

Econo-Political Dynamics of SAARC Countries

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While some cooperation among the member states of SAARC — South Asian Association for Regional Cooperation — has taken place since 1980, structured economic cooperation began only in December 1995, with the implementation of the SAARC Preferential Trading Agreement. However, intra-SAARC trade did not accelerate reflecting limited interregional factor mobility. Despite this situation, the member states have expressed a desire for higher levels of economic cooperation, as stated in the declaration of the twelfth SAARC Summit, held at Islamabad in January 2004, regarding SAFTA and South Asian Economic Union (SAEU). *The SAARC Group of Eminent Persons (GEP) Report of 1997/98*, pp.20-21, has in turn provided a road map for economic integration: a South Asian Free Trade Area, a South Asian Customs Union in 2015, and an SAEU by 2020. While explicit preconditions for each stage of integration have not been specified, the broad road map and milestones have been suggested. It is hoped that closer economic integration and an SAEU will accelerate economic growth, promote the welfare of South Asian citizens, and improve their quality of life.

The solidarity reflected in the above statements is noteworthy. However, the reality is very different. There is regional turbulence, largely reflected in the hostility between the two largest members of SAARC, India and Pakistan. This situation has hindered the process of economic integration and weakened the political

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commitment toward regional integration. While the absence of political unity delays movement towards an SAEU, it looks important to point out that the basic driving force of political commitment is also yet seriously lacking for such desired integration in SAARC. However, there is no denying the fact that the existence of SAARC has certainly provided an opportunity for the policy makers, administrators, and experts to meet regularly and hold informal talks on important bilateral and regional issues. The practice of Cricket Diplomacy and backdoor-diplomacy among the political leaders on various SAARC forums have helped containing many difficult situations in the region and considerably contributed to the beginning of a confidence-building process in the region. Additionally, the ratification of SAARC Preferential Trading Arrangement SAPTA by all SAARC members in December 1995 and their decision to create a SAARC Free Trade Area (SAFTA) at Islamabad in January 2004 have generated guarded optimism about the relevance of SAARC in promoting future regional economic cooperation in the region.

For regional security, peace and prosperity will the member states help regional integration take firm roots? Are the countries of South Asia ready to face the 21st century's new challenges? Will the economic interests drive South Asian countries toward greater cooperation? If so, what is the potential for the growth of regional economic cooperation in South Asia? Given the decades of mutual hostility and distrust, to what extent South Asian countries are able to achieve economic interdependence under changing global scenario in post-9/11 era? The answer to these questions requires a thorough understanding of the domestic political and economic dynamics of South Asian countries.

SAARC's success is likely to bring enormous economic and security benefits to Bhutan and the Maldives, the two smallest South Asian countries. It is, therefore, not surprising that these two countries have shown, and continue to show, a great deal of interest in the growth of regional cooperation in South Asia. In this section, I will briefly discuss the political and economic interests and concerns of the other five South Asian countries and their effects on the prospects of the growth of regional cooperation in South Asia.

Bhutan

Situated on the southeastern slope of the Himalayas, Bhutan is bordered on the north and east by Tibet and on the south and west and east by India. After China invaded Tibet, Bhutan strengthened its ties and contact with India in an effort to avoid Tibet's fate. New roads and other connections to India began to end its isolation. In the 1960s Bhutan also undertook social modernization, abolishing slavery and the caste system, emancipating women, and enacting land reform. In 1985, Bhutan made its first diplomatic links with non-Asian countries.

One of the world's smallest and least developed countries, Bhutan's economy is based on agriculture and forestry, which provide the main livelihood for 90% of the population and account for about 40% of its GDP. Agriculture consists largely of subsistence farming and animal husbandry. Rugged mountains dominate the terrain and make the building of roads and other infrastructure difficult and expensive. The economy is closely aligned with India's through strong trade and monetary links. The industrial sector is technologically backward, with most production of the cottage industry type. Most development projects, such as road construction, rely on Indian migrant labour. Bhutan's hydropower potential and its attraction for tourists are key resources. The Bhutanese Government has made some progress in expanding the nation's productive base and improving social welfare. Model education, social, and environment programmes in Bhutan are underway with support from multilateral development organizations. Detailed controls and uncertain policies in areas like industrial licensing, trade, labour, and finance continue to hamper foreign investment. GDP: purchasing power parity - \$2.1 billion (1999 est.)

Bangladesh

With a population of more than 115 million out of which 65 percent live below the poverty line, limited natural resources, proneness to frequent floods and cyclones, absolute aid dependency, limited industrial, scientific and technological development, and more than 13 percent of its export earnings going to debt service, Bangladesh's capacity to cope with the

nation-building process is severely limited. After its independence in 1971, a strong bilateral economic and political cooperation with India and a generous flow of foreign aid provided the necessary support for Bangladesh's economic development. But soon, the flow of foreign aid dried up and, more importantly, the Indo-Bangladesh relations deteriorated after the assassination of President Mujibur Rahman in 1975. Among the issues which most adversely affect Bangladesh's cordial relationship with India in the post-1975 period are the conflicts over the sharing of the Ganges water; the flow of refugees across the border to India as a result of the tribal insurgency in the Chittagong Hill Tracts; and the migration of thousands of Bangladeshi citizens each year into the Indian states of West Bengal and Assam. The political realities of India and Bangladesh in the post-1990 period have made the leaders of these two countries less accommodative. Successive weak governments with narrow political base and coalitional nature in India since 1980 and the growing popularity of nationalist and fundamentalist coalitions such as the Hindu Bharatiya Janata Party have contributed to a lack of willingness among the ruling Congress party leaders to take a bolder policy initiative on these politically sensitive issues. On the other hand, the existence of quasi-democracy in Bangladesh in the post-1990 period offers only limited opportunities for the leaders to take any bold or innovative approach to resolve the bilateral problems with India.

Except for India, Bangladesh has no outstanding disputes with any SAARC country. Bangladesh's political and economic relations with Pakistan have improved after a brief disruption from 1971 to 1975. Throughout the 1980s, Pakistan accounted for almost 60 percent of Bangladesh's exports to South Asia. There is still more scope to improve Bangladesh's exports to Pakistan in such items as tea, newsprint, jute goods, and leather. In turn, Bangladesh can import, at a competitive price from Pakistan, such items as textiles, cement, light engineering goods, machinery, and railway rolling stock. The visit of Bangladesh Prime Minister Khaleda Zia to Pakistan in April 1995 and her cordial and high-level political talks with Pakistani Prime Minister Benazir Bhutto made the prospects of revival of trade cooperation between the two countries possible. Once the political bottlenecks over the issue of

the repatriation of Pakistani nationals from Bangladesh are resolved, trade cooperation between the two countries can be restored soon because it is relatively easy for the entrepreneurs of both Pakistan and Bangladesh, who were either involved in interregional trade or had been located in the two countries prior to 1971, to renew and re-establish their contacts.

The most important concern for Bangladesh is to improve political and economic cooperation with Pakistan. Pakistan has the capability to provide security and meet Bangladesh's need for manufactured goods, such as chemicals, light engineering goods, capital goods, coal, gas and limestone. At the same time, Pakistan can increase its imports substantially in such areas as urea, sponge iron, semi-processed leather, and newsprint from Bangladesh to reduce the latter's trade deficit with Pakistan. Besides, both Pakistan and Bangladesh can agree to set up joint ventures to improve the latter's export base and the mutual capacity of the two countries. But a lack of political will between the leaders of these two countries has restricted the trade on mutually beneficial items and prevented the setting up of industries with Pakistani capital and technology in Bangladesh. Given the current trend of a limited flow of Overseas Development Assistance (ODA) to South Asian countries in the face of competition from countries in Eastern Europe and the Central Asian republics, Bangladesh's limited structural abilities, and the hesitation of the World Bank and the International Monetary Fund to provide continuously concessional loans, Bangladesh's need to improve economic cooperation with Pakistan and other countries in South Asia has increased in recent years. Pakistan has shown considerable interest in expanding economic cooperation with Bangladesh. But given the apprehensions and political sensitivity of Bangladesh's about domination by Pakistan, closer economic cooperation with Pakistan may be more feasible under SAARC programmemes.

Maldives

With 100% Muslim population, Maldives comprises group of atolls in the Indian Ocean, south-southwest of India. During the 1980s tourism became one of the most important and highest growth sectors of its economy. In 1994, tourism, Maldives largest

industry, accounted for about 18% of GDP and more than 60% of the Maldives' foreign exchange receipts. Fishing is a second leading growth sector. Over 90% of government tax revenue comes from import duties and tourism-related taxes. The Maldivian Government initiated an economic reform programme in 1989 initially by lifting import quotas and opening some exports to the private sector. Subsequently, it liberalized regulations to allow more foreign investment. Agriculture and manufacturing continue to play a minor role in her economy, constrained by the limited availability of cultivable land and the shortage of domestic labour. Most staple foods must be imported. In 1994, industry, which consisted mainly of garment production, boat building, and handicrafts, accounted for about 15% of GDP. Major impediments to growth include excessive bureaucracy, corruption and drugs.

Nepal

It is because of Nepal's cordial bilateral relationships that South Asian countries unanimously agreed to set up SAARC's permanent secretariat in Kathmandu. Two major considerations guide Nepal's deep interest in the growth of regional cooperation in South Asia: (1) the desire to promote the country's security through multilateral diplomacy; and (2) the desire to promote balanced interdependence as opposed to an absolute dependence on India.¹ Landlocked between India and China, Nepal has been dependent on India for its security and economic development since the signing of the Indo-Nepal Treaty of Peace and Friendship in July 1950. Nepal's thousand-mile border with Tibet is critical to India's security interest vis-à-vis China. Therefore, India has always tried to maintain a close strategic relationship with her. However, India's overwhelming influence in the political and economic life of Nepal has produced tensions in their bilateral relations. There are three major irritants in the Indo-Nepal bilateral relations. First, the security provision of the 1950 Treaty of Peace and Friendship obligated the governments of Nepal and India to consult with each other in devising effective countermeasures to meet a security threat to either of the countries emerging out of

1 See Baral Lok Raj, "Nepal's Relations with South Asian Countries," in Kanesalingam, (ed.), *Political Dimensions*, p.104.

foreign aggression. The treaty also stipulated that the two governments must inform each other of any serious friction or misunderstanding with any neighbouring country that may be likely to adversely affect the friendly ties between India and Nepal.² The Nepalese ruling elites under the monarchical regime have long resented this provision of the treaty because it essentially restricted the autonomy of Nepal in conducting its foreign policy and provided scope for Indian domination. Consequently, Nepal occasionally attempted to use the China card to move away from the Indian sphere of influence. The most serious Indo-Nepalese dispute occurred when Nepal allowed China to build the Lhasa-Kathmandu road after the Sino-Indian conflict in 1962. India considered this move as Nepal's acquiescence to China's overall military strategy in South Asia, which was a serious threat to India's security interest. Consequently, throughout the 1960s and the 1970s, Indo-Nepal relations remained at a low ebb. The second major irritant in Indo-Nepalese relations is related to the declaration of Nepal as a zone of peace and India's reluctance to endorse this proposal. Nepal's peace zone plan is clearly a strategy to distance itself from India in defence and security matters. Third, both India and Nepal accuse each other of exploiting the open Indo-Nepal border. Nepal argues that the open border has encouraged Indian migration into Nepal and the smuggling of Indian goods to the detriment of Nepal's economy. The Gurung Commission report of 1983 found that of the total immigrants in Nepal's Terai region, more than 97 percent came from India. The report alleged that the total control of Terai's commercial and industrial sectors by the Indian immigrants and their indulgence in capital flight and tax evasion adversely affected Nepal's economy. Accordingly, the report suggested that Indian and other foreigners should not be allowed to work in Nepal without work permits.³ Such accusation of demographic invasion by India obviously drew strong condemnation from New Delhi. Although there has been significant improvement in the Indo-Nepal relations in the post-

2 See Leo Rose, *Nepal: Strategy for Survival* (Berkeley: University of California Press, 1971), pp.129-37 and 239-40.

3 See "Government of Nepal, National Commission on Population, Task Force on Migration, Internal and International Migration in Nepal: Summary and Recommendations", Kathmandu, August 1983, Mimeographed, p.17.

1990 period, these issues need immediate attention to further improve the two countries' bilateral relations.

With one of the world's lowest per capita incomes of \$190 and GDP growth of about 4 percent over the past decade, Nepal desperately needs economic development. Nepal has no strong industrial sector and its export base is quite narrow. The country is critically dependent on foreign assistance for its imports, including oil, petroleum, cement, and coal. More than 700,000 Nepalese are employed in India in addition to some 20,000 Gurkha armed personnel in the Indian army.⁴ Nepal's India-centric economy has also occasionally produced tension in the Indo-Nepal bilateral relationship. In 1989, when India cancelled the supply of essential commodities to Nepal as a result of serious disagreement between the two countries over the trade and transit issues, the limited nature of Nepal's economic autonomy was exposed. Nepal is, therefore, eager to diversify its trade and increase trade links with other South Asian countries in order to reduce its dependence on India. Recently, Nepal also has faced reduced ODA and concessional loans from the World Bank. Foreign direct investment (FDI) in Nepal is insignificant. In such a situation, Nepal's interest can be best served by maintaining the existing bilateral economic relations with India and, at the same time, working for promoting regional interdependence in South Asia.

Sri Lanka

Sri Lanka shared the initial enthusiasm with Bangladesh and Nepal for the establishment of SAARC. Sri Lanka's enthusiasm for SAARC reflected the anxiety that usually exists in the small state-large state relationship. In fact, since its independence in 1948, Sri Lanka has always shown keen interest in joining with such international or regional organizations as the United Nations, the Colombo Plan, the Non-Aligned Movement (NAM), and ASEAN. Sri Lanka's interest was shaped by the thinking that membership in a regional or international organization would provide some scope for developing a collectivity of small states anxious about larger neighbours. While other countries in South Asia have contiguous neighbours besides India, Sri Lanka has only India as its neighbour

4 See W. Howard Wriggins, *South Asian Regional Politics*, pp.130 and 151.

to the north and on all other sides there is the Indian Ocean. Such a geographic reality, coupled with India's overwhelmingly superior size, population, natural resources, and military, economic, and technological power, generates a great deal of anxiety in Sri Lanka. Not surprisingly, Sri Lanka's attitude toward SAARC has always been, and will likely continue to be, determined by the degree of cordiality in the Indo-Sri Lankan bilateral relationship.

Basically, there are two main problems between India and Sri Lanka: (1) Sri Lanka's denial of citizenship to a large number of Tamils and their repatriation to India despite the latter's protest of discrimination; and (2) the spill-over effect of Sri Lanka's Tamil ethnic conflict since 1983 and the impact of the India factor in Sri Lanka's domestic problem. The last factor appears to be the most serious one. From 1986 to 1990, Indo-Sri Lanka relations suffered the most because of the active Indian intervention in the Sri Lankan civil war. Not surprisingly, Sri Lanka's response to the growth of SAARC during this period was unenthusiastic. However, with India showing support toward the Sri Lankan government's efforts to achieve peace in the island, the Indo-Sri Lankan bilateral relationship has improved substantially in the post-1990 period. Since Sri Lanka has no major bilateral disputes with other states of South Asia, the improved Indo-Sri Lankan relationship has revived the latter's enthusiasm for SAARC.

Sri Lanka is mainly an agricultural country. The chief crop is rice in which the country is almost self-sufficient. Tea, rubber and coconut are also important agricultural crops, with tea being a major foreign exchange earner. In addition, other crops of importance are cocoa and spices such as cinnamon, cardamom, nutmeg, pepper and cloves. Fruit and vegetables, native to both tropical and temperate regions, grow well in Sri Lanka. Sri Lanka is also a major exporter of precious and semi-precious stones. Within the last few years remittances from Sri Lankans employed abroad have contributed a large share towards foreign exchange. The last three decades have seen tourism emerge as an important industry. There has also been a rapid growth in manufacturing industries, which offer a wide range of export goods such as petroleum products, leather goods, ready-made garments and electronic equipment.

In South Asia, Sri Lanka has the second highest per capita income (\$600), and it enjoyed a robust 7 percent GDP growth until the outbreak of the civil war in 1983. While Sri Lanka has always maintained a dynamic economic linkage with extra regional countries, its interregional trade has never been impressive. It defies all economic logic that Sri Lanka imports railway coaches from Romania when better quality coaches are available at a much cheaper price in the Indian state of Madras, only a short distance away. Similarly, in cement and shipbuilding, Sri Lanka can stand to gain by trading with Pakistan and India rather than South Korea. Recently, Sri Lanka's exports to the developed countries have declined because of the adverse terms of trade and increase in protectionism in the United States, Japan, and Western Europe. With the protracted civil war Sri Lanka has also been losing foreign direct investment. It is not surprising that since 1992 Sri Lanka has consistently advocated improving interregional trade through the framework of SAARC.

India

India's size, population, and strategic location give it a prominent voice in international affairs, and its growing industrial base, military strength, and scientific and technical capacity endow it with added weight. It collaborates closely with other developing countries on issues from trade to environmental protection. The end of the Cold War dramatically affected Indian foreign policy. India remains a leader of the developing world and the Non-Aligned Movement (NAM), and hosted the NAM Heads of State Summit in 1997. India is now also seeking to strengthen its political and commercial ties with the United States, Japan, the European Union, Iran, China, and the Association of Southeast Asian Nations. India is an active member of the SAARC. Except for the Maldives and Bhutan, India has bilateral disputes with all her neighbours. However, with the establishment of a democratic government in Nepal and withdrawal of India's peacekeeping forces from Sri Lanka in 1990, India's bilateral relations with these two countries have improved considerably. But India's relations with Bangladesh have not improved despite the resolution of the Tin Bigha controversy. The disputes over Chakma refugee

problems and the Farakka issue on the sharing of the Ganges water continue to adversely affect Indo-Bangladesh relations.⁵

The most crucial and serious problem that divides South Asia is the Indo-Pakistan conflict. Since independence, the relationship between India and Pakistan has shown a unique pattern of dualism: while the official relations are based on a zero-sum mentality and the classic “security dilemma,”⁶ ordinary people across the border continue to recall past contacts with nostalgia and are eager to maintain a close relationship with each other.⁷ However, over the years the official mistrust has dominated Indo-Pakistan relations. Since independence, the two countries have fought three wars, two of which were over Kashmir 1948 and 1965 and one on the Bangladesh issue in 1971. Much of the Indo-Pakistan conflicts can be attributed to the following factors: (1) structural imbalances between the two countries; (2) India’s desire to maintain a hierarchical regional order and Pakistan’s opposition to this design as well as its effort to achieve parity with India through building up military and economic power; (3) divergent political systems as for most of its history Pakistan has been ruled by the military while India has been a functioning democracy since independence; (4) Pakistan’s emphasis on Islam as the basis of the state as opposed to India’s secularism; and (5) scapegoating and blaming the external enemy, often the neighbour by the ruling elites of India and Pakistan in order to ensure their political survival and vested interests.

Two aspects of India’s foreign policy based on its national interest are often misunderstood by its South Asian neighbours and especially by Pakistan. First, India is concerned about its autonomous status in the region. Autonomy for India requires that the whole South Asian region be free of outside influences. Thus, India has always opposed outside intervention or roles in South Asian affairs. Second, contrary to her neighbour’s perception,

5 See S. Ghosh Partha, *Cooperation and Conflict in South Asia* (New Delhi: Manohar Publications, 1989), pp.73-95.

6 See Buzan Barry and Gowher Rizvi, *South Asian Insecurity and the Great Powers*, Houndsmill and London: Macmillan Press, 1986, p.8; for useful discussions of the security dilemma in the South Asian context.

7 See Ramesh Thakur, “India After Nonalignment,” *Foreign Affairs*, Vol.71, No.2, 1992, pp.168-69.

India has a vital interest in the territorial integrity, sovereignty, and independence of all South Asian countries. India expects that South Asian countries should also respect India's unity and territorial integrity. Thus, it is not surprising to see that the Indian policy makers seek the status quo and consider Pakistan as the irredentist power in the Kashmir dispute.

During the cold war era, external military and economic support from USA and USSR. was one of the important factors that made the ruling elites of India and Pakistan less willing to accommodate each other. The end of the cold war provides new opportunities and challenges for India to re-examine her regional policy options. The continuing improvements of Indo-US relations as noticed by growing economic and security cooperation between these two countries may change the perception of the Indian policy makers about the role of the United States in the region. With the cooperation of the United States, it now appears possible to create a South Asian regional security structure in which India can play a greater role in maintaining regional stability and order.⁸ It is possible that the Indian policy makers, more confident of their responsibility in maintaining South Asian stability, may seek to sort out their differences with the neighbours by undertaking regional negotiations. After the disintegration of the Soviet Union, China considered South Asia of less strategic concern. As a result, China might not be as worried about India as a client of the Soviet Union as of now the United States of America after the 1990s. This new post-cold war development will certainly have serious impact on Pak-Sino-Indian relations, which has been showing the drastic policy shifts in the region since 9/11. Besides, China's generally low profile on the nuclear non-proliferation issue in South Asia and her open support after 1990 for bilateral negotiations between India and Pakistan on the Kashmir issue may lead to a change in Indian perception of any Sino-Pakistani design against India and might persuade India to be more flexible toward its neighbours on regional issues.

Does Post-9/11 change in Indian policy mean that India will be more inclined to play a much greater role and take bolder

8 See Mohammed Ayoob, "Dateline India: The Deepening Crisis," *Foreign Policy*, No.85, Winter 1991-92, p.184.

initiatives in order to make SAARC more effective and visible? Indian policy makers are aware of the fact that any bold initiatives or a greater role by India in SAARC will strengthen South Asian neighbours perception of Indian hegemonism and thereby jeopardize prospects for further regional cooperation. On the other hand, India's lack of initiatives may be interpreted as lack of sincerity for SAARC. As India's support is crucial for the growth of SAARC, India needs to take moderate policy initiatives with respect to SAARC activities and pursue accommodative diplomacy more vigorously to inspire confidence in her neighbours.

Adoption of such a policy by India is more likely in the changing economic and political environment at both the regional and global levels in the post-cold war era. The earlier thinking of New Delhi that India is unlikely to get any substantial benefits from any SAARC economic arrangements appears to be changing. India's policy makers have now realized that it is in India's interest to promote interregional trade. The success of India's economic liberalization will largely depend upon her ability to increase exports to new markets both in the developed and developing countries. Until recently, India has achieved only restricted access to the markets of Japan, North America, and Western Europe due to these countries protectionist policies and various kinds of non-tariff barriers against Indian products. Additionally, with the collapse of the Soviet Union and the gradual incorporation of Eastern Europe into the Western European economies, India has lost two of her privileged market links. Recently, India's association with ASEAN, active interest in joining the Asia-Pacific Economic Cooperation, and Indian Ocean-rim economic cooperation are indicative of her desire to expand market links. However, although India will continue to explore markets in other regions, she can no longer ignore her own base in South Asia where she enjoys a comparative advantage in almost every economic sector. Not surprisingly, India has recently shown renewed interest in promoting interregional trade through the framework of SAPTA.⁹

9 For a discussion, see Gowher Rizvi, *South Asia in a Changing International Order* (New Delhi: Sage Publications), pp.159-62.

At the political level, Indian policy makers are not only concerned with the loss of the Soviet Union as an ally, but are also sensitive to the declining relevance of the Non-Aligned Movement and a gradual slipping of leadership from India's hands to Indonesia in G-15 meetings. Doubtless, India's ambition of a global leadership role has received a setback by these developments. Indian leaders know well that the smooth operation of SAARC will provide them the opportunity to convince the world about their ability to pull South Asian countries together. By demonstrating such leadership in SAARC they can hope to recapture some of India's lost prestige in the international arena. Moreover, to the extent that Indian political leaders perceive that the existence of SAARC can ensure the status quo in South Asia leading to political stability in the region and future improvements of India's bilateral relations with its neighbours, one would expect a validation and strengthening of New Delhi's commitment to SAARC. Indeed, India's decision not to react negatively to Pakistan's reference to the contentious issue of the demolition of the Babri Mosque in Ayodhya at the Seventh SAARC Summit in Dhaka and the Kashmir issue at the Eighth SAARC Summit in New Delhi and Gujrat Kand in Twelfth SAARC Summit in Islamabad indicates India's growing interest in regional cooperation in South Asia.

Pakistan

In addition to India, Pakistan's initiatives and active role is also imperative for the growth of regionalism in South Asia. Unfortunately, while Pakistan has shown great enthusiasm and taken many initiatives for the growth of the Economic Cooperation Organization (ECO) it has shown only a modest interest in the growth of SAARC. The bilateral dispute with India mainly on Kashmir and the perception that the strengthening of SAARC will lead to the consolidation of India's dominance in the region appear to be the main reasons for Pakistan's lack of enthusiasm for the growth of SAARC. It is important to note that except for India, Pakistan has cordial relations with all South Asian countries.

Since independence, Pakistan's regional policy has revolved around two objectives: (1) liberation of Kashmir to prove the

validity of the Two-Nation Theory, and (2) to achieve balance of power vis-à-vis India. In order to accomplish these two objectives, Pakistan has always sought its nuclear and ideological power to challenge India's predominance in South Asia. During the cold war era, Pakistan became a member of two United States-sponsored security pacts, the South-East Asian Treaty Organization (SEATO) and Central Treaty Organization (CENTO) to ensure American support in case of any military confrontation with India. From 1950 to 1970, despite two wars on Kashmir Pakistan was largely successful in offsetting India's ambition of predominance in the region. However, the emergence of Bangladesh as an independent state in 1971, largely with India's intervention, changed the structural dynamics of power in South Asia. First, it affected Pakistan's structural strength, and second, it made the basis of its ideological creation questionable in South Asian politics. But Pakistan was not prepared to give up its objectives. After 1971, Pakistan became increasingly dependent on the Gulf States, China, and the United States for military and economic support, and vigorously pursued its Kashmir liberation policy. Although the Simla Agreement of 1972 created an opportunity for both India and Pakistan to resolve their disputes on Kashmir, India subsequently violated the stipulation of the agreement and UN resolutions on the issue. Kashmir, doubtlessly, remains the major bone of contention between Pakistan and India. Unless it is resolved Pakistan's participation in the growth of regional cooperation in South Asia is likely to remain limited.

The end of the cold war offered new challenges for a re-evaluation of Indo-Pakistan foreign policies. Since the 1990s, India received more support from Washington as a result of a shift in the policy of the United States toward South Asia. With a decline in American interest and support, Pakistan looked toward the Gulf States and Central Asia for both economic and diplomatic support. But the ongoing US led War on Terrorism and Iraq and the strategic support of Pakistan as Non-NATO ally to US will inevitably decide Pakistan's options at least for some time to come. Besides, India, Pakistan's efforts to cope with the problems of Kashmir, econo-political stability, rising ethnic conflicts and drug trafficking are not likely to succeed without mutual sincere

cooperation for regional as well as international peace and prosperity.

Like India, Pakistan also needs new markets for its exports. But so far, Pakistan has achieved only limited access to the markets of Japan, North America, and Western Europe because of these countries' protectionist policies. As a result, Pakistan has taken initiatives to form, in February 1992, the Economic Cooperation Organization (ECO), to boost its exports and improve intra-regional trade with the Central Asian republics. Its members are: Pakistan, Iran, Turkey, and the newly independent Central Asian republics of Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan, and Kirghiztan. The primary objective of this organization is to facilitate trade and other economic cooperation among the member countries. But Pakistan's efforts to seek new markets in the Central Asian republics are likely to achieve limited success, given the competition of the developed countries to capture these markets. In meeting the needs of the Central Asian republics Pakistan's capital and technology are no match to what Western Europe, the United States, Japan, and even Russia have to offer. Growing recession in the Gulf countries has put further limitation on Pakistan's exports to these markets. Consequently, Pakistan can no longer ignore South Asian markets, where, next to India, she enjoys some comparative advantage.

Besides increasing exports, Pakistan has to reduce its budget deficits to GDP ratio from the current 8-10 percent range to the 4-5 percent range in order to succeed in its liberalization efforts. Substantial reduction in defence expenditure and reallocation of scarce resources in the development sectors are prerequisites to accomplish this objective. Additionally, Pakistan will have to compete with India and other South Asian countries as well as Eastern Europe and the former Soviet Union to attract official development assistance (ODA) and private investment. The Pakistani policy makers are well aware of the fact that an environment of regional confrontation will only deter the investors, which will be detrimental to Pakistan's interest. Given these circumstances, Pakistan's interest will be better served by the growth of regional cooperation in South Asia.

Table 1. Characteristics of SAARC Member States

Country	Area (sq. mile)	GDP (USD mill.) 2000	Population (mill.) 2001	GDP per capita (PPP, USD) 2000	HDI Value
Bangladesh	56,977	47,106	140.37	1,602	0.478
Bhutan	18,150	482*	2.09*	1,412	0.494
India	1,222,243	456,970	1,017.54	2,358	0.577
Maldives	115	561*	0.28	4,485	0.743
Nepal	53,827	5,497	23.59	1,327	0.490
Pakistan	307,374	61,638	144.97	1,928	0.499
Sri Lanka	25,332	6,305	19.10	3,530	0.741
SAARC	1,684,014	578,559	1,347.94

Source: Human Development Index (HDI) from United Nations, Human Development Report 2002: New York.

Economic Indicators and Implications of SAARC

There is no doubt that regional economic integration has been a roaring success in many parts of the world. The European Union is perhaps the most striking example. On the one hand, through a gradual process of convergence in virtually all economic spheres, and the lifting of barriers on the movement of goods and services, the countries of Europe have been able to, over time, generate greater economic success than would have been possible had each nation crafted its own economic policy in isolation. On the other hand, by providing elites within each country a stake in stability, the process of integration contributed to the process of marginalization of conflicts that had endured over centuries. In sum, the process of integration helped create peace and prosperity. Less effectively, but as significantly, regional economic organizations in southeast Asia, Latin America and North America have been effective in promoting intra-regional trade and external competitiveness. However, SAARC has been a dismal failure. It has little to show by way of success, especially on the economic front. Intra-SAARC trade is pathetic, at less than 5 percent, and prospects for the future remain bleak. In 1997, an eminent persons group set up by SAARC heads of government recommended an ambitious plan to put economic integration on a fast track, and put forward a time line to achieve a free trade area in the region. The

leaders of SAARC countries have not even considered the report seriously, although there is some prospect of it being discussed at Kathmandu. Clearly, there are two reasons for this lack of progress. The India-Pakistan conflict has acted as the biggest hurdle.

The volume of legal interregional trade in South Asia has been quite insignificant, resulting in a limited interdependence among South Asian countries. From 1980 to 1994, interregional trade among SAARC countries, as compared to their world trade, has remained low and stagnant at little over 3 percent. During 1980-1994, interregional exports of the SAARC countries in relation to their global exports showed a declining trend from about 5 percent in 1980 to less than 4 percent in 1994. During the same period, interregional imports hardly exceeded 3.5 percent of the global imports of South Asian countries.

From 1980-1994, except for the Maldives and Nepal, the interregional imports and exports of all SAARC countries have remained very low. Although the interregional imports of Bangladesh and Sri Lanka have shown some improvement, their legal exports to the region have declined during this period. The extremely low level of interregional imports and the exports of India and Pakistan during this period indicate how little these two relatively developed economies in South Asia depend on the region's markets.

Those SAARC countries which have the necessary experience, expertise, technology, and capital to invest and set up joint ventures in the region can be appropriately scaled down to local conditions and may be less demanding of scarce capital and foreign exchange resources. Despite this fact, not much investment has taken place in the region because of political conflicts and a general suspicion of India's intentions.

Table 2. Regional Trade Patterns

Country	Intra – SAARC Openness	Trade
Bangladesh	7.8%	31.78%
Bhutan
India	2.5%	21.26%
Maldives	...	80.28%
Nepal	31.3%	44.46%

Pakistan	2.5%	31.41%
Sri Lanka	6.4%	73.01%
SAARC	3.8%	25.89%

Source: World Bank, *World Development Indicators 2002*
(Washington, DC, 2002).

In brief, the interregional investment and trade among South Asian countries is quite modest, and has remained stagnant over the years. Consequently, the interdependence among these countries is quite limited. Four factors can be mentioned here to explain the limited interregional trade among South Asian countries. First, most of South Asian countries, being primary producers, tend to export similar items and thus compete with each other. Second, South Asian countries, with the exception of Sri Lanka, have a high rate of tariff and non-tariff barriers, which is the most important constraining factor for the expansion of interregional trade. Third, lack of adequate transport and information links among South Asian countries poses serious problems for the expansion of interregional trade. Finally, political differences and a lack of willingness to create trade complementarities among the leaders of South Asian countries contribute to the current low level of interregional trade.

The above constraining factors notwithstanding, specific trade complementarities can be created in order to foster greater interregional trade in South Asia. The Committee on Studies for Cooperation in Development in South Asia (CSCD) has identified as many as 110 items for interregional exports and 113 items for interregional imports in South Asia. However, promising prospects for immediate intra-SAARC trade expansion exist in such products as tea and coffee, cotton and textiles, natural rubber, light engineering goods, iron and steel, medical equipment, pharmaceuticals, and agro-chemicals.¹⁰

SAARC Water Resources

The enormous water resources of the Himalayas offer a great potential for the growth of regional interdependence. Since the

10 See W.R.H. Perera, *Perspective for the Development of Himalayan Resources* (Colombo: Marga Institute, 1984), pp.22-26.

Himalayan rivers flow through Bangladesh, Bhutan, India, Nepal and Pakistan, close cooperation is necessary among these countries to harness the Himalayan water resources for flood prevention and management of water flow, development of an inland navigation system, developing ecological watersheds and reforestation programmes, and controlling river pollution. It is estimated that the Himalayan rivers flowing through Nepal have a hydropower potential of 83,000 megawatts, while in India, Bangladesh and Pakistan the estimated hydropower potential is about 70,000 megawatts, 1,772 megawatts, and 21,000 megawatts respectively. It is encouraging to note that in Bhutan, another country of enormous hydropower potential, the Chukha hydroelectric project was recently completed with India's assistance. Besides Bhutan and India, the project has the potential to benefit Bangladesh, Nepal, and Pakistan. Similarly, through cooperation between India, Nepal, Pakistan and Bangladesh, it is possible to develop hydropower projects that will provide a great relief to the energy crisis in this region.

There are other compelling economic reasons to suggest that it is in the interest of South Asian countries to promote interregional trade and economic cooperation. Direct trade in such products as steel and aluminium, textile machinery, chemical products, and dry fruits currently being diverted through third countries will benefit both India and Pakistan quite substantially in terms of price, quality, and time.¹¹ Besides, many goods being imported at high cost from other countries can be made available within the regional trade. The SAARC countries may prove more able to save their hard-earned foreign currencies through mutual trade.

The recent economic reforms in Pakistan and India will doubtlessly, provide these two countries an opportunity to diversify their exports and make manufacturing products more competitive. But the success of their economic liberalization will essentially depend upon their ability to find new markets both in the developed and developing countries. Two developments in the international environment make the prospects of South Asian

11 *Report on the Study on Regional Economic Cooperation among SAARC countries by the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Institute of Economic Growth (New Delhi: 1995).*

exports to new market less promising. First, the world economy experienced weak growth in the 1990s and the major industrialized countries grew more slowly than in the 1980s. Thus, it will be difficult for South Asian countries to expand exports rapidly. Second, with the formation of regional economic blocs and growing protectionism in both the developed and developing regions, South Asian countries may find it difficult to gain access to these markets.

Recent developments in the world politics after 9/11 and in the aftermath of the US led War on Terrorism have exercised adverse impacts on the global as well as South Asian economies. The immediate impact has been on trade. The trade trends are changing with recent global and regional developments. The trend is likely to continue. The longer-term impact is likely to be on the official development assistance (ODA) to South Asia. As some major studies have indicated, the former Soviet Union and Eastern Europe are likely to receive a major share of ODA from the donor countries in the coming years. Additional demands for ODA will come from the poorer republics of the former Soviet Union in the near future. Given the slower economic growth in the industrialized countries compared to past performance and tighter supplies of such funds from the traditional donors, these additional demands certainly contributed to a reduction of ODA to South Asia in the 1990s. Besides, the expectation of South Asian countries for an increase in foreign direct investment may not materialize until they are able to create a stable political climate in the region.

Thus, both the international climate and domestic needs press for expanding regional cooperation in South Asia. It is often argued that if South Asian countries are able to increase their interregional trade from the current level of 3 percent to 6 or 7 percent over a decade, set up some regional joint ventures, and share the available technology in the region, there will be considerable improvement in the region's interdependence and economy. Gradually, the policy makers of South Asian countries seem to realize this. The ratification of SAFTA by all SAARC members is a beginning in the direction of promoting interregional interdependence.

Implications in Cooperation

Any realistic assessment of the prospects for the growth of economic cooperation and interdependence in South Asia must have to address several of the following issues. The first issue pertains to the role of the state in promoting regional cooperation in South Asia. Given limited political contacts and mutual security concerns arising out of a typical security complex¹² in South Asia, as the primary security concerns are so deeply intertwined that one nation's security in South Asia cannot be considered apart from other. The heart of this complex is an acute rivalry between India and Pakistan. Other less powerful states, such as Bangladesh, Bhutan, Nepal, Maldives and Sri Lanka are bound into the complex for geographical reasons.

A state-directed approach to economic cooperation is better suited to this region. South Asian states may be weak and imperfect, but certainly not irrelevant in initiating or guiding regional cooperation policies and promoting economic interdependence in the region. Given the limited development of trans-national market forces in South Asia, any prospect of the growth of regional economic cooperation driven exclusively by the market forces appears bleak. Besides, if regional economic cooperation is left to market forces alone, it would take decades. Therefore, conscious efforts at the political level and demonstration of political will by South Asian leaders are absolutely necessary for the growth of regional economic cooperation in South Asia.

The second issue concerns the development of a pragmatic economic interdependence in South Asia. Three points merit attention here. (1) Given the extensive heterogeneity in levels of economic development of South Asian countries how can they proceed to achieve economic interdependence? Clearly, the approach should be gradual and based on the economic capability of each state. In this context, the recent approach of operationalizing SAFTA appears promising. India, being the

12 See Barry Buzan, *People, States, and Fear: The National Security Problem in International Relations* (Chapel Hill: University of North Carolina Press, 1983), p.106.

largest economy in the region, has agreed to offer tariff reduction on the import of 106 items from South Asian region. Pakistan has offered tariff reduction on 35 items, Sri Lanka on 31 items, the Maldives 17, Nepal 14, Bangladesh 12, and Bhutan 7. The list of items is expected to be expanded in due course as the market space in each country increases and political confidence grows among South Asian countries. (2) Regional cooperation should not replace, but only complement the existing bilateral trade and economic transactions between South Asian countries. (3) The growing interest in operationalizing SAFTA as a prelude to the creation of a South Asian Free Trade Area should not obscure the importance of the extra-regional and global economic cooperation that most of South Asian countries are currently engaged in. For instance, it would be detrimental to the economic interest of Pakistan, India, and Sri Lanka if they do not seek access to the markets in Central Asia, Southeast Asia, the Gulf region, and the OECD countries. The key to the development of a pragmatic strategy to increase economic interdependence among South Asian countries is to promote interregional trade by lowering tariffs without declining from extra-regional and global economic relations.

Third, setting pompous goals for interregional trade is likely to be counterproductive. Instead, over the next ten to fifteen years, SAARC countries should pursue modest trade objectives and seek joint development projects of modest scale. In this context, the SAARC countries should negotiate with the United Nations Development Programme (UNDP) and Asian Development Bank (ADB) for the development of joint projects. Some innovative approaches such as the ADB's vision of growth triangles merit serious attention. Development of joint projects with the assistance of ADB in smaller states can create new opportunities and help establishing linkages with other regions. If promising economic opportunities exist, with respective governments' support extensive economic cooperation will be possible by other states of the SAARC countries.

Fourth, conservation of the natural resource base should constitute an integral part of any economic development strategy. For decades, South Asian countries have suffered from the degradation of the natural resource base and environmental

pollution because of their overuse and often misuse of the natural resources. Efficient use of the natural resource base and environmental conservation should be given utmost priority by South Asian countries to meet their growing needs of energy and to alleviate the health risks to their population. Given the integrated environment of South Asia it is essential for the SAARC countries to collectively think of strategies for environmental conservation. This will require policy coordination at the governmental as well as grassroots levels. Passage of environmental legislation and its strict enforcement, dissemination of a wide range of environmental education, and involvement of women in environmental protection programmes can go a long way toward the conservation of the environment in South Asia.

Finally, it is necessary to provide financial support to regional projects in South Asia through South Asian Development Fund (SDF) in addition to the existing multilateral institutions such as the ADB and the World Bank. Besides undertaking large regional infrastructure and environmental programmes, SDF can focus on poverty-alleviation programmes, provide lending to a comprehensive human resources development programme, finance joint ventures, support interregional and extra-regional trade by arranging finance for export credit and commodity stabilization, and support the existing regional institutions. Resources for the SDF may come from contributions of SAARC countries as well as from external sources. The SAARC countries can persuade the United States, Japan, Germany, OPEC countries, the Nordic group, and other donor countries to contribute some percentage of their ODA to the SDF. Needless to say, a successful SDF will be able to provide the much-needed economic support to regional projects and thereby strengthen interdependence among South Asian countries. Fundamental changes in global economic order are taking place. The pace at which these changes are taking place is also increasing. The impact of these changes is far reaching and shall affect every aspect of human life in every corner of the world. International Trade shall also undergo change. Trade barriers are being removed. Subsidies are likely to be phased out. Intra-regional economies are developing whereby intra-trade will grow. From global trade point of view, national boundaries shall become

more absorbent. The centres of gravity of certain economic activities will shift from developed nations to developing nations. With the removal of trade barriers and overall development of global economy, the volume of two-way trade may show significant increase. Developing nations, instead of remaining agricultural and industrial raw material providing economies would strive to develop industrially. Developing but large economies like China and India would not only play a crucial role in their own economic development but would also play larger role in International Trade particularly in agriculture and traditional industrial sector. Geo-economic interests in a region will play greater role in trade. This would result in sharing of more goods and services by the neighbouring countries than what it was in the past. This would lead to emergence of regional/sub-regional economic powers, which would influence the flow of goods and services in the intra and inter region/sub-region. Competition and cooperation will co-exist. There will be continual regrouping of trade blocks on the one hand and under current of non-tariff barriers on the other. Complexities will grow but so will the opportunities. The influence of SAARC in the regional economy would extend to the whole South East Asia and may be Middle East and East Africa. Keeping in view the rapid changes taking place in the world SAARC must rise up to cope the challenges of 21st Century.

SAFTA and Ahead

SAARC is well reputed for limited achievements on core issues. The fact that South Asia Free Trade Area (SAFTA) agreement was signed at the 12th SAARC Summit in January 2004 is in itself an achievement. SAFTA was long overdue, the turbulent South Asian Regional politics having often delayed its finalization.

Whether regional trade is the best available option for South Asia has been a subject of debate since the mid-1990s. Critics of promoting regional trade in South Asia via preference have argued that South Asia would be better off focusing on trade with the rest of the world, in particular, EU and USA. A recent report released by the World Bank (2003) argues: 'Because many tariffs in the region are very high, especially in India and Bangladesh, there are

large potential trade diversion costs for the region as a whole if the various preferential trade agreements were ever to be seriously implemented. The consequent reduction in economic welfare would show up principally in reduced customs revenue and terms-of-trade losses. It is unlikely that benefits through increased competition; economies of scale, or improved operating efficiency of import competing firms would outweigh these overall economic costs. There are much larger gains for increased trade with the rest of the world (ROW), especially trade with the developed countries and with more advanced developing countries in South East Asia, including China. This is because South Asian countries have a comparative advantage in relations to ROW in similar, mostly labour intensive products, and the volume of trade and the economic benefits from trading these products among themselves are limited by comparison.

On the other hand, the exact intra-regional trade is estimated between 8-10 percent. Although studies have shown that there are limited complementarities in the SAARC region, it is argued that this was as also the case in ASEAN during the mid-1970s, and that dormant complementarities in the region could be invigorated by intra-regional investment and FDI. They also argue the cost of non-cooperation to be quite high. The debate is far from settled. Irrespective of the debate, there is a general belief that regional cooperation in South Asia should not be viewed only from the trade perspective, and that there are many gains from regionalism in other areas.

The past decade has seen the emergence of a number of regional trading blocs in different parts of the world and data shows that nearly 60 percent of world trade is now conducted on preferential basis. The countries that are not part of a trade bloc face the risk of discrimination for their exports and loss of competitiveness. Thus in the light of global trends, irrespective of the pros and cons of the academic debate, South Asia has been pushed to adopt regional economic integration. Promoting intra-regional trade in SAARC, is a part of a large package of economic cooperation and SAFTA may prove a part and parcel of South Asian Economic Cooperation.

However, the movement to SAFTA is taking place in an environment where: (a) the precursor to SAFTA, i.e., the four rounds of SAPTA have failed to show concrete results, (b) several bilateral FTAs are well entrenched in South Asian trading system, and (c) South Asian tariffs are already coming down under the World Bank / IMF structural adjustment programme. The third factor in effect is automatically reducing the preferential margins. Moreover, there are a number of shortcomings. This shows that most of the research work that was done by the SAARC think tanks has not been fed in effectively to the SAARC official process.

To some, given this situation, not much can be expected from SAFTA. The initial euphoria that comes with the signing of the SAFTA agreement will soon taper away. The realities and the geopolitics of the region will once again determine the pace of negotiation in SAFTA. By that time, the bilateral FTAs would have delivered most of the result for the smaller South Asian countries and SAFTA will prove an agreement mainly to promote India-Pakistan trade.

Post-9/11 Developments and SAARC

In the aftermath of the 9/11 attacks, a paradigmatic shift in the global agenda has resulted in the primacy of the security agenda influencing the shaping of economic decisions. The subjugation of economics to security issues as was seen during the Cold War period, has both reversed the existing trends of economic growth, as well as set new trends into motion. The changes, with their future implications may affect the regional economic integrations.

In the aftermath of 9/11, slower world growth, reduced international private investment flows, and resources being diverted from development assistance to other priorities were considered as the prime issue that would most likely impact on poverty reduction agendas — one of the hottest development issues being addressed by the global development and financial institutions. The poverty reduction agenda has already been affected drastically, as far as the first two factors are concerned.

Meanwhile, new approaches have emerged in the aftermath of 9/11, which see a positive linkage between poverty and terrorism. According to this view, terrorism breeds on the grounds of poverty.

It was stressed at the UN Development Summit at Monterrey in March 2002, when Mike Moore, the Director General, WTO described poverty as the greatest single threat to peace, democracy, human rights and environment', even though the suicide hijackers of the 9/11 attacks were from privileged backgrounds. Other multilateral institutes like the IMF, World Bank and the UN have equally shared these views. The UN Secretary General Kofi Annan stated at the same conference, 'we live in one world, not two, No one in this world can feel comfortable, or safe, while so many are suffering and deprived.'¹³ President Bush reiterated the similar view saying, 'we fight poverty because hope is an answer to terrorism'.¹⁴

Currently, as regards important development in South Asia, the regional and international community's focus is on the process of rapprochement between Pakistan and India. After a deadlock of more than ten months, and massive military deployments along India-Pakistan border, from December 2001 to October 2002, the tense situation was finally defused by December 2002 after the withdrawal of massive military deployments along India-Pakistan border. The process of rapprochement towards the normalization of relations between India and Pakistan began in April 2003, when former Indian Prime Minister Vajpayee during his speech in Srinagar extended the 'hand of friendship' towards Pakistan. Since then, moving cautiously, both India and Pakistan, took steps to improve relations between the two countries, such as, through the appointment of High Commissioners; exchange of prisoners; resumption of New Delhi-Lahore bus service (resumed in July 2003 after a break of one and half years); ceasefire along the Line of Control (LoC)-(declared by Pakistan in November 2003); ceasefire along Actual Ground Position Line (AGPL) in Siachen (declared by India in November 2003); and resumption of air links and over flights (in January 2004, before the Twelfth SAARC Summit).

However, it was after the successful SAARC Summit held in Islamabad in January 2004, including the informal meetings

13 *The International Herald Tribune*, May 8, 2002.

14 *Ibid.*, President Bush's Address at the UN Summit on Financing for Development, March, 2002.

between the two Prime Ministers of Pakistan and India and also the meeting between Prime Minister Vajpayee and President Musharraf, held on January 6, 2004, that both sides agreed to resume the composite dialogue process. In the joint statement, issued at the end of the President Musharraf-Prime Minister Vajpayee meeting, both leaders emphasized that ‘constructive dialogue would promote progress towards the common objective of peace, security and economic development for our peoples and for future generations’.

With the change of government in India in May 2004, after the Lok Sabha elections, there were concerns regarding the continuity of the peace process between India and Pakistan. On May 14, 2004, while congratulating Ms. Sonia Gandhi, leader of Congress (I), on winning elections Mr. Boucher, US State Department spokesman, commented on the future prospects of the India-Pakistan peace process and said that Washington would keep encouraging the two countries to settle their differences through dialogue. While talking to reporters in Beijing, senior official of the Chinese Foreign Ministry, Liu Jianchao said ‘We hope both Pakistan and India would maintain the momentum of improving their relations.’ Speaking at the Pakistan Institute of International Affairs in Karachi, on May 13, 2004, the Ambassador and Head of the European Commission in Pakistan, Mr. Ilka Usitalo, referring to the dialogue process said, ‘We very much hope that the surprise results announced today after elections in India would not derail the process’.¹⁵ Secretary of State, Colin Powell, in an interview published on May 28, 2004, expressed the hope that “the new government in India would continue with framework of peace process between India and Pakistan.”¹⁶ It was in this context that during the initial days, after coming to power of Congress (I)-led government in India, there were concerns in Pakistan, and at the regional and international levels, regarding the continuity of the composite dialogue process between India and Pakistan. However, in view of Pakistan’s support for the continuation of the dialogue process and also the international community’s concern and focus on the dialogue process, that the Congress government expressed

15 *The Hindu*, May 27, 2004.

16 *The Washington Post*, May 28, 2004.

its willingness to carry forward the agreed dialogue process. Mr. Natwar Singh, during his first news conference in New Delhi, on June 1, 2004, in an attempt to reverse his earlier image said, "The future of Indo-Pak relationship no longer lies in the past. We cannot forget the past but neither we can be prisoner of the past."¹⁷ He also announced the new dates for the talks on nuclear CBMs and the foreign secretary levels talks. Therefore, after some rescheduling of dates, which was understandable, as the new government needed time, the Congress government adopted the policy of continuing dialogue with Pakistan. The first phase of the composite dialogue process was completed in August 2004.

There has been some progress as regards people-to-people contact and the level of diplomatic relations between the two countries, such as decisions to liberalize visa facility on both sides, release of civilian prisoners, restoring of the strength of High Commissions in each country, and establishing of hot line between the Foreign Secretaries of the two countries. For the first time, in July 2004, group of Pakistani scouts visited Srinagar to participate in the SAARC integration camp held in Gulmarge, near Srinagar.

Both sides have expressed support for continuing the dialogue process, however, as regard the specific issues between India and Pakistan, keeping in view their respective national interests, still there is no substantial change in the official positions. Therefore, progress in the case of issues such as, Jammu and Kashmir, and Siachen, Wullar Barrage, Sir Creek, are presently not substantive, though the dialogue process would and must continue. However, the important point to note is that both sides have expressed satisfaction over the developments during the first phase and their resolve to continue the process as well. Pakistan's Foreign Office spokesman, Masood Khan, on August 12, 2004, said, 'it is a matter of satisfaction that in accordance with the agreed schedule between the two countries all the eight agenda items have been covered in the composite dialogue'.¹⁸ On August 14, 2004, in a speech on the eve of India's Independence day, Indian President A.P.J. Abdul Kalam, said, 'I note with satisfaction of our continuing efforts

17 *The Times of India*, June 2, 2004.

18 *Dawn*, August 13, 2004.

towards good neighbourly relations, particularly the sustained progress of the peace process between India and Pakistan.¹⁹

Conclusion

Given the low level of mutual trust, serious effects of the ethnic and religious conflicts and the magnitude of bilateral disputes in South Asia, it may be unrealistic to believe that any substantial growth of regional cooperation is possible in the near future without easing political tensions. To the extent that political tensions remain unresolved, SAARC is likely to experience only a stop-and-go pattern of growth in which limited pragmatic cooperation on specific techno-economic issues may be possible over a period of time. Like the post-1990s period, there appears to be some realization among South Asian leaders that the future of SAARC, like any other regional grouping, lies in concentrating on economic cooperation in specific areas. The SAARC leaders renewed emphasis on increasing interregional trade at SAARC summit meetings and the recent ratifications to operate SAFTA in future are evidence of their growing willingness to enhance regional economic cooperation in South Asia. But how soon and to what extent they are going to achieve success remains unclear. Political and security problems, vested political interests, hostile public images and history, weak democratic institutions and policy making impede development of the SAARC. An integrated sustainable regional cooperation may be evolved through resolution of all outstanding issues in an amicable way and democratisation of societies to establish strong and good governance.

Pakistan's strategic importance is undeniable, and in the current US led War on Terrorism it has a critical role as an exemplar of moderate Islam. India has also to realize that SAARC has remained stunted for the last 20 years as an association of seven states. Member countries other than Pakistan and India feel that SAARC is largely an arena for the two contending Asian states and the problems of others find small expression and lesser attention there. Such despair should not be there in the small countries of the SAARC. India and Pakistan are now nuclear-armed powers and hence a war is suicidal for them

19 *The Hindu*, August 17, 2004.

and the region as a whole. Even without the nuclear dimension the world now finds war abhorrent. Major states now seek economic power. The issue now is whether politics can be separated from economics in South Asia and economic cooperation enabled to flourish, keeping political disputes on the sidelines. It can be possible but it will be too bumpy a ride and one will never know when economics will become captive to political wrangles. Such stop-go arrangement is not good for steady economic cooperation. It is for India and Pakistan to take the lead in that direction and make other members feel more at home in the SAARC forum. "Today South Asia has no other option but to strive for regional cooperation, mutual peace and comprehensive security otherwise it would have to either learn to swim together or be prepared to sink together for being a nuclear flash-point".²⁰ "A country cannot change its neighbours" is a high change in Indian regional policy marked by Vajpayee.²¹ If India and Pakistan accept this reality the future of SAARC region may flourish.

20 Intiaz Alam, "Foreign Policy in a Changing World", *The News*, August, 26, 2003.

21 12th SAARC Summit, Islamabad, January 4-6, 2004.