



UNITED NATIONS
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Comparative Regional Integration Studies

UNU-CRIS Working Papers

W-2008/8

SAARC: The Changing Dimensions*

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* This paper was prepared for the Institute of South Asian Studies, Singapore.

The South Asian Association of Regional Cooperation (SAARC) was established in 1985. During these twenty three years, SAARC has prepared a robust intellectual base for regional cooperation and spread awareness amongst more than a billion people of South Asia about the value of regional cooperation. The report of the Eminent Persons Group and the SAARC Social Charter clearly reflect the priorities and needs of SAARC. However, SAARC has remained tardy in executing the promise of development and affecting the lives of ordinary people in the region so far. It has concluded a regional free trade agreement (SAFTA) but its full implementation is still facing difficulties.

In recent years there have been important developments both around and within the region that raises hope of a faster and effective role of SAARC. Internationally, regionalism has come to be widely accepted as a principal framework for economic growth through cooperative engagement, particularly in the context of spreading globalisation. Within South Asia, five important developments deserve to be taken note of with respect to SAARC's future.

To begin with all the South Asian countries are witnessing impressive growth. The global financial melt down will dent this growth but only to some extent. Secondly, the South Asian region is witnessing a democratisation surge, which will strengthen developmental politics and stimulate cooperative drive. One of the most important developments has been the softening of Indo-Pak relations with accent on opening trade, commercial and people to people contacts. One hopes that growing economic engagement between these traditionally hostile neighbours, will lead to greater mutual confidence and understanding between them. An improved Indo-Pak relationship will surely advance SAARC. Fourth, SAARC has expanded adding Afghanistan as a full member and nine other countries as observers. Among the Observers are countries like China, US, Iran and Japan. The presence of such observers will stimulate competition and economic dynamism. And lastly, there is a radical change in India's approach to SAARC. From a reluctant participant, it is gradually emerging as an active leader. The paper analyses these developments and it concludes that these developments will positively help in making SAARC more effective and purposeful.

SAARC: The Changing Dimensions

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South Asian Association of Regional Cooperation (SAARC) is in its twenty-third year of formal institutional existence. This is a long period in the history of any international organization for it to show its results. SAARC can claim considerable success in conceptual evolution and in laying down theoretical ground work, where a number of creative ideas have been formulated, articulated and endorsed. These include identifying South Asia's challenges and ways to address them through cooperative regionalism – be this in the field of trade and investment, in relation to poverty alleviation and food security, or even with regard to fighting terrorism –. The 'Group of the Eminent Persons' Report', the 'SAARC Social Charter', two reports on the 'Plan of Action on Poverty Alleviation' by Commissions established especially for this purpose, the 'SAARC Regional Convention on Suppression of Terrorism' (initially conceived and concluded much before the 9/11 events) etc. may be recalled here. SAARC has also succeeded in stirring up regional consciousness throughout South Asia about cooperation and collective action on various economic and social fronts. This has been achieved by a number of professional SAARC groups of lawyers and doctors, journalists and academics, businessmen and entrepreneurs and politicians and parliamentarians, all engaging and interacting with each other beyond national boundaries under the SAARC flag, which is raised outside the official meetings. SAARC's record however is still very unimpressive when it comes to translating the creative ideas and energies it unleashes into concrete policy decisions and implementing them. This is notwithstanding the incremental progress on SAFTA (South Asian Free Trade Area/Agreement) and the gradually growing trade among its members. Human beings become adult and mature, ready to seek positive direction and a definitive career path at the age of twenty three. It may not be too much to hope that SAARC is also now poised to launch itself onto a more dynamic pace of progress and evolution.

This hope emerges from a close examination of SAARC's process of evolution, in conjunction with the developments unfolding around it. The SAARC region is undergoing significant changes both internally and in the way global dynamics impinge upon it. These changes are bound to influence and shape (either directly or indirectly) SAARC's structures, processes and overall dynamics. Globally the pace of developmental regionalism has gained momentum and wider acceptance. The possibility of this momentum further increasing in the aftermath

of the breakdown in multilateral trade negotiations (The Doha Round) may not be ruled out. Even in Asia, the regional groupings around SAARC like SCO (Shanghai Cooperation Organisation) and ASEAN (Association of South East Asian Nations) have acquired greater cohesion and depth, driven to a considerable extent by the example of European Union. Due to a number of factors, such as the declared nuclear weapons status of India and Pakistan, the aftermath of 9/11, where Pakistan and Afghanistan have become the principal theatres of global terrorism, and the growing dynamism of South Asian economies, the major players have become acutely interested and active in South Asian affairs.

A number of significant changes are also taking place within South Asia that will directly affect the texture and pace of progress in SAARC. In this paper we will focus on these intra-regional developments, which cover five significant areas. Firstly, within the region almost all the South Asian countries are experiencing satisfactory growth trajectories, notwithstanding international economic pressures and turbulent domestic politics. Those which are not, like Nepal, may soon pick up momentum as its politics stabilize. Secondly, in terms of politics, domestic turbulence is driving the South Asian countries in the direction of greater democratization, opening political space and encouraging greater grassroots participation in it. Thirdly, one of the banes of SAARC's stultified growth, the India-Pakistan hostility, and Pakistan's insistence on not moving in the direction of cooperation until the Kashmir issue is resolved, seems to be softening. Fourthly, from a structural point of view, SAARC has expanded not only by including Afghanistan as a new member, but also by opening its space to new observers from outside the region. Last but not the least is the fact that India, the biggest and fastest growing member, has been promising to transform its regional role from being a reluctant participant to a dynamic leader, by indicating greater commitment to SAARC in recent years. These developments need to be carefully evaluated and monitored to assess their impact on the regional grouping. Let us look at them one by one.

Growing South Asian Economies:

Despite slowing growth in North America and Europe, South Asian economies remain amongst the fastest growing in the world with 6-9% GDP growth. South Asia represents 24% of the world's population and has one of the largest concentrations of a growing middle class, estimated at around 350 million, next only to that of China (approximately 500mn.). Almost all of the South Asian economies are growing at a steady pace, though the rates of their respective growths are different and range from about 3% to more than 23%, according to the available figures for the year 2006. In fact it was only Nepal that was at less than 3%, at 2.8%, and even that was because of serious internal instability, arising from the Maoist

insurgency since 1996 and the peoples' uprising (*Jan Andolan II*) against an autocratic Monarchy in 2006. Nepal is struggling to come out of the phase of violence and instability through its unique peace process, where Maoists are becoming adjusted to mainstream democratic politics. The latest IMF estimates suggest that Nepal may register a growth of 4% for 2008.¹

The Maoists, having succeeded in turning Nepal into a "Democratic Republic" from a Constitutional Monarchy, have declared the conclusion of their "political revolution" and have launched their "economic revolution", so as to raise the economic standards of common people in Nepal. In an effort to allay fears that the CPN-Maoist policy was not investment-friendly, the Nepalese Finance Minister, Dr Baburam Bhattarai, in a pre-budget discussion organised by the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), promised to create an investor-friendly environment and to encourage national industrial capitalism. Admitting that massive investment in physical and social infrastructure was the need of the hour, he said, "Have confidence in us, unlike what others are expecting from us, we will bring a budget that will attract more investment". He also added that the government "would encourage the private sector, and the public-private partnership (PPP) will be our main policy, followed by flexible Labour Act and practical tax rates."²

All the remaining countries are growing at the rate of more than 5% including Afghanistan. Afghanistan's growth has been the lowest after Nepal and there also, the specter of violence and instability seems to be endless ever since the launching of the global war on terror in 2001. Bangladesh, the proverbial basket case of South Asia has been doing remarkably well in a sustained manner and there are estimates that it may emerge as one of the most dynamic economies of the region. The growth rate of the Maldives in GDP percentage terms was 23.5 %, the highest in the region, perhaps in the entire world, at least for the year 2006. Closely following was India at around 9% and the government has committed itself to raise this to at least 10% and to maintain it there as the bottom line.

¹ As reported in *Wall Street Journal*, September 12, 2008.

² Nepal German Chambers of Commerce and Industry, Pre-budget discussion, Government to try to Entice More Investment, September 3, 2008,
<http://www.ngcci.org/index.php?nav=resources&page=ecoglimpse&id=258>

Table 1: Growth Rates of South Asian countries

Country	YR2001	YR2002	YR2003	YR2004	YR2005	YR2006
Afghanistan	15.67	7.99	14.00	5.34
Bangladesh	5.27	4.42	5.26	6.27	5.96	6.63
Bhutan	6.79	10.91	7.21	6.84	7.02	8.47
India	5.21	3.73	8.39	8.33	9.23	9.20
Maldives	3.26	6.08	9.24	11.45	-5.09	23.53
Nepal	5.63	0.12	3.95	4.68	3.12	2.80
Pakistan	1.98	3.22	4.85	7.37	7.67	6.92
Sri Lanka	-1.55	3.96	6.02	5.45	6.03	7.35

Source: World Development Indicators Online, 2007 World Bank

There are two unmistakable aspects of the South Asian growth story. One is that despite the tardy progress of SAARC, the South Asian growth pattern is somewhat rooted into regional economic engagement. Sri Lanka has signed FTAs with both India and Pakistan. Bangladesh is also keen to explore bilateral FTAs with New Delhi, Islamabad and Colombo. India's trade with Bhutan and Nepal operates more openly than even the FTA patterns. The Indo-Sri Lanka Free Trade Agreement (FTA) contributed to Sri Lanka's economic performance and cushioned the impact of ethnic conflict raging there incessantly. The Sri Lankan economy, being based on Special Economic Zones, tourism and the estate sector is, in a significant way, insulated from the ethnic conflict in the Northeast. But enhancement of trade through re-exports with India has also contributed to Sri Lanka's economic health. The contribution of the FTA may be assessed from the fact that while the bilateral trade was around \$500mn before the FTA, it reached \$2.5 billion by 2007.³ The success of the FTA has encouraged both India and Sri Lanka to raise the level of FTA to Comprehensive Economic Partnership Agreement (CEPA).

Similarly, Bangladesh's export sector has also been sustained by growing trade with India, though trade with India is grossly one sided for Bangladesh, which suffers a heavy trade balance of more than \$1bn. Bhutan's economic prosperity reflects the wise investment made by the Kingdom in the hydro-power sector, which reaps its rich earnings through the sale of power to India. Trade growth also stands out as an impressive development even between India and Pakistan, which has the potential of reaching a \$10bn mark with the

³ Sutirtho Patranobis, India, 'Sri Lanka trade deal soon', *Hindustan Times*, 19 July 2008
2008 <http://www.hindustantimes.com/StoryPage/StoryPage.aspx?sectionName=&id=46cc42f4-a9b6-4470-a5b9c68aded6726&&Headline=India%2C+Sri+Lanka+trade+deal+soon&strParent=strParentID>
For more details and analysis on the Indo-Sri Lankan FTA see Indra Nath Mukherjee, Tilani Jayawardhana and Saman Kelegama "Indo-Sri Lanka Free Trade Agreement--An Assessment of Potential and Impact".
http://www.saneinetwork.net/pdf/SANEI_II/Work_in_progress_Indo_SriLanka.pdf

required political support from the two sides. It is true that, as noted earlier, in the cases of Bangladesh and Sri Lanka, heavy trade reliance upon India has also precipitated the problem of trade deficit and many other South Asian countries fear that greater economic interaction in the region might lead to India's dominance over their respective economies. Alleviating these fears, India's foreign minister Pranab Mukherjee said in a seminar:

Many of our neighbours have expressed fears about Indian economic dominance in the context of an incipient liberal regional trading regime. The history of economic cooperation in other parts of the world, however, has shown that the smaller economies stand to gain more than the larger ones in a regional free trade arrangement. Several studies, including a study done by the State Bank of Pakistan, have shown that from trade and businesses, the smaller countries are expected to be the biggest beneficiaries of SAFTA. (RIS Seminar, 19 March, 2007).

Validating this position was Sri Lankan President Chandrika Kumaratunga, who said during the 13th SAARC Summit

We have free trade agreements with the two largest economies in the region India & Pakistan. The FTA with India has been up and running for nearly 5 years now. Despite dooms day predictions about the big swallowing the small, our trade volume has grown up to 1.8 billion dollars and our trade imbalance has dramatically declined.⁴

It is expected that this growth in bilateral trade may receive a further boost from SAFTA, which became operational in July 2006, opening up immense potential to increase intra-regional trade which is currently less than 2% of GDP. With the effective implementation of SAFTA, it is estimated that the current level of intra-regional trade could rise from \$6 billion to \$14 billion. SAFTA has not yielded optimum results thus far for a number of reasons. The first reason concerns the fear experienced by smaller countries that India, by virtue of its sheer size, would flood their markets. Further reasons include the imposition of protectionist policies with high import tariffs on manufactured goods by smaller countries to protect their markets, lack of complementarities in goods produced by South Asian countries, lack of adequate transport and information links, and competition between South Asian countries for outside markets. Finally the political issues, especially between India and Pakistan, have cast their shadow on the prospects for intra-regional trade in South Asia.

⁴ Address of President Chandrika Kumaratunga 13th SAARC Summit, Inaugural session, 12 November 2005. <http://www.saarc-sec.org/main.php?id=170&t=7.1>

Despite these constraints, economies in the region are gradually opening up. Some South Asian countries are steadily improving the regulatory environment for doing business as the latest report on this issue shows.⁵ Imperatives of globalisation and compulsions of development and growth have gradually made these economies realise the importance of forging bilateral and multilateral engagements both within the region and outside for economic benefits. There is now greater acceptance that benefits can be multiplied many times over if South Asian countries can overcome their differences and harness their strengths to engage with the outside world as a cohesive entity. The gaps that previously existed in the information and awareness of each others' strengths and weaknesses, and needs and surpluses have over the years been gradually narrowed down. The region seems ready to move consciously towards greater mutual engagement, as the smaller South Asian countries become conscious of the opportunities and advantages that India's growing, diversified and huge economy may offer. India, at the same time, realises that it needs to leverage the advantages it enjoys by virtue of its size and geography to engage with the other smaller countries in a spirit of trust, generosity and non-reciprocity. This policy could have a win-win impact in raising the cumulative profile of the region, not only in trade and economic matters but as a whole.

In pursuit of this objective, India has recently deleted 264 items from the existing sensitive list of 744 for the least developed countries (LDCs), in a move to enhance trade by removing the duty on these items.⁶ The importance of reducing protectionist barriers was reiterated at the 15th SAARC Summit, which urged all SAARC Heads of State to resolve the issue of Non Tariff Measures (NTMs) and Para Tariff Measures (PTMs) to facilitate trade under SAFTA.⁷ With the exception of India and Pakistan, all other South Asian countries protect more than half of their total imports under the negative list.

India, being the largest economic power in SAARC will have the greatest impact through its policies. The other countries can also contribute to intra-SAARC trade, especially if there is a competitive advantage to trading within SAARC as compared to trading with countries outside the bloc. For example, Sri Lanka has seen its exports to developed countries suffer due to growing protectionism and it is very keen to increase its trade with SAARC countries. It remains an ardent champion of trade liberalisation within the region. Similarly, Pakistan is also

⁵ According to Sabine Hertveldt, co-author of the report *Doing Business 2009*, "South Asian countries are increasingly committed to agendas for business friendly reforms". He believes "that they are also getting inspiration from other economies that have made regulatory reforms and by benchmarking local best practices". See Asia Focus, 'Despite turmoil, Pakistan pips rival India', 13 September 2008 http://www.bangkokpost.com/130908_Business/13Sep2008_focus03.php

⁶ <http://www.thehindubusinessline.com/2008/08/09/stories/2008080952371001.htm>

⁷ M. Rama Rao, "SAARC summit ends on a high note as the Lanka army makes a triumphant entry into heart of Tiger territory" *Asian Tribune* 4 August 2008. <http://www.asiantribune.com/?q=node/12562>

facing growing competition and protection in its external markets in the developed world as well as in the Gulf and Central Asian regions. Consequently, it is also looking towards SAARC to see how it can leverage its relative advantage as the second largest economy in the region.⁸

The second aspect of the growing South Asian economies is that they will maintain their growth momentum while facing the twin challenges of rising oil prices and the slow down in the US/ western economies. The energy crisis is a real challenge which is seriously affecting Indian economy more than any other South Asian economy. As far as the international slow down is concerned, estimates are that while the slow down will adversely affect South Asia, particularly countries like India, the impact will not be a serious and lasting one.⁹ But every South Asian economy has to find an answer to the energy crunch and the global sub-prime crisis. Some of them are exploring hydro-carbon reserves and are hopeful about new discoveries. Sri Lanka's exploration of the Mannar Gulf region and India's efforts in the Krishna-Godavari basin may be mentioned here. Nepal has also shown greater seriousness in harnessing its hydro-power potential. It has committed itself to build a 10,000MW generating capacity in the coming decade. For the effect of global economic turmoil on South Asia, a recent World Bank Report says:

The turmoil in US and international financial markets has affected South Asia primarily through a falloff in portfolio inflows and weakness in local equity markets...Further effects on the real side of the economy are likely to be muted compared with other regions. The decline in share of the United States and the European Union in South Asia's export market in recent years has been offset by a concomitant increase in China and oil exporting countries shares, so effect on export volumes should be less severe than in other regions. Moreover, although South Asia's integration with the global economy advanced rapidly in recent years, it remains the least integrated among developing regions.¹⁰

This assessment has been reinforced by the Asian Development Bank as well. It is projected that notwithstanding the challenges facing South Asian economies, growth will remain in the range of 7% to 8%. In meeting the challenges, South Asia will do better through collective and cooperative action than individually. This creates a situation where SAARC may look forward to greater dynamism.

⁸ Kishore Dash, *Regionalism in South Asia, Negotiating Cooperation, Institutional Structures* (Routledge, London and New York) 2008, pp. 158-59.

⁹ S. Narayan, 'Economic Slowdown in the US and Implications for India' in *Indian Foreign Affairs Journal*, Vol.3, no.3, July-September 08, pp. 23-33.

¹⁰ As quoted in, Bibek Debroy, 'Economics After Politics' 10July 2008.

<http://www.financialexpress.com/news/Column-Economics-after-politics/333483/>

Democratic Upsurge:

The second factor that may infuse greater dynamism in SAARC is the growing democratic upsurge in South Asia. The most powerful and decisive manifestation of this upsurge has been in Nepal in the form of *Jan Andolan II*, which brought nearly 10-12 million people onto the streets of the former Kingdom's various cities and towns for 19 days from April 6 to 24, 2006. As a result of this upsurge, a 240-year-old feudal order under the dominance of traditional Monarchy has been thrown out and a fully fledged secular, inclusive democracy ushered in within a Republican framework. This change has yet to fully institutionalize and stabilise but the entire transformation was unique and phenomenal, being non-violent and broadly peaceful in its thrust. Violence and disruption preceded the *Jan Andolan II* as the Maoist insurgency raged for ten years since 1996. Nepal had seen a peoples' uprising in 1989-90 also and that too removed the Monarchy dominated Panchayat System, but that change eventually turned out to be far less radical and lasting than its promise. Monarchy soon usurped most of its lost power and by 2005; it dared to take complete and direct control of the polity in the name of fighting Maoists terrorism. The most radical feature of the 2006 democratic upsurge has been the mainstreaming of a violent and extremist left movement. This is unprecedented even in contemporary world history. One hopes that the birth pangs of Nepal's nascent Republic are creatively absorbed and that the ensuing struggle for power among the constituents of the popular uprising is resolved into a new and viable coalition, capable of addressing the popular aspirations that brought about this massive transformation.

Another important manifestation of democratic upsurge has taken place in Pakistan, where within a short period of less than two years, the 10-year-old military regime has been forced to withdraw and make room for elected representatives. This change has also been principally orderly and peaceful, except the assassination of Benazir Bhutto, who was in the forefront of the struggle for democracy. The military regime had in principal accepted the necessity for democracy, even before Benazir's assassination. If we compare this transition in Pakistan with the earlier one of similar nature, we find that on all previous occasions, elements of violence and political upheaval played a more decisive role. For instance, the end of the military regime of Gen. Ayub transited through the Yahya regime that led to the breakup of Pakistan as a nation, giving birth to Bangladesh. In 1988, the plane crash of Gen. Zia Ul Haq facilitated transition to civilian rule; otherwise, this transition could be painful and cumbersome. The process of democratic transition in Pakistan is however, not over yet. The recent elections in February ushered in a new era of parliamentary democracy shifting the portals of power from the quasi –military rule of President Musharraf to the democratic parties led by PPP and PML (N). In August 2008, under tremendous pressure from the democratic

parties and the people at large, Gen. Musharraf resigned as President and paved the way for PPP leader Asif Ali Zardari to step in as the new civilian President. However, significant hurdles lie ahead and the army, though claiming to be confined to its professional role of ensuring security, continues to be most powerful and coherent of political institutions. Constitutional norms and procedures are to take firm institutional shape to make the military adhere to its professional role of managing security affairs under the guidance of representative institutions. The new coalition of elected representatives that came to power has already suffered erosion (with PML's exit) and looks shaky and discordant; becoming even more vulnerable to the political ambitions of any military General. Extremism and terrorism continue to characterize the political dynamics of Pakistani society. However, the expression of the peoples' will to be governed by civilian and representative rules is unmistakable.

People's march towards democracy is also loud and clear in other smaller South Asian countries like Bhutan and Maldives. In Bhutan, the monarchical farsightedness deserves wholesome tribute for initiating the process of democratic transition from the top. It is the King of Bhutan who himself reached out to his simple and innocent people to persuade them to get ready for governing themselves. The democratic processes initiated are still guarded, gradual and cautious, but the direction is clear. An elected government has assumed office and the Monarchy seems committed to accept a constitutional role. As people become confident and capable, the aura of Palace will be dispersed among them. In the Maldives, the one party dominance system is gone and President Gayoom has been pressured to open the polity to greater participation and transparency. A new Constitution has been prepared and the President has accepted that he will leave the political scene after his next term. The Maldives is going for a fresh Presidential election on October 10th under a remarkably open Constitutional system and in this election, President Gayoom is being challenged by five other contenders.¹¹ A broad sense of the march of democracy in South Asia can be seen in the following Table:

¹¹ S. Chandrasekharan, MALDIVES: Election Eve: Electioneering In Full Swing, South Asia Analysis Group (SAAG) Paper no. 2841, 12 September 2008
<http://www.southasiaanalysis.org/papers29/paper2841.html>

Table 2: Political Systems in South Asia

	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	Afghanistan
Political System	Parliamentary democracy	Monarchy until 2007	Parliamentary democracy	One party presidential democracy	Constitutional monarchy/parliamentary democracy after 1990	1999-2008 Military rule under Musharraf	1978 All powerful executive Presidency	Taliban (1996-2001)
	Interim Caretaker Government (January 2007-08)	2007 Parliamentary democracy	1975-77 (Emergency aberration)	Pressures for change since 2003.	King-led rule from 2002-05	2008 Elections, Parliamentary democracy	Rising demands for reversal to Parliamentary democracy	Interim Government (2001-04)
	Parliamentary elections expected December 2008	2008 Elected government in office		New Constitution (2008)	King assumes direct rule 2005	Replacement of military rule by civilian President		New Constitution (2004),
				Presidential elections scheduled for October 10, 2008.	Jan Andolan 2006			Presidential republic
					April 2008 Elections for CA			Parliamentary and provincial elections 2005
					August 2008 Elected Representative govt			
Party System	Multiparty	Multiparty	Multiparty	One party democracy turned into multi-party democracy	Multiparty	Multiparty	Multiparty	

In the SAARC region, these changes constitute significant redefinition of its political texture. Two countries where democratic movements appear to confront uncertainties are Bangladesh and Afghanistan. Bangladesh's military-backed interim regime that assumed office in 2006 promises to streamline a constructive and enduring democratic governance by taking it out of the pathological personal rivalries of the two principal political parties and their leaders. The signals emanating from the interim government's efforts in this respect sometimes look confusing and contradictory, particularly when the Army Chief indulges in political sermons. In a conference in Dhaka in 2007, the Army Chief Lt Gen Moeen U Ahmed spoke about Bangladesh constructing its own brand of democracy where power was not tilted towards any family or dynasty. "We do not want to go back to an 'elective democracy' where corruption in society becomes all pervasive, governance suffers in terms of insecurity and violation of rights, and where political 'criminalisation' threatens the very survival and integrity of the state."¹²

The interim government has seized a far too long a period of time, almost two years, to make preparations for free and fair parliamentary elections. It has also launched a systematic campaign to discredit the mainstream leadership of Sheikh Haseena and Khaleeda Zia, leaders of the two main parties, Awami League and Bangladesh National Party respectively, through a crackdown on their corruption. In this campaign, these leaders were arrested and persecuted along with many of their party workers and stalwarts. Corruption is no doubt rampant in many democracies, but so are the politically motivated anti-corruption drives. In Bangladesh, this anti-corruption drive is led by the army's support, which may not have much to show for itself on the anti-corruption front. Moreover, the interim government's constitutional mandate is to hold elections, not to fight corruption. But all eyes are now on the parliamentary elections slated for December 2008. The Election Commission which was reconstituted after the interim government took charge in January 2007, is tightening the election rules to ensure that the forthcoming polls are fair and transparent.

In Afghanistan, there is a democratic regime functioning under President Karzai who was elected as President in 2004, but its writ does not run effectively even within the capital city of Kabul. Nowhere does the raging internal conflict precipitated by the "Global War on Terror" appear to be nearing its resolution. The international forces fighting terror in Afghanistan are nowhere near achieving their objective, while extremism and violence seem to be in ascendance. Under such circumstances, the fragile democratic experiment is in a real danger of collapse. There is need for terrorism to be controlled and democratic institutions to be reinforced through greater support from the Afghan people.

¹² Bangladesh to have own brand of democracy, *The Daily Star*, 3 April 2007
<http://www.thedailystar.net/2007/04/03/d7040301022.htm>

What does this drive towards democratization in South Asia has to do with the SAARC momentum? There are two ways in which the democratic drive will add to the SAARC momentum. One is that spread and consolidation of democracy in South Asia will dent all such intra-regional and bilateral political tensions and contradictions that arise from the democratic divide in the region. Reduction of such tensions will naturally stimulate better regional understanding and cooperation, giving a positive push to the SAARC process. The Monarchies and the military regimes surrounding India in the region found India's democratic order a threat to their respective stability and perpetuation. Internal turmoil in these countries arising from struggles for democracy intensified and reinforced mutual adversarial images vis-a-vis India. The spillover of internal turmoil of these countries into India affected the overall context of regional relations, including cooperation through SAARC.

Most of the democratic dissenters in the neighbouring South Asian countries have sought support and shelter in India from their respective authoritarian regimes. For instance, the 2005 SAARC summit was postponed to express India's concern about setback to democracy in Nepal when King Gyanendra assumed direct power. The military regimes in Pakistan have legitimized their control of polity in the name of threats from India. They have often tied SAARC cooperation, including trade, to resolution of the Kashmir issue. SAARC suffered on account of the spill-over of internal conflicts between India and Sri Lanka (1990) and also those between India and Bangladesh (1992). The contention here is not that democratic politics in South Asia will result in perfect political harmony in the region. The competitive democratic dynamics for securing power in the respective countries will surely raise many demands and assertions from the close neighbours, but the democratization of all the SAARC countries will facilitate a broader political understanding amongst the regimes, create a better atmosphere for negotiated and mutually advantageous resolution of disputes and drive them towards enhanced economic and social cooperation.

Secondly, democratic regimes depend upon popular endorsement for their legitimacy and survival unlike the authoritarian regimes. People in the region aspire for development and better life conditions. They are not unduly obsessed with conflictual issues and want greater people to people exchanges, freer movement across the borders, greater peace and greater growth. To achieve that, countries have to cooperate and SAARC is the only regional mechanism to promote cooperation. The SAARC social Charter has identified areas where cooperation may go beyond economic development and addresses questions of social well-being and harmony in the region. Democratic regimes may find it politically rewarding to pursue these issues through implementation in nursing their respective constituencies. Greater cooperation will also energize business constituencies in support of

the respective democratic regimes in South Asia. That is why, even the Maoist leaders of Nepal, after their popular endorsement in the Constituent Assembly elections, have started talking about "economic revolution" within a liberal framework. Such measures are bound to contribute positively to the dynamics of regional cooperation and radically improve bilateral relations between India and Nepal. For the past few years, people at the grass root level in India and Pakistan have been calling for greater bilateral cooperation. The 2005 earth-quake in Pakistan-occupied Kashmir generated open popular calls in Pakistan for accepting India's help in rescue and reconstruction efforts. The opening up of political space and freedom of expression that flow from democratic functioning are giving a voice to businessmen on both the sides in favour of cooperation. Highlighting the fact that democracy and development go together, Nawaz Sharif, leader of the Pakistan Muslim League, (Nawaz) recently blamed the military rulers for Pakistan's weak economic plight. "Pakistan was run by military rulers for almost 34 years, which caused shortages of wheat, power and energy", he added.¹³

Improved India-Pakistan Relations:

The third notable change in South Asia is about India-Pakistan relations. Even though India and Pakistan have been locked in an adversarial relationship for many decades, the desire for peace is palpable on both sides and relations are widely seen to be in positive mode today. After an attack on the Indian parliament in December 2001 and an assault on the army base in Kalachuk in 2002, relations between the two countries were at their nadir. But by 2003, diplomatic relations were restored and a ceasefire announced between India and Pakistan in October 2003. The adverse impact of the Kargil war and the post-9/11 fall out in terms of cross border terrorism on India- Pakistan relations has been considerably diluted. The process started with the SAARC summit in Islamabad in January 2004 when a peace process was launched between the two countries, under the aegis of the Composite Dialogue to bring about the 'peaceful settlement of all bilateral issues, including Jammu and Kashmir, to the satisfaction of both sides'. This dialogue was sustained by both countries and save for a brief interruption following the deadly attack in Mumbai in July 2006, it has continued till date.

As a result of this peace process, General Musharraf softened Pakistan's position on the Kashmir issue by dropping insistence on the UN Resolution option and Plebiscite. He proposed in 2006 a four point formula whereby the boundaries would remain unchanged but people could move freely across the borders, a phased demilitarization of the region, self-governance or autonomy, and joint supervisory management overseen by Indian, Pakistani

¹³ Military rulers responsible for economic crisis, *The Daily Times*, 10 September 2008.
http://www.dailytimes.com.pk/default.asp?page=2008%5C09%5C10%5Cstory_10-9-2008_pg1_8

and Kashmiri representatives.¹⁴ India, since the coming to power of the UPA government, has also de-linked the question of cross-border terrorism from mutual engagement. It has shown its readiness to talk Kashmir with Pakistan and accepted to discuss concepts like "self-governance" and "joint supervision". There are obvious differences between the two sides on the meaning and content of these concepts. The new Pakistani government did not seem very comfortable with a lot of General Musharraf's ideas, including those on Kashmir. When asked if the new government will follow Musharraf's formula on Kashmir in relation to India, Pakistan's new Prime Minister Syed Yousaf Raza Gilani, so as to distance himself and his government from those ideas, said in May 2008:

The gentleman Musharraf announces very very important things off-the-cuff. He has the habit of taking decisions in a very casual manner...He is also erratic, a little impulsive. I don't agree on a lot of things with Mr. Musharraf. But then one has to look into this. One will have to study this. We don't have to go by what Mr. Musharraf says. Let us sit down and see how best we can resolve this issue.

This was surely a rhetorical and politically calculated response to denounce Musharraf domestically but not to reinforce the disagreement on Kashmir with India. For, at other times, a more pragmatic and sanguine approach is clearly discernible at various other levels of leadership. On resolving the Kashmir issue in line with UN resolutions, Asif Ali Zardari said in March 2008, that the PPP has always felt for Kashmir and had a strong Kashmir policy but did not want to be hostage to the issue. Again, more recently on 8 September 2008, after being sworn in as the President of Pakistan, he raised hopes for some positive outcome on Kashmir rather soon. He said that he was aware of the India-Pakistan "back-channel dialogue" on Kashmir and "in the light of that we intend to take it to the Parliament, to the parliamentary committee on Kashmir and to invite all the political forces which are outside the Parliament and inshallah, before the month is over, before the coming of the Congress government's going into election, we shall have some good news."¹⁵

In substance, the situation has not changed substantially nor negatively. There remain a number of unresolved issues yet, ranging from Siachin to Sir Creek, but there is little doubt that the overall political atmosphere between the two countries is far more conducive than what it was five years earlier. If at all, the peace process between the two countries is likely to be reinforced, as reflected in Pakistan Foreign Minister Qureshi's statement during the round of "composite dialogue" held in Islamabad in May 2008. After describing Kashmir as the core

¹⁴ Ashutosh Mishra, "An Audit of the India-Pakistan Peace Process", *Australian Journal of International Affairs*, Vol. 61, No 4, 2007, pp.512.

¹⁵ Nirupama Subramanian, "Zardari says 'good news' on Kashmir soon"
<http://www.thehindu.com/2008/09/10/stories/2008091080030100.htm>

issue, he said: "Core issues will remain but talks will continue. The Line of Control (LOC) ceasefire is still in place and the peace process is back on the track". During his discussions with the US Secretary of State, Condoleezza Rice, in July 2008, Qureshi again asserted that removing "trust deficit" between India and Pakistan was one of Pakistan's priorities. The only danger to this peace process is from the extremist forces and vested interests, some of them within Pakistan's military establishment like the ISI, who will undertake ventures like the bombing of Indian Mission in Kabul in July 2008 in order to vitiate the bilateral engagement. This was as much as admitted by the Indian foreign secretary, Shiv Shankar Menon, who after the 5th round of composite dialogue described the ceasefire as "under stress" but both sides agreed that it must be "maintained and continued."¹⁶ It may however also be noted that New Delhi's response on the Kabul attacks was measured and carefully thought out. The Indian government blamed the ISI for the attacks, but did not implicate the Pakistani government in the bombings and made a clear distinction between the two. Clearly, both India and Pakistan's democratic regime in particular will have to ensure that such vested interests do not succeed in their designs and are marginalized and eliminated as soon as possible.

Fortunately, there are some encouraging signs that cooperation between the countries may be improving. India has throughout the political crisis in Pakistan during the reign of Musharraf and the turbulent process of democratization, refrained from making any provocative statements or exploiting the situation to score political points against Pakistan. It chose to characterize Pakistan's political problems as a purely internal matter and reaffirmed its desire for a 'peaceful, prosperous and stable neighbour.'

There are also some positive strategic factors that are creating a conducive environment for Indo-Pak rapprochement. Given the present challenges facing Pakistan, it has little desire and capacity to divert attention to fuel hostilities with India. Pakistan is stretched in its military engagement with Al-Qaeda and Taliban-linked militant elements in the border areas, as well as an ongoing insurgency in Baluchistan. In addition, India, through its economic reform and opening up to the world, has moved ahead at a dramatic pace in developing closer ties with major powers including the United States, Southeast Asia, Central Asia and the Middle East. This is forcing Pakistan to re-evaluate its own strategies and especially to look inward to determine whether its fundamental interests are best served by continuing the decades-old hostilities with India, or whether it should mend its relations with India and focus on developing its own basic infrastructure and economy. There is a growing realisation in Pakistan that it would be in Pakistan's interest to shift away from its India-centric foreign

¹⁶ The Hindu, 22 July 2008 " Menon says Dialogue Process is under strain"
<http://www.hindu.com/2008/07/22/stories/2008072259971100.htm>

policy to one that improves relations between the countries and allows greater energy to be focused on the far more important issues of domestic stability, growth and development.

It is also in India's interest to improve relations with Pakistan as this will be the strongest way of contributing to the stability of the South Asian region. Such stability will benefit all South Asian countries and make the region attractive to foreign investment, international tourism and business opportunities. India's ongoing dialogue and readiness to remain engaged with Pakistan has resulted in many confidence building measures including the opening up of many transportation links between the two countries. In early 2006 a weekly train service (Thar Express) was started between Munabao (India) and Khokhrapar- (Pakistan) to complement the already existing bus services between Delhi-Lahore. This service which began in February 1999 was suspended briefly in the aftermath of the 2001 attack on the Indian parliament but was resumed thereafter in July 2003. The Amritsar Lahore bus service was started in 2005, the Srinagar-Muzaffarabad bus service and the Poonch -Rawalakot bus link connecting the two regions of Kashmir in India and Pakistan in April 2005 and June 2006 respectively. This was a significant breakthrough because the two countries were able to establish some degree of connection over their most politically charged issue. In October 2007, movement of trucks across the border was another highpoint in Indo-Pak relations, especially with respect to expansion of trade and business opportunities. The increased people to people exchanges resulting from these links have slowly been making their impact at the social and economic levels.

Economic cooperation offers tremendous benefits to both sides. Despite having to deal with several political crises, both domestically and internationally, Pakistan has managed to keep a respectable 7% growth rate in recent years. Bilateral trade between India and Pakistan in the last decade has registered a steady increase. In the last five years there has been a six-fold increase in the total value of Indo-Pak trade. In 2002-03 total trade was at USD 251million and rose to USD 1.6 billion by 2006-07. This trade has the potential of reaching US \$10 billion by 2010.

The promising prospects of trade will become further attractive with the operationalisation of SAFTA in the region. There are efforts to open up investment prospects in the region and once the flow of investments between India and Pakistan is allowed, economic stakes will start shaping up political dynamics. The recent move by Pakistan to broaden its positive list of trading items with India to 1,938 (an addition of 136 new items) has been welcomed in India. The new import items from India include fuel oil, diesel, machinery such as paddy harvesters, rice driers, and mining equipments. This has the potential of doubling the volume of trade between India and Pakistan from \$2 billion to \$4 billion. In addition to the expanded list of

permitted imports, Pakistan will also permit such raw materials and machinery that are not on this positive list, for manufacturing units set up under its DTRE (Duty and Tax Remission for Export) schemes. ¹⁷ It is also seeking direct investment from India in the manufacture of CNG buses.¹⁸

Increasing economic ties have the potential to reinforce interlocking relationships which in the long run may prove to be the permanent threads that bind and hold together Indo-Pak relations. As President Asif Ali Zardari once remarked "People-to-people contacts should be improved, then trade, inter-dependence of trade, if Indian industry depends on Pakistani energy and I depend on the Indian market for my product to be sold, we are both inter-dependent, financially integrated industry-wise."¹⁹

Table 3: India's Trade with Pakistan (1997-2007)

Year	India's Exports to Pakistan (USD) million	India's imports from Pakistan	Total Trade
1997-98	143	44	187
1998-99	106	214	320
1999-00	93	68	161
2000-01	187	64	251
2001-02	144	65	209
2002-03	206	45	251
2003-04	287	58	345
2004-05	521	95	616
2005-06	689	180	869
2006-07	1348	323	1671

Source: Nisha Taneja, 'Trade Possibilities and Non-Tariff Barriers to Indo-Pak Trade, ICRIER Working Paper No 200, October 2007 (<http://www.icrier.org/publication/WorkingPaperno200.pdf>) and <http://commerce.nic.in/eidb/iecnet.asp> accessed 1 September 2008

¹⁷ Nirupama Subramanian, Pakistan's New Trade Policy allows FDI from India, <http://www.hindu.com/2008/07/20/stories/2008072059661300.htm>

¹⁸ New Pakistan Trade Policy To Double Indo - Pak Trade <http://www.saarcchamber.com/newsreader.asp?id=89>
Published date: 7/24/2008

¹⁹ Set Aside Kashmir, focus on trade ties: Zardari <http://www.rediff.com/news/2008/mar/01kashmir.htm>

In addition to trade, cooperation in the field of energy stands out among other opportunities that India and Pakistan can capitalise on. The Iran-Pakistan-India gas pipeline (2,775 kilometer long), also known as the Peace Pipeline, to deliver natural gas from Iran to Pakistan and India is a project of immense economic significance for all the three countries involved. India has agreed to join the project, though the issues of price, transit fees and supply security are still to be sorted out satisfactorily. In July 2008, both India and Pakistan said that they had resolved their bilateral commercial issues and were looking jointly to address Tehran's demand for price revision. Sources of funding for this ambitious project also need to be firmed up.

Both countries have also put in place confidence building measures relating to conventional and nuclear issues to alleviate their mutual security. The agreement of Pre-notification of Flight Testing of Ballistic Missiles and a memorandum of understanding on communication links between the Pakistani Maritime Security Agency and the Indian Coast Guards was signed on 3 October 2005 were significant steps in this regard.²⁰ It is well known that India-Pakistan relations are the key to the pace of development in SAARC. If the two largest members of the regional grouping gather their respective political wills to move SAARC, it will become a robust forum of regional cooperation in all walks of life.

Expansion of SAARC:

The Indian foreign secretary, Shyam Saran, remarked in 2005 that "if we really wish SAARC to move ahead, if we really want to achieve our dream of a South Asian economic union, unless we move forward to inter-connect within South Asia and interconnect from South Asia to the larger Asian capitals, then we cannot really move forward in any significant manner."²¹ The same sentiments were echoed by the Pakistani Prime Minister, Gillani who stated at the recent 15th SAARC summit that "In an interdependent, fast globalizing world, no regional grouping can hope to function in isolation. SAARC should develop positive links with the adjoining regions and beyond. We must adopt an inclusive approach. We should be open to mutually beneficial interactions, especially with our larger Asian neighbourhood. Such linkages and interdependencies would create a win-win support system"²²

²⁰ Ashutosh Mishra, "An audit of the India-Pakistan peace process', op.cit., pp. 517-8.

²¹ Ramananda Sengupta, We cannot be disconnected within SAARC:PM, 13 November 2005
<http://www.rediff.com/news/2005/nov/13saarc.htm>

²² Address of the Prime Minister of Pakistan, Syed Yousuf Raza Gilani at the 15th SAARC Summit , August 02, 2008 <http://www.saarc-sec.org/main.php>

In line with this spirit, SAARC has in recent years been expanding. This expansion has taken place in two ways; firstly through the addition of new members, followed by the opening up of SAARC to the 'Observers' outside the region. The example of direct expansion of SAARC is the inclusion of a new member, namely Afghanistan. Afghanistan has been waiting in the wings for SAARC membership for a long time. Pragmatically, Afghanistan's presence in SAARC makes sense as it may bring about new realism in the regional grouping. By virtue of its geography, it can open up opportunities for India-Pakistan cooperation and play a vital role in facilitating energy cooperation between South and Central Asia. Pakistan, which has been keen to raise bilateral issues in SAARC, ignoring the Charter condition not to do so, may be deterred in this respect as Afghanistan may also be encouraged to raise its bilateral contentious issues with Pakistan in the regional forum. Afghanistan's inclusion has not been without controversy. Historically, before the emergence of the Taliban, while India was keen, Pakistan had blocked the entry of Afghanistan and lately, after the rise of the Taliban, Pakistan had been keen but India had its reservations. The removal of Taliban has eased the situation for India. The possibility of the US gently persuading India and Pakistan to let Afghanistan join SAARC to help reinforce legitimacy and provide stability to the Karzai regime cannot be ruled out. Afghanistan on its own after 9/11, has been initiating steps to engage with its regional neighbours in pursuance of its economic development and political stability.

Apart from adding a new member, SAARC has also borrowed from the ASEAN experience to invite observers. At the Delhi 2007 summit, seven countries joined SAARC as observers, namely China, US, Mauritius, the European Union, Japan, South Korea and Iran. At the next 15th Summit in Colombo, Australia and Myanmar were included as observers, bringing the total tally of observer states to nine. What explains this surge of interest amongst outside countries to be associated with SAARC? And more importantly, why has South Asia, (India in particular), shed its reservations about letting extra-regional powers get involved with South Asian regional affairs?

As for the interest of the outside powers in South Asia, recent strategic and economic developments in the region noted earlier may be recalled. Notwithstanding its poor record of economic performance, a nuclear South Asia which also has the roots of global terrorism and is growing fast, cannot be neglected by the global players, hence the interest of the US, China and the European Union. Russia too may be knocking at the SAARC doors sooner or later. The SAARC members would be inclined to encourage a balanced, rather than a lopsided extra-regional presence, and therefore, when one heavy weight like China or the US comes in, others too would be welcomed. There could also be hope in the region that the

inclusion of foreign powers as observers could stimulate competition among the outsiders for assistance and influence resulting in some dynamism in the South Asian growth story.

China enjoys good relations with Pakistan, Sri Lanka, Bangladesh and Nepal. These countries have always been interested in China's presence in SAARC to balance, in their perception, India in regional affairs. India was reluctant to share the strategic space in its sensitive immediate neighbourhood with any extra-regional powers, least of all with China. However, there seems to have been a mutual softening of attitudes between India and China with regard to letting each other engage with their neighbouring regions. While China lowered its reservations on India's entry into East Asia Summit and in SCO (as an observer) in 2005, India has also reciprocated by not resisting China's entry as a SAARC Observer. This is also in harmony with the improving economic and strategic relations between India and China. At the Shanghai Cooperation Organisation Summit held recently in Dushanbe, India sought a more substantive role for itself in SCO as an observer.²³ China is looking towards South Asia to tap into its enormous market for trade and investment and explore opportunities for cooperation in energy, natural resources, infrastructure and people to people relations. China's trade with South Asia was estimated to be USD 40.89 Billion in 2007 of which a significant component (more than 75%) is with India. But more importantly, China's presence in SAARC could help consolidate its strategic interests in the region. Underlining China's interest in SAARC, foreign minister Li Zhaoxing remarked on the occasion of the 14th SAARC Summit that "Good political atmosphere, close geographical location and popular support will greatly boost China-SAARC cooperation, which serves our common interests and peace, stability and development of the region".²⁴

China may be willing to become a full member of SAARC as and when such opportunity arises. Support for China's bid for full membership will surely come from a number of SAARC members. Former Pakistani Prime Minister Shaukat Aziz pledged that "If and when the issue of inducting China as a full member comes up in SAARC, Pakistan would strongly support it because it sees the organisation as an inclusive one, which must be strengthened by greater institutionalisation," he said. More recently, Pakistan Foreign Minister Makhdoom Shah Mahmood Qureshi proposed a greater involvement of China in the region while underlining

²³ See Ministry of Petroleum & Natural Gas, Shri Deora Addresses SCO Summit at Dushanbe , 28 August 2008 http://www.pib.nic.in/release/rel_print_page.asp?reid=41980 (accessed 29 August 2008)

²⁴ China welcomes SAARC's decision to accept China as observer, Xinhua news agency, BBBC Monitoring Asia Pacific, 3 April 2007, accessed from Lexis nexis academic, National University of Singapore (<http://lexisnexis.com.libproxy.l.nus.edu.sg/us/lnacademic/frame.do?tokenKey=r...>)

its potential assistance in technical and financial arenas.²⁵ Bangladesh, Nepal and Sri Lanka have also generally been in favour of China's greater involvement in the SAARC process.²⁶

Similarly, Japan, the single largest donor to South Asian countries during the last two decades, and also the first country to express interest in joining SAARC, saw its inclusion in SAARC in line with its initiative of creating an "Arc of freedom and Prosperity" of which South Asia remained a central pillar.²⁷ The Australian Foreign Minister also underlined the benefit of Australia joining as an observer in SAARC in the light of India's growing economic, political and cultural influence. He remarked,

As the world sees the potential of an Asian/Pacific century unfold, Australia sees India at the heart of this historic shift in political and economic influence. And what gives Australia a feeling of optimism is that we can do more rather than just witness this economic transformation. We are already part of this process. Our future is linked to that of India and our other Asian neighbours. Our economic growth is powered by their growth".²⁸

Like China, Iran and Myanmar have actually gone as far as to show interest in becoming SAARC members and would have their own agenda for doing so. Iran is actively seeking strategic and economic engagements to strengthen its position in the world order.²⁹ In order to reduce its isolation from the Gulf Cooperation Council and garner some support for itself to resist US moves to marginalize it in Asia, Iran has been cultivating ties with countries in South and Central Asia (natural choices for geographical reasons as well as historical links), and China to counter US moves. In fact with the support of China and Russia, Iran became an observer in the Shanghai Cooperation Organisation in 2006. Iran can also be a powerful factor in building a web of interdependencies between India, Pakistan and Afghanistan. It can become a source of addressing the region's energy challenge as is evident in the proposal for Iran-Pakistan-India gas pipeline.

²⁵ Sutirtho Patranobis, "Pakistan bats for greater China Role", *The Hindustan Times* 2 August 2008

²⁶ John Cherian, Summit of Promise, *Frontline*, Volume 22, Issue 25, Dec. 03 - 16, 2005.

²⁷ Japan: Full Text of Foreign Minister Aso's statement at the 14th SAARC Summit, BBC Monitoring Asia-Pacific-Political 4 April 2007

²⁸ See Australian Minister for Foreign Affairs, The Hon Stephen Smith, "India: A New Relationship for a New Century", 20 June 2008 http://www.foreignminister.gov.au/speeches/2008/080620_india.html (accessed 29 August 2008)

²⁹ Benedetta Berti, "Iran Looks for Allies through Asian and Latin American Partnerships", *The Power and Interest News Report (PINR)*, 27 November 2007, http://www.pinr.com/report.php?ac=view_report&report_id=726&language_id=1 (Accessed 31 August 2008)

Myanmar's interest in South Asia has been building in recent years. Its participation in BIMSTEC and keen desire to promote an India-Bangladesh-Myanmar gas pipeline were clear indications in this respect. This proposal has not taken off the ground due to Bangladesh's reservations, but Myanmar's growing economic cooperation with India will continue to reinforce its interests in South Asia. Myanmar's increasing difficulties in ASEAN, particularly after the adoption of ASEAN Charter that lays emphasis on issues like democracy and human rights, appear to have hastened its search for wider regional engagements. Myanmar may find it politically useful to secure membership of other organizations. Myanmar's interest in SAARC could also spur the interest of ASEAN or some of its members to join SAARC as observers.

Just as the outside powers have strong incentives to join or tie up with SAARC for the reasons explained above, the reverse is also true. Having bought into the mantra of the Asian renaissance and globalisation, South Asia is on the whole, more open to foreign observers in SAARC than ever before. It may be recalled that India, which had been wary of external influence in the region and inducting external powers into SAARC, has now accepted that opening up is inevitable. The recently concluded 15th SAARC summit has also envisaged a greater role for observers and inter-governmental organisations such as the World Bank and the Asian Development Bank in the improvement of multi-modal transport and transit infrastructure to facilitate trade and business prospects in the region.³⁰

Not surprisingly, SAARC has become an important entity to engage big players on the world stage and this could potentially accelerate competition in the region and result in greater economic activity. At the same time, smaller SAARC nations that look towards balancing India's predominant position in the region are also reassured by the presence of outside powers who could balance the asymmetry in the region. India, although initially reluctant to allow China to be an observer, agreed after the inclusion of Japan, US and EU, who could effectively thwart any moves by China to dominate SAARC at India's expense. Its relations with China have improved in recent years and India would not like to upset the present equilibrium in Sino-Indian ties.

In this age of globalisation and interdependence, SAARC cannot afford to remain isolated. Most issues that countries in South Asia face, be it in the realm of terrorism, maritime security, health, environment or economic growth, are transnational in nature and require a coordinated response. Cooperation between SAARC and its neighbours is therefore both desirable and necessary. Observer countries could, in addition, play a useful role in terms of

³⁰ Ajaya Bhadra Khanal, "SAARC hopeful of delivering growth" *The Himalayan Times*, 3 August 2008 http://epaper.thehimalayantimes.com/ArticleImage.aspx?article=04_08_2008_008_001&kw..

toning down political differences between member countries in SAARC, as well as reinvigorating the economic equations between them. Many believe that if SAARC is not making much progress with its present outreach, why not expand it and see what happens? Breaking out of the prison of an Indo-Pak deadlock might release new energies."³¹ Additionally, the presence of external observers could enhance SAARC's external image and give it a voice in global institutions, including the United Nations"³² There is however, a more guarded view that believes that SAARC could lose its distinctive identity if it opened its doors a bit too wide to countries outside the South Asian region³³ and that it needs to put its house in order, before it opens itself to outsiders.

India's Renewed Commitment:

India has remained a reluctant and hesitant participant in SAARC from the beginning.³⁴ Due to the apprehension of the neighbours "ganging up" against it, and the neighbours' fear that a closer engagement with India could result in the latter's domination India's enthusiasm within SAARC has been kept at a low profile. In India's assessment, the economic potential of the region also did not appear to be very attractive. Indian policy makers have been convinced for a long time that SAARC could not offer the economic opportunities it had been looking for. Frustrated by Pakistan's position on the Kashmir issue and Bangladesh's strong inclination to politicize any bilateral and regional cooperation issue, India at one time, during the late nineties, had even started drifting away from SAARC. The creation of BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation), although the initiative came from Thailand, was one such manifestation of India's drift. It persuaded even Nepal and Bhutan subsequently to join BIMSTEC, making it almost a parallel organization to SAARC without Pakistan.

This phase of drift in India's approach to SAARC seems to have come to an end over the past three to four years, as India is gradually realizing that its credibility and acceptance as a rising Asian power will remain under cloud if it fails to carry its immediate neighbours along. SAARC was reassessed as a political and strategic necessity, if not so much an economic promise. As commented by Raja Mohan, India's own rapid economic development is 'no

³¹ http://www.dailytimes.com.pk/default.asp?page=2007%5C04%5C12%5Cstory_12-4-2007_

³² Kishore C. Dash *Regionalism in South Asia, Negotiating Cooperation, Institutional Structures*, Routledge (London and New York, 2008), p. 103.

³³ B. Murlidhar Reddy, "SAARC discusses expansion", *The Hindu*, 29 July 2008
<http://www.hindu.com/2008/07/29/stories/2008072960451300.htm> (accessed 31 August 2008)

³⁴ S.D.Muni, "India in SAARC: A Reluctant Policy Maker", in Bjorn Hettne, Andras Inotai and Osvaldo Sunkel, *National Perspectives on the New Regionalism in the South*, Vol.3, Macmillan, London, 1998.

guarantor of stability in South Asia'. Without all boats rising in South Asia at the same time, India can neither prosper nor be secure".³⁵

India seems to be learning from China as to how, through the use of economic diplomacy and soft power, neighbours should be won over and carried along in order to gain wider global acceptability as a regional power. Therefore SAARC, as the only regional instrument available to carry its neighbours along cannot be neglected or undermined. Instead, it has to be endowed with greater vigour and a sense of purpose. The change in India's stance also emanates from its growing economic self-confidence and political resilience. The Indian economy is gradually coming out of its protectionist mind-set thanks to growth and liberalisation. There is now greater willingness to open India's markets to others, as is evident from the increasing number of Free Trade and Comprehensive Economic Cooperation Agreements being signed and negotiated by India. This is attracting major world economies to engage with India. Consequently, India has been projecting itself as an economic opportunity to its neighbours. Then the Foreign Secretary Shyam Saran stated from a public platform in 2005:

India is today one of the most dynamic and fastest growing economies of the world. It constitutes not only a vast and growing market, but also a competitive source of technologies and knowledge-based services. Countries across the globe are beginning to see India as an indispensable economic partner and seeking mutually rewarding economic and commercial links with our emerging economy. Should not our neighbours also seek to share in the prospects for mutual prosperity India offers to them?³⁶

His successor Shiv Shankar Menon, has underlined the value of "connectivity", physical, cultural and economic, in the region. Making a strong plea for a change in India's own mind-set towards its neighbours he said at the 1st IISS-Citi India Global Forum in New Delhi in April 2008:

We will continue our efforts to develop close political and economic relations with all our neighbours. Our goal is a peaceful, stable and prosperous neighbourhood. India will continue to remain a factor for stability and peace in the region. Our economic growth is having an impact in the region and there are increased opportunities for our neighbours to benefit by partnering India. We will continue to make unilateral

³⁵ C. Rajamohan, "Cooperative Security in South Asia" in Imtiaz Alam (ed) *SAPANA: South Asian Studies* Vol. 13, Free Media Foundation, Lahore, 2006, p.350.

³⁶ Foreign Secretary Mr Shyam Saran's speech on "India and its Neighbours" at the India International Centre, February 14, 2005 <http://www.indianembassy.org/Speeches/1.htm> .

gestures and extend economic concessions. The political challenge will be set aside past mistrust and suspicions which have restricted the expression of our natural affinities, based on shared geography, history and culture.

In line with this policy, India has moved to create connectivity, as much as possible on its own and also by persuading its neighbours to join in. Whereever it is not possible, India has tried to find alternatives, like in case of Afghanistan, where Pakistan is blocking India's connectivity, the Iran route has been worked out. A 280 km Zeranji-Delaram road connects Afghanistan to Iran for transit through Chhabahar port. The Prime Minister has even gone to the extent of proposing that the borders, since they cannot be eliminated, be made irrelevant, not just with Pakistan but in the whole South Asian region. There are clear indications that India is prepared to make huge investments for the SAARC enterprise to move and move fast. India has offered \$100mn for a SAARC development fund and agreed to allow duty free imports from all the least developed countries of the region, which would include Nepal, Bangladesh, Bhutan, Maldives and Afghanistan. Its approval for the presence of observers in SAARC is also an indication of India's confidence to deal with the extra-regional powers and secure recognition as a major regional player. India has also taken the lead in establishing a South Asian University to extend regional integration to the intellectual and academic realm.

Appraisal:

The changing regional dimensions promise to have a comprehensive impact in strengthening SAARC, not only as a regional instrument for economic cooperation but also as a forum for building political and strategic understanding among all its members. This positive impact cannot be delivered unless the member countries and their respective leadership work sincerely in harnessing the opportunities created. Many of the changing dimensions have still not settled. For instance, the democratization of the region is a process beset with various challenges. There are powerful forces of ethnic and sectarian assertion and socio-economic turbulence active in each of the South Asian countries, which can distort perspective and vitiate the vision of regional harmony and cohesion. The India-Pakistan peace process is also a slow and often interrupted exercise and can easily get derailed if the menace of terrorism in the region remains uncontrolled. However, the direction of rapprochement between the neighbours in the region cannot be allowed to reverse itself. South Asia is still far away from the goal of regional integration and community building that is evident in the European Union and ASEAN, but its people have come to the realization that they cannot afford to continue to exist as a region of contention and conflict, particularly when opportunities for development and cooperation are staring them in the face.