

REALISING SOUTH ASIAN ECONOMIC UNION IN 21st CENTURY

Raza ul Munem*

Abstract

The article presents a conceptual framework to quantitatively and qualitatively prove that within 21st century, SAARC's enormous economic potential can be liquidated to capitalise on the available opportunities and drivers like; China's Belt and Road Initiative (BRI) and in particular; China Pakistan Economic Corridor (CPEC), ultimately forming a South Asian Economic Union (SAEU). The analysis vindicates that other than extremists BJP's ultra-right wing Hindu activists, there exists an overwhelming international and regional political support for BRI and CPEC especially; among the divided Kashmiris, including the sitting Chief Minister, Ex-President Jammu & Kashmir Chambers of Commerce, officials from Indian Ministry of External Affairs, mainland State Ministers, academia, think tanks, renowned journalists, lawyers and other segments of the civil society. The Trump Administration's aggressive policies are fuelling a fiercely competitive international economic and political order. Luckily, China's vision of South Asian economic integration provides a crucial window of opportunity to SAARC, particularly; India-Pakistan to harmonise their antagonistic policies in favour of geo-economics. To secure great power status India, with SAARC, states must support China's BRI and CPEC to further capitalise their growing trade; culminating into a SAEU with China as a member state. The article quantitatively and qualitatively proves that there exists an enormous trade potential to manifest such a conception for which commensurate political support exists in India-Pakistan and, indeed among the remaining SAARC states.

Keywords: South Asian Association for Regional Cooperation, Belt and Road Initiative, China Pakistan Economic Corridor, South Asian Economic Union.

Introduction

At the outset, let us frame a research question for this article: "growing economic interdependence of South Asian Association for Regional Cooperation (acronym; SAARC) on China together with China Pakistan Economic Corridor (CPEC) can lead to formation of a South Asian Economic Union (SAEU), subject to India's political will". Given the current regional and international environment, realisation of such a union may appear to be difficult. However, during the 17th and 18th centuries, the trade in sub-continent was thriving with free movement of goods, labour and capital.¹ The agricultural growth was just 0.44 percent compared to non-agricultural trade forming 1.69

*Raza ul Munem is PhD scholar at National Defence University, Islamabad.

percent. Accordingly, the ratio of productive growth between agriculture vs non-agriculture products was 7:38.² Why then in the 21st century South Asian regional trade is the lowest compared to other regions? The answer, most likely, lies in the historical pangs of the subcontinent, as we will see later in this article. Contrary to intra-regional trade in SAARC, the bilateral trade of SAARC with China is actually growing since 2003. In fact, the main protagonist; India's bilateral trade with China has grown from \$2.94 billion in 2003 to about \$100 billion in 2017³. It means the potential to trade and form an economic union in South Asia does exist but SAARC states' in particular; India-Pakistan's perpetual acrimony has created an impasse, ever since the partition of subcontinent. Not only that the impasse can be unleashed but instead, the opportunities and drivers offered by China's One Belt One Road (OBOR) or Belt and Road Initiative (BRI) and particularly; CPEC can transform SAARC to a SAEU. Thus: "growing economic interdependence of SAARC on China and CPEC – an independent variable; formation of SAEU – the dependent variable; and, India's political will – an intervening variable, will be corroborated using a cogent set of quantitative and qualitative analysis.

Conceptual Framework of SAEU

A conceptual framework to establish a SAEU was provided during the 18th SAARC Summit including its infrastructure, institutional mechanism outlining the broad contours. The report was sponsored by SAARC's Secretariat and prepared by ADB in 2015. This article will present a new perspective to explore SAARC's transformation into a SAEU by capitalising CPEC opportunity with China as a member state. The new perspective will provide solid foundations to transform SAARC into SAEU by exploiting the available opportunities and drivers.

SAARC is suffering from an impasse for over 30 years, even though the region was known as the golden basket for entire Asia. To revive its dynamism of erstwhile pre-partition period, China's OBOR and CPEC projects can act as catalysts. Thus South Asia, once again can become an integrated community, where Spill-over⁴ effect can permeate all sectors of the economy and domestic political life, culminating into formation of a SAEU. Driven mainly by CPEC, the potential for economic interdependence can be manifested through Complex Interdependence (CXI) theory, where trade activities seamlessly Spill-over to political interests thus creating perfect regional environment for acceptance of SAEU by all the SAARC states.

Ever since 2017, fierce economic and political international order has been further accentuated by the US President Trump's aggressive foreign policies. These US policies are radically altering the global value system to cause a visibly worsening behaviour by other world powers. On the basis of financial and job reduction shocks, leading to infringement of sovereign independence, Brexit process in the UK, also sent tremors across the entire Europe in 2016-17. However, China-India bilateral trade has grown to almost \$100 billion in 2017, which compelled both countries to back off from the brewing Doklam, Tibet border stand-off. If India, due to socio-economic compulsions decides to support CPEC and joins the prospective SAEU then strategies like; Cooperative Economic Interdependence (CEI) internally (within SAEU), and Cooperative Hegemonic Interdependence (CHI)⁵ externally (for extra-regional states), can be employed both by China and India. It means a common regional tariff, while a synchronised trade policy for extra-regional states.

SAARC's Impasse - Myths and Realities of Regional Integration

The above conception about SAEU may be challenging for scholars due to SAARC's failure to integrate as a cohesive regional economic bloc like EU or ASEAN for over 30 years. However, literature review revealed that before partition of the subcontinent, South Asia was thriving in regional and extra-regional trade, indicating a high level of interdependence whereas the EU was not even conceptualised. It indicates that SAARC is not ineffective because leaders of subcontinent are in different. It has been unproductive because the same leaders have not changed their approaches to resolve regional issues. Mr Asad Ali Khan⁶ negated the prevailing myths about SAARC's impasse. According to him, South Asian inhabitants produced agricultural as well as manufactured goods and traded raw material with neighbouring regions. South Asia then, was an economically vibrant part, which had the most extensive network of road-rail and shipping infrastructure. Gowher Rizvi⁷ traced the seeds of India-Pakistan discord to the unimaginative division of an erstwhile synergized political and economic hubs of Punjab and Bengal, triggering centrifugal tendencies resulting in Kashmir, Mizoram, Nagaland and Khalistan; each clamouring for independence. Thus, the rivalry between India-Pakistan was built into the political structures of the two countries. Nonetheless, the most glaring conclusion is that South Asian region had all the ingredients to be integrated into a productive economic bloc like the EU or ASEAN. Gowher Rizvi also claims

that even the regions outside subcontinent were indirectly integrated with subcontinent right up to Afghanistan and Central Asia.

Interplay of Strategic Goals of the Key Regional States

The challenges of SAARC not only stems from the regions' chequered history but these are also the creation of individual nations' incoherent strategic goals and objectives. For example, Indian national objective is to become a major world power for which it is forging international alliances with the West particularly; USA. India is also pursuing to become a permanent member of UNSC and Nuclear Suppliers Group (NSG). However, India's stride towards gaining a major world power status will be hard to materialise without mutually inclusive and economically integrated SAARC with China on board. Unless, India is physically connected to the silk route under OBOR (BRI) to which CPEC is a flagship project, it will not be able to meet its growing infrastructure, energy and socio-economic needs. On the contrary, India's policies are geared to gain US support in return for a proxy role to contain China and isolate Pakistan. Thus Mr Modi's strategy is an antithesis to the basic tenants of inclusive regional integration for a sustained economic growth, therefore, is most likely to fail.

Pakistan's primary national goal is to maintain integrity and independence in political, security and economic decision making in line with its own national interest.⁸ This comes into direct clash with India since amongst all the SAARC nations, Pakistan always challenges Indian dominance within and outside the sphere of SAARC. Pakistan's nuclear capability has created the required space to secure its national integrity and defence. Together with China, it has been able to achieve a crucial economic cooperation in the form of FDIs through CPEC.

China's main goal is to acquire "comprehensive national power." Her grand strategy is to associate and transcend the US and Asian rivals for regional primacy by maintaining internal order, sustain high economic growth, pacify the periphery and cement international status.⁹ To achieve this goal, President Xi Jinping is striving to make China's neighbours friendlier in politics, economically integrated with closer people to people ties. China's foreign policy goals are; ensuring a stable Pakistan with a pro-China outlook, developing it as a transport corridor, conduit for energy supplies and as an entry point into the markets and energy resources of the Islamic world.¹⁰

India wishes to build and strengthen its global image, commensurate to its size, population and the strength of its economy. It also wants to sustain the current economic growth of around 7 percent. Strategically, it wants to be the pre-eminent power in South Asia, be part of the Nuclear Suppliers Group (NSG), obtain a permanent seat on the UNSC and emerge as the dominant Indian Ocean power. India also aims to prevent China's foothold in the Indian Ocean choke points. With regards to Pakistan, India wants to constrain its ability to challenge her national aspirations, maintain current policy towards Kashmir and manage potential water security challenges. For remaining SAARC states India's goal is to restrict China's growing economic influence in SAARC and prevent regional interferences.¹¹

China's core concern is to enhance regional and extra-regional connectivity to secure her future trade and energy needs. Contrary to this, India is growing at the cost of smaller SAARC states and wishes to gain US technical and defence support in exchange for playing proxy against China. This strategy is in stark contrast to Chinese philosophy of "Peace Zones" and "Cooperative Economic Prosperity". Essentially, both India and Pakistan have developed diverging policies focusing more on the extra-regional than adopting regional integration policies. Consequently, for over 70 years of their independence, both states are being exploited by extra-regional powers to exploit enormous potential to economically develop their countries.¹²

SAARC (SAEU), EU and ASEAN – A Comparison

To reach at a reasonably workable model of regional economic integration, it is important to compare SAARC (SAEU), EU and ASEAN's main features and pitch them against the intended variables. The comparative study yields that all the three regional blocs were formed in different historical contexts and sets of environment. In case of EU, US provided a Marshall Plan and ASEAN got an extended security support against an erstwhile USSR, while SAARC was created to achieve socio-economic objectives. However, SAARC may get an Asian Marshall Plan of economic support, energy generation and infrastructural development from China's BRI and CPEC projects, subject to political will. If India supports CPEC, it can lead to expeditious formation of SAEU Alternatively, another arrangement could be modelled along ASEAN Plus One equated to SAARC (SAEU) Plus One (SPO) mechanism by including China. However, political and economic stakes wouldn't be high enough for either side

to provide strong economic and political as well as leadership role to sustain a fierce international political and financial order.

Secondly, to evolve an amicable dispute resolution mechanism like ASEAN, an appropriate role by major regional stake-holders i.e. China-India-Pakistan in SAEU could play critical part. Instituting a formal dispute resolution mechanism may be required to address issues of unequal sizes, relative national power differential, bilateral conflicts, domestic political and trade sensitivities as well as diversified strategic outlook within SAEU. As observed in the case of ASEAN, role of private sector, business community and civil society is crucial to sustain regional peace.

CPEC – An Opportunity and a Driver for SAEU

Let us now evaluate as to how CPEC provides opportunity, which India and other SAARC states cannot ignore. Chinese President Xi Jinping, in May 2013, announced OBOR (BRI) and CPEC projects to supplement domestic growth and rebalance it with external investment opportunities in Asian, Mediterranean, African, Middle Eastern, Central Asian and South East Asian regions. In May 2017 Belt and Road Forum, China hosted 29 heads of states, chiefs of the UN, the International Monetary Fund (IMF) and the World Bank including 1500 delegates and governments, reinforcing her leadership claim in a changing geopolitical and geo-economic world order in which more than 40 countries and multilateral financial agencies participated.¹³ In November 2017, President; Xi Jinping, during the 19th CPC Congress, outlined China's modest objectives; to become "a moderately prosperous country" and a "fully modern" economy and society by 2035 and "a global leader of composite national strength and international influence" by 2049. This vision though appears humble, provides glimpses of China's future catalytic role in South Asia and beyond.¹⁴ Four main pillars of CPEC; Gwadar Port, Communication Infrastructure, Energy Infrastructure and Industrial Zones would attract huge FDIs for SAARC states. CPEC comprise a 3,218 kilometers long route, consisting of highways, railways and pipelines. The actual estimated cost of the CPEC is expected to be 75 billion US dollars, out of which 46 billion US dollars plus will be spent to make it operational by 2020.¹⁵ Afghanistan has already shown willingness to join CPEC. If India cooperates with China, it would transform South Asia into a hub of communications, trade, energy corridors, Information Technology (IT) and industry to boost economies and GDPs of the whole of Asia.

Secondly, OBOR (BRI) is under development for four years, spanning 68 countries and accounting for up to 40 percent of global GDP.¹⁶ Commerce Minister, Zhong declared that China plans to import products worth 2 trillion US dollars from participating countries over the next five years.¹⁷ This huge financial and infrastructural development capacity of China to connect entire South, Central and West Asia into a web of intense economic activities will ignite regional economies to create multiple jobs and business opportunities especially; once SAEU is established.

Thirdly, CPEC has regional and global trade implications. For example, if North-Western Chinese and Indian regions were to use Gwadar Port, it would be cheaper and quicker to do business. At the global level, trade by OBOR and CPEC can bypass the Strait of Malacca in Southeast Asia by 32000 kilometers and vice-a-versa.

Fourthly, one of the most crucial role of CPEC's success could be to have fully secured and an assured connectivity from China through to Indian Occupied Kashmir (IOK) to Pakistan (AJ&K) to Afghanistan and on-wards to CAS (refer to map, above). If North-South Corridor (NSC or CPEC) is connected to the East-West Corridor (EWC) then China-Bhutan-Nepal-India-Pakistan and Afghanistan could be linked to BRI and CPEC. Goods trains and trucks from the landlocked countries can easily access Central, Eastern, European and African markets. The Island nations of Maldives and Sri Lanka can also connect through Gwadar Port thus saving a huge cost and boosting national revenues. These are most attractive prospects for SAARC states, which can resolve conundrums like; Kashmir, poverty, extremism, cross-border terrorism thus ensuring peace and security in South Asia.

Fifth, to connect CPEC with Afghanistan, Pakistan has already constructed 75 kilometers Torkham-Jalalabad road, while the Peshawar-Torkham road is underway. In addition, Pakistan has constructed two roads leading from D.I. Khan to Angoor Adda and Ghulam Khan, linking with the Paktika and Khost provinces of Afghanistan respectively. These roads will enable Afghan businesses and investors to access a huge consumer market using BRI and CPEC. According to data from the UN Comtrade database, in 2015, over 70 percent of Afghanistan's total exports were delivered to Pakistan and India alone. Accessing the wider BRI network will provide access to almost entire globe. The two major

projects; CASA-1000 hydroelectricity grid and the TAPI (Turkmenistan-Afghanistan-Pakistan-India) natural gas pipeline can change the fate of SAEU.

Sixth, another opportunity at the intra-regional level opens up with India, Iran and Afghanistan's trilateral transit agreement of 2016. Although, it skips Pakistan, and makes its way to Afghanistan through Iran's Chabahar Port, but causes delays and adds to cost for shifting of cargos from land routes to ship and then again back to trucks and vice- a-versa. Chabahar port, initially labelled as a rival to CPEC can actually complement Gwadar Port. It's a real opportunity for Afghanistan and Iran to build their infrastructures linking with CPEC and BRI. As per United Nations Conference on Trade and Development (UNCTAD) 2015 forecast, the future potential of South Asian regional trade will increase by 50 billion US dollars with well integrated policies. Thus, CPEC can easily trigger formation of a SAEU.

Confirming the Research Question and Variables

So far two of the three variables of research question i.e. "Growing bilateral trade between China and SAARC (SAEU) states" – an independent variable; "CPEC and Formation of SAEU" – as dependent variable have been quantitatively and qualitatively vindicated. Measurement of intervening variable: "India's Political Will" can be quantified by recording the statement of Indian officials, public representative and civil society activists.

"India's Political Will" to join CPEC and form SAEU was clearly witnessed during a seminar in "Kashmir Institute, Srinagar"¹⁸ where Kashmir Chamber of Commerce Ex-President; Mr Mubeen Shah appealed that the divided Kashmir be declared as one combined Free Economic Zone (FEZ) to trade horticulture, textiles, Small and Medium Industries (SMI) with CA where the distance, resources, time and cost can be much reduced. IOK sitting Chief Minister; Mehbooba Mufti and Chairman of Hurriyat Conference; Mirwaiz Umar Farooq strongly supported this venture stating that the proposal is practical from both geo-economics and geopolitics points of view¹⁹ and, may actually lead to Kashmir solution with win-win for China-India and Pakistan. Professor Siddique Wahid, a historian and former vice-chancellor of the IUST, Kashmir, people in Pakistan's Azad Jammu and Kashmir and Gilgit-Baltistan²⁰, a number of Indian State governments, Chief Ministers Shivraj Singh Chouhan from Madhya Pradesh and Chandrababu Naidu from Andhra Pradesh and leaders from Indian Government in Punjab, all are demanding from BJP led government to join

China's CPEC. Some Indian officials also formally indicated their willingness to join Afghanistan-Pakistan Trade and Transit Agreement.²¹ Muhammad Adil Sivia, an Indian writer declared China's OBOR and CPEC as a lasting solution and a God sent opportunity for India. Mr A.G. Noorani,²² another very famous and a credible Indian author, lawyer and a scholar, based in Mumbai supported Mr Mubeen Shah and Chief Minister IHK 'Miss Mehbooba Mifti's proposals and suggested to open Kashmir, and Bhutan-Nepal to connect with CPEC. Mr Noorani also quoted Jawaharlal Nehru's address to Indian Lok Sabha in 1952, "Kashmir was indeed the subcontinent's bridge to Central Asia (CA)." A famous Kashmiri scholar, 'K Warikoop' recorded, "Central Asia and Kashmir" affirming these views. Mr Haseeb Drabu of IHK, in 2008, as head of the People's Democratic Party (PDP) Programme 'Aspirational Agenda-2014' asked to establish banking and telecommunications facilities through which Kashmir can reclaim once lost status of a gateway to CA. Indian MOEA 'Shiv Shankar Menon' recommended to use those parts of CPEC, which complement their sub-regional economic corridors. This public mood was well captured by a respected journalist 'Iftekhar Gilani' in an article "DNA India" on 18 August 2017; claiming that until the early 20th century, the Kashmir valley was an economic hub, linking South and Central Asia.

Main Phases and Contours of the Proposed SAEU

As set out earlier, the main aim of this article was to suggest a broader road map of forming a SAEU, included her: -²³

- A top-down approach based on binding agreements, as in SAFTA.
- A top-down approach based on open-regionalism and voluntary principles, as practiced by SAARC and ASEAN.
- A bottom-up market-driven approach, based on global value chains and cross-border production and distribution according to the most cost and time effective locations.
- Geographically-focused programs and projects to secure cross-border connectivity (e.g. transport corridors) and to resolve impediments to trans-boundary integration.
- **Pillar 1**, Market Liberalization (Trade Liberalization Program under SAFTA and SAARC Agreement on Trade in Services [SATIS], Reduction of Sensitive List, Rules of Origin, Non-tariff Barriers [NTBs], services trade, investment).

- **Pillar 2**, Sector Liberalization (priority sectors are identified for fast-track liberalization).
- **Pillar 3**, Economic Corridors (promoting integration into global and regional value chains).
- **Pillar 4**, Cross-border connectivity (especially transport and energy).

Conclusion

The topic for this article was selected on the basis of an enormous potential of South Asia, which ironically has not been realised in accordance with the core SAARC objective; “socio-economic development leading to peace and prosperity”. However, the rising domestic expectations of South Asian people and a fiercely competitive future global economic and political order have changed the regional dynamics. This changed dynamics has been catalysed by China’s CPEC project thus, opening up new vistas of regional economic cooperation, and opportunity, which can transform SAARC into a prospective SAEU especially with China as its member.

The readers, having gone through this article, are bound to get a fresh perspective of otherwise much debated subject of SAARC. The combination of quantitative and qualitative analysis has proved that SAARC’s transition from a position of impasse to a prospectively progressive and forward-looking SAEU, led by both China and India is not only possible but very much implementable. The article also presents a unique solution to SAARC’s conundrum through economic integration leading to political resolution of Kashmir – an issue considered by many scholars, a nuclear flash point in South Asia. China, together with India and Pakistan are the key regional states to resolve socio-economic and political issues in South Asia affecting nearly 1.7 billion inhabitants.

NOTES

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