
Article

Regional Integration in South Asia: The Present and Future

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1. Introduction

The aim of this paper is to review the present status and future prospects of regional integration in South Asia. It considers the background, agreements, development and role of the South Asian Association for Regional Cooperation (SAARC), including the level of economic integration, and its ineffectiveness. The paper then considers the prospective directions of South Asian regional cooperation and Japan's assistance towards the region's integration and offers prac-

tical policy recommendations.

The countries included in the South Asian region are sometimes debated; however, the World Bank identifies the South Asian geographical region as Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka¹.

In the past two decades, poverty in the South Asian region has been reduced through strong economic growth of 6% a year on average². Despite this, the region still contains the highest concentration of the world's poor³. With a population of 1.65 billion⁴, over 500 million of its inhabitants live on \$1.25 or less a day⁵.

India exercises the greatest international influence and dominates the region in population, land area and GDP (Figure 1). India also is geographically dominant, being the nearest sea port or sharing borders with all but one of the countries in the region⁶.

South Asia has a long history of conflict and has current serious security issues. The Failed States Index classifies India and the Maldives as 'In Danger', while all other countries in South Asia are classified at the highest level of 'Critical'⁷.

With more than one fifth of humanity residing in South Asia, regional integration has the potential to provide vast benefits. Regional integration can increase trade, economic growth and stability. It can help alleviate poverty and raise living standards. Economic cooperation can improve the political and security environment in South Asia and reduce conflict, help address rising inequality within and between countries and facilitate mutual growth⁸.

The existence of a regional cooperation alliance

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Figure 1: Economic Indicators for SAARC Member Countries - 2014

Indicator	Population (millions)	Land Area (sq. km)	GDP (constant 2005 US\$) (billions)	GDP Growth (annual %)	GDP per capita (constant 2005 US\$)
Afghanistan	31.6	652,230	12.8	1.3	406
Bangladesh	159.1	130,170	118.9	6.1	747
Bhutan	0.7	38,390	1.6	5.5	2,056
India	1,295.3	2,973,190	1,598.3	7.3	1,233
Maldives	0.4	300	2.1	6.5	5,221
Nepal	28.2	143,350	12.0	5.4	426
Pakistan	185.0	770,880	150.6	4.7	813
Sri Lanka	20.6	62,710	42.5	4.5	2,058

Source: The World Bank, World Development Indicators.

is crucial to support regional integration efforts. Such a body at the very least creates a forum for interaction and dialogue between South Asian leaders through the organization's regular discussions⁹.

2. SAARC- South Asian Association of Regional Cooperation

The SAARC is an international organization within South Asia that pursues regional integration and collaborative development for member states. SAARC was established in December 1985 with the agreement of a formal charter by the founding seven member Heads of State or Government of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka¹⁰. In 2007, Afghanistan joined as the eighth member of SAARC at the annual summit in New Delhi¹¹.

SAARC's Historical Background

The South Asian region, previously relatively well integrated, drastically changed after Indian independence in 1947 and the subsequent division of the subcontinent. In 1948, intra-regional trade was 19 percent of total trade, but it had declined to only 2 percent by 1967¹².

Regional tensions exist, significantly between India and several of its South Asian neighbors. Since separation, deep ideological disagreements have marked the relationship between India and Pakistan. The new nation of Pakistan was predominantly Muslim while secular India was around 85 percent Hindus. The separation caused mass migration of around 17 million people who left their homes for foreign regions

and resulted in devastating violence and bloodshed. Conflict over the allocation of strategic assets soon erupted, with the still unresolved issue of Kashmir leading to three wars. Hostile India-Pakistan relations led to the decision by both countries to conduct nuclear tests in 1998. West and East Pakistan split after a bloody civil war in 1971 forming the current Pakistan and Bangladesh¹³.

The need for regional integration had long been recognized. Regional cooperation in South Asia was discussed at several international conferences post World War II, with the first firm proposal in 1980 by Ziaur Rahman, then president of Bangladesh¹⁴. The political and economic circumstances at the time made regional cooperation an attractive option in resolving conflict and developing economically.

South Asian security concerns added impetus to develop a cooperative regional grouping that would facilitate dialogue and improve regional relations, with the 1979 intervention into Afghanistan by the Soviet Union adding to the existing regional volatility¹⁵. In the period after the 1971 Indo-Pakistani war, there was less active regional conflict, creating an environment more conducive to the discussions which led to SAARC¹⁶.

Economic factors also were a consideration, with South Asian economies facing worsened balance of payments positions following the 1979 oil crisis and the increased protectionist attitudes they faced due to the difficult world outlook and rising unemployment¹⁷.

SAARC Charter

The charter's objectives are to promote the economic, social and cultural progression of member states, thus improving the quality of life and welfare of the people of the South Asian region. The charter pursues this through self-reliance, mutual trust, collaboration and a cooperative approach to its objectives¹⁸. SAARC's objectives and processes for regional cooperation were constructed to avoid politically contentious areas, given the political and security history and environment of the region¹⁹.

SAARC's objectives as laid out in Article I of the charter are as follows:

- "a) to promote the welfare of the peoples of South Asia and to improve their quality of life;
- b) to accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potentials;
- c) to promote and strengthen collective self-reliance among the countries of South Asia;
- d) to contribute to mutual trust, understanding and appreciation of one another's problems;
- e) to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;
- f) to strengthen cooperation with other developing countries;
- g) to strengthen cooperation among themselves in international forums on matters of common interests; and
- h) to cooperate with international and regional organizations with similar aims and purposes."²⁰

SAARC Agreements

A range of agreements and schemes have been adopted by SAARC member states with the aim of fulfilling the objectives of the SAARC Charter and furthering regional integration, cooperation and collaboration. Since its establishment, SAARC's agreements, institutions, and functions have continuously changed and grown²¹. Two key SAARC agreements are the South Asian Preferential Trading Arrangement (SAPTA) and the South Asian Free Trade Area

(SAFTA).

Agreed in 1993, SAPTA commenced operation in late 1995 with an objective of promotion and continuation of intra-regional trade and economic cooperation. SAPTA recognized an urgent need to increase negligible intra-regional trade through the exchange of preferential concessions between SAARC member states. Guiding principles included reciprocity and mutual advantage to ensure that SAPTA benefits could be equally gained by all member states. The equitable trade liberalization goal was to be approached step by step, with details negotiated, improved upon and reviewed periodically. All products and commodities were included, and the needs of Least Developed Countries (LDCs) were to be recognized and definite preferential measures agreed. LDCs are those defined by the United Nations, currently Afghanistan, Bangladesh, Bhutan, Maldives and Nepal²². SAPTA deals with tariffs and other measures. Arrangements regarding tariffs were initially negotiated on a product-by-product basis, while non-tariff arrangements could be approached individually or on a wider basis.

SAFTA is an important agreement made during the 2004 Islamabad SAARC summit. It aimed to increase trade levels and economic cooperation, taking the place of the SAPTA trading arrangement and moving towards a free trade area between SAARC member states. It came into effect in 2006. Its objectives included elimination of barriers to cross border trade and establishing fair competitive conditions and equitable benefits in the free trade area. The free movement of goods between member states is a principal of SAFTA, as is reciprocity and mutual advantage, again taking care to recognize the needs of LDCs. Progressive legislative harmonization was a further principal. The agreement established a mechanism to facilitate shared administration and provide a framework to improve mutual benefits and advance regional cooperation expansion.

The SAFTA agreement also established a Trade Liberalisation Programme (TLP), Rules of Origin, Institutional Arrangements, Consultations and Dispute Settlement Procedures and Safeguard Measures. The TLP proposes to eliminate the majority of quantitative

trade restrictions and tariffs, stipulating timelines and specific tariff reductions. These differ between LDC's and Non Least Developed Countries (NLDC's) . It allows exceptions for "Sensitive List" tariffs with a view to decrease the size of these lists over time; however, these reductions are not enforceable. Non-tariff barriers are reported annually for review, and elimination methods are advised by a Committee of Experts. A wide range of trade facilitation measures were also canvassed in SAFTA including common standards, customs matters and transit, communication and transport facilities. National security considerations are exempt from the provisions of SAFTA. Institutional arrangements established the SAFTA Ministerial Council as the peak authority of SAFTA, meeting at least annually.

"SAARC Agreement on Mutual Administrative Assistance in Customs Matters" was established in 2005 to facilitate administrative cooperation between the customs administrations of member states in order to properly apply and police customs law. An important intent was to promote SAFTA by facilitating intra-regional trade.

"SAARC Limited Multilateral Agreement on Avoidance of Double Taxation and Mutual Administrative Assistance in Tax Matters" and "Agreement for Establishment of SAARC Arbitration Council" were also formulated in 2005. The former agreement enhances information exchange and administrative assistance between member authorities and promotes economic cooperation in income tax matters including avoiding double taxation and assisting in revenue collection. The latter agreement established the SAARC Arbitration Council, empowered to create and co-ordinate frameworks and facilities for conciliation and arbitration of commercial and investment disputes. SAARC member states created a forum for dispute resolution in order to foster intra-regional investments.

In 2007, "Agreement on Establishing the SAARC Food Bank" established the SAARC Food Bank Board and a regional Food Bank in order to enhance regional food security and combat possible food shortages. Its objectives included establishing a food security reserve and supporting food security efforts in the re-

gion. The agreement designates the tonnage of wheat or rice to be reserved by each member state and establishes an entitlement and mechanisms to draw on the reserves by a member state during a food emergency.

"Charter of the SAARC Development Fund (SDF) " was formulated in 2008. A key aim of establishing the SDF by SAARC member states was to provide a reliable funding mechanism for SAARC projects and programs to assist SAARC in meeting its Charter objectives. Monies for the funds are sourced through capital contributed by member states, borrowings and grants. The SDF functions include identifying, approving and funding appropriate projects in member states from the Social, Economic or Infrastructure streams (called Windows) . Social Window projects focus on human capital and welfare, including poverty alleviation, health, education and human resource development. Economic Window projects are principally non-infrastructure projects in areas including "trade and industrial development, agriculture, service sectors, and science and technology". Infrastructure Window projects relate primarily to infrastructure sectors including "energy, power, transportation, telecommunications, environment and tourism"

South Asian Regional Standards Organisation (SARSO) was established in Dhaka, Bangladesh with a Governing Board comprising the heads of the National Standards Bodies of SAARC member states by the act of "Agreement on the Establishment of South Asian Regional Standards Organisation" in 2008. The organization aims to reduce technical barriers to trade and improve access to global markets by harmonizing, developing and facilitating national standards on goods produced in the region. It also develops information exchange and regional capacity building in this area, identifies appropriate international standards to be adopted and acts to present and promote the region's interests to international standard organizations.

Established in 2010, "SAARC Agreement on Trade in Services" aimed at liberalizing and promoting intra-regional trade in services. It recognizes the "immense potential to augment intra-regional trade in services" and that services which were not included in SAFTA are an important component of economic de-

velopment and growth.

Launched in 1992, "SAARC Visa Exemption Scheme" aimed to increase cross border travel and contact for a range of people, and has been expanded since. In 2011, some liberalization of the visa regime occurred to foster regional movement of people with the wish "to put in place a visa free regime in the SAARC region"²³.

3. Effectiveness of SAARC to Date

It is not difficult to find commentators that claim that SAARC has been largely ineffective at promoting regional integration^{24,25,26}. More than thirty years have passed after the foundation of SAARC; however, few real results can be seen despite many agreements and good intentions. In 2007, a World Bank report stated that "South Asia is the least integrated region in the world."²⁷

Relative to other regional cooperation alliances such as the European Union (EU) or the Association of South East Asian Nations (ASEAN), SAARC's practical achievements are limited²⁸. However, a comparison of SAARC to ASEAN or other regional trading alliances may not be entirely appropriate given SAARC's starting position. SAARC was established in a difficult environment and differs substantially to other similar organizations in its regional politics and situation²⁹. These differences include;

- the level of economic development and dominance of India in area, GDP, demographics, military strength, international influence, and geographical advantage relative to other nations in South Asia, creating a very uneven regional grouping, unique to SAARC³⁰,
- the region's modern history of conflict, and
- the lack of a practical diplomatic forum within SAARC, such as the ASEAN Regional Forum (ARF), to allow essential diplomatic dialogue away from SAARC summits³¹.

SAARC's achievements, though predominantly intangible, do exist. SAARC has provided a valuable and strategic forum for discussion, has improved economic relations and has given leaders of the South Asian region an opportunity for dialogue to be able to

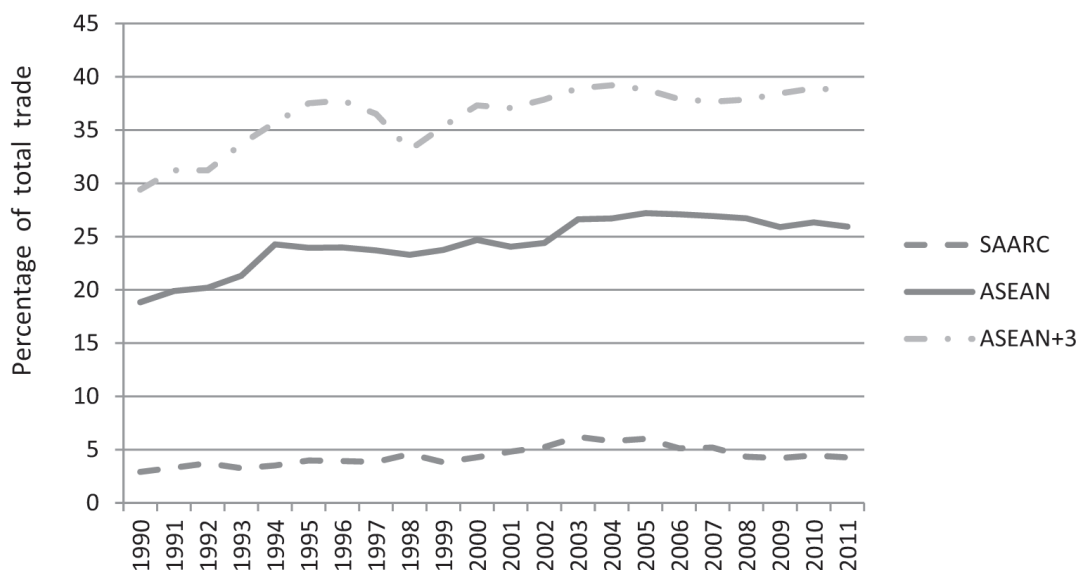
discuss problems and to gain mutual understanding^{32,33}. 2008 marked the first South Asia Economic Summit. A diverse and expert group of participants had the opportunity for further dialogue and information exchange focused on SAFTA, giving a further indication of potential improvements in future regional economic integration³⁴.

SAPTA trade liberalization discussions did not substantially increase South Asian intra-regional trade in a decade of operation from 1995. With only a limited range of products covered under SAPTA, the agreement was ineffective³⁵. During trade liberalization negotiations, tariff concessions were often exchanged on a product-by-product basis, reaching approximately 4700 products out of a total of 6000 after the conclusion of the third round of trade negotiations in November 1998. Many of the products with tariff concessions however lacked relevance to intra-regional trade. The focus of SAPTA was on the number of products with exchanged concessions and not the quantity of trade liberalized³⁶.

Commencing in 2006, SAFTA's tangible results for its core aim to increase intra-regional trade levels have been limited. As illustrated in Figure 2 below, intra-regional trade in the SAARC region was only 4.3 percent of South Asia's total trade in 2011, a decline since SAFTA's commencement. In comparison, ASEAN intra-regional trade in 2011 was a significant 25.9 percent of the ASEAN region's total trade, reflecting the relative success of the ASEAN Free Trade Area (AFTA)³⁷.

Despite some success in reducing tariff levels in South Asia, increased intra-regional trade has not yet materialized, indicating that non-tariff barriers to trade are a serious impediment to true regional integration^{38,39}. These barriers result from inadequate trade facilitation measures⁴⁰ and lacking infrastructure such as:

- lengthy and inefficient customs procedures (time and documentation)^{41,42},
- a lack of regional connectivity, including different border standards on acceptable vehicles,^{43,44}
- inadequate physical infrastructure, including a

Figure 2: Intra-Regional Trade

Source: Asian Development Bank (ADB), ARIC Database - ADB Integration Indicators -.

lack of adequate warehouse and testing facilities, poor roads and insufficient parking at border points, and

- difficulty in acquiring visas⁴⁵.

As SAFTA began in 2006 with a schedule for tariff reductions over a 10 year period,⁴⁶ it may be too early to make conclusive statements as to the full effect of this agreement. SAFTA's aim is toward a significant reduction but not elimination of tariffs. Some even question if a Preferential Trading Arrangement is a more accurate label than a Free Trade Area⁴⁷.

The SAARC visa exemption scheme was proposed in 1988 to assist cross border mobility and commenced in 1992. For selected cities, a one month unrestricted visa could then be obtained for entitled dignitaries and officials. This limited scheme did increase the number of exchanges that took place; however, the scheme needs to be expanded further in order to achieve deeper private sector integration and to improve further business environment in South Asia⁴⁸.

While the categories have been increased and the visas now are generally valid for a year⁴⁹, currently only a very elite group is entitled to the visa exemption scheme, leaving the majority of business people excluded. Each SAARC member state may grant only a

small quota of 100 visa exemption stickers, a further barrier for those professionals not entitled under the scheme, resulting in long waiting lists and delays. The restrictive length of the visa exemption and limited approved cities does not encourage an environment conducive to cross border business activity⁵⁰.

In 2012, agreements between Pakistan and India were made to ease restrictions and offer additional visa types. Visa restrictions inhibit interstate mobility and business opportunities. Expansion of visa availability and an increase in the number of categories applicable would help significantly boost business linkages in South Asia, through increased cross border business relationships such as networking and investigation of new business prospects and partnerships⁵¹.

4. Reasons for SAARC Ineffectiveness

The reasons behind SAARC's limited measurable achievements to date are here broadly categorized into two areas; friction and conflict in the region and the issues that directly obstruct SAARC's agreements.

Regional relationships in South Asia have a history of conflict rather than cooperation. There are many sources of friction, including historical social and religious tensions, India's dominance, scarce resources

such as energy and water, and geopolitical considerations. Widespread extreme poverty and inequality act to worsen the unstable political environment. Disagreements and bilateral conflicts within SAARC member states undermine the goal of regional integration⁵², restrict its effectiveness and breed mistrust⁵³. This creates “a stumbling block in the way of moving towards substantive areas of cooperation within the framework of SAARC”⁵⁴.

Beside regional tension, commentators list numerous other issues that obstruct SAARC success including problems with the SAARC Charter itself, lack of direct action, over stretched resources against a massive range of activities, and obstacles to trade and investment.

India's Dominance in the Region

India's dominant position in the South Asian region creates an imbalance of power from which conflict arises⁵⁵. India comprises over 64 percent of South Asia's area and 75 percent of the population and generates over 80 percent of regional GDP⁵⁶. India's central location also dominates border trade routes. The other member states except Afghanistan and Pakistan do not share boundaries; therefore, they require India's cooperation for regional trade⁵⁷.

Concern for negative outcomes from this power imbalance is shared by SAARC member states. India itself holds concerns that the other South Asian countries may form a united opposition to its regional interests⁵⁸. The smaller SAARC member states recognize that India's strength provides them substantial trade expansion; however, they demonstrate a reluctance to engage in a potentially unbalanced relationship⁵⁹. This is re-enforced by India's past image of interference in the internal affairs of its neighbors, which has been viewed as hegemonic^{60,61}.

The Relationship between India and Pakistan

Possibly the greatest obstacle to SAARC's success is the relationship between India and Pakistan, the two largest members of SAARC. They are both nuclear states and share a long border, parts of which are heavily militarized⁶². They are fierce rivals engaged in

perennial conflict, having fought three wars since gaining independence in 1947. A crucial factor is the unresolved territorial dispute over Kashmir, where the UN has maintained a mission observing the ceasefire line from 1949 up until today⁶³. The long standing dispute over Kashmir is a serious impediment limiting SAARC progress⁶⁴. Initially Pakistan was reluctant to join SAARC, afraid to hamper its work toward closer relations in West Asia and wary that India may use SAARC to impose a regional hegemony^{65,66}.

Energy and Water Resources

Insufficient supply of energy in an environment of rapidly growing demand acts directly to constrain poverty reduction and economic growth in South Asia⁶⁷ and threatens a future energy crisis in the region⁶⁸. Rapidly growing and increasingly urbanized populations coupled with strong economic growth has led to unprecedented increases in energy demand. Energy access is a further obstacle to growth. The World Bank estimates that around 700 million South Asians lack access to electricity⁶⁹ and the majority of people living in poverty in the region still use traditional biomass as a primary fuel⁷⁰.

Endemic shortages are due to insufficient investment in infrastructure, institutional flaws, limited domestic resources, problems with domestic production of resources and energy price subsidies^{71,72}. Further, theft of energy can exceed 40 percent of supply, largely attributable to substandard public sector utilities management⁷³.

Water has long been a contentious issue in South Asia and a cause of mistrust and conflict⁷⁴. Water resources naturally cross borders and so create international tensions. Tension over trans-border water exists, particularly between India and neighbors Pakistan and Bangladesh as a result of scarcity and India's dominant geographical position⁷⁵.

An estimated 700 million people are provided water from the Indus, Ganges, and Brahmaputra⁷⁶ and South Asia's per capita water resources are the lowest in the world⁷⁷. Variability and intensity in rainfall makes the region prone to disaster, creating floods, drought and the displacement of millions of people⁷⁸.

Pakistan is one of the world's most water stressed nations with an unreliable rainfall of just 250mm on average per year. This issue is accentuated by the multiple demands on water resources and is predicted to worsen with population growth and increasing water quality problems⁷⁹. An estimated 250,000 children in Pakistan die each year from water borne disease. Groundwater is used for drinking water by the majority of the population and is over exploited,⁸⁰ increasing salinity. A primary source of fresh water for Pakistan is the contentious Indus River which flows through Kashmir and accounts for 90 percent of Pakistan's agricultural water needs⁸¹. India's hydropower projects that dam river water upstream of Pakistan are feared to affect water river flows and are a real source of tension between the two countries⁸².

Water is not only a basic need for life but a fundamental requirement for economic activity. The region's important textile and agricultural industries are heavy users of water⁸³. The cost of conducting business rises as demand for water exceeds supply limitations, increasing direct costs, reducing efficiency and restricting output⁸⁴. Water resource problems limit economic development and may seriously threaten regional stability in the future^{85,86}.

Less Organizational Powers and Resources

SAARC came into existence in a tense political environment. Consequently the charter stipulates that unanimous agreement is required for decisions and that the SAARC forum be free from bilateral issues. Some observers believe these stipulations remove the ability of SAARC to take action to resolve or mediate disputes within the region⁸⁷.

As the leaders themselves noted at the 16th SAA-RC summit,⁸⁸ a more action-oriented approach is required to translate SAARC commitments into real benefits for the people of South Asia. A stated time frame is also needed for implementation of declarations and putting instruments into operation⁸⁹.

The massive range and scope of the many SAA-RC activities and confusing number of committees and other bodies may have spread resources too thinly for effectiveness⁹⁰. SAARC may benefit from a greater

focus of its resources towards economic cooperation and improving intra-regional trade.⁹¹

Obstacles to Trade and Investment

A 2007 World Bank paper found that South Asia was one of the most costly places for cross-border trade in the world even after significant reductions in import tariffs⁹². Recent reductions in tariff barriers by India and Pakistan's granting of Most Favored Nation (MFN) status to India are positive moves towards reducing SAARC trade barriers. However, contributing to SAFTA ineffectiveness are the extensive sensitive items excluded from tariff concessions that account for 53 percent of all intra-regional import trade⁹³. Periodical reviews that aim to reduce the number of sensitive items are included under TLP, but without a binding obligation it is simply a choice left to each individual nation⁹⁴.

Non-tariff barriers inhibit trade and obstruct daily business activities. Such barriers include inadequate and uncoordinated facilities in transport infrastructure and extensive visa restrictions⁹⁵. Low movement of people and telephone calls across borders indicate that only a limited exchange of ideas takes place⁹⁶. The trade facilitation environment is poor within the region. There are high logistical costs to trade, particularly for landlocked countries,⁹⁷ with contributing factors including inefficient sea ports and opaque and complex customs procedures⁹⁸. Non-tariff barriers and high logistical costs reduce the incentive to conduct business investment, shifting it instead towards other countries with more hospitable business environments⁹⁹.

SAFTA did not initially cover trade in services and investment for a broader economic partnership¹⁰⁰. The South Asian Trade and Investment Network (SATIN) was established to grow investment, business links and intra-regional trade within the region¹⁰¹. However, the process of regional integration in South Asia still does not incorporate investment issues. Restrictive policy limits Foreign Direct Investment (FDI). Certain sectors are excluded and requirements including limits on the size or type of investment are imposed¹⁰². These results coupled with low

level of integration make intra-regional FDI and international FDI inflows remain below potential¹⁰³.

The very large service sector in South Asia is crucial to the region's economies¹⁰⁴. In India alone, services provide the majority of employment and income. Trade facilitation in the service sector requires adequate telecommunication and electricity and sufficient education to provide the high skill levels needed¹⁰⁵. From the outset of SAARC, cooperation in telecommunications was identified as an area of focus¹⁰⁶. Only recently were services included in the process of regional integration when the 2010 SAARC Agreement on Trade in Services was signed¹⁰⁷.

5. Pathways for South Asian Regional Integration

To become a truly integrated region, South Asia requires continued constructive and cooperative effort towards resolving regional tensions¹⁰⁸. A reduction in mistrust between SAARC member states is crucial to enabling regional integration to improve. Reducing the complex and historical causes of tension and mistrust is an extremely difficult and long process, involving multi-faceted issues with crucial dependencies and many stake holders. Due to the political difficulty in dealing directly with conflict and tension, a potentially rewarding option for regional assistance is to address practical problems that inhibit trade, limit regional integration, and create friction.

India's unique status in South Asia makes it well placed to take the initiative to lead in reducing mistrust and fostering cooperation. Its position within South Asia is both a chance to accelerate national growth and development for the other member states and a means to facilitate its own regional and global ambitions. If this is truly understood and accommodated by all SAARC member states, it would assist greatly with regional integration¹⁰⁹.

Water and energy are two major and practical issues which are vital to the regional development. Given the growing population and the level of poverty, the prospect of future regional integration and stability in South Asia depends on improving these two fundamental issues¹¹⁰. It is often warned that future stability,

peace, economic growth and regional integration in South Asia critically depend on water^{111,112,113}. Climate change is worsening the issue, changing seasonal water availability and raising sea levels. There are serious implications for rain-fed agriculture, erosion of land and the already disastrous flooding the region faces. Rising sea levels threaten drinking water and could cause mass migration of the displaced¹¹⁴. Population growth and urbanization further increase pressure on already inadequate water supplies¹¹⁵.

India, with a per capita annual water supply at 1,545 m³ is already a water stressed country^{116,117,118}. With climate change and a population estimated to increase to 1.6 billion by 2050, this is set to be worsen¹¹⁹. There is inadequate water to sustain the concurrent fall in supply and increase in demand predicted¹²⁰.

Already deeply water stressed and heading toward outright water scarcity, Pakistan faces an even more dire situation^{121,122}. Aside from a growing population, reduced available resources and an already inadequate supply, Pakistan's per capita food availability will be increasingly insufficient as agricultural purposes use up to 98 % of the country's fresh water^{123,124}. Heavily populated river basins and their contentious location along national borders are likely zones of growing friction as water becomes scarcer¹²⁵.

Combined with poor regional integration and reliance upon water sources, these facts validate urgent action in regional water management. Non contentious improvements in water resource management are achievable. They would significantly assist South Asia's development, reduce regional friction and facilitate economic growth and integration.

To ensure the achievement of SAFTA's common goals, coordinated trade facilitation policies and increased efficiency in trade logistics are also necessary¹²⁶. The prospects of regional integration rely on improvements in physical integration between countries, including transport infrastructure. Increased physical integration would increase trade, regional stability and inter-dependence between member states. In particular, lagging border regions need to be connected and have access to markets. High road transport costs, a deficiency in cross-border points and poor

infrastructure cause inefficiency and limit intra-regional trade¹²⁷.

Improvements in these areas would help alleviate inequality and place focus on the region's poorest members while reducing intra and cross state frictions. For example, a regionally integrated and improved transport system and associated facilities along with policy to help enable trade would greatly assist South Asian regions that are landlocked or have geographical disadvantage through increased access to both national and cross-border markets¹²⁸.

The countries of South Asia have a comparative advantage in the Textile and Clothing industry. It is a crucial foreign exchange earner and manufacturing sector, and is a substantial source of both direct and indirect employment in the region. Despite this, it is not well integrated across borders¹²⁹.

South Asia does not predominantly source its intermediate goods intra-regionally but through textile suppliers from East Asia. South Asian countries produce similar goods yet subtle complementary variations exist. Intra-regional sourcing could be encouraged by putting better trade facilitation measures in place¹³⁰. As net importers of textiles and fabric, Bangladesh and Sri Lanka could potentially source goods from net exporters like India and Pakistan. An increase in such trade would provide greater intra-regional integration¹³¹.

The South Asian Growth Quadrangle (SAGQ) was launched in 1996 to promote economic cooperation between four SAARC member states - Bangladesh, Bhutan, India, and Nepal¹³². It seeks to leverage geographical proximity and cultural similarities in the subregion to gain an international competitive advantage and focuses on project based cooperation across diverse areas rather than market integration. This grouping operates outside of SAARC and so avoids political tensions between India and Pakistan¹³³. The South Asia Subregional Economic Cooperation (SA-SEC) program is a major initiative of this sub-regional grouping, with assistance from the Asian Development Bank (ADB)¹³⁴.

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is

a sub-regional grouping that includes five member countries of SAARC. Founded in 1997 as the Bangladesh, India, Sri Lanka, and Thailand Economic Cooperation (BIST-EC), it later included Myanmar, Bhutan, and Nepal and changed to its current name. A distinctive feature is that it connects South Asia with Southeast Asia. BIMSTEC signed a FTA in 2004 which included economic cooperation, investment and trade in goods and services¹³⁵. Some observers claim BIMSTEC has a better chance of success for regional integration as it does not have the political tension that exists between India and Pakistan¹³⁶. Its multi-sectorial approach to regional cooperation may result in faster integration than other Asian regional groups.¹³⁷

6. Japan's Assistance to South Asian Regional Integration

South Asia's stability and cooperative relations with Japan are important to Japanese interests¹³⁸. South Asia has a history of good relations with Japan and shares inherent values¹³⁹. The region is increasing in international importance with rapid growth and massive economic potential, in particular that of India, the largest democratic country in the world. South Asia is geographically significant for Japanese shipping to the Middle East and thus is strategically important¹⁴⁰. The import of oil from the Gulf region to Japan depends on the sea lanes running through the Indian Ocean¹⁴¹.

India is now the most promising country for Japanese manufacturing investment in the long term¹⁴². In the medium term, India is second after China as an area with promising business prospects. In fact, Japanese companies operating in India have tripled from around 100 in 2006-07 to 300 in 2009-10¹⁴³.

The region's environmental issues are also important to the global community. South Asia's security, stability, terrorism within the region and Indian and Pakistan's nuclear armaments are also "of great concern to the international community, including Japan"¹⁴⁴.

In 1993, the Japan-SAARC Special Fund was established by Japan with the view that the SAARC alliance has the potential to assist in the development and

stability of the region. The Japan-SAARC Special Fund is an important source of external funding for SAARC¹⁴⁵. Japan was granted SAARC observer status in November 2005.

In 2007 Japan's Foreign Minister Taro Aso expressed support for SAARC and committed to support specific areas of development. Assistance principally takes the form of Official Development Assistance (ODA) loans and grant aid. According to the report by the Ministry of Foreign Affairs of Japan (MOFA) in November 2011, support falls into the following three areas:

- "1. Support for Sustainable Development in South Asia
 - A. Assistance to Address Climate Change and to Protect Environment
 - B. Support for Infrastructure Development
 - C. Support for Regional Disaster Risk Reduction and Disaster Management
2. Promotion of People-to-People Exchange
3. Support for Democratization and Peace-Building"¹⁴⁶

Japan's current support to SAARC is across a range of areas and there are many competing demands for funding in the region. The current financial support has a focus on transport infrastructure and energy based projects, which are crucial areas for the improvement of the region's economic and human resource circumstances.

Japanese support to water based projects may be further extended as a separately identified goal of Promoting Water Resource Sustainability and Cooperation in South Asia. There is an urgent need for better management of regional water resources. Regional cooperation in water resource management is critical for the long term economic development, stability and integration of the South Asian region¹⁴⁷.

Inadequate, unclean and irregular water supplies impact directly on the quality of life for hundreds of millions in the region. Environmental degradation and climate change management are directly affected. Flooding and associated disasters have huge human and economic impact. Contested international water resources directly feed into critical regional security

tensions that present significant regional and global threats.

Some water resource issues are highly contentious, including the control and use of major rivers that flow internationally. The resolution of these issues is difficult and long term. However, many areas of water management are far less antagonistic and offer dramatic results for relatively small resource allocations.

Current water management projects being funded by Japan could be incorporated into the new goal of Promoting Water Resource Sustainability and Cooperation in South Asia. Further examination of South Asian regional water management projects is needed in order to identify the best direction for any further resources Japan may be able to offer. However, examples of areas that policy could potentially address are;

- India requires investment in water resource infrastructure and improved governance. Addressing loss through water leakage alone would substantially increase the available supply¹⁴⁸.
- Pakistan does not have the ability to store sufficient water, an obvious issue that could be addressed¹⁴⁹.
- Groundwater is being vastly overused and polluted in much of the region with disastrous environmental results. Salinity of groundwater resources is becoming a serious issue in South Asia¹⁵⁰.
- Farming practices that use water and fertilizers intensively, mismanagement of waste water, and a lack of conservation are areas that need improvement.
- Regional cooperation requires active encouragement to move towards increased sharing of data, knowledge and responsibility¹⁵¹.

There are several options for allocating additional funding in loans and grants to the goal of Promoting Water Resource Sustainability and Cooperation in South Asia. Across the region, there are many current and potential projects, and the process of support needs to be international and inclusive. Funding options include:

- Individual significant projects may be directly

funded by Japan in bilateral arrangements.

- Funding can be allocated to current and future projects being managed by SAARC, with the support potentially including management resources to assist in rapid project realization.
- Japan could engage with other bodies currently working towards the same aim in the region.

An example of a body already targeting water management is the South Asia Water Initiative (SAWI). This is a World Bank organization launched in 2008 aiming to strengthen water resources management and cooperation on trans-boundary waters in the South Asian region¹⁵². SAWI seeks to meet these aims by creating new knowledge, promoting dialogue and facilitating action and investment¹⁵³. It has medium to long term goals and leverages World Bank management and subject matter expertise.

SAWI is financed by the World Bank and receives support from several countries including the UK, Australia and Norway. It is a young program and has a relatively small budget, with pledges up to 2011 of just under USD 10 million¹⁵⁴. Support from Japan to SAWI in line with Japan's current strong support to the South Asian region would significantly improve SAWI's ability to deliver projects.

Regardless of the delivery vehicles chosen, Japan's contribution to water management and cooperation has the potential to improve the future prospects for regional integration and materially improve the lives and prospects for many millions of people in South Asia.

Japan already provides extensive assistance to enhance intra-regional trade through loans and grants to transport infrastructure. Alongside this current support, trade facilitation assistance could be extended to encompass broader trade facilitation measures. Japan's assistance towards improving these areas would provide significant regional integration benefits^{155,156}.

Trade facilitation inadequacy in South Asia is the major non-tariff barrier inhibiting intra-regional trade. Improvements in administration efficiency and border logistics would boost this trade¹⁵⁷. Customs procedures and requirements are lengthy in time and documentation with processes differing depending on the

border crossing.

For some inland border points, local carriers only are allowed to transport goods, which requires an inefficient and costly unpacking and repacking. There are also physically not enough cross-border points. Administration and custom procedures are not transparent and are heavily paper based^{158,159}. There needs the world's most documentation on average to conduct a transition across a border in South Asia¹⁶⁰. South Asian seaports are also inefficient, creating common congestion and delay¹⁶¹.

Regional transport connectivity and cross border infrastructure is inadequate. Areas needing attention include underdeveloped border infrastructure, inadequate warehouse and testing facilities, poor roads and insufficient parking at border points and incompatible standards for allowable transport vehicles. These issues further constrain the flow of goods across land borders and raise the cost of intra-regional trade. The 33 days minimum on average taken for exports from or imports to the region are substantially higher than for East Asia and Pacific countries, leading to serious logistical bottlenecks in South Asia¹⁶². These high transportation costs are an important factor limiting business competitiveness in an increasingly globalized world¹⁶³.

Infrastructure development projects supported by Japan can assist in these areas. Currently Japan provides ODA loans and grants for infrastructure development projects in roads, railways and energy aimed at fostering regional connectivity. Practical expansion of this support could focus on these areas at borders and additionally address some of the other bottlenecks creating high cross-border trade costs. These include ensuring adequate warehouse, testing, and parking facilities at border points.

Customs procedures and requirements are a more difficult area to approach but could still benefit from projects supporting information sharing and coordination activities across the region. Further practical assistance could be given through the encouragement of region-wide border standards on acceptable vehicles.

7. Concluding Remarks

South Asia encompasses one fifth of the world's people and has the world's highest poverty levels. Against this background, it has the potential for huge economic growth. While the potential benefits of true regional integration in South Asia are enormous, there are many obstacles to its success.

Though SAARC has provided a valuable forum for dialogue and discussion among South Asian leaders and established many regional agreements, it has produced few tangible results, with South Asia remaining a poorly integrated region compared with other regional cooperative areas. SAPTA trade liberalization discussions did not substantially increase South Asian intra-regional trade in a decade of operation and likewise SAFTA's results have been negligible to date. Given the region's unbalanced makeup and politically difficult environment, this is perhaps not surprising.

SAARC's relative ineffectiveness is due to a broad array of reasons, ranging from regional tensions to issues that directly prevent deeper integration and cooperation. India's dominant position in the region gives rise to tensions, as shown in the India and Pakistan's strained relationship. Fresh water and energy resources are contentious issues that create regional friction and directly constrain economic growth. SAARC inaction, the charter itself, and its possibly overreaching range of organizations and activities are further issues. While tariff barriers have been somewhat reduced, long sensitive lists remain and non-tariff barriers also present a very real obstacle to trade and regional integration.

Successful integration in South Asia requires a move towards resolution of these issues. In particular, a focus on reducing regional tensions and mistrust between SAARC member states is necessary, so greater cooperation can occur. India is well placed to be a leader for these efforts.

Assistance towards the goal of South Asian integration from donors outside of the region can be complicated due to the political nature of the issues. Therefore non-contentious practical assistance that helps ease regional friction may be appropriate. Im-

provements in energy and water resource management and eliminations of cross border transaction barriers are examples of potentially rewarding projects.

Japan already has extensive support for SAARC in place to assist the development and stability of the region through the Japan-SAARC Special Fund. Japan's support has been made or planned in a wide range of areas, with funding predominantly toward the transport and energy sectors.

This paper recommends a separate goal for Japanese support called Promoting Water Resource Sustainability and Cooperation in South Asia. Water resource management is crucial to the economic, environmental and human development of the region. Improved water resource understanding and control will contribute to the minimization of climate change and significantly reduce international tensions.

It is also recommended that Japan support trade facilitation measures including the establishment of logistical and cross border infrastructure and improvement of customs efficiency through information, coordination and standardization projects.

South Asia's importance to Japan is reflected by the significant contributions and efforts made by Japan to support its integration and development. The rewards from this ongoing effort lie in the region's strong opportunities for economic development and a more stable and secure region. Japan's contributions can significantly improve the future prospects for regional integration and the lives of many millions in South Asia.

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