Chapter-2

EMERGENCE OF SAARC COUNTRIES
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INTRODUCTION

Regional tendencies in world economy are very much evident in almost all the main continents involving developed as well as developing economics of Europe, Africa, Latin America and Asia. These grouping have achieved varying measures of economic and Political Cooperation.

A study of some of these regional groupings can be great help to understand the process through which such models of cooperation have evolved. These models in operation throw light on the needs and constraints different countries felt form time to time to come together for cooperation. The shape that cooperation takes is closely linked to the institutional arrangements evolved on the basis of the objectives of the regional cooperation and the visualised areas of development. In this respect, each region has special features of their own depending on the relative stages of development of the different countries of the region, their needs and resources, the available infra-structure and management potential etc. So an analysis of these organisations can throw light on the genesis and evolution of these organisations with special role played by the respective major regional power, the scope of cooperation, attitudes, perceptions, the institutional framework and funding modalities. Different brands of trade cooperation arrangements
or models in operation throw light on the needs and constraints different countries felt time to time including them to come together for cooperation.

It will be seen that a favourable climate for regional cooperation has invariably grown out of years of efforts towards mutual exchange and collaboration thereby overcoming inhibitions and suspicions against such cooperation. How the countries have reconciled to rival economic claims, national, political or security concerns and perceptions of leaders on these scores can all be of useful guidance to the countries of South Asia.

A number of regional organizations are functioning in various parts of the world. These are: European Economic Community (EEC), European Community of West African States (ECOWAS), Council for Mutual economic Assistance (COMECON), Latin American Free Trade Area (LAFTA), Association Latino American de Integration (ALADI), Union Donaniere et. Economiquedel Afrique Central (UDEAC), Latin American Economic System (SELA), Organisation of African Unity (OAU), Central African Customs Union (CACU), East African Community (EAC), South African Development Coordination Conference (SADCC), Caribbean Community (CARICOM), Gulf Cooperation Council (GCC), Economic Commission for Asia and Far East (ECAFE), Association of South East Asian Nations (ASEAN), and South Pacific Bureau for Economic Cooperation (SPEC) etc. The present chapter focuses on the regional efforts undertaken in some of
these organisations as their experience may have some relevance to the South Asian region in identifying the factors and forces generally inhibiting cooperative arrangements.

INTEGRATION IN LATIN AMERICA

In 1949 Economic Commission in Latin America (ECLA) – a UN body, submitted a report titled 'Economic Survey of Latin America' and suggested collective cooperation on regional basis for development. The then executive secretary of ECLA, Late Raul Prebisch and his ECLA team took great pains in follow up actions as a result of which two treaties were made in 1960. Treaty of Managua established Central American Common Market (CACM) and treaty of Montevideo established the Latin American Free Trade Area (LAFTA). Later, it broke into two subregional groupings – The ANDEAN and River Plate Basin System. In addition, the Carribbean Community (CARKOM) and the broader Latin American Economic System (SELA) emerged in due course. Also, LAFTA has been replaced by a new form called the ASSOCIATION LATINO AMERICAN DE INTEGRATION (ALADI).

LAFTA comprised Argentina, Brazil, Chile, Mexico, Praguay, Peru and Uruguay in 1960. Later Columbia and Equador (1961), Venezuela (1966) and Bolivia (1977) also signed the treaty making it an eleven member group. LAFTA's tariff liberalisation scheme and institutional frame work may be of interest to SAARC countries.
Lafta's tariff liberalisation procedure was based on three strategies. First, a national list of tariff concessions was to be drawn on the basis of bilateral negotiation among member countries. Second, a common list of tariff elimination was to be drawn after multilateral negotiation among member governments. Third, industrial complimentarity agreements were to be drawn among the contracting parties. SAARC countries can adopt this procedure by first drawing up national list and later on the common list.

The treaty of Montevideo institutionalised LAFTA by establishing a secretariat at Montevideo in South Uruguay. It also established a Standard executive committee and the 'Conference of contracting parties' as the two principal organs of Lafta Later. 'The council of minister' was also created which is given administrative support by the standing committee. SAARC can also think of conference type organ as well as one nation one vote principle. Lafta has since got divided into two parallel subgroups – ANDEAN and the River Plane Basin System coexist with Lafta ANDEAN originally a group of five, Chile, Columbia, Ecuador, Peru and Venezuela, later on Bolivia also joined it, adopted an expedited programme on trade Liberalisation. It also proposed a common outer tariff wall was special progrtammes of industrialisation were implemented. The least developed countries of the group, Bolivia and Ecuador were allowed a higher degree of protection and provisions were made to resolve the special problems of land locked position of Bolivia SAARC think-tanks can note about ANDEAN help to land locked and backward countries besides their joint commission with
third parties and more importantly their joint negotiation with multilateral institutions. SAARC can also evolve a common approach in GATT negotiations and persuade UNDP, WHO etc. to take up projects on a regional basis.

LATIN AMERICAN ECONOMICS SYSTEM (SELA)

It was established in 1975 by 23 Latin American and Caribbean countries through the treaty of PANAMA. It functions as coordinating body between the exiting regional groupings. Its affairs are managed by three primary bodies – The Latin American Council, The Action Committees and the Permanent secretariat. The council is the supreme body which functions through annual ministerial meetings. The committees carryout specific studies, programmes and projects. The secretariat is housed at Caracas in Panama. As per Article 5 of the SELA treaty the objective of SELA is "to promote regional cooperation, with a view to attaining self sustained independent and integral development, particularly through actions designed to encourage the optimum use of natural, human, technical and financial resources of the region by creating and fostering LATIN AMERICAN enterprises". This talk of indigenous multinational corporations, (MNCs) is a pointer to the havoc wrecked by the US and Europeans in the region. Article 5, goes on to elaborate in a more forthcoming manner "study and proposed measures which will ensure that activities of transnational enterprises comply with the development objectives of the region and with national interests of the member states and to exchange information on the
activities of those enterprises....". This article should sound as a warning note to SAARC. If and when economic cooperation picks up in South Asia MNCs are bound to seek undue advantages. This tendency must be checked else the colonial history of South Asia will repeat itself in form of neo-colonialism. Any effort to force an economic system, which is incompatible with social conditions in South Asia will only create anarchy: It may be ensured that non-industrial sectors develop hand in glove. Real agrarian reforms are a pre-requisite to healthy backward linkages with industry. SAARC integration should not confine to industrial complementation alone. Scope of meaningful cooperation in agriculture also exists.

**ECOWAS**

European community of West African States was formed as a result of the summit meeting held in 1975 at the Nigerian capital LAGOS. The fifteen signatories were Dahomey (now Benin), Liberia, Gambia, Ghana, Guinea – Bissau, Ivorycoast, Mali, Mauritani, Niger, Nigeria, Senegal, Sierraleone, Togo and Upper Volta. They sought to establish a customs union within next fifteen years. A phased tariff reduction schedule was drawn up for intra-ECOWAS trade.

Detailed treatment of issues concerning customs union such as dumping and deflection of trade etc. provide a good precedent for SAARC countries to protect members from unfair competition from other member states. ECOWAS institutional structure consists of (i) Authority
of Heads of states and Govt. (ii) The council of Ministers which meets biannually and takes decisions on all matters (iii) Executives Secretariat (iv) Tribunal of the community for adjudication and legal interpretation of the treaty and (v) Technical and specialised commissions in various areas of cooperation, SAARC in due course may require to set up 'Tribunal' like ECOWAS.

The region is characterised by fragmentation and conflicting interest. The imbalances in the existing export oriented West African economy can be corrected by regional cooperation on the basis of positives reciprocity which also very much resembles with the existing situation in South Asia.

ASEAN

The foundation of ASEAN were laid on dust and ashes of two similar ventures in the regions namely Association of South East Asia (ASA) and 'Maphillindo' involving Malaysia, Phillipines and Indonesia. Both the groupings became defunct as a result of prevailing political climate in the region during 1961 to 1965. Thereafter certain developments changed the political climate and the countries of the region once again got interested in the formation of a comprehensive regional grouping. In August 1967 the foreign minister of Malaysia, Thailand, Indonesia, Singapore and Philippines issued the Bangkok communique establishing ASEAN. It had its share of teething troubles when Malaysia
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For SAARC that utopian targets which are not feasible should not be aimed at and that regional cooperation is possible despite the legacy of past disputes, may be at a snails pace.

**NORDIC COOPERATION**

SAARC can draw lot many lessons from the Nordic system of harmonisation coordination and cooperation. These countries had bitter past, had different foreign policy perceptions and economic difference. Nevertheless they have forged an effective association. Nordic cooperation is based on the principle of coexistence of government and non-governmental activities. In fact, the strength of Nordic Association lies in a number of age old non-governmental regional institutions in the diverse sectors. Each ministry of each Nordic country designated a senior civil servant as a Nordic contact man who establishes links among the Nordic countries at the level of bureaucracy. Nordic industrial fund established in 1973 and the Nordic investment Bank in 1976 have been functioning effectively and maintained a good gearing ratio. They have also provided guarantees for a risk capital. Nordic cooperation has also taken the form of sub-regional links on a bilateral and trilateral basis, for instance, Scandinavian countries are running an international airline as a joint venture.

It is an ideal model for SAARC. Contact man system, interaction at peoples level. Promotion of industrial and investment funds and sub-
regional forms of cooperation within the broader regional Association, are all useful patterns to be followed by SAARC.

Development is not a static concept, it is continuously changing. In modern times, one has to necessarily new development in its totally as a process of economic and social change from a traditional to modern society. Development objectives have become much broader and complex. From the time of Adam Smith to that of classical economists the centre of attention was on the annual production of a nation together with distribution of national product to owner of capital, land and labour. The economists of classical tradition reconstructed a theory of development for application to the post war world and the main development objective then taken was economic growth in of GDP or GNP per capita. Economic growth was determined by the three basic factors of production : Capital, Labour and Land. Technology was usually assumed to the neutral and was not explicitly considered.

In 1970’s, the shifting accent was discernible an economic growth in the sense of an increase in GNP per capita (though an important indicator in itself) is no longer accepted as the only development objective. Increasingly (a) equitable distribution of wealth and income (f) full utilisation of man power (c) better utilisation of natural resources and (d) protection of human environment are included as major development objectives. Further, more social development too, is now considered an integral part of development. It refers to the improvement in the "well being of the people" which is the final analysis is the ultimate objective
of the development. It is generally measured by the level of welfare and the level of living.

To achieve the development objectives, bilateral economic cooperation offers limited scope in terms of economic gains. Every geographical region is now for accelerated economic development and structural transformation among the developing countries.

The experience of EEC, EFTA and CMEA have proved more than once, that economic gains will be more if there is proper cooperation among the countries joining the group. Although from the point of view of economic gains, free trade presents the best course. However, the inbuilt rigidities in the world trading system and its underlying conditions do not easily permit the forces of trade to play their natural role. So the next best alternative that looks imperative is to have regional or sub-regional economic cooperation amongst countries having certain geographic contiguity.

For most of the developing countries the national framework is too narrow for reaping full benefits of a policy of industrialisation. The narrowness of the national market either brings industrialisation by import substitution to an early and, or it leads to wastage of investment resources, through the establishment of enterprises of uneconomically small size, or those operating below capacity.
The characteristics of regional or sub-regional groupings mean access to each other's markets and substantial contribution to the diversification of the type of goods which they can export. The manufactures not sufficiently adapted to the requirement of the highly competitive markets of developed countries would be first exported to the countries of regional groupings. The formation of multinational group in particular would enhance the bargaining power of the group vis-a-vis the developed countries or other groups. Surely, if regional or sub-regional groupings are formed, they can throw their combined import potential into the future negotiation with the developed countries. No doubt, they would they be in a position to obtain better considerations for their export interests and secure better terms of trade. The development objectives of the countries of South Asian region have considerable similarities such as reduction of income inequalities, eradication of poverty, reduction of regional disparities, provision of employment opportunities to reduce unemployment and under employment, rapid increase in the rate of economic growth and of per capita income, reduction in the rate of population growth, improvement in the balance of payments and a greater degree of self-reliance, expansion and improvement of social service such as education and health in short, a very substantial improvement in the quality of life of the people, particularly of lower income groups. Degree of emphasis varies but the above objectives are by and large the common features of the development programme of all countries.
The fundamental purpose of any cooperation policy is the systematic pursuit of a more harmonious distribution of wellbeing throughout the world. In other words, the pursuits of better conditions of life and of fulfillment for mankind, cooperation should be free of any hegemonic interest of domination and any strictly mercantile consideration. **Regional integration based on the principles of equality and mutual benefit promotes common interest of all countries.** Countries should harmonise the use of commercial credits, aid credits, by selectively improving the terms and reinforce measures to coordinate insurance and guarantees for export credit. These steps would tend to encourage the supply of goods and products helpful to development particularly plant and machinery. For direct private investment national incentive measures be aligned if possible on the model that offers widest range of possibilities so as to cover all regional countries.

Economic cooperation may enable these countries to exploit economies of scale by Widening markets, beyond the national frontiers, increased foreign competition may result in greater efficiency and may help in profitable division of labour among one another and can lead to best utilisation of resources for the advantage of the region. Possibilities of joint exploitation of irrigational, flood control, and transportation system etc. can have positive yields.

Economic cooperation stresses on preferential tariff cuts, coordination of investment decision and the like. Countries can adopt import substitution policy of development much further collectively than each of
them could do individually. Through trade they can move their productive structures to structures characteristic of larger economic areas thereby increasing their levels of real income per capita. They can gain immensely by exercising monopoly or oligopoly power in world market in fields where region has dominance over world supply. Cooperation amongst countries of South Asian Region can partly make up for some of the deficiencies in the cooperation at global level. It can enable optimum use of capacities, exploit potential as a huge market, human and natural resources, complementarity of economies in accelerating pace of their economic development.

However the Latin American and ASEAN experiments do suggest that regional cooperation among developing countries may not always yield desired result due to difficulties faced by them at political and economics levels. First, most of them are seriously preoccupied with the adverse balance of payments situation. Therefore, they are not inclined to reduce barriers. Trade barriers a get reduced if the resultant additional import are compensated by additional exports of an equal amount. In fact, their desire to obtain strict and immediate reciprocity, so as to avoid any risk of even temporary imbalance, militates against adoption of more far reaching trade liberalisation methods. And this is a major constraint. Secondly, in these countries, the share of revenue represented by custom duties is substantially higher as compared to the developed countries. Therefore, trade liberalisation threatens to cut the revenue accrued. At the same time, the trapping of other fusical resources is difficult, on account of the limitations of the administrative
apparatus. So, there is lack of commitment to substantial trade liberalisation. Thirdly, conditions of unemployment and under employment dissuade the governments form adopting any measures that might adversely affect existing employment opportunities. Fourthly, the substitution of a regional marked for the national market tends to accentuate the apprehension of certain countries about the risk of domination by foreign capital. Indeed, it is a fact Latin America.

Problems of difference in the level of development among developing nations, which want to start a process of cooperation are also difficult to solve. Often, the relatively more advanced country in the group itself may be poor or have poverty stricken areas within its own boundaries, and this can act as a constraint to its undertaking the necessary regional responsibility. The problem may be severe still, in case financial resources have to be transferred towards less advanced partners. Even among countries at a roughly equal level of development, each would like to be sure of having a share of new enterprises that can be established as a result of the setting up of multinational groupings. This can give rise to disagreements on location of new investments.

Another constraint on trade expansion among developing countries, is the need to reconcile trade liberalisation with the planning efforts that each country considers essential from the national point of view. If at the national level, the development process is thus not left to the free
play of market forces, the same imperative will operate when multinational framework of economic development is being created.

This does not mean that developing countries cannot devise ways and means to translate trade expansion and integration into reality. Among the developing countries, particularly in South Asia, there is little pre-existing economic interdependence and cooperation that existed in Europe, in economic matters. However, it has started, of late, in the form of bilateral agreements. It must however, be realised that economic cooperation, if pursued with determination, can produce better results.

**HISTORICAL PERSPECTIVE**

South Asia possesses all the essential ingredients that are required for regional economic cooperation. Geographical contiguity, social, economic and cultural commonalities, identical problems in the field of economic development, population growth, poverty etc. all call for joint efforts at the regional level to mitigate the sufferings of teeming millions residing between Himalayas in the north and waters of Indian ocean in the south but it is also a fact that forces of discard, on one pretext or the other, whether it be different strategic perceptions varying level of economic development, compulsions of domestic polity or real or abstract fear of each others motives, delayed the formation of any regional organisation. However, long last, changing international scenario and continued crisis in world economy made them realise that
only with the spirit of cooperation they can think of fostering their economic or related interests. It was this feeling that injected the germs of regional approach to solve their common problems and ultimately gave birth to SAARC.

The idea of regional cooperation in South Asia was first mooted by General Zia-Ur-Rehman, the then President of Bangladesh in 1977 who discussed the possibilities for South Asian cooperation while touring India, Pakistan, Nepal and Sri-Lanka. A formal call to this effect was issued in May 1980 by him promising regional cooperation among the South Asian countries on governmental and non-governmental level. A working paper was circulated in support of regional cooperation by Bangladesh which also suggested holding of foreign Secretaries level meetings for giving this idea a concrete shape at governmental level. It also underlined the fact that hitherto cooperation at bilateral level or through the forums such as NAM or commonwealth had not fully exploited the vast potential of regional cooperation that exists and the consequential benefits that this type of cooperation will bring, collectively and individually to the countries of the region. During his chat with newsmen on his stopover at Paris on Aug. 31, 1980 Gen Zia-Ur-Rehman expressed the hope :"that we will be able to work out a meeting between Ministers and that a summit of leaders can be held in the near future. It is unfortunate that in this region we do not have a forum as they have in South East Asia or Arab or African Countries".
President Zia-Ur-Rehman further said, "The countries of South Asia share many common values that are rooted in their social, ethnic, cultural and historic tradition. Perceptions about certain specific events or political situation of the world may differ but such differences do not seem to create a gulf between them that can not be bridged".

Initially India and Pakistan did entertain certain reservations but on the whole response from all concerned was positive. As a result of hectic period of diplomacy by Bangladesh for over a year, foreign Secretaries of seven South Asian Nations assembled at Colombo in April, 1981 for their first ever regional meeting. The deliberations underlined the fact that Regional Cooperation was necessary, desirable and beneficial and that there was need for moving with caution and making adequate preparations for such cooperation. They stressed that cooperation should be based on and in turn contribute to mutual trust, understanding and sympathetic appreciation of the national aspirations of the countries of the region. It was agreed that bilateral and contentious issues be avoided during deliberations and principle of unanimity be followed to reach any understanding. It was also made clear that regional cooperation was neither a substitute for nor inconsistent with bilateral or multilateral cooperation. It highlighted that such cooperation required respect for the principles of sovereign equality, territorial integrity, political independence, non interference in internal affairs of other states and mutual benefits.
The deliberations resulted in the identification of five specific areas of cooperation namely, Agriculture, Rural Development, Telecommunication, Meteorology, Health and population control. An equal number of study groups were instituted for in-depth studies to review the existing arrangements and assess the feasibility and scope for regional cooperation in the overall cost benefit framework. They were also entrusted with the task of suggesting ways and means for establishing and strengthening cooperation by identifying specific projects and spelling out appropriate modalities for implementing and monitoring the work programme. It was also decided to set up a committee of the whole to consider the possibilities of identifying further areas of cooperation.

The historic significance of the meeting was evident from the statement that it was "a manifestation of the will of the seven countries to cooperate regionally".

Subsequently two years were utilised for intensive work at technical level which was periodically reviewed by Secretary level meetings held later in Kathmandu (Nov. 1981), Islamabad (August, 1982) and Dhaka (March, 1983). As a result of the deliberations of these meetings, for more areas of cooperation i.e. postal services, scientific and technological cooperation, sports, Arts and culture and transport respectively were identified. Foreign Secretaries underlined the desirability of regular consultations among the member countries on matters of common interest relating to international economic issues.
Further, meeting of the official national planning organization of countries of the region was recommended to exchange ideas and experience in the formulation of development strategies and methods of plan implementation. It was also felt that implementation of certain recommendations of the study groups in selected areas of cooperation was not feasible in near future as that would entail further discussion and long term planning.

The immediate programme of action was to induce exchange of data and information, organisation of seminars and workshops, exchange of experts, training facilities and scholarships. The long term programme envisaged an assessment of needs and resources, preparation of specific projects and working out the modalities of finance. Further, the imperative necessity of holding a Ministerial meeting was clearly recognised and it was decided to recommend the same after making adequate arrangements including the preparation of an integrated programme of action in agreed areas of cooperation and spelling out the modalities and mechanisms for its implementation, coordination, monitoring and funding. The foreign minister of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri-Lanka held their first formal meeting in New Delhi on August 1-2, 1983. In her inaugural address Mrs. Indira Gandhi expressed the views that "our cooperation in no way limits each country's freedom of judgement. It is allied solely to development and to the strengthening of the economics of our individual countries ...... Let us not be disheartened if we have some difficulties and difference to contend with ..... Our very cooperation will increase
our capacity to withstand pressures. With unity we can hope to move ahead to a future of freedom, peace and prosperity.

The deliberations of the meeting reflected deep commitment of all the seven South Asian countries to "Pursue actively" the goal of regional cooperation. Declaration on South Asian Regional Cooperation affirmed the collective resolve of the seven South Asian governments to actively pursue such cooperation and setting out its objectives, principles, and institutional and financial arrangements. An integrated programme of action was also initiated in respect of nine areas, already selected for regional cooperation. The objectives and modalities of regional cooperation were further discussed in two ministerial level meetings at Male (July, 1984) and Thimpu (May, 1985). Male meeting agreed to recommend to their heads of government for convening of the first summit meeting of South Asian Countries in the last quarter of 1985. In Thimpu the Minister's agreed for still closer consultation on economic issues that come up for discussion in international, inter-governmental and regional fora.

The first summit meeting on August 7-8, 1985 in Dhaka was an historic occasion when the charter adopted there formally launched South Asian Association for Regional cooperation with an institutional frame work.

The charter of SAARC signed on December 8, 1985 in Dhaka was exclusively based on New Delhi declaration of 1983 and raised new hopes in the region. Launching of SAARC was described by President
Zia-Ul-Haq of Pakistan as a "landmark in History", by premier Rajeev Gandhi as "the coming of a new dawn", as a "new ship" by president Jay-wardene, as a "new spring after a long winter of mistrust", by King J. Wangechuk and as a "New theme for his poem" by President H.M. Ershad of Bangladesh. The following objectives were set out in the Dhaka declaration.

ARTICLE-I OBJECTIVES

(a) to promote the welfare of the people of South Asia and to improve their quality of life.

(b) to accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realise their full potentials;

(c) to promote and strengthen collective self reliance among the countries of South Asia;

(d) to contribute to mutual trust, understanding, and appreciation of one another's problems.

(e) to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;

(f) to strengthen cooperation with other developing countries;
(g) to strengthen cooperation among themselves in international forums on matters of common interest; and

(h) to cooperate with international and regional organisations with similar aims and purposes.

ARTICLE-II PRINCIPLES

1. Cooperation within the framework of the association shall be based on respect for the principles of sovereign equality, territorial integrity, political independence, non-interference in the internal affairs of other states and mutual benefit.

2. Such cooperation shall not be substitute for bilateral and multilateral cooperation but shall complement them.

3. Such cooperation shall not be inconsistent with bilateral and multilateral obligations.

ARTICLE-III MEETING OF THE HEADS OF STATE OR GOVERNMENT

The Heads of State or Government shall meet once a year or more often as and when considered necessary by the Member States.

ARTICLE-IV COUNCIL OF MINISTERS
1. A council of Ministers consisting of the Foreign Ministers of the Member States shall be established with the following functions.

(a) formation of the politics of the Association.

(b) review of the progress of cooperation under the Association.

(c) decision on new areas of cooperation.

(d) establishment of additional mechanism under the Association as deemed necessary.

(e) decision on other matters of general interest to the Association.

2. The council of Ministers shall meet twice a year. Extraordinary session of the council may be held by agreement among the Member States.

ARTICLE-V STANDING COMMITTEE

1. The standing committee comprising the Foreign Secretaries shall have the following functions.

(a) overall monitoring and coordination of programme of cooperation.
(b) approval of project and programmes, and the modalities of their financing.

(c) determination of inter-departmental priorities.

(d) mobilization of regional and external resources.

(e) identification of new areas of cooperation based on appropriate studies.

2. The standing committee shall meet as often as deemed necessary.

3. The Standing Committee shall submit periodic report of the council of Ministers and make reference to it as and when necessary for decisions on policy matters.

ARTICLE-VI TECHNICAL COMMITTEES

1. Technical Committees comprising representatives of Member States shall be responsible for the implementation, co-ordination and monitoring of the programme in their respective areas of cooperation.

2. They shall have the following terms of reference.
(a) determination of the potential and the scope of regional cooperation in agreed areas.

(b) formation of programmes and preparation of projects.

(c) determination of financial implications of sectoral programmes.

(d) formulation of recommendations regarding apportionment costs.

(e) implementation and coordination of sectoral programmes.

(f) monitoring of progress in implementation.

3. The technical committees shall submit periodic reports to the standing committee.

4. The chairmanship of the Technical Committees shall normally rotate among Member States in alphabetical order every two years.

5. The Technical Committees may, interalia, use the following mechanisms and modalities, if and when considered agencies.

(a) meeting of heads of national technical agencies.

(b) meeting of experts in specific fields.

(c) contacts amongst recognised centres of excellence in the region.
ARTICLE-VII ACTION COMMITTEES

The standing committee may set up Action Committees Comprising Member Status concerned with implementation of projects involving more than two but not all member states.

ARTICLE – VIII SECRETARIAT

There shall be a secretariat of the Association.

ARTICLE-IX FINACIAL ARRANGEMENTS

1. The contribution of each Member State towards financing of the activities of the Associations shall be voluntary.

2. Each Technical Committee shall make recommendations for the apportionment of costs of implementing the programmes proposed by it.

3. In case sufficient financial resources can not be mobilised within the region for funding activities of the Association, external financing from appropriate sources may be mobilized with the approval of or by the Standing Committee.
ARTICLE-X GENERAL PROVISION

1. Decisions as all levels shall be taken on the basis of unanimity.

2. Bilateral and contentious issues shall be excluded from the deliberation.

Thus, the emergence of SAARC is now an established fact of life in South Asian Region which is one of the poorest in the world. One may hope that SAARC with its firm institutional base and set of sound principles and guidelines for its future growth would ultimately succeed in its basic objective of bettering the lot of South Asian people by discarding the forces of discord. So, the need of the hour is now to transform SAARC into a powerful regional organisation, which is also a historical necessity.

INDIA AND SAARC COUNTRIES

Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka of South Asian Region have some common features in their economic indicators. All the seven SAARC countries belong to the group of low income countries. All have a lower growth of Gross National Product (GNP) per capita, higher population growth and higher rate of inflation than the average for low income countries. Life expectancy at birth was also lower (except for Sri Lanka) than the average for the low income
countries. At present, there exists very little complementarity among the economies of South Asia. Conscious efforts through regional cooperation endeavours are needed to develop the economic complementarities by reorienting the economy of the region towards each other. South Asian economies have very much remained the prisoners of the colonial past. This has resulted in greater complementarities with the metropolitan economies rather than with each other. Resources of the colonial were made to serve the interest of the economy of the colonial masters. Their dependence on the metropolitan economies continued even after their independence which needs to be corrected now. The entire South Asian region is plagued by the following chronic economic conditions.

(i) The region has the largest concentration of world poverty consisting of three fourth of the world poor. Majority of the people live below the poverty line. The disparities in the distribution of income and wealth have remained pronounced.

(ii) The region has a very low rate of economic growth leading to a very low per capita income. In terms of 1992 per capita income of 126 counties, the rank of Pakistan was 101, Sri Lanka 104, India 116, Nepal 123, and Bangladesh 125. The least developed Bangladesh, Nepal, Maldives and Bhutan had per capita income of less than US $ 170.
(iii) The region has a rising pressure of population resulting from high growth rates the population of South Asia was growing at the rate of 2.2. per cent during 1970-1977, compared with a growth rate at 1.7 per cent for the world as a whole. The rising population pressure has neutralised or even negated the gains of economic growth.

(iv) The region has a chronic problem of mass unemployment. The lack of meaningful employment opportunities have led to awful wastage of human resources. The critical shortages of technical and professional people, on the other hand, have constrained the development process.

(v) The region has been unable to effectively utilise its huge potential of water resources mainly because of lack of regional orientation to their usage. Nepal alone has an estimated 83, 000 megawatts of hydro power potential.

(vi) The region has been facing constant food shortages owing to the declining agricultural productivity food imports have become a regular phenomenon in South Asia.

(vii) The region has worsening terms of trade, and poor growth in foreign exchange earnings.
BANGLADESH

A low lying riverine country with a tropical monsoon climate, Bangladesh is one of the worlds poorest countries, located in the eastern part of the Indian subcontinent. Pressures of a dense and rapidly growing population low agricultural productivity and chronic food deficits that have result in widespread malnutrition are other main features of its economy.

Agriculture involves 90 percent population for living and contributes 60% of Gross Domestic Product and the major crop rice can be harvested three times a year.

Mineral resources are scarce in Bangladesh except for natural gas which is in abundance. Some lime stone and deep lying coal deposits that are difficult to exploit also exist.

Its industrial base is small and inefficient accounting for less that 10 percent of GDP. This sector is mostly dominated by Jute goods, textiles, spinning, weaving and sugar. Fertilizers, leather fur, pharmaceuticals, paper and chemicals are other significant industries. Its principal export times are jute goods, jute, tea, leather, seafood and principle import items are food grains, fuels, raw cotton, yarn and manufactured goods.
BHUTAN

The isolated and landlocked kingdom of Bhutan is located in the
Himalaya Mountains between Tibet and India.

Bhutan has a total population of 1.4 million, the population density is 26
persons per sq. km. and per capita income is $180. The life expectancy
is 48 years, Crude birth and death rates are 39 and 17 respectively and
infant mortality rate is 127.

Agriculture is the mainstay of Bhutanese economy absorbing more
than 90 percent of labour force and accounting for 44 percent of GDP.
Chief agricultural producers include rice, barley, maize, millet, potatoes,
mustard, beans, cardamom and other fruits and vegetables.

More than two thirds of the land area is forested. About 10 per cent of
GDP is contributed by forestry and logging operation. The industrial
sector contributes to around 28 per cent of GDP employing 2 per cent of
the labour force and manufacturing light consumer goods like steel,
swords, metal work and woolen silk and embroidered cotton, goods
besides slate and cable, traditional bamboo work, wooden, lacquer
ware and carpets. Bhutan possesses a gamut mineral resources
namely limestone, dolomites, coal, gypsum, copper, Zince, marble slate
and talc.
Bhutan major exports to India include cement, timber, cardamom, fruit products, potatoes, black boards, oranges, rosin rice, dolomite limestone, gypsum, handcrafts and liquor, principal import times include diesel oil, machinery parts, truck chesis, tyres and tubes, electricity and iron rods.

**INDIA**

The subcontinent of India is bordered by the Bay of Bengal on the cast, the Indian ocean on the South, the Arabian sea on the west and from north west to north east, the countries of Pakistan, China, Nepal, Bhutan, Bangladesh and Burma. India has three principal physical areas, namely (a) The Himalaya's and their foothills (b) the northern plains and (c) The plateau of peninsular India. The fertile plains of three rivers, Indus, Ganges, and Brahmapurtra lie between peninsular India and the Himalayas. These plains, also popular as the Indo-Gangetic low land, stretch form the Arabian sea to the Bay of Bengal in a great arc. Within this region is located the most productive and most densely settled region of India.

India had a total population of 1000 million in 2000 growing at an annual rate of 2 per cent. Per capita income has been estimated at $ 300. Crude birth rate and crude death rate per thousand were placed at 29 and 10 respectively. Infant mortality rate per thousand of live births was placed at 80. Life expectancy was recorded as 61 while literacy rate was registered at 48 per cent.
A strong commitment to industrialisation and economic self-sufficiency during much of its post-independence history has reduced the contribution of primary industries—agricultural forestry and fishing—to less than half of net domestic output, although three quarters of labour force works in this area.

Two major grains that Indian farmers grow, are wheat and rice and other product are sugarcane, rape and sesames seed peanuts tea, castrobeans and jute, each in quantities that put the republic in first or second place among the world's producers. Additionally, with its large land area about half of its arable and varied climate conditions, India grows a range of other cereals such as maize, sorghum and millet, as well as pulses, fruits vegetables, spices, tobacco and cotton.

India possesses many natural resources, among mineral resources, for example, monazite and iron ore coal, manganese, bauxite, chromium and mica are found in abundance copper lead and zinc are less plentiful while some gold and precious stones are mined, oil exploration is continuing with good prospects off the southern tip of the peninsula. The world's largest known reserved of thorium as well as some beryllium ore contribute to the country's nuclear power energy. The industrial sector (i.e. including mining, construction and utilities as well as manufacturing) has received a great deal of attention in the country's development plans, resulting in a broad range of manufacturing activities including large scale high technology plants of many kinds as well as wide spread small rate industries.
The most important village industry is the handlooming of textiles, some from the home-spun cotton and primarily from yarn produced in textile mills. The wearing of saris, the traditions woman's wrap, raising silk worms, and spinning and weaving silk from their cocoons, shawls and carpets, processing crude sugar from cane, and fabricating simple articles from pottery, wood and metal are some of the village activities.

Small scale manufacturing supplies materials for large industries in addition to providing consumer goods, construction materials and the like for villages and towns.

Heavy industry is a key component of the large scale activities that Government enterprises monopolize or share with a limited number of private firms. Mining and major metal processing, the manufacture of machinery, machine tools, motor vehicles, petroleum and chemicals and nuclear and other electric power production are among these. Other large scale industries produce consumer durables, such as bicycles, sewing machines, electronic goods, and the manufacture of textiles besides food processing, tanning, plywood and paper etc.

India's fairly consistent trade deficits have usually been offset by foreign aid and income from tourism and remittances from Indians working abroad. The principal exports of India are pearls, precious and semi-precious stones, jewellery, tea, machinery, including transport equipment, iron and steel, jute manufactures, leather and leather
manufactures besides cotton, goods, jute, manganese ores, cashew nuts, raw cotton, unmanufactured tobacco, mica, raw wool, coffee, goatskins, cotton, waste, coal, castor oil and refined sugar.

The principal imports comprise mineral fuels, lubricants, non-electrical machinery, edible vegetable oils, pearls, precious and semi precious stones, iron and steel. In addition food raw materials, textiles, unwrought copper, machine tools and metal working machinery.

MALDIVES

The Maldives are archipelago or group of Islands. Around 2000 coral islands in the India ocean contribute the Republic of Maldives, about 650 km. south west of India and Sri Lanka. None of the islands rise higher than 6 meters above sea level. Only about 15 islands are permanently inhabited.

Population of Maldives in 1999 stood at 0.23 million with growth rate of 3 per cent a year. Per capita income is to the tune of $ 410. Life expectancy at birth is 63 years and adult literacy rate about 91 per cent in 1999.

More than half the labour was engaged in primary production namely fishing. Fishing is responsible for nearly 25% of GDP. The role of agriculture has relatively small. Chief agricultural products are millet,
coconuts, mangoes, corn and sugarcane, besides sorghum, maize and yarns.

A quarter of Maldivians worked in secondary industries. Industries and products comprise of fishing coconut products, lace making, cowrie and tortoise shell and mat making.

Other occupations of the islanders including the processing of small quantities of copra and coconut oil, some handicrafts and the collecting of cowries and other sea shells for exports. Despite rising tourist receipts, trade deficit very much exist in the economy due to rising cost of imports. Dried fish is the country's major export. Coir, cowire, and tortoise shell, palm mats and lace are also exported whereas rice for domestic consumption is a major import along with sugar and wheat flour. All fuel is imported as are most construction materials and manufactured consumer goods.

NEPAL

One of the world's least developed countries the land locked kingdom of Nepal is situated between India and Tibet.

Nearly 90 per cent of the labour force works in agriculture, most at or below the subsistence level and it is responsible for more than 60 per cent of its GDP. Besides paddy, the food crops include wheat, maize,
millet and barely and cash crops consist primarily of jute, oil seeds, sugarcane, tobacco, cotton and indigo.

Mining and quarrying are lesser activities in Nepal with small deposits of coal and more important quantities of mica available. It also has some copper, iron, zinc cobalt and ochre among its mineral resources.

About 30 per cent of the land can be farmed while a third or more is forested. Population growth is pushing cultivation and grazing upward on the hilly slopes, causing rapid deforestation and the consequent problems of soil erosion, Flooding and substantial declines in wild life.

Major part of Nepal's industry includes processing jute and sugar for export. Manufacturing for domestic consumption involves food industries, such as extracting oil seeds, grain milling and brewing, the production of construction material, including cement, bricks and tiles and an assortment of other enterprises in paper, cigarettes, matches, textiles, shoes and furniture. Manufacturing adds about 10% to GDP with approximately 30 percent coming from the modern sector and the rest from traditional cottage industries. The latter which employ more than 5 million people produce rags made of wool and jute, cotton, textiles, ropes, baskets and other handicrafts.

Nepal's enormous but undeveloped hydro-electric power capacity is expected to contribute not only to its own industrial and agricultural development but also provide electric power for export to India.
Nepal's foreign trade has been characterised by large and growing deficit. Its principal exports consist of crude materials, food and live animals, basic manufactures and imports include basic manufactures, machinery and transport equipment, food and live animals, chemicals and lubricants.

Nepal had a population of 20.8 million in 1998 with a growth rate of 2.6%. Crude birth rate was 39 and crude death rate 13 per thousand. Life expectancy was 54 and literacy rate was estimated at 26 per cent in 1998 and per capita income stood at 190 dollars.

**PAKISTAN**

Pakistan, bordered by Iran, Afghanistan and India, is situated between latitudes of 20 46' and 36 55' north and longitudes 60 52' and 92 41' east. It is made up of the arid plain of Indus river and its the high Hindu Kush range and in the north east is the snow copper Himalayas, khyber pass which connects it to Afganistan lies in the north.

The population of the country has been estimated at 122.8 million with a growth rate of 2.8 per cent per annum during nineties. Its density was estimated at 111 persons per sq. km., per capita income was 430 US dollars in 1998. Crude birth rate was 40 per thousand. Whereas life expectancy and literacy rates were recorded 62 years and 35 per cent.
Like most of the low income countries majority of its population 58 per cent depends on agriculture accounting for 25 per cent of GDP. The main agricultural products include rice, wheat, millet, barely, corn grain, sugarcane, oil seeds, cotton, citrus fruits, coconuts, bananas and mangoes.

Mining produced less than 1 per cent of Pakistan’s GDP during the 1990s with low grade coal, chromite, limestone, gypsum and iron ore supplied in relatively small quantities. Arzonite and silica, deposits of clay, magnesium and potassium salt, sodium, carbonates, and sulphates, alum, pyurites, calesite and sulphur have also been discovered, copper ore deposits which also contain recoverable amounts of gold, silver, pyrite and magnetite were found in quantities that should permit Pakistan to become a net copper exporter.

The industrial sector, encompassing mining, construction and utilities as well as manufacturing accounted for 24 per cent of GDP. Cotton textiles and yarn form the largest manufacturing industry and employ more than half of the industrial workers. Food and its products such as refined sugar and cooking oil as well as the production of cement and fertilizer and the refining of domestic and imported petroleum make up another important segment of industrial output besides ship building foundry and engineering works, light metal, electrical goods handicrafts and paper etc.
The chief exports of the country comprise of raw cotton, cotton yarn and manufactures, fresh and dried fish, rice, leather, carpets and ready made garments. The chief imports include machinery, vehicle oil, chemicals and Pharmaceuticals, electrical goods, coal, dyes and colours, fertilizers, tea and transport equipment. Despite trade deficit trade performance has however improved in relative terms with the increase in rate of exports growth and percentage increase in import falling.

**SRI LANKA**

The island state of Sri Lanka lies in the Indian ocean off the south east coast of India. Sri Lanka economy has faced many changes since independence in 1948.

Sri Lanka remains one of the worlds low income countries, dependent on production and exports of three main products – tea, rubber and coconuts for a significant portion of its national income, employing more than a million people to produce these crops.

Nearly 2/5 of the gross domestic product originates in the agriculture, forestry and fishing sector. Agriculture remains crucial accounting for 25 per cent of GDP. Other minor exportable agricultural commodities include spices, cardomom pepper, cloves and nutmegs, cocoa, coffee, citronelia, tobaccos and paddy.
Mineral resources include precious and semiprecious gems, graphite, ilmenite and rutile. Monazite, kaolin, limestone and quartz sand have also been discovered.

Manufacturing which accounted for 17 per cent of the GDP previously has now evidenced rapid growth. The processing of agricultural products and the manufacture of consumer goods account for most manufacturing. The major industries products are food, beverages, tobacco, plywood, cloth, glass, cement, shoes, textiles, garments, chemicals and petroleum products.

In the trade sector, the principal exports of the country are tea, rubber, coconut products, textiles and garments, petroleum products and gem. The principal import items include fuel, iron and steel products, sugar and other foods, wheat, fertilizer, textiles and clothing, machinery and equipment, transport equipment and building materials.

The population of the country has been estimated at 17.9 million with a growth rate of 2.7 per cent per annum during nineties. Population density was estimated at 111 persons per sq. km., life expectancy was 72 years, while literacy rate was tentamount of 88 per cent.

INDIA'S TRADE WITH SAARC COUNTRIES

Table 2.1 reveals that India's trade with South Asian countries (Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka) from
2000 to 2006. The table depicts that India's exports have been increasing with all South Asian Countries.

In the table different variable have been shown i.e. Exports, Imports. **Balance of trade and percentage share in world import and export.**
### Table 2.1 India’s Trade with South Asian Countries 2000-2006

*Value in US $ Millions*

<table>
<thead>
<tr>
<th>Countries</th>
<th>Year</th>
<th>X</th>
<th>M</th>
<th>BT</th>
<th>WM(%) Share</th>
<th>WX(%) Share</th>
<th>WT(%) Share</th>
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<tbody>
<tr>
<td>Bangladesh</td>
<td>2000</td>
<td>297</td>
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<td>1.67</td>
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<td>840</td>
<td>0.1</td>
<td>2.56</td>
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<tr>
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<td></td>
<td>2006</td>
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<td>23</td>
<td>-8</td>
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<tr>
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<td></td>
<td>2002</td>
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<td>2002</td>
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<td>-94</td>
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<td></td>
<td>2004</td>
<td>59</td>
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<td>12</td>
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<tr>
<td></td>
<td>2006</td>
<td>196</td>
<td>49</td>
<td>147</td>
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<td>0.57</td>
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<tr>
<td>Sri Lanka</td>
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<tr>
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<tr>
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<td>2004</td>
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<tr>
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<td>2006</td>
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<td>43</td>
<td>519</td>
<td>0.11</td>
<td>1.63</td>
<td>0.81</td>
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</table>

**Notes:**
- X=Exports, M=Imports, BT=Balance of trade, WM, WX, WT = % share in the world.

**Source:** Estimated from IMF : Direction of Trade Statistics year Book 2007.