



Drawing lessons from the ASEAN free trade area (AFTA) and the way forward for SAFTA

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Abstract

With the shift in the centre of power from the west to Asia, the importance of south Asia has increased many folds. South Asia is home to 25% of the world's population and covers 3.5% of the world's land mass. It also has strategic importance, not just because it is in the proximity of the energy lane but also to emerging superpower China. South Asia is still one of the least integrated regions in the world. It has significantly less inter-country infrastructure connectivity and trade. With the shifting global order, it becomes vital for countries in the region to integrate to take advantage of it. Stability in South Asia has remained very challenging to achieve, except for India. It has often seen multiple regime changes. Since SAARC's founding in the 1980s, the organization has experienced several ups and downs with shifting regimes in member states. Regional integration is considered more advantageous than cooperation outside the region in the dominant globalized world order. ASEAN and the EU best exemplify the advantages of intraregional cooperation. This paper first outlines the regional politics and historical background towards the attempt to form regional integration through SAARC. It demonstrates how changing regimes impacted the prospect of regional integration. Secondly, it tries to identify significant challenges to regional integration and suggest how such challenges can be overcome. And lastly, it concludes with comparative lessons from ASEAN, which SAARC can draw for more significant regional benefits.

Keywords: ASEAN, SAFTA, GATT, IMF, regional economic integration, rules of origin, CEPT, regional cooperation

Introduction

Today, each country is associated with other as a member of an organization, regional or global. In addition to the global economic framework based on the GATT and IMF systems, which has sustained the global economy since World War II, regionalism has become a dominant trend, where neighbouring countries aim to expand their economies through some form of "Regional integration." Regional economic integration is the most successful ways to promote prosperity, handle local issues, and boost economic growth rates. Building regional cooperation and integration in various Asian sub-regions have excellent potential for eradicating poverty and attaining equitable and sustainable development. Aside from ASEAN, Asian economies have a loose cooperation framework based on free-trade agreements. Among Asian sub-regions, Central and South Asia have the degree of economic integration is very lowest. Here, Intra-regional trade is still very low compared to Africa, Latin America, and Southeast Asia, the middle east. The South Asian region's problems stem from deep-rooted historical divisions. Despite having a common ancestry, history, linguistic, cultural, and social practises, South Asia has associated as the world's lowest integrated region. South Asia is considered by complicated security issues, inter-state conflicts, and tremendous unrealized economic potential. As a result of political concerns and conflicts, economic and strategic interests have not been given in policy and development.

The process of regional cooperation in South Asia began with establishing the institutional mechanism, the South Asian Association of Regional Cooperation (SAARC), in 1985. The starting proposal of SAARC was made by the former President of Bangladesh, Ziaul Rahman, in May 1980 and was accepted by Sri Lanka, Nepal, and Bhutan, Maldives. The idea of creating regional economic

integration was inspired by other successful regional organizations like the EU and ASEAN across the world. The suggestion was to achieve regional stability, security, peace, and prosperity. The approval of India and Pakistan was cautious and piecemeal, focused on the exemption of security and bilateral concerns from the proposed regional cooperation agreement. Despite hesitancy, all seven members accepted the SAARC charter in mid-1985. The SAARC's organizational system is based on annual summit meetings of heads of government and states, which serve as the top decision-making body, aided by a council of ministers. Economic integration and cooperation became a cornerstone of the SAARC work agenda when the member nations' councils of ministers signed an agreement in April 1993 to construct the South Asian Preferential Trade Agreement (SAPTA). The treaty was driven by a desire among South Asian economies to erase trade obstacles following a shift toward unilateral liberalization and global trade integration, which commenced in India in 1991 in a systemic manner. The region's other economies eventually followed suit. Further, as the India Pakistan situation normalized in 2003, the heads of the SAARC member nations agreed to launch the South Asia Free Trade Area (SAFTA) at the 2004 annual Summit held in Islamabad. The SAFTA Agreement went into effect on January 1, 2006. SAFTA was initially intended to be limited to goods trade only, to promote a free trade zone in South Asia in ten years through gradual tariff liberalization, the eradication of non-tariff barriers (NTBS), and the introduction, promoting, and modernization of trade enhancement national infrastructure. Rules of origin, tariff reduction, institutional structures, safeguard and dispute resolution are all included within the SAFTA agreement. It also calls for different trade enhancement measures, such as standardization and mutual recognition of test results, standardization of customs procedures developing transportation infrastructure.

The ASEAN heads of the government agreed to sign a trade agreement (ASEAN Free Trade Area—AFTA) in 1992 to increase the ASEAN region's economic cooperation. Indonesia, Malaysia, Brunei Darussalam, the Philippines, Thailand, Singapore founded AFTA in 1993, and it grew to include Vietnam, Laos, Myanmar, and Cambodia in the second part of the 1990s. The abolition of tariffs and non-tariff obstacles was crucial in liberalizing trade between member countries.

To achieve its proposed goals and aims, AFTA established a mechanism of the Common Effective Preferential Tariff (CEPT). AFTA is considered as most successful trade block in Asia and one of the best in the world. As stated on its website, the primary aim of AFTA is to enhance ASEAN's competitive edge as a production base in the global market through the eradication, within ASEAN, of tariffs and non-tariff barriers; and secondly, catch more FDI to ASEAN. Despite the attempt to build South Asia regional integration similar to more successful regional blocks like European Union (EU) and nearby ASEAN, it has failed to act in the ground. This assignment's core aim is to discuss and analyse what made SAFTA so unsuccessful compared to AFTA. This comparison will be contextualized towards more political(conflicts) but not limited to that. So far, in the Introduction section, we have briefly discussed SAFTA and AFTA. Our next section talks about hurdles in the functioning of SAFTA, then followed by Analysis in comparison of AFTA and incentive, and its end with a conclusion.

Hurdles in successful regional Integration

Various empirical studies have observed that several preconditions required for successful regional Integration are absent in South Asia. Several factors ranging from India- Pakistan conflict, power asymmetry, bilateral issues, protectionism, lack of common threat and lack of comparative advantage can be attributed to the failure.

According to the power-centrist view on regionalism, power Asymmetry is one of the primary elements that discourages regional Integration. There is a vast disparity in military and economic power in South Asia between member states. India stakeholder for more than 75% of the region's GDP and above than 70% of the population. Equally, it is robust in military might. Presence of India as hegemonic state within region is also from this perspective disadvantage for Regional Integration. This is more of a realist perspective on Regional Integration.

Furthermore, unless there is no mechanism to compensate the disadvantaged, member states are less likely to cooperate. States will be interested to Integration only to the extent that it helps their enhancement of national interest. Moreover, this seems true for South Asian regional cooperation. Geographical dependence on India also adds more concern to smaller states. Except with the Maldives, India shares land borders with every other member state (India share its land border with Afghanistan through Pakistan Occupied Kashmir). Aside from Pakistan, no other member state has a border with another country in South Asia. Bhutan and Nepal are landlocked countries that rely on India to access the rest of the globe. And, on one side, Bangladesh enjoys direct access to international waters, yet it is encircled on all sides by India. Moreover, attempt to increase ties by smaller member states with powerful outside states (such as China) are perceived by India as a

threat to its security concern, which acts as a deterrent to regional Integration.

India- Pakistan Conflict is the core hurdle to Regional Integration of South Asia. Since the creation of Pakistan after the partition of the Subcontinent, both countries' relations remained not very conducive for regional cooperation. There are several outstanding bilateral issues between India and Pakistan, the Kashmir dispute being most controversial. India-Pakistan has already fought four wars, excluding regular border skirmishes. All these disputes made it very difficult for the Regional Integration of South Asia. At the time of Independence, India accounted for more than half of Pakistan's imports and over two-thirds of its exports. However, as tensions over territory and security grew, trade shrank. As the relationship between these two largest countries of the region deteriorated with time. It impacted the whole region and became difficult to develop regional cooperation.

Bilateral issues are also a significant facet of regional Integration, including for South Asia. South Asia is engaged with multiple intra regions and intrastate conflicts based on geographic boundaries or narrow acceptable of religion, language, caste or ethnicity. These tensions have remained at the centre of political and public life in SAARC states for decades, making economic development virtually always a secondary goal. The region, riddled with continual wars, has never offered an adequate atmosphere for supporting integration attempts. The ties between countries had additional historical baggage, and they have yet to be able to move forward by burying their disagreements. For instance, despite a comparatively cordial friendship, India and Nepal have also had conflict. Similar is the case with other friendly countries like Bhutan, Bangladesh, Sri Lanka and Maldives. Such a conflict-ridden environment has perpetuated and even exacerbated flawed public perceptions of other countries in the area, particularly India, throughout the years. Consistently poor perceptions of one another have resulted in a hesitant commitment to regional Integration. The overall insecurity in the region is also a problem. Apart from interstate disagreements, the presence of security threat in the form of religious fundamentalism, terrorism, ethnic conflicts, etc., pose huge challenges to peaceful cooperation among South Asian countries.

The necessity to protect against an external security threat has often driven most successful regional integration efforts. Territorial, ideological, or political supremacy are all considered as potential threats. For example, the expanding influence of the USSR in Eastern Europe and the post-World War II development of the United States were two factors that pushed Western Europe toward greater Integration, even between traditionally antagonistic states like Germany and Italy. In Asia, the smaller East Asian nations joined together to form ASEAN in response to China's growing power and influence, as well as communist regimes. In the absence of such a severe threat, states often find a justification to curtail their efforts toward greater regional Integration. This is a significant distinction between the experiences of South Asia and Southeast Asia. South Asia appears to have lacked a shared external threat that might bind the region's countries together.

South Asian countries pursued self-sufficiency through import substitution as their economic policy goal. Increased regional commerce has been interpreted as a sign of growing dominance and reliance on India rather than as a

way to access India's and Pakistan's large markets. Smaller countries like Bangladesh and Nepal decided to import from outside the area, even if it meant paying higher prices. Even Indian investment were considered as form of domination. Although Nepal's potential hydroelectric capacity exceeds [70,000] MW and India's demand continues to rise, hardly 1% of this capacity has been constructed by the two countries. Pakistan, in particular, has consistently sought to weaken its historical ties with India and reduce any interdependence.

Absence of comparative advantage discourage South Asian countries to trade less with one another and trading heavily with the outside the region. Every South Asian country's exports to these regions have almost the same items. Textiles, ready-made clothes, leather, and agricultural products account for a significant portion of exports, whereas petroleum and capital-intensive goods are primarily imported. As a result, rather than being complementary, commerce between South Asian countries is very competitive. Asymmetric trade relations of India with the smaller neighbouring countries with huge surplus remained dominant issues for the small countries to trade. Furthermore, until recently, all countries followed import substitution policies, which prevented the development of a specific area of expertise in the manufacturing chain.

The volatility of political regimes and institutions across South Asia is common except for India. Democracies and autocracies or military regimes cater to different interest groups in society. The significance of signalling policy orientation towards the economic welfare of the median voter does not prevail across all regimes. An autocratic or military regime often backed by hardliners does not work in favour of regional Integration. With the frequent upheavals of the regime in South Asia, it has become difficult task to promote regional Integration and develop close relations.

Analysis

To analyse what made AFTA so successful in comparison of SAFTA, we need to contrast them and see. AFTA varies from SAFTA in several positive ways, which made it so successful. Some of the prominent features of AFTA are Political will, the primacy of economic interest over politics, rising above political differences, public opinion, Institutional support, a Multilateral approach, and effective acceptance of Leadership.

South Asian integration efforts have been sluggish and plagued by a lack of political will. Examining SAARC's goals at its establishment reveals that member states had different agendas, and regional integration and cooperation was not the primary motivation for joining the organization. It is insufficient to establish an institutional structure for regional cooperation. A shared vision of an integrated regional bloc must be shared by the political Leadership of the member nations. South Asia has always been wildly divergent and unstable political system, very recently Taliban recaptured its regime in Afghanistan. Similar was the case with Maldives, power transition was controversial. Experience shows that economic regional integration is more sustained when preceded by political cooperation and harmonization. ASEAN was founded on non-interference in internal affairs, emphasizing economic concerns. But this is not the case with South Asia, if not direct war than proxy war is common features.

The primacy of economic interest over political Economic interests/threats appears to have had the most influence on and motivation for regional integration in the past. For example, in the case of ASEAN, it was the prospect of communism spreading and China becoming too powerful. Economic concerns can bring all of the countries in South Asia together. In the short term, an economic-centric approach might be adequate to obtain consensus and make the first move toward overcoming the massive trust gap. India will be needed to take a flexible approach during this process and, in some cases, to waive reciprocity rules and other trade-related issues. Of course, it is unreasonable to expect significant and long-term regional economic integration in South Asia without resolving deep-seated political problems. Rather than waiting to "fix" political concerns before beginning economic integration, a gradual evolution to finally generate an understanding of security and other bilateral matters appears more probable. Establishing an "economic agenda" by the SAARC would be beneficial. Once the South Asian countries realize economic benefits, their commitment to deeper integration and understanding is likely to grow. For resolving different issues among member states, ASEAN developed 'The ASEAN Way', where policymakers through compromise, consensus and consultation address issues without making public and increasing hostility.

Mutual distrust of other member nations' goals, political disputes are frequent in every regional tie and not limited to South Asia. As regional integration initiatives progressed, long-standing political divisions were put aside in both ASEAN and the EU. This eventually resulted in the region becoming more peaceful and stable. Increased integration allows for more formal and informal communication channels and the steady development of trust between countries. Every Southeast Asian nation was fighting insurgencies and ethnic disputes at the time of the ASEAN's establishment, which had spill over effects that strained interstate relations. The fear of regional instability and China's threat drew the governments to form a single regional entity and settle conflicts through peaceful communication and talks. Furthermore, ASEAN countries acknowledged Indonesia's need to maintain best levels of strategic resources and decided that cooperating with Indonesia and focusing on creating the regional trust was in their best interests. The Southeast Asian nations' example of overcoming historical divides to attain the eventual goal of stability must be mirrored in South Asia.

Economic integration impacts a country's domestic arrangement and it is hampered by political/security controversies. It is also subtly influenced by public opinion and assumption held by its citizens. Geographical proximity, travel, and historical events have all influenced public opinion in South Asia on the question of regional integration. According to Dash's study, the connection between South Asian countries is viewed negatively, with a tendency toward animosity. Other stakeholders, such as business/industry members, lobbyists, and bureaucracy, are also influenced by public opinion, which results in an unconvincing/reluctant approach to increased integration. Insufficient and ineffective demands for collaboration from state governments stem from the absence of support from civil society. Soft diplomacy and enhanced contact stressing the member states' common cultures, languages, history, and interests becomes increasingly crucial in this setting. This

would also help close the knowledge gap between the countries of South Asia. Both the private sector and academia can play an important role. In the beginning, ASEAN concentrated on gentler, less contentious topics, for example, similar to the ASEAN Pass and ASEAN hip hop. South Asia cricket, tourism circuit and air connectivity might be used to create relationships in South Asia. Recent controversy erupted when it was decided that Pakistan will host Asia cup (Cricket), but India raised security concern of playing in Pakistan. Now the event will be organised in Sri Lanka.

An effective institutional setup in South Asia is required to facilitate the integration process. The process will be speed up by bringing regional centres and implementing entities closer together. The existing SAARC secretariat lacks the funding and skills to deliver the assistance required due to a lack of political will of the member countries.

Multilateral Approach Integration has been achieved in the ASEAN region through a multilateral approach. This approach supports a shift in cooperation and a greater emphasised on regional goals. Multilateral agreements bring domestic and existing bilateral concerns to the local level and commit signing countries to a regional implementation schedule. The ASEAN countries signed several international commerce, services, and investment agreements. Other multilateral agreements involving migrant workers, air freight services, and interstate transportation have been signed by ASEAN countries.

The biggest obstacle to South Asian integration is a massive trust gap. As the region's largest and most powerful country, India has struggled to instil adequate confidence in member states in its promise to non-interference, the resolution of bilateral conflicts, and the provision of big-hearted Leadership. A lack of committed Leadership and direction has stemmed from discord, uncertainty, lack of faith and consensus consensus in India's supremacy in the region. In emerging new ideas since consensus on projects from smaller countries is typically easier to achieve. Belgium and Luxembourg in the EU and Singapore in ASEAN have played a vital contribution and taken important initiatives smaller states' acceptance of Leadership and active participation is just as important as the region's leadership.

There are huge benefits of regional cooperation in South Asia. Custom clearances, labelling and testing requirements are significant cause in delays. Enhance cooperation among member states will make toleration arrangements in customs processes, arbitration and double taxation, market information rashness, and legal systems easier to achieve. As a result of these partnerships, the region's efficiencies will improve, as will the profitability of enterprises.

As a result of lower overhead costs, such as transportation, consumers will see lower prices. Currently, the region's weak transportation system raises trade costs and delays. Combining smaller economies into more significant regional economies will increase market size and lower costs through economies of scale. Smaller markets will become more appealing due to the increased potential for foreign investment.

By better allocating and restructuring industries, regional cooperation will result in the reduction of trade barriers, increased competitiveness, and an improvement in production efficiency. Poverty would be reduced, and the standard of living would rise due to the higher growth rate. In this aspect, the manufacturing industry has enormous

potential for job growth. Increased integration will result in increased access to technology, infrastructure, scalability, and infrastructural improvements, which are now hurdles to the sector's growth. A thriving manufacturing sector with increased capacity will open many doors and lift many South Asians out of poverty.

Even if prompted by economic incentives, a sincere commitment to integration is more likely to result in a platform for peaceful dispute settlement than any solo efforts. SAARC Summits have been the most important platforms for India and Pakistan to discuss bilateral concerns and make limited progress. Smaller states consider that regional economic cooperation and integration will provide them a more extraordinary voice than separated negotiations because of globalization, the diminishing significance of national borders, and the resulting increase in global good governance and regimes evolving by multilateral negotiations.

South Asian countries, entangled in a bilateral and regional concerns, now have the potential to work together to address their myriad common regional issues through regional integration. A benefit is SAARC member countries cooperating to use the region's vast water network successfully. The Ganga, Brahmaputra, Meghna, and Indus rivers, which make up the region's river network, can supply some of the region's energy needs while also providing economic prospects. For the past few years, the countries of South Asia have been discussing a regional air services agreement, a motor vehicle agreement, and a railway deal.

Conclusion

Regional Integration in Asia is pretty dramatic, on the one side, it has one of the best regional blocks as ASEAN, and on the other hand, it has one of the worst SAARC. SAARC is one of the least integrated regions globally even it has less Intra-regional trade than the Middle East, Latin America and Africa. Regional Integration in South Asia has multiple hurdles, ranging from power asymmetry, India-Pakistan conflict, Bilateral Issues to the Volatility of political regimes. Despite all these difficulties, Zia Ur Rehman put forward ideas of regional integration, which came into existence in 1985. India and Pakistan were initially hesitant to join SAARC. India perceived it as the alliance of smaller countries in the region to challenge its hegemony, while Pakistan perceived it as the platform for Indian domination. SAFTA as a free trade agreement was proposed in the 2004 Islamabad Summit, and it came into force on 1st January of 2006. It was preceded by a not very successful South Asian Preferential Trade Agreement (SAPTA). To contrast SAFTA with ASEAN Free Trade Area (AFTA), we see stark disparities in achievements. Both Asian regions, South Asia and South-East Asia have massive diversity among people, cultures, religions, and states. Despite having such diversity, ASEAN has been very successful, but this is not true in the case of SAARC. So is the case with respective free trade agreements. To analyse the problems of SAFTA in the background of AFTA, we can quickly identify elements that made SAFTA a failure. Lack of Political Will, Primacy of political over economic interest, lack of intention to rise above political differences, Public Opinions across different countries, structural problems and lack of effective leadership can be attributed as significant factors in the failure of regional integration in South Asia. It is well proven that regional integration has multiple benefits, but

South Asian countries have yet to give it a priority. South Asia is one of the poorest regions, one of the most vulnerable to natural disasters, extremely vulnerable to nuclear war and many more. It has an urgent need for regional integration. The 19th SAARC summit was supposed to happen in Pakistan. However, after a terrorist attack on India in September 2016, it was boycotted by four countries, including Bhutan, Afghanistan, Bangladesh and India. Since then, no further summit has been held. With the increasing involvement of China in the region and the development of the China Pakistan Economic Corridor, it is less likely that Pakistan will cooperate for regional cooperation in South Asia.

At the same time, India is also aspiring to build regional cooperation in South Asia minus Pakistan by proposing Institutions like BIMSTEC. But still, a large set of issues will remain unresolved if there is no cooperation among the region's two largest countries (India and Pakistan). India and Pakistan should instil adequate confidence in smaller member states and each other in their commitment to non-interference, the resolution of bilateral conflicts, cooperation, and the provision of big-hearted leadership. With the changing circumstances, the Regional (Economic) Integration of South Asia is the need of the hour.

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