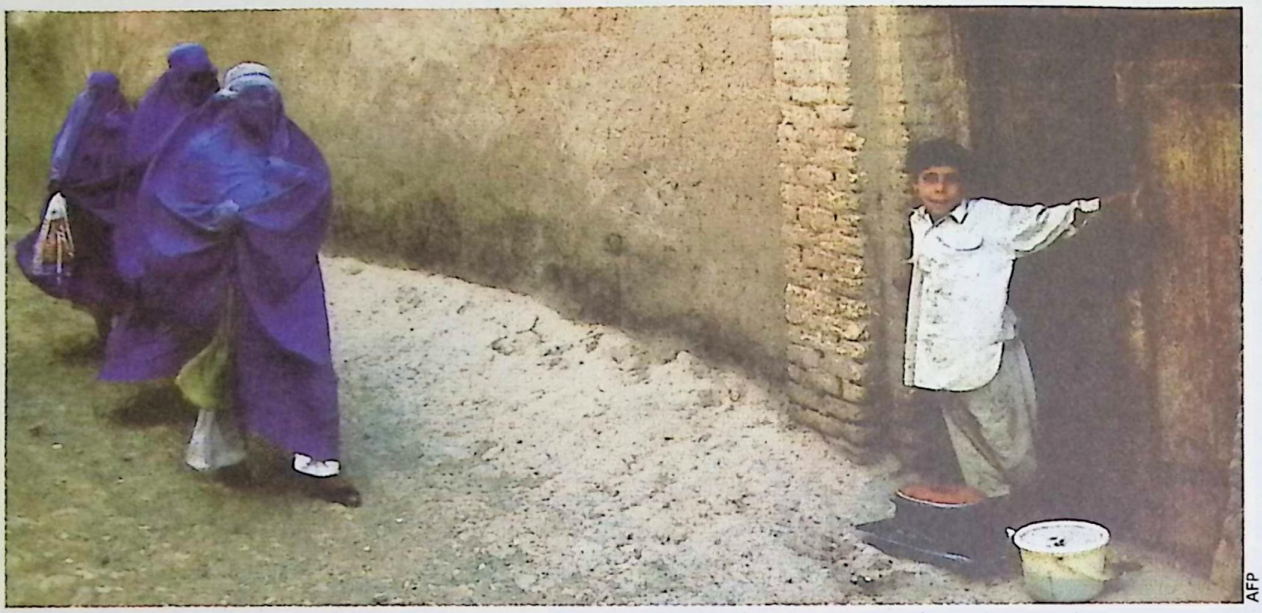

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countries with the fast-growing, high energy demanding South Asian countries of India and Pakistan through Afghanistan.

Pakistan and India themselves share a long, common border. With peace and better cooperation, the volume of trade and investment would likely grow manifold. The options are many, including trade and investment between the two Punjabs with a possible transit sea-link for the Indian Punjab through the ports of Karachi or Gawadar rather than the longer haul to Mumbai; and trade and investment in the Sindh corridor linked with Gujarat and Rajasthan. Additionally, this will open up doors for greater water cooperation based on the concept of Indus Treaty II, building on the successful experience of the first treaty of 1960. Both Pakistan and India are facing increasing water scarcity. Cooperation might provide an answer to resolving this common problem.

All the region's countries can benefit tremendously from production integration, as in East Asia, as well as from trade in services, especially education and health. An integrated production system will ensure equitable distribution of gains from cooperation. Of course, such agreements will emerge from market forces and not from political interventions. Regarding services, with minimal restrictions on cross-border movement, centers of excellence in areas such as health, education and research can be located anywhere in the region, and need not be constrained by lack of demand. This will be particularly beneficial for consumers in smaller countries, who lack these facilities due to inadequate scale economies.

Examples of successful cooperation suggest that political constraints and historical conflicts need not be permanent barriers to cooperation, nor is the presence of a dominant member country a threat to cooperation and shared gains. For example, the members of the European Union have fought numerous wars, many of them far more intense, long drawn and expensive in terms of loss of lives and material resources than South Asia. Similarly, member countries differ considerably in economic strength. Yet, they have found it mutually advantageous to come together and formulate a formidable economic union. In East Asia, the economic dominance of China has not prevented very effective regional cooperation with the much smaller Asean countries.

It is not realistic or necessary to expect that all political and social conflicts will have to be resolved before meaningful cooperation can be achieved. Indeed, economic cooperation is also a powerful means for resolving political and social conflicts. Trust and goodwill at the citizens' level can be a credible way for resolving conflicts. Economic cooperation by raising citizens' welfare can be instrumental in building this trust. There is already evidence of citizen interest in having better regional cooperation in South Asia. Political forces can provide impetus to this by reducing policy barriers to regional integration. Indeed, armed with recent economic successes, the political space for better regional cooperation is now growing in South Asia. This is a welcome development, and one hopes that South Asian leaders capitalise on it by making a stronger effort to develop concrete regional partnership agreements that could yield tangible results in terms of economic benefits for their citizens.

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