

Cost of Non-Cooperation in South Asia

— M Abu Eusuf and Dr Atiur Rahman* —

The Impeding Bottlenecks

'Beggar-thy-neighbour' policy has long been abandoned by most countries. However, the ghost of mistrust, misunderstanding and misgiving still persists in the South Asian region. Indeed, the benefits of regional cooperation that are foregone are the cost of non-cooperation in South Asia. While the global economy is benefiting from different types of regional cooperation, South Asia is lagging behind in this regard due to the existence of numerous challenges within the region as pointed out by Khan (1997)¹: creating politically friendly climate; making progress on economic reforms; achieving accelerated export orientation; promoting domestic and foreign investment; and developing regional integration strategies.

Political unrest among the countries of this zone and the lack of trust between them are damaging the potential cooperation among the countries of South Asia. As a result, the consumers of the whole South Asia region are being affected due to the high cost of defence, high tariff cost of trade and, in some cases, high opportunity cost of not trading with each other. It is noted that defence services accounts for 20.34 percent and 16.13 percent of the total budget expenditures for Pakistan and India respectively (Budget 2005-2006).

Given the recent nuclear realignment between India and US, this cost is likely to go up in both India and Pakistan. Such huge expenditures on defence engagement deprive the ordinary citizens of basic services from the government. In fact, the huge expenditures add no benefit to the national economy. The end result has been very low intra-regional trade in South Asia despite the existence of South Asian Association for Regional Cooperation (SAARC). Besides, disputes between different countries of South Asia, especially long-term Indo-Pak dispute and of late Indo-Bangladesh discontent have been driving away the potential benefits of cooperation.

While Indo-Pakistan relationship has been signaling improvement, the Indo-Bangladesh relationship looks a little uncertain, albeit historic linkage tilting towards a more cemented understanding between the two countries. While Indo-Sri Lanka economic cooperation has made a better headway following the bilateral free trade agreement (FTA), the trade linkages between Nepal and India have recently been strained due to political instability within Nepal. On the whole, the potential gains from regional cooperation in South Asia look fragile and nondescript and, therefore, leaders must put their minds together to look inward into the region for a more dynamic South Asia. In principle, regional cooperation in South Asia must be both pragmatic and realistic, which in outlook is intended to grow step by step in the economic, social and cultural spheres.

For economic growth and stability, customised policies and development agreements among different countries of South Asia are essential.

The Ineptitude of SAARC

As already indicated, despite nearly 20 years of existence, SAARC has not yet been able to change the mindset of the leaders of the region towards effective economic cooperation, especially in the field of trade and investment. In practice, SAARC remains one of the weakest trading blocs in the world. Intra-regional trade within South Asian countries is deplorably insignificant. For example, the share of intra-regional trade among South Asian countries was only 4.9 percent of the total trade of the South Asian countries in 2001².

Moreover, South Asian tariff burden is 30 percent, along with a plethora of non-tariff barriers (NTBs). South Asia should indeed learn more from Association of Asian Nations Southeast (ASEAN) experience. ASEAN is regarded as one of the most successful Regional Trade Agreements (RTAs) in the developing world. ASEAN is, in freeing up trade in services sector, aiming at integrating the region with a combined gross domestic product (GDP) which is nearly equal to that of China³. At present, regional trade within European Union (EU), North America Free Trade Agreement (NAFTA) and ASEAN countries are 66, 50 and 23 percent respectively⁴.

The Potential Losses

Non-cooperation among the regional economies would deprive them of the benefits such as:

- reaping economies of scale in production; and
- lower prices and better quality resulting from greater competition.

Due to restrictive trade practices between India, Pakistan and Sri Lanka, Pakistan imported only about 17.1 percent of its tea requirements from SAARC countries amounting to US\$26.54mn in 2003 and spent an additional amount of US\$29.68mn as 'non-cooperation cost' for importing tea from the countries outside SAARC⁵. Thus, 'Non cooperation cost' for tea import was US\$33.7mn in 1994 which was borne by the consumers in Pakistan⁶. Similarly Pakistan would have saved about US\$10mn if it chose to import sugar from India. The two countries could reap significant complementarities in sugar trade by smoothening the impact of fluctuations in sugar output year after year.⁷ It is estimated that trade between India and Pakistan could have been 70 percent more than what it is now if there were effective cooperation. (Frankel, 1997. Cited in Mehta, S Pradeep and Pranav Kumar, 2004). Things,

* The authors are Assistant Professor, Department of Development Studies, University of Dhaka and Chairman, Unnayan Shamannay respectively. The authors are grateful to Prof. Mustafizur Rahman, Research Director, CPD and Amir Khosru M Chowdhury MP, Former Commerce Minister, GoB for their valuable views on the subject. The authors are thankful to Dr. Prasad P Ranade of CUTS International for his valuable comments on the draft version of the paper. His inputs were incorporated in the final version of the paper. They are also thankful to Jinat Laila for her research assistance.

Table-1: Non-cooperation Issues in South Asia

Issues	Current Trend	Major Barriers	Cost of Non-Cooperation	Policy Measures
<p>Impact on consumers¹⁰ Right or wrong, we have accepted the 'free market economy' and are being encouraged to think of ourselves as citizens of a 'global village'. If so, why should we as consumers be the victims of a 'politically motivated decision' for exclusion in South Asia? We would like to look into the matter more from a 'rights perspective' than from a 'political game' perspective.</p>	<ul style="list-style-type: none"> Consumers end up with narrow choice and tend to get items that are not necessarily suitable for them– in terms of taste, quality, texture and looks (sub-continent generally considered to have similar types of cultural and other social traits and practices and consumption behaviour). 	<ul style="list-style-type: none"> The consumers tend to be the real sufferers of all such tariff and NTBs. For example, due to NTBs, two major items from India – sugar and textile yarns – can be imported to Bangladesh only by sea as requirement imposed by Bangladesh in July 2002. If land routes were opened, then Bangladeshi consumers could have benefited a lot more. Agricultural barriers too have had a significant impact on prices, markets and hence, the costs of non-cooperation are high. Lack of people to people contacts at different levels within the South Asian region, especially between India and Pakistan, hampered cooperation in the region. Besides, both Bangladesh and India have restricted imports of particular goods to be cleared by Customs through specified ports. This leads to illegal trade either by 'bootleg' smuggling or by 'official' smuggling by giving bribes to the officials concerned on both sides of the border. 	<ul style="list-style-type: none"> Consumers are the sufferers – who pay a high price for similar or even lower quality products/goods or services. Such barriers have considerable impact on the relationship between the consumers of the two countries. If the consumer products do not enter the market shelf in a regular manner, by the natural flow of demand, the consumers tend to think that there are some problems in terms of quality, standard and price. Subsequently, a 'misunderstanding and mistrust' tends to grow among the consumers – which ultimately culminates into a sense of 'insecurity' of using the imported goods from the regional countries. Moreover, lack of continuity of supply also affects the consumption style and pattern. Government is deprived of a large amount of revenue (tariff and income taxes) due to the informal trade. 	<ul style="list-style-type: none"> In principle, we believe we should look for <i>non-conventional approaches</i> or institutional modalities for the framework of regional cooperation. <i>People to people dialogue</i> parallel to the dialogue of the political executives will help build trust and create sensitisation and awareness with regard to such 'unseen but costly barriers'. More <i>dialogues between</i> the members of <i>civil societies of the region are required</i>. <i>Close liaison and interactive relations between media</i> of the region – particularly electronic media is imperative. <i>Print media</i> can also play a significant <i>role in building consumers trust and positive image</i> for the range of products of the region with competitive price and quality. More trade fairs and <i>trust building</i> interactive processes are necessary. <i>Academic and research forum</i> to take an active role in promoting alternative platform for regional cooperation.
<p>Trade and investment Effective economic cooperation among neighbouring countries can create new trades and can increase investment flows for them. Competition among different firms of the same industry of neighbouring countries can lead to lower prices.</p>	<ul style="list-style-type: none"> Proportion of regional trade and investment is still modest among South Asian countries Stagnation of inter-regional trade proves the ineffectiveness of the partial approach to trade rather than full liberalisation or removing all barriers to two-way trade. Recent investment commitment amounting US\$2.5bn by the TATA group in three different plants: steel, fertilizer and power is the largest by a foreign investor in Bangladesh. If materialised this could open up a new trend of economic cooperation between the two neighbours. 	<ul style="list-style-type: none"> Lack of liberal trade policies; Lack of trade complementarities: <ul style="list-style-type: none"> Poor infrastructure; Identical comparative advantage; Political conflicts especially between India and Pakistan; Pakistan is resistant to granting most favoured nation (MFN) status to India; No mutual recognition of certificates, no institutional cooperation to standardisation of certificates to ensure quality of goods within the region; Lengthy cumbersome customs procedures, double taxation, complex visa system and work permit; and The tariff structure in Bangladesh is more extensively dispersed than in India. 	<ul style="list-style-type: none"> Bangladesh suffers due to the 'unequal bargaining advantage' enjoyed by India. Duty and tariff levels remain higher in India than in Bangladesh in spite of the recent liberalisation of the Indian import rule (average customs duties in Bangladesh-16.5 percent, India 29.0 percent; total protective duties in Bangladesh-22.0 percent, India 35.0 percent)¹¹. Hence, Bangladeshi consumers have to pay more for Indian products. Besides, in case of the manufacturing sector the producer ideally should have recourse to the cheapest supplier. Thus, Non-cooperation within the region is increasing costs for the producer. 	<ul style="list-style-type: none"> A <i>free trade area</i> by eliminating the tariff and NTBs of trade, facilitating free flow of <i>financial and physical capital</i>, streamlining <i>personnel movement</i> in the region and finally implementing South Asian Free Trade Agreement (SAFTA) can help strengthen production and export base and can reduce the non cooperation cost among the South Asian countries. All SAARC Chambers of commerce and Industries with their pro-active communication and interaction can help in this matter. India and Bangladesh should actively think of a bilateral FTA on the lines of the Indo-Sri Lanka agreement. <i>Intra-industry</i> trade can play a pivotal role in reducing cost. South Asian countries can follow the pattern of ASEAN and also follow '<i>Look East</i>' policy. India has already signed with Thailand and ASEAN for their proposed FTAs. Need <i>Standardisation of Certificates</i> to ensure quality of goods within the region.
<p>Education There are ample opportunities of increasing regional trade within SAARC countries focusing on the education sector.</p>	<ul style="list-style-type: none"> Large number of students from all over the South Asian region visit European, North American, and Australian institutions every year to study, which helps these countries to earn lots of foreign exchange, which is transferred from this region. 	<ul style="list-style-type: none"> Complex visa regime with various hassles, rigid custom procedures, and double taxation system discourage education exchanges among the South Asian regions. 	<ul style="list-style-type: none"> The students are failing to reap this opportunity due to non-availability of information caused by non-cooperation in the region. South Asia has many good educational and training institutions (Like Indian Institute of Public Administration), which are still not known within the region. Cost of education is less in such institutions and quality of education is also up to the mark. 	<ul style="list-style-type: none"> By liberalising <i>visa regime</i>, relaxing <i>custom procedures</i>, removing <i>double taxation</i> if any and increasing cooperation among regional countries the flow of students can be increased, not only in India but also in other countries of this region. Effective measures should be taken at Government levels so that <i>free flow of information</i> can take place. Exchange programmes for teachers and students from different countries of the South region should be in place. Students should be able to avail the opportunity of good education at lower cost in a neighbouring country.
<p>Health Regional cooperation in South Asia could reduce health expenditure of consumers.</p>	<ul style="list-style-type: none"> Each year, patients from other countries of this region visit Thailand and Singapore for treatment. 	<ul style="list-style-type: none"> Low quality of service; and Lack of collaboration. 	<ul style="list-style-type: none"> Complex visa and travel formalities, high transaction cost, hassles etc. 	<ul style="list-style-type: none"> Intra-regional cooperation can increase intra-regional exchange of <i>expert doctors, new ideas and technology</i>. A modern hospital was recently opened in Dhaka under the aegis of Indian's Apollo Group. As a result, Bangladeshi consumers could save a large amount of transaction cost, monetary cost and opportunity cost and also get modern treatment without going abroad.
<p>Microcredit programme and other programmes The success stories of Bangladesh (Microcredit programme) and India (decentralisation or minimum employment guarantee programme) can be used as a model in other countries of South Asia.</p>	<ul style="list-style-type: none"> Though microcredit model of Bangladesh is replicated in many countries in the world, none of the South Asian countries have replicated it. 	<ul style="list-style-type: none"> Mutual mistrust, social mistrust, artificial psychological barrier are major costs to learn best practices from each other. 	<ul style="list-style-type: none"> South Asian countries lack cooperation and are failing to adopt such policies for improving their region. 	<ul style="list-style-type: none"> Governments can take the initiatives of exchanging <i>expertise and new ideas</i> of one country to help the other country. Increasing <i>people to people cooperation</i>, research works and studies and organising seminars, symposia by experts, creating easy access into each other's countries etc., can help them come closer.
<p>Transportation Intra-regional trade and investment is affected negatively by poor transportation.</p>	<ul style="list-style-type: none"> Poor mobility of labour exists within the South Asian countries. No inter country trains or truck movements are in existence. Having no access to seas and oceans, economic development in Nepal and Bhutan is comparatively challenged. 	<ul style="list-style-type: none"> Movement of people and goods across the India-Pakistan border, is restricted, this results in high volume of illicit trade every day¹². Direct shipping between Karachi-Mumbai still not allowed unless it touches a third country. India does not allow Nepal's/Bhutan's third country trade to use Mongla Port, which has sphere capacity. 	<ul style="list-style-type: none"> Barriers of intra regional movement are mostly political and impose a high cost on general public, especially for the people of Nepal and Bhutan. Bangladesh could earn at least five times more revenue from Chittagong and Mongla Ports if Nepal and Bhutan were allowed to use these ports. In addition, Bangladesh could earn a lot from transit duties as well¹³. 	<ul style="list-style-type: none"> <i>Free labour movement</i> will guarantee a rationalisation in labour costs as well as wage equalisation across the region. <i>Transport cooperation</i> would permit uninterrupted travel from Peshawar to Chittagong and from Kathmandu to Colombo with low cost¹⁴. Goods by road need <i>transshipment</i> at border. Transit can be given to the neighbouring country (e.g. Nepal-Bangladesh <i>road transit</i>) to reduce transportation cost.
<p>Natural Resources (Natural gas, water resource and electricity generation) Joint efforts by countries of the South Asian region will help them in efficient use of their limited natural resources and ultimately raise their industrial growth rates.</p>	<ul style="list-style-type: none"> India has established a power plant in Bhutan, and 80 percent of the generated power gets exported to India. Due to the in comparative advantage, Nepal and Bhutan can generate hydro electricity with low cost, which is environment friendly as well. 	<ul style="list-style-type: none"> Lack of cooperation among South Asian countries; Farakha problem between Bangladesh and India; and Absence of proper implementation of Ganges water treaty between Bangladesh and India. 	<ul style="list-style-type: none"> Due to the unsolved issue of Farakha problem, Bangladesh suffers every year. During dry season water scarcity causes drought. During rainy season excess water from India causes devastating flood in Bangladesh. Every year, Bangladesh has to bear the loss of crops, cattle and ultimately huge loss of revenue. Other south Asian countries are deprived of cheap electricity from Nepal and Bhutan. 	<ul style="list-style-type: none"> India should enhance its cooperation to solve <i>Farakha problem</i> with Bangladesh to reduce sufferings and miseries of Bangladeshi people caused due to this. Cooperation between other South Asian countries with Nepal and Bhutan for cheap electricity should be encouraged, perhaps through a regional grid.
<p>Tourism Ancient heritage and natural beauty of different countries of this region attracts not only tourists from within the South Asian sub-continent but also those from outside this region.</p>	<ul style="list-style-type: none"> This presupposes security and peace in South Asian countries, which should not be undermined due to unnecessary misunderstanding between the neighbours. 	<ul style="list-style-type: none"> No joint efforts regarding tourism development; and Lack of common tourist policies among South Asian countries. 	<ul style="list-style-type: none"> South Asian countries, especially Bangladesh and Pakistan are failing to earn foreign exchange due to absence of combined efforts, common tourist policies, easy visa procedures and custom rules among the countries of this region. 	<ul style="list-style-type: none"> Regional cooperation can promote intra and inter regional tourism, which will lead to substantial foreign revenue earnings. This is only possible if better facilities like <i>joint package tours</i> (for example, <i>Echo-tourism, religion tourism</i>) with cheap group fares organised by collaborated travel agencies operating in this region can be arranged¹⁵.

however, changed positively at least in case of Indo-Sri Lanka trading partnership.

Indo-Bangladesh trade has been hovering at around US\$1bn over the years. India's exports to Bangladesh were US\$1.7bn (about 3 percent of Indian total export) while imports from Bangladesh was only US\$78mn (0.01 percent of Indian total imports) in 2004. On the other hand, India has become the largest source of imports for Bangladesh (about 16 percent of Bangladesh's total imports) though the latter's export to the former is only slightly over one percent of its total export. About two third of Bangladesh's export to India is accounted by two products: anhydrous ammonia and raw jute. If Bangladesh imported agricultural and other primary products particularly processed foods duty free, it could bring larger economic welfare to the consumers of Bangladesh⁸.

Similarly, had the Northeastern states of India imported similar products from Bangladesh, the Indian consumers too could have benefited. Bangladesh and India have been experiencing growth rate averaging 5 to 5.5 percent and around 7 percent, respectively. With closer trade ties in place, Indo-Bangladesh cooperation could have enhanced the growth rate of both countries⁹ to around 8 percent. If the tripartite gas pipeline and TATA investment deals get finalised, notwithstanding huge gap in political understanding, then there will be a major shift in the scenario in terms of effective Indo-Bangladesh economic cooperation. Similar gains would also have been coming to Indo-Bangladesh, had the transit deal been finalised. The Chittagong Port too could be a hub of trading activities for India and Nepal, while Mongla could be the same for Bhutan and India. These are indeed possible scenarios of win-win situation for the involved countries of South Asia.

Critical issues regarding non-cooperation in South Asia has been presented in the matrix.

Conclusion

In spite of the potential benefits that could accrue from regional cooperation, the process of achieving regional cooperation has not made much headway. A proper analysis of the constraints to such cooperation is essential to know what steps the Government needs to take so as to extirpate them. One of the reasons of non-cooperation in South Asia region is failure to materialise the objectives of SAARC. Political conflict

between two big members (India and Pakistan) is making SAARC one of the weakest trading blocs in the world. Though SAARC has had several setbacks, Governments of South Asian region should try hard to revive the core spirit of SAARC immediately and affect its progress in the positive direction to improve intra-regional trade. The NTBs are the main constraints in the way of enhancing regional trade. To remove such barriers, Rules of Origin (RoO) should be made flexible. Regional trade within South Asian countries is expected to increase to 30-35 percent from the current 4.9 percent after implementation of SAFTA, which is to come into force in January 2006¹⁶.

Being two larger players in the region, India and Pakistan, on whom the fate of South Asia is largely dependent, should extend sincere cooperation in the spirit of partnership to reduce the cost of non-cooperation as well as to make the region a strong growth axis. Moreover, South Asian countries should learn many lessons from best practices in individual countries. For example, the success of micro credit initiatives for poverty reduction (*Grameen* Bank, PKSf model), Disaster Management System, Bangladesh Rural Advancement Committee (BRAC), NGO Governance in Bangladesh; effective decentralisation system, Minimum Employment Guarantee programme and *Panchayat* Management System in India; Margo Institute (working for ethnicity, security) in Sri Lanka etc., should be replicated in other countries of South Asia.

South Asia is inherently Indo-centric in nature. India covers a significant part of South Asian economy and society. Its external economic policy is very important in establishing constructive economic and political relationship with the neighbouring countries. As the super power of South Asia, India has to shoulder the greater responsibility of maintaining good relationship by securing confidence of its smaller neighbours. Though SAARC has cultivated regional cooperation beyond the arenas of FTA and customs union it can be a good forum for the issue of Kashmir and help in mitigating the political unrest between India and Pakistan. The peace dividend thus derived could be great benefit for South Asia, a zone of the greatest concentration of world's poverty.

Besides, joint teams from this region should be engaged in finding the problems that hamper cooperation and in identifying effective solutions for increasing deep economic cooperation. Unless cost of non-cooperation is calculated by the trade and economic leaders of each South Asian country, development of this region as a community will remain a far cry¹⁷.

Endnotes

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