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**SAARC : Emerging Challenges**

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## India & SAARC—Towards A Global Outlook

Divya Nath\*

The peoples of South Asia share a historical tradition of greatness, as well as a set of common values. It was at one time, apart from being a political and military power to reckon with, a world centre of economic growth, trade and wealth. One estimate of the South Asian region put its GNP at 25% of the global total in the year 1700<sup>1</sup>. The world's major trade routes by land and sea, from central Asia and China, from Mediterranean and Africa passed through the Indian Ocean. But today, the forces of history have pushed it to the periphery of world politics, with its GNP less than 1% of the world trade<sup>2</sup>. In order to reverse this historical trend, a tremendous effort is needed on the part of the region, to aim for integration in areas that matter, as this would be a pre-requisite to achieving a global outlook.

Another aspect of the belief in the future of South Asia as a cohesive entity is that it has the longest history of a coherent polity, economy and administration. For a thousand years, with few gaps, the major part of the region was under unified political and administrative rule. The whole region shared a single governing and administrative culture, economy, one market, a common infrastructure of roads, canals, shipping, communications, a single currency etc. Diversity has always been part of the socio-political scene, but this did not dilute the commonalities, since it seldom led to conflict. But after 1947, the divergences became so great that they have tended

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to swamp what is common, thus breaking the structure of civilizational unity<sup>3</sup>. But, since the countries of South Asia also have a common destiny, they have to act as partners rather than rivals to build regional resilience, and work towards forming an organic South Asia, which can challenge other mega blocs with its sheer power.

India is central to the fortunes of SAARC. The Indo-centric character of the cultural, religious and ethnic mosaic of South Asia is a fact of history, which India cannot avoid and its neighbours cannot ignore<sup>4</sup>. In terms of the regional configuration of power, no single country dominates its region in the way India dominates South Asia. It comprises more than  $\frac{3}{4}$  of its land mass, its natural resources and its population of 1.3 billion people. The economic profile of SAARC depends, therefore, very largely on India's own profile. If India falters in promoting regional co-operation, there is no way it can be fostered since all the seven member-states are connected to each other only through India, and have no direct border with one another except with India<sup>5</sup>. Indian power far outweighs the collective power of all its neighbours. Thus it has a natural leadership role here.

All the developments the world over, where countries are regrouping themselves as megablocs, are bound to have long-term implications for South Asia, if it gets left behind. There is need for structuring a new paradigm on economic regionalism in South Asia based on co-operation in the wide-ranging fields of trade, poverty eradication, communication, science and technology, human resource, energy, terrorism, climate change, trafficking etc., which would optimize the full potential of the region. An identical perception on the above issues is needed which could generate a positive atmosphere, and project their common cause and concern before the international community. This would also help the SAARC nations to move beyond political obstacles, and optimize economic opportunities<sup>6</sup>.

The benefits of the above achievements to New Delhi will be reflected in its larger international personality as the leader

of the largest population group in the world. It is therefore overwhelmingly in India's national interest to strengthen regional co-operation by harnessing the collective power of these countries. Today India provides the second largest consumer market in the world. When South Asian Free Trade Area (SAFTA) is fully realized the region will be the largest market in the world. This in turn will enormously increase India's own importance and potential<sup>7</sup>. In various areas where South Asia lags behind the rest of the world and there is need to put in concerted efforts to improve conditions and make its presence felt on the global level.

### Poverty Alleviation

The South Asian countries fall within the low-income group of world's economy<sup>8</sup>. Thus poverty is the major hindrance to their development efforts. But the leaders of the SAARC countries have affirmed that South Asia's poor, involved mostly in the informal sector can constitute a huge and potential resource provided their basic needs are met and they are mobilized to create economic growth<sup>9</sup>. That is why they have accorded highest priority to the alleviation of poverty by empowering and linking the poor with the mainstream of development, and set up a commission on poverty alleviation, namely, Independent South Asian Commission on Poverty Alleviation consisting of eminent persons from each member state, to conduct an in-depth study of diverse experiences of the seven countries in this respect<sup>10</sup>. It decided to activate the existing three-tier mechanism for poverty alleviation. The SAARC Finance and Planning Ministers at their meeting in April 2002 prepared a plan of action which was endorsed at the Twelfth Summit at Islamabad in January 2004 at which the leaders declared poverty alleviation as the overarching goal of all SAARC activities. SAARC's efforts for poverty reduction has followed the guidelines framed by Amartya Sen, who argues that widespread hunger often occurs despite aggregate food supplies that are no less adequate and some times even more abundant than usual<sup>11</sup>. The reason for this is lack of access to food rather than lack of food. Thus SAARC laid an emphasis



on immediate relief in staple food distribution. A food security reserve was set up in 1986 to eradicate hunger, where each member drew on reserve food in times of emergency. India on its part made constructive proposals at the Twelfth SAARC Summit for creation of a Poverty Alleviation Fund, with its own initial contribution of 100 million \$. This was meant for projects in SAARC countries other than India along with a regional food bank, and a campaign for zero hunger in the region<sup>12</sup>. Further at the 13<sup>th</sup> SAARC Summit at Dhaka in November 2005 the leaders declared the decade of 2006-2015 as the SAARC Decade of Poverty Alleviation which underscored the urgency to free South Asia from poverty.

SAARC took needed assistance from external sources as well. There had been dialogue since 1993 between SAARC and the World Bank for an informal workshop on poverty reduction in South Asia. UNDP and ESCAP also formulated proposals for co-operation with SAARC in this field. The SAARC Secretariat in Kathmandu took steps in compiling the "SAARC Regional Poverty Profiles" in collaboration with the United Nations. Thus SAARC's attempts to reduce poverty through people-centred economic growth has been within macro-economic policy objectives. What the SAARC nations need to focus on, is rural poverty alleviation, as four out five poor people in SAARC countries live in the villages. Along with this approach, they should draw upon the success stories of neighbours like South Korea, which has been an example of one of the most successful regimes in improving human development<sup>13</sup>.

### Trade Cooperation

Foreign trade plays an important role in the economic development and growth of a country or a region. In the case of SAARC, though it is among the least integrated regions of the world, it has some of the fastest growing economies. Countries in the South Asian region have gone through rigorous liberalization in the last few years. Not only the developing countries of the region, namely India, Pakistan and Sri Lanka but even the LDCs (Nepal, Bhutan, Bangladesh

and Maldives) have reduced their tariffs and are fast opening to imports from the world. The exports of the SAARC nations have also shown robust growth over the last few years, which goes to show that trade is becoming an important engine of growth for these economies. There has been an increase in the share of global trade of this region in the recent past. The growth rate of these countries has improved, and they are also increasingly looking at the international market for their products and services<sup>14</sup>.

The increasing global integration of South Asian economies is also evidenced by their increasing 'degree of openness' throughout the 1990s. This is clearly shown by the figure 1 below:

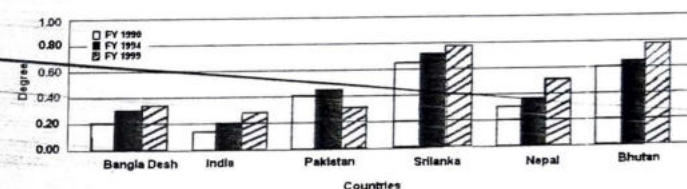


Fig. 1 Degree of Openness of South Asian countries

(The degree of openness measures the extent of global integration of an economy and is expressed as the share of exports and imports in the corresponding GDP)<sup>15</sup>.

For Bangladesh, the ratio was 0.20 in FY 1990; which went up to reach 0.32 by FY 1999; the corresponding for India was 0.17 and 0.27, for Sri Lanka 0.68 and 0.78 and for Nepal 0.53 and 0.53. The policy of liberalization, decontrol, deregulation and market orientation pursued by the South Asian countries and the emphasis on private sector led growth has set the context for a greater global integration of the economies of South Asia. It is this commonality of development vision and strategies which informed domestic policy persuasions of South Asian countries in the 1990s which has created the context, where the discourse on a common South Asian agenda in the WTO can now be premised.



That is important for SAARC members is that they need to expand their scope of economic and trade activities, and interaction with global and regional economies. In this regard, SAARC has already taken some steps to integrate with the European Union in trade and investment areas, and India supports such initiatives in the larger interests of SAARC. Individually all of the SAARC nations enjoy close bilateral relations with each ASEAN member, but the same is not true for SAARC. India has already become a full dialogue partner with ASEAN in 1995, and a member of the ASEAN Regional Forum in 1996. In the context of increasing economic global interdependence, it is considered wise for countries and regional groups to maximize their spread of connections to guard against over-dependency. As the co-operation between the SAARC and ASEAN improves, it would lead to wider implications outside the South Asian subcontinent. For example, SAARC has had the chance to interact with another regional grouping called the Indian Ocean Rim Association for Regional Co-operation which groups 14 African, Asian and Gulf countries, including two SAARC states - India and Sri Lanka - and three ASEAN states - Indonesia, Malaysia and Singapore in an economic bloc, built on a unique tripartite structure<sup>10</sup>. It was in keeping with the above goals that BIMSTEC was formed in 2004, to boost economic and cultural co-operation and development among the countries in and around the Bay of Bengal. Members include Bangladesh, Sri Lanka, Thailand, India, Bhutan, Nepal, Myanmar, Malaysia, and other coastal countries of this area, which are heavily dependent on this sea route for their export and import. It was constituted with the hope to act as a bridge between the two Asian organizations - ASEAN and SAARC.

Trade co-operation is the single-most important item that can open the political and economic frontiers of South Asian economies, and also inject a high growth profile. SAARC countries as a regional bloc can gradually become a unified force in various international forums for trade negotiations. They can face the challenge of the emerging "fortress Europe" more cohesively, and can even dictate terms in some of the

commodities over which the region holds monopoly in production<sup>17</sup>. As the then Prime Minister A.B. Vajpayee said at the Eleventh SAARC summit held in Kathmandu in January 2002, "Our region is home to 1/5 of humanity. With a market of this size, our natural wealth, our human resources our technical skills and our intellectual strengths, an integrated South Asia can be an economic powerhouse, by using its synergies creatively and building on the natural complementarities of its constituent economies.<sup>18</sup> If the SAARC countries can develop their infrastructure jointly, they can prove to the Western world, that despite their political differences, they can work out a common platform of action. In this context, it is imperative that all the SAARC nations should acknowledge and appreciate India's potential, and derive the maximum benefit through their proper utilization.

#### Regional Fund for Energy

Earlier, co-operation in the energy sector was dealt with by a Technical Committee on Energy which functioned under the SAARC Integrated Programme of Action (SIPA), but at the 12<sup>th</sup> SAARC summit in 2004 at Islamabad a new working group on energy was created. It was mandated to study the prospects for putting in place a SAARC Energy Ring. In its first meeting held in January 2004 the working group identified the need to set up a SAARC Energy Centre which eventually started functioning in Islamabad, from March 2006. Some other proposals of the working group which were approved at the 25<sup>th</sup> session of the Council of Ministers held in Islamabad in July 2004 included, putting in place transnational energy lines of electricity, oil and gas; focus on the availability of energy in rural areas; promoting the use of non-conventional and renewable sources of energy by sharing of human resources and expertise; and, establishing a Regional Fund for promoting non-conventional energy.<sup>19</sup>

The use of energy resources is diversified amongst the South Asian countries. While natural gas is a predominant component of Bangladesh energy mix, Sri Lanka and Maldives rely overwhelmingly on petroleum. Coal is the mainstay of