

# SAARC – Time To Change

**Srinivasa Madhur<sup>\*#</sup>**

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## Abstract

This paper examines SAARC's performance and failures as a regional cooperation forum, since its establishment with the signing of the SAARC Charter in Dhaka on 8 December 1985. First, it briefly reviews the recent geopolitical situation in South Asia. Against the backdrop of the evolving geopolitical situation, the paper reviews South Asian integration in a nutshell. It then examines the progress and failures of SAARC as a regional forum in four key areas of regional cooperation and integration: trade, money and finance, and people-to-people contacts. From the available empirical evidence, the paper deciphers that regional integration under SAARC has progressed at a far lower momentum than what was expected at the time of its formation. Progress in regional cooperation under SAARC also compares poorly with similar regional forums in both Europe and Southeast Asia. Against this backdrop, this paper synthesizes the existing studies on SAARC, and comes up with ambitious yet pragmatic policy options for fast-tracking the forum's economic integration.

**Keywords:** SAARC, Regional Cooperation, Regional integration, South Asia

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\* Srinivasa Madhur is Senior Adjunct Professor, Pannasastra University of Cambodia, Phnom Penh.

# The views expressed in the paper are those of the authors and need not necessarily reflect those of the institutions with which he is associated.

## 1. Introduction

The South Asian Association for Regional Cooperation (SAARC) was established with the signing of the SAARC Charter in Dhaka on 8 December 1985. As of now, SAARC consists of eight member states and nine observer states. The eight member states are: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. The nine observer states are Australia, China, the European Union, Iran, Japan, South Korea, Mauritius, Myanmar, and the United States of America (U.S) (SAARC Secretariat Website). In 2021, SAARC comprised 3.5% of the world's land area, 21% of the global population of nearly 8 billion, and 5.2% of global income.

SAARC is perhaps the only regional association in the world, which has more observer members than full-fledged members. China is presently an 'observer member' in SAARC but has expressed interest in being upgraded to a 'dialogue partner' first, and to full membership status subsequently (Ahmar, 2020).

Observer states are invited to participate in the inaugural and the closing sessions of the SAARC Summit. Member states could also invite the SAARC observers to productive, demand-driven projects in the following sectors: (i) communication (ii) connectivity (iii) agriculture (iv) public health (v) energy (vi) environment and (vii) economic cooperation. At present, there is a moratorium on the admission of new observer members (SAARC Secretariat Website).

In the 37 years since its inception, SAARC Summits have been held only 18 times, with the last one taking place in Kathmandu in 2015. Pakistan was supposed to host the 19th Summit in 2016; however, India refused to attend the Summit, in the wake of a terrorist attack on an Indian military camp in Uri; Bangladesh and Bhutan also withdrew from their participation (Wikipedia, accessed on 31 December 2022). If anything, Indo-Pak hostility has risen since then.

SAARC's achievements to date seem to fade in comparison to the original objectives enunciated in its Charter. The very first line of the SAARC Charter states the objectives to be: "*...promoting peace, stability, amity, and progress in the region.*" SAARC has very little to show in each of these areas. As per media reports, in 2017, the then Foreign Secretary of India, Jaishankar, was quoted as saying: "SAARC is a 'jammed vehicle' (The Economic Times, 2017, 26 October). About a year later, Nawaz Sherif, the then Prime Minister of Pakistan, was quoted as saying: 'SAARC has 'survived', not 'triumphed' (The Economic Times, 2018, 12 July). Some have even wondered if SAARC is a viable block at all (Hasan, 2001).

That said, a divided South Asian region would be a major roadblock for Asia playing a significant role in global economic governance (Madhur 2012). Against the backdrop of these perceptions, this paper examines SAARC's performance and failures as a regional cooperation forum.

The paper first synthesizes the existing work on the performance and constraints of SAARC and comes up with ambitious yet pragmatic policy options for fast-tracking the region's integration. Section 2 provides a quick look at South Asia's geopolitical configurations; Section 3 takes a bird's-eye view of South Asian integration. Section 4 evaluates South Asian trade integration. Section 5

examines the prospects and problems of monetary integration among SAARC members. Section 6 provides the current status of and future prospects for people-to-people contacts in SAARC countries. Section 7 sums up and provides the key conclusions of the paper.

## 2. Geopolitical Configurations

The current political situation in Afghanistan is a key impediment to South Asian economic integration. There is still no consensus, not just in South Asia but across the world, about recognizing the Taliban as the legitimate government of Afghanistan (Waheed, 2022).

The Taliban takeover of Kabul on 15 August 2021 has left China also in a dilemma. China now shares a border with a country ruled by a terrorist group. Geopolitically, China is also one of the closest strategic allies of Pakistan. As the rest of the world withdrew from Afghanistan, China now finds itself in an influential position, handling a number of interregional relationships (Pantcci, 2022).

The relationship between Pakistan and Afghanistan itself has been undergoing tumultuous changes. In the initial months of the Taliban's takeover, Pakistan appealed to the international community not to impose harsh sanctions on Afghanistan. That honeymoon period was short-lived; subsequently, relations between Pakistan and Afghanistan have soured. Thus, Pakistan had to reassess its attitude towards its once ally, as the number of terrorist attacks in Pakistan itself rose substantially in the years since the Taliban took over Afghanistan (Waheed, 2022).

The Taliban is now vying for increased autonomy from Pakistan and has shown an inclination to improve ties with India. Taliban seems to have shown interest in India training its troops. As a result, Pakistan now has an additional challenge of thwarting the potential of India establishing a presence in Afghanistan (Waheed, 2022). Moreover, Taliban's support for the Chabahar Port Project in Iran has the potential to reduce the relevance of Pakistan's China-funded Gwadar port (Waheed, 2022).

The global economic and political landscape is also changing rapidly. In the words of World Bank President, David Malpass: *"The world is facing dangerous crises that are hammering developing countries, hitting the poor and vulnerable, and worsening global inequality. High inflation, war in Ukraine, large macroeconomic imbalances, and shortages of energy, fertilizer, and food have caused the sharpest global economic downturn in 80 years, compounding the death tolls, economic shutdowns, and school closures of the COVID-19 pandemic."* (Malpass, 2022).

About a year earlier, the Indian Prime Minister, Narendra Modi had expressed similar views. He had very emphatically said that the post-pandemic world would witness a vastly different geopolitical scenario, for nations and people alike. Kevin Rudd, former Prime Minister of Australia, refers to the post-Covid era as "the dangerous decade ahead", with China becoming a much more dictatorial and unpredictable power (Rudd, 2022).

Others have observed that the post-pandemic world will be a heterodox one, as geopolitical sands begin shifting in unexpected directions. “Not *only will the virus usher in behavioural, social and political modifications at a micro level and trigger indelible domestic changes, it will also impact nation-states at a macro level. Economic vulnerabilities will be exposed, and the shifting of geopolitical sands will be accelerated.*” (Talukdar, 2020).

Just as the world economy seemed to be recovering from the ‘virus halt’, Russia’s invasion of Ukraine has come as an added headache for global leaders. In addition, Iran seems to be on the verge of a revolution. As the 27<sup>th</sup> November 2022 issue of the Economist Magazine very aptly explained, most revolutions reach a point where the regime under threat moves from trying to control the crowd without spilling too much blood to sending in the army to crush the revolt. Iran may be nearing that point. In some parts of the country, women are on the roads protesting against the repressive regime, helicopters fly overhead, and circling drones broadcast martial songs (The Economist, 27 November 2022). To cap it all, as per a recent BBC news report, Iran has just announced the first execution of a protester convicted over the recent anti-government unrest.

China is also undergoing considerable political turmoil, perhaps the most significant since the 1989 Tiananmen Square incident. True, China still remains the manufacturing factory of the world (Mann and Singh, 2020). However, protests have erupted in Beijing, Shanghai, and Urumqi, amidst popular fury over the repeated lockdowns. (The Economist, 2022, 27 November). Unfortunately, China enforced draconian lockdowns from time to time, rather than effectively vaccinating its people (Cha, 2022). It appears that China’s near-term growth will be far less than the rate the country had posted for decades before the Covid outbreak potentially thwarting the country’s social stability (Cai, accessed on 23 February 2023).

A time of such significant changes across the world is a good time for SAARC to change too. India’s Prime Minister, Narendra Modi, is well placed to sort out many of the bilateral differences among the SAARC countries, since he enjoys unprecedented political stability at home. India should then be better able to sort out bilateral issues and help SAARC to fast-track its regional integration agenda. A troubled neighbourhood is neither good for India nor for its neighbours. India should, therefore, take the lead in expeditiously sorting out the bilateral issues and making South Asian integration a reality.

Taking leadership of institutions and guiding their objectives, especially during times of crisis, is something that India is not unfamiliar with. As soon as the virus broke out, Prime Minister Modi urged greater cooperation among the SAARC nations. It was indeed creditable that by holding the first SAARC Summit after a gap of many years, though a virtual one, he sent a comforting message to the region. Subsequently, he took the initiative in creating a Covid Emergency Fund and pledging \$10 billion – more than half of the total contribution to that fund (Pattanaik, 2020).

India has exhibited a highly cooperative attitude in the aftermath of the Corona Virus breakout, by voluntarily sharing its vaccines among the neighbouring countries under the ‘Vaccine Maitri

Program’. If ‘China is the factory of the world’, Prime Minister Modi is rightly marketing India as the ‘pharmacy of the world’ (Taneja and Singh, 2021).

India’s timely help to Sri Lanka earlier this year was another admirable example of how India took regional leadership in times of a crisis. Sri Lanka was already negotiating with the International Monetary Fund (IMF) for a financial program to tackle its financial crisis. Meanwhile, Sri Lanka was seeking some bridge finance to meet the costs of importing essential imports of food, fuel, and medicines. At that time, India was indeed the first responder to Sri Lanka (Wignaraja, 2022). In the first seven months of 2022, India provided Sri Lanka with a concessional aid of about \$.4.0 billion – through credit lines, deferred loans, grants, and currency swap arrangements. India

### **3. South Asia’s Integration in a Nutshell**

In terms of an overall index of regional integration, presented by the Asian Development Bank’s February 2023 Asian Integration Report, South Asia is almost at the bottom of the table (along with central Asia) in the (ADB, 2023). The components of the regional integration index presented in this report are trade and investment, money and finance, infrastructure connectivity, production networks and supply chains, technology and digital connectivity, environmental cooperation, and institutional arrangements.

The region has very little intraregional flow of goods, capital, and ideas. Moreover, SAARC is even behind the Central Asian Regional Economic Cooperation (CAREC). Earlier studies also came up with similar results (Dubey, 2007; Kumar, 2007; Kumar, 2015; Madhur, 2016). “*The cross-border investment, royalty payments, movement of people, purchase and exchange of technology and innovation, or even the number of cross-border telephone calls are all faint in South Asia*” (Neupane, 2022). This reflects the snail’s pace at which regional cooperation has proceeded under SAARC, despite SAARC having a relatively robust institutional base (Bhattacharyay, 2010).

Even among geographically contiguous countries of SAARC, connectivity is highly inadequate. Even the much-touted regional rail corridors within SAARC suffer from inadequate standardization of technologies and operation and maintenance practices, including different types of gauges, braking systems, incompatibility of rolling stock etc. (ADB, 2009; World Bank, 2022). Other barriers include lack of loop lengths, some missing links of shorter lengths in the borders areas, lack of physical infrastructure at points of intersection, load restrictions on bridges, lack of coordination for gauge conversion programs on different railway systems, and capacity constraints in certain sections of the identified corridors (ADB 2009; Kumar, 2015; Kathuria, 2018).

Although South Asia is home to 25 ports, maritime transportation remains constrained. 10 of the 25 ports are considered as gateways of regional significance. Key constraints to the effective functioning of these ports range from capacity constraints at many of the gateways, to heavy siltation at channels where depths fluctuate with tide. Cargo and ship handling equipment too were found to be quite outdated in many gateways. (ADB, 2009; Kumar, 2015; Kathuria, 2018).

As per a 2022 World Bank study, it is about 15-20% cheaper for an Indian company to trade with Brazil or Germany than with neighbouring Bangladesh (World Bank, 2022). The same study estimates that the unexploited potential trade is nearly 93% for Bangladesh, 76% for Nepal, and 50% for India. Take the case of Bangladesh's imports of cotton from Pakistan. A consignment of cotton can take anywhere up to 40 days to move from West Punjab to Chittagong via Karachi, with transshipment in either Colombo or Singapore. If a container of cotton could be put on a freight train leaving Lahore and moving across India, this could possibly reach Dhaka within 4 days (ADB 2009; Kathuria, 2018; World Bank, 2022). That is a stark example of the extent to which the region would potentially benefit from better integration.

Placing all the constraints on SAARC together makes it resemble a cobweb of intricate issues, crisscrossing across its member countries. Are there any reasonable solutions to dovetail the cobweb of constraints on SAARC? What would those pragmatic solutions be? What are the options that could be used to address those constraints, so that the Regional Forum remains meaningful to its member states and its people? As the largest and strongest member of the subregion, how best could India help the forum to take key policy decisions at the regional level?

If the SAARC countries could agree on a set of pragmatic answers to these questions and implement these with sincerity, SAARC could still be revived to benefit the region's 1.7 billion people. It is well known that the process of regional integration promotes equity within the region. Just as with globalization, regional integration helps less developed countries gain more than the more developed countries within the region. It is thus a great equalizer for the participating countries. A recent study on Indian Ocean Rim Association, once again, reconfirms this equalizing effect. "*The overall results indicate that the middle and low-income countries in IORA would benefit more than the higher-income countries in terms of welfare, GDP, and trade expansion.*" (Ankitola et.al., 2022, p.727)

#### **4. Boost Intraregional Trade**

The idea that higher the trade between countries, the lower the probability of countries going into wars between them is now more than a century old. As early as the beginning of the 20<sup>th</sup> century, John Stuart Mill, the well-known British economist, so eloquently wrote in his Principles of Political Economy: "*The great extent and rapid increase of international trade, in being the principal guarantee of the peace of the world, is the great permanent security for the uninterrupted progress of the ideas, the institutions, and the character of the human race*" (quoted in Lee and Pyun, 2009, p.2). Using a large sample of data and information, Lee and Pyun found robust empirical evidence to this theory. "*Trust promotes trade, and trade fosters trust, interdependency, and constituencies for peace*" (Kathuria, 2018).

The SAARC constitution too recognizes this age-old principle; yet in practice, some member states have turned this basic principle right up on its head. Trade among the SAARC member countries has

been limited by several factors: highly protective tariffs; inadequate road, marine, and air transport; and above all, a huge trust deficit between India and Pakistan. According to a 2016 estimate by the World Bank, intraregional trade accounts for barely 5% of South Asia's total trade, compared to the ASEAN region where intraregional trade accounts for 25% of the region's total trade.

Article 10 (2) of the SAARC charter poses the biggest obstacle to integration in the subregion. This article excludes bilateral and contentious issues from any discussion, whatsoever, among the SAARC members. About 35% of the value of intraregional trade in South Asia is subject to this sensitive list, undermining the very purpose of a free trade agreement (Kathuria, 2018). Indeed, the South Asian Preferential Trade Agreement (SAPTA) can work if, and only if, Article 10 (2) is trimmed substantially, if not eliminated altogether.

Trade among South Asian countries is far below its potential. According to a 2016 World Bank estimate, at less than 5%, SAARC's intra-regional trade compares poorly to East Asia's 35% and Europe's 60%. A 2016 study by ESCAP also found that intraregional trade in South Asia was less than one-third of its potential (ESCAP, 2016). Using a gravity model approach, the same study placed that the region's potential intraregional trade at \$81.2 billion, with the potential to more than double by 2020 to an estimated \$172 billion.

The low level of intraregional trade is explained by a number of factors, such as high costs of intraregional trade, poor supply capacities in member countries, poor trade facilitation at borders, and prevalence of a variety of nontariff barriers (Dubey, 2007; Chandan, 2013; Taneja (1999); Kumar, 2015; ESCAP, 2016; Kathuria, 2018). It is 20% cheaper for India to trade with Brazil than with its neighbouring Pakistan (Kathuria, 2018).

SAARC must be the only attempt at regional cooperation in the world that maintains higher trade barriers among the member countries than with the rest of the world. An index measuring the tariff equivalent of a country's tariff and nontariff barriers, shows that the indices are two to nine times higher for most South Asian countries if countries import from their next-door neighbours than from the rest of the world (Kathuria, 2018). In the two largest economies in the region, India and Pakistan, the indices of protection are nine and six times higher, respectively, for importing from the South Asian region than for importing from the rest of the world (Kathuria, 2018).

Put simply, many South Asian countries trade on better terms with distant economies than with their own neighbors. Indeed, the costs of intraregional trade are much higher within South Asia compared with other regional trade blocks across the world (Kathuria, 2018). Besides undermining tariff liberalization, these non-transparent para-tariffs (as Kathuria refers to them), are also not part of the phaseout program under the SAPTA. These para-tariffs thus seem to remain stay put forever. For example, the average costs of trade within South Asia are 20% higher compared to country pairs in the Association of Southeast Asian Nations (ASEAN) and over three times higher than the corresponding costs among the countries of the North American Free Trade Agreement (Kathuria, 2018).

What is more, the cost of intraregional trade within South Asia has risen over time, while the costs of trading with the rest of the world have fallen (Kumar, 2015). High costs of intra-regional trade have hindered the formation of potential production networks and supply chains within South Asia. Even as South Asian countries have reduced tariffs, several countries in the region have simultaneously introduced non-tariff measures. For example, Kathuria (2018) very aptly shows that these para-tariffs have erected huge protection walls among SAARC member countries. With the inclusion of para-tariffs, Bangladesh's simple average tariff (in fiscal year 2016/17) almost doubled, from 13.3% to 25.6%; Sri Lanka's more than doubled, from 10.8% to 22.4%.

For many individual products, the combination of para-tariffs and customs duties results in effective protection rates in the order of 40–80% (Kathuria, 2018). Inadequate air transportation among most of the South Asian countries further impedes intraregional trade in high-value, low-volume goods and services across borders. For example, high-value trade often depends on intercountry airline services, but regional air connectivity is highly restricted in South Asia, except between India and Sri Lanka (Neupane, 2022). As per the original schedule, by 2016 India was set to grant duty-free access to all goods traded among all the SAARC member countries (Neupane, 2022). However, these dates have come and gone.

Just as France and Germany took the lead in European integration, India and Pakistan need to play a critical role in bringing about an attitudinal change, that is required to reduce the trust deficit within SAARC. By all means, keep the troops at the borders to safeguard national sovereignty, but let the shipments of goods and services flow smoothly between the borders.

Introduction of a 'Made in SAARC' product brand/trademark is a practical way of taking fast tracking SAARC's trade integration process. Once again, to begin with, this could first be applied to a certain number of goods produced in the region, that have high complementarity among the SAARC countries. SAARC already has a body for standard-monitoring/setting. Under the guidance and supervision of this regional body, a 'Made in SAARC' brand of products would be an eye-catching and effective way for the region to fast-track its trade integration.

With the risk of doing business in China now on the rise, global companies are likely to reappraise their manufacturing operations in China (Qian, 2022). The overdependence of global supply chains on China is compelling companies around the world to reappraise their business strategies and look for alternative options of relocation. Recent media reports have it that Apple has decided to relocate its iPhone assembling business away from China's Zhengzhou city to India. The political disruptions in China in general and in the Zhengzhou city in particular have been cited as the major reasons for Apple's decision to relocate some of its phone assembly business to India. It is reported that work disruptions in China cost Apple \$1 billion a week (CNN- Business News, 6 December 2022). Learning from its experience with China, Apple is unwilling to concentrate its business in any one country. Over time, a well-integrated South Asia could thus be in an ideal position to reap the benefits from such relocations of many more multinationals.



## 5. Forge Stronger Monetary Ties

The degree of monetary integration among SAARC countries is even lower than their trade integration (ESCAP, 2016; ADB, 2022). Using a gravity model approach, recent studies provide robust empirical evidence that shows that intraregional exchange rate fluctuations adversely affect trade flows within South Asia (Banik and Roy, 2020; Zahid et.al (2021).

The key to monetary integration lies in exchange rate coordination and payment methods for intraregional trade. The first step could be to stabilize intra-regional exchange rates. Is it possible for the SAARC countries to agree on some form of an exchange rate coordination, say, each country tries to maintain a reasonable level of parity with each other's currency values? India is in a good position to take the lead in this process.

There is a vast literature on optimum currency areas, beginning from the initial writings of Robert Mundell, who subsequently won the Nobel Prize in economics. One may ask: does SAARC satisfy the preconditions required for an optimum currency area? The answer is that intra-regional exchange rate coordination itself could help create preconditions for closer exchange rate coordination (Madhur, 2002). In popular terms, this view has also been labelled as 'vehicle theory', because monetary cooperation becomes a vehicle for trade integration (Langhammer, 2007).

Using gravity model simulations, it has been shown that two countries that share the same currency trade three times as much as they would with different currencies (Rose, 2000). Proponents of this view often point to what happened in Italy when it became evident that the country would be among the first-round members of the European Monetary Union (EMU). Interest rates on lira-denominated bonds declined to the level of the other qualifiers; that "free lunch" helped Italy to stimulate its growth, and thus prepared the country for further deepening of its trade integration with the rest of the EMU countries (Langhammer, 2007).

Another option that SAARC countries should consider seriously is that of using their own currencies to pay for intraregional trade. India already allows payment in rupees to its exports to countries like Nepal and Bhutan. SAARC countries may benefit from a system in which each country accepts the other country's currencies in paying for exports and imports. In such a system, if India imports from say, Bangladesh, the payment is made in terms of Indian rupees, and when India exports to Bangladesh, India gets paid through Bangladeshi Taka.

A potential problem with this approach is that each country may engage in competitive devaluation of its currency. Learning from the European experience, SAARC countries should give a reasonable band – neither too narrow nor too wide. An initial period of trial and error cannot perhaps be avoided while implementing the 'Snake in the tunnel' method to make sure that each country keeps a parity of its currency with those of the other member countries – limited flexibility that allows exchange rates move within a band (Mattli, 1999).

A third option is to follow an inflation-targeting monetary policy, with the targeted inflation rate not-to-dissimilar among the SAARC countries. Given the largely similar levels of development

among the SAARC countries, the commodity composition (and hence the weights of commodity groups in measuring inflation) is likely to be similar across the countries (Chandan, 2013). Except in rare cases, an inflation-targeting monetary policy in each of the SAARC member-countries could then lead to a largely similar monetary policy path across the subregion. Exchange rates would then move more or less in the same direction among the member-countries.

Once again, countries could join such a system of monetary policy regime at their own pace, subject to a mutually agreed timeline/deadline. Such an intraregional payment mechanism could also help countries to open up their capital accounts for intraregional capital flows – both inflows and outflows. Certainly, there will be some short-term adjustment costs that such a payments system may impose on countries. There will thus be a period of learning-by doing and doing-by-learning, while implementing such a regional exchange rate regime.

India, as the largest country in the region could help member countries foot the adjustment costs (of intervening in the foreign exchange market to sustain the inflation-targeted monetary policy path). Or else, the SAARC countries may use an existing pooled fund (or create a separate regionally pooled fund) to cushion the short-term adjustment costs of implementing such an intraregional exchange rate regime.

There certainly is a need for making the “SAARCFINANCE” much more effective in stabilizing intra-regional exchange rates. “SAARCFINANCE” – a network of Governors of Central Banks, Finance Secretaries, and Finance Ministers was established in 1998, received formal recognition in 2002 at the 11<sup>th</sup> SAARC Summit held in Nepal (Patra, 2022). It has helped to cushion some of the adverse effects of the breakout of Corona pandemic, with India extending credit lines to neighbouring countries. More recently, in 2020-21, SAARCFINANCE introduced a portal named “SAARCFINANCE SYINC” with the objective of networking among the Central Banks (Patra, 2022).

The immediate objective of SAARCFINANCE should be to stabilize intra-regional exchange rates. The process should gradually lead to the unification of the currencies into a single currency for the region over the medium term, say, by 2025-27. As India’s Reserve Bank of India’s Deputy Governor Patra very recently so aptly put it: *“SAARC has great potential for economic expansion with abundant natural resources, human capital and market access... We must rise up to this challenge and seize the window of opportunity even as we recover from the debilitating effects of the pandemic and geopolitical developments... The Roadmap of Regional Cooperation which was framed in 2016 needs to be revised to reflect the current realities and focus areas, with quantifiable milestones and timelines within the mandate of SAARCFINANCE”* (Patra, 2022).

Encouragingly, RBI remains committed to expanding cooperation in the field of digital banking and finance. Its Payment Vision 2025 envisages global outreach of its real time gross settlement (RTGS), the National Electronic Funds Transfer (NEFT), the Unified Payment Interface (UPI) and RuPay Cards. For instance, Bhutan and India have built cooperation around RuPay cards so that Bhutanese banks can issue RuPay Cards to their citizens (Patra, 2022).

## 6. Facilitate People-to-People Contact

South Asian countries were much more integrated under the British colonization era, but have disintegrated since then. People used to move around much more freely then. A complicated post-independent experience, including the wars between India and Pakistan, have perpetuated insufficient people-to-people interactions “*In South Asia, ...a conflict-ridden history has eroded trust between countries. This has given rise to negative stereotypes which are exacerbated by a lack of people-to-people contact.*” (Kathuria, 2018).

That said, SAARC countries should forgive and forget the past and revive the commonalities among the South Asian nations and people. The region would benefit substantially from a SAARC visa program. There are good models to emulate either from the European experience or nearer home from the ASEAN way. Establishing direct flights connecting each of the SAARC countries with the other should be the first step. Today, there are no flights directly connecting all the capitals/countries among the SAARC countries. This poses a major constraint on people’s movement across the member countries. There is much merit in introducing direct flights connecting each of the SAARC countries with the other, as demonstrated by how India and Sri Lanka have facilitated movement of people through establishing air connections.

This huge improvement in air-connection between India and Sri Lanka occurred as a part of the Free-Trade Agreement between India and Sri Lanka in 2000 (Kathuria, 2018). Although a SAARC Visa exemption was introduced by SAARC in 1992, the scheme has been limited to a very select category of dignitaries. Indeed, the lack of air-connection also impedes regional foreign investment, production networks, and supply chains (Kumar, 2007; Jain and Singh, 2009). It also adversely affects intraregional trade in services, tourism, education, and medical services (Neupane, 2022). Due to the huge restrictions on people movement across countries, SAARC countries cannot attract much international tourism too.

After establishing direct flights between the SAARC countries, there is much merit in introducing a SAARC Visa that can be obtained from any of the member countries of SAARC countries. By all means, keep a tight leash on security at the immigration and emigration, but give an opportunity to people to travel across the neighbouring countries. Building people-to-people contact could hugely reenergize SAARC’s integration process. International tourists would also find it interesting to visit a region that is inter-linked through a vast landscape that is home to some of the historical monuments, rich rivers, vast plains, and huge mountains.

A model of free border trade between India and Bangladesh amply demonstrates how people-to-people contacts promote better integration. All that the two governments had to allow was free trade at the land borders of the two countries. The trade began through ‘haats’ --- local border markets that allow trading among local communities on both sides of the border (Taneja, 1999; Kathuria, 2018). Not only did this allow better trade between the countries but it also reduced illegal trade between the two countries.

Moreover, it also helped develop goodwill among the peoples of the two countries. A survey conducted for the study shows that more than half the Indian respondents have a positive view of Bangladeshis, and an overwhelming proportion of Bangladeshi respondents have a positive view of Indians at the 'haats', views they attributed to their exposure to their Indian neighbours (Kathuria 2018). 'Haats' are a good example for other countries to try out. Based on more experience, it is possible to build good will among the other members of SAARC.

The South Asia Economic Students' meet, which has brought, together students from colleges and universities across the region for the last 15 years has been a laudable program. This annual students' conference allows young leaders to engage on development issues and form friendships, perhaps lifelong, without barriers (Kathuria, 2018). This could help develop people-to-people contact between the SAARC countries and help reduce the trust-deficit so badly needed among the member nations and their people.

## 7. Summing Up

Overall, reviving SAARC and its economic integration agenda has much to be desired. This paper has taken a relatively comprehensive look at the many issues that need be addressed expeditiously by the SAARC member countries.

The key findings that emerge from the analysis are: (i) SAARC is perhaps the only attempt at regional integration with more observer states than member states; (ii) it is also a regional integration project which maintains higher trade barriers among the member countries than with the rest of the world; (iii) those intraregional trade barriers – both tariff and nontariff - have risen (not fallen) over time; (iv) when tariff barriers were reduced, non-tariff barriers were raised, causing the protectionist wall among the members stay high enough to deter intraregional trade; (v) monetary integration within SAARC has been even lower than trade integration; (vi) member countries have also erected near-draconian restrictions on the movement of people across national borders.

While all these findings may discourage efforts at revitalizing SAARC, they also point to the huge unexploited potential that SAARC can utilize to benefit the region's nearly 1.7 billion people. Indeed, based on experiences elsewhere in the world, regional integration is a self-enforcing mechanism: countries that trade with each other don't go to war with each other; countries that share a common currency (or a stable intraregional exchange rates) trade more; countries that share a common currency or stable intraregional exchange rates would reduce the trust deficit with each other, and more so if the countries involved share similar cultural links too. South Asia fits this bill very well. That said, India and Pakistan will have to play a major role in reducing the 'trust deficit' and moving SAARC towards an economic union.

Reviving SAARC rather than trying to substitute it with initiatives like BIMSTEC is well worth the effort. Initiatives such as BIMSTEC, with their focus on a few projects, cannot be an alternative

to the comprehensive policy-based integration agenda enunciated in SARRC (Paul, 2020). They could, at best, assist SAARC but not replace it.

Nepal has consistently expressed its view that SAARC, which has stayed frozen for long, needs reanimation. Sri Lanka too has expressed similar views: “*We have already gone a considerable distance in building SAARC and that should be continued,*” in an interview in February 2020 (quoted in Bhatia, 2020). Soon after taking office, India’s external affairs minister, S. Jaishankar had very diplomatically cast doubts on BIMSTC, as he saw a mix of “energy, mindset, and possibility” in BIMSTEC (quoted in Bhatia, 2020).

Some believe that China’s elevation to a full-fledged member of SAARC could energize the flagging regional organization (Ahmar, 2020). There may be some merit in this suggestion. However, India has rightly rejected the demand on the ground that the existing eight members of SAARC themselves need to deepen their own integration before considering China’s upgradation to a full member. This seems to be a practical way of looking at China’s upgrade to a full membership position: not a no, but not now, when SAARC itself is struggling to complete its own internal integration. As this paper has articulated, SAARC has enough on its plate at present, and thus it should be given enough time to address its own internal challenges, before considering the upgradation of China’s membership.

Reviving the SAARC is critical for South Asian economic integration and development. As India’s Prime Minister Modi recently said: “*If the 21st century is to be the Asian century, it cannot be without greater integration among the countries of South Asia and Indian Ocean island countries.*” (Quoted in Hindustan Times, 2021). Indeed, Prime Minister Modi has exhibited a highly cooperative mindset. There is a need for moving from that very thoughtful mindset into action. Relying on this basic principle, integrating SARRC could be a critical step towards achieving the ‘universal brotherhood’ that he has professed as the theme for the ongoing G20 Meetings under India’s Presidency.

All said and done, if SAARC cannot somehow resolve the troubled conundrum of Pakistan and Afghanistan, then there is much merit in other 6 members establishing a forum on their own. This should be the very last option, though. Such a modified forum may be named South Asian Regional Integration Forum (SARIF). Much of the original SAARC objectives enunciated in the SAARC Charter could be adopted in the Charter of the new forum.

At the same time, learning from SAARC’s rather long experience since 1985, the Charter could be made more pragmatic, including either vastly trimming SAARC’s Sensitive List, or eliminating the Sensitive List. Other mutually agreed modifications could also be introduced, as needed, by the 6 members of this newly formed forum. The inclusion of the term ‘integration’ in the place of ‘cooperation’ signifies that the new forum shall aim at deeper integration among the 6 member-states and their people, rather than relying just on ‘regional cooperation’. Big changes are imminent, and one way or another, it is time for SAARC to change.

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