

**EVOLUTION OF ECONOMIC & FINANCIAL BUSINESS PRACTICES IN
SAARC - COOPERATION FOR A SUSTAINABLE SOUTH ASIAN
REGION (SAARC)**

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Abstract: The business practices in the SAARC region are to a large extent based on the cultural values, traditions and considerations of the member countries though western influences have started to become evident. There are differences in the economic development levels of the eight SAARC countries. The objective of SAARC is to maximize the potential for trade and development in the region and also to recognize & execute strategies to alleviate the economic & environmental challenges of the least developed countries and help them attain sustainable economic & environmental development. The importance of SAARC is because it comprises of

three per cent of the world's area containing twenty-one per cent of the world's population with approximately four per cent of the global investment environment in the SAARC countries range from corruption, poor infrastructure to poverty which hinders the commercial development across countries like Afghanistan and Bhutan thus making them rank among the least developed countries of the world. The article is part of an exploratory research study on the significant factors influencing the economic and financial business practices of SAARC and how environmental friendly business practices adapted from the west, like e-portals are being implemented which has led to an increased awareness about the importance of conserving the environment along with economic development concerns.

Keywords: South Asian Association for Regional Cooperation (SAARC), Non-Tariff Barriers (NTBs), Para-Tariff Barriers (PTBs), South Asian Free Trade Area (SAFTA), Committee on Economic Cooperation (CEC), Least developed countries (LDC).

Introduction

South Asian Association for Regional Cooperation (SAARC) is the regional inter-governmental organization and geopolitical union of eight nations- Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka- of South Asia. The SAARC was formed on 8th December 1985, with an aim to aid the economic growth and socio-cultural development of the region. SAFTA(South Asian Free Trade Area) is an agreement that was reached on 6th January 2004, at the 12th SAARC Summit in Islamabad, Pakistan, to create a free trade area and to reduce the customs duties of all goods traded among the member nations to zero. In order to achieve these, mutual trust, understanding and co-operation among the member nations are essential. The business practices prevalent in SAARC are largely based on the cultural values, traditions and considerations of the region. Two of the most important objectives of SAARC are to maximize the region's trade potential and to recognize the least developed nations and help them develop, thereby accelerating overall development of the bloc.

Brief profile of the member nations:

- i. *Afghanistan* : It is officially the Islamic Republic of Afghanistan. This is among the least developed countries of the world. It is a landlocked country with majority of the area covered by the Hindu Kush mountain range. Unitary presidential form of government is present. 80% of the population works in the agricultural sector. The communication style prevalent here is indirect. One has to read between the lines to understand the meaning of what is being conveyed. It is common for men to greet each other with a handshake. A male can shake hands with a female only if the female extends her hand first, else its considered disrespectful for a male to initiate a hand shake. Face to face meetings and telephonic conversations are the preferred modes of conducting business. The main reason for this, apart from convenience and better understanding, being that many business people do not have access to internet outside of the work hours. Historical events have caused significant stunt in the economic growth of the country, due to which there has been inefficiency in the marketing pattern prevalent. The government has recognized terrorism as the main obstacle in the path of economic growth. The people and environment of Afghanistan have borne the brunt of terrorist activities and understands the destruction caused by wrong use of weapons. Hence Afghanistan as a country does not support piling of nuclear weapons. An important objective of this country is to be a causal agent for regional cooperation in the South Asian region. Another important objective is to have good relations with other Islamic countries of the world. It has begun the process of revamping its economy. Medical and educational sectors are registering positive growth. It is heavily dependent on foreign aid. Commercial exploitation of many untapped natural resources has begun.
- ii. *Bangladesh*: It is officially known as 'People's Republic of Bangladesh'. It has an unitary parliamentary form of government. It is the world's most densely populated non island nation. Topographically, most of it is covered by Bengal Delta. It is an important promoter of regional cooperation and connectivity. Half of population works in the agricultural sector. Its an economy in transition and has been listed as one of the Next Eleven Emerging Markets.

iii. Hierarchy is considered important in the social setup of the country and the same is reflected when conducting business. Being aggressive in business negotiations is considered to show disrespect. The workweek is from Sunday-Thursday. Shaking hands between men and

women is considered inappropriate as a form of greeting. Business executives are generally courteous. Japan is the largest aid provider to the nation and the country along with India are considered to be South Asia's largest trading partners. Its foreign policy is influenced by 'friendship to all and malice to none'. Some of the issues facing the country are political instability, poor infrastructure, corruption and low literacy rate.

iv. *Bhutan*: It is officially known as the 'Kingdom of Bhutan.' It is South Asia's second least populous nation. The nation was never colonized. The credit of coming up with the concept of gross national happiness goes to this landlocked country. Parliamentary democracy form of government exists. It ranks first in economic freedom, ease of doing business and peace in South Asia but remains underdeveloped. Bhutanese traditional code of conduct prescribes respect for authority and dedication to civic duty. The code of conduct governs areas like how to send and receive gifts, how to speak to those in authority, how to serve and eat food at public occasions, and how to dress. Men and women mix and converse freely. Work culture is sometimes criticized for its practicality. Buddhist religious leaders have considerable influence on business. Each business program is designed keeping in mind the need to protect the country's environment & cultural traditions. Agriculture & forestry are the main occupations. Some of the issues of the country are inefficient regulatory framework, non-tariff barriers & underdeveloped investment code.

v. *India*: It is a developing mixed economy and the 2nd most populated country. It has the 2nd largest standing army. It is the world's largest democracy. The topography of the country is diverse and parliamentary democratic republic form of government exists in the country. The country is considered to be a pursuer of the "Look East" policy the aim of which is to

strengthen relations with the ASEAN(Association of Southeast Asian Nations) group. It has the world's second largest labor force as of 2016. In 2017, it was considered to be the world's fastest growing economy. Doing business involves building relationships. Business tends to be made on personal and very friendly basis in a very complacent atmosphere. Decision making process is considered to be slow due to several bureaucratic procedures. Timings are generally flexible and meetings are usually preceded by small friendly talks. Giving large or expensive gifts is considered as an attempt to bribe and is generally discouraged as a corporate governance practice. The Indian way of greeting is by placing one's folded palms in front of the chest and bowing very slightly. The service sector of the nation has registered a rapid growth though India has traditionally been an agricultural based economy. Some of the issues facing the national business contexts are allegations of corruption, poverty, unequal distribution of income, malnutrition and poor quality of infrastructure. The country is however considered to be a favourite destination for foreign direct investment (FDI) for banking, financial services, insurance, retail and real estate because of the enormous potential expected to be achieved from its demographic dividend.

- vi. *Maldives*: It is an island country whose economy is mixed in nature. It is geographically dispersed and is the smallest South Asian country. The country has a Presidential republic form of government. Fishing is traditionally the dominant economic activity. The economy is largely dependent on tourism. Maldives is considered to have the highest GDP per-capita in South Asia. The workweek in Maldives ranges from Sunday-Thursday with Friday being a holiday since it is a country with majority of the population belonging to the Muslim faith. Most business takes place in the morning part of the day. An informal attitude prevails. Over the years, the country has been receiving economic assistance from various international organizations. Imports into the country is high. Some of the national goals are to protect their Islamic identity and promote regional cooperation in South Asia. The issues facing the country are about quicker impact of global warming due to its elevation, poverty and income disparity among people of the country.

- vii. *Nepal*: It is officially known as the Federal Democratic Republic of Nepal. The country is landlocked in the Himalayas and is home to the famous Mount Everest. The geography of the country is diverse. It has a secular parliamentary republic form of government. Kathmandu is Nepal's capital city and hosts the permanent Secretariat of the SAARC. The economic growth is adversely affected by political uncertainties of the country. The country promulgated a new Constitution in September 2016. It does not have any known oil, gas, coal deposits and the country is perceived to be a place where nothing seems to work on time. Management practices are perceived to be traditional in nature and not professional with most of the businesses seemingly following an autocratic leadership style. Normal greeting is either in the form of a 'hello' or 'namaste' followed by a handshake. It is customary to wait for a lady to initiate a handshake. The issues facing the country range from a shortage of skilled labour, political uncertainties to poverty, in recent times large scale devastation caused by the earthquake of April 2015.
- viii. *Pakistan*: The country is also officially known as the Islamic Republic of Pakistan and the government is democratic parliamentary republic with Islam as the state religion. It is located in the middle of Middle East and Central Asia. It is the fifth most populous country of the world. It is the only country to be created in the name of Islam and the only Muslim nation to be considered as a nuclear power state. It is a semi industrialized economy and a middle power. The Kashmir conflict between India and Pakistan has often been considered as one of the hindrance factors that has affected the growth of friendly relations between the two neighbors. Business professionals perceive that planning a business trip or meeting during the month of Ramadan could result in difficulties due to the reduced working hours during the period. Women dress conservatively in the nation and people reportedly dislike being hurried. Treating elderly people with great respect is an important ethical aspect of the country and some of the issues facing the country are about poverty, terrorism & poor infrastructure.

- ix. *Sri Lanka*: Also officially known as the democratic socialist republic of Sri Lanka. It is an island country with a high Human Development Index(HDI) as compared to other South Asian countries. The country is considered to be a biodiversity hotspot and the country has a high literacy rate. The country is the oldest democracy in Asia and like India, its neighbor & largest trading partner, personal relationships are considered important for doing business. Companies are being urged to follow sustainable business practices to save the environment. Some of the national issues are about economic disparity, poverty and the resulting effect of its long term civil war that has impacted development in the country.

Over the past two decades there has been significant influence of the West on the business practices in the SAARC region. With the increasing trend of more women entering the workforce, the gender stereotypes of workforce diversity is undergoing changes and contributing to increased economic growth. Awareness has increased about the need to conserve & sustain the global environment. The business practices are evolving to be eco-friendly, by reducing carbon footprint and wastage.

Some of the challenges that have to be overcome emanate from underdeveloped infrastructure, poor connectivity, geo-political problems, corruption in governance practices, illiteracy and poverty. A major portion of the infrastructure of the countries remains either underdeveloped or difficult for trade practices. Export-import formalities remain challenging as the time and cost of documentation, low efficiency of ports have been found to impact trade and business activities in a negative manner. Poor infrastructure has often been a contributor for poor connectivity for sales and trade flows which decelerates trade movement thus leading to increase of cost of trade. For example goods transfer between India and Bangladesh take place via Colombo & Singapore which takes around a fortnight to reach Bangladesh, as compared to a direct connectivity that could be completed in a couple of days. Political tensions between nations, like inter-state conflicts in the region is often considered to be very high as compared to other regional trade blocs. For example, there are perennial conflicts arising out of the Kashmir issue between India

and Pakistan. The issue of illegal migrants plague the India-Bangladesh relations. Religious differences are also considered to be a source of negative impact on the inter-state relations in the region. Corruption is considered to be a common problem among the member nations that is considered to affect the economic growth of the region often leading to hoarding of black money which becomes unavailable for legal circulation in the economy. High rates of corruption is also often perceived to be an indicator of the less ethical practices that is prevalent in some of the business practices despite systemic efforts to curb them is often aggressively followed by regulatory authorities and governments of all the member nations of the region (SAARC). Lastly, illiteracy and poverty are a vicious circle as low income implies less amount being available to spend on education and consequently lower education & qualification often leads to lower income earning capacity of the affected individuals. Poverty also influences the low growth of national income with illiteracy implying that people remain unable to keep pace with technological changes.

Cooperation to develop regional hydro potential as pioneered by Bhutan and India could now extend to Nepal and Afghanistan, among other countries. Natural gas pipelines across the breadth of the sub-region such as TAPI(Trans-Afghanistan Pipeline) and IPI(Iran-Pakistan-India pipeline) could help to substitute coal in the sub-region and to reduce sizable carbon dioxide emissions and air pollutants. In addition to renewable energy production and trade, regional cooperation holds immense promise in the areas of joint energy exploration as well as the sharing of technology and best practices including in energy efficiency. The industry sector of each country needs to move towards sustainable production through enhanced energy efficiency, waste recycling and co-generation. There is a need to discontinue the use of fuel subsidies that encourage wasteful consumption and eat up resources. Governments must efficiently plan for the increase in the energy demand that will be occur as a result of improved economic and social development, particularly from the first-time adoption of energy-using assets. Sustainable consumption requires lifestyle changes: practicing the '3R system' (reduce, reuse, recycle), promoting the use of public transport and making the same reliant and switching to energy

efficient lighting and appliances. Interesting practices in converting waste-to-wealth, like providing incentives to the paper recycle industry in India, are now taking place that could be replicated across the region. Table 1 illustrates the various governmental commitment for environmental sustainability. Elaborating on the paper recycling industry in India- it has created a market for waste paper, sustaining livelihoods of millions of people in the informal sector who collect waste paper from households and public dump-yards and also reaps benefits from huge energy and water savings besides saving the forests.

Table 1: Target contributions of member countries

Member Country	Commitment
Afghanistan	Aims to cut emissions from business by 13.6% by 2030 and reduce vulnerability to climate change impacts. Estimated cost \$17.4 billion
Bangladesh	Plans to cut greenhouse gas emissions by 5% by 2030 in the power, transport and industry sectors, rising to 15% on international support
Bhutan	Plans to remain carbon neutral as set out in 2009. Repeats commitment of keeping 60% of its territory forested.
India	Aims to cut greenhouse gas emissions for each unit of GDP by 33-35% of the 2005 levels, by 2030. Targets to produce 40% electricity from non fossil fuels by 2030. Estimated cost \$2.5trillion
Maldives	Aims from 10% emission cuts by 2030, rising to 24% with international support
Nepal	Aims to reduce dependency on fossil fuels by 50% by 2050 and achieve 80% electrification through renewable energy sources with appropriate energy mix. Plans to maintain 40% of the territory forested.
Pakistan	No measurable target available yet but is committed to reduce its emissions.
Sri Lanka	Aims for a reduction in greenhouse gas emissions by 7% by 2030, with 23% on international support. Estimated cost \$420 million.

Source: UNESCAP

There has not been much of growth of trade though SAARC is home to almost a quarter of the global population. All the countries are in the developing phase which prompts them to better relations with developed countries rather than strengthening inter SAARC relations. The countries need to have a single-minded approach to solve the problems of the region. Some of the issues that have to be dealt with for growth of the region involve food security, conservation of the environment, reducing income & gender disparities. Eradication of hunger by providing food security is one of the key development challenges of the region, which continues to be one of the largest hunger hotspots in the world, with one in five people undernourished. In 2014-2016, about 281 million people in South Asia reportedly continue to remain undernourished, which is around thirty-five per cent of the global undernourished population. Population growth coupled with water intensive form of agriculture reduced the per capita water availability in the sub-region by almost seventy per cent in the last six decades. Around seventy per cent of the food production in the region is directly dependent on monsoons, thus implying the influence of climate change on future decrease in annual agricultural production in some countries by close to 23% by 2080. Food security is a state where the population of a country or region has dependable access to sufficient quantity of food that is nutritious and the price of which is affordable. The member countries could strengthen their collective food security through strengthening the SAARC Food Bank, through liberalization and facilitation of trade in food products, harmonization of standards for food products, and pooling resources for further joint research and development. Food security also requires policy action across four priority areas like – poverty alleviation policies, health & nutritional interventions to reduce high levels of anemia and vitamin A deficiency that exist in the sub-region by providing more nutritious food, extending social protection programs to improve household incomes & consumption and finally, increasing agricultural production in small land holdings. Access to credit and finance remains a major obstacle for women in South Asia. This is brought to the foreground by the low financial inclusion and financial literacy of women. In Pakistan, for example, only 3% of women possess bank accounts, compared with 17% of men. In this context, it may be helpful to increase lending to women entrepreneurs by financial institutions through tax rebates, among other policies.

Introduction of entrepreneurship in educational institutions with an emphasis on skills-oriented education for girls, and to introduce targeted business training programs for women entrepreneurs in areas such as finance and cost management, marketing, product development, and information and communications technology, would also be beneficial in helping more women enter the workforce. GDP per capita losses attributable to gender gaps in the labour market are estimated to be as high as 23% . A recent study by the McKinsey Global Institute showed that countries in South Asia could gain an additional \$800 billion to \$3.3 trillion in annual GDP by 2025 through gender parity. The promotion of women’s entrepreneurship can be a potent catalyst for achieving inclusive and sustainable development. This can be done by empowering women and by enhancing participation of women in the labour force, creating more jobs and reducing poverty. In South Asia, women entrepreneurship remains an untapped source of economic growth and social progress, with only 8% to 9% of formal small and medium-sized enterprises owned by women, compared with 38% to 47% in East Asia, Central Asia and Eastern Europe (SAARC). UNESCAP (United Nations Economic and Social Commission for Asia and the Pacific)has found that South Asian countries could gain additional annual exports of nearly US\$ 55 billion within the sub-region by exploiting the opportunities for a closer economic partnership. Regional cooperation is also vital for strengthening energy security and sustainability in South Asia, as discussed earlier. The SAARC Development Fund, which has been in operation since 2010 with funds of about \$420 million at its disposal, has significant potential to expand in scope and to provide a new framework for regional cooperation in financing sustainable development priorities through its infrastructure and social windows. More than 80% of the workforce works in low-quality informal sector jobs that offers negligible or no social protection. The demographic dividend in South Asia can be tapped by creating decent and productive job opportunities for young people who join the workforce. One hugely favourable factor is that the SAARC(especially India) will benefit from having a young working population in the coming years as against the ageing population of the other countries/regions like China, Japan, Europe. Steps have to be effectively taken to ensure that the gap in the income of males and females is reduced, besides providing the right jobs to the upcoming working population.

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