CHAPTER – 5

SOUTH ASIAN ECONOMIC UNION IN THE MAKING;–SAARC-SAPTA-SAFTA

Status quo is never a permanent feature. Change is an on-going process. South Asian Economic Union can be the result of a positive thinking approach. An excellent debate has been initiated in this respect. It is hoped that this subject of vital importance will be discussed and debated at various levels namely Government, Private, and Public, NGOs institutional and even individual levels. Ideas need to be pooled. Experiences need to be shared. Dimensions of cooperation need to be identified and a framework needs to be evolved to serve as a basis for the proposed South Asian Economic Union.

The emergence of several trading blocs and economic groupings all over the world clearly indicates that the economic survival and prosperity of any nation in this increasingly competitive post-Cold War era crucially depends on its ability to successfully integrate with other economies. Despite some indications to the contrary, it would not be erroneous to state that the prospects as well as compulsions for enhancing regional cooperation in South Asia are tremendous. In fact, according to certain analysts of South Asian politics, there has been a growing realisation among South Asian states of the importance and necessity of constituting South Asia as a region and looking for solutions to the problems of resource and security management within a regional framework. Once such a path has been well and truly adopted, South Asia can indeed begin to hope for a more effective role in the post-Cold War

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global environment. In this context, it must also be remembered that without an integrated economic, technological, and military technology, none of the South Asian countries can ever hope to become significant global players.

The formation of the South Asian Association for Regional Cooperation (SAARC) in December 1985 was hailed as a major diplomatic breakthrough in South Asia. But SAARC's slow progress and modest achievements over the past decade have evoked different reactions among different people. To some, SAARC is merely a consulting group which can provide nothing more than a lip service to the various issues of peace and development in the region. To others, SAARC may not be a panacea to the region's problems, but its existence has certainly provided an opportunity for the policy makers, administrators, and experts to meet regularly and hold informal dialogues on important bilateral and regional issues. This practice of informalism and behind-the-scenes discussions among the political leaders on various SAARC forums has helped contain many difficult situations in the region and has contributed to the beginning of a confidence-building process in South Asia. 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) as early as possible have generated guarded optimism about the relevance of SAARC in promoting regional economic cooperation in South Asia.

Will economic interests drive the 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 will the South Asian countries be able to achieve economic interdependence?
The answer to these questions requires a thorough understanding of the domestic political and economic dynamics of the South Asian countries. Accordingly, this chapter has been organised into four main parts. First, it briefly discusses the origin and evolution of SAARC to provide an understanding of various internal and external influences on the creation of SAARC. Second, explain the various steps taken by SAARC for the expansion of regional cooperative activities in South Asia by further institutionalising SAARC. Third, examine the progress towards SAPTA in the region. Finally, road-map to SAFTA is analysed underlining the importance of the state in the growth of regional cooperation.

Current chapter focuses only on various stages of South Asian integration. Role of commercial diplomacy in South Asian integration and the possible lessons that can be drawn by South Asia in comparison to European Union are analysed in the succeeding chapter.

**Origin and Evolution of SAARC**

The first concrete proposal for establishing a framework for regional cooperation in South Asia was made by the late president of Bangladesh, Ziaur Rahman, on May 2, 1980. Prior to this, the idea of regional cooperation in South Asia was discussed in at least three conferences: the Asian Relations Conference in New Delhi in April 1947, the Baguio Conference in the Philippines in May 1950, and the Colombo Powers Conference in April 1954. Since 1977, the Bangladesh president seemed to have been

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3 Sisir Gupta, *India and Regional Integration in Asia*. Asia Publishing House, Bombay 1964, pp. 36 and 47
working on the idea of an ASEAN-like organization in South Asia. During his visit to India in December 1977, Ziaur Rahman discussed the issue of regional cooperation with the new Indian Prime Minister, Morarji Desai. In the inaugural speech to the Colombo Plan Consultative Committee, which met in Kathmandu in December 1977, King Birendra of Nepal gave a call for close regional cooperation among the South Asian countries in sharing river waters. The king's call was welcomed by President Ziaur Rahman during the former's visit to Bangladesh in January 1978. President Ziaur Rahman had also informally discussed the idea of regional cooperation with the leaders of the South Asian countries during the Commonwealth Summit in Lusaka (1979) and the Non-Aligned Summit in Havana (1979). Finally, the Bangladesh president seemed to have given a concrete shape to the proposal after his visit to Sri Lanka and discussion with the Sri Lankan president, J. R. Jayawardene, in November 1979.

Several factors seemed to have influenced President Ziaur Rahman's thinking about establishing a regional organization in South Asia during 1975-1979: (1) change in the political leadership in the South Asian countries and demonstration of accommodative diplomacy by the new leaders; (2) Ziaur Rahman's need for Indian support to legitimise his coup d'etat regime; (3) an acute balance of payment crisis of almost all the South Asian countries, which was further aggravated by the second oil crisis in 1979; (4) failure of the North-South dialogues, and increasing protectionism by the developed countries; (5) publication of an extremely useful background report

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by the Committee on Studies for Cooperation in Development in South Asia (CSCD), identifying many feasible areas of cooperation; (6) assurance of economic assistance for multilateral cooperative projects on sharing water resources of Ganga and Brahmaputra by United States President Jimmy Carter and British Prime Minister James Callaghan during their visit to India, Pakistan and Bangladesh in January 1978; and (7) the Soviet military intervention in Afghanistan in late December 1979 and the resulting rapid deterioration of the South Asian security situation. During this critical period, President Ziaur Rahman's initiative for establishing a regional organisation, which would permit the leaders of the South Asian countries an opportunity to improve their understanding of one another's problems and to deal with conflicts before they turn into crisis, became much more appealing.

While the Bangladesh proposal was promptly endorsed by Nepal, Sri Lanka, the Maldives and Bhutan, India and Pakistan were skeptical initially. India's main concern was the proposal's reference to the security matters in South Asia. Indian policy makers also feared that Ziaur Rahman's proposal for a regional organization might provide an opportunity for the small neighbours to regionalise all bilateral issues and to join with each other to "gang up" against India. Pakistan assumed that it might be an Indian strategy to organize the other South Asian countries against Pakistan and ensure a regional market for Indian products, thereby consolidating and further strengthening India's economic dominance in the region. However, after a series of quiet diplomatic consultations between the South Asian foreign ministers at

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6 ibid., chapters 2 and 3.

the U.N. headquarters in New York from August to September 1980, it was agreed that Bangladesh would prepare the draft of a working paper for discussion among the foreign secretaries of the South Asian countries. The new Bangladesh draft paper, sensitive to India's and Pakistan's concern, dropped all references to security matters and suggested only nonpolitical and noncontroversial areas for cooperation.\footnote{Muni and Muni, \textit{Regional Cooperation in South Asia}, p. 35.}

Between 1980 and 1983, four meetings at the foreign secretary levels (April 21-23, 1981, Colombo; November 2-4, 1981, Kathmandu; August 7-8, 1982, Islamabad; March 28-30, 1983, Dhaka) took place to establish the principles of organisation and identify areas for cooperation. After three years of preparatory discussion at the official level, the focus of discussion shifted to the political level in 1983. The first South Asian foreign ministers' conference was held in New Delhi from August 1-3, 1983, where the Integrated Program of Action (IPA) on mutually agreed areas of cooperation (i.e., Agriculture, Rural Development, Telecommunications, Meteorology, Health and Population Control, Transport, Sports, Arts and Culture, Postal Services and Scientific and Technical Cooperation) was launched. The foreign ministers of this conference also adopted a \textit{Declaration on Regional Cooperation}, formally beginning an organization known as the South Asian Regional Cooperation (SARC). Following the New Delhi meeting, three more meetings of the foreign ministers were held at Male (July 10-11, 1984), Thimpu (May 13-14, 1985), and Dhaka (December 5, 1985) to finalize details and determine a date and place for the first meeting of South Asian heads of state. At the Dhaka foreign ministers' meeting, a decision was taken to change the name of the organization from South Asian Regional
Cooperation (SARC) to South Asian Association for Regional Cooperation (SAARC).
The change in the acronym was based on the thinking that while SARC refers to the process of South Asian Regional Cooperation, SAARC marks the establishment of an association (organisation) to promote and develop such cooperation. Finally, the first summit meeting of the heads of state or government of the South Asian countries was held at Dhaka from December 7-8, 1985. To facilitate activities within SAARC, a Secretariat was set up in the capital of Nepal, Kathmandu, with a Secretary-General and one director from each member country in 1986.9

SAARC Work Packages

Ten areas of work within SAARC region were identified and assignments were given to various SAARC countries. Topics were allocated together with the countries responsible for the same. India was given four assignments namely, Business Information and Data Networking, Human Resource Development, Science and Technology and Social Dimension of Business Development. Pakistan had two topics i.e., Trade and Investment. Sri Lanka was to handle, Women Entrepreneurs. Bangladesh was expected to handle telecommunication. Travel and Tourism were to be handled by Nepal. Bhutan and Nepal had joint responsibility for energy. There is a need for an accelerated effort to push ahead in respect of above assignments.10

SAARC is the largest geo-economic block of the world with 1.2 billion people. Its GDP, based on purchasing power parity is $ 3.57 trillion. Its combined average growth is over 7%. Its plan includes a common market i.e. SAPTA. This represents a

hope for the largest pool of poor people of the world, with a consumer base of over 425 million people in the middle class bracket. It is larger than any economic block of the world. It has the potential of contributing a great deal to the ever-evolving global economy.

SAARC and South Asian Economic Union

The SAARC Charter mentions that among the objectives of the Association shall be acceleration of economic growth, social progress and cultural development in the region, promotion of active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields and strengthening of cooperation among the Member States in international fora on matters of common interest. Regional cooperation agreements in other parts of the world identified economic cooperation as constituting the very heart, as it were, of cooperation among the countries, without which the extent and accurate benefits may be severely constrained. However, within the SAARC region a fundamental asymmetry among the Member States, their varied levels of development, including administrative procedures and rules, suggested that economic cooperation, while important, was likely to be a complex and gradual process. Accordingly, the first SAARC Summit in Dhaka (1985) primarily focused on regional cooperation in areas such as health, population activities and child welfare; culture and sports.11

This is not to imply that the Association had decided to leave out economic cooperation. In fact, in 1986, the first Ministerial Meeting on International Economic

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11 W. Howard Wriggins, "South Asian Regional Politics: Asymmetrical Balance of One-State Dominance?" in Wriggins, Dynamics of Regional Politics, pp. 130 and 151.
Issues was held in Islamabad (31 March – 3 April). The Declaration of this Ministerial Meeting stressed the need for intensifying economic cooperation among SAARC countries and also agreed that SAARC countries should coordinate their positions at the various headquarters of regional and international organisations, as well as in relevant international conferences to further the common objectives of member countries.  

Accelerated efforts are needed to implement bilateral and multi-lateral initiatives to promote economic cooperation. Bold initiatives have also been taken in respect of developing institutional framework. These institutions need to be strengthened for their vibrant functions so that positive steps are taken to crystallise the dream of South Asian Economic Union. Some of the pertinent institutions include: SAARC Agricultural Information Centre (SIAC), Dhaka, Bangladesh. SAARC Documentation Centre (SDC), New Delhi, India. The following SAARC Funds have been established so far- SAARC Fund for Regional Projects (SFRP) (1991), SAARC-Japan Special Fund (Sept. 27, 1993), Kathmandu, Nepal, and South Asian Development Fund (SADF)-(1995) New Delhi, India. There is a need to consolidate gains from these institutional frameworks and carry forward the same towards achieving the goal of South Asian Economic Union.

In 1987, the representatives of the National Planning Organizations met for the second time in Islamabad (11 -14 October) and recommended that in view of the adverse international economic situation facing the region, there was a need to pool

resources for long-term regional cooperation. Recognising asymmetries at the development levels and the fact that the share of SAARC in world trade was relatively small, the Meeting recommended that analytical studies need to be carried out in the first instance to facilitate identification of priority areas for economic cooperation. As a result of this recommendation, a consultant was commissioned to carry out a Study on Trade, Manufactures and Services (TMS) in the South Asian region.\textsuperscript{14} Meanwhile, the National Planning Organisations continued to meet and agreed on a series of initiatives, which would intensify the consultative process particularly in basic needs programmes and poverty alleviation.

The TMS Study, which was completed in 1991, considered economic cooperation among the countries of the SAARC region as an inevitable imperative for promoting all-round development of the region. In May 1991, the Council of Ministers at their Ninth Session at Male endorsed the Study and established a high-level Committee known as the Committee on Economic Cooperation (CEC) comprising Commerce/Trade Secretaries of the SAARC Member States.

**The Committee on Economic Cooperation (CEC)**

The CEC was mandated to formulate and oversee implementation of specific measures, policies and programmes within the SAARC framework to strengthen and enhance intra-regional cooperation in the fields of trade and economic relations. With

the creation of the CEC, regional economic cooperation was formally institutionalised.\textsuperscript{15} To date, the CEC has held ten meetings.

Over the years, the CEC has emerged as one of the most important groups within the SAARC having a mandate over economic and trade issues. The CEC has provided recommendations and guidance in identifying new areas for cooperation on economic and trade related matters as well as considering reports of constituted groups. In fact, the mandate of the CEC includes monitoring cooperation in areas such as standards and measurement; customs and the harmonisation of procedures; preferential trading arrangement; rules of origin; agreements for the promotion and protection of investments within the SAARC Region as also for the avoidance of double taxation; setting up of a SAARC Arbitration Council; sharing information on economic and trade related matters; taking note of special circumstances of Least Developed Countries within the Region; and formulation of joint strategies to be adopted in multilateral negotiating fora. The recommendations of the CEC are submitted to the Standing Committee (of Foreign Secretaries) and through it to higher bodies, namely the Council of Ministers and the Summit.

SAARC has also initiated action on a series of practical measures to facilitate the process of economic integration. A Group on Customs Cooperation was set up in 1996 and so far, has held three meetings. It was inter-alia decided to harmonise customs rules and regulations; simplify procedures for intra-regional exports; upgrade infrastructural facilities and provide training facilities. A Customs Action Plan was

drawn up in Islamabad (April 1997) as agreed to by all Member States.\textsuperscript{16} A Customs Consultant is also being engaged to prepare a detailed report recommending various measures to be taken on the simplifications and standardization of customs documents and declarations for imports and exports; preparation of a commodity description code expanding the 6-digit code to accommodate description of goods in vogue within the SAARC region; harmonization of baggage laws, procedures and allowances; harmonization of laws, procedure and exemption limits on gifts and postal goods; harmonization of matters relating to temporary import of vehicles and other goods imported and subsequently re-exported in the same state, etc.

The need to improve the transport infrastructure and transit facilities in the Region was recognised and the 11th Session of the SAARC Council of Ministers in Colombo (8-9 July 1992) directed the CEC to take appropriate steps in this regard. Accordingly a study was commissioned to assess the existing transport infrastructure and transit facilities, including procedural and documental issues in the Region in relation to volume and composition of the existing trade in the Region and to make recommendations for their improvement, with a view to enhancing trade within and outside the SAARC region. The study was completed in 1994 and has made far reaching recommendations.

It is relevant to mention at this stage that the Technical Committee on Transport was established in 1983, covering three major segments of transport, i.e. land transport, divided into railways and roadways; sea transport sub-divided into inland waterways and shipping; and air transport. Seventeen meetings of this

Committee have been held. Subsequently, according to new arrangements of the Integrated Programme of Action (IPA), the Technical Committee on Transport has been merged with Communications forming a single Technical Committee on Transport and Communications effective from January 2000.

The Meeting of Commerce Ministers of SAARC

Economic co-operation has been further institutionalised with the commencement of the meeting of Commerce Ministers of SAARC countries. The First SAARC Commerce Ministers Conference was held in New Delhi in January 1996 when SAARC Trade Fair was also hosted. This has now become an annual feature along with a Conference organised by the SAARC Chamber of Commerce and Industry.

The second meeting of SAARC Commerce Ministers was held in Islamabad from April 29-30, 1998. Among the important decisions taken at the meeting was the setting up of a coordinating group of SAARC Ambassadors at the WTO to coordinate and harmonise SAARC positions on international economic issues of common concern. The Second SAARC Trade Fair was organised in Colombo, Sri Lanka (Aug 8-15, 1998).

Group of Eminent Persons (GEP)

At the Ninth SAARC Summit at Male (May 1997) SAARC leaders set up a Group of Eminent Persons (GEP) to review the functioning of SAARC institutions and provide

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17 Hirantha, S.W. *Regional economic integration: South Asia*, Department of Economics, Nagoya University, Japan. 2003,

18 Eric Gonsalves and Nancy Jetly, eds., *The Dynamics of South Asia: Regional Cooperation and SAARC*, Sage Publications, New Delhi 1999 pp-149
a Perspective Plan up to the year 2020. The Group had recommended that regional
economic integration is necessary and suggested a time bound plan which includes
Negotiation of a Treaty for South Asian Free Trade Area by 1999 with implementation
commencing immediately thereafter and stretching to 2008 for SAARC members and
to 2010 for the SAARC LDCs. It also envisaged a SAARC Customs Union by 2015
and a SAARC Economic Union by 2020.

The recommendations were presented in the two day SAARC summit held in
January 5-6, 2002 in Kathmandu, Nepal. South Asian Economic Union is expected to
result as under: 1. with new enthusiasm in the markets and shifting economies on
combined scale, dependence of their GNP will reduce in coming years. 2. An increased
collaboration and harmonious relationship could help reduce the defence budgets to
much lower points. On the assumption that these funds are allocated for
developmental programmes, the growth indicators will sharply move forward 3.
Marketing plans for these countries can be more or less unique and especially for
consumer products and services like entertainment.

In the Social field, the Group of Eminent Persons (GEP) has recommended the
target of reaching a replacement level of population, which translates into a birth rate
of 21 per thousand, before the year 2020; attainment of universal primary education up
to the age of 15 before the year 2010; elimination of gender disparities in access to
education within the target date of 2010; reduction of infant mortality below 50 per
thousand live births by the year 2005; attainment of 100% immunisation by the year

19 Ibid pp-212
20 South Asia Development and Cooperation Report 2001/02. Research and Information System for
the Non-Aligned and other Developing Countries (2002).
2000 in target areas set by the UNICEF programmes; empowerment of women socially, economically and politically and holding of regular biennial Ministerial meetings on Women's Development. Each Member-State is to set its own time frame for poverty eradication. The GEP has recommended the adoption of a Social Charter for SAARC, which could incorporate these objectives. Two of the substantial recommendations of the GEP namely, negotiation of a Separate Treaty for SAFTA and the adoption of a SAARC Social Charter have been accepted by SAARC leaders at the Tenth SAARC Summit at Colombo (July 1998).  

At the Colombo Summit, there was consensual recognition of the need to strengthen the individual financial systems of the SAARC countries through the enhancement of their institutional capacity, surveillance mechanism, as well as through closer consultations on, and coordination of, macro-economic policies where appropriate. It was felt that the Region needs to enhance the collective capacity of SAARC in respect of policy analysis with specific emphasis on international financial and monetary, trade and investment issues along with their domestic ramifications. In this regard, meetings of finance officials of the SAARC countries have been held, including among the Governors of Central Banks to not only put into position early warning mechanisms, but also to coordinate policies to respond to global financial and economic developments that affect the Region. The Meetings of Governors of SAARC Central Banks, now known as a Group called SAARCFINANCE have been recognized as a formal SAARC body under the framework of SAARC and will report

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22 Towards SAFTA: Some Thoughts, (Federation of Indian Export Organisations, New Delhi, India). 2003
to the SAARC Council of Ministers.\textsuperscript{23} The Twenty-second Session of the SAARC Council of Ministers (Kathmandu, 2-3 January 2002) also approved the Terms of Reference of SAARCFINANCE.

It was also agreed at the Colombo Summit in 1998 to establish a SAARC Network of Researchers on Global Financial and Economic Issues comprising members of the private sector, central banks, planning ministries, research institutes and eminent economists nominated by Governments to identify, analyse and help SAARC face up to current global, financial and economic developments affecting the region.\textsuperscript{24} Such a network has since been set up and has decided on an immediate and longer-term research agenda which would help identify areas of common concern, as also new areas of cooperation among the Member Countries. The Network also brings out a \textit{South Asia Economic Journal} and is in the process of bringing out a \textit{Directory of Research Institutes in South Asia} focusing on global financial and economic issues. Successive Summits have acknowledged the importance of SAARC pursuing mutually beneficial cooperation with regional, UN and other international organisations on the Association's agreed areas of cooperation.

New areas in regional cooperation are being considered for SAARC action in the coming years. Intra-regional investment promotion and protection, and avoidance of double taxation are two such areas in which regional arrangements are being considered. Harmonisation and simplification in customs procedures in the subject of another ongoing exercise. A Customs Action Plan has been agreed upon and a


\textsuperscript{24} Panagariya, A. 'Trade Liberalisation in South Asia: Recent Liberalisation and Future Agenda', \textit{The World Economy}, (1999), 22, 3, 353-78.
standing Customs Coordination Group constituted. The Third Meeting of the Group took place in Jaipur in August (24-25), 1998. A Working Group on Standards, Quality and Measurement is also to be set up.

A SAARC Visa Exemption Scheme was initiated in 1988 with a view to promote closer and frequent contacts among the people of the SAARC region which became operational from March 1, 1992. The Scheme has been progressively expanded to cover twenty-one categories of people eligible for visa free travel in the SAARC Region. An Expert Group Meeting was held in Kathmandu in November 1998 to further expand the Scheme, rationalise it and lend more transparency to it.

**SAARC Summit January, 2002**

Two days SAARC Summit was held in Kathmandu, Nepal during January 5-6, 2002. It visualised the establishment of South Asian Economic Union. Pre-requisites to this dream were identified as under:

1. Promote mutual trust and understanding, peace, stability and amity and accelerated socio-economic cooperation.
2. Foster good neighbourly relations, relieving tensions and building confidence.
3. Finalise a regionally agreed investment framework to meet investment needs of the member states.
4. Promote South Asia has a common tourist destination by upgrading infrastructure, air linkages, simplification and harmonization of administrative procedures and joint marketing.
5. Combat the problem of poverty with a new sense of urgency.
6. Focus on rural micro-credit programmes for women and disadvantaged, widen opportunities for gainful employment and reconstitute the

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independent South Asian Commission on poverty alleviation. 7. Finalise the SAARC Social Charter including: Poverty eradication, Population stabilization, Empowerment of women, Youth mobilization, Human Resource development, Promotion of health and nutrition and protection of children. 26

Regional Investment Agreement

A draft Regional Agreement on Promotion and Protection of Investment within the SAARC Region is under consideration of the Member States and is meant to create conditions favourable for promoting and protecting investments in Member States by investors from other Member States of the Region. The objective is to finalise the Regional Investment (Promotion and Protection) Agreement prior to the commencement of the implementation of SAFTA. The business community of SAARC needs to be encouraged to come forward with intra-regional investment proposals covering the following areas: 1) Investment promotion. 2) Investment protection. 3) Repatriation of profits. 4) Avoidance of double taxation. 5) Arrangements for settlement of trade disputes among SAARC member states. Strategy needs to be developed to evolve common agreements for the region as a whole or sub-region on bilateral basis for the above aspects. The share of SAARC in World Trade, based on the World Development Report 2002, is 1.03%. This shows that the scope of intra-regional trade is very big.

The First SAARC Meeting to discuss measures for Promotion and Protection of Investment was held in New Delhi on 29-30 September 1997. A draft Regional

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26 The Declaration of the Eleventh SAARC Summit of the Heads of State or Government of Member Countries of the South Asian Association for Regional Cooperation, SAARC Summit, SAARC Secretariat, (Kathmandu: Nepal), 6 January 2002.
Investment Agreement was circulated by India at the meeting for consideration of Member States. India has also been asked to prepare a Concept Paper on Setting-up a Regional dispute Settlement Mechanism which would help to resolve commercial and investment disputes at a regional level rather than through costly International Arbitration.  

Linked to the Regional Investment Agreement is the setting up of a SAARC Arbitration Council for which proposals are under examination by Member States. Discussions have also commenced on harmonizing tax laws within the Region to assess the possibility of having a Regional Agreement for the Avoidance of Double Taxation.

Recognising the importance of standards and measurement, the First Meeting of the SAARC Standing Group on Standards, Quality Control and Measurement was held in New Delhi in June 1999 to identify how national standards may be harmonised and regional standards agreed upon. The Meeting agreed on the Key Elements of the Regional Action Plan on Standards, Quality Control and Measurement.

In the area of trade and tariff which are critical to individual Member States and to the Region as a whole, particularly those relating to multilateral negotiations in World Trade Organization (WTO), World Customs Organization (WCO), World Intellectual Property Organization (WIPO) etc., regular consultations are held not only at the headquarters of such international organizations, such as Geneva, but also in the Member States themselves, so as to effectively coordinate, project and protect their collective interests. This process of consultations has been intensified so that wherever

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possible, a regional position may be taken which is compatible with the overall principles of SAARC, and which reflects the needs and requirements of the LDCs in the region through the provision of special and more favourable concessions.²⁸

At their Eleventh SAARC Summit, recognising the important role that trade can play in advancing the overall development of a country, thus contributing to an equitable and sustainable world order, the Heads of State or Government called for an early realisation of a rule-based and non-discriminatory world trade regime. In this context, they appreciated the positive elements of the Fourth WTO Ministerial Conference held in Doha and called upon the developed countries to fulfill their commitments to address the particular concerns and needs of the developing and the least developed countries.

**SAARC Chamber of Commerce and Industry**

SAARC Chamber of Commerce and Industry (SCCI) was set up in 1992 as the official recognition by all the regional governments and as the apex body of all the national federations of chambers of commerce and industry with its headquarters in Pakistan.²⁹ It consists of seven component members representing each country. Its mission is to enhance economic cooperation with a view to improving SAARC’s position in the World trade as well as within SAARC itself. The important role played by the Chambers of Commerce and Industry in the Region has been given special emphasis. SCCI is actively engaged in the promotion of trade and the interaction of the business community within the SAARC region. SCCI has been involved not only in increasing

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²⁸ Hirantha, S.W., *Regional economic integration: South Asia*, Department of Economics, Nagoya University, Japan. pp-64, 2003

public awareness through workshops and studies they have been commissioning, including the publication of books and other material, but also through the interactive sessions between government and industry aimed at providing pertinent input to the process of regional economic cooperation. The SCCI also holds regular consultations with the SAARC Secretariat. The SCCI recently brought out a book titled ‘SAARC Means Business: Opportunities for Partnership’ which highlights sectors of cooperative advantage within the Region.\textsuperscript{30} The SCCI will gradually endeavour to achieve SAARC Economic Union through Economic Cooperation, and bring about harmonious and healthy economic relations among the business communities of the region. The general belief is that the above Union will serve as a step forward to globalisation and will help to overcome the socio-political differences within the region.

SCCI aims to; 1) Serve as voice of business community of the region at national, regional and global forum. 2) Endeavour to bring about necessary economic cooperation in all spheres of the SAARC region. 3) Encourage investments and joint ventures within and outside the region to ensure that the benefits of economic cooperation are realised for the region. 4) Encourage private sector in the process of industrialisation and also to act as the change agent while allowing the governments to develop the infrastructure jointly with them and setting in place policies which can minimise dislocations to economic growth and social development.\textsuperscript{31}

Indeed, it was in recognition of the positive role played by the SCCI that the Member States decided to wind up the Technical Committee on Tourism (which was

\textsuperscript{30} SAARC Website (http://www.saarc-sec.org).

\textsuperscript{31} ibid
set up in 1991) to replace it with SCCI Tourism Council based on inputs from the SAARC Chamber of Commerce and Industry. This Council, which represents the private sector perspective towards enhancing and gainfully exploiting the tourism potential of the region, would provide policy and other inputs for the consideration of the Committee on Economic Cooperation (CEC). At their Eleventh SAARC Summit held in Kathmandu on 4-6 January 2002, the Heads of State or Government also recognised the immense tourism potential of South Asia and underlined the need to take measures to promote South Asia as a common tourist destination through joint efforts in areas such as upgrading of infrastructure, air linkages, simplification and harmonization of administrative procedures and training and joint marketing.

At the same summit they renewed their commitment to encourage the participation of the private sector and assured their full support for their socially responsible economic initiatives. While welcoming the practice of holding trade fairs in cooperation with the private sector at the regional level, they appreciated the efforts of the SAARC Chamber of Commerce and Industry to promote regional economic cooperation in the spirit of public and private sector partnership.

The SAARC Chamber of Commerce and Industry handed over a Government-Industry Partnership Affirmation at the Eleventh SAARC Summit.\textsuperscript{32} The Trade Fairs conducted by the SAARC have succeeded not only in projecting the potential of the region but also in promoting the wide variety of products the region produces, which match international quality and standards.

\textsuperscript{32} ibid
SAARC Preferential Trading Arrangement (SAPTA)

In December 1991, the Sixth Summit held in Colombo approved the establishment of an Inter-Governmental Group (IGG) to formulate an agreement to establish a SAARC Preferential Trading Arrangement (SAPTA) by 1997. Given the consensus within SAARC, the framework Agreement on SAPTA was finalised in 1993, and formally came into operation in December 1995, well in advance of the date stipulated by the Colombo Summit. SAPTA was envisaged primarily as the first step towards the transition to a South Asian Free Trade Area (SAFTA) leading subsequently, towards a Customs Union, Common Market and Economic Union. The Agreement reflected the desire of the SAARC countries to promote and sustain mutual trade and economic cooperation within the SAARC region through exchange of concessions.

During the First and Second Round, trade negotiations were conducted on a product-by-product basis. In the Third Round, the negotiations were also conducted sector-wise. For the Fourth Round, it has been decided that the negotiations would, as far as possible, be conducted on sector-wise and Across-the-Board basis. The First Meeting of Inter-Governmental Group on Trade Liberalisation to Initiate the Fourth Round of Trade Negotiations was held at, the SAARC Secretariat, with the participation of all SAARC Member States, on 27-28 March 2002 where Member delegations, inter-alia, exchanged request lists.

The Tenth Summit (Colombo 1998) decided that in order to accelerate progress in the next round of SAPTA negotiations, deeper tariff concessions should be extended to products which are being actively traded, or are likely to be traded, among

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33 Sixth SAARC Summit, SAARC Secretariat, (Kathmandu: Nepal), 1991
Members; that discriminatory practices and non-tariff barriers should be simultaneously removed on items in respect of which tariff concessions are granted or have been granted earlier. Measures to remove structural impediments should also be taken in order to move speedily towards the goal of a South Asian Free Trade Area (SAFTA). The Summit also directed that the domestic content requirements under SAPTA Rules of Origin be reduced. The Summit affirmed that benefits of the process be equitably shared by all Member States.

One of the core principles of the SAPTA Agreement is that there should be special treatment for Least Developed Countries through the consideration of additional measures. It was accordingly decided in 1999 to reduce the domestic content requirement further under the SAPTA Rules of Origin to enable the smaller and Least Developed Countries to benefit equitably from economic liberalisation. This reduction would apply to all products covered so far in the trade negotiations.

Recognising the important role economic cooperation plays in South Asia, the first meeting of SAARC Commerce Ministers was held in New Delhi (8-9 January, 1996). Since then, two more Ministerial Meetings (29-30 April, 1998 in Islamabad and 2-3 February, 1999 in Dhaka) have been held focusing on enlarging the scope and coverage of regional economic cooperation. Separate meetings of the SAARC Commerce Ministers on WTO issues have also been held.

In 1995, the Sixteenth session of the Council of Ministers held in New Delhi (18-19 December) agreed on the need to strive for the realisation of SAFTA and to

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34 Tenth SAARC Summit, SAARC Secretariat, (Kathmandu: Nepal), 1998
this end an Inter-Governmental Expert Group (IGEG) was set up in 1996 to identify
the necessary steps towards moving into a free trade area. 36

Recognising the need to address asymmetries in development and other
complexities that may stand in the way of such a tight schedule, the Colombo Summit
directed that the text of the regulatory framework for creating a Free Trade Area in the
Region should be finalised by 2001. In this connection, a Committee of Experts on
Drafting a Comprehensive Treaty Regime on a South Asian Free Trade Area
(SAFTA) has been constituted to draft a comprehensive treaty, which has, following
its first meeting in Katmandu (July 1999) worked out its broad Terms of Reference. 37
Eventually, the treaty would incorporate, inter alia, binding time frames for freeing
trade, measures to facilitate trade, protection of LDCs including mechanisms for
compensation of revenue loss, etc. With the setting up of the Committee of Experts,
the IGEG was wound up. At its first Meeting, the Committee directed the Secretariat
to prepare the first Working Draft of the SAFTA Treaty. This Working Draft is
currently under consideration of the Member States.

The Eleventh SAARC Summit held in Katmandu on 4-6 January 2002
provided further impetus to the regional economic cooperation. To give effect to the
shared aspirations for a more prosperous South Asia, the Leaders agreed to the vision
of a phased and planned process eventually leading to a South Asian Economic Union
and agreed to accelerate cooperation in the core areas of trade, finance and investment
to realize the goal of an integrated South Asian economy in a step-by-step manner.

36 Ibid pp-194
37 B. Vivekanandan, D.K.Giri (ed), Contemporary Europe and South Asia, Concept Publishing
Company: New Delhi pp-143(2001),

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They expressed their determination to make full use of regional synergy to maximise the benefits of globalisation and liberalisation and to minimize their negative impacts on the region. While recognising that trade and economic expansion is closely interlinked, the Leaders made a commitment to widen and deepen the scope of regional networks of activities in trade and financial matters.

Recognising the need to move quickly towards a South Asian Free Trade Area, the Heads of State or Government directed the Council of Ministers to finalise the text of the Draft Treaty Framework by the end of 2002. They also directed that in moving towards the goal of SAFTA, the Member States expedite action to remove tariff and non-tariff barriers and structural impediments to free trade. They also instructed to conclude the meeting of the Inter Governmental Group on Trade Liberalisation for the Fourth Round of Trade Negotiations under SAPTA as early as possible as per the decision of the Tenth SAARC Summit in Colombo.

**SAPTA – the progress**

Cooperation in core areas of economic cooperation is fairly recent. The operationalisation of the South Asian Preferential Trading Arrangement (SAPTA) in December 1995, following ratification of the SAPTA Agreement by all SAARC countries has evoked much interest. Achievement of a South Asian Free Trade Area (SAFTA) has also become a part of the SAARC Agenda. A modest beginning First Round of SAPTA Negotiations with tariff was made in the concessions exchanged on

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38 Ibid p-174
484 Tariff-Lines (under the new Harmonised System of classification at 6-digit level) for intra SAARC trade.39

The Second Round of Trade Negotiations under SAPTA which concluded in November, 1996, was more substantial with 1975 tariff lines covered under concessional tariffs. The cumulative total concessions offered country wise were: India: 911, Bangladesh: 206, Pakistan: 386, Sri Lanka: 102, Nepal: 377, Bhutan: 47, Maldives: 5

A major boost to trade within the region was provided by the bold initiative taken by India to unilaterally lift all Quantitative Restrictions maintained on Balance of Payments reasons preferentially for SAARC Countries from August 1, 1998. Over 2000 products from the Restricted List have been placed on OGL for SAARC Countries, substantially enhancing their access to the Indian market.

The Third Round of Trade Negotiations concluded on 23rd November, 1998. A total of 3456 tariff lines were covered under concessional tariffs and India offered more than half the concessions. The cumulative total concessions offered country wise were India: 1917, Bangladesh: 481; Pakistan: 295; Sri Lanka: 82; Nepal: 189; Bhutan: 124; Maldives: 368.

In order to expand the list of products covered under SAPTA I and II, and to further deepen the tariff concessions on these products, the Third Round of Trade Negotiations was launched with the First Meeting of the Inter-Governmental Group on Trade Liberalisation at the SAARC Secretariat in July 1997. The Second Meetings of

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39 Parthasarathi Some (ed), *India And Economic Cooperation In South Asia*, New ICRIER, India Habitat Centre : New Delhi. (2001)
the IGG was held in January 1998, and the Third and final meeting to conclude the round was scheduled for June 1998.

While moving from SAPTA I & II to negotiations on SAPTA III, it would have been most useful if some attempt had been made by the inter-governmental negotiators to measure the quantum of intra-SAARC trade flows in the region that were taking place on the items covered by SAPTA I and II between Members States, in some uniform manner. This would have presented a realistic assessment of (a) the commodities covered by the first and Second SAPTA rounds, (b) the importance or value of the SAPTA commodities in member countries trade and; (c) where the priority needs to be given for future concessions in moving towards SAFTA.

Some consideration for measuring the quantum of intra-SAARC trade flows in the region – both under SAPTA and non SAPTA items – was given in the Seventh Meeting of the Committee on Economic Cooperation (New Delhi, October 28-29, 1996), which approved two formats prepared by the SAARC Secretariat for collating this information. These formats, one of intra SAARC trade flows under SAPTA are to be used by the Importing Countries only. However, almost two years after the agreement to provide such information on approved formats, the SAARC Secretariat has pointed out that "supply of regular information as envisaged by the CEC and other SAARC bodies by the Member States has not taken place fully. In some cases, Member States have not forwarded any information, at all." 40

The above has been stated to highlight the need and importance of exchanging country-wise information on intra SAARC trade flows under SAPTA and outside

SAPTA regularly and in prescribed formats, without which no realistic assessment is possible of the trade coverage by the SAPTA rounds, and the attainment of SAFTA becomes practically more difficult and time consuming. In fact, the exchange of such trade information is a critical first stage in economic confidence building within a regional economic union, which simply cannot be replaced by focusing strictly on the inter-governmental negotiations.

ROAD – MAP TO SAFTA

As the millennium comes to a close, there is an increased challenge for SAARC countries to consolidate the gains made over the past decade of cooperation that can prepare the regional partnership for making the ambitious South Asian Free Trade Area (SAFTA) a reality by the year 2001, and participating with other nations in the global economic future. The primary objective of SAFTA would be the creation of a single SAARC market that would optimise SAARC’s position as a competitive production base geared towards servicing the South Asian Region and Global market place, through greater specialisation and economies of scale. The emergence of a Free Trade Area would also attract an increased inflow of foreign direct investment and investor confidence, as the institutions and mechanisms for an integrated SAARC economic union begins to take shape.

With high commitment for achieving SAFTA by the year 2001, the SAARC Chamber of Commerce and Industry has expressed concern at the slow progress being made by the inter-governmental negotiations under SAPTA, and has proposed that the

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41 Mukherji, I.N., Charting a Free Trade Area in South Asia: Instruments and Modalities, SANEI, Kathmandu. 2000
private business community needs to play a significantly critical role in keeping up the momentum for the liberalization of trade in the region. Towards this end, the SAARC Chamber of Commerce has adopted the theme of "SAARC Economic Union by 2008," on which it has been addressing a series of intensive seminars and workshops with SAARC business communities. The seminars have put forward several proposals for achieving a SAARC Economic Union by the year 2008, Which Mr. K K Podar, President of SCCI, and several distinguished experts from the SCCI Business Working Groups have endorsed at the Second SAARC Economic Cooperation Conference held in Islamabad, in March 1998. The proposals have targeted ten priority areas of business cooperation- submitted by SCCI to the Second SAARC Commerce Ministers meeting- that would provide the supportive framework for the Road-Map to SAFTA.

It is recognised by the SAARC business community that within the Road-Map to SAFTA, the area of trade is the most visibly challenging, as it relates to the basic benefits from comparative advantage which each of the trading nations needs to optimise for maximising returns to its consumers and producers. Although the first steps have already been taken for liberalising trade within SAARC, mainly through the adoption and ratification of over 2000 commodity lines under the Inter governmental negotiations of SAPTA, the SAARC business community is agreed that no apparent difference has been perceived in harnessing the benefits of trade since the implementation of SAPTA 1 and II. The available data for Monitoring Intra-SAARC trade under SAPTA during 1996-1997, available from the SAARC Secretariat, clearly

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shows the practically negligible levels of trade that are taking place on the commodities that have been covered under SAPTA.

The SAARC Chamber of Commerce and Industry has set itself the task of designing a simple but effective instrument for phasing out the impediments to a South Asian Free Trade Area, which would include revisions of both tariff and non tariff barriers. The cornerstone of this instrument is based on recognition that the product by product approach needs to be substituted by a consensus of the business community for adopting a sectoral approach, which would constitute the "SAFTA Fast Track." 43 The SAFTA Fast Track would have a structured time bound schedule for completion by the year 2001, starting from the date of the Second SAARC Summit Meeting in Colombo.

The sectors identified for the proposed SAFTA Fast Track will cover over 80% of intra SAARC trade and will include high intensity imports of SAARC countries from the rest of the world. Through discussions with the constituent Member Federations from Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, a final consensus for adopting the sectors given in the SAFTA Fast Track, as well as the time-bound schedule shown for the Road Map to SAFTA, is currently in progress.

A parallel SAFTA Normal-Track, which would involve a product-by product approach on commodities which maybe of special interest (or concern) to individual member states, would be open for negotiations until the end of December 2000, and will provide the basis for arriving at a formal SAARC List of Commodities for the

43 W. Dunshi. Does SAFTA have a future? EPW 36(34)2001 Aug 3214-16
Road Map to SAFTA. Submissions for this priority list of trade items have already been received by the SAARC Chamber of Commerce from India, Pakistan, Sri Lanka, and Maldives.

Non-tariff barriers would be discussed under a SAFTA NTB's - Track, in parallel with the SAFTA Fast Track and the SAFTA Normal Track. These would include making realistic estimates of losses to trade on account of NTB's in member countries; measures to formalise the current "unofficial" trade, and dealing with specific "hidden" barriers to trade across borders such as subsides. It will also include discussions on expediting the immediate granting of Most Favoured Nation status to all regional members. This is in keeping with the spirit of SAFTA and the recommendations of the WTO.

Trade facilitation measures—such as opening of land routes between the member countries, easing of visa restrictions, improving regional infrastructural linkages, harmonization of customs tariffs, customs valuation systems, and dispute settlement, -- for the expeditious realization of SAFTA, would be negotiated on a separate SAFTA Track. The framework for liberalising and restructuring the investment and financial policies of the region, which are critical to the success of SAFTA, will also be integrated in the final report of this study.

Lesser Development Member Countries of SAARC—i.e., Bangladesh, Bhutan, Maldives and Nepal—have requested that preferential treatment be provided for them on the Road Map to SAFTA, which would allow them more time to catch up with the
stronger economies of the regional partnership.\textsuperscript{44} Thus, provision has been made for a slower opening up of the SAFTA sectors for these four Lesser Developed Countries.

**Transition from SAPTA to SAFTA: The "SAFTA FAST-TRACK"**

Any analysis for expanding trade and economic progress in South Asia must begin with the recognition and concern that the share of SAARC countries in total world trade today is still less than 1%, and that intra-SAARC trade, despite all efforts on SAPTA tariff concessions, remains a meager 3% of their total world trade. This compares poorly with 63.4% for intra-European trade (EU), 37.2% for North America (NAFTA), 38.4% for East Asia (ASEAN). The cumulative loss to the region is colossal, which is confirmed by the large amounts of "unofficial trade" that continues to be traded across the borders of India and Bangladesh, Nepal, Pakistan and Sri Lanka.\textsuperscript{45}

From data compiled by the Economic and Trade Division of the SAARC Secretariat, smaller economies like Nepal, Bangladesh and Maldives, are shown to be having substantial levels of trade with their neighbours. On the contrary, it is countries like India, Pakistan and Sri Lanka- the larger economies in the SAARC regional bloc, that need to play a greater role in providing the "engine of growth" to the lesser developed countries. Further, India and Pakistan are the only two countries where the export levels to SAARC countries are much higher than the import levels, which is also borne out by the large trade surpluses of the two countries with their SAARC neighbours. Thus, it is recognised by the SAARC business community that the most

\textsuperscript{44} ibid

critical component of trade expansion within SAARC, in the first phase of moving towards SAFTA, should be a commitment to enlarge the base of the traded commodities within SAARC from the meager 3% to at least over 10% mainly through a greater intra-trade expansion by the developed member countries of the SAARC bloc.

Creating an Instrument for Transition to SAFTA:
For countries which have entered into a commitment to form a regional economic grouping for mutual advantage, the process of economic integration could begin with a sectoral approach, where member countries of the group could select one or more specific sectors or areas for an effective coordination and cooperation in the profiles of production, choice of technology, marketing, government policies, etc. The process of economic integration in Europe, in fact, began with the steel and coal sectors. In other regional grouping patterns, specific sectors have emerged as the "lead" sectors of cooperation as a result of the market forces and global restructuring of production and trade.

The following key provisions need to be kept in mind while making the transition from SAPTA to proposing the Road Map to SAFTA: Firstly, while identifying commodities under SAFTA, greater importance should be given to those products which figure prominently at present in the bilateral trade among the member countries and also to those items which have the potential for fresh future trade.

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especially in the light of trade concession and liberalization policies pursued in all the SAARC countries.

Secondly, advantages created by tariff concessions under SAFTA could be sharply eroded or negated by a cost disadvantage. Competing imports from outside the region could possess a cost advantages on account of the superior technology or other supply side factors such as lower cost and prices. Thus tariff concessions given under SAFTA would be rendered ineffective if the tariff rate has already been gradually brought down to low levels under the WTO regime. Thirdly, the advantage of tariff concession under SAFTA may be restricted or neutralized on account of Quota Restrictions or ban on selected imports from within SAARC Member states. Time bound schedules for the elimination of such quota restrictions have been included in the roadmap to SAFTA. Fourthly, tariff concessions given under SAFTA should not lose their significance as the Most Favoured Nation (MFN) tariff rates are brought down by member countries. For this purpose, an appropriate clause should be incorporated in the SAFTA Agreement that preferential tariffs should be a certain percentage of MFN tariff rates. This would serve as a safeguard against the erosion of preferential tariffs by MFN.

Lastly, apart from trade/tariff concessions given under SAFTA, all types of non-tariff barriers and discriminatory practices among partners should be eliminated with a view to provide real dynamism to regional trade under SAFTA. Non tariff barriers may range from border controls on vehicles carrying goods from one country to another, to the detailed specification of products or standards on grounds of safety, health, etc. But as the experience of the EC nations shows, NTB's were mostly aimed
at protecting domestic producers, and were usually imposed on flimsy considerations of standards of public health such as fat content, calorie content, etc. It would thus be clear that the potential of trade creation and expansion of intra-regional trade cannot be realized if NTB’s are continued or imposed under some pretext. In this regard, each of the SAARC countries must immediately by ready to grant MFN status to all its trading partners in the region.

The Leaders at the Tenth SAARC Summit at Colombo also decided to set up a Committee of Experts to conclude a Treaty by 2001 on a South Asian Free Trade Area. This Treaty will spell out legally binding schedules for freeing trade and would provide a predictable and transparent blueprint for achieving a Free Trade Area in South Asia. It will also include special facilitative measures for the Least Developed Countries. India has also offered to conclude bilateral free trade agreements with those countries that are willing to move faster. Sri Lanka has taken up the offer and negotiations are under way on a bilateral India-Sri Lanka Free Trade Agreement (India already has Free Trade Agreements with Nepal and Bhutan). This is expected to complement the SAPTA process and provide it added momentum.

Outcomes and implications of the 12th SAARC Summit

The 12th SAARC Summit, held in Islamabad from 4 to 6 January 2004, with Heads of State or Government of all member countries in attendance, came at the end of a year-long wait. Even in the weeks preceding it, there had been considerable speculation regarding various aspects of the Summit.

The Summit was ground-breaking on two fronts. On the bilateral front, the meeting of the South Asian family provided the perfect backdrop for a warm and
productive dialogue between [Pakistan] President Pervez Musharraf and [Indian] Prime Minister Atal Bihari Vajpayee, at the conclusion of which the two sides agreed on the resumption of a 'Composite Dialogue', leading 'to peaceful settlement of all bilateral issues, including Jammu and Kashmir, to the satisfaction of both sides'. On the multilateral front, the Framework Agreement on South Asian Free Trade Area\textsuperscript{47} and the SAARC Social Charter\textsuperscript{48} were signed.

The Summit was made possible due to the proactive initiatives taken by the leadership of both Pakistan and India in the months preceding it. This helped create the right kind of atmosphere for holding of a successful Summit. The announcement of a unilateral ceasefire across the Line of Control, unilateral resumption of over flights and a number of Confidence Building Measures, including enhancing people-to-people contacts and efforts to improve communication links, were some of the steps by Pakistan, that created the synergies that culminated in the Summit and the agreement to start a dialogue.

It must be recognised that India and Pakistan are the two major players in the region and any success of SAARC has to be based on the settlement of all outstanding issues between the two countries. This may not be the ideal situation, but it is a reality. The atmospherics, therefore, gain all the more importance in this context.

\textsuperscript{47} SAARC website (http://www.saarc-sec.org/).

\textsuperscript{48} The full text of the Social Charter adopted at the 12th SAARC Summit may be found on the SAARC website; see op cit, Ref 2.
The 12th SAARC Summit

Coming to the Summit itself, it was truly historic as all the leaders gave clear evidence that they were focused and determined to work together to promote the objectives that are needed to help usher in peace, progress and prosperity of their peoples. They were conscious of the growing inter-dependence within and amongst nations and regions, in an increasingly globalised world and were guided by the vision of a peaceful and prosperous South Asia. There was a realisation that across a region that covers a vast expanse of land and water, with a multi-lingual and multi-faith population of over a billion and a half predominantly poor people, peace and progress must and should remain their greatest expectation. There was also a realisation that we need to take a holistic approach that encompasses the entire spectrum of inter-state relations in South Asia. Politics may be divorced from economics, but the imperatives of geo-economics can no longer be ignored either.

The major outcomes of the Summit are summarized in the Islamabad Declaration49, adopted by the Summit. This section briefly touches upon its most notable achievements:

➢ The signing of the Framework Agreement on South Asian Free Trade Area (SAFTA) was a major milestone. Under the Agreement, trade tariffs between member states would be reduced by the beginning of 2006, paving way for increased intra-regional trade.

➢ The signing of the SAARC Social Charter is another momentous development. The ten-point Charter requires the signatories to take legislative,
executive and administrative measures for the social uplift of their peoples. It also binds the member states to share and review implementation strategies of their respective socio-economic uplift plans in the fields of education, health, human resource development, poverty alleviation, women development, youth mobilization, population stabilization, drug rehabilitation and reintegration of minorities and migrant programmes. The Charter aims at bringing the much needed social change in the living conditions of South Asians, over 30% of who live below the poverty line.

➢ There was recognition that poverty alleviation was the greatest challenge facing the people of the South Asian region. It was, therefore, decided to declare poverty alleviation as the overarching goal of all SAARC activities. Provision of basic needs, promotion of literacy and healthcare were recognised as regional priorities. The Plan of Action on Poverty Alleviation, prepared by the SAARC Ministers of Finance and Planning was adopted. This Plan of Action provides a concrete macro framework for national and regional efforts to address all issues related to poverty in a meaningful manner.

➢ The leaders agreed that a study on South Asian Energy Cooperation, including the concept of an Energy Ring needed to be undertaken by the Working Group on Energy.

➢ The Declaration reiterates the commitment to the creation of a South Asian Economic Union. The Summit also underlined that creation of a suitable political and economic environment would be fundamental to the realization of this objective.
The importance of people-to-people contacts has been realized and, in this context, strengthening of transport, transit and communication links has also been stressed.

Member-states agreed to look closely at the prospects of setting up a South Asian Development Bank.

The year 2004 was declared as SAARC Awareness year in order to promote awareness of and prevention from HIV/AIDS, tuberculosis and other serious communicable diseases.

It was also recognised that strengthening of scientific and technological cooperation across the region was fundamental to accelerating the pace of economic and social development.

The importance of undertaking regional cooperation in conservation of water resources, environment, pollution prevention and preparedness to deal with natural calamities was realized. Effective implementation of the SAARC Environmental Plan of Action was stressed upon in this context.

Realising that terrorism was a major threat facing the region as well as the world, the Summit categorically condemned terrorist violence, in all its forms and manifestations. The signing of the Additional Protocol to the SAARC Regional Convention on Combating Terrorism, that deals with financing of terrorism, was a further manifestation of the Summit’s commitment to eliminate terrorism from South Asia.

The Declaration envisages South Asia to be a peaceful and stable region, where each nation is at peace with itself, as well as with its neighbours, and
where conflicts, differences and disputes are settled through peaceful means and dialogue.

It goes without saying that a strong SAARC is an investment for peace in the region, as greater interaction would help to preempt differences becoming grave issues that threaten peace. Although the Association's Charter does not allow for [the] raising of bilateral disputes at its meetings, it still has the potential of acting as a peace broker. This added role to resolve regional problems, with the consent of the concerned parties, could go a long way towards making SAARC as active politically, as it is becoming economically. There seems to be a realisation that SAARC should not be subject to the volatility of the Subcontinent—rather it should itself prove a stabilising element to bilateral relationships.

Admittedly, the history of SAARC has been high on promise and low on delivery. To change the organisation into a more vibrant and result oriented body, we need to overcome our differences and disputes and create a climate of mutual trust and confidence. With the concrete steps envisaged in the Social Charter, SAFTA and the Additional Protocol on Terrorism, these goals appear achievable. SAARC needs to become a dynamic organization, on lines similar to the EU [European Union] and ASEAN [Association of Southeast Asian Nations]. The political will to do so appears forthcoming now, and it augurs well for the future of the organization.

The question of South Asian Economic Union and creation of a single currency, though touched upon during the Summit, appear somewhat premature. A better integrated trading system, allowing free movement of goods and people, and better transport and communication links, that are pre-requisites for an economic or a
monetary union, are still missing. The decision to make SAFTA operational in just four years time is courageous and most commendable. A beginning has been made with SAPTA, and one hopes that the process would be brought to fruition in its true spirit.

In conclusion, what needs to be recognised is that the absence of conflicts and the beginning of normal relations among the seven states are the minimum, not the maximum, expectation of the people of the region. Ideally, friendship among them is a prior requirement, to enable and sustain friendly cooperation among the SAARC member governments. South Asia, home to one-fifth of humanity, is currently out of step with other regions of the world that were able to transcend their differences and disputes, and embark on a steady course to economic growth and development. Our region also has immense resources. By building the right synergy in our national endeavours, we could also put our region on the path to economic development.

The Summit has had its fair share of skeptics—some saying that it would be a failure, while others going to the extent of pronouncing that it would not even be held. Patience, perseverance and statesmanship prevailed in the end. It has been hailed as a success by everyone. Yet it must not be forgotten that, in spite of all the euphoria, it is no more than a first step towards economic cooperation, peace and prosperity. The biggest challenge for the SAARC leadership now is to implement the understandings reached in Islamabad. Otherwise, the future of SAARC would not be any different from the past and the region will continue to experience discord, poverty, under-development, illiteracy and other social ills. Coming out of the
Summit, however, the hopes of the 1.6 billion people are high and the world too is expecting, a more prosperous and peaceful future for the region. The true significance of the Summit was the delineation of a future-oriented road map for SAARC that, if implemented, will finally place the region on the track to peace, growth and development.

Conclusion

The first decade of regional cooperation in South Asia has been marked by continuing caution in identifying areas of cooperation by the yardstick of minimal effect on the policies and programs of individual member states. It is a paradigm that needs to be urgently changed if trade, investment, information and technology are to flow freely between the SAARC countries, and prevent its increasing marginalisation as a global economic and political player. Mechanisms need to be put into place in the coming years to realise and optimise the potential synergy of one fifth of the world's population in an energetic and enlightened spirit of collective regional self-interest. The South Asian Free Trade Area(SAFTA), the SAARC Multilateral Investment agreement, the SAARC Monetary and Economic Union, the SAARC Common Market- are all milestones that must be achieved in attaining this objective.

On the whole, the achievements of SAARC and SAPTA in promoting trade have been nominal. Tariff concessions have not supported growth in trade. And that has been as expected since concessions are introduced only on items that represent about 1 per cent of the total trade of the member countries. Intra-regional trade is minimal and export destinations of majority of member countries are United States, the European Union, and Japan. India's asymmetric trade relation with her neighbors
has hindered regional integration. Bilateral disputes have impeded faster achievement in intra-regional trade and investment. Concerted action and shared vision is immediately needed to accomplish SAARC's long-term vision. Awareness about the potentials of trade cooperation and its benefits among policy makers and private sector should form a vital component of the overall strategy of SAARC economic union and regional integration. It is high time that all the SAARC countries must respect each other and strive for developing peace and tranquility in the region and give genuine tribute to the principles of SAARC and implement a plan paving the way for institutionalising South Asian Economic Union This is needed to usher in a new era of prosperity for the teeming millions of the region.