hegemonic leadership. Seen in the context of the South Asian regional system, these three catalyst forces have produced somewhat different regional dynamics, which are not always conducive for the growth of regional institutions and cooperation activities.

First, despite India's regional power preponderance, most South Asian countries have shied away from an alliance with India mainly because of three factors: Pakistan's consistent opposition to Indian domination; lack of external threat perception; and a perception of India's involvement in cross-border ethnic tension. South Asian countries do not share a common external threat perception, which makes it difficult for the leaders of these countries to work towards common regional security strategies. Most South Asian countries perceive their main threat to be India. In contrast, India perceives an external threat from Pakistan's military challenge with the support of external powers. Additionally, there is a widespread perception among South Asian political leaders about India's involvement in ethnic conflicts of all South Asian countries. On the other hand, India also accuses its South Asian neighbours of abetting the separatist and ethnic movements on its soil. Thus, scapegoating, that is, blaming the neighbour, has become a preferred policy choice for South Asian ruling elites, making regional accommodation difficult to achieve. While scapegoating may have brought short-term political payoffs to the ruling elites in South Asia, particularly in India and Pakistan, it has become enormously counterproductive for the growth of regional cooperative arrangements.

Second, while there has been a shift in the disparity in capabilities favouring India in the SAARC region over the past three decades, the level of this shift, as our analysis shows, has been marginal. Research in the context of NAFTA, EU and MERCOSUR has shown that this level of marginal shift may not be a major impediment for the growth of regional institutional arrangements. But, given India's overwhelming economic domination in the region, even this level of marginal shift has led to a widespread perception among South Asian countries that regional institutional arrangements will further shift economic power capabilities in favour of the stronger regional partner, that is, India. This perception seems to have strengthened the fear of further erosion of power among weak member states, contributing to a dampening of enthusiasm among member countries for the growth of regional institutions.

Finally, SAARC's lack of significant progress despite India's renewed enthusiasm for SAARC's growth in the post-1990 period can be explained by the existence of three factors: lack of trust among South Asian countries towards India's hegemonic leadership; a general belief among South Asian elites that SAARC's growth will enable Indian goods to dominate regional markets and that India is likely to benefit more in any regional trading arrangements; and India's extra-regional leadership ambition, shifting its focus away from the growth of South Asian regionalism. Such regional dynamics seem to have given rise to a less benign regional environment, making the goals of expansion of regional cooperation difficult to attain.

In South Asia's evolving economic and political landscape, the course of regional cooperation remains uncertain. To the extent that political and military tensions between India and Pakistan remain unresolved, and South Asian leaders' trust deficit towards India's regional primacy continues to exist, regional cooperative commitments of South Asian leaders will continue to be weak and inconsistent. In light of the slow and modest institutional developments of SAARC over the past decades, it is plausible to argue that the national actors' calculation of sunk costs and decision

costs will likely prevent them from abandoning SAARC institutions for short-term objectives (Stein 1990: 50–53). However, given South Asian leaders' minimalist commitments so far, rapid growth of regional institutionalization under the auspices of SAARC is unlikely. In the absence of strong commitments from South Asian leaders, SAARC is likely to experience only a 'stop-and-go' pattern of growth, in which some regional cooperation policy initiatives and arrangements are possible. But then, such initiatives and arrangements will likely be followed by protracted stalemates during which regional institutional developments and implementation of SAARC-related programmes will remain uncertain (Dash 2001: 222).