

# SAARC: United Dream or Regional Nightmare?

Written by Nikita Malik

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NIKITA MALIK, JAN 10 2013

*"Without an environment of peace, security and stability, efforts towards mutually beneficial regional cooperation will have little success. SAARC cannot and must not remain indifferent or pretend to be oblivious of the differences and tensions between its members."* –Statement by Pakistani PM Nawaz Sharif at SAARC Summit Colombo, 1998.

*"A dream of unity has occupied the mind of India since the dawn of civilization"* –Jawaharlal Nehru

### Introduction

Sixty-five years ago, Orwell wrote in *Animal Farm* that "all evils of this life of ours spring from the tyranny of human beings." In terms of cooperation, this 'tyranny' translates into selfish interest: one agent expects others to work while it reaps the resulting benefits. This is the concept of the 'free ride'. Why, then, would states want to create regional entities to foster cooperation?

In order to address this question, I build a framework around the South Asian Association for Regional Cooperation (SAARC): an independent union of eight South Asian members. Ayoob (1985) situates its creation to a proclivity to mimic successful regional organizations[1], coupled with the fear of being 'left behind'. However, even if we add to this premise prospects of economic integration and appeasement of political ties, cooperation seems unsustainable. A lack of common threats, base identities, overlapping goals, and an ambiguous pivotal power have been identified by many, including Bandara and Yu (2001) and Taneja (2001) as dilemmas that make cooperation among sovereign states unlikely. Indeed, if South Asian politics is viewed from a Darwin-Waltz perspective, weak institutions, norms, and domestic regimes play quintessential roles in explaining the lack of success of SAARC in sustaining collaboration.

The question at hand, therefore, is not how SAARC fosters cooperation, but if it manages to do so. I argue that misaligned strategic conceptions prevent SAARC from becoming a 'regional' or 'epistemic' community. As a result, the organization is largely captive to disputes between India and its neighbors. Due to its feeble power as an entity, I am able to apply Game Theory simulations of repeated interaction to illustrate how SAARC is neither a Stag nor Chicken game. Instead, I use the preeminent example of Indo-Pakistan conflict to position SAARC as a Prisoner's Dilemma with Grim Triggers.

### SAARC within Game Theory Interactions

Amongst others, Bajpai (2005) iterates the main idea under liberal institutionalists: the ability of cooperation to (ultimately) emerge among egoists under conditions of strategic interdependence. However, the underlying premise here is that cooperation is contingent upon the players' willingness to continue the game: a feature Axelrod (2000) defines in his original paradigm[2]. The traditional two-person iterated interaction can of course be dissected and extended to take into account factors such as non-simultaneous play, social networks for interaction, information-sharing reputation-building (Ernst Fehr), learning behavior, envy and misunderstanding, and the option to exit. Consequently, cooperation may not always result: even with agents maximizing payoffs. I begin by identifying SAARC within selected simulated interactions.

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## SAARC as a Stag or a Chicken

The question here is when cooperation, which I define in terms of SAARC as conscious policy coordination, is necessary to the realization of mutual benefits of all eight member countries. For a mutual benefit to exist, the aforementioned states must prefer mutual cooperation (MC) to mutual defection (MD)[3]. For coordination to be necessary (to the realization of mutual benefit) member states must prefer unilateral defection (DC) to unrequited cooperation (CD)[4]. I examine three games (Stag, Chicken, and Prisoner's Dilemma) in the SAARC application because cooperation is desirable in all three, but not automatic.

Under a Stag Game, a group of hunters surround a stag, and if all choose to cooperate to catch the stag, all will eat well. If one hunter defects to chase a rabbit, the stag will escape: the defector will eat lightly (DC), but the others will not eat at all (CD). Cooperation will be assured only if each hunter believes that all hunters will cooperate: in a single-play Stag, the temptation to defect to protect against defection of others is balanced by a strong universal preference for stag over rabbit.

The Stag Game relies on two fundamental assumptions, both of which I will refute to argue that SAARC does not fit this model, thereby cooperation between member states is highly unlikely[5]. The first is regarding punishment: even with repeated interaction over infinite N periods, it is assumed that the 'deflector' will lose forever (i.e. a Grim Trigger). In the case of SAARC, a deflector state that does not play by the 'rules of the game' will be removed from the union: thereby hindering access to competitive advantages, be it technical learning through information exchange, energy development, trade and industrialization, and so on. The second assumption is regarding preferences: it is assumed that member states strictly prefer returns from SAARC to functioning independently.

A full depth analysis of each advantage of SAARC is out of the limits of this essay, so I will focus on one in particular: trade nondiscrimination. The main issue regarding South Asian countries is lack of comparative advantages in a wide range of capital goods and advanced manufactured products. XCRA[6] indices using recent UN trade data (Samaratunga, 1999 and Kemal, et. al., 2000) indicate that SAARC countries have an almost identical pattern of comparative advantage in a relatively narrow band of commodities. While for the whole world the best option is clearly multilateral trade liberalization, Banadera and Yu (2001) use a GTAP framework to model actual tariff concessions given by SAPTA members during SAPTA-1, SAPTA-2, and SAPTA-3 to find that SAPTA would lead smaller members to lose substantially, both in terms of welfare and efficiency. This is due to identical areas of competitive advantage: causing favorable export prices in larger sectors such as India[7] but inefficient resource utilization in smaller countries such as Sri Lanka and Bangladesh. Understandably this would decrease incentives to maintain coordination on the part of 'defectors' who may sustain tariffs to protect industries. Therefore the assumption of **punishment** is tenuous, if membership is not benefiting all countries equally: some may be strictly better off or indifferent if they do not play by the 'rules of the game'. Certainly research by Taneja (2001) has suggested so: informal trade is described as "rampant" because formal spheres are not only hindered by tariff and non-tariff factors, but by domestic policies (differentiated tax structures between countries) and transaction costs (poor infrastructure and institutions). She therefore concludes that the absence of synchronized fiscal policies and the presence of domestic subsidies may continue to make informal trade remunerative.

Similarly, Panagariya (1999) uses a two-factor trade diagram to argue that SAARC is 'trade diverting' and 'efficiency-reducing': he argues that the region should promote 'trade preferences rather than non-discriminatory liberalisation.' SAARC is "likely to become a binding constraint" in the same vein as Mexico and Brazil's membership of MERCOSUR, which resulted in a virtual abandonment of unilateral trade liberalisation and rising tariffs in both countries. Therefore the assumption of **preferences** is questionable if mutual interests under international anarchy cannot be realized.

In a Chicken Game, the temptation of unilateral defection is balanced by a fear of mutual defection. This is usually illustrated by the example of two drivers racing down the road from opposite directions: if one swerves and the other does not, then the first will suffer the stigma of being known as a chicken (CD) while the second will be known as a hero (DC), however if neither swerve the cars will collide. The fear that the other driver may not swerve decreases the appeal of continuing down the road.

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I believe this game is more fitting to SAARC than the Stag Hunt because each member state values their own self-interest more highly than that of the other players (no altruism or sharing). This is especially the case in South Asia: Ayoob (1985) and Khosla (2007) identify a lack of shared culture and identity between members as a dehomogenizing-deunifying factor[8]. Khosla goes so far as to say that “where India talks of unity in the subcontinent, the neighbors think ‘homogenization’ which they translate into ‘hegemonization’ so they emphasize dehomogenization which equals dehegemonization.” This observation by the author extends naturally to diverse political systems, whereby ‘external’ threats to SAARC emanate from partners *within* the enterprise. ‘Democratic’ India is seen to “encourage” ‘autonomist’ Pakistan and Sri Lanka both morally and materially to operate in an open, democratic polity.

These political and cultural differences may be counterbalanced by shared geo-economic gains, however Bhagwathi (1992, 1993) and Panagiriya (1995) illustrate that this is not the case. Whilst traditionalists such as Frankel (1997) and others use empirical work based on their gravity model to argue that the proximity is, in general, an important determinant of bilateral trade around the world, only one case, i.e., South Asia, behaves against this “natural blocs” argument. Although India and Pakistan are neighbors, historically trade between the two countries has been low: estimates of Frankel and Wei (1995) indicate that trade between India and Pakistan is 70 percent lower than two otherwise identical economies. Historical political differences and quantitative and administrative restrictions have led to what Lahiri (1998) deems “inverse regionalism”. This asymmetry is discussed by Bandara and Yu (2001) in their comparison of ASEAN and SAARC as the main reason hindering “formal and informal modalities of interaction” between South Asian members. Whilst Sinha and Mohta (2007) cite a shared geographic space as a ‘sufficient’ condition for regional unity, they argue that Nepal and Sri Lanka, as well as Pakistan and Bangladesh in particular, have been “at pains to create a sense of their separate geographic identity”. Linking this to the Chicken Game, it is quite obvious that the search for a geographic, political, and cultural identity in non-Indian terms could defer SAARC states to anti-India directions and potential conflict. Therefore **mutual defection** may occur before unilateral defection does.

## India and Pakistan as Grim Triggers

I believe the most appropriate model for SAARC to be an iterated Prisoner’s Dilemma game, due to the prevalence of Indo-Pakistan political tension[9]. As in all strategic interactions, non-coordination is assumed, i.e. the shadow of the future provides the basis for cooperation, even among egoists. The example I will use within reciprocating strategy for the iterated Prisoner’s Dilemma is “tit-for-tat”, in which member states are assumed to cooperate on the first move, and then do whatever the other players do on the previous move. However if the other player defects, then the state never cooperates again: this is the strategy known as ‘Grim Trigger’ and manifests itself in permanent retaliation. Inevitably, in the absence of common threat perceptions and security concerns (Bajpai, 2005), which are crucial to the formation and success of regional coordination, the prospects for SAARC are not very bright. According to most analysts, including Singh (2007) and Basrur (2007), nuclear tests conducted by India and Pakistan, border wars, and abrupt political changes in Pakistan are major obstacles for regional cooperation. Empirical evidence negates Khosla’s cited preconditions to cooperation (the necessity that war will be abjured and mutual settlement systems created). Instead of diluting conflict, regional confrontations have directly influenced SAARC’s strategy and stymied scheduled summits in 1998 and 1999, because of a worsening of Indo-Pakistan relations due to their “tit-for-tat” nuclear tests and the military takeover in Pakistan. This is consistent with Ayoob’s (1985) argument that internal and external threats within SAARC are very diverse, and often emanate from, or are encouraged by, prospective partners in the SAARC enterprise.

## SAARC as a Regime

I utilize liberal tradition to define a ‘regime’ as a combination of international institutions that affects the behavior of states. The underlying assumption here is that cooperation is possible in an anarchic system of states: regimes are, by definition, instances of international cooperation.

Regimes facilitate cooperation by establishing standards of behavior that signal to other members that individual states are in fact cooperating. This theory evolves from the Prisoner’s Dilemma: inevitably, through repeated

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interaction, the Prisoner's Dilemma is critiqued as concerning itself with absolute gains: it is in the interest of states to cooperate in the present, because in the future, other states will defect (Tit for Tat)[10]. However, this outcome has occurred within SAARC in many instances: building from the analysis of the previous paragraph describing Indo-Pakistan tit-for-tat games. I have argued, rather, that SAARC is a more punishing game than tit-for-tat in the form of Grim Strategies. Insofar as this essay has argued that SAARC is lacking in cooperative form, the question remains: to what extent therefore can SAARC be seen as a regime[11], if at all?

I explain this phenomenon as such: this theory presupposes a 'supervising agent' as being the regime itself. However, I question the power of SAARC in punishing defecting bodies. Ayoob (1985) has reflected the need for a 'pivotal power' within the regional grouping, which will 'set limits' which neither the pivotal power nor its partners may stray. Naturally India is seen as the preeminent power in terms of its size, population, resources, and industrialization. However, its inability to translate this into predominance results in the absence of a checking mechanism within the regime.

Dash (1996) stresses India **must** be given this predominant role, as does Singh (2007). However, I question this assertion because Khosla (2007) argues that a necessary precondition for regional cooperation is an acceptance by member states of each other's sovereignty and legitimacy. Pakistani opinion regarding the Kashmir issue, for example, is quite presumptuously a questioning of India's sovereignty and Khosla's preconditions regarding "pluralist security communities". The nebulous nature of a pivotal power, coupled with a glaringly obvious lack of a mutual dispute settlement system, leaves us unable to define SAARC as a regime.

## SAARC as an Epistemic Community

I define an epistemic community as a network of professionals with recognized knowledge and skill in a particular issue-area. Peter Haas stresses that epistemic communities help to "explain the emergence and character of cooperation at the international level" (Thomas, 1997). This theory relies on the premise that the strength of the cooperative agreements depends on the power that the epistemic community has gathered within agencies and governments. As illustrated in this essay, SAARC is not very powerful in settling disputes and more of a bystander in discordant political issues. Sinha and Mohta (2007) go so far to argue that SAARC has not added significantly to any cooperative ventures that did not previously exist or would have happened anyway. They state that the only thing that SAARC has a competitive advantage in is holding meetings: "according to the SAARC secretariat website...there were a total of 134 meetings in just one year: 2004. Given the five day week and the fact that many meetings continued for more than one day, this means, on average, that SAARC met everyday". Evidently, meetings are important: they increase transparency of information which is defined by Axelrod (2000) as being advantageous to every strategic game described in this essay. However, while this is a necessary condition for epistemic power, it is not a sufficient one.

## Conclusion

In this essay, I have situated SAARC within a Prisoner's Dilemma interaction. The reasoning behind this based on three underlying assumptions: the first is that the gains from defection are highest for non-Indian, smaller states since they would *not* be *strictly better off* from participating in SAARC trading partnerships. The second is a lack of both a substantial 'pivotal' power and the appreciation of each state's sovereignty, which goes against Taneja's (2001) preconditions of preferential partnerships. The third is an inability to fulfill *necessary preconditions* regarding successful regional cooperation: whether these being Khosla's (2007) (a rejection to war, a mutual dispute system, a shared culture and common threat) Ayoob's (1985) (ideological and political affinity) and Bandara and Yu's (2001) (geographical advantages, trade complementarity, lack of political tension, and differentiated economic structures). Therefore, member states are acclimatized to deflect and the regional entity as a whole is captive to ongoing disputes.

As a result, India's 'dream of unity' may have a long way to go yet.

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[1] Such as the EU and ASEAN, presumably.

[2] Axelrod (2000) also using elementary game theory outcomes to iterate how large time references, repeated

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interaction over N periods, reciprocal capacity, a low discount rate, high levels of transparency over infinite N periods, perfect information, and a lower number of players can increase the chances of successful and sustained cooperation.

[3] These preference orderings are consistent with the familiar games of Prisoner's Dilemma, Stag Hunt, and Chicken.

[4] From statements by members in SAARC Summits, such as those by Major General M. Amin Khan Bukri, that the Pakistani military is the only member that can "cut India to its proper size and dimension", this assumption is verified. Conversely if member states prefer unrequited cooperation (CD) to unilateral defection (DC), no incentive to cheat exists. Similarly, asymmetric and symmetric deadlock games are not considered for this very same reason: we are assuming that cooperation under SAARC is desirable, but may not be successful or sustainable under given circumstances and conditions.

[5] The Stag Game, like the Prisoner's Dilemma, assumes that cooperation yields the maximum pay-off under all circumstances.

[6] Export Revealed Competitive Advantages.

[7] India's profit from liberalization and subsequent displacement is estimated by this model to be around 3.2 to 4.1 million US dollars.

[8] Interestingly, Jha (1986) argues that a common culture may not necessarily lead to increased cooperation, so this is an unprecedented assumption on the part of Kholas (2007) and Ayoob (1985). Jha argues where there is a conflict of interests, a shared culture may actually encourage actual conflict when one side thinks it knows enough about the other to exploit its weaknesses: as has happened in the cited case of India and Pakistan.

[9] And its subsequent actions on other member states i.e. Bangladesh, Sri Lanka, and Afghanistan

[11] I use the words 'to what extent' to highlight the assumption that SAARC is not currently a regime, but may, according to some optimists including Jha (1986) and Singh (1995) become one.

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