

## **THE EUROPEAN UNION: A MODEL FOR REGIONAL INTEGRATION IN SOUTH ASIA?**

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### **Introduction**

Two major trends have profoundly influenced the development of transnational relationships in the latter half of the 20<sup>th</sup> century: regionalization and globalization. Regionalization, a phenomenon now evident in all continents and encompassing most nations, exhibits differing manifestations which are determined by a complex spectrum of political, economic, institutional, technological and social considerations in the states concerned. All regional movements share quintessentially identical objectives, namely to reap the multifaceted benefits – economic, social and political among others - which regionalism brings in its wake.

The concept of regionalism has also been on the South Asian political agenda for years and culminated in the creation of the South Asian Association for Regional Cooperation (SAARC) in 1985. However, whereas other regions have witnessed consistent and substantive expansion in their levels of integration over time, progress in South Asia has been disappointingly slow and has yet to cross the rudimentary stage. In today's dynamic global environment, South Asian states, already ranked amongst the poorest and socio-economically most underdeveloped in the world, stand to be marginalized further. Seen in this context, a comprehensive and profound regional integration process offers the South Asian states potentially very beneficial multidimensional developmental opportunities which must be earnestly considered.

### **Objectives of this paper**

This paper's objective is to examine the salient issues concerning an integrative process in South Asia roughly on the patterns of integration in the European Union. It consists of three parts:

1. Discussion of the European Union's evolution from its humble post World War II origins to the powerful cohesive regional entity it has evolved into today as well as the level of integration which member states have now attained.
2. Discussion of some major potential benefits and consequences (economic, social, political) ensuing from a South Asian integration process as well as the existing hurdles to, and the prerequisites for such a process.
3. A brief review of some policy recommendations on facilitating the integration process in South Asia.

### **The European Union: A success story in regional integration?**

*The European Union: Evolution of a powerful regional alliance*

The European Union (EU) is basically the culmination of an almost 50 year long systematic integrative process aimed at bringing western European nations into a common fold after decades of bitter rivalry which resulted in two devastating world wars in the last century. It traces its origins to a French initiative in 1950 to place the erstwhile adversaries - France's and Germany's coal and steel output - both symbols of war - under independent administration. In 1951, France and Germany formed the European Coal and Steel Community which Italy and the Benelux states also joined. In March 1957 in Rome, the six partner states signed two treaties providing for the establishment of the European Atomic Energy Agency and, more importantly, a European Economic Community (EEC) which, inter alia, envisaged the creation of a regional market (comprising the contracting states) through the elimination of trade barriers. Subsequently, over the period 1958 - 70, customs duties and quantitative import restrictions in the community were virtually abolished which resulted in a rapid growth in

trade within the Community. In 1973, Denmark, Ireland and Great Britain joined the Community, followed by Greece (1981), Portugal (1986) and Spain (1986). In 1986, the Community adopted the Single European Act providing for the creation of a unified regional market by January 1993. In February 1992, the Maastricht Treaty on the creation of the EU was signed. The landmark Treaty broadened the scope of the primarily economic-oriented cooperation between EU states, adding defence and foreign policy, law enforcement and legal matters as fields of cooperation. In 1995, Austria, Finland and Sweden joined the EU. In 1997, the Treaty of Amsterdam was signed. This Treaty, subsequently ratified by all EU member states and in effect since May 1999, incorporates a number of improvements over Maastricht and is the current contractual base for all activities, programmes, measures and initiatives implemented in the EU framework.

### **The European Union: Aims and objectives, agenda, institutional structures**

The Treaty of Amsterdam incorporates the text of two EU framework treaties (European Union, European Community) – and several supplementary declarations and protocols:

The Treaty on the European Union states the EU's fundamental objectives and guiding principles and specifies the level of cooperation between EU member states in the fields of foreign and defence policy (the EU's "second pillar"), as well as cooperation in law enforcement and legal matters (the EU's "third pillar"). The EU's multifaceted objectives (Art. 2) – taking into consideration the cardinal principle of subsidiarity – are, inter alia, the promotion of economic and social progress and pursuit of a balanced, sustainable development through the creation of an economic and monetary space, the promotion of Europe's interests

at the global level through a common foreign and defence policy<sup>1</sup> and a common defence force, increased protection of the rights of EU citizens and the creation of a space of freedom, security and law<sup>2</sup> through cooperation in law enforcement and legal matters and in a manner which deters crime while concurrently guaranteeing freedom of movement in a Europe without frontiers. The EU's guiding principles (Art. 6) are observance of freedom, democracy, human and civil rights, rule of law and the national identity of its member states. The Treaty gives due consideration to institutional aspects.

The Treaty on the European Community (the EU's "first pillar") has evolved from the Treaty of the European Economic Community (Rome, 1957). This predominately economic-oriented Treaty incorporates a comprehensive and complex set of provisions pertaining to cooperation and integration between the Economic Community's (i.e. EU's) member states.<sup>3</sup> Article 2 states the European Community's (EC's) multifarious objectives, given the creation of an economic and monetary space and pursuit of policy convergence in diverse fields as, the promotion of a harmonious, balanced and sustainable economic development, high employment levels, competitiveness and sustained non-inflationary growth, improved standard of living, gender equality, social and environmental protection and enhanced solidarity between the member states.

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<sup>1</sup> See Title V (Art. 11-28) of the *Treaty on the European Union*. The text of the Treaty is given (in German) in: Laufer, Thomas (ed.): *Vertrag von Amsterdam*, Bundeszentrale für Politische Bildung, Bonn, 1999.

<sup>2</sup> See Title VI (Art. 29-42) of the Treaty on the European Union.

<sup>3</sup> Cooperation between EU member states in the framework of this Treaty differs qualitatively from initiatives and measures pursued in the second pillar (foreign and defence policy) and third pillar (law enforcement and legal penal affairs). Both are presently undertaken purely on the basis of 'inter-governmental cooperation', namely, they are handled by the EU member states' governments on the basis of mutual consent and not left to the discretion of the EU's organs. For the text of the Treaty see footnote 1.

The latter Treaty's salient features, for the purpose of this paper, are five-fold:<sup>4</sup>

- a) *Single market*: The creation and consolidation of a single market is a major Community objective. This single market (Art. 23 – 31) comprises a customs union in which custom and other duties and quantitative restrictions on merchandise trade between Community states have been abolished and a common import tariff schedule viz-a-viz non-member states adopted. A quintessential element of the single market is the mobility of labour (Art. 39 – 42), services (Art. 49 – 55) and capital (Art. 56 – 60) in the Community. For instance, labour can migrate from Community member state A to B in pursuit of employment without being subjected to administrative or regulative discriminations and a citizen of A can offer his/her services in market B under the same conditions and standards applicable to citizens of B. All restrictions on the movement of capital between the member states are prohibited, although temporary restrictions can be imposed in the event of a crisis situation afflicting the Community or a particular member state.
- b) *Coordination of economic and monetary policy*: A key prerequisite for the smooth functioning of the single market is the coordination of EU member states economic (Art. 98 – 104) and monetary (Art. 105 – 124) policies. The Treaty considers member states' economic policies, based on free market and competition as a matter of common interest and entrusts the Council of Ministers and the European Commission (see below) the responsibility for monitoring economic trends. Member states must avoid amassing excessively large public deficits; failure to implement remedial measures may result in penalization. In the monetary sphere, the Treaty emphasises

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<sup>4</sup> There are some other important aspects dealt with by the treaty, for example, links between the EU and other states/regions but these are not so relevant when the South Asian context is subsequently discussed and have hence been omitted from the analysis.

price stability and provides for the creation of an independent European Central Bank having, inter alia, the prerogative to issue directives and binding decisions and sanction fines and, in cooperation with the EU member states' central banks to manage the region's financial system, including monetary policy and printing of currency. The Bank has extensive consultative functions. The Treaty also provides for the formation of a committee to monitor and report on financial trends in the region and a European Monetary Institute entrusted with numerous functions aimed at smoothing the process of monetary integration. Furthermore, it contains provisions in favour of member states experiencing financial crises and specifies convergence criteria imperative for member states' participation in monetary union.

- c) *Common policy framework*: A common policy framework in specific economic and non-economic fields is another sine qua non for an effective single market. The treaty contains numerous provisions for mutual cooperation, policy coordination, harmonization rules, regulations and procedures, joint programmes, initiatives and measures and so forth spanning the following spheres: agriculture (Art. 32 – 38), transport (Art. 70 – 80), market competition, tax matters and harmonization of regulations (Art. 81 – 97), employment (Art. 125 – 130), external trade (Art. 131 – 134), customs (Art. 135), social policy, general and specialised education and youth (Art. 136 – 150), culture (Art. 151), health (Art. 152), consumer protection (Art. 153), trans-European infrastructural linkages (Art. 154 – 156), industry (Art. 157), integration of economically disadvantaged regions<sup>5</sup> (Art. 158 – 162), research and technological development (Art. 163 – 173), environment (Art. 174 – 176), cooperation with developing states (Art. 177 – 181) and the association accords with external states and territories (Art. 182 – 188).

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<sup>5</sup> For this purpose the EU has set up various funds, for example, for agriculture, employment, trans-European infrastructural linkages and the environment.

- d) *Social mobility*: Promoting interaction between the peoples of the Community has long been deemed an essential element in an enduring and meaningful European integration process. Article 18 grants citizens of one member state the right to reside in any other member state. European Union citizenship supplements national citizenship (Art. 17) and, citizens of a Community state residing in another Community state are entitled to vote in the host state's local government elections as well as elections to the European Parliament (Art.19). The Treaty, moreover, contains several specific provisions (Art. 61 – 69) associated with the dismantling of travel restrictions within the Community pertaining to asylum and refugees, visas, immigration and legal cooperation.
- e) *Institutional framework*: The Community has evolved an elaborate institutional framework comprising several organs vested with substantive mandates. The most important of these is the *Council of Ministers* (Art. 202 – 210) which, inter alia, is responsible for determining the Community's policy goals, coordinating member states' treaty-relevant national policies and handling eventual conflict situations. The Council consists of the ministers of the 15 EU states; the technical nature of issues under discussion at a Council meeting determines the type of minister attending, who is accountable to his/her parliament and people. The Council possesses the authority to issue directives, guidelines and decisions which are unconditionally binding on member states.

The *European Commission* (Art. 211 – 219) consists of 20 representatives drawn from all EU member states and acting in an independent capacity. The Commission is responsible for overseeing the smooth functioning and development of the single market through the enforcement of directives, guidelines and decisions, exercise of the authority delegated to it by the Council, submission of recommendations or positions, decision-making and

assistance to the Council of Ministers and European Parliament. The Commission is responsible for the conceptualization and execution of policy in certain spheres, for example, agriculture, regional development, research and technological development, and cooperation with non-EU member states. At its initiative, the process leading to the issuance of directives, guidelines and decisions is set in motion.

The 626 member *European Parliament* (Art. 189 – 201) is elected by the 400 million citizens of the EU-member states. In effect the world's largest multinational parliament, its mandate has progressively expanded over time. Originally vested solely with consultative powers, its consent is now indispensable for the issuance of directives and guidelines as well as decisions<sup>6</sup>. Furthermore, it has budgetary powers. Any citizen or legal subject of the an EU-member state can petition the parliament. A citizens' commissioner investigates complaints referred to the Parliament.

The *European Court of Justice* (Art. 220 – 245) is responsible for reserving judgement on disputes arising from the Treaty's application, for example, in the event of a violation of treaty provisions by a member state, inter-state disputes and disputes with the Community's employees. Its judgement is binding. The Court oversees the legality of joint Parliament and Council initiatives, the actions of the Council, Commission, European Central Bank and Parliament, and handles complaints filed by member states and EU organs. Citizens and legal subjects can also file complaints at the Court if they are affected by Community decisions.

The *Committee of the Regions* (Art. 263 – 265) is a recent addition to the EU's institutional framework. This 222-member Committee has a consultative function only applying to matters concerning the interests of the regions and localities in the EU area

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<sup>6</sup> The procedure is seemingly quite complex. See Art. 251 & 252.

- not necessarily confined within national borders - whose interests could not be adequately taken into consideration. Its existence is consistent with the principle of subsidiarity to which the EU is committed.

Other major organs include the *Committee on Economic and Social Affairs* (Art. 257 – 262), which has a consultative function and represents various economic and social interest groups in the EU, the *European Audit Office* (Art. 246 – 248) which is responsible for scrutinizing the income and expenditures of the EU and its institutions, publicising its reports and assisting the Council and Parliament in controlling the Community's budget implementation, and the *European Investment Bank* (Art. 266 – 267) whose function is to facilitate the smooth functioning of the single market through loans and guarantees for less developed regions, for industrial modernization and job creation schemes and for certain programmes concerning member states.

### **Is the European Union a viable role model for regional Integration in South Asia?**

#### **Prerequisites**

Addressing the fundamental question - can the European Union serve as a model for future integration in South Asia? – the answer, in this author's opinion, is a *conditional affirmative*.

Certainly, there are many in South Asia who consider the EU a success story in regional integration which is worthy of emulation. It is pertinent to ask first whether integration in South Asia on identical lines is feasible and desirable given the immense prevailing context-related differences between the EU and South Asian states in terms of their respective economic, social, technological and institutional development, political power constellation and cultural and social factors. The EU's quintessential objectives (economic and monetary integration, social integration and political cooperation) serve thereby as a useful analytical frame of

reference when discussing the prospects for integration in South Asia.

An integration process in South Asia on lines similar to the process envisaged under the two EU treaties discussed above appears to be a reasonable ultimate policy objective when seen in the context of the considerable potential long-term economic, social and political benefits for the region therefrom. At the same time, such a process is, first, achievable and, second, sustainable only when certain prerequisites have been met.

There are five fundamental preconditions for a successful regional integration process in South Asia:

- For all South Asian states, the benefits of integration must exceed the costs. The larger the benefits, the more enduring the integration process becomes. Moreover, the benefits must persevere over time and should consistently exceed the costs.
- The benefits and costs of integration must be shared fairly within each South Asian state. The spectrum of beneficiaries must be maximized to ensure popular support for the integration process. The benefits must not be confined to a handful of agricultural and business elites.
- The benefits and costs of integration must be shared fairly between the South Asian states. No South Asian state must get the feeling that partner states are profiting unfairly at its expense, otherwise this may eventually lead to the disintegration of the integration process<sup>7</sup>.
- Support for regional integration must be firmly entrenched at the grassroots level in all South Asian states and amongst South Asian political elites. A genuine democratic culture and leadership which is responsive to the wishes and aspirations of civil society is imperative.

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<sup>7</sup> The East African Common Market being an interesting case in point.

- The amicable resolution of major disputes and contentious issues between South Asian states is a sine qua non for any integration schemes.

### ***Potential benefits and existing hurdles***

#### **a) *A South Asian economic and monetary space***

***Potential Benefits:*** A prime reason for the proliferation of regional blocs across the globe is the economic benefits accruing from a transnational economic space. There are various levels of economic integration, starting with a preferential trading arrangement, such as the South Asian Preferential Trade Arrangement (SAPTA) at the lowest rung, and at the highest level the formation of an economic and monetary union under the European Union. Benefits accrue to member states when a potential for expanded economic interaction exists, as was and is the case for the EU states<sup>8</sup>, and assumedly also is for the states of South Asia<sup>9</sup>. For South Asian states, the major potential economic benefits or 'welfare effects' stemming from the elimination of all barriers to

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<sup>8</sup> In the period 1958 – 70, when customs duties between the European Economic Community member states were virtually abolished, their mutual trade increased almost 6-fold whereas their trade with the rest of the world increased 3-fold. See *Institutionelle Fragen. Sieben entscheidende Daten für die Einigung Europas*. Downloaded from the EU's website: URL:<http://www.europa.eu.int>. Presently, trade between EU member states accounts for approximately two-thirds of their overall external trade.

<sup>9</sup> This is the conclusion of several independent studies undertaken by researchers on the subject over the past decade. Presently, the level of trade between South Asian states is very low - approximately 3% - of their overall global trade. With the dismantling of barriers to trade though, this percentage could grow multiplefold over time. For instance, in the context of Indo-Pakistan trade, the unofficial figure stands at between US\$ 1 – 2 billion (non-regional sources) as against the official figures around US\$ 120 million. For an interesting perspective on regional economic cooperation see Kishore C. Dash, 'The Political Economy of Regional Cooperation in South Asia', in *Pacific Affairs*, Vol.69, No.2, Summer 1996. Downloaded from the internet: URL:<http://www.mtholyoke.edu/acad/intrel/dash.htm>

trade, labour, services and capital are, inter alia, an increase in gross domestic output and investment and employment as consumer demand for goods and services and thus production in the region is boosted. Other potential benefits are deflationary trend as imports of production inputs and consumer products are diverted from traditional, costlier sources towards cheaper substitute sources and a qualitative improvement in goods and services as competition intensifies. Enhanced economic interaction would facilitate investment in the improvement of the existing though somewhat neglected infrastructural linkage systems (roads, railway, air travel, telecommunications). It is noteworthy that smaller, relatively disadvantaged South Asian economies would in particular stand to benefit from a South Asian economic and monetary space. For instance, Pakistan's market access gain viz-a-viz India would be 800% whereas India's market access gain viz-a-viz Pakistan only 12.5%. For smaller South Asian economies (Bhutan, Maldives, Nepal) the enlargement effect would be greater.

Aspects of globalization must also be assessed when discussing regional economic and monetary integration in South Asia as these may have major positive economic repercussions for the region. Two considerations merit special attention here – capital inflows as well as South Asia's relative standing within the global economic framework:

Capital inflows (foreign direct investment) into South Asia may increase manifold over its present level as foreign investors seek to benefit from the expanded marketing opportunities for their products and services which a South Asian economic and monetary space comprising 1.3 billion consumers offers. The potential benefits for South Asian states could thereby rival – or significantly exceed – those benefits associated with the growth in the volume of trade between South Asian states<sup>10</sup>. These potential

<sup>10</sup> Given the vast amounts of investment capital percolating worldwide, the opportunities for increased investment in South Asia with its combined market

benefits are, inter alia, an expansion in agricultural, industrial and service production capacities, increased product diversification, qualitative enhancements in production with the infusion of modern technological and managerial expertise, and improved employment and training opportunities.

An economic and monetary space would enhance South Asia's relative economic standing in the global economic framework, as South Asian states would inevitably be compelled to coordinate their external trade policies to a certain extent, gaining thereby a higher degree of bargaining leverage than they would otherwise have with regard to trade concessions viz-a-viz other emerging regional economic spaces and at global forums such as the World Trade Organization.

*Existing Hurdles:* For a South Asian economic and monetary space to materialize, several multifaceted hurdles must first be overcome. Economic integration presupposes that a 'level-playing field' is assured for all constituent states so that their economic sectors have a fair chance to compete in the economic space in a manner which prevents domination of smaller economies by larger economies in the short to medium-term while promoting economic efficiency in the long run. Apprehensions – particularly in Pakistan – of an Indian economic hegemony in South Asia presently appear to be a major impediment to the

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of 1.2 billion consumers are considerable. Note though that a South Asian economic space per se is insufficient to attract substantial additional amounts of foreign direct investment. A comprehensive package of supporting measures are indispensable, inter alia, a package of investment incentives, simplified investment procedures, improved legal framework, consistency of economic and financial policies by South Asian governments and large-scale investment in the human, physical and logistical infrastructures. A South Asian monetary integration along the lines of the EU, 11 of whose 15 member states are introducing a common currency in 2002, would be a further incentive to investors as this would eliminate the risk of exchange rate fluctuations in the economic space.

liberalization of trade in the region<sup>11</sup>. Several other impediments have been identified, for instance, a lack of information on supply and demand patterns in South Asian states and lack of an effective payments clearing system. Furthermore, South Asian states must systematically eliminate their barriers to mutual trade, adopt a unified tariff regime *viz-a-viz* other states and lift mutual restrictions on the movement of capital, labour and professional services. However, only one rudimentary initiative in this direction - the South Asian Preferential Trade Arrangement (SAPTA)<sup>12</sup> has materialized so far, although, South Asian governments do concur on the need for forming a South Asian Free Trade Area (SAFTA)<sup>13</sup> as early as possible. Furthermore, in spite of the World Bank and International Monetary Fund induced economic liberalization and deregulation programmes in South Asian states since the past 10-15 years, mutual trade is still severely hindered by a complex web of non-tariff barriers. And, unlike the EU, negotiations between South Asian states on trade liberalization exclude other key considerations such as relaxation or abolition of restrictions on the movement of labour, professional services and capital between South Asian states.

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<sup>11</sup> The discord between India and Pakistan over the past few years centering on the debate regarding liberalization of Pakistan's trade regime *viz-a-viz* India and India's demand for Most Favoured Nation (MFN) status from Pakistan is a case in point. Some Pakistani industries, notably in the engineering goods sector, strongly opposed granting MFN status to India on the grounds that they were not in a position to compete with the cheaper Indian products and would eventually be driven to bankruptcy.

<sup>12</sup> SAPTA came into effect in December 1995. India offered tariff concessions on 106 products, Pakistan on 35, Sri Lanka on 31, Maldives on 17, Nepal on 14, Bangladesh on 12 and Bhutan on 7. The second liberalization round in 1996 resulted in an agreement on approximately 2,000 products. SAPTA has been criticised largely because the goods listed by the 7 contracting states for preferential treatment are mainly those which offer very limited opportunities for expanded trade in the region.

<sup>13</sup> The author doubts whether this seemingly overambitious target can be achieved for some years.

Substantial domestic structural adjustments may be imperative in the smaller economies. For example, in the absence of remedial measures a regional economic and monetary space offers few benefits to an economy whose entrepreneurs have limited access to the capital needed for expanding their production capacities to satisfy demand in the enlarged market, or where credit is available at exorbitant interest rates, or where over-regulation stifles entrepreneurial initiatives. Furthermore, as a prerequisite for establishing a viable and sustainable economic - and eventually monetary - space, South Asian governments must fulfil several prerequisites and implement numerous support programmes and measures, inter alia, they must pursue similar macroeconomic and fiscal policies<sup>14</sup>, simplify and harmonize their regulations in various spheres and coordinate their policies in a broad spectrum of specific fields. The consequent institutional challenges are enormous. Close and sustained institutional interaction as well as the division and coordination of tasks between institutions at the national and transnational levels would be imperative, meaning that in many instances presently non-existent or grossly underdeveloped channels of communications and mechanisms of coordination must first be created and optimised. Moreover, good regional decision-making and planning processes require extensive, accurate and up-to-date information - a scarce commodity in South Asia. These vital considerations have yet to be examined seriously by South Asian states.

#### b) *A South Asian social space*

*Potential Benefits:* The potential benefits stemming from the creation of a South Asian 'social space' are immense. Free movement of South Asian ordinary citizens and professionals across national borders on the EU pattern - for commerce, work, education, family reunions, tourism and recreational purposes or otherwise - would inevitably enhance the level of people-to-people

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<sup>14</sup> This is to a large extent presently the case given that the South Asian states are implementing similar IMF and World Bank imposed structural adjustment programmes.

interaction, promoting a broadbased inter-cultural dialogue and over time, improving mutual understanding, tolerance and respect. Eventually, the existing walls of suspicion, distrust and animosity which have for decades overshadowed relations and precipitated three major armed conflicts between India and Pakistan, may begin to erode and crumble. It would foster a 'South Asian identity' - regional solidarity and peaceful coexistence of the South Asian states, besides a sustained process of regional integration.

*Existing Hurdles:* Considerable effort must be devoted towards bridging this wide gulf of distrust and animosity prevailing between the South Asian people. A robust integration process cannot evolve and flourish in an unappealing socio-political environment. Irresponsible utterances by South Asian governments, by political elites and reporting by the mass media has aggravated prejudices and suspicions. More worrisome are the growing religious and ethnic divisions which have surfaced in most of South Asia in recent decades. Such divisions tend to be even more profoundly embedded in the psyche of people and may be more difficult to overcome than the traditional divisions between states already firmly entrenched. Apart from several non-governmental initiatives presently underway in South Asia, the region's policy makers have put in little effort towards strengthening people-to-people bonding. This stands in marked contrast with efforts within the EU framework where the promotion of people-to-people interaction and the cultivation of a European consciousness has traditionally ranked high on the agenda and, assisted in large measure by numerous governmental, non-governmental and EU programmes, proven quite successful over time<sup>15</sup>. Moreover,

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<sup>15</sup> Promoting a European consciousness amongst younger people in particular is an objective for which a number of EU initiatives have been pursued. High-profile examples are the student exchange programmes SOKRATES and ERASMUS. Additionally, there are a large number of independent bilateral and multilateral initiatives underway between EU member states.

Opinion surveys undertaken now and then in EU member states indicate that the EU and the concept of European integration presently enjoys broad public support throughout the European Union.

social interaction between the South Asian people is being hampered by several practical bottlenecks such as travel restrictions and financial and logistical constraints.

c) *A South Asian 'political union'*

*Potential Benefits:* A regional integration process in South Asia may have potentially profound political ramifications. As the level of economic and social interaction between South Asian states progressively expands over time and public support for maintaining and consolidating this interaction intensifies, South Asian political elites would – viewed in a rational perspective – refrain from resorting to actions which contravene the spirit of regional cooperation and instead seek to demonstrate their commitment to the integration process, for example, by adopting various conciliatory measures such as, curtailing bloated defence budgets as a goodwill gesture. Considering the tremendous 'opportunity costs of weaponization, in impoverished South Asia, these defence spending reductions are especially significant in developmental terms<sup>16</sup>. For example, in the period 1990-96, India and Pakistan spent US dollars 70 billion on arms procurements<sup>17</sup>. Taking this figure as a yardstick for the future and assuming that a modest 15% of this sum would constitute a 'peace dividend' in the event that South Asian states embark on a process of regional integration on the pattern of the EU, the saving over a six year period would amount to approximately US dollars 10 billion which would be utilisable for developmental instead of confrontational purposes. As political tensions ease and cooperation at the political level becomes a more acceptable option, South Asian governments may moreover be more inclined towards evolving common policies on

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<sup>16</sup> A non-governmental initiative, the Pakistan – India Peoples Forum for Peace and Democracy has done some interesting calculations equating spending on specific armaments with the foregoing of investments in the social sectors (schools, hospitals, water wells etc.).

<sup>17</sup> See Kalpana Sharma/Ayesha Khan, 'Give Peace a Chance', *The Hindu*, June 6, 1998.

select issues of foreign and security policy, strengthening South Asia's weak standing in regional and global fora<sup>18</sup>.

*Existing Hurdles:* To repeat what has already been stated on innumerable occasions in the past - a plethora of highly contentious issues overshadow the road to cooperation in South Asia and are a prime obstruction to a constructive political dialogue. In the context of Indo-Pakistan relations, the Kashmir dispute is the most prominent (though not only) example<sup>19</sup>. Given the depth of feeling on this issue and the consistent hardline stances adopted by India and Pakistan, a solution to the problem in the foreseeable future is unlikely and with it the prospects for a close Indo-Pakistani integrative venture. Contentious political disputes in South Asia, however, are not confined to India and Pakistan only but also mar relations between India and its neighbours Bangladesh, Nepal and Sri Lanka<sup>20</sup>. A robust and enduring regional integrative process cannot materialize unless amicable and lasting solutions, notably with regard to major

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<sup>18</sup> For example, at the World Trade Organization. Of course, on other foreign policy issues South Asian states may be disinclined towards cooperation. While it is unlikely that India and Pakistan would - in contrast to the EU - ever seek to pursue a common foreign and defence policy, some level of cooperation in law enforcement matters, as in the EU's 'third pillar', is conceivable over time. Foreign policy differences have also been witnessed time and again in the EU, for instance, lately on Yugoslavia. It may be noted though that already in the early 1970s the member states of the European Economic Community coordinated their foreign policies to a certain extent.

<sup>19</sup> A direct - and very alarming aspect - of the Indo-Pakistan dispute over Kashmir are the frequent, often bloody skirmishes along the line of control which in the worst case scenario may lead to a full-scale war between the two South Asian states as was almost the case in 1999. Other vexing issues between the two states exist. Mutual expulsion and harassment by India and Pakistan of diplomats, as well as mutual allegations of involvement in terrorist outrages and espionage certainly do not augur well for South Asian integration.

<sup>20</sup> For instance, Indo-Nepalese differences, (now somewhat resolved), over water issues which for decades obstructed bilateral cooperation in the hydropower field, Indo-Bangladesh border demarcation disputes and India's perceived involvement in the Tamil insurrection in Sri Lanka.

contentious issues, are found and implemented. At the same time, it may be borne in mind that globalization and domestic social and economic compulsions would ultimately compel the South Asian states to accelerate their search for amicable solutions to their disputes and reconcile themselves, sooner than later, with the inevitability of regional integration. South Asian governments must demonstrate magnanimity in dealing with contentious issues, especially India, being the largest and most powerful South Asian state. All South Asian states must mutually respect national independence and sovereignty and refrain from seeking to dominate each other as there can be absolutely no room for hegemony in a regional integration process.

### **Facilitating South Asian integration on the EU pattern: Some policy recommendations**

#### *The South Asian Association for Regional Cooperation (SAARC)*

The SAARC offers an ideal institutional platform for facilitating EU-style integration in South Asia as it is presently the sole official regional level forum devoted to systematically promoting cooperation between its seven member states in the economic, social, cultural and scientific fields<sup>21</sup>. Despite occasional critique about perceived shortcomings<sup>22</sup>, SAARC has recorded some notable achievements in the 15 years of its existence and, in spite of being dwarfed in size, financial endowments and functionality by its EU counterpart, the SAARC does exhibit several institutional parallels. For example, analogous to the EU,

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<sup>21</sup> Detailed information about the SAARC and its activities can be found at the organizations's website: [URL: http://www.saarc-sec.org](http://www.saarc-sec.org)

<sup>22</sup> The SAARC has been unfairly criticised for failing to bring about a noticeable improvement in the South Asian political climate. The fact is that on occasions the SAARC forum has proved to be a useful forum for South Asian leaders to defuse on-going crisis situations. Critics tend to forget that SAARC's charter prohibits the organization from dealing with political issues and that it is handicapped by a lack of funds and, in the broadest sense of the term, serious institutional shortcomings on the part of its member states. The liberalization of trade barriers presently underway in the framework of the SAPTA for instance would have been inconceivable without SAARC.

scheduled summit meetings of South Asian heads of state and ministerial meetings take place under the SAARC's auspices, and there are a number of SAARC technical committees entrusted with the responsibility of examining issues pertaining to regional cooperation. On the other hand, some major institutional differences are evident. The SAARC does not have a regional parliament with a progressively expanding mandate as the EU does, nor does it have the mandate to promulgate directives and guidelines which the EU's Council of Ministers does. Furthermore, unlike the EU, there is no SAARC court of justice to deal with disputes between member states, violations of the SAARC charter by member states or complaints referred to it by South Asian citizens. Other important EU institutions, such as the European Audit Office, the Commission of the Regions and the European Investment Bank are non-existent in the SAARC. Moreover, the EU has a much more elaborate network of institutions in its member states. However, despite these shortcomings of SAARC, it is conceivable that in any future South Asian integration scheme the evolution of institutions with similar roles and functions is not only feasible but perhaps inevitable.

Mindful of the task of promoting South Asian regional integration, this author advocates a more focussed economic-oriented approach by SAARC in the medium to long-term, prioritizing in particular the following fields:

- \* SAARC should do all it can to facilitate the creation of the envisaged South Asian Free Trade Area (SAFTA). In particular, it should endeavour to accurately assess the potential costs and benefits for each South Asian state in the short to long-term and devise a plan for the systematic transition to SAFTA in a manner which is fair and acceptable to all South Asian states. Aspects closely associated with the transition to a free trade area apart from the elimination of import tariffs, for example, dismantling of non-tariff barriers and harmonization and convergence of certain policies,

regulations and procedures, etc. should be examined and encouraged by SAARC.

- \* Most of the current emphasis on expanding South Asian economic integration is trade-centered. It is thereby often overlooked that investment linkages can bring substantive benefits and, in certain respects, are more desirable than merchandise exchanges<sup>23</sup>. Keeping this in mind, SAARC should strive to enhance investment activity between its member states. In this regard an agreement on a South Asian joint venture promotion scheme under which public- and private-sector joint ventures would be accorded certain material privileges would be advantageous. The EU and other major regional blocs and trading partners of the South Asian states could play a constructive role in this regard, for instance, by granting preferential market access to goods manufactured in South Asia by such joint ventures<sup>24</sup>.
- \* The energy sector offers opportunities for South Asian cooperation which, in the long-term, may rival or even exceed these opportunities provided by enhanced mutual trade and investments. Surprisingly, only modest research has been undertaken in this regard although awareness is growing in academic and policy-making circles about the need for cooperation in this field<sup>25</sup>. Basically, cooperation in the energy sector would entail the transfer of energy resources (hydro-

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<sup>23</sup> Close personal interaction and joint decision-making / responsibility sharing over a joint venture's span of existence, being one example.

<sup>24</sup> Under the Lome Agreement for instance, the EU grants preferential access to 70 developing states to its huge regional market.

<sup>25</sup> For instance by the United Nations agency ESCAP. In recent years, research institutions and scholars in South Asia are showing more interest in this important subject. See Aurangzeb Khan, 'India and Pakistan: Bilateral Cooperation in the Energy Sector', in Sony Devabhaktuny (ed.), *Regional Cooperation in South Asia: Prospects and Problems, Occasional Monograph* 32, Washington D.C.; Henry L. Stimson Center, 1997, pp. 75 – 96. It may be added though that the issue of cooperation in the energy sector (hydropower) was on the Indo-Nepalese agenda for decades although some notable progress has only come about in the 1990s.

power, natural gas, renewable resources) from the energy-rich South Asian states to their energy-deficient partners. Nepal and Bhutan are energy-rich states which collectively have a hydroelectric power potential estimated at approximately 50,000 – 60,000 MW. India and Pakistan on the other hand, would in all likelihood have to import electricity in the long-term to satisfy their growing consumption requirements. Importing electricity from Nepal and Bhutan through a unified South Asian electric grid system<sup>26</sup> would be a viable long-term option<sup>27</sup> and have the added advantage of consolidating regional integration. Moreover, India and Pakistan are also deficient in natural gas and could cooperate on a cross-border natural gas pipeline scheme, various options of which are under consideration since the 1990s<sup>28</sup>. India and Pakistan could pool their technical and financial resources in collaborative projects aimed at the development and sharing of energy based on renewable resources, especially solar energy.

- \* Broad popular support at the grassroots level is imperative for an enduring South Asian integration process. The 'grassroots' and 'civil society' element is rather weak in SAARC. This despite the fact that tourism promotion is included in SAARC's Integrated Programme of Action, and people-to-people contact building is the prime focus of some specialized SAARC schemes<sup>29</sup> and several South Asian non-governmental

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<sup>26</sup> This is not a far-fetched notion. High-capacity transnational electrical grid systems spanning large geographic areas already exist in a number of regions including Western Europe. However, certain technical prerequisites (voltage synchronization, etc.) must first be dealt with before grid interlinkages can take place.

<sup>27</sup> Cheaper compared to current schemes under consideration such as thermal power stations which are less costly to construct and operationalize than hydroelectric power stations in the short-term but are costlier in the longer term.

<sup>28</sup> The four schemes in question are: a pipeline from Turkmenistan to Pakistan through Afghanistan, a pipeline from Iran to Pakistan through a combined land and sea route, a pipeline from the UAE to Pakistan across the Arabian Sea and a pipeline from Oman to India across the Arabian Sea.

<sup>29</sup> SAARC Audio-Visual Exchange Programme, SAARC Scheme for the Promotion of Organized Tourism, SAARC Chairs, Fellowships and Scholarships Scheme, SAARC Youth Volunteers Programme, SAARC Visa Exemption Scheme, SAARC Youth Awards Scheme, South Asian Festivals.

organizations and professional bodies were granted 'recognized status' by SAARC<sup>30</sup>. There is vast scope for improvement in this regard, notably with regard to encouraging and coordinating non-governmental initiatives which, over time, can contribute significantly to enhancing social bonding and promoting a broad-based awareness amongst the people of South Asia of the potential benefits from a regional integration process.

### **Bilateral / multilateral initiatives**

Apart from SAARC-related measures, the South Asian states are pursuing several initiatives at the bilateral and multilateral levels to improve relations. Insofar as these initiatives complement SAARC's on-going initiatives or harmonize with SAARC's fundamental policy goals, they are a constructive mechanism for facilitating South Asian integration and must be encouraged<sup>31</sup>. Moreover, as such initiatives usually involve only two or three member states, they have the advantage of being faster to negotiate and implement than SAARC-level initiatives where the consensus of all seven member states is imperative.

### **Conclusion**

All South Asian states must bring their houses in order before embarking on any EU-style grand integration schemes. Doing so would mean implementing a gamut of measures such as peoples' empowerment through literacy and political education programmes, promotion of accountability and a true democratic culture, respect for civil and human rights, including the rights of minorities, and tolerance for the voices of dissent. The South Asian

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<sup>30</sup> SAARC Chamber of Industry and Commerce, SAARC Law, South Asian Association for Regional Cooperation of Architects, Association of Management Development Institutions, SAARC Federation of University Women, South Asian Federation of Accountants, SAARC Association of Town Planners, SAARC Cardiac Society, Association of SAARC Speakers and Parliamentarians.

<sup>31</sup> The author therewith refutes occasional claims in various circles that bilateral or multilateral initiatives undermine the credibility of SAARC and constitute an obstruction to cooperation in South Asia.

states must also establish the rule of law, overhaul their existing obsolete legal and economic systems and national institutions to bring them into line with the requirements of a dynamic global environment, and eradicate the ubiquitous menace of incompetence, inefficiency, nepotism and corruption which prevail to one extent or the other in all South Asian states. I think it appropriate to point out that Pakistan has achieved some commendable progress in this regard since the military coup d'état in October 1999. Equally important is a positive change in the South Asian mindset. South Asians could do well to learn from Europe's experience. An English proverb states "Where there is a will, there is a way". Mutual cooperation and integration - not confrontation - must be the guiding principle for the South Asian states for the future.