



The Role of SAARC in Economic Cooperation: A Study of India–Pakistan Tensions that Hamper South Asian Regionalism

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Abstract

Long-standing political tensions between India and Pakistan have consistently undermined the effectiveness of the South Asian Association for Regional Cooperation (SAARC) as a platform for economic integration in South Asia. Despite the region's considerable potential, including a young population, a vast domestic market, and substantial industrialization opportunities, South Asian regionalism continues to operate well below its optimal capacity. This study examines how the India–Pakistan bilateral conflict constrains SAARC's function in promoting regional economic cooperation. Applying the New Regionalism framework, the study finds that state dominance, the limited role of non-state actors, and the absence of formal conflict-resolution mechanisms leave SAARC vulnerable to stagnation whenever political tensions rise. The consensus-based decision-making that underpins SAARC's institutional design compounds this vulnerability, since it allows either India or Pakistan to block the regional agenda. The study further finds that smaller South Asian states are increasingly pursuing integration alternatives outside SAARC in response to the organization's low predictability. Opportunities in energy integration, trade connectivity, and SME development remain underexploited because of the rivalry between the region's two largest states. The study concludes that SAARC's functioning depends heavily on India–Pakistan political stability, and that without improved bilateral relations and institutional reform, South Asian regionalism will continue to lag behind other regions such as ASEAN and the European Union. The findings are intended to clarify SAARC's structural challenges and to inform the design of regional strategies that are more adaptive, inclusive, and oriented toward collective economic cooperation.

Keywords: *SAARC, India–Pakistan, South Asian regionalism, New Regionalism, economic integration, South Asian geopolitics, regional cooperation*



INTRODUCTION

Recurring tensions between India and Pakistan have shaped how South Asian states perceive regional cooperation over the long term. This instability has hampered SAARC's economic agenda and eroded regional confidence in the organization's capacity to deliver collective outcomes. Repeated postponements of SAARC summits, driven by India–Pakistan tensions, have cost member states such as Nepal, Sri Lanka, and Bangladesh the momentum needed to sustain regional development programs that depend on joint coordination. Bilateral conflict has thus forced SAARC into a reactive rather than strategic posture, in which progress toward integration must wait on political stability that is often unpredictable (Fair, 2015).

India's position as the region's dominant economy compounds this problem. Its political and economic weight shapes the dynamics of South Asian regionalism, yet its leadership is not uniformly welcomed; Pakistan, in particular, regards Indian dominance as a threat to regional sovereignty and balance of power. This rivalry produces structural tensions within SAARC, where decisions are routinely stalled by competing state preferences. Even member states that depend heavily on the Indian market for trade and labor remain cautious about appearing too closely aligned with India, wary of provoking a Pakistani response. The result is a persistent dilemma: South Asian states need economic integration, but achieving it requires resolving political tensions between India and Pakistan that show little sign of easing (Sahin, 2011).

This dynamic sits uneasily against the region's underlying economic potential. South Asia has one of the world's youngest populations, a large domestic market, and expanding opportunities for industrialization. In principle, regional economic integration could reduce the region's dependence on external markets, strengthen intra-regional supply chains, and generate employment; more broadly, regions that integrate more effectively tend to attract greater foreign investment and achieve stronger regional competitiveness and economic stability. In South Asia's case, however, weak connectivity, high intra-regional tariffs, and cumbersome trade bureaucracy already constrain integration, and political barriers compound these obstacles further, leaving South Asia's economic integration substantially weaker than that of comparable regions (World Bank, 2018).

From a normative standpoint, regionalism should push South Asian states to prioritize economic cooperation, since collective economic development can function as a mechanism for long-term political stabilization. This expectation aligns with the notion of *Das Sollen*, or how the region ought to behave: using economic interdependence as an instrument of peace through trade integration, joint infrastructure projects, and labor mobility that build shared interests capable of reducing conflict potential. Political reality in South Asia, however, diverges from this normative expectation, as states continue to prioritize security concerns over economic development, which relegates regional cooperation to a secondary instrument lacking political urgency (Kathuria, 2020).

The theory of New Regionalism is particularly well suited to this context. It treats regional integration as a process involving not only states but also non-state actors, including businesses, investors, civil society, and international organizations, whose active engagement can generate political pressure on states to preserve stability in the interest of broader economic gains. South Asia's state-dominated socio-political structure, however, leaves little space for non-state actors to shape regional policy. Along the India–Pakistan border, for instance, the private sector faces substantial obstacles, including restrictions on trade in basic goods, limited logistics infrastructure, and uncertain customs regulations, all of which prevent it from serving as a driver of integration in the way business actors have in ASEAN or the European Union (Hettne, 2005).

Comparisons between SAARC and ASEAN further reveal a significant gap in institutional effectiveness, particularly in each organization's capacity to manage political conflict. ASEAN's principle of non-interference, paired with a strong commitment to regional stability, keeps bilateral disputes from directly derailing its regional agenda. SAARC, by contrast, lacks a formal mechanism for resolving inter-state conflict or insulating economic cooperation from political disputes, which leaves it vulnerable to politicization whenever India or Pakistan uses regional forums to advance their respective positions. This comparison underscores that regionalism is not solely a matter of economic agreements, but also a question of how regional institutions manage internal political dynamics (Acharya, 2012).

SAARC does possess a reasonably comprehensive institutional framework for economic integration, including SAPTA and SAFTA alongside various technical committees, trade forums, and working groups tasked with coordinating development policy. This framework, however, cannot function at full capacity because SAARC decisions require full

consensus. A mechanism originally designed to preserve equality among member states has instead become an obstacle, since it allows India and Pakistan to use their effective veto power to block specific items on the regional agenda. Regional connectivity initiatives such as the SAARC Motor Vehicle Agreement and the SAARC Railways Agreement, for example, have stalled because the two countries have not reached agreement on associated security concerns, leaving South Asia's physical integration well behind that of other regions (SAARC Secretariat, 2021).

Smaller SAARC members, including Nepal, Bhutan, and the Maldives, face a related dilemma: they require broader market access and investment from India and Pakistan but wish to avoid being drawn into the rivalry between the two. Consequently, they increasingly pursue integration opportunities outside SAARC, whether through bilateral relations with China, deeper economic engagement with ASEAN, or participation in global initiatives such as the Belt and Road Initiative. This diversification reflects SAARC's declining relevance as the central platform for South Asian regionalism, as member states seek more stable and predictable cooperation frameworks elsewhere (Nabi & Nasim, 2011).

SAARC's institutional limitations carry serious implications for regional development. South Asia confronts substantial challenges in poverty reduction, economic inequality, food insecurity, and climate change, all of which require regional rather than unilateral responses. Yet because regional forums are frequently stalled by political disputes, many development programs lose effectiveness; cooperation on natural disaster management, for instance, often stalls amid domestic political shifts in India or Pakistan, even as Bangladesh, Nepal, and Sri Lanka remain highly exposed to floods, earthquakes, and cyclones that demand a collective response (World Bank, 2018).

Barriers to SAARC integration also constrain industrial growth. Small and medium-sized enterprises, which could otherwise expand through access to regional markets, are held back by limited logistical access and weak product-standard harmonization across member states, despite the sector's potential to create millions of jobs and expand regional exports. In an increasingly competitive global economy, SAARC states' inability to fully open regional markets leaves them missing opportunities to establish themselves as global manufacturing hubs comparable to Vietnam or Bangladesh's non-regional export sectors, and without deeper integration, South Asia risks remaining marginal within global supply chains (Kathuria, 2020).

Energy cooperation, one of SAARC's most promising avenues for integration, has similarly stagnated. South Asia holds diverse energy resources, including hydropower in Nepal and Bhutan, natural gas in Bangladesh, and renewable energy potential in both India and Pakistan, yet cross-border energy interconnection projects are routinely delayed by political tension. Successful energy integration could lower production costs, strengthen energy security, and reduce the region's dependence on energy imports from the Middle East, making it a plausible driver of broader economic integration, but the India–Pakistan rivalry continues to obstruct cross-border energy projects (SAARC Development Fund, 2019).

International geopolitical pressure adds a further layer of complexity. China's expanding regional influence pushes India to safeguard its control over the direction of regional cooperation, while Pakistan deepens its economic and military ties with Beijing; in response, India has increasingly promoted cooperation through the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) as an alternative to SAARC. This divergence in geopolitical orientation indicates that South Asian regionalism is shaped not only by internal dynamics but also by broader competition among external powers, and SAARC's institutional position weakens further as member states gravitate toward cooperation with external actors instead of strengthening the organization itself (Acharya, 2012).

Taken together, these dynamics show that South Asian regionalism faces compounding structural challenges: the India–Pakistan conflict, divergent geopolitical interests, weak non-state actor participation, and low levels of economic integration all constrain SAARC's capacity to function as an effective regional institution. The region's underlying potential nonetheless remains substantial, and stronger regional cooperation would make collective economic development considerably more attainable. Understanding how India–Pakistan tensions constrain SAARC therefore carries both academic and policy relevance for the formulation of more stable, productive regional strategies going forward (World Bank, 2018).

This study accordingly asks: how does the India–Pakistan bilateral conflict constrain SAARC's function in promoting economic cooperation, and what does this reveal about the structural obstacles to South Asian regionalism? In addressing this question, the study aims to provide readers with a deeper understanding of SAARC's role and its structural limitations.

ANALYSIS FRAMEWORK

Regionalism explains how states within a region construct structured cooperation to pursue stability and shared interests through regional institutions, reorganizing their political and economic relations toward greater integration and coordination in the process. UNU-CRIS (2013) attributes the emergence of modern regionalism to rising global interdependence, which pushes states toward collective action, and regionalism more broadly serves as a mechanism for addressing cross-border issues that no single state can manage unilaterally. Regionalism theory therefore provides the foundational logic behind the formation of organizations such as SAARC.

In South Asia, regionalism functions as the institutional basis through which states pursue economic integration and regional stability, though its effectiveness is frequently constrained by internal political dynamics and rivalry, particularly between India and Pakistan. Mesquita (2016) argues that regionalism cannot operate at full capacity when political conflict dominates inter-state relations within a region, a pattern that in SAARC's case has slowed and destabilized the integration process. Regionalism theory thus offers an appropriate lens for assessing the stagnation of SAARC's economic cooperation agenda.

New Regionalism extends classical regionalism theory to describe a more open, multidimensional form of regional cooperation, one driven not only by states but also by non-state actors such as the private sector and civil society. Hettne and Söderbaum (2000) define new regionalism as the process by which regions become increasingly integrated politically, economically, and socially, propelled by globalization and shifts in the international power structure. This framework treats the region as a more complex space of economic and social interaction, making it more flexible and responsive to global dynamics than classical regionalism.

New Regionalism is particularly well suited to explaining SAARC's integration obstacles, since the organization has been unable to harness the influence of non-state actors to strengthen economic cooperation. Hettne (1999) argues that new regionalism can only take root in a relatively stable political environment, yet India-Pakistan tensions have consistently constrained economic mobility, cross-border market collaboration, and bottom-up regional initiatives. As a result, SAARC remains locked into an older pattern of regionalism that depends heavily on the political dynamics of its member states, and New Regionalism helps explain why SAARC's economic integration has fallen short of its potential.

RESEARCH METHOD

This study adopts a qualitative approach with a case study design to examine SAARC's role in economic cooperation in depth and to assess how India–Pakistan tensions have constrained the regionalism process in South Asia. A qualitative approach is well suited to explaining complex political and institutional phenomena through the interpretation of meaning, context, and inter-state dynamics; as Aspers and Corte (2019) note, qualitative research centers on understanding how social phenomena are perceived by the actors directly involved. The case study design follows from the study's focus on a single, bounded case: the interaction between SAARC as a regional organization and the India–Pakistan bilateral conflict as a factor constraining regional integration. As Baxter and Jack (2008) observe, qualitative case study methodology equips researchers to examine complex phenomena in context by drawing on multiple data sources to build a comprehensive understanding of the case under study.

This study relies on qualitative secondary data, a choice justified by the extensive documentation and scholarly analysis already available on SAARC, regional economic cooperation, and the India–Pakistan conflict. Data sources include official SAARC documents, such as the SAARC Charter, the SAFTA Agreement, summit reports, and foreign ministers' communiqués, alongside academic publications on South Asian regionalism, the India–Pakistan conflict, and evaluations of regional organizations published in international journals. The study also draws on reports from international institutions, including the World Bank, the Asian Development Bank, and UNESCAP, to substantiate its analysis of barriers to South Asian economic integration. Johnston (2014) characterizes secondary data analysis as a valid, efficient method, particularly appropriate when relevant data are already widely available and consistent with the study's objectives; this approach grounds the analysis in credible, empirically substantiated literature.

RESULTS AND DISCUSSION

This analysis applies Regionalism Theory, which holds that regional integration should enhance stability and prosperity through regional institutions. The available evidence, however, consistently shows that SAARC's role in promoting South Asian economic cooperation has been severely constrained by political dynamics, particularly the antagonistic relationship between India and Pakistan. Although SAARC was founded to foster economic growth and interdependence, the organization has for more than three decades remained effectively hostage

to India–Pakistan rivalry. Ali, Sawal, and Shahid (2022) argue that SAARC’s capacity to defuse India–Pakistan tensions is central to its purpose, and that its failure to resolve bilateral political conflict directly undermines its economic cooperation function. Tensions rooted in historical disputes, particularly over Kashmir, have steadily eroded trust and cooperation, leading many observers to characterize SAARC as an organization that issues declarations without following through on implementation.

Khan and Khan (2024) apply a Realist lens to this dynamic, arguing that SAARC operates in a region where states prioritize national power and sovereignty over collective economic gain. The India–Pakistan rivalry illustrates this pattern clearly: both states have consistently adopted hostile postures that constitute, in Khan and Khan’s terms, a major obstacle to realizing SAARC’s stated objectives. The SAARC Charter compounds this problem by prohibiting member states from raising bilateral or controversial issues within the organization, which removes a mechanism that could otherwise help mitigate political conflict and further impedes cooperation.

SAARC has nonetheless pursued concrete steps toward regional economic integration. The South Asian Preferential Trading Arrangement (SAPTA), signed in 1993 and entered into force in 1995, aimed to promote regional trade through tariff reductions, resting on the premise that regional cooperation underpins development progress (Ashraf & Akhir, 2016). The South Asian Free Trade Agreement (SAFTA), widely regarded as SAARC’s most significant achievement, entered into force on January 1, 2006, with the aim of eliminating customs duties and tariffs to establish a regional free trade area.

Despite representing genuine efforts to deepen interdependence within the logic of Regionalism Theory, these initiatives have delivered limited results. Progress under SAPTA and SAFTA has been constrained by persistent security concerns and traditional rivalries (Ashraf & Akhir, 2016). While SAARC has resolved some minor trade-related disputes, it has not addressed the core disputes between India and Pakistan. Deeper forms of integration, such as a customs union requiring harmonized external tariffs, or a common market allowing free movement of goods, services, capital, and labor, therefore remain unrealized, underscoring that economic cooperation in the region continues to depend on internal political stability (Khan & Khan, 2024).

New Regionalism holds that regional cooperation depends not only on state actors but also on global dynamics, international institutions, and non-state actors such as the private

sector, and by this measure SAARC has fallen behind blocs such as ASEAN and the European Union. Existing research points to geopolitical obstacles as a key constraint and suggests that strengthening bilateral economic cooperation between India and Pakistan directly, rather than relying on SAARC's multilateral mechanisms, may offer a more pragmatic path forward. Khan and Khan (2024) note that despite genuine potential for cooperation on shared challenges such as poverty and environmental degradation, the absence of a cohesive policy framework remains a significant weakness, compounded by the limited capacity of non-state actors in South Asia to counterbalance India–Pakistan rivalry.

Within the New Regionalism framework, successful regional integration typically depends on functional cooperation generating spillover effects into political and security domains. In South Asia, the India–Pakistan rivalry has produced the opposite dynamic: persistent political conflict continues to obstruct economic cooperation rather than being eased by it (Ashraf & Akhir, 2016), leaving SAARC functioning more as a forum for dialogue than as a mechanism that reliably delivers on its stated goals.

Overall, SAARC's role in economic cooperation remains largely aspirational rather than functional. Its weak institutional framework, combined with the persistent dominance of national security considerations, consistent with Realist expectations, over collective economic gains, consistent with Regionalism Theory, has prevented the organization from operating as an effective vehicle for regional integration, falling short of what both Regionalism Theory and New Regionalism would anticipate under more favorable political conditions.

CONCLUSION

India–Pakistan relations exert a fundamental influence on the effectiveness and future trajectory of South Asian regionalism through their impact on SAARC. Historical rivalry, ongoing security tensions, and recurring diplomatic friction have slowed economic cooperation and regional integration. SAARC, which should serve as the primary platform for strengthening connectivity, trade, and collective development, is instead routinely stalled by bilateral conflict between the region's two most influential states.

SAARC's consensus-based decision-making, though designed to preserve equality among members, in practice deepens the organization's dependence on India–Pakistan stability. Any rise in bilateral tension directly affects the economic agenda, high-level meetings, and the implementation of strategic programs. Smaller South Asian states have

responded by increasingly pursuing alternatives to SAARC, such as BIMSTEC or bilateral cooperation arrangements, which they regard as more stable and productive.

Analysis grounded in New Regionalism shows that South Asian regionalism is constrained not only by high politics but also by institutional weaknesses, the limited role of non-state actors, and the absence of people-centered integration. The region's potential, spanning intra-regional trade, energy integration, and cross-border connectivity, remains substantially underdeveloped as a result of protracted geopolitical rivalry.

The future of SAARC therefore depends heavily on improved India–Pakistan relations and internal institutional reform. Without resolution of the bilateral conflict and without institutional innovations that make SAARC more flexible, inclusive, and resilient, South Asian regionalism will continue to lag behind other regions such as ASEAN and the European Union. Political stability, sustained economic commitment, and a governance approach that incorporates a broader range of non-state actors stand as the key prerequisites for revitalizing SAARC as an effective regional organization.

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