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Globalization and Regional Co-operation in South Asia: A Political and Social Economy Approach

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Abstract:

This paper analyzes the problems of regional co-operation in South Asia within a general political and social economy approach towards a “fractured or fragmented globalization”. The word globalization, as commonly used, is largely a descriptive and not an analytical category. This paper attempts to give the term analytic content. It then focuses on both the positive and normative analysis of globalization. Trade, environment, finance and gender issues receive special attention. A global governance structure based on transparent principles of both economic efficiency and social justice is shown to be a desirable state of affairs; however, the present fractured process of globalization is more likely to end up in regionalism or even national protectionism and rivalry. Multilateral co-operation on the basis of the framework advanced here is an urgent necessity. For South Asia, such multilateral regional co-operation presents some special difficulties. But the paper argues that these difficulties, while challenging, can be overcome. The preconditions and prospects for building South Asian regional co-operation are discussed and a specific set of recommendations are offered.

Introduction:

Both globalization and regionalization are on going processes in contemporary world. Among others, Khan (1998,2004 a, b) has underlined the complex and contradictory processes connected with globalization. According to Khan's analysis, regionalization is a logical outcome of what he calls "fractured or fragmented globalization."

In this paper, we discuss the process of fragmented globalization, and its implications for regional cooperation in a conflict-ridden part of the globe, namely, South Asia. It turns out that there may be a set of policies that can lead towards greater prosperity and security through cooperation in South Asia.

The process of regionalization and regional co-opeartion has proved to be an effective instrument of conflict resolution and economic cooperation in the post cold war era. The major focus of regional arrangements has been the economic integration of a particular bloc of countries from a specific territorial jurisdiction of the globe. The phenomenon of regionalization, however, needs to be analyzed not only in terms of economic processes underway, but also in terms of its implications for possibilities to increase the role of regional arrangements in the maintenance of peace and security, in general, and in the prevention of intra-state conflicts in the post-Cold War world, in particular. The problems of security on national, regional and global levels are acquiring qualitatively new dimensions after the end of the Cold War. With the collapse of one of the 'superpowers', and its consequent collapse of the bipolar system of international relations, foreign policy doctrines of many countries around the globe have started to take a major shift. Most of the countries in the world have changed the policy focus from isolationism to regionalism. The political implications of the regional arrangements are still under scrutiny and a conclusive opinion can not be formed but on economic side, they have been an amazing success. It is this economic success of the regional arrangements which is driving more and more countries to join them.

The process of regionalization in South Asia is yet to be a success both on political and economic fronts. There was a great optimism that an institutional arrangement for cooperation among South Asian countries would pave the way for exploiting the enormous potential of human and natural resources of the region and resolution of the long standing political disputes. It was with this optimism that Zia-ur-Rehman, the former President of Bangladesh hosted a conference towards the establishment of South Asian Association of Regional Cooperation (SAARC) in 1985. But SAARC's slow progress and modest achievements since its creation have generated a great sense of skepticism about its role as an effective regional arrangement.

There are differing views about the success or failure of regional cooperation among South Asian countries. Monica Bhanot argues that South Asia is still in the process of evolving as a region due to two basic factors; an adequate degree of complementarities of interests has not yet been achieved among the South Asian states and the almost perpetual preoccupation with intra-state conflicts and crises leaves individual states with scarce time or resources to work towards regional solutions.[1] I would argue that the perpetual preoccupation of South Asian countries with the intra state conflicts is a fact which cannot be denied here but that too provides a strong motivation for strengthening the regional institutional mechanism. The European Union (EU) and Association for South East Asian Nations (ASEAN) have not only laid out a solid mechanism for regional economic cooperation but helped resolve the old intrastate conflicts among the member countries. However, it is the drive for economic cooperation that has solidified the regional cooperative mechanisms.

Will economic interests drive the South Asian countries toward greater cooperation? If so, what is the potential for the growth of regional economic cooperation in South Asia? Given the decades of mutual hostility and distrust, to what extent will the South Asian countries be able to achieve economic interdependence?

This paper seeks to answer these questions by analyzing the political and economic dimensions of the conflict and cooperation among South Asian countries following an analytical approach based on political and social economy of South Asia. In this paper by political economy we mean the classical state and civil society and their interactions. By social economy we mean the underlying social basis of the political economy including the family structure.

After an initial characterization of fragmented globalization and regionalization the paper attempts to trace the sources of conflict and areas of cooperation through an analysis of the internal as well as external political and economic dynamics of the South Asian countries. The rest of this paper attempts an analysis of the reasons why regionalism has not succeeded in South Asia so far especially when compared to relatively greater success of the Association of South East Asian Nations (ASEAN). Based on the historical causes of failure of regionalism in South Asia and comparative success of ASEAN, the paper concludes with a specific set of recommendations which that can help make a cooperative arrangement successful in South Asia.

Fractured Globalization Within a Positive and Normative Framework of Analysis

The main purpose of this section is to address a puzzle: why is there such a tendency towards regionalization and even nationalist protectionism despite the rhetoric of globalization, the structural adjustment policies of the IFIs(International Financial Institutions), and the recognized merits of a rules-based global system? The main argument offered is that there is a contradiction in the heart of the current US and the IFIs-led globalization that stems from their seeming refusal to understand the implications of unevenness in the real world. This also has led to their neglect of some vital principles of global justice. By ignoring issues of equity, the current leaders of globalization now risk losing economic efficiency if the world becomes further fragmented. Thus, my purpose is to try to understand 'globalization and its discontents'(Stiglitz2002), and offer some guiding principles to move forward.This

[1] Monica Bhanot, Challenges to Regional Security in South Asia: A New Perspective: http://www.trinstitute.org/ojpcr/p2_3bhanot.htm

analysis has implications for conflict and cooperation in South Asia which are drawn out later in this paper.

With frequent use the word globalization has by now acquired the status of an academic cliché. For many, the twin tendencies of the globalization of production and the emergence of a new international division of labor represent deep structural transformation of the world economy. In some sense, this is clearly true. But as some observers have recently pointed out (Harris, 1998, Khan, 1998) the word globalization, as commonly used, is largely a descriptive and not an analytical category. Furthermore, as a descriptive term its proper use requires a historical perspective that is often missing in the vast and growing literature. When viewed historically, it appears that globalization is a contradictory process of international economic integration that was severely interrupted by the first world war, the great depression, and the second world war. The emergence of the Bretton Woods framework can be seen as a way to integrate the world with respect to trade while controlling the flow of private capital. The demise of Bretton Woods has set in motion forces of capital account liberalization that are often the most visible aspects of 'globalization'. However, even this process is fraught with new instabilities as evidenced by the Mexican and — more recently and even more dramatically — by the Asian financial crisis. At the same time integration of trade even within the standard neoclassical Heckscher-Ohlin-Samuelson model would imply a fall in the wages of unskilled workers of the north thus increasing inequality there (Krugman, 1996; Wood, 1994). The south is supposed to experience a more equalizing effect through trade; but empirically, there is very little evidence of this happening. Therefore, it is necessary to treat the rhetoric of globalization with caution. At best, we are experiencing a `fractured' globalization (Harris, 1998).

Nevertheless, during the past few decades, the structural changes that took place in the world economy have brought about increased cross-border economic relations and, relatively speaking, a global economy. The internationalization of trade and foreign investment, aided by the worldwide deregulation of financial markets, has promoted economic integration and regional unions (Cook and Kirkpatrick, 1997). A new division of labor and a qualitatively different type of resource utilization, production and capital accumulation have emerged. The most significant effect of the recent structural change in world economy has been the creation of global interdependence and an economic global village.

Although integration of the world economy is not exactly new, these structural changes have added up to a qualitative alteration in the organization of global markets, namely, one involving a shift away from international trade towards international production and the domination of international finance and the man-made brainpower industries (Thurow,1996). As Cook and Kirkpatrick (1997) put it,

> The internationalization of economic activity is not a new phenomenon...The recent growth in international integration is qualitatively different, however, from the earlier expansion of international trade, in that it has been

characterized by the intensification of economic linkages

> that transcend national boundaries, often at the functional level (p. 55).

In the previous years of economic integration, international trade and the reduction of trade barriers played the leading role in integrating the world economy while in today's global economy the main key players are multinational corporations and the growing finance and capital markets as well as information and computer technologies.

Since the early 1980s, multinational corporations have increased not only in number but have also seen their share of foreign investment grow tremendously. In the early 1990s, there were about 37,000 multinational corporations that controlled some 170,000 affiliates and the global stock of FDI constituted about $2 trillion (Cook and Kirkpatrick, 1997). Today, some multinational corporations' turnover is greater than the GNP of some developing countries.

Globalization has also been enhanced by the rising importance of the financial market and financial institutions that are dominating global economic relations. Deregulation of the financial market and liberalization of foreign exchange policies have increased the flow of finance between countries and brought about the integration of the world economy.

As the effects of globalization and regionalisation are felt in every part of the world, social scientists have begun examining and debating these two concepts, their relationships, and the implication they are likely to have on the growth and welfare of developing countries. Among scholars there are clearly areas of dispute. Some scholars such as Hirst (1995) question whether there is such a thing as a globalized economy while others (Thurow, 1996; Ohmae, 1996) suggest that a qualitatively new form of economic integration has set the stage for the emergence of globalization and regionalization. Also, social scientists debate whether globalization and regionalization are enhancing the welfare of developing countries or marginalizing them, and thereby perpetuating regional and socioeconomic inequality.

In this paper we will examine the essence of globalization and regionalization, their relationship, and the implications they may have for developing countries. In particular, we will draw out the implications for the developing region of South Asia. We will also point out the contradictions between the global flows of capital and the local needs and sensibilities. At the end, we will see that this contradiction points to a need for understanding both the structural and normative aspects of globalization especially as it relates to development.

Fractured Globalization and Regional Co-opearation: Issues Related to Efficiency and Equity in South Asia

As mentioned at the beginning, globalization has been the buzz-word of the 1990s. As a process of change, globalization extends beyond the realm of politics and economics to embrace science, culture and lifestyles (Griffin and Khan, 1992). As such, globalization is a "multi-dimensional phenomenon applicable to a variety of forms of social action--economic, political, legal, cultural, military and technological--and sites of social action, such as the environment" (Perraton et al, 1997: 258).

There is no consensus among scholars as to the definition of globalization, or its effect on our lives and behavior. Some scholars have attempted to explain globalization as a political concept (Gills, 1997) while others elucidate the concept within the framework of recent economic, political and environmental developments (McGrew, 1992). Some focus on the positive impact of globalization; still others emphasize its adverse effects on income and social inequality, women and the poor (Sen, 1997, Gills, 1997). Others underscore the impact of globalization on the nation states and argue that "nation states have already lost their role as meaningful units of participation in the global economy of today's borderless world" (Ohmae, 1996:11). Yet others focus on the contradictory forces of integration and fragmentation in a postmodern world (Khan, 1998; chapters 6 and 7).

Since globalization has significant implications for numerous nations, individuals and communities, it is imperative to clearly define and examine its implications. A sine qua non for this is to conceptualize the term clearly. This is what we intend to do. In simple terms globalization refers to the integration of the world economy in such a way that what is unfolding in one part of the world has clear, sustained and observable repercussions on the socioeconomic environment and lifestyles of individuals and communities elsewhere. As McGrew puts it, globalization is "the forging of a multiplicity of linkages and interconnections between the states and societies which make up the modern world system, as well as the process by which events, decisions and activities in one part of the world can come to have significant consequences for individuals and communities in quite distant parts of the globe" (1992, p.262). However, in order for the term to have genuine analytical significance it must be a part of a theory of globalization. Furthermore, in order for significant policy implications to emerge the theory must have a <u>normative</u> focus as well. Khan (1998) has proposed such a theory in the context of a postmodern world. In brief outline the structural forces in the global economy push towards integrating markets and regions. However, many markets are embedded in national economies; there are also non-market aspects of social and cultural lives of people that are threatened. As a result we find the contradictory phenomena of McWorld and Jihad (Barber, 1995). The creation of a genuine global society, which many see as the ultimate outcome of globalization then necessitates meeting the requirements of global justice. Khan (1998) mentions at least 5 areas, where the norms of global justice must evolve (among others):

1. *International trade and monetary regimes:* The current asymmetric system of payments which penalizes the deficit countries by forcing only them to bear the costs of adjustment needs to be made a global burden sharing institution. The World Trade Organization, similarly, needs to acknowledge the historical imbalances in the world trading system. For example, specialization according to static comparative advantage may lock the developing countries in a relatively backward situation in the emerging global division of labor.

2. *International capital flows*: From the perspective of many people in the developed economies capital flight to LDC's (with or without free trade agreements) may constitute a barrier to well-being, at least in the short-run. At the same time foreign direct investment in LDCs may create only low-wage, marginal jobs (Wood, 1994). A just approach to FDI must consider the effects on both the north and south in terms of self-determination. A controlled capital flow accompanied by improvements of wages and working conditions in the south may be the most desirable solution.

3. *International ecological considerations*: Global interdependence has been increasingly recognized in this area. However, it is not clear what justice demands in terms of the relationship between the north and south. Other things being equal, the enforcement of strict environmental standards would seem to be just. However, such standards may destroy the livelihood of some people in the south, it is sometimes argued. A global tax and transfer scheme would seem to be the precondition for applying a global set of environmental standards. The transfer of ecologically sound technology systems from rich to the poor countries is a precondition for justice in this sphere.

4. *Asset redistribution and human development:* Much of the foregoing discussion pinpoints the need for giving people the economic wherewithal in order for them to develop their social capabilities. Most studies (e.g., Adelman and Robinson, 1978; Khan, 1985; James and Khan, 1993) have discovered that non-redistribution of assets to the poor hampers poverty alleviation strategies. Redistributing assets and developing their human capital so that the poor can have access to markets becomes a major necessity in our normative framework. In most parts of the world this will require structural reforms rather than marginal policy interventions.

5. *Gender justice:* The impact of globalization on women will have to be assessed carefully. The well-documented facts regarding gender inequalities that so far have affected women's capabilities negatively demand unequivocally that policymakers pay careful attention to enhancing (or at least not decreasing) women's capabilities. Will the globalization help women to overcome social limitations ranging from lack of nutrition to limits on participation in social, economic and political life? Unfortunately, the answer is unclear. In so far as many developing country women do not possess skills for the global market place, globalization is already hurting them.

These five examples are meant to be illustrative only. By no means do they exhaust all the pertinent issues in moving towards a just economy globally. (For example, we could add or highlight the growing rural/urban disparities with globalization and its implications for justice). But they do illustrate both the problems and prospects for justice in the age of globalization. One of the major political problems we have not discussed so far is the weakening of national sovereignty that the call for global economic justice entails. Agreeing to a global mode of production and distribution constrained by the principles of justice does mean surrendering considerable authority to international agreements, conventions, and ultimately, perhaps to new international organizations. It should be observed, however, that even without the constraining role of justice the globalization process weakens national sovereignty, even for advanced industrialized countries (e.g., NAFTA). Thus, the call for a just economy must confront this (as well as other issues such as weakening of traditional cultural modes of living) head on in the light of reasonable principles. The fundamental message is that among these principles that of freedom as rational autonomy of the individual must be the principal one. This is one rational (perhaps the only one) approach if we are to avoid both the Scylla of Jihad and the Charybdis of McWorld.

The McWorld aspect of globalization is a result of a fractured but real economic, financial and technological integration. Following the collapse of the Bretton Woods Agreement in the early 1970s, the financial market (including interest rates and exchange rates) was deregulated, thereby enhancing the flow of capital between nations. Until then the world financial system was governed by the Bretton Woods agreement of 1945 which provided for fixed exchange rate where currency values were expressed in terms of dollars and gold. When the system was abolished in 1971 by the Nixon administration and replaced by a floating exchange rate, the grounds for a global market were laid.

This was reinforced by the resurgence of a neoliberal free-market ideology of liberalisation, privatisation and deregulation that became the "only game in town" following the ascendance of political conservatives -- Reagan in the U.S., and Thatcher in Great Britain. It was further reinforced by the collapse of the former socialist countries and the emergence of the neoliberal thinking as a dominant and unchallenged school of thought (Falk, 1997). All these factors created a conducive environment for the free movement of goods including capital goods, and services as well as finance, thereby seemingly creating an integrated global economy. In the following section we discuss the main causes of this contradictory but nonetheless integrating moment in the world economy. However, for South Asia in particular, issues related to both efficiency and equity must be addressed carefully. South Asia, after all, has the largest pocket of poverty in Asia(Khan and Weiss,2006; Khan 2006).

Causes of a Fractured Globalization

There are several factors that lie behind the emergence of globalization. One of these factors is the growth of the *global financial market*. Recently, international finance has increased more rapidly than world trade and has become an important element and the driving force behind global integration. As Drucker notes, "capital movements rather than trade in goods and services have become the engines and driving force of the world economy" (quoted in Yeung and Lo, 1996: 19). Facilitated by deregulation and the liberalization policy of western countries, international capital has increased both its mobility as well as its turnover. According to *The Economist*, in 1995

> …$1.2 trillion of foreign exchange swapped hands on a typical day. That is roughly 50 times the value of world trade in goods and services. In the early 1970s, prior the liberalization of the world's capital markets, the value of currency trading was only six times greater than the value of "real" trade (1997:93).

With an emerging Eurocurrency now in place as the'euro' and the accelerated growth of private capital, the traditional understanding of capital as being related to a particular country has lost its meaning. In other words, capital has become so internationalized that it has lost its national color, making it very difficult to control and regulate the flow of finance between nations.

The second factor, which enhanced the integration of the world economy, is *the demise of the Soviet System and end of the Cold War*. The collapse of the former Soviet Union and the end of the Cold War, has led to a widening of the global market and deepening of economic linkages. Today, except for North Korea, almost all countries of the world are integrated into and have become part of the global market. Even Cuba, which is ruled by a hard-line communist party, has allowed to a certain extent foreign investment to play a substantial role in the economy of the country.

Consequently, the world is no longer divided into a bipolar political order as it had been during the Cold War era when the United States and the Soviet Union were competing for ideological influence. Today, the competition between nations is no more for ideological supremacy but for market and scarce resources. In today's global economy geo-politics is out and geo-economics is in.

The third factor, which lies behind globalization, is the *growth of corporate activities*. Global integration has been the result of the growing activities of multinational corporations. Today, the number of multinational corporations as well as their sphere of influence has expanded. To reduce the cost of production and maximize profit as well as to have competitive edge over others in conquering market, multinational corporations are transcending their national boundaries and are investing in other nations. Consequently, foreign investment has increased dramatically in recent years (see Table 1). This is partly facilitated by the revolution made in communication and transportation technology.

Table 1: Growth of World-wide Direct Foreign Investment (1981-90)

	Annual Growth (Per Cent)	
	1981-85	**1986-90**
All Countries		
Direct Foreign Investment Outflows	4	24
Gross Domestic Investment	0.5	10
Developed Countries		
Direct Foreign Investment Outflows	3	24
Gross Domestic Investment	2	11
Developing Countries		
Direct Foreign Investment	-4	17
Gross Domestic Investment	-3	9

Source: United Nations, *World Investment Report*, (New York: United Nations, 1993, p. 15)

As Boisier notes, "the revolution made in technology has made it possible the 'breaking down' of production process into different stages at different localities without losing efficiency and profitability" (1997). The high level of specialization has changed the structure of manufacturing in such a way that the production process allows different parts to be produced in different countries. The final goods are produced or assembled in a completely different country, thereby creating what is called a "global factory”.

Global integration has been facilitated by the growth of world trade associated with foreign direct investment (Cook and Kirkpatrick, 1997). As indicated in Table 2, the growth of world trade has outstripped that of world output by 4.2 times between 1990-95.

Table 2: Average Annual Growth of World Trade and GDP, 1950-95

(Percentage)

	1950-60	**1960-70**	**1970-80**	**1980-90**	**1990-95**
World Trade*	6.5	8.3	5.2	5.0	6.2
World Output	4.2	5.3	3.6	3.1	2.0
Difference	2.3	3.0	1.6	1.9	4.2

Source: World Bank, *World Development Indicators* (Washington, D.C.: The World Bank, 1997, p. 129).

*Exports of goods and services on a national accounts basis.

The fourth, and maybe the most important driving force behind globalization, is the revolution made *in information, communication and transportation technology* which has reduced telecommunication as well as transportation costs, and thereby diminished the importance of distance in economic activity (Boisier, 1997).

Between 1930 and 1996, the cost of a three minute telephone call between New York and London fell from $300 (in 1996 dollars) to $1 (*The Economist*, 1997a). The dramatic reduction in telecommunication and transportation costs “have, in turn, permitted closer integration between markets, consumers, producers and suppliers” (Cook and Kirkpatrick, 1997:58).

Business activities, including selling and buying of goods and services, as well as other financial transactions can be conducted at a distance using telecom networks. This is further facilitated by the Internet and the other modern technologies that have not only reduced telecommunication costs but also made it easier to reach almost all parts of the world. Consequently, shopping through telephone and Internet, tele-conferencing, distance education through video and television, and even tele-working have become cost-effective and widespread practices.

Table 3: Long-term Trends in Transport and Communications Costs (1990 US$)

Year	Average Air Transport Revenue Per Passenger Mile	Average 3-Minutes Telephone Call New York-London
1930	0.38	244.65
1940	0.46	188.51
1950	0.30	53.20
1960	0.24	45.86
1970	0.16	31.58
1980	0.10	4.80
1990	0.10	3.32

Source: World Bank, *Global Economic Prospects and Developing Countries* (Washington, D.C.: The World Bank, 1992, p. 34).

The decrease in transportation and communication costs means considerably narrowed "space" and shortened "time" that has made goods and factor markets very close and more interlinked (Straubhaar and Wolter, 1997). It also means greater mobility of people within and between regions. In developing countries, the relative decline in transportation costs combined with

> The push of miserable conditions at home and the pull of higher standards of living abroad are leading tens of millions of people to move from poor countries to rich countries just when unskilled labor is not needed in the wealthy industrial world (Thurow, 1996:9).

The fifth factor that has led to globalization is *internationalization of environmental problems* such as global warming and acid rain. These global environmental problems require global solutions, making international co-operation and policy co-ordination not only important but necessary. Here, however, the rhetoric has so far outstripped the actual institution building process on a global basis.

Consequences

According to Bosier, globalization has resulted in the external and the internal opening of national economies (1997). One should add to this regionalization as well. The objectives of the global market are incompatible with a centralized decision-making process. The opening of national markets threatens the economy of individual nations, thereby increasing protectionist sentiments among nationalist groups who call for regionalization or protection of their national markets. Paradoxically, globalization has contradictory effects in that it increases liberalization on the one hand even as the opening of national markets creates a fiercely competitive environment, unleashing narrow nationalist sentiments, on the other hand.

External opening refers to the general liberalization and deregulation trends in the world economy. This has been enhanced by reduction of tariffs and import taxes that has increased the flow of goods and services as well as factors of production between nations. External opening and deregulation policies have not only increased the flow of goods and services as well as the flow of finance between nations, but have also enhanced the importance of cities and regional unions that have become the hubs of global economic activities. Cities such as New York, London, Singapore, and Hong Kong exemplify this orientation.

Internal opening refers to the recent trend of political as well as economic decentralization that has been accompanied by a democratization process and the devolution of power to local and regional authorities. On the economic front this implies reducing the role of the state and central planning in economic activities as well as the privatization of public enterprises in line with the rules of the market and the Bretton Woods institutions. Scholars and policy makers alike debate whether these policies, mainly driven by efficiency and profitability goals, will enhance the growth and welfare of developing countries.

While internationalizing the world market, globalization is also creating an environment of fierce competition where only powerful and efficient economic entities tend to survive. Therefore nation states resort to regionalization to insulate their economies from global problems as well as to have a competitive edge in the global market; to solve trade and economic problems within a regional context; and to promote investment and growth within the region.

According to Perraton and others (1997), regionalization denotes not simply a rise in economic activity between geographically contiguous countries, but a qualitatively different type of division of labor between them which results in economic activity becoming increasingly organized at the regional, and geographically confined level. Several regional unions have recently emerged, including the European Union (EU), the North American Free Trade Agreement (NAFTA), and the growth triangles of Asia.

Implications for Developing Countries

Regarding the intense discussion on the effect of globalization on the welfare and economic growth of developing countries, the dominant view appears to be that closer economic integration will enhance the flow of goods and services as well as factors of production, and hence promote economic growth and the welfare of all people. It is believed that globalization will result in a better division of labor, allowing developing countries (where labor is abundant) to specialize in labor intensive commodities while permitting developed countries to use their workers in more productive ways (*The Economist*, 1997a). It is also argued that globalization will allow capital to move in accordance with the productive investment opportunities and thereby increase the returns to capital.

Others (Falk, 1997; Khan, 1996; Sen, 1997) reject this argument and contend that globalization and regionalization will benefit the powerful economic entities, thereby marginalizing weak regions and nations. It is argued that globalization, while increasing the importance of service industries and skilled labor, also reduces the importance of primary commodities and unskilled labor. The revolution made in biotechnology, microelectronics and the like have eroded the importance of raw materials. Consequently, countries which were once considered wealthy, endowed with natural resources, are no more in the list of rich countries. It is no wonder that, today, the richest man in the world is Bill Gates, the owner of Microsoft. The advancement made in technology has not only changed the structure of inputs but it also changed their significance. Modern industries use fewer natural resources and as a result their importance has fallen out of the competitive equation. In modern economy, technology, knowledge and skills stand as the only source of comparative advantage (Thurow, 1996). Such a scenario puts developing countries, the main exporters of primary goods and unskilled labor, in a very disadvantageous position.

Moreover, globalization will force developing countries to operate in accordance with the discipline of the global market, limiting the effectiveness of their national development policy. Bonvin (1997, p. 41) points out: "The autonomy and effectiveness of national economic policy have decreased as a direct result of globalization of financial market and financial deregulation." The growth in the global financial market and highly mobile private funds are weakening the ability of countries' central banks to manage exchange rates and design effective and sound macroeconomic policies. However, as Harris (1998) argues there is still some scope for national policies, since global integration is far from perfect.

Globalization and Financial Crises: The Asian Debacle

A timely illustration of the instabilities inherent in the forces of financial integration sweeping over the globe is the recent financial crises that began in Southeast Asia and later engulfed Korea. To some extent the Japanese recession and debt overhang also worsened because of the developments in Southeast Asia and Korea. A disintoxicated view of the Asian miracle and globalization is necessary in order to put the on-going crisis in perspective.

A brief recapitulation of the crisis will show that the Thai crisis that began on July 2, 1997 and the subsequent contagion effects were all results of a number of factors present in various degrees in all the affected economies. These factors include but are not limited to a de facto fixed exchange rate with respect to the U.S. dollar, short-term borrowing and loans to dubious ventures in sectors such as real estate. The export slow down of 1996 had already created balance of trade deficits. When speculative attacks against currencies such as Baht, Ringgit and Rupiah began the central banks could no longer defend these currencies. But the crises that erupted were not simple currency crises. Soon the banking sector was affected. First there was illiquidity and finally insolvency for a large number of banks and other financial institutions. Eventually, the real economies were affected, most severely in case of Indonesia. In that country the economic crisis led to a full blown political crisis ending the thirty year rule by Suharto.

There is little agreement on how to characterize the crisis. As Jomo (1998) has pointed out, the debate between the IMF and its critics over the adjustment programs in these countries revealed many disagreements. However, in the policy debates some basic issues regarding the role of globalization in precipitating the crisis have not been addressed adequately.

The region as a whole grew rapidly beginning in the mid-1980s. Devaluations and relaxation of rules for foreign investment in countries such as Malaysia, Indonesia and Thailand attracted foreign direct investment (FDI). Fortunately, the high value of the Japanese yen (endaka) after the Plaza accord pushed many Japanese companies abroad. Some of the Japanese FDI found its way to Southeast Asia.

It has been observed since the beginning of the crisis that the fundamentals were sound in Southeast Asia. In other words, fiscal balances were in order, monetary policy was not loose and inflation was not high. However, the export-led growth in Southeast Asia was also accompanied by bubbles in real estate and financial markets. The property and construction booms as well as the stock market booms essentially fed on themselves. The expectations of even higher gains tomorrow brought on the high prices and investments today. When this giddy momentum of helplessly escalating absurdity collapsed, the direction reversed suddenly and precipitously. The rhetoric of boom, which was not only banal but also complacent, has now been replaced by an equally banal rhetoric of doom.

In these one sided, linear narratives history progresses unidirectionally. However, the logic of globalization, as we have been at pains to point out, is much more complex. The Asian example shows how unleashing too many market forces at once — in particular, liberalizing capital accounts without prudential and other regulations and the ability to enforce them can lead to disaster and chaos.

There are similarities as well as differences between the Mexican crisis and the Asian crisis. In both cases there were free falling currencies. In both Latin America and in Southeast Asia there were also serious contagion effects. However, one crucial difference between the two cases is that the collapse of the Mexican peso and the 'Tequila effect' it produced did not lead to the kind of selling off of assets as in the Asian case. The Latin American crisis did not develop into a full scale debt-deflation.

Therefore, the Asian crisis is not just a balance of payments crisis. It is as noted before a currency crisis that has developed into a full scale and massive debt deflation and depression in the real sectors of the economy. One way to characterize this new type of currency crisis plus debt deflation is to view these as international capital market failures. In the first instance, globalized international capital markets have failed to allocate capital optimally — contrary to the neoclassical Arrow-Debreu general equilibrium model. As Alan Greenspan blandly pointed out: `In retrospect, it is clear that more investment money flowed into these economies than could be profitably employed at modest risk' (Greenspan, 1997: 1-2). In the second place the banking system in the private enterprise sectors failed to absorb and channel the large foreign capital inflows. In Stiglitz's metaphor the banking system — more generally the financial system — failed to act as the brain of the economic system. In other words, it failed to monitor and evaluate risk effectively.

Interestingly, this reveals in Southeast Asian context the paradoxes of globalization that we have emphasized in this essay. As Sobhan (1989) and others have pointed out capitalism in developing countries has been led by the state to a large extent. However, the same states that had been instrumental in creating a modicum of successful capitalist economies, now seem powerless in the face of globalization. This paradoxical situation requires further elaboration.

In the developing economies of Asia, the state is often called upon to build the infrastructure for capitalist development. In many cases, the domestic capitalists grow as a class with the active support of the state apparatus which they control to a large extent. The paradox of Asian development is that the state was quite successful in doing this up to a point. But the limits reached by this state-led capitalist development are also clear now.

In the 1990s the developing countries in Asia accounted for roughly half of global expansion. However, growing by exports also made these economies open to pressures for liberalizing the capital markets. For South Korea, which was going to join the OECD group such liberalization was seen as a sine qua non. For the other Southeast Asian countries the combination of the flow of FDI and finance capital in the emerging markets funds seemed to justify further liberalization. A regime of fixed exchange rates and orthodox fiscal and monetary policies had already given credibility to these markets. Yet, the state — it turns out — can not protect the domestic capitalists in globalized markets as it could before. The so-called `crisis of governance' (Jomo, 1998) is really a crisis of the underdeveloped state apparatus which is virtually powerless to deal with the forces of globalization. Thus asymmetries in global economic and political power once again are revealed sharply. The uneven development of the real and financial sectors are also exposed to the scrutiny of the global investors. As confidence in the financial markets collapse, and investors flee with herdlike tenacity the weak states of Asia can do very little to shore up their domestic capital markets. As Siamwalla (1997) has commented ruefully there are no alternatives for countries like Thailand to submitting to the onerous IMF conditions because of this type of failure of the Thai state and the Thai bourgeoisie. Given the complex relationship between the bureaucrats, politicians and business in Thailand (Krongkaew, 1997) it is unlikely that a coherent response to the crisis will emerge soon.

The Asian crisis, therefore, reveals both failures of the international capital markets and of the underdeveloped state. The first type of failure is directly connected with the paradox of globalization. The second type of failure may appear at first sight to be unconnected to globalization; but this, in fact, is not the case.

The weak states of Asia, did not appear to be weak as long as their domestic financial sectors were not so greatly exposed to the outside world. Countries such as South Korea were able to direct investment through the domestic banking system. However, with sustained high growth the pressures for deregulating the capital markets from both domestic and foreign profit-seeking constituencies became increasingly more difficult to resist. At the same time, the regulatory financial environment that characterizes the advanced countries during the periods when they are less prone to crisis was not something that was studied very much before the crisis. Thus, the states in Asia may be said to have both an intellectual deficit and an institutional deficit in proper regulation. Finally, even with enough regulation, the rapid flow of capital in globalized markets would still pose a danger. After the Asian crisis, countries like Chile which had imposed fairly stringent regulations on capital flows much earlier are now being studied intensely.

In all this, the most important factor is the uneven development of the state apparatus in Asian capitalism. In many Asian countries bureaucrats guiding and supervising experts in various specialized areas became relatively efficient at their jobs and — partly because of this — quite powerful. At the same time, many of these same countries did not have highly proficient experts and powerful bureaucracies for the banking and financial sectors. Even in cases such as Thailand where the central bank had a reputation for technocratic ability, the bureaucrats found themselves paralyzed in the face of liberalized markets with new institutions such as BIBF (Bangkok International Banking Facility) (Lauridsen, 1998).

It seems fairly certain then that the paradox of globalization is also present in the behavior of the Asian states. In a world of free flowing capital the advanced financial sectors of North America and Western Europe were poised to handle the capital outflows as well as inflows. However, with the loss of confidence in the Asian markets the global investors are now taking a flight to quality. Hence the outflow to the Asian countries not only has stopped; a reverse outflow from these countries towards the advanced countries has proceeded with a vengeance. The same advanced country financial institutions are now safe havens. It is superfluous to point out the role that comparatively stable regulatory environment in advanced countries plays in inspiring confidence in the quality of their financial instruments and institutions. Asian governments are finally beginning to realize just how weak they are individually, and even collectively in the face of such uneven global market and governance structures.

Somewhat paradoxically, South Asia was spared the pain of the Financial Crisis as was China, partly because of its regulated financial sector. Not opening up capital accounts quickly as the IMF-led globalization insisted, actually prevented a financial melt down in these economies. However, we need to understand the present situation, historical evolution and the future prospects of South Asia better in light of our discussion so far. For this, we need a concrete introduction to South Asia which we have avoided so far. We now turn to this task.

South Asia as a Coherent Region

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South Asia is home to 1.4 Billion people, about quarter of the world population but has 43% of the world's poor and only 2% of world's GDP.[2] The region is

[2] http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIA.

characterized by poverty, illiteracy and low life expectancy. It is the most malnourished region of the world, with half of its children being under-weight, compared with 30% in Sub-Saharan Africa. It is the least gender-sensitive region and it has the highest human deprivation, in terms of access to health facilities, safe drinking water, sanitation facilities and opportunity for work and leisure. At the same time, South Asia is the most militarized region in the developing world, with the highest percentage of GDP going to military expenditures. This implies that a large portion of the income which should have been used for improving the lives of people is being used for armament in view of the contending threat perceptions of the regional countries.

The macro economic indicators of South Asian countries show a dismal picture with the exception of relatively better performance by India and some recent successes of Pakistan.

Table 4:Macro Economic Indicators of South Asia (Including forecast)

	2004	2005	2006	2007	2008
1. Nominal GDP (USD billions)	818.7	924.7	1050.1	1188.5	1321.6
2. Population (millions)	1428.3	1449.8	1471.1	1492.3	1513.1
3. GDP per capita, current USD	573.2	637.8	713.8	796.4	873.5
4. Real per capita GDP growth	5.0	6.1	5.3	5.0	4.7
6. Current account balance (% GDP)	-1.1	-5.2	-3.5	-3.3	-2.5

Source: *World Bank*

These indicators would reflect an even poorer situation of India's persistent growth of more than 7% in the last few years is not taken into account. As evident form the chart above, South Asian countries have a 2% of world GDP as against approximately 25 % of world population. The per capita income of US$ 713 makes it the poorest region of the world.[3]

Socio-culturally, South Asia is both homogeneous and heterogeneous. The colonial heritage endowed it with political and administrative systems and an extensive communication network. But culturally, ideologically, and ethnically, the region is very diverse. There are different religions, languages, dialects and customs. India alone has 14 official languages, 80 principal dialects and 550 sub dialects, 6 major religions, and immense ethnic diversity.[4]

Politically, all the countries except Bhutan have attempted to evolve a system of parliamentary democracy but with mixed results and varying degrees of success. .While India has seen relatively smooth and stable democratic governance in most period, its neighboring countries have been characterized by ethnicity, sectarianism and influence of military in the political process. The significant characteristic of politics of South Asian countries is the cycle of disruptions of democratic aspirations and their resurgence. [5]Pakistan, Sri Lanka, Bangladesh and Nepal witnessed erosion of democratic assertion of

[3] The second poorest region in the world is sub-saharn Africa with a per capita of US $ 744 in 2005 (world bank)

[4] http://en.wikipedia.org/wiki/List_of_national_languages_of_India

[5] Here the distinction made by Khan (1998) between formal and "deep" democracy is relevant. See also Khan(2007) and Khan and Frame(2007).

authoritarian governance. Pakistan has especially been subjected to recurrent military regimes.

The eight countries of South Asia (Afghanistan recently joined SAARC) possess a very complex relationship. The turmoil of the division of India into India and Pakistan created in each nation a distrust for the other, a distrust intensified by the traumatic breakup of Pakistan into Bangladesh and Pakistan and the Indian role in that conflict. While Bangladesh and India closed ranks during and immediately after the 1971 conflict, religion and fear of economic/cultural domination influenced Bangladesh to move apart from India. Relationships among the smaller nations of South Asia and their international relationships are seen as a kind of "blanket of protection" against domination by India

The Political Economy of conflict:

The persistence of conflict both within and between the states is the single most potent factor that has prevented the region from forging an effective regional cooperative mechanism. There is no particular explanation of the persistent conflict among the countries. It is embroiled in various complex issues and provides a disappointing picture from the political as well as economic perspective. The differences between India and Pakistan over Kashmir, between Sri Lanka and India over the nationality of Tamil people, where Sri Lanka accused India, especially state government of Tamil Nadu for supplying arms and providing trainings to the Tamil terrorists in its Southern areas , the problem between India and Nepal on open border, dispute between India and Bangladesh over illegal migration from the Chittagong Hill Tracts (CHT) and the demarcation of boundaries involving fertile islands and enclaves and also in sharing the water of river Ganges, are some of the issues that are yet to be resolved. The fact that the region is perpetually plagued with various inter-state and intra-state conflicts reflects the lukewarm approach of the ruling elite in solving these problems. The decision making of the political elite has always been driven by the narrow considerations of caste, religion, ethnicity, language and community rather than the welfare and economic prosperity of the people. The persistence of multifarious problems, both within and between the South Asian states, therefore, hampers the sustenance of an environment wherein even the basic essential needs of the common man are fulfilled.

The conflict among South Asian states has global implications owing to the presence of nuclear weapons in the two hostile nations-India and Pakistan. Sartaj Aziz, former finance minister of Pakistan argues that South Asia is the region where many global fault lines meet.[6] In other words, there is strong possibility of proliferation of conflict in south Asia on the global level. Stephen Cohen also argues that possibility of a nuclear conflict between India and Pakistan is highly unpredictable and the assumption that nuclear deterrence would prevent any future war between two countries was almost negated in the 1999 escalation between two countries.[7] The region has, therefore, assumed greater importance in the global affairs and outside powers including United

[6] South Asia; melting pot of global fault lines by Sartaj Aziz in South Asia in the World edited by Ramesh Thakur

[7] Nuclear weapon and nuclear war in South Asia: Unknowable futures by Stephen Cohen in South Asia in the World edited by Ramesh Thakur

States are attempting to mediate between India and Pakistan in solving their long standing disputes.

Tracing the sources of conflict in South Asia is a complex process. As already mentioned, there are various factors working towards the build up of environment of conflict and confrontation. We will, however, discuss some of the more significant factors here.

Colonial heritage: While the British imperial rule brought the South Asian countries within a common colonial system, it simultaneously sowed several seeds of discord that continue to plague inter-state relations in the area even today. Bilateral relations among countries are defined by antagonism and mistrust. The final hasty retreat of the British and the ensuing bitterness generated between the ruling elites of the two major South Asian states gravely disrupted the traditional complementarities and cohesion. Indeed, the historical fact that Pakistan and Bangladesh are the severed limbs of what was once a united India bestows a unique complexity to the entire region. The colonial masters also pursued the policy of "divide and rule" and created an environment of confrontation in the community on religious and ethnic lines. This divisive strategy is still working today.

Nationalism: We would argue that narrow nationalism is the most potent source which divides the South Asian nations and pits them against each other. Two nation theory is the perpetual source of conflict between India and Pakistan. Each of them attempts to justify their position on two nation theory through Kashmir dispute. Pakistan tries to validate the theory by calling the dispute as an "unfinished agenda of partition" while India considers it as an integral part. The biggest blow to the position of Pakistan on two nation theory was received when East Pakistan won its war of national liberation in 1971 and the independent nation state of Bangladesh was created. The Bengali nationalism was the driving force behind the Bengali's struggle for separation. The Indian support to the Bengalis was based on the desire of falsifying the idea of two nation theory. Similarly, the dispute between India and Sri Lanka on Tamil issue emanates from the Indian sympathies to the Tamil nationals who have strong ties with Tamil population in Indian state of Tamil Nadu. The dispute between Pakistan and Afghanistan has also origins in the Pakistani support to the Afghan Pakhtuns against other nationalities and the Afghan desire of creating a greater Pakhutnistan including the large Pakhtun area of Pakistan. This way, narrow nationalism has prevented the nations from finding common grounds of cooperation. The ruling elite have also used nationalism for perpetuation of their own vested interests. Nationalism has been used by the elite to generate a separate distinct identity among the people who otherwise share many common social, cultural values and customs.

Religious Identities: Religion was first used by British to divide the people for the sake of their own agenda. This strategy created mistrust and hatred among people and still exists today. Consequently, Pakistan's reactions to the killings of Muslims in India are matched by India's response to the killings of Hindus in Bangladesh. Indo-Sri Lankan relations also remain strained over the discrimination and occasional mistreatment meted out to Tamils in Sri Lanka. Indeed, relations between India and Sri Lanka have also not improved much despite the withdrawal of the Indian Peace Keeping Force (IPKF) following the breakdown of the 1987 Indo-Sri Lankan accord and the hectic democratic efforts of President Kumaratunga for restoring peace on the island. Both countries continue to view each other with suspicion regarding the LTTE crisis, while Sri Lanka battles alone against the increased hostility of the Tamil tigers that are disrupting the stability of the island with wide connotations for the entire region.

The center piece in the obstruction to effective regionalization in south Asia is the Indo-Pak rivalry. The regional threat perception and strategic thinking stands squarely in the way of any initiation of integration in south Asia.

Indo-Pakistani Rivalry: The most crucial and serious problem that divides South Asia is the Indo-Pakistan conflict. The state policies of both countries have maintained a perpetual state of conflict since partition of two countries in 1947. Conversely, the people of two countries are more keen towards having a more cooperative and peaceful environment. However, over the years the official paranoia has dominated Indo-Pakistan relations. Since independence, the two countries have fought three wars, two of which were about Kashmir (1948 and 1965) and one on the Bangladesh liberation issue (1971). Much of the Indo-Pakistan conflicts can be attributed to the India's hegemonic designs in the region and Pakistan's effort to achieve parity with India with external military and economic support. The secondary factors have been the structural imbalances of two countries and divergent political systems (for most of its history Pakistan has been ruled by the military while India has been a functioning democracy since independence). Kashmir has remained the core area of dispute and prevents tow countries from coming closer. While Pakistan maintains that Kashmiri people should be given the right to self determination, India considers it as an integral part. Part of India's position is driven by the fact that any concession to people of Kashmir may open a floodgate of many other similar movements by other ethnic groups in India.

Ethnic Identities: Ethnicity is the biggest source of intra-state conflicts in the region. South Asia is probably one of the world's most complex regions in terms of multi-ethnic societies, characterized by striking internal divisions along linguistic, regional, communal and sectarian lines, but externally linked to one another across national boundaries. Given these ethnic divisions, ruling elite has hardly made any attempt of adopting a pluralistic principle of governance with the exception of India. Ethnicity has been used as an instrument of dominating one community over others. It was the dominating attitude of Punjabis of Pakistan which alienated the Bengalis and forced them to struggle for separation. Even now their dominance has alienated minority Sindhis, Baluchs and Pashtuns. Similarly, India has deep ethnic cleavages and people of different ethnic backgrounds do confront each other. However, India has managed to overcome these cleavages largely through a system which provides fair opportunities to all ethnicities. Bangladesh is probably the only country which has mostly homogenous ethnic population of Bengalis.

The Political Economy of Regional Co-operation in South Asia:

The growth of regional economic cooperation arrangement is one of the major developments in the world political economy after the Second World War. The formation of regional integration has been greatly successful in brining historically hostile countries together. The factors that push countries closer are both economic and political but economic factors have always prevailed over the political ever since the formation of nation states – the classic example is the states in the European Union and the South East Asia where economic dimension have brought long time foes in the same dais.

In case of South Asia, situation has remained contrary to this phenomenon. Politics have prevailed over economics and political disputes have prevented the formation of cohesive economic bloc in South Asia. Despite the slow pace of economic cooperation, there is an increasingly greater urge to forge an economic cooperation on the lines of European Union and Association of South east Association for Cooperation (ASEAN). The smaller countries are especially keen for such cooperative mechanism. Bangladesh has been pioneering the efforts of regional cooperation despite the lukewarm response by India and Pakistan.

Institutionalization of Co-operation:

Since the partition of Indian sub-continent, some isolated attempts were made to create some kind of cooperative mechanism among South Asian countries but these attempts failed to translate into a regional institution. It was argued by some analysts that the creation of a regional mechanism on the lines of ASEAN and EU is next to impossible. The formation of SAARC in 1985 was thus viewed with great optimism and a diplomatic breakthrough in South Asia but its slow progress and modest achievements over the years has caused the initial optimism dissipate to a large extent. To some it is merely a talking shop, which can provide nothing more than a lip service to the various issues of peace and development in the region. To others it may be a panacea to the region’s problems but its existence certainly has provided an opportunity for the policy makers, administrators and experts to meet regularly and hold informal dialogues on important regional issues such as security, trade and transport, social development and etc. This practice of informalism and behind-the-scene discussions among the political leaders has contributed to the beginning of confidence-building process in South Asia.

The first concrete proposal for establishing a framework for regional cooperation in South Asia was made by the late president of Bangladesh, Ziaur Rahman, on May 2, 1980. While the Bangladesh proposal was promptly endorsed by Nepal, Sri Lanka, the Maldives and Bhutan, India and Pakistan were skeptical initially. India's main concern was the proposal's reference to the security matters in South Asia. Indian policy makers also feared that Ziaur Rahman's proposal for a regional organization might provide an opportunity for the small neighbors to regionalize all bilateral issues and to join with each other to "gang up" against India. Pakistan assumed that it might be an Indian strategy to organize the other South Asian countries against Pakistan and ensure a regional market for Indian products, thereby consolidating and further strengthening India's economic dominance in the region. However, after a series of diplomatic negotiations, the organization was formally lunched in 1985.Since then SAARC has evolved slowly but continuously both in terms of institutions and programs. However, it is true that most of the programs and achievements of SAARC exist on paper

Despite the modest progress of SAARC, its importance can hardly be overemphasized. It is the only available regional mechanism which can provide some form of stability and forum for dialogue. The charter of SAARC mainly focuses on economic and social issues but it has great political relevance also. The regular summit meetings help create confidence building environment among states. The success of other regional mechanism was also possible after long period of suspicion and mutual mistrust.

However the mistrust was removed with the passage of time and economic benefits motivated the member states to depend more on the regional cooperation.

One problem with the success of SAARC is the role of India in the organization. India is the largest country both in terms of size, economy and military strength. This makes the relationship with other countries highly complex. While there is always an Indian desire to have hegemony in the region, the other countries have always resisted such tendency. India has common borders with all the member countries and only other two countries sharing borders are Pakistan and Afghanistan. The smaller member countries have always looked with suspicion towards India and considered it to be a hegemonic power. Flowing from this asymmetry is that the security perceptions of India and the member countries are also divergent. However, by being members of SAARC whereby the principle of consensus and unanimity works, there is a sense of equality, which these countries have with regard to India. In this manner, the sense of asymmetry is cut down symbolically. This makes the role of SAARC even more important.

We argue that performance of SAARC should not be merely assessed it in terms of quantitative results but its qualitative role in brining the countries together on equal level is significant. This comes out clearly when the expectations of the member countries at the time of joining the association are examined which were not strictly limited to the desire of regional co-operation. Its importance comes forth particularly with reference to a region which is characterized by asymmetry. SAARC helps in these identities which have their own symbolic importance as well as practical utility. These symbolic aspects help to reduce these asymmetries in terms of identities. In this sense there is a permanent political contribution of SAARC and herein lies its relevance.

The contribution of SAARC in social as well as cultural cooperation is also very important. The contact established between the people and civil society of member countries has played crucial role in alleviating the atmosphere of mistrust and help create confidence building approach. Regional co-operation becomes all the more essential in a scenario where challenges in the present and the future are trans-border in nature requiring regional approach and not national solutions. The economic areas of co-operation have not shown much success but SAARC has widened its areas of interaction and presently is experimenting with sub-regional co-operation.

Thus the success or failure of the regional association cannot be measured in a vacuum. It should be done so with regard to the expectations of the member countries—their national, bilateral and regional agendas. Secondly, it has to be done with regard to the ground situation prevailing in the region whereby SAARC since its inception has provided an alternative structure to conduct relations among the member states.

It is important to point out that SAARC does face some serious obstacles to success. The organization is facing a serious resource crunch and the SAARC countries have shown little willingness to increase their contributions to the association. Moreover, SAARC must battle the public perception that it is more a figurehead of South Asian unity than an actual facilitator of regional cooperation. SAARC has been criticized by the public for only reaching agreements on the lowest level of cooperation among states instead of pushing for cooperation that would actually benefit South Asia. The SAARC conventions on drug trafficking and terrorism have also been criticized for not producing substantial results. We would argue that this only regional mechanism should be assessed from its more utilitarian perspective in terms of coming out with results which were not on the agenda but which facilitated other positive outcomes..

Informal talks between Indian and Pakistani Prime Ministers at the second SAARC summit in 1986 led to the diffusion of tension between the two countries on the issue of India's military exercises near border.. In January 2004, conciliatory talks between India and Pakistan were sparked by an upcoming SAARC conference. A breakthrough between Indian and Pakistani diplomats actually occurred at that conference. While the dialogue has yet to produce tangible results, the experiences indicate that SAARC can help promote political cooperation and serve as a forum for communication among South Asian leaders. Since political conflicts are a primary cause of SAARC's inability to foster cooperation among its members, serving as a forum to alleviate those problems could in turn aid efforts to improve economic integration in the future. Other major achievement on the forum of SAAC has been the proposal of economic integration and negotiation of free trade agreement between the South Asian countries.

Economic Integration: The term 'economic integration' encompasses broad areas of socio-political, economic and cultural links with nations mostly from a particular territorial jurisdiction joining together through an institutional mechanism. The Association of South East Asian Nations (ASEAN), European Union (EU), North American Free Trade Area (NAFTA) are few examples of such integration. The degree of economic integration ranges from preferential trade arrangement to free trade area, customs union, common market and economic union.

The proposal of economic integration among South Asian countries has long been discussed. The basic reason for such proposal has been the acute under development of the region. The sources of capital accumulation are limited, and the most promising source of foreign exchange is the export of industrial raw materials to the industrial West. The prospects for increasing domestic capital generation and accumulation are essentially the same as for the general economic growth of which capital accumulation is a vital part. Population increases and the obstacles to industrialization becloud these prospects. Most of the countries in the region have largely agricultural economies and depend heavily on primary production. Primary production can be as profitable as industrial production, even in commercial terms. But it is obvious that profits from primary production are most effective in terms of general economic growth when the total size of the population is relatively small and when the bulk of the labor force is engaged in commercial rather than subsistence production. This is not the case in South Asia which is the most heavily populated region of the world. In such scenario, the possible economic union can enable the regional countries to trade in the primary production at a cheaper cost .Moreover, the export of primary products from smaller countries to relatively more industrialized India and Pakistan can reduce the cost of production.

There are arguments that economic integration among South Asian countries is not feasible. Chandra Bhatta argues that *the potentiality of regional integration in South Asia is not promising compared to the European Union. To some extent SAARC lacks minimum requirements to be a case of successful economic union. First of all there are* *dissimilarities in every respect from the model of political systems, economic policies to the way of life such as culture and religion. In addition to this, there is a developed country like India and to some extent Pakistan as well, powerful enough to play role in the world affairs whereas Bangladesh, Bhutan and Nepal are underdeveloped and need help from developed countries like India and Pakistan. To our dismay, despite India's looming power in the world it has however failed to lead South Asia mainly due to its rivalry with Pakistan and unresolved issues with other smaller countries*.

We would argue that countries in South Asia have more socio-cultural similarities than European Union and ASEAN. The experience of ASEAN proves that economic benefits can drive the countries to focus more on convergences rather than divergences. Moreover, European Union has been able to integrate developed countries like Germany and France and under developed countries like Lithuania and Latvia. The key seems to be political will, not economic and cultural uniformity.

Free and Fair Trade Agreements: It is ironic that intra-regional trade among SAARC countres is lowest among all similar regional arrangments. The intra-regional trade among South Asian countries was only 4.5% of total exports in 2003 as compared to 21.2% of ASEAN countries.[8] There is no denying the fact that South Asia has great economic strength in terms of market potential, rich natural resources and human capital. Considering the huge comparative advantage that these countries have in export sector, the increased regional trade through an integrated economic arragement is likely to benefit the South Asian countries especially smaller countries. The protectionist policies of the Western countries and increased emhapsis on regional blocs also necessiate the fact that promotion of regional trade would eventually be inevitable. The counter argument to the idea of relatively free and fair trade in South Asia lays stress on the political disputes that seem to effectively marginalize the attempts of economic integration.

Some political economists have drawn what seems to them an inevitable conclusion that the most likely scenario for South Asia is that it will remain locked in an unstable situation. Their argument is that given the Indo-centric nature of the region, any change will require that India becomes more accommodating, but that India may regard accommodation as unnecessary given that it considers itself powerful enough to cope with any tension in the Sub-continent. Such reluctance will then serve to strengthen anti-Indian hawks in Pakistan and as a consequence, South Asia may never benefit from a spirit of regionalism. These arguments have been taken even further. There are those who argue that in the case of India, for example, even with increase in trade within SAARC, it will not fulfill the needs of the Indian economy. In the case of Pakistan, it is suggested that a real integration with SAARC that has India as the dominant member can threaten to blur Pakistan's political and strategic identity and, therefore, will not be fully acceptable.

We would argue that a relatively free and fair trade regime in South Asia is a necessity for all the member countries including India and Pakistan .Due to the complexities and cotradictions in the WTO's efforts to promote global trade in an uneven world, countries around the world are now giving more emphasis to regional trade blocs

[8] http://sdpi.org/tkn/cuts/BP2-2005.pdf

and bilateral trade arrangements[9]. The countries in South Asia are lacking comparative advantage in technology and depend on comparative advantage of agriculture sector. Given the fluctuations in the global market due to the forces of globalization, South Asian countries will have to resort to extensive regional trade. The formation of a free trade agreement (FTA) with liberalization of investment regimes and other facilitating measures can help in exploitation of the potential of efficiency-seeking restructuring of industries within the region.

The economic managers of the region are cognizant of the importance and potential of a free trade arrangement in South Asia. The initiation of SAARC Preferential Trading Arrangement (SAPTA) in 1996 was an attempt in this direction.

In continuation of SAPTA, an Agreement on the South Asian Free Trade Area (SAFTA) was reached at the 12th SAARC summit at Islamabad in 2004. It creates a framework for the creation of a free trade zone. SAFTA aims to arrive at zero customs duty on the trade of practically all products in the region by end 2012.. The new agreement will be operational following the ratification of the agreement by the member governments. SAFTA requires the developing countries in South Asia that is, India, Pakistan and Sri Lanka, to bring their duties down to 20 percent in the first phase of the two year period ending in 2007. In the final five year phase ending 2012, the 20 percent duty will be reduced to zero in a series of annual cuts. The least developing country group in South Asia consisting of Nepal, Bhutan, Bangladesh and Maldives, gets an additional three years to reach zero duty.

The free trade agreement was considered to be a big move towards the goal of regional economic integration. However, the success of the agreement still seems far from certain.Doubts are being expressed that SAFTA may not deliver as expeditiously as required without separating trade from politics of bilateral conflicts and overcome a tendency to dominate and fears about hegemony of one over the others. However, SAFTA could not be postponed, especially by Pakistan and India who wanted to engage each other. Faced with the challenges of an irreversible globalization, growing engagement with numerous bilateral and multilateral Free Trade Areas (FTAs), within and beyond the region, and quite radical reduction in tariffs under structural adjustment program of IMF, undertaken by most South Asian nations, it is essential that member countries of SAARC take a big stride

The question this agreement raises is whether South Asian countries are genuinely committed to regional trade liberalization or whether it is merely a confidence building exercise that is being pursued as a means of easing political tensions in the region. Some take the argument further to insist that economic cooperation will inevitably lead to greater political cohesion in the region and therefore should be pursued even if initial

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9 See Haider A. Khan, "China's Entry into the WTO: ICT Sectors, Innovation, Growth and Distribution"CIRJE discussion paper, July,2002. can be downloaded from http://ideas.repec.org/p/tky/fseres/2002cf157.html

trade related benefits of preferential trade were limited. However, given the argument that globalization is a fractured process, trade and financial liberalizations need to be specific, sequential and fair to all the parties involved and perceived as being equitable to all by all the parties.

Globalization and Regional Co-operation: The countries of South Asia traditionally pursued policies of protectionism and closed economic strategies. However, in the decade of 1990s, especially with the fall of USSR, they started to open up their economies. While India pursued the policy of phased economic liberalization, Pakistan, Bangladesh and Sri Lanka vigorously liberalized the economies. This was partly due to the pressures of International Monetary Fund and World Bank and partly due to the economic successes of ASEAN countries that encouraged South Asian nations to imitate those policies. The increasing trend of liberalization also encouraged them to negotiate the regional economic integration**.**

Ananya Mukherjee Reed argues that *the 'new' regionalism in South Asia is almost entirely a product of the contradiction of globalization*[10]*, which increases competition on the one hand, and need for the collaboration on the other.*[11] The countries of South Asia are greatly encouraged by the outcome of the liberalization which has seen India, Pakistan and Sri Lanka getting an economic growth of more than 7% in last few years. But it is also a fact that the increased liberalization and forces of globalization have adversely affected the interests of South Asian countries as of most other under developed countries in the world.

Globalization has not been accompanied by a reduction in poverty or improvement in human development. The outcome of globalization has been higher prices, fewer employment opportunities, increased disparities in income and a higher incidence of poverty. South Asia suffers from an additional disadvantage in the globalization process because of the textile and farm subsidies of the US and EU which hurt the export potential of South Asian countries since they are agriculture surplus countries. The WTO regime has also not been able to get the textile quotas abolished as yet, making the region's textile industry vulnerable against quotas.

The foregoing analysis shows that the efforts at improving regional cooperation in South Asia have increased but have not translated into an effective operational mechanism.

Why Regionalism is not succeeding:

The preceding discussion leads us to the conclusion that regionalism is not succeeding in case of South Asia. SAARC is yet to prove as an effective regional mechanism and often over ridden by the deep political conflicts among the states. In the second part of paper, we will make an attempt of analyzing why regionalism is not

[10] Or, to use our term, "fractured globalization".
[11] "Regionalization in South Asia: Theory and Praxis" by Ananya Mukhrjee in Pacific Affairs, summer,1997

succeeding, what are the obstacles to the success of regional cooperation and what should be done to achieve an effective regional cooperation like ASEAN. We will also make a comparison of both organizations.

The failure of SAARC arises precisely out of the effort to use the institution to focus attention away from serious disagreements within the member countries, and establish some arrangement despite these disagreements. This makes all the arrangements superficial in nature and against the ground realities. The attempt of creating cooperative environment without removing suspicion and mistrust is something which is never likely to achieve positive results.

One reason for failure of effective regionalization is absence of an institutionalized security mechanism. Since the regional countries have always attempted to keep the issues of security outside the ambit of SAARC, it has never given the institution a real legitimacy. The primary reason for smaller countries keeping the issue of security outside SAARC is their apprehension of Indian dominance. Ananya Mukherjee identifies India's desire of dominating the smaller countries of region as a major obstacle in the way of regional cooperation.

The regional threat perception and strategic thinking stands squarely in the way of any initiative in favor of integrating South Asia. India always thought that it was threatened from the periphery because its neighbors were being lured away by the cold war power opposed to India: the United States. While India's threat perception is linked to its hegemonic self-image and translates into paranoia against 'foreign intervention' in South Asia, Pakistan's is simply India-centric. It has taken upon itself the onus of overturning the status quo with regard to Kashmir. The temperament of the state of Pakistan has been determined by this extremely inflexible 'mission statement'. It cannot live in peace with India unless it can force a many-times-stronger India to surrender Kashmir to it.

SAARC VS ASEAN:

The most powerful argument advanced for the failure of SAARC is that inter state disputes can never allow effective regionalization. The fact is that the countries of South East Asia had also long standing disputes which they were able to resolve through the regional arrangement of ASEAN. Indonesia, Philippines and Malaysia were able to overcome their contending territorial claims in favor of the creation of a trading bloc. In South Asia, unresolved disputes assumed a higher priority than a collective response to internal and external challenges. In fact, while India wants members to adhere to the SAARC charter excluding political debate, Pakistan resents the fact that the charter excludes such a debate. India's argument is that SAARC is undermined by the raising of issues disallowed by its charter; Pakistan's argument is that excluding a 'realistic' political debate from the charter hinders the coming together of the members on other issues. There is no such thing as an Asian identity in Southeast Asia. The various member states of ASEAN are not united by any linguistic or cultural commonalty as in South Asia. Although a new commercial ethic is creating a kind of uniformity among them, they don't feel any Asian adhesive in this relationship.

In the ASEAN region, the nations which cooperate and live in peace are not homogenous linguistically and culturally. In South Asia, there is strong sense of cultural unity, yet any advance towards cooperation and peace seems almost impossible to achieve

In looking at ASEAN and SAARC comparatively, it has to be kept in mind that ASEAN countries were at a very preliminary level of capitalist growth them when they sought integration into the global capitalist economy. They had no interests of their own to protect and no terms to dictate. But in the South Asian case, particularly in the case of India and Pakistan, significant indigenous capitalist economic interests have grown over the years and they are finding it hard to adjust and harmonize themselves with the powerful economic interests at the global level. ASEAN had the added advantage over SAARC in that the member countries were smaller in size and their decision-making systems, both political and administrative, were generally more centralized and efficient. However, having involved itself in the process, it is clear that South Asia will soon be able to define and project its own forms of productive interaction with the international economic forces

Recommendations:

To overcome widespread poverty and backwardness, resolve conflicts, benefit from extended regional cooperation and economies of scale, become more competitive and achieve higher growth, South Asian nations need to pursue the goal of regionalization and regional cooperation vigorously under the umbrella of SAARC. SAARC must fully exploit the trade-investment nexus, liberalize trade and promote investment, withdraw restrictions on travel and free flow of information across frontiers, create South Asian Investment Areas and undertake vertical and horizontal industrial integration. There are greater opportunities for cooperation in communication, information, energy, education, health, water and power, modern technologies, research and development (R&D). Along with a Free Trade Area, steps need to be taken for Customs Union, Tariff Union and Monetary Union.

South Asian region has the potential of becoming the second largest economy in the world after China if they can develop an integrated economy and overcome political conflicts. Following measures can enhance the cooperative mechanism in the region.

1. **Conflict Resolution Mechanism**:

It is a fact that all attempts at regional cooperation are likely to go waste in the presence of political disputes. Kishore Das argues that "*given the low level of mutual trust, spillover effects of the ethnic and religious conflicts, and the magnitude of bilateral disputes in South Asia, it is unrealistic to believe that any substantial growth of regional cooperation is possible without easing political tensions*".[12] The effectiveness of SAARC is also compromised in the absence of its ability to allow a forum for negotiating conflicts. It is, therefore, essential that a conflict resolution mechanism should be introduced through SAARC and some sort of regional security arrangement may be initiated to increase the confidence of people in SAARC.

The proposed conflict resolution and security mechanism could conduct its activities on the basis of universally accepted principles of inter-state relations based on peaceful coexistence as enshrined in the Charter of the United Nations. To respond to multidimensional security challenges and threats, the mechanism may evolve its own functional instruments. They may include fact finding missions, special envoy monitors to deter human rights violations, problems solving workshops between disputants, efforts at capacity building for mediations, community based peace initiatives, media mobilization etc.

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[12] http://www.mtholyoke.edu/acad/intrel/dash.htm

1. **Relatively Free and Fair Trade:**

The first stage towards economic integration would be to enhance trade. The current meager level of intra-regional trade does not speak well for the prospects of economic union. While the current level of regional trade originates from prevailing trade barriers in each country, the more substantive constraint lies in the structural asymmetries in the national economies which limit the scope for trade. Moving towards South Asian Free Trade Agreement (SAFTA) is the first phase in a process of deepening economic cooperation. Enhancing the regional trade requires political will on part of the countries like India ad Pakistan. However, in the face of unevenness of the economies of the region the concrete steps and extent of liberalization must be both realistic and perceived to be fair by all parties. In other words, they must be both efficient and equitable and perceived as such by all the parties.

India needs to open up its economy for encouraging imports from other countries. The level of exports from India to the region has increased but India has imported less. As the largest economy of region, India needs to make the deepest concessions. The list of products free from duty must be expanded in order to allow more flexibility to the smaller countries. Provisions must be made for financial compensation to those smaller countries such as Maldives who are likely to face significant import revenue losses due to trade concessions under SAFTA.

2. **Investment Co-ordination and Regional Co-operation**:

The move towards SAFTA will be meaningless unless the issue of stimulating investment in the region, particularly in the less developed areas, is accelerated. The concept of a free trade would be more meaningful if small economies with narrow markets, such as Bangladesh, Nepal and Sri Lanka, are allowed to use the incentive of the larger South Asian and particularly Indian market to stimulate enhanced investment from within and without. Domestic entrepreneurs were seeking to access global financing and foreign enterprises, particularly from East and South East Asia looking for entry into the large and growing Indian market, will be encouraged by SAFTA to rethink their investment plans. The prospect of an unrestricted access to an integrated South Asian market would allow the investors to make structural changes in their production capacities and expand diversify the production available for export. Structural changes have the potential of transforming the dynamic comparative advantage of South Asian economies. To realize such a transformation in the investment climate in each of these countries, preconditions will have to be created where perceptions of political hostility and the attendant security threats to investors, will have to be put to rest. While some of these apprehensions may be addressed within a possible SAARC investment agreement, it is the primary responsibility of the host governments, major political parties, the business community and the media of these countries, to create the preconditions whereby investors will feel secure. Allowing for improvements in the social environment for investment the major task will be to put in place the necessary financing facilities to service the emerging investment needs. Moreover, each South Asian country will have to open up its capital account and allow restricted convertibility by lifting all policy restrictions to capital flows within the region.

3. **Establishment of A South Asian Development Fund:**

The proposal for a dedicated South Asian Development Fund may also be encouraged. The Fund was endorsed by SAARC at least a decade ago but no real attempt had been made for its establishment. There is some confusion as to the scope of this fund and whether it will cover both financing of infrastructure projects as well as private investment. Here it is suggested that two funds may be developed. One fund should be dedicated to financing infrastructure development projects mostly located in the less developed countries. As in the case of the European Union, a special fund is needed to enhance the development capacity of weaker countries to enable them to enhance their competitiveness in an integrated market. Billions of Euros were invested through the EU in such funds, to finance investment in Spain, Portugal, Greece and Ireland when they entered the EU, to enable them to upgrade their infrastructure and enhance their competitive capacity. A similar fund, underwritten from within SAARC but supplemented by aid resources from outside the region should be established to enable Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka to invest in infrastructure projects. Investment which modernizes and enhances capacity in transport and communications as well as energy, perhaps with a special focus on regional connectivity but not exclusive to it, will enhance the attractiveness of these economies to prospective investors. A second fund should be established as an Investment Fund, serviced by both public and private capital, to finance private sector investment projects within the weaker economies, which involve cross border investment as well as projects for serving regional markets. This should attract prospective investors from India and Pakistan and could be used to leverage further private investment from outside the region which may even cover private investment in infrastructure projects

4. **Energy Crisis and Regional Co-operation:**

There is an increasing deficit of energy in South Asia mainly owing to the India’s growth as one of the world's largest energy markets. In contrast, Nepal and Bhutan retain the potential to emerge as major sources of energy exports though harnessing the vast hydro power potential in their rivers. Indeed power is already Bhutan's largest source of export earnings directed to India which has helped to make it the only country in the region with a trade surplus with India. However, Nepal's export-oriented hydropower projects have been tied up in protracted negotiations with India, its principal prospective market for power. These negotiations have acquired political overtones which have strained bilateral relations and have also become a major issue in domestic politics in Nepal. Bangladesh has a potential for exporting natural gas to India but is reluctant to do so because of domestic political opposition to such exports on the grounds that its gas reserves are insufficient to justify such exports. Pakistan remains a potential transit point for connecting the vast energy reserves of West and Central Asia to South Asia but has not been able to benefit from its strategic location because of its political tensions with India. The proposed gas pipeline from Iran to India through Pakistan is seen as a major breakthrough in the energy cooperation between two hostile nations. This proposed energy corridor along with potential cooperation of India with Nepal, Bhutan and Bangladesh in the energy sector will go a long way in improving the South Asian cooperative mechanism.

5. **Harmonizing Macroeconomic Policies:**

Any move towards an Economic Union cannot limit itself to a free trade area but needs to include a Customs Union. The WTO regime also requires countries to lower and subsequently waive off the tariff levels across the borders.. Since all SAARC countries have been lowering their tariff rates, mostly under pressure from the World Bank/IMF structural adjustment reforms, the deep disparities in tariff levels which once characterized the region are less apparent toady. In view of these developments, it would be appropriate to open up discussion on adopting a common tariff policy vis-à-vis the rest of the world. However, this is a complex issue.. It is the smaller economies who have reduced their tariffs rather faster than India or Pakistan. However, this is not a problem which can persist over a long period of time due to the WTO rules of the game. The introduction of a custom union is likely to encourage and enhance intra-regional trade making the goal of an overall economic integration easier.

The goal of economic integration, however, cannot be limited to the increased trade. It would require all the regional countries to harmonize their macro economic policies covering such broader issues as fiscal, monetary and exchange rate policies. Such a level of cooperation would demand coordination amongst SAARC finance ministers to ensure that their budget deficits, inflation, exchange and interest rates maintain some element of alignment. By harmonizing the fiscal, trade, monetary and exchange policies, the goal of integration would be made easier. This harmony in policies would eventually facilitate the introduction of a common currency which completes the cycle of an economic union.

6. Integrating Labor Markets:

It makes little economic sense to talk of globalization though integration of factor markets, in the form of commodities and capital, while omitting all discussion of labor which is a recognized factor of production. I would argue here that given the high level of poverty, unemployment, and regional disparities in education and skills of manpower, the economic integration of South Asia is not possible without integrating the labor markets of the region. A recently carried out World Bank study maintains that *labor markets are important; that the solid economic growth currently experienced across South Asia can only be sustained if labor forces are mobile, flexible and have the right skills mix; and, that if this economic growth is to translate into massive and permanent poverty reduction this will come about largely through labor market and employment channels.*[13]

However, there are problems associated with free movement of labor in the region. Besides economic benefits, there are underlying social implications in the receiving and sending countries and the political fallout from this process. The issues of human rights as well as national security are also involved along with the criminal dimension associated with human trafficking of women and children. It is, therefore, required that a realistic and humanitarian policy is designed which can serve to formalize the process of labor flows and integrate this into the process of economic cooperation in South Asia. Such an exercise will need to recognize that if a South Asian Economic Union is to emerge, labor market integration will have to be a central component of the process

[13] "labor markets in South Asia: Issues and Challenges" A study by World Bank South Asia Region at: http://siteresources.worldbank.org/INTLM/Resources/390041-1103750362599/SAR_paper.pdf

7. **Social Integration:**

South Asian countries have many common social issues which need to be resolved through a joint effort. Poverty is widespread in the entire region and income inequalities and imbalances have resulted in poor getting poorer. A common strategy is required to combat poverty in the region. Any move to integrate South Asia cannot bypass this defining social reality. It was, therefore, appropriate that the Colombo Summit of 1991 set up the Independent South Asian Commission on Poverty Alleviation (ISACPA). In practice though, very little has been done so far to alleviate poverty in the region. A common poverty fund needs to be established where all the member countries can pool their resources to fight this common enemy. An integrated approach is also required to eliminate social evils like honor killings and Sati and to improve the plight of women, children, and minorities.

8. **Cultural Integration**:

Despite having diverse ethno-lingual population, the region has many common cultural values and customs. From classic music to the movies, art and architecture, South Asia presents a common heritage. The clothing, the lifestyle and the food habits are also significantly common. This commonalty of culture provides a very strong motivation to integrate the region. Cultural similarities override the ethnic and linguistic diversities to a great extent. The policy makers need to exploit this common ground for harnessing the other areas of cooperation.

9. **Co-operation among the Institutions of Civil Society:**

There is a strong and growing demand within civil society for greater cooperation within South Asia. However, the constraints to cooperation in virtually every area originate in the tendency of member governments to politicize issues for reasons of domestic expediency. Citizens in the region do want to trade with each other, travel across borders as freely as do the citizens of the European Union or ASEAN and to live without the threat of war or fear of terrorism. The leaders of the SAARC countries need to respond to the needs of their citizens and demonstrate the statesmanship to resolve their short and long term conflicts. These conflicts can be more readily addressed within a framework of open regionalism where borders and nationality do not become constraints to the intercourse of people and commerce. Such a perspective on South Asian cooperation appeared to have emerged out of the Islamabad summit but needs to be sustained by the commitment of the SAARC leaders and incorporated into the institutions governing inter-state relations

Conclusions:

In this paper we have developed an analytical framework for understanding regional co-operation under “fractured globalization”. We have then made an attempt to analyze the problems of regional co-operation in South Asia by applying this framework to the region.

Despite the dismal picture of regional cooperation and economic development, immense opportunity exists in South Asia for a leap towards higher growth and welfare through strengthening of regional cooperation and economic integration. Unlike other regional arrangements such as European Union (EU) and Association of South East Asian Nations (ASEAN), South Asia has not been able to evolve as a strong and effective regional mechanism primarily due to the political disputes and increased emphasis of ruling elite on disagreements rather than complementarities. This has resulted in poor human development conditions with extensive poverty and social imbalances. The region possesses immense potential for natural resources and human capital. The only thing absent is a political will and commitment to exploit that potential.

The above analysis of political and the social economy of regional co-operation in South Asia provides some insights into the causes which have prevented the region from growing into a strong economic bloc. It is quiet evident that existing environment in the region is conducive for conflict and not for cooperation as far the role of political ruling elite is concerned. Conversely, the people of the region are in favor of an effective regional mechanism which can prevent conflict and integrate economies of the region towards better economic opportunities and standard of living. This goal is far sighted but not out of sight, difficult but not impossible. The analytical framework provided in this paper together with the concrete recommendations we have made can go considerable distance towards reaching the goal of effective regional co-operation in South Asia.

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