CHAPER V

THE PROCESS OF REGIONAL ECONOMIC INTEGRATION AMONG THE SAARC COUNTRIES

This chapter covers the detailed analysis of policy initiatives taken under the SAARC for the promotion of Economic integration among the South Asian Countries and the creation of institutional arrangement for the implementation of various decisions taken under the leadership of SAARC.

Ahmed and Bhatnagar, 2008 found “as the South Asian economies got integrated into the world market, their export performance became highly dependent on global changes. Thus, the question is how South Asia could achieve stability and prosperity. The experiences of other regions had proved that it is through regional arrangements that the countries of Europe, as well as those of South East Asia has secured additional benefits and have succeed to eliminate the negative fallout of globalization. Moreover, with speed breakers encountered by the WTO’s efforts to promote global trade on an equitable basis, countries around the world are now giving more emphasis to regional trade blocs and bilateral trade arrangements. SAARC countries have also made efforts to reap the benefits of regional trading.”

UNCTAD, 2000; Nag, 2007 argued “South Asia is a latecomer to the concept of regional cooperation, and the inward-looking mind-sets of earlier years are still visible in some of its approaches to regionalism. Regional economic integration in South Asia Region is a complex process involving trade in goods and services, foreign direct investment and monetary issues. If properly managed, and complemented with appropriate policies, this process could make a significant contribution in enhancing the position of South Asian Region in the world.”

The overall efforts regarding SAARC regional economic cooperation can be divided into different phases:
5.1 EVOLUTIONARY PHASE

In Evolutionary Phase, the Foreign Secretaries of the seven countries met four times. In the first meeting held in Colombo in April 1981, two far-reaching policy decisions were taken, namely that “decisions at all levels shall be taken on the basis of harmony and that “bilateral and controversial issues shall be excluded from the negotiations.”

The Colombo Meeting decided that regional cooperation “shall not be a substitute for bilateral and multilateral cooperation but shall harmonize them”, and “such cooperation shall not be conflicting with bilateral and multilateral obligations”. Subsequently, three more Foreign Secretaries level meetings were held which covered numbers of issues to define the objectives of regional cooperation to identify selected areas for possible cooperation and recommended suitable action programme. The Foreign Secretaries recognized the necessity of holding a meeting of Foreign Ministers, and the need to prepare a comprehensive Programme of Action in the agreed areas of cooperation. The Foreign Secretaries agreed to set up a Committee of senior officials from the seven countries to select deliberately on different areas of possible cooperation. During the first Meeting of newly constituted Committee which held in Colombo (31 August – 2 September 1981), the importance to widen the economic relations, and the need for cooperation in international economic negotiations were discussed (Tsering, 2000).

5.2 FORMATION PHASE

Under the umbrella of Formation Phase, the Foreign Ministers of SAARC met for the first time in New Delhi under the umbrella of formation stage in August 1983 and issued a Declaration affirming the collective resolve of the seven South Asian Governments to pursue actively the aims of regional collaboration. The main objectives spelt out in the Declaration include:

- To encourage the wellbeing of the people of South Asia and to improve their quality of life;
To speed up economic, social and cultural development in the region and to provide the occasion to live in pride and to grasp their full potentials;

To strengthen collective self confidence among the nations of South Asia;

To contribute to mutual trust, and understanding the problems of all the members; and

To reinforce cooperation among themselves in international platforms on matters of common interests.

Wikipeadia, 2009 reported that “meeting of Foreign Ministers formally launched the Integrated Programme of Action (IPA), and Technical Committees were set-up in the nine agreed areas of cooperation, namely, Agriculture, Rural Development, Science and Technology, Health and Population Control, Transport, Postal Services, Meteorology, Telecommunications, and Sports, Arts and Culture.”

The objectives of regional cooperation were further developed and refined at the Council of Ministers meetings at Male and Trimphu. The Thimphu meeting assumed special significance because it was the preparatory meeting for the first SAARC Summit. However, the meeting was nearly aborted because one of the member refused to send its delegation to Thimphu due to political differences with its neighbor, but was prevailed upon at the last moment to change its mind. Two important decisions were taken in the Thimphu meeting, namely, the creation of an institutional framework for the regional body, and the holding of the Summit Meeting in Dhaka on 7-8 of December 1985. The Dhaka Summit in December 1985 become an historic occasion for South Asia as it provided a forum to South Asian heads at the utmost political level to interact with each other for the first time. The meeting formally launched the South Asian Association for Regional Cooperation with an institutional structure with signing of its Charter by leaders of seven countries namely, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, India and Sri Lanka. Afghanistan became its eighth member in 14th summit in April, 2007 (Ahmed and Bhatnagar, 2008; Tsering, 2000; Subrahmanyam, 2007)
5.2.1 Institutional set up of SAARC and Performance Phase

The following institutional framework for SAARC was set up:

Institutional set up of SAARC

The Summit
Councils of Ministers
Standing Committees
Technical committees

Action committees
Programming Committees

5.2.2 The Summit

The governments control the association which meets annually at the time of summit. So far seventeen meetings of the Heads of Governments have been organized at different places. The detail of these summits is presented in table 5.1.
### TABLE 5.1

**SAARC SUMMITS SINCE 1985**

<table>
<thead>
<tr>
<th>No. of Summits</th>
<th>Date of Summits</th>
<th>Venues</th>
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<tbody>
<tr>
<td>1st SAARC Summit</td>
<td>7-8 December 1985</td>
<td>Dhaka</td>
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<tr>
<td>2nd SAARC Summit</td>
<td>16-17 November 1986</td>
<td>Bangalore</td>
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<tr>
<td>3rd SAARC Summit</td>
<td>2 - 4 November 1987</td>
<td>Katmandu</td>
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<tr>
<td>4th SAARC Summit</td>
<td>29 - 31 December 1988</td>
<td>Islamabad</td>
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<tr>
<td>5th SAARC Summit</td>
<td>21 - 23 November 1990</td>
<td>Male'</td>
</tr>
<tr>
<td>6th SAARC Summit</td>
<td>21 December 1991</td>
<td>Colombo</td>
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<tr>
<td>7th SAARC Summit</td>
<td>10 - 11 April 1993</td>
<td>Dhaka</td>
</tr>
<tr>
<td>8th SAARC Summit</td>
<td>2 - 4 May 1995</td>
<td>New Delhi</td>
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<tr>
<td>9th SAARC Summit</td>
<td>12 - 14 May 1997</td>
<td>Male'</td>
</tr>
<tr>
<td>10th SAARC Summit</td>
<td>29 - 31 July 1998</td>
<td>Colombo</td>
</tr>
<tr>
<td>11th SAARC Summit</td>
<td>4 - 6 January 2002</td>
<td>Katmandu</td>
</tr>
<tr>
<td>12th SAARC Summit</td>
<td>2 - 6 January 2004</td>
<td>Islamabad</td>
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<tr>
<td>Summit</td>
<td>Date</td>
<td>Location</td>
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<td>-----------------</td>
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</tr>
<tr>
<td>13th SAARC Summit</td>
<td>2005</td>
<td>Dhaka</td>
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<tr>
<td>14th SAARC Summit</td>
<td>3-4 April 2007</td>
<td>New Delhi</td>
</tr>
<tr>
<td>15th SAARC Summit</td>
<td>2-3 August 2008</td>
<td>Colombo</td>
</tr>
<tr>
<td>16th SAARC Summit</td>
<td>28-29 April 2010</td>
<td>Bhutan</td>
</tr>
<tr>
<td>17th SAARC Summit</td>
<td>10-11 of November 2011</td>
<td>Maldives</td>
</tr>
</tbody>
</table>

www.saarc.org.in

The important decisions taken and the agreements signed under these summits are briefly discussed:

SAARC Charter was signed in Dhaka summit on 8 December 1985. Separate study groups to solve the problems of terrorism and drug trafficking was set up. Decision to encourage the women participation at the regional level was also taken.

En.wikipeadia.org reported as “Second Summit was held on Nov 16-17, 1986 at Bangalore. Memorandum of Understanding on the establishment of the SAARC Secretariat was signed by the Council of Ministers and decision was taken to locate the Secretariat in Kathmandu and Ambassador Abul Ahsan of Bangladesh was appointed as the first Secretary General of SAARC. The Third Summit was held in Nepal from 2–4 November 1987, the foreign ministers of the member states signed the SAARC Regional Convention on Suppression of Terrorism and an agreement to establish a South Asian Food Reserve was also signed.”

En.wikipeadia.org noted that “the Fourth Summit was held in Islamabad, Pakistan on 29–31 December 1988 and was attended by the presidents of Bangladesh, the Maldives and Sri Lanka. The prime ministers of India, Pakistan, the kings of Bhutan and Nepal were also present in the summit. The summit discussed the coup attempt on 3 November 1988, declared 1989 to be the "SAARC Year Against Drug Abuse", declared 1990 to be the "SAARC Year of the Girl Child", set up a technical
committee on education, and launched a regional plan called "SAARC-2000-A Basic Needs Perspective" to meet specific targets by the end of the twentieth century in areas such as food, shelter, education and environmental protection. It was also agreed to hold regular "South Asian Festivals" with the first being hosted by India. Similarly, the Fifth Summit was held in Malé, Maldives on 21–23 November 1990 and was attended by the presidents of Bangladesh, the Maldives and Sri Lanka, the prime minister of India, Nepal and Pakistan, and the king of Bhutan. The leaders signed the SAARC Convention on Narcotic Drugs and Psychotropic Substances, launched the Special SAARC Travel Document (providing visa-exemptions for national judges, parliamentarians and academics and their immediate families), launched a Scheme for the Promotion of Organized Tourism, authorized the SAARC secretariat to share information and exchange reports, studies and publications with the European Community and the Association of South East Asian Nations, declared various SAARC years (1991-2000 AD) to be the "SAARC Decade of the Girl Child", 1991 to be the "SAARC Year of Shelter", 1992 to be the "SAARC Year of the Environment", 1993 to be the "SAARC Year of Disabled Persons", and decided to set up the SAARC Tuberculosis Centre in Nepal and the SAARC Documentation Centre in India.

In the 6th Summit held on 21 December, 1991, at Colombo, a decision was taken to establish an independent South Asian Commission of eminent persons for the alleviation of poverty. Another decision was taken to establish a commission for economic cooperation and action plan was prepared to celebrate the decade of 1991-2000 as a girl child.

Seventh Summit finalised the Framework of the Agreement on SAARC Preferential Trading Arrangement (SAPTA) which held from 10-11 April, 1993 at Dhaka. Moreover, this year was observed as the "SAARC Year of Disabled Persons."

8th meeting of SAARC was organized in New Delhi from 2-4 May 1995. This meeting decided to set up three windows South Asian Development Fund with the arrangements of funds of SAARC to support regional projects in the region, second for SAARC Regional Fund and a third window for Social Development and Infrastructure Development.
Ninth meeting which was held on 12-14 May 1997 at Male, took decision to set up a Group of Eminent Persons (GEP) with sound backgrounds activities relating to regional collaboration. It also decided to amend Article V (1) of the MOU to set up the Secretariat to fix the tenure of the Secretary-General for a term of three years; and also decided to designate 1997 as the "SAARC Year of Participatory Governance".

Tenth Summit (29 - 31 July 1998 at Colombo) observed that the performance of SAARC was slow that Group of Eminent Persons (GEP) report, which was considered as measuring tool for evaluation of SAARC performance, had remained in midpoint even after the two years of its preparation. The indo-Pakistan differences over bilateral issues led to the postponement of the Eleventh SAARC Summit which was going to be held in Kathmandu in November 1999.

The presidents of the Maldives, Pakistan and Sri Lanka and the prime ministers of Bangladesh, Bhutan, India and Nepal participated in the Eleventh Summit which was held in Kathmandu, on 4–6 January, 2002. During this meeting it was decided that timeframes binding be incorporated to achieve a higher level of free trade and efforts should be made so that all member countries should get equal benefits particularly, the interests of the small and poor countries be protected. The meeting also decided to finalize the Draft Treaty Framework by 2002. The Council of Ministers also took decision to make more efforts for the removal of barriers to trade for the achievement of objectives of SAFTA.

The 12th Summit held in Islamabad, on 4–6 January, 2004 was attended by the presidents of the Maldives and Sri Lanka and the prime ministers of rest of member countries. The members laid emphasis to remove bilateral conflicts which was still against the achievement of objectives of SAFTA. The members took serious notice on slow forgoing indo-pak relation and suggested that they should make efforts to resolve past differences for the interest of SAARC members. The new agreement i.e South Asian Free Trade Area (SAFTA) was approved by the member countries on the last day of the summit.

The prime ministers of Bangladesh, Bhutan, India and Pakistan, the presidents of the Maldives and Sri Lanka, and the king of Nepal shared their views during the Thirteenth Summit which was organized in Dhaka, on 12–13 November, 2005. The
authorities in the meeting stressed the importance of implementation of SAFTA Agreement as per schedule. The members emphasized that the trouble free transportation and communication channels be strengthened. They also pointed out that potential of service sector be formalized to take over the benefits of free trade.

The following Agreements were approved during the thirteenth SAARC meeting:

- *The Agreement on Mutual Administrative Assistance in Customs Matters;*
- *The Agreement on the Establishment of SAARC Arbitration Council; and*
- *The Limited Agreement on Avoidance of Double Taxation and Mutual Administrative Assistance in Tax Matters.*

The presidents of Afghanistan, the Maldives and Sri Lanka and the Prime ministers of Bhutan, India, Nepal and Pakistan and the chief adviser of the government of Bangladesh had exchanged their ideas during the Fourteenth Summit which was held in New Delhi, on 3-4 April, 2007. *Afghanistan* was allowed to enter as eighth member of *SAARC*. The following agreements were signed during this Summit:

- *Agreement on the Establishment of SAARC Food Bank; and*
- *Agreement for Establishment of South Asian University.*

Fifteenth Summit Held on 2-3 August, 2008 at Colombo. The 15th summit approved the following decisions:

- *The signing of the Protocol on Afghanistan for Accession to SAFTA;*
- *The signing of the Charter of the SAARC Development Fund (SDF);*
- **SAARC Regional Multimodal Transport Study (SRMTS);**
- *Agreement on Trade in Services; and*
- *Draft Agreement on Investment Promotion and Protection.*
The 16th Summit which was organized on 28-29 April, 2010 at Bhutan, raised a new issue for discussion. The summit signed a Convention to take measures to protect the environment of this region so that climate changes are checked; furthermore, Agreement on Trade in Services (SATIS) was signed in this summit.

Seventeenth Summit held on 10-11 November, 2011 at Maldives. The summit discussed and approved the following agreements:

- Agreement on Rapid Response to Natural Disasters,
- Agreement on Multilateral Arrangement on Recognition of Conformity Assessment,
- Agreement on Implementation of Regional Standards were on the agenda.

5.2.3 The Council of Ministers

The international council of social welfare (ICSW) reported that The Council of Ministers, which comprises the Foreign Ministers of Member States, is responsible for “formulating policies, reviewing progress, deciding on new areas of cooperation, establishing additional mechanisms as deemed necessary and deciding on other matters of general interest to the Association. The Council is expected to meet twice a year and may also meet in extraordinary session by agreement of the Member States. Informal meetings of the Council are also held as agreed during the Sessions of the United Nations General Assembly.”

5.2.4 The Standing Committee

The Standing Committee is comprised of the Foreign Secretaries of Member countries. The international council of social welfare (ICSW) noted that the following tasks were assigned to this body which includes “overall monitoring and coordination of programmes; the approval of projects and programmes and the modalities of financing; determining inter-sectoral priorities; mobilizing regional and external resources; and identifying new areas of cooperation. It meets as often as deemed necessary and submits its reports to the Council of Ministers. The Standing Committee may also set up Action Committees comprising of Member States concerned with implementation of projects involving more than two Member States.
The Standing Committee is assisted by a Programming Committee. The Programming Committee comprised of senior officials, and is responsible for scrutinizing the Secretariat Budget, finalizing the Calendar of Activities, and taking any other matter assigned to it by the Standing Committee. The Programming Committee has also been entrusted to consider and submit to the Standing Committee, recommendations for action on the Reports of the Technical Committees, SAARC Regional Centres and the SAARC Audio Visual Exchange (SAVE) Committee.”

5.2.5 The Technical Committees

In addition to the standing committees, SAARC decided to set up different technical committees in different fields for Integrated Programme of Action (IPA)

The technical Committees were supposed to perform following tasks which include preparing the programmes and framing projects in different fields under the IPA and responsible for monitor the implementation of various activities and submitting different reports to standing committee through the programming committee.

Under the new SAARC Integrated Programme of Action (SIPA) however, the number of technical committees were reduced from eleven to seven. The major objective of this change was to improve the functioning of these committees in terms of quality and efficiency. The retained seven committees include the following:

- Agriculture and Development
- Communications and Transport
- Social Development
- Environment, Meteorology and Forestry
- Science and Technology
- Human Resources Development, and
- Energy
To improve the functioning of these committees the provision of automatic review under SIPA is provided. The Secretary General has been entrusted the task of computation of independent multi-disciplinary Expert Group to review the working of these committees after every three years.

5.2.6 Specialized Ministerial Meetings

Since the establishment of the SAARC number of SAARC ministerial meetings have been held. To focus attention on specific areas of common concerns all the meetings of specialized ministers have become an integral part of the consultative structure since the formation of SAARC. These meetings have taken number of initiatives in important fields like trade and manufacturing of goods and services of basic needs, human resource development, socio-economic parameters, techniques of energy modeling, and poverty removal strategies etc.

5.2.7 Regional Centers

SAARC set up five regional centers, namely, in Bangladesh, Nepal, India and Pakistan. Each centre has a separate Governing Board. The Governing Board provides information to Standing Committee. The Regional Centers includes the following:

**SAARC Agricultural Information Centre (SAIC)**

This information centre was set up in Dhaka in 1988. SAIC was constituted for the collection of relevant information of each member country so that same be shared for further research.

The major function of SAIC is to publish research work carried-out by individual countries in the area of forestry, fishery, livestock in a quarterly newsletter.

**SAARC Tuberculosis Centre (STC)**

This centre was established in 1992 in Kathmandu. The major objective of STC is to work for the preventive and checking of TB in the region through cooperation and joint efforts of National TB Programme of the Member countries.
**SAARC Documentation Centre (SDC)**

The Indian National Scientific Documentation Centre New Delhi set up SAD in May, 1994. The SAARC Documentation System provides common facility i.e. SDC and its sub-units in Member countries act as the Centre’s repositories with the **SAARC Secretariat** and **SAARC Regional Institutions**. To fulfill the objective of access to information, the SDC collect data from member countries and from other international data sources in the fields of biology; physical, and chemical engineering; emerging areas of life sciences and other development issues.

**SAARC Meteorological Research Centre (SMRC)**

The SMRC was established in Dhaka on 2 January, 1995. The Centre focuses mainly on the research areas of weather estimation and supervising. The research areas include prediction and compiling of weather climatologically data. In addition to predicting weather related data, the Centre is also working in developing a networking system for the Member countries.

**SAARC Human Resources Development Centre (SHRDC)**

Human Resources Development Centre (SHRDC) has been set up in Pakistan. The major objective of this centre is to carry-out research, training and generation of information on human resource development aspects.

**5.3 SAARC PREFERENTIAL TRADING ARRANGEMENT (SAPTA)**

The Tenth Summit in Colombo granted approval for the establishment of an institutional structure for trade liberalisation through **SAPTA** in 1993 under the shadow of SAARC.

The basic structure of the agreement on **SAPTA** was completed and signed during seventh summit at Dhaka which came into force in 1993.

The basic principles of SAPTA include followings:

- To strengthen the advantages of reciprocity and mutuality to provide equal benefits to all the participating states by considering the levels of development, external trade and level of tariffs.
To strengthen mutual cooperation to improve and extend further development through time-bound reviews.

Respect to the needs of the Least Developed participating countries and agreement on concrete preferential measures for their benefits; and

Inclusion of all manufactured products and commodities whether raw material, semi-finished and finished forms.

5.4 SOUTH ASIAN FREE TRADE AREA (SAFTA)

The South Asian Free Trade Area (SAFTA) was finalized on 6 January 2004 during the Twelfth SAARC summit in Islamabad, Pakistan. The formation of Free Trade Area created a market of 1.8 billion people of member countries of SAARC. The basic objective of this agreement was to reduce customs duties of all traded goods to zero by the year 2016. The entry of Afghanistan to SAARC in 2007 has further broaden the scope of trade for the members.

The SAFTA agreement started functioning on 1 January 2006 with ratification of the agreement by the seven countries. The implementation of this agreement bound the developing countries South Asia (India, Pakistan and Sri Lanka) to reduce duties to 20 percent in the first phase of the two-year period ending in 2007. The member countries (developing) agreed to further reduce through annual cut to zero level by 2012. The least developed countries (Nepal, Bhutan, Bangladesh, Afghanistan and Maldives) were given another three years to reduce tariffs to zero. India and Pakistan ratified the treaty in 2009, Afghanistan as the 8th member state of the SAARC accepted the SAFTA provisions on 4 May, 2011.

5.4.1 The Agreement

SAFTA was created to encourage and highlight the common issues of the member countries relating to medium and long term agreements. Agreements relating to trade openness by government through supply and import assurance of selected products
5.4.2 Objectives

The promotion of competition in the region and to make available equal benefits to the member countries is the main objective of this agreement. Another objective of this agreement includes the promotion of transparency and integrity among the member countries through reduction in tariffs so that Least Developed Countries (LDCs) within SAARC region get special protection to increase their share in regional trade.

5.4.3 Mechanisms

Following are the major machineries introduced under SAFTA Agreement:

- Implementation of Trade Liberalisation Programme;
- Framing Rules of Origin;
- Making Institutional Arrangements;
- Consultations and arrangements of Dispute Settlement Procedures;
- Identification of Safeguard methods; and
- Any other instrument that may be agreed upon.

In spite of all the measures taken by the various institutions created under the umbrella of SAARC, it could not succeed to develop a consensus among the members to narrow-down conflicting interests. India has a special status in this region in terms of area, level of development, technology and human resource development. The dispute between India and Pakistan on issue of Kashmir; conflict with Sri-Lanka on Tamils; trade treaty with Nepal, unresolved disputes of Ganga river water with Bangladesh have constantly hamper the progress of this agreement.

Though, above mentioned issues of conflicts remained major cause of concern for India (a major partner in this region). The situation has improved in regard to trade relations among the SAARC countries except Pakistan.
5.5 OTHER IMPORTANT EVENTS RELATING TO SAARC

So far the following issues had been remained in focuses:

- The formation of a suitable planning model for the member countries;
- The formation of strategy to deal with the poverty alleviation in the South–Asian region;
- Sharing of information relating to different fields of member countries to deal with the problems; and
- To find out ways to strengthen the regional economic-cooperation among the members;

The experience has shown that the broader field of cooperation remained economic, social, cultural and technical. The main discussion had been held on these issues. However, the available records relating to regional cooperation reveals that more progress has been taken in regard to cooperation in health sector, population control and sports activities which may contribute in the creation of economic cooperative environment.

In fact, in 1986, the first Ministerial Meeting on International Economic Issues was held in Islamabad (31 March – 3 April) which “stressed the need for intensifying economic cooperation among SAARC countries and reached upon the agreement that SAARC countries should coordinate their positions at the various headquarters of regional and international organizations, as well as in relevant international conferences to advocate the common objectives of member countries.”

In line with first meeting, “the representatives of the National Planning Organisations met for the second time in Islamabad in 1987(11 -14 October) which recommended that in view of the adverse international economic situation facing the region, there is a need to pool resources for long-term regional cooperation. Recognizing 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 at 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.”

The finding of the study which was completed in 1991 recommended that regional co-operation be promoted in the region. In the light of above, the council of ministers in 9th session in Male approved to constitute a high-level committee to strengthen economic co-operation. This committee was empowered to frame new policies and supervise the implementation of special policy steps and programmes under the SAARC guidelines to encourage and enlarge intra-regional cooperation in the fields of trade and Economic cooperation. The formation of *Committee on Economic Cooperation (CEC)* contributed in the institutionalize of the SAARC programme and emerged as an first land mark in the operationalisation of SAARC policies after six years of its formation. The recommendations of this committee contributed in terms of identification of new areas of cooperation among the South Asian Countries. The important functions include the following:

- Analysis of regional and global developments which affect the regional trading;
- Formation of common strategies and approaches at global fora;
- Specific recommendations for the promotion of regional trading, joint-ventures and investments.

Saarc-sec.ogr reported that, “the decision of the CEC includes areas from quality control, uniformity in customs duties, documentations and procedures, preferential trading arrangements and rules of origin, and the transition from the *SAARC Preferential Trading Arrangement (SAPTA) to the South Asian Free Trade Area (SAFTA)*. The recommendations of the CEC were implemented through the Standing Committee to alter SAARC bodies, namely the *Council of Ministers* and the Summit. Eleven Meetings of the CEC had been organized over the period of time.”

An Inter Governmental Group (IGG) was set up to evolve agreement on an institutional framework for specific measures to liberalize trade among SAARC member countries could be enhanced was taken during Sixth summit in 1991. Another landmark was establishment of SAARC *Chambers of Commerce and Industry 1992* as the first recognized regional Apex Body to enhance regional
cooperation in the areas of trade and economic relations. The SAARC Chamber of Commerce and Industry (SCCI) played an important role by bringing all the national chambers of commerce and industry of the member states on one platform and played active role for the promotion of trade and the interface of the business people within the SAARC region.

Saarc-sec.ogr highlighted that, “SCCI contributed in increasing public awareness through workshops and studies including the publication of study materials, the interactive sessions between government and industry aimed at providing pertinent input to the path of regional economic cooperation. The SCCI also holds regular consultations with the SAARC Secretariat. 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 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 to provide policy and other inputs for the consideration of the Committee on Economic Cooperation (CEC). The Eleventh SAARC Summit held in Kathmandu on 4-6 January 2002, recognized 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 by upgrading of infrastructure, air linkages, simplification and harmonization of administrative procedures and training and joint marketing.”

The critical evaluation report of the efforts of SAARC member countries regarding economic cooperation within the region observed that even after the establishment of seven years (1992) of SAARC Association, much efforts were not made for the creation of any preferential trade agreement on physical ground. However, the establishment SAARC Chamber of Commerce and Industry in 1992 and growing popularity of Regional trading Agreements (RTAs) had motivated South Asian countries to create Preferential Trading Agreement. In 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.
Another development was the decision to constitute a Group of Eminent persons (GEP) in MALE in 1997 which were mandated to undertake a comprehensive appraisal of SAARC. The Group of Eminent Persons (GEP) presented a report during the Tenth SAARC Summit in Colombo in July 1998. After a preliminary discussion, the Council of Ministers, were asked to review the report. A few months later, the Standing Committee of Foreign Secretaries of SAARC discussed the report based on an outline paper prepared by the SAARC Secretary General, and suggested points for review by the Council of Ministers. The situation of SAARC performance was so slow that GEP report, which was considered as measuring tool for evaluation of SAARC performance, had remained in midpoint even after the two years of its preparation, because of indo-Pakistan differences over bilateral issues which led to the postponement of the Eleventh SAARC Summit in Kathmandu in November 1999.

The independent observers had found that in spite of the establishment of SAPTA, SAARC remained far from developing as a regional economic group. Moreover, SAPTA had failed to boost intra-regional trade in any major way between the SAARC member countries (SMCs). Intra-regional trade confined to only 3.4 per cent of the total trade flows for the SAARC countries in 1993. The percentage share of total world trade taken up by intra-regional trade remained just 3.7 per cent in 1999 despite the fact that SAPTA was signed and implemented in 1995. One of the reasons for its ineffectiveness was that many of the items on which concessions were offered, were not significant in trade terms. For example, of the 226 items on which concessions were granted during the first round of negotiations had insignificant value. The researchers found that India imported only 22 of the 106 items offered for concessions; Pakistan imported only 13 of the 35 products offered for concession; Bangladesh too managed to import only 18 of the 214 items on which other members had offered concession in tariff rates in 1993-94.

The second round of negotiations covered as many as 2013 products for concessions which apparently represent a huge leap in the success of negotiations, and yet it too failed to improve intra-regional trade in any significant way. The fact is that majority of the products for which concessions were offered for import and export for the SAARC countries was not important within the region. As a result trade of these items could not improve. In addition to it, trade negotiations under the umbrella of
SAPTA were confined to reduction of tariffs only, non-tariff measures remained untouched. Trade liberalization among SAARC countries had been hampered by many constraints even after the formation of SAPTA which includes political distrust, economic asymmetries among member countries and the nature of the framework of agreement which had not make compulsory the reduction of tariff and elimination of non-tariff barriers (NTBs) within a stipulated time frame etc (Abdullah, 2000; Jayasekera, 2001; Udagedera, 2001; Mohanty, 2003).

In 1995, the Sixteenth session of the Council of Ministers (New Delhi, 18-19 December) agreed on the need to strive for the realization of SAFTA and an Inter-Governmental Expert Group (IGEG) was set up in 1996 to identify the necessary steps required for the promotion of free trade area. The Tenth SAARC Summit (Colombo, 29-31 July 1998) decided to set up a Committee of Experts (COE) to draft a comprehensive treaty framework for creating a free trade area within the region by 2001, taking into consideration the asymmetries in development within the region and to fix realistic and achievable targets within a reasonable time period.

Trade liberalization programme, rules of origin, institutional arrangements, consultation and dispute settlement procedures, safeguard measures and all the other instruments that may be agreed were considered as the basic constituent of agreement. Under the trade liberalization programme, tariff reduction was scheduled in two phases. It was decided that, by the end of first two years of SAFTA’s implementation, 2006-07, the developing countries in South Asia, namely, India, Pakistan and Sri Lanka, will reduce their duties down to 20 per cent and least developed countries namely Bangladesh, Bhutan, Maldives and Nepal, would reduce their existing tariff rates to 30 per cent. Furthermore, the 20 per cent duty would be further reduced to zero through the annual cuts by 2012. And on the other hand, the least developing country group was allowed to get an additional three year up to 2017 to reach zero level duty.

SAFTA recognized that “least developed countries in the region need to be accorded special and differential treatment commensurate with their development needs in the area of tariff reduction and dismantling of non-tariff barriers. In order to protect its vulnerable industries, each member country was allowed to maintain its
own sensitive list on which tariffs would not be reduced. It was also decided that the least developed countries may maintain a longer sensitive list and the rules of origin shall be negotiated by member countries and incorporated into the Agreement as an integral part. In addition, appropriate mechanisms shall be established to compensate the least developed countries for their loss of customs revenue owing to the implementation of the trade liberalization programme.” The Agreement also suggested that “members should adopt additional measures, including simplification of banking procedures for import financing, transit facilities for efficient intra-SAARC trade, removal of barriers to intra-SAARC investments, rules for fair competition and the promotion of venture capital, and simplification of procedures for business visas. The dispute settlement mechanism has been set up to provide basic guidelines to members to solve trade related disputes. The adoption of SAFTA represents a crucial step towards economic cooperation among SAARC countries. It was expected that the provisions of SAFTA would provide mutual benefits to all member countries within the region and enormously enhance the economic cooperation among members. However, independent analyst observed that only rule of origin had been discussed in the SAFTA provisions, other measures of trade and transport facilitation such as harmonization and mutual recognition of standards, adoption of common tariff and harmonization of customs procedures valuation methods are being ignored. It has also been observed that more than two decades of inception of SAARC and the implementation of SAFTA, the agreement on trade in service has been signed in the 16th SAARC Summit held in 2010. Moreover, no harmonized incentive policy had been framed to attract foreign investment. Furthermore, restrictions on investments in their respective stock markets should be removed, and ultimately the efforts should be made for creating the common stock exchange within the region”(UNESCAP 2004; Ahmed and Bhatnagar, 2008 and sixteenth SAARC Summit, 2010).

Since the ultimate goal of SAARC was the creation of a South Asian Economic Union. The Report of Group of Eminent Persons (GEP) had pre-fixed the time for creation of South Asian Economic Union by 2020, which was over ambitious time limit. No doubt, SAARC Preferential Trading Area (SAPTA) visualized 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. However the past track record of the SAARC countries has shown that creation of SAARC Economic Union by the year 2020 was not an easy process and even seemed to be impracticable. It is a fact that national political interests had taken superiority over collective economic interests especially among the member countries of SAARC region that had at the same time brought security gains. In the South Asian Regional Cooperation, some states could not think beyond the nation-boundary. The whole idea of welfare had been confined to geographical boundaries. Some of the states of South Asia doubt the idea of a South Asian Economic Union, as they feared that it would dilute their autonomy. The first step towards the creation of an Economic Union would be a Single Market, which demand the integration of transport, telecommunications and energy infrastructures. However no such efforts had been yet made by SAARC region on the integration of these sectors. The Progress of SAARC institution may be adjudged on the basis of following points:

The decision of setting –up of SAFTA by 2001 was taken in fourth round of SAPTA negotiations to be completed in 2006, however, decision was taken in SAARC Summit of MALE in May 1997. However, it was implemented after five years.

Furthermore, the Committee of Experts, which was constituted and met in July 1999 to draft the Treaty by the end 2001, had implemented the agreement on 1 Jan 2006, six years later after the creation of committee of experts on SAFTA and 21 years after the establishment of SAARC Association. SAARC members have agreed to discuss the issue of co-operation in the field of power. The SAARC has also accepted the findings of Asian Development Bank study on South Asian power Exchange (Lohani, 2008; Pattanaik, 2006; Jayasekera, 2001).

5.6 MAJOR PROBLEMS IN THE WORKING OF REGIONAL ECONOMIC INTEGRATION AMONG THE SAARC COUNTRIES

Udagedera, 2001 has highlighted the major problems in the working of Regional Economic Integration among the SAARC countries as follows:
“Problem of Bilateralism

India pursues a policy of bilateralism in its foreign policy and this is especially the case where relations with its neighbours are concerned. The Gujral Doctrine enunciated in 1996 defined how this policy of bilateralism was to be pursued. The Gujral Doctrine’s first principle (of five) spelt out that “with neighbours like Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka, India would not ask for reciprocity. Bilateralism when used in relationships between unequal players inevitably yields lopsided results in favor of the stronger side. The rationale of the Gujral Doctrine has been justified by the Indians thus: 'Surely India cannot stick to it’s principle of non reciprocity if any of the neighboring countries believe either in internationalising bilateral issues or supporting elements inimical to India’s interest’”.

India has continued to use the same policy of bilateralism within the framework of the SAARC. Both SAARC and SAPTA, concluded under the auspices of the parent organisation, have been forfeited to this policy. India is already in a Free Trade Agreement with Nepal, Bhutan and Sri-Lanka.

Problem of Subregionalism

Bilateralism is not the only example of India undermining the spirit of regional Integration agreements. Time and again it has attempted to moot alternative arrangements which damage its workability. Another such effort is the sub-regionalism initiative. The idea of sub-regionalism is based on the premise that “India, Bangladesh, Nepal and Bhutan are geographically adjoining units, all plagued with poverty, but bearing enormous potential for harnessing resources to their benefit. It was thought that this potential could be better harnessed by forming something like a South Asian Growth Quadrangle (SAGQ) comprising the fore-mentioned countries.”

It is obvious that “those countries deliberately left out of the initiative, notably Pakistan and Sri Lanka, will hardly endorse such an idea or forum. Both are understandably extremely indignant about this obvious attempt to sabotage and undermine the whole structure of SAARC. It could be argued that SAARC is not a substitute for bilateral and multilateral cooperation, as the second principle of its
charter makes clear: Such cooperation shall not be substitute for bilateral and multilateral cooperation but shall complement them.”

However, the reverse is also true: “SAARC must not be subordinated to bilateralism or subregionalism. Arrangements which benefit only partial components of SAARC must not thrive at the expense of the regional grouping.”

**Inter-state conflict**

“Inter-state conflicts in South Asia are highest compared to any other regional blocs. Bilateral relations are defined by aggression and distrust. The differences between India and Pakistan over Kashmir, between Sri Lanka and India over the nationality of Tamilian, where Sri Lanka accused India, especially state government of Tamil Nadu for supplying arms and providing trainings to the Tamil terrorists in its Southern areas are the two most outstanding examples in this regard. Dispute between India and Bangladesh over illegal migration from the Chittagong Hill Tracts (CHT) and the demarcation of boundaries involving fertile islands and enclaves and also in sharing the water of river Ganges are the other major constraints in the process of regional integration in South Asia.”

**Difference in the level of development among the SAARC countries**

There are different levels of development between the developing and under developing countries. Developing countries like India, Pakistan and Sri Lanka have higher level of development as compared to the other members of SAARC nations namely, Afghanistan, Bangladesh, Nepal and Maldives. So there is always a fear among the least developed countries within the region that the major players will take more benefits of deeper integration.

**Other constraints in the process of Regional Integration**

- The tariff concessions have been reduced on a large number of items, however the value of items, which have been subject to tariff concessions, has been too small to make an impact on intra-regional trade.
• Most of the items on which tariff reductions have been granted are not produced or actively traded by the member states. In other words, preferences have not been granted on items, which are being traded on a large scale.

• Some of the tariff preferences are not of practical value as they duplicate preferences granted under other preferential agreements such as the Bangkok Agreement.

• Moreover, trade negotiations were restricted to removal of tariffs. The removal of para-tariffs and non-tariff procedures has not been highlighted.

• The positive effect of tariff concessions can be effectively negated by non-tariff measures such as licensing, state trading, canalization etc. Furthermore, the depth of tariff cuts offered under the various agreements has not been deep enough to stimulate trade flows among member states.

The foregoing discussion leads us to the conclusion that lot of efforts have been made to create a strong institutional arrangement for the promotion of regional integration among the SAARC countries. However, most of the decisions taken at different levels have either been remained inconclusive or are still under discussion. It has been seen many times that the meetings of the summit had not been held on due dates which leads to confusions and slow down the process of implementation of the decisions taken at other levels. The eighteenth summit proposed to be held in Nepal could not be held in time and there is no fixed schedule when it would be held. So it clearly explains the poor performance of the existing institutional arrangement created for the promotion of regional economic integration among the SAARC nations.