

## **SOUTH ASIAN UNION: DISTANT POSSIBILITY, URGENT NECESSITY**

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### **ABSTRACT**

The establishment of a South Asian Union would be a milestone in the history of Asia and is particularly pertinent in light of the current inability of the World Trading Organization to implement an equitable global trading system. This paper reviews the possibility of a South Asian Union with respect to the needs, requirements, necessary steps, anticipated obstacles and potential gains.

### **INTRODUCTION**

The South Asian region is one of the most neglected and backward regions of the Asian continent, with only Central Asia lagging behind [1]. South Asia is home to two-thirds of the world's poor with one in three surviving on less than \$1 a day (UNDP, 2003). Constituent countries, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka, manifest very different values with regard to the economic indices of population, national income and per capita income (Table I). Modern economic theory postulates that these alarming disparities might be minimized, and the fruits of development made accessible to the people of the entire region, if these economies were to integrate into a larger entity. The economic reasoning behind greater integration is allocative efficiency and economic growth, based on the belief that the potential level of welfare which can be achieved by forming an economic community is greater than the sum of the welfare levels available to countries following unilateral policies (El-Agraa 1989).

### **TABLE I**

Selected Parameters of South Asian Economies in 2004 (World Bank, 2005a)

Country	Population (million)	Total GNI (US\$ billion)	GNI Per Capita (US\$)
Bangladesh	140.49	61.23	440
Bhutan	0.89	0.68	760
India	1079.72	674.58	620
Maldives	0.30	0.75	2510
Nepal	25.19	6.54	260
Pakistan	152.06	90.66	600
Sri Lanka	19.45	19.62	1010

<b>Total</b>	<b>1418.1</b>	<b>854.06</b>	<b>-</b>
<b>Average</b>	<b>202.59</b>	<b>122.01</b>	<b>885.7</b>

South Asia's larger population, lower total Gross National Income (GNI) [2] and purchasing power as well as a high degree of disparity in per capita income, make it difficult to envision the region as emerging as an alliance at par with the European Union (EU) (Table II).

**TABLE II**

Comparison between South Asia and the European Monetary Union [3] (World Bank 2005a)

Region	Population	Percentage World Population (%)	Total GNI (US\$ billion)	GNI Per Capita (US\$)
South Asia	1,418.10	22.35	854.86	885.70
European Monetary Union	307.45	4.85	8495.01	27840.00
World	6345.13	100	39833.56	8760.00

However, South Asia has the potential and the opportunity to become a trading bloc of particular relevance in the wake of the collapse of the Cancun meeting in September 2003, the ineffective role of the World Trade Organization (WTO) in sustaining a global multilateral trading system (Iqbal, 2004), and the emergence of regionalism as a response to the aggressive free trade policies of the WTO.

Concerted effort on the part of the South Asian nations could well make a South Asian Union (SAU) a reality. The present paper explores the possibility of such a union in a changing global scenario.

### **THE IDEA OF SOUTH ASIAN UNITY**

The region now known as South Asia has been a geopolitical entity forged over millennia by the development of similar systems of socio-economic and cultural organization in closely inter-related territories and compounded, in the 19th century, by British colonial rule. The seven nation states comprising the South Asian region today, though separated by physical or political boundaries, thus share a unique political, social, ethnic, religious and linguistic heritage.

Archeological and historical studies indicate that the pre-colonial political and economic systems of South Asia involved extensive local, inter-regional and long-distance production and exchange. These configurations were supplanted by one better suited to supplying the colonial rulers with materials and labor for their industries as well as markets for their products (Morrison 1997, Maddison 1971). The colonial mode of operation has defined post-colonial political and economic society, though there is debate as to its extent – including its effect on inter-regional trade (Bose 1998, Bhattacharjea 2004).

The period after the Second World War saw many attempts at Asian Unity, including the landmark 1947 Asian Relations Conference in Delhi, which focused on the impact of the countries emerging out of colonialism on the international stage [4]. Though the inherent concept of inter-regional cooperation remained, the idea of Pan-Asianism died with tension between nations, particularly India and China, as well as with the rise of individual economies, such as that of Japan.

It is not surprising, then, that security and economic issues arising from, among others, the Soviet invasion of Afghanistan in 1979, the management of water resources and the balance of payments crisis, were major incentives to the formation of The South Asian Association for Regional Cooperation (SAARC) in 1985 [5], which was based on the success of similar regional groupings elsewhere with concerted action in international representation. The 10th SAARC Summit saw a report by a Group of Eminent Persons (EPG) titled "SAARC: Vision Beyond the Year 2000" envisaging a Free Trade Area by the year 2010, a Customs Union by 2015 and an Economic Union by 2020. However, the process was hampered by regional tensions. At the 11th summit in January 2002, SAARC restated their commitment to a vision of a South Asian Economic Union (SAEU). The Agreement on South Asian Free Trade Area (SAFTA) signed during the 12th summit in January 2004 and due to enter into force from January 2006 [6], is a reiteration of that commitment and a step towards the evolution of a South Asian regional trade bloc. Nevertheless, the particular circumstances besieging SAARC have to be overcome before a South Asian Union can be even partially realized.

## **STEPS TO UNIFICATION**

Ideas on unification mostly revolve around the reality of the EU, the most advanced model of regional integration to date. It is also the largest trading bloc in the world with far reaching implications and consequences for the existing global multilateral trading system. The intention is that South Asia, by following similar patterns of development towards a SAU, would also have parallel impacts on existing the global economy in general and the Asian trading system in particular.

If South Asia were to pursue a EU model of integration, then successive phases would progress from a Sectoral Trade Agreement through a Free Trade Area (FTA), a Customs Union (CU), a Common Market (CM) to an Economic and Monetary Union (EMU) and a Common Parliament [7]. As a FTA is in process, working towards the latter five stages in South Asia would mean free trade, open borders, a common currency, and a common assembly. Establishing these basic requirements are formidable tasks and require a great degree of will, effort and patience on the part of the region's leadership. The EU took more than 40 years to come into effect. The proposed progression for the establishment of a SAU is therefore logical and realizable.

## **FREE TRADE AREA**

One of the most pressing needs for the creation of a SAU is the establishment of a Free Trade Area (FTA) entailing the removal of tariff barriers and quotas. All South Asian countries (with the exception of Sri Lanka) have maintained high levels of protection, resulting in dismally low intra-regional trade (4% of the share of South Asia's total imports) [8]. An attempt dealing with tariff barriers was made with the 1995 SAARC Preferential Trading Arrangement (SAPTA), a multilateral framework that set preferential terms for all traded goods within the region through the stepwise exchange of concessions. It was seen as a precursor to the South Asia Free Trade Area (SAFTA), an agreement which requires the more developed countries of the region, India, Pakistan and Sri Lanka to reduce customs duty on the trade of almost all products in the region by 2013; the less developed nations, Bangladesh, Bhutan, Maldives and Nepal have until 2017. This would be a real breakthrough in enhancing the existing volume of inter-SAARC trade from US \$ 7 billion to US \$ 15 billion, resulting in three benefits for the region. First, a higher volume of trade could be possible. Second, South Asia would become more competitive with an increasing

attractiveness to foreign investors. Third, it would accelerate the pace of economic growth in the region, translating into higher national income and higher purchasing power in terms of per capita income.

## **CUSTOM UNION**

The second important requirement is establishing a Custom Union, which is in essence, a FTA with a common external tariff whereby the free movement of goods within the region is facilitated; products entering the customs union from nonmember states have restrictions. The EU model predicts that it would occur at least another ten years after the establishment of a genuine SAFTA (ie. in 2027). To this end, a customs action plan was set up in 1997 by a SAARC working group on customs cooperation which inter-alia decided to harmonize customs rules and regulations, simplify procedures for intra-regional exports; upgrade infra-structural facilities and provide training facilities.

## **COMMON MARKET**

The third phase in regional integration is the creation of a Common Market, which is in effect a customs union extended to include the free movement of the factors of production, free movement of labor/people, and the free movement of capital. It would provide a basis for free movement of technology, managerial skills, and innovative marketing techniques across the border of member countries. This stage is probably the most difficult, involving a large measure of trust and shared decision making.

The EU began by integrating the coal and steel industries of Western Europe. South Asian economies could begin with a similarly critical industry: A Common Energy Market (CEM) which exploits the full potential of supply of low cost hydel power and other energies in the region. A CEM can also lend geo-political stability to the region. The EU model allows almost 20 years for full implementation (with work yet to be done in some areas) – which would mean around 2047 for South Asia.

## **ECONOMIC UNION**

In the fourth phase, the Common Market can be extended to encompass a common exchange rate policy and eventually a common currency underwritten by coordination of macro-economic management across the region, thus forming an Economic Union. The flow of goods and services among the member nation would truly be possible. Eventually, a Central Bank could be founded. If South Asia were to follow the EU model, a full economic union with a singular currency could be realized as early as 2059.

## **POLITICAL UNION**

In recognition that regional integration is not limited to economic unity alone, a political union or Common Parliament (CP) would need to be accommodated so as to harmonize security and foreign policy. In the EU model, a common assembly was constructed during the progression through the other stages, starting as an appointed body soon after the launching of the FTA and taking 20 years to transform into an elected common parliament. The SAU would be again be looking at 2027 as a significant date, this time for political unity.

These requirements for forming a SAU are both opportunities and challenges for the seven nations of the South Asian region. This would depend on an infusion of political will on the part of the leaders of the seven countries with regard to regional integration.

## CHALLENGES AND OPPORTUNITIES

There are many obstacles and attendant fears, as well as anticipated gains, associated with the eventual realization of a SAU. The three basic impediments to SAARC progress are a deficiency in political will, institutional weakness and the lack of a financial mechanism.

The countries of South Asia are diverse politically, ranging from established democracies, through quasi-military regimes to absolute monarchies. This means that nations with politically incompatible ideologies will have to compromise and find shared political and economic goals. South Asian states have taken long to overcome their mutual suspicion and to relate to one another as a group. There is an asymmetry between India (76% of the total population and 77% of the regional GNP) and its neighbors, intensified by its geographical location at the center of the region, in which countries have no common frontiers except with India. It would be very much in India's interests to sustain a viable South Asian Free Trade Area and thus make it an engine of economic growth for the region. While SAARC cannot succeed without India, the other States must help India to participate wholeheartedly.

Geopolitical tension between Pakistan and India, mainly over Kashmir, has further complicated regional co-operation, as have domestic conflicts, such as that in Sri Lanka. There are fears that terrorism and illegal immigration will go unchecked in a South Asia without internal borders. SAARC countries also worry that economic cooperation might destroy their own domestic economies. According to the SAARC charter, areas of disagreement as well as multilateral approaches to bilateral issues, have been left strictly outside the mainstream of the SAARC process, thus reducing its scope in grappling with such concerns. It has been suggested that because of the slowness of the process of unanimity, SAARC countries should enter into bilateral free trade and other agreements without waiting for SAFTA to materialize fully [9]. Bilateral and regional arrangements are not mutually exclusive, and concentric regional groupings are becoming a common feature of international life.

Exporters in SAARC countries may require financial assistance to overcome resource constraints. To reduce dependence on external financial aid, clearing and payments arrangements and the promotion of mutually advantageous counter trade would be required. However, the common currency that such a process would need, demands strict fiscal controls and extensive monetary cooperation, which the region is still far from having.

Removal of travel restrictions would also have an impact that would outweigh the negative factors involved in a visa-free South Asia. The expense of maintaining security forces at the border can be reduced and these financial resources utilized for economic and social development. The region has a great potential in terms of knowledge capital, natural resources and rich cultural heritage, which could be employed to transform it into an economic powerhouse when there is movement of free trade and people and promotion of cultural exchange and tourism, which in turn could create the jobs needed to alleviate chronic problems of poverty, inequality and discrimination.

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## NOTES

1. The common modern definition of Central Asia, as declared by the leaders of the five former Soviet Central Asian Republics at Tashkent in the 1990s, includes Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan (Wikipedia, n.d).
2. The World Bank's official estimates of the size of economies are based on Gross National Income (GNI) converted to current U.S. dollars using the Atlas method. GNI takes into account all production in the domestic economy (i.e., GDP) plus the net flows of factor income (such as rents, profits, and labor income) from abroad. The Atlas method smoothes exchange rate fluctuations

- by using a three year moving average, price-adjusted conversion factor (World Bank, 2005b).
3. The European Economic and Monetary Union (EMU) consists of three stages of coordinating economic policy and culminating with the adoption of the euro, the EU's single currency. All member states of the European Union participate in the EMU. Twelve member states of the European Union have entered the third stage and have adopted the euro as their currency (Wikipedia, n.d.b).
  4. Asian Relations: Report of the Proceedings and Documentation of the First Asian Relations Conference New Delhi, March April, 1947. Reprint. Authors Press. Delhi, 2003. pp362.
  5. For a fuller discussion of the founding of SAARC, see Dash, K.C. (1996). The Political Economy of Regional Cooperation in South Asia. Pacific Affairs, Vol. 69: 2.
  6. Information on SAARC, including charters and declarations, is available on the South Asian Association for Regional Cooperation website: <http://www.saarc-sec.org/main.php>
  7. These phases would be equivalent to: the European Coal and Steel Community (1951), The European Economic Community (1957), European Community (1967), Single European Act (1986), European Union (1992-2002). The European Parliament was established as an appointed body in 1958 and transformed into an assembly elected by direct universal suffrage in 1978. For charters and agreements see Europa: Treaties and law ([http://www.europa.eu.int/abc/treaties/index\\_en.htm](http://www.europa.eu.int/abc/treaties/index_en.htm)), and The European Parliament: historical background ([http://www.europarl.eu.int/facts/1\\_3\\_1\\_en.htm](http://www.europarl.eu.int/facts/1_3_1_en.htm)).
  8. Compare with the intra-bloc trade figures of 37 % for NAFTA (North Atlantic Free Trade Area), 63% for EU (European Union), and 38 % ASEAN (Association of South East Asian Nations). From: International Monetary Fund, Direction of Trade Statistics Yearbook, 2002.
  9. Faleiro, E., Asia Times, March 4, 2004.

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Any "Asian Union" involving China would immediately be seen as a Chinese club, unless it included India, whereupon it'd become a Chinese and Indian club. But population can be worked around, to a certain degree. Give the smaller states more representation per person and give the larger ones less per person (much like how the European Parliament works) and it balances somewhat. Any attempt at an Asian Union would have to work through these issues, and that's an unlikely thing to happen. The EU itself isn't doing so well right now. The Greek debt crisis was just once facet of it ( short explanation. 49. South Asian Union: Distant Possibility, Urgent Necessity; SARID Journal; USA; Issue II; October 2005. 50. World Trade: Hong Kong WTO Meet; The World Trade Review; Islamabad; Pakistan; December 1, 2005 51. India's External Debt; The World Trade Review; Islamabad; Pakistan; Feb 1-15, 2006. Southeast Asia is quickly emerging as the Asian epicenter of the United States-China great power competition. At the same time, several other outside players are also competing there, including Japan, India and Europe. All of these players' approaches to the region will determine its geostrategic disposition and thereby the future of the broader Indo-Pacific order. Maintaining strategic influence in the region was a distant priority. That has changed. First, in addition to its regular operations in the South China Sea, the Trump administration has conducted at least 19 Freedom of Navigation Operations (FONOPS) in the South China Sea. That is several times more than the Obama administration carried out in its full two terms.