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# **SOUTH ASIAN ECONOMIC ZONE: EXTENSION AND POSSIBILITIES**

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## **ABSTRACT**

Different versions of the South Asian Economic Zone has been discussing in the literature. The basic and important justification behind the formation of South Asian Free Economic Zone is not directly concerned with the economic benefits; it is justified on the basis of cultural and historical relations. . Three different propositions for the socio-economic collaboration between India and Muslim World were discussed in this article. It was concluded that India would has to opt one of the two options: a merger with the Muslim World or playing a role as an agent of the Western bloc against China and Muslim World.

## **I: From the Theory of Regionalization**

It is a generally accepted postulate that Economics cannot be isolated from political structure and socio-cultural attitudes of a society. Budget Deficit, Supply of Money, Stock Market Index and Poverty must have some connections. Similarly, Poverty, Inflation and Unemployment are connected with the rate of crimes and social attitudes of a society. The distribution of income and wealth has a strong and significant relation with the Political System. Due to such innumerable relations, fiscal system is connected with the cultural and political systems. Now, the lending institutions do not mention only the accounting ratios and financial disciplinary measures, but social and administrative conditionalities are also included in the debt agreements.

It is noteworthy that formation of an economic zone does not have the same meaning as it was fifty years ago. Now, the countries in an economic zone have to scarify their freedom up to a large extent. The scarification of freedom covers not only the trade, industry and other economic sectors but also the constitutional, social and political set up - a liberal visa policy, softness in cross boarder mobility of goods and individuals, friendly, attractive and liberal laws for flow of investment and commodities etc. are the usual aspects of such liberalization.

The role of national governments will certainly be reduced in the presence of such blocs, where visa free movements of individuals, goods and capital are allowed between the countries of similar cultures. However, it will not be the death of the countries. According to a survey held in Europe, seventy percent of the peoples believe that first they are French or German or Spanish then they are European. The blocs cannot replace the countries. Although, the public expenditures will certainly decrease due to the free trade, common defense, joint investment, and lower risk in the fluctuation of the currencies. The role of the central government will be changed. The most important change, which is being felt, is that the role of the provincial governments will

be abolished and their responsibilities will be shifted either to the federal or the local governments.

At present, there are twenty-three economic zones in the world. A country in a zone will be considered as net gainer if its Growth Rate or Human Development Index (HDI) is improved by joining a trade free zone. Such a goal can be achieved only in case of the fulfillment of following two conditions:

- 1) There must be many similarities in the economic cultures.
- 2) The countries have strong and significant mutual trade relations and their requirements must depend on each other.

**FIGURE: I**  
**MUTUAL TRADE OF REGIONAL BLOCS**

Regional Bloc	Mutual Trade as Percentage of Total Trade
Asia Pacific Economic Cooperation	73.1
European Union	61.5
North American Free Trade Association	47.5
Andean Group	10.4
Central American Common Market	15.7
Caribbean Community	12.9
Latin American Integration Association	16.5
Southern Common Market	22.8
Organization of Eastern Caribbean States	11.6
Economic and Monetary Community of Central Africa	1.9
Economic Community of Great Lake Countries	0.5
Common Market of Eastern and Southern Africa	9.3
Economic Community of Central and African States	1.9
Community of West African States	8.7
Menu River Union	0.0
Southern African Development Community	10.4
West African Economic and Monetary Union	9.3
Association of South East Asian Nations	23.2
Bangkok Agreement	2.3
Economic Cooperation Organization	6.7
Gulf Cooperation Council	4.6
South Asian Association for Regional Cooperation	4.3
Arab Maghreb Union	3.4

The formation of a regional economic bloc for trade and economic affairs has two important aspects: (I) its economic implications, and (II) its social and political consequences. While, two different schools of thought – ‘Globalization’ and ‘Regionalization’ are functioning in the background of the formation of economic zones. Theory of globalization believes that the World will adopt a common culture and economic system at last. The trade and commerce has become much easier due to availability of Internet and other faster means of communication. Those will be the developed nations who have

more knowledge and information sources. English will be the sole common language and the role of professionals will increase. The Bankers, Economists, Programmers, Business Executives and the Military personnel are included in those professionals. There will be no geographical boundary for those professionals. The country who will have the more number of professionals, will be advancing more, because such peoples will play an important role in the economic management, technological advancement, trade facilitation, and socio-economic and political security.

The second thought is concerned with the Regional Blocs' formation. This thought is based on the proposition that cultural conflicts have become more influential than political systems in determination of economic relations after cessation of the cold war. The war between communism and capitalism has now been moved towards a war between the various cultures. The Economics of Cultural - relatively a new branch of Economics to study the role of culture in economic development and eco-political relations between the nations - has rapidly been broadened. Huntington (1994) believed that now world would be divided on the basis of cultures - not on the basis of economic ideology. Huntington, divided the world in the following eight blocs:

- |                   |                                                        |
|-------------------|--------------------------------------------------------|
| 1. Western Bloc   | USA, Western Europe, Canada, Australia and New Zealand |
| 2. Islamic Bloc   | All the Muslim Countries                               |
| 3. Latin America  | South and West American Countries                      |
| 4. Orthodox Bloc  | Eastern Europe and Russian Federation                  |
| 5. African Bloc   | Sub Sahara and Central African Countries               |
| 6. Japanese Bloc  | Japan                                                  |
| 7. Confucius Bloc | China and Hong Kong                                    |
| 8. Hindu Bloc     | India, Nepal, Bhutan and Sri Lanka                     |

According to the cultural-based regional bloc theory, religion and social values play an important role in the economic development. This thought recognizes the role of culture and social values in the pattern of economic development. The role of a theocratic society in economic development will not be similar to a liberal society. The Roman Catholics and the Protestants cannot play a uniform role in the economic growth of a region. The religious and social attitudes have been playing significant roles in the economic growth of Germany, Switzerland, Taiwan, Korea, Japan, and Latin America.

Fukuyama (1995) concluded that complicated Financial System and Open Business Institutions can not be created in those societies, where is the lack of trust in other persons or where social relations are limited up to the nearest relatives and family members. For example, the peoples of China, Italy and France are not so much interested in the formation of big multinational corporations. On contrary, Japanese, American and German businessmen are

the founders of innumerable Multinational Corporations. The numbers of China-based Multinational Corporations are much lower in relation with the economic development of China. While, the numbers of Korean based Multinational corporations are much greater in relation with the economic development of Korea.

Discrepancies in social attitudes may affect the transaction and interpretation of the business agreements. They can create hurdles in the process of globalization. This is the major cause behind the formation of economic blocs on the basis of cultures rather than geographical locations and economic ideologies. The countries of similar culture will form their blocs. Those blocs will be more powerful than the present economic and political agreements. There are two opposite views about the Muslim countries, in the current literature on International Economics. Some researchers think that the Muslim countries are afraid from the globalization of economies and the Muslim-Christian riots in Indonesia and other countries are the reaction of such apprehension. According to the second opinion the expected changes in the international scenario can be managed by the Islamic culture in a better way.

It is noteworthy that the relation with the past had been broken for many nations in the twentieth century. So, countries with same history and culture may not belong to the same economic zone. More important is the economic relations in present scenario. The historical relations of the nations become less important. However, the current economic relations and cultural similarities cannot be transformed into regional blocks in future. Those cultural similarities cannot negate the deep-rooted socio-religious ideologies. If a resident of a Muslim Country wear a coat, use a tie, drink coffee, graduated from an American University and read the American literature, it may not belong to the Huntington's Western Bloc. He may be a Muslim in his ideology.

## **II: Rationale and Structure of the South Asian Economic Zone:**

Different versions of the South Asian Economic Zone has been discussing in the media. World Bank (1999) included Afghanistan in South Asia. Political leaders in Pakistan proposed the inclusion of Iran and Central Asian States in the South Asian Economic Zone. It was envisaged that the zone would represent fifty percent of the world population if China joins the zone. A common currency system, joint central banking, joint defense, and a common president ship at the final and maturity stage of the formation have also been proposed (Mehtar: 1999).

The countries in South Asia have similar economic problems like inflation, unemployment, poverty, low investment, and deficit financing. They have also cultural similarities – excluding religion. But, the countries do not qualify for the formation of a free economic zone, because of the second condition.

The mutual trade of South Asian countries is only 4 percent of their global trade. The countries in South Asia do their 96 percent trade with the countries outside the South Asia. They have more discouraging position in the mobilization of labor and capital.

South Asia is in the weakest position as compared to European Union (EU) and Japan. It was estimated that after taking all the measures and necessary steps to liberalize across the borders movements of goods and services, the mutual trade can be grown up to five billion rupees only, which is less than three percent of total exports from Pakistan (Mehtar: 1999).

The trade policies of Pakistan were softer than Indian trade policies in past. As a result, dependency on imports has been increasing in Pakistan. Now, it is expected that in case of a free trade policy, Pakistan will import machinery and spare parts from India. On contrary to this, the major part of Pakistani export belongs to the primary and intermediate products including cotton and yarn. As a result, prices of basic goods will increase in Pakistan. The past experience can predict that foreign exchange will not come into Pakistan by exports to India; because, Pakistani exporters will import Indian products instead by cash earnings to maximize their profits.

The basic and important justification behind the formation of South Asia Free Economic Zone is not directly concerned with the economic benefits. The benefits, which are being mentioned, are not the solution of the regional economic problems. Those benefits are not significant from the quantitative point of view. However, they have much importance from the global political point of view.

United States is interested in the good relations between India and Pakistan. Which theory is working behind this? There are two basic motivations behind the US interest in Indo-Pak relations. Confucius Bloc (Greater China) is a big challenge for the United States. A rift between India and China is in the interest of United States. United States wants to threaten China with the help of a strong and powerful neighbor. To fulfill the American objectives, India should concentrate its attention to the rivalry with China. It is possible if India has trouble-free relations with Pakistan and the other Muslim countries.

At present Muslim World is not a challenge for West. Christian world is twenty-one times more powerful than present economic strength of Muslim world. But, Western bloc wants to weaken further to its historical rival. They are trying to divide the Muslim World by means of the creation of South Asian Treaty. Such a treaty will shift four countries of the Islamic Bloc into the Hindu Bloc. It will be eight-country bloc (including Afghanistan) led by India. The inclusion of four Muslim Countries into the South Asian Treaty will be a turndown of the Islamic culture and unity. Another important point is that the

inclusion of Pakistan in South Asian Treaty will be the reflector of the fact that there would be no "Nuclear Power" in the Islamic Bloc.

**FIGURE: II**  
**COMPARISON OF ECONOMIC STATUS**

Zone	Population (Million)	GDP (Equivalent Purchasing Power (Billion \$))	Per Capita Income (\$)	Growth Rate (%)	Unemployment (%)	Inflation (%)
Euro-11	290	5942	20490	2.6	11.6	1.8
USA	268	8080	30149	3.8	4.9	2.4
Japan	126	3002	30825	0.9	3.4	1.7
South Asia	1266	1924	1520	4.6	18.0	7.2

**FIGURE: III**  
**SHARE IN THE INTERNATIONAL TRADE AND FINANCE**

Zone	Share in Global Exports (%)	Share in Global Imports (%)	Market Capitalization (Billion \$)	Number of Listed Companies	Head Quarters of Top 500 MNCs
Euro 11	20	23	3841	5242	100
USA	16	15	8484	8479	151
Japan	10	8	3089	53	104
South Asia	1	1	140	10102	5
World	100	100	20177	42404	500

**FIGURE: IV**  
**PAKISTAN TRADE ' SHARE**

Region / Group	Share in Exports (%)	Share in Imports (%)
Industrialized Countries	59.4	47.6
Eastern Europe and Russian Federation	0.7	0.9
Developing Countries	39.9	51.5
Total:	100	100
<b>Share of South Asia</b>	<b>2.9</b>	<b>2.2</b>

Mr. Talbot's visit and US parliamentary delegation to India just before Vajpai's visit to Pakistan were the meaningful steps in this direction. In the same period, Mr. Nicolson Bridgeton, an ambassador of Britain, and Mr. Frank, an anti Pakistan US ambassador in Delhi has visited Pakistan. Those events were not at random they may have some linkages. If India and Pakistan form a joint treaty, the Western World can get the following benefits:

- 1) The formation of the Islamic bloc will be abolished or weaker.
- 2) Justification of the nuclear program will be eliminated. So the risk of an "Islamic Bomb" will also be minimized.

- 3) Kashmir solution will provide a U-turn in the tempo and spirit of jihad.
- 4) If Pakistan curtails the defense expenditures and equipment, it will ultimately weaken the Muslim World.
- 5) The political power of China will be weaker; China is an economic and political challenge for USA. China will lose the number of its political supporters.

The role of Pakistan in the Muslim world has multi-dimensional aspects. Pakistan is considered an eastern gate of Muslim world. Mr. Jinnah, the founder of Pakistan mentioned that 'Pakistan is not end with itself but means to an end'. What is the end? Historically, peoples of Pakistan are closely related with the Ottoman Empire. They had sacrificed and devoted their time, wealth, and efforts to protect the Ottoman Empire through "Khilafat Movement" in India. Now, Pakistan is the only nuclear power in the Muslim World.

Indian media is publicizing the cultural - not economic - justification of the free economic zone. Indian press and scholars are trying to realize the public that Pakistan and India have same history, same culture, same geography, and same anthropology. They speak same language; have mutual kinship and similar fashions. From the birthplace point of view, at least three Prime Ministers of India belonged to Pakistan. Similarly, at least four heads of the government in Pakistan were born in India.

All such references are being mentioned to prove that Pakistan is not a part of the Muslim Bloc; it is a part of the Hindu Bloc. Huntington (1995) has used the term of "Hindu Bloc" for India and Nepal. It is also important that according to the geographical division by the United States Foreign Office, World Trade Organization (WTO), and the World Bank, Afghanistan is a part of South Asia.

The statements and slogans, like Indo-Pak confederation, Great Indian Unity, Common Currency and Hindu Muslim Brotherhoods negate the 'Two nations theory', which is the "only" justification for Pakistan.

In fact, the peoples who recommend a complete collaboration between the countries in South Asia, ignore the historical roots of those relations. Pakistan and India are the characters of 'Two countries, one story'. Indo-Pakistan relations are in fact, Hindu-Muslim relations. The rivalry relations between Hindus and Muslims are not the effect of the creation of Pakistan; they are the cause of the creation of Pakistan. They are the natural consequences of the Indian history.

From Pakistani perspective, the Mujahideen in Chechnya and Kashmir are the freedom fighters; they are terrorists from Indian perspective. This conflict in the ideologies is not created during the present fighting. It has deep roots in the history. Mehmood Ghaznavi was a Muslim hero, but a robber in the eyes of

Hindu majority. Raja Dahir and Pirithivi were the favorite commanders according to the Indian school of thought; they were symbol of fascism according to the Muslim literature. Muhammad Bin Qasim, Hujaj Bin Yousuf, Muhammad Shah Ghouri, Babar, and Alamgir are the honorable names in the Muslim history, but dictators and militants in the Hindu literature. Akbar is a hero of the secularists, but a weak Muslim in the history. One's heroes are the other's Villains in the history of the Hindu-Muslim relations in India.

### **III: South Asia and Muslim World: Historical Allies and Future Complements**

Before the proposal of a free economic zone, the Arabian business leaders in a conference held in Jaipur India had emphasized that the land of Middle East is prominently suitable for Indian investment. The Foreign Minister of United Arab Emirates, the ambassadors of Egypt and Morocco and a business executive from Bahrain had been included in those leaders. According to the Arab leaders, the centuries-over economic and social relationship should be re-originated with a new dimension.

South Asian Economic Zone of eight countries - including Afghanistan - will raise two basic questions: Will it negate the Huntington's 'Clash of Civilization' theory? The denial of Huntington's theory in the South Asian context will also be death of the "Two Nations Theory". The second interesting and worthy question is concerned with the Muslims domination in South Asia. It is hypothesized that four Muslim countries and more than 50 percent Muslim population in South Asian Economic Zone will classify it as a 'Sub-continent' of Muslim World. Almost same conditions will be facing by the European Union after inclusion of Turkey, Cyprus, Albania, Kosovo and Bosnia in the European union. The major and historically recognized part of the Muslim World - North Africa and Middle East - after exclusion of Pakistan, Malaysia, Indonesia and Turkey - will be the least developed zone in terms of science and technology.

Huntington's expected Hindu Bloc consists of India, Sri Lanka, Nepal and Bhutan. It will be the smallest one among the eight expected blocs. It will not be comparable with other blocs in term of the political power and influence. It will have to be merged or affiliated with another bloc to attain a peaceful sustainable welfare society. Its history geography, culture and economic relations justify its collaboration with the Muslim World. Collaboration between Huntington's Hindu and Islamic blocs will reduce the domination of western (or Christian) Bloc (if it exists).

Arabs and Indians have centuries' old socio-economic relations. Those relations can invite a great alliance between the countries that are located around the Arabian Sea. Afghanistan, Iran, UAE, Kuwait, India, Bangladesh, Maldives, Sri Lanka, Nepal, Bhutan, and Pakistan can join this economic zone. A large number of the peoples from the Sub-continent are employed in the gulf countries. Oil is traded between those countries. The agricultural and food

items are exported to the Gulf countries from the sub continent. The media and the two largest newspapers of UAE are in the hands of Indians. The socio-political conditions in Iran, Afghanistan and Pakistan, and the Indo-Pakistan political relations are the important determinants of the formation of this economic zone.

What should be the nature and strength of Socio-economic relations between India and Muslim World (and Particularly Pakistan)? There are three different schools of thoughts:

- 1) A few statesmen think that frontiers should be removed absolutely and a confederation between India and Pakistan should be formed. A former prime minister of Pakistan has stated that if she got another chance to form a government in Pakistan, she would open the boarders with India. According to her, "Now, this Wall of Berlin should be removed". The Indian scholars, intellectuals, and traders have also proposed 'a complete confederation'. A few nationalists in Pakistan have also been favoring such a confederation. The political authorities in 1960s had proposed even a joint defense system.
- 2) The other school of thought recommends the removal of economic boundaries only. The group recommends the formation of a Free Economic Zone in South Asia like European Union. It is obvious that the group emphasize on the duty free mobilization of goods, services, capital, labor, technology, and other resources. A significant powerful collaboration is required for the formation of a zone like European Union.
- 3) The other group does not allow any political, cultural or economic relation with India. The group focuses on the formation of a Muslim Bloc.

Despite of the severe and several disagreements, Muslims and Hindus are historical allies. Arabs and Indians have long-term association in their economic history. Today's Southern Arab world provides employment, trade and investment opportunities to Indian peoples. Remittances from Arab world play an important role in the socio-economic development in India. Muslims have become a part of Indian culture since last 1200 years, while Christians have never become a part of the Indian culture. British rule in India, Portuguese's colonialism in Gwa and rift between Indians and Australian origin population in Fiji created the disputes and rifts between India and Western bloc. Hindu extremists had agitated against the visit of Roman Pop in India in November 1999. The bloody riots between Christians and Hindus and the fire on churches and Christians' residences are common in Southern India.

It is being observed clearly that China is coming closer to the Muslim bloc, while, Western World is going closer to India. There are a few observations of

hand shaking between India and Huntington's Western Bloc. Although, India is not offering any formal collaboration with Western bloc and historically India has been closer to Muslims. Kashmir and historical rift between Hindus and Muslims are the factors of discrepancies between India and Muslim world. But, history, culture and geographical factors emphasize that India cannot afford a rift with the Muslim world. It has two options: either becomes a subsidiary of Muslim bloc in future or play a role of the agent of Western bloc against China and Muslim World in Asia. The choice is in the hand of India.

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