

Economic Regionalism: Analyzing the Role of China for Economic  
Cooperation in South Asia through SAARC

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## LETTER OF RECOMMENDATION

I certify that this dissertation entitled “Economic Regionalism: Analyzing the Role of China for Economic Cooperation in South Asia through SAARC” was prepared by SAPHALA DHITAL under my supervision. I hereby recommend this dissertation for final examination by the Research Committee Department of International Relations and Diplomacy, Tribhuvan University, in fulfillment of the requirements for the Degree of MASTER’S IN INTERNATIONAL RELATIONS AND DIPLOMACY.

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Professor Khadga K.C; PhD

Supervisor

Date: May, 2019

## **DECLARATION**

I hereby declare that this dissertation is my own work and that it contains no materials previously published. I have not used it's materials for the award of any kind and any other degree. Where other authors' sources of information have been used, they have been acknowledged.

**Signature:**

**Name: SAPHALA DHITAL**

**Date: May, 2019**



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## ABSTRACT

In an epoch where multilateral arrangements have surpassed bilateral arrangements, regionalism is gaining extreme popularity. Economic Community of West African States (ECOWAS) has already proven to be an ideal regional forum for Africa, Shanghai Cooperation Organization (SCO) has served its security-economic purposes, ASEAN is setting examples of regional strength but SAARC that was established decades ago is gradually getting ineffective. SAARC, being the only regional organization that incorporates all the members of South Asia is an indicator of situation of South Asia as a whole. Fortunate enough, South Asia is bestowed with abundant natural resources that can provide a huge amount of raw materials for industrial products; is in geographically strategic location; has a huge market (with India in it); contains two nuclear powers- India and Pakistan; has immense scope for hydro-potentiality, that is, Nepal; is a hub for cheap labor force- Bangladesh and so on. These are the reasons why SAARC is gaining international attention from the leaders and rulers of world politics such as countries like Japan, USA and China in a huge scale even though this region is grounded in dire poverty.

Though blessed immensely in terms of human and natural resources, South Asia is not able to reap the benefits since cooperation among the member states seems to be a distant thing and South Asia is still dwindling to find a common ground for cooperation. Unlike European Union, which had the necessity of bringing states together to fight communism and preserve European states from grave consequences of war, South Asia has no such immediate reasons to unite. The major reason for its inefficient functioning as observed thoroughly is its lack of economic integration and political stalemate situation between member states.

The overall purpose of this research is exploring the opportunities and challenges of granting membership to China in SAARC. It further throws lights on the ways China can get access to these opportunities while dealing with the probable challenges. This paper analyzes the need of China's entry as a member state of SAARC to remove the technical, economic and political barriers of this organization. The infrastructural upper hand and connectivity projects of China can help remove these barriers. Hence, this research has focused on the economic benefits that can be achieved by both China and South Asia vis-à-vis membership in SAARC. This research has followed the qualitative method of research and used the secondary data. The research has examined role of China, India and Pakistan as the independent variables while economic cooperation of SAARC as the dependent variable. The method of analysis has been to explore the win-win situation created by this cooperation.

The findings include the potential admission of China as a full-fledged member of SAARC and economic cooperation over various trade reforms. The findings of the research also include the failure of SAFTA to integrate the region economically. It points out at the connectivity barriers and individual states' trust issues as the factor that is preventing SAARC from functioning well.

The findings show that future implications for reform in economic sector seem possible as China gets admission in the group. The infrastructural upper hand, the investment capacity of China, China's fair weather ally within the group, the leadership capacity and experience in leading regional groups makes China a considerate choice for upliftment from observer to full-fledged member. The opportunities received by individual SAARC members follow as trade booms in South Asia and export oriented market is established by focusing on comparative advantage of the products exported. Similarly, China also benefits as it gets to export on low

tariffs and on limited barrier to one of the biggest markets in the world. South Asia has emerged with the status of one of the fastest growing economies in the world with growth set to rise up to 7 percent in 2019, then 7.1 percent in 2020 and 2021. (The World Bank Report, 2019, p.5). However, the challenge for this region is to increase it's export to sustain it's high growth and to explore it's full economic potential. Another set of opportunity received by SAARC is a stable neighborhood and huge amount of cooperation rather than conflicts and border wars.

Lastly, this thesis has drawn a conclusion that though SAARC is functioning in an efficient way, replacement of SAARC via other sub-regional arrangements cannot pay the desired benefits. The example has been drawn from BIMSTEC. Given the fact that it excludes two important members of South Asia, Pakistan and Maldives, this regional arrangement cannot be considered as the representative of South Asia as a whole. Rather, it only grows suspicions and fears among excluded members which may invite other extra-regional members with no cultural or historical similarity. In case of China, though it is a Central Asian nation, it has many immediate neighbors in South Asia which by default shows that peaceful South Asia is in best interest of China. To counterbalance the BIMSTEC nations, the excluded members may resort to stocking of nuclear weapons, forming another sub-regional group, signing nuclear deals with USA or Japan or even allowing military bases in worst case scenario. Hence, this thesis restates it's idea of involving China in SAARC rather than opting for other alternatives.

Key words: Regionalism, South Asia, SAARC, BIMSTEC, Economic Regionalism, Trade Reform.



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## LIST OF ABBREVIATIONS/ACRONYMS

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
ARF	ASEAN Regional Forum
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral, Technical and Economical Cooperation
BRI	Belt and Road Initiative
CPEC	China Pakistan Economic Corridor
EEC	European Economic Commission
ECOWAS	Economic Community of West African States
FTA	Free Trade Area
FY	Fiscal Year
GATT	General Agreements on Tariffs and Trades
GDP	Gross Domestic Product
GNP	Gross National Product

IMF	International Monetary Fund
ISRO	Indian Space Research Organization
MFN	Most Favored Nations
NAFTA	North American Free Trade Association
NATO	North Atlantic Treaty Organization
OAU	Organization of African Union
OPEC	Organization of Petroleum Exporting Countries
PCI	Per Capita Income
PRC	People's Republic of China
RTA	Regional Trade Agreements
SAARC	South Asian Association for Regional Cooperation
SAEU	South Asian Economic Union
SAPTA	South Asian Preferential Trade Agreement
SAFTA	South Asian Free Trade Area
SEATO	Southeast Asia Treaty Organization
SCO	Shanghai Cooperation Organization
USMCA	United States-Mexico-Canada Agreement

# CHAPTER – I

## INTRODUCTION

### 1.1 Background

The notion of mutual interdependence and free movement of people, goods and ideas have led to the surge of idea of regionalism. With the third wave of globalization, namely, political, economical and technological, the involvement of states in regional institutions began to grow rapidly. The concept of pooled sovereignty, rule of law, global governance, trade liberalization and such ideas helped to transcend the boundaries of traditional Westphalian concept of state sovereignty. Different states cooperate as they share the ‘common destiny’, that is, common threats and common benefits. Different regions in the globe unite to cope the economic, political and social concerns. The idea of regionalism has expanded beyond the idea of geographical proximity. Even the common ideological grounds has also contributed in establishment of regional organization where the states closer to each other both in terms of distance and ideology united against the neighbor with different ideology. Regional institution allows states to continue their traditional tactics of forming alliance, hiding and binding, bandwagoning and balance of power in a more institutionalized and legitimate manner.

South Asia is a home to more than one fourth of world’s population with a huge market within the region. It is also the world’s fastest growing region, with growth set to set up to 7.0 percent in 2019. (The World Bank in South Asia, 2019) .The tragedy however, is the intra- regional trade in this region accounts for less than 6 percent of total trade. The frequent political turmoil, intra-regional conflicts, the common vulnerability to environment, border disputes among neighboring nations are some of

the hindrances that are responsible for the pathetic situation of South Asian trade. India has been taking the lead role since a long time but it's own conflicts with Pakistan is further deteriorating the condition of this region. In order to address the common problems and reap the common benefits, a regional organization, South Asian Association for Regional Cooperation (SAARC) was established in 1985 A.D in the initiation of late President Zia-Ur-Rahman of Bangladesh. It is probably the only multilateral organization in which the number of observers is more than the full-fledged member states itself. One of the active observers of SAARC which has been promoting trade deals and providing funds in SAARC is China. (Lu, 2014, p. 1). This paper will analyze a potential transformation in SAARC trade post China's admission as a member state.

SAARC is often depicted as the story of missed opportunities. It is because in spite of having a huge number of population with a relatively high number of youths, it is one of the most inefficient regional forums in the world. It is not cooperation that attracts the international attention; rather, it is the conflict that has been drawing the attention of international audience. South Asia has a history of great religious tolerance since the principal religions of the world Hinduism, Buddhism and Islam have been coexisting in the same region. This religious coexistence hints towards the possibility of peaceful rise of Asia without any great devastation. "Let us not forget that the great periods of South Asia were the Indus Valley civilization, the empires of the Mauryas, the Kushanas, the Guptas, the Cholas and the Mughals. During their eras, the region dominated the global economy; merchants, scholars, pilgrims and adventurers from all over the world flocked here in search of wealth and knowledge." (Tripathi, 2014, pp. 280-288).



However, the fact cannot be denied that South Asia has only two powerful countries and rest of the six countries are developing nations and are either landlocked or island nations. The huge population dividend and the abundant natural resources are the huge advantages of this region. The developed countries like USA and Japan are trying to influence the South Asian politics in order to keep the activities of two Asian giants in check and balance through the region. Lately, a huge drawback to efficient functioning of SAARC has been the India-Pakistan rivalry that not only affects the trade volume of SAARC but also may lead to it's collapse in the coming decade. The most pertinent question that remains in the backyard of SAARC is how it can even function without periodic meetings or conferences which are the backbones of any multilateral arrangements. The failure of SAARC is often referred to as the result of mistrust and distrust originated since the time South Asia got independence because border disputes started being discussed widely post independence phase.

(Bastiampillai, 1996)

SAARC, though seems as a single regional bloc, has allies and groupings within itself too. India, Afghanistan, Bangladesh and Bhutan have a strong pact, India and Pakistan have a strong hostility, Maldives is fighting for it's own existence, while Srilanka and Nepal have strong complains against India for it's alleged micro-management.

Countries like India and Bhutan even share Patron-Client relations that allow India to interfere in the foreign policy of Bhutan. Given this scenario, a sudden urgency is seen to reform the SAARC. The best reform area can be trade reform and creation of a deeper economic integration. It is because, South Asia is dwindling in the phase of extreme poverty and this region can be better off politically only after a robust economics follows or takes the lead. The problem with this economic reform however lies in the fact that individual states have trust issues among other states in the region

and none of them are willing to hand over the initiation to India. Pakistan strongly condemns India's lead as a drive towards Indian hegemony in the region and this would further increase the violence and security concerns. The given scenario hints towards the need of a reliable and powerful mediator that may perform the role of a catalyst for robust economics, that is, China.

The popular belief in international politics is that China's entry in SAARC as a member state seems to be inevitable. (Jagannath P. Panda, 2010). However, there are several challenges and hurdles that might come on the way. As long as China does not get the full-fledged membership of SAARC, it is not possible for China to take the lead or cooperate with India to create a more economically integrated South Asia. Having participated as an observer for a long time and having geographical proximity with South Asia, China can be a reliable support of South Asian trade. The first section of this paper will deal with the recent trade situations in SAARC. The next section will throw lights on the necessity of involving China in SAARC and the third section will deal with the returns that China can get from an economically integrated South Asia. The fourth section will deal with a common benefit for both SAARC and China and the last section is a proposed solution for trade cooperation. Additionally, this paper will also try to analyze the possibility of BIMSTEC as a complementary to SAARC rather than a competitive strategy. This section will point out that SAARC with China can bring more peace to South Asia instead of BIMSTEC without Pakistan.

## **1.2 Statement of the Problems**

To deepen the trade ties, the associated nations of SAARC signed a preferential trade agreement between the member countries in 1993. The idea of Most Favored Nations (MFN) was initiated that promised the reduction in MFN tariff. India initiated it by reducing the MFN tariff up to 50 percent on 106 commodities, Pakistan by 10 to 20 percent on 35 commodities, Bangladesh by 10 percent on 12 commodities and Bhutan by 15 percent on 11 commodities. (Pandey, 2012, p. 35). In the period of envisioning South Asian Preferential Trade Agreement (SAPTA), around 5000 commodities were accommodated in the list. This framework helped to dwell hopes on behalf of strongly integrated economic ties of South Asian nations. This process was further consolidated by transforming SAPTA into SAFTA (South Asian Free Trade Agreement) in 2006, followed by trade liberalization process. The trade liberalization process started with the reduction of tariff rates to 20% in the first phase and to zero in the gradual phases. However, SAFTA failed to integrate the region economically due to the connectivity barriers in the region and highly politicized SAARC. “South Asian Preferential Trade Agreement could not be an effective instrument for realizing the dreams of regional integration, primarily in absence of related trade facilitation measures in the form of customs cooperation, transport connectivity, harmonization of standards, transit facilitation and most importantly the stringent rules of origin criteria.” (Pandey, 2012, p. 35)

South Asia has a geographical vantage, shares common historical and cultural ties and still suffers the issues of trade barriers due to connectivity issues. Geography has bestowed this region with enormous natural resources, surplus labor and a link to Eurasian trade routes. This region has human capital, innovative industries and

technologies, raw materials and a geo-strategic location. In spite of all these, this region suffers a huge connectivity issues, has been drowned in poverty, underdevelopment and innovation threats.

Today, SAARC's total share of regional trade accounts to 5 % from 3 % in 1990 while ASEAN's regional trade has grown from approximately 17% to 25%. The intra-regional trade is less than 2% of SAARC's GDP while ASEAN has more than 20%. "Enhanced trade in the region is constrained by a number of factors including tariff and non-tariff barriers, weak infrastructure, poor awareness among stakeholders, a lack of political will, and low levels of investment." (Intra-Regional Trade, 2016). In the next section, this paper will try to find out the common reasons for ineffective trade policies especially in the intra-regional trade. South Asia is yet to find out the common reasons for ineffective trade policies especially in the intra-regional trade.

With this background in mind, the proposed research will strive to analyze and examine how the involvement of China as a full member of SAARC can bring about the necessary economic integration that has been due for three decades since it's inception. Available literature on the "economic integration" of different multilateral organizations has given explanations on how economic integration can bring about peace and integration in the region. The Franco-German cooperation over coals and steels is a vivid example of using economy to solve the political crisis. However, this proposed research will investigate how China, though is an extra-regional power has the upper-hand in economic integration and cooperation of South Asia like no other country in the region has.

### **1.3 Research Questions**

In proposing the full membership of China in economic integration of South Asia, the following questions will need to be addressed:

- i. What are the opportunities and challenges of granting membership to China in SAARC ?
- ii. How will China play the crucial role for economic integration in South Asia being as potential member of SAARC?
- iii. Why replacement of SAARC via another viable option like BIMSTEC is not effective in influencing the desired outcomes?

### **1.4 Objectives of the Study**

This study has primarily focused on the function of regionalism. A comparative analysis has been conducted to compare SAARC, the South Asian regional institution with other institutions such as BIMSTEC, ASEAN, EU, USMCA, OAU and alike. The major motto behind comparisons with other regional organization is to derive the important lessons that may help SAARC to advance further.

The following objectives will strive to address the identified research questions:

- i. To access on the opportunities and challenges of granting membership to China in SAARC.
- ii. To explore how China can play the crucial role for economic cooperation in South Asia being as potential member of SAARC.
- iii. To analyze if replacement of SAARC via another viable option like BIMSTEC is effective in influencing the desired outcomes.

## **1.5 Limitation of Study**

This particular section has explained why some aspects are included in this thesis while the others are excluded. The proposed research will limit its focus on expansion of membership to China alone and not to other observers such as US or Japan given the region's proximity to China. Particular focus will be applied to the economic aspect of South Asian conflict and will only slightly touch upon social or political conflicts that need to be addressed.

The study will be mainly based on the published and unpublished secondary data and information available on the past and present status of SAARC

## **1.6 Significance of the Study**

This dissertation has made an effort to find out the potential benefits from economic cooperation among member states of SAARC. The focal point of this research is based on a key assumption on the role of a catalyst and mediator that China can play to bring about the economic cooperation in SAARC. For this cooperation with the institution SAARC+1, China needs to be ascended to the status of a member of SAARC and not just observer. This research is based on the secondary data available on the given topic. It also attempts to analyze the role played by other regional organizations so that SAARC can learn lessons from other existing regional organizations. This research has also devoted a notable amount of time for the examining the probability of BIMSTEC as being an alternative of SAARC. However, the key focus is on China's membership in SAARC that can fill the infrastructural scarcity and investment dearth of SAARC member states through trade reform.

## 1.7 Definitions of key terms

### **Regionalism: The Concept**

According to **Penguin Dictionary of International Relations**, “Regionalism is a complex of attitudes, loyalties and ideas of an individual or a group which perceives things in terms of the interests of its region. Regionalism, broadly, is a process through which geographical regions become significant political and/or economic units, serving as the basis for cooperation and, possibly, identity. (Heywood, 2011). In the study of International relations, the term ‘Region’ is often known as socially constructed rather than having geographical underpinnings. “All regions are socially constructed and hence politically contested.”( Hettne, 2005, p.544) .

Regionalism was mooted after the end of WWII and was transformed to a concrete shapes with formation of various regional associations around the world. It emerged out of common vision and collective endeavor for economic and social development of the respective regions. Various regional organizations around the globe were formed in the name of EEC, ASEAN, SAARC, Indian Ocean Rim Association, Asia Pacific Economic Cooperation, African Union and so on. Regionalism was the direct result of slow process of multilateralism under GATT and virtual inefficiency of UN due to polarization of it’s members on ideological grounds. Hence, the search for alternative started to be looked upon.” Regionalism takes different forms depending on primary areas over which states choose to operate”. (Heywood, 2011, p. 482)There are three types of regionalism:

- i. Economic Regionalism
- ii. Security Regionalism
- iii. Political Regionalism

Chapter VIII of UN Charter has provisions for regional enforcement action. Hence regionalism under UN Framework has been safeguarded in Chapter VIII under the title 'Regional Arrangements' from article 52 to article 54. The two waves of regionalism discussed are:

- i. Old wave- that focused on security concerns
- ii. New wave- that focused on economic concerns

### **Stages of Regional Integration**

Apparently, there are six stages of regional integration. The new wave of regionalism is also known as economic regionalism because it allows the creation of greater economic opportunities through cooperation among states in similar geographical regions. "Since the advent of so-called 'new' regionalism in the early 1990s, manifested in the growth of regional trade blocs and the deepening of existing trade blocs. This surge has continued unabated, so that, by 2005, only one WTO member – Mongolia – was not party to a regional trade agreement (RTA). "(Heywood, 2011, p. 482).

Preferential Trading Arrangement (PTA) is the first stage in which partial preference in trade is allowed by adopting a positive list of some goods open for free trade while restricting the rest of goods by imposing different custom rates for imports. The second stage is Free Trade Area (FTA) where tariffs, quantitative restrictions and non-tariff barriers are eliminated to allow free trade. The third stage is Custom Union (CU) in which customs tariffs are eliminated among the members and common custom tariffs are determined for imports from non members. The fourth stage is Common Market (CM) where different factors of production such as technology, capital and labor are allowed to move freely in the member state. The fifth stage is



Economic Union (EU) where economic and monetary policies of member states are integrated and a common currency is adopted. The last stage of economic integration is Political Union (PU) in which members adopt Common Foreign and Security Policy (CSFP).

The regional institutions of different regions are in different phases of integration. The first three phases are called “Shallow Integration” while the rest are known as “Deeper Integration”. EU, the alleged perfect model of regionalism for addressing common security problems while exploring common benefits is reaching its sixth stage of integration. Though the issues like BREXIT and only 19 countries out of 28 in Euro zone poses question for validity of deeper integration, Europe has still prospered a lot from EU. Talking of the regional organizations in Asia, BIMSTEC is somewhere in the second phase of integration while ASEAN is just a step ahead of SAARC and BIMSTEC.

## **SAARC**

SAARC is the acronym for South Asian Association for Regional Cooperation which was established on 8<sup>th</sup> Dec, 1985 by seven countries of South Asia. Later, in 2007, the 14<sup>th</sup> SAARC Summit held in New Delhi, Afghanistan was included as the eighth member. SAARC comprises 3% of world area and 21% of world's total population. Though SAARC is in existence for about three decades now, the intra0regional trade volume of SAARC is only 6%. It aims to create a South Asian Economic Union (SAEU) and it has selected 16 areas of cooperation, 6 technical committees and 4 working groups. The major purpose of SAARC is to promote the welfare of people of South Asia, to strengthen collective self-reliance, promote active collaboration and

mutual assistance in various fields and cooperate with international and other regional organizations.

SAARC operates on the principle of respect for sovereign equality, territorial integrity, political independence, non-interference in internal affairs and so on.

However, not all of these above mentioned principles are always respected by the member states themselves. The operational mechanism in SAARC includes SAARC Summits, Council of Ministers, Standing Committee, Programming Committee, Technical Committee, Working Groups, The Secretariat and SAARC Regional Centers. SAARC currently has 9 observer members Australia, Japan, USA, China, South Korea, Mauritius, Iran, Myanmar and one regional organization EU.

### **Neo-Liberalism**

The idea of liberalism sprouted since 1970s and started to move beyond the traditional idealist approach of liberalism. The new wave of democratization and globalization in 1990s started to provide new impetus to neo-liberal school of thought. These ideas include economic liberalization policies such as privatization, deregulation, free trade and reductions in government spending so as to increase the role of the private sector in the economy and society. The central theme of liberalism in all its forms is the notion of harmony or balance amongst competing interests (Heywood, 2011, p. 61). Hence, the concept of neo-liberalism has been used in this thesis to shift the attention from realist idea of state-centric governance and state sovereignty to shared governance and pooled sovereignty. The political deadlock between India and Pakistan can be converted to cooperation through interdependence and trade as per the idea of neo-liberalism school of thought.

Neo-liberal notion of IR also focuses on the role of interest-maximization. The membership of China in SAARC can be evaluated through this perspective given the collective benefits received by both China and India by choosing cooperation over conflict. The interdependence consists in economic underpinnings in terms of trade and financial flows, nation-states` collective interest in avoiding major nuclear war; and nation states` collective interest in avoiding ecological catastrophe. Further, neo-liberals believe that states cooperate with each other when they realize that reciprocity can offer positive gain for all the states involved.

### **Liberal Institutionalism**

Realists believe in the anarchical nature of nation-states and prioritize sovereignty. On the other hand, liberal institutionalism believes in the concept of pooled sovereignty through the institutional mechanisms. It focuses on the ‘relative gains’ of states rather than ‘absolute gains’ of handful of powerful states. According to this approach of liberalism, institutional arrangement helps in maintaining rule of law and hence promoting mutual interdependence and mutual trust. It aids states to engage in supranational enforcement to overcome the constraining effects of anarchy. Neo-liberal use such arguments to explain origins and development of formal institutions such as UN, WTO, WB, IMF, EU, SAARC, BIMSTEC, AU, USMCA and many more. “Liberal institutionalism argues that emphasis should be placed on global governance and international organizations as a way of explaining international relations. Institutionalism places emphasis on the role that common goals play in the international system and the ability of international organizations to get states to cooperate.” (Devitt, 2011, pp. 1-2)

In regards to SAARC, liberal institutionalism provides a theoretical lens to the states like China, India and Pakistan who can benefit only through cooperation and not at the expense of conflicts with each other. The perceived notion of convergence of interests can be boosted by this school of thought.

### **1.8 Organization of Thesis**

The entire thesis is divided into seven chapters. Chapter one includes the introduction aspect of this research. This chapter aims at introducing the research topic and the need of conducting the research itself on the given topic. Further, this chapter also includes the statement of problem. The research problem is a crucial part of research as it identifies the research direction and destination which eventually helps in shaping the entire research. This chapter also includes the limitation or scope of research which is followed by significance of the study. Lastly, it comprises of definitions of key terms which plays an important role in clarifying the key concepts on subject matter of the thesis.

Chapter two comprises of Review of Literature. This chapter helps to provide the enough background information to the previous research so as to clarify the context of proposed research. It sets the stage for discussions on published information.

Chapter three consists of Conceptual Framework and Research Methodology. It also includes the research design. It includes the research question which serves as the foundation of research. The entire research is an attempt on addressing those questions. Similarly, the section of conceptual framework is included to outline on what a researcher will do from starting of the thesis till the final analysis. It includes the method of how to collect the data and analyze those collected data.

Chapter four has dealt with understanding the concept of regionalism in South Asia and the reasons for poor intra-regional trade. It further explores development through connectivity and enhanced regional trade. It implies individual level of analysis for a brief overview on growth rate of individual SAARC states. It also includes hegemonic stability theory and factor of change by analyzing India factor in SAARC. Lastly, this section analyzes maintenance of deterrence and BOP in the region through analysis of Pakistan factor in SAARC.

Chapter five is entitled as CONFLICT VS COOPERATION: ARRIVAL OF EXTRA REGIONAL POWER IN THE REGION. To further explain this situation, it makes analysis of China factor in SAARC as an attempt of South Asia for avoiding “constraint of inefficiency”. Further, it makes a study on connectivity and development. To explore connectivity and development, this chapter will analyze role of BRI for admission of China in SAARC. It further deals with the concept of mutually assured prosperity and common benefits. Lastly, the perspective of neo-liberalism is used to have a brief look at integrated South Asia.

Chapter six includes understanding the institutional frameworks of regionalism. For this purpose, this chapter includes the study on accessing the viability of both BIMSTEC and SAARC. It also includes the lessons to learn from other regional organizations in the globe.

Chapter seven, entitled as summary and conclusion, is the last chapter of this research. It includes a restatement of the research problem, a restatement of the results and a brief discussion on what was found in relationship to the previously conducted research on the same topic. It also provides a precise statement on further implication of this research.

## CHAPTER - II

### REVIEW OF LITERATURE

Literature review is the important aspect of thesis which discusses on the published information, both, written and online, on a given subject area. The literatures that will be taken into consideration during the course of this research are stated further.

Oluwabamidele I. Kogbe (2016) authored a book titled **Rethinking Regionalism** which tries to persuade the academicians and readers of regionalism and international relations to rethink on the ways of study of regionalism. For this purpose, the author has employed four perspectives, historical, spatial, comparative and global. Through this book, the author argues that it is better to transcend the superficial distinction between formal regionalism and informal regionalism. The idea for this thesis is specially derived from Chapter 6, that questions on the foundation of how regional arrangements are made. The author describes six types of regions, namely, 'geographical-ecological', 'cultural or cognitive', 'economic', 'administrative', to 'political' and 'security regions' (Kogbe, 2016, p.98).

Furthermore, the author explains the role of regions in security. His focus is on Africa and draws empirical evidence from the AU, ECOWAS, SADC and IGAD. He also discusses economic and development regionalism which focus on trade, monetary policy and development. (p.126). This thesis has drawn inspiration from this aspect of regionalism and the regional organization on question is SAARC. The author looks forward to a world order in which regions play more active role. An order, that is, plural, complex but global in scope.

**The Emerging dimensions of SAARC** ((Muni, 2010, p. 5) is an edited book published by Journal of South Asian Studies, Singapore. It provides an insight on economic security and strategic dimension of regional cooperation in South Asia. It focuses on the problems being present at the level of implementation rather than on policy formation level. Further, it talks of the role of SAFTA since it's inception and proposes the area of economic arrangement. He further says that "efforts need to be made to initiate processes of financial integration and investment flows. Energy security appears to be both a promising and a challenging task." Chapter 5 of this book focuses on economic dimension of regionalism under SAARC. The chapter entitled "Sub-Regional Cooperation under SAARC: An Economic Analysis" throws light on the efforts of economic integration in SAARC through series of initiatives like South Asia Growth Quadrangle (SAGQ) within the SAARC framework, South Asia Growth Quadrangle (SAGQ) within the SAARC framework and so on. It also talks about other initiatives like 'SAARC PLUS' arrangement, that is, BIMSTEC, ADB assistance for launching SAGQ which helped to determine six priority sectors. These include – transport, energy and power, tourism, environment, trade, investment, and private sector cooperation, and information and communications technology (Munni, 2010, pp.113-131).

In chapter 10, this book talks about 'Role of SAARC Observers: Members' Perspectives.' This chapter deals with the interest of observers which may include both on being or not being the member. Further, he highlights the role of observers by analyzing the perspectives of members in the organization under chapter 11 "Role of SAARC Observers: Observers' Perspective".

Constantino Xavier in his book, **BRIDGING THE BAY OF BENGAL: Toward a Stronger BIMSTEC**(2018) examines on the potential role of BIMSTEC for economic and political cooperation in South Asia. The author also examines the faultlines of BIMSTEC since it's two decades of inception. The major focus of this book lies on the fact that BIMSTEC can come to the rescue of regionalism in South Asia and regions around the Bay of Bengal. Then, the author directs the focus towards strengthening the institution itself prior to strengthening South Asian cooperation and integration. In Chapter 1, sub-section entitled "A Case of Converging Interests" the author has made a detailed comparison of SAARC with BIMSTEC. It argues on the need of bringing BIMSTEC to South Asia's rescue given the SAARC's sub-continental focus unlike BIMSTEC's important role in new neighborhood policy. (Xavier, 2018, p. 11). This book serves as the policy prescription for optimization of organizational functioning of BIMSTEC. To sum it up, the book is an important part of academia that helps to serve as a reference point for comparison of SAARC with BIMSTEC. (Xavier, 2018, p. 19)

Another major contribution in understanding the operational definition of regionalism is done by Andrew Heywood (2011), in his book **Global Politics**. Under Chapter 18 of this book, the author tries to analyze the role of international institution. The rising trend of prioritizing multilateral or regional diplomacy over bilateral diplomacy is the result of success of international organization to gain the benefits of globalization. The changing notion of sovereignty and high importance placed to supranational nature of international organization helps to find the relevancy of regional institutions. Moving forward to other chapters, the book advances to the role of global governance.



Chapter 20, “Regionalism and Global Politics” focuses on what is regionalism and what are the main forms it has taken. Further, the reason for growth in prominence of regionalism, the relationship between globalization and regionalism, significance of European integration has been briefly explained in this chapter. This book can be a reference point for understanding European model of regionalism, particularly EU. This book can serve as a guide to understanding the concept of regionalism and for defining the forms and concepts associated with regional arrangements.

### **Trade in Services in South Asia: Opportunities and Risks of Liberalization**

(2009) is a collection of essays published by SAGE Journal. It explores the opportunities and challenges of liberalization of trade and service in South Asia. It provides an overview on the the market structure of the region along with the regulatory issues defined by GATTs and WTO framework. It can serve as a policy prescription for reform initiatives in matter of South Asian trade. The first chapter tries to make the readers aware that South Asian countries need to adopt a cautious approach to progressive realization of key services under GATTs (p.5). This also helps to bring in limelight the potentiality of trade in service in South Asia. Chapter 9, the article on **Liberalizing Trade in Services: A South Asian Perspective** by Rashmi Banga (2009) helps to explore the prospects of trade liberalization in South Asia (Banga, 2010, P. 225).

**Reinvigorating SAARC India’s Opportunities and Challenges** (2014) is book published by Brookings Institutions which looks at ways of further enhancing existing regional cooperation. The article named China’s Role in SAARC (Madan, 2014) talks of the implications of full membership given that it comes with a veto. The author also elaborated the aspect of cooperation with India. The next article on ‘**Building**

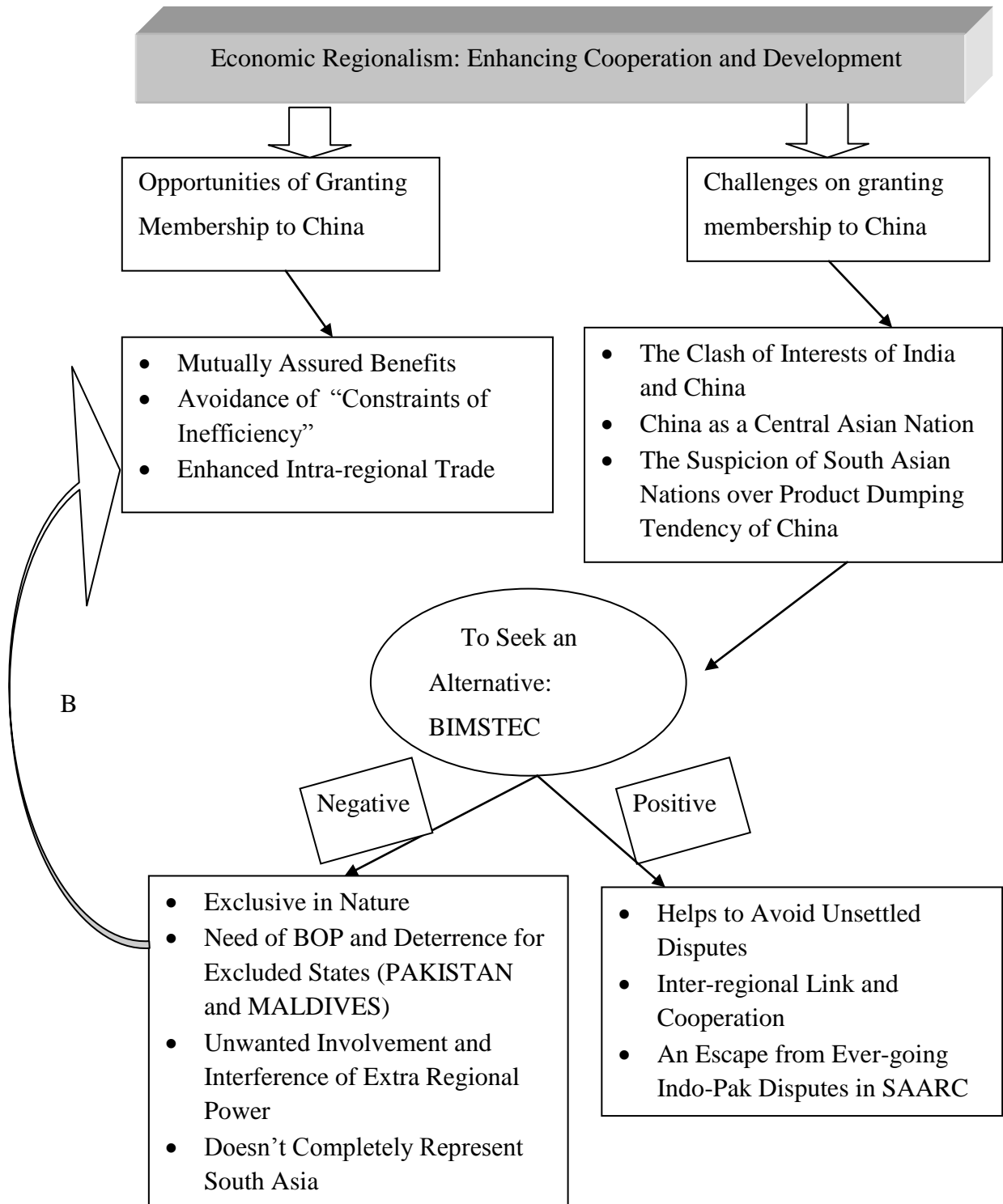
**Infrastructure Collectively'** written by Rahul Tongia talks about benefits of collectively building SAARC infrastructures. The entire volume of this collection of essays on SAARC talks of all the important aspects of SAARC starting from it's opportunities to challenges; the sector specific cooperation and even to the potential cooperation with China after the full membership of China in SAARC.

# CHAPTER-III

## RESEARCH METHODOLOGY

### 3.1 Conceptual Framework

Fig ( i). The Theoretical Framework of the Research



The above mentioned diagram represents the necessity of economic regionalism that helps to enhance cooperation and development. For SAARC, this cooperation can be accelerated with the granting of full membership to China in SAARC. It shows both the opportunities and challenges of granting membership to China. The opportunities that are available are mutually assured benefits, avoidance of “constraints of inefficiency”, enhanced intra-regional trade and so on. Similarly, the challenges of granting membership to China are the clash of interests of India and China, the geographical location of China, the suspicion of South Asian Nations and so on.

Given the challenges, it becomes essential to seek an alternative to SAARC such as BIMSTEC. However, BIMSTEC as an alternative of SAARC also comes with both positive and negative aspects. But the negative aspects are comparatively higher than the positive ones as showed in the above diagram.

Thus given the heavy weight of negative aspects, it seems better to return back to the same idea of granting membership to China instead of looking at BIMSTEC as an alternative to SAARC.

### **3.2 Research Methodology**

The research has been framed around a qualitative method of content-analysis given the theoretical nature of the topic. It centers on the theory of neo-liberalism because the ideas include economic liberalization policies such as privatization, austerity, deregulation, free trade. The major focus will be built around the theory of liberal institutionalism since the research relies on the need of a regional institution for economic cooperation and security. The proponents of liberal institutionalism defy the concept of ‘anarchy’ and rather believe on rule of law,

supremacy of supra-national organizations and role of international institutions for development and cooperation.

The first framework of study has been the comparative approach that is based on comparison of the existing scenario of South Asian trade within the region, the existing attempts of improving trade situations and liberalization of trade and the reasons for poor intra-regional trade within the region. Then, the approach this research follows includes relying on the instances. There are certain instances whereby the alternative institutions are introduced to replace the existing inefficient institutions. The primary study area of this research will be on determining whether to replace the existing institution or to bring about necessary reform through trade and investment. A few examples of those organizations will be cited where the brief comparisons will be made with SAARC.

The major focus will then be shifted to the inclusion of China as a member of SAARC. To conduct research on this topic, a case study will be followed which will analyze the role performed by China since 2005 as an observer of SAARC and its leadership traits in other regional or sub-regional organizations such as ASEAN and SCO.

This research has basically relied upon the method of qualitative content-analysis of the core literatures published in the given topic. The scholarly works on the potential role of China post its admission in SAARC has been thoroughly observed along with the role played by Indian side to include or exclude China's full- membership.

### **3.3 Data Collection and Processing**

The data for this research has been collected through a standard qualitative process of content analysis and primary method of interviewing key informants. The information covered by interviews has been derived through the electronic mails, phone calls, personal interview of the professionals active in academia and civil service.

Also, the required data has been collected through peer reviewed journals and magazines, government publications, international reports and related books. The interviews taken were recorded, noted and included in the research. In relation to the tables and graphs used, they have been included as they were originally cited.

Lastly, given the nature of ever-changing contexts in the field of international relations and diplomacy, the research has utilized the grey literatures such as newspaper articles, several official and unofficial websites and even blogs as required.

## **CHAPTER -IV**

### **REGIONALISM IN SOUTH ASIA AND REASONS FOR POOR**

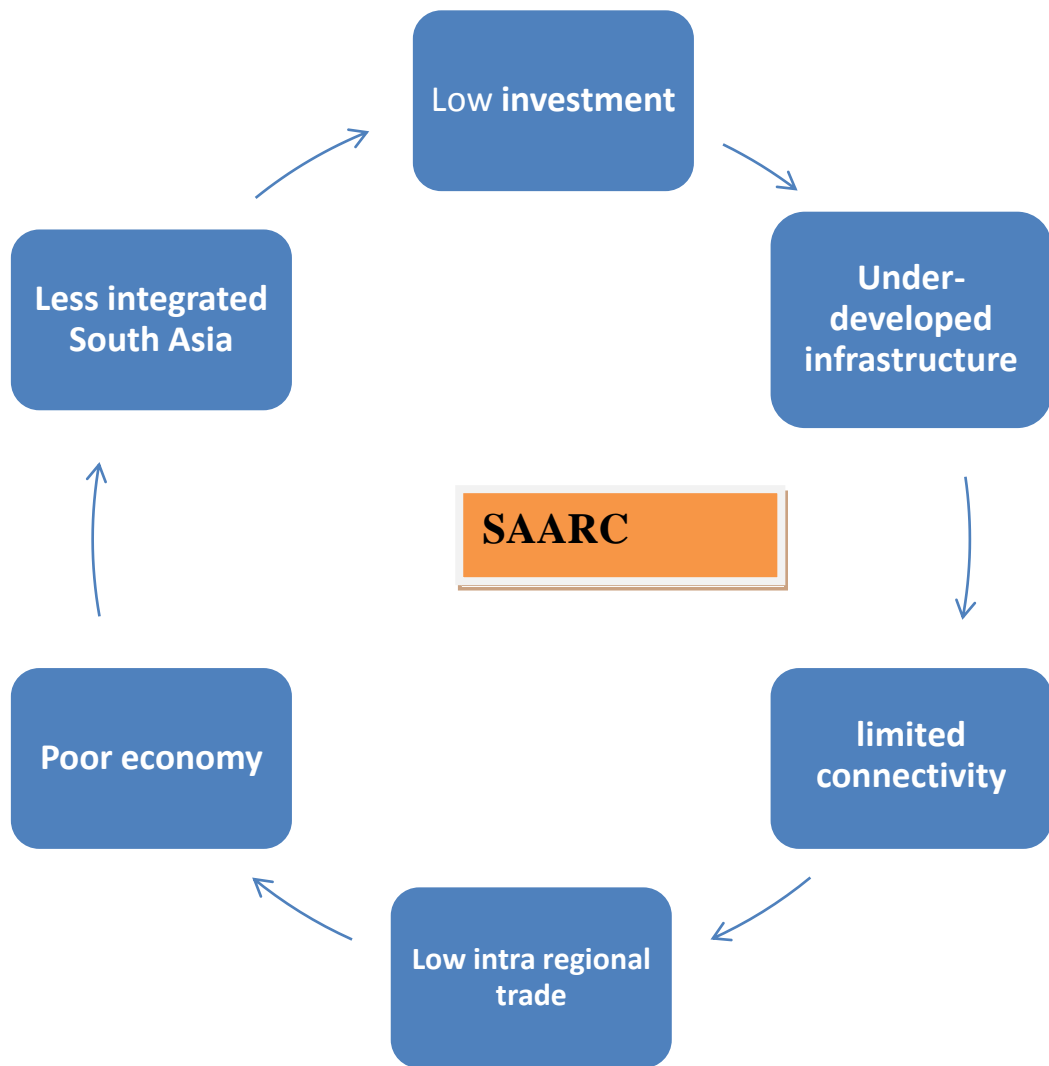
#### **INTRA- REGIONAL TRADE**

##### **4.1 Development through Connectivity and Enhanced Regional Trade**

Poor intra-regional connectivity in this region has its roots from political differences among the member nations of SAARC itself. The inability of India and Pakistan to reach a negotiation (even for highly necessary SAARC summits); the necessity of Nepal, Srilanka and Bangladesh to constantly balance the ties between India and China; common borders with differing interests; the security threats posed by India's lead in SAARC which is often miscommunicated as 'hegemony' of India over South Asia and so on are the prudent reasons affecting this region in its integration process. According to Bhagwati, regionalism is discriminatory in nature and a regional block is a building block if it promotes multilateralism and it is a stumbling block if acts as an obstacle in multilateralism. "Economic regionalism refers to the creation of greater economic opportunities through cooperation among states in the same geographical region. It is the primary form of regional integration, and it has become more so since the advent of so-called 'new' regionalism in the early 1990s" (Heywood, 2011, p. 482). Hence, SAARC has to start working on the issues multilaterally, incorporating the voices and problems of all individual member states to make it a building bloc and not a stumbling bloc in matters of regional trade. The dual-faced nature of member states such as making SAARC a free-trade area for member states but not allowing MFN status to the not-so-close member state makes the integration even more complex." An important issue in intra-regional trade of SAARC countries is the existence of sensitive list which consist of a list of commodities from every country

on which tariff reduction program is not applied.” (Shafiqurrehman, 2015, pp. 95-105) Similarly, a huge amount of illegal trade takes place within the region itself but the formal intra-regional trade accounts for only 6%; the region has closest geographical linkage and short distance between one another but still the region conducts trade activities with the countries in less cost and time that are geographically distant. The chart in (Fig 1.) shows the situation of costlier and more time consuming trade in South Asia.(See Fig 1) “Constrained by poor connectivity among themselves and through India and complex trade-transit rules, the trade costs happen to be exceedingly high for these neighboring countries.’ (Nag, 2017, pp. 78-106). The country has no common currency and doesn’t allow payments in non-convertible currencies. Because of this reason, the countries find it easy to trade in global market instead of regional market. Similarly, unlike EU where there is free movement for twenty-eight countries, the one member state of SAARC doesn’t grant easy visa or movement facilities for business men of another member state of SAARC. For example, the businessmen from India don’t get visa in Pakistan and Pakistani businessmen don’t get visa even for trade in India. SAARC doesn’t make use of a common currency that makes trade easier and less accountable to inflation and deflation of currencies. Common currency also aids in international trade by eliminating some exchange rate uncertainties and currency transaction costs and the exchange rate fluctuations between countries. Hence, absence of common currency in SAARC can be another factor that results to poor intra-regional trade and also a barrier for growth of international trade.

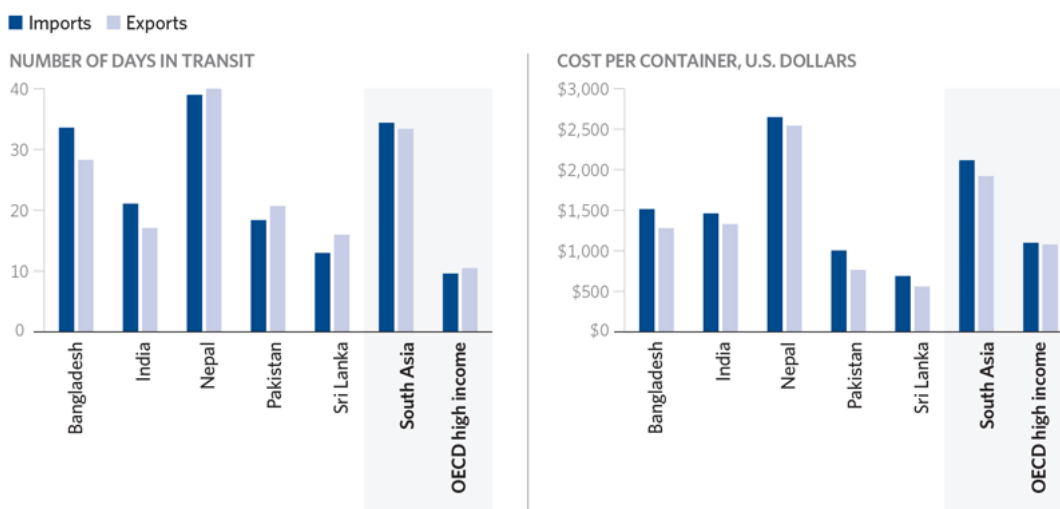




**Fig (ii). Economic cycle for less-integrated South Asia**

CHART 6

### Trading Costlier and More Time-Consuming in South Asia



Sources: The World Bank, "Doing Business 2015: South Asia," <http://www.doingbusiness.org/reports/-/media/GIAWB/Doing%20Business/Documents/Profiles/Regional/DB2015/DB15-South-Asia.pdf> (accessed February 19, 2016), and The World Bank, "Doing Business 2016: South Asia," <http://www.doingbusiness.org/reports/-/media/GIAWB/Doing%20Business/Documents/Profiles/Regional/DB2016/DB16-South-Asia.pdf> (accessed February 3, 2016).

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### **Figure(iii): Trading Costlier and More Time-Consuming in South Asia**

Source: February 19, 2016). *Doing Business 2015: South Asia*. The World Bank. Derived from <http://www.doingbusiness.org/reports//media/GIAWB/Doing%20Business/Documents/Profiles/Regional/DB2015/DB15-South-Asia>

Connectivity barrier also remains as the major hurdle and there is no robust links within SAARC members. For example, there are no direct flights between Kathmandu and Colombo or Kabul and Paro (Kathuria, 2018). The prospect of trade for further integration remains very hopeful in improving the relationship among Pakistan and India in particular. "Trade helps establish trust which leads to more trade, and trust can help deepen regional cooperation and make it more durable.

Hence, if South Asian countries lift man-made barriers, the prospects for economic integration can get stronger.

#### **4.2 On Individual level of Analysis: A Brief Overview on Growth Rate of Individual SAARC States**

Though the growth rate varies from country to country, they are substantial mostly and has stayed quite stable for a long time. Except for Afghanistan, growth rates are relatively strong and stable. India's growth rate has been steadily increasing since second quarter of 2017. The growth rate has risen to 8.2 percent from 5.6 percent. In Bangladesh, the growth rate has reached to 7.9 percent in FY 2017/18. In Maldives, growth is projected to reach 8.0 percent. In Pakistan growth accelerated to 5.8 percent during FY 2017/18, and in Sri Lanka it is projected to reach 3.9 percent this year. In Nepal, growth rate is 6.3 percent last fiscal year and in Bhutan growth rate is decelerating. In Afghanistan, growth rate is lowest and is projected to decrease to 2.4 percent this year. (South Asia Economic Focus, 2018).

In South Asia, growth is strong but is not driven by manufacturing or export oriented growth. The cause for growth in region is domestic consumption within the region.” In Bangladesh, private and government consumption contributed 8.5 percentage points to growth in FY 2017/18, compared to only 3.2 percentage points contributed by investment” (South Asia Economic Focus, 2018). Hence, the recent economic growth in South Asia is led by domestic demand and not by exports. This points at the urgency of reform of trade area for sustainable economic growth.

#### **4.3 On Domination of a Hegemonic Power in Regionalism: India factor in SAARC**

India has long been serving as a pivot of South Asian region and it has the advantage of default leadership in the region since India covers approximately 65 percent of South Asian region, 75 percent of region's population and 78 percent of region's

GDP.(Wapmuk, 2015, p. 1). It is also the central country in the group that has direct link to all other nations and also has a superior position in Indian Ocean. India also shares borders with five member states of SAARC which are Nepal, Pakistan, Bangladesh, Bhutan, Afghanistan. Though India has lately proved itself as one of the fastest growing economies, it has many challenges to match as the next superpower in coming years. The necessity to grow better and faster increases as it's immediate neighbor grows enormously in economic and social terms. Only with a stable South Asia, India can imagine a rise. The major hindrance that demands the change in India's role as a regional leader of SAARC is it's hostility with Pakistan and it's much alleged hegemonic role in SAARC." While India remains a major player in the South Asian affairs – a role that does not seem to be evaporating altogether in the foreseeable future – smaller states of the region are increasingly turning towards China as an emerging and dependable option for closer economic partnership, and thus, attempting to break free of detrimental Indian influence – rather dominance.".

(Shabbir, 2010, p. 12).The political difference between these countries has not allowed SAARC to move forward meaningfully. The hostility grew to an extent that the 19<sup>th</sup> SAARC summit that was supposed to take place at Islamabad, Pakistan did not take place in 2016 following the Uri terror attack. In this stalemate situation, it is better for India to handover the leadership to an actively engaged and powerful observer. Though China does not technically belong to South Asia, it's geographical proximity and active bilateral engagement with South Asian members hints that China is already a strong and powerful influence of South Asia. In bilateral level, China's economic engagement is very high with every South Asian states except Bhutan. China also has been an active observer to SAARC since it gained its observer status in 2005. Also, if China is not allowed membership in SAARC because of it's geography,

Afghanistan doesn't completely belong to South Asia too. It is in South- central Asia and shares border with only one South Asian state, Pakistan. On the other hand, China which is in East Asia shares border with five South Asian nations such as India, Nepal, Bhutan, Afghanistan and Pakistan. Hence, China has a default right to obtain membership in SAARC and engage in development works of South Asia since a stable neighborhood is of utmost importance to all nations in the world.

Given the consideration of system- level analysis of foreign policy, it is in favor of India to welcome the inclusion of China in SAARC. "The system- level analysis of foreign policy suggests that many factors determine the nature of any given system. The systemic factors include its structural characteristics, power relationships, economic realities, and norms of behavior." (Otieno, 2015, p. 99). Hence, the structural characteristics, power relationships, economic realities hint towards the necessary cooperation among China and India in SAARC. Asymmetry between India and SAARC member countries in terms of technical, economic, resource endowment has been a constraint to development of SAARC. Except India and Pakistan, the other member states of SAARC are underdeveloped countries. Few of them are dwindling in extreme poverty and Afghanistan is even known as the haven for terrorism. This asymmetry has led to the informal leadership of India which is often termed as Indian domination in SAARC. However, it's not just India that wants to influence South Asia. China is also aggressively working towards increasing influence in South Asia. The recent Doklam stand-off between India and China shows how both countries are eager to regain their age old competition in South Asia.(Raza, 2017, pp.3-7).

#### **4.4 On Maintaining Deterrence and BOP in the Region: Pakistan Factor in SAARC**

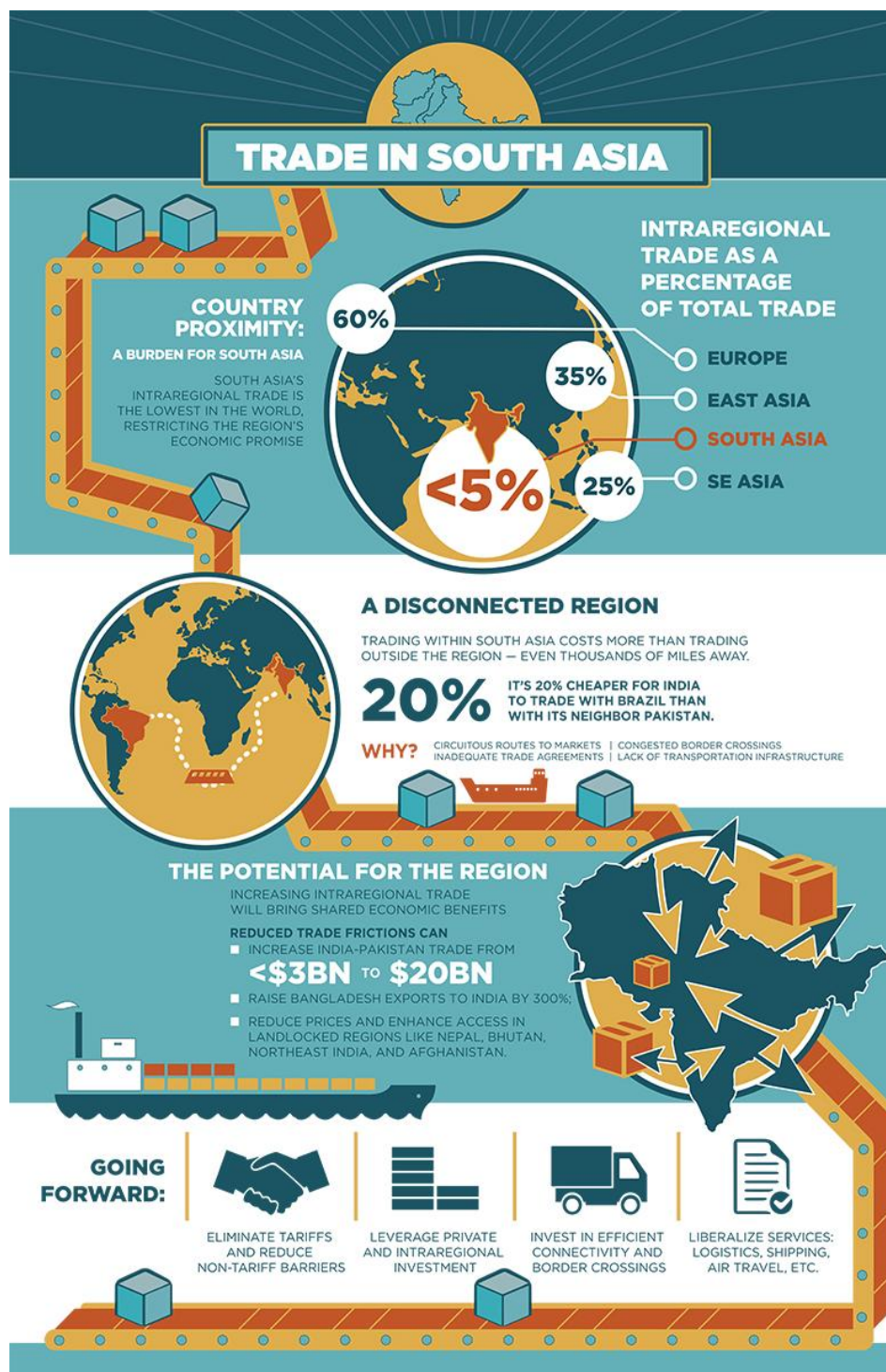
Pakistan is one of the founding members of SAARC that initiated the inception of this regional organization. The expectation of fulfilling its foreign policy aims with different countries in the region, especially with India was the major drive behind establishing this organization. However, with the passing of time, the differing interests of both countries proved to be the reason behind inefficient functioning of SAARC.

Pakistan is keen on helping China get the membership status in SAARC to avoid the Indian dominance in the region. Pakistan is known as an all weather ally of China and it is expected that China can play the role of an arbitrator to create dialogues between India and Pakistan in matters of SAARC. China and Pakistan established a diplomatic relation in 1951 and since then they share cordial relation. China has even provided diplomatic assistance to Pakistan during Indo-Pak war in 1965 and 1971. After US imposed sanction on Pakistan in 1990, China provided assistance in the form of arms and ammunitions to Pakistan and became Pakistan's chief arms supplier. For China, the strategic objective to this friendship with Pakistan in the past was to check and balance Pakistan's intimacy with US and to create deterrent effect on India. Pakistan served as a point of contact between US and China when Nixon visited China on recommendation of Henry Kissinger to ease the strained relationship. The dynamics of Sino-Pak friendship has changed from merely strategic to economic. The China-Pakistan Economic Corridor (CPEC), a \$ project is an example of Sino-Pak relation that has transcended to a whole new level. It looks after connectivity, transport, energy, infrastructure and many other factors of economic development. The critics

on international relations assume CPEC as a founding stone for China's strong presence in South Asia.

India's engagement with US is suspected by Pakistan as a military and economic support to balance China in the region. Meanwhile, with Pakistan's and China's engagement, there seems to be a rise on Pakistan's economic and military might. Hence, two different unnamed blocs and alliance 'Indo-US' and 'Sino-Pak' are formed in South Asia with involvement of two powerful extra-regional countries. Talking about Pakistan's expectation from China in South Asia, it expects greater commitment from China in bringing peace in Afghanistan and in reducing India's influence in the region. Hence, Islamabad is a lynchpin of Beijing's Strategy since Pakistan is an important element of China's Asian dream. "Beijing's broad South Asia policy is centered on both the economic rationale of increasing regional connectivity with South Asian countries and the strategic interest of countering Indian influence in Asia. (Raza, 2017, pp. 3-7).

Pakistan also serves as an important aspect of SAARC since it is a strong nuclear power and is the second highest donor in SAARC after India. Except Pakistan, all other SAARC states are somehow dominated in the region by India and given their structural and military scarcity, cannot drive away from Indian dominance.



**Fig (iv):The Potential of Intra-regional Trade for South Asia**

Source: The World Bank Report (2016), “The Potential of Intra-regional Trade for South Asia”. Retrieved from <http://www.worldbank.org/en/news/infographic/2016/05/24/the-potential-of-intra-regional-trade-for-south-asia>



## CHAPTER-V

### CONFLICT VS COOPERATION: ARRIVAL OF EXTRA-REGIONAL POWER IN THE REGION

#### 5.1 China in SAARC: An Attempt of Avoiding “Constraint of Inefficiency”

Being a poor region, South Asia cannot develop each and every aspect of its economy on its own. It needs to cooperate with other extra-regional powers or observers for rapid change in economic growth. The added support in terms of capital, technology, education from more developed and experienced country is of utmost importance. China offered donation to South Asian Development Fund and to run China- South Asia business forum. Before China changes its mind and searches for individual or bilateral engagements with South Asian states over regional, SAARC needs to take advantage of this opportunity at hand.

In a 13<sup>th</sup> summit of SAARC held in Dhaka (2005), China was accorded the observer status of SAARC for the first time. The South Asian countries such as Pakistan and Nepal were actively advocating the need of China's entry in SAARC. For example, Nepal supported China's 'observer status' in SAARC and would veto Afghanistan's entry if not done so. 'Several Chinese have cited geographical contiguity, trade and political interactions, historical links to the region as the basis for the membership desire in the SAARC.' (Kondapalli, 2014). It attended four summits so far. Along with attaining the observer status, it also proposed to contribute US\$ 300,000 to the SAARC Development Fund. 'The China-South Asia Business Forum' was established in 2004 with the initial meeting focusing on "Communication, Cooperation, Development and Mutual Benefits" in December that year at Kunming.' (Kondapalli,

2014, p. 1). Since the time of its entry as an observer, China has been actively expanding its influence among the member states of SAARC both bilaterally or through several trilateral cooperation. In December 1991, a regional seminar entitled “China in South Asia- South Asia in China” was organized in Srilanka. In that seminar, the foreign affairs experts from respective member states of SAARC proposed their ideas on China’s membership in SAARC. Although the regional leader of SAARC, India, tried to oppose the entry of China in SAARC even as an observer, the continuous reiteration of Pakistan on including China in SAARC for regional security made India welcome this huge Asian giant with not-so- open arms. Another major reason as experts considers is India’s advocacy on giving membership to Afghanistan despite of Pakistan’s condemn and concerns. On the grounds of reciprocity, India was forced to respect Pakistan’s choice, too.

## **5.2 On Connectivity and Development: Role of BRI for Admission of China in SAARC**

Although huge potential for greater economic integration and gains from trade exists, lack of basic transport-transit connectivity, technical harmonization and non-tariff barriers leads to illegal trades and high trade costs within the region. As a common Chinese belief suggests, “If you want to develop a place, develop the roads first.’ Here, road refers to connectivity. The recent Belt and Road Initiative (BRI) project that aims to deal with global connectivity is often condemned by West as an ambitious and highly strategic project. Due to this, China has even gained the new tagline i.e.; New East-Asian Company. To erase these mistrusts and prove the potentiality of China in making world a global market through global connectivity, China can use the platform of SAARC. (Madan, 2014). SAARC is more popular for

it's failure rather than for it's success stories. If China takes this advantage on hand and can cooperate or lead this organization to a better future, SAARC can be a hallmark of China's initiated connectivity projects." China has become either the chief architect of a few regional organizations such as the Shanghai Cooperation Organization (SCO), or has tried to bracket itself with existing organizations as an observer or dialogue partner as is the case with the Asia-Pacific Economic Cooperation (APEC) and ASEAN Regional Forum (ARF). In this process, affiliation with SAARC may be seen as the latest success of the PRC's regional strategy". (Jagannath P. Panda, 2010).

Furthermore, it can help India and China to clear up their grudges and mistrusts regarding China's BRI which has not been signed by India for some reasons. It is because SAARC can serve as a common platform where both India and China can jointly build infrastructures and reap the trade benefit that follows. This success can increase the willingness of India to work with China in further similar projects. Even though China does not get vocal about how important India's entry in BRI is to China, it is no hidden fact that one of the growing Asian powers that is a home of billion of population is of huge need for success of China's most talked about project- BRI. On the sides of India, it looks plausible to doubt the intentions of China's megaproject (BRI) because of reasons such as Kashmir issues in China- Pakistan Economic corridor (CPEC); no visible immediate benefits of BRI (the returns are visible only after a long term); India's strategy on putting forward other important agendas in exchange of support for BRI; the push given by other world leaders such as USA, Japan and so on in support of India's denial to immediate acceptance of BRI. Keeping all these reasons aside, another major reason can be India's heart-wrenching experience of colonialization by British Empire. The British also entered India for

trade and ended up seizing its independence and sovereignty, making it a colony of Britain. The unwillingness of India to sign the BRI may be because of the same experience from history. Hence, China can make the best use of SAARC to clear the mistrusts and India also may cooperate with China so that the Chinese intention on (growing the neighborhood prosperous while being self-benefitted) seems visible to its Indian counterparts. SAARC is relatively a less ambitious project for China as compared to BRI since China has already been in SAARC in one way or the other. Hence, for the betterment of both countries and South Asia as a whole, both India and China must join hands and clear up the dusts of SAARC. The massive political turmoil also may get reduced to a huge extent if China is granted membership in SAARC. It is because the major issue i.e.; security issues of countries such as Pakistan and Srilanka can be removed since they won't be left out by remaining SAARC member states in quest of another regional organization such as BIMSTEC. The future of more integrated economy of SAARC looks promising since the South Asian nations had robust trade and cultural ties even before the establishment of European common market in 1958. This instance shows that if South Asia can join hands again to fight the common problems and find their common interests, SAARC can be an ideal example of integrated economic zone. "But, if we think of the region as overwhelmingly youthful, charged with vitality and a can-do mentality, well-integrated into the global economy thanks to its large diaspora, brilliantly positioned between the energy rich West Asia and the manufacturing hub of East and South-East Asia, and fully committed to inclusive developmental goals, then South Asia can be the region of the future." (Tripathi, 2014, pp. 280-288).

Initially, Chinese foreign policy focused on North East Asia and South East Asia but in recent days South Asia is gaining enormous concern. It is because as India began to

look eastward, China began to look southward to counter India's interest. The huge market that South Asia has can be strategically important for a country like China that produces a huge quantity of industrial goods and is looking for connectivity and trade throughout the world. The immediate neighbor i.e.; South Asia can be easy, huge and nearest trading partner to China. (Chandran, 2016, p. 25). Also, China shares common border with many South Asian countries such as Nepal, India, Bhutan, Afghanistan and Pakistan. Another factor is the strategic geographical location of South Asia itself. China's two disputed regions – Tibet and Xinjiang has connections with South Asia and it's natural resources can be a potential hub for extraction of raw materials.

The ambitious belt and road initiative requires China to advocate on cooperation with 'developing world' and under-developed world concurrently. SAARC has most underdeveloped states in it along with a developing country i.e. India. Through this institution, China can show it's traits of a good natural leader and can also be an example of efficient multilateral practices in regional and sub-regional level. China's involvement in ASEAN, Asia-Pacific Economic Cooperation (APEC) and the success stories of these forums hint the success of SAARC through China's involvement in it. Also, it can connect well in a bilateral level since countries of SAARC and China have many common grounds. The best example can be China and Bangladesh ties where they can make best use of abundant natural resource of Bangladesh and infrastructural heavy weight of China. Similarly, Bhutan and China's autonomous province Tibet shares traditional linkage in term of both spiritual and cultural perspective. Nepal, India and China are strong advocates of peaceful coexistence (Panchaseel). Panchaseel, the concept that West considers foreign policy of inefficient and ineffective countries can be changed through collective advocacy in SAARC. Besides, it can correct the strained relationship and build new contacts. For

example, China has hostilities with India and Bhutan is the single country in South Asia that does not have diplomatic ties with PRC. China can balance the Western influence or the alleged domination of India in South Asia since it has the upper hand in being the most powerful country with geographical proximity in South Asia. This proximity and the image of China that depicts the infrastructural and financial capability of China can not only help SAARC but can benefit China too since it can build strong alliances with each individual South Asian member state. Among all other observer members, China has the higher potentiality of being a full fledged member of SAARC also because of its intimate bilateral ties with India's all time enemy and China's all-time ally, Pakistan.

### **5.3 Mutually Assured Prosperity: Common Benefits**

China and South Asia combined represents almost 12 percent of the world area, 26 percent of armed forces and three of world's recognized nuclear powers. Together with China, SAARC can be a strong multilateral organization and both China and SAARC can have win-win situation in world politics.

As professor Zeng Xiangyu of Institute of South Asian Studies (ISAS) has mentioned in one of his lectures at ISAS, China can learn the art of naval diplomacy from India because China is far lagged behind in this regard." The commencement of new techniques such as port visits on frequent basis, joint exercises on preserving and promoting the natural resources of the ocean, controlling piracy and illegal smugglings should be conducted. Similarly, the programs on disaster relief and humanitarian assistance should be frequently checked and implemented along with the active supervision of naval police/ constabulary force to reduce the crimes and misuse of the ocean." By far, joint naval exercises have been conducted between

India and China only twice in 2005 and 2006 respectively. Hence, the inclusive and comprehensive efforts on conducting the naval diplomacy should be the prime focus of India and China rather than working individually and sarcastically on each other's project such as China's 21<sup>st</sup> Century Maritime Silk Route and India's projects- project Mausam, Cotton route, Spice route and Sagarmala.

Meanwhile, both China and India have huge interests in Indian Ocean and several initiatives have been taken by India's side to further reap the benefits. The aforementioned Indian projects are the most celebrated and talked about projects of India and China on regards of Indian Ocean. For example, Project Spice Route connects 31 countries such as China, East and South Asian countries, some Middle East countries and so on. The planned international conference on this project included the ambassadors from China, Korea, Japan, Singapore, Oman, Russia, Srilanka, Brazil and so on. Some renowned online journals such as 'The Diplomat, 2014' created sensations in this initiation with headlines such as 'Project Mausam: India's Answer to China's Maritime Silk'. Other Medias and online portals also added fuel on other initiations with headlines like "India's cotton route to counter China's silk route? ". All these developments points out that Indian Ocean is of vital importance not only to India and China but also to rest of the countries adjoining Indian Ocean routes.

However, China needs to work actively on security issues in this region for it's future endeavors in gaining benefits from this region which requires an active engagement of it's South Asian region. "There are serious security threats to China in the Indian Ocean region like piracy, terrorism, drug and material trafficking, and weapons of mass destruction. Ensuring security for Chinese interests in the Indian Ocean is

facilitated by close coordination with the South Asian countries.” (Surendra Kumar, December 2015, pp. 299-311) So, before any third country takes advantage of the tussle among these two Asian giants, they should focus on cooperation rather than on confrontations. A network of cross-regional cooperation must be built towards the shared interest or shared destiny. If done so, South Asia can be the biggest beneficiary of this cooperation. However, both India and China should keep their superiority on bay and realize that “Oceans are the common heritage of mankind.” So, both should come forward with some proposals on maritime case ( for each other, not against each other) so that South Asia can develop inclusively and peacefully following the pace of development of India and China. India should take advantage of China’s bargaining power in world stage and China should take advantage of active communication and appealing power of India. It is because active communication with rest of the world is needed to draw the attention of international audience so that all of the regions connecting Indian Ocean can build a network of shared peace and prosperity. Further, if analyzed from China’s benefit side, South Asian region can be an alternative route to maintain energy supply of China if the major route “Malacca Strait “ is hindered in near future given the fact that South China Sea is highly contentious lately and China needs to think of an alternative quickly.

#### **5.4 A Look at Integrated South Asia: The Perspective of Neo-Liberalism**

The 18<sup>h</sup> SAARC Summit was held at Kathmandu in 2014 and in that summit the motto was “Deeper Integration for Peace and Prosperity”. The summit pointed out certain areas for integration such as linking major Buddhist nations through “Buddha Cultural Marg”, signing the SAARC energy (electricity) agreement in order to trade electricity within member states; removing the threshold in SAARC FOOD BANK



agreement; focusing on developing the BLUE economy among the member states and to ease the visa granting process. It also proposed to make a South Asian Economic Union (SAEU) in SAARC within next 15 years. Although all these proposals have been discussed, none of them has actually been implemented till date since the inter-state conflicts of member states didn't let any of the proposal function properly.

The exclusion of contentious issues from SAARC charter also serves as a hindrance to the integration of SAARC. The charter itself has self-imposed rules on not to discuss the bilateral and contentious disputes. This ambiguous charter has made the functioning of SAARC difficult given the fact that SAARC states share geographical boundaries and are closely inter-linked with each other. Therefore, it remains necessary to come together to discuss the bilateral issues which is often in the form of refugee issues and border disputes. Had SAARC charter not mentioned this provision, the political conflicts could be solved through mediation and negotiation which would lead to integrated SAARC.

Further, South Asian countries have some common features like cheap labor, low incomes, low value added commodities and comparative advantage in same commodities like tea and garments etc . The intra- regional trade cannot be successful in such conditions where the trade and economic structure and infrastructure is similar. (Shaheen, 2013, pp. 01-09)

## **CHAPTER-VI**

### **THE INSTITUTIONAL FRAMEWORKS: ACCESSING THE VIABILITY OF BIMSTEC AND SAARC**

#### **6.1 An Overview on BIMSTEC**

The inability of SAARC countries to reach a consensus to bring South Asian nations together to forge a condition of peace and stability led to the abrupt rise of BIMSTEC activities. India, being rampantly active in conducting BIMSTEC summits and bringing it in total use lately after the 19<sup>th</sup> SAARC summit was postponed shows the interest of pushing forward BIMSTEC as an alternative to SAARC. The critics also consider BIMSTEC as a solid response to SINO-PAK coordinated CPEC and terror activities of Pakistan. However, some also view BIMSTEC as India initiated tactics to assure ASEAN states of it's commitment towards Look East Policy while still maintaining its influence on South Asia.

BIMSTEC is a group of seven nations, five from south Asia and two from East Asia. BIMSTEC is an acronym of Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation. It was established with Bangkok Declaration on 6<sup>th</sup> June 1997. This group was originally known as BIST-EC when only four founding members Bangladesh, India, Srilanka and Thailand were present. Later as Myanmar, Nepal and Bhutan also joined the group, it was changed as BIMSTEC.

The Bay of Bengal is considered as the largest bay in the world and has a huge demographic vantage. This superiority makes it urgent to restructure the Bay's economic, demographic and security structure so that whole of Asia and global community as a whole can take the advantage. It is also well- known for it's abundant

natural resources like reserve of minerals and gas, especially oil. The Bay's water also contains large fishing stock. The bay also carries a significant position in trade flow such as one-fourth of world's traded goods cross the Bay of Bengal every year. Alongside, it is also a strategic funnel to Malacca Strait. The two reigning Asian Giants, India and China, have huge benefits to reap from this bay as it can be an access to India Ocean for China and a source of exploring naval opportunities for India.

BIMSTEC comes as an economic promise to its South Asian members as it has the potential of gaining the status of key maritime hub in global terms. Looking back, Bay of Bengal was one of the most integrated regions of the world. The cooperation slowly drifted apart in 1950s as India chose protectionism and autarky in the initial cold war years whereas Thailand chose liberal economy, collaboration with US and membership of SEATO. This divided attention left this region volatile to various threats that involve both economic and physical security, especially the transnational threats. The bay hosts various non-traditional threats like narcotics, human trafficking and refugee issues. The Rohingya Muslims of Myanmar and Bhutanese refugee of Bhutan are few highly talked about refugee case in the world. Also, connectivity has remained highly controversial challenge in BIMSTEC. The least open borders of India and Myanmar also indicates towards this challenge. To cite an example, even the world's hostile neighbors North Korea and South Korea trade more with each other compared to India –Myanmar. (Xavier, 2018). By far, Thailand has taken the initiative for forwarding draft concept paper for a BIMSTEC Master plan for Connectivity. Out of 166 infrastructure projects, thirty five projects were identified for road connectivity, 12 projects for railways and 9 projects for air and maritime connectivity. The emphasized connectivity projects can prove beneficial for electricity

deficient states such as Bangladesh and Myanmar and landlocked nations such as Nepal and Bhutan.

There are notable problems in BIMSTEC that might undervalue its potential achievements in the region. One of which are the irregular and inconsistent summits. By far, only four summits have been held in past 20 years of its establishment though it was scheduled to hold summits every 2 years. Besides summits, it was scheduled to hold Ministerial meetings every year and meetings of Senior Officials twice a year. However, no ministerial meeting was held between 2014 to 2017 and senior Official's meeting was postponed for seven years between 2014 and 2017. The permanent secretariat which is often considered as the backbone of any organization was established only in the year 2014. It is of vital importance to delegate greater autonomy to the secretariat. Also, the representatives sent hold very limited authority to make a decision. For example, Senior Official's meetings often include the participation of joint secretaries or director generals who lack authority to make relevant decisions. The foreign ministries of member states must also consider making a separate cell directed towards BIMSTEC or empower the existing ones. It is also important to delegate more power, status and reputation to the Secretary. It has very limited funding, limited staff and resources. The funds of BIMSTEC are barely enough to facilitate any innovative or existing project. The available fund can hardly serve the important bureaucratic purpose like salaries to staffs and other institutional costs. Though the pay-scale revision was recently done, the salary of Director Generals and Secretary of BIMSTEC is still less than two-third of its SAARC counterparts. The number of staff also has to be increased. It is run by less than 10 people including only 3 directors. On the other hand, SAARC has almost 50 staffs including 8 directors. The Secretary should also focus on recruiting experts and

researchers in the committee to bring new and innovative ideas for cooperation. It may be better off with the establishment of internal think tanks like that of World Bank and IMF.

The attempts for an integrated Bay of Bengal region through BIMSTEC in economic terms started as early as in 2004 via adoption of BIMSTEC Free Trade Area (FTA) framework. In the same year, first meeting of Trade Negotiation Committee (TNC) was also held. Another attempt was tried in 2009 through BIMSTEC Transport Infrastructure and Logistic Study, prepared by Asian Development Bank (ADB). All these attempts could not guarantee the successful economic integration in the region and even after 20 years of its establishment, it still remains as one of the least integrated regions in the world. The new agendas to strengthening BIMSTEC include a renewed commitment on holding the summits regularly so that BIMSTEC can finally be re-installed as a successful multilateral organization. This zeal was somehow evident in the 'de-facto Summit' held in 2016 at Goa named as BRICS-BIMSTEC outreach summit led by the initiation of India as problems began to sprout in holding SAARC Summits. This instance indicates the attempt of replacing or overshadowing SAARC from the picture of South Asian integration through regional organization. To quote former BIMSTEC Secretary General Sumith Nakandala "we are not reinventing the wheel" but just "rediscovering the common heritage around the Bay of Bengal." (Xavier, 2018, p. 7)

By far, it was not only in the Indian interest to reinvent BIMSTEC. Other countries of the region also started relying on BIMSTEC to outdo the failure of SAARC. For example, Srilanka expected BIMSTEC to help them to connect with South-East Asia and serve as the sub-continent's hub for wider Indian Ocean and Pacific regions. For

Nepal and Bhutan, BIMSTEC is an escape from their geographical landlocked-ness since it may help them create a stronger maritime link between their Himalayan hinterlands. For India, it helps them formulate it's latest preferred foreign policy of 'Neighborhood First' and 'Look East Policy'. The SAARC member countries which are also a member of BIMSTEC have started to prioritize BIMSTEC over SAARC since they see SAARC as merely a sub-continent organization. Through BIMSTEC the desire of it's member states, such as, India's Act East policy, Thailand's Look West strategy, Nepal's search for a coastal connection can be made possible.

Moreover, the BRI project of China that is often alleged to be over ambitious and obscure by the Western counterparts can also be the reason for the immediate re-vitalization of BIMSTEC. BRI aims to connect South, Central and South-East Asia for access to Indian Ocean via Myanmar, Bangladesh and Srilanka. The best response to counter this by Indian- counterparts can be by redirecting the faith of these countries towards pre- existent institution namely BIMSTEC. This way, it can halt the inclination of these South Asian countries towards BRI while gaining to explore the potentialities of Indo-Pacific cooperation. To realize this possibility India has by far invested in the projects like Sagarmala and Bharatmala and has increased it's support to the ADB. It has also been pushing for the new mandate in IORA – Indian Ocean Rim Association. It has also pushed forward the sub-regional organization named BBIN in 2013 which includes four of it's BIMSTEC members.

The complexity regarding the geographical limitation of the region is also controversial. Srilanka refers Malaysia and Indonesia as "Bay of Bengal nations." Also the extra regional nations such as US, Japan, Australia are also interested in BIMSTEC. However, the thought of expansion of the membership has to be

postponed and the focus should be directed towards internal consolidation. Rather it should reach out to assistance of other international institutions such as ADB, regional institution such as BRICS, AIIB, BCIM and even BRI if member countries can reach to a consensus.

SAARC is often referred as a 'sinking ship' 'missed opportunities' for two major reasons. One is the inability to solve the political conflicts between India and Pakistan and next being the notable low amount of intra regional trade. The critics of SAARC who view BIMSTEC as an alternative to SAARC often miss out on the fact that even BIMSTEC is significantly low in terms of intra regional trade. Between 2002 and 2014, the intra regional trade among BIMSTEC regions rose from 3.6 percent to 4.3 percent while it's 7 percent among SAARC nations. It would be logical to look for BIMSTEC as an alternative to SAARC for economic integration if BIMSTEC trade was doing well like 29% among ASEAN states. Even for India, the informal leader of BIMSTEC states, the import-export ratio is very little, namely, only 7 percent of total exports and 2 percent of total imports. (Xavier, 2018, p. 26)

Like SAFTA, BIMSTEC FTA which was established to liberalize trade among BIMSTEC states also could not create any notable impact and led to sheer disappointments. As a ray of hope, it renewed it's focus on reviving negotiations on FTA in 2016. However, the failed twenty rounds of talk by BIMSTEC's Trade Negotiation Committee in 2015 has hinted towards the difficulty in integrating the region economically. This tension is somehow similar to the tensions of SAARC. Sri Lankan analyst Saman Kelegama says 'BIMSTEC should not have high hopes on an FTA coming into operation. Indications are that it will drag on for a long time.' In this situation, more emphasis should be given to trade facilitation via liberal transit,

business-friendly customs, transport corridors, etc. Such a process will partly address some of the non-tariff barriers in the region and catalyze trade. ‘ (Xavier, 2018, p. 27)

Given the drawbacks, only way BIMSTEC is different from SAARC in terms of economic integration is BIMSTEC’s capability of being a ‘blue economy zone’ that advances maritime and naval possibilities, the possibilities of gaining more market via it’s East Asian counterparts and non-inclusion of Pakistan and India in the same forum. The idea of envisioning a stable South Asia through BIMSTEC seems like an irony since it can only grow suspicions among the neglected and left out South Asian states which may lead to violent clashes. It won’t be wrong to assume the interference of extra regional powers, proxy wars, alliance formation and blocs which is to some extent similar to Cold War tactics.

To conclude, instead of seeing BIMSTEC as a competitive force, it should be looked upon as complementary effort towards a peaceful South Asia. It can help SAARC boost further by acting as a bridge to ASEAN, focusing on key sector specific areas and enriching South Asia with maritime and naval opportunities. Anything further than these possibilities are merely hypothetical since anxious Pakistan and neighbor China won’t welcome BIMSTEC with open hands in determining South Asia’s future. Alongside, the security dilemma has already been witnessed as Nepal refused to participate in the joint- military exercise during the 4<sup>th</sup> BIMSTEC Summit held in Kathmandu. Nepal refused this in order to avoid agitating it’s immediate powerful neighbor, China. Also, the refugee problem between Bangladesh and Myanmar may act as a seed to hostile partners in BIMSTEC making it conflict prone within the organization itself. Further, the spike in maritime criminal activities hints towards the possible insecurity. It hints at South Asia being badly exposed to narcotics and drugs.



It may end up making South Asia and the Bay region a hub for illegal smuggling since the region of Bay of Bengal is well known as world's largest Opium producing areas.

## **6.2 On Replacing SAARC with BIMSTEC: Myth or Reality?**

Before BIMSTEC is envisioned as a viable alternative of SAARC, it is necessary to look at the stumbling blocs of this organization. The major organizational hurdle is the limited authority and limited staffs delegated to the BIMSTEC Secretariat. As long as the administrative aspect of this organization is not strengthened, a stronger BIMSTEC cannot be bridged contrary to what many scholars suggest, it is far from practical to envision BIMSTEC as an alternative to SAARC. It can rather be a complementary effort than a competitive force. The major truth is BIMSTEC can never be a pure regional organization unless it accommodates all the members of region such as Pakistan, Afghanistan and Maldives. These left out states might grow insecure and form a new clout with other nations who are desperately waiting for engagement in South Asia such as China or Japan or even United States. The most prominent example of this security-threat in terms of forming alliance or organization can be of WARSAW PACT. As NATO began its eastward expansion, USSR grew anxious and created an organization called WARSAW PACT which defined the cold war dichotomy of institutionalized Cold WAR. Further, these two different clouts may clash against each other leading to a conflict-ridden South Asia instead of cooperating South Asia. Also, technically speaking BIMSTEC is a quasi-regional organization and not a regional organization.

### **6.3 Institutional Framework: Lessons to Learn from Other Regional Organization**

Various regional organizations were established over time for various purposes such as North Atlantic Treaty Organization (NATO) for security purpose, Organization of African Union (OAU) for political purposes and Organization of Petroleum Exporting Countries (OPEC) for economic purposes. However, the most successful of all was European Economic Community (EEC). It united the political deadlock through economic cooperation over coal and steel that helped for both reconstruction and development of war-torn Europe.” The emerging concept of the supranational, regional macroeconomic core, wherein sovereign nation-state based economies elect to join a regional compact, toward mapping a common economic space onto a common geographic space, well defined by a map-of –the world view of the region amounts to the increasing importance of regionalism.”(Elgar, 1999, p. 3)

In South East Asia, the wave of regionalism began in 1967 A.D with the establishment of Association of South East Association Nations. Asia has widely experienced several Regional Trade Agreements (RTA’s) especially in East, South and South East Asia. ASEAN has come a long way after its inception as a regional organization. “Over time, ASEAN developed informal diplomatic mechanisms to manage their bilateral tensions. While tensions continue to flare up between neighbors, ASEAN states appear to have successfully avoided the outbreak of armed conflict between states in the region.” (Sinha, 2010, para.3) . However, SAARC has not been able to update its record of integration both in terms of security and economy. The reason behind success of ASEAN Free Trade Agreement (AFTA) is

ASEAN member countries are collectively determined to reduce tariff on intra ASEAN trade in the goods sector.

Intra-ASEAN trade has been consistently increasing over the years from US\$81.98 billion in 1993 (Sinha, 2010, p. 1) . AFTA focuses on competitive production base for producing goods for both global and regional markets. Also, the role of great power interventions especially, US has been vital in determining the efficient functioning of AFTA since ASEAN has been an important economic partner for the United States. On the contrary, SAFTA has been able to prove efficient because of the bilateral conflicts within the member states itself. The problem exists from creating trade barriers to providing MFN status to selective member states only. Further the ban of travel visa even for business purpose makes SAFTA inefficient in integrating SAARC economically. Alongside, SAARC experiences a huge trade deficit in global trade which has to be reduced by boosting exports.

Moving on to regional organization of North America (NAFTA), the trump administration has created certain tensions by triggering economic nationalism through the racial and xenophobic sentiment of the region. This made a significant impact on the organization demanding the renegotiations and even withdrawal. NAFTA has been serving as a factor of economic, social and security opportunities in North American region with members like Mexico, Canada and US. For past 23 years, it has served as an ideal founding stone of regionalism. But the latest developments like Trump administration's plans on building walls on Mexico, travel bans, cutting budgets to NAFTA has questioned the very foundation of 'regionalism' itself. Accompanied by the failure of SAARC and the problems sprouting in European

regionalism through BREXIT has posed serious questions on the success of regionalism as a whole.

In such a challenging scenario to regionalism, it is urgent to bring about serious reforms in the regional organizations itself. While Europe and North America are also struggling with an efficient regional set up, South Asia should also bring about necessary reforms to its decade long existing regional institution, SAARC. NAFTA is looking for policy reforms, South Asia should learn the lessons too. ” NAFTA should be modernized, including by incorporating electronic commerce and digital trade, eliminating existing barriers to trade in agriculture, and updating the “draconian” rules of origin governing trade in autos.”. (Devitt, 2011, pp. 1-10). This reform and economic cooperation in South Asia through this regional organization named SAARC would help to deliver a much stronger South Asian economic platform, more robust economic performance and the ability to compete with rest of the regions around the globe.

## **CHAPTER-VII**

### **ON EXPLORING THE HIDDEN POTENTIALITIES: THE WAY FORWARD**

The research problem stated in this research is the situation of ineffective trade policies regarding intra-regional trade in SAARC. The major objective of this research is to examine how involvement of China as a full member of SAARC can bring about the necessary economic reforms. To analyze the aspect of investment, this research has looked at China's investment through the "Big Push Model" propounded by Paul Rosenstein Rodan. This model suggests 'the underdeveloped countries require huge investments to embark on the path of economic development from their present state of backwardness. A 'bit-by-bit' investment program won't impact the growth as much as is required by developing countries.' Small amount of investments injected is merely wastage of time and resources and needs a heavy pumping of investments for a change or growth. The recent situation of South Asia shows that a big push for SAARC is only possible when China enters SAARC; injects in it and asks other interested countries to do so. SAARC can follow the "Big Push Model" since countries like Afghanistan, Bangladesh and Bhutan are still known by world as one of the worst places to start and develop a business. South Asia is struggling with the political conflicts, infrastructural shortage, inadequate supply of electricity (power-cuts in industries), lack of proper connectivity facilities (mainly transportation), lack of pilot/model industrial districts, vulnerability to environmental hazards, underdeveloped eco-friendly technologies etc. All these factors are responsible for unappealing texture of SAARC countries to international investments. However, some of the member states such as Nepal, Srilanka, Maldives are trying to

make their countries investment friendly. Being peculiar, Nepal Tourism Board and Nepal Investment Board of Nepal are working hard in establishing the image of Nepal as investment friendly country. To add further advantages, Nepal has recently announced entire districts of Nepal as ‘Load-shedding free’ districts in May month of the year 2018. (The Himalayan Times, 2018). Nepal has adopted new constitution and has somehow stable political situation. The remaining underdeveloped countries of South Asia should also take such initiatives as of Nepal to attract investments in South Asia. When the investment is pumped in heavily, China can take the infrastructural lead to develop infrastructures projects massively in South Asia.

Furthermore, another aspect for formulating effective trade cooperation in SAARC is role of China and India to serve in their respective preferential and potential areas. China has already demonstrated it’s capability in innovations and technology by creating several high-tech zones in different parts of the country. The best example is it’s innovations in developing it’s own ‘Chips’, hardware, machineries, medicines and so on rather than importing from other countries. In search of developing a self-fulfilling economy, China has already established several High-Tech zones in major cities of China such as Beijing, Chengdu, Shanghai and so on. Similarly, the regional superiority of India in Research and Development is shown by instances such as launching of the SAARC space satellites under the leadership of Indian Space Research organization ( ISRO). Among all other infrastructures, connectivity (Road and railway) has to be kept on top of priority list. The joint endeavors of India and China in Research and Development (R &D) can then massively be practiced and the allocation of abundant natural resources can be utilized efficiently for trade purposes. This step can be a major breakthrough towards economic integration of SAARC. (Abbas, 2014, p. 1)

The initiation of sound South Asian integration starts with China- South Asia relationship. However, the areas of cooperation need to be determined. The task of deciding on the areas of cooperation first and producing goods that are affordable to poor South Asian people can be done so that the domestic trade improves and region can have growth in ( Per Capita Income (PCI) , Gross Domestic Product (GDP) and Gross National Product (GNP).

The focus can be generated on areas such as trade, technology, investment and finance. Though intra regional trade is very low in this region, there are countries like Nepal which are highly dependent on bilateral trade with a single country of South Asia i.e. India. “Another bedeviling issue is that given the size and stage of economic advancement of the larger economy there is hardly any scope for cooperation on equal basis.” (Bastiampillai, 1996, pp. 220-227). Given this scenario, Nepal displays the largest dependence on intra-regional trade and this trade is exclusively with India. This heavy dependence can sometimes lead to gaining forceful concessions of internal matters of the country. Hence, the country with heavy dependence on another single country has to reach out to it's another immediate neighbor and focus on regional trade to break the vicious cycle of dependency. On the contrary, India is least dependent on intra-regional trade because world market is too large compared to regional market. The low intra-regional trade can be explained by the theory of comparative advantage by David Ricardo. The theory of comparative advantage suggests that nations should utilize it's scarce resources properly and produce the goods after evaluating the tradeoffs between the goods. Then, it should specialize in that particular product and trade with each other. David Ricardo (1772–1823) of the law or principle of comparative advantage revealed that every nation could gain in absolute terms from free trade and from an international division of labor based on

territorial specialization. The whole notion of comparative advantage revolves around creating gains from specialization and exchange. (Gilpin, 2001, pp. 203-206). SAARC countries are labor intensive economies, similar in terms of resource endowments such as jute, cotton, textile, and hydropower and so on. This situation shows that intra-regional trade in SAARC is more competitive rather than complementary in nature. Also, all the countries are heavily dependent on foreign aid and assistance as a result of which they prefer doing businesses out of the region to build relationships through trade (even though very minimal export and huge import). The qualitative goods produced here are also exported to developed nations since the poor South Asians cannot afford the price.

The solution to this problematic situation of South Asian trade can be to give priority on goods that are affordable to poor South Asian countries. Doing so, the domestic market in South Asia can flourish and the living standard of the region is also improved. The labors can afford the goods they produce and the necessity of importing cheap goods also reduces. Eventually, the living standard of the country increases and also the increment in PCI (Per Capita Income) is noticed. "The region's comparative advantage is going to lie in the production of relatively simple consumer goods, an effective market for them must be ensured. This helps in diverting purchasing power to the relatively poorer segments of the population. Success of SAARC in this direction is clearly linked to an egalitarian development policy in the region". (Rahman, 1991). This way, region can generate money for investment in infrastructures. Then, China can help to build the favorable infrastructures, export its steel and cement for the construction purpose and enhance their economy together. This way, the research has analyzed the infrastructural upper hand of China.



Similarly, another milestone for effective intra-regional trade in SAARC includes 'divide and distribute' rule. First, the area of specialization is decided on the basis of available infrastructures among the member states and then respective work is assigned. For instance, South Asia has abundant natural resources and the textile industry can generate it's space and flourish eventually. The raw materials exported by South Asian countries have to actually pass through various stages of fabrication and processing. In this divide and distribute policy, the works are divided such as letting one country specialize in one phase of fabrication of products (example, cotton, jute) and let another country specialize in another stage of fabrication. In a long run, when the countries have well developed infrastructures, this process of fabrication can be done on the basis of rotation so that every country can experience trade gains equally.

The research also analyzes the economic security aspect of SAARC and on how to attract investments. One major hurdle to the regional trade of South Asia is lack of investments. To overcome this barrier, the countries should actively demand loans from Asian Development Bank (ADB) and Asian Infrastructure and Investment Bank (AIIB). But unless a potential trade is noticed, ADB or AIIB does not pass loan easily. That's where China's membership can play a huge role. China's membership in SAARC can provide the sense of financial security and assurance to major Asian development partners such as ADB and AIIB. This assurance is only possible after China gets full membership in SAARC. China's status as a member of SAARC provides implied guarantee to the development banks regarding trust factor in South Asian loans and investments. On one hand, China's experience of building infrastructures can help SAARC with the facilitation of necessary infrastructures and this will lead to increased trade flow. After a substantive change in increasing volume

of trade flow is noticed, China and India collectively can request funds and assistance from ADB or AIIB. This helps in adding a sense of economic security to vulnerable and poor South Asian nations.

Another major finding is trade diversification. Though nature has bestowed South Asia with enormous water resources, the management is very poor. So, the countries like India and China can cooperate in water management while allocating the textile fabrication part to rest of the SAARC member nations. This way, trade diversification is possible and the conflicts regarding competition for export of similar kind of products can be reduced.

Besides these core ideas on deeper economic integration of South Asia, some other minute but highly necessary areas have been taken into consideration such as investing in capacity building, opening up of common South Asian research institute along with China in it, creation and frequent updation of regional statistic database for frequent monitoring of trade activities and then finally providing schemes to give good incentives to countries that prioritizes regional trade. Hence, intra-regional trade can flourish and expand resulting a higher gain from cooperation in trade.

## CHAPTER VIII

### DISCUSSIONS AND CONCLUSION

Though South Asia has a very fragile regional institution (SAARC) which has lately been ineffective due to their desire for few selfish gains, South Asia has upper hand in terms of resources- both human and natural. The much anticipated Asian century, with the rise of huge Asian giants India and China can be of another supreme advantage to SAARC. But for Asian Century to be actually possible, both of these giants must stop confronting each other and collaborate in sectors that can yield maximum gains for both of them. This paper suggests the collective gains through cooperation in Indian Ocean and BRI, and the platform for this cooperation can be SAARC.

This paper concentrates on SAARC and not on creation of a new, active South Asian organization because it's not possible to incorporate India, Pakistan and all other South Asian nations together in an institution anymore because of the growing Indo-Pak hostilities. Both countries, share a common threat i.e.; to avoid the Thucydides trap mentioned as a metaphor by Thucydides in the book 'Peloponnesian War'. Thucydides trap suggests that when a new super power is rising, the existing superpower tries to halt it's rise in many ways. This trap has to be avoided by both China and India. Since, they share the common threats and common destiny; it is in their interest to cooperate with each other. Plus, if China and India get into this trap, all the remaining South Asian nations also have to be indirect or direct victim of major power confrontations. These are the challenges to SAARC nations and India and China to be precise.

Talking of the challenges for granting membership to China in SAARC, India's rejection and denial plays the crucial role. India denies the admission of China in SAARC on the ground of China being the country of Central Asia. Also, India fears on losing its alleged hegemony in South Asia after another powerful member joins the club. However, the opportunities are more as compared to challenges.

The opportunities of granting membership to China in SAARC include the development of infrastructures, financial security and investment opportunities from major Asian development banks such as ADB and AIIB. It also comes along with huge investment from China, cooperation between India and China in political matters resulting from economic interdependence. Similarly, SAARC can solve its Indo-Pak issues related with holding Summits and pushing new agendas due to its probable role as an active mediator. In recent international politics, multilateral arrangements are prioritized because of the multipolar nature of world order. In this world order, power is distributed in many countries of many regions. Hence, a stable region can increase the strength and bargaining capacity of the country. Here, well educated, trained and English speaking population is required to deal with rest of the world, new policy reforms have to be introduced and political stability in the region must be checked and balanced.

The main reason for dysfunctioning of SAARC is lack of economic integration and extreme stalemates between member states. Hence, a properly functioning economic zone has to be made and new areas have to be focused such as green technology, international tourism, grassroots trades with easy visa access within member nations, active promotion of South Asian foreign policy i.e.; Peaceful coexistence, search for textile and hydropower prosperity and so on. History is evident that when countries

unite to fight a same cause, a deep integration is possible. For South Asia, the cause is poverty, non-traditional security threats and the platform is SAARC.

Though several criticisms on the debated membership of China in SAARC are talked about, China has geographical vantage to be a member of SAARC. Most importantly, South Asia needs China today more than any other country in the world. China can play the crucial role for economic cooperation in South Asia being as a potential member. Two major reasons are, it's proximity with India's all time enemy, Pakistan and China's infrastructural upper hand. The constant on and off fight between India and Pakistan has made SAARC suffer a lot and it's time for China to be the icebreaker. If the countries still engage in the border disputes in which they have been engaging for 50 years and more, Asia can never rise as expected. Another major reason is China's supremacy in infrastructure building. The geography and landscapes of South Asia demands a quick fixture of natural barriers and requires connectivity. In an age where mountains are no longer a barrier for nuclear attacks, why is it still a barrier for constructing roads and enhancing connectivity? Therefore, India and China should take the initiation, keep the political turmoil aside and focus on economic integration. The first step for an integrated economy can be creating South Asia as a free movement zone. Most of the South Asian nations already have a porous border making it easier for illegal trade and smugglings. Now the borders have to be made accessible for formal trade and investments have to be attracted. The investments can bring in technology in South Asia as spillover effects of MNCS and FDI. After it attains technological heavyweight, both of the giants can take lead in SAARC on the basis of rotation. This way, peaceful coexistence-the foreign policy of South Asia, can actually be possible, the giants will rise and will take along their neighbors too.

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## **APPENDIX A: THE QUESTIONNAIRE FOR THE RESEARCH**

1. Why is India reluctant to welcome China as a full-fledged member of SAARC despite China's keen interest and active role in SAARC as an observer since 2005? Do you think India is afraid of losing its so-called hegemony and dominance in South Asia after China's entry?
2. Why is intra-regional trade considerably very low in SAARC even though it was established three decades ago? What is your opinion on trade being more costlier and time consuming within South Asian states even though the region is geographically continuous and short distance-wise?
3. What are the major factors that act as the barrier to high intra-regional trade within SAARC member states?
4. Why is poor-intra regional trade still a backlash to SAARC in spite of several attempts of trade liberalization such as SAPTA, SAFTA and granting of MFN status?
5. How far behind is economic integration in SAARC as compared to other regional arrangements such as EU, USCMA (United States-Mexico-Canada Agreement), ECOWAS and so on?
6. Why is SAARC+1 (China) a better deal for South Asia instead of BIMSTEC-1 (Pakistan)?
7. Is BIMSTEC a complementary effort or a competitive force in relation to SAARC?
8. Is it possible to create an Economic Union in SAARC in order to facilitate the provisions like same currency, free movement without visa across SAARC countries and a common market?

9. Do you consider Article X of SAARC Charter, that is, (bilateral and contentious issues shall be excluded from the deliberations) as responsible for hindrance to cooperation in SAARC?
10. What are the lessons to be learnt from other regional arrangements that are performing well? What are the suggestions and recommendations for an integrated South Asia?