

**DEBATE**

**REGIONAL COOPERATION IN SOUTH ASIA  
THE PRESENT AND THE FUTURE**

On 8 December 1985, leaders of 7 South Asian Countries came together to launch the South Asian Association for Regional Cooperation, SAARC.

In the preamble to the Charter itself, signed that day, they expressed their conviction that ‘regional cooperation among the countries of South Asia is mutually beneficial, desirable and necessary’. There was also a hope that these efforts at regional cooperation would eventually lead to meaningful regional integration - not withstanding some inherent problems in achieving the same.

While regional integration elsewhere, like in Europe, Latin America, South East Asia have been moving rapidly, three decades later, efforts at regional integration in South Asia has been lack-lustre.

Conscious of the fact that bilateral issues could tend to cloud joint decisions, it was specifically provided, in the charter, that ‘decisions at all levels shall be taken on the basis of unanimity’ and that ‘bilateral and contentious issues shall be excluded from the deliberations’.

In spite of such a stipulation, one of the main reasons for the slow progress has been the shadow of such bilateral issues at each juncture.

What needs to be done to make SAARC workable? What lessons can one draw from the working of this grouping in the past 3 decades? Are sub-regional groups, existing or new ones, the answer?

The ‘Indian Foreign Affairs Journal’ has invited a few eminent policy analysts and scholars for their comments on the subject. Their views are published as the ‘Debate’ in the following pages of the Journal.

(The views expressed by the authors are their own and do not reflect the views of the *Indian Foreign Affairs Journal*, or that of the Association of Indian Diplomats)

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## ***The Revitalisation of SAARC***

Sheel Kant Sharma\*

The geographical proximity of neighbouring nations has emerged as a reasonable basis for forging trade and development cooperation in various regions the world over. Of these regional ventures, some have succeeded – as in Europe and South East Asia; some are making good progress – as in South America and Southern Africa; while others – like the Arab League or the South Asian association (SAARC) are yet to make an impact befitting their potential. There is no doubt that the development process itself in the South Asian region involves enormous challenges, and demands herculean effort for programs to materialise. To address them properly, a plurality of forums by any reckoning can be better – be they national, bilateral, UN centred, regional /trans-regional or sub-regional, including those funded by global financial institutions. SAARC figures as just one of these forums even as it manages to receive, on average, summit level attention every two years or so, and has eighteen summits to its credit in 29 years. The summit meetings compel bureaucracies in South Asia to bestir themselves for action on the agenda for cooperation, which is the watch word. When seen in terms of its pronouncements and direct emphasis on tangible action, the latest SAARC summit held in Kathmandu did attempt to take forward incremental regional cooperation.

It has not been possible for SAARC to transcend its default incrementalism so far. It is unfair to expect it to deliver in quick time on big ticket items. The bilateral processes in South Asia have been longer and far better ensconced in the government machinery of the countries concerned; but even they often come in for severe scrutiny for meagre results. As for the well endowed international financial institutions – as explained by no less than the new Afghan President Ashraf Ghani his book *Fixing Failed States: A Framework for Rebuilding a Fractured World* (published 2008) – the net reach of their funding for actual delivery on desired goals remains quite low in percentage terms. And, as far as Pakistan is concerned, a recent analysis put a figure of US\$ 27 billion as money spent by the USA in Pakistan since 9/11 – only to reap the unmitigated hostility of its people, and multiple failures in respect of the goals set up by the USA for its relationship with Pakistan.

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Seen from this perspective, SAARC has not done so badly, dollar for dollar – that is, SAARC may be pooh-poohed but not detested; it also offers, in principle, occasions and opportunities every six to eight months of at least ministerial meetings among the countries, should they choose to take advantage of them. With just a handful of millions spent every year, its gains and promises deserve better appraisal than stock cynicism. In order to discuss what can be done to make this forum of South Asian regionalism work and deliver better, the realisation of where SAARC stands in the essence is necessary.

A high visibility item on the agenda is giving a greater role to SAARC Observers in the regional framework. As regards this, the summit (especially China) has mandated that the programming committee engage the Observers in productive, demand-driven, and objective project-based cooperation in priority areas as identified by the Member States. This mandate is of a piece with the same incremental way in which all other SAARC activities progress. To expect Observers, no matter how generous they are with funds, to transform this incremental process is unrealistic, especially because precedents from other regions also do not show external powers speeding up tepid regional cooperation. In any case, SAARC does not come in the way of bilateral assistance and cooperation. For donors too, it is easier to ensure the delivery of assistance through a bilateral route. The political overhang which hinders big ticket progress in SAARC is unlikely to vanish by vigorous campaigns for a greater role for Observers. No one is going to do for the region what its own constituents have delayed and procrastinated.

The 18th Summit too, one must admit, has been short on many counts with regard to systematic action to revitalise and re-energise SAARC. What is required for SAARC is to take effective steps steadily – or at least with sustained momentum – to go beyond the scope determined by the incremental process, in which pre-summit preparatory meetings at the official level excel; but do not set priorities or targets.

The 18th Summit did take a step forward, and formally declared SAARC's commitment to attaining a South Asian Economic Union in a phased manner, and outlined its main landmarks on a roadmap. This must be worked upon by follow up meetings at the level of senior officials to elaborate modalities and interconnected steps, and to agree on an appropriate division of labour among the SAARC capitals and the Secretariat.

The tapping of regional trade potential should be the aim. This potential has been assessed to be US\$ 120–180 billion – up from the present US\$ 22 billion – given the full implementation of SAARC Free Trade in goods/services and related trade facilitation. That this is not just a pipe dream can be seen in

the growth, over the past twenty four years, in India-ASEAN trade from less than US\$ 3 billion in 1991 to US\$ 75 billion now.

It is indeed desirable to think of taking big strides; however, the machinery available today is riveted to the default process. Transforming it would entail an overhaul of the regional framework, which again would be subject to the same obstacles. However, work in hand should not slacken while waiting for the big strides to be taken. The work in the default process comprises working groups on the lowering of tariffs, the reduction of sensitive lists, the harmonisation of standards, a customs union and procedures for border management – in other words comprehensive trade facilitation utilising both SAFTA (SAARC Free Trade Agreement) and SATIS (SAARC Agreement for Trade In Services). The agreement on energy trade and power grids is significant, and should be followed up with enabling national action.

The Summit Declaration commits all member states to work for finalising the two agreements on motor vehicles and railways within three months. That period is to end by the end of February 2015. This commitment must be followed through in time. What is important to realise is that these agreements are framework agreements and, even after conclusion, would demand a sequence of enabling steps by way of bilateral agreements and national legislation to implement them. Only then can motor vehicles and railways be brought up to the level of being conducive to transport connectivity. There are other pressing areas that also need energising: like tourism, smoother visa procedures, and telecommunication services.

Prime Minister Modi has been farsighted in stressing national action in terms of infrastructure development to steer connectivity. Clearly, the task of putting together the connectivity set up – which was knocked out by the drastic cutting of links during the difficult years of 1960s – is gigantic. It requires painstaking collaboration amongst the officials and experts involved, and the framework agreements are just the starting point. EU has had to undergo this labour for which there are no short cuts – through thousands of man-hours. Even trans-regional cooperation will not be able to bridge gaps that persist for want of national and bilateral action.

The revitalisation of SAARC demands transforming the pattern: of one off, big events involving higher leadership, separated by long intervals of *no action* because of multiple excuses. Instead, governments have to agree to devise a due mechanism for monitoring progress, identifying obstacles, trouble shooting, and review in order to spur implementation.

Regionalism elsewhere has progressed on the strength of project based cooperation; for such cooperation within SAARC, the efforts made so far have been very much below par. The SAARC Development Fund (SDF) has been in operation for some years now. It must be geared up to take projects in infrastructure development, and in areas of general economic development. External aid agencies are ready to give generous funding and other assistance in terms of planning, pre-feasibility studies, and project formulation. Observer states like Australia, Japan, China and South Korea have shown considerable interest; but they are daunted by the tedium of slow processing under SAARC rules. This processing must be reviewed and reformed for the sake of speed. EU's offer of projects running into several million dollars had to go unutilised for want of timely action during the last decade. In promoting project-based cooperation, the taking up of even a sub-region should be encouraged by common consent if participant states so desire – SAARC and SDF will benefit in terms of profile, outreach and cohesion if sub-regional projects are completed under their auspices.

The Summit has ordained a three year review at the level of foreign secretaries. Three years is a long time, and the foreign secretaries should be assisted in the discharge of their responsibility by a high-level, Independent Group of Eminent Persons for the review and monitoring of ongoing progress. Such a group can be set up by either the Council of Ministers or the Standing Committee; but the aim should be to impart a continuous review and monitoring rather than a three year deferment. The spirit of the 18th Summit declaration to 'evaluate performance, achievements and constraints' is in favour of pro-action rather than deferment. The summit calls for all SAARC bodies, including the Council of Ministers, other ministerial meetings, and mechanisms to develop outcome-oriented policies, programs, projects, and activities.

SAARC proceedings must be made public. This is a sine qua non for a continued discourse, which should be broad based and include the involvement of stakeholders beyond governments and bureaucracies. South Asian regionalism should be seen to be a valuable public good for every one of the regional partners: governments, industry, academia, media, and civil society. For this reason, the personnel engaged in SAARC processes must be on their guard, and under the watchful eye of the public. This is missing at present. Delegations sent from capitals for committee work should be accountable for their lapses or inaction, and should carry out their mandates. The quaint custom of keeping SAARC meetings away from public – under the guise of assumed 'political problems' – should not be allowed to become a device to camouflage incompetence and tardiness.

Full public access will engender a public campaign for a relentless push in regional cooperation, and accord the personnel involved due recognition for their work. SAARC awards system can be tied to registering marked progress in the completion of tasks and mandates.

It is high time targeted efforts are made to transform and strengthen the SAARC Secretariat, and provide the Secretary General with adequate personnel, resources, and mandates to energise the agenda for regional cooperation. The SAARC Secretary General and his diplomatic staff have continued, since the inception in the 1980s with little change in their terms of reference, emoluments, facilities, and status. In the meantime, the populations and GDP of the member states have gone up by 100 per cent. The agenda of regional cooperation has also snowballed to covering practically every aspect of socio-economic development – trade and investment promotion, energy, health, education, transport, food and agriculture, science and technology, environment and climate change, women's empowerment and child welfare, poverty alleviation, and a broad based social charter. How can just eight directors cover these items for action when their support base in the headquarters of member states remains incredibly narrow – drowned in practically all capitals by a host of pressing and priority domestic and diplomatic concerns.

The business-as-usual option forces member states and the secretariat to, willy-nilly, reduce the entire regional exercise to a talk shop of many levels, the summit being the topmost. At the same time, it is difficult to abandon this framework since no country would take the blame for doing it. While there are a number of other regional and sub-regional options actively considered and debated in think tanks and academia, the brute fact is that their praxis may not differ much from that of SAARC. This is because it is the same ministries and personnel in the capitals who deal with even the new formats, and mostly the same ideas and initiatives resurface. Take, for example, BIMSTEC. In the past several years, even BIMSTEC has fallen in a similar groove of a well trodden economic agenda, trade and infrastructure, investment, banking, etc., and similarly, a fledgling secretariat fumbling for staff and resources, and not much to show. The Indian Ocean Rim outfit has even larger membership, but similar handicaps.

It is, therefore, unrealistic to see alternatives to SAARC emerge successfully unless very high level interest is taken in a continuous process which begins with a doable and less ambitious agenda hooked to the quick delivery of results. In this sense, there is no doubt that bilateral cooperative processes move faster; but, should that put an end to regionalism?

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## ***India, and SAARC: Some Future Determinants***

Rajiv Bhatia\*

To those of us living here in South Asia, it seems to be the heart of Asia. Like the Asian continent, South Asia is 'a salad bowl of diversities', flavoured by an underlying sense of cultural and spiritual unity. It is home to nearly a quarter of mankind.

Extending from Afghanistan to Myanmar, and from the Himalayas to the Indian Ocean, South Asia has undergone a rich and complex historical experience. The pre-colonial history of empires and kingdoms, its epics and scriptures, its great men and women have moulded its collective consciousness. For the past six decades, we have been struggling to overcome the colonial legacy, and to assert ownership of our present and shape our future. Given the intricacies of the region's internal politics and external linkages, South Asia has emerged as 'one of the hotspots of global politics'.

### **Looking Back**

An earlier essay published in this journal was titled 'South Asia's Destiny: Conflict or Cooperation?' It ended on the following note<sup>1</sup>:

The inescapable conclusion is that South Asia's recent past has been marked by a continuation of conflict and cooperation. For the cooperation pillar to be strengthened further, India as well as its neighbours will need to show greater wisdom and commitment to the transformation of South Asia into a region of peace, progress and prosperity.

The question that arises four years later is: Has South Asia succeeded in bridging the deficit of 'wisdom and commitment' mentioned in the earlier essay? Only the bold among us will be able to give an answer in the affirmative!

In the aftermath of the 'disappointing' 18th SAARC Summit in Kathmandu in November 2014, much analysis appeared on the future of this regional grouping. The SAARC process continues to move forward – but 'at a snail's pace'. Optimists who dreamt of the proposed South Asian Economic Union (SAEU) may be feeling a little more sober now. While the summit's theme

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was 'Deeper Integration for Peace and Prosperity', it saw member states deferring the signing of the much needed regional agreements on road and rail connectivity due to objections raised by the Prime Minister of Pakistan. Pessimists, who saw only a bleak future, may now feel compelled to envisage other alternatives. 'Cynicism and scepticism', the two sentiments that SAARC often evokes, cannot guide our policy. Governments have to look at alternative strategies to forge regional integration with all countries, or with a few countries only. It is for us – the academic and strategic community – to define, weigh, chisel and recommend new options to policy makers.

### **Recent Scene**

Among the recent principal trends and developments in South Asia, the economic slowdown; political transitions as evident in the elections in all countries in the past two years; a long hiatus between the 17th and 18th SAARC summits as well as the latter's thin gains; growing tensions in India-Pakistan relations, the region's most important bilateral relationship; and the impact of China's rise have been significant for SAARC.

Perhaps, an even more promising change is the arrival of new leaders in a number of countries: India, Afghanistan, Maldives, Bhutan and Sri Lanka. They have set about addressing the problems faced by their countries and the region. Among these leaders, none has generated as much excitement and enthusiasm as Narendra Modi, India's Prime Minister. His vision and agenda of a strong, peaceful and prosperous South Asia is driven by the notion of inclusive development. He aims to turn India into a vibrant economy and harmonious polity, guided by the concept of 'Sabka Saath, Sabka Vikas'. Success of his policies and endeavours would be a major factor in determining as to where India and South Asia stand in 2020, just five years away.

### **Future Determinants**

It is possible to identify some key factors that may shape the region's prospects.

- Firstly, the Pakistan factor remains highly relevant. Pakistan is a nation which is not at peace with itself. Caught in a vortex of endless turmoil, it is torn by multiple negativities. The question, therefore, is: if this second most powerful nation in the region can pull itself up, it will enhance South Asia's stability and progress. It's anti-India orientation clashes with

whatever support it might voice for the idea of SAARC. Not only in India but elsewhere too, Pakistan is viewed as the principal obstruction to regional integration. As a result, the regional association continues to wait to come out of the shadows of Pakistan's strife with India, its largest neighbour.

- Secondly, there is the India factor. The new government's approach is clear. It believes that the destinies of India and South Asia are intertwined, which would need to be safeguarded and strengthened through SAARC if possible, and without SAARC if necessary. Speaking at the Kathmandu Summit, Prime Minister Modi stated candidly: 'The bonds will grow through SAARC or outside it, among us all, or some of us.' The challenge for India is to forge a sustainable consensus among its people – especially India Inc. – that a flourishing South Asia is essential to our interests; and that, for this goal to be achieved, we need to make sacrifices in the short term. If Indian corporates continue to prefer investing in Europe and Africa and avoid doing so in our neighbouring markets, can New Delhi really secure its vision? Experts at Brookings India have aptly argued that 'Modi's vision for SAARC faces external and internal challenges.'
- Thirdly, the attitude of other SAARC member states assumes considerable importance. Do they consider that cooperation with India, including showing sufficient sensitivity to its security, as well as its political and economic interests will strengthen their own welfare? This is especially relevant to Nepal, Bangladesh, Sri Lanka and Maldives. Their leaders should allow their actions to speak for them in order to gain the confidence not only of the Indian government but the strategic community that is playing an increasingly significant role in influencing government policy and public opinion.
- Finally, it is the China factor that has become far more potent today than it was four years ago. In April 2011, I wrote: 'Its [i.e., China's] objective is not only to restrict India's role to this region but also to limit it even within the region.' This policy approach has taken an altogether new dimension under the leadership of President Xi Jinping. His government has come up with a well thought out plan to expand China's footprint in South Asia. A package of initiatives – 'One Belt, One Road'; 'Maritime Silk Road'; 'Southern Silk Road'; 'BCIM Economic Corridor'; Asian Infrastructure Investment Bank (AIIB); and the BRICS Bank – have all appeared recently. They have dominated discussions at the government level, compelled consideration and critique by think tanks, and ensured endless media coverage.

Following the setback at Kathmandu, our South Asian experts have been engaged, once again, in a debate over SAARC's relevance and India's options. A former Indian intelligence official suggested three possible options: i) 'Give up SAARC as a non-starter'; ii) 'go the whole way and make efforts to make SAARC fully integrated'; iii) or 'focus on one or two projects at the sub-regional level.' It is possible to envisage other options. However, instead of delving into them, I would prefer to concentrate on China's new strategy towards South Asia, and whether India is responding to it adequately.

### **China's New Drive**

What drives the new phase of China's South Asia policy and diplomacy? China's keenness to play a greater role in the region has increased significantly. According to Professor S. D. Muni, its policy is driven 'by a sense of vulnerability in Tibet and Xinjiang; by the growing potential of the 1.6 billion people in the South Asian market; and by its trade and maritime interests in the Indian Ocean.' In my view, two other specific considerations seem to matter much more in this context: the economic and the geopolitical. In the context of these two, the following issues seem to be significant.

- China's economic motivation is to promote the development of its southern and western regions by linking them more closely with various South Asian countries. It is shaped by the calculation that these South Asian countries have an immense appetite for Chinese capital, goods and technology.
- The geopolitical motivation is to produce a powerful response to (a) the US policy of pivot/rebalancing in East Asia; (b) Japan's assertiveness and deepening ties with India; and (c) India's endeavour to increase its footprint in East Asia through its Look/Act East policy, and its quiet pushing of the new Indo-Pacific construct.

Notably, the Chinese approach does not lack sophistication, for its key features are; to *include* India in most of its initiatives, and also pay special attention to strengthening economic cooperation between India and China. This was, after all, the main thrust of Xi Jinping's visit to India in September 2014. That the visit was marked by another tense stand-off due to incursions by Chinese troops into Indian territory added to the complexity quotient. It has now been left to India to decide how to respond to China's apparent generosity and strategic dexterity.

### **Response by India**

Policy makers and strategic thinkers alike recognise that of late the regional environment has become much more complex, and that India's policy response would need to be calibrated carefully, for it would have a long-term impact both on our national interests and on the wellbeing of South Asia. The attempt in this essay, therefore, is to delineate the key elements of the present response, while adding some suggestions on how it should be modulated further in view of the specific issues raised in the 'Leader' for this Debate. These key elements pertain to all three levels: international, regional and bilateral.

- At the international level, realism demands that we recognise that the gap in the Comprehensive National Power between China and India is sizable, and may widen further in the next decade. This asymmetrical equation needs to be managed by according priority to accelerating economic growth and increasing military strength at home, as well as creating a web of vibrant, strategic partnerships in Asia with the aim not of containing China but to driving it towards creating a secure, balanced and norms-driven Asia. This seems to be the broad direction the Modi government has taken since assuming office in May 2014.
- At the regional level, opinions vary on what approach India needs to adopt towards SAARC. Its critics dismiss it as a mere talk shop, with no future. Some of them even advocate that India should abandon it, or block its functioning from inside. Many in India are disturbed by several member states (viz. Nepal, Pakistan, Sri Lanka and Bangladesh) apparently supporting China's entry into SAARC as a member or, at least, as a major dialogue partner. An Indian expert has pointed out that it would be 'ridiculous . . . if China joined SAARC and would cause the organisation to lose its sense of purpose as it is intended for South Asian problems.'<sup>2</sup> A considered view will have to take into account the following: that the region does need an institution of South Asian powers; that by no stretch of imagination is China a South Asian power; and that India and others have invested much energy and effort in making SAARC a functioning institution. As former Prime Minister Manmohan Singh put it: SAARC is like 'a glass that is half full', and therefore, India should remain supportive of it – doing what it can to develop it further but, at the same time, make additional endeavours to strengthen regional cooperation through alternative methods. In other words, a 'SAARC +' approach should continue to be pursued.

- As regards sub-regional cooperation, it is worth recalling that, in the past, India's frustrations with SAARC drove it to launch initiatives like the Mekong-Ganga Cooperation and BIMSTEC. The latter showed considerable promise. It started off well as a bridge between the more cooperative countries in South Asia and two of our closest neighbours in Southeast Asia – Myanmar and Thailand. However, in the later years of Dr. Manmohan Singh's tenure, this grouping ran aground. It is now doubtful if it will be able to achieve much in view of China's new initiatives.
- Bilaterally, India's focus on developing connectivity and expanding development projects with its neighbours in the north, east and south would have to be accelerated. As to Afghanistan, a specifically tailored approach would be required.
- With regard to China, India Inc. is gradually opening up to forge cooperation in the infrastructure sector on a selective basis. India has already become a part of the BRICS Bank, and has also joined AIIB. In addition to Chinese investments, funds and technology are likely to flow in from other major sources – Japan, USA, and Europe – thereby providing a much needed balance.
- On BCIM, New Delhi's view has been evolving in a positive direction, and is characterised by receptiveness, caution and gradualism. At the first Joint Study Group meeting of the four BCIM countries held in Kunming (China) in December 2013, agreement was reached that the BCIM Economic Corridor (EC) would run from Kunming to Kolkata, broadly spanning the region, including Mandalay, Dhaka, Chittagong and 'other major cities and ports as key nodes.' This cooperation would encompass four areas: physical connectivity, trade, sustainable development, and people-to-people exchanges. Participants also formulated basic principles that would guide future projects. These are 'mutual trust and respect, mutual interests, equitable sharing of mutual benefits, pragmatism, effectiveness, consensus building, and securing win-win outcomes.'<sup>3</sup> At their second meeting, held at Cox's Bazar (Bangladesh), the four governments reported further progress. This indicated that a few political level decisions could follow by the end of 2015.
- On the Maritime Silk Road (MSR) (of which BCIM-EC would be a component), India's position remained that it wished to study it. Apparently, this question was not discussed during Xi Jinping's visit to India. In view of positive reactions in South Asia to the proposed MSR, it is, in my view, time for India to progress its stand. It is suggested that the

same pragmatic and cautious approach that has been adopted on BCIM-EC should be extended to the MSR initiative. Discussions should be initiated with the Chinese to explore how, with regard to a couple of ports on the eastern sea coast of India cooperation could be developed, subject to the satisfaction of all our legitimate security concerns. It would also be essential to make it clear to China that the continuation of economic cooperation at the bilateral and regional levels has a pre-requisite: namely a conducive environment, marked by peace and tranquillity at the border, and the sustained endeavour to resolve the boundary issue.

- A word about Japan should be added here. While speaking at the Indian Council of World Affairs on 17 January 2015, Japanese Foreign Minister Fumio Kishida pledged ‘robust support’ to strengthen ‘economic connectivity’ within South Asia, including the construction of an energy network and ‘development initiatives in North East India’, and ‘connectivity between South Asia and Southeast Asia from both sea and land’. This needs to be utilised optimally.

### Conclusion

South Asia’s environment, both internally and externally, has been changing rapidly. The growing Chinese presence in South Asia can be seen both positively – as ‘a benign extension of influence’. Or negatively – as ‘ingress’ with ‘a larger strategic purpose’. However, the important point is that it cannot be ignored. Nor can it be addressed with the mindset of yesterday. A judicious blend of resilience and the steady accretion of internal strength seems to be the best pathway for India.

### Notes

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<sup>1</sup> ‘South Asia’s Destiny: Conflict or Cooperation?’ The *Indian Foreign Affairs Journal*, Vol. 6, No. 2, April-June, 2011. Available at: <http://associationdiplomats.org/Publications/ifaj/Vol6/6.2/ARTICLE%201.pdf>

<sup>2</sup> <http://thediplomat.com/2014/11/for-saarc-to-work-india-and-pakistan-must-resolve-differences/>

<sup>3</sup> [http://cgiguangzhou.gov.in/news/news\\_detail/60](http://cgiguangzhou.gov.in/news/news_detail/60)



## ***Re-invigorating SAARC***

Yogendra Kumar\*

It is now universally recognised that the regional cooperation in South Asia is far less developed in comparison to other regions. There is irony in this situation, as countries in the region have very strong historical and civilisational links even as they occupy the same economic space. These regional commonalities were sought to be fleshed out through the establishment of the South Asian Association for Regional Cooperation (SAARC) in December 1985. It was expected that these commonalities would provide a strong enough basis for significant regional integration – as, indeed, it was before 1947 – and for socio-economic progress, thereby strengthening regional political stability by keeping the negative tendencies – like backwardness, obscurantism and extremism – at bay.

Yet, the sad reality is that other regional organisations, such as the European Union and the ASEAN – comprising an even more diverse group of countries – have been far more successful than SAARC. Indeed, the latter could, perhaps, be less favourably compared even with more recent organisations such as the African Union or the ECO. As an organisation, SAARC has underperformed throughout its history, and the level of regional integration is woefully short of its promise. Even its summits are becoming irregular. Perhaps, the unsatisfactory level of regional integration can partly be considered as a contributory factor in the prevailing situation where the region represents a microcosm of the range of security threats being faced by the world at large. This reality appears even more distressing, given the considerable ongoing movement of peoples in South Asia across borders, and the phenomenon of very easy social relationships overseas amongst members of the respective Diasporas.

The regional dynamics in South Asia, however, is quite unlike any other throughout the world. India occupies the civilisational, political and economic centre of gravity in the region. India accounts for 80 per cent of the GDP of the region, and 75 per cent of its population. Given its size and economic heft, the other countries feel themselves to be under India's shadow as an inescapable fact of life. Being somewhat on the periphery of India, their relations (including economic) are substantially with India, and not directly with each other. In this sense, India does become the locomotive force in regional dynamics.

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The political history of the Sub-continent since 1947 has been the principal shaper of relationships amongst countries, especially those of India with the rest of the SAARC members. The post-Cold War period has witnessed serious domestic turbulence in many countries in the region, the policy decisions in many countries being hostage to the domestic pressures of the day and to the political groupings in power. Quite frequently, institutional fragility has permitted a demagogic character to domestic politics, with India being baited largely on account of the presence of ethnic or denominational communities over-lapping the region's national – largely unnatural – borders. An aggravated characteristic of this situation is the tension between India and Pakistan which is perceived by the other SAARC members as the paralysing factor in the functioning of the SAARC forum. Yet another pressing challenge to regional stability – and its integration – are the terrorist havens in the border hilly regions of Afghanistan-Pakistan which portend even greater virulence in the immediate future. This vicious cycle cannot be completed without spotlighting the degraded regional institutional capacity to cope with pressing non-traditional threats such as climate change, mega urbanisation, burgeoning demographic imbalance, and the growing frequency of natural disasters, etc.

What, then, is a state of regional integration in South Asia? The region accounts for 23 per cent of the world population but only 2 per cent of its GDP; 40 per cent of the poorest people of the world live in the region; it has a relatively young population which remains the least literate and the most malnourished in the world. At the 18th SAARC Summit in Kathmandu, Prime Minister Modi said that less than 5 per cent of the region's global trade takes place between the member states, and only 10 per cent of this negligible volume is under the SAARC Free Trade Agreement (SAFTA) which came into effect in 2006. The bilateral FTAs, especially those entered into by India in the region, are much more effective in facilitating the intra-regional trade. He also stated that it is easier to travel to Bangkok and Singapore than to travel within the region – and it is even more expensive to speak with each other within the region: according to the World Bank, only 7 per cent of the international phone calls are regional compared to 71 per cent for East Asia.

As the only pan-regional organisation, SAARC has created an impressive institutional framework, spanning action programmes for agriculture and rural development, communications and transport, environment, S&T, human resource development, energy, trade, etc. There are agreements on food reserves; the suppression of terrorism; combating narcotics smuggling; the prevention of women and child trafficking; the promotion of child welfare; and the coordination of positions on multilateral legal issues as well as on the

establishment of the South Asian University. Programmes have been initiated on poverty alleviation, the operationalisation of SAFTA, the social charter, the development fund, and on regional connectivity. There are programmes covering people-to-people contacts; audio-visual exchange; documentation centre; organised tourism; academic chairs/fellowships/scholarships; youth volunteers; South Asian festivals, etc. SAARC regional centres have been established in Dhaka (the Agricultural Information Centre and Ecological Research Centre), Kathmandu (the TB Centre), New Delhi (the Disaster Management Centre and the Documentation Centre), and Islamabad (the Resources Development Centre and the Energy Centre).

As was recognised by the Indian Prime Minister, SAFTA's impact on regional economic integration has been rather ineffectual. This agreement only covers tariff reductions but not services; the negative lists have not been phased out, but there is a commitment for their review every four years. The other steps to realise the SAARC objective of an Economic Union – such as a common investment area and the development bank – still remain a far cry. Yet another landmark agreement – the SAARC Regional Convention on Suppression of Terrorism (1987) – has remained only a paper document despite repeated pious declarations by the SAARC leaders about their determination to enact enabling domestic legal provisions in successive summits since 1988, but to no practical effect. The disappointing fate of cooperation commitments in two of the most critical areas for the region is emblematic of the organisation as a whole.

Given the wide recognition of the organisation's stymied growth due to its deliberate paralysis, the sub-regional growth approach is being developed at India's initiative, along with Nepal, Bangladesh and Bhutan since 1997. Another initiative being developed is between southern India, Sri Lanka and the Maldives. The Asian Development Bank (ADB) has launched the South Asian Sub-regional Economic Cooperation (SASEC) since 2001. As one of ADB's most successful initiatives, it already has 33 regional projects worth over US\$ 6 billion in sectors such as energy, transport, trade facilitation, and ITC.

Conscious that maximising the public impact of SAARC alone would guarantee its future viability, in his address at the Kathmandu Summit (26 November 2014), Prime Minister Modi outlined his road-map for the region: it will cover infrastructure connectivity; facilitation of intra-SAARC business and investment; electricity trade; tourist circuits; high-quality public health infrastructure; leveraging IT and satellite communications to facilitate a knowledge society covering especially the youth, and better response for

disaster and resource management. As he put it, 'The bonds will grow. Through SAARC or outside it. Among us all, or some of us.'

The security outlook for the region is expected to deteriorate, given worsening stability challenges, especially in Pakistan and Afghanistan as also in many other countries in the region. The Pakistan government has already started its relations with the Modi government on a hostile note. These challenges, severely affecting the stability of member states, will undoubtedly affect regional stability overall. They will also cause further polarisation between countries, and within countries, making regional integration mechanisms less effective, thus worsening the region's exposure to the full array of security challenges. Moreover, World Bank analysts see that regional economic integration must be accompanied by the region's global integration which requires the lowering of external trade barriers. Except India, the other South Asian markets do not hold major attraction for international investors because of their small size. The advent of Chinese cash largess on land as well as in the surrounding oceanic spaces in the region – an inevitable process – will generate a contrarian connectivity dynamics. An unofficial Chinese source has told this author that China did send feelers to join SAARC as a member, which were responded to positively by Pakistan, Bangladesh and Nepal – although the Nepalese have denied the existence of such feelers.

In a larger context, the fact that must not be lost sight of is that the regional locus of civilisational, economic and political centre of gravity remains in India. And, therefore, a larger than usual responsibility devolves on India. It must also be recognised that India's tractive power in the progression of this integration has remained limited. This is, at least partly, due to some maladroitness and insufficient credibility on India's part. The new Indian government has made astute regional moves since its inauguration, but which would need to be validated through expeditious, effective delivery on the ground.

Without lowering the guard on the national security front, the profound and enduring bonds between the countries need to be tapped to give the integration process a popular dimension through the encouragement of regional NGOs, and of linkages between academia, the media, and business. These will help maintain a certain popular pressure on the governments to not stall the integration process. This dynamic can be given an even further push by strengthening sub-regional, cross-border cooperation wherever possible, including in the realm of connectivity, the accelerated movement of goods and people, and river basin management. A World Bank study concludes that trade will increase by 100 per cent if border bottlenecks are removed. Better

connectivity would help in breaking down the isolation of remote and backward areas in the region. Afghanistan's Western Road corridor, as an economic zone, also needs to be included in this sub-regional cooperation approach. Special Indian efforts – unilateral ones if necessary – in disaster response and knowledge-sharing need to be made and their public profile showcased through the effective use of Indian national media resources.

Paradoxically, the initiation of structured dialogues (à la ASEAN) with the SAARC Observer Countries (including China) would strengthen the SAARC process, and would help break down Pakistan's attempts at paralysing it. Unlike China's approach, countries such as the USA and Japan are keen to orient South Asian connectivity in an east-west orientation to include the South East and East Asia – an approach which is driven – much like China's – by geo-strategic considerations.

Extremely critical is a studied attempt to develop informal meetings of regional leaders to end the cold formality of the structured process of the SAARC Summits. Regrettably, Prime Minister Modi's initiative of inviting SAARC leaders at his inauguration was not followed by the new Sri Lankan President Sirisena. Yet, more innovative ways – including impromptu ones – need to be found for such meetings to shed the region-wide impression that Indian leaders have been neglecting their immediate neighbourhood.

As was evident in the Kathmandu Declaration on the 'Deeper Integration for Peace and Prosperity' (18th SAARC Summit, 27 November, 2014), it is universally recognised that the SAARC Secretariat is under resourced for its current tasks, and that it needs to be strengthened quite considerably. This serious lacuna is also explainable by Pakistan's attempts to paralyse and subvert the entire SAARC process. Innovative ways are needed, including backstopping by individual member countries and private consulting groups so that its capacity to deliver is enhanced. This is also one of the supporting activities of the Asian Development Bank, and also includes the strengthening of its knowledge-base. By way of illustration, it can be pointed out that the SAARC Secretariat website needs updating. The demands will expand exponentially, once the structured dialogue process gets underway with the SAARC Observer Countries. The website would then be a vital necessity for the Secretariat to prepare effectively for conducting dialogues as well as to ensure the effective implementation of the agreements and projects concluded as a result of them. For, in the absence of such capability, the entire process would lose credibility in the eyes of the Dialogue Partners who have, quite clearly, developed serious stakes in a state of affairs in South Asia.

At some Track II India-Pakistan dialogues, Pakistan interlocutors – some retired army officers – have been telling their Indian interlocutors with considerable agitation (sic!), that India cannot ignore Pakistan. Certainly, the constant border provocations signify Pakistan's intent towards India: that is, keeping the fraught India-Pakistan relations in the international lime-light. The re-invigoration of the SAARC process will place a huge demand on the political and diplomatic resourcefulness of the Indian government. Turning away from it to concentrate on regional economic consolidation in the eastern regions in the form of BIMSTEC or the Ganga Mekong Cooperation (MGC) organisation – as some Indian analysts seem to suggest – is clearly not an option, given that the regional threats are common to all – not least to India.

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## *Present is Depressing and the Future is Gloomy*

T. P. Sreenivasan\*

The present is depressing and the future is gloomy as far as regional cooperation in South Asia is concerned. As Mahatma Gandhi said about western civilisation, it would be a good idea. However, its time has not come. The latest summit in Kathmandu has demonstrated that three decades of SAARC have only turned a vision into an illusion. If bilateral disputes plagued SAARC in earlier years, it is the emergence of China and its activities in the region that pose the greatest challenge in the present times.

Prime Minister Narendra Modi is the first Indian leader who spelt out a vision for SAARC, not only as an association for regional cooperation, but also as a forum for countries in the region to fight poverty together. Speaking from the ramparts of the Red Fort on 15 August 2014, he said, "Let us move with the dream of poverty eradication from India. Our neighbouring countries are also faced with the same problem. Why not get together with all the SAARC nations to plan out the fight against poverty? Let's fight together and defeat poverty... I went to Bhutan, Nepal, all the dignitaries from SAARC countries took part in oath-taking ceremony; this marked a good beginning. This will definitely yield good results, it is my belief and this thinking of India, in the country and the world, that we want to do well to the countrymen and be useful for the welfare of the world, India wants such a hand to be extended".

In 1998, when there was near universal condemnation of India's nuclear tests and sanctions were imposed against Indian entities by the US and others, Henry Kissinger, no great friend of India, spoke with understanding of India's predicament. "India lives in a tough neighbourhood", he said. Those words opened the eyes of India's friends and foes in the US and the dialogue began. The rest is history.

"Tough neighbourhood" is an evocative American expression, which describes a phenomenon present in many American cities. Just a few blocks from the prosperous cities with gleaming skyscrapers and charming fountains, one finds settlements with dilapidated homes and listless youth roaming the

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streets. The limos drive past these streets, but they rarely stop and if people have to go to these neighbourhoods, they never go without a weapon to defend themselves. In one phrase, Kissinger aptly described India's situation and justified its acquisition of nuclear weapons.

Kissinger was not referring to an unnecessary fear psychosis. He was referring to two of India's neighbours, China and Pakistan who were already in nuclear collusion, had fought wars with India and had not shown any sign of giving up their aggressive pursuit of their claims on Indian territory. A nuclear deterrent was more than justified. However, nuclear capability alone does not end the enormous challenges India faces even today in its neighbourhood. It is not the threat of aggression in various forms alone that demand vigilance, strength, imagination and diplomacy on the part of India.

Neighbours are like brothers, one cannot choose them. Nor can they be abandoned even if they become hostile. This is a reality one must acknowledge. Coexistence is absolutely essential regardless of the size, philosophy or political system. Identifying complementarities and developing mutuality are keys to good neighbourly relations.

Contradictions, disparities and paradoxes characterise the Indian neighbourhood. It is a world of shared legacies, historical links and common interests over the centuries. Nevertheless, all the curses of the modern world are present here, including interstate and internal wars, nuclear rivalry, military coups, insurgencies, terrorism and drug trafficking. India is the only stable state in South Asia, an uninterrupted democracy. India's enhanced economic strength should logically benefit its neighbours. The global Indian brand should benefit them as seen in Pakistan, Bangladesh and Sri Lankan restaurants abroad parading their delicacies as Indian cuisine. However, paradoxically, all of them, including Bhutan, pride themselves in their independence from India and constantly create issues that require urgent solutions.

Paradoxically again, it is fashionable for commentators in India and abroad to observe that India has neglected its backyard. Neither Indira Gandhi's demand for strict reciprocity, nor Inder Gujral's doctrine of unilateral concessions has been applauded. The entire spectrum of India's relationships, with Pakistan at the one end and Bhutan at the other, is attributed to India's inept and insensitive handling of its neighbours.

The truth is that India has an impeccable record in dealing with the complex issues in its neighbourhood at considerable cost to itself, with a policy of constructive engagement at all times and non-interference in their internal

affairs, except when dictated by the possibility of their actions impinging on India's national interests. None of the conflicts with Pakistan or China was India's creation and Indian bloodshed in Bangladesh and Sri Lanka was not on account of any expansionist design. A long list of Indian concessions can be cited from the Indus Treaty to Pakistan, Kachativu to Sri Lanka, Teen Bigha to Bangladesh and others. Historical treaties have been amended to accommodate the nationalistic aspirations of India's neighbours. India has invited Nepal to submit amendments to the 1959 Treaty, which established the special relationship between the two countries.

India has consistently supported initiatives like those of landlocked countries and small island states, in the United Nations. Even with Pakistan and China, India has been willing to go the extra mile to be reasonable, logical and fair. No hand of cooperation, extended bilaterally or through SAARC with regard to trade, environment and human rights has been turned away. India has sought joint exploration of the economic potential of the region.

India has not hesitated to deal with any regime in its neighbourhood, whether it is democracy, dictatorship, military rule or others, even when the advent of these regimes meant extreme hardship to India, as it happened in Burma in 1962, when the nation had to rehabilitate thousands of Indians, who were forced out, leaving their belongings behind. The country has been generous in economic assistance to several of its neighbours without any strings attached. More recently, Indian investments have contributed to regional integration.

History is replete with India's goodwill gestures to every country in the region, in the alphabetical order, from Afghanistan to Sri Lanka. India is the largest investor in Afghanistan, regardless of its uncertain political future. Twenty million illegal immigrants from Bangladesh have found their homes in India. The Treaty with Bhutan was revised to reaffirm its independence, sovereignty and territorial integrity. India has recognised the military regime in Myanmar and has extended assistance to its armed forces. Tibet was recognised as part of China in 2003, thus giving up the Dalai Lama card, which it could have played. In an agreement with Maldives in 2011, India took over the responsibility of maritime surveillance of the islands. Nepal enjoys major concessions on trade and transit without concomitant commitments from this Himalayan neighbour. The peace process, which began with Pakistan in 2003 after the Kargil war was itself a major gesture, which was unfortunately jeopardised by the Mumbai attacks. Even after the civil war in Sri Lanka, which decimated the Tamils, India is committed to rebuilding the war torn regions. The list is endless.

However, peace and good relations cannot be built by India alone. Much depends on the mindset of its neighbours and the role that external forces play in the region. The legacy left by Britain of a divided South Asia, with seeds of conflict is a major factor. Except for China, all its neighbours are miniscule compared with India, with a built-in fear psychosis, which projects India as a regional hegemon. In the case of Pakistan, disputes with India give it an illusion of equality with India and serve as an excuse for securing military and financial support. For China, India is could be an impediment in its quest for global dominance it seeks. For Sri Lanka, India is a hindrance to its plans to suppress the Tamil minority. Since these problems are not creations of India, it cannot resolve them, even with the best of intentions. It can only manage the neighbourhood with deftness, creativity, compassion and firmness.

SAARC created in 1985, is a free association of nations, which were carved out of colonial India or were linked to each other by geography, history and culture. Each of them had real or imaginary unfinished agendas with each other and the process of reconciliation got prolonged, first by the Cold War and then by the emergence of an assertive China. The geography of the region and the size of India made them dependent on India in many ways and, at the same time, made them wary of India. India has borders with all of them, but none of them has any common borders. A mix of admiration, envy and awe is the predominant feeling of all of them towards India and this has not been conducive to the development of regional cooperation. Neither insistence on reciprocity nor unilateral concessions by India succeeded in changing the mindset of its neighbours. Consequently, India went farther afield to the East and the West in its quest for energy resources, technology and economic cooperation. SAARC remained below its potential and is often plagued by political differences, particularly between India and Pakistan. In fact, its neighbourhood has presented the biggest foreign policy challenge to India in the recent years.

As an intergovernmental organisation, SAARC follows the pattern of functioning of the United Nations and of regional organisations operating in association with the UN. It has developed an agenda steering clear of political and bilateral issues, covering areas such as terrorism, tourism, agriculture, biotechnology, culture, trade, education, energy, environment, finance, science and technology, etc. It has summit meetings, ministerial meetings, meetings of cabinet secretaries, etc, which produce declarations, agreements and conventions. The impressive literature created by SAARC has facilitated cooperation in several spheres at a low level. Among the significant documents produced by SAARC are a Charter of Democracy, a Convention on the

Suppression of Terrorism, and a Convention on Democracy. Many ideas in these conventions follow closely the consensus, which has been reached at the UN or the Commonwealth.

Though SAARC functions like a multilateral organisation, it reflects the sum total of the bilateral relations of the member states. Any problem developing among the members results in postponement or cancellation of meetings or absence of some leaders. It is susceptible to every political or economic development in the member states. In other words, SAARC functions in form but not in substance because of the lack of trust among the members and instability in several member states.

A functioning forum for the South Asian states would be helpful, if the bilateral problems among the members disappear and the logic of cooperation prevails over mutual suspicion and antipathy. The existing machinery can be put to good use, once the right atmosphere is generated.

The Indian foreign policy cannot resolve the multifarious internal contradictions amongst its neighbours, which motivate their actions. What can be hoped for is a region free of conflicts and tensions, which would not adversely affect its development.

The big question is whether the economic compulsions of the region can remove deep-rooted political tensions. Much hope cannot be pinned on this seemingly logical question, as recent developments do not give reason for optimism. India's phenomenal economic growth in the nineties roused only envy and renewed fear in its neighbours. China's economic growth has made it only more assertive. With India, China is pursuing economic cooperation without an iota of political concession. Its invitation to India to attend the APEC meeting or the establishment of the BRICS Bank appear friendly, but they seem to have no political meaning in terms of bilateral relations. India has taken many economic initiatives like the offer of trade agreements with Sri Lanka, Bangladesh and Pakistan and has highlighted its involvement in Nepal's economic recovery. Regardless of the immediate success of these initiatives, India realises, as pointed out by a recent Chatham House paper, "India's long term prosperity hinges to some degree on a conflict free neighbourhood and an economically integrated region is in India's overall interest". This can happen only when India's neighbours begin to perceive their own stake in India's strength and prosperity. That day, unfortunately, is in the distant horizon.

India's neighbourhood policy has been in focus ever since Narendra Modi became prime minister. Apart from receiving SAARC leaders at his swearing-in ceremony, he proposed resumption of talks with Pakistan, which

had to be abandoned because of Pakistan's insistence on openly consulting with the dissident leaders of Jammu and Kashmir. His visits to Bhutan and Nepal stressed the special features of India's relations with them. He declared that he would work with the neighbours to alleviate poverty and also align with them in his quest for international peace and prosperity. He has learnt the hard way that such a vision of foreign policy may not be practical.

SAARC has not really realised its full potential because conditions do not exist in the neighbourhood for economic cooperation. Bilateral disputes plague the association and, without mutual trust, no regional organisation can function effectively. India has gained more by its association with the ASEAN rather than with SAARC. Even the declarations of SAARC are rarely implemented.

Prime Minister Narendra Modi's vision of SAARC becoming a corner stone of India's foreign policy has already suffered a setback. Pakistan raised bilateral issues on the floor of the United Nations even in September 2014, thus violating the spirit of bilateralism and regional cooperation. Other states in the region are also not ready yet to work in a spirit of cooperation. In the meantime, SAARC can operate only on the basis of the lowest common denominators among its members. India would continue to improve its relations with each of its neighbours so that SAARC could become a true regional organisation like the European Union or the ASEAN. In the current situation in the Asia Pacific, characterised by rivalry between the US and China, such a transformation may be hard to accomplish.

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## ***SAARC and Economic Integration in South Asia***

Amita Batra\*

Economic cooperation and integration became a part of the SAARC work agenda when the council of ministers of the member countries signed an agreement to form the South Asian Preferential Trade Agreement (SAPTA) in April 1993. The move was prompted by a desire of the South Asian economies to dismantle trade barriers following unilateral trade liberalisation as part of the systemic economic reforms initiated, first, in India, and later undertaken by other economies of the region. The economic reforms set the tone for both, a greater global integration of the South Asian economies as also increased growth momentum in the region. In the subsequent two decades, South Asia experienced high growth averaging over 5 per cent annually accompanied by a rapid pace of trade integration with the global economy. The rate of global trade integration of South Asia was the fastest among all regions in the world between 2005 and 2007. The Indian economy emerged as the second fastest growing economy in the world. The economic dynamism and rapid global trade integration did not, however, translate into a higher level of economic integration among the South Asian economies; and intra regional trade remained at a low of around 5 per cent of the region's total trade. The region, endowed with geographical, historical, cultural and linguistic proximity- all parameters that make the member economies the most natural trading partners, is today the least integrated region in the world. The process of economic integration in South Asia is marked by many contradictions. These are discussed below followed by the compelling regional and global imperatives to accelerate the pace of economic integration in South Asia. Finally, sub regionalism is presented as a possible way forward for regional cooperation in South Asia.

### **Economic Agenda of SAARC: SAPTA and SAFTA**

The SAPTA, while not explicitly aiming at the creation of a free trade area in the region, undertook trade liberalisation by according preferential tariff treatment to member economies. However, SAPTA adopted the more time consuming positive list approach to delineating sectors for preferential tariff treatment. Progress was slow and after three rounds of negotiations under

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the SAPTA less than 40 per cent of intra regional imports were covered by preferential tariffs. Mistrust and fears arising out of unequal economic size and development of member economies as also their overlapping complementarities, did not allow preferences to be granted in the most competitive sectors for the partner countries in the SAPTA. The largely irrelevant tariff preferences combined with inadequate tariff cuts, restrictive rules of origin and the many hidden non-tariff barriers led to the inefficient outcome of intra regional trade not exceeding 5 per cent of the region's global trade. The fourth round of negotiations initiated in 1999 was suspended owing to the increased tensions between India and Pakistan following the military takeover in the latter and the nuclear tests undertaken by both the countries.

The economic agenda of trade integration was revived in the early 2000s as bilateral relations between India and Pakistan improved. This led to the announcement of the South Asian Free Trade Area (SAFTA) in 2004 with an explicit aim of creating a free trade area in South Asia. The SAFTA was implemented in 2006 on a negative list basis with a scheduled trade liberalisation programme incorporating a special and differential clause and specification of sensitive lists by member countries. Provision was also made for trade facilitation, elimination of non-tariff barriers and a dispute settlement mechanism, though more in the nature of a declaration of intent than a plan of action. In violation of the spirit of the agreement, Pakistan specified a positive list for trade with India. Further, the SAFTA did not include the potentially trade creating services sector liberalisation. Thus, being a shallow agreement with limitations to its implementation, the SAFTA could not take the region beyond the 5 per cent level of intra regional trade.

### **India's Centrality**

With a maximum share in regional trade, GDP and sharing borders with all the other regional economies, India's centrality should have been the integrating force for the region. The fear of being overwhelmed by Indian imports and consequent enlarged deficits, not necessarily based on economic rationality, has been a limiting factor in the regional preferential agreements. This is true, even while the bilateral agreements that India has with some of the South Asian economies have not only been successful but exemplary to some extent. India has bilateral trade treaties with Nepal and Bhutan operating like de facto free trade agreements. The India-Sri Lanka FTA (ISLFTA)

based on principles of non-reciprocity and differential treatment is an example of a south-south trade agreement that has taken into account the asymmetry of the two economies in its provisions and yet been successful in generating a positive outcome of increased trade for both economies. The South Asian experience has in fact shown that bilateralism does not necessarily feed into regionalism. While on the one hand, convergence of bilateral agreements with varying patterns and degree of liberalisation into a regional agreement may be hard to achieve, on the other, successful bilateral treaties may act as a disincentive to join larger regional/sub regional groupings unless the latter are distinctly more beneficial.

### **India-Pakistan Bilateral Relationship**

It also needs to be recognised that thus far the India-Pakistan bilateral relationship has dominated the regional economic agenda. Negotiations on the SAPTA were suspended owing to escalating India-Pakistan bilateral tensions. The progress of the SAFTA was impeded by Pakistan when it specified a positive list for trading with India contrary to the provisions of the agreement. Unlike India, Pakistan has not granted India the MFN status. More than three years after Pakistan announced their intention of granting India the MFN status only a few positive measures that include replacement of positive list by a short negative list and conclusion of agreements on customs cooperation, mutual recognition of standards and redressal of trade grievances along with announcements towards liberalisation of the visa regime and facilitation of business travel have been taken in the direction of “trade normalisation”. The measures do not, however, sum up to the MFN status, which has now been euphemistically termed by Pakistan as “non discriminatory market access” (NDMA). Conflict, both actual and anticipated, continues to define the bilateral relationship between India and Pakistan. It might as well be accepted that bilateral trade between India and Pakistan will remain below potential as a natural outcome of traders’ risk-return calculations in an atmosphere of constant friction and Pakistan’s continued hesitation to grant India the MFN status. Economic rationale can be the lead factor in this bilateral relationship only after a threshold level of peace is ensured. This is not in sight yet, as was evident in November 2014 at the 18<sup>th</sup> SAARC summit when member countries anxiously waited till the last minute for India and Pakistan to sort out their differences and take forward the idea of regional cooperation in South Asia by signing three agreements on regional transport and energy connectivity. Only one of the

proposed agreements, the one on energy cooperation, could be signed before the conclusion of the summit meeting.

Given that eight years of implementation of the SAFTA have not led to intra regional trade expanding beyond 5 per cent of the region's total trade, the agreement for South Asia trade in services, implemented in 2012, has made less than impressive progress and India and Pakistan continue to grapple with a conflict ridden relationship, it may be time for the resource constrained South Asian economies to proceed with regional economic integration and cooperation through alternative mechanisms. There are compelling regional and global circumstances that make it imperative for the region to strengthen the process of regional economic integration.

### **Regional and Global Imperatives**

In the neighbourhood, the ten member Association for South East Asian Nations (ASEAN) is expected to complete the process of formulating an economic community by 2015. The larger region of the ASEAN+3 (China, Japan, Korea) +3 (Australia, New Zealand, India) is negotiating a regional comprehensive economic partnership (RCEP) that is also to be finalised by 2015. There are also other mega regional agreements such as the Trans Pacific Partnership (TPP) agreement that are being negotiated and are in fact close to being concluded making the regional trade scenario very competitive. South Asia needs to not just accelerate its effort towards regional cooperation but to move in the direction of deeper economic integration, failing which, it may have to bear the cost of trade being diverted away from the region.

This becomes even more critical as India is already looking east having entered into a comprehensive agreement with the ASEAN, Korea and Japan. India is also a member of the RCEP. The RCEP will help India integrate with the regional production network. This is a significant advantage for India and potentially for South Asia as global trade patterns are changing in response to production fragmentation across borders. As the ASEAN moves closer to achieving its vision of an economic community and becoming a globally integrated, highly competitive, single market and production base by 2015, India will gain through its membership of the mega regional agreement. As the RCEP is an ASEAN-centric configuration, the ASEAN-India FTA implemented in 2010 will contribute further to India's economic integration in the larger Pan-Asian network. If South Asia is able to accelerate its regional integration process, the member economies will be able to access, through

India, the South East Asian and the larger Asian region. Conversely, the inability to integrate within will deprive the other South Asian economies of possible linkages with a dynamic region and networked production that is emerging as the core of global trade flows. Strengthening intra regional economic linkages is also acquiring increasing importance in the post-global financial crisis period when many of the traditional western markets are unable to generate sufficient growth and hence there is demand for exports of developing South Asian economies.

In the circumstances, allowing interested economies to come together on a sub regional forum may be a feasible option to take forward the idea of regional cooperation. Some prior thinking on the following lines may contribute to shaping contours of these sub regional groupings in the region.

### **Sub-regionalism as an Option for Regional Cooperation**

There is a need to reformulate the idea of sub regional groupings in South Asia as open and differentiated forums. Member countries- prepared and willing, should come together in smaller sub regional groups with a focussed agenda comprising both, common challenges and aspirations that are cross border in nature. The agenda should be translatable into a work plan with clear targets and time schedules. Once they are successful in attaining the limited agenda, the aims and objectives can expand and so can the membership as non-members would start to incur the cost of non-accession. In due course sub-regionalism would serve as a preparatory ground for merging into larger groupings as it would be indicative of the members' willingness to act in a cooperative framework with their neighbours and a readiness to join larger groupings in the region that go beyond these members, or even across sub regions. These smaller groups of interested and willing partners can be the existing sub groupings in the region or new groups from within or outside the existing configurations.

Within South Asia sub-regional groups already exist, some with membership from the region and others in which membership extends beyond South Asia to Southeast Asian/East Asian countries. These include the BBIN with Bangladesh Bhutan, India and Nepal as members; BCIM with Bangladesh, China, India and Myanmar, and the BIMSTEC with Bangladesh, Bhutan, India, Nepal, Myanmar, Sri Lanka and Thailand as member economies. The BBIN is a project based South Asian sub regional initiative supported by the Asian Development Bank (ADB) with the overall objective of creating a conducive environment for growth and development. Priority sectors that include

transport, energy and power, tourism, environment, trade, investment and information, communications technology, and private sector cooperation have been identified. The ADB, at the request of the BBIN, launched the South Asia Sub regional Economic Cooperation (SASEC) programme in 2001 as a forum for the four countries to discuss, identify and prioritise sub-regional cooperation projects in these sectors. The BCIM with members from South and South East Asia has both, a sub regional and inter sub regional perspective. The grouping has seen a revival with the visit of the Chinese premier to India in 2013 and the subsequent Indian PM's visit to China. A joint study group has been set up to evaluate the prospects of overall development by integrating infrastructure and promoting economic opportunities including trade, investment and initiating development of economic corridors. The BIMSTEC, also an inter sub regional initiative, that was an outcome of the look west policy of Thailand and look east policy of India, became a laggard grouping when Thailand lost interest after the East Asian financial crisis, and South Asia continued to battle internal conflicts. It saw a revival in 2004 with its first summit level meeting deciding to push the FTA agenda. Well designed with pre-determined timelines for the various stages of economic integration, the grouping however, lost its way and the FTA is yet to see the light of day. Only two summit level meetings have been held since 2004. The BIMSTEC secretariat has recently been set up in Dhaka, Bangladesh. Other than the FTA, thirteen priority sectors have been defined to include varied areas like transportation, technology, energy, tourism, agriculture, fisheries, environment and disaster management, trade and investment, poverty alleviation, and cultural cooperation for BIMSTEC, some of these overlapping with the priority areas identified for the BBIN.

For these sub regional groupings to perform the role of a nucleus for regional cooperation in South Asia, it would require that instead of the existing overlapping and all encompassing objectives, a workable agenda based on an area of comparative advantage for each be delineated. A focussed approach towards its achievement should then be collectively designed and adopted. Issues of hydropower, movement of people, and transit rights could be primary areas for the BBIN, connectivity and economic corridors for the BCIM, and supply chains in textiles and clothing, and gas pipelines could constitute the working agenda for the BIMSTEC. The resource and expertise constrained South Asian economies may then be able to contribute to and benefit from these groupings in accordance with their potential. Another necessary prior requirement in this context would be the setting up

of an institutional mechanism that includes a secretariat, and working groups with requisite expertise. Regular meetings, coordination and periodic exchange of information and reports will contribute to understanding and resolution of matters of common and overlapping interests. Over time, a merger or expansion of the sub regional groupings could attain the shape of a regional formulation within South Asia or a South-South East Asia regional grouping. Regional cooperation in South Asia would then become a self-evolving mechanism.

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## ***Pakistan at the Heart of SAARC's Failure***

Kanwal Sibal\*

The idea of SAARC has always made sense as cooperation amongst the South Asian states benefits all in that it responds to the collective needs of the region. In practice, however, SAARC has effectively failed as an organisation – and this despite every reason to be successful in theory. SAARC is well integrated geographically: it constitutes a coherent unit, with no physical barriers dividing member countries; even the two countries that are not part of the landmass of South Asia are physically close as they are separated by very short stretches of the sea. All this makes connectivity – the buzzword of the times – very easy; indeed, connectivity already exists in so far as the largest South Asian countries are concerned. It dates back to historical times and developed, in particular, during the colonial period with the coming of the railways. If shared history, languages, culture and, in general, people to people links are a basis for political, economic and security coordination – as we see in Europe – then South Asia should have seen well developed regional cooperation by now.

In terms of formal structures, SAARC is well provided, including with a secretariat. The fields of cooperation are many, with SAARC centres established for specific areas of cooperation established in various countries. These cover the fields of agriculture, meteorological research, Tuberculosis and HIV, human resources development, energy, disaster management, forestry, culture, coastal management, and so on. Six apex bodies have been set up in the areas of Commerce and Industry, Law, and Accountancy, with the South Asia Foundation and the Foundation of Writers and Literature also included. Even if some networking amongst business people, lawyers, academicians and writers is taking place as a result of these bodies, the overall impact of such exchanges on consolidating SAARC at the level of civil society remains small.

All SAARC countries confronted with serious challenges of poverty alleviation and development in general. Greater regional economic integration can partly address these challenges and contribute to building regional prosperity. However, contrary to what their enlightened interest would dictate, in actual fact, SAARC is the least integrated amongst the world's regional organisations. Only 5 per cent of the region's global trade takes place between its eight member countries, and was valued at US\$ 22 billion in 2013. This

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compares with trade within ASEAN at 22 per cent, within EU trade at 55 per cent, 50 per cent within East Asia, around 20 per cent in Latin America, and 10 per cent even in Sub-Saharan Africa.

It is not as if initiatives to boost trading links within SAARC have not been taken. Some of these include the 1993 South Asian Preferential Trading Arrangement (SAPTA), the 2004 South Asian Free Trade Area (SAFTA) – effective from 2006 – and the SAARC Agreement on Trade in Services (SATIS). But these have not achieved the desired results. The intra-SAARC trade still amounts to just a little over 1 per cent of SAARC's GDP, whereas, in contrast, in ASEAN (which is actually smaller than SAARC in terms of the size of the economy) the intra-bloc trade stands at 10 per cent of its GDP. Tariff and non-tariff barriers, a large list of negative items, narrow trade baskets with little value addition, customs barriers, poor transport links, visa issues, and limited private sector networking are seen as some of the reasons. Foreign Direct Investment has been low, with – as Prime Minister Modi noted at the November 2014 Kathmandu summit – Indian companies investing billions abroad but less than 1 per cent in South Asia.

Trade cannot be boosted without connectivity; but connectivity in South Asia is notably poor. Prime Minister Modi was right when he remarked at Kathmandu that it is harder to travel within our region than to Bangkok and Singapore, and more expensive to speak to each other. He pointed out that goods travelling from our Punjab to Pakistan's Punjab have to travel through New Delhi, Mumbai, Dubai and Karachi, making the journey 11 times longer and four times costlier. He also acknowledged India's responsibility for this state of affairs because merchandise from one SAARC nation has to go around the Indian peninsula to reach its destination. People cannot fly directly from Sri Lanka to Kathmandu, and those from Islamabad cannot fly directly into Dhaka. No direct flights exist between New Delhi and Islamabad. The region needs more rail, road and air connectivity – all necessary to reduce the distance between people, not to mention producers and consumers. Three connectivity agreements on road, rail and energy initiated by India were to be concluded at the Kathmandu summit; but Pakistan stalled the agreements on road and rail because it claimed it needed more time to complete its 'internal processes'.

India dominates SAARC physically, demographically and economically, in addition to its civilisational and cultural pull. If the countries of the region were to accept this reality and deal with India on this basis, rather than balance India's overwhelming weight by forging ties with external powers that seek to constrain India's rise for larger geopolitical reasons, they could leverage India's growing strengths to their advantage. So far, barring Bhutan, the other

countries have tried to create political, economic and security buffers between themselves and India by drawing China increasingly into South Asia. With India's improved ties with the USA, the US factor in distorting India's regional ties, barring in the case of Pakistan, has become, greatly diluted.

Fears of Indian domination and distrust have distorted Nepal's water resources policies towards India. Sri Lanka has allowed itself to become the hub of China's Indian Ocean ambitions, and has opened up a threat to India's security sea-wards in the south. Bangladesh has felt cushioned by China's support to become uncooperative with India on issues of connectivity and terrorism until the advent of Sheikh Hasina's present government, though the illegal immigration issue remains unresolved. Maldives, wooed by China, has created room for itself to slight India on the economic front, not to mention stoking India's concerns about giving China a physical foothold in one of its atolls.

Pakistan is, of course, at the heart of SAARC's failure to mature as a regional organisation. Pakistan's unremitting hostility on every front – territory, terrorism, connectivity, trade, and so on – towards India has debilitated SAARC's agenda to a point that enables the organisation to survive, but not grow. Pakistan's obsession with parity with India prevents it from accepting India's leadership position within SAARC – which would not be considered abnormal given the huge disparities between India and the others. Pakistan has failed to give India MFN status; it has not extended the provisions of SAFTA to India; and it denies transit rights to India through its territory to Afghanistan, despite the latter's SAARC membership, and the common interest in stabilising Afghanistan by facilitating trade exchanges with it.

Pakistan has made the resolution of the Kashmir issue – a bilateral one – a condition for permitting multilateralism within the SAARC framework to progress. It has spawned terrorism as an instrument of state policy to further its goals in Kashmir, to the point that it has graduated to becoming a hub of global terrorism. Lately, it has also used Bangladesh and Nepal as conduits for terrorist activity against India and Sri Lanka. The lurch of Pakistan towards radical Islam presents a major challenge for communal peace in South Asia, as destabilising forces are being released in South Asia's multi-religious societies. This common challenge has to be faced within SAARC. However, if the second most important country in the organisation has an agenda totally at variance with that of its largest member, and generally against the region's interest, the outlook for common action is not bright. Which is why, despite agreement in rhetoric, the SAARC countries have not been able to deal with the issue of terrorism.

What of the future? Most importantly, unless Pakistan changes course radically towards India, SAARC as SAARC will essentially limp along. Even if India takes initiatives in the interests of the region, Pakistan will stymie them as it will not want India's 'hegemony' to be consolidated. Pakistan's attitude will not change unless its internal polity changes. This is not likely to happen given the dynamics inside Pakistan and the broader Islamic region with which it associates itself.

At the Kathmandu summit, India warned that regional integration will proceed with all, or without some, which suggests that if Pakistan does not cooperate, others can go ahead without it. If that happens, it will mean, of course, the emasculation of the idea of SAARC. However, Pakistan will not be easily isolated, as most other SAARC countries will seek to keep it involved in order to balance India's weight. Side-tracking Pakistan will also mean that the integration of Afghanistan into SAARC will become practically impossible. BIMSTEC, which groups all SAARC countries except Pakistan and Maldives, provides an option for regional cooperation for India and others, with the added advantage of providing a seamless link to Southeast Asia through Myanmar and Thailand, the other two members of BIMSTEC. The SAARC charter does provide for sub-regional cooperation, but with the concurrence of the rest. This makes Pakistan's role a major road block.

The attempt of most SAARC members to propose China's membership of the organisation spells problems for the future. The push in favour of China, encouraged by that country, is a repudiation of history and geography, not to mention India's security sensitivities. It reflects the known syndrome of other SAARC countries wanting to balance India's weight within the region. China is seeking to use India's neighbours to whittle down India's opposition to China's plans to bring South Asia into its economic orbit through its connectivity strategies. (At the Kathmandu summit, China promised investment of US\$ 30bn for infrastructure development in South Asia, and 10,000 scholarships for young South Asians as a mark of China commitment to the region.) China's economic and political penetration of the region, not to mention the strategic defence linkages it has established with select South Asian countries, is pushing this dynamic. Nothing is stopping China and our neighbours to strengthen their economic and other links with China; however, treating China as a South Asian country merely because its occupation of Tibet has given it a common border with some SAARC countries, as argued by the Chinese Foreign Minister, is not acceptable to India. India is agreeable to 'demand driven priority areas' for cooperation between SAARC countries and observers like China. India cannot but take into account the fact that, as

a full member, China will get a veto in SAARC affairs as decisions in the organisation have to be unanimous.

Prime Minister Modi has placed emphasis on SAARC in his foreign policy vision. He invited all SAARC leaders to his swearing-in ceremony, which was unprecedented. Bhutan was the first country he visited after assuming charge. Later, he made a very successful visit to Nepal. Some in India believe that India as a connecting land mass, and the biggest economy of the region, bears a special responsibility for strengthening SAARC and giving more access to others to its market, especially as its trade with them is heavily balanced in its favour. The services trade adds to this imbalance. To deal with this, it is also proposed that, instead of SAARC countries obtaining services in education and healthcare in India, such services could be provided by Indian companies through direct investments or joint ventures in hospitals, schools in neighbouring countries. For this, more open FDI regimes and a better business environment in those countries will be required. It is argued that India must also reduce its tariff and non-tariff barriers. Tourism, energy, and electricity cooperation in the form of electricity grids across the region are other ways to increase trade volumes. A pan-South Asian gas pipeline infrastructure could be built, with connections to neighbouring resources, earning transit fees for countries through which the gas could flow. To facilitate trade, regional corridors for the movement of cargo, or cross-border industrial corridors could be created for countries with no common borders. Many of these ideas promoted by our business organisations make sense, but can be implemented only if political issues dividing key countries can be addressed.

As regards India's future intentions towards SAARC, Prime Minister Modi encouraged neighbours to benefit from opportunities provided by India's growth at the Kathmandu summit. He offered to help them in trade, transit, visas, investments, health, communication and space technologies. He promised a special funding vehicle overseen by India to finance infrastructure projects in the region. He listed all the areas in which India had moved ahead already, such as duty free access to five South Asian countries for 99.7 per cent of their goods; assistance of nearly US\$8 billion in South Asia over a decade; the deepening of infrastructure links with Bangladesh through rail, road, power and transit; a new era of cooperation with Nepal and Bhutan on energy; a flourishing free trade pact with Sri Lanka; and a new pact soon to meet the energy needs of Maldives. He announced India's readiness to develop a satellite specifically for the region by 2016, and promised to host a conference for all South Asian countries next year to strengthen their abilities to apply space technology to economic development and governance.

The Kathmandu summit did set the target of forming a regional economic community in the coming 15 years. One hopes that in this period Pakistan would have become a normal country; that others in the region would have voluntarily linked themselves to India's rising economy; and the China factor would have lost its threatening character with the normalisation of India-China relations.

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## ***SAARC: Not a Forum for Clearing Indo-Pak Distrust***

Sabita Harichandan\*

In the three decades after it was consolidated as a mechanism for regional cooperation in 1985, the agenda of the South Asian Association for Regional Cooperation (SAARC), whose member nations share common historical perceptions and close-knit geographic ties, has been expanded considerably. Nevertheless, in comparison, the EU and the ASEAN have moved ahead at a much faster pace despite interstate conflicts among their member nations. The reasons for SAARC's stunted growth may be ascribed to several factors, including interstate conflicts, regional instability, divergent perceptions of states, lack of genuine commitment of leaders, etc. The most important among these factors, however, appears to be the perpetually strained India-Pakistan relations, which in fact has reduced SAARC to a mere talking platform. This article attempts to analyse how the embittered Indo-Pak relations have demonstrably curtailed SAARC's effectiveness as a regional cooperation mechanism.

The origin of SAARC itself was steeped in Indo-Pak distrust. Initially, both countries had their reservations about the proposed regional cooperation mechanism. Pakistan was apprehensive that India would utilise the forum to institutionally ensure its hegemonic domination in the region. India, on its part, was apprehensive that the proposed mechanism had an indirect Western sponsorship, primarily meant to downgrade India's influence in the region through a ganging up of its neighbours against it. Whereas India insisted on bilateralism to resolve bilateral problems, Pakistan wanted to raise controversial bilateral issues to malign India in whichever forum it could, including SAARC. However, SAARC declined to be an accessory in this endeavour of Pakistan. Even so, progress in achieving the aspirations of SAARC have been stymied by intractable disputes like the Kashmir issue and cross-border terrorism, despite the adoption of the Additional Protocol to the SAARC Convention on Terrorism on 6 May 2003.

The signing of the South Asian Preferential Trading Arrangement (SAPTA) on 11 April 1993 and the South Asian Free Trade Area (SAFTA) on 1 January 2006 represented momentous breakthroughs in the process of the economic integration of South Asia. The SAFTA has enormous potential for economic

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gain for all the countries in the region, but the Indo-Pak mistrust has hindered its effective implementation. Initially, Pakistan was reluctant to extend FTA concessions to India until the Kashmir issue was resolved. The first round of SAPTA negotiations (SAPTA-I) resulted in tariff concessions for 226 products by the participating countries. In the second round of SAPTA negotiations (SAPTA II), the number of products identified for preferential treatment rose to 2013. India offered concessions to Pakistan for 375 items, while Pakistan offered concessions for 230 products.

India and Pakistan are major partners in intra-South Asian trade, and both would benefit much by such regional arrangements. India constitutes 70 per cent or more of the SAARC's area and population.

Intra-regional trade in SAARC still remains minimal. Although the SAARC region is home to one-fourth of the world's population, it accounts for only 5 per cent of the global trade. With one-fifth of the world's population, South Asia is home to two-fifths of the world's poor. It accounts for only 3 per cent of the global output and 2 per cent of the world's export. The full potential for increased intra-regional trade remains unfulfilled due to the Indo-Pak distrust. Pakistan suspected that SAPTA II was more beneficial for India. The implementation of the SAFTA will lead to reduction of tariffs among the seven member countries in the range of 0 and 5 per cent by the time the agreement is fully implemented on 31 December 2015. Nevertheless, Pakistan has been apprehensive that an FTA with India would lead to the swamping of its economy with Indian goods.

In July 2006, India called for an urgent meeting of the SAFTA Ministerial Council. Under the SAFTA agreement, the FTA operates on the basis of a sensitive list. In this meeting, India accused Pakistan of backing away from its commitment. This blame game continues perpetually. The late J.N. Dixit, who was at one time India's High Commissioner to Pakistan, once commented about the refusal of leading businessmen in Lahore, Karachi, Peshawar and Quetta to accept the traditional argument of their government that the Pakistani public would not accept normalisation of economic relations with India without a resolution of the politico-military dichotomies. Thus, it is quite clear that despite the eagerness of the businessmen of both countries to promote intra-regional trade, bilateral political differences and mutual distrust of the political leaders of the two countries create bottlenecks in this aspiration.

In this context, it may be noted that the EU countries trade about 66 per cent of their goods and services within their region; the NAFTA touches 53 per cent; and the ASEAN reaches 25 per cent. SAARC's share is only 5 per cent.

Terrorism also adversely affects the scope of intra-regional trade between India, Pakistan and Afghanistan.

The issues, emanating from sour Indo-Pak relations, that have dogged intra-regional cooperation in SAARC may be summed up as follows:

- Postponement of the SAARC summit in 1999 on the ground of the military coup in Pakistan
- Pakistan's blocking of signing and operationalisation of the SAPTA and the SAFTA for many years
- Pakistan's reluctance to accord MFN (most favoured nation) status to India in spite of India's granting MFN status to Pakistan
- Pakistan's ambivalent stand towards accelerating economic integration and stalling the implementation of certain provisions
- Politicisation of vital economic issues and making them subject to political antagonism
- Divergent perceptions stemming from Indo-Pak friction
- Agenda biases of these two major nations
- Divergent perceptions on the issue of terrorism, and regarding the interpretation of the Convention on Terrorism
- Pakistan's blocking the signing of three agreements proposed by India, citing insufficient time, and finally consenting to sign the agreement on energy security, which was a saving grace
- Pakistan's refusal to sign two planned pacts to boost cross-border road and rail traffic
- Pakistan's display of keen interest in China's entry as a full-fledged member and for greater leverage in the region, much to India's discomfort
- India's refusal to agree to the elevation of China's status and the horizontal expansion of SAARC
- Quest for extra-regional linkage and engagement rather than emphasising the evolution of regional identity and acceleration of regional cooperation
- Pakistan's support and efforts in strengthening the Taliban in Afghanistan
- India's quest for regional integration within SAARC or outside its framework if required, outlined by Prime Minister Narendra Modi's alleged aspiration to use the regional group in countervailing China

Indo-Pak rivalry cast its shadow over the outcome of the 18th SAARC summit in November 2014. A similar event had taken place in 2002.

Modi had invited the SAARC leaders to his swearing-in ceremony as India's new prime minister, but the goodwill demonstrated by this gesture soon nosedived on the eve of the SAARC summit. The consultations that Pakistan's High Commissioner in New Delhi held with the Kashmir separatists on the eve of the Foreign Secretary-level talks between the two countries in September, the cancellation of the meeting by India in retaliation, and the exchange of fire along the Line of Control (LoC) aggravated matters.

At the SAARC summit, the prime ministers of the two countries did not even bother to exchange pleasantries. Prime Minister Modi held two-way talks with every leader except Prime Minister Nawaz Sharif of Pakistan. Finally, the two had a brief and unstructured meeting, through the mediation of Prime Minister Sushil Koirala of Nepal. Prime Minister Nawaz Sharif told reporters while returning from the SAARC summit that India should not have cancelled the Foreign Secretary-level talks; that there was "nothing new" in consulting Kashmiri leaders ahead of a dialogue.

The theme of the latest SAARC summit was "deeper integration for peace and prosperity". In this regard, the member nations were quite hopeful of signing the three agreements related to energy cooperation, railway linkages, and easing motor vehicles and passenger traffic. Their governments had been authorised by their cabinets to sign bilateral agreements with other nations to make the multilateral agreement a reality.

Expressing optimism about the SAARC summit, Bhutan's Prime Minister Tshering Tobgay had said, "I am very hopeful that this SAARC summit will be a milestone and a watershed moment in realising the collective hopes of the region to integrate and prosper together". However, Pakistan, by raising last-minute objections, blocked the inking of two agreements, viz. the SAARC Motor Vehicles Agreement and the SAARC Regional Railways Agreement. The first agreement was designed to generate suitable conditions for seamless movement of goods and people through land routes across the member nations.

By blocking these two agreements, Pakistan failed to leverage its own location to become what Sharif called "a natural economic corridor". It is pointed out that all the oil and gas pipelines, power corridor, trade and transit routes in the India-Pakistan region become viable only if connectivity is maintained between the two countries. But Pakistan is apprehensive that these agreements would pave the way for India getting overland transit facilities to

Afghanistan and beyond. India, therefore, has opted to go for integration through a sub-regional cooperation mechanism like the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMST-EC).

The proposal to upgrade the status of China and South Korea within SAARC was mooted at a meeting of foreign ministers on 25 November 2014. Rejecting it, the Indian spokesperson asserted, “We need to first deepen cooperation among SAARC before we try and move it horizontally”. Underscoring the urgency of strengthening closer regional cooperation, Prime Minister Modi commented, “For India, our vision for the region rests on five pillars – trade, investment, assistance, cooperation in every area, contacts between our people – and all through seamless connectivity”. His stress on certain issues, which assume significance in the context of regional integration in general and Indo-Pak relations in particular, merits attention.

- Fulfilment of the universal aspiration of good neighbourhood
- Regional connectivity
- Direct trade route in the region to connect producers and consumers
- The issue of terrorism
- Initiation of concerted efforts to combat terrorism and transnational crimes
- Giving a business visa for 3-5 years for SAARC to facilitate economic interactions
- Introduction of a SAARC Business Traveller Card
- Laying stress on the need to work together

Prime Minister Nawaz Sharif in his turn said that Pakistan always intended to have a meaningful dialogue with India, but insisted on reciprocity. If India wanted restoration of a good relationship, the Kashmir issue must be discussed, he said, and “that too seriously with full sincerity.” Pakistan also was interested in a dispute-free South Asia, and in launching a concerted endeavour to fight against poverty, illiteracy, disease, malnourishment and unemployment, Prime Minister Sharif said.

Against these contending factors, to generate an enabling environment for SAARC’s concerted efforts, certain effective steps need to be taken, as follows:

- Downplay bilateral differences
- Inject new life into the process of regional cooperation
- Realise the comparative advantage of intra-regional trade

- Scale up practical commitments along with theoretical commitments
- Learn from engagement with other regional arrangements like the ARF (ASEAN Regional Forum)
- Emphasise constructive and composite dialogue
- Focus on CBMs (confidence-building measures), preventive diplomacy and conflict resolution mechanisms
- Engage with another stakeholder, i.e. civil society
- People-to-people contacts

SAARC is not a forum for clearing Indo-Pak distrust; it stands for far greater regional interests. No country should be allowed to be a spoiler of this serious agenda. Being the two most important members of the regional association, both India and Pakistan should shoulder a special responsibility to instil new life and vigour in regional cooperation and go beyond paying lip service to it. Subramanian Swamy, the Chairman of the Bharatiya Janata Party's Strategic Affairs Committee, commented in *The Hindu* on 25 November 2014, "Since India constitutes 70 per cent or more of SAARC's area and population, and has political conflicts with all its neighbours, India has to redefine its role, from seeking reciprocity in bilateral relations, to being prepared to go the extra mile in meeting the aspirations of all other SAARC nations.". The greater regional interests should not be sacrificed at the altar of the intransigent attitudes of some member nations of SAARC.

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