7th SAES
SOUTH ASIA ECONOMIC SUMMIT
5-7 November 2014, New Delhi, India

Towards South Asia Economic Union

RIS
Research and Information System
for Developing Countries

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Proceedings of the 7th South Asia Economic Summit (SAES)

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Foreword

Ambassador Shyam Saran

Chairman
Research and Information System for Developing Countries (RIS)

Research and Information System for Developing Countries (RIS) in association with the Institute for Policy Studies (IPS), Colombo; the Sustainable Development Policy Institute (SDPI), Islamabad; the South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu; the South Asia Centre for Policy Studies (SACEPS), Kathmandu; and the Centre for Policy Dialogue (CPD), Dhaka, with support of the Ministry of External Affairs (MEA), Government of India; the World Bank; the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP); and the Confederation of Indian Industry (CII), organised the 7th South Asia Economic Summit (SAES), in New Delhi on 5-7 November 2014. The Summit was inaugurated by Hon'ble Vice President, Shri Hamid Ansari.

The theme of the 7th SAES was "Towards South Asia Economic Union". Several eminent scholars from India and abroad presented research papers at this Summit, and discussed a number of key issues that are relevant from the point of view of deepening South Asian integration. What emerges out of the deliberations is that the creation of South Asian Economic Union (SAEU) would prove to be a milestone in the regional cooperation efforts. The selected papers of the Summit are now presented in a single volume which will become a valuable reference for scholars and researchers as well. The papers of this volume also provide important policy lessons.

I gratefully acknowledge the efforts and contributions of RIS faculty and administration in organising the 7th SAES. I would like to record my appreciation of the efforts that have been put by my senior colleague, Prof. Prabir De and his team, in putting together this volume. I wish to thank my colleagues at RIS including Dr. V.S. Seshadri, Vice-Chairman and the Director General, Prof. Sachin Chaturvedi, for their constant support and cooperation. The SAES has provided us new ideas and suggestions in deepening the South Asian integration. I am certain that the Proceedings of the Summit will be welcomed by all those who have an interest in the regional cooperation and integration.

New Delhi
December 2015

Shyam Saran

Shyam Saran

Preface

Prof. Sachin Chaturvedi
Director General
Research and Information System for Developing Countries (RIS)

RIS has made pioneering contribution to the South Asia integration process. There are several important Studies that have been conducted by RIS independently and at the regional level and also in collaboration with other institutions which have fed into policies undertaken by the respective countries in South Asia. RIS recently brought out its flagship publication "South Asia Development and Cooperation Report (SADCR) 2015" focusing on the theme "Economic Integration for Peace-Creating Prosperity". The SADCR argues that prosperity achieved through economic integration could prove to be "peace-creating".

Presently, the challenges before the South Asian countries are to identify the ways and means of achieving regional integration on a fast track basis. Our move from SAPTA to SAFTA and now the proposal for South Asia Economic Union is a pragmatic move towards the next stage of cooperation. South Asian countries need to move further from trade liberalization measures alone to regional investment cooperation strategy, production integration, and technology cooperation. In the economic union and common market, macro-economic coordination also assumes greater significance.

South Asia Economic Union is going to happen, and shall take its own course. There are definite advantages of moving towards an economic union, but the roadmap has to be well thought out and a strategy has to be in place, which is ambitious but realistic. However, as the deliberations of the 7th SAES indicated, the level of cooperation between the countries would determine the possibility of South Asia community and economic union.

Research and Information System for Developing Countries (RIS) organised the 7th South Asia Economic Summit (SAES) at New Delhi on 5-7 November 2014. The Summit was organised in association with the Institute for Policy Studies (IPS), Colombo; the Sustainable Development Policy Institute (SDPI), Islamabad; the South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu; the South Asia Centre for Policy Studies (SACEPS), Kathmandu; and the Centre for Policy Dialogue (CPD), Dhaka, with support of the Ministry of External Affairs (MEA), Government of India; the World Bank; the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP); and the Confederation of Indian Industry (CII). The theme of the 7th SAES was "Towards South Asia Economic Union". The Summit was inaugurated by the Hon'ble Vice President of India and his speech had set the tone for the 7th SAES.

Several scholars from South Asian countries presented their papers at this Summit. The selected papers of the Summit are now presented in the form of Proceedings. I gratefully acknowledge the efforts and contributions of RIS faculty and administration in organizing the 7th SAES.

I wish to thank RIS Chairman, Ambassador Shyam Saran for his guidance and support. I would also like to thank Dr. Ajay M. Gondane, Additional Secretary, MEA for the support and encouragement that he very kindly extended. My colleague Prof. Prabir De played an important role in organizing the SAES and this publication. We also thank Mr. M.C. Arora, Director (F&A) and Mr. Tish Malhotra of the RIS Publication Unit for arranging the printing of the volume well in time.

I am sure that the Proceedings of the 7th SAES will be a valuable resource to the scholars, practitioners and business community.

Chaturvedi

December 2015

Sachin Chaturvedi

Acknowledgements

The Proceedings of the 7th South Asia Economic Summit (SAES) 2014 on "Towards South Asia Economic Union" has been edited by Prof. Prabir De, Research and Information System for Developing Countries (RIS), who had also coordinated the 7th SAES under the overall guidance of Ambassador Shyam Saran, Chairman, RIS. Editorial assistance has been received from Ms. Sreya Pan, Research Associate, RIS.

RIS faculty and administration extended great support in organizing the 7th SAES. We are grateful to Ambassador Shyam Saran, Chairman, RIS; Ambassador V.S. Seshadri, Vice Chairman, RIS; and Prof. Sachin Chaturvedi, Director General, RIS for their guidance and encouragement. We are equally thankful to Prof. S K Mohanty and Prof. Ram Updendra Das for their valuable contributions. We are grateful to the Ministry of External Affairs (MEA), Government of India; the World Bank; the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP); and the Confederation of Indian Industry (CII) for their generous support. We are thankful to the co-organizers of the 7th SAES, namely, the Institute for Policy Studies (IPS), Colombo; the Sustainable Development Policy Institute (SDPI), Islamabad; the South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu; the South Asia Centre for Policy Studies (SACEPS), Kathmandu; and the Centre for Policy Dialogue (CPD), Dhaka; for their cooperation. The Summit benefitted from discussions with Prof. Muchkund Dubey, Chairman, Council of Social Development (CSD), New Delhi; Prof. Rehman Sobhan, Chairman, Centre for Policy Dialogue (CPD), Dhaka; Dr Nagesh Kumar, Head, UNESCAP-SSWA, New Delhi; and Amb. A. M. Gondane, Additional Secretary, Ministry of External Affairs (MEA).

The 7th SAES has seen a very high level participation including serving ministers, parliamentarians and academics from the region. We are grateful to Hon'ble M. Hamid Ansari, Vice-President of India, for inaugurating the 7th SAES. We are also thankful to Hon'ble Mohammad Mustafa Mastoor, Deputy Minister for Finance, Afghanistan; Hon'ble Gowher Rizvi, Adviser for International Affairs to the Prime Minister of Bangladesh, Bangladesh; Hon'ble Lyonpo Namgay Dorji, Finance Minister, Bhutan; Hon'ble Ram Sharan Mahat, Finance Minister, Nepal; and Hon'ble Sarath Amunugama, International Monetary Cooperation Minister, Sri Lanka their participations and delivering of addresses at the Summit. Amb. Shafqat Kakakhel, Chairman, Sustainable Development Policy Institute (SDPI), Islamabad extended valuable guidance.

Dr. Posh Raj Pandey, President, South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu; Dr Abid Suleri, Executive Director, Sustainable Development Policy Institute (SDPI), Islamabad; Dr. Saman

Kelegama, Executive Director, Institute of Policy Studies of Sri Lanka (IPS), Colombo; Mr. Pranav Kumar, CII; Dr. Sanjay Kathuria, Dr Martin Rama, and Ms Mohini Dutt, all from the World Bank, shared major responsibilities in organizing the 7th SAES. Senior Directors of the SAARC Secretariat and BIMSTEC Secretary General, H.E. Sumith Nakandala took part in the Summit. Besides, former Secretary General of SAARC Secretariat also addressed the Summit.

Dr. Beena Pandey, Dr. Sabyasachi Saha, Dr. Priyadarshi Dash, Dr. Akhilesh Sharma, Ms. Shelly Gupta, Ms. Aastha Gupta, Ms. Aditi Jha, Ms. Gamika Takkar, Ms. Nitya Batra, Ms. Payel Chatterjee, Ms. Sreya Pan, Ms. Surabhi Agarwal and Ms. Vrinda Seksaria. Mr. Amit Kumar, Mr. Jaydev Dubey, Mr. Manmeet Ajmani, Mr. Monu Singh Rathore, Mr. Pratyush, Mr. Santosh Das, Mr. Sunando Basu and Mr. Sushil Kumar contributed as rapporteurs. We acknowledge the support extended by Mr. M C Arora, Director (F&A), RIS and his team in organising the event. We are grateful Ms Kiran Wagh and Ms Anu Bisht for their administrative assistance.

We gratefully acknowledge the cooperation received from the Indian Council for Cultural Relations (ICCR) in organising the cultural programme. In particular, we are grateful to Pandit Prateek Chaudhuri and his team for presenting a wonderful cultural programme on the first day of the Summit.

Views expressed in the Proceedings are those of the participants of the Summit and not the views of the Governments of India and other South Asian countries, RIS, the World Bank, UNESCAP and CII. Usual disclaimers apply.

Prof. Prabir De
Coordinator, 7th SAES &
Editor of the Proceedings

List of Abbreviations

ACH	Automatic Clearing House
ABMI	Asian Bond Market Initiative
ACIA	ASEAN Comprehensive Investment Agreement
ACU	Asian Clearing Union
ACH	Automatic Clearing House
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AE	Advanced Economy
AH	Asian Highway
AIIB	Asian Infrastructure Investment Bank
AMU	Asian Monetary Unit
APTA	Asia-Pacific Trade Agreement
ASA	Air Services Agreement
ASEAN	Association of Southeast Asian Nations
BASA	Bilateral Air Services Agreement
BCIM	Bangladesh China India Myanmar
BIAC	Brandix India Apparel City
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BIS	Bank for International Settlements
BIT	Bilateral Investment Treaty
CEPA	Comprehensive Economic Partnership Agreement
CII	Confederation of Indian Industry
CLMV	Cambodia, Lao PDR, Myanmar and Vietnam
CMA	Common Monetary Area
CPD	Centre for Policy Dialogue
CUTS	Consumer Unity & Trust Society
ECO	Economic Cooperation Organization
ECOTA	Economic Cooperation Organization Trade Agreement
EIA	Economic Integration Agreement
EIIA	Economic Integration Investment Agreement
EM	Emerging Market
ESCM	Electronic Supply Chain Management
EU	European Union
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services

GDP	Gross Domestic Product
GEL	General Exclusion List
GEP	Group of Eminent Persons
GFC	Global Financial Crisis
GST	Goods and Services Tax
GTAP	Global Trade Analysis Project
GVC	Global Value Chain
ICP	Integrated Check Post
ICT	Intra-corporate Transferee
ICWA	Indian Council of World Affairs
IFPRI	International Food Policy Research Institute
IGIDR	Indira Gandhi Institute of Development Research
IIA	International Investment Agreement
IIDS	Institute for Integrated Development Studies
IIFT	Indian Institute of Foreign Trade
IIM	Indian Institute of Management
IMF	International Monetary Fund
IOC	Indian Oil Corporation
IPS	Institute of Policy Studies of Sri Lanka
ISID	Investor-State Dispute Settlement
IT	Information Technology
ITI	Istanbul-Tehran-Islamabad
ITI–DKD-Y	Istanbul–Tehran–Islamabad–Delhi–Kolkata–Dhaka--Yangon
JNU	Jawaharlal Nehru University
KYC	Know-your-customer
LCS	Land Customs Station
LDC	Least Developing Country
LNG	Liquefied Natural Gas
LPAI	Land Ports Authority of India
LPI	Logistics Performance Index
MDG	Millennium Development Goal
MEA	Ministry of External Affairs
MIGA	Multilateral Investment Guarantee Agency
MNE	Multinational Enterprise
MoCI	Ministry of Commerce & Industry
MOU	Memorandum of Understanding
MRA	Mutual Recognition Agreement
NAFTA	North American Free Trade Agreement
NEFT	National Electronic Fund Transfer
NPC	National Planning Commission
NSAB	National Security Advisory Board
NTB	Non-Tariff Barrier

NTM	Non-Tariff Measure
OCP	Origin Certification Procedures
OECD	Organisation for Economic Co-operation and Development
OFDI	Outward Foreign Direct Investment
OWG	Open Working Group
PITD	Pakistan Institute of Trade and Development
PPP	Purchasing Power Parity
PTA	Preferential Trade Agreement
PvP	Payment versus Payment
R&D	Research and Development
RBI	Reserve Bank of India
RCA	Revealed Comparative Advantage
REPSS	Regional Payment and Settlement System
RIA	Regional Investment Agreement
RIS	Research and Information System for Developing Countries
RoO	Rules of Origin
RTGS	Real Time Gross Settlement
RVC	Regional Value Chain
S&DT	Special and Differential Treatment
SAARC	South Asian Association for Regional Cooperation
SACEPS	South Asia Centre for Policy Studies
SACU	South Asian Customs Union
SADC	Southern African Development Community
SAES	South Asia Economic Summit
SAEU	South Asia Economic Union
SAFTA	South Asian Free Trade Area
SANEM	South Asian Network on Economic Modelling
SAPTA	South Asian Preferential Trading Arrangement
SARCO	South Asian Association for Regional Cooperation Arbitration Council
SARSO	South Asia Regional Standards Organization
SATIS	South Asian Agreement on Trade in Services
SAWTEE	South Asia Watch on Trade, Economics and Environment
SCRLC	Supply Chain Risk Leadership Council
SDF	SAARC Development Fund
SDG	Sustainable Development Goal
SDPI	Sustainable Development Policy Institute
SDR	Special Drawing Right
SEPA	Single Euro Payments Area
SL	Sensitive List
SME	Small and Medium Enterprise
SPC	SAARC Payment Council
SPI	SAARC Payment Initiative

SPS	Sanitary and Phytosanitary
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TAR	Trans-Asian Railway
TBT	Technical Barriers to Trade
TEL	Temporary Exclusion List
TIPI–BM	Turkey–Iran (Islamic Republic of)–Pakistan–India–Bangladesh–Myanmar
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
WTO	World Trade Organization

Part I

Summary and Recommendations

Background

1. Research and Information System for Developing Countries (RIS) organized the 7th South Asia Economic Summit (SAES) at New Delhi on 5 - 7 November 2014. The Ministry of External Affairs (MEA), Government of India provided the major financial support. Additional resources were received from the World Bank, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), and the Confederation of Indian Industry (CII). The co-organizers of the event were the Institute for Policy Studies (IPS) of Sri Lanka, Colombo; the Sustainable Development Policy Institute (SDPI), Islamabad; the South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu; the South Asia Centre for Policy Studies (SACEPS), Kathmandu; and the Centre for Policy Dialogue (CPD), Dhaka. Representatives from several Indian, regional and international organizations also participated the 7th SAES.
2. The 7th SAES has seen a very high level participation including serving ministers, parliamentarians and academics from the region. The event was inaugurated by Hon'ble M. Hamid Ansari, Vice-President of India. Besides, Hon'ble Mohammad Mustafa Mastoor, Deputy Minister for Finance, Afghanistan; Hon'ble Gowher Rizvi, Adviser for International Affairs to the Prime Minister of Bangladesh, Bangladesh; Hon'ble Lyonpo Namgay Dorji, Finance Minister, Bhutan; Hon'ble Ram Sharan Mahat, Finance Minister, Nepal; and Hon'ble Sarath Amunugama, International Monetary Cooperation Minister, Sri Lanka addressed the 7th SAES.
3. The 7th SAES was organized under the leadership of Ambassador Shyam Saran, Chairman, RIS. Prof. Rehman Sobhan, Chairman, Centre for Policy Dialogue (CPD), Dhaka; Prof. Muchkund Dubey, Chairman, Council of Social Development (CSD), New Delhi; Prof. Sachin Chaturvedi, Director General, RIS, New Delhi; Dr. Posh Raj Pandey, President, South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu; Ambassador Shafqat Kakakhel, Chairman, Sustainable Development Policy Institute (SDPI), Islamabad; Dr. Saman Kelegama, Executive Director, Institute of Policy Studies of Sri Lanka(IPS), Colombo shared the major responsibilities in organizing the 7th SAES. Senior Directors of the SAARC Secretariat and BIMSTEC Secretary General took active part in the Summit. Besides, former Secretary General of SAARC Secretariat also addressed the Summit. The entire event was coordinated by Prof. Prabir De, RIS, New Delhi with support of RIS faculty and administration

4. The leaders of SAARC countries have been continuously emphasising the importance of enhancing economic cooperation for regional integration. At the 17th SAARC Summit, held at Maldives in 2011, South Asian leaders spoke about the need to work on a vision for future development of South Asia, including the goal and elements of a South Asia Economic Union (SAEU). Therefore, the theme of the 7th SAES - "Towards South Asia Economic Union", was selected unanimously. There were seven plenary and ten parallel sessions at the 7th SAES. A number of lead papers were presented including South Asia Economic Union, South Asia Connectivity, Regional Value Chains, Investment Cooperation, Food Security and Post-2015 Development Agenda. A number of reports and books relating to South Asian cooperation were also released at the Summit. Over 200 people attended the Summit and 114 presentations were made.
5. As declared at the 7th SAES, the following recommendations were prepared for consideration of the SAARC Council of Ministers, the meeting of which was held before the 18th SAARC Summit, on 26-27 November 2014 at Kathmandu.

General Observations

- The overall objective of the South Asia Economic Union is to ensure the transformation of South Asia into a peaceful, stable, and prosperous region. South Asian countries must consider the mutual benefits that could be derived from greater economic integration and thereby contribute to the furtherance of their common developmental agenda. They should, therefore, collectively address the challenges that confront them in the process of regional integration.
- Our survival depends on the cooperation. Creation of the South Asia Economic Union would prove to be a milestone in regional cooperation efforts. Most regions in the world are moving towards greater economic integration, while South Asia lags behind. The logic of economic union lies in re-distribution of common and shared resources within the region in the most efficient and effective manner. Economic union enhances manifold the bargaining power of member countries in the global arena and helps in realising the full potential of trade complementarities. There are definite advantages of moving towards an economic union but the roadmap has to be well thought out and an appropriate strategy has to be in place, which is ambitious but realistic.
- Regional disparity needs to be accounted for. Interests of the smaller countries in the region should be taken care of. ASEAN is a better model, where stronger partners take care of weaker ones.
- South Asian countries should prepare a roadmap towards Economic Union, which has been strongly recommended by the SAARC Eminent

Persons Group (EPG) before. South Asia has ample scope to learn lessons from the European Union (EU), while moving towards the SAEU. The EU was the first effective customs union way back in 1960s. South Asian countries may consider to undertake concrete collaborative research on economic union with EU as a reference point.

- South Asian countries need to work more closely on climate change and environmental issues since all the South Asian countries have monsoon dependent livelihood, where precipitation varies in terms of quantum, timing and places.
- South Asian countries have to undertake a stronger resolution to stop inter-state terrorism in the region.
- South Asian countries may constitute an independent panel for monitoring the SAARC progress.
- FTA can be less effective in setting up institutions required for the Economic Union. A stronger institution is must in order to achieve substantial progress in SAEU.
- Active political leadership is required to realize the objective of regional economic integration in South Asia.

South Asia Economic Union

- The lead presentation at the 2nd Plenary Session has indicated that the South Asia region may confront welfare loss in context of SAEU due to high trade costs. Computable General Equilibrium (CGE) simulations presented at the Summit have indicated that the South Asia region is yet to be ready for an Economic Union. However, South Asian countries may work closely to adopt a common external tariff (custom union) in due course of time. What is needed is to undertake major actions for harmonization of economic policies in the region.
- India has offered Duty Free Quota Free (DFQF) market access to South Asian neighbours. Ideal tariff regime is still an ambition. South Asian countries should remove all tariff barriers, and rationalize NTMs in order to facilitate trade and regional value chains.

South Asia Connectivity

- Priority in South Asia connectivity would be to undertake investment in regional infrastructure, especially transport connectivity that would facilitate ease of travel and trade.
- South Asian countries need to remove all obstacles along the transport corridors. Backend infrastructure is needed for improvement of border infrastructure. Border areas can be converted into manufacturing zones, if we provide adequate infrastructure support and security.

- Steps like common transport policy, recognizing driving license, building border infrastructure, developing soft infrastructure, etc. should be taken in order to facilitate trade in the region.
- South Asian countries may agree to single stop border point, which will help facilitate trade and regional value chains.
- Immediate need of investment in border infrastructure can be tackled with improvements in trust building measures – allowing trucks to move into each other's territory up to custom points and/or importers' warehouse.

Investment Cooperation

- FDI has more symbolism than trade, and deserves to be encouraged. Governments in South Asia should proactively support investments, especially of flagship investors. Bilateral investment within the region must be facilitated. This will help to bring in other investors through the "late-mover advantage".
- South Asian policy vs. reality is very different in FDI. Bridging that gap will take time and so also bringing in ASEAN type comprehensive investment agreement. There is no doubt that investments will help narrow the trade gap.
- In order to streamline regulations relating to cross-border investments, focused sector/investor approach can also be considered.
- Investment is also crucial for regional value chain. There are intra-regional differences in investment regimes in South Asia. Governments should proactively support investments in the region.
- Investment climate can be improved by ensuring steady progress on other fronts including granting of MFN status by Pakistan to India, harmonization of visa procedures by the South Asian countries, and generating trust through active participation in composite political dialogue processes.

Regional Value Chains

- Value chains are the future for South Asia. There are some preconditions. For example, South Asian countries should have adequate infrastructure for export-oriented industries. After some time, South Asian countries have to remove obstacles in terms of differentiated tariffs and NTBs.
- Mapping of resources, institutions, market access, skills, and potential of traditional industries would help the region in framing a strategy to promote the regional value chains.
- Industrialization promotes value chain, and manufacturing value chain could have regional character. Countries encourage manufacturing activities with regional sources of resources and sale of final products.

- Value added services such as single permit, domestic branding, mutual recognition of degrees, etc. are needed to facilitate regional value chains in South Asia.

Food Security

- South Asian countries shall promote regional trade in food (from surplus to deficit regions). Regional cooperation in exchange of knowledge and technologies in food security is very important. Countries shall cooperate in weather forecasting, early warning system, etc.
- South Asian countries shall undertake mutual resource management for food security. National government shall take lead responsibility, whereas regional initiative may complement it. Sri Lanka, Bangladesh, Nepal have already started commodity exchange programme, and India has to collaborate with it.
- South Asian countries shall aim for SAARC food security standard and work closely for management food wastage and distribution losses. Empowering women can address the problem of food security in the region.
- Addressing the challenges of food security requires a multi-dimensional approach that includes policies for increasing agriculture production, promoting trade in agricultural commodities, ensuring fair return to investments in agriculture, mitigating climate change risks, activating targeted public distribution systems, strengthening regional initiatives like SAARC Food Bank, SAARC Seed Bank, SAARC Milk Grid, etc.

Post-2015 Agenda

- South Asia is on track for three, and an early achiever for five of MDGs. But, the progresses of most of the indicators are slow (10 out of selected 18 indicators). The outcome document of the 2012 Rio+20 Conference on Sustainable Development initiated a process to develop a set of sustainable development goals.
- Post-2015 process is currently at a transitional phase. The discussions of the implementation issues (finance and non-finance) are gathering momentum. Inter-governmental negotiation process will be soon launched.
- South Asian countries shall accept the resolution that no one will be left behind in the region. Therefore, countries in the region shall take action to eliminate poverty and reduce all forms of inequality and discrimination.
- South Asian countries shall generate productive capacity for the decent job and sustainable income. Countries have to build a peaceful and inclusive society with enhance accountability and voice.

- As per the third SAARC Ministerial Meeting on Poverty Alleviation (held on 4-5 April, 2013), the first cycle of SAARC Development Goals will be extended from 2012 till 2015, which would coincide with the completion of MDGs in 2015. SAARC may build on its work on the SAARC Development Goals and work on the new post-2015 goals, customised for South Asian countries. To support implementation at regional level, South Asian countries may use and better align its existing mechanisms with the post-2015 Development Goals.

Macroeconomic Challenges

- Macroeconomic challenges are very high in the region. High inflation, unemployment (youth unemployment), etc. are common. High budget deficit is due to lower tax to GDP ratio. Revenue generation is low because of low investment, high subsidy expenditure and institutional reforms. Therefore, efficiency and distributional aspects are to be taken into account.
- Macroeconomic performance of South Asian countries can be improved by taking two aspects into consideration: (i) reviving business cycle, improving infrastructure and investment scenario, increasing social sector spending, tackling energy shortage, improving tax-GDP ratio by improving tax structure and domestic resource mobilization; and (ii) inflation moderating.
- Fiscal policies such as pump priming, fiscal expenditure and investment in infrastructure are needed. Monetary approach to inflation target will not work since mechanism linkages are missing.
- Market driven exchange rate and SWAP facilities are needed. South Asia needs exchange rate policy coordination.
- Finally, regulatory and institutional reforms are essential in the region

Non-Tariff Measures (NTMs)

- Strong political commitment and top level support are essential to meet the goals on standards and technical regulations. The way forward for SAARC is to make duties in SAFTA zero, formulate a custom union by ways of harmonisation of duties and solving issues related to SPS and TBT, and, finally, aim for an economic union.
- Transparency of information related to NTMs is must. There is a lack of information on NTBs that leads to lack of predictability. There is lack of information on corrective measures, taken up by the members of the region, which leads to continued talks on NTBs. At the same time, adequate notification on corrective measures is needed, which will help us to tackle NTMs appropriately. The solution could be to establish a regional monitoring mechanism in South Asia. SAARC should make available

the required documents on website for the information and wider use of public.

- There is also a need to address the existing gaps in operationalization of MRAs and gaps in communication channels and institutional mechanisms in order to address the issue of lack of adequate information on NTBs.
- SAFTA does not have a proper mechanism to address NTBs, which calls for a need of "Working Group" in this regard. There is absence of any mechanism for regular dialogue on NTB, where organizations, for instance, SAARC Chambers of Commerce and Industry (SCCI) can play a very significant role.
- Capacity building of national standard setting bodies and institutions along with understanding their requirements to function adequately is very much needed.
- South Asian countries have to provide assistance and guidance to new member of SAARC such as Afghanistan in strengthening the country's capacity in product standards and accreditation.

Trade Facilitation and Customs Cooperation

- Trade facilities should be made available across the border on 24X7 basis for seamless movement of goods and vehicles. South Asian countries have to modernise and reform customs and border agencies. This may require additional capital inflow and technology improvement, which can be sourced from the regional fund or international or regional development organisation.
- Cost of trade among SAARC countries has been very high. Monitoring the cost and time to trade in a sustainable manner is crucial. Integrated and sustainable trade and transport facilitation monitoring mechanism (TTFMM) may be considered to measure the performance in implementing trade facilitation. Business Process Analysis (BPA) is another tool to implement paperless trade.
- Trade will be much faster with minimum process re-engineering. Cross-border electronic submission will reduce lengthy customs and cargo handling time at exporting and/or importing port(s). Synchronisation of cross-border customs should be prioritised. Harmonisation of customs documents is necessary.
- Customs transit declaration (CTD) and supporting documents should be shared electronically between ports, customs and border control authorities.
- Introduce the GPS to track the container traffic flow, particularly for transit traffic. This will reduce transaction costs and time heavily.
- National single window is essential for paperless trade in the region. Inter-operability of electronic interfaces in South Asia is required. SAARC

Secretariat may initiate the process to integrate the national single windows and facilitate setting up a regional single window.

- South Asian countries shall introduce single administrative documents for export and import in the region.

Financial and Monetary Cooperation

- Too early to consider monetary and financial integration in South Asia because minimum benchmarks have not yet been set up and major economies of the region are prone to global risks. However, there exists great potential for financial and monetary cooperation in the region. India being a major player has to take serious steps towards economic and financial cooperation in the region.
- There are advantages of using local currency for trade transactions. It encourages local currency pricing, which reduces pass through and inflation, and also reduces exposure to continuing dollar volatility.
- South Asian countries may consider a Payment union with credits enabled to full dynamic gains from trade. India announced bilateral SWAP in 2012 to SAARC countries. SWAP is a useful way of expanding liquidity in the region. South Asian countries may draw lessons from AMRO and Chiang Mai Initiatives in ASEAN.
- There is relatively higher movement of capital outside the region than within South Asian countries are becoming part of global financial arrangements like BRICS Bank and Asian Infrastructure Investment Bank (AIIB). Greater cooperation with international banks would help the South Asian countries in sourcing infrastructure investments in the region.
- More monetary policy coordination is required and can be done through regional monetary unit.
- Regional cooperation is possible in guarantee for deposit insurance, tax incentives and stop illegal money transaction.
- There are ample scopes for capital market development in the region. Corporate Bond Market should be encouraged to grow in the region.
- Export credit insurance and risk assessment of small producers and exporters shall be encouraged. EXIM Banks of the region can extend operations in context of suitable trade financial instruments in the region.
- Joint information assessment and exchange can be adopted for better risk management.
- Rupee settlement of trade finance can be considered, since it is the best amongst the currencies in the region.
- South Asian countries shall increase the opportunity of banking business. For example, only 20 Indian banks are doing business at present in the South Asian region.

- India's insurance density is only US$ 53, whereas ASEAN average is US$ 134. Insurance cooperation in the region is possible with data sharing in the public domain.

Services Trade, Mutual Recognition and Trade Reforms

- SAARC Agreement on Trade in Services (SATIS) has been signed but services trade liberalization has not yet taken off in the region. South Asian countries shall take immediate steps for full implementation of SATIS.
- Requests are quite extensive, but offers are very low, even for India. India's offers are on four (sub-group) services sectors. Extra-regional (other than South Asia) offers are higher than the intra-regional. South Asian countries shall complete all formalities, which are needed to operationalize the SATIS.
- Countries may consider signing MRAs in services trade, particularly in trade in educational services.

South Asia Energy Cooperation

- Inter-dependence of South Asian countries must be acknowledged to address regional energy security. Energy security is critical for economic development. South Asia is lagging behind other regions in sharing energy. Energy efficient technology should be adopted. South Asian countries should move towards clean energy. Regional cooperation in energy security will be a win-win situation for all the South Asian countries.
- Energy surplus and energy deficit countries need to come together to develop a comprehensive agreement for mutual benefit. More projects like Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000) are needed to meet the growing energy requirement of South Asia. We need to have sustainable transmission and sophisticated plan for ensuring energy security.
- South Asian region have energy resources but utilisation is poor. South Asian countries shall adopt a sustainable energy security development policy. Institutions should be strengthened for regional energy cooperation.
- South Asia needs to have a stronger cooperation for sharing of energy in the region. SAARC Energy Grid should consider to form the South Asian Solar Grid since the region inherits benefits in terms of its geography.
- An energy cooperation roadmap for intra- and inter- regional energy grid links should be prepared.

Science & Technology (S&T) Cooperation

- South Asia is very disaster prone – per annum loss due to disaster has been very high. S&T has a role to play in disaster recovery planning and improving response and also in risk mapping and early warning system. S&T cooperation may help countries in disaster preparedness efficiently.

- Presently, South Asia S&T cooperation is minimal. Moreover, the S&T policies are not coherent among member countries. South Asia is largely not part of international S&T collaborations. Therefore, the S&T policies need to be updated. At the same time, S&T should be primarily oriented towards developmental objectives. We may draw some lessons from ASEAN in this regard. Technology transfer among member countries has to be promoted.
- Specific focus areas should be developed within scientific fields oriented towards developmental goals. Best practices need to be shared among the member countries. Some of the areas where countries can generate regional cooperation in S&T are climate change, traditional medicine, energy, etc. In parallel, we shall make an effort to reach a convergence in IPR practices and law, which are not uniform across South Asian countries.
- Knowledge sharing in S&T is also very important for South Asian countries. A regional interface may help facilitate knowledge sharing in the region.

Media Cooperation

- It is a misnomer that media could compete in the region. But, in the international context, media cooperation is important in the form of information syndication. However, media cooperation has been widely discussed in the past, but there is a sheer absence of the same in South Asia.
- Media needs to understand the free market economy and only then the process of economic integration can be realized. Economic developmental stories reporting should come into media regularly.
- Good media coverage can shape the market discourse itself. South Asian countries shall increase the number of correspondents in the region.
- The region bears common history, and the media is the strongest tool; but, full potential is yet to be explored.
- Initiative was taken up in the form of South Asia Free Media Association (SAFNA) towards cooperation and joint media action. However, there is little reciprocity among the nations in the presence of technical barriers.
- The leaders can channel media cooperation in their respective countries. Sharing of information among regional members has a huge potential. Media cooperation becomes a strong tool to fight against political conflicts, terrorism and many more.
- Media is a powerful instrument and each form of the media has different roles to play. It has three prominent roles: first as a communicator, second as a disseminator and third as an educator. Media creates images in the mind of the people and helps in forming opinions. It can also plant a seed of misunderstanding.

- Getting together and writing about each other is a way forward. Until and unless media understands the importance of economic integration, economic union and free market economy, media cooperation can not take place effectively.

South Asian Development Bank

- The financing needs of the countries and needs of the banks should be considered. Specifically, development banks should be focused on long term goals like infrastructure development goals. The complementarities between the existing institutions and the new ones need to be considered.
- Establishment of the new banks will be time consuming and given the urgent needs of the region, can we afford to wait for some more years? New banks will face the problem of capital since south Asia region has the high fiscal deficit already and merely diversion of funds from existing institution to new one would increase the cost of loans. Therefore, strengthening the existing institutions should be considered.
- South Asian countries will have a better participation in decision making process in regional banks such as South Asian Development Bank. Need of South Asian Development Bank should come from all the LDCs to which this bank will cater to. If their requirements are fulfilled, we should go for setting up bank. Given that infrastructure is a key bottleneck for connectivity and growth, we need huge financing in the region, whether from South Asian Development Bank or Asian Development Bank or any other. The bank should be able to meet the huge financial needs. At the same time, member countries credit rating matters a lot since it leads to capital raising viability.
- Areas to focus on by the South Asian Development Bank would be infrastructure development. Revenues generated should be in foreign currency. Foreign currency can be generated from the sectors like tourism, hydropower, transport corridors, etc.
- Technical realities are needed to be considered before welcoming the South Asian Development Bank. We need to look for complementarities between existing institutions and the new ones. Trade off between existing institution and new bank has to be examined.

South Asia Growth Zone

- Infrastructure development particularly cross-border infrastructure is key to activate the growth impulses in the region. The focus of SASEC and GMS initiatives has been on the transportation and communication (about 60 GMS projects, of which 78 percent have been spent on transportation). To strengthen trade and investment, infrastructure should be provided to link countries by modernising rail and road connectivity.

- Within SAARC region, connecting the Northeast of India with the neighbouring areas could be a potential growth area. Exports from the Northeast India are low due to various bottlenecks that include broken supply chains, lack of adequate investment and other impediments. From a wider perspective, progress on BIMSTEC initiatives will have complementary effects on economic activity in South Asia. On the other, SAARC initiative may promote sub-regional integration in Asia. While economic growth assumes more attention, the social faces of growth should not be undermined, given the fact that South Asia is home to a significantly large number of poor people in the world. ADB's initiatives can contribute to growth in the region.
- ADB's SASEC is the most discussed South Asia Growth Zone model. Four 'Key pillars' of such growth zone model are: (i) investment in cross-border infrastructure and associated software, (ii) eliminate monetary and financial barriers, (iii) higher trade and investment, and (iv) presence of regional public goods.
- South Asia has mainly focused on its eastern part. To generate further cooperation in the region, South Asia should also focus on its western and southern parts of the region. Complementarities should be identifies in western and southern zones of South Asia in order to promote an efficient South Asian integration process.

Way Forward

- Economic Union is going to happen, and shall take its own course.
- Creation of South Asia Economic Union (SAEU) would prove to be a milestone in regional cooperation efforts. There are definite advantages of moving towards an economic union, but the roadmap has to be well thought out and a strategy has to be in place, which is ambitious but realistic.
- Deeper integration in trade should continue. Our immediate actions should be to remove large sensitive list, NTMs, etc. before we move into a Customs Union.
- Connectivity-physical, people-to-people and digital, have to be strengthened. Undertaking special projects – software and hardware, is of utmost importance. An efficient, secure and integrated transport network is essential to support the realisation of South Asia Economic Union.
- Some of the regional trade facilitation projects may ease the way for an economic union. These could be (i) coordinated border management, such as co-location of facilities, delegation of administrative authority, cross-designation of officials, and effective information sharing; (ii) regional single window, which is a digital interface that allows traders to submit all information and documentation required by regulatory agencies via a

single electronic gateway; and (iii) regional transit, which would help the region to move the goods and services move freely, thereby strengthening the production networks in South Asia.

- South Asia has set-up many regional organisations such as SAARC Development Fund (SDF) to finance regional development projects, a South Asia Regional Standards Organization (SARSO) to harmonize standards and reduce time taken in customs clearance, a South Asian University in Delhi to promote higher education, to mention a few. Regional institutions like the SAARC Food Bank and SAARC Disaster Management Centre have the potential to help address the common regional challenges. Proposed institutions such as SAARC Satellite or SAARC Corridor or SAARC Development Bank deserve more attention, as we contemplate moving towards an economic union.
- Building on enhanced connectivity, we need to also encourage proliferation of regional value chains that can pool together competitiveness of each of our economies, at various stages of production. These would require greater flow of financial capital and intra-regional investments.
- The respective representatives from all South Asian countries agreed that the way forward is through cooperation. The potential areas of cooperation include trade, energy, connectivity, regional value chain, investment, climate change, natural disasters, food security, etc. The level of cooperation would determine the possibility of South Asia community and economic union. Therefore, all member countries must work for a prosperous South Asia.

[This summary and recommendations were prepared by Prof. Prabir De based on the rapporteurs’ note.]

Part II

Agenda

5 November 2014 (Wednesday): Venue: The Oberoi

11.00 – 12.00 :	**Media Interaction [Venue: Ball Room, The Oberoi]** *In Chair*: Amb. Shyam Saran, Chairman, RIS, New Delhi **Bangladesh**: Prof. Rehman Sobhan, Chairman, Centre for Policy Dialogue (CPD), Dhaka **India**: Prof. Sachin Chaturvedi, Director General, RIS, New Delhi **Nepal**: Dr. Posh Raj Pandey, President, South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu **Pakistan**: Amb. Shafqat Kakakhel, Chairman, Sustainable Development Policy Institute (SDPI), Islamabad **Sri Lanka**: Dr. Saman Kelegama, Executive Director, Institute of Policy Studies of Sri Lanka(IPS), Colombo

14.00	:	**Registration**
15.00 – 15.45	:	**Inaugural Session** *Welcome* by Prof. Sachin Chaturvedi, Director General, RIS *Opening Address* by Amb. Shyam Saran, Chairman, RIS *Special Address* by Prof. Rehman Sobhan, Chairman, Centre for Policy Dialogue (CPD), Dhaka *Inaugural Address* by Hon'ble M. Hamid Ansari, Vice-President of India *Vote of Thanks* by Prof. Prabir De, RIS
16.00 – 16.30	:	**Book Release** ● **Democracy, Sustainable Development, and Peace: New Perspectives on South Asia**, Edited by Akmal Hussain and Muchkund Dubey ● **Towards a Stronger Dynamic and Inclusive South Asia** [Proceedings of 6th SAES], Edited by Saman Kelegama and Anushka Wijesinha ● **Regional Integration in South Asia: Trends, Challenges and Prospects**, Edited by Mohammad A Razzaque and Yurendra Basnett
17.00 – 18.30	:	**Plenary Session 1: South Asia Regional Integration: Past, Present and Future** *In Chair*: Amb. Shyam Saran, Chairman, RIS and NSAB *Speakers* ● Hon'ble Mohammad Mustafa Mastoor, Deputy Minister for Finance, Afghanistan ● Hon'ble Gowher Rizvi, Adviser for International Affairs to the Prime Minister of Bangladesh, Bangladesh ● Hon'ble Lyonpo Namgay Dorji, Finance Minister, Bhutan ● Hon'ble Ram Sharan Mahat, Finance Minister, Nepal ● Hon'ble Sarath Amunugama, International Monetary Cooperation Minister, Sri Lanka

18.30 – 19.30	:	**Cultural Programme**
19.45	:	**Welcome Dinner, Hosted by Amb. Shyam Saran, Chairman, RIS & NSAB** **[Venue: Ballroom, The Oberoi]**

6 November 2014 (Thursday)
Venue: India International Centre (IIC)

09.00 – 11.15	:	**Plenary Session 2: South Asia Economic Union: Challenges and Tasks Ahead** [Venue: Multipurpose Hall, IIC New Building] *In Chair*: Prof. Muchkund Dubey, President, Council of Social Development (CSD), New Delhi *Special Address*: Ms. Sujata Mehta, Secretary (DPA & ER), Ministry of External Affairs (MEA), Government of India *Lead Presentation*: Prof. Selim Raihan, Dhaka University & Executive Director, South Asian Network on Economic Modelling (SANEM), Dhaka *Panellists* ● Amb. Sheel Kant Sharma, Former Secretary General, SAARC Secretariat ● Dr. Arvind Mehta, Jt. Secretary (SAARC/Iran), Department of Commerce, Ministry of Commerce & Industry (MoCI), Government of India ● Dr. Akmal Hussain, Distinguished Professor of Economics, Forman Christian College, Lahore ● Prof. Jim Rollo, Sussex University, Brighton ● Ms. L. Savithri, Director (Economic, Trade and Finance), SAARC Secretariat, Kathmandu
11.15 – 11.30	:	**Tea/Coffee Break**

11.30 – 13.00	:	**Plenary Session 3: South Asia Connectivity: Regional Agenda for South Asia Economic Union [with Special Reference to Economic Corridor and Trade at Border]** [Venue: Multipurpose Hall, IIC New Building] *In Chair*: Amb. Shafqat Kakakhel, Chairman, SDPI, Islamabad *Special Address*: Dr. Nagesh Kumar, Head, United Nations ESCAP South and South-West Asia Office, New Delhi *Special Remarks*: Prof. Rounaq Jahan, Distinguished Fellow, CPD, Dhaka *Lead Presentation*: Prof. Prabir De, RIS *Panellists* ● Dr. A. M. Gondane, Jt. Secretary (SAARC and Border Connectivity), Ministry of External Affairs (MEA), Government of India, New Delhi ● Mr. Y S Shahrawat, Chairman, Land Ports Authority of India (LPAI), New Delhi ● Dr. Dushni Weerakoon, Dy. Director & Fellow, IPS, Colombo
13.00 – 14.00	:	**Lunch**
14.00 – 15.30	:	**Plenary Session 4: Cooperation for South Asia Investment Bloc** [Venue: Multipurpose Hall, IIC New Building] *In Chair*: Dr. Mohan Man Sainju, Chairperson, Institute for Integrated Development Studies (IIDS), Kathmandu *Special Address*: Dr. Anup K Pujari, Secretary, Ministry of Mines, Government of India *Lead Presentation*: Dr. Saman Kelegama, Executive Director, Institute of Policy Studies of Sri Lanka (IPS), Colombo *Panellists* ● Prof. Ram Upendra Das, RIS ● Dr. Sanjay Kathuria, Lead Economist, The World Bank, Washington, D.C ● Amb. Farooq Sobhan, President, Bangladesh Enterprise Institute (BEI), Dhaka ● Dr. Anjum Assad Amin, Director-General, Pakistan Institute of Trade and Development (PITD), Islamabad
15.30 – 15.45	:	**Tea / Coffee Break**

15.45 – 17.15 Parallel Sessions

Session I	Session II	Session III	Session IV	Session V
Seminar Hall I	**Seminar Hall II**	**Seminar Hall III**	**Multipurpose Hall**	**Conference Room II**
Non-tariff measures including standards and regulations	***Macroeconomic performance, prospects and policy coordination***	***Financial and monetary cooperation***	***Trade facilitation including customs cooperation***	***Services trade, mutual recognition and trade reforms***
Chair: Prof. Rajat Acharyya, Dean, Jadavpur University, Kolkata *Panellists:*	*Chair*: Prof. B B Bhattacharya, Former Vice-Chancellor, Jawaharlal Nehru University (JNU), New Delhi *Panellists:*	*Chair*: Mr. Syeduzzaman, CPD Board of Trustee and Former Finance Minister, Bangladesh, Dhaka *Special Remarks*: Dr. Ramgopal Agarwala, Director, Pahle India Foundation, New Delhi *Panellists:*	*Chair*: Prof. Abhijit Das, Head, Centre for WTO Studies, New Delhi *Special Remarks:* Mr. T A Khan, Vice Chair, UN/CEFACT *Panellists:*	*Chair*: Dr. Mia Mikic, Chief, Trade Policy and Analysis Section, Trade and Investment Division, United Nations ESCAP, Bangkok *Panellists:*
• Mr. Rajan Ratna, Trade Policy and Analysis Section, United Nations ESCAP, Bangkok • Prof. Nisha Taneja, ICRIER, New Delhi • Mr. Puspa Sharma, SWATEE, Kathmandu • Mr. Raveen Ekanayake, IPS, Colombo • Mr. Ahmad Shah Mobariz, Gharjistan Institute of Higher Education, Kabul	• Dr. Tom Richardson, International Monetary Fund (IMF), New Delhi • Dr. Famida Khatun, CPD, Dhaka • Dr. Vatcharin Sirimaneetham, United Nations ESCAP, Bangkok • Dr. Saikat Sinha Roy, Jadavpur University, Kolkata	• Dr. Ashima Goyal, IGIDR, Mumbai • Dr. Khondaker Golam Moazzem, CPD, Dhaka • Dr. Somya Kanti Ghosh, State Bank of India, Mumbai • Prof. Amita Batra, JNU, New Delhi	• Dr. Tengfei Wang, Trade Facilitation Section, United Nations ESCAP, Bangkok • Mr. Ismail Nashid, Maldives Customs, Male • Mr. Raghu Dayal, AITD, New Delhi • Mr. Shasank Priya, Commissioner, Patna • Ms. Dharshani Premeratne, IPS, Colombo	• Prof. Rupa Chanda, Indian Institute of Management (IIM), Bangalore • Prof. Shahid Ahmed, Jamia Millia Islamia, Delhi • Ms. Rajju Malla Dhakal, South Asia Centre for Policy Studies (SACEPS), Kathmandu • Mr. Anushka Wijesinha, IPS, Colombo • Mr. Nitya Nanda, TERI, New Delhi

18.15 – 19.45	**Special Event: India – Pakistan Cooperation and Implications for South Asian Economic Union [Venue: Nilgiri Hall, Oberoi]** *Opening Remarks & Session Moderation*: Mr. Rakesh Bharti Mittal, Chairman, CII Agriculture Council, Vice-Chairman & Managing Director, Bharti Enterprises Ltd., Gurgaon *Presentation by*: Dr. Martin Rama, Chief Economist, The World Bank, New Delhi *Panellists* ● Mr. Zubair Ahmed Malik, Immediate Past President, Federation of Pakistan Chambers of Commerce & Industry (FPCCI) ● Mr. Deepak Amitabh, Chairman and Managing Director, Power Trading Corporation (PTC), New Delhi ● Mr. Syed Mazhar Ali Nasir, Vice President, Federation of Pakistan Chambers of Commerce & Industry
20.00	**Dinner, Hosted by Smt. Sujatha Singh, Foreign Secretary of India [Venue: Nilgiri Hall, The Oberoi]**

7 November 2014 (Friday)
Venue: India International Centre (IIC)

09.00 – 10.30	**Plenary Session 5: Strengthening South Asia Value Chain: Prospects and Challenges** [Venue: Multipurpose Hall, IIC New Building] *In Chair*: Dr. Rajiv Kumar, Senior Fellow, Centre for Policy Research (CPR), New Delhi *Lead Presentation*: Dr. Abid Suleri, Executive Director, SustainableDevelopment Policy Institute (SDPI), Islamabad *Panellists* ● Dr. S K Mohanty, Professor, Research and Information System for Developing Countries (RIS), New Delhi ● Dr Keshab Das, Professor, Gujarat Institute of Development Research (GIDR), Ahmedabad ● Prof. Ajitava Raychaudhuri, Head, Centre for Advanced Studies, Jadavpur University, Kolkata ● Dr. Mohammad Razzaque, Adviser & Head, International Trade Policy, Commonwealth Secretariat, London ● Mr. Pradeep K. Shrestha, Managing Director, Panchkanya Group, Kathmandu
10.30 – 10.45	**Tea / coffee break**

10.45 – 12.00	:	**Plenary Session 6: Regional Cooperation for Food Security in South Asia** [Venue: Multipurpose Hall, IIC New Building] *In Chair*: Dr. S. Mahendra Dev, Director, Indira Gandhi Institute of Development Research (IGIDR), Mumbai *Special Address*: Dr. P K Joshi, Director, South Asia, International Food Policy Research Institute (IFPRI), New Delhi *Lead Presentation*: Dr. Posh Raj Pandey, President, South Asia Watch on Trade, Economics and Environment (SWATEE), Kathmandu *Panellists* ● Dr. Abid Suleri, Executive Director, Sustainable Development Policy Institute (SDPI), Islamabad ● Dr. Mustafizur Rahman, Executive Director, Centre for Policy Dialogue (CPD), Dhaka ● Prof. I N Mukherjee, Consultant, ESCAP SSWA, New Delhi ● Mr. Matthew Hammill, Economic Affairs Officer, United Nations ESCAP, South and South-West Asia Office, New Delhi
12.00 – 13.15	:	**Plenary Session 7: Post-2015 Agenda: South Asian Perspectives** [Venue: Multipurpose Hall, IIC New Building] *In Chair:* Dr. Nagesh Kumar, Head, United Nations ESCAP South and South-West Asia Office, New Delhi *Special Address*: Prof. Sachin Chaturvedi, Director-General, RIS *Lead Presentation*: Dr. Debapriya Bhattacharya, Distinguished Fellow, Centre for Policy Dialogue (CPD), Dhaka & Chair, Southern Voice on Post-MDGs Network *Panellists* ● Mr. Tanmay Lal, Joint Secretary (UN), Ministry of External Affairs (MEA), Government of India, New Delhi ● Mr. Rabi Shanker Sainju, Programme Director, National Planning Commission (NPC), Kathmandu ● Dr. Aliya H Khan, Dean, Quaid-e-Azam University, Islamabad ● Dr. Manmohan Agarwal, RIS
13.15 – 14.15	:	**Lunch**

14.15 – 15.45 Parallel Sessions

Session VI	Session VII	Session VIII	Session IX	Session X
Seminar Hall I	**Seminar Hall II**	**Seminar Hall III**	**Multipurpose Hall**	**Conference Room II**
Regional Energy Security *Chair*: Amb. Rajeev Bhatia, Director-General, Indian Council of World Affairs (ICWA), New Delhi *Panellists:*	***South Asia Development Bank*** *Chair*: Prof. S K Mohanty, RIS *Panellists:*	***Science & Technology including IPR*** *Chair*: Prof. Sachin Chaturvedi, RIS *Panellists:*	***Media Cooperation*** *Chair*: Mr. T N Ninan, Chairman, Business Standard *Panellists:*	***South Asia Growth Zone*** *Chair*: Amb. Sheel Kant Sharma, Former Secretary General, SAARC Secretariat ***Special Address***: H.E. Sumith Nakandala, Secretary-General, BIMSTEC, Dhaka *Panellists:*
• Dr. Ritu Mathur, TERI, New Delhi • Dr. Mahendra Lama, Jawaharlal Nehru University (JNU), New Delhi • Dr. Sunil Khosla, Task Manager, CASA Project, World Bank • Mr. Bipul Chatterjee, CUTS, Jaipur • Mr. Rajeev Ranjan Chaturvedi, ISAS, Singapore	• Mr Karma, CEO, SAARC Development Fund (SDF), Thimpu • Mr. David Rasquinha, EXIM Bank, Mumbai • Dr. Hiramani Ghimire, SWATEE, Kathmandu • Mr. Pranav Kumar, CII, New Delhi • Mr. Arvind Kumar, TERI, New Delhi	• Prof. Santosh Kumar, SAARC Disaster Management Centre, New Delhi • Dr. T C. James, RIS • Dr. K. Ravi Srinivas, RIS • Ms. Dilani Hirimuthugoda, IPS, Colombo	• Mr. Pranab Dhal Samanta, India Today, New Delhi • Mr. Shawkat Hossain, Prathom Alo, Dhaka • Mr. Prateek Pradhan, Nagarik News Daily, Kathmandu • Amb. Paramjit Singh Sahai, CRRID, Chandigarh	• Amb. Dago Tshering, Former Ambassador of Bhutan to India • Dr. Bishnu Dev Pant, IIDS, Kathmandu • Dr. Kavita Iyenger, Asian Development Bank (ADB), New Delhi • Dr. Biswajit Nag, IIFT, New Delhi • Dr. Mizanur Rahman, Dhaka University, Dhaka

15.45 – 16.00	:	**Tea / Coffee Break**
16.00 – 17.30	:	**Plenary Session 8: Summary, Conclusions and Way Forward** [Venue: Multipurpose Hall, IIC New Building] *Co-Chair 1*: Prof. Rehman Sobhan, Chairman, Centre for Policy Dialogue (CPD), Dhaka *Co-Chair 2:* Prof. Muchkund Dubey, President, Council of Social Development (CSD), New Delhi *Presentation of Summary* by Prof. Prabir De, RIS *Remarks by* ● Dr. Saman Kelegama, IPS, Colombo ● Dr. Mustafizur Rahman, CPD, Dhaka ● Dr. Abid Suleri, SDPI, Islamabad ● Mr. Pradeep S Mehta, CUTS International ● Dr. Posh Raj Pandey, SWATEE, Kathmandu ● Prof. Ram Upendra Das, RIS
17.30 – 17.45	:	**Concluding Session** *Remarks* by Prof. Sachin Chaturvedi, RIS *Closing Remarks* by Amb. V S Seshadri, Vice-Chairman, RIS *Vote of Thanks* by Prof. Prabir De, RIS
20.00	:	**Dinner, Hosted by Prof. Sachin Chaturvedi, Director-General, RIS** **[Venue: Nilgiri Hall, the Oberoi]**

Welcome Speech by
Prof. Sachin Chaturvedi, Director General, RIS

Respected M. Hamid Ansari Saheb, the Vice-President of India;
Professor Rahman Sobhan, Chairman, Centre for Policy Dialogue, Dhaka;
Ambassador Shyam Saran, Chairman, RIS;
My colleague Professor Prabir De, intellectual leader and coordinator of this event;
Your Excellencies, Ladies and Gentlemen.

It is indeed a great moment for all of us at RIS to welcome you all here for 7th South Asia Economic Summit. This is an effort from galaxy of institutions from South Asia.

RIS has the unique distinction of hosting this important Summit given our intense and passionate engagement with several milestones that have been achieved in our collective efforts for peace, economic development, and, more importantly, development of human resources in the region.

Our shared research efforts have helped in increasing awareness for a coordinated strategy for the region's economic development.

Our leaders, economists and social scientists have immensely contributed in identifying and examining the potentials of mutual beneficial economic links for SAARC countries and the strategy for expanding trade and investment linkages that have helped in its evolution.

There are several important Studies that have been conducted by RIS independently and also in collaboration with other Institutions, which have brought forward satisfying and encouraging results.

For instance the idea of establishing SAARC Chamber of Commerce and Industry was proposed in a Study by RIS in 1990, which came into reality in December 1992.

The arrangements concomitant to preferential treatment of regional firms with trade preferences and clearance and payments arrangements have immensely contributed for promotion of regional integration and expansion of intra SAARC trade.

The initiatives on development finance and institutionalization has led to the recent proposal of SAARC Development Bank.

Partnership of RIS with Institute of Policy Studies, Colombo is the finest example of our academic institutions working for excellence.

In this context, launching of South Asia Economic Journal by RIS and IPS has emerged as a regional forum for scholarly debate on economic analysis and policy option for promoting economic development and regional cooperation.

This Journal was launched in March 2000 and since then its eminence and stature has consistently gone up through rigorous peer review mechanisms.

At the Tenth Summit of the SAARC held in Colombo, a call was given to form the South Asia Research Network which came up in late 1998.

This research network called for several major initiatives, one was to establish a Journal for South Asian researchers, that I mentioned just now, and the second was to initiate a dialogue on services sector, which has emerged as a major contributor to the economic dynamism of the South Asian economies.

SAARC Heads of States at their 13th Summit held in Dhaka in November 2005 called for a Study to examine the extension of SAFTA to trade in services.

The 14th Summit called for finalization of an agreement in the services sector. RIS came up with important policy documents in this context. The agreement is now in its final stages of implementation.

Next year SAARC completes 30 years of its establishment. We would be proud of our accomplishments in several areas and there would also be several areas where we might have fallen short on expectations.

With our commitments and consistent efforts at the level of think tanks and research institutions, we would come up with the ideas of catching up with the time that we have lost.

Presently, the challenges before the SAARC Member Countries are to identify ways and means of achieving regional integration on a fast track basis with full implementation of SAFTA.

Efficacy and effectiveness in our regional cooperation pursuits are extremely important for retaining our collective competitiveness in the global economy. Regional outlook of South Asia is showing remarkable upturn compared to the rest of the world. Regional macroeconomic situation is gradually improving with partial recovery of the global economy in the early half of 2014.

India is swiftly entering into a phase of high growth with the assumption of the new government in the middle of this year. With these developments, region's share in global GDP in PPP terms is rising steadily even during the period of global recession.

Along with improved macroeconomic performance of the region, growing potentials of the region in knowledge-intensive sectors such as regional value chain, IT, automobiles and other high-tech sectors can put the region on high growth trajectory.

Fresh regional initiatives like attempts to rejuvenating SAARC Development Fund and formalisation of SAARC Development Bank can provide a thrust to spur intra-regional trade to rise in the near future. I am sure an economically vibrant South Asia is likely to emerge soon.

In the next couple of days, we would continue to focus on several concerns related to social sector, as despite our recent achievements, South Asia continues to be the home of the majority of the world's poor.

Our move from SAPTA to SAFTA and now the proposal for South Asia Economic Union is a pragmatic move towards the next stage of cooperation.

We need to move further from trade liberalization measures alone to regional investment cooperation strategy, production integration, technology cooperation. In the economic union and common market, macro-economic coordination would also assume greater significance.

As you would notice, the 7th SAES attempts to address this ambitious agenda.

A galaxy of experts and key policy leaders are here with us. It is my great pleasure to welcome the Hon'ble Ministers, Members of Parliament, Heads of Missions, policy researchers and you'll who have spared valuable time for this important meeting. The webcasting of this event already has several hits. I welcome all of you who are hooked with us at this point. We are eagerly looking forward to Vice President's speech which would set the tone for this Summit.

Thank you for your kind attention.

Opening Address by
Amb. Shyam Saran, Chairman, RIS

Hon'ble Vice-President of India, Shri M. Hamid Ansari;
Excellencies Ministers from SAARC countries;
Prof. Rehman Sobhan, Chairman for Policy Dialogue in Dhaka;
Distinguished delegates to the 7th South Asia Economic Summit;
Shri Sachin Chaturvedi, Director-General, RIS;
Prof. Prabir De, Coordinator of the ASEAN-India Centre at RIS;
Ladies and gentlemen

At the very outset, may I convey our deep appreciation and gratitude to the Hon'ble Vice-President for honouring us with his presence and for kindly consenting to inaugurate the Seventh South Asia Economic Summit.

We look forward to receiving his guidance and advice in order to ensure that our forthcoming deliberations are substantive and forward-looking and advance the cause of welding the separate nations of our region into a connected and collective union of shared values and interests.

Let me also take this opportunity to welcome the heads of our four sister think tanks in the region who are our valued partners in organizing the Summit. Our partners are the Institute for Policy Studies in Sri Lanka; the South Asia Watch on Trade, Economics and Environment in Nepal; the Centre for Policy Dialogue in Bangladesh and the Sustainable Development Policy Institute in Pakistan. We wish to thank them for making this event possible.

This Summit takes place at an important juncture. The 18th SAARC Summit in Kathmandu in virtually round the corner, being convened on November 26 and 27. Our eight countries will be meeting as a community of vibrant democracies, sharing political values and deeply committed to the welfare of our people. There is a new government in Delhi, with a declared intent to put India's relations with its neighbours as an over-riding priority in its external relations. It has demonstrated an energetic pursuit of this objective and there is no doubt that the cause of regional cooperation in South Asia will acquire momentum as we go forward. The Seventh South Asia Economic Summit, is therefore, an unique opportunity to deliberate upon the factors which have held us back from pursuing cooperative solutions to our shared challenges, even when the logic of such cooperation has been compelling. The theme of this Conference is South Asia Economic Union and it is a laudable objective for us to pursue. However, we must also acknowledge that we remain quite some distance from this destination and the journey appears difficult and full of obstacles. Nevertheless, it is an objective which must remain as the guiding star for our efforts and we will look to the wisdom and creativity of the political leaders, academics, business representatives and media persons gathered here for the Summit to sketch out a road map for our journey ahead.

During its 29 year existence, SAARC has achieved several milestones of which we can be justifiably proud. The region has in place a South Asia Free Trade Agreement covering both goods and services. A SAARC Development Fund for financing regional and sub-regional programmes and projects has been operationalized with its Headquarters in Thimphu. The leaders of South Asia have recognized the critical importance of promoting overall connectivity among our countries by declaring the current decade of 2010-2020 as a Decade of Inter-Regional connectivity in SAARC. Some initial progress has been made in creating an energy grid in South Asia and there is a SAARC Climate Change Action Plan to help us collectively meet the challenge of Climate Change. A South Asian University has opened its doors to students from across the region. There is a network of 11 SAARC regional centres which coordinate and promote cooperation among the South Asian countries in areas such as weather forecasting, disaster management, human resource development, energy and forestry, among others. However, despite these achievements, SAARC has been unable to promote truly collaborative projects among its members. These have mostly remained at the bilateral or sub-regional level.

It was at the SAARC Summit held in Kathmandu in 2002 that the then Prime Minister of India Shri Atal Bihari Vajpayee put forward his dream for a united South Asia. He said:

> "The progression from SAPTA to a free trade area and then to a South Asian Economic Union has a self-evident economic logic."

There have also been calls by leaders of South Asian countries, opinion-makers and academics for the establishment of a South Asian Customs Union and a common South Asian currency, christened Sasia. It is time for us in South Asia to recognize the imperative of regional cooperation in meeting the many challenges our countries confront and which none of us can tackle with national means alone. These include the looming threat of Climate Change, the growing danger of cross-border terrorism, the threat of public health posed by global pandemics such as the current Ebola crisis, the scourge of AIDS and polio and several others that confront our globalised and interconnected world today. I conclude with the earnest hope that the Summit which Hon'ble Vice-President will inaugurate today will live up to the expectations of the 1.5 billion people of South Asia, who deserve far better than has been their lot so far. For ultimately, whatever we do must be judged by the one and only valid yardstick that is, whether the people of our countries will overcome the scourge of poverty and hunger and are enabled to live a life of well-being and dignity.

Before I conclude, may I express my thanks to our sister think tanks who have worked together with RIS to make this event possible. My thanks also go to our own team at RIS particularly its Director General, Sachin Chaturvedi, Prof. Prabir De and the faculty and staff at RIS who have worked tirelessly to ensure the success of this Summit.

Thank you for your attention.

Inaugural Address by Hon'ble M. Hamid Ansari, Vice-President of India

I am happy to be here today for the inauguration of the 7th South Asia Economic Summit (SAES) on 'Towards South Asia Economic Union', organized by the Research and Information System for Developing Countries (RIS) in association with prominent think-tanks of South Asia.

The South Asian Association for Regional Cooperation (SAARC) has achieved almost three decades of partnership at the Summit level since the first Summit was held in Dhaka in December 1985. During this period, our region has made some progress towards greater regional economic cooperation, even if somewhat gradually and not to the full extent. At the same time, the economic size of South Asia has also witnessed significant expansion. South Asia was one of the high performing regions of the world during the period from 2003-2010. Growth has slowed somewhat following the global economic crisis and recession but even then it has remained above the world average. The regional growth outlook now appears to have improved with economic indicators pointing to recovery, including in India.

The leaders of SAARC countries have been continually emphasising the importance of enhancing economic cooperation for regional integration. At the 17th SAARC Summit, held at Maldives in 2011, South Asian leaders spoke about the need to work on a vision for future development of South Asia, including the goal and elements of a South Asian Economic Union (SAEU). In this regard, Think-tanks have to stay ahead of governments and generate ideas and come up with possible ways forward. Therefore, this summit of regional think-tanks focusing on this ambitious theme is a welcome initiative.

Intra-regional trade in South Asia has doubled since the region implemented the Agreement on South Asian Free Trade Area (SAFTA). The intra-regional exports have increased to about US$ 22 billion in 2013 from US$ 10 billion in 2006 (data source: IMF). South Asia is expected to achieve substantial tariff reduction by 2016 as SAFTA implementation makes further progress. This should lead to a greater increase in intra-regional trade.

South Asian countries have taken other steps to increase trade regionally. India has reduced the sensitive list under SAFTA for LDCs before the scheduled deadline. Over time, India's bilateral trade with some of the South Asian countries, like Afghanistan, Bangladesh, Bhutan and Nepal, has grown faster than South Asia's total regional trade during the period 2006 and 2013. This indicates that South Asia, in parts, is trading more within the region. There is also a rise in cross-border production networks. The FTA between India and Sri Lanka has successfully narrowed the trade gap between the two countries.

Varied progress has been made in other areas such as SAARC Agreement on Trade in Services, as also on trade facilitation measures. However, there are many challenges, including persistence of restrictive Non-Tariff Measures, the need to harmonise standards and customs procedures and poor connectivity. Some other major elements that are holding back South Asian integration include high transportation costs, inadequate cross-border infrastructure, and absence of regional transit. As a result, South Asian goods often lose competitiveness before they can reach world markets.

Intra-regional trade is also inhibited due to limited availability of short term trade finance in the region. The region needs to strengthen its institutional mechanism to augment short term trade financing to encourage regional trade.

Average time and costs of trading across borders in South Asia is still relatively high in comparison with other developing regions of the world. Moreover, in South Asia, the costs of trade with countries outside the region appear to be lower than that for carrying out intra-regional trade.

Clearly, a truly integrated region would not be achievable until we overcome these challenges.

Many other issues also come in the way of trade competitiveness and exploitation of trade complementarities in South Asia. Foremost is the presence of two-fifths of world's poor in South Asia. The region is faced with major developmental challenges of poverty, inequality, illiteracy, disease, hunger and homelessness. South Asia is also vulnerable to major natural disasters such as floods, draughts, cyclones, earthquakes, etc. An inclusive and stronger regional integration would greatly help in overcoming some of these common challenges.

The overall objective of South Asian Economic Union (SAEU) is to ensure the transformation of South Asia into a peaceful, stable, and prosperous region. SAARC countries must consider the mutual benefits that could be derived from greater economic integration and thereby contribute to the furtherance of their common developmental agenda. They should, therefore, collectively address the challenges that confront them in the process of regional integration.

While SAEU would require greater regional economic policy coordination, SAARC would benefit from the experiences of other groupings, such as the European Union and ASEAN. Some prioritised progression may be useful, beginning from completing the on-going trade liberalisation process. Another priority would be to undertake investment in regional infrastructure, especially transport connectivity that would facilitate ease of travel and trade.

The 18th SAARC Summit later this month will be focussing on 'Deeper Integration for Peace and Prosperity'. Building on enhanced connectivity, we need to also encourage proliferation of regional value chains that can pool together competitiveness of each of our economies, at various stages of production. These would require greater flow of financial capital and intra-regional investments.

An efficient, secure and integrated transport network is essential to support the realisation of South Asian Economic Union. Regional trade liberalization (for example, SAFTA) alone has not been able to achieve increased intra-regional trade. Infrastructure development, capacity-building measures, removal of NTBs, and supportive policies and institutions that promote economic activities along identified transport corridors are essential to increase regional trade.

Some of the regional trade facilitation projects may ease the way for an economic union. These could be (i) coordinated border management, such as co-location of facilities, delegation of administrative authority, cross-designation of officials, and effective information sharing; (ii) regional single window which is a digital interface that allows traders to submit all information and documentation required by regulatory agencies via a single electronic gateway; and (iii) regional transit, which would help the region to move the goods and services move freely, thereby strengthening production networks in South Asia.

South Asia has set-up many regional organisations, such as SAARC Development Fund (SDF) to finance regional development projects, a South Asia Regional Standards Organization (SARSO) to harmonize standards and reduce time taken in customs clearance, a South Asian University in Delhi to promote higher education, to mention a few. Regional institutions like the SAARC Food Bank and SAARC Disaster Management Centre have the potential to help address the common regional challenges. Proposed institutions such as SAARC Satellite or SAARC Corridor or SAARC Development Bank deserve more attention, as we contemplate moving towards an economic union.

Creation of South Asian Economic Union (SAEU) would prove to be a milestone in regional cooperation efforts. Most regions in the world are moving towards greater economic integration, as South Asia lags behind. The logic of economic union lies in re-distribution of common and shared resources within the region in a most efficient and effective manner. Economic union enhances manifold the bargaining power of member countries in the global arena and helps in realising the full potential of trade complementarities. There are definite advantages of moving towards an economic union but the roadmap has to be well thought out and a strategy has to be in place, which is ambitious but realistic.

The next SAARC Summit will be held in Nepal later this month. I am sure that the outcomes of this 7th South Asia Economic Summit will provide important policy inputs to the forthcoming SAARC Summit and also guide the regional integration process.

I thank Ambassador Shyam Saran for inviting me and I wish the Conference all success.

Jai Hind!

Vote of Thanks by Prof. Prabir De, RIS

It is my honour to propose a formal vote of thanks.

I, on behalf of RIS and all SAES co-organisers and partners, take this opportunity to thank His Excellency, Shri Hamid Ansari Ji, Hon'ble Vice President of India and the Chief Guest for this event, to have graced this occasion and inaugurated the 7th SAES. His views are words of wisdom and we would follow them in our endeavour to contribute more to the subject.

I also thank Prof. Rehman Sobhan, Chairman, Centre for Policy Dialogue (CPD) for sparing his time and precious thoughts with us.

Our heartfelt thanks are also due to our Chairman, Ambassador Shyam Saran and Prof. Sachin Chaturvedi, Director General, RIS for inspiring us to organise the 7th SAES.

I am thankful to all our guests who have come from abroad, dignitaries and experts from India and region for their participation.

I must not be forgetful in thanking all our staff at RIS, and the staff of this hotel and all participating organisation for providing every possible cooperation to convenience the event.

We are grateful to Ministry of External Affairs for supporting the event. We are also thankful to the World Bank, UNESCAP and CII for extending their support to the 7th SAES.

Last but not the least; I would like to extend a special thanks to the audience who made this inaugural session a great success.

Thank you all.

Part III

South Asia Economic Union: Challenges and Tasks Ahead

Selim Raihan*

1. Introduction

Though there is a belief that South Asia remains the least integrated region in the world with the stagnancy of intra-regional trade below 5 percent for decades, there is a growing perception that South Asia's regional performance is not that discouraging for a number of reasons (Raihan and Cuong, 2014): first, high volume of informal trade among countries in South Asia represents higher trade interdependence among South Asian countries than what is normally believed; second, exceptionally high bilateral trades among South Asian countries, particularly between India as a regional trade hub, with other smaller countries such as Bhutan, and Nepal; third, trade in services, particularly in education, health care, information technology, and construction is vibrant; fourth, despite of sluggish inter-governmental cooperation, South Asia has the most active inter-nongovernmental cooperation in comparison with other regions in Asia; finally, South Asian countries have been highly integrated culturally and linguistically. There is consequently a strong identity of being "South Asian".

Conventional definition of regional integration considers an economic union as a very high form of regional economic integration. There are debates how regional integration process in South Asia can move towards formation of an economic union. Against this backdrop, this paper explores the challenges and tasks ahead for the South Asia Economic Union (SAEU). Rest of the paper is organized as follows. Section 2 presents scenario of intra regional trade within South Asian countries. Section 3 discusses the paths of economic union for this region. The challenges and further plan of actions of SAARC has been discussed in Section 4. Concluding remarks are drawn in Section 5.

2. Intra-Regional Trade in South Asia

The volume of intra-regional trade among the South Asian countries has been low. Throughout the 1990s the share has been less than 4 per cent. There were

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Table 1: Intra-regional Trade in South Asia in 2014

(In '000 US$)

To \ From	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	Total Intra regional Export	Total export	Regional export as % of country's total export
Afghanistan	0	1820	0	220129	0	0	177582	24	399555	659410	61
Bangladesh	4977	0	2949	461964	0	14212	53466	21146	558713	30199025	2
Bhutan*	0	22985	0	383000	0	4782	304	0	411072	555000	74
India	443055	6579875	749000	0	139835	4405078	2181823	6433181	20931847	317733218	7
Maldives	0	409	0	4061	0	0	10	8802	13282	191716	7
Nepal	0	20044	3379	547310	12	0	1247	32	572023	919640	62
Pakistan	2221769	494037	0	481204	5838	1157	0	253976	3457981	27052102	13
Sri Lanka	159	89849	12	610294	88632	4824	73173	0	866943	10923239	8
Total exports									27211415	388233348	7
Total intra-regional imports	2669960	7209019	755340	2707963	234317	4430052	2487604	6717160	27211415		
Total Imports	7990761	45610279	1040000	460512283	1700454	8486418	58945173	20537789	604823157		
Regional imports as % of country's total imports	33	16	73	1	14	52	4	33	4		

Source: IMF, Direction of Trade Statistics (DOTS). *The data for Bhutan is mirror data from ITC and http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=BT .

some encouraging trends in the 2000s, with the proportion of within-South Asia trade in the region's global trade rising to more than 6 per cent in 2003. More recently, however, the share has hovered around 5 per cent mark. Compared to other regional arrangements such as NAFTA, ASEAN, and EU, within region trade South Asia remains very low.

Table 1 records regional exports as a percentage of a country's total exports. The shares vary widely, from 74 percent in the case of Bhutan to only 2 percent Bangladesh and 7 percent for India and Maldives. Intra-regional exports account for 61 and 62 percent, respectively, of Afghanistan's and Nepal's total exports. Similar to exports, there are wide variations in the relative importance of intra-regional imports for SAARC countries. Approximately 73 percent of Bhutan's imports and 52 percent of Nepal's imports are from SAARC countries. In sharp contrast, only one percent of India's imports are from other SAARC member countries; low intra-regional dependency is also evident for Pakistan, where imports from other SAARC member countries account for only 4 percent of total imports.

Total exports of a SAARC member country as a percentage of total exports of all eight SAARC member countries is a measure of their relative trade openness and size. India accounts for 65 percent of the region's combined total exports. Pakistan accounts for 21 percent while Afghanistan and the Maldives together account for only about one percent. In terms of imports, Sri Lanka accounts for 24 percent of total intra-regional imports, followed closely by Bangladesh at 22 percent. Bhutan and Maldives account for only one percent of total imports by SAARC member countries.

3. Economic Union in South Asia: Which Way to Go?

The path to the SAEU will have its own route, based on the contexts prevail in South Asia. ASEAN is also moving towards a deeper regional integration considering the specific context in the ASEAN region. ASEAN aims to realize an ASEAN Economic Community (AEC) by 2015 which is defined as FTA plus and not a customs union. South Asia is expected to achieve substantial tariff reduction by 2016 to facilitate freer movements of goods and services across the regional countries. The two regions are therefore almost at the same stage and are expected to move forward almost to the same direction in the next 5 years. The Vision 2020, ASEAN Charter adopted by ASEAN and its roadmap for the creation of an ASEAN Economic Community offers a relevant model for SAARC. The AEC vision calls for ASEAN to act in accordance of the principles of an open, outward-looking, inclusive, and market-driven economy consistent with multilateral rules as well as adherence to rules-based systems for effective compliance and implementation of economic commitments. The AEC is essentially an FTA Plus model in which barriers to movements of goods, capitals, labor, and services will be reduced as much as possible. ASEAN is neither aiming to move to ASEAN Custom Union with a common tariff structure nor targeting to become an Economic Union with a common currency. This FTA Plus model of ASEAN therefore can be applied to South Asia, while taking into account regional peculiarities.

While SAEU would require greater regional economic policy coordination, SAARC should learn from the experience of the European Union and not rush into economic arrangements that may not be politically sustainable. SAEU must be careful in taking steps towards monetary and fiscal policy coordination. At this stage, the SAEU can be defined as an FTA Plus arrangement in South Asia. The first priority for SAEU would be to complete the on-going process of economic integration through freer trade and capital flows. A second priority would be to undertake investment in regional infrastructure, especially transport connectivity that would facilitate ease of travel. Third, any road map for a South Asian 'economic union' must be mindful of the inherent structural imbalance in SAARC, given India's unique position in terms of its size, vis-à-vis other member nations, and the fact that it alone has substantial economic links with all other member nations. The SAEU will be a combination of three approaches to regional economic integration (government-led, market-driven, and project-

Table 2: Elements of SAEU

Elements	SAEU
Free flows of goods (FTA)	Yes (SAFTA)
Free flow of services, labor, and capital (Common market)	Yes (Agreements on investment and services (e.g., SATIS)
Efficient cross border infrastructure (Sub-regional growth area)	Yes (Transit and energy agreements)
Integration of regional production network (Sub-regional growth area)	Yes (Regional industrial policies)
Efficient regional institutions	Yes (SAARC Secretariat, SARSO etc)
Sufficient financial resources for regional cooperation initiatives	Yes (South Asia Development Fund)
Common external tariffs (Custom Union)	No
Common currency (Economic Union)	No
Harmonization on economic policies (Economic Union)	Yes (with incremental approach)

Source: Raihan and Cuong (2014)

based). The regional economic integration in South Asia can take into account both the sub-regional growth area approach and production network approach. Raihan and Cuong (2014) defined the elements of South Asian Economic Union, which is a combination of FTA, common market, and growth areas supported by efficient regional institutions and funding mechanisms (Table 2).

4. South Asian Economic Union: Challenges and Tasks Ahead

Implications of further regional trade liberalization

It is important to understand the implications of full implementation of SAFTA (with and without the sensitive list) and also the impact of further deeper regional integration in South Asia. There are concerns with regard to how the next phases of regional integration, such as customs union or services or trade facilitation would have impact on the member countries in SAARC. Raihan (2014a) made quantitative assessment of different scenarios related to deeper regional integration in South Asia with the use of global general equilibrium model. Eight simulations considering eight different scenarios are run in the model. They are as follows:

- Scenario 1: SAFTA- zero tariff with no sensitive list. South Asian countries reduce their bilateral tariff to zero. GTAP standard closure of full employment.
- Scenario 2: SAFTA - zero tariff with no sensitive list. South Asian countries reduce their bilateral tariff to zero. Closure of fixed wage rate of unskilled labor in the South Asian countries
- Scenario 3: SAFTA - zero tariff with sensitive list. South Asian countries reduce their bilateral tariff to zero, except the products in the sensitive list. GTAP standard closure of full employment
- Scenario 4: SAFTA - zero tariff with sensitive list. South Asian countries reduce their bilateral tariff to zero, except the products in the sensitive list. Closure of fixed wage rate of unskilled labor in the South Asian countries.
- Scenario 5: Reduction in bilateral tariffs among the South Asian countries to 0-5 per cent. All bilateral tariffs of South Asian countries (among themselves) are cut down to 5 per cent leaving MFN tariffs unaffected. In this case, the tariffs which are already zero, and the tariff rates which are less than 5 per cent, but higher than zero, are not affected further.
- Scenario 6: Reduction in Trade Cost. Reduction in bilateral trade cost among the South Asian countries by 10 per cent. Closure of fixed wage rate of unskilled labor in the South Asian countries.
- Scenario 7: Customs Union in South Asia. No SAFTA sensitive list in the base simulation (base is updated after SAFTA simulation). Closure of fixed wage rate of unskilled labor in the South Asian countries

Table 3: Welfare Effects of Different Scenarios (equivalent variations in million US$)

Country/ Regions	Scenarios							
	1	2	3	4	5	6	7	8
Bangladesh	-106.06	173.15	33.83	81.00	162.97	939.04	811.71	729.55
India	1061.84	1950.44	-42.08	1072.19	1191.84	3148.27	26986.82	27325.45
Nepal	314.33	595.12	784.92	1201.28	589.94	669.16	-180.23	-453.41
Pakistan	441.80	433.34	376.32	335.48	306.69	771.27	-922.59	-900.11
Sri Lanka	12.54	284.66	-4.41	65.91	176.51	1386.33	374.76	360.98
Rest of South Asia	209.30	294.14	533.31	656.06	231.59	472.71	-206.92	-505.02

Source: Raihan (2014a)
Note: Simulation results from the GTAP model

- Scenario 8: Customs Union in South Asia. SAFTA sensitive list in the base simulation (base is updated after SAFTA simulation). Closure of fixed wage rate of unskilled labor in the South Asian countries

The welfare effects of the simulation results are presented in Table 3. The simulation results suggest that in general SAFTA is welfare creating for the member countries. A full elimination of tariff under SAFTA with no sensitive list would be most desirable. However, even reduction of tariff to 0-5 per cent would also generate significant positive gains for the member countries. The sensitive list has the restraining effect on the rise in intra-regional trade in South Asia. The scenario of a Customs Union in South Asia would not generate welfare gains for all the member countries and it would generate large imbalance in the distribution of gains. The reduction in trade cost would generate large welfare gains in South Asia and the magnitude of the gains are larger than the gains generating from tariff cuts. Therefore, full implementation of SAFTA with reduction in NTBs and improvement in trade facilitation should be the priority for the next phases of regional integration in South Asia.

Issues related to further tariff liberalization

The tariff liberalization process under SAFTA is too slow. A major reason behind the slow progress in effective regional tariff liberalization is the Sensitive Lists, which are a critical barrier to intra-regional trade. Raihan (2008) highlighted that a major flaw of SAFTA Agreement is the lack of categorical provisions for phasing out negative lists, or in prescribing time lines for doing so.[1] There have

Table 4: Coverage of Revised Sensitive List under SAFTA (% share of imports of sensitive products in total imports)

	Import from					
	Bangladesh	India	Nepal	Pakistan	Sri Lanka	Rest of SA
Bangladesh	-	47.72	97.56	52.93	40.18	52.38
India	0.01	-	0.00	17.13	11.25	0.06
Nepal	-	45.40	-	9.67	45.95	-
Pakistan	5.16	9.54	20.81	-	46.81	8.89
Sri Lanka	18.35	31.56	0.00	12.82	-	72.39
Rest of SA	63.48	52.63	71.88	80.34	54.23	-

Source: Raihan (2014a)

[1] There are concerns about the size of the negative lists, as they appear to be too long. This detracts from Article XXIV of GATT, which states that a free trade area should cover substantially all trade.

been Revised Sensitive Lists under SAFTA (Phase-II). Even after the reductions in the number of products in the Sensitive Lists, they are still very restrictive. Raihan (2014a) reviewed the coverage of the revised Sensitive Lists and found, for example, that Bangladesh's revised list still includes about 48 percent of its total imports from India (Table 4).

Tariff reduction/elimination provisions in the India –Sri Lanka FTA and Pakistan-Sri Lanka FTA are broader and deeper relative to SAFTA. A more proactive policy initiative would be needed for SAFTA to match the deeper tariff cuts of bilateral FTAs. Raihan (2008) observed that the Rules of Origin (RoO) under SAFTA should be consistent with those in force in various bilateral trade agreements within the SAARC region; these are more liberal than the prevailing SAFTA rules. Further, directly relevant to the rules of origin, gradual convergence of the external tariffs of member countries is essential. Raihan and Ferdous (2014) further observed that given the fact that value-additions of most of LDCs' export products are very low, a 30 percent value-addition requirement under SAFTA would act as a significant barrier for their export expansion in South Asia. In addition, the other criteria of the RoO, namely, the change in tariff head under SAFTA, should also be made consistent with those that are currently in force in the bilateral trade agreements within the SAARC region, which is happen to be more liberal than the prevailing SAFTA rules.

Non-Tariff Measures (NTMs) and Non-Tariff Barriers (NTBs)

As the tariff rates are going down, NTMs/NTBs appear to be the major barriers on intra-regional trade in South Asia. Raihan, Khan and Quoreshi (2014) suggested that there is a need to review and analyze the core NTMs, e.g., SPS, TBT, Port Entry Restrictions, and Para-Tariffs for their trade restricting effects, and undertake appropriate steps to address them at the SAARC level. Also internal capacity of SAARC Secretariat should be strengthened to establish mechanism to deal with the reports and complaints generated by the business community and apex trade bodies. The respective governments should be encouraged to review the detailed country-specific list of products that have export capacity but no or limited intra-region trade, and find out the possible reasons for their low regional trade, in order to devise strategies for trade promotion and development, and to remove trade barriers. Harmonization of TBT and SPS measures is required. The relevant NTMs, if harmonized, will pave the way for accepting certificates issuing by the competent authority of the exporting SAARC country for allowing entry, instead of conducting inspection at border points or at facilities situated at farther interior. To do away with the trade-impeding effects of NTMs/NTBs, Mutual Recognition Agreements (MRAs) among respective organizations of the South Asian countries are needed for specific products or industrial sectors. In absence of formal MRAs, non-acceptability of conformity assessment certificates of any particular product, if and when this issue arises, should be resolved by mutual cooperation programmes without restricting trade. There is a need to allocate adequate human and financial resources to SAARC Regional Standards Organization. The accreditation bodies or agencies of partner countries may set up accreditation centers in collaboration with a designated national agency to facilitate mutual cooperation with necessary capacity building under technical and financial assistance from mutli lateral or bilateral development partners. Structured programmes should be initiated, or endorsed by the SAARC Secretariat (in case of third party initiatives) to increase the interactions between the business community and key government officials in each SAARC country on a regular basis to exchange views in order to reduce/eliminate procedural obstacles and duplication of documents. Each SAARC country should expedite and prioritize introduction of increased automation of their customs clearance procedure. The resources for customs automation may be mobilized by support from multi lateral development agencies under various 'Aid for Trade' schemes.

Greater benefit through effective and faster implementation of SATIS

Liberalization of the services trade has become a critical economic agenda for the South Asian countries. At the 16th SAARC Summit in Thimpu in April, 2010, the South Asian Agreement on Trade in Services (SATIS) was signed with the aim of liberalization of intra-regional trade in services. Member States are yet to schedule their specific liberalization commitments under SATIS. Chanda (2014) argued that several steps could be taken to promote services integration under SATIS, which include streamlining of investment regulations, improving the business environment, enhancing institutional and regulatory capacity, ensuring regulatory cooperation, and enhancing people mobility. Chanda (2014) also argued for an incremental, phased and prioritized approach for sectoral coverage, under which liberalization should precede in the least contentious services, such as tourism or IT, where success is more likely and where there are fewer regulatory complexities that could delay efforts. Pilot projects could be launched in these services, ideally on a plurilateral and sub-regional basis. Introduce some degree of automaticity in the negotiating modalities, given the high levels of restrictiveness in the region and concerns about competitiveness among the member countries. Chanda (2014) also argued for an incremental and phased approach with regard to country participation in services discussions, where the ideas is to proceed on issues and sectors and sub-sectors where there is a minimum core group of 3 or more member countries who are interested in participating, and this group could be expanded over time as outcomes are realized among a smaller set of countries and processes and there is learning by doing. Chanda (2014) further argued that the implementation of SATIS should involve four critical steps: i) improve the information base on services not only for individual member countries but also in terms of their bilateral trade and investment flows with other South Asian countries; ii) undertake more focused regional discussions on regulatory and institutional issues to facilitate cross-country learning in the development of regulatory frameworks and regulatory harmonization; iii) development of the regional transport services infrastructure and trade facilitation measures in the region; and iv) engage in capacity building efforts regionally.

Raihan (2014b) suggested that competitiveness of the services sectors and a well-functioning regulatory system are essential for ensuring gains from services trade liberalization in South Asia. Development of skill and technologies in the services sub-sectors can improve the competitiveness of these South Asian countries. Complications relating to services negotiations call for the South Asian countries to know ways to deal with intricate matters associated with specific details of various provisions. Furthermore, taking effective participation in services trade requires enacting and implementing the necessary domestic regulations. All these will require technical assistance and their effective utilization.

Regional investment cooperation

South Asia remains one of the lowest recipients of FDI among the developing regions. Also, the intra-regional distribution of FDI is highly unequal, with around 90 percent of the FDI inflow in South Asia is destined to India. Moazzem et al (2014) observed that intra-regional FDI in South Asia comprises only less than 5 per cent of the total FDI flow and India is playing the dominant role as investor within the region. Major reasons behind poor intra-regional investment are restriction on bilateral investment between major trading countries - India and Pakistan, high overall regulatory restrictions on FDI, specific restrictions placed on doing business with other countries in the region, weak institutions to protect foreign investors, tariff barriers, non-tariff barriers such as different standardization and certification process, subsidies on agricultural products and different custom rules and regulations and exchange rate, corruption, bureaucratic delays and property disputes, lack of cross-border facilities such as transportation and communication and absence of effective banking network.

Chanda (2014) argued that regional discussions on investment could specifically focus on speedier clearances and approval procedures in general; fast track procedures for regional investors with prior collaboration or expertise in the country or sector; fast track clearances in identified services which are largely commercial in nature and where there are fewer sensitivities; provision of regular and updated information on the regulatory framework governing investment in different services through government websites and reports; information on bidding processes and award of contracts; considering a regional investment treaty and double taxation treaties among the countries to remove existing barriers to investment in the region; addressing issues of investment facilitation, investor protection, dispute settlement, and contract enforcement so as to ensure greater ease, transparency, and commitment in regional investments; developing investment policies and associated regulations in a coordinated manner, enable harmonization of rules and procedures, and mutual recognition of standards and technical specifications in services within the region. Chanda (2014) further argued that investment facilitation and related regulatory cooperation would also need to be supported by financial integration through harmonization of financial services regulations and standards and facilitation of remittance and investment flows through formal banking and capital market channels is also required to support this process. Concrete steps aimed at the removal of exchange restrictions, adoption of common standards and an explicit policy of harmonization and efforts to bridge gaps in regulatory and enforcement capacity in the financial sector need to be undertaken. The negotiating architecture under SATIS would also need to provide a legal framework to address investment issues more effectively.

Trade facilitation measures

Despite the improvements, trade facilitation indicators in South Asia remain substantially weaker than those achieved in other regions of the world. According to the World Bank's Logistic Performance Index (LPI), South Asia is just ahead of Sub-Saharan Africa and well behind all other regions.

Raihan and Razzaque (2014), Raihan and De (2014) and De, Raihan and Khaturia (2012), using the GTAP model, showed that the gains from trade facilitation in South Asia are much higher than the gains from mere tariff-cuts from promoting intra-regional trade in goods. Therefore, in order to make SAFTA effective, trade liberalization may be considered as a necessary condition, but not a sufficient one. Therefore, utmost policy priority should be given to develop trade infrastructure facilities and improve trade facilitation measures.

For moving towards South Asian Economic Union, De (2014) suggested establishment of national trade facilitation committees; adoption of the WTO Trade Facilitation Agreement, with the support of the ADB, World Bank, UNESCAP, and other organizations; targeted measures by both the governments and private sectors to reduce the time and transactions costs of cross-border trade; active involvement of chambers of commerce and industry associations in simplifying and automating documentation, certificates of origin, and other steps in the import/export process; progress in aligning national procedures and documents with international standards and conventions; tailoring trade facilitation measures in support of cross-border production networks, especially in support of SMEs; identification of backend production opportunities in South Asia and the steps needed to realize these linkages, possibly led by a Project Development Facility to facilitate planning and implementation of cross-border projects; establishment of single-window border facilities for processing of trade-related information and documents, modelled after successful single-window border facilities (e.g., Korea); increased use of ICT and development of paperless trade (e.g., acceptance electronically of cross-border Bills of Lading); streamlining and harmonization of inspection and testing procedures and improved risk management systems; harmonization of hours of operation of customs facilities; improvements in multimodal connectivity; and introduction of trade facilitation performance monitoring systems.

Promotion of regional value chains

Banga (2014) argued that there is a case for forming regional value chains (RVCs) in South Asia, particularly in industries like textiles and clothing, leather and leather products and food processing. However, imitating into RVCs in South Asia cannot happen automatically or cannot be left to the market process. Targeted and strategic policy interventions are needed at both at the regional as well as national level. These include short-term actions for increasing the momentum of intra-regional trade and investments as well as long term planning which would address domestic constraints and improve the capacity of the country to productively integrate with the region. Banga (2014) suggested a number of measures for the promotion of regional value chain in South Asia. These include bringing the private sector of different countries within the region closer and unlocking its dynamism for boosting regional trade and investments. Specific regional initiatives suggested are as follows: forming industry-specific regional industry associations; promoting common regional labels; encouraging setting up of regional design studios and joint research and development (R&D) in the identified industries; accelerating trade facilitation for the region; deepening intra-regional trading arrangements; improving physical and telecommunication infrastructure, mobilizing regional resources; and encouraging common direction for the identified industries in the industrial policies of the countries in the region which have the potential for forming RVCs.

Cross-border energy cooperation

There are significant prospects of cross-border energy cooperation in South Asia. Fernando (2014) suggested that in recognition of their extensive energy potential and requirements, SAARC member countries should intensify their cooperation in developing and sharing the region's energy potential, including of renewable energy. Policy initiatives for the development and sharing of the hydropower potential in Bhutan, Nepal and other areas of the region should include: (i) encouraging and facilitating expanded participation by the private sector; (ii) assistance for detailed feasibility studies, financing mechanisms, and PPP investments; (iii) developing a regional data base on possible cross-border power transmission connections; and (iv) determining interconnection modalities (HVAC of HVDC), their operational feasibility and economic viability.

Fernando (2014) also suggested that the policy initiatives concerning development of a regional power market should include: (i) analysis of the power structures in the member countries, their legal and regulatory frameworks, their security and stability standards, and their compatibility; (ii) analysis of the power generation scheduling and dispatch procedures, energy accounting systems, financial settlement systems and of the institutional, regulatory and commercial requirements for cross-border power trade; and (iii) development of a framework for regional power exchanges linking with the power systems of SAARC member countries.

Ways to deal with informal trade

One important aspect of the South Asian intra-regional trade is the presence of informal border trade at border, which has always been thought to be very high. There have been some studies on the informal border trade among the South Asian countries and it is pointed out that the informal and illegal trade between India and Bangladesh, India and Nepal, India and Sri Lanka, and India and Pakistan could be significant proportions of the recorded trade (Pohit and Taneja, 2003; Taneja et al, 2004; Das and Pohit, 2006; World Bank, 2006).

Informal trade among SAARC member countries is substantial, in part because of the extensive Sensitive Lists under SAFTA and the relatively tight Rules of Origin. Further, export restrictions (e.g., on food exports) and non-tariff factors (e.g., trade-restrictive product standards) are additional impediments to formal trade. Taneja (2014) argued that lack of proper transport and transit facilities, cumbersome customs procedures, excessive paperwork and poor infrastructure at border prompt traders to rely on informal rather than formal channels. While SAARC member countries have made important progress in facilitating cross-border trade and in reducing the associated transaction costs (including time), further improvements are urgent. Taneja (2014) suggested a number of measures including simplification of customs procedures and the paperwork through improved cross-border infrastructure and transport protocols, easier visa processes, cellular services and courier facilities, upgrading trade information base, increased communication among traders in SAARC member countries; greater dialogue among traders for a more active and amenable business environment, SAARC on-line networks of traders, trade fairs and exhibitions, streamlined border security, streamlined payment process for formal trade transactions through establishment of cross-border banking facilities, and easier access to credit and banking system.

Strengthening institutions

Cuong (2014) argued that institutional strengthening for a South Asian Economic Union (SAEU) increasingly depends on state governments working closely with the private sector, civil society, and think-tanks. Cuong (2014) suggested a number of measures which emphasize that the SAARC Summits to be informal and of closed-door format so as to enable discussions on a wide-range of topics; protocol should be minimized; to be supported by a more inclusive Council of Ministers, whereby foreign ministers work closely with finance, commerce and planning ministries; to be supported by National Focal Points that are more inclusive and with mandates for inter-agency cooperation in implementing SAARC agreements; to be accompanied by informal consultations on the side lines. Cuong (2014) further suggested to expand the use of the Action Committees of SAARC's Standing Committees to introduce more flexibility in the decision-making process, especially with regards to technical matters concerning two or more countries; to consider a SAARC Plus Mechanism, similar to the ASEAN+1 mechanism, allowing non-SAARC countries (e.g., Myanmar) to share in SAARC's regional cooperation initiatives; to promote social regionalism through greater person-to-person inter-connectivity; to assist SAARC's least-developed member countries in implementing and enforcing Summit agreements; and to strengthen the SAARC Secretariat in terms of staffing, infrastructure, finance and institutional autonomy.

5. Conclusions

The current regime of regional integration in South Asia has primarily focused on the rise in intra-regional trade in goods. However, South Asia is at the verge of a new regime of regional integration, which has to involve four integration processes: (i) *market integration*: integration in trade in goods and services; (ii) *growth integration*: integration in economic growth processes of the South Asian countries; (iii) *investment integration*: promotion of regional investment and trade nexus; and (iv) *policy integration*: harmonization of economic and trade policies. A new regime on regional integration in South Asia calls for these four integration processes through responding four fundamental questions:

On the first question ***"Why** is there a need for a deeper regional integration in South Asia*?" the answer is: there are now convincing evidences that deeper regional integration is needed for generating and sustaining economic growths in the South Asian countries, i.e. regional integration will be a critical factor in the future growth processes of these countries. This is required for larger employment creation and alleviation of poverty in a region which has the highest number and density of poor people. For the promotion of inclusive growth, regional integration will be an effective instrument. Ensuring food security is a challenging issue, and intra-regional trade in agricultural and food products will be immensely critical. Deeper regional integration through trade and transport facilitation will increase competitiveness of these countries to better participate in the global trade. Promotion of regional supply chain will be critical in developing dynamic comparative advantages of these countries. Finally, the peace dividends, through intra-country stable political relations, will be immensely high.

On the second question *"**How** to achieve deeper regional integration in South Asia?"* the answer is: despite all shortcomings, SAFTA is a landmark achievement, and deeper integration has to take lessons from SAFTA. Intra-regional trade in South Asia has been low, but there are signs of huge potentials. There is a need to move beyond SAFTA; and the new regime has to put much weight on regional *investment and trade nexus*. Promotion of intra-regional investments and attracting extra-regional FDIs in goods and services sectors in general, and energy and infrastructural sectors in particular will be the key driver in the new regime.

On the third question *"**What** to do?"* the answer is: a comprehensive assessment is needed on the achievements of SAFTA so far. For deeper market integration in goods, full implementation of SAFTA is needed with emphasis on further liberalization of intra-SAARC tariffs, reduction in sensitive list, relaxing the Rules of Origin, and establishing effective mechanisms to deal with the NTMs/NTBs. There is a need to link intra-regional liberalization with enhanced intra-regional investment in different services sectors. Regional and sub-regional efforts have to be promoted for different trade and transport facilitation measures, for cooperation in energy generation and transmission, and for linking energy cooperation and trade and transport facilitation with investment and growth processes of these countries. The focus should also be on the promotion of regional supply chains. The new regime will call for greater integration in trade, macro, financial and industrial policies with the aim for removing different policy and structural barriers. Short-term and medium term realistic targets should be spelled out. The new regime will re-emphasize on the importance of concrete regional efforts in the diversification of the export structures of the smaller and weaker countries for them to effectively integrate with the regional economy.

On the fourth question *"**Who** will do and what?"* the answer is: the new regime will require clear and visible leadership from India in taking the agenda forward. Other countries in the region should not be only at the receiving end but also have to take part actively and effectively. The new regime will call for all South Asian countries to balance what effectively they can offer and what they can expect in the deeper integration process. Regional institutions, like SAARC Secretariat, have to be institutionally reformed and reoriented. Business associations and civil society organizations have to understand and take part in the political economy process of pursuing regional integration agenda in South Asia more than ever under the new regime.

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Challenges to Regional Services Integration in South Asia

Rupa Chanda*

1. Introduction

Regional integration efforts have been modest in South Asia. SAFTA and SAPTA have had little or no impact on trading patterns. Trade liberalization under these agreements has been shallow and limited in coverage. It has, however, been argued that the potential benefits from expanding the ambit of regional integration to include services could be huge. The 14^{th} SAARC Summit Declaration specifically stated the need to integrate services into the Agreement if SAFTA was to realize its full potential. It called upon member countries to work towards an early conclusion of a SAFAS (SAARC Framework Agreement on Services, later termed the SAARC Agreement on Trade in Services or SATIS). The August 2008 Colombo SAARC Summit Declaration stated that extending SAFTA to include services would considerably broaden its scope and impact and boost competitiveness in key emerging sectors such as banking, communications, and aviation. The 2008 Summit also highlighted the need for regional cooperation on regulatory frameworks, data, and standards to complement efforts at regional services integration.

This article examines the scope for and potential benefits from regional integration of services in South Asia. The core discussion focuses on the prospects for and challenges to this integration. Section 2 provides a brief overview of the history of services integration in South Asia under the SAARC. It outlines the status of the services negotiations under SATIS. Section 3 examines the regulatory and business environment in South Asia to highlight the lack of preparedness at the national level to support regional services liberalization. Section 4 discusses the case of two selected services, namely, tourism and health to illustrate the regulatory and other challenges that impede the realization of regional integration opportunities in services. Section 5 highlights the political

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economy challenges, which prevent progress on critical cross-cutting issues such as mobility of service providers and investment in South Asia. Section 6 presents possible modalities for furthering regional services integration and the key drivers for this process. Finally, conclusions are presented in Section 7.

2. Overview of Services Integration in SAARC

SATIS was signed at the 16th SAARC Summit in 2010. It resembles the GATS in terms of its provisions, carve-outs and scheduling modalities. The objective is progressive liberalization of services, which is in line with national policy objectives, the level of development and size of the member economies. The general guidelines call for countries to make initial offers, which make substantial sectoral and modal improvements over their existing WTO commitments in services.

Thus far, initial request lists have been received by all member countries, excepting Afghanistan, from one or more of the regional partners. Initial offers have been made by all member countries, excepting Afghanistan. The requests are extensive.[1] Construction and engineering services, business services, financial, education, transport and tourism services are common across request lists indicating commonality of interest in these services. India's requests are the most extensive, with separate lists for LDC and non-LDC members of SAARC and computer and related services and professional services being the sectors of most interest. The offers across member countries are, however, quite limited in both scope and depth as illustrated in Table 1. They are subject to conditions of foreign equity ceilings, minimum capital requirements, preferential treatment of domestic service providers and economic needs tests.

Most services remain outside the purview of these offers. Except Nepal and Pakistan, less than 50 percent of the possible services that can be negotiated have been offered. Even within the latter services, there are numerous sub-sectoral carve-outs, with only specific segments being tabled for market access negotiations. Offers in health services are limited to hospital services, offers in tourism and travel services are limited to hotels, and offers in construction services are limited to general construction work for civil engineering. Segments such as tour and travel operators or health professionals are not included. Several important services that are critical for regional connectivity and development, such as transport services, or health services, where there is scope for regional cooperation and commercial and social linkages, have mostly

[1] Under the bilateral request-offer approach, countries make requests to partners to open up sectors and modes and receive offers in response to these requests.

Table 1: Status of SATIS Offers by SAARC Member Countries

Sector	Bhutan	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka
Business Services							
Professi onal	X		X	X	X	X	
Computer and related	X		X	X	X	X	
Other			X		X	X	
Communication		X	X		X	X	X
Construction and related engineering			X		X	X	
Distribution					X	X	
Education					X	X	
Environmental	X				X	X	
Financial					X	X	X
Health and related Social					X	X	
Recreational, cultural, sporting					X		
Tourism and travel Related	X	X	X		X		
Transport					X		
Remarks-conditions	Unbound subsidies, minimum investment requirement, FDI cap of 51%, intra- corporate transferees at management level, foreign exchange payments as per Central Bank guidelines	Network services only by government operators, foreign employees in management/s pecialized jobs	Differential taxation/ subsidies, numerical ceiling on motion pictures, ICTs	No conditions	Maximum foreign equity of 80%, local incorporation require, no subsidies for foreign companies, ICT at managerial level, no transactions in real estate by foreigners	No subsidies for foreigners, ICT at managerial, ENT, residency require- ments	Sub- sectoral carve out, FDI ceiling of 40%

Source: Pandey (2012)

not been scheduled. Even India, which is known for its strong performance in certain services, has only offered four service subsectors.

Considerations of employment seem important. Segments where market access could potentially have adverse implications on the labour market are either left out altogether or mode 4 conditions ensure that access is restricted to only Intra-corporate Transferees (ICTs). There is unwillingness to liberalize mobility of natural persons for independent professionals and contractual service suppliers, indicating the overlapping and competing interests of the SAARC member countries in this mode. Considerations surrounding foreign investment also seem important, in that there are restrictions on the degree of foreign versus local participation, various conditions on these providers, and presence of state operators in some infrastructure services.

Lack of meaningful market access offers indicates an overall conservative stance towards regional services integration, even though member countries have undertaken unilateral liberalization in services. As argued next, this stance partly reflects the behind-the-border regulatory and institutional barriers, which undermine not only unilateral liberalization undertaken but also the process of regional services liberalization.

3. Overview of the Challenges to Services Integration in South Asia

The countries in South Asia have undertaken considerable opening up and deregulation of their service sectors. This should in principle enable them to commit substantive market access in services and to bind in their existing levels of market access under integration arrangements. Table 2 highlights the extent of FDI liberalization across various services.

Although 100 percent FDI participation has been permitted in many services, this only reflects border-level liberalization. It does not capture the many behind-the-border regulations that undermine effective market access and competition. Segments remain restricted within these services (e.g., tour operator services within tourism services). Market structure related conditions and state-owned enterprises dominate certain services (e.g., electricity, ports) and undermine market access granted through FDI liberalization. For example, though foreign capital participation is permitted in many services in Bangladesh, investments in the service sector may not enjoy benefits in the form of repatriation of profits as permitted in manufacturing. Some strategic sectors such as ports, airports, electricity transmission and distribution are dominated by public sector enterprises, which operate under monopolistic market structures, impeding the entry of foreign investors. In India, restrictions on foreign equity ownership are greater than for the South Asia region as a whole and also the BRICS grouping. In several services, FDI liberalization indicators are the lowest for India within the region, although it is India which

Table 2: Foreign Investment Regime in Selected Services in South Asia, 2010 [a, b]

Region/ Economy	Light manufacturing	Telecom	Electricity	Banking	Insurance	Transport	Construction, tourism & retail	Media	Health care & waste management
South Asia	96.3	94.8	94.3	87.2	75.4	79.8	96.7	68	100
Afghanistan	100	100	100	100	100	100	100	100	100
Bangladesh	100	100	100	100	100	100	100	100	100
India	81.5	74	100	87	26	59.6	100	63	100
Pakistan	100	100	100	49	51	79.6	100	37	100
Sri Lanka	100	100	71.4	100	100	60.0	100	40	100

Source: World Bank, Investing Across Borders, 2010

Note:

[a] This topic measures overt statutory restrictions on foreign ownership of equity in new investment projects (greenfield FDI) and on acquisition of shares in existing companies (mergers and acquisitions).

[b] The table shows foreign equity ownership indexes (where 100 = full foreign ownership allowed) for 11 sector groups, which can be disaggregated into 33 sectors

is the largest and dominant player in services in South Asia, which would be expected to provide the momentum for services integration. Some segments of India's transport sector, such as freight transport, are not only dominated by public monopolies but are also closed to foreign equity participation. In several key services such as insurance and publishing, foreign ownership is highly restricted and only minority participation is permitted. In Pakistan, there are ownership restrictions in certain services, in the form of residency and nationality requirements, government approval requirements, very restrictive FDI ceilings, and minimum investment requirements. Similar restrictions on foreign investment apply in Sri Lanka. Thus, there is clear scope for a more pro-competitive environment in many services in South Asia, without which regional liberalization is difficult.

These behind-the-border challenges to liberalization of services in South Asia are captured in the Doing Business Indicators for these countries. These indicators, although not specific to services, reflect the difficult regulatory and business environment in this region, in turn posing difficulties for regional services liberalization.

The South Asian countries almost uniformly rank very low across a wide range of business environment indicators. The disaggregated rankings indicate that there are infrastructural and regulatory constraints, in terms of access to electricity, payment of taxes, enforcement of contracts and bankruptcy procedures. Hence, even if market access in services has been provided to foreign investors by relaxing foreign equity ownership restrictions, regulatory and infrastructural factors would continue to limit the actual extent of market entry and constrain the operating conditions for investors (both foreign and domestic) in these countries. The latter also reflects their weak regulatory frameworks, lack of institutional capacity, and absence of pro-competitive market conditions.

The aforementioned problems of business environment coupled with the small markets of some of the economies in this region, translate into very low volumes of intraregional FDI. Even for India, which is the largest outward FDI source among the SAARC nations, intraregional FDI constitutes only 1.5 percent of its total outward FDI[2]. Further, key players such as Pakistan and India do not permit cross-border investments (on security grounds).

Overall, the limited progress under SATIS in large part reflects the regulatory and institutional constraints at the national level. These barriers not only make the countries in this region less prepared and willing to make substantive market access offers but also make the regional market less attractive for securing market access interests, especially when juxtaposed against the small market size and low paying capacity in some member nations.

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2 Source: UNCTAD Statistical Database

Table 3: Doing Business Indicator Rankings for the South Asian Countries, 2011

Economy	Ease of Doing Business Rank	Start ing a Busi ness	Dealing with Constructi on Permits	Getting Electricity	Registe ring Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Maldives	79	59	20	132	152	166	79	1	137	92	41
Sri Lanka	89	38	111	95	161	78	46	173	53	136	42
Pakistan	105	90	104	166	125	67	29	158	75	154	112
Bangladesh	122	86	82	182	173	78	24	100	115	180	107
India	132	166	181	98	97	40	46	147	109	182	128
Bhutan	142	83	135	145	83	126	147	67	169	35	183
Afghanistan	160	30	162	104	172	150	183	63	179	161	105

Source: World Bank, Doing Business Indicators, 2011

4. Prospects, Challenges and Ways Forward in Selected Services

The discussion that follows provides examples from the tourism and health services sectors to illustrate the regulatory, institutional and business environment constraints that impede services integration in the region. These services are selected as they are recognized as providing considerable scope for intraregional collaboration and commercial engagement.

4.1 Tourism Services

This is a sector where there is much commonality of interest and affinity due to language, culture, history, religion and geography, providing an excellent basis for regional cooperation. There are several segments such as sports and recreational tourism, adventure and eco-tourism, religious and cultural tourism, and medical tourism, where the scope for intraregional tourism and its potential spinoff benefits in terms of infrastructure development and employment creation are well recognized. Tourism services have in fact been identified as a priority area for cooperation and integration in SAARC.

Several intergovernmental initiatives exist, dating including the Scheme for Promotion of Organized Tourism in 1986 (to collectively promote tourism abroad and develop it at home and introduce a travel voucher system to promote intra-SAARC tourism without the outflow of foreign exchange)[3], the establishment of a Technical Committee on Tourism in 1991 and the formation of a SAARC Working Group on Tourism in 2004. There are bilateral agreements among some SAARC governments to promote hospitality and tourism (e.g., India and the Maldives via joint development of hospitality projects, increased flight frequency and cross- border cooperation between travel agents). Well known private sector companies such as the Taj Hotels and Resorts Group, the Leela Group, and the Oberoi Group are present in the hotels segment of other SAARC countries, through equity ownership, management contracts and joint ventures. Companies from some of the smaller countries in the region have also shown interest in investing in the larger countries.

However, numerous constraints have thwarted integration efforts in this sector, including poor transport connectivity and infrastructure, restrictive bilateral air services agreements (BASAs) and visa regimes. The absence of an integrated transport infrastructure in South Asia in terms of cross-border road and rail links, limited air connectivity between major cities and lack of transit facilities within the region are a major constraint to developing intraregional tourism.[4] Some countries in the region are not even directly connected

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3 See, Ahsan (1988) and Hussain (1999)

4 There are proposals to develop a road corridor component and a rail link between selected places in Northeastern India and Bangladesh and to modernize border crossing regimes.

between their major capital and non-capital cities. Weekly flight frequencies are in the range of 2 to 6 for some of the countries. Bhutan has the lowest flight connectivity with the rest of the countries, accounting for only 11 of the 665 weekly flights operating within the region, followed by Pakistan, which accounts for a mere 20 flights per week, and the Maldives, which accounts for 37 weekly flights in the region.

Air Services Liberalization indices indicate that the South Asian countries have very restrictive Air Services Agreements (ASAs), with scores of 10 or below out of a maximum score of 50, much lower than the world average. Further, the ASAs between South Asian countries are more restrictive than their agreements with countries outside the region. Hence, faster, efficient and affordable air connectivity, which is necessary for promoting intra-SAARC tourism, is lacking.

Another constraint is the visa regime. Visa requirements for business travel, employment, and medical and educational purposes are cumbersome in some countries. Multiple entry visas are typically not provided. Visas tend to be given for a very short duration, usually, 15-30 days on single entry basis. The documentation requirements between India and Pakistan are particularly onerous.[5] Visa fees between some of the countries tend to be quite steep. Some of the countries do not have provision for transit visas, which affects connectivity to the rest of the region through India, which is the best connected. There are no separate counters for SAARC travelers to facilitate intraregional business or leisure travel, unlike the case of ASEAN, where there are facilitation counters for ASEAN travelers, gratis visas on arrival for partner countries, and an ASEAN Air Pass, where travel to one ASEAN country qualifies a traveler to visit other ASEAN countries at a concessionary airfare.

Infrastructural factors and various policy constraints at the national level also pose a challenge to promoting intraregional tourism. Chief among these are inadequate airline-related infrastructure and capacity, problems of land transport due to security concerns, lack of integrated tourism policies, high transactions costs arising from multiple taxes and regulations, manpower constraints, a difficult investment climate, political instability, and uncertainties regarding the economic and regulatory environment. Restrictiveness indices for tourism services indicate that though the FDI regimes in this sector are liberal, such behind-the-border restrictions hurt the business environment in this sector[6].

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5 There are reporting requirements at the local police station or registration authorities for Indians and Pakistanis traveling to each other's countries and when moving to different parts of those countries, due to internal security reasons.

6 According to the World Bank Services Trade Restrictiveness Index

4.2 Health Services

Healthcare is a sector where the potential for regional integration and cooperation is well recognized. Article IV of the SAARC Social Charter calls for sharing of knowledge and expertise in this region regarding disease prevention, management, and treatment, sharing of capacity for manufacture of drugs, taking a coordinated stand in international forums, and adopting regional standards on drugs and pharmaceutical products.[7] Regional initiatives and recent developments, particularly in the private sector highlight the opportunity segments and progress on the ground.

One area is cross-border investment in hospitals. Several leading Indian hospitals have entered other markets in the region, through joint ventures with a local partner, wholly-owned subsidiaries and management contracts. India's Apollo Hospitals made its first overseas investment in Colombo, where it has set up a 350-bed super specialty hospital. It has also taken on an operations management contract for a 330 bed tertiary care hospital in Dhaka and entered into a JV with its Bangladeshi partner, STS Holdings, Dhaka. These projects aim to serve the large number of patients from these countries that are travelling to India as well as other markets (such as Thailand) for treatment. Indian hospitals are increasingly looking at entering Bangladesh through JVs and standalone entities, given that country's growing market and affluent population and economic stability.[8] Cultural and linguistic similarities and geographic proximity make Bangladesh an attractive market for overseas ventures for Indian hospitals in the eastern part of the country. The BM Birla Group is also considering setting up a hospital in Bhutan given the need for state-of-the-art healthcare facilities in that country. Manipal Hospitals from India has a 700-bed hospital in Pokhara. It also runs a hospital in Kathmandu University, as part of a joint educational programme under which students from Nepal can come to India to complete part of their qualifications. Recently, the Bhutanese government has expressed interest in attracting investment from Indian hospitals. According to media sources, the Hinduja Group in India had considered setting up a hospital in Sri Lanka, in response to a request from the Sri Lankan government.[9]

Another promising segment is medical tourism. The regional market has been identified as one of the four strategic segments for promoting medical tourism exports by Indian hospitals, given the underdeveloped facilities and unavailability of specialized treatments in these markets. Such patients would find medical care in India attractive due to cost, quality, cultural and

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7 See, SAARC Secretariat (2009)

8 See, Oberholzer-Gee, Khanna, and Knoop (2007), p.6.

9 Hindu Business Line (June 2005)

geographic proximity considerations. The Manipal Hospital in Bangalore receives patients from Sri Lanka, Bangladesh, Nepal, and Pakistan among the SAARC nations. Apollo Gleneagles hospital in Kolkata receives patients from Nepal and Bangladesh, while Apollo Chennai receives patients from Sri Lanka. Pakistan is seen as a potential source market for patients seeking high-end treatments at a reasonable cost. The Bhutanese government sends patients to Kolkata and Delhi and pays for their treatment. Bangalore-based Narayana Hrudayalaya hospital has established referral arrangements with hospitals and agents and tied up with travel operators in some of the SAARC countries to provide an integrated set of services to medical tourists from these markets. Interestingly, there are reports of patients in backward regions of some Indian states (Assam and Bihar) who are seeking healthcare services across the border in Nepal.[10]

There is evidence of telemedicine links between major hospitals in India and establishments in other South Asian countries for tele-consultation and tele-diagnostic services. Some identified opportunities are in remote monitoring of patients in other SAARC countries and tele-psychiatry. GE's subsidiary in Delhi provides telemedicine services to hospitals in Nepal. But overall, telemedicine in the region remains limited by the availability of high-end training and specialized equipment and acceptance of telemedicine as a form of healthcare delivery.

There are inter-governmental initiatives to promote regional cooperation in healthcare such as on disease control, joint research and regional consultations on communicable diseases and regional training programmes. There has also been discussion among governments in this region on traditional systems of medicine common to these countries, development of a regional health tourism package, development and testing of medical technologies for affordable health care, harmonization of standards and certification procedures, sharing of knowledge and expertise through regional conferences and seminars, and exchange of health professionals and academics. However, by and large, it is private sector initiative which has driven regional engagement in this sector.

Notwithstanding such prospects, numerous challenges at the government and private sector levels constrain regional integration in health services. Investments in Nepal have been affected by political instability in that country and by uncertainties over profit repatriation, problems of worker indiscipline and unionization.[11] Telemedicine services have been constrained

10 Hindustan Times (April 17, 2012)

11 A few years ago, the Maoist trade union called an indefinite closure of the Manipal Teaching Hospital in Pokhara, Nepal. The All Nepal Health Workers' Association and Manipal Non-teaching Staff Union closed down all departments except emergency services at the hospital. Hindustan Times (February 9, 2009)

by high cost of bandwidth, poor quality of images, lack of home devices, and problems of data security and potential breach of patient confidentiality.[12] Shortage of trained specialists for serving the local market in countries like India has made it difficult for their telemedicine providers to focus on the regional market. There have been difficulties with regional mobility of professionals, affecting the staffing of overseas investment ventures in the region and in organizing regional seminars and conferences to exchange expertise and build capacity in the region. One major limitation has been lack of recognition of qualifications. There is no formal mechanism for recognition of medical professionals' qualifications among SAARC countries.[13] Medical tourism has been constrained by delays in getting visas, the lack of processes for obtaining expedited medical visas, poor airline connectivity, and inadequate and poor local support infrastructure in the receiving country, problems, which also affect tourism in general.[14] Lack of insurance portability and regional insurance products is another constraint.

4.3 Summarizing the Prospects and Challenges

Similar examples can be provided from several other services such as education, IT, audiovisual or transport and logistics services regarding the existing intraregional opportunities and the lack of progress to date, due to regulatory, infrastructural and, capacity constraints. Many of these challenges are crosscutting with far-reaching implications across goods and services. Both domestic and foreign investments in the region are impeded by the difficult business conditions, by the lack of energy and transport infrastructure, by labour productivity problems and poor labour relations. Supply side constraints in transport and logistics have far-reaching consequences. Inadequate availability of vessels and manpower in the case of maritime transport infrastructure, capacity constraints with respect to the availability of airports, parkways, cargo facilities, security and baggage handling in the context of air transport services and problems with customs clearance, warehousing, banking multimodal transport, and other supporting facilities are major constraints to the intraregional flow of goods and services, investments and people. Lack of trade facilitation measures and missing infrastructural linkages between the countries make it difficult to undertake sub-regional projects. These constraints

12 Apollo's investment in Sri Lanka ran into problems due to differences with its local partner and concerns about the quality of personnel staffing the hospital. This led Apollo to exit via an IPO. See, Economic Times (September 14 and 16, 2006)

13 The status for recognition of qualifications in dentistry and nursing among the countries is not clear.

14 See, for Rahman (2000)

make the overall environment for integration unattractive for negotiators, policy makers and businesses. Thus, clearly, a key challenge to regional services integration in South Asia is the lack of regulatory and institutional capacity and the difficult business environment.

5. Domestic Lobbies and Political Economy Challenges

Lack of progress in regional services integration also reflects a protectionist mindset stemming from concerns about being outcompeted in one's market following liberalization, contributing to resistance to opening up regionally. The following discussion highlights the role played by domestic lobbies and political economy considerations in this regard.

5.1 Mode 4-Related Concerns

Vested interests have affected liberalization of mode 4 in professional services. For example, in the health sector, there has been resistance from local professionals to the entry of foreign service providers under cross-border investment projects in the region. Apollo's ventures in Dhaka and Colombo faced resistance from local health professionals to staffing by Indian doctors and health administrators. In Sri Lanka, it has taken as much as six months for the local medical council to register an Indian doctor. Indian telemedicine providers interested in providing services to Bangladesh have faced opposition from the local radiology fraternity due to concerns over displacement of local professionals.

Resistance from professional associations had arisen in the case of the India-Sri Lanka CEPA due to displacement related concerns. Sri Lanka feared an inflow of Indian accountants, doctors and managers under a CEPA. However, as some media reports indicate, these concerns were not valid as Sri Lanka had proposed mode 4 openings under the CEPA in only two services, computer and related services and ship repair and building, with conditions of numerical ceilings and qualifying criteria on skills and wages. India in turn had offered to allow an unlimited number of Sri Lankan professionals to work in India in several services that it had proposed to open up under CEPA.[15] However, as pointed out by a Sri Lankan ex-negotiator, such fears are common in discussions to liberalize mode 4 in professional services with respect to India. In the case of CEPA, it was the professional services lobby in Sri Lanka, which caused discussions to stall. Such concerns are further fuelled by the fact that many professional services firms in the region are proprietary in nature and are

15 Refer, Lanka Business Online (June 14, 2010)

characterized by many small players who fear competition[16]. The fears over mode 4 also stem from lack of regulatory capacity to ensure legality of entry, enforce quality and standards, monitor adherence to codes of conduct, prevent overstay, and address security considerations.

5.2 Fear of Competition [17]

Protectionist sentiments are also evident in areas other than mode 4 due to concerns over being out- competed by other regional providers. Nepal's transport agreement with India is a case in point. This agreement was aimed at facilitating the movement of transport vehicles and goods between the two countries and was seen as important for improving trade flows and enabling economic integration between the two. Although it was initiated at the Secretaries level in 2004-05, to date it has not been fully signed and is not operational due to protests from the Transport Association in Nepal. The reason for opposing this agreement is due to the higher operating costs of Nepalese transport operators, compared to their Indian counterparts. They operate Indian made vehicles, bringing them into Nepal after paying high import duties and higher fuel prices, which make them uncompetitive vis-á-vis Indian providers, who face lower operating costs for inputs and fuel. The Nepalese operators fear that they would be wiped out by Indian competition. As pointed out by a Nepalese respondent, these fears reflect their lack of competitiveness and the lack of enforcement of existing regulations, such as requiring all commercial border movement of vehicles to receive a clearance from authorities for picking up goods or passengers. The fear is that this latter requirement would be circumvented due to lack of regulatory capacity, giving rise to illegal trade and corruption.

A similar set of issues have arisen in the audiovisual sector, where there was pressure from India to open up Nepal's entertainment services (cinema and music) during Nepal's accession to the WTO. The fear among Nepali stakeholders was that they would be out-competed by Indian cinema owners.

One factor which has contributed to such concerns is the failure of governments in this region to disseminate information and to explain the

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16 In some countries, there is heavy dependence on Indian workers. Bhutan's construction services sector relies on India for building and maintaining hydropower and other infrastructure projects. But there have been problems due to high outflows for payment of Indian workers and failure to adhere to conditions such as granting top priority to Bhutanese in employment for hydro projects. See, Bhutan Observer (April 7, 2012) and Economic Times (June 14, 2009)

17 Much of the discussion in this section is based on interactions with negotiators and experts.

issues to the private sector. Often stakeholders in sectors such as legal services are completely averse to opening up due to misgivings that liberalization would cause foreign firms to enter into the litigation segment in their markets. Authorities and regulators need to explain to stakeholders that foreign law firms are not interested in litigation but in consulting and advisory services for third country and international law and further that liberalization of this sector can be subject to conditions to protect domestic interests. Likewise, in the case of the audiovisual services sector in Nepal, there was a need to explain the pros and cons and to arrive at conditions, such as minimum investment requirements, which could protect the interests of the local players. It was only after these issues were explained to the domestic industry that buy-in could be obtained and commitments were made. Even in the context of SATIS, there are complaints that the finalization of request and offer lists under this agreement was done without having enough consultations with relevant public and private sector organization.[18] As one senior respondent pointed out, the private sector in many of the smaller and less developed countries in South Asia often does not understand well the implications of liberalization or regional integration. As a result, private players often take a defensive orientation to negotiations. There is also a lack of institutional mechanisms to prepare and inform stakeholders about the implications of liberalization and the possible ways of protecting their interests. The absence of such consultations and proper information dissemination contributes to misgivings about liberalization, fuelled further by vested interests.

6. The Way Forward [19]

The preceding discussion indicates that although regional integration opportunities in South Asia span all kinds of services and all the GATS modes, progress has been slow. Intergovernmental cooperation has been narrow in scope, piece-meal, and not part of any long-term integrated strategy for cooperation. There is comparatively more progress under private sector initiatives, but, even here, the engagement is largely bilateral and is not underpinned by any long-term strategy for regional cooperation and for a climate that is conducive to regional investment and trade flows. Given this experience, there is a need to arrive at a more workable and realistic strategy for regional services integration.

18 Refer, Mendis (2012)

19 This discussion is based on Chapter 10 of Chanda (2011).

6.1 Possible Approaches

Regional integration in South Asia has been held back by the complex political economy of the region, in particular, the strained relations between India and Pakistan. However, part of the problem also lies in the approach that has been taken to integration. There has been a tendency to declare ambitious projects and targets without addressing the basic drivers to make such targets achievable. Action plans, documents, and Summit declarations have been made without heed to investment regulations, institutional and regulatory capacity, or people mobility, all of which are essential to translate plans into actual outcomes. Thus, first and foremost, the approach to services integration needs to be realistic and phased, focusing on tangible economic cooperation. Clear time tables for deliverables, over the medium and long term, are needed. This time table would also need to be attuned to the sectors and issues under consideration. Some services, where there are fewer sensitivities and less regulatory complexity, could be put on fast track.

The underlying constraints to services integration need to be addressed. This requires focusing on all cross-cutting issues that have a bearing on factor and consumer mobility in the region, such as by streamlining investment regulations, improving the business environment, enhancing institutional and regulatory capacity, and ensuring regulatory cooperation. Specific initiatives will be needed at the regional level on each of these issues, complemented by reforms and initiatives at the country level.

6.1.1 Investments

In the context of investments, one of the main constraints has been procedural and administrative delays, lack of transparency, and uncertainties stemming from economic and political instability and policy changes. Regional discussions could specifically focus on speedier clearances and approval procedures in general; fast track procedures for regional investors with prior collaboration or expertise in the country or sector; fast track clearances in identified services, which are largely commercial in nature and where there are fewer sensitivities; provision of regular and updated information on the regulatory framework governing investment in different services through government websites and reports; and information on bidding processes and award of contracts. It would also be useful to consider a regional investment treaty and double taxation treaties among the countries to remove existing barriers to investment in the region. This framework would need to address issues of investment facilitation, investor protection, dispute settlement, and contract enforcement so as to ensure greater ease, transparency, and commitment in regional investments. A common investment framework would help in developing investment policies and associated regulations in a coordinated manner and enable harmonization of rules and procedures, and mutual recognition of standards and technical specifications in services within the region. A bilateral investment treaty between India and Pakistan also needs to be finalized.

These efforts need to be complemented by national efforts to improve the business environment, to attract not only regional investors but investors at large. These improvements need to address issues such as business registration, access to credit, investor protection, contract enforcement, and licensing policies. Thus, as noted earlier, regional efforts cannot be independent of national efforts to reform the business climate.

6.1.2 People Mobility

Regional efforts will also need to focus on facilitating cross country mobility of persons, for delivery and consumption. Visa procedures and requirements for selected categories of persons need to be streamlined. Mobility relating to investment and professional exchange could be given priority by simplifying visa procedures and expediting visa approvals for categories such as business visitors, ICTs, professionals and academics against bonafide approved or prospective investment projects, institutional tie-ups, and exchange arrangements. Likewise, streamlined processes and speedier approvals could be introduced for special categories of consumers, such as medical tourists, students, leisure travelers, and transit travelers. There are no doubt security concerns in relaxing visa regulations between some of the countries. But even in these cases, mobility restrictions could be streamlined for a limited set of persons, those associated with commercial presence or where other regulatory approval processes are also involved. Similarly, mobility restrictions could be streamlined for those services, which have been identified as high priority, or, fast track sectors.

Related issues such as transport connectivity will also need to be addressed, by identifying selected bilateral and sub-regional projects to develop road and rail transport links and joint investments in these projects, signing of open skies agreements between countries in the region, and developing transit hubs in the region. Integration of the regional transport network, provision of transit facilities for the landlocked nations of Bhutan and Nepal, creation of land corridors through member countries to link remote parts of the region and related procedural issues have already received attention under sub-regional projects on transport logistics and trade facilitation.[20]

[20] Some examples include the approval of a SAARC Regional Multimodal Transport Study, the construction of a key transport corridor between Agartala and Akhaura via a rail link, an agreement for cross border truck movement between India and Bangladesh to improve cross border operations at Petrapole and Benapole, feasibility studies on road and rail links in the subregion consisting of Bangladesh, India, Nepal, and Bhutan, and reviews of various regional transit agreements and development of operational frameworks for bilateral or trilateral agreements. Asian Development Asian Development Bank (December 2007)

6.1.3 Regulatory Cooperation

Neither investment facilitation nor people mobility facilitation, even on a selective basis, can proceed without institutional and regulatory cooperation. Discussions are required not only among governments but also among regulatory bodies, professional associations, industry associations, research institutions, and civil society in the region in order to share information, exchange best practices, collect data, conduct joint feasibility and impact analysis studies, identify priority areas for a services agreement, develop soft skills, and create regional templates for investment or immigration related initiatives. Thus a multi-pronged approach is required, where regional efforts are complemented by national efforts, the key issues of investment and people mobility are prioritized, and related institutional efforts are undertaken at various levels.

6.1.4 Phased Strategy

An incremental, phased and prioritized approach is required with regard to sectoral coverage. It would be useful to first liberalize the least contentious services, such as IT and tourism services where success is more likely and where there are fewer regulatory complexities. Pilot projects could be launched in these services, on a sub-regional basis. There are, for example, initiatives that have been agreed upon in tourism services, such as the Buddhist tourism circuit. Such identified projects could be taken up on priority basis and related issues of mobility, transport connectivity, tourism infrastructure, investments would have to be worked out. A pilot based approach in selected services, which goes beyond bilateral arrangements, could provide the much needed confidence and experience to engage in larger and more complex regional projects, such as in energy or telecom sectors.

A similar incremental and phased approach could be taken on country participation in services discussions. It may be useful to proceed on issues and sectors, where there is a minimum of three member countries who are interested in participating, as it may not be practical to wait for buy-in from all countries in this region. This group could be expanded over time as outcomes are realized among a smaller set of countries and there is learning-by-doing. An attempt could also be made to build on existing bilateral agreements and other plurilateral agreements that are common to some of the countries in the region (e.g., BIMSTEC) and to use those as a basis for negotiations under SATIS. Thus, an open approach to services integration in South Asia could be adopted as happened in the case of ASEAN.

6.2 The Negotiating Framework

The current negotiating framework under SATIS does not permit an incremental negotiating strategy in terms of allowing sub-regional groupings to pursue negotiations on specific issues and sectors. It is currently an all-members all-services approach. In light of the many regulatory and capacity challenges at the national and regional levels outlined earlier, it may be worth having flexibility in the negotiating modalities.

Institutional mechanisms under SATIS could allow the formation of subgroups among member countries and enable discussions in selected services (such as tourism and IT) that are of mutual interest and where progress is likelier. The liberalization undertaken could be extended to the wider membership at a later date. Automaticity must be required in the regional commitment process in that commitments under SATIS, must reflect existing levels of openness in the SAARC countries, and must be GATS plus. Modes, which are relatively open, such as cross border supply and consumption abroad, should be committed liberally under SATIS. The SATIS discussions should also be linked with those on trade facilitation, given the synergies. At present, these operate under independent tracks, although it is evident that progress in regional liberalization of infrastructure services such as transport, energy, business and many others requires progress in trade facilitation, while the latter needs to be supported by regional initiatives in transport and logistics services.

SATIS must also address the issue of investment through separate provisions. At present, it lacks an investment chapter unlike other regional agreements, which span services. Barring the commitments made under mode 3, there is no legal framework to address investment-related concerns. At a minimum, existing levels of FDI liberalization should be bound under SATIS and a regional investment framework should be developed. There is also a need to review the relevance of the classification list, which has been adopted from the GATS and to expand this list (e.g., including transmission and distribution services under energy services) to address the interests of member countries.

7. Concluding Remarks

South Asia requires a regional services agreement which is broad-based and flexible. It show initially ensure sufficient depth of commitments in a core set of services, which is then gradually expanded. A regional services agreement must also address key cross-cutting issues within as well as outside the agreement.

There are also certain pre-requisites for successful regional services integration. It will be important to improve the information base for services in individual member countries and with respect to their bilateral trade and investment flows with other countries in the region. More regional discussions on regulatory and institutional issues are needed to facilitate cross-country learning on the development of regulatory frameworks and enable regulatory harmonization, particularly in the context of people and capital mobility. At the same time, national efforts to improve competitiveness and functioning of the regulatory system are needed. Another pre-requisite is to develop the regional transport services infrastructure to facilitate the movement of consumers, service providers, investors, and business visitors. A final pre-requisite is to engage in capacity building efforts regionally, through joint research and development activities, joint projects in selected services such as healthcare, environment, education, renewable energy, and tourism, regional training and development of human resources, sharing and exchange of ideas and information, and sharing of best practices. Such efforts may also enable the countries to arrive at common positions on energy, environment, or healthcare issues and to project a unified position in other negotiating forums.

Two players are critical for regional cooperation efforts. First is the private sector, which can provide impetus by highlighting the opportunities and benefits of cooperation and the costs of non-cooperation. Private sector role in building production networks and supply chains in the region, pushing for the removal of non-tariff and regulatory barriers and confidence-building initiatives, is essential. The second key player is India, which needs to commit more extensively under SATIS. Indian politicians at the highest level would need to act as champions for regional integration. The past shows that when politicians at the highest level in India take the lead, then concrete progress has been achieved in this region. Only political leadership at the highest level can make possible larger ideas such as hydropower projects, water sharing, and transit, which can reduce mistrust and build confidence in regional integration.

The way forward thus requires a progressive approach, through sub-regional groups on issues and services of common interest, through pilot projects supported by efforts to address cross-cutting issues of investment, regulatory harmonization, labour mobility and connectivity. But these negotiating frameworks and initiatives can only succeed if they are backed by adequate regulatory, institutional, infrastructural and human resource capacity, by a business friendly environment, and by a favourable policy orientation and mindset at the individual country level. Ultimately, the country-level dynamics of liberalization and reforms will shape the regional integration process in services in South Asia.

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Services Trade in South Asia: An Assessment

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1. Introduction

The importance of services as a share of overall production and employment has increased overtime. This expansion in the services-intensity of developing economies is driven by a number of factors and forces, which have been explained in detail in the available trade literature. The share of services in world trade has been oscillating around 20 per cent since the 1990s. The total world exports and imports of commercial services have stood at US$ 4.26 trillion and US$ 4.34 trillion respectively in 2013. Industrial countries contribute more in the world service trade, whereas contribution of South Asian countries in world services trade has been negligible.

The SAARC (South Asian Association for Regional Cooperation) Head of States at their Thirteenth SAARC Summit (Dhaka 12-13 November 2005) recognised the potential of trade in services, which has expanded rapidly at the informal level (RIS, 2009). The Declaration of the Fourteenth SAARC Summit (New Delhi 3-4 April 2007) specifically stated the need to integrate services into the SAFTA Agreement and called for a collective vision of South Asia with a free flow of goods, services and ideas. The Deceleration also called upon member countries to work towards an early conclusion of the SAARC Framework Agreement on Trade in Services (SAFAS)[1]. The Fifteenth SAARC Summit (Colombo, 2-3 August 2008) endorsed the decision of the ministerial council, and thus the SAARC Agreement on Trade in Services was signed at the Sixteenth SAARC Summit held in Thimphu (Bhutan) in April 2010. The

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1 South Asia Free Trade in Services (SAFAS)

Agreement came into force on 29 November 2012 after ratification by all SAARC Member States.[2]

Services sector[3] has emerged as an important and leading sector accounting for more than 50 per cent of Gross Domestic Product (GDP) in most of the South Asian countries. Over time, the services sector's contribution to the regional GDP in South Asia grew from 37 per cent in 1975 to about 55 per cent in 2013.[3] Over half of country's production in South Asia comes from the services sector, ranging from 49.19 per cent (Nepal) to 73.28 per cent (Maldives). Meanwhile, trade in services in South Asia region also showed a steady increase in services exports from 2000 to 2012. The South Asian exports of services were US$ 18.89 billion in 2000 to US$ 161.43 billion in 2012, whereas this total services import of the region was US$ 18.18 billion in 2000 to US$ 95.55 billion in 2012.

The remainder of the paper is organized as follows. Section 2 reviews the existing literature. Section 3 focuses on the importance of services sector for South Asian economies. Section 4 discusses SAARC Agreement on Trade in Services (SATIS). Section 5 discusses trends in services trade among South Asian countries, and Section 6 provides concluding remarks.

2. Review of Literature

Services sector has emerged as a major sector contributing to the growth of the countries across the world. Despite the expanding importance of services, there are different opinions about the theoretical foundation of trade in services. Some economists argued that there is no difference between trade in services and trade in goods, and hence can be understood using the same theoretical frameworks as those used for goods trade (e.g., Hindley and Smith, 1984; Bhagwati, Panagariya and Srinivasan, 2004). By contrast, other group of economists such as Deardorf (1985) and Melvin (1989) argue that a key characteristic of most

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2 SAARC Secretariat (access date 01/09/2015).

3 Trade in services is popularly defined and categorised as mode of service supply into four different ways: 1.Cross border supply (Mode 1): Trade takes place from the territory of one member into that of another without movement of the services provider. (For example, legal plans sent by internet or wire or satellite, etc.) 2. Consumption abroad (Mode 2): Services consumed or purchased by national of a member in the territory of another member where these services are supplied. For example, tourism, where the consumers travel to another country to consume the service. 3. Commercial presence (Mode 3): Any type of business or professional establishment, including branches and representative offices. For example, direct investment in the host country. 4. Movement of natural person (Mode 4): Temporary presence of natural persons in a market for the purpose of supplying services. For example, professional or employee of service provider.

4 World Development Indicators, World Bank (Access date 03/12/2014)

services is the joint production requirement, which invalidates or at least requires reinterpretation of the law of comparative advantage for trade in services.

Some studies argue that there are more gains in trade liberalization in services than goods. Robinson *et al.* (1999) suggested that the welfare gain for the world as a whole from a 50 per cent cut of protection in the services sectors is five times larger than that from non-services sector trade liberalization. Stern (2005) calculated that free trade in services could result in a global welfare gain of US$1.7 trillion. In case of partial service liberalization in Mode 4 (movement of natural persons), an annual immigration quota for both skilled and unskilled temporary workers equivalent to just 3 per cent of advanced countries labour force would result in the global gains of US$150 billion annually (Hoekman, 2006).

Some authors tried to assess the impact of trade liberalisation in service sector. Matto *et al.* (2001) has found that openness in services influences long term growth performances and suggested that the countries with fully open telecom and financial services sectors grow up to 1.5 per cent points faster than other countries. Chanda (2011) highlighted the opportunities in telecommunication, tourism, energy, health and education services sectors in South Asia. The study also argued that there are four critical steps for successful regional integration in services in South Asia, i.e. improving the information base on services of all member countries, tackling regulatory and institutional issues, developing regional transport services infrastructure and trade facilitation measures and engaging in regional capacity building efforts.

Dayal *et al.* (2008) suggested wider and deeper commitments at the regional level in order to reap the full benefits of liberalization. Rasul and Manandhar (2009) agreed that the inadequate political commitment and bureaucratic meandering are the primary obstacles in promoting tourism and economic integration in South Asia. Khatun *et al.* (2011) analysed the liberalization of health services within the SAFTA framework and suggested that SAARC countries could achieve a win-win situation through regional integration, given the size of the health market in the region. Pandey (2009) argued that regional cooperation in services would not only promote services trade in the region but may also help in creating complementarities among the economies as well. The study also suggested that modalities of liberalization of services trade should be unique and region specific, taking into account the development needs of the member countries.

In trade literature, there is no dearth of research on gains from trade in goods if SAFTA[5] is implemented properly. Though the potential for services trade has only been investigated in a few studies and that was till 2006,

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5 South Asian Free Trade Agreement (SAFTA)

Table 1: Sectoral Contribution to GDP in South Asian Countries

Country	Sector	Share in GDP (%)									
		1975	1980	1985	1990	1995	2000	2005	2010	2011	2013
India	Agriculture	37.62	35.39	30.89	29.02	26.26	23.02	18.81	18.21	17.86	18.20
	Industry	22.19	24.29	25.70	26.49	27.40	26.00	28.13	27.16	27.22	24.77
	Services	40.19	40.32	43.41	44.48	46.34	50.98	53.06	54.64	54.91	57.03
Afghanistan	Agriculture	0.00	0.00	0.00	0.00	0.00	0.00	31.75	27.09	24.51	23.56
	Industry	0.00	0.00	0.00	0.00	0.00	0.00	27.36	21.86	23.47	21.25
	Services	0.00	0.00	0.00	0.00	0.00	0.00	40.89	51.05	52.02	55.19
Bangladesh	Agriculture	0.00	31.55	32.77	30.25	26.38	25.51	20.14	18.59	18.29	17.21
	Industry	0.00	20.63	21.45	21.47	24.56	25.28	27.22	28.46	28.20	28.87
	Services	0.00	47.81	45.79	48.28	49.06	49.20	52.63	52.96	53.51	53.91
Bhutan	Agriculture	0.00	43.64	43.48	35.28	32.01	27.39	23.18	17.49	16.91	17.73
	Industry	0.00	11.75	19.76	24.85	33.86	35.99	37.29	44.55	42.46	42.64
	Services	0.00	44.62	36.75	39.87	34.13	36.62	39.53	37.96	40.62	39.64
Maldives	Agriculture	0.00	0.00	0.00	0.00	11.46	8.76	7.83	4.32	4.09	4.20
	Industry	0.00	0.00	0.00	0.00	13.53	15.04	15.32	15.54	19.03	22.52
	Services	0.00	0.00	0.00	0.00	75.01	76.20	76.85	80.14	76.88	73.28
Nepal	Agriculture	71.76	61.77	51.71	51.63	41.76	40.82	36.35	36.53	38.30	35.10
	Industry	8.18	11.92	15.11	16.24	22.75	22.13	17.70	15.63	15.45	15.71
	Services	20.07	26.31	33.18	32.13	35.49	37.05	45.96	47.84	46.26	49.19

Country	Sector	Share in GDP (%)									
		1975	1980	1985	1990	1995	2000	2005	2010	2011	2013
Pakistan	Agriculture	32.05	29.52	28.54	25.98	26.14	25.93	21.47	24.29	26.01	25.32
	Industry	23.44	24.92	22.47	25.19	23.80	23.33	27.10	20.58	21.27	21.58
	Services	44.51	45.56	49.00	48.83	50.06	50.74	51.43	55.13	52.72	53.09
Sri Lanka	Agriculture	30.35	27.55	27.69	26.32	23.01	19.90	11.82	12.81	12.10	10.76
	Industry	26.43	29.64	26.20	25.97	26.53	27.28	30.19	29.43	29.90	32.46
	Services	43.22	42.81	46.11	47.71	50.46	52.82	57.99	57.76	58.00	56.78
South Asia	Agriculture	42.94	38.24	35.85	33.08	26.72	24.48	21.42	19.92	19.76	19.01
	Industry	20.06	20.52	21.78	23.37	24.63	25.01	26.29	25.40	25.88	26.23
	Services	37.00	41.24	42.37	43.55	48.65	50.52	52.29	54.68	54.36	54.76

Source: World Development Indicators, World Bank (accessed on date 03/12/2014).

SAFTA became effective since 2006 and the SAARC Agreement on Trade in Services came into force in 2012. So, it is important to analysis the current potential of services trade in the region, particularly in the context of service trade liberalisation. In view of the above, this study makes an attempt to explore the service trade potential in South Asia region during the period 2000 to 2013.

3. Importance of Services Sector for South Asian Economies

Over the last three decades, the South Asian countries have witnessed a significant shift in the structure of their economies towards the dominance of the services sector in national production. Services sector has emerged as an important and leading sector, accounting for more than 50 per cent of GDP in most of them. Over time, the services sector's contribution to the regional GDP grew from 37 per cent in 1975 to about 55 per cent in 2013.[6] Over half of countries production in South Asia comes from the services sector, ranging from 49.19 per cent (Nepal) to 73.28 per cent (Maldives).[7]

Table 1 shows that India's share of services sector in 1975 was near about 40 per cent of GDP, which increased to 57.03 per cent in 2013. At the same time the share of agriculture declined from 37.62 per cent in 1975 to 18.20 per cent in 2013. The share of industry sector was more or less remained same during the time period of 1975 to 2013. In case of Afghanistan, due to data constraint, we cannot compare the long term trends. But, the share of service sectors in GDP changed from near about 41 per cent in 2005 to 55 per cent in 2013 and the share of agriculture sector declined drastically from 32 per cent to 23.56 per cent during the same period. In case of the industry sector, it declined from 27 per cent to 21 per cent during the same period.

The compositions of Bangladesh's GDP in 1980s were: 31.55 per cent in agriculture, 20.63 per cent in industry and 47.81 per cent in services sector. After 33 years, the structure of Bangladesh has changed where agriculture sector contributes merely 17 per cent, industry sector about 29 per cent and services sector about 54 per cent. Overtime there has been structural transformation in the Bangladesh economy with a shift from predominantly agriculture-led economy towards service and industrial-led economy.

The composition of Bhutan's GDP has also changed over time and benefited the industry sector. The data shows that the structural changes in Bhutan's economy are different as compared to other South Asian countries. The share of agriculture sector in GDP was 43.64 per cent in 1980, which declined to 17.73 per cent in 2013. The services sector, which accounted for 44.62 per cent in 1980, also declined to 39.64 per cent in 2013. The gain of structural changes has gone

[6] World development Indicators, World Bank (Access date 03/12/2014).

[7] World development Indicators, World Bank (Access date 03/12/2014).

to the industry sector, which accounted for 11.75 per cent in 1980 and 42.62 per cent in 2013. Maldives' economy depends on services sector, which accounted for 75.01 per cent in 1995 and reached the record level of 80.14 per cent in 2010 and then marginally declined to 73.28 per cent in 2013. The second largest sector is the industry sector, which accounted for near about 22.52 per cent in 2013. The structure of Nepal's is economy remained more or less same as compared to other major South Asian countries. Agriculture sector accounted for near about 71.76 per cent of the national GDP in 1980, which declined to 35.10 per cent in 2013. Service sector has increased from 20 percent in 1975 to near about 50 per cent in 2013.

In Pakistan, services sector has emerged as a driver of economic growth. In 2013, the share of agriculture sector declined to 25 per cent, while the share of services sector increased to 53 per cent. The share of industry sector broadly remained unchanged during this period. The services sector consists of the main sub-sectors, including transport, storage and communication, wholesale and retail (trade, finance, insurance, housing services, general government services).[8]

In case of Sri Lanka, the share of agriculture decreased drastically from 30.35 per cent in 1975 to 10.76 per cent in 2013, while the share of services sector increased from 43.22 per cent in 1975 to 57 per cent in 2013. Industry sector also noted an improvement from 26.43 in 1975 to 32.46 per cent in 2013. The relatively superior performance of the service sector over the previous three and half decades has resulted in the sector's growing contribution to South Asia's GDP. Interestingly, this increased share of services has been witnessed at the expense of the agricultural sector, where agriculture's share in the region's GDP declined from 42.94 per cent to around 19.01 per cent and that of services increased from 37 per cent to nearly 54.76 per cent during the period 1975 to 2013. The industrial sector's contribution has increased marginally, and largely remains stagnant.

In South Asian countries, the share of services sector in GDP has been larger than the share of manufacturing and agriculture sectors. Broadly, the share of agriculture in GDP has been declining in all the South Asian countries. Industry's share in GDP has been stagnant in all the countries with the exception of Bangladesh and Bhutan, while the share of services in GDP has been rising at a remarkable rate.

3.1 Growth of Services Sector

The services sector has also emerged as the most dynamic sector in South Asia. It grew much faster during the period 2001 and 2013, as compared to the last decade (1991-2000). In all South Asian economies, except Maldives and Nepal,

8 Ministry of Finance, Government of Pakistan, 2013

it grew not only much faster than overall GDP, but also moved rapidly, as compared to previous decade (Pandey, 2009). Bangladesh, India and Nepal have experienced a persistent rise in the growth of the services sector over the last three decades. In contrast, Bhutan, Pakistan and Sri Lanka experienced rather fluctuating trends in the growth of their respective services sector.

South Asia showed a high variation in the growth of services sector across countries from 1975 to 2013. While services sector in India witnessed a growth rate of 7.48 per cent during 1991 to 2000, Bangladesh during the same period also witnessed only 4.48 per cent growth. Afghanistan and Maldives have no data of services trade for this time period. Bhutan, Nepal and Sri Lanka have recorded impressive rates of growth of services sector. Another important observation is that the growth of services sector in Afghanistan, Bhutan, India, Maldives and Bangladesh accelerated during the period 2001 and 2013 as compared to the previous decade. It seems to have decelerated in Nepal and Sri Lanka from relatively high rates in the previous decade.

Table 2: Growth of Services Sector in South Asia

Country	Annual (%)						Average Annual (%)	
	1975	1995	2000	2005	2010	2013	1991-2000	2001-2013
Afghanistan	0.00	0.00	0.00	5.41	18.11	16.00	0.00	12.91
Bangladesh	0.07	4.87	5.48	6.36	6.47	5.73	4.48	6.10
Bhutan	0.00	5.16	12.08	14.80	12.04	3.27	6.96	9.12
India	6.25	9.79	5.07	10.91	9.67	6.78	7.48	8.70
Maldives	0.00	0.00	0.00	-13.59	7.94	5.27	0.00	7.04
Nepal	1.02	5.57	6.12	3.09	6.13	5.60	6.44	4.44
Sri Lanka	6.84	6.26	6.97	6.40	8.03	6.35	6.04	5.95
Pakistan	10.04	4.80	4.15	8.49	3.21	3.71	4.50	4.85
South Asia	4.84	5.22	4.63	4.41	4.19	3.52	5.98	7.39

Source: World Development Indicator, World Bank (Access date 03/12/2014)

Overall, the average growth rate of South Asia during the period 1991 to 2000 was 5.98 per cent, which increased to 7.3 per cent in the next decade (Table 2).

3.2 Employment in Services Sector

The rise in services sector's importance in South Asian economies has been accompanied by rise in its importance for employment, though still not commensurate with its share in GDP.

Table 3: Employment in Services

(%)

Country	1991	1995	2000	2005	2010	2013p	2018p
Afghanistan	27.12	28.32	29.55	31.55	32.19	32.28	33.67
Bangladesh	17.10	23.38	24.78	34.23	32.60	31.71	33.42
Bhutan	14.27	15.29	16.41	25.89	34.59	30.86	33.87
India	21.68	22.77	24.18	25.37	26.68	29.11	30.95
Maldives	51.15	53.42	56.40	59.69	60.96	61.50	64.47
Nepal	12.32	13.16	14.69	15.45	16.62	17.18	18.57
Pakistan	32.83	34.83	33.63	36.63	35.52	35.87	36.91
Sri Lanka	30.62	35.60	33.25	31.53	32.91	33.84	35.82

Source: ILO, Global Employment Trends Reports (2014), downloadable from http://www.ilo.org/
Note: P is projected

In the eight South Asian countries, the contribution of services to GDP has been greater than its contribution to employment. In the case of Nepal, the contribution of the service sector to GDP is 49.19 per cent, but only 17.18 per cent to employment. Likewise in India, which has shown the most consistent rise in the services sector's contribution to GDP, its contribution to employment remained much lower at 29.11 per cent in 2013. The only country where services constitute a significant share of employment is Maldives, which accounts for a total employment of 61.50 per cent. This shows the high dependence of this economy on certain services segment and the general lack of diversification. Table 3 present country-wise estimated employment in services sector for the year 2018. Maximum employment opportunities would be for Maldives, which may provide 64.47 per cent employment opportunity in 2018.

3.3 Trade in Services

The services sector growth, as observed in the previous section, has been accompanied by rise in services trade of the region. Trade in services (as % of GDP)[9] of South Asia during the period 2005 to 12 increased from 17.48 per cent in 2005 to 27.14 per cent in 2012. Trade statistics also indicate that country-wise growth in services trade (as percentage of GDP) in South Asia region has been uneven. In some cases, for example in cases of Nepal and Bangladesh, the services trade has stagnated, whereas it has grown marginally in case of all others

[9] The importance of services in international trade can be evaluated using exports of services as a percentage share of GDP.

except for Maldives. Therefore, it would appear that South Asian countries have not been able to exploit the potential of trade in services commensurate with the important role of this sector in their economies (Table 4).

Table 4: Trade in Services

(as % of GDP)

Country	2005	2006	2007	2008	2009	2010	2011	2012
Afghanistan	0.00	0.00	0.00	17.58	21.86	27.61	26.67	25.85
Bangladesh	5.97	6.31	6.82	7.25	6.03	6.81	6.90	7.12
Bhutan	0.00	12.95	12.51	13.95	12.26	13.19	14.04	16.07
India	11.91	13.48	12.65	15.83	12.69	13.57	14.02	14.80
Maldives	54.00	60.08	123.73	109.23	97.83	105.96	117.76	123.16
Nepal	10.03	9.71	11.95	12.56	12.00	9.65	8.73	9.48
Sri Lanka	14.87	14.22	13.53	12.31	10.49	11.27	11.99	13.88
Pakistan	10.28	8.73	8.31	8.26	6.30	7.76	6.11	6.71
South Asia	17.84	17.92	27.07	24.62	22.43	24.48	25.78	27.14

Source: World Development Indicator, World Bank (Access date 03/12/2014)

4. SAARC Agreement on Trade in Services (SATIS)

SAARC Agreement on Trade in Services (SATIS) was signed at 16th SAARC Summit in 2010 with the hope that this would open up new vistas of trade cooperation and further deepen the integration of the regional economies. The Agreement came into force on 29 November 2012, after ratification by all SAARC Member States. This agreement aims to promote and enhance trade in services among the South Asian countries, in mutually beneficial and equitable manner by establishing a framework for liberalizing and promoting trade in services within the region in accordance with Article V of General Agreement on Trade in Services. Negotiation for schedule of specific commitments shall take place keeping the view of the national policy objectives, the level of development and the size of economies of contracting States, both overall and in individual sectors. The Agreement shall progressively cover liberalization of trade in services, which is broad-based and deeper the coverage of majority of services sectors/ sub-sectors with a view to fulfilling the objectives of Article V[10] of

[10] Article V of GATS is Economic Integration.

General Agreement on Trade in Services (GATS).[11] A positive list approach shall be followed. Negotiation for specific commitments for progressive liberalization would be based on request and offer approach.[12] The Agreement shall not apply to:

(a) Government procurement;
(b) Services supplied in the exercise of governmental authority; and
(c) Transportation and non-transportation air services, including domestic and international services, whether scheduled or not scheduled, and related services in support of air services[13] other than (i) aircraft and maintenance services, (ii) the selling and marketing of air transport services; and (iii) computerized reservation system for services.

The Standing Committee at its Forty-first Session held in Kathmandu on 23-24 November 2014 noted that most of the Member States are not ready with their final offer lists under SAARC Agreement on Trade in Services (SATIS) and, therefore, urged that this may be done at the earliest so that the Eleventh Meeting of the Expert Group on SAARC Agreement on Trade in Services may be scheduled by the SAARC Secretariat for finalizing, signing and exchanging the Schedules of Specific Commitments under SATIS.

Unfortunately, many South Asian countries lack established and well-functioning regulatory and institutional frameworks that support services trade liberalization. Hence, effective implementation of SATIS requires that South Asian countries should be provided adequate regulatory flexibilities to promote services trade liberalization.

5. Trends in Services Trade among South Asian Countries

The structural transformation, although slow, of South Asian economies in favour of the services sector has been reflected in the services trade of the region. Available data on services trade shows that the participation of South Asia in global services trade has increased much faster than trade in goods. The share

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11 The GATS is a government-to-government agreement, it is of direct relevance to firms because it lays down the framework of international rules within which firms operate around the globe. The GATS establishes a basic set of rules for world trade in services, a clear set of obligations for each member country, and a legal structure (Schedule of Specific commitments) for ensuring that those obligations are observed. This allows firms to identify which markets are open to Foreign Service providers and to be sure that these markets will remain open in the future.

12 The Contracting states understand that ground handling services are part of related services in support of air services.

13 See SAARC Agreement on Trade in Services (SATIS), pp. 5

of South Asia in world services export increased from 1.28 per cent in 2000 to about 4 per cent in 2012.

The structure of service exports suggests that computer, communication and other services dominate the export of commercial services from India and Bangladesh. These services comprise a significant proportion of commercial services export from Nepal, Pakistan and Sri Lanka although transport and travel services dominate the commercial services exports for these countries. Maldives derives almost all of its services export earnings from travel services. Exports of computer and communications services, comprising information technology, and software and business process outsourcing services, have been the major drivers of rapid growth of India's services exports over the past decade.

One observes similar increasing trends in the services imports, but the incremental rate of participation is higher for exports. The share of South Asia in world services imports has increased from 1.24 per cent in 2000 to about 2.47 per cent in 2012. As a result, deficits in services trade have been narrowed down and the region has started recording a surplus in trade in services (see Table 5). The trends suggest that services growth in South Asia has been trade oriented, particularly with regard to services exports.

India's total export of services was US$16.26 billion in 2000, which increased to US$ 145.55 billion in 2012. It increased about nine times more in last 14 years, suggesting India has huge potential in the services sector. It clearly shows that India enjoy dominating position in the service trade in South Asian region. In 2012, India contributed near about 90.15 per cent to the total South Asian services export to world. It is also interesting to note that India has surplus in services trade. India's services import was US$ 14.57 billion in 2000, which increased to US$ 79.92 billion in 2012 (Table 5).

Pakistan is the second largest economy of the region. In 2003, Pakistan's total services export and import was US$. 2.97 billion and US$ 3.29 billion respectively. In 2012, Pakistan's export of service was US$ 6.60 billion and its import of service was near about US$ 8.41 billion. Pakistan has trade deficit in services trade with world.

Table 5: Services Trade of South Asia

(Share in %, and value in US$ million)

Country	Trade Pattern	Value/Share in South Asia total export	2000	2012
India	Export	Export value	16268.00	145521.45
		Share in South Asia total export	86.11	90.15
	Import	Import value	14576.00	79923.75
		Share in South Asia total import	80.14	81.37

Pakistan	Export	Export value	0.00	6601.00
		Share in South Asia total export	0.00	4.09
	Import	Import value	0.00	8418.00
		Share in South Asia total import	0.00	8.57
Sri Lanka	Export	Export value	953.36	3800.00
		Share in South Asia total export	5.05	2.35
	Import	Import value	1622.00	2538.00
		Share in South Asia total import	8.92	2.58
Bangladesh	Export	Export value	817.00	2324.00
		Share in South Asia total export	4.32	1.44
	Import	Import value	1681.00	4918.00
		Share in South Asia total import	9.24	5.01
Nepal	Export	Export value	505.93	0.00
		Share in South Asia total export	2.68	0.00
	Import	Import value	199.95	0.00
		Share in South Asia total import	1.10	0.00
Bhutan	Export	Export value	0.00	127.95
		Share in South Asia total export	0.00	0.08
	Import	Import value	0.00	189.55
		Share in South Asia total import	0.00	0.19
Maldives	Export	Export value	348.48	0.00
		Share in South Asia total export	1.84	0.00
	Import	Import value	109.69	0.00
		Share in South Asia total import	0.60	0.00
Afghanistan	Export	Export value	0.00	3055.88
		Share in South Asia total export	0.00	1.89
	Import	Import value	0.00	2238.88
		Share in South Asia total import	0.00	2.28
South Asia	Export	Export value	18892.78	161430.27
		Share in South Asia total export	1.28	3.77
	Import	Import value	18188.64	98226.18
		Share in South Asia total import	1.24	2.47

Source: IMF CD-ROM 2014

It is interesting to note that except India, Maldives[14] and Sri Lanka, all other South Asian countries have negative balance of trade in services. South Asia's services export witnessed a steady increase during the period 2000 and 2012. The total South Asian exports increased from US$ 18.89 billion in 2000 to US$ 161.43 billion in 2012 and total services import of the region also increased from US$ 18.18 billion in 2000 to US$ 95.55 billion in 2012. The overall trade, therefore, suggests huge untapped potential service trade in South Asia, which could be unlocked through greater cooperation.

5.1 Potential of Intra-SAARC Trade in Services

To evaluate the competitiveness of services in South Asia, It is necessary to examine the estimates of revealed comparative advantage.[15] This section provides a comparative analysis of the Revealed Comparative Advantage (RCA) index of India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan, Maldives and Afghanistan. The most common RCA index[16] was developed by Balassa (1965). The same formula is used for calculation comparative advantage in services trade among the South Asian countries. RCA Index for the South Asian countries for the period 2000 to 2013 is presented in Appendix 1. It is apparent that all South Asian countries have comparative advantage in one or many services trade sectors.

The study reveals that India had RCAs greater than one in sectors like communication services,[17] computer and information services (three sub-components of computer and information service are computer services, news agency services, and other information provision services) and insurance

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14 Data is available for the year 2010

15 The vast literature on comparative advantage suggests that technology, natural endowments, improved capital and stock of human capital are the key factors that determine comparative advantage of a country (Wickramasinghe 2000)

16 $RCA_{ij} = \dfrac{(x_{ij}/X_{it})}{(x_{wj}/X_{wt})}$ Where x_{ij} and x_{wj} are the value of country i's exports of services *j* and world exports of services *j* and where X_{it} and X_{wt} refer to the country's total exports and world total exports. A value of less than unity implies that the country has no comparative advantage in the services. Similarly, if the index exceeds unity, the country said to have a revealed comparative advantage in the services.

17 Communication services disaggregated into two sub-components––first, postal and courier services, and second, telecommunications services and during 2013 India's export of telecommunication services was US$ 2.18 billion while import was US$ 1.09 billion. (Access from WTO, 05-06-2015, http://i-tip.wto.org/services/(S(zrsxqu2u13en5mjs4inzxhuo))/Search.aspx)

services[18] in 2001, which declined to less than one in 2013, indicating India's deterioration in revealed comparative advantage in communication services and insurance services. India kept its revealed comparative advantage in computer and information services[19] and has gained its revealed comparative advantage in financial services.[20] The services sector of India presents a different picture. A process of export reorientation is clearly underway and a significant shift has taken place towards more advanced, in some cases high-skill intensive services and new services, such as computer and selected professional services, have emerged in India's exports to a greater extent than in other countries.[21]. The study indicates that Sri Lanka was having revealed comparative advantage in transport services[22] (sea transport, air transport and other transport), communication services, insurance services, financial services and computer and information services in 2001. In 2013, Sri Lanka also witnessed revealed comparative advantage in travel and financial services in addition to the above services.[23] Pakistan has revealed comparative advantage in transport and communication services.[24] Bangladesh in communication services, Nepal in travel and communication services, Bhutan in transport and travel services and Maldives in travel services. Afghanistan has comparative advantage in construction services and other business services.

The RCA[25] scores indicate that South Asian countries broadly specialise both in labour- intensive and skill and technology-intensive services exports thereby showing diversified potentials in intra-regional services trade in South

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18 Sub component of Insurance service are life insurance and pension funding, freight insurance, other direct insurance, reinsurance, and Insurance services, auxiliary services.

19 Computer and information services whose share in India's services exports almost doubled between 2000 and 2008 to reach almost half of India's services exports (Mancheri, 2013)

20 During the 2013 India had surplus trade balance in Finance trade It export was US$ 5.93 billion and import was US$ 5.53 billion((Access from WTO, 05-06-2015, http://i-tip.wto.org/services/(S(zrsxqu2u13en5mjs4inzxhuo))/Search.aspx)

21 Mancheri (2013)

22 In 2013 Sri Lanka's export of Transportation services were US$ 1.78 billion and Imports were US$ 1.38 billion (WTO, Access 05-06-201)

23 In 2013 Sri Lanka's export of telecommunication services were US$ 114 million and imports were US$ 87 million and exports and imports of financial services in 2013 were US$ 235 million and US$ 328 million respectively (WTO, online Access 05-06-2015)

24 In 2013 Pakistan's export of telecommunication services were US$ 553 million and imports were US$ 210 million.

25 Hoeckman (1995) pointed out after evaluating revealed comparative advantage and concludes that developed countries are more specialized in commercial services that are more capital intensive while developing countries are specialized in more labour-intensive commercial activities such as travel.

Asia. The findings of the study indicate three distinct groups of countries in South Asia: first group has comparative advantages in skill-based and technology-intensive services trade (such as India and Bangladesh); second group has comparative advantages in both labour-intensive services as well as skill and technology- intensive services trade (such as Pakistan, Sri Lanka and Nepal); and the third group reveals comparative advantage mainly in labour intensive services trade (such as Bhutan, Maldives and Afghanistan). This clearly shows immense future potential in services trade in South Asia, provided countries have adequate capacity to export such services and the barriers to trade are addressed.[26] In South Asia, FDI (Foreign Direct Investment) has been allowed to varying degrees across many services, and several important services have been fully or partially liberalized (see Appendix 2). FDI inflows into South Asia are concentrated in the service sector, while investments in manufacturing, agriculture and mining are much smaller.[27]

6. Policy Recommendations and Concluding Remarks

South Asian countries have witnessed a significant shift in the production structure of their economies. One common feature of the structural changes is the dominance of the services sector. The study shows that the share of South Asia in global services trade has increased much faster than goods trade. This study reveals the immense untapped future potential in services trade in South Asia. There is enough diversified adequate capacity to export, provided South Asian countries match the trade demand correctly and the barriers to service trade are addressed. To unlock the potential of service trade countries in South Asia have to agree to the mutual recognition of professionals in the spirit of Article 12 of the SATIS Agreement. After notification of SATIS, there is a need for a mutual recognition of qualifications and other experiences for skilled labour market integration. The MRA (Mutual Recognition Agreement) allows trained auditors, architects, accountants and doctors, and nurses to practice in SAARC member countries.

It is suggested that countries shall open up services in energy and social sector (health services, education services, etc) in GATS-Plus framework. Energy deficiency is one of the critical challenges in South Asia, which can be handled with active regional cooperation. Electricity is an important form of commercial energy and occupies a key position in the economies of the region due to strong linkages with the economy. Friendly relations between India and Bangladesh are important for construction of the LNG (Liquefied Natural Gas) pipeline

26 RIS (2009)

27 World Bank (2013)

from Myanmar to India via Bangladesh. Similarly, harmonious relations with Pakistan can facilitate the proposal to construct pipeline for importing LNG from Iran to India or TAPI project.

Health and education services are not only required to be promoted from trade perspective but also for regional human development. In India, there were 665 universities, 35829 colleges and 11443 stand-alone institutions in as per the All India Survey on Higher Education 2012 - 2013. If one student of SAARC countries is admitted in each institution on fellowship or national fee, the socio-economic results will be visible. Similar gesture by all member countries will create regional human assets for long term peaceful growth. In addition to this, there is a huge potential trade in education services to cater to the need of middle and lower middle class in higher education segment.[28] Health services are also critical from human perspective as well as trade perspective.

Finally, it is important to mention that trade in goods and trade in services in South Asia region are complementary to each other. More research along with political will is needed to identify the country specific trade potential in services. As services trade is mainly restricted regulation, hence comprehensive assessment of regulations at regional level is essential. Development of regional regulatory frameworks and greater harmonization of standards in the region are the need of the time. Delinking political conflicts from business and trade, and greater economic cooperation are pre-requisite for generating benefits from the SATIS Agreement. Given the high trade potential of services trade, implementation of MRAs, transport and investment treaties, liberalizing in visa and FDI would make the South Asia region much stronger, vibrant and economically integrated.

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[28] Ahmed and Kumar (2013) have shown that the majority of foreign student of respondent rated Indian university degree as average or low compared to degrees of universities in developed countries. However, it is also revealed that the quality of education in Indian universities is better as compared to other South Asian countries as per the rating by the majority of foreign student respondent of south Asian origin.

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Appendix 1: Calculated RCA Scores of South Asian Countries

Service Category	India		Pakistan		Bangladesh		Sri Lanka		Nepal		Bhutan		Maldives		Afghanistan	
	2001	2013	2003	2013	2002	2013	2001	2013	2000	2009	2006	2013	2000	2010	2008	2012
Transport	0.64	0.58	1.40	1.26	0.52	0.98	1.33	1.94	0.56	0.32	1.46	1.52	0.27	0.27	0.32	0.59
Travel	0.71	0.42	0.15	0.20	0.23	0.17	0.52	1.23	1.01	2.38	1.81	2.20	2.98	3.93	0.07	0.08
Communications services	3.73	0.84	3.24	6.41	2.29	6.04	1.50	1.38	-	2.39	0.72	0.40	-	-	-	-
Construction services	0.23	0.33	0.07	0.16	0.00	0.55	1.58	0.47	-	-	-	-	-	-	20.24	10.42
Insurance services	1.03	0.75	0.27	0.61	0.14	0.10	17.06	1.21	-	0.09	1.12	1.02	0.13	0.06	0.03	1.48
Financial services	0.37	1.10	0.07	0.36	0.26	0.57	0.00	1.28	-	-	0.00	0.06	-	-	0.55	0.73
Computer and information services	16.28	4.32	0.31	0.59	0.11	0.41	1.60	1.20	-	-	-	-	-	-	-	-
Royalties and license fees	0.05	0.25	0.05	0.10	-	0.03	-	-	-	-	0.03	0.01	0.19	0.16	0.01	-
Other business services	-	0.78	0.40	0.63	0.59	0.59	0.63	0.03	2.03	0.63	0.18	-	-	-	0.92	2.03
Personal, cultural, and recreational services	-	1.01	0.05	0.20	0.00	0.33	0.00	0.00	-	-	-	-	-	-	0.48	0.04
Government services, n.i.e.	1.93	0.24	23.06	25.46	32.05	32.43	0.86	0.46	10.63	8.77	6.55	1.39	0.49	0.44	1.57	1.16

Source: Calculated by Authors using Data from UNSERVICESTRADE

Appendix 2: Services FDI Cap in South Asia 2012

(%)

Country	Electricity	Transportation	Tourism	Media	Telecom	Financial Services	Accounting	Education
Afghani-stan	80	92	100	0	87	100	100	100
Bangladesh	100	100	100	100	100	100	100	100
India	100	75	100	63	74	42	100	100
Nepal	60	67	100	100	100	100	51	100
Pakistan	100	92	100	37	100	83	100	100
Sri Lanka	39	52	100	40	100	100	100	100

Source: World Bank, http://iab.worldbank.org/data/fdi-2012-data (accessed on 16/04/2015)

Strengthening South Asia Value Chain: Prospects and Challenges

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1. Introduction

Value chains represent integration of different levels of production and distribution in a manner that adds value to the product at each step by attaining process specialization and quality enhancement. The efficiency enhancement is derived from the factors of production involved (apart from external factors) and carries importance for future competitiveness of the product (Galar, 2012). There is also recent literature suggesting that countries engaged in global value chains (GVC) show enhanced access to regional and global economies, improved production techniques and greater capacity to generate employment (Banga, 2013). Job creation in this process has helped to pull substantial number of people out of poverty, reduce income gaps and also had favorable gender implications e.g. empowering women-led small and medium enterprises (SMEs).

It is observed that firms establish foreign production and distribution units in order to gain relief from tariffs, obtain cheap inputs, reduced human resource costs and minimize logistics expenditures (Ferdows, 1997). A fast globalizing world has allowed firms to enter into dynamic product specialization. It has helped enterprises to build an international reputation and access to larger goods, factor and financial markets (Veerecke, 2007). Similarly through a gradual process of technology transfer, firms engaged in value chains have experienced greater technical efficiency in production (Pisano and Shih, 2009). A globalized supply chain has implied that the cost of firms to experiment with diverse inputs and finishing processes has come down (Serieux, 2012). Countries now import vast amounts of intermediate goods for expanding supply of inputs in exported items (Hummels et al, 2001). The new and improved technology that comes due

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to being part of a foreign production process also improves front-end customer services (Pine and Davis, 1999). The customers coming from different countries, having varying cultural backgrounds and experiences, reveal their feedbacks, which shape the manner in which supply chains are sequenced and timed.

A positive relation between GDP and GVCs has been observed. It is found that GVC is relatively more beneficial for developing countries as value added trade contributed 28 per cent to GDP of developing countries as compared to developed countries' GDP (18 per cent) (UNCTAD, 2013). This also implies that it is not necessary now for developing countries to be in possession of the whole production process required to finish the product and then become part of the world trade (WTO and IDE-JETRO, 2011). Specialization in intermediate goods also reduces production cycle time for countries that lack depth in human resource and managerial skills.

The examples of successful regional value chains across South Asia are still limited. The supply side constraints, prevalence of non-tariff barriers, restrictions on movement of people and goods continues to curtail potential of regional chains. This paper looks in to:

- How regional value chains across South Asia can bring about productivity gains?
- How value chains can imply increase in trade flows for small and medium enterprises in the region?
- How value chains can bring out millions in South Asia region out of poverty through greater job creation (particularly in agriculture and semi-manufactured goods)?
- What are binding constraints to regional value chain development?
- What are the necessary institutional reforms required at national and regional level to promote regional value chains?

This paper is organized as follows. Section 2 gives brief review of literature on Global Value Chain. Section 3 illustrates the supply side aspect of value chain to integrate SAARC region. The challenges and prospects of South Asian value chain is discussed in Section 5. Finally, conclusion is made in Section 6.

2. Literature Review

2.1 Evidence from Global Value Chains

With increasing population, life spans, middle income group and urbanization, supply chains are continuously innovating the way they respond to the needs of customers (SCRLC 2011, Christopher, 2011). Firms are also more concerned about compliance with children, gender and environmental regulations and engage with only those partners in the supply chain who are in line with sustainable practices (APICS and PWC, 2013). In the longer run such practices not only reduce firm's transactions costs for compliance with product standards, but also helps increase their brand and profile value. The value of sustainable supply chains is measured through environmental impact, cost reduction, compliance improvement and customer satisfaction.

The value-added in GVCs is more concentrated in OECD economies while developing countries are the least on the list (Banga, 2013). More technology intensive processes make it difficult for developing countries to gain optimal benefits. It is observed that countries more involved in GVCs exhibit rising export to GDP ratio over a longer period of time.

The declining transportation and communication cost is also responsible for providing firms an opportunity to take part in GVCs (Draper, 2013). This is in line with the recent research in the field of new economic geography. Countries are now more attentive towards product, process and even spatial specialization. For this to continue, it is important that country level temptations to resurrect protectionist regimes should be resisted. The aftermath of the global financial crisis has in fact seen a rise in protection measures. The developing countries despite of remaining relatively insulated also felt a decline in their exports to the advanced economies, which have reduced their foreign exchange receipts during the period immediately following the crisis. This was a time when South Asian economies were also responding to the food and fuel price crises and export bans were imposed particularly in the case of agricultural products. Several years later the lesson is that it is easier to put in place protectionist regimes, however, it becomes very hard to get rid of them.

Global reforms that promote regional and national competition policies (that address collusive behavior) are required to provide security to the new entrants in the value chain process (OECD, WTO and UNCTAD, 2013). One of the key barriers in the way of new entrants and startup firms is the control of select few, over vital market data and sources of inputs. Ueki (2013) explains that information sharing and cooperation in decision making helps firms engage in value chains. It is indicated that such cooperation based on competitive pressures, supplier appraisal and audit, and long term relations enhance customer services, upgrade delivery processes and in turn increase profits and wages.

2.2 Small and Medium Enterprises in GVCs

We take country-specific examples to establish how SMEs are benefiting from specialization and value chains. Trade liberalization provided a gateway to Toyota in South Africa (TSA) to focus on enhancing production for exports. TSA chose to supply only two models (Hilux and Corola), while it was previously manufacturing seven different models. This strategy increased value added activities in the domestic economy as increasing production volume by TSA required more quality driven components which came from even outside of South Africa. Overall the arrangement enhanced the production gains for SME sector involved in this value chain (UNCTAD 2013). However, the same SMEs continue to face challenges of trained labor, lack of infrastructure and financial constraints to compete on international forum. It is only over time that they will be able to graduate to a point where they can afford to address these difficulties.

Similarly the software sector in Egypt and Vietnam has shown remarkable growth, and SMEs are involved in value chains under Microsoft and IBM. To engage the suppliers in GVC, IBM has developed 'PartnerWorld' programme. GVCs promote the reputation of SMEs and provides them a platform for further expansion in their business. This engagement results in technology transfer and skills improvement for the labor involved. The participation in GVCs has also brought stability in the operational performance and cash flow of SMEs, enhancing their business development potential and also providing safer tenures to the workforce involved. Technological improvement and human capital growth are two spillover effects that come as a result of being in the GVC.

2.3 Role of GVCs in Poverty Reduction

Growth in the firm sector is inclusive if it creates jobs for the poor. The East Asian example indicates that SMEs have created such jobs on a sustained basis. The small scale entities achieve external economies of scale by linking vertically with supply chain partners who are higher in the ladder of product and quality standards. In Nicaragua, small-scale producers of coffee observed growth in short and long run by linking with certified fair-trade and organic coffee associations. It now helps them in show casing their product to various other markets in which quality standards are usually a barrier to entry (Donovan and Poole, 2011).

The smaller producers now linked with a global marketing facility available under the GVCs achieve financial strength overtime through greater asset accumulation, access to improved infrastructure, ability to access better technology and provide superior training to workers. All this also trickles down to helping security of tenure and incomes for the poor working in each step under the supply chain (Seville, Buxton and Vorley, 2011). In agriculture, we understand that such benefits have still not trickled down to the small farmers. Primarily this is attributed to the information gaps in case of farmers and the presence of middle men with better linkages with markets. Improved ICT facilities are, however, transforming this, as farmers under some initiatives are receiving real time information regarding the market prices and availability of buyers.[1]

[1] For example, see, e-chopal in India.

2.4 Rise of GVCs in East and South Asia

Noomhorm and Ahmad (2008) find that traditional supply chains transformed into technology based end-to-end distributing system and having focus on customer satisfaction. One such example is the evolving nature of agri-business across Asia. Rising middle class with increased incomes and conscious of quality aspects has increased reliance on standardized purchase through hypermarkets. However, organic and green food initiatives have provided small and medium size farm owners an opportunity to tackle dominance of large corporations. The consumers across Asia have been paying a higher price for the organically produced foods. In fact several years latter, it can be noted that the demand for organic food is derived from the consumer preference.

Can the developing countries sustain the current trend of integration in value chains? Banomyong (2010) finds that cost associated with physical transfer of goods and security of supply chains are hindering value chain development in South Asia. Logistic providers control firms' supply chains as majority of firms use services of freight forwarders. Logistic providers in Asia are also facing lack of banking services, documentation and insurance obstructions. Infrastructure and institutional frameworks need to respond to the needs of the fast changing customer needs. Growth in trade is expected by converting countrywide supply chains into regional and global supply chains.

The study by UN and Commonwealth Secretariat (2011) examines how Bangladesh, India, Pakistan and Srilanka can develop supply chains in textile and clothing sector to gain cost competitiveness, which will in turn enhance exports across the region. It is observed that demand and supply for inputs lie well within the region. Countries within the region have lowest cost export value. However, instead of importing from these countries, imports came from global suppliers. In this regard, South Asia Free Trade Agreement (SAFTA) can play a pivotal role in reduction of tariffs and non-tariff barriers.

For the case of ASEAN, Medalla and Rosellon (2012) find that Rules of Origin (ROOs) appear to be same across the Free Trade Agreements (FTAs), while difference exists in form of qualitative restrictions. ROOs, FTAs and Origin Certification Procedures (OCP) impact the compliance costs, which ultimately affects global value chain. When margin of preference under the FTA is greater, exporters gain profits and FTAs have positive impact on the value chain.

In South Asia, India, Pakistan and Sri Lanka have relatively better infrastructure in terms of manufacturing for exports, human resource management, and reduction in connectivity costs. However, it is also observed that South Asian region is least trade integrated despite having an established potential (Serieux, 2012). Regional value chains can be developed either by policy initiatives or by arrangements to produce regional public and quasi-public goods. Improvements in transport and logistics, inflow of FDI, allowing inclusion of SMEs and ease in cost of doing business are the key elements to successfully develop regional value chain (Abe, 2013).

Brunner (2013) reveals that competitive advantage of South Asia depends upon developing and investing in logistics infrastructure and in GVC which connects the suppliers to buyer demand. It is explained that the regional economies have to develop quality products and enhance customer service for increasing share at a global level. One possible strategy can be to develop new products and markets which demand involvement in GVCs.

Bhattacharya and Moazzem (2013) argue that Least Developing Countries (LDCs) are still struggling to take advantage of globally integrated processes, which is due mainly to their engagement in trade of lower value inputs and global economic governance. LDCs are still practicing primitive production techniques and lack ensuring quality and standardization in line with internationally recognized benchmarks.

The production networks of India with Bangladesh and Thailand have also been studied in De and Saha (2013). Study focuses on exports of yarn from India to Bangladesh and imports of air-conditioning equipment from Thailand to India. Production networks involve intermediate goods imported from Thailand, which are used in final products manufactured in India. It is also observed that division of labor engages more than two countries in a cost-effective manner. India is also importing textile and clothing intermediate products from Bangladesh and exporting final products to Bangladesh, while intra-industry trade exhibits potential to increase such trade.

The need to become part of the global and regional value chains has provided an incentive for firms to move to sustainable practices in South Asia. Abbasi (2012) finds that that reduction in production residual, decrease in use of packing materials and plant efficiency are key successes gained in the process of achieving satisfactory environmental benchmarks.

There are gender impacts of value chain integration, which have been reflected in the literature. Babar and Bilal (2012) find that supply chain has contributed significantly in the growth of textile and fashion industry in South Asia. In this sector, sourcing and on-time delivery have strong correlation with supply chain management. Hayat et al (2012) find that organizational factors, mutual understanding between supply chain players, relationship and decision making structures, and responsiveness to customers have a significant impact on supply chain effectiveness. However, flow of information and top level leadership's commitment are required to enhance the impact of these determinants. It is in this context that the literature suggests firms to quickly embrace the productivity gains through the adoption of ICT. The SMEs who adopted e-commerce and Electronic Supply Chain Management (E-SCM) have shown increase in turnover, on-time order management and delivery (Khan et al, 2014). E-Commerce helps firms to enhance their customer experience and also minimizes costs to service any troubleshooting. Apart from these cost advantages, lower inventory stocks are also reported as a result of ECSM practices.

3. Supply-side Issues in Value Chain Integration

The data warehousing revolution in logistics has made it possible to enhance operational efficiency, client follow up and also evolve new business models (Jeske et al, 2013). South Asian countries have been slow in adopting innovative IT approaches towards logistics management. It is observed that India shows relatively better performance in the region in terms of Logistics Performance Index (LPI) due to advanced services applications in logistics management (Table 1). Maldives and Pakistan have improved their score in customs regime and rank higher vis-à-vis other South Asian countries. The region as a whole ranks low in comparison to China, East Asia and competitor countries in Latin America (Table 1).

Table 1: Infrastructure for Business, 2014

Country	Logistics Performance Index Score (1=low, 5=high)	Customs Score	Infrastructure Score
Afghanistan	2.07	2.16	1.82
Bangladesh	2.56	2.09	2.11
Bhutan	2.29	2.09	2.18
India	3.08	2.72	2.88
Maldives	2.75	2.95	2.56
Nepal	2.59	2.31	2.26
Pakistan	2.83	2.84	2.67
Srilanka	2.70	2.56	2.23

Source: World Development Indicators 2014

A key distinction that should be made here is that most South Asian countries are not necessarily deficient in the physical presence of transport, trade and connectivity infrastructure. It is in fact the software side i.e. the governance of this infrastructure which exhibits poor performance relative to the competing regions. The management of public assets suffers from substantial problems including lack of: relevant leadership, transparency in recruitment and procurement processes, poor resource mobilization, and lack of efficiency in spending public expenditures (GoP, 2011).

Today, India and Pakistan represent the world's 2nd and 6th largest populations in the world. However their people are deprived of talking with each other due to ban on cellular roaming services, electronic and print media. This directly impacts the potential of business to business networking in turn hurting potential for trade and value chain development in the region. The efficiency with which customers in South Asia can be approached can be greatly helped by the increasing telecom density throughout South Asia (Table 2).

Table 2: Mobile-cellular Telephone Subscriptions per 100 Inhabitants

Country	2009	2010	2011	2012	2013
Afghanistan	136.58	145.69	154.43	160.54	156.23
Bangladesh	34.35	44.95	55.19	62.82	67.08
Bhutan	48.11	55.00	66.38	75.61	72.20
India	44.12	62.39	73.20	69.92	70.78
Maldives	143.21	151.78	159.79	165.63	181.19
Nepal	21.09	34.25	49.18	60.45	71.46
Pakistan	55.46	57.28	61.81	67.06	70.13
Sri Lanka	79.15	83.62	87.55	91.63	95.50

Source: International Telecommunication Union, 2014

The domestic regulatory regimes in South Asia have often curtailed foreign investment and trading interests. Most multinational entities complain about the heavy regulatory burden and a large government footprint (through licensing and permits regime). Table 3 indicates how difficult it is to start a business, deal with permits, obtain utility services like electricity, and register property in South Asia. These statistics are vital for attracting foreign direct investment (FDI), which only finds its way in host countries that have certain and transparent policy regimes.

Enforcing contracts at a local level requires coordination between the legislators, judiciary and the civil service. However the current level of fragmented public sector decision making processes across South Asia have kept the FDI levels to far less than the potential (Table 4) and force foreign firms to become a party to several forms of rent-seeking arrangements. The regulatory institutions have been found either missing or rather weak in preventing violation of property rights, breach of intellection property and firm-level collusive practices.

Entry in to South Asian markets is difficult, a less known issue is that of the challenges faced while exiting the market. The bankruptcy laws in several countries of the region are missing. It becomes nearly impossible to quickly shut down a loss making entity and channelize the residual capital to other more profitable sectors. A related issue which also hinders cross-border investment in South Asia and trade in services is the lack of own-country's bank branches in other South Asian countries and agreement on double taxation. The transactions have to be routed through a third country arrangement. Even letters of credit cannot go beyond a certain level of transaction amount. While there

Table 3: Doing Business in South Asia, 2014

	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Ease of doing business	164	130	141	134	95	105	110	85
Starting a business	24	74	86	179	71	97	105	54
Dealing with construction permit	167	93	132	182	18	105	109	108
Getting electricity	104	189	91	111	131	98	175	91
Registering property	175	177	86	92	161	24	125	145
Getting credit	130	86	109	28	109	55	73	73
Protecting investors	189	22	147	34	80	80	34	52
Paying taxes	98	100	104	158	115	126	166	171
Trading across borders	184	130	172	132	138	177	91	51
Enforcing contracts	168	185	37	186	90	139	158	135
Resolving insolvency	115	119	189	121	40	125	71	59

Source: International Finance Corporation, 2014

Table 4: Foreign Direct Investment, Net Inflows (% of GDP)

Country	2009	2010	2011	2012	2013
Afghanistan	1.71	0.47	0.51	0.46	0.33
Bangladesh	0.92	0.86	1.06	1.27	1.16
Bhutan	1.45	4.75	1.69	1.31	1.12
India	2.61	1.60	1.94	1.29	1.50
Maldives	7.96	10.14	11.86	13.44	14.14
Nepal	0.30	0.55	0.50	0.48	0.38
Pakistan	1.39	1.14	0.61	0.38	0.55
Srilanka	0.96	0.96	1.62	1.58	1.36

Source: World Development Indicators, 2014

is large growth of consumer banking in most South Asian countries, this is not transforming currently into helping regional value chains, where customer from country-A in South Asia can purchase via direct banking transfer in country-B without having to give cross-border or third-country transaction charges.

There has also been a failure to bring down trading costs in the region. For example, the price taken to export (per container) has consistently been on the rise since 2009 (Table 6). Similar rising trend is seen in the warehousing sector. This not only reduces profit margins for the producers but also hurts the price competitiveness abroad. Such price hikes are also reflective of increased cost of inputs in the region.

Table 5: Cost to Export (US$ per Container)

Country	2009	2010	2011	2012	2013
Afghanistan	3030	3545	3545	3545	4645
Bangladesh	905	920	965	1025	1075
Bhutan	1210	2230	2230	2230	2230
India	945	1055	1095	1120	1170
Maldives	1348	1550	1550	1550	1625
Nepal	1764	1960	1960	1975	2295
Pakistan	611	611	660	660	660
Sri Lanka	590	590	590	595	595

Source: World Development Indicators, 2014

By a similar argument if the logistics and other local costs for importing goods increases, this also escalates operational expenses, in turn requiring greater working capital. A large part of working capital in the formal sector comes from borrowing. This in turn can imply greater debt and debt servicing costs for the firms in the medium to long run. Such trends prevent SMEs to participate in the trade and value chain processes. Despite trade policy incentives provided to reduce cost of imports particularly for agriculture and industry, importers in the region continue to face higher transport and warehousing costs since 2009 (Table 7).

Table 6: Cost to Import (US$ per Container)

Country	2009	2010	2011	2012	2013
Afghanistan	3000	3830	3830	3830	5180
Bangladesh	1290	1305	1370	1430	1470
Bhutan	1840	2505	2505	2330	2330
India	1040	1105	1150	1200	1250
Maldives	1348	1526	1526	1526	1610
Nepal	1825	2095	2095	2095	2400
Pakistan	680	680	705	705	725
Sri Lanka	745	745	745	775	775

Source: World Development Indicators, 2014

A more difficult issue to understand here is the failure to bring down the days required to export and import. Since the past decade substantial investments have taken place across the region in road, rail and aviation sectors. Despite such spending, the time taken to export consignments in Bangladesh, India, Maldives, Nepal, Pakistan and Sri Lanka has not changed (Table 8). It has in fact increased in the case of Afghanistan at a time when peace process has relatively taken hold. The duration required to import also shows a stubbornly high interval (Table 9).

Table 7: Time to Export (Days)

Country	2009	2010	2011	2012	2013
Afghanistan	74	74	74	74	81
Bangladesh	25	25	25	25	25
Bhutan	38	38	38	38	38
India	17	17	16	16	16
Maldives	21	21	21	21	21
Nepal	41	41	41	41	42
Pakistan	22	21	21	21	21
Sri Lanka	21	21	21	20	20

Source: World Development Indicators, 2014

Table 8: Time to Import (Days)

Country	2009	2010	2011	2012	2013
Afghanistan	77	77	77	77	85
Bangladesh	32	34	34	34	35
Bhutan	38	38	38	38	38
India	20	20	20	20	20
Maldives	20	22	22	22	22
Nepal	35	35	35	38	39
Pakistan	18	18	18	18	18
Sri Lanka	20	19	19	19	17

Source: World Development Indicators, 2014

The prospects for value chains are also hurt due to the transactions costs involved in completing trade procedures and documents. While procedures may be important, they need to be simplified and costs associated with their compliance should be reduced. This is important for a region where over 90 percent of formal enterprises are SMEs. It is noted in Table 10 that the documents required to export and import are still high in number, if compared with other trading blocs including ASEAN.

Table 9: Documents Required to Trade, 2013

Country	Documents to Export (number)	Documents to Import (number)
Afghanistan	10	10
Bangladesh	6	8
Bhutan	9	12
India	9	11
Maldives	7	9
Nepal	11	11
Pakistan	8	8
Sri Lanka	5	7

Source: World Development Indicators, 2014

4. Regional Perceptions on Value Chains

In the process of conducting this study, the Sustainable Development Policy Institute (SDPI) conducted key informant interviews with business community in Bangladesh, India, Pakistan and Sri Lanka. A total of 70 business entities were interviewed based on a criterion where: a) firms are involved in trade with South Asia, b) firms are also manufacturing entities, and c) senior management at these entities is proficient with rules and regulations regarding cross-border trade and investment. The distribution of responses is based upon the team's outreach capacity which was constrained by both time and resources. There were 10 valid responses from Bangladesh, 20 from India, 13 from Sri Lanka and 27 from Pakistan. The Survey Team ensured that a mix of medium and large scale entities was surveyed. Following is a summary of issues, which were highlighted as major constraints to regional value chain development.

4.1 Lack of Functional Economic Corridors

The business community recognized that there is a substantial existence of informal value chain activity at the micro level. This phenomenon is not very different from the already established informal trading in South Asia. However, it is hurting the formal activity as non-custom paid goods and services compete with the formally supplied variants. This is also resulting in a loss to the government as important revenue is lost once informal merchandise finds way in the domestic markets.

One of the key reasons cited for this is the lack of functional economic corridors that can serve as a basis to implement value chain operations across the region. Such corridors integrate trade facilitation and logistics services. The transport services are linked to efficient logistics, warehousing and information systems, which reduce transactions costs in trade. Our respondents noted the poor physical connectivity between several South Asian economies. For example, there are 11 land routes between India and Pakistan, out of which only one is operational for formal flow of goods.

It was proposed that SAARC member states should consider a single permit system facilitating movement of merchandise through road and rail transport across South Asia. In simple terms, this implies that a vehicle holding such a permit can move to any South Asian country for trading purposes. At several border points the transport through trucking channels is allowed. However, this is not allowing upscaling of commercial activity due lack of capacity available with truck-based containers. The way forward in South Asia may be containerization via railways. This has already been proposed by at least 3 countries in the region. However, actual implementation is still awaited.

It was suggested that not only a diversification of transport modes should be considered, but also that SAARC transport network should be able to connect member states with other sub-regions. For example, on the western side Pakistan and Afghanistan may allow South Asian merchandise to travel to central Asian countries. This will result in gains for several players include the country of origin and transit country.

Responses from Bangladesh hinted towards the possibility of energy corridors, where value chains in electricity and gas supply and petroleum products could be considered. SAARC already has a feasibility conducted for electricity grid interconnection amongst the member states. Actual implementation can start with a few examples which can be latter be leveraged through private sector involvement. The timely supplies of electricity and gas from energy surplus to deficit pockets in the region can create positive interdependencies in South Asia.

4.2 Facilitating Agglomeration and Free Trade Zones

One of the focus group discussions as part of this study proposed that all border-related conflict zones in South Asia should be declared free investment and trade opportunity zones with tax free status. These may include places like, Durand line, Baraibari, Daikhata-Dumabari, Kalpani, Lathitila, Muhurichar, and Pyrdiwah. SAARC may propose a high level commission to look into this proposal and develop consensus among member states for this arrangement.

Such free trade zones can easily generate growth of value chains in second-tier cities along the borders. This expansion will, however, require national governments to put in place policies that foster agglomeration and value chain processes. These policies may be aimed towards all four dimensions of value chains including input-output structure of the industry, combining local production with dispersed distribution, coordination and control operations, and local rules governing value chains. Such policies will also reform the local labour and infrastructure laws, which in turn can cater to the increased demand for human resource, transport, distribution and warehousing components of the value chains. This may also require public investment in upgrading of infrastructure that facilitates retail and wholesale trade.

The backward linkages of such policies that facilitate agglomeration may be a growth in SMEs involved in private services. The growth of this services sector will then pave the way for agricultural processing, small scale manufacturing and trade activities in these second-tier border cities.

A major role can be played by the national governments through deregulation of infrastructure. The example of Sialkot in Pakistan illustrates how: a) changes in rules allowed for local private sector to own and operate an international airport which is now also handling cargo facilities, and b) each unit invested by the business community in road sector was matched by the public administration resulting in municipal roads managed by an autonomous board.

To service the free trade zones through second-tier cities, it will be important to connect these cities with port and land-route border destinations. This, however, can imply for several South Asian countries substantial commitment in the form of realigned investment priorities, particularly in the public sector. The development partners in this case may help through technical assistance and global experience.

4.3 Trade Facilitation for Regional Value Chain Development

Trade facilitation was pointed out as the single most important factor by our respondents, which has the potential to promote cross-border value chains across the region. It was hinted that both transport costs and compliance costs of trade-related documentation needs to be lowered. In several parts of South Asia, the custom posts, sea and dry ports are not automated. This can hinder the SAARC single window operation, which has been proposed by several track-II reports.

Trade facilitation measures should also factor-in transit trade agreements. For example, the Afghanistan – Pakistan transit trade agreement in principle allows Pakistan to access Iran, Tajikistan, Turkmenistan and Uzbekistan. However, the still lacking integrated customs clearance facilities in Torkhum and Chaman are now allowing such access to actualize.

There are gaps in capacity at the ports and customs that also need to be addressed, if a change in the status of trade and value chains in South Asia is to be witnessed. We take examples here of quarantine and dispute resolution mechanisms. The quarantine process has to be completed by the destination country, however, it was informed that several exporters to South Asia are asked by their host countries. The discretionary powers allowed to the custom officials imply that business community is not very keen to appeal the adverse decisions. Those wishing to pursue value chain activity showed reluctance due to lack of credible mechanisms through which cross-border business disputes could be settled without having to face costs of international (out of South Asia) dispute resolution forums.

Trade facilitation will require a sequenced reform, which could start with first upgrading of trade-related infrastructure at national level, capacity building of trade and custom officials, grievance redressal mechanisms, reduction in informal payments, simplifying and standardizing trade and transit documentation, rationalization in items on sensitive lists, containerization via railways, and harmonization of product standards.

4.4 Deepening and Implementing FTAs

It was a general consensus among the respondents that most free trade agreements (FTAs) including SAFTA have not been implemented in their true spirit. Efforts are now required to: a) update the agreements to take account of new global economic developments in particular the value chain revolution, b) deepen FTAs to include trade in services and cross-border investments, and c) improve institutional frameworks at national and regional level to ensure implementation of provisions under FTAs.

The business community also desires that greater respect should be associated with formal sector, and informal segments of the economy should be curbed at a regional level. Furthermore a more comprehensive intellectual protection rights regime is required in order to protect firms involved in cross-border trade and value chain operations. Given that the latter may involve investing in a neighboring country, therefore, harmonization of competition policies was also suggested.

It was recommended that several working groups have been established at the SAARC level to look into trade, investment, intellectual property, product standards and overall competition regimes. However, the participation is often weak and at times irrelevant. For institutional connectivity to improve in the region, SAARC level meetings on the above mentioned subjects should be accompanied by bilateral forums e.g. Afghanistan – Pakistan Joint Economic Council.

Some provisions may also be required in the domestic industrial policies to facilitate regional value chains. The lead firm in the value chain process should not be subject to multiple country rules or double taxation if operating across several countries in South Asia. There should be mutual recognition as regards regulatory regime for value chains in SAARC region.

The developing partners such as the Asian Development Bank, World Bank and UN ESCAP have geared their expertise and assistance towards improving trade facilitation components under FTAs. However, on several occasions it has been observed that these organizations are competing for clients in domestic governments. In fact, it is these players, who are best placed to throw weight behind the SAARC process. This is only possible if development partners have improved coordination among themselves. They should not become party to politically motivated public sector projects that are sometimes not based on prudent economic evaluations and in the longer run hurt trade and investment interests in the region.

4.5 Role of Private Sector in Value Chain Development

It was agreed by most of the respondents that public sector alone may not be able to facilitate value chains, which can compete with alternatives from China and East Asia. The private sector in South Asia will also have to work on process upgrading (i.e. improving efficiency of production system and networks), product upgrading (i.e. regularly sophisticating the product), functional upgrading (i.e. moving to higher levels of value added), and chain or inter-sectoral upgrading (i.e. using knowledge from one sector to move or diversify into another sector).[2]

The private sector in most South Asian countries is represented by fragmented associations. Usually such groups are not very organized to forward

2 Coe (2013) describes these upgrading processes in detail.

concrete policy advice on issues such as value chain development. In this context, it is important that the domestic private sector in South Asia should pool its resources to frame a shared vision on trade, investment and value chain development. Once this is forwarded to the national governments or SAARC Secretariat, it is important that there should be a vigorous follow up mechanism in place where by the private sector associations can keep track of government's performance in implementing business-friendly reforms.

4.6 Non-Tariff Barriers Preventing Skills and Technology Transfer

The trade-related literature in South Asia comprehensively informs regarding the various types of non-tariff barriers and how these might be hurting trade. However, in the case of value chains, the business community felt that NTBs were also responsible for preventing technology and skills transfer. India's environmentally compliant auto parts and pharmaceuticals are restricted by Pakistan. Similarly, Pakistan's high quality agricultural fruits, textile, leather and rice are restricted by India. The herbal medicines from Bangladesh cannot find their way in India or Pakistan despite consumer demand. Such examples can be found in almost all South Asian countries, where country-specific comparative advantages are undermined through non-tariff barriers. While the argument that such practice is hurting trade is well established, however, the more important aspect is that such barriers are not allowing technology and ideas transfer to take place in the region. The regional diseconomies of scale due to such missed opportunities imply that the LDCs in South Asia need to acquire this knowledge from outside the region and at a higher cost.

Equally important is to note the difficulty in skill transfer process across the region. SAARC Human Resource Development Centre has conducted detailed studies indicating the high opportunity cost of not learning from neighboring countries. The students, industrial workers and tertiary sector personnel cannot freely flow across Afghanistan, Bangladesh, India and Pakistan due to visa restrictions. One of our respondents mentioned the low numbers of Afghan, Bangladeshi and Pakistani faculty and students in the South Asia University based in New Delhi.[3] The key reasons include city-specific visas by the Government of India, reluctance of local home owners to rent accommodation to these nationalities, difficulty in opening up of bank accounts etc.

5. Conclusion

Despite primitive regional rules of trade and non-tariff barriers, cross-border merchandise flows in South Asia have increased. There is also increasing

[3] This university is jointly funded by SAARC member countries.

evidence of cross-border investments through both government and automatic routes. The next intuitive step should be to put in place economic corridors that can promote regional value chains (see De and Iyengar 2014). This will have several beneficiaries including national governments (earning greater revenues), manufacturing community (drawing profits from production, property rights and royalty proceeds), trading community (benefiting from greater variety available in retail and wholesale sectors), and consumers (economies of scale bringing down prices and increasing consumer surpluses across the region).

To realize the above benefits, this study notes that the national governments will need to strengthen their promise towards the SAARC agenda. The pending agreements related to transport, energy, connectivity and dispute resolution should be finalized on priority basis. Second, the supply-side constraints specific to movement of goods and services in South Asia have been discussed at length in this paper. It is important that such constraints should be addressed to bring down the cost of doing business and reduce transactions costs involved in trade and cross-border investment. The supply-side gaps are also hurting the labour productivity which has implications for the global competitiveness and regional value chain development.

Third, in our survey exercise the business community in the region hints towards six key priority areas, which are curtailing the regional growth of value chains. These include the lack of transport and logistics corridors, failure to reap the benefits of agglomeration, lackluster progress on trade facilitation reforms, lack of political will in fully implementing the FTAs already signed across the region (including SAFTA), negligible involvement of private sectors in regional trade and value chain development reforms, and stubbornly high non-tariff barriers hurting flow of goods, services and technologies.

The survey respondents also proposed that in order to overcome constraints to regional value chain development, it is important that institution-specific connectivity should be increased across South Asia. While the Ministry of Commerce in each of the regional economies are found to be in touch on trade matters, issues such as visa, compliance with standards, opening up of bank branches, harmonization of licensing and permits will actually require greater interaction between specialized national institutions. All most all responses noted that they will be apprehensive of long term engagement in regional value chains unless the dispute resolution mechanisms are well respected at the regional level. This also implies that some harmonization should be achieved in regulatory and competition policies.

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Potential and Prospects of Strengthening Transport Connectivity for Regional Economic Integration in Southern Asia

Nagesh Kumar*

1. Introduction

Regional economic cooperation and integration assumes a new criticality in the post-global financial crisis scenario. It is now increasingly clear that the countries of the Asia and the Pacific region will have to rely more on internal and regional demand to drive their growth as the conventional engines of growth in the advanced economies now face subdued economic outlook and cannot rely on increasing imports from developing countries because of compulsions of unwinding the global imbalances. A new wave of economic regionalism is sweeping Asia and the Pacific motivated by not only the continuing economic difficulties in the developed economies but also by the search for efficiency-seeking industrial restructuring linking comparative advantages across borders in highly integrated supply chains.[1]

The Southern Asia (defined to include SAARC countries and their immediate contiguous neighbours) region emerges among the least integrated regions in the world and has the bulk of its potential for regional economic integration remaining to be exploited. ESCAP estimates show that intraregional trade could generate an additional US$ 52 billion in exports annually. The intraregional exports could rise to US$ 163 billion in a few years, if the barriers to them are addressed (UNESCAP-SSWA, 2012).

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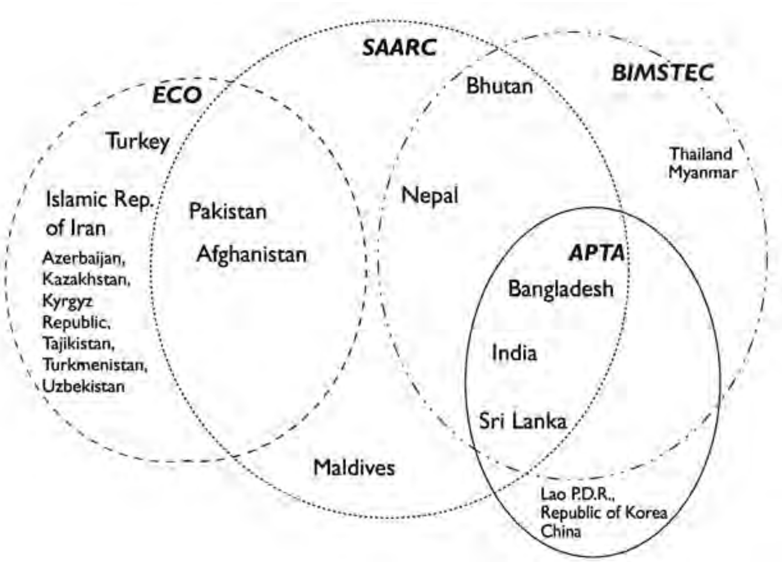
1 This discussion is based on chapter 4 of the UNESCAP-SSWA (2012) and UNESCAP-SSWA (2013).

Low realization of the potential of regional trade obtains despite the fact that three overlapping frameworks exist in the region to promote regional economic cooperation and integration namely the South Asian Association for Regional Cooperation (SAARC), the Economic Cooperation Organization (ECO), and the Bay of Bengal Initiative for Multisectoral Techno-economic Cooperation (BIMSTEC). These regional groupings have their own preferential trading arrangements including the South Asian Free Trade Agreement (SAFTA), ECO Trade Agreement (ECOTA) and the BIMSTEC FTA under different stages of implementation and scopes and coverage. These are complemented by the Asia-Pacific Trade Agreement (APTA) (earlier called the Bangkok Agreement), which was signed under the auspices of UNESCAP in 1970s with some of the South Asian countries like India, Bangladesh and Sri Lanka under which member countries exchange tariff preferences between them, as shown in Figure 1 (UNESCAP-SSWA 2012 for details). It would appear that intraregional trade is impeded by some barriers that the preferential regimes existing under the groupings are not able to surmount.

Among the barriers to fuller exploitation of potential of intraregional trade in Southern Asia include tariffs and non-tariff barriers that lead to a substantial proportion of trade taking place informally at the borders. But, an important reason explaining the low intra-regional trade in Southern Asia is its high cost

Figure 1: Regional Cooperation Frameworks in Southern Asia



Source: UNESCAP-SSWA (2012)

Note: Countries outside South and Southwest Asia are shown using a relatively smaller font.

of trade vis-à-vis with other regions. ESCAP Trade Cost Database shows the fact that trade costs applicable to intra-SAARC trade are higher than those applicable to South Asia's trade with the EU countries or with the United States, as shown in Table 1. Furthermore, while trade costs applicable to exports of South Asian countries to other regions have declined, those relating to intra-regional trade have not. The trade costs for intraregional trade in South Asia have been high because of poor land transport connectivity and trade facilitation at borders. This means that the region is better connected with Europe and North America than with itself. Therefore the benefits of geographical proximity and contiguity are not available to intra-regional trade in South Asia.

Table 1: Non-Tariff Intra- and Extra- Regional Trade Costs in Asia-Pacific, 2009 (as percentage of import prices)

Region	ASEAN-4	East Asia-3	North and Central Asia-6	SAARC-4	Australia-New Zealand	EU-3
ASEAN-4	79					
	(-10)					
East Asia-3	73	47				
	(-6)	(-21)				
North and Central Asia-6	291	187	149			
	(-14)	(-33)	(-21)			
SAARC-4	134	119	270	113		
	(-0)	(-3)	(-22)	0		
Australia-New Zealand	90	78	270	130	45	
	(-12)	(-16)	(-22)	(-3)	(-24)	
EU-3	97	70	149	101	89	32
	(-5)	(-19)	(-26)	(-3)	(-17)	(-33)
United States	77	53	165	99	82	51
	(-0)	(-14)	(-17)	(-1)	(-11)	(-18)

Source: UNESCAP Trade Cost Database (version 2).

Note: Trade costs may be interpreted as tariff equivalents. Percentage changes in trade costs between 2001-2003 and 2007-2009 are in parentheses. ASEAN-4: Indonesia, Malaysia, the Philippines and Thailand; EastAsia-3: China, Japan and Republic of Korea; North and Central Asia-6: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan and the Russian Federation; SAARC-4: Bangladesh, India, Pakistan and Sri Lanka; EU-3: France, Germany and the United Kingdom.

High costs of intra-regional trade have cost the region dearly in terms on not only to keep the intraregional trade at low levels but has also not allowed formation of regional value chains across the region. Regional production networking has emerged as an important channels of regional economic integration in other regions such as Southeast Asia and East Asia and has been helping in reaping the gains of efficiency-seeking industrial restructuring (Kumar, 2007). It would follow from the above discussion that strengthening transport connectivity and facilitation at the borders could go a long way in assisting in fuller exploitation of potential of intraregional trade and of regional production networking.

In Southern Asia, movement of goods and people facilitated by transport connectivity has been an important driver of prosperity and cultural interchanges over centuries. Even before the evolution of the famous Silk Route in the first century BC, the Southern Asia had the Grand Trunk Road built during the Mauryan dynasty (322 BC to 185 BC) in India connecting Chittagong of present day Bangladesh to Kabul in Afghanistan through Peshawar of present day Pakistan. The route was subsequently extended and rebuilt by Emperor Sher Shah Suri in the 16 century. With the passage of time, history has divided the subcontinent delimiting connectivity within the definitions of new political boundaries. Many of the earlier roads and railway connections still exist, but have decayed over time and fragmented with multiple divisions scattered across different countries. For example, while Bangladesh and India share land, sea and river borders, the bulk of their mutual trade is transported by ships via Sri Lanka and even Singapore, leading to high trade costs, eroding trade competitiveness. To harness the potential of trade for economic growth and poverty alleviation in future, these countries need to strengthen their connectivity with each other and others in the neighborhood, and synergize production and distribution chains along regional economic corridors.

In what follows we discuss the key barriers and prospects of strengthening transport connectivity in Southern Asia. It then makes a case for extended transport corridors and summarizes two proposals of such corridors. Rest part of the paper is organized as follows. Section 2 presents key barriers to transport connectivity in South Asia. Discussion on selected land corridors have been dealt in section 3. Concluding remarks are drawn in Section 4.

2. Key Barriers to Transport Connectivity in Southern Asia

Transport connectivity between the countries in the subregion has been affected adversely from a number of infrastructure gaps, lack of transit arrangements, cumbersome procedures and poor facilitation at the borders.[2]

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[2] This discussion is based on chapter 5 of UNESCAP-SSWA (2012)

Gaps in infrastructure for surface transport across countries

Across Southern Asia, the maritime and aviation modes of transport are relatively well connected to their respective global networks. The maritime shipping has historically been the main mode of transportation in international trade as the intercountry land transport linkages are particularly underdeveloped in Southern Asia. From the perspective of promoting intraregional trade, however, the priority needs to be placed on the development and upgrading of land-based transport infrastructure that can benefit from the geographical contiguity and shared borders between the countries in the subregion. Tremendous efficiency gains could also be realized by removing non-physical barriers to transport and improving intermodal connectivity. Both of these steps would improve the efficiency of transport services and raise the utilization rates of existing infrastructure.

For development of regional surface transport connectivity, the Intergovernmental Agreement on the Asian Highway Network was adopted under the auspices of UNESCAP on 18 November 2003, and established technical specifications for the regional road network. The Asian Highway Routemap prepared by UNESCAP now extends through 32 member States and comprises 142,000 km of highways. Currently, about 32 per cent of the network is classified as Primary and Class I standards, the two highest categories of road class.[3] However, there are still 11,500 km of Asian Highway routes that need to be upgraded to meet the minimum standards. Although the network does not have "missing links", the poor quality of some road segments is a deterrent for international transport because it increases transport time and operating costs for vehicles. Countries are also struggling to maintain their Asian Highway routes owing to limited finances and institutional capacity. Furthermore, as in the case of other infrastructure networks, it is often difficult to fund cross-border projects unless such projects are part of a broader integration strategy, such as the Almaty-Bishkek Regional Road Rehabilitation project funded by ADB under the Central Asia Regional Economic Cooperation (CAREC) programme, or more recently the Northern Economic Corridor of the Greater Mekong Subregion (GMS). This underlines the critical role played by regional and subregional cooperative frameworks.

The situation is similar for railways. Some countries are expanding and improving their networks through the construction of new tracks, double tracking or electric signaling, but the region as a whole has yet to realize its rail potential. The Intergovernmental Agreement on the Trans-Asian Railway Network, which entered into force in 2009, also under UNESCAP, is encouraging

[3] See Asian Highway Route map and Intergovernmental Agreement at www.unescap.org

Governments and financing institutions to increase investment in the sector.[4] Other subregional and regional initiatives have also been catalytic in improving railway network connectivity. For example, the Master Plan on ASEAN Connectivity launched in 2010 has renewed interest in the Singapore-Kunming Rail Link (SKRL) Project.

Railways face the challenge of missing links, which prevent the network from functioning as a continuous system (Table 2). While these links can be filled by transshipments to trucks, shippers are discouraged from using rail because of the longer transit time and higher costs. In addition, interoperability across borders remains a problem. Although, Southern Asia does not have too many missing links in railways, the subregion suffers from railway gauge mismatch. While India and Pakistan follow broad gauge (1,676 mm), the Islamic Republic of Iran and Turkey follow standard gauge (1,435 mm).

Countries in Southern Asia can also increase rail connectivity by developing more inland container depots and dry ports with rail connections. Afghanistan, Nepal, and Bhutan and inland parts of India and Pakistan should set-up more container depots and dry ports. Nepal has been running successfully a container depot at Birgunj connected to the vast Indian railways network (mainly for Nepal's international traffic) in PPP mode while another one is coming-up at Kakarbhitta (to facilitate Nepal's trade with eastern parts of South Asia). The same model can be extended to other landlocked developing countries of Southern Asia, namely Bhutan and Afghanistan. The Navoi inland container depot in Uzbekistan, for example, now serves as a subregional air hub with rail links to Central Asia and Afghanistan.

3. Lack of Regional Transit Arrangements

The foremost critical factor prohibiting Southern Asia to achieve its regional connectivity is the absence of regional transit trade arrangement. The goods carried by road across the subregion are largely subject to transshipment at the borders, which is a serious impediment to trade. Unlike European Union, Southern Asia does not have regional transit arrangement, although India and Pakistan provide transit transport facility to landlocked countries such as Bhutan and Nepal, and Afghanistan, respectively.

In the case of SAARC, the progress towards regional transit arrangement has been slow. An Inter-Governmental Group (IGG) was established under SAARC framework to advise on facilitation of transport in South Asia. Following the 14th SAARC Summit held in New Delhi in April 2007, the SAARC Ministers of Transport met in New Delhi on 31 August 2007. Taking note

4 See Trans-Asian Railway route map and International Agreement at www.unescap.org.

Table 2: Missing links in the Trans-Asian Railway Network in South and South-West Asia

Link	Countries concerned	Distance (km)	Estimated cost (in millions of US$)
Central Asia and the Caucasus, including Iran (Islamic Republic of) and Turkey			
Gagarin-Meghri	Armenia-Iran(Islamic Republic of)	469.6	2 000.0
Tatvan-Van	Turkey	240.0	
Qazvin-Rasht-Anzali-Astara	Iran (Islamic Republic of)	370.0	969.0
	Azerbaijan	8.2	12.4
	Total	378.2	981.4
Kars-Akhalkalaki	Turkey Georgia	76.0 29.0	
	Total	105.0	420.0
Uzgen-Arpa-Torugart-Kashi	Kyrgyzstan China	270.0	2 000.0
Arak-Khosravi-Khaneghein	Iran (Islamic Republic of) - Iraq	566.0 (up to border)	820.0
Sangan-Herat	Iran (Islamic Republic of)	77.0	78.0
	Afghanistan	114.0	75.0
		(61.0+53.0)	(for 61.0 km)
	Total	191.0	153.0
South Asia			
Dalbandin-Gwadar	Pakistan	515.0	1 250.0
Dohazari-Gundum	Bangladesh	129.0	300.0
Kalay-Jiribam	Myanmar India	127.0 219.0	98.0 649.0
	Total	346.0	747.0

Source: UN-ESCAP-SSWA (2012)

of the recommendations of SAARC Regional Multimodal Transport Study, SAARC Transport Ministers agreed to adopt a Regional Transport and Transit Agreement, and a Regional Motor Vehicles Agreement in 2008.[5] The 17th SAARC Summit, held in Addu, Maldives in November 2011, decided to conclude the Regional Railways Agreement and to convene the Expert Group Meeting on

5 Refer to SAARC Secretariat Newsletter, January 2008.

the Motor Vehicles Agreement at the earliest opportunity. While the drafts of the SAARC Motor Vehicles Agreement and the SAARC Railways Agreement have been prepared, it was agreed at the 18th SAARC Summit held in November 2014 in Kathmandu to conclude them shortly. In that context SAARC can take lessons from ECO that has adopted a regional transit agreement in 1995. ECO countries have also taken measures on issues related to customs and trade facilitation, and transit. The ECO Transit Transport Framework Agreement was signed on 9 May 1998. This Agreement facilitates the movement of goods, luggage and passengers through the respective territories of the ECO member States and provides all necessary facilities for transit transport.

While SAARC transit agreements wait for their conclusion, countries in eastern parts of South Asia have decided to open up to subregional transit and are moving towards a BBIN (Bangladesh, Bhutan, India and Nepal) Transit Agreement, following a meeting of their transport officials in Kolkata in February 2015.

Poorly equipped land customs stations

The efficiency of border corridors and land customs stations is an important factor for trade competitiveness in South and South-West Asia. Thus, the objectives of the trade and transport facilitation measures in the subregion would be to: (i) constantly improve the performance of border corridors and land customs stations (LCSs), (ii) eliminate the asymmetry between the LCSs pair, and (iii) remove multiple handling of goods at border. While there is no mismatch in the timing of operations of customs and immigration among the LCSs, the days of operation differ between India and Bangladesh because of different sets of weekly holidays. Apart from immigration, customs and security, which are an essential part of all LCSs, the other facilities in both the physical and non-physical categories vary across the LCSs. For example, except for Birganj in Nepal none of major LCSs in South and South-West Asia has an exclusive container-handling yard at the border. Similarly, except for Petrapole in India none has effectively adopted the fast track cargo clearance system.

Most of the land custom stations suffer from limited warehouse capacity and the lack of banking and foreign exchange facilities. In some cases, banks are located several kilometres away from the border (e.g., Burimari, Panitanki and Karkabitta). Adequate foreign exchange facilities are also unavailable at these borders. Some LCSs do not even have a foreign exchange facility, such as Burimari and Banglabandh in Bangladesh, Kakarbitta in Nepal, and Phulbari and Panitanki in India. Procedural complexities and lack of facilities often deter intraregional trade and affect the composition and direction of trade of South Asia in a significant manner.

Upgrading infrastructure for faster processing requires large investments. In this context, the integrated check post (ICP) project initiated by the

Government of India through the Land Ports Authority of India (LPAI) could help improve the border infrastructure serving South Asian neighbours. At the same time, the other side of the border needs upgrading at a similar pace. Smaller partner countries may not have adequate funds and capacity to implement ICPs on their side of the border. The international community needs to help them financially and technically so that a compatible, harmonized and improved border can be achieved, which would serve trade across the entire subregion. In particular, LCSs in least developed countries namely Afghanistan, Bangladesh, Nepal and Bhutan need special attention since they lack in facilities compared with those offered by other countries in the subregion, thereby putting them at a disadvantage by adding to the costs of transaction. A regional approach would be useful by allowing the LCS facilities shared by both sides with integrated customs documentation and checking procedures.

Poor transit and trade facilitation

While countries have succeeded to reduce documents required to export and import, countries still take considerable time for export and import, more particularly landlocked countries like Afghanistan (Table 3). There is a very high variation across countries in the number of days taken for exporting from 74 days for Afghanistan to only 6 days for Sri Lanka. Therefore, there is much to gain from reducing the transport cost and time taken for export and enhancing the overall efficiency and competitiveness within the subregion. In

Table 3: Documents, Cost and Time to Export in South and South-West Asia, 2014

Country	Documents to export (number)	Time to export (days)	Cost to export (US$ per container)
Afghanistan	10	81	4645
Bangladesh	6	28.6	1203
Bhutan	9	38	2230
India	7	17.1	1332
Iran, Islamic Rep.	7	25	1470
Maldives	7	21	1625
Nepal	11	42	2295
Pakistan	8	21.7	765
Sri Lanka	7	20	595
Turkey	7	13	990
Coefficient of Variation (%)	20	64	68

Source: UN-ESCAP based on *Doing Business Database*, World Bank the case of e-governance in customs, most of the LCSs in the subregion now use electronic data exchange platform, (e.g., Petrapole and Raxaul use ICEGATE while Benapole and Birganj use ASYCUDA) but many still handle customs formalities manually. The customs offices in South Asia still require excessive documentation, especially for imports, which must be submitted in hard copy form. Empirical studies show that a 10 per cent fall in transaction costs at border in South Asia has the effect of increasing country's exports by about 3 per cent.[6]

Limited inter-country transport corridors

Across the subregion, very few bi- or tri-lateral arrangements of passenger and freight trains between countries are in place. These include: (i) Trans-Asia Express between Istanbul and Tehran, (ii) Maitree Express between Kolkata (Calcutta) and Dhaka, (iii) Samjhauta Express between Delhi and Lahore, and (iv) Container freight train between Islamabad, Tehran and Istanbul. SAARC has also taken a decision to conduct demonstration run of the container train between Nepal, India and Bangladesh that could be eventually extended to other SAARC countries.[7] However, these demonstrations runs have yet to be undertaken.

Extended transport corridors for seamless connectivity in Southern Asia

Strategic location of Southern Asian subregion in the Eurasian space and trade patterns indicate immense possibilities of inter-regional connectivity with EU, Central Asia and ASEAN. Extended corridors linking Southern Asia with contiguous subregions will allow it to emerge as a hub of EU, Cenral Asian and ASEAN markets. The north-west boundaries of Southern Asia are already well connected with European transport networks through Istanbul and projects for improving connectivity with South Eastern regions are underway. Extension of Southern Asian transport corridors to neighbouring subregions can thus trigger inter-regional commerce in a huge way and help to maximize the network externalities. Such extended networks could be particularly fruitful for landlocked countries in Southern Asia namely Afghanistan, Bhutan and Nepal and those in Central Asia giving access to larger markets such as those in Europe, India, China and ASEAN countries. Furthermore, such extended corridors if they pass through lagging regions could help in balanced regional development and poverty reduction by expanding economic opportunities.

6 See De, Raihan and Kathuria (2012).

7 Refer, SAARC Secretariat Press Release dated 30 August 2011.

Therefore, key considerations for prioritizing transport corridors include inclusiveness in terms of maximizing geographic reach to populous areas and LLDCs through multimodal connections. They should provide access to major markets beyond the subregion, making optimal use of existing infrastructure and be environmentally benign.

Important transport corridors for Southern and Central Asian region

Linking inland production centers and manufacturing hubs scattered across Southern Asia is the key to foster intra-regional trade. Traditionally, maritime connectivity and trade flows through maritime corridors have been better compared to inland corridors and have helped costal countries to advance their trade relations. Relatively backward road and rail connectivity within the region, which would be used predominantly for intra-regional trade, explains high levels of average bilateral trade costs within the subregion. Therefore a number of inland corridors that are being developed under Asian Highway (AH) and Trans-Asian Railway (TAR) networks, proposed by ESCAP, are of high importance to the subregion.

However, as suggested in the previous sections, geographical coverage should be given utmost importance while selecting corridors for development, the outcomes being better the wider the coverage. A number of transport corridors have been identified under different regional/subregional groupings to promote intraregional trade between their members. These include SAARC corridors identified by the SAARC Regional Multimodal Transport Study (2006) and BCIM economic corridor identified by Bangladesh-China-India-Myanmar Forum for Regional Cooperation and those identified in BIMSTEC framework (BIMSTEC Transport and Logistics Study). However, most of these corridors identified remain with limited scope and coverage only addressing the connectivity between members of respective groupings. They have not focused on maximizing the network externalities.

Corridors with trunk routes extending across the breadth of the subregion with feeder links may serve the region more effectively in terms of maximizing the potential of connectivity for their development. Two trunk corridors identified by UNESCAP-SSWA,[9] which satisfy most of the criteria listed above and have feeder links across the breadth of Southern Asia, are as follows:

- Istanbul–Tehran–Islamabad–Delhi–Kolkata–Dhaka--Yangon (ITI–DKD-Y) Rail Corridor

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[8] Refer, UNESCAP-SSWA (2012), Chapter 5. UNESCAP SSWA's original proposal of ITI-DKD is extendable to Myanmar. Construction work for completion of missing links has been ongoing.

- Turkey–Iran (Islamic Republic of)–Pakistan–India–Bangladesh–Myanmar (TIPI–BM) Highway Corridor

Istanbul-Tehran-Islamabad--Delhi-Kolkata-Dhaka--Yangon (ITI-DKD-Y) Railway Container Corridor

The proposed ITI-DKD Railway Container Corridor can provide a new lifeline for trade in Asia by connecting important cities across Southern Asia. Considering that Istanbul-Tehran-Islamabad (ITI) container train is already operational, Pakistan-India railway networks are already connected and regular passenger trains between Delhi and Lahore via Attari (Samjhauta Express) are already in service, extending the ITI train to the Indian Railways network to reach Kolkata should not be too problematic. Kolkata, already connected by regular train services to Dhaka, is also connected with Birganj in Nepal. Effectively extending the ITI train to the Indian network and linking it with the Bangladesh-India-Nepal container train initiative would produce a very important trade route and generate substantial revenues for all the countries on the way – as transit fees besides facilitating trade and generating economic activity.

ITI-DKD corridor can be extended to Yangon in Myanmar once a few gaps in railway connectivity in India-Myanmar (which are under progress) are closed, making it ITI-DKD-Y Corridor. ITI-DKD-Y corridor would combine initiatives taken under ECO (Istanbul-Tehran-Islamabad container train), SAARC

Figure 2: ITI-DKD Container Train Corridor on the Trans-Asian Railway Network

Source: UNESCAP

Multimodal Corridor proposed in the SAARC study as well as a Bangladesh-India-Nepal container train corridor endorsed by the 17th SAARC Summit, and the BCIM corridor, and would multiply their network externalities greatly.

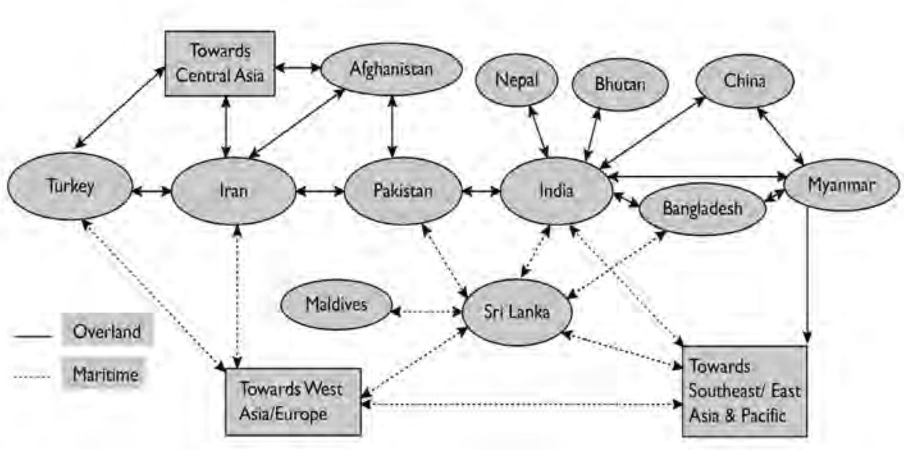
Overtime, this corridor can become a premier trade channel for Europe, Central Asia, West Asia's trade with South Asia and eventually to East Asia, once the proposed Delhi-Hanoi Rail Link and Kunming-Singapore Rail Links are completed. Istanbul is already integrated with the European Railway networks through an undersea tunnel. There are also many multimodal links enroute with the landlocked countries in Central Asia and Afghanistan, Nepal and Bhutan, as shown in map in Figure 2.

Turkey–Iran (Islamic Republic of)–Pakistan–India–Bangladesh–Myanmar (TIPI–BM) Highway

An East-West Road Corridor connecting Turkey-Iran (Islamic Republic of)-Pakistan-India-Bangladesh-Myanmar (TIPI-BM Corridor) can be conceived on the Asian Highway routes with multimodal connections with Afghanistan, the Central Asian Republics, Nepal and Bhutan, and Sri Lanka and Maldives. The TIPI-BM Corridor could become an important transport artery and could assist the subregion exploit its potential as the crossroads of Europe, West Asia, East Asia and the Pacific and emerge as a hub bringing forth immense prosperity.

Integrating the ECO-SAARC-BIMSTEC transport corridors could take the form of TIPI-BM corridor. With some effort, a regional overland road link from

Figure 3: TIPI-BM Road Corridor and Sub-links



Source: UNESCAP-SSWA (2012)

Istanbul to Yangon via Delhi can be revived for regional trade. A major part of this corridor is domestically operational, dual carriageway, and is an integral part of the old Sher Shah Road, or Grand Trunk (GT) Road. The opening of the route will mark a revival of the old linkages existing in South and South-West Asia dating back to the British period. TIPI-BM corridor will make each country in the subregion a transport hub for trade in the broader region. It thus deserves to be prioritized for operationalization (see Figure 3) and has the potential to make Turkey, Iran (Islamic Republic of), Pakistan and Afghanistan become hubs for India's trade with Central Asia and Europe. Similarly, Bangladesh will become a hub for India's trade with Myanmar and other South-East Asian countries, besides serving as a transit for the north-eastern region of India. Myanmar itself will become a transit hub for India's trade with other ASEAN countries. Sri Lanka is already well placed to be a maritime hub in South Asia with a lot of India's trade transhipped through port of Colombo. Apart from transit revenues, there are huge gains associated with energy conservation owing to transit and efficient use of resources. It would facilitate investments in infrastructure sector in South Asia and bring development and prosperity to the border areas.

The TIPI-BM corridor would be Asia's new Silk Route, linking Central and West Asia with East Asia, with South Asia functioning as a land bridge and playing the role of a vital corridor for expanded trade and transportation.

Towards an integrated intermodal transport and logistics system for Southern Asia

ITI-DKD-Y and TIPI-BM corridors will be interlinked at various locations as they cover entire Southern Asia longitudinally. Both corridors will have connecting sublinks to major ports of Chittagong, Kolkata, Mumbai, Karachi, Chabbhar and Bandar Abbas. Together they offer multimodal transport facility to serve intra-regional trade across Southern and Central Asia with numerous sub-links to the most populous as well as lagging rural hinterlands of the subregion (see Table 4). They will also connect with LLDCs belonging to the subregion. In addition, these two trunk corridors together offer onwards connectivity to European markets on the western boundaries and on the eastern boundaries they have potential links to South-East Asian markets through Myanmar, provided existing gaps are addressed. A recent study commissioned by ESCAP SSWA has shown that these corridors exhibits better transport efficiency, compared to rival transport routes and modes.[9] Preliminary simulations conducted by UNESCAP indicate

[9] TIPI-BM corridor is found to be the most efficient in a comparison of 12 transport corridors of the subregion. ITI-DKD closely follows and with an improvement in input usage by 25 percent, it can maintain the same level of transport efficiency as that of TIPI-BM. See De (2014).

substantial savings of freight cost and time taken for shipments by surface transport vis-à-vis conventional modes of transport.

The TIPI-BM Highway Corridor and the ITI-DKD Container Railway Corridor proposed here could transform Southern Asia into a major hub of intra- and inter-regional trade with many spillovers and welfare gains for all the participating countries. Furthermore, ESCAP analysis shows that the poorest parts of the subregion benefit the most from improved connectivity.[10] Hence, it would lead to a more balanced regional and inclusive development of the subregion. By helping to save huge resources on transport costs by reducing distances between countries and also by exploiting the economies of scale and scope, it would also enhance sustainability of the development process and help to reduce carbon footprints. Integrated transport networks across Southern Asia will be especially crucial for landlocked countries such as Afghanistan, Nepal and Bhutan, landlocked countries in Central Asia as well as landlocked areas within larger countries such as India's north-eastern region or the north-western provinces of Pakistan. Such networks could serve to end the countries' or areas' landlocked or semi-isolated status and provide them with shorter transport and transit links. Furthermore, the mutual interdependence that such transport arteries would lead to, will pave the way for bringing down the possibilities of conflicts and will foster durable peace.

The key prerequisites for such a coordinated approach for developing and integrating the transport corridors by ECO, SAARC and BIMSTEC would require greater consultation and cooperation between these groupings. The way out could be to prepare a masterplan of regional connectivity that focuses on the connectivity not only between the countries of the subregion but also with contiguous subregions, following the ASEAN example. As the sole intergovernmental body with universal membership in Asia and the Pacific, UNESCAP is in a unique position to play a role in facilitating preparation of such a masterplan in consultation with the relevant subregional organizations. UNESCAP secretariat will also need to make detailed techno-economic feasibilities studies and demonstrate costs and benefits projections for the countries concerned, estimate the resource requirements, and help prepare the legal frameworks such as a regional transport and transit agreement that will be needed. UNESCAP would also need to engage the concerned authorities for

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[10] The analysis was made of the three Asian Highway Routes in the framework of a geographical simulation model including the following route AH1 + AH14: Kunming (China) – Muse (Myanmar) – Mandalay (Myanmar) - North India – Dhaka (Bangladesh) - Delhi (India). The simulations show that improvements in land routes typically create businesses and employment opportunities in the regions where these routes are located; highest gains are recorded by the poorest regions in terms of regional GDP per capita compared to the baseline. See UNESCAP (2012).

Table 4: Sub-links and Infrastructure Gaps in ITI-DKD-Y Container Train Corridor and TIPI-BM Highway

Corridor	Important Sub-Links		Connectivity Gaps
	South Asia	Central Asia	
ITI-DKD-Y (Rail) *Countries Connected:* Bangladesh, India, Iran, Myanmar, Pakistan, Turkey	• Birgunj (Nepal) – Kolkata • Dhaka – Jibram (North-East India) *Links to AH network:* • (Kathmandu, Thimphu) – Kolkata • (Kathmandu, Thimphu) – Dhaka (onwards to Mongla and Chittagong ports) • (Kathmandu, Thimphu) – Delhi *Countries connected:** Afghanistan, Bhutan, Nepal	• Ashgabat – Mari – Mashhad - Tehran • (Almaty, Bishkek, Tashkent) – Mari-Mashhad –Tehran • (Almaty, Bishkek, Tashkent) - Mari-Mashhad – Bafq – New Delhi *Countries connected:* Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan	• Gauge breaks • Lack of transit beyond Istanbul-Islamabad sector (transit allowed for Central Asian countries) • Poor Trade facilitation at border crossings
TIPI–BM (Road) *Countries Connected:* Bangladesh, India, Iran, Myanmar, Pakistan, Turkey	• (Kathmandu, Thimphu) – Kolkata • (Kathmandu, Thimphu) – Dhaka (onwards to Mongla and Chittagong ports) • (Kathmandu, Thimphu) – Delhi *Countries connected: ** Afghanistan, Bhutan, Nepal	• Ashgabat – Sabzevar – Damghan - Tehran • (Almaty, Bishkek, Tashkent) – Dushnabe – Kabul –Peshwar-Islamabad-New Delhi *Countries connected:* Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan	• Uneven quality of roads and carriage capacity • Lack of transit beyond Istanbul-Islamabad sector (transit allowed for Central Asian countries) • Sub-links LLDCs not fully developed • Poor trade facilitation at border crossings

** Afghanistan and Bhutan have multimodal connectivity to ITI-DKD-Y rail corridor through AH segments. Sri Lanka has access to both ITI-DKD-Y and TIPI-BM corridors through Southern Indian Ports, Tuticorin being the closest.*

Source: UNESCAP

dialogues and consultation with their counterparts in order to facilitate reaching a political agreement.

4. Concluding Remarks

Regional economic integration has assumed a new criticality as an engine of growth in the post-financial crisis phase. South Asia remains among the least integrated subregions and has been unable to exploit its enormous potential of intraregional trade and production networking because of underdeveloped surface transport links and poor facilitation at the borders leading to high cost of trade and effectively denying to the subregion benefits of geographical proximity and contiguity. Drawing on the recent work of UNESCAP, this article highlights two proposals of extended transport corridors that can provide to the subregion not only seamless connectivity to exploit the potential of regional economic integration but also help it emerge as a hub of Asia-Europe trade. The landlocked countries in South and Central Asia could be the big beneficiaries of such extended corridors getting access to large markets through surface corridors. South Asia needs to develop a connectivity master plan connecting not only the countries but also the contiguous subregions, an approach endorsed by the 18th SAARC Summit. As the intergovernmental platform with universal membership of countries in Asia and the Pacific, UNESCAP is in a unique position to assist the subregion develop its connectivity master plan in consultation with the relevant subregional groupings such as SAARC, BIMSTEC, ECO, and BCIM, each of which is pursuing a transport connectivity agenda and to facilitate development of necessary institutional arrangements such as a regional transit arrangement that would be needed to operate extended transit corridors as proposed above. UNESCAP has been engaged in a programme of technical analysis and policy advocacy through a series of policy dialogues engaging key stakeholders in Southern Asia organized in Dhaka (June 2013), Lahore (December 2013), New Delhi (November 2014).[11] More such dialogues and activities have been planned in the coming months, as it implements a United Nations Development Account project on South Asia-Central Asia connectivity as a part of its vision of a seamless integrated intermodal transport and logistics network for Southern Asia.

[11] See for more details and the outcome documents on the policy dialogues, www.unescap.org/subregionaloffice/south-south-west-asia

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Connectivity for South Asia Economic Union

Prabir De*

1. Introduction

Trade has always been in the forefront of South Asia's economic policies. However, the progress has always been undermined by the excessive costs and lengthy time associated with export and import of goods and services in the region. Dealing the barriers to trade, connectivity, therefore, emerges as central to regional economic integration in South Asia. There is no doubt that South Asia can achieve substantial productivity gains and cost reductions by reducing policy-related non-tariff trade cost.

When it comes to deepening the regional integration process, next stage of SAARC would be to form a common market with a customs union having a common external trade policy, ceteris paribus. Economic Union may emerge on a natural course thereafter. An efficient, secure and integrated transport network is essential to support the realisation of South Asia Economic Union (SAEU).

Although the South Asian countries have been taking measures to improve connectivity at individual level, South Asian region is yet to make substantial progress in the field of connectivity collectively. Nevertheless, benefits to be derived from implementing the trade facilitation measures in way towards common market are significant. Undoubtedly, connectivity will continue to play a key role in forming a common market in South Asia.

This paper presents an outline of the connectivity needed to facilitate South Asia Economic Union (SAEU). It also provides the rationale and highlights key policy issues for moving towards an economic union.

2. Regional Connectivity Programme for Economic Union

Connectivity is an area where region-wide a common set of facilitation measures are yet to be undertaken, and compliance to a single standard is yet to happen. The progress has been limited to only individual country initiatives, undertaken mainly as a part of national agenda (e.g. electronic customs). Figure 1 illustrates the steps towards South Asia Economic Union. Moving to SAEU warrants a

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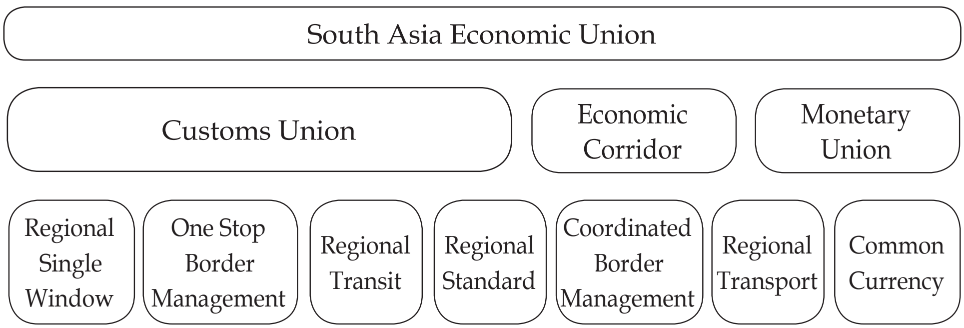
common template of trade transaction in the region when the region will have common external tariff to non-members. To achieve such objective, South Asian countries must be united to implement a regional trade facilitation and connectivity agenda consisting regional corridors, regional single window, regional transit and coordinated border management, which are prerequisites to form a Customs Union and an Economic Union.

Figure 1: Steps to South Asia Economic Union



Source: De (2015)

Coordinated border management: It is based on approaches such as collocation of facilities, close cooperation between agencies, delegation of administrative authority, cross-designation of officials, and effective information sharing.

Regional single window: It is a digital interface that allows traders to submit all import, export, and transit information required by regulatory agencies once via a single electronic gateway instead of submitting essentially the same information numerous times to different government entities.

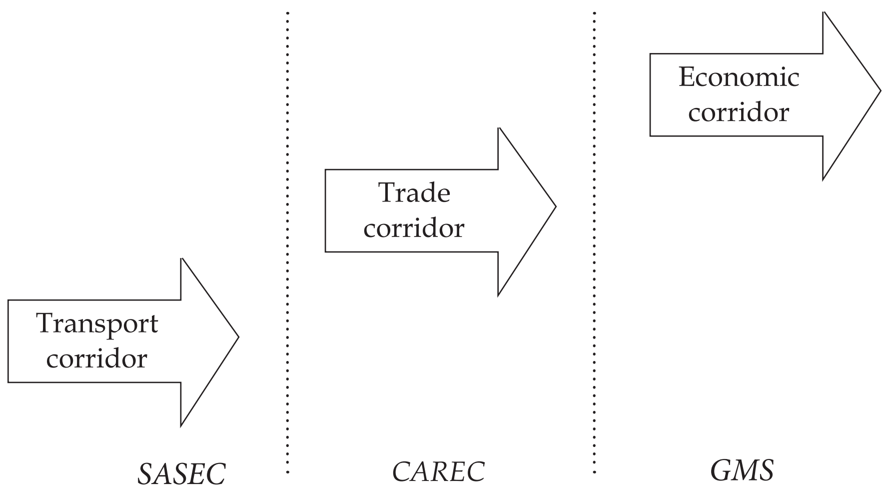
Regional transit: Under regional transit, goods and services move freely with compliance to certain rules and regulations in a given region.

One Stop Border Post: One Stop Border Post (OSBP) allows neighbouring countries to coordinate import, export, and transit processes to ensure that traders are not required to duplicate regulatory formalities on both sides of the same border.

On the hardware side, South Asia needs economic corridor with regional transport network. Without monetary union, we cannot achieve economic union. A currency arrangement is another requisite to build monetary union. Thus, customs union, monetary union and economic corridor will be the three pillars of economic union in South Asia.

Presently, South Asia has identified 10 regional road corridors, five regional rail corridors, two regional inland waterways corridors, 10 maritime gateways, and 16 aviation gateways for implementation in Phase I.[1] Besides, building regional infrastructure through economic corridors is planned to help facilitate international and national transportation, and promote industrialization in the hinterland. Examples are the Delhi-Mumbai Industrial Corridor (DMIC), a national economic corridor with regional implications; and the Mekong-Ganga Economic Corridor (MIEC) and the India-Myanmar-Thailand Trilateral Highway, both are cross-border corridors linking South Asia and Southeast Asia. Moving to economic corridor, South Asia may have to pass through trade corridors. If corridors in South Asia are transport corridors, the same in Central Asia (CAREC) has been transferred into trade corridors (ADB, 2012). The transformation of the South Asia transport corridors into economic corridors will depend on the volume, types and pattern of corridor trade and how it encourages certain level of development in the areas surrounding the corridors. Figure 2 illustrates the transformation of corridors in a geographic space. Spatial planning going beyond national policies is needed to support the development of the corridors in South Asia. At the same time, development of one area of the corridor is conditional upon the trading conditions along the entire area of the corridor across countries. Building corridor nodes and gateways and linking the nodes along the corridor would help the region moving towards economic corridor.

Figure 2: Moving Towards Economic Corridor



Source: Author's illustration

[1] SAARC Regional Multimodal Transport Study (SRMTS), SAARC Secretariat (2006)

Table 1: Corridor Development Policy

Stage	Corridor	Policy	Measure	Role
1	Transport corridor	Trade facilitation	Integrated trade facilitation Customs cooperation	Government Private sector
2	Trade corridor	Trade liberalization	Border policies Behind-the-border policies	Government
3	Economic corridor	Economic development	Corridor value chains Corridor township development Cross-border investments	Government Private sector

Source: Adapted from ADB (2012)

Table 1 shows the sequencing of the transformation of transport corridors to economic corridors and requisite policies for South Asia. The tasks are primarily three-fold: (i) developing transport corridor, (ii) building corridor nodes, and (iii) linking corridor nodes and gateways.

3. Projects to Build a Common Market: Key Policy Priorities

South Asian regional cooperation programmes have to be much stronger to address regional infrastructure needs, and to cultivate enabling institutions and policies. South Asia region has to undertake certain key policies to support the regional trade facilitation agenda aiming to Economic Union. Table 2 presents a dozen of key policies for the implementation.

South Asian countries shall continue to implement trade facilitation projects in the region which will help the countries to streamline border transaction and improve the competitiveness. Table 3 presents some key projects those can be implemented suitably in the region.

Develop interior infrastructure and project development facility

All efforts at South Asian connectivity and trade facilitation will be incomplete if the backend linkages into interior of South Asia are not strengthened. A Strong and multidimensional backend linkage is must for an effective integration. Joint feasibility study for connectivity projects may be encouraged. Project Development Facility (PDF) may be set-up to facilitate planning and implementation of cross-border connectivity projects. Among others, this new

Table 2: Key Policies

1.	Accept subregional and subsequently regional transit
2.	Fast track lane and priority of goods in transit to cross the border and move towards OSBP
3.	Set-up SAARC Single Window (pilot run of authorized economic operator, AEO; and mutual recognition agreement)
4.	Simplification and harmonization of trade procedures, more particularly at border.
5.	Introduce modern corridor management techniques in selected corridors
6.	Promote multimodal transportation (with rail transit, regular container train in the region)
7.	Improve the efficiency of border corridors (both side of border improvement in ICP project in parallel)
8.	Effective project coordination among government stakeholders
9.	Stronger institution (public-private interface) for trade facilitation is urgently needed.
10.	On-arrival visa, SAARC Business Travellers Card for facilitation of trade and investment, etc.
11.	Intermodal connectivity – Air Services Agreement (single ticket to fly between SAARC nations)
12.	Enforcement of Electronic payment system

Source: Author's own

Table 3: Key Trade Facilitation Priorities in South Asia

1.	Reduce lengthy customs and cargo handling time at ports of Chittagong, Karachi, Kolkata and Haldia through automation and modernization
2.	Faster opening of L/C account in bank with the help of ICT in Bangladesh and Nepal
3.	Faster cargo insurance with the help of ICT, process reengineering and competition among service providers in Nepal
4.	Use of ICT to obtain permits and certificates in Bhutan
5.	Synchronization of cross-border Customs in South
6.	Acceptance to regional transit
7.	Development of border infrastructure
8.	Cross-border electronic Customs Transit Document (CTD)
9.	National single window is essential for paperless trade
10.	Development of OSBP

Source: ADB-ESCAP (2014)

PDF vehicle shall aim at mobilizing financing to accelerate the speed of cross-border connectivity projects delivery. It shall focus on high-impact regional projects in the energy, transport, ICT, SMEs, SEZs, education, health and water sectors. Some of its major activities would be (i) advisory services, (ii) identification of projects through technical studies, (iii) mobilize funding, etc. Innovative financing shall be explored along with greater financial cooperation for cross-border projects.

Paperless trade, including development of national and regional single windows

Preparation of documents and exchange of information among various parties involved (before the goods start moving from the factory, or before they even arrive at the port as in the case of imports) account for the largest share of the import or export process time. As such, the development of single window facilities for submission and processing of information and documents is essential. Taking into account the importance of private sector actors in the transaction chain, the development of single window facilities enabling not only submission of information to regulatory and control agencies but making available relevant transaction information to both public and private actors along the transaction chain seem essential in facilitating trade. These 'extended' national single windows are now operating in Korea and some ASEAN countries. The success of ICEGATE also offers good lessons for other South Asian countries to strengthen their national single windows. More generally, the various process analyses conducted as part of the study have pointed out the limited use of modern ICT and the heavy reliance on paper documents throughout the import or export process. Increased use of ICT and development of paperless trade should therefore be pursued more vigorously in South Asia. Acceptance of cross-border Bill of Lading (BL) electronically or Customs Transit Document (CTD) would certainly lead to paperless trade in SASEC and effective implementation of single window. Countries should form an exclusive wing for trade facilitation. Bhutan has decided to accede to the Revised Kyoto Convention of modernization of customs.

Remove the regulatory burden on exports and imports and streamline NTMs

South Asian countries must remove regulatory burden on exports and imports and streamline NTMs on priority basis. For example, Bangladesh may withdraw the NTMs imposed on Bhutan, namely, NRAC and FMCC that are irrelevant. Bhutan, on the other, can simplify, merge and automate the IHR and other processes. The process of a Bhutanese customs inspector traveling to Burimari/ Changrabanda to clear imports, which often causes delays, should also be removed. Similarly, documentations imposed by port of Kolkata and Haldia and customs on Nepal cargo must become automated.

Minimum physical inspections

Inspection and testing procedures can and often do account for a significant of the average transaction time. More importantly, inspections were found to affect the timeliness and predictability of the trade transaction process, a key factor in enabling firms from a given country to participate in international productions networks. Inspection may be required at various times, typically at the border or port for imports, but also often as part of preparation of documents in case of exports. Inspections may be minimised through the use of appropriate risk management techniques. While customs often have some form of risk management system in place, other regulatory agencies often do not. Building capacity of these non-customs agencies and developing inter-agency risk management systems should be considered, along with joint (multi-agency) inspections when needed. Setting up certification programmes where quality and other characteristics of goods can be ensured through control of the production process at the factory rather than for every shipment may also be promoted as a way to reduce the need for inspections.

National and regional trade facilitation performance monitoring mechanisms

Regulatory authorities have a limited view of the entire trade process, often only aware of their own internal efficiency–or inefficiency. Traders also have limited awareness and information on the procedural bottlenecks. It is the intermediaries that hold most of the information available on the time and cost of specific procedures. Whether the inefficiencies are actually due to the intermediaries or to other parties (such as, regulatory authorities) and their impact would need to be assessed independently and regularly in order to identify priorities for reform. Governments may therefore consider the establishment of national trade facilitation performance monitoring mechanisms or measurement systems. The same may also be applicable to the South Asia. Regular and systematic conduct and update of business process analyses of import and export processes similar to the ones conducted in this study may be considered as the basis for such systems, possibly in combination with the WCO TRS methodology (which focuses on a narrower set of procedures). Embedding the performance measurement and monitoring function into ICT systems being developed as part of paperless trade initiatives (for instance, customs automation systems; RFID tracking of container systems) should also be systematically considered. These systems may provide real-time information and detailed records on the time taken to move goods as well as exchange of electronic documents for all transactions. We may also look at international examples instruments for simplification of trade-related procedures.

Harmonisation of documentary requirements across countries

Different documentation is needed for export to different destinations along South Asian corridors, which appears to create confusion and delays. Besides simplification of documentary requirements, a continuous effort to align national procedures and documents to international standards and conventions is required. It is worth noting that differences in documentation stem not only from differing regulations across importing countries, but also from different requirements by individual buyers (for instance, requiring different types of quality certificates, or requiring the information to be sent in different formats), such that involvement of international private sector associations in the harmonisation efforts would be needed.

Synchronisation of cross-border customs

Customs must operate 24x7 in South Asia. At present there are differences in working hours between customs of two neighbouring countries. For example, Birgunj Customs opens at 8 am, whereas Raxual Customs opens only at 10 am. It is recommended that full automation and link-up between customs will reduce transaction time and cost.

All trade documents including customs to be submitted electronically

By legislation, e-filling of documents can be made mandatory. Apart from a few initial hiccups, the application of modern ICT is manageable. For example, in case of India's ICEGATE it would then lead South Asia moving from a semi-electronic to a full electronic system. Excessive documentations will disappear with the use of a full electronic system in place.

Facilitate intra- and inter- regional multimodal transportation

Multimodal connectivity in South Asia would encourage production networks in the region and provide substantial benefits to landlocked countries such as Afghanistan, Bhutan and Nepal by giving them access to South Asian market at lower costs. At the same time, inter-modal link of both maritime and land routes in South Asia should also be encouraged. India is setting-up several industrial corridors such as DMIC, ECEC, MBEC, CBIC, ADKIC, etc. Multimodal links would eventually build stronger and effective industrial networks between South Asia and Southeast Asia.

Accession to international conventions

As goods begin to move along international transport corridors, the need for harmonization of laws and processes among countries becomes clear. International conventions related to transport facilitate the movement of goods, especially at border crossings, by reducing procedures and formalities, and saving time. South Asian transport networks require appropriate legal frameworks to define the rights of passage for goods, people and vehicles, and to decide on permits, licenses and other measures, as well as mechanisms for consultation, and dispute settlement. Recognizing that transport facilitation at the national and international levels are a prerequisite for enhancing international trade, South Asian countries must accede to international conventions on land transportation networks (road and rail transport). Countries that have not done so, must consider acceding to seven international transport conventions, which were originally developed under the auspices of the Economic Commission for Europe (ECE)[2]—Convention on Road Traffic, 1968; Convention on Road Signs and Signals, 1968; Customs Convention on the International Transport of Goods under Cover of Transit International Routier (TIR) Carnets (TIR Convention), 1975; Customs Convention on the Temporary Importation of Commercial Road Vehicles, 1956; Customs Convention on Containers, 1972; International Convention on the Harmonization of Frontier Controls of Goods, 1982; and the Convention on the Contract for the International Carriage of Goods by Road (CMR), 1956.[3] Revised Kyoto Protocol, which is in operation since 2006, is another tool that will facilitate developing economic corridor.[4] While some South Asian countries (Afghanistan, Pakistan and India signed some conventions) are members of international conventions on the intercontinental movement of vehicles, progress on other international conventions has been uneven. Accession to different versions of conventions also undermines facilitation objectives.

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[2] Currently, there are 56 transport-related international legal instruments initiated by the ECE aimed at facilitating the movement of goods, people, and vehicles across international borders.

[3] For details of selected international conventions on transport facilitation, see UNESCAP (2007).

[4] The revised Kyoto Convention promotes trade facilitation and effective controls through its legal provisions that detail the application of simple yet efficient procedures. The revised Convention also contains new and obligatory rules for its application which all Contracting Parties must accept without reservation.

Multimodal transport, transit and logistics

Transit and trade facilitation are pivotal to well functioning of economic corridors. In South Asia, the lack of transit is a major reason for the low level of economic exchanges. In general, the task ahead is to revive South Asia's transportation networks and establish region-wide multimodal transport and transit to reduce transportation costs. South Asia should have its own regional transit arrangement. BBIN countries have signed MVA recently. Door-to-door logistics approach shall be pursued with no distinction between transnational and domestic connections. At the same time, coordination among key players to achieve efficiency through logistics chain is must. We also need to know that not all sides of benefit equally from seamless development (e.g. India bears cost of Bangladesh and Nepal road). Highest returns derived from overcoming externalities and bottlenecks in gateways of the region should accede to existing international conventions. BBIN MVA is an important step toward harmonizing the software related to cross-border transport and transit. South Asia may follow suit while moving into economic corridor development.

Strengthening and harmonizing rules, regulations and standards

For the infrastructure of a South Asia-wide transport network to function effectively, the necessary soft infrastructure, such as relevant rules, regulations, and standards, has to be in place. Rules, regulations, and standards must meet a common regional benchmark, or more preferably an international one. Trade facilitation initiatives in the area of standards and conformance through reduction of TBT and/or SPS focus on addressing differences between national laws, standards, and conformity assessment procedures towards a broader horizontal approach at the regional level. Therefore, South Asian countries shall harmonize national standards with international standards and develop mutual recognition arrangements (MRAs) among members. Further, to make such an agreement effective, South Asian countries need to incorporate its provisions into their national laws, regulations, and standards. There is the need for higher-level coordination among the stakeholders and agencies concerned, such as transport, customs, immigration, and quarantine authorities. At the same time, the capacity of national institutions has to be enhanced for effective implementation of these agreements. There is also the need for a uniform or compatible standard for developing cross-border transport networks that are beneficial to all stakeholders. The establishment of an efficient management system and capacity building to look after the harmonization of standards would pave the way in developing regional economic corridors. This would ultimately help achieve single-stop and single-window customs offices across South Asian economic corridors.

Engaging SAARC Dialogue Partner

SAARC has to constructively engage the dialogue partners in trade facilitation project. ASEAN has set-up ACCC to coordinate with ASEAN dialogue partners in connectivity projects being implemented by dialogue partners. When resources are scare, SAARC shall constitute a committee with the Secretariat to coordinate with dialogue partners, which will help the region to source valuable technology and capital to finance connectivity projects, technical assistance, training and capacity building, etc.

4. Concluding Remarks

India is the only country in the region which shares land borders with its five neighbouring countries, namely, Afghanistan, Bangladesh, Bhutan, Nepal, and Pakistan; maritime border with Maldives and Sri Lanka; and sea routes with Sri Lanka, Maldives, Pakistan and Bangladesh. Road and rail links between those countries have to pass through the India. Multimodal transportation thus would be useful to landlocked countries like Nepal and Bhutan or smaller island countries like Maldives to access third country market using South Asian soil. Ideally, geographically connected countries in South Asia can play the role of transportation "hub" for one another.

The development of trade infrastructure has to commensurate the growth of the region. South Asia could unleash its full potentials, provided it improves the infrastructure facilities, which are at present not sufficient to meet the growing demand of the region. Failing to narrow the infrastructure gap, the region's growth and development will slow down. In other words, this also indirectly indicates high investment potentials in roadways, railways, power and the associated components in South Asia. The renewed and shared agenda of the South Asian regional cooperation should therefore aim to reduce both intra- and inter–regional trade facilitation gaps. The process of South Asian regional integration has to contribute to narrowing the gaps by providing resources for development of trade infrastructure. The resource requirements for bridging these gaps are nevertheless substantial, but manageable if we take a concerted approach to utilise the region's financial resources. Finally, South Asia has to enact its own connectivity and trade facilitation arrangement to take forward the agenda of South Asia Economic Union.

To conclude, connectivity and trade facilitation measures such as the simplification, harmonisation, and automation of procedures and documents and streamlining NTMs involve interagency coordination and collaboration. Their successful implementation requires not only political and governmental support in terms of both policy directives and human and financial resources, but also an in-depth understanding about existing business processes, including their related information flows, laws, rules, and regulations. To move ahead with the connectivity agenda, South Asian countries may consider conducting a regional study on South Asia regional connectivity strategy for regional economic union with participation of SAARC member countries, dialogue partners and international organization.

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Stimulating Intra-Regional Investment in SAARC: Is a Regional Investment Agreement the Way Forward?

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1. Introduction

'Investment may not be everything, but everything is nothing without investment'. The quote by Karl Savurant (2006), Executive Director of the Colombia University, Programme on International Investment, very succinctly sums up the importance of investment in complementing trade-led development. Trade preferences play an important role, but they only come into play once countries have something to trade (Savurant, 2006). This is especially true for developing economies, which have limited productive capacity to produce goods and services for the world market. While attracting foreign direct investment (FDI), to infuse much needed capital, management skills and technology, in building productive capacity to engage in international trade, is seen as critical. FDI is also considered pivotal for countries seeking to plug into regional and global value chains. As per UNCTAD (2013) estimates, 60 per cent of global trade involves trade in intermediate goods and services, which are part of sequential chains or complex networks of international production and consumption, the greater majority of which are typically carried out under the aegis of multinational corporations (MNEs). Thus, FDI is viewed as a principal channel through which host economies could link up to global operational networks of MNEs in driving export-led growth.

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With the systemic embrace of export oriented industrialization as the key tenant of national development policy, national attitudes towards FDI across all South Asian member states witnessed a radical paradigm shift; from being rather hostile towards FDI during phases of import substitution industrialization to becoming increasingly FDI friendly. By the mid-1990s, all SAARC member countries had unilaterally taken to liberalize restriction on FDI entry and ownership restrictions into a number of economic sectors, and had enacted legislation to safeguard foreign-owned assets against expropriation. Proactive measures to attract FDI, through the use of tax incentives and the setting up investment promotion agencies was also undertaken. Since these early reforms, FDI regimes have undergone deeper liberalization, with sensitive sectors such as services being increasingly opened to foreign investor and dedicated investment promotion agencies being set up to proactively attract FDI. On the international front, countries have also been seen negotiating a number of international investment agreements (largely bilateral) with the aim of attracting higher volumes of FDI.

Whilst unilateral liberalization of FDI policy regimes in South Asia have made significant headway and contributed to increased FDI inflows, as a region South Asia's success in attracting FDI, compared to other more successful trading blocs, is remained limited. Notably, intra-regional investment volumes remain minuscule in comparison, to the already dismal level of intra-regional trade.

With the formation of the South Asia Preferential Trade Agreement (SAPTA) in 1995 under the auspices of the broader integration framework of the South Asian Association for Regional Cooperation (SAARC), regional economic integration in the South Asia region has been progressing, albeit slowly. Whilst the SAPTA was an interim measure, the formation of the South Asian Free Trade Agreement (SAFTA) in 2004 is viewed as a major stepping stone towards fulfilling the vision of the SAARC Group of Eminent Persons (GEP) Report, which in 1995, advanced the case for moving towards a SAARC Customs Union (SACU) by 2015 and finally to a SAARC Economic Union (SAEU) along similar lines of European Integration by 2020. In addition to deeper trade policy liberalization, the GEP report also stressed on the concurrent need for deeper finance and investment policy integration in moving towards a SAEU. In this regard, the GEP report called upon the implementation of a regional investment agreement and the creation of a SAARC investment area well before the implementation of the SAFTA.

Despite the SAFTA coming into operation almost a decade prior, a comprehensive agreement covering investment has yet to materialize. Noticeably, however, the discourse on need for an investment agreement in SAARC has been reinvigorated and has gained moment in recent years with a number of SAARC Finance Ministers urging for the expedited implementation of such an agreement.

Against the backdrop, this paper evaluates how useful a regional investment framework would be for the SAARC. The article argues that whilst a Regional Investment framework is critical in spurring both intra- and extra-regional FDI, it is by no means the only determinant in attracting FDI. As the experience in ASEAN suggests, in addition to a regional framework, at the country level, each SAARC member state must strive to undertake broad-based reforms to improve their individual country investment climate, if they aspire to attract greater volumes of both intra- and extra-regional FDI to support its trade expansion.

Rest part of the paper is organized as follows. Section 2 provides a succinct overview of the international investment landscape, and develops the analytical framework for the study by surveying the relevant literature on the role of International Investment Agreements (IIAs) in attracting FDI and their place in broader economic integration agreements. Section 3 from a comparative perspective discusses trends and patterns on FDI and FDI Policy in South Asia and argues for the need for a regional investment agreement in SAARC. Section 4 from a comparative perspective evaluates the investment climates across SAARC and argues that in addition to a regional investment framework, individual SAARC member states must undertake broad based investment climate to complete regional efforts. In penultimate section, drawing on international best practices, provides a brief outline of what a SAARC investment agreement should look like. The final section summaries key findings.

2. The Economic Rationale for a Regional Investment Agreement in SAARC

2.1 Overview of the International Investment Landscape

Globalization has resulted in increased cross-border flows of trade and investment. International investment flows. Foreign Direct Investment (FDI) in particular has complemented the process of globalization, increasing the degree of interconnectedness amongst the nation states on an unprecedented scale. The growth of FDI flows has been complemented by the proliferation of a number of International Investment Agreements (IIAs).

The mid-1980s witnessed most developing and transition economies around the world increasingly opening up to FDI. Historically, however this has not always been the case. In the decades immediately following the World War II, both groups of countries were often hostile or at best distrustful of multinational enterprises (MNEs). The recognition that MNEs were no longer a part of the problem but increasingly as part of the solution in bringing in not only much needed capital to stimulate growth and development, but also technology, skills and access to foreign markets and creating employment, witnessed previously restrictive and controlling policies and institutions being replaced by new ones aimed at attracting FDI. These countries were seen reducing - at various degrees - bans and restrictions on FDI entry, improving the standards of treatment and protection of foreign investors and easing or eliminating restrictions on their operations (UNCTAD, 2009).

The process of opening up to FDI and establishing enabling frameworks for FDI vastly accelerated during the 1990s and continues to-date. However, given developing country reluctance to bind their investment policy commitments at the multilateral level, they have increasingly opted to submit some aspects of their investment frameworks, especially those concerning protection and treatment of FDI, to international treaties. The result being the global economic landscape becoming increasingly dotted with institutions that regulate investment (ibid). As it currently stands, the prevailing international investment regime consists of a web of international investment treaties, which at the end of 2013 stood at 3,150 agreements, 2,374 of which are currently in force. Today, the great majority of countries are parties to at least one International Investment Agreement (IIA). International Investment Agreements (IIAs) can take many shapes and sizes; bilateral, regional, inter-regional levels, with the bulk of the IIAs negotiated to date being bilateral in nature (UNCTAD, 2014).

2.2 International Investment Agreements (IIAs) and their Role in Attracting FDI in the Developing Country Context

The history of IIAs could be traced back to 1950 with the signing of the first Bilateral Investment Treaty (BIT) between Germany and Pakistan. Prior to this, the international framework for safeguarding foreign investor property rights was vested in traditional customary international law. Traditional customary law on foreign investment however, provided weak protection to foreign investors; protection of foreign owned assets were part and parcel of general law on state responsibility for injuries of aliens (Bubb and Rose-Ackerman, 2007). Thus, under these circumstances investment in alien territory is laden with a greater degree of risk. Once an investment is made, it is the national laws of the host country which govern the investor and its operations.

The granting of political independence in the aftermath of the World War II witnessed marked increases in the rates of expropriation (nationalization) of foreign owned investment by developing country governments. Post-independence governments in particular, under the guise of ISI, resorted to completely shun foreign investment through the erection of policy barriers namely restriction to market access. At around the same time, a number of developed country multinationals were looking to outsource some of their production to developing countries, enticed by cheaper labour and market access. However, they were confronted with two inherent concerns, namely, the risk of expropriation and the transaction costs of getting inputs to and exports from, their foreign affiliates in the face of high tariff barriers. Both Preferential

Trading Agreements (PTAs) and IIAs were born out of crisis, in response to these developments. IIAs address the first concern, whilst trade agreements the second (Tobin and Busch, 2010). IIAs obligate a host country to abide by international rules on investment and are backed by third-party enforcement. Among their many provisions, IIAs principally emphasize the requirement that countries do not expropriate foreign investments without prompt, adequate, and effective compensation; grant foreign investors treatment that is no less favourable than that given to others abroad or at home; and facilitate the entry and exit of a multinational's finances. What makes IIAs truly binding, however, is the provision for dispute settlement through third-party arbitral processes. This contributes greatly to addressing foreign investors' concerns about having to make recourse to what they often perceive to be a developing country's underperforming or underdeveloped—judiciary (ibid).

When considering the possible impact of IIAs on FDI, these treaties must be looked at from the perspective of their role and place among the overall host country determinants of FDI. Host country determinants fall in part to the broader OLI[1] paradigm of international production developed by Dunning (2008). More specifically, IIAs fall into the third component 'L', location advantages of host countries and embraces factors determining the choice by MNEs of a specific host country. In general, location determinants could be grouped into three: (i) the policy framework for FDI, (ii) economic determinants, and (iii) business facilitation. It is the combination of these three that determines the attractiveness of a particular host country to FDI. IIAs only form a sub-component of the overall location determinants.

The existence of IIAs is by far not the only determinant that decides on whether FDI takes place or not. Other factors, such as the economic attractiveness of a host country, its market size, its labour force or its endowment with natural resources are much more important. To make key economic determinants more attractive, a number of additional conditions are needed some common to all types of FDI, whilst others are specific to particular FDI types. Having a policy regime that is open to FDI is one common determinant. Likewise, the degree of political stability in determining the political risk of investing in a host country, the physical and technological infrastructure of the host country, the cost and quality of resources and other inputs and business facilitation measures, such as FDI promotion, including incentives to foreign investors play a defining role. In the preceding light, it is crucial to recognize that whilst negotiating IIAs to some extent play a part in creating a conducive environment to attracting FDI,

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1 'O' refers to ownership specific advantages of firms and the reason behind why some firms become MNEs while others do not. The 'I' component (internalization advantages) explains why firms may prefer to exploit these advantages (such as technology or other know-how) by 'internalizing' them through FDI rather than through arms-length transactions.

their role is limited. Other host country factors such as political stability play a far more critical role (UNCTAD, 1998).

2.3 Rationale for International Investment Agreements (IIAs) in the Context of Broader Economic Integration Frameworks

As noted earlier, IIAs can take many shapes and sizes; bilateral, regional, inter-regional, pluri-lateral and multilateral. Whilst BITs are by far the most popular, the global economic landscape of late, has increasingly been dotted with regional and inter-regional IIAs established under the broader framework of Economic Integration Agreements (EIAs) also known as Economic Integration Investment Agreements (EIIAs). EIAs could be defined as agreements that facilitate international trade and cross-border movement of the factors of production and could be designed to address one, some or all these types of economic transactions in various combinations. Whilst trade remains their core concern, a key characteristic of contemporary EIAs is that they increasingly seek to address an expansive set of investment related concerns (UNCTAD, 2006).

Whilst EIIAs to a large extent have been influenced by other IIAs, namely, BITs, they typically differ. Whilst BITs largely seek to protect investments and thereby promote investment, EIIAs on the contrary, seek to integrate economies and thus place greater emphasis on liberalizing investment flows, in addition to the protection and promotion of investment (ibid).

EIAs vary in terms of depth of market and economic integration they seek to achieve in terms of the types of the restrictions or obstacles they attempt to remove and the range of activities it covers. Thus, several different EIAs topologies could be identified. The shallowest forms of EIAs are being 'sectoral trade agreements', which merely provide for the lowering of tariffs or duty free treatment among members on a limited number of sectors. Deeper forms of EIAs take the form of FTA, Customs Union, and Common Market, whilst Economic Union, which seeks to integrate all economic policies of member states is the deepest form of integration (see UNCTAD, 1993 for a detailed discussion of EIA topology).

Whilst the reduction/elimination of tariffs and other border barriers to trade in goods remains the central focus of any process of economic integration the mere removal of these border barriers, whilst other internal barriers remain, may not suffice in greater market access. Hence for instance, some EIAs also seek to incorporate more complex provisions within the border measures such as the harmonization of product standards amongst members. Likewise the objective of integration may not be fully realized/frustrated if only goods market integration is considered whilst leaving out other aspects of cross-border economic integration such as services trade and FDI (UNCTAD, 2006).

The formation of economically integrated areas are viewed as a natural step in the process of geographical expansion of markets from local to national to international, driven predominantly by efficiency considerations. The market enlargement effect 'allows for gains from specialization (division of labour), differences in resource endowments, and from economies of scale in manufacturing and technology' (Kobrin, 1995). The removal of barriers to trade in goods is a major step in this direction. However, the removal of barriers to other types of international transactions, including services transactions and investment, expands the extent and range of such benefits.

The economic rationale for the inclusion of services in EIAs frameworks could be viewed from the complex nature of services and their strategic importance for national economies. It is most often the case that numerous services are inputs to other economic activities and thus have a significant bearing on the entire economy. Cross-border trade in services most often than not, requires the establishment of a facility in the country whose market is serviced, and thus encompasses an FDI dimension. Traditionally, FDI in services has been subject to both formal and informal market access barriers in the host economy. Hence, the efficient reduction and monitoring of such barriers seems to be a fundamental prerequisite in achieving a deeper level of economic integration (UNCTAD, 1996).

Likewise, the economic rationale for investment in EIA frameworks (or EIIAs) is also compelling. FDI is an important channel in delivering goods and services to foreign markets. Furthermore, the development of integrated international production systems through FDI has become an increasingly important means through which firms could enhance efficiency. In this context, EIAs dealing with trade would also see an increase in investment flows into and within the EIA area, driven by two main effects of FDI. Firstly, the enlargement effect resultant from the removal of trade barriers allows firms to benefit from greater scale, which in consequence helps attract market-seeking production activities, from both within and outside the EIA area, for which scale is an important consideration. The second effect is linked to the facilitation of changes in the location of production within EIA member countries. Relocation of production is essentially driven by comparative advantage. However, it is closely linked to adoption of investment rules that relax market entry restrictions and provide for legal protection. Thus, to ensure the combined efficiency effects of scale and comparative advantage, lowering tariffs alone is not sufficient. Very little could be gained if countries within an EIA area maintain substantial investment barriers between themselves (ibid).

One of the important potential policy effects of EIIAs relates to the locking-in effect in relation to national policy. While countries can undertake unilateral liberalization of investment and trade in services, the 'lock-in effect' of making investment and services liberalization commitments a part of an EIIA, adds credibility to these commitments (ibid).

2.4 Overview of Scope and Provisions under Economic Integration Investment Agreements (EIIAs)

EIIAs commonly referred to as Regional Investment Agreements (RIAs) vary by type of instrument, scope and content. RIAs such as the APEC and the OECD Declaration on International Investment take on a soft law approach. For instance, the language of the OECD Declaration and ensuing decisions makes it non-binding. They, however, set up a series of obligations that are politically enforceable through peer pressure. Others such as Chapter Eleven on Investment of NAFTA and the MERCOSUR, Colonia Protocol for the Reciprocal Promotion and Protection of MERCOSUR Investments, take on a more heavy handed approach. Both agreements contain legally enforceable investment provisions. RIAs such as the GATS, TRIMS and the Energy Charter Treaty are sector specific and deal with investment provisions on selected areas and measures relating to trade. Despite this diversity, what they all share in common is the fact that they all seek to create favourable conditions for investments of investors from member states into the territory of other member states (Wernert, 2010).

At the time of its introduction in 1994, investment provisions under the Investment Chapter of NAFTA was said to contain the most detailed and advanced set of investment provisions incorporated in an IIA with a developing country. Almost all IIAs negotiated since then, including the more advanced ASEAN Comprehensive Investment Agreement (ACIA), have been modelled on it. Though the scope of these agreements differ, they all incorporate provisions to achieve the triple objectives of liberalization, protection and promotion, making most IIAs cover more or less the same issues. Commonly covered investment issues include both pre- and post-establishment issues; scope and definition of foreign investment, admission of investment (liberalisation), fair and equitable treatment of investment, (i.e. national treatment, MFN), guarantees and compensation in respect of expropriation, transfer of funds and repatriation of capital and profits and dispute settlement.

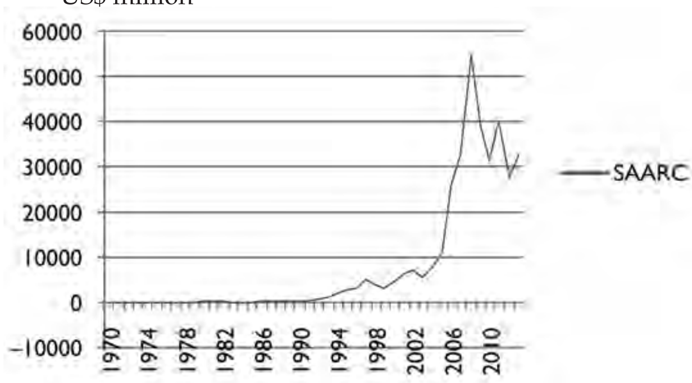
3. FDI Trends and Policy Developments in SAARC: The Case of a Regional Investment Framework

3.1 Trends and Patterns of FDI in South Asia

3.1.1 Trends and Patterns of Inward FDI

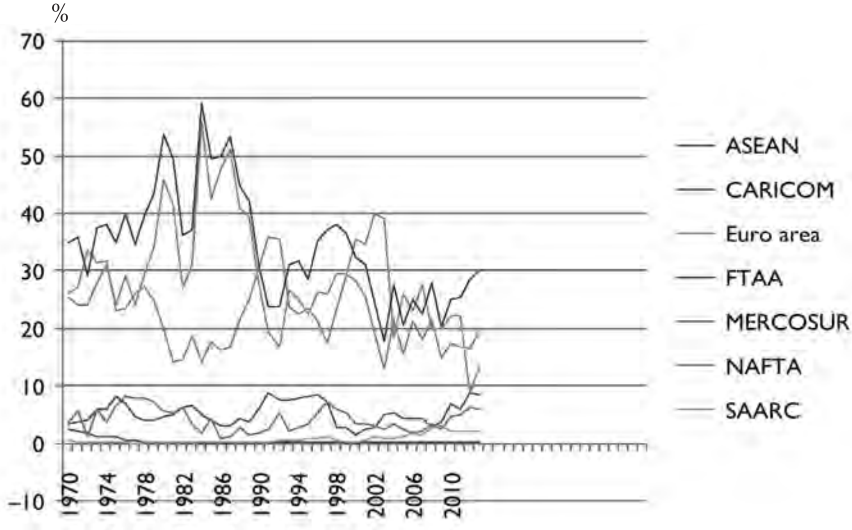
After decades of pursuing rather antagonistic policies towards foreign investors, the embrace of market oriented reforms across all South Asian economies by the mid-1990s, witnessed FDI into the region steadily increase, to peak in 2008 (Figure 1). Since then, mirroring the global slowdown of FDI growth in the aftermath of the GFC, a sharp slowdown, followed by a modest recovery in FDI flows could be observed.

Figure 1: Inward FDI Flows to the SAARC Region, 1985-2013



Source: Compiled using UNCTAD (2014b) *Statistics Database.*

Figure 2: Inward FDI Flows, Percentage of World Total: SAARC and Selected Regional Groupings, 1970-2013



Source: Complied using UNCTAD (2014b) *Statistics Database.*

Whilst South Asia, in the post-liberalization era, has made significant strides in attracting FDI, as a region, its successes vis-à-vis other regional groupings remains rather limited (Figure 2). For the period 2000-2013, the SAARC region accounted for a mere 1.7 per cent of global FDI inflows, whilst other emerging and developing country regional groupings such as ASEAN, MERCOSUR and FTAA accounted for 4.79 per cent, 3.55 per cent and 25.5 per cent of global inward FDI, respectively.

Moreover, within the SAARC region, significant disparities in FDI flows could be observed. FDI in the region is largely concentrated amongst the four largest economies (see Table 1). Throughout much of the pre- and post-liberalization period, India, given her sheer market size accounts for the lion's share of FDI flows. With the onset of liberalization reforms in the late 1980s and early 1990s, a notable increase of FDI into Pakistan and Sri Lanka was observed. However of late, FDI into these countries have been faltering owing to political instability and security related concerns. Bangladesh, on the other hand, has seen an improvement in FDI flows over the last two decades

Table 1: Country-wise Share of SAARC Inward FDI Flows*

(%)

Economy	1970-1980	1980-1990	1990-2000	2000-2010	2010-2013
Afghanistan	0.50	0.46	0.02	0.84	0.36
Bangladesh	-2.33	0.84	4.85	5.11	3.83
Bhutan	0.06	0.00	0.05	0.08	0.08
India	87.91	38.76	54.29	79.29	87.87
Maldives	-0.49	0.43	0.59	0.45	0.84
Nepal	0.13	0.16	0.30	0.06	0.27
Pakistan	9.65	37.93	30.95	11.70	4.22
Sri Lanka	4.58	21.40	8.97	2.48	2.54

Source: Complied using UNCTAD (2014b) *Statistics Database.*

*Share in total

Table 2: Share of Global Outward FDI: SAARC and Selected Regional Groupings

(%)

Regional Groups	1990-2000	2000-2010	2010-2013
ASEAN	2.03	2.28	3.76
CARICOM	0.02	0.04	0.10
EURO Area	35.4	40.7	16.4
FTAA	25.4	26.0	30.7
MERCOSUR	0.69	0.69	0.00036
SAARC	0.019	0.67	0.50

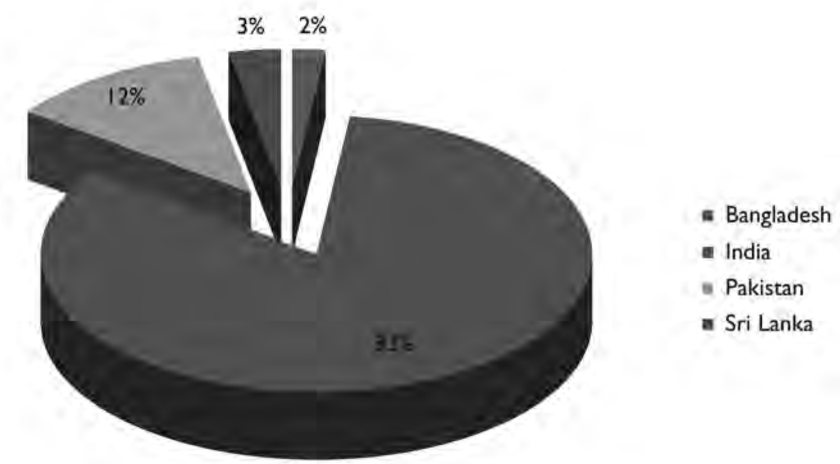
Source: Complied using UNCTAD (2014b) *Statistics Database.*

3.1.2 Trends and Patterns of Outward FDI

Despite outward FDI from South Asia increasing over the last decade from US$ 529 million in 2000 to peak in 2008 at US$ 21,267 million, as a region South Asia remains a relative small player in terms of a global source of OFDI accounting for a mere 0.5 per cent of global OFDI during the period 2010-2013 .

Within the region, India is by far the largest source of OFDI, accounting for 83.3 per cent followed by Pakistan, Sri Lanka and Bangladesh (see Figure 3). OFDI flows from Bhutan, Maldives, Nepal and Afghanistan are non-existent. A noteworthy development over the last decade or so, has been India's emergence as a leading source of OFDI amongst developing countries. Throughout the 1990s, OFDI from India averaged a mere US$ 70 million annually. However, during the last decade or so this figure has jumped to an average of US$ 8412 million. India is now the 21st largest outward investor in the world, and the third largest foreign direct investor in the developing world, after China and Brazil.

Figure 3: Composition of Outward FDI from South Asia, 2013



Source: Complied using UNCTAD (2014b) *Statistics Database.*

3.1.3 Trends and Patterns of Intra-Regional FDI Flows

Given data limitation on bilateral FDI statistics in SAARC, computing intra-regional investment share is a challenge. Athukorala (2013) estimates that regional inflows average around 3 per cent of total (global) flows, with India being the dominant investor intra-regional investor.

Table 3: Source of FDI for Selected SAARC Countries

(% share)

Country	2010		2012	
	Intra-regional	Extra-regional	Intra-regional	Extra-regional
Bangladesh	7.77	92.23	3.79	96.21
India	0.03	99.97	0.02	99.98
Bhutan	51.93	48.07	64.12	35.88
Pakistan	NA	NA	0.12	99.88

Source: Complied using UNCTAD (2014c) Bilateral Investment Statistics.
NA- not available

As indicated in Table 3, the bulk of inward FDI into major SAARC economies, India, Pakistan and Bangladesh originate from outside the region.

Interestingly, intra-regional FDI flows in South Asia can largely be characterized as market seeking horizontal FDI. Examples include Sri Lankan businesses such as Ceylon Biscuits (Munchee Brand), Lion Brewery (Carlsberg beer), John Keels, Hayleys and Aitken Spence (Hotels), who have invested in India with the aim of capitalizing on the booming consumer market and Indian businesses such as Indian Oil Corporation (IOC), Tata Group (Taj Hotel, VSNL, Tata Tea, Tata Communication), Bharat Airtel, Apollo Hospital, Aditya Birla Group (L&T), Ambuja, Rediffusion, Nicholan Piramal, Jet Airways, Ashok Leyland, and Hero Motors, who have invested in Sri Lanka (Athukorala, 2013). In recent years, Indian investors could also be seen investing in Bangladesh. The State Bank of India is amongst the top five foreign investors. Other Indian investments in Bangladesh include Asian paints, Marico, ACI Godrej-agrovet and Neelkamal Padma Plastics.

However, several intra-regional investments can be regarded as exceptions to this norm and can be flagged as concrete examples of vertical, efficiency seeking investments taking place within the region. MAS Holdings and Brandix, Sri Lanka's leading textile and garments producers, demonstrate evidence for this notion with their attempts in positioning South Asia as the epicentre of their global apparel value chain.

The MAS fabric park located in Chintavaram, which commenced operations in 2007 with an initial investment of US$ 200 million, is expected to attract investment in different stages of the manufacturing and finishing process of warp knit fabrics used in the production of corsetry, swimwear and sportswear to facilitate customers looking to expand in India, working through Sri Lanka as the hub for product design, development and raw material sourcing (MAS Holdings). Furthermore, Brandix India Apparel City (BIAC) in Vishakapathnam aims to link companies involved in various tiers of the global apparel supply chain including spinning, knitting and weaving, clothing accessories, apparel making and embellishment, store services and logistic suppliers (Athukorala, 2013). Likewise, Indian investment in the Sri Lankan rubber tier industry could be flagged as an efficiency seeking regional investment. In 1993, CEAT, one of India's RPG enterprises, entered into a joint venture with a Sri Lankan firm, namely, Associated Motorways Pvt Ltd (AMW), which latter in 1999 went on to have a second joint venture partnership with Kelani Tyres Pvt Ltd (Jayasuriya and Weerakoon, 2001).

3.1.4 Is Indian Investment Shying Away from South Asia?

As noted earlier, India is a leading outward investor amongst developing countries, while it is also the leading regional investor in South Asia. However India's intra-regional investment compared to its overall outward FDI flows is low. Unlike OFDI from China and Brazil, the majority of Indian OFDI is destined to developed and transitional economies. An ADB Report in 2007 making special reference to the rapidly growing Indian IT sector, stressed the potential that with rising cost pressures at home, Indian investors would gradually seek to invest in regional economies as was witnessed in the case of East Asia. However, as UNCTAD (2004) notes, this may not necessarily be the case, as firstly, Indian firms are looking for international brand names, and secondly, access to technology and knowledge has been a strategic consideration for Indian firms seeking to strengthen their competitiveness and to move up the production value chain. Another characteristic of Indian OFDI is its role in securing natural resources. This, as Kelegama (2014) argues, point to the fact that Indian firms want to develop a portfolio of locational assets as a source of international competitiveness and visibility and as such would shy away from South Asia.

However, regardless of the type of investment, i.e. market seeking or efficiency seeking, the slow progress of intra-regional FDI in South Asia may be expected in line with growing resistance to Indian investment. Regional countries fear Indian domination, and, therefore, are more favourable to non-Indian sources of FDI. For example, in Bangladesh in the early 2000s, the Indian group Tata Group's proposal to invest US$ 3.6 billion in a urea fertiliser plant and a steel mill, and the Mittal Group's proposal to invest US$2.5 billion in a steel mill, both fell apart due to domestic political developments (Kelegama, 2014). It could be also be sensed through the withdrawal of several Indian investment projects in the region. The Indian Amul Company, which entered Sri Lanka in 1997 for liquid milk production, was only functioned till 2000, pulling out due to trade union action, while the GMR Group of India, which embarked on an airport modernization project in Maldives in 2010, had to exit due to unilateral termination by the Maldivian Government in 2012 (Kelegama, 2014). Moreover, power politics have also deterred the facilitation of FDI in hydro-electricity in Nepal (Athukorala, 2013).

3.2 An Overview of FDI Policy Regimes across South Asia

As noted earlier, since the time of gaining independence and well into the 1970s and 1980s, the countries of South Asia pursued a strategy of import substitution industrialization (ISI). The basic tenet of such approach was the promotion of industries oriented toward the domestic market. This was achieved through a series of policy instruments such as import restrictions, or even imports prohibition, to encourage the replacement of imported manufactures by domestic products. During this period, 'these countries were not very receptive, if not completely hostile, to foreign direct investment' (Athukorala, 2013). The immediate aftermath of independence witnessed the nationalization of a number of key foreign invested enterprises and FDI entry limited to import substituting ventures. They did not rule out FDI, but wanted it on their own terms'. MNEs entry was characterized by an explicit preference for technical collaboration agreements as opposed to FDI with the aim of achieving (conflicting) twin objectives of minimizing foreign control on business operation whilst gaining access to foreign technology. Foreign investment applications were generally considered on a case- by-case basis and projects with majority local ownership or set up with an export focus were considered over others (Athukorala, 2013).

With the gradual embrace of EOI, all countries across South Asian resorted to unilateral liberalization of FDI policy regimes with the aim of actively seeking the attraction of FDI. By early 2000s, entry and foreign ownership restrictions across most economic sectors (with the exception of sensitive sectors on ground of national security) were partially relaxed and provisions enacted to guard against the unfair expropriation of foreign owned assets (Lama, 2000). In line with the global trend, one-stop shops were also set up to perform the dual functions of investment facilitation and investment promotion.

Since the onset of market oriented reforms, FDI policy regimes across all SAARC countries have undergone progressive liberalization. More and more sectors have been opened to foreign investors' participation and 100 per cent foreign equity ownership is allowed across most sectors with the exception of India. Countries have also resorted to extending fiscal incentives such as tax holidays and customs duty exemptions. In fact, a closer look at the FDI sector's openness indicators of the World Bank (2012) suggest that South Asian economies as a whole have opened up more sectors to complete foreign equity ownership than in comparison to ASEAN member states.

In addition to unilateral liberalization, these countries have also negotiated a host to IIAs, a breakdown of which is given in Table 4. The bulk of IIAs negotiated have been BITs. It could be noted that their engagement in IIAs have predominantly been with countries outside the region. The smaller South Asian countries, with the exception of Nepal, have had no bilateral investment engagement with countries within the region.

Table 4: International Investment Agreements in South Asia

Country	BITs		Other IIAs		Total	
	Within Region	Outside region	Within Region	Outside region	BITs	Other IIAs
India	3	81	1	12	84	13
Pakistan	2	48	1	6	50	7
Sri Lanka	2	27	1	4	29	5
Maldives	0	0	1	2	0	3
Nepal	1	5	1	2	6	3
Bhutan	0	0	1	1	0	2
Bangladesh	2	28	1	3	30	4
Afghanistan	0	3	1	3	3	4

Source: Complied using UNCTAD (2014d) *International Investment Agreements Navigator Database*

3.3 An Overview of Regional Investment Cooperation in SAARC

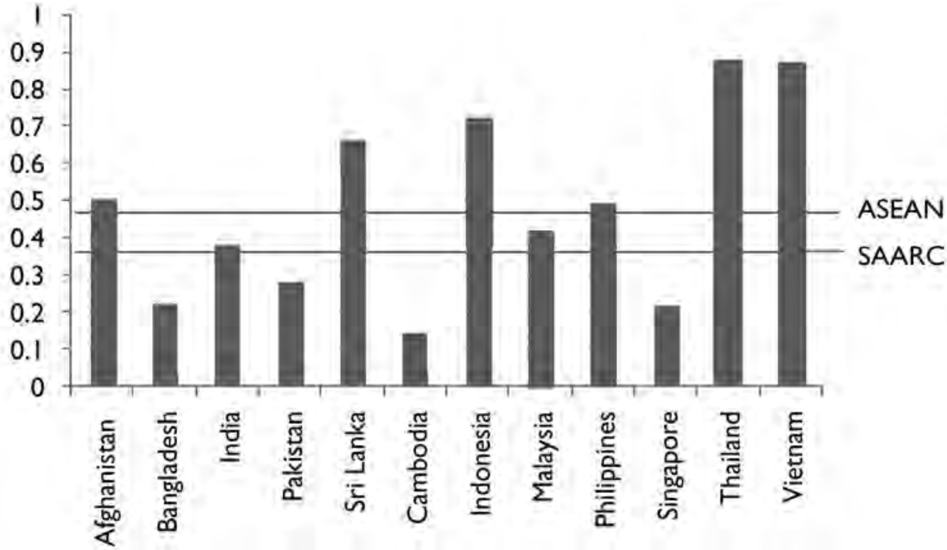
Whilst a comprehensive regional investment agreement remains largely in limbo, the SAARC, since the mid-2000s, has on a limited and piecemeal, basis attempted to create a regime conducive for intra-regional investment cooperation. The SAARC Limited Multilateral Agreement on Avoidance of Double Taxation and Mutual Administrative Assistance in Tax Matters are few important initiatives. It was signed during the 13th SAARC Summit (November, 2005) in Dhaka and entered into force on 27 December 2006. Another partial step towards facilitating regional investment is the agreement for the establishment of SAARC Arbitration Council, also signed during the 13th SAARC Summit. The SAARC Arbitration Council (SARCO) commenced operations in Islamabad in September 2010. A core objective of SARCO is to provide a legal framework within the region for fair and efficient settlement through conciliation and arbitration of commercial, investment and such other disputes as may be referred to the Council by agreement (SAARC Secretariat, 2014).

The 7th Meeting of the SAARC Sub-Group on Investment and Arbitration, held at the SAARC Secretariat on 29 November 2007, finalized the Text of Draft SAARC Agreement on Promotion and Protection of Investments except for the text of Sub-Article 4 (3) (c). As on date the Agreement is yet to be finalized. The SAARC Agreement on Trade in Services (SATIS), signed during the 16th SAARC Summit in Thimpu, Bhutan, partially addresses regional investment. The Agreement has been ratified by all member states and has entered into force with effect from 29 November 2012 (ibid). SATIS is based on a positive list, follows GATS-plus approach, where it deals with intra-regional investment in the services sector under Mode 3, which called ‘commercial presence’.

3.4 A Comparative Assessment of FDI Regulatory Regimes in South Asia

Utilizing the methodology[1] (with slight modification to adjust for data availability) put forth by Kalinova et al. (2010), we compute the overall FDI regulatory restrictiveness index of selected SAARC and ASEAN member states. As could be observed from Figure 4, when considering the ASEAN average, most South Asian countries with the exception of Sri Lanka have fairly liberal FDI regulatory regimes.

Figure 4: FDI Regulatory Restrictiveness Index: Selected SAARC and ASEAN Countries



Source: Authors computations based on World Bank (2014a), *Investing Across Borders Database.*
Note: Open-0; Closed-1

A closer look at the individual components of the regulatory index (see Appendix 1 Table A1), suggests that most South Asian economies perform better than ASEAN owing to the fact that many of them allow complete 100 per cent foreign equity ownership across most sectors. With respect to the other pillars of the index, ASEAN member states are either on par or fare better than the majority of South Asian economies. Here, it is important to note that when interpreting

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[1] Contact author for methodology. Due to limitation of space, we force to ignore reporting it here.

the ASEAN index, the regulatory restriction considered here pertains to extra-regional ASEAN investors. The ASEAN Comprehensive Investment Agreement (ACIA) ensures that the regulatory regime governing intra-regional ASEAN investments are much more liberal. Restriction of currency convertibility and repatriation and restrictions on hiring foreign personnel for ASEAN investors are far more liberal.

3.5 Reiterating the Need for a Regional Investment Framework in SAARC

Most of the South Asian economies have instituted a fairly liberal policy towards FDI, however, it is important to note that the restrictiveness index has been constructed taking into stock 'policies instituted'. It does not reflect/ take into account the degree to which these policies are actually implemented. Hence, results must be interpreted with caution. The Investments Freedom Index compiled by the Heritage Foundation and the Wall Street Journal, which is considered a proxy for the actual implementation of policies on the ground, suggests that when it comes to actual implementation, South Asia has a fairly restrictive FDI policy environment vis-à-vis ASEAN. In this light, as discussed in Section 2, it is fundamental that a regional investment framework is implemented to lock-in the already fairly liberal policy commitments.

4. Investment Climates across South Asia: A Comparative Assessment

As noted earlier, the existence of conducive FDI policy regime is by far, not the only determinant that decides whether FDI takes place or not. Other factors, such as the economic attractiveness of a host country; its market size, its labour force or its endowment with natural resources are much more important. Likewise, the degree of political stability, the availability of physical and technological infrastructure, the cost and quality of resources and other inputs and business facilitation measures, such as FDI promotion, including incentives to foreign investors, play a much more pertinent role. In fact, a recent survey of MNEs by the Multilateral Investment Guarantee Agency (MIGA 2011) highlights that political risk, macroeconomic instability, corruption, and the quality of institutions and infrastructure, figure most prominently, with respect to top investor concerns pertaining to FDI location. In this light, this section assesses South Asia's standing vis-à-vis ASEAN across key investment climate indicators (see Table A2).

4.1 Economic Attractiveness

In terms of economic attractiveness, India, given her sheer market size (defined by population), availability of low cost labour, enabling infrastructure and the presence of natural resources is by far the most attractive country in South Asia, followed by Pakistan, Sri Lanka and Bangladesh, respectively (Table 5). With the exception of India and to some extent Pakistan, most South Asian economies having limited attractiveness in terms of market size and natural resources, the greatest potential lies in the area of attracting FDI seeking to exploit the availability of low costs skilled labour.

Table 5: FDI Potential Index: South Asia, 2012

Country	Market attractiveness	Availability of low-cost labour and skills	Enabling infrastructure	Presence of natural resources
Afghanistan	124	93	170	118
Bangladesh	66	..	125	86
Bhutan	108	..	116	144
India	24	1	79	5
Maldives	89	..	72	173
Nepal	142	65	146	145
Pakistan	94	6	101	55
Sri Lanka	42	23	80	137

Source: UNCTAD (2012), *World Investment Report Database*.

4.2 An Assessment of Political Risk

As noted earlier, political risk as defined by the probability of disruptions in company operations by political forces and events—is one of the main concerns for corporate investments. In terms of FDI, host country political risk is largely determined not only by the uncertainty of actions by host country government and political institutions, but also of minority groups and separatist movements (Dreyhaupt et al., 2013). As the MIGA (2011) survey highlights especially over the medium term, investors are most wary of political risk when making FDI location decisions. A cursory look at selected political stability indicators across SAARC suggest that barring Bhutan and India, most countries have highly volatile political climates or have been plagued by political instability in the recent past. When gauging South Asia's standing vis-à-vis ASEAN, despite recent political turmoil in Thailand, ASEAN economies both ASEAN-6 and CLMV countries have been endowed with far more stable political environments.

4.3 An Assessment of Other Investment Climate Determinants

As noted earlier, in addition to political risk a country's investment climate is determined by a number of other factors such as institution quality and macroeconomic stability. A look at key governance indicators suggests that institutional and regulatory quality across all South Asian countries, especially when assessing against the quality of ASEAN-6 economies, is poor. The region is plagued by excessive bureaucratic red tape and corruption is rampant (Appendix 1 Table A3 and Table A2). When it comes to dispute settlement, the rule of law and the efficiency of judicial systems in the region are an area of particular concern. Once again, barring India and Bhutan, labour regulations across most South Asian countries are also on the higher side. In terms of macroeconomic stability, all South Asian economies are plagued by high levels of inflation, well in excess of the ASEAN average. The country credit ratings of these economies are also weak, indicative of volatile macroeconomic climates.

4.4 Lessons from the ASEAN Experiences

As highlighted in Section 3.3, most ASEAN member states maintain a fairly regulated FDI regime; however they have been far more successful in attracting both intra- and extra- regional FDI. SAARC's dismal performance in spurring FDI could largely be attributed to weak investment climates. Key amongst these is political stability, where 6 out of the 8 SAARC member states are plagued or have been plagued by political turmoil in the recent past.

5. Drawing Lessons from International Best Practices

5.1 A Closer Look at the ASEAN Investment Integration Arrangement

The ASEAN Comprehensive Investment Agreement (ACIA), which came into effect in 2012, is one the three core pillars[2] of ASEAN economic cooperation in moving towards an ASEAN Economic Community (AEC) in 2015 and beyond. Given broad similarities of their economic integration frameworks and the SAARC attempt to emulate ASEAN in moving towards a single market and production base, it is worthwhile and opportune to examine the ACIA and its evolution in drawing lessons for SAARC.

5.2 Evolution of Investment Cooperation in ASEAN

Investment cooperation in ASEAN has been an evolutionary process which could be traced back to the ASEAN Investment Guarantee Agreement (AIGA) 1987, and the ASEAN Investment Area (AIA) 1998, the predecessors of ACIA. The AIGA was largely an agreement, which sought to promote investment through the protection of investment. It was entered into between certain members

2 The other two being the ASEAN Trade in Goods Agreement (ATIGA) and the ASEAN Framework Agreement on Services(AFAS)

of ASEAN, namely, Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand. The AIA, on the other hand, established a more liberal and transparent investment climate among the ASEAN member states in order to increase the FDI inflows from both ASEAN and non-ASEAN sources into ASEAN. Sectoral coverage under AIA included manufacturing, agriculture, fisheries, forestry, and mining, and services incidental to those sectors (Nazaroedin, 2010). The extent and type of investment barriers were indicated via a Temporary Exclusion List (TEL), a Sensitive List (SL), and a General Exclusion List (GEL). Phasing out of sectors under the TEL were time bound, whilst the GEL comprises industries and investment measures closed to FDI for reasons of national security, public morals, public health, and environmental protection. The introduction of ACIA in 2012 superseded both the AIA and the AIGA (Chai, 2013).

5.3 Overview and Salient Features of the ACIA: Lessons for SAARC

Overview of ACIA

ACIA is more comprehensive than its two predecessors. It preserves and builds on its predecessors with updates from best international practices. In fact, the ACIA is considered to be one of the most advanced and ambitious regional investment tools to date. The ACIA has four main pillars: Liberalization, Protection, Promotion and Facilitation. In terms of *liberalization,* it covers five sectors (manufacturing, agriculture, fisheries, forestry, and mining) and services incidentals to these sector, offering both MFN and NT for investors (with limited exceptions); reduce and/or remove restrictions to entry for investments in the priority integration sectors; and reduce and/or remove restrictive investment measures and other impediments, including performance requirements. With regard to *investor protection*, it builds upon the AIGA to provide enhanced protection to all investors and their investments; an investor–state dispute settlement mechanism; and the transfer and repatriation of capital, profits, dividends. Amongst others, it also provides transparent coverage of expropriation and compensation, full protection and security, and treatment of compensation for losses resulting from strife (Chai, 2013).

With respect to *investment facilitation,* the ACIA incorporates provisions to create a more transparent, predictable and consistent investment rules, regulations, policies and procedures and where possible, harmonization. Under this pillar, provisions are also incorporated to streamline and simplify procedures for investment applications and approvals; and promote the dissemination of investment information, rules, regulations, policies and procedures. With respect to the *last pillar,* the ACIA incorporates measures to promote ASEAN as an integrated investment area. They include provisions to: promote intra-ASEAN trade between the top tier ASEAN-6 countries and the bottom tier Cambodia, Lao PDR, Vietnam and Myanmar (CLVM); promote industrial complementation and production networks among MNCs in ASEAN; joint investment missions that focus on regional clusters and production networks (ibid).

Here, it is important to note that given the disparities between the levels of economic development between the various ASEAN member states (especially the difference between ASEAN 6 and CLVM, the ACIA grants special and differential treatment (S&D) for the newer ASEAN member states.

Salient Features of AICA Provisions

As noted earlier, the ACIA is one of the most far reaching IIAs to date. It incorporates a number of investment provisions, which are not found in other developing country IIAs. It is thus opportune to discuss some of the salient provisions in the agreements. Unlike most other IIAs in existence, the ACIA adopts a negative list approach. The ACIA adopts a single negative list with progressive liberalization commitment with clear timeframes. Not many IIAs in existence provide a clear timeline of liberalization of commitments. Another salient feature is the broad definition of 'investment' it adopts. Investment includes every kind of asset, owned and controlled by an investor, which also includes portfolio investments and intellectual property (ASEAN 2013).

The definition of the 'investors' is also unique. It provides an opportunity for third country nationals to benefit from ACIA. ACIA benefits extend to both ASEAN-owned investors and companies and foreign-owned ASEAN based investors. Under this definition, an ASEAN investor can be either a natural or a juridical person. A juridical person can be any legal entity constituted under the law of an ASEAN member state. As such, an investor may become an ASEAN investor by setting up a juridical entity in any one of the ASEAN member states (the ASEAN juridical person), after which it can then make an investment in another ASEAN member state. It is, however, important to note that becoming an ASEAN juridical person by registration does not merely qualify for ACIA. The third-country national or legal entity must own or control (i.e. have power to name a majority of its directors or legally direct the actions of) the ASEAN juridical person. The latter must also carry out substantive business operations in the ASEAN member state where it was first established (ibid). This provision is particularly interesting given its potential to create regional value chains and attract extra-regional FDI.

Another salient feature of ACIA pertains to compensation in the event of strife. Under this provision, in the event of any losses suffered by an investment as a result of armed conflict, strife, or similar events, an ASEAN member state is required under Article 12 of ACIA to compensate the ASEAN investors that are affected by such an event. Such compensation or restitution must be made on a non-discriminatory basis. This provision is particularly significant for region with volatile political environments. The ACIA also has unique provisions with respect to the freedom of transferring funds. It recognizes that freedom to manage capital and funds is essential for any business operation. Thus, the Article 13 of ACIA guarantees that every ASEAN investor may freely and without delay conduct transfers relating to its investments into and out of the territory of the ASEAN member state, where its investment is located. These transfers could be made in a freely usable currency. ACIA also guarantees entry, temporary stay and work authorization for investors, executives, managers and members of the board of directors of an ASEAN member (ASEAN, 2013).

With respect to expropriation, ACIA covers both direct and indirect expropriation. Last but not least, the dispute settlement mechanism of ACIA needs mention. In addition to state-state dispute settlement (SSDS), ACIA also contains provisions for Investor-State Dispute Settlement (ISID), thus 'ASEAN Investors' have access to domestic courts of the host country or various forms of international arbitration.

6. Conclusions and the Way Forward

This study was undertaken to ascertain the importance of a regional investment framework in SAARC in spurring greater volumes of both intra- and extra-regional FDI, in deepening regional economic integration in line with the vision of the SAARC GEP Report. As the topology of economic integration suggests, the process of integration is a natural evolutionary process, whereby the process of moving from a limited and shallow model to broader and deeper levels of integration is one where trade liberalization forms the cornerstone of the integration agenda and where the integration of cross border factor mobility naturally falls into place as deeper trade linkages evolve. In practice, this, however, is not necessarily the case; investment, FDI in particular, by allowing firms to take advantage of both scale and specialization as a result of the market enlargement effect, plays a crucial complementary role in spurring the intra-regional expansion of trade. Thus, highlighting the need to incorporate investment under broader economic integration framework at the very early stages of the process is important.

The study finds that since the liberalization reforms of the 1980s and 1990s, South Asia has increasingly been receptive to FDI. Individual country policy environments governing FDI across most South Asian countries, especially when viewed against the more successful ASEAN economies, have instituted fairly liberal regulatory regimes. However, when it comes to the implementation of these policies, regulatory regimes seem to be highly restrictive. In this light, a regional investment framework would be beneficial, by locking in policy commitments already made as well as striving towards achieving deeper liberalization commitments, creating both a more predictable and liberal policy environment for both intra- and extra –regional investors.

In designing an effective investment framework for SAARC, the region should draw lessons from other more successful regional groupings such as the ASEAN. Notably as the ASEAN experience suggests, the agreement should address all four dimensions of investment, namely, liberalization, protection, promotion and facilitation. Given that investment liberalization is a more sensitive issue than trade liberalization, the process of liberalization at least at the early stages, should be a gradual one, where, as in the case of ASEAN, incorporating least sensitive sectors at first and then gradually opening up would be most prudent. It is, however, important to specify a clear liberalization timeframe. In view of building regional value chains, the SAARC agreement should emulate the ASEAN, by incorporating a much border definition of a SAARC to allow third country investors benefit from the agreement and set up regional value chains within SAARC.

Last but not the least is it should be acknowledged that whilst an SAARC Investment Agreement is a fundamental necessity in spurring greater volumes of FDI into the region, it is by far, not the only determinant. IIAs only form a sub-component of the overall host country investment environment. As the ASEAN experience shows getting the investment climate right, it is therefore far more important than having a liberal FDI regulatory regime. It is, thus, up to individual SAARC member states to unilaterally undertake broad-based investment climate reforms to take full advantage of a SAARC Investment Area. Given that 6, out of the 8 South Asian member states, have been plagued with political crisis, it is key that political stability be achieved with utmost priority.

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Appendix 1

Table A1: Individual Pillars of the FDI Restrictiveness Index – Selected SAARC & ASEAN Economies

Country	Foreign Equity Limits	Screening and Approval	Restrictions on key foreign personnel	Other Restrictions
SAARC				
Afghanistan	0.00	0.30	0.05	0.15
Bangladesh	0.00	0.03	0.05	0.15
India	0.23	0.03	0.03	0.10
Pakistan	0.14	0.03	0.03	0.10
Sri Lanka	0.14	0.30	0.13	0.10
ASEAN-6				
Indonesia	0.30	0.30	0.03	0.10
Malaysia	0.30	0.03		0.10
Philippines	0.34	0.00	0.05	0.10
Singapore	0.09	0.03	0.00	0.10
Thailand	0.45	0.30	0.03	0.10
ASEAN – CLMV				
Cambodia	0.05	0.00	0.00	0.10
Vietnam	0.30	0.30	0.13	0.15

Source: Authors computations based on World Bank (2012) Data.

Note: Open – 0; Closed – 1

Table A2: Selected Political Risk Indicators- SAARC and ASEAN

Country	Political Stability and Absence of Violence	Political Interference Risk	Political Violence Risk
SAARC			
Afghanistan	1.42	6	6
Bangladesh	7.58	4	5
Bhutan	70.14	4	2
India	12.32	4	5
Maldives	51.66	-	-
Nepal	14.22	5	5
Pakistan	0.95	5	6
Sri Lanka	26.07	3	5

ASEAN			
ASEAN-6			
Brunei	86.26	-	-
Indonesia	28.91	3	4
Malaysia	47.87	3	3
Philippines	16.59	4	6
Singapore	95.73	-	-
Thailand	9.00	3	5
CLMV			
Cambodia	40.28	5	4
Myanmar	13.27	6	5
Laos	49.29	5	3
Vietnam	55.92	4	3

Source: World Bank, World Governance Indicators (2013) & AON Risk Map (2014).

Table A3: Selected Institutional and Regulatory Quality Indicators

Country	Regulatory Quality	Rule of Law	Control of Corruption
SAARC			
Afghanistan	11.00	1.42	1.91
Bangladesh	20.57	22.75	20.57
Bhutan	13.88	59.24	77.99
India	33.97	52.61	35.89
Maldives	36.36	28.91	37.80
Nepal	22.01	26.07	29.19
Pakistan	24.88	20.85	17.70
Sri Lanka	47.85	46.45	51.67
ASEAN			
ASEAN-6			
Brunei	82.78	69.19	74.16
Indonesia	46.41	36.49	31.58
Malaysia	72.25	64.45	68.42
Philippines	51.67	41.71	43.54
Singapore	100.00	95.26	96.65
Thailand	57.89	51.66	49.28

CLMV			
Cambodia	39.23	16.11	16.27
Myanmar	5.26	10.90	12.44
Laos	22.49	25.59	19.62
Vietnam	28.23	39.34	36.84

Source: World Bank, World Governance Indicators (2013).

Table A4: Selected Investment Climate Indicators, SAARC and ASEAN

Country	Quality of Infrastructure	Hiring and firing practices	Redundancy costs, weeks of salary
SAARC			
Afghanistan	n/a	n/a	n/a
Bangladesh	2.8	4.5	31
Bhutan	4.9	3.9	8.3
India	3.9	4.1	15.8
Maldives	n/a	n/a	n/a
Nepal	2.9	3.2	27.2
Pakistan	3.3	4.3	27.2
Sri Lanka	4.8	2.9	58.5
ASEAN			
ASEAN-6			
Brunei	5.1	4.1	3
Indonesia	4	4.3	57.8
Malaysia	5.5	4.5	23.9
Philippines	3.7	3.3	27.4
Singapore	6.4	5.6	3
Thailand	4.5	4.4	36
CLMV			
Cambodia	3.9	4.7	19.4
Myanmar	2.1	4.2	na
Laos	4.4	4.1	47.2
Vietnam	3.4	3.9	24.6

Source: *The Global Competitiveness Report 2013-2014*, World Economic Forum, Geneva

Payment Systems to Facilitate South Asian Integration

Ashima Goyal*

1. Introduction

The paper examines the role payment systems can play in greater South Asian integration, including intra-regional trade facilitation. As payment systems become more sophisticated and their capabilities converge in the region, they can more actively facilitate trade. More focus on regional interactions as a route towards greater regional prosperity makes the issue relevant.

Most countries now have real time gross settlement with capabilities for settlement in multiple currencies. But, these are still unused and smaller countries lag. South Asia had the benefit of a special payments institution set-up to help regional trade—the Asian Clearing Union (ACU). But, its potential contributions rise if its functions and transactions are expanded using modern payment systems. Modern payment systems allow finer restrictions to be imposed, as required, without raising transaction costs. Regional clearing can reduce time delays and costs associated with using clearing banks based in the Western hemisphere.

Post-crisis dollar volatility and shortage have revived interest in arrangements that will give some independence from the dollar, and from US regulatory regimes, while reducing the dollar financing required for current account deficits. More competition and diversity in payment mechanisms will improve the stability of the global financial system.

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The rest of the paper is as follows. Section 2 analyzes recent developments in payment within the systems, Section 3 presents a brief background of the ACU, Section 4 discusses potential improvement and Section 5 concludes.

2. Payment Systems

A payment system is the set of infrastructure, institutions, laws, standards, and operating procedures underlying the discharge of financial obligations between parties (Saqib and Al-Jabri, 2011; World Bank, 2010; BIS, 2001; Khiaonarog, 2000; Haldane et al., 2008). Since the seventies, payment systems have been changing around the world. The prime driver is technology, which has enabled innovations converting manual transactions to electronic, saving time, costs, and reducing errors. A second reason is liberalization and global market integration requiring more robust and standardized processes.

There are three main areas of change. First is the shift to electronic cheque clearing; second is the system such as automatic clearing house (ACH) underlying small value or retail transfers such as point of sale for credit/debit cards and bank automatic teller machines; and third is Real Time Gross Settlement (RTGS) systems for wholesale or large value transfers. A key element of all three is central electronic clearing and settlement, removing the need for multiple transactions, while facilitating the use of modern payment systems, delivery mechanisms and multiple currencies.

RTGS settles large value inter-bank and other time-critical customer payments in gross terms. That is, the central bank (CB) account of the remitting bank is debited and that of the receiving bank is credited. A final and irrevocable settlement is made in real time, as it occurs, thus removing settlement and operating risk. RTGS provides other services such as electronic payment messaging replacing the use of cheques. The central bank mediation also reduces systemic and credit risk. Real time settlement reduces market and liquidity risk since there is no change in market values between the transaction and the settlement time. But since banks need to settle continuously, they require assured access to short-term liquidity. RTGS also enables end of the day net settlement of small value items. This type of net settlement used to be the norm earlier for all items.

By 1996, RTGS was already in use in the G-10 countries and even in some emerging markets like Hong Kong, Korea and Thailand, and it was adopted rapidly over the next decade. There was continuous improvement in messaging standards and other aspects, allowing late adopters such as emerging markets (EMs), to leapfrog to best market practices.

Reducing transaction costs confers an externality, which individual players do not internalize. Therefore, CBs have driven the change around the world. Moreover, their responsibility for financial stability, and as liquidity providers of the last resort, makes them natural developers and supervisors of payment systems. BIS (2001) core principles for payment systems underline these roles of central banks, as well as that of international cooperation, including open universal standards. A large number of complementary changes are therefore required. Legal systems for payment systems have to be strengthened and consumer protection and competition issues have to be covered.

ACH credit transfers include payroll, social security, and tax refunds. Utility bills are examples of ACH debit transfers from one account to many accounts. In an ideal payment system, ACH is expected to cover 90 per cent of the total volume and 10 per cent of the value, while RTGS covers the rest. But in 2012-13, small transfers in India were only 75 per cent of transactions in volume terms and 6.3 per cent in value. This shows the comparative under-development of retail payments. Moreover, in advanced economies (AEs) payment systems work with other currencies. Parts are privatized giving the private sector a role.

India, Pakistan, Sri Lanka and Maldives have implemented RTGS systems in addition to retail payments systems, and ECC. Other countries of the group have ECC, retail payments and end-day or points during the day net settlements system such as national electronic fund transfer (NEFT) for large value payments. Bangladesh has focused relatively more on retail systems. The World Bank (2010) Payments Survey characterized Pakistan, Sri Lanka and Nepal as RTGS plus cheque clearinghouse, compared to AEs with only RTGS. Retail development of payment systems is also limited in the South Asian region.

There are initiatives for regional convergence in payment systems. The South Asian Association for Regional Cooperation (SAARC) Payment Council offers a forum for regular interaction and learning. For those not having RTGS systems, the most economically viable solution is to implement one automated integrated system. All South Asian countries need to further develop their retail payment infrastructure, since the use of electronic payments instruments (such as payment cards and debit and credit transfers) is low compared to other EMs.

2.1. Regional Payment Systems

There is constant international innovation and improvement in payments and settlement systems that South Asia can draw upon. Many initiatives aim to strengthen and standardize payments and securities systems and build institutional capacity in developing countries.

Of these, the Southern African Development Community (SADC) initiative, started in 1996 with the assistance of the IMF, World Bank and the BIS, took the first step to implement a common electronic cross-border payment system across all member states of the SADC regional economic community on 22 July 2013, when the Integrated Regional Electronic Settlement System became operational in the four countries of the Common Monetary Area (CMA), namely, South Africa, Namibia, Lesotho and Swaziland. Differing sizes and levels of economic and political influence, and overlapping membership in different regional groupings of SADC members are challenges for integration. Despite delays in achieving monetary targets, the CMA pilot was undertaken rather than indefinitely postpone the implementation of the SADC Payment Integration System. The South African Reserve Bank led the process.

Monetary integration requires stable domestic financial systems in the region as a pre-requisite. Most of the trade benefits come from integrating payment and settlement systems even without reaching a full monetary union. Second, a settlement bank is required for the region, to enable faster transfer and receipt of funds at a lower price and with reduced risk. The Central Bank of Mauritius is the settlement bank of the Regional Payment and Settlement System (REPSS) of the Common Market for Eastern and Southern Africa, which began operations in October 2012. In the REPSS business model, commercial banks play a reduced role compared to central banks. Regional cross-border payments require coordination in trade, monetary and foreign-exchange control policy.

Cross-border payments involve settlement of FX transactions, which give rise to credit risk, principal risk, liquidity risk and legal risk. Settlement is normally in the payment versus payment (PvP) mode. Each FX trade involves two payment delivery legs—first, in the domestic currency and second in foreign currency. Without payment of the domestic currency conditional on its final receipt of the foreign currency it bought, a bank can lose the full principal value of a transaction. Temporary delays in settlement expose a receiving bank to liquidity risk since unsettled funds may be needed to meet other obligations. Legal risks can arise since settlement involves more than one jurisdiction. Most banks need an intermediary institution to settle the foreign currency leg outside their country of incorporation. The CLS Bank, set up by a number of AEs, provides the largest multi-currency cash settlement system for 17 currencies.

Cross-border integration of regional payment systems can improve settlement efficiency and safety of cross-border payments, while providing competition for mainstream alternatives that have come to dominate especially in EMs. For example, a rising proportion of commercial banks (90 per cent in 2008, up from 78 per cent in 2006) use the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network for cross-border funds transfers, but the share was 100 per cent in low income countries, including the South Asian region. SWIFT Service Bureaus were alternatives that smaller financial institutions used to access the SWIFT network, in many cases through the central bank. While use of these is falling everywhere, the fall is especially sharp in low income countries, from 57 per cent to only 22 per cent in 2008 (World Bank 2010). CBs have to again take a leadership role, which they have ceded, especially in EMs, to private players. Some of the regional initiatives are reversing this.

The World Bank survey showed that 59 countries had established links for cross-border settlement in 2008, while another 21 expected to establish such links within two years. All EU member countries have such links since a Single Euro Payments Area (SEPA) harmonizes the making and processing of euro payments, although this does not involve multiple currencies. Customers can make cashless euro payments, using a single payment account and a single set of payment instruments to anyone located anywhere in Europe although this is a single currency system. The ECB's powerful Target 2 RTGS covers all of the Eurozone, unifying government securities markets. There is considerable innovation in non-bank payment services, with Google and Apple stepping into the fray, although most of these payment innovations continue to be in partnership with banks. Real time services are reaching retail levels.

So, EMs follow a moving target. Even so many EM banks have the potential late comer advantage in adopting cheaper new generation technologies compared to large Western banks locked into now less efficient systems they had often developed themselves. The South Asian region also has the advantage of a regional payment mechanism functioning, although at a low level and only for trade transactions, since the 1970s. But it offers a base, and a history of interaction, that could be built upon using recent developments in payment systems. The integration of European payment systems also started with a European payment clearing union.

3. Asian Clearing Union: History and Functioning

The Asian Clearing Union (ACU) was established in Tehran in December 1974 with help from the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP). In 2014, the other members of ACU were the central banks of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka, and Myanmar. It was set-up to help countries deal with an acute shortage of foreign exchange by providing a system for clearing payments among the member countries on a multilateral basis. ACU governance mechanisms worked smoothly, ensuring no country ever defaulted.

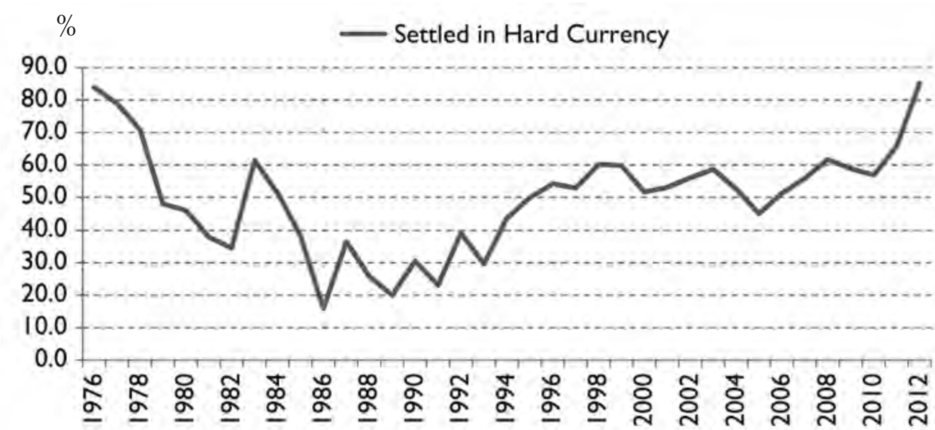
The advantage of multilateral over bilateral clearing is that if country X is running a deficit with country Y, but a surplus with country Z, the latter can be used to pay the former. Without this possibility, country X would have to reduce its imports from country Y and aggregate trade would shrink. Current account convertibility, with trade denominated in a fully convertible currency, also achieves multilateral clearing. Country X is free to use the dollars it earned from country Z to pay country Y. Therefore a clearing union adds value when there is shortage of a hard currency, since netting of trade reduces hard currency payments required. Even inconvertible currencies can participate since countries agree on a common unit of account. Other ways in which a clearing union differs from convertibility is that it encourages trade among the members of a union, while under decentralized convertibility there is nothing to especially favour trade in the region. This role becomes important when markets and information are not perfect and various distortions exist that may discourage trade relations as in the SAARC region. Repeated interactions, in a region where there are few other such, and regular monitoring under centralized clearing improve information and trust. They may have contributed to some of the observed convergence in macroeconomic policies.

The common unit in which ACU accounts are held and the instrument denominated for payment through the clearing facility is the "Asian Monetary Unit" (AMU). In 1996, this was switched over to the ACU dollar equivalent in value to one US$. The ACU euro, equivalent in value to one Euro, was added from January 1, 2009. Traders could invoice their documents in hard currencies, make and receive payments in these, through member country commercial banks who could open nostro accounts in ACU dollars and ACU euros. Central banks would fund as well as absorb excess liquidity from these accounts.

These changes were motivated by the post-liberalization capital inflow driven relaxation of foreign exchange constraints, and as the easiest way to take advantage of the technological progress markets had made. Using SWIFT and foreign correspondent banks, transactions could be settled faster at real time rates reflecting the market values of member country currencies. Participants could avail facilities like forward cover for transactions, and pre-shipment and post-shipment credit denominated in foreign currencies. Therefore, subject to the creditor's consent, payments could also be made in its currency.

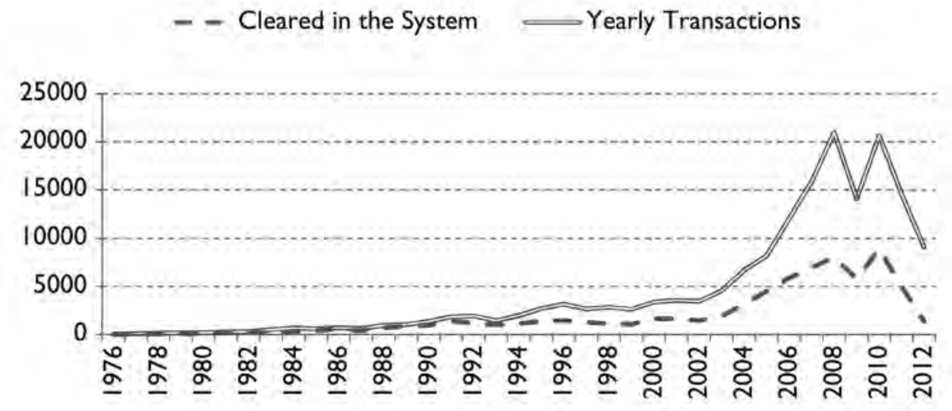
Moreover, exchange rates were not fully market determined. Possibilities of manipulation, and arbitrary and volatile movements during the settlement period, also motivated the move away from local currencies. Figure 1 shows the fall and fluctuations in the share of hard currency transactions in the ACU. Without a large expansion of intra-regional trade, settlement in hard currencies offered greater freedoms and options with less forced tie-in of trade.

Figure 1: Share of Hard Currency Transactions in the ACU



Source: ACU Annual Report 2012

Figure 2: Transactions in the ACU System in US$ Million

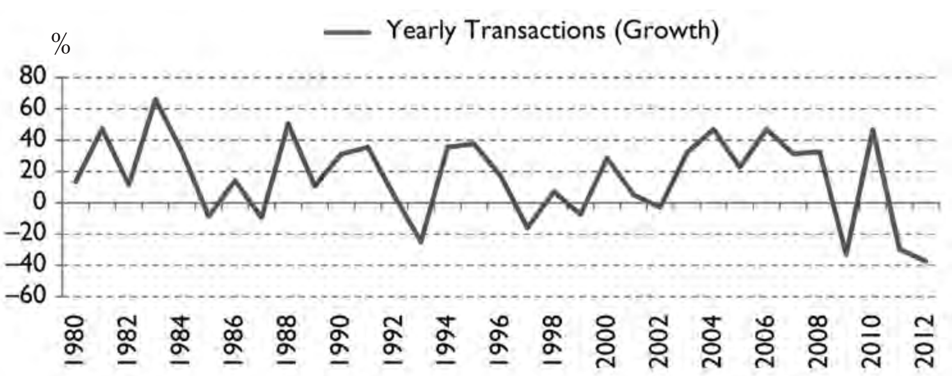


Source: ACU Annual Report 2012

Figure 2 shows a steady and then a sharp rise in transactions channeled through the ACU mechanism over the period 2002 to 2012. ACU transactions rose because of higher regional growth after 2002, rather than the adoption of the ACU dollar. The dollar was adopted in 1996, but ACU transactions really grew over the period 2002 to 2008. Growth rates were also consistently positive over the other high growth period of 1994 to 1996 (Figure 3).

The share of the transactions cleared in the system using netting fell from the peak of 84.1 per cent reached in 1986 to 14.8 per cent in 2011. The widening gap between the two lines in Figure 2 also indicates the fall in netting in the high growth period. The greater use of hard currency was correlated with a fall in netting—average netting share was 56 and 45.5 pre- and post-1992. The fall in netting share in the high growth period may also have reflected an asymmetric pattern of trade across countries in the region.

Figure 3: Growth Rates of ACU Transactions



Source: ACU Annual Report 2012

Table 1 shows aspects of ACU performance over time. The share of one-way ACU transactions as a percentage of total regional exports rose steadily, reaching levels of 70 per cent and above over 1990 to 2008 (column 1), suggesting the ACU did offer conveniences for trade. One-way transactions are taken since the ratio is to exports and not to total two-way trade. Columns 2 and 3 in Table 1 show intraregional trade, as a percentage of total exports and imports respectively from the region, was higher in the early 1980's, soon after the ACU was set up; had fallen by the early 1990's but had risen again by the year 2008, when ACU transactions peaked. High growth, which raised ACU transactions steeply (Figure 2), also raised intraregional trade. The combination of global financial crisis (GFC) induced slowdown and sanctions had reduced the ratio of ACU transactions sharply by 2013, although intra-regional trade slowed less than global trade, sustaining the ratios in columns 2 and 3 (Table 1).

Table 1: Aspects of ACU Performance

(in percentage)

Year	One way ACU transactions/ intraregion exports	Intraregional exports/ exports from region	Intraregional imports/ imports of region	Exports from Iran/total intraregional exports	India's imports from Iran/ India's oil imports
	1	2	3	4	5
1981	9.7	15.7	6.7	64.1	24.9
1990	70.9	4	3.1	41	1.3
2008	70.4	8.5	6.8	48.8	8
2013	23.6	8.1	10.3	30.2	6.6

Sources: Calculated from IFS trade statistics with one-way ACU transactions (column 1) from the ACU Annual report 2009 and India's oil imports (column 5) from Directorate General of Commercial Intelligence and Statistics (DGCIS).

US sanctions against Iran's nuclear programme, started in 1987, were successively tightened. Iran first did not want to include oil trade in the ACU preferring hard currency payments for oil. But, later it found the ACU and rupee payments a convenient way to maintain trade. Oil was imported through the ACU since 1984. The inclusion of the ACU Euro helped escape US sanctions and may have been one reason for its adoption in 2008.

But sidestepping sanctions did not drive the rise in ACU transactions, although ACU exports are a sizeable part of Iran's exports and Iran is India's second largest crude oil supplier. Column 4 of Table 1 shows a fall in the share of exports from Iran in total regional exports. Multiple sources, therefore, drove the expansion in ACU business. Assuming that a large part of India's imports from Iran are petroleum goods (it also imports dry fruits), we calculate India's imports from Iran as a percentage of India's total oil imports. Again this has fallen from its value in the eighties, although it rose from a low in the nineties, and to 8 per cent at the 2008 peak, before falling marginally again (Column 5). So the ACU did not lead to over-dependence on Iranian oil imports. The trade with Iran was fully UN compliant since neither the UN nor the European Union banned oil imports from Iran.

India's oil trade went out of the ACU again in September 2010, following the toughest sanctions passed in June 2010, included penalties for international banks doing business with Iran's Islamic Revolutionary Guard. But, with 2013 elections in Iran throwing up a moderate leader US-Iran talks are reviving, so Iran trade may come back in the ACU.

4. ACU: Potential Contributions

The ACU demonstrated its utility by saving scare hard currency in the early years. But, this function was lost when it shifted to hard currency settlement. However, there is a case now for encouraging local currency use again, not to conserve reserves as was the initial motive, but to build competitive regional payments systems, promote Asian financial integration, and provide countervailing power to the volatile dollar. Regional payment systems can protect against global instability, contribute to maintaining and enhancing regional cooperation, and help develop local financial institutions.

4.1. Arguments for the Use of Local Currencies

The economizing-on-reserves function of the ACU continues to be important especially for the smaller countries. Netting benefits would rise with the use of local currency. Local currency use frees their hard currency resources for trade with the rest of the world, thus tending to increase trade. Some CBs may not have hard currency and may take time to arrange it. Use of local currency and liquidity would also reduce this problem. More extensive membership would strengthen the case for local currency use.

Competition in currencies of settlement and invoicing offers better options to users. When firms set prices in foreign markets, they face the choice between invoicing in their own country's currency, importer's currency, or in reserve currency. Invoicing in local currency reduces pass through of changes in exchange rates, and, hence, lowers its inflationary impact. This option, and its macroeconomic benefits, is less likely, if hard currency trade settlement is imposed through the ACU. Since commodity imports such as oil tend to be priced in dollars, dollar volatility creates more pass through, which raises inflation.

Since the majority of import-export transactions between any two countries are denominated in US dollars, they are usually settled through correspondent banks in the US. This is what gives US regulations authority over banks all over the world. The infrastructure that supports trade includes foreign trade financing instruments, and correspondent banking relationships between countries in the region. Through correspondent banking, a bank can serve its clients without ever setting up a branch in another country. One reason the ACU dollar was adopted as the unit of account was to enable use of these more efficient payment mechanisms. However, as local payment mechanisms improve, similar equally efficient but cheaper services become possible through local area banks in regional currencies. This can compete with the continuing option to denominate trade in US$. Real time settlement reduces currency and market risk, but easy access to liquidity is required for it. Expanded regional swap lines can contribute towards maintaining such liquidity.

A precondition for payments and settlements to be denominated in local currencies is that exchange and interest rates must not deviate too much across countries. Otherwise, countries holding a depreciating currency paying a low interest rate would lose. A possible solution facilitated by modern payment systems is to use hard currencies as the unit of account but settle in local currency.

In mature markets with full current account convertibility and a full float, the rationale for a clearing union no longer exists. However, good payment systems continue to be an asset. CBs have to initially play an active role, perhaps through institutions like the ACU, to overcome externalities that favour AE payment systems, in order to establish competitive regional payment systems.

4.2. ACU and Financial Aspects of Regional Integration

South Asia has very little integration with Asian swap initiatives, and very limited own initiatives. India has offered a swap line for temporary trade credit, even as it has initiated a bilateral swap arrangement with Japan. Current South Asian swap lines, while useful to maintain short-term trade, are inadequate for a liquidity crisis, or longer-term trade financing, despite India's offer. Swap lines need to be formalized and institutionalized, with appropriate safeguards, so that they offer first, anti-crisis support divided into (a) liquidity and (b) trade support, and second, longer-term trade credit. This would both support trade and reduce the need for the precautionary reserve hoarding.

The existence of a liquidity backstop reassures markets even if it is not used. It complements reserves while saving the cost of holding reserves. If it is not used, the interest cost is not incurred, while utility is derived just from the existence of the swap. The credit may contribute more to facilitating trade even in the absence of a crisis, if it is cheaper. Institutions for multilateral monitoring can lower the cost of credit. A multilateral monitoring institution, which is sufficiently context sensitive, can improve policies without imposing harsh arbitrary measures. So attaching the new facility, with suitable precautionary mechanisms and extensions, as part of the ACU may reduce its cost. But, this would require a change in the ACU constitution.

ACU swap lines are at present limited only to the settlement cycle. If modern payment structures are integrated with the ACU, pre-funding of individual transactions will raise liquidity requirements. Such liquidity can be provided for regional currency settlements, while ACU swap lines are also redesigned to fulfill crisis-time liquidity and short-term trade credit. Given possibilities of real time settlement its two month settlement cycle is archaic, but gives benefits of netting that save reserves. While the 2-month cycle may continue at the cross CB level, thus aiding aggregate balance of payment funding, faster RTGS-based settlement or ACH-based netting can be provided across regional banks and their customers, if the regional currency option is selected. Lower transaction costs can then support increasing use of local currencies in trade.

As the ACU evolves towards a payments union with credits, so countries can reap full dynamic gains from trade with longer-term credits to finance intra-union deficits, suitable mechanisms are required to prevent any country from turning into a persistent debtor. Incentives or penalties can induce repayment of loans. These could include fixed quotas and penalties as are currently there in the ACU, and faster escalation of hard currency payments for creditors than for debtors, to ensure that creditors are not left with unusable inconvertible currencies of persistent debtors. A country would immediately exhaust its quota if permissive policies created a monetary overhang. Countries with persistent deficits would hit credit ceilings and additional credit would not be available or be dependent on stringent conditions set by the Board. Since credit is a transfer from creditors to debtors or to those furthest from stabilization, creditors may need to be compensated. Extensive soft credits would increase the temptation to inflate. So the ACU would have to have strong procedures for monitoring compliance and imposing sanctions. Macroeconomic stabilization is a precondition for such an arrangement to work.

The large intraregional Asian trade could benefit from financing within the region. Trade integration in the region is much higher than financial integration. Steps are being taken towards the latter since the East Asian currency crises of the late nineties, with the GFC keeping it going. Pending meaningful reform in the global financial architecture, and given dangers from volatile and poorly regulated capital flows, regional initiatives provide alternatives and may help ensure more symmetric adjustment.

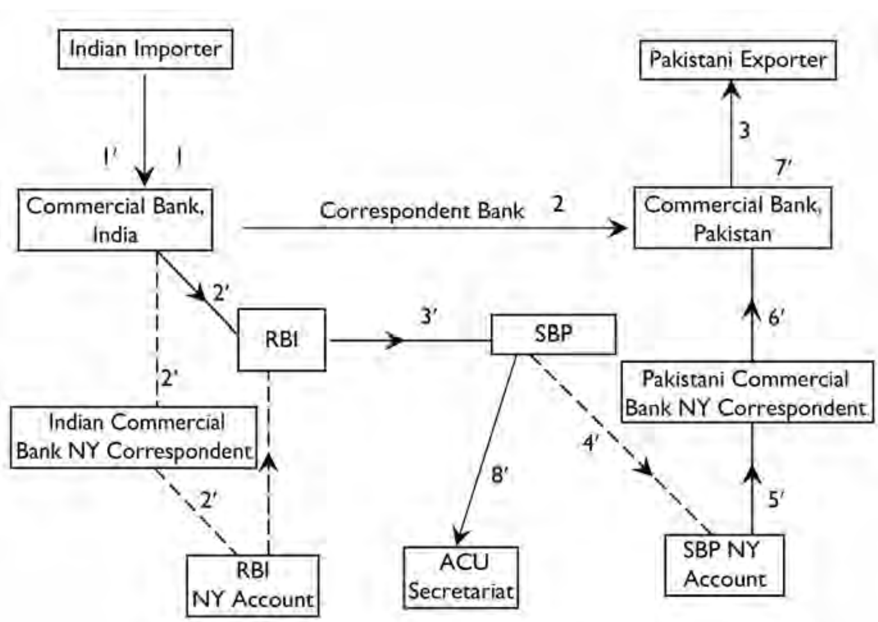
Asia's large foreign exchange reserves are invested in AE bonds and savings surpluses in real estate or the stock market. A well-developed bond market would help these funds flow to infrastructure investments. The ADB is working to establish an infrastructure bond fund to mobilize regional savings through local currency bonds to promote more stable funding from within the region. One of the Working Groups of the Asian Bond Market Initiative (ABMI) has the explicit aim to reduce regional foreign exchange settlement risks and improve regional payment settlement systems. These facilities, along with higher growth in the region, and expansion of physical infrastructure, could reinvigorate trade in the region. Adopting new technologies and organization in South Asia would aid convergence in local standards and financial systems with eventual participation in larger Asian initiatives for Asian regional financial integration.

There is lock-in into advanced systems and developed market currencies so institutional mechanisms are required to kick start viable alternatives. US payment systems lag behind those in Europe. This suggests public initiatives have a major role in upgrading systems. It may be helpful for the process if a formal MOU is signed between the SPC and the ACU. More regular interactions as part of the SPI (SAARC Payment Initiative) and SPC will help spread best practices.

4.3. Potential ACU Enhancements

Advances in payment systems can be used to simplify administrative procedures and reduce costs. In India at present (RBI, 2010), only Authorized Dealer Category-I banks are permitted to open ACU dollar and ACU Euro accounts. These have to be kept distinct from other US$ and Euro accounts, but the settlement process through correspondent banks is the same as for

Figure 4: Transactions in the ACU



normal foreign exchange transactions. The RBI funds an Indian Bank's ACU account abroad through the RBI's accounts with the Federal Reserve Bank of New York, New York, and the Deutsche Bundesbank, Frankfurt. CBs settling spillovers in either direction, through the ACU, reduce multiple transactions. Funding or absorption of AMU's by the CBs requires the commercial banks to make available the equivalent amount of US$ or Euro to the CB. The CB has the option to make the payment in local currency. The reference exchange rate is the SDR cross-rate quoted by the International Monetary Fund on a daily basis.

Delays occur partly because of time differences as ACU transactions go over the three dashed loops in Figure 4: first agent and commercial banks, then banks and CBs and their foreign bank accounts. It is possible to redesign procedures.

Use of local currency and real time facilitation between local banks and the RBI would cut the bottom two loops in Figure 4, reduce pass through time, and settlement period interest, since it would no longer be necessary to cut across time zones. Saving excessive cross border transactions, corresponding bank charges, and cutting float would all reduce costs. The settlement systems to be set-up could be outsourced to private providers who offer the best price quality pair, taking advantage of being a late starter to leap frog to the latest technologies. But, leadership and participation would continue to be required from CBs.

Procedures would have to be suitably changed, to combine maximum flexibility and speed at the level of individual transactions, while advantages of netting may be retained between CBs. RTGS could be implemented across banks and between a bank and its CB, with NEFT or RTGS as applicable, between a bank and its retail customer. Local correspondent banks can be developed and domestic liquidity used even as ACU accounts are maintained separately. Enhanced data management abilities will facilitate this. The South Asian region at present is totally dependent on foreign correspondent banks and has zero CB settlement accounts, unlike AEs. Cross-border settlement delays are also high in this region, exceeding 24 hours. Diversity and competition can help change this.

In EMs commercial banks dominate remittance markets, although many AEs are opening them to non-bank remittance service providers to increase competition. Disproportionately high capital requirements are also a potential barrier to market entry. The ACU could offer some competition.

Moreover, path dependence on a regime of controls implies that transaction costs are higher than necessary, not only in payment systems but also other export-import related procedures, especially for smaller firms, for whom banks are less accommodative. For example, in 2014 for export by road an exporter had to submit one of five different 'Bills of Export', depending on the type of duty applicable on his goods. Information such as names of the exporter and consignee, invoice number, details of packing, description of goods, quantity, FOB value, and so on was required. Other supporting documents such as copy of packing list, invoices, export contract, and letter of credit also have to be submitted and certified by officials such as custom officers and dock appraisers . There are initiatives to simplify procedures, for example, by using more self-certification, and the move to GST. Lower transaction costs could attract some of the large illegal trade in the region, since this goes through circuitous routes that raise costs even while it escapes tariffs.

Banks have to be complaint with Foreign Exchange Management Act (FEMA) regulations and procedures in opening letters of credit, negotiations of documents etc. for trades in convertible currencies. They are also not so familiar with the ACU process for transferring foreign exchange. Awareness of its advantages has to be raised even as these are increased.

More than the absence of capital account convertibility itself, it is the paperwork and procedures required to implement know-your-customer (KYC) norms that place impediments in smooth cross border flows. These, in turn are required to prevent illegal activities such as money laundering and terrorist finance. But, modern payment systems provide clear electronic trails at low cost. Once the use of electronic UID numbers becomes widespread, KYC will not require physical presence, reducing the delays it causes and facilitating person-to-person transactions and the use of payment gateways not linked to banks. Since the Indian Payments Act gives the CB jurisdiction over these gateways, there is no difficulty in calling for whatever information is required from them, for random small and large transaction checks.

One of the objectives of the SPI is to assess the volume of cross border remittance payments in SAARC member countries. Remittances are quite large in the region and are classified in the current account, but the ACU is restricted to genuine trade transactions, that satisfy KYC and other procedures. As restrictions on or records of certain types of payment flows can be maintained without cumbersome controls, meetings concerns on security and sources of funds, the ACU Board, or participants in consultation with the Board, can expand permitted types of transactions. The Agreement and Procedure Rules have periodically been revised. Membership is open to the central bank, treasury or monetary authority of each regional and associate member of ESCAP.

Improvements therefore include real time flow through the system allowing faster settlement, expansion of facilities offered including better credit availability and use of local currency, types of flows allowed, and number of participants. As countries liberate different kinds of capital flows on a gradual path to capital account convertibility, a payments union can also facilitate such flows.

4.4. Macroeconomics and the ACU

Macroeconomic heterogeneity, divergence and volatility in rates of inflation and in exchange rates, make both use of local currencies and provision of credit problematic. But, countries in the region have largely similar trends in macroeconomic variables and there are no wide variations in macroeconomic stabilization. No country suffers from hyperinflation. The post-reform period has seen considerable institutional and market development. So, an evolution to a payments union with credits is possible. Credit conditional upon improved policies may motivate outlier countries to follow better polices.

The region tends to suffer from exogenous shocks to terms of trade and the current account. The ACU tends to reduce their impact, imparting some stability to regional trade. The contribution is limited, however, by its current small share in the region's total trade.

A well-functioning payment union that encourages trade can also reduce pressures for competitive devaluations to increase exports, and allow some kind of alignment of exchange rates. This is an advantage since a rapid move to a float without appropriate institutions could imply sharp fluctuations or real exchange rate undervaluation that lowers living standards. Countries in the region largely have flexible exchange rates but more explicit coordination and transparency in exchange rate regimes will help increase the use of local currencies in the ACU.

5. Conclusion

High transaction costs vitiate South Asian intra-regional trade. Good payment systems are one way of facilitating such trade. Institutions such as the ACU and fora such as SAARC Finance have the additional advantage of keeping dialogue going, helping overcome historical conflicts, and achieving convergence in important dimensions.

There are arguments made against a clearing union, especially by those who believe markets are efficient. It is regarded as an artificial construct that impedes free markets, which naturally achieve multilateral clearing. But, repeated financial crises have reminded us that markets do not always work well. Moreover, especially in underdeveloped regions, markets may fail to exist. In any case, a range of institutions is necessary to support markets. A clearing union allows trade to take place where otherwise it would have collapsed. Since regional trade is not a large part of total trade from the region, its trade distorting effects are small, if any. It can also aid regional financial integration, which tends to be even lower than trade integration because of lock-in to dominant western institutions and currencies.

The ACU has been functioning at a low level, without much importance being given to it by the participant countries and central banks so that its potential is underutilized. A makeover can help the ACU ride the technology wave and fulfill new emerging needs, even while better meeting the old ones. These new needs include morphing into a good regional payment system, as part of larger Asian initiatives to provide such systems to improve regional financial integration, and contribute to revitalizing historic trade routes, even as other types of trade costs are reduced.

RTGS that allow real time settlements reduce risks from volatile currencies, and more convergence in macroeconomic policies and financial systems reduce volatilities. The alternative of registering the value at the date of the transaction, even if aggregate settlement is delayed, becomes available, encouraging the use of local currencies. Easy access to liquidity is required for real time settlement. Selecting the option of using local currencies in trade can be supported with domestic liquidity and faster RTGS or netting, thus lowering transaction costs. Further expansion in regional swap lines can contribute to maintaining liquidity in crisis times, as well as to trade credits. This will reduce vulnerability to US$ volatility and regulatory regimes, while impose more competitive discipline on the US$.

As countries in the region move towards greater capital account convertibility, the ACU should enable more types of capital flows. Concerns about security, and discrimination between types of flows and sources are not an issue because electronic systems can provide this information without procedural delays. Changes could start with an improved real time flow through the system, streamlining of procedures, expansion of facilities offered, types of flows allowed, and number of participants. More explicit monetary coordination, more transparent exchange rate regimes, and more explicit peer macroeconomic review, would increase confidence enabling the use of local currencies. Creating deeper economic links would shift the region away from passions towards interests, leaving wars and conflicts behind and moving to a future of shared prosperity. Even if larger cooperation takes time to achieve, concrete projects, for which the countries can interact, can help them adjust conflicts of interest and move beyond such conflicts.

Both institutions and leadership are required for successful change. Germany and France played leading roles in the European Union's long economic integration process, while Marshall Plan funds from the US financed the expansion of the EPU's functions. Faster growth in Asia, as well as oil exporters' revenue, should make funds available in South Asia. Given the current low-level equilibrium, multilateral financing may be useful to kick start the process. But country contributions build ownership, and demonstrate commitment, which would encourage investment in facilities for regional trade.

Investing more funds signals a commitment to trade, since it is a costly investment undertaken specifically for trade. It is as if governments post a bond such that there is a loss if they do not in future support trade and turn protectionist. With such a bond, private parties will be encouraged to undertake the sunk costs necessary to build trade networks. The binding agreement by the first mover allows the second mover also to pre-commit to trade. This would create a public good contributing to Asian integration. Growing regional ties need not be at the expense of other ties. Multiple friendships, alignment and engagements, based on growing domestic strengths, will make for healthier overall relationships.

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Post-2015 Agenda and Regional Cooperation in South Asia

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1. Introduction

All the countries across the world have adopted a new set of Sustainable Development Goals (SDGs) under the aegis of the United Nations. The Special Session of the UN General Assembly in September 2015 has endorsed the 2030 Agenda for Sustainable Development, which has been widely regarded as the Post-2015 Development Agenda. This Agenda comprise of the Sustainable Development Goals (SDGs), which is a set of 17 goals and 169 targets integrated and indivisible in the universal sense. The SDGs are slated to be built upon the Millennium Development Goals (MDGs), which were conceptualized in 2000 as a set of eight goals on diverse dimensions with most direct relevance to universal developmental outcomes. The SDGs are in sync with all the Rio Principles and take into account different national circumstances, capacities and priorities which are consistent with international law, built upon the commitments already made and contribute to the full implementation of the proposed outcomes.

In view of the above, this paper highlights the broad contour of the Post-2015 Agenda, discusses the development finances, and draws regional cooperation lessons for the South Asian countries.

2. Post-2015 Agenda: The Background

The Rio+20 Conference in 2012 had concluded with the agreement to take urgent action to achieve newly christened Sustainable Development Goals 2015 onwards. The Conference highlighted the importance and the utility of developing a set of sustainable development goals based on Agenda 21 (of the Rio 1992) and the Johannesburg Plan of Implementation, which followed the

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Rio 1992. The other important milestones are the Programme of Action for the Sustainable Development of Small Island Developing States (Barbados Programme of Action), the Programme of Action for the Least Developed Countries for the Decade 2011-2020 (Istanbul Programme of Action) and the Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries.

The Special Session of the UN General Assembly in September 2015 endorsed the 2030 Agenda for Sustainable Development, widely regarded as the Post-2015 Development Agenda. This agenda comprise of the Sustainable Development Goals (SDGs), which is a set of 17 goals and 169 targets integrated and indivisible in the universal sense. The SDGs are slated to be built upon the Millennium Development Goals (MDGs), which were conceptualized in 2000 as a set of eight goals on diverse dimensions with most direct relevance to universal developmental outcomes. The SDGs are in sync with all the Rio Principles and take into account different national circumstances, capacities and priorities which are consistent with international law, built upon the commitments already made and contribute to the full implementation of the proposed outcomes. Poverty eradication has been identified as the greatest global challenge for sustainable development and hunger as the biggest impediment. Promoting sustainable patterns of consumption and production and protecting and managing the natural resource base for economic and social development are the overarching objectives.

The foundation for the post-2015 development agenda was laid by the outcome document of Rio+20 conference, which was based on international consensus at the highest level on the entire gamut of sustainable development issues. The time period allocated for MDGs were 15 years, which comes to an end in 2015. The MDGs encapsulates eight globally agreed goals in the areas of poverty alleviation, education, gender equality and empowerment of women, child and maternal health, environmental sustainability, reducing HIV/AIDS and communicable diseases, and building a global partnership for development. At the conceptual and operational level, SDGs may not merely be an extension of MDGs, but should focus on global systemic reforms to remove main impediments to development and secure an accommodating international environment for sustainable development.

In order to elaborate on the specific goals, targets and indicators, the SDGs adopted the Open Working Group (OWG) route, which was established on 22 January 2013 by the decision of the UN General Assembly. The OWG used a constituency-based system of representation, which means that most of the seats in the working group are shared by several countries. The Rio+20 outcome document "The Future We Want" states that "at the outset, the OWG will decide on its methods of work, including developing modalities to ensure the full involvement of relevant stakeholders and expertise from civil society, the scientific community and the United Nations system in its work, in order to provide a diversity of perspectives and experience".

OWG signifies an intergovernmental process in spirit and is considered to the most effective means to generate consensus. Several developing countries including India have deposed faith in this process and have suggested strict adherence to the outcomes evolved at the OWG. This is expected to minimise scope of discretion by developed country groups and ensure differentiated responsibilities as enshrined in the Rio principles. It was also expected that the intergovernmental process should reign supreme in matters of SDGs. The global partnership for shaping the development agenda recognises the relevance of other multilateral processes for economy, trade and environment on all universally accepted principles catering to the needs of development. The OWG in its thirteenth session, which was held from 14-18 July 2014, came up with a synthesis report which was submitted to UN General Assembly on 4 December 2014. Since then it has acted as the input for intergovernmental negotiations. This report concluded the 17 sustainable development goals and 169 targets in line with the outcome document of the Rio+20 Conference.

Some of the main impediments associated with MDGs were that they were not developed as an outcome of intergovernmental negotiations on a global development agenda and were allegedly bereft of integrated international and national dimensions. Also MDGs were principally envisaged as a donor-centric process focussed on poverty that left out large segment of the populations in developing countries (notably in the middle-income countries) where urge for development, inclusiveness and dignity of life is substantial. Moreover, the achievements under MDGs have been uneven due to the failure to deliver on global partnership with respect to finance and technology.

We have already highlighted that the SDGs have been arrived at through political consensus at the intergovernmental level. The current SDGs cover 17 goals and 169 targets. The idea has been to arrive at target specific universal indicators to quantify and implement the developmental agenda across the goals. Although countries have endorsed the 17 goals and the set of targets, consensus on the indicators that are being negotiated at a technocratic level is yet to be evolved. This is primarily because of apprehensions that universal indicators may be misleading and distanced from local contexts. This also shrinks the policy space of individual countries in terms of their own developmental targets and priorities. Autonomy in resource allocation, monitoring and policy making is being seriously debated. Countries have also sounded caution that indicators should not go beyond the goals.

3. MDGs, India and South Asia

The government has already released the current status of MDGs in India through the Annual Statistics Report 2014 (see Box 1 for details). It has reported

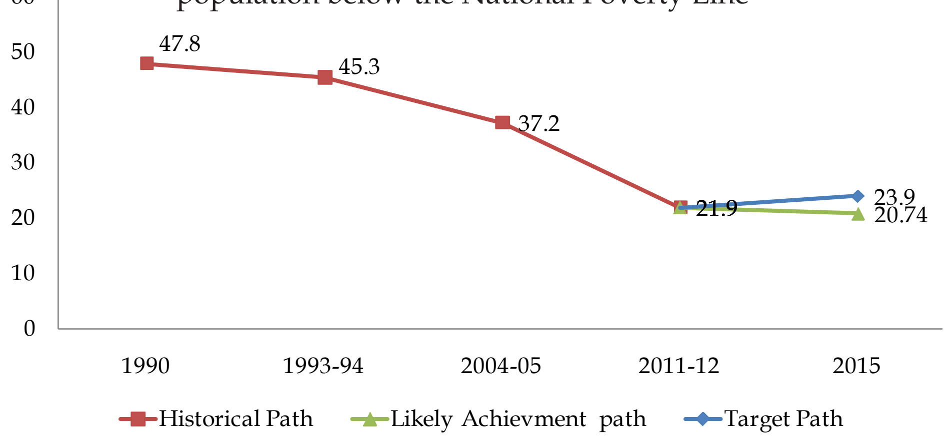
Box 1: MDGs and Targets –Summary of Progress achieved by India

MDG 1	ERADICATE EXTREME POVERTY AND HUNGER
TARGET 1	Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day *On-track*
TARGET 2	Halve, between 1990 and 2015, the proportion of people who suffer from hunger *Slow or almost off-track*
MDG 2	ACHIEVE UNIVERSAL PRIMARY EDUCATION
TARGET 3	Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling *On-track*
MDG 3	PROMOTE GENDER EQUALITY AND EMPOWER WOMEN
TARGET 4	Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015 *On-track*
MDG 4	REDUCE CHILD MORTALITY
TARGET 5	Reduce by two-thirds, between 1990 and 2015, the Under-Five Morality Rate *Moderately on – track due to the sharp decline in recent years*
MDG 5	IMPROVE MATERNAL HEALTH
TARGET 6	Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio *Slow or off-track*
MDG 6	COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES
TARGET 7	Have halted by 2015 and begun to reverse the spread of HIV/AIDS *On-track as trend reversal in HIV prevalence has been achieved*
TARGET 8	Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases *Moderately on-track as trend reversal has been achieved for Annual Parasite Incidence of Malaria and for prevalence of TB*
MDG7	ENSURE ENVIRONMENTAL SUSTAINABILITY
TARGET 9	Integrate the principle of sustainable development into country policies and programmes and reverse the loss of environmental resources *Moderately on-track*

that India's performance is a mix bag of experiences. We have made progress in certain areas but could not move much in the others. The asymmetry is also discernible at states level, where some have excelled and others have yet to achieve their commitments. While India has done exceedingly well in achieving some goals and targets such as eradicating extreme poverty and hunger, universal primary education, promoting equality and achieving global partnership targets related to maternal health, combating HIV/AIDS and other diseases and environmental sustainability have not achieved required progress.

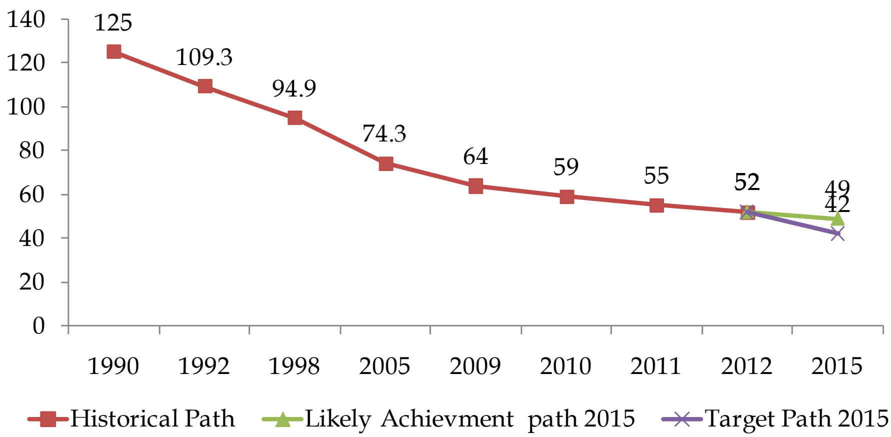
As far as the goal of eradicating extreme poverty is concerned, India has been on track in terms of the target of reducing the proportion of people with income less than a dollar a day between 1990 and 2015. According to the poverty estimates, Poverty Head Count Ratio (PCHR) has come down from 47.8 per cent in 1990 to 21.9 per cent in 2011-12 (Figure 1). However, India is going slow with the second target of reducing hunger. The goal of achieving universal education has been achieved with net enrolment ratio at primary level as high as 99.8 per cent. Gender parity has also been achieved in primary education and the disparity in secondary education is set to disappear. India has been successful with the goal of reducing child mortality with more than two-third reduction in the under five mortality ratio (Figure 2). However, maternal health has not improved substantially as maternal mortality ratio stands at 140 per 100,000, falling short by 31 points from the target. India has performed well on the goal of combating HIV/AIDS, malaria and other diseases as it was successful in achieving the target of reversing the HIV prevalence. However, it has moderately performed in reducing malaria and prevalence of TB.

Figure 1: Trends in Poverty Head Count Ratio
Goal 1: Eradicate Extreme Poverty and hunger
Target 1: Halve, between 1990 & 2015, the percentage of population below the National Poverty Line



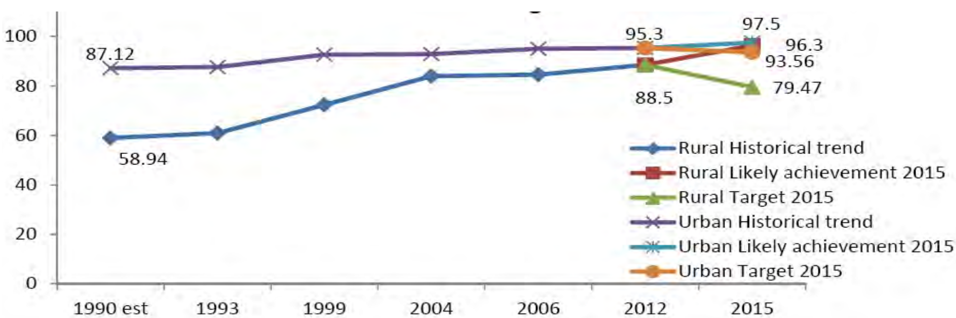
Source: Planning Commission

Figure 2: Trends in Under Five Mortality Rate
Goal 4: Reduce Child Mortality
Target 5: Reduce by two-thirds, between 1990 and 2015, the Under-Five Mortality Ratio



Source: Office of Registrar General of India.

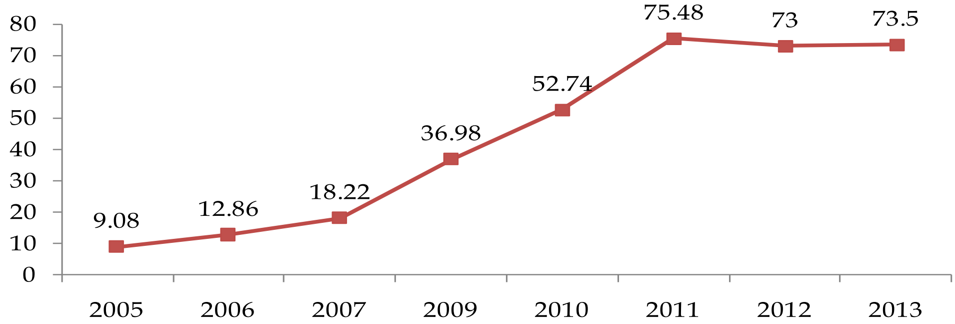
Figure 3: Trends in Access to Improved Source of Drinking Water
Percentage of households with access to improved source of drinking water



Sources: NFHS, DLHS, NSS.

Environment sustainability has been ensured through integrating the principle of sustainable development with related policies and programmes for reversing the loss of environmental resources. However, while the target of reducing population with no access to safe drinking water by half has been on track (Figure 3), additional efforts are needed to achieve access to basic sanitation. Finally, the goal of achieving global partnership for development

Figure 4: Trends in Tele Density
Goal 8: Develop Global Partnership for Development
Target 18: In co-operation with the private sector, make available the benefits of new technologies, especially information and communication.



Source: Telecom Regulatory Authority of India (TRAI)

has been consistent with the targets. There has been a significant improvement in the availability of benefits if new technologies, specifically information and communication technology is leveraged for longer gains. This is evident as the number of internet subscribers stand at 198 million and the overall tele-density of India stands at 73.5 per cent in 2013 (Figure 4).

In South Asia, poverty rates fell from 51 per cent in 1990 to 30 per cent in 2010. However, the World Bank projects that 40 per cent of the estimated 970 million people living on less than $1.25 a day will be in South Asia in 2015. Moreover, although the proportion of undernourished people in South Asia fell from 25.7 per cent in 1990-1992 to 16.8 per cent to in 2011-2013, this is insufficient to meet the MDG target by the end of 2015. According to the latest Asia-Pacific Regional MDGs Report 2014/15, published jointly by UNESCAP, ADB and UNDP, the 21 targets for which it is possible to assess progress, South Asia is expected to meet 11. Its main successes parallel those of the Asia-Pacific region as a whole: halving extreme poverty, ensuring universal enrolment, primary completion, and gender parity in primary schools, and halving the proportion of those without access to safe drinking water. The sub-region is distinctive, however, in three key domains: unlike the Asia-Pacific region overall, South Asia is not reducing the incidence of drop-outs and is not expected to achieve gender parity in secondary and tertiary education. Since the results for this sub-region are heavily swayed by the performance of India, it is also useful to consider the outcome if India is excluded. In this case, the achievement is higher on one and lower on four additional indicators. While the "reduced" sub-region is expected to achieve gender equality at the tertiary level, it is not expected to meet any of the primary education goals; nor has it managed to reverse the incidence of tuberculosis or deforestation.

4. Financing for Development

Trends in aid flows

According to OECD's sixth comprehensive DAC Survey on Donors' Forward Spending Plans, global country programmable aid (CPA) is expected to stagnate over 2014-16. Major increases in CPA are projected for middle income countries (MICs), primarily China, India, Indonesia, etc. in the form of bilateral and multilateral soft loans. Aid for trade flows amounted to US$ 41 billion in 2013. Private sector development and value chain promotion are increasingly prioritised and flows continue to increase to these areas (UNESCAP). Increasing support for multi-country programmes reflect their higher impact. However, lower infrastructure commitments in Africa have been a matter of concern even as commitments to LDCs have doubled since 2002-05. Survey reveals a significant reduction in programmed aid, amounting to nearly half a billion dollars. This primarily affects countries in sub-Saharan Africa, such as Burundi, Chad, Madagascar, Malawi and Niger.

The decline in Official Development Assistance (ODA) in relative terms (as percentage of combined gross national income (GNI) of the Development Assistance Committee (DAC) member states) since 2011 has been a matter of grave concern. In 2011, members of the DAC of the OECD provided US$ 133.5 billion of net ODA, representing 0.31 per cent of their combined GNI. This was a 2.7 per cent drop in relative terms compared to 2010, the year it reached its peak. In 2012, DAC provided US$ 125.6 billion in ODA, representing 0.29 per cent of their combined GNI, again a 4 per cent drop in relative terms, compared to 2011. In subsequent years 2013 and 2014, the relative ODA from DAC remained lower than the 2011 levels. For a major emerging economy like India, ODA from DAC members stands at 0.09 per cent of its GNI. India, thus, needs to mobilise resources through means other than ODA.

While this trend has been accentuated by the global economic and financial crisis, development in the South is critically linked with expansion of domestic capabilities including production capacities that depends on the availability of finance. The failure on the part of the developed countries to meet their own commitments that they had set for themselves under ODA should certainly be a disappointment for them; it nevertheless translates into tragedy for all those who depend on ODA. It has been highlighted that financing for development (which includes ODA) is distinct and should not be mixed with other areas of financial support for developing countries like climate financing and humanitarian aid. Moreover, the states have to come up with the resources needed for development and the private sector cannot fill in the gap. The FfD3 stressed upon unlocking of domestic finances, but did not fully succeed in bringing in new resources on table.

According to the UN-promoted Sustainable Development Solutions Network (SDSN), low- and lower-middle-income countries may need to increase public and private expenditure by some US$ 1.3 trillion per year (U$ 342-355 billion for LICs and US$ 903-938 billion for LMICs) in order to reach the SDGs. This corresponds to 4 per cent of these countries' estimated GDP over the period measured in purchasing power parity (PPP) and 11 per cent of GDP in international dollars, or 0.7-1.1 per cent of world GDP. At the global level an incremental 1.3-2.0 per cent of world GDP may be required to finance the achievement of the SDGs in all countries. Domestic resource mobilisation in developing countries can increase significantly through international support to improve domestic capacity for tax and other revenue collection leaving a financing gap of US$ 133-161 billion per year or 0.23 percent of high-income countries' GDP.[1]

Challenges, post-2015 agenda and global institutional response

Availability of long term finance for development from a global perspective is a key issue. Long term finance for development is essential for rapid progress in achieving key developmental goals and targets universally. The conventional sources of finance supporting private interest driven economic activities is not expected to serve these ends. Raising capital or savings for investment in the social sector is particularly difficult unless mediated and therefore, developing countries and least developed countries are at serious disadvantage in this regard.

With paucity of funds for appropriate investments to enhance production capacities and capabilities that also include technology and human capital, economies of the South have failed to achieve their targets of industrialisation and development. Adequate capital and savings is important for expansion of productive capacities that is linked with expanding livelihood opportunities. This further leads to expansion of local markets and incentivises local production. Entrepreneurships in the small and medium industries segment may thrive with improvement in the economic opportunities of people in the developing countries. Developing countries still lack well developed financial markets and instruments to make private investments viable. Hence, domestic resource mobilisation emerges as a key challenge in developing countries, which necessarily impacts their development goals. Appropriate fiscal policies, therefore, become extremely important for facilitating revenue generation for financing capacity creation and development.

Developing countries continue to have very low tax to GDP ratios (avg. 12.5 per cent). This ratio further falls when oil related revenues are considered

1 Refer, http://unsdsn.org/resources/publications/sdg-investment-needs/

separately. There is widespread black money in developing countries generated not only through money laundering but also through over-invoicing and under-invoicing rampant in business transactions. India has been at a disadvantageous position with respect to containing black money. However, there are more complex issues that seriously handicap the domestic resource mobilization capabilities of developing countries. These are profit shifting practices of multinationals and inability to tax capital gains.

Therefore, the threefold challenge to domestic resource mobilization in developing countries is:

i. Illicit financial flows (black money generated through money laundering, and adverse practices in financial transactions e.g. over/under invoicing)
ii. Transfer pricing practices of multinational businesses
iii. Inability to tax capital gains with cross border asset ownership

The original Rio (1992) Declaration led to the two important conferences on Financing for Development (FfD). The first International Conference on Financing for Development was held in Monterrey, Mexico in 2002 and the second one was the follow-up conference on FfD, held in Doha, Qatar in 2008. The third International Conference on Financing for Development (FfD3) in Addis Ababa, Ethiopia during 13-16 July 2015 was also significant prior to the adoption of the SDGs by the UN in September 2015. Financing of SDGs was, therefore, high on the agenda.

While under the FfD3 process proactive efforts have been made to address the issues of domestic resource mobilisation in poor countries and strengthen their domestic revenue generation capacities to check illicit flows, the global community has been oblivious of the vast amount of resources that are leaking out of the developing countries in the form of tax evasion under profit shifting practices. It has sometimes been elaborated as manifestation of 21st century colonialism when resources are sucked out of the developing countries in the absence of prudent international taxation norms. The amount of development assistance flowing into the global South is much less than the quantum of profit shifting from developing and poor countries. This necessitates that countries of the South must get a share of the resources generated within their jurisdiction.

India has been foremost in highlighting the scale of revenue loss in developing countries on account of profit shifting practices of multinationals (transfer pricing) and inability to adequately tax capital gains under existing global norms. These are over and above all forms of illicit financial flows that keep substantial revenues out of the reach of the developing countries. UNCTAD's simulation indicates that the amount of corporate profits shifted from developing economies is about US$ 450 billion – implying, at a weighted average effective tax rate across developing countries at 20 per cent, annual tax revenue losses of some US$ 90 billion (World Investment Report, 2015). Other relevant studies, focusing on the revenue losses for developing economies generated by corporate trade mispricing schemes, such as Christian Aid (2008) calculate such losses between US$ 120 billion and US$ 160 billion a year. Recovering some or all of these losses could significantly contribute to domestic resource mobilisation in developing countries.

The FfD3 deliberation was significant in terms of articulating the need for a new global institution of norm setting on tax. Negotiations on all prevailing international tax norms involve a few countries of the Paris Club/OECD. The financing for development (FfD) is a process that has been pursued under the UN framework outside Washington after the Asian Financial Crisis. This gives a platform that governance ideas may emerge out of the UN system and recommendations are provided for institutions like the IMF as well as on substantive norm setting for ODA. Hence, the FfD process is sufficiently empowered to initiate a blueprint for new international tax architecture.

The Group of 77 and China have repeatedly called for the upgrade of the Committee of Experts on International Cooperation in Tax Matters, transforming it from experts acting in their own capacity, to an inter-governmental subsidiary body of the Economic and Social Council (ECOSOC), with experts representing their respective governments. This would go a long way in not only strengthening international cooperation in tax matters, but it would allow all member States, including developing countries, to have an equal say on issues related to tax as well. Not only did India engage proactively and productively in the negotiations on the Post-2015 Development Agenda and framing of the Sustainable Development Goals since 2012, India made effective contributions towards the final outcome in Addis Ababa, before the adoption of the Addis Ababa Action Agenda. While the draft outcome of the FfD3 was largely sealed, India sought to make substantive changes under domestic resource mobilisation and international tax architecture.

The issue of increasing efforts to reduce illicit financial flows by 2030 and combating tax evasion through national regulations and international cooperation remained the cornerstone of the FfD3 negotiations. While the FfD3 agenda was promising in terms of international support for improving domestic revenue generation capabilities of poor countries, India with support from G77 and China proposed stronger international tax rules and advocated an intergovernmental tax body. This was proposed with the objective of creating an institution under the UN with larger participation of the developing world reflecting rising aspirations and capabilities of the South. The Addis Ababa Action Agenda calls for international cooperation to combat tax evasion and corruption to reduce opportunities for tax avoidance. This also includes steps towards inserting anti-abuse clauses in all tax treaties. On multinationals, it suggests "we will make sure that all companies, including multinationals, pay taxes to the Governments of countries where economic activity occurs and value is created, in accordance with national and international laws and policies".

However, the agenda failed to endorse the demand of India and other Southern countries for a global tax body.

The modest achievement for India (however hailed as significant in diplomatic circles) has been to introduce new modalities in the constitution of the UN promoted international tax committee (Committee of Experts on International Cooperation in Tax Matters under the Economic and Social Council (ECOSOC) of the UN). The members of the committee shall henceforth be nominated by national governments and would have wider participation of developing countries. This deviates from the usual UN practice of nominations by the Secretary General. The frequency of meetings of this committee has been increased to two from one per year, a reflection of India's negotiating stance.

As a result of it, the 11th session of the UN Committee of Experts on International Cooperation in Tax Matters in October 2015 addressed a number of critical issues. Major takeaways for the developing countries from this session were aplenty. Firstly, an adoption of a new article on the taxation of fees for technical services has been included for the next UN Model Double Taxation Convention between Developed and Developing countries (UN Model). Also a new practical Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries has been adopted. Secondly, in a major fillip to the countries dependent on commodity exports (minerals), a subcommittee on Extractive Industries Taxation Issues for Developing Countries presented its work on tax treaty issues and indirect sales of extractive interests. The subcommittee has been entrusted to produce practical guidelines for developing countries, including on the tax treatment of decommissioning, VAT and re-negotiation of contracts.

Thirdly, the subcommittee on Exchange of Information presented a draft "Code of Conduct" to provide guidance for countries to cooperate in combating international tax evasion through enhanced transparency and exchange of information. It garnered tremendous amount of interested and suggestions to improve the draft shall be incorporated by the October session of the Committee in 2016. Lastly, UN DESA's work in the area of capacity building, including the production of a "Handbook on Selected Issues in Protecting the Tax Base for Developing Countries" and the rich programme of training workshops and other activities with the participation of developing countries, in collaboration with international and regional organizations were appreciated by this Committee.

5. Global Goals and Regional Cooperation: Lessons for South Asia

In the last couple of years while world was trying to implement the MDGs, taking up measures for reducing poverty in developing countries in all its dimensions by addressing issues related to income generation, education, health, etc. it could not find any major success. The parallel trends emanating from the Earth Summit held in Rio de Janeiro in 1992 with its 20 year follow-up conference gave shape to the Sustainable Development Goals (SDGs). These two UN processes in a way converge with the world deciding to launch the post-2015 development agenda.

There is discernible unease about the large number of goals and targets. The governments are also puzzled how the transition from MDGs to SDGs should be ensured and in what way MDG and SDG may actively help in terms of ensuring most effective utilization of development resources. In a federal context, the role of states and commensurate commitments by the centre are also important issues. The idea of leveraging the strength of civil society and private sector through corporate social responsibility is of great significance. However, apart from some of these issues, the most prominent one is at the procedural level in terms of reconciliation between MDGs and SDGs. MDG Goal 8 required that at the outset we need to enlarge the policy space available to countries that are latecomers to development. Also priority needs shall be given for addressing asymmetries.

The proponents of SDGs comprehend poverty as one of the crucial issues to be addressed, while the MDG opponents' emphasize on poverty as the main focus. In this debate the issue of narrow focus on development and its imperatives as manifested in socially, economically and ecologically relevant issues come up for discussions. The G77, China, India and some of the other emerging counties have taken an active part in the negotiations around the Post-2015 Development Agenda and have vehemently highlighted the importance of finance and technology for successful delivery of a global development agenda. Global trading and investment systems have to be made fair to all the countries through regional cooperation in order to fulfil the Post 2015 Development Agenda. The issue of resource allocation, which was hitherto captured under MDG8 and was discussed at the recently held Financing for Development Conference in Ethiopia (2015), assumes significance. While some developing countries proposed for a global treaty on tax harmonization as one of the key solutions, others demand a major re-haul of budgetary allocations.

For obvious reasons, SDGs is unique for having accommodated much larger spectrum of views and concerns of the developing world and is mandated to be a universal agenda with obligations for both the developed and the developing countries. The process per force necessitates national ownership of this agenda towards its fulfilment in the next 15 years. While implementation of the SDGs rests with individual countries, the developing world must have access to adequate resources. Fulfilment of objectives under this agenda may be critically hinged on successful North-South Partnership and South-South Cooperation (SSC).

South-South Cooperation encourages partners to have a responsibility for self-development in a mutually beneficial relationship by strengthening

Box 2: SAARC Cooperation in the Area on Poverty Reduction

The SAARC process has come a long way in terms of forging partnerships at various levels to face up to the challenges of poverty reduction in South Asia and achieve holistic developmental targets. Recognising the imperative to address poverty related issues and to suggest strategies and measures to alleviate poverty in the region, the SAARC Leaders at their Sixth Summit (Colombo, 1991) established an Independent South Asian Commission on Poverty Alleviation (ISACPA). The Commission, while reporting to the Seventh Summit (Dhaka, 1993), provided a conceptual framework for poverty alleviation through social mobilisation and empowerment in South Asia. This agenda has henceforth been proactively pursued in the successive summit level meetings.

The issue of poverty reduction received renewed energy and thrust at the 2002 SAARC Summit. The Twelfth Summit (Islamabad, 2004) adopted the "Plan of Action on Poverty Alleviation". This plan of action touched upon all areas concerning economy, governance, institutions, policy and delivery as part of its holistic approach towards poverty reduction in South Asia. The SAARC declared the decade of 2006-2015 as the Decade on Poverty Alleviation. This was envisaged to promote sustained efforts, to: (a) deepen pro-poor orientation of growth process; (b) enhance investment in human capital; (c) increase investment in infrastructure; and (d) improve service delivery mechanism. Such efforts also lead to (a) result-based evaluation study of the outcomes of poverty alleviation programmes through independent agencies; (b) workshops for having consultations on measuring multi-dimensional poverty; and (c) country documents on success stories of local level initiatives towards poverty issues. At the Fourteenth Summit (New Delhi, 2007), the Leaders appreciated the Independent South Asian Commission on Poverty Alleviation (ISACPA) for its elaboration of the SAARC Development Goals (SDGs). They agreed that the national plans for poverty alleviation should appropriately mirror the regional consensus reached in the form of the SDGs and the Plan of Action on Poverty Alleviation.

Apart from poverty reduction, the SAARC promotes the social agenda in the region mainly through cooperation in the following areas: gender related issues, children and youth, health and population activities and the SAARC Social Charter. In addition there are a number of regional projects underway through SAARC Development Fund (SDF) and others to support social development in the region.

Source: Adapted from Information available on the official website of the SAARC Secretariat.

autonomous capacity for goal-setting, decision-making and national implementation. Regional cooperation in the South should be based on principles of SSC for greater impact. South Asia is a most important case in point. In the context of the SDGs cooperation in South Asia towards poverty reduction and social sector development may be highlighted. A short review of this effort under the SAARC process is presented in Box 2.

Regional groupings among southern countries can be effective in restructuring global institutions for simplification and harmonisation of rules for international public funds and capitalisation of exiting funds. Such a process might lead to institutional commitments from countries to finance global public goods. Strengthened regional cooperation can play an important role in mobilising financial resources for sustainable development. Regional cooperation could also come up with solutions that reduce fragmentation and complexity of international public finance by designing appropriate Southern institutions. SSC presupposes horizontal supportive flows with new institutions like BRICS Bank. The proposal for the SAARC Development Fund (SDF) can also be strengthened by incorporating emerging needs particularly in the backdrop of the Post-2015 Development Agenda. Among others, effective regional arrangements can provide financing for regional public goods, facilitate trade flows and attract investment into key sectors such as infrastructure. Regional cooperation also provides excellent opportunities for information exchange and peer learning in fiscal, financial and economic affairs. The future course of action for SAARC may be drawn along these lines.

6. Concluding Remarks

The Post-2015 Development Agenda is aimed to addressing the major causes of poverty and the global need for development for all of us. This Agenda aims to put our world on an inclusive and sustainable course, which would help us achieving higher growth, development, and prosperity. In this particular context, South-South Cooperation encourages countries to have a responsibility for self-development in a mutually beneficial relationship by strengthening autonomous capacity for goal-setting, decision-making and national implementation. Regional cooperation in the South would, therefore, be based on principles of SSC for greater and inclusive impacts. South Asia is a most important case in point, where Post-2015 Agenda, supported by SSC, would lead to achieve SDGs way ahead of the deadlines.

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Regional Integration and the Post-2015 Framework: A South Asian Perspective

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1. Introduction

Commonly described as a 'roadmap for world development by 2015', the Millennium Development Goals (MDGs) are eight international development goals that were established following the 2000 United Nations (UN) Millennium Summit, where countries adopted the Millennium Declaration. Though the goals are SMART (specific, measurable, aligned, reachable, time-bound), there is much lacking in their design. For instance, some indicators miss complexities and the aspect of quality in development outcomes, while there is a dearth of country ownership overall. Notably, the MDG 8 established the so-called global partnership for development, which has denigrated into patronage distribution of financial resources by the rich countries' club and unilateral dependence by many developing countries. In early 2015, with the deadline for the achievement of the MDGs looming at the end of the year, there is uneven attainment of the targets under the goals across the developing world. Now concentrating on the consolidation of the post-2015 development framework, developed and developing countries are engaged in negotiations at the UN to establish a new set of goals, targets and indicators, which will have universal coverage and a deadline of 2030.

This paper focuses on how regional integration can improve prospects for successful implementation of the post-2015 framework in South Asia. Following an overview of progress on the MDGs to highlight areas of weakness for South Asian countries and a comparison of the proposed Sustainable Development Goals (SDGs) and South Asian Association for Regional Cooperation (SAARC) Development Goals to identify the gaps that South Asia may experience, the paper discusses regional means of implementation that may catalyse progress on implementation of the post-2015 framework and generate sustainable development outcomes. The overarching objective of the paper is to inspire new

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ideas on regional integration during the inter-governmental negotiations on the post-2015 development framework and the succeeding implementation period.

Rest part of the paper is organised as follows. Section 2 of the article discusses the present scenario of Post 2015 process for regional integration in South Asia. Section 3 and Section 4 explores the South Asian development goals and its post-2015 framework building process. Section 5 draws a comparative analysis of sustainable development goals and SAARC initiatives. Conclusions are drawn in the final section.

2. Current Status of the Post-2015 Process

The ongoing inter-governmental negotiations on the post-2015 framework, which were launched in January 2015, have roots in two key processes. The first began with the 2010 MDG Summit (UN, 2010) that requested the UN Secretary-General to initiate thinking on the global development agenda beyond 2015, which has come to be known as the post-2015 agenda. In May 2013, the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda (HLP), appointed by the UN Secretary-General, published its outcome document that includes a discussion about major transformative shifts (see HLP, 2013). The second process began with the 2012 UN Conference on Sustainable Development, widely known as Rio+20 (UN, 2012) that initiated the development of the SDGs. Global consultations through various channels online and on the ground resulted in inputs from diverse sources, including developing countries and civil society, that led to the Open Working Group (OWG) on the SDGs releasing its final outcome document in July 2014 (see OWG, 2014). The UN Secretary-General issued a synthesis of these two proposals in December 2014 (see UN, 2014b). The third International Conference on Financing for Development being held in Addis Ababa (UN, 2015) in July 2015 will result in financial commitments regarding financial and other means of implementation for the new framework. A UN Summit of heads of states and governments will be held in New York in September 2015, when leaders are expected to adopt the consolidated post-2015 development framework. The Conference of the Parties to the UN Framework Convention on Climate Change in Paris in December 2015 will conclude with a new agreement on emissions reduction commitments and mitigation and adaptation strategies that replaces the Kyoto Protocol (UN, 1998) and complements the post-2015 framework.

The efforts of the countries of South Asia – a region that encompasses Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka – will be instrumental in the global push for attaining the goals and targets under the next development framework, given population numbers as well as persistent political and economic challenges that have the potential for spillover effects. With 1.67 billion people as of 2013, 1.25 billion of those being in India (World Bank, 2015), the region continues to see high population growth that affects its ability to make progress on job creation and subsequently development goals and targets. Overall, South Asia has 42 per cent of the world's poor—more than any other regions—a young population and the lowest female participation rate in the labour force (World Bank, 2014). Persistent challenges include gender inequality, gender-based violence, and adequate standards of living, such as access to decent employment, quality education, health services, water and sanitation, nutrition and food security, and access to energy, while new development challenges include the deteriorating quality of growth, unplanned urbanization, the 'demographic dividend' as well as aging populations in some countries, inadequate connectivity, non-communicable diseases, renewable energy investment, vulnerability to natural disasters and other crises, and climate change (UNESCAP et al., 2014). Progress on the MDGs in the region to date has mostly been slow, as is demonstrated in the next section.

3. MDG Delivery in South Asia

The eight MDGs that were adopted globally in 2000 include:

(i) Eradicate extreme poverty and hunger
(ii) Achieve universal primary education
(iii) Promote gender equality and empower women
(iv) Reduce child mortality
(v) Improve maternal health
(vi) Combat HIV/AIDS, malaria and other diseases
(vii) Ensure environmental sustainability
(viii) Develop a global partnership for development

These goals have 18 targets and 48 associated indicators.[1] A status review of MDG indicators shows that progress on target attainment in South Asia is at best mixed.

Table 1 compiles South Asian countries' progress on 17 selected key indicators. If a country is on pace to achieve a target according to an indicator by the end of 2015, it is 'on track'. If it has already achieved the target according to that indicator, it is an 'early achiever'. But, if any country is progressing in such a way that it will be difficult or almost impossible to attain the target by the end of 2015 according to that indicator, the status of that country is 'slow'. Together South Asian countries are on track for three indicators and early achievers of four, but progress on most indicators—10 out of the selected 17—is slow. Targets under MDG 6 were not considered for the present study, given the contextual specificity of the goal on diseases; and there were insufficient data to assess MDG 8.

[1] For a full list of all goals, targets and indicators, see UNSD (2015).

Table 1: Status of South Asian Countries' MDG Attainment by Indicator

Indicator	Status	Progressive countries	Laggard countries
1.1 Proportion of population below $1.25 (PPP) per day	On track	Bhutan, Maldives Nepal, Pakistan, Sri Lanka	Bangladesh, India
1.8 Prevalence of underweight children under-five years of age	Slow	Afghanistan, Bangladesh, Maldives, Sri Lanka	Bhutan, India, Nepal, Pakistan
2.1 Net enrolment ratio in primary education	On track	India, Bhutan	Maldives, Sri Lanka, Pakistan
2.2 Proportion of pupils starting grade 1 who reach last grade of primary	Slow	Sri Lanka	Pakistan, Nepal, Bhutan
2.3 Literacy rate of 15-24 year-olds, women and men	Slow	Bhutan, India, Maldives, Sri Lanka	Nepal, Pakistan
3.1a Ratio of girls to boys in primary education	Early achiever	Bhutan, India, Maldives, Sri Lanka, Nepal, Afghanistan	Pakistan
3.1b Ratio of girls to boys in secondary education	On track	Bangladesh, Bhutan, Maldives, Nepal, India	Afghanistan, Pakistan
3.1c Ratio of girls to boys in tertiary education	Slow	Nepal, Maldives	Pakistan, India, Bhutan, Afghanistan, Bangladesh
4.1 Under-five mortality rate	Slow	Bangladesh, Maldives, Bhutan, Nepal	Afghanistan, India, Pakistan, Sri Lanka
4.2 Infant mortality rate	Slow	Bangladesh, Maldives	Afghanistan, Bhutan, India, Nepal, Pakistan

Indicator	Status	Progressive countries	Laggard countries
5.1 Maternal mortality ratio	Slow	Bhutan, Bangladesh, Maldives, Nepal	Afghanistan, India, Pakistan, Sri Lanka
5.2 Proportion of births attended by skilled health personnel	Slow	Sri Lanka, Bhutan	Afghanistan, Bangladesh, India, Maldives, Nepal, Pakistan
5.5 Antenatal care coverage (at least one visit and at least four visits)	Slow	Sri Lanka, Maldives, Bhutan	Afghanistan, Bangladesh, India, Nepal, Pakistan
7.1 Proportion of land area covered by forest	Early achiever	Bhutan, India, Maldives, Afghanistan	Sri Lanka, Pakistan, Bangladesh, Nepal
7.2 CO_2 emissions, total, per capita and per $1 GDP (PPP)	Early achiever	Bhutan, India, Pakistan, Nepal, Sri Lanka	Afghanistan, Bangladesh, Maldives
7.8 Proportion of population using an improved drinking water source	Early achiever	Afghanistan, Nepal, India, Bhutan, Maldives, Sri Lanka	Bangladesh, Pakistan
7.9 Proportion of population using an improved sanitation facility	Slow	Maldives, Sri Lanka	Afghanistan, Bangladesh, Bhutan, India, Nepal, Pakistan

Source: UNESCAP et al. (2013).

South Asian countries are on track regarding the indicator 1.1 Proportion of population below $1.25 (at purchasing power parity [PPP]) per day. Bhutan, Maldives, Nepal, Pakistan and Sri Lanka are the progressive countries for this indicator, while Bangladesh and India are laggards. South Asia is also generally on track regarding indicators 2.1 Net enrolment ratio in primary education and 3.1b Ratio of girls to boys in secondary education, but progressive and laggard countries differ for each indicator. South Asia is an early achiever of the indicators 3.1a Ratio of girls to boys in primary education, 7.1 Proportion of land area covered by forest, 7.2 CO_2 emissions, and total, per capita and per $1 gross domestic product (GDP) (PPP) and 7.8 Proportion of population using an improved drinking water source, though progressive and laggard countries are mixed. The region, with various countries being progressive and laggard, is slow for the indicators 1.8 Prevalence of underweight children under-five years of age, 2.2 Proportion of pupils starting grade 1 who reach last grade of primary, 2.3 Literacy rate of 15-24 year-olds, women and men, 3.1c Ratio of girls to boys in tertiary, 4.1 Under-five mortality rate, 4.2 Infant mortality rate, 5.1 Maternal mortality ratio, 5.2 Proportion of births attended by skilled health personnel, 5.5 Antenatal care coverage (at least one visit and at least four visits), and 7.9 Proportion of population using an improved sanitation facility. Overall, Bhutan, Maldives and Sri Lanka appear to be the most progressive countries. Pakistan seems to be the most laggard.

Still, such indicators can mask complexities, especially with the scale of problems being so large. Did the MDGs make a meaningful difference over time?[2] The results of an analysis comparing the periods before and after the introduction of the MDGs in 2000 are summarized in Table 2.

Individually, South Asian countries have either met or are making sufficient progress to reach the targets on halving extreme poverty, antenatal care, provision of improved sanitation facilities, and CO_2 emissions. Acceleration can help all eight countries meet the target on maternal mortality, but the remaining targets will be missed by several countries. Afghanistan and Pakistan are particularly lagging behind in terms of progress on selected targets and the MDGs overall. After adopting the MDGs, both countries have progressed on only five of the selected 21 indicators. India has progressed on 12 indicators, Nepal on 10, Bangladesh on nine and Sri Lanka on eight. A comparison of Table 1 and Table 2 confirms that South Asia's progress on the MDGs as a region is indeed slow.

[2] For a recent review of approaches to MDG progress and success, see Higgins (2013). The study also documents the 'power of global goals' as incentives for change and their strengths and limitations, which must be understood going forward.

Table 2: South Asian Countries' Performance on 21 Selected Indicators Before and After 2000

Country \ Indicator	$1.25 per day poverty	Underweight children	Primary enrolment	Reaching last grade	Primary completion	Gender primary	Gender secondary	Gender tertiary
Afghanistan						↑	↑	
Bangladesh	↑	↓					↓	↑
Bhutan			↓	↑	↑	↓	↓	↑
India				↑	±	↑	↑	↓
Maldives		↑	↓			↓	↑	
Nepal	↑	↑		↓	↑	↑	↓	↑
Pakistan	↑						↓	
Sri Lanka	↑	↓			↓	↓	↓	

Country \ Indicator	Under-5 mortality	Infant mortality	Maternal mortality	Skilled birth attendance	Antenatal care (>=1 visit)	HIV prevalence	TB incidence	TB prevalence	Forest cover	Protected area	CO_2 emissions	Safe drinking water	Basic sanitation
Afghanistan	↓	↓	↑				±	↑	±	±		↓	↑
Bangladesh	↑	↑	↓	↑	±	↑	±	↑	±	↓	↑	↑	↓
Bhutan	±	±	±	↑		↓	↑	↑	±	↓	↑	↑	↑
India	↑	↑	↑	↓	↑	↑	↑	↑	↑	↓	↑	↓	↓
Maldives	↑	↑	↓	↑		↑	±	↑	±	±	↑	±	↑
Nepal	±	±	±	↑	↑	↑	±	↓	↑	↓	↑	↓	↓
Pakistan	±	±	↑	↑	↑	↓	±	↑	±	±	↓	↓	↓
Sri Lanka	±	↑	↑	↑	↓	↑	±	↑	↑	↓	↑	↓	↓

Source: Author's compilation, from UNSD (2015).

Note: ↑ = Introduction of MDGs in 2000 improved the situation
↓= Introduction of MDGs in 2000 deteriorated the situation
± = Situation remains unchanged after the introduction of MDGs in 2000

4. Building a Post-2015 Framework for South Asia

Consolidation of a post-2015 framework based on the MDGs must build on their social, economic, and environmental pillars by incentivising transformative changes. Bhattacharya et al. (2014) show that the social pillars predominate in the SDGs is proposed by the OWG. This section focuses on how economic transformation is needed in South Asia but also how taking a regional perspective obscures trends in the social dimension.

Transformative Dimension

The transformative dimension will be one of the most important features of the post-2015 framework, with incentives for economic transformation expected to undergird its social and environmental pillars. The transformative agenda to date has dealt with structural issues, such as productive capacities, value addition in different sectors, capacity building, which lead to sustainable employment and development outcomes. The overarching goal of economic transformation is sustainable production and consumption patterns, which play a major role in broad-based improvements in social, economic and environmental dimensions.

In South Asia, the deceleration of manufacturing sector growth is a problem going forward. Across South Asian countries, workers are moving from the agriculture sector to the low-value services sector, meaning that the low-value services sector is becoming prominent in the region's growth dynamics. As this sector increasingly represents a more prominent share of economic activity in the region and manufacturing sector growth decelerates, the economic growth achieved will not be sustainable, understood in terms of decent, productive jobs for fair pay as well as production and consumption patterns. Long-term sustainable economic growth requires value-added manufacturing growth as well as value-added industrial growth overall, which requires large-scale investment in infrastructure and capital goods. In historical cases of stages of economic growth, agriculture is followed by manufacturing and then services, a continuum that results in a distribution of decent jobs and opportunities for advancement. In South Asia, the low-value services sector has become more prominent given advancement from the agriculture sector, while the manufacturing sector continuously lags behind, as shown in Table 3, which suggests long-term sustainability of growth is unlikely.

Table 3 indicates that the share of value-added agriculture in GDP decreased from 2000 to 2010 and stagnated thereafter; whereas the share of value-added industry in GDP increased from 2000 to 2005, but decreased afterward. Similarly, the share of value-added manufacturing in GDP increased slightly from 2000 to 2005 and then started decreasing afterward. Share of value-added services in GDP experienced an overall increasing trend from 2000 to 2013. Thus, strong emphasis should be given to the transformative agenda, and particularly on

Table 3: GDP of South Asia by
Type of Value-Added Economic Activity

(In % of GDP)

Type of Economic activity	2000	2005	2010	2013
Agriculture, value added	23.55	19.23	18.94	18.90
Industry, value added	25.66	27.92	26.46	24.79
Manufacturing, value added	15.21	15.83	14.85	13.35
Services value added	50.79	52.85	54.59	56.31

Source: Author's compilation, from http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators (accessed on 12 February, 2015).

manufacturing sector growth in the post-2015 framework so that it precipitates structural changes in the South Asian countries.

Further, economic growth in South Asia is not generating sufficient decent and productive employment, indicating a deterioration in the quality of growth and increased instances of vulnerable employment. Vulnerable employment has not decreased substantially in the last decade. Therefore, adequate attention should be given to the generation of sufficient decent, productive employment in the post-2015 framework to incentivise change. Table 4 compares vulnerable employment percentages across various regions of the world.

Table 4: Vulnerable Employment in World Regions
(Percentage of Total Employment)

Region	1991	2000	2013
World	55.0	52.5	47.6
Developing regions	68.2	63.7	56.3
Northern Africa	36.3	32.4	31.6
Sub-Saharan Africa	79.7	78.5	77.0
Latin America and the Caribbean	36.5	35.4	31.8
Eastern Asia	69.0	58.7	45.2
South Asia	80.0	79.8	75.0

Source: ILO (2014).

Table 4 demonstrates that South Asia is the most vulnerable region in terms of employment generation. During 1991, South Asia was the most vulnerable, following the Sub-Saharan Africa, a situation that persisted for a decade. In 2013, the most recent year that data were available, Sub-Saharan Africa became more vulnerable than South Asia, but not by much. Comparison of the gap between the world average and South Asia in 1991 and 2013 shows that the gap widened by 27.4 per cent, indicating that the situation has actually worsened.

Sub-Saharan Africa continues to experience food insecurity, high level of extreme poverty, stunningly high child and maternal mortality, and large numbers of people living in slums. Hence countries in the region will likely not attain most of the MDGs. Asia is the region with the fastest progress, though hundreds of millions of people remain in extreme poverty and even fast-growing countries are not on track to achieve some of the non-income goals. Other regions, notably Latin America as well as the Middle East and North Africa, have mixed records, often with slow or no progress on some goals and persistent inequalities undermining progress on others. Job creation, sustainable livelihoods and equitable growth will likely factor largely in the post-2015 framework, and act as incentives for entire regions.

Though South Asia includes a large proportion of the world's population—23.45 per cent—the population in the region has been increasing at a decreasing rate. Notably, South Asian countries do not contribute significantly to world production, trade and technological advancement, as evident in Table 5.

Table 5: Share of South Asia Region on Global Production, Trade and Technology (Percentage of World Population)

Indicator	2000	2005	2010	2013
Population (% of World population)	22.65	23.10	23.42	23.45
Manufacturing, value added (constant 2005 US$) (% of world)	1.70	2.08	2.96	3.07[a]
GDP (constant 2005 US$) (% of world)	1.90	2.25	3.08	3.17
Exports of goods and services (constant 2005 US$) (% of world)	0.99	1.54	2.14	2.25
Charges for the use of intellectual property, receipts (BoP, current US$) (% of world)	-	0.16	0.06	0.13[a]
Scientific and technical journal articles (% of world)	1.72	2.19	4.03	4.17[a]

Source: Author's compilation, from http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators (accessed on 16 February, 2015)

Regarding the transformational dimension of the post-2015 framework, South Asia is likely to benefit from the inclusion of a target or indicator on manufacturing growth as part of industrial growth. A vital challenge for South Asia is the provision of decent and productive employment with job security to decrease the incidence of vulnerable employment within the next decade. Hence, targets and indicators covering those subjects would also likely benefit the region. Notably, the region has a disproportionately low share in global production, trade and technology. Therefore, means of implementation are crucial.

Social Dimension

The social dimension is largely defined by inclusion, which refers to poverty, inequality, gender equality, voice and accountability, as well as political stability and absence of violence/terrorism, among other things. As mentioned, the social pillar predominates in the proposed SDGs. Taking a regional perspective actually obscures trends in the social dimension. So, country-level assessments remain vital in any regional implementation efforts.

Poverty

The overarching objective of the post-2015 framework is eradicating extreme poverty. Poverty has fallen over time but remains very high in South Asia. Although levels of poverty have fallen by 21.8 per cent over last two decades, about 399 million people (40 per cent of the global poor) in South Asia still live on less than $1.25 a day. Table 6 presents regional figures on this poverty benchmark.

Table 6: Regional Estimates of Proportions of Populations Living Below $1.25

(%)

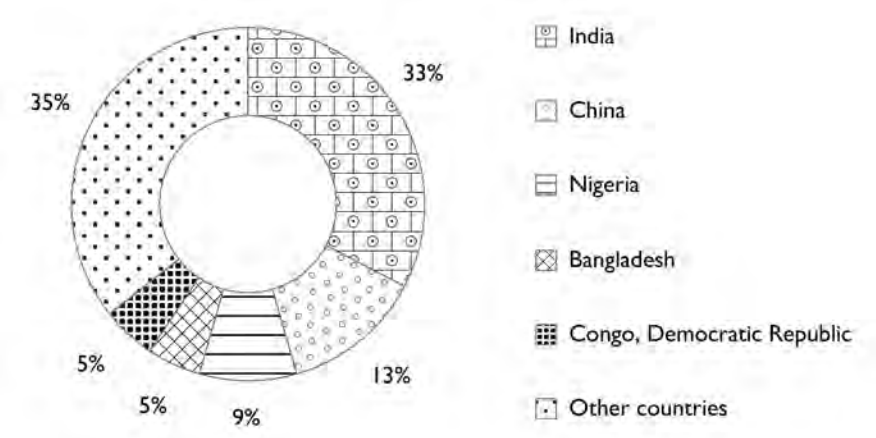
Region	1990	2005	2008	2015
East Asia and the Pacific	56.2	16.8	14.3	7.7
China	60.2	16.3	13.1	-
Europe and Central Asia	1.9	1.3	0.5	0.3
Latin America and the Caribbean	12.2	8.7	6.5	5.5
Middle East and North Africa	5.8	3.5	2.7	2.7
South Asia	53.8	39.4	36.0	23.9
Southern, East, West and Central Africa	56.5	52.3	47.5	41.2
Total	43.1	25.0	22.4	16.3

Source: UN (2013).

If the poverty benchmark is $2 per day, the number rises to 580 million, revealing a high degree of vulnerability, which includes hunger. As shown in Figure 1, of the top five countries with the largest shares of the global extreme poor, two are populous South Asian countries—India and Bangladesh. Even though South Asia is likely to meet the target on halving extreme poverty, the proportion of people living in extreme poverty—especially in India—is quite high.

Figure 1: Top Five Countries with the Largest Shares of Global Extreme Poverty, 2010

(%)



Source: UN (2014c).

Income Inequality

Rising income inequality is another issue in South Asia, which is problematic since any economic growth has less distributional impact among populations. Since the 1990s, the population-weighted mean Gini coefficient[3] for the region increased from 33.5 to 37.5 (UNESCAP et al. 2013). Though poverty is decreasing overall, income inequality is increasing in India, Bangladesh and Sri Lanka. In contrast, Bhutan, Nepal and Pakistan are witnessing a fall in income inequality as per the Gini coefficient. Broad-based growth and pro-poor growth have become part of many discussions on the post-2015 framework and will likely be included to incentivize reduction in income inequality to improve the quality of economic growth.

[3] A lower Gini coefficient means more equality and a higher Gini coefficient means more inequality. No inequality-related data were available for Afghanistan.

Gender

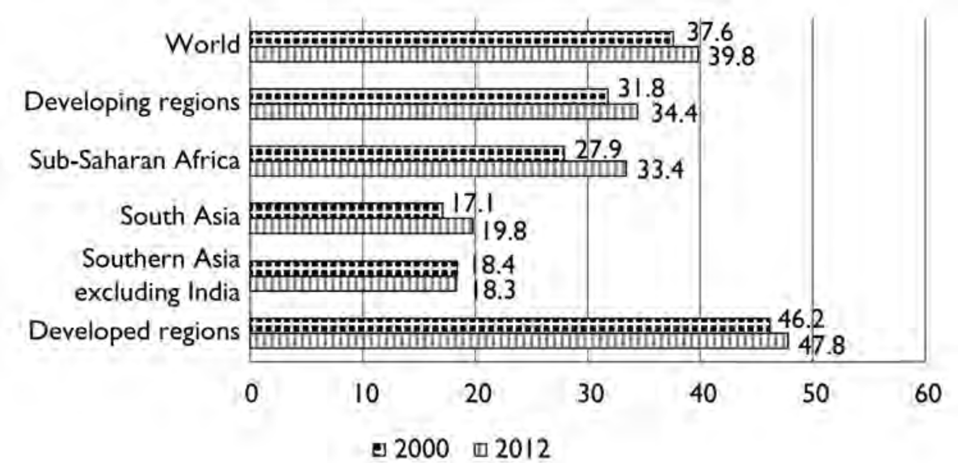
As seen in Table 7, South Asia is at the bottom of the Gender Development Index, which means that gender inequality prevails in the region (UN, 2014a). Women in South Asia are less likely than men to own assets or participate in non-agricultural wage employment. Women also tend to be informal workers—a consequence of their limited skills and restricted mobility as well as existing gender norms. Figure 2 shows that the share of women in wage employment in the non-agricultural sector as a percentage of employees in South Asia is

Table 7: Regions Categorised in the Gender Development Index

Region	Ratio of Women to Men in the 2013 (Human Development Index)
Arab States	0.866
East Asia and the Pacific	0.943
Europe and Central Asia	0.938
Latin America and the Caribbean	0.963
South Asia	0.830
Sub-Saharan Africa	0.867

Source: UN (2014a).
Note: Values on the Human Development Index range from 0 to 1, with higher values representing gender equality.

Figure 2: Share of Women in Wage Employment in the Non-Agricultural Sector (% of Employees)



Source: Author’s calculation, from UNSD (2015).

relatively small—19.8 per cent in 2012—and much lower than the average of developing regions, 34.4 per cent even though, conditions in South Asia have improved from 2000 to 2012. However, if India is excluded, conditions worsened over the same period, which indicates that India alone has made significant improvements in increasing the share of women in wage employment in the non-agricultural sector. Therefore, the empowerment of girls and women and achievement of gender equality should remain a priority in the post-2015 framework, as it was in the MDGs, to incentivize progress on empowerment.

Voice and Accountability

South Asia as a whole is understood to lack voice and accountability. Specifically, India is in the best position among South Asian countries, while Afghanistan is in the worst position. Table 8 breaks down voice and accountability in the region by country.

Table 8: Rankings on Voice and Accountability in South Asia

Country	Voice and Accountability			Trend
	2000 (est.)	2005 (est.)	2013 (est.)	
Afghanistan	-1.98	-1.18	-1.29	Increasing
Bangladesh	-0.31	-0.60	-0.42	Decreasing
Bhutan	-0.98	-1.03	-0.18	Increasing
India	0.26	0.39	0.41	Increasing
Maldives	-0.39	-0.99	-0.43	Decreasing
Nepal	-0.30	-1.19	-0.57	Decreasing
Pakistan	-1.32	-1.06	-0.83	Increasing
Sri Lanka	-0.27	-0.21	-0.62	Decreasing

Source: WGI (2014)
Note: Here estimate (est.) is estimate of governance [ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance]

Political Stability

With regard to political stability and absence of violence/terrorism, three South Asian countries—India, Pakistan and Afghanistan—rank near the bottom (Table 9). Bhutan is in the best position among South Asian countries, while Afghanistan is in the worst position given the recent international war in the country, ranking 161st out of 162 countries, ahead of war-torn Syria. Regional rankings for South Asia are also provided in Table 9.

Table 9: South Asian Country Rankings in the Global Peace Index

Country	Overall Rank	Regional Rank	Country	Overall Rank	Regional Rank
Bhutan	16	1	India	143	5
Nepal	76	2	Pakistan	154	6
Bangladesh	98	3	Afghanistan	161	7
Sri Lanka	105	4			

Source: IEP (2014)

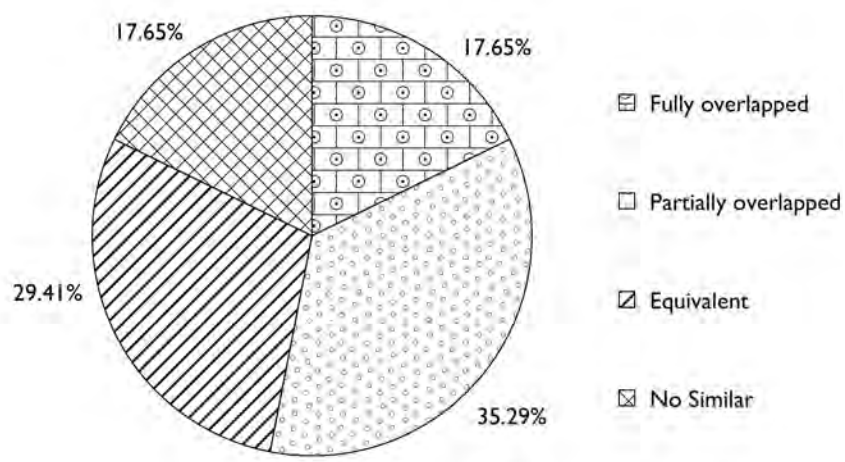
Regarding the social dimension of the post-2015 framework, South Asia needs targets and indicators that incentivize poverty, income inequality, gender equality, voice and accountability, as well as political stability and absence of violence/terrorism. Notably, populous India tends to distort regional figures on social inclusion issues. Poverty is decreasing overall, but income inequality is increasing in India, Bangladesh and Sri Lanka, effectively driving the regional increase in income inequality. It appears that India alone has made significant improvements in increasing the share of women in wage employment in the non-agricultural sector in the region, with conditions apparently worsening if India is excluded from the measurement. While India ranks highest on voice and accountability, it ranks relatively low on political stability and absence of violence/terrorism. Hence, there are some issues that a regional perspective helps clarify, while other issues are obscured. Country-level assessments are evidently still necessary within regional implementation efforts, the subject to which this paper now turns.

5. Comparing Sustainable Development Goals and SAARC Development Goals

Given the SDGs proposed by the OWG, observers expect that a consolidated post-2015 framework (along with the means of implementation) will contain effective incentives for the eradication of extreme poverty, empowerment of girls and women, achievement of gender equality, provision of quality education and lifelong learning, assurance of healthy lives, food security and good nutrition along with improved water and sanitation facility. Strong emphasis will likely be given to securing sustainable energy and creation of decent and productive jobs, sustainable livelihoods and equitable growth. Good governance and effective institutions will likely be major components along with stable peaceful societies. The post-2015 framework will also include means of implementation to guide the creation of a globally enabling environment for goal attainment and catalyze long-term finance for sustainable growth. With universal coverage and country-level plans and policies, the potential of adopting a regional perspective can be lost in the mix. South Asia, the world's least integrated region, could improve prospects for successful implementation of the post-2015 framework through accelerated regional integration. Incentives for regional integration could help in generating sustainable development outcomes if contextual factors and evidence-based policies that address political, economic and historical barriers are meaningfully considered.

Established in 1985, SAARC is an economic and political organization of the eight South Asian countries that is mandated to address development and regional integration issues. The 22 SAARC Development Goals for the years 2007–2012 are broadly clustered into following four areas: livelihood, health, education and environment. Their value comes from their regional focus that includes social, economic and environmental contextual factors.[4] At the third SAARC Ministerial Meeting on Poverty Alleviation held in April 2013, the first set of SAARC Development Goals were extended from 2012 till 2015, which coincides with the deadline for the MDGs. SAARC may build on its work on the SAARC Development Goals by adopting the new post-2015 framework and customizing goals and targets for South Asian countries. To support implementation at the regional level, SAARC may use and better align its existing mechanisms with the post-2015 framework. As evident in Figure 3, the majority of the targets—82.35 per cent—of SAARC Development Goals overlap with the proposed SDGs in some way, while the dissimilar

Figure 3: Comparison between SDGs and SAARC Development Goals



Source: OWG (2014) and SHRDC (2013).

4 For a review of achievements and gaps, see SHRDC (2013).

aspects—17.65 per cent of goals are dissimilar—are worth noting for prospects of the post-2015 framework. Table 10 compares the proposed SDGs with the SAARC Development Goals.

Table 10: Comparing the Proposed SDGs and SAARC Development Goals

Sustainable Development Goals (SDGs)	SAARC Development Goals
Goal 1: End poverty in all its forms everywhere	**Goal 2:** Halve proportion of people in poverty by 2010
Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture	**Goal 1:** Eradication of hunger poverty
Goal 3: Ensure healthy lives and promote well-being for all at all ages	
Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	**Goal 13:** Access to primary/ communal school for all children, boys and girls **Goal 14:** Completion of primary education cycle **Goal 15:** Universal functional literacy **Goal 16:** Quality education at primary, secondary and vocational levels
Goal 5: Achieve gender equality and empower all women and girls	**Goal 8**: Ensure effective participation of poor and of women in anti-poverty policies and programs
Goal 6: Ensure availability and sustainable management of water and sanitation for all	**Goal 18:** Acceptable level of water and soil quality
Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all	
Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	
Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	**Goal 7:** Ensure access to affordable justice
Goal 10: Reduce inequality within and among countries	**Goal 4:** Ensure a robust pro-poor growth process

Sustainable Development Goals (SDGs)	SAARC Development Goals
Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable	**Goal 22:** Ban on dumping of hazardous waste, including radio-active waste
Goal 12: Ensure sustainable consumption and production patterns	
Goal 13: Take urgent action to combat climate change and its impacts	**Goal 19:** Acceptable level of air quality
Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development	**Goal 21:** Wetland conservation
Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	**Goal 20:** Conservation of bio-diversity
Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build elective, accountable and inclusive institutions at all levels	**Goal 7:** Ensure access to affordable justice
Goal 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development	

Source: OWG (2014) and SHRDC (2013).

The SAARC Development Goals signal the existence of priorities and models in South Asia, suggesting what is possible and what is likely. Many SDGs have analogous SAARC goals, which suggests that South Asian countries are prepared to tackle those issues, but there are many proposed SDGs that have no analogue in the set of SAARC Development Goals, specifically SDG 3 to ensure healthy lives and promote well-being for all at all ages, SDG 7 to ensure access to affordable, reliable, sustainable and modern energy for all, SDG 8 to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, SDG 12 to ensure sustainable consumption and production patterns and SDG 17 to strengthen the means of implementation and revitalize the global partnership for sustainable development. Other goals, such as SAARC Development Goal 19 on air quality and SAARC Development Goal 21 wetland convention, do not go far enough given evidence supporting the SDGs on climate change and oceans and South

Asia's vulnerability to climate change impacts and associated GDP costs (see Mahfuz & Suphachalasai, 2014). This suggests that South Asian countries have few – if any – models to follow for addressing these subject areas in the post-2015 period, and thus regional cooperation is required.

The OWG (2014) outlined the role of regional cooperation in implementation of the proposed SDGs, specifically in six proposed targets: SDG 1.b on sound policy frameworks at regional levels based on pro-poor and gender-sensitive development strategies, SDG 2.5 on maintaining genetic diversity of seed, plant and animals at the regional level, SDG 9.1 on developing quality, reliability, sustainability of regional infrastructure, SDG 11.a on strengthening regional development planning to support positive links between urban and rural areas, SDG 14.c on ensuring the full implementation of international law for sustainable use of oceans and their resources and SDG 17.6 on enhancing regional and international cooperation for science, technology and innovation. Here are incentives for regional integration with inherent strategies that should be capitalised upon to address gaps in expertise in addressing unfamiliar issues. A regional perspective covers issues SDG subject areas such as poverty, food security, infrastructure, inclusivity, oceans and marine resources, and science, technology and innovation, but there is no regional perspective on health, energy, economic growth and employment, sustainable production and consumption patterns, and global partnership. If the social pillars dominate the

Table 11: Regional Institutional Agreements for particular means of implementation

Means of Implementation	Regional Institutional Agreements
Trade	South Asian Free Trade Area (SAFTA) Market access initiatives undertaken on a bilateral basis SAARC Agreement on Trade in Services (SATIS) Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Asia-Pacific Trade Agreement (APTA)
Investment	SAARC Development Fund (SDF) South Asian Clearing Union (SACU) Asian Infrastructure Investment Bank (AIIB) SAARC Payment Council (SPC)
Technology	Various bilateral and multilateral initiatives under SAARC and BIMSTEC
Capacity Building	Various bilateral and multilateral initiatives under SAARC and BIMSTEC

Source: Author's compilation.

proposed SDGs when economic transformation is needed in South Asia, and there is no regional perspective in the proposed SDGs on such transformation, then South Asian countries tasked with planning and policy-making will likely see suboptimal outcomes, unless regional means of implementation are considered. Relevant regional institutional agreements are compiled in Table 11.

South Asia could improve prospects for implementation of the post-2015 framework through accelerated regional integration and issue linkage, which would create more cross-cutting themes for countries in the region. Integration will constitute a win-win situation for all countries in the region if they cooperate in the areas of trade, investment, technology and capacity building according to already-existing regional institutional agreements and initiatives.

6. Conclusion and the Way Forward

There is much potential catch-up that can be done in South Asia in terms of regional integration, with the European Union existing as a model for effective governance and implementation of initiatives. As the European Union's experience demonstrates, historical reconciliation is a critical element in developing the necessary political will for cooperation, and ultimately, integration. The fundamental basis for the success of the European Union is the historical reconciliation between France and Germany, achieved by years of sustained political efforts by leaders of both countries. In stark contrast, there have been no such efforts in South Asia. The historical conflict between India and Pakistan is a major obstacle for successful cooperation within SAARC. Implementation of the post-2015 framework requires strong institutions and mechanisms as well as domestic and international cooperation among stakeholders. Cooperation in the form of regional integration has great potential to strengthen institutions and mechanisms and subsequently improve prospects for implementation. Criteria below, which must be fulfilled in order to have successful regional integration, are absent in South Asia, and some of them are as follows: (i) goal-oriented cooperation, (ii) a shared situational perspective, (iii) continual meetings on several levels, (iv) an experienced overarching organization, (v) timeframe and continuity, (vi) showing other countries interest and humility, (vii) understanding other countries' roles and responsibilities, (viii) risk management, (ix) support from management, (x) commitment, political will and leadership, (xi) visionary politicians, and (xii) a consensus approach combined with solidarity and tolerance.

In its attempts to encourage development and integration, SAARC promotes economic policies that prioritize social welfare, collective self-reliance, and socio-cultural development among countries that are divided by political mistrust based on national identity and internal power consolidation, economic barriers such as high trading costs and low physical connectivity, and historical orientation unwelcoming of the foreign direct investment that has been a driver of integration in other regions. To address political, economic and historical barriers, the aforementioned regional institutional agreements can be useful catalysts for improved regional integration and implementation of the post-2015 framework in light of adoption of the framework at the UN. SAARC has addressed several areas of cooperation, such as action against terrorism and illegal drugs, trade, rural development, agriculture, media, SAARC institutional mechanisms, environment, poverty alleviation, education, nuclear non-proliferation and empowerment of women, but has not been able to address major political disputes among members, such as between India and Pakistan, the water-sharing dispute between Bangladesh and India and the border dispute between Bangladesh and India. Many SAARC Development Goals advancing regional trade and commerce have not been attained because of ineffective implementation.

Notably, Bhattacharyay (2014) has suggested integrating South Asia and Southeast Asia through trade, investment, production and infrastructure connectivity cooperation to boost prosperity, peace and stability in the region. He argues that trade integration will enhance domestic demand through improved trade policy, hard and soft physical connectivity, and rules and regulations, while large benefits can be realized from large young and middle-class populations. Moreover, integration of South Asia and the Association of Southeast Asian Nations (ASEAN) could be a key building block for pan-Asian integration. The domestic risks for South Asia include political tension within the region, weak banking sectors, energy crises and weak business climate. External risks include: slower growth in the Europe, an important trading partner for South Asia; tensions in Ukraine or conflict in the Middle East that sharply raise global energy prices, since the region is a heavy energy importer; and governments offering generous fuel subsidies, which could widen current account and fiscal deficits and increase inflation. Regional integration could reduce dependence on other regions through diversification.

The post-2015 framework will follow the MDGs to gain traction at the national and regional levels, but more emphasis on the regional level in South Asia could improve prospects for implementation of the new framework. Given the aforementioned lags and gaps, South Asia should work on regional integration and development issues, since long-term sustainable development cannot occur if countries lag behind or continue to experience gaps, which affect the network effects inherent in the variety of cross-cutting themes. Many areas deserve further exploration, but there are four areas that require immediate attention. The focus of already-existing regional institutional agreements can be narrowed by looking at four major points identified in this paper:

A renewed regional approach to poverty elimination should be of high priority in South Asia to catalyse progress on implementation of the post-2015 framework. Strong attention should be given to the reduction of all forms of inequality and discrimination, given the persistent marginalization across the region.

A regional strategy that addresses the growth of productive capacity, decent jobs and sustainable incomes through integration would be welcome. More care should be given to creating decent, productive jobs with fair pay and job security, which enable sustainable economic growth. One driver to achieve broad-based economic prosperity worth exploring is inter-state pro-poor fiscal transfers, which require explicit rules and transparency and may need to be complemented by increases in capacity, transparency, and participation to improve accountability at the local level (Ghani et al., 2013).

A regional strategy to reduce adverse impacts of climate change, protect ecosystems and biodiversity is sorely needed and integration, especially through trade, provides many opportunities. Climate change is one of the biggest challenges for the world and South Asia is very vulnerable to its impacts (Ahmed and Suphachalasai, 2014). Therefore, effective regional initiatives with long-term scope should be taken to mitigate climate-related issues as early as possible.

Regional integration would go a long way in helping to build peaceful and inclusive societies with enhanced voice and accountability. Broad-based, pro-poor economic growth should have improved distributional impacts among all people, which would support these issues. Effective policies in the areas of food and nutrition, education (especially tertiary-level education), gender equality (especially for young girls), health regardless of colour or creed, environmental sustainability, sanitation facilities, technology transfer and improved market access would boost regional integration efforts.

Lessons for the post-2015 period can be learned from the implementation of the SAARC Development Goals, which have experienced some failure for four reasons. First, the lack of political commitment has slowed implementation efforts. The post-2015 framework would be achievable if it is implemented with full political commitment by South Asian countries and regional commitment overall. Second, the heterogeneity of South Asia has obstructed progress on implementation. Each South Asian country has faced unique challenges while pursuing the SAARC Development Goals, but regional integration would mitigate many of these issues, as has been seen in Europe. Third, there is a trust deficit related to geopolitics and historical conflicts. The trust deficit among South Asian countries, one of the major bottlenecks in implementation of the SAARC Development Goals, should not hold back efforts on the post-2015 framework. Strong relationship bonds could be fostered during the upcoming SAARC Council of Ministers meetings, which focus on progress and carrying forward decisions reached on areas of cooperation, and SAARC Summits, which engage in priority setting. The consolidation of the post-2015 framework may spur action and dynamism in this forum if trust is promoted. Finally, resource constraints are a constant concern. Allocated resources to support the achievement of the post-2015 framework are expected to be relatively low. The supply of finance for the new framework should be substantially expanded through SAARC initiative going forward, along with transparency and accountability efforts amongst its members.

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Part IV

Glimpses of the Summit


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5-7 November 2014
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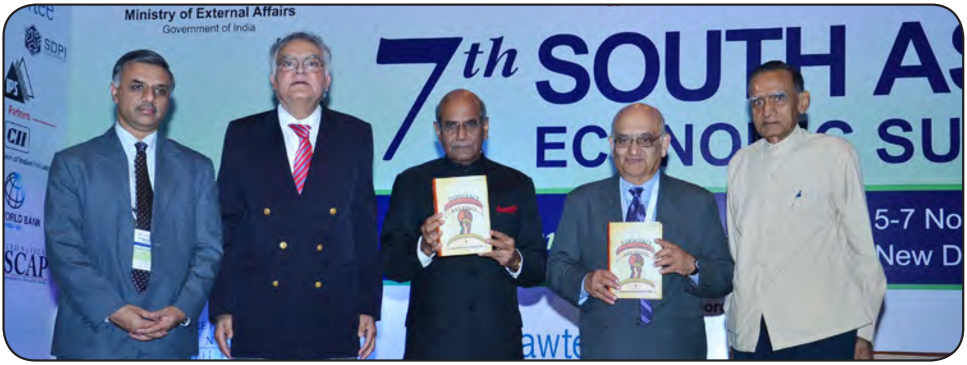
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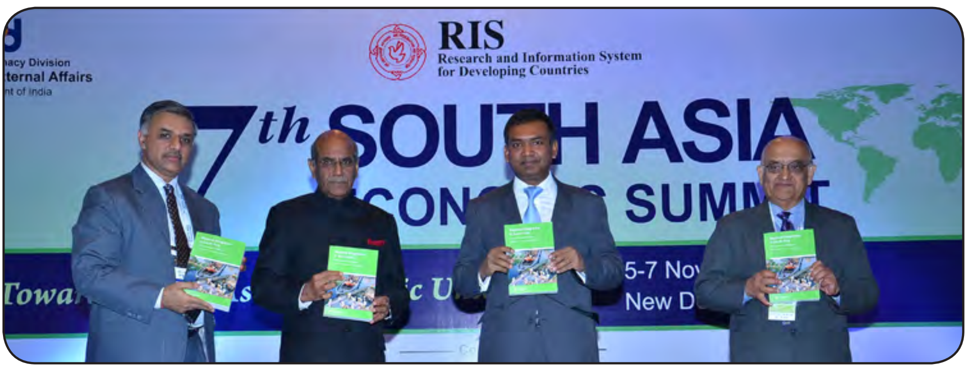
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Dr. Akmal Hussain
Selim Raihan
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