Paper Abstract: This paper will trace the evolution of SAARC from a historical perspective and seek to address the reasons for the weakness of the regional organization. It will also analyze the development of the South Asian Free Trade Area and examine whether regional cooperation is likely to create a foundation for overcoming the rivalry and hostility that underlies the relationship between two of the region’s largest countries—India and Pakistan.
**Introduction**

Narendra Modi, India’s newly elected prime minister, broke with tradition and took the oath of office in ceremonial style in the presence of South Asia’s leaders who were all invited to witness his inauguration at the presidential palace in New Delhi. According to Vikram Sood, former head of the Research and Analysis Wing (RAW), which is India’s external intelligence agency, Modi’s invitation to leaders of all seven member countries of the South Asian Association for Regional Cooperation (SAARC) was an “astute” move that “augurs well for the region,” adding that “an improvement of relations all over the region is possible if these moves are followed by other steps, bilaterally and multilaterally.” Modi’s early focus on India’s immediate neighborhood belied many observers who had expected him to reach out to countries in East Asia.

Why engagement in the neighborhood is important is revealed by the manifold advantages that regional cooperation could bring to the countries of South Asia. First, there is unrealized potential for economic cooperation. Regional trade in South Asia constitutes a mere 2 percent of regional GDP. East Asia’s trade by contrast stands at 20 percent. According to the World Bank, South Asia is one of the world’s “least integrated regions.” Second, economic revitalization would help address stubborn problems of stagnating growth, poverty, and youth unemployment in a region where the young constitute a disproportionately large share of the population. Third, drawing Pakistan into the regional trade orbit could begin to reverse the zero-sum mind-set that has mired the India-Pakistan relationship in a cycle of hostility to the detriment of both countries and open up possibilities both for the establishment of a 21st century version of the Old Silk Road linking South with Central Asia and for a more secure and prosperous Afghanistan. Fourth, a robust Indian outreach to its neighbors would offer South Asia’s smaller countries a trade link to the countries of Southeast Asia and provide an alternative to assiduous Chinese efforts at economic and military courtship.

Can a region defined by a post-colonial legacy of decades of hostility and suspicion overcome its burdensome inheritance and chart the course toward a vision of shared prosperity? This paper will attempt to address this question in three sections. The first section will trace the history of SAARC from its beginnings in 1985 and examine India’s evolving approach to the organization. The second section will focus on trade cooperation. The conclusion will assess SAARC’s future promise.

**SAARC: Genesis and Development**

The genesis and development of SAARC mirrors the evolution of the self-image of India’s leaders from diffidence to increasing self-assurance regarding the country’s role and aspirations in the South Asian region. Two countries—Pakistan and China—have played a central role in this evolutionary unfoldment.
The Role of Pakistan

Pakistan, an intra-regional power, is a country whose history is closely intertwined with that of India’s.iii Pakistan’s founding myth based on religiously derived nationalism sought to separate its nationhood from a shared centuries-long historical and cultural legacy with India spanning Mogul and British rule, fueling several Indo-Pakistani wars in the period since independence in 1947. What began as a “narcissism of small differences” has, over time, created an inertial force in Pakistan that complicates the political resolution of issues like Kashmir; but even more consequentially, has allowed the Pakistani military to arrogate to itself the role of “guardian and keeper” of the state’s national honor. As the only stable institution in a country where the civilian leadership is weak and corrupt and needs the support of the military to stay in power, the Pakistani Army, through its intelligence wing—the Inter-Services Intelligence Agency (ISI) has, since the 1980s, aided and abetted groups of militant Islamic fighters to wage “jihad” against India, resulting in a decades-long insurgency in Kashmir on Pakistan’s eastern (India’s western) front. On the western front, Pakistan’s nurturing of the Afghan Taliban has spawned a homegrown mujahedin group, the Pakistani Taliban (Tehrik-i-Taliban Pakistan—TTP), which is battling the Pakistani state. Terrorism, like revolution, now “devours its own children.”iv In his testimony to the Abbottabad Commission charged with investigating Pakistan’s intelligence failures after the 2011 U.S capture of Osama bin Laden on Pakistani soil, former ISI chief Ahmed Shuja Pasha is reported to have stated: “We are a failing state, even if we are not yet a failed state.”v Pakistani leaders have yet to decide whether continuing an enmity of choice with India is worth more than fighting its own existential battles. As an economic partner, India could be enlisted as an ally in the strengthening of the Pakistani state.

China’s South Asian Presence

China, an extra-regional power whose leaders tend to see India as an obstacle to their Asian, even global, aspirations, has sought to keep India hemmed in the South Asian region. Relying on an age-old “divide-and-rule” policy, by befriending Pakistan and cultivating close military and economic ties with India’s other neighbors, Beijing has attempted to force India to keep its attention and resources focused unproductively in the region—a strategy that worked well until the 1990s when the confluence of several developments undercut some of its efficacy. During the early stages of the Cold War when the United States viewed the Soviet Union and China as a unified Communist threat and India as suspect, due to its posture of non-alignment between the two warring post-World War II ideological blocs, Pakistan emerged as a favored ally and was fully integrated into the Western alliance system as a member of the South East Asia Treaty Organization (SEATO, 1954); the UK-sponsored Baghdad Pact (1955); and the Central Treaty Organization (CENTO, 1959), which replaced the Baghdad Pact and included the U.S. and the U.K as associate members.vi

The China-Pakistan Nexus
The China-Pakistan relationship goes back to the establishment of diplomatic ties in 1951. Since then, Beijing and Islamabad have maintained a close friendship that has weathered the test of time. The faltering of the U.S.-Pakistan relationship in the 1960s over Washington’s unwillingness to offer unstinting support to Pakistan in the 1965 war with India, and China’s international isolation during the same period, served to cement the mutually beneficial Sino-Pakistani relationship. So trusted a Chinese ally was Pakistan that when, in the late 1960s, the Nixon administration decided to seek a rapprochement with China, Pakistan served as a key intermediary.vii Pakistan’s good offices paved the way for then National Security Adviser Henry Kissinger’s two trips to Beijing in 1971 followed by President Nixon’s path breaking visit to Mainland China in February 1972. China has supplied Pakistan with arms and clandestinely provided “sensitive nuclear technology and equipment.”viii The China-Pakistan arms relationship began in the 1960s and registered a huge upswing in 1990 when the United States imposed sanctions on Pakistan. According to a March 17, 2014 SIPRI Press Release, 54 percent of Pakistan’s arms imports from 2009-13 were sourced from China. ix The only wrinkle in the bilateral relationship comes from Beijing’s concern over rising religious extremism in Pakistan and the support by terrorist jihadist groups of Chinese Uighur separatism in Xinjiang. China’s desire for better ties with India constitutes another, albeit minor, brake on the otherwise robust China-Pakistan friendship that Pakistani officials hyperbolically characterize as “higher than the mountains” and “deeper than the oceans.”x

The Formation of SAARC

India dominates the South Asian landmass and, due to its peninsular geographical configuration, has a long coastline that offers access to the Arabian Sea, the Bay of Bengal, and the eponymous Indian Ocean. Of the member countries of SAARC, India shares land borders with Nepal, Bhutan, Bangladesh, and Pakistan, and maritime borders with Sri Lanka and the Maldives. The only South Asian country with which India does not have a contiguous border is land-locked Afghanistan. During the Cold War, India’s estrangement from the United States, rivalry with Pakistan, and enmity with China combined to generate in Indian officials a sense of diffidence about the country’s de facto regional role, which was not in alignment with the New Delhi’s regional aspirations. This circumstance largely explains why India was a reluctant participant when the creation of a South Asian regional organization was proposed by Bangladeshi Prime Minister in 1980 and supported by all South Asian countries, except India and Pakistan. India feared joint pressure from regional states on contested security issues that New Delhi preferred to negotiate bilaterally. Pakistan was apprehensive about the creation of a regional grouping that would allow New Delhi both to pursue an anti-Pakistan strategy in concert with smaller neighbors and to enhance its economic dominance. Moreover, Pakistani leaders who had tried to use the Islamic connection to forge closer ties with the belt of Muslim countries to its west, particularly in the Middle East, feared a dilution of those links with greater engagement with South Asian countries. In the end, however, neither country could afford to spurn the Bangladeshi initiative. In an Indo-centric South Asia, New Delhi
realized that rank obstructionism would undermine long-term Indian objectives. And, for strategic reasons, Pakistan could ill-afford isolation from a regional grouping of which India was a member.

To allay the concerns of its largest members, the resulting South Asian regional arrangement was based on a “soft” variant of multilateralism—an intergovernmental regional organization founded on norms or consensus—rather than a “hard” or rule-based multilateralism. In deference to Indian concerns, the organization explicitly excluded consideration of security issues in a multilateral format and opted instead to focus on matters of functional cooperation. Pakistan’s involvement in the grouping has been both tentative and selective. Islamabad sought to use the organization to forge closer ties with the smaller countries of South Asia and enlist their grievances against India to add heft to Pakistan’s anti-India stance.

The SAARC Charter was signed in December 1985 by the heads of state of seven South Asian countries—Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. Afghanistan became a member in 2007. On paper, SAARC areas of cooperation run the gamut from science and technology, economic and trade to social, cultural, and educational issues, and people-to-people interchanges. But actual results have been meager at best. In the first decade of its existence, SAARC’s primary value was in providing a forum for dialogue. The organization sputtered to life in the last decade of the 20th century and has progressed, albeit glacially, at the turn of the 21st century, aided by developments at the domestic, regional, and global levels.

**SAARC and India’s Evolving Self-Image**

At its formation, SAARC had been hamstrung by a paucity of resources, a minimalist approach toward the organization by its largest and most powerful member—India, and the dilatory tactics of Pakistan. But the mindset of Indian officials shifted in the early 1990s as the end of the Cold War signaled a changing geopolitical landscape. The attenuation of the US-Soviet ideological conflict in the late 1980s and Soviet withdrawal from Afghanistan removed a key irritant in the Indo-US relationship and set the two countries on the trajectory of gradually improving ties that culminated in the cementing of a strategic partnership in 2004. Until the September 2001 Al Qaeda-sponsored terrorist attacks in New York and Washington, D.C. led to a U.S.-led invasion of Afghanistan and Pakistan re-emerged as a front-line state, this time in the battle against terrorism. Pakistan’s role in U.S. strategy is unlikely to eclipse the enduring importance to the United States of a strong relationship with India, both as a hedge against China’s global rise and as an important economic partner. Cold War-era U.S.-Indian strategic estrangement is unlikely to be repeated in the 21st century. India’s rising economic profile also allowed Indian leaders to consider magnanimity towards its neighbors as a feasible option.
In 1989-91, Inder Kumar Gujral, then minister of external affairs in the V.P. Singh government, articulated a new approach towards countries in the neighborhood. Gujral argued that as the dominant country in South Asia, India needed to be sensitive to the concerns of its smaller neighbors and pursue accommodation and conciliation in an effort to promote cordial relations with countries in the region. Concrete action soon ensued with the withdrawal of the Indian peacekeeping force in Sri Lanka, which had been a source of friction in the bilateral relationship. In a nod to critics, Gujral also forcefully communicated to then Pakistani Foreign Minister Shaibzada Yakub Khan that his policy of non-reciprocal concessions to neighbors did not extend to Pakistani support of militants in the Kashmir region and he and Prime Minister Singh approved military action to check attempts by the Pakistani Army to alter “crucial points on the line of control [in Kashmir] in their favour [sic].”

The principles of the “Gujral Doctrine” were more forcefully incorporated into Indian foreign policy during Gujral’s Prime Ministership in 1996-98. He restarted a stalled 1994 dialogue with Pakistan over unresolved issues, signed a landmark water-sharing treaty with Bangladesh and inaugurated talks on the removal of tariff and non-tariff barriers to trade. With Nepal, he offered to “revise or scrap” the 1950 India Nepal Treaty, which was seen in Kathmandu as a symbol of unequal relations.

If Gujral’s initiatives did not bear more fruit in 1989-91, the problem rested not with the vision but with the dire straits of the Indian economy. Near bankruptcy in 1991 forced the Indian government of P.V. Narasimha Rao to undertake liberal economic reforms under the watchful eye of the International Monetary Fund (IMF). While the immediate results of these reforms were positive, inertia soon set in and by the time Gujral was at the helm again in 1996-98, economic growth had slowed considerably. India’s economic picture improved in the first half the 21st century and with it came renewed hopes for greater regional integration efforts.

The South Asian Free Trade Area (SAFTA)

SAFTA was envisaged as a way station toward a Customs Union, a Common Market, and eventually an Economic Union. Preliminary discussions were initiated at the 16th Session of a meeting of the Council of Ministers in December 1995 and the SAFTA agreement was signed in January 2004 at the 12th SAARC summit in Islamabad, Pakistan. To move this process forward, the SAFTA Ministerial Council and the SAFTA Committee of Experts meet regularly to review further steps. Both bodies will meet on July 22-23 in Thimpu, Bhutan. The SAFTA trade liberalization program was officially launched in July 2006 and since then, the total value of intra-regional exports has, as of September 2013, been estimated at approximately $3 billion, a figure that the SAARC itself notes is far below potential.

A 2010 World Bank report implicates regional conflict as the primary reason for South Asia’s dubious distinction as the world’s least integrated regions and suggests
that “policy and institutional reforms aimed at removing domestic constraints to growth and job creation” have to be joined to “market integration and regional cooperation” if the two dichotomous faces of the region—one, dynamic, urbanized, and globally integrated and the second, agricultural, land-locked, and mired in poverty—are to be fused positively.xvii

SAFTA, however, is unlikely to achieve its full promise until Pakistan engages willingly in trade liberalization with India. India’s bilateral free trade agreement with Sri Lanka, for instance, has a shorter negative list than in SAFTA. The same applies for Pakistan’s bilateral free trade agreement with Sri Lanka.xviii Indeed, some economists have argued that the commonalities among South Asian economies suggest a reduced potential for “comparative advantage-driven trade.”xix SAFTA’s tariff liberalization process (TLP) is based on a process of tariff reductions, with India and Pakistan slated to bring down 2006 tariff rates to 0 and 5 percent within five years and Sri Lanka within six years. The rest of the LDC (less developed countries) members were given ten years to effect this outcome. 2016 was identified as the target year for complete trade liberalization.xx This tariff reduction does not apply to items on the negative list of each country.

Negative lists, according to one estimate, exclude nearly 53 percent of total import trade from tariff liberalization under SAFTA, ranging from the LDC countries excluding between 65-75 percent of their imports to relatively high percentages for Sri Lanka's (51.7) and India (38.4). Pakistan's low percentage (17) percent is belied by its continued maintenance of a trade-harming positive list against India.xxxi Additionally, SAFTA neither contains any explicit commitments to the elimination of non-tariff barriers to trade nor addresses trade in services. In light of India’s dominant position in intra-regional bilateral trade, New Delhi’s approach to trade liberalization plays a key role in SAFTA’s progress, which in turn is predicated on Islamabad’s willingness to participate fully in the process. Bilateral trade with India accounts for 90 percent of regional trade for Bangladesh, Nepal, and Sri Lanka; while nearly two-thirds of Pakistan’s intra-regional trade is connected to its bilateral trade with India.xxii Thus, bilateral FTAs have the effect of sidelining the value of SAFTA for individual countries, as the Sri Lankan case noted above demonstrates. Moreover, India’s courtship of the Association of South-East Asian Nations (ASEAN) through its “Look East” policy has brought the country greater and more palpable economic benefits than has SAFTA, especially in the ASEAN+3 format. Bangladesh, the Maldives, and Pakistan have also pursued this path to Asian regionalism.xxiii This circumstance has led one economist to suggest that India could serve as the “hub” linking South Asia with East Asia.xxiv

Prime Minister Narendra Modi has outlined a vision that appears to approximate such a role for India. The manifesto of his Bharatiya Janata Party (BJP) on which Modi contested the May-June 2014 elections to the Lok Sabha (Lower House of India’s parliament) called for concerted efforts to strengthen regional forums like SAARC and ASEAN.xxx Seen in this light, the invitation to leaders of SAARC countries to his inauguration as Prime Minister augurs well for a robust replay of the
principles of the Gujral doctrine. A concerted push to re-inject lost momentum into the SAARC process may rescue SAFTA from its lukewarm record so far. Pakistani Prime Minister’s decision to accept Modi’s invitation and his subsequent attendance at the event raised hopes in India that the visit would lead to a thaw in relations and a normalization of bilateral trade ties, and Pakistani acquiescence to India’s “long-pending demand” for non-discriminatory market access (NDMA).xxvi The two countries had decided on a “roadmap” that would see India reduce its “sensitive list” to 100 from 614 by April 2013 after Pakistan had granted India normal trading status by December 2012, a commitment that Pakistan did not honor. A Pakistani cabinet meeting in April 2014 to resolve this issue was postponed in order to allow Islamabad to work with the new Indian government and is still pending. The Modi government has also indicated its intention to work toward reducing India’s trade surpluses with SAARC countries by taking measures to boost imports, to increase the services trade, especially in tourism and medical tourism by easing the process of granting multiple entry visas.xxvii And, finally, Modi has explicitly spoken of the need to undertake joint efforts to fight poverty.

While the likelihood of significant gains in intra-regional trade to countries in South Asia from SAFTA may open to debate, the larger question of whether integration can offer palpable non-economic benefits that would underpin human security and reverse the insecurity-underdevelopment-poverty paradigm by fostering cooperation continues to be germane. It is to this question that we now turn.

Conclusion

The regional integration literature suggests the pacifying effects of economic cooperation. South Asia’s challenge is the security deficit in the region stemming primarily from the unresolved Kashmir issue between India and Pakistan. In many ways, Kashmir is at the center of national identity definitions of both countries—India as a secular state and Pakistan as a state for the Muslim “nation.” SAARC was formed in hopes that functional cooperation could be initiated despite the deep structural insecurities underlying many dyadic relations in South Asia and that such cooperation would pave the way for a restorative dialogue on contentious security issues. However, progress has been glacial because the Indo-Pakistan security conundrum has resisted solution. Small steps toward cooperation have thus not been followed by collaborative leaps because of the obduracy of mindsets.

For meaningful change to occur in the South Asian region, mindsets have to change. For mindsets to change, national identity issues have to be resolved in such a way as to allow pluralism—religious, ethnic, and tribal—to flourish. India, for instance, needs to address communal (primarily Hindu-Muslim) and tribal grievances that have fed insurgencies in Kashmir and in the northeastern and central states (Maoist) of the Indian federal union.

Pakistan’s challenge is even greater. A focus on its Muslim identity qua national identity has compromised the state-building process since independence in 1947,
allowing the Pakistani Army to emerge as the only stable institution in the country. An anti-India ethos, which has been the sine qua non of the Army’s raison d’être, has frustrated repeated political attempts to reach an agreement over Kashmir. The Pakistan Army has aided and abetted an ongoing insurgency in Kashmir since the 1980s. Adding to threats that are fueled by ethnic and economic grievances, such as the Baluchi insurgency, the state now battles a homegrown insurgency led by the Pakistani Taliban that seeks to create a shari’a-based polity. The Army through its intelligence agency, the ISI, has sought to fight the Pakistani Taliban while supporting militant Islamic groups that fight India and Afghanistan. This strategy, by fomenting sectarian violence in Pakistan itself, has the potential to further weaken state institutions in a country that is a rentier state relying heavily on economic aid from the United States to fund the Exchequer. Only a fundamental re-direction of strategy and policy supported by the Pakistan Army is likely to change the current trajectory in a country where elected civilian governments have been unable to move policy forward without the blessing of the military leadership.

India’s relations with the other countries of South Asia are less fraught, although not without friction. Modi’s decision to make Thimpu, Bhutan the destination of his first foreign visit sent a strong message of hope and renewal: As a first step, India, the region’s dominant state, it seemed to suggest, was going to repair relations with countries in its immediate neighborhood. Were Modi to revive India’s GDP growth rates to levels reached in the first half of the 2000s, New Delhi may be able to convince other South Asian countries to harness their train to India’s economic engine. If India can become a net provider of public goods and work assiduously to resolve issues that are amenable to political solutions (such as a water sharing agreement and the swapping of enclaves with Bangladesh; non-reciprocal economic arrangements with Nepal, Bhutan, and the Maldives; and building on strong economic links with Sri Lanka to come to a mutually satisfactory modus vivendi on the issue of Tamil minorities), New Delhi will be in a stronger position to persuade Islamabad that it is in Pakistan’s best interests to move toward a political resolution on the Kashmir issue.

In South Asia, functional cooperation has to be complemented with attentive shepherding of policy designed to ameliorate security-driven concerns. A two-track process wherein non-security cooperation goes hand in hand with a political dialogue on security matters is the only way to revive a stalled regional integration process.

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1 Quoted in John Chalmers, “Even before he is crowned, India’s Modi struts the global stage,” Reuters, New Delhi, May 25, 2014.

In departing India in 1947 after officiating over the division of British India into the two independent states of India and Pakistan, the British had wrongly expected that the two countries would continue to interact peacefully without much disruption to long-standing commercial, trade, cultural, and familial links that crossed their now divided borders.

Georg Buchner, a nineteenth century writer and playwright, in *Act I of Danton’s Death* (1835), a play about the French Revolution, had written: “Revolution is like Saturn, it devours its own children.” This quote is also attributed to eighteenth century French journalist Jacques Mallet du Pan who, in a 1793 essay on the French Revolution, penned the same line.


Shuja Pasha’s comment was almost certainly designed to deflect the argument that Pakistan had knowingly harbored bin Laden. Incompetence rather than connivance was the judgment also rendered by the Abbottabad Commission charged with investigating the secret 2011 U.S. raid for bin Laden’s capture in Pakistan. But this same report which spoke of “government implosion syndrome” with reference to the state of the Pakistani state, also noted: “Connivance, collaboration and cooperation at some levels cannot be entirely discounted.” See Declan Walsh, “Leaked Report Cites Pakistan’s Failings Before U.S. Killed Bin Laden,” *The New York Times*, July 8, 2013.
vi SEATO included Thailand, Pakistan, the Philippines, France, the United States, the United Kingdom, New Zealand, and Australia; the Baghdad Pact was made up of Iran, Iraq, Pakistan, Turkey, the United Kingdom; and CENTO was created after the departure of Iraq from the Baghdad Pact, and had Pakistan, Iran, and Turkey as members, and the United States and the United Kingdom as associate members.

vii By the late 1960s and early 1970s, frustrated with the protracted war in Vietnam the United States was, on the one hand, trying to look for ways to isolate North Korea in an effort to bring the war to an honorable end and, on the other hand, to increase its bargaining power with the Soviet Union, which had achieved strategic parity in the U.S.-Soviet nuclear arms race. China, for its part, was feeling the heat from the escalating Sino-Soviet conflict, which had erupted in armed skirmishes on their contested border along the Ussuri River in 1969, and feared complete diplomatic isolation. Both China and the United States, therefore, were ready for a rapprochement that would allow each to break out of the straitjacket in which they found themselves—the U.S. with the Vietnam War and China with the danger of not having only adversaries and no allies.


xii Pakistan had played a similar role in U.S. strategy in the 1980s against communism after the 1989 Soviet invasion of Afghanistan led the United States to funnel arms and money through Islamabad to support the anti-Soviet mujahedin. In an ironic twist of fate, the United States re-entered the region in 2001 to combat the very fighters that US strategy of the 1980s had spawned.


xiv Ibid.


xvi Ibid.


xviii Deshal de Mel, “Bilateral Free Trade Agreements in SAARC,” in ibid, pp. 104-106.

xix Dushni Weerakoon, “SAFTA: Current Status and Prospects,” in ibid, p. 73.
xxii Ibid, p. 80.
xxiii Ibid, p. 83.
xxiv Ibid, p. 84.
xxvi Ibid.
xxvii Ibid.