Preface: regional integration for shared prosperity in South Asia

When social and geographic distances between parts of a region are relatively large, transport costs sufficiently high, and connectivity between places thus relatively low, or institutional differences sufficiently strong, the different parts of a regional economy evolve fairly independently (Essletzichler and Rigby, 2010). Economic gaps between the parts are large and persistent, and may even grow if one or several of the parts of the region experience economic transformations, and become more integrated into the world economy. Economic integration has the highest transformative effect and thus economic impact in the lagging and peripheral areas of the region. When economic integration transforms the region and spreads new infrastructures, institutions and approaches that lower frictions, and alleviate coordination and information failures, the benefits from stronger regional cooperation and integration tend to be highest for the peripheral regions and in this case for the poor in South Asia. This book advances debates about why, how and when regional cooperation and integration efforts and measures are best undertaken.

This book is unusual because the chapters were started under the South Asian Association for Regional Cooperation (SAARC) ‘Track Two’ process, where civil society feeds back its insights into the SAARC government regional integration decisions (the government decision process is considered ‘Track One’). The main contents of all chapters in this book were presented to a pre-summit SAARC audience in October 2011. It is expected that this dual track approach strengthens the regional cooperation and integration process with increased political will supported by civil society, and with better and more diverse policy options and more complete information flow between the two tracks. Civil society involvement and increasing buy-in very importantly can help overcome the very significant “trust deficit” among South Asian state actors. This book then actively contributes to the dialogue and flow of ideas and policy options between the two tracks, and the beginning of the book is devoted to the issue and how this can be done best and better.

According to Desai (2010), it is important and necessary, for regional cooperation and integration in order to strengthen and become more and
more successful, to address effectively two other deficits in the region: the “institutional capacity deficit” and the perceived “trade account deficit”.

Infrastructure, institutional and “softer” aspects of regional cooperation and integration go hand in hand, in producing high levels of economic benefits across the region. Very often the institutional aspects are disregarded in favor of the infrastructure aspect in their role for successful regional economic integration. Building “functional” institutions and “facilitating” institutions aimed at key sector progress in South Asia is a priority (ADB, 2010). While there is one overarching institution leading South Asian regional economic integration, with mixed results as debated in this book, there are only two functional institutions (the Bay of Bengal Programme Inter-Governmental Organization and South Asia Cooperative Environment Programme). An example of a regional facilitating institution is the newly established South Asian Association for Regional Cooperation (SAARC) Development Fund. In the energy sector, an intergovernmental framework agreement on energy cooperation facilitates a phased development of a regional energy market. A South Asia Utility Forum and a South Asia Power Exchange could be established as functional and facilitating institutions in this respect.

To address the perceived trade account deficit especially in the smaller, less-developed country (LDC) economies in South Asia, it is very necessary to upgrade and diversify the supply and sector structures in these economies. The second and third parts of this book focus on this aspect. The global economy is composed of a relatively large number of supply capabilities, and most more sophisticated traded products and services require a relatively large number of capabilities, according to Hausmann and Hidalgo (2010). Regional economic integration can build capability platforms especially for the smaller economies in South Asia, and this will lead to greater trade diversity, and to greater intra-regional trade for the common benefit. Trade facilitation programs and policies on a regional platform can ease trade constraints, which expands opportunities and markets, essential elements for regionally more balanced growth and poverty reduction. Chapters in these parts of the book document the many barriers and impediments to doing business together and the costs to job creation and poverty reduction. The studies demonstrate the importance of greater trade facilitation efforts respecting both the goods and service sectors.

Under Track Two, civil society is heavily involved in debates about the distribution of benefits from trade integration under the South Asia Free Trade Area (SAFTA) agreement. A number of studies using different approaches and models have evaluated where the gains and losses from trade integration would occur. Most if not all serious studies support
the proposition that regional trade integration benefits the region as a whole, and that all countries gain, although to different degrees. It is very clear that SAFTA is only a tepid beginning in broader economic integration among South Asian economies, and that most of the benefits from regional trade integration are still to be realized.

As illustrated by the SAFTA, regional cooperation and integration in South Asia continues to progress but it must be accelerated. Success stories at the sector level will serve as building blocks for further regional cooperation and integration. A virtuous circle should result, whereby success facilitates yet more success. Research and policy work in support of this must be deepened and expanded, and the institutional links between Track One and Track Two strengthened. Participation by civil society is vital, for ultimately it sets the pace at which the region can proceed with regional cooperation initiatives.

Regional public goods (climate change impact, food security, energy security and so on) require strong “regionalism”. In the fourth part this book considers regional public goods, and how governments in the region can meet the challenge of taking the required collective action that leads to adequate or even optimal provisioning. One step among others in this direction is to forge agreements among the governments that specific regional public goods should be provided, and on how this will be done. Technical cooperation for specific regional public goods, is another step towards a more structured provision of regional public goods. For such an approach to regional economic integration to take root, it is important that regional economic integration is strengthened via the Track Two approach.

This book draws selectively from the range of papers which were supported with ADB’s regional technical assistance in support of South Asian policy think-tanks. Those think-tanks, and their contributions on the key regional integration and cooperation topics, are central to the SAARC Track Two process functioning as intended. In selecting the chapters the editors rely on the peer review process under technical assistance, as it indicates quality of contribution and relevance to the regional integration process and to debates in South Asia. The technical assistance itself relied on a peer review process undertaken by an international economist plus an ADB economist, and two heads of think-tanks.

In sum, and as per the above overview, the book is organized into four parts. Part I features contributions that highlight the role of civil society in the regional cooperation and integration process, the strengths and weaknesses of civil society’s involvement in the regional cooperation and integration process. Part II is about economic integration of industries. In the market, industries that produce across borders and the region do
co-evolve along production chains. Part III deals with economic trade integration, and emphasizes the services sector by looking at regional energy markets, air services markets, and at trade facilitation including services more generally. A Pakistan country example highlights barriers to services trade in South Asia, and what primary policy conclusions can be drawn for the evolution of SAFTA. What countries and regions export, or are able to export in the future, matters a great deal for regional economic development and growth in income. Part IV looks at regional public goods as options and opportunities for cooperation, including climate change adaptation, food security and labor market integration. Benefits from such cooperation are estimated to be immense.

Greater regional cooperation and integration offers immense opportunities for SAARC member countries. Asia is experiencing a transformation in how business is conducted, resulting in increased specialization and cross-border production networks. Private sector interests are leading the way and the region needs to ensure that it has the appropriate infrastructure and policies that enable this transformation. Inclusive and sustainable rapid growth is conditional on continued reduction of impediments to doing business together.

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REFERENCES