

## **Political Economy of the Preferential Trade Liberalizations and Regionalism in South Asia: Opportunities and Challenges**

### **ÉCONOMIE POLITIQUE DE LA LIBÉRALISATIONS DE COMMERCE PRÉFÉRENTIELLE ET LE RÉGIONALISME EN ASIE DU SUD:**

#### **OPPORTUNITÉS ET DÉFIS**

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**Abstract:** Like other parts of the globe, south Asia has also been liberalizing the trade terms and conditions among its neighbouring countries since last decades. However, the achievement is still limited although the agreements have been signed with was a high hope. This paper examines the opportunities and challenges of the preferential trade liberalization and regionalism in South Asia under political economy perspective. The study has reviewed secondary data and found that political environment is one of the main reasons of not achieving the desired goal of the agreements. Lack of trusts and absence of friendly environment among the member countries of the region has been working as a barrier for not achieving benefit of the agreement. The paper might be useful for policy makers, researchers and academics.

**Keywords:** Regionalism; Preferential Trade Agreement; South Asia; Political Economy; Economic Development

**Résumé:** Comme d'autres parties du monde, l'Asie du Sud est également en train de libéraliser des termes et des conditions de commerce dans ses pays voisins depuis ces dernières décennies. Toutefois, la réalisation est encore limitée même si les accords ont été signés avec un grand espoir. Ce document examine les opportunités et les défis de la libéralisation de commerce préférentielle et le régionalisme en Asie du Sud en vertu de perspective d'économie politique. L'étude a examiné les données secondaires et a constaté que l'environnement politique était l'une des raisons principales de non

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atteinte du but recherché de ces accords. Le manque de confiance et l'absence d'un environnement amical entre les pays membres de la région ont été considérées comme une barrière qui les empêchent d'atteindre des avantages de l'accord. Le document pourrait être utile pour les décideurs politiques, les chercheurs et les universitaires.

**Mots-clés:** regionalism; accord commercial preferential; Asie du Sud; économie politique; développement économique

## 1. INTRODUCTION

This paper examines the opportunities and challenges of the preferential trade liberalization in South Asia under political economy perspective. Successful regionalism and preferential trade liberalisation mostly depend on the existence of harmonious political relationships among influential countries of a regional organisation. This is partly because of the fact that political factors influence the formulation and implementation of various trade policies. Although, advocates of free trade argue that free trade maximises benefits of a country through efficient allocation of resources; governments are not always guided by efficient-based theorems. Preferential trade liberalisation policies of a country are largely determined by on the basis of the strength of pressure groups, rather than on the aggregate welfare consideration. The income distribution models of trade theories also account this view (Gawande 2005). The 'Stolper-Samuelson Theorem' suggests that one factor gains from protection at the expense of another. Similarly, the specific-factors model suggests that the specific factors of protected sector gain while specific factors in other sectors suffer (Ahmed and Sattar 2004, Carbaugh 2007). This discrimination creates conflict of interest among the factor owners, which results in lobby groups. Different lobby groups within an economy create strategic interactions between policy makers and lobby groups and also among governments of different countries (Gawande 2005).

Protectionist trade policies abound due to various political constraints. South Asia is not an exception. Because of political constraints of free trade, preferential trade liberalisation under regionalism is considered to be an important option as a step towards free trade and regional economic integration. It is, therefore, necessary to assess preferential trade liberalisation and regionalism in the political economy perspective, assuming that protectionist trade policies are to be determined politically.

Interest in economic analysis of preferential trade liberalisation has increased with the rise of regionalism in recent years. Growing dissatisfaction with the progress of multilateral trade negotiations, fuelled by the successful regionalism on both side of the Atlantic, has generated further momentum in regionalism initiatives. South Asia is not an exception to this process. Driven towards integration by the pressure of political and economic security of South Asian region, seven South Asian countries- Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka- formed the South Asian Association for Regional Cooperation (SAARC)<sup>3</sup> in 1985 (Hossain 1997; Rahman et al, 2006). However, since the emergence of SAARC, the achievement has been considered very insignificant and the level of intra-regional trade among SAARC countries is still very low. Non-harmonious political relationship among the countries of SARRC is one of the important factors that are responsible for insignificant progress in regional economic integration. With the present low level of intra-regional trade and the perceived competitiveness among the South Asian countries a question has arisen whether regionalism would benefit countries of this region. Regarding this question, this study has attempted to analyse the implications of regional preferential trade among seven SAARC countries under political economy perspective with a view to examining the prospects and challenges of trade liberalisation and regional integration in South Asia.

Many studies have attempted to shed light on the economic integration in South Asian region. Mehta

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<sup>3</sup> In 2007, Afghanistan has become a member of SAARC. For the purpose of this study, Afghanistan has not been considered as a member of SAARC.

and Kumar (2004) argued that though the intra-regional trade in South Asia was very low, it would be still beneficial if SAARC countries would work for deeper integration as in future regionalism would go beyond cooperation on formal trade one. Dhungel (2004) noted that despite SAARC member nations made several pledges at annual summits to cooperate with each other but actual implementations and achievements were considered very insignificant. In a study, Pitigala (2005) found that the trade structures that evolved among the South Asian countries might not facilitate a rapid increase in intra-regional trade. Jhamb (2006) argued that since its inception in 1985, SAARC did not achieved much, primarily due to the tenuous political relations between India and Pakistan and a general environment of mistrust among member countries. However, by using a gravity model, Rahman, Shadat, and Das (2006) showed that elimination of trade barriers and structural rigidities originating from adverse political relationship could lead to substantial increase in intra-SAARC trade. Baysan, Panagariya, and Pitigala (2006) argued, compared to the rest of the world this region is tiny both in terms of economic size as measured by GDP ( and per capita income) and the share in the world trade, therefore, trade preferences to the regional parterres will likely be leading to a consequence of trade-diverting rather than trade-creating. Similarly, Das (2007) argued that evidence of trade complementarity in South Asia is mixed, so preferential trading initiative was based on a weak proposition. More recently, Newfarmer and Pierola (2007) found that the arrangements of preferential trading in South Asia including SAFTA fallen short of their potential because of product exemptions, special arrangements for selected products and restrictive rules of origin. Therefore, though upside potentials for South Asia Free Trade Agreement (SAFTA) is great, benefits from this trading arrangement are still uncertain and the policy makers will require relentless determinations to make it successful.

In this paper, we will discuss the regionalism in South Asia in section 2, Trade patterns in SAARC countries in section 3, political economy and regionalism in section 4, political economy in South Asia in section 5, regionalism as strategy for South Asia in section 6 followed by conclusion in section 7.

## **2. REGIONALISM AND THE SOUTH ASIA**

Regionalism of trade has been on the rise since 1980s. Growing dissatisfaction with multilateral trade negotiations (MTNs), as a means of achieving a global free market, has driven the 'European Economic Community' (EEC) to the development of 'European Union' (EU) and the United States to sign the 'North American Free Trade Agreement' (NAFTA) resulting in large trading blocs leading to concerns of non cooperative behaviour in future trade negotiations. Though, from the Uruguay Round to Doha Development Agenda, multilateral trade negotiations have been successful in some aspects and diminished the possibility of non-cooperative behaviour among these large blocs; however, they still remain as a threat to the economies of the developing world. The presence of market power in these large trading blocs will make them non-cooperative and, therefore, not unlikely that these exercises in preferential trade can work as 'building blocs' to global free trade (Hallett, and Braga 1994; Kruger 1995). The potential impact of these large trading blocs, in both side of the Atlantic, on trade and investment opportunities of developing countries has led to concerns in the rest of the world, especially in Asia, over the prospect of less advantageous access to the international markets. As a result, they also began exploring the possibilities of having their own regional integration scheme (Hossain 1997; Mehta, and Kumar 2007). It has been estimated that about 97 percent of global trade involves countries that are members of at least one preferential trading agreement, and most of these trading agreements have been finalised in last two decades (Baharumsha et al 2007).

Trade liberalisation and regional economic integration can help to increase intra-regional trade by exploring the size of the market. This may in turn yield efficiency and bring benefits not only by exploration of economies of scale but also by dynamic shifts in production function. By exposure to a regional market, previously shattered domestic firms become more competitive and gain the confidence to enter into global competition (Hossain 1997; Newfarmer, and Pierola 2007).

The economic benefits of regionalism in South Asia have been subject of great debate regarding the cooperation among the countries and the large asymmetry in economies of the region. By land area and

the size of population and economy, South Asia is an ‘Indo-centric’ region as India has been occupying 76 percent of the total land area of the region and accommodating 77 percent of the region’s population and capturing almost 80 percent GDP of the region. It has borders with all other six countries none of which is geographically closer to the others. Despite their strong shared history, these countries are diverse in their religion and political culture. Bilateral political relations are not harmonious. Trade relations among them have so far been shaped largely by non-economic factors. Despite India and Pakistan formed a common market, since the independence of these countries in 1947, mistrust and disputes during the following decades have been the main reasons for the low level of intra-regional trade (Hossain 1997; Coulibaly 2007). Although, the South Asian countries have now realised that development of cooperation among SAARC countries can benefit them all but starting from such an initial condition and existing non-harmonious bilateral relationships between the countries in the region have raised the question as to the extent of benefit from such cooperation.

### 3. REGIONAL TRADE PATTERNS AND BILATERAL TRADE OF SAARC COUNTRIES

The south Asian countries are basically not natural trading partners. Driven by their desire for export-led development, the south Asian countries began expanding their export towards industrial countries, moving from basic agricultural exports to labour-intensive manufactured exports.

**Table 1: Ranking five major trading partners of South Asian countries, 2005**

<i>PARTNER→ REPORTER↓</i>		<b>Rank-1</b>	<b>Rank-2</b>	<b>Rank-3</b>	<b>Rank-4</b>	<b>Rank-5</b>
Bangladesh	Exports	European Union (56.1)	United States (26.2)	Canada (4.0)	Japan (1.5)	India (1.3)
	Imports	China (13.9)	India (12.0)	European Union (9.9)	Japan (9.6)	Singapore (4.3)
Bhutan	Exports	India (94.4)	Bangladesh (4.2)	United States (0.5)	Nepal (0.5)	European Union (0.1)
	Imports	India (74.4)	Singapore (12.7)	Japan (3.3)	Thailand (3.1)	European Union (1.3)
India	Exports	European Union (22.5)	United States (16.9)	UAE (8.3)	China (6.6)	Singapore (5.3)
	Imports	European Union (17.2)	China (7.3)	United States (6.3)	Switzerland (4.4)	Australia (3.3)
Maldives	Exports	UAE (24.2)	European Union (18.1)	Thailand (15.3)	Japan (14.6)	Sri Lanka (12.5)
	Imports	Singapore (24.1)	UAE (15.5)	European Union	India (11.3)	Malaysia (7.2)
Nepal	Exports	India (52.4)	United States (29.1)	European Union (9.6)	China (3.4)	Bangladesh (0.9)
	Imports	India (53.0)	China (8.4)	Singapore (6.3)	European Union (6.3)	Malaysia (3.3)
Pakistan	Exports	European Union (26.5)	United States (24.8)	UAE (7.8)	Afghanistan (6.6)	Hong Kong (3.7)
	Imports	European Union (17.4)	Saudi Arabia (10.6)	UAE (9.9)	China (9.4)	Japan (6.5)
Sri Lanka	Exports	United States (32.2)	European Union (31.0)	India (9.1)	Russian Federation (2.6)	UAE (2.4)
	Imports	India (17.3)	European Union (15.5)	Singapore (8.9)	Hong Kong (7.8)	China (7.6)

Note: Figures in parentheses indicate percentage share of exports and imports

Source: Data compiled from WTO database files, April 2007

By main destinations of exports and origins of imports, South Asian countries perform their trade mainly with non-Asian countries. As shown in Table 1, most of the region's trade is performed with the European Union and United States.

The region's exports are mainly destined to developed countries, whereas, both developing and developed countries are equally important origins for imports of this region.

Bilateral trade shares are used to analyse the intra-regional trade patterns of South Asian economies. The bilateral trade share is the ratio of one country's trade with its partner to its total trade with the world. This share can range from 0 to 100. Higher bilateral trade share reflects higher level of interdependence between a pair of countries.

**Table 2: Bilateral trade shares of four major SAARC countries: 2000-04 and 2005 (in percent)**

<b>EXPORTS</b>										
<b>PARTNERS → REPORTERS ↓</b>	<b>Bangladesh</b>		<b>India</b>		<b>Pakistan</b>		<b>Sri Lanka</b>		<b>Saarc</b>	
	2000-04 (average)	2005	2000-04 (average)	2005	2000-04 (average)	2005	2000-04 (average)	2005	2000-04 (average)	2005
BANGLADESH	na	na	1.15	1.35	0.60	0.75	0.09	0.08	1.90	2.20
INDIA	2.30	1.60	na	na	0.45	0.65	1.75	1.95	5.45	5.25
PAKISTAN	1.75	1.45	1.10	2.10	na	na	1.02	0.95	3.90	4.55
SRI LANKA	0.22	0.24	5.35	9.05	0.70	0.70	na	na	7.35	10.35
SAARC	1.80	1.40	0.90	0.80	0.45	0.60	1.45	1.65	4.70	4.50
<b>IMPORTS</b>										
BANGLADESH	na	na	14.55	12.02	1.45	1.70	0.10	0.10	16.20	13.85
INDIA	0.09	0.08	na	na	0.10	0.12	0.35	0.40	0.90	0.95
PAKISTAN	0.35	0.25	3.05	2.30	na	na	0.35	0.25	3.80	2.85
SRI LANKA	0.09	0.09	18.85	17.30	1.25	1.40	na	na	20.55	19.05
SAARC	0.10	0.10	3.35	2.35	0.30	0.25	0.40	0.35	4.20	3.10

**Note: 1)** na means not applicable.

**Source:** Data calculated from UNcomtrade database, United Nations Commodity Trade Statistics, August 2007

From Table 2 it is clear that the South Asian countries engage in small trade within the region. In 2005, amongst the four major economies of the region, Bangladesh and Sri Lanka import relatively more from the region than do the others. Sri Lanka has got the highest bilateral shares of trade with SAARC. These figures for exports and imports are 10.35 and 19.05 percent respectively. The region's both export and import shares destined to and originated from this region have been in declining trend over the last few years. That is partly because of a low and insignificant level of involvement in bilateral trade by region's large countries such as India and Pakistan.

For the of whole SAARC economy, the share of intra-regional trade to its global trade has declined over the period in 2000-04 and 2005. The share of intra-regional imports to global imports of SAARC economy has declined from 4.20 percent in 2000-04 average to 3.50 percent in 2005, while its share of intra-regional exports to global exports has declined marginally over the same period and remained around 4.50 percent.

#### **4. POLITICAL ECONOMY AND REGIONALISM**

There has been an emerging reality for the increasing range and degree of cooperation of states in terms of economic integration, both regionally and globally. Though most economists and policy analysts argue in favour of unilateral trade liberalisation, policy makers find it difficult to transform this view to reality due to political constraints. Conflicts among the special-interest groups within a country or a region play an important role in shaping trade policy. Capital owners and labour in important competing

industries are usually effective in lobbying to retain or increase protection, as their gains from protection are reasonably transparent. On the other hand, export-oriented producers and consumers favour less protection (McCulloch et al 2003, Maggi and Clare 2005).

Regionalism in trade is essentially a politico-economic phenomenon. It attracts support for both political and economic reasons and from both protectionists and free traders. Some economist like Baldwin (1993) attribute the success of European Union (EU) mainly to the fact that it strengthened both the democratic political institutions and free market-oriented institutions of the constituent countries by increasing their degree of independence. In fact, in the evolution to the present form of EU, political considerations have largely dominated over economic considerations. On the other hand, one of the major reasons for the failure of trading blocs among developing countries has been the lack of political commitment. Attempts to implement reform programs without political commitment of the countries' leaders are seen to have been ended in failure (Gawande 2005).

Domestic policy preferences are not independent of international relations. Therefore, policy makers have to play a two-level game- one with special-interest groups in the domestic political arena and the other with the governments of foreign countries in international arena. Grossman and Helpman (1995) argue that a free trade area might be acceptable to a government if it generates substantial welfare gains to the voters.

## **5. THE POLITICAL ECONOMY OF SOUTH ASIA**

The land and topography make South Asia a single geographical unit. All economies in this region are based on agriculture with low per capita income and relatively high population density. All countries in South Asia, except Nepal, were under foreign domination. They have been under British colonial rule for about two hundreds years prior to late 1940s sharing common internal administration and judicial system as well as common external relation. However, British colonial rule brought together a constellation of forces that resulted in an ever-growing discord and polarisation between Hindus and Muslims, the two major religious groups leading eventually to the emergence of the present nation-states in this region. The previously integrated political and economic framework of South Asia was inevitably split into several economies with independent commercial policies and external linkages.

This disintegration of once integrated system was mainly attributed to political factors rather than economic reasons and, therefore, the collision of nationalities within the region led to the disruption that paved the way for growth of the national interest-groups in each newly emergent country (Sobhan 1989; Naqvi, Schuler, and Ritcher 2007). As a result, the economies of this region raised protectionist barriers against each other making the region marginal to the external economic relation of each country. The economic policies of these countries are, therefore, not based on national evaluation of social welfare rather the outcome of the conflicting influences of pressure groups.

Until the end of 1985, South Asia was the only region without a regional forum of its own. The territorial and political separation, ethnic rivalries and military confrontation since the end of colonial rule had turned the region into a crisis-ridden arena in international politics. Though South Asia is recognised as a region of geographical unity and cultural commonalities, the history of inter-state relation is marked more by conflict than cooperation (Hossain 1997; Mehta, and Kumar 2007).

The pangs of birth of nation-states overshadowed the heritage shared by South Asian countries. The geo-political reality of the centrality of India's geographical and economic position in the region and the history of the region has contributed to the long-prevailing environment of mistrust (Hossain 1997; Dhungel 2004, Jamb 2006). This is particularly true in the Indo-Pak relationship, the greatest barrier to South Asian regional cooperation (Ghose, 1989). India and Pakistan, the two major countries, owe their birth to nationalism based on religion. The religious differences between these two nations have been given a communal appearance by formation of political parties. The conflict between these main South Asian nations resulted into two bloody wars in 1965 and 1971- the former over the Kashmir's territorial issues and the latter involving with the independence of Bangladesh. Furthermore, the two countries are locked in an escalating arms race and have acquired nuclear weapons, despite the economic hardships

facing their people.

India's relationships with its other neighbours, such as Bangladesh and Sri Lanka, are beset by gaps in trust. Nonetheless, bilateral relations between Bangladesh and Sri Lanka and between Pakistan and Sri Lanka are friendly and cooperative. India's relationship with Sri Lanka has been strained by ethnic feud and India's involvement in the crisis on the grounds of ethnic affinity to the Sri Lankan Tamil. India's relationship with Bangladesh has been its ups and downs since 1971 when India proved to be the closest friend of Bangladesh. With the passage of time, bilateral relations between these two friendly nations had become dominated by internal factors such as sharing of natural resources e.g. water resources of common rivers, and border disputes including demarcation of maritime boundaries, are the main source of mistrust between these two neighbours. The relationships was aggravated by the suspected Indian involvement in the tribal insurgency in the South-eastern hill districts of Bangladesh and Bangladesh's alleged support for the insurgency in some Eastern states of India such as Tripura and Mezoram.

Bangladesh's relationship with Pakistan is also dominated by the traumatic experience of its bloody war of independence in 1971. The relationship has yet to find strong footing because of two controversial issues- (1) the division of assets, and (2) the repatriation of the stranded Pakistanis living in Bangladesh.

The relationship between Nepal and India is also not harmonious. Like Bhutan, Nepal is also a country land locked by India. Nepal, therefore, must use India's land to access to sea ports for international trade. Regarding the issue of using India's land by Nepal is the main point of dispute between these two neighbours and it had turned into the worst position in 1989 when India imposed restrictions on using transit to Nepal. However, the relationships between Nepal and other SAARC countries are harmonious.

Bhutan and Maldives, the other members of SAARC, are very small in terms of political influence and economic domination in the region representing only 0.083 percent and 0.080 percent of region's economy respectively. Therefore, they have a very insignificant influence over the trade and economic policy of the region as a whole. As per Athukorala and Riede's (1991) '*Small Country Assumption*', these two countries seem to be price takers in the regional trade. Moreover, Bhutan is a much closed economy and due to geographical condition (land-locked by India) and inadequate infrastructure facilities all of its international trade is almost with India covering more than 90 percent of its total trade (Table 1). These two countries have harmonious relationships with other SAARC countries.

After independence from British colonial rule, all countries of South Asia adopted economic policies which led to mixed public-private economies in the region. All of them adopted plan approach to economic development but the economic development of the region has not been substantial over the last half century since independence from the British rule. Internal insatiability and security-phobia reduced the prospect of economic security. As a result the region's economies grew to depend on the outside world for economic survival rather than on them (Hossain 1997; Mehta, and Kumar 2007).

## **6. REGIONALISM AS A STRATEGY FOR ECONOMIC DEVELOPMENT IN SOUTH ASIA**

The belated start and slow growth of regional cooperation in South Asia is a direct consequence of the lack of political commitment that has been originated from bilateral political disputes. If the political disputes are settled, the countries of the region can gain enormously from intra-regional economic activities. For example, by allowing transit facilities among three countries- Bangladesh, India and Pakistan can generate substantial economic gains for themselves.

The presence of economic asymmetry in the region has also made political economy of this region unfavourable for regional integration. In fact, apprehension of Indian economic domination is a great obstacle to regional trading agreement. With this economic asymmetry, distribution of gains from a 'discriminatory trading area' (DTA) would be uneven. The smaller countries, who will lose due to regionalism, need to be compensated by way of assistance in restructuring their economies, so that the larger market are considered by others as a window of opportunity.

The size of population and land area of India may offer the potential to generate enhanced economic

growth in the region. Due to high tariff, Indian states trade internally with other states even under situations of high transportation costs, although international trade with neighbouring countries would be less costly option in the absence of tariffs. Therefore, SAFTA would create substantial intra-regional trade by replacing Indian internal trade, given the substantial transportation costs associated with internal trade within this large country. Moreover, SAFTA may also create trade in goods and services that are usually non-traded (for example, electricity) (Hossain, 1997; Das 2007).

Potential long term benefits of a regional arrangement also exists in exploration of natural resources, human capital formation, and exploration of static as well as dynamic gains from trade. Economic cooperation in South Asia, with a domestic-regional market of more than 1.4 billion population, should make a significant contribution to South Asian development by way of increasing the productive capacities of the member countries to take advantage of economies of scale and so to become internationally more competitive. In addition, the higher the regional arrangement takes institutional shape, the more it will strengthen its barraging power with the outside world.

With preferential trade, the members would eliminate trade barriers within the region and perhaps go for harmonising economic policies. This would create greater welfare gains than if the pre-agreement economic policies were constructed on the basis of welfare judgment. The countries will also be in better situation to move towards liberal economic policies by withstanding the pressure of special interest groups through the plea of regional commitments.

Improved political understanding will result in erasing mistrust and convergence of the security perceptions of the countries. This should lead to the countries reducing their military expenditures that could be employed to improve productive capacity. With the deepening of regionalism the current level of hostilities should be reduced. This will further increase intra-regional trade.

## CONCLUSION

South Asia, with nearly one fourth of world's population, is one of the poorest regions in the world. Past inward-looking policies pursued by countries of the region failed to realise its potential for economic development. In recent years, the SAARC countries have initiated a process of unilateral trade liberalisation leading to outward-orientation. Simultaneously, although they have also started a process of regionalism; neither the political understanding nor economic climate within the region has been conducive to promoting intra-regional trade.

Findings of this study suggest that the non-harmonious bilateral political relationships of SAARC countries may be a big obstacle on the way to implementing preferential trading agreement. As with the SAFTA, even if the scheme were widen, it is unlikely to improve intra-regional trade unless other related schemes of regional cooperation are also introduced, aiming at creating greater complementarities among the economies of the region such as improving their supply capabilities (i.e. investment and production partnerships, such as regional/bilateral joint ventures), and creating efficient infrastructure linkages, especially in terms of transport and communications and information exchange. This will not only enable the efficient utilisation of the capabilities and resources of SAARC countries but also will contribute significantly to the concept of self reliance in South Asian region. It is argued that in order to accelerate the pace of regional trade liberalisation, it might be preferable to adopt two tracks- one being the region wide slower track, and the other, a series of bilateral agreements between the more advanced countries within the group. There are already some bilateral initiatives between India and Sri Lanka, India and Bangladesh, and India and Nepal. Sectoral cooperation, such as SAARC Textile Council, could also boost economic and trade relation of the region. The major sectors, such as textile- an important component of SAARC countries' exports, will need to rise to the challenge for open competition. The SAARC producers will more likely be to achieve this if they pool their design, marketing and technological resources.

It is argued that preferential trade liberalisation measures would not contribute significantly to intra-regional trade in South Asia at its present stage of development, owing to the constraints already noted. Although, all member countries unanimously agreed to removal of all trade barriers; the progress



is still very slow and the existing cold bilateral relationships between countries, particularly between two big economic powers of the region- India and Pakistan, make the future of regional integration in South Asia more unclear and uncertain. However, it is not an impossible task for the SAARC countries to transform South Asia from a poorest region in the world to the richest one by utilising available resources efficiently and exploring the potential of sustainable development of the region. This may depend on the removal of the existing bilateral political disputes for the greater interest of South Asia and, therefore, all countries, particularly two large countries- India and Pakistan, should work together with strong goodwill aiming at a prosperous and developed South Asia.

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