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## THE TWELFTH SUMMIT AND THE FUTURE OF SAARC

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### Abstract

Judging the achievements of SAARC in terms of its own past, it is easy to proclaim the Twelfth SAARC Summit at Islamabad in January 2004 a success. But when compared to progress on regional economic integration elsewhere in the world, the SAARC process must be assessed as too slow and very painful. The framework agreement on launching the South Asian Free Trade Area (SAFTA) concluded at Islamabad Summit is meagre in its scope and substance when seen in the light of the regional economic integration happening elsewhere in South Asia's neighbourhood. Nonetheless, the Islamabad Summit of SAARC has laid the foundation for thinking more radically about the future of regionalism in South Asia. If it comes up with a bolder agenda of regional integration – not in terms of words, but actions – the Dhaka Summit of 2005 will signal that the political momentum acquired at Islamabad is real and the SAARC has finally turned a corner. Many opportunities beckon the region today. But the

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ability of SAARC to grasp them will depend upon some sustained hard work at the bureaucratic level and some political vision at the top.

## **I. Introduction**

One way of assessing the achievements of any organisation at a particular juncture is by judging it in terms of its own past. With that criterion, it is easy to proclaim the Twelfth SAARC Summit at Islamabad in January 2004 a success. The leaders of South Asia demonstrated for the first time in the history of the SAARC that they are capable of moving forward on economic cooperation by signing an agreement to create a free trade area in the region. This makes the Twelfth SAARC Summit a milestone in the history of regional cooperation in South Asia.

But when compared to progress on regional economic integration elsewhere in the world, the SAARC process must be assessed as too slow and very painful. The framework agreement on launching the South Asian Free Trade Area (SAFTA) concluded at Islamabad Summit is meagre in its scope and substance when seen in the light of the regional economic integration happening elsewhere in South Asia's neighbourhood. But their challenge today lies in constructing a bolder agenda for regional cooperation in the coming decades. If it comes up with a bolder agenda of regional integration – not in terms of words, but actions – the Dhaka Summit of 2005 will signal that the political momentum acquired at Islamabad is real and the SAARC has finally turned a corner. This paper will try to assess the achievements of the Twelfth SAARC Summit in the context of nine major imperatives before SAARC.

## 2. Institutional Credibility

On the eve of the SAARC Summit the institutional credibility of SAARC process had sunk to the lowest possible depths. Barring a small community, which grew around the creation and evolution of SAARC, the regionalism in South Asia had hardly touched the lives of the people. It had increasingly become a trivial exercise focused on areas of cooperation and coordination between the governments, which are marginal.

If the SAARC had little impact on the broader trends that were shaping the region, it had even less credibility in terms of the goals it had set for itself. The SAARC process repeatedly missed the deadlines it had set on economic cooperation, given the reluctance of the political leaders to pursue the very goals they had endorsed in ringing tones collectively in earlier summit meetings. This implied that either the leaders were not committed to the statements they were signing or they did not have the ability to finalise international agreements that they voluntarily undertook to negotiate.

More fundamentally, the credibility of SAARC as an institution took a knocking from the fact that its leaders could not even meet every year as they had promised to themselves. In this context, the uncertain relations between India and Pakistan get much of the blame and were especially responsible for the delay in holding of the Twelfth SAARC Summit. Others too must take some blame; for there have been repeated instances of postponement of the summit dates for a variety of political reasons. If a regional process cannot even get the leaders to meet at an agreed frequency, what kind of credibility will it have?

There is no denying of the fact that the preparations for the Islamabad summit took place in one of the most difficult periods of contemporary South Asian history. When South Asian leaders met at the Eleventh Summit in Kathmandu in January 2002, both, the international and regional, situations were in a great ferment. The incidents of September 11, 2001 resulted in the Bush Administration launching a global war on terrorism. This had significant long-term consequences for the Subcontinent, which became one of the major theatres of this war. The attack on the Indian Parliament on December 13, 2001 unleashed a military confrontation between New Delhi and Islamabad and drew much of the world into preventing its escalation in an actual war.

In the end, convening the Twelfth Summit in Islamabad itself could be seen as a major political triumph, given the dismal history of the SAARC. The decision in the run-up to the Summit that dates in the first week of January of every year must be set apart for annual meetings of the leaders was an important decision. This, of course, is no guarantee against the volatility of the political situation in the region; but it nevertheless compels most of the states to join the annual sessions. Summitry is of no value if it does not produce concrete outcomes. Therefore, the agreement to have annual summits at a specified time every year must be accompanied by sustained work at the official level to produce new agreements. Without the sustained hard work at various levels, SAARC summits could turn out to be mere talk shops.

It has often been said that Indo-Pak tensions have tended to undermine SAARC. But as the Twelfth Summit proved, the margins of the SAARC meeting produced a political breakthrough between India and Pakistan that has opened the doors for a sustained peace

process. The Twelfth SAARC Summit and its venue provided the diplomatic space for the Indian prime minister to visit Islamabad and engage the Pakistani leadership bilaterally. SAARC meetings could then be seen as providing a valuable opportunity for leaders of all countries to engage in bilateral meetings. While that is indeed a bonus from SAARC, its main purpose must remain the promotion of regionalism in the Subcontinent.

### **3. Ending the Economic Partition**

The most important political achievement of the Twelfth SAARC Summit has been the framework agreement on launching the SAFTA by January 1, 2006. This agreement takes the SAARC from the traditional focus on peripheral issues to hard-edged issues relating to regional economic integration. The Twelfth Summit also reiterated the proclamation from the Eleventh Summit on the creation of an Economic Union in the region. But the reality on the ground is that the Framework Agreement on SAFTA does not correspond to the rapid pace of economic integration elsewhere in the world. While SAFTA is an important step towards free trade, the SAARC is a long way from a genuine free trading arrangement in the region.

Meanwhile, the talk of a free trade area and economic union has already begun to raise political fears that economic integration will undo the Partition of 1947. There should be no underestimation of the obstacles to further progress on economic integration. Nor is it clear that there is a strong political commitment in all parts of the Subcontinent in favour of rapid trade liberalisation. The fact remains that all the countries of South Asia are under pressure to cope with economic globalisation. It would be unfortunate if the nations of the

Subcontinent seek to integrate with the world economy but shy away from greater openness towards each other.

The logic of globalisation suggests that ending the economic partition of the Subcontinent is inevitable. There was no divine rule that said the political partition of the Subcontinent must be followed by the break-up of the single market that existed in the Subcontinent until 1947. As separate states India, Pakistan and Bangladesh could indeed have pursued liberal trading policies towards each other. But as all nations moved towards insular economic policies, political barriers deepened into economic ones and today they are seen as insurmountable.

But the process of globalisation has dramatically altered the economic template of the Subcontinent. With wise leadership, the nations of the Subcontinent will adapt to this inevitability in a sensible manner. But in all countries there is a range of interests that want to slow down the process of regional economic integration. Unless these forces are short-circuited the progress on regional cooperation would remain well below the potential. The SAARC leadership understands that deeper regional economic integration will allow them to better cope with globalisation. The SAARC often talks about the importance of political coordination in the WTO. The Twelfth SAARC Summit in its declaration stated that its members "should continue to safeguard their collective interests in multilateral forums by discussing, coordinating and exchanging information with a view to adopting common positions, where appropriate on various issues". This is indeed useful, but not a substitute for real economic integration on the ground.

#### **4. A Larger Profile for Smaller Countries**

One of the valid arguments in the region has always been that the smaller countries have a higher political stake in the success of the SAARC process. Their grievance that Indo-Pak tensions tend to hijack the regional organisation is also a real one. It is equally true that the smaller countries have a larger interest in a more rapid pace of regional economic integration. Trade liberalisation in the region allows the smaller states to gain access to a larger market, attract more foreign direct investment and develop economies of scale. This also enhances the ability of smaller countries to compete in the global market. While India and Pakistan could look to other institutions and organisations to pursue their interests, the smaller countries have no real alternative other than the region to promote their economic interests.

The new approach of smaller states has been visible in the case of Sri Lanka, which has moved rapidly to seek bilateral free trade arrangements. It has understood the importance of integrating its economy with that of India in order to make quicker gains. Its bilateral free trade treaty with India has at once increased trade volumes and reduced the trade imbalance against it. While India is not always an easy partner to negotiate with on commercial issues, Sri Lanka has demonstrated that it can be done to the benefit of the smaller nations.

That should be a huge incentive to reduce Dhaka's defensiveness on bilateral trade issues with India. Bangladesh has every reason to become a leader promoting the process of regional economic integration both, bilaterally and regionally. Its economy has shown a consistent growth pattern in the 1990s and its social indicators are all moving in a positive direction. From a very low base of per capita

GDP, Bangladesh has caught up with Pakistan last year. If it continues to move decisively towards economic reform, Bangladesh could easily emerge as the second largest economy in South Asia in a few years. With the Thirteenth SAARC Summit scheduled for Dhaka, Bangladesh needs to take the leadership in promoting regional integration and overcome its current tentative approach.

### **5. Trans-Regional Trading Arrangements**

If SAARC does not move quickly on regional economic integration, other instruments might take precedence over it. While the Islamabad Summit has re-emphasised the value of SAARC, the political threat from more dynamic trans-regional arrangements is real. Once India overcomes its own internal inhibitions and subscribes to the logic of free trade, it will find that SAARC is only one instrument for regional economic integration. India, the largest economy in the region began to explore a variety of free trade arrangements in its neighbourhood. Amidst a growing disappointment with SAARC and its inability to move on trade issues, there was a growing awareness in India that it must look for other alternatives. The essence of this argument was that India has the option to look beyond SAARC and explore bilateral, sub-regional, and trans-regional trading arrangements. In the process, SAARC could be further marginalized.

India and some other countries of South Asia, namely, Bangladesh, Bhutan, Nepal and Sri Lanka are going to announce the initiation of free trading arrangements with Myanmar and Thailand at the BIMSTEC summit shortly. India has signed a free trade agreement with Thailand, and is negotiating or considering similar arrangements with Singapore, ASEAN, GCC and a host of other



countries and regional groupings. Some in the region see this as a negative development. They would argue that for the first time since the initiation of SAARC, a large chunk of the region is tying itself into closer economic cooperation with another region.

Here it must be said that there is nothing sacrosanct about the current geographic conception of South Asia. It certainly makes sense to treat the SAARC region as a coherent unit. But globalisation is tearing asunder the traditional geographic conceptions. In other regions, for example, ASEAN is negotiating free trade arrangements with China, Japan, South Korea and India. Individual countries of ASEAN are negotiating free trade treaties with whoever they can – Singapore with the U.S. and Australia, Thailand with China and India. The logic of free trade is going to assert itself whether the SAARC can make it or not. If SAARC does not make progress on economic integration, it will not be able to prevent movement elsewhere across a pre-conceived region. Looking at it positively, if SAARC proves a success it can in fact collectively draw partners from the neighbourhood.

## **6. China and SAARC**

Nowhere is the logic of economic integration between SAARC and its neighbours more compelling than in the case of China. The Subcontinent and SAARC have to come to terms, if not today then tomorrow, with the rapid rise of China's economic standing in the world. India, which has been suspicious of Beijing's involvement in South Asian affairs, is itself in the middle of an explosive economic partnership with China. Amidst improving political relations, Sino-Indian bilateral trade has galloped in recent years and is expected to reach US \$10 billion this year. India and China have also started

talks on “Comprehensive Economic Cooperation”— a euphemism for a proto free trade agreement.

China’s own economic development has begun to move inland from the eastern seaboard. Beijing’s dramatic investments in its grand strategy to develop its Western regions will bring China’s economic juggernaut closer to the Subcontinent in physical terms. China is seeking to globalise Xinjiang, Tibet and Yunnan provinces to promote their economic development and connectivity to the world markets. All these provinces border the Subcontinent. Integration between South Asia and China’s inner regions should now come to the top of the SAARC agenda. China is looking for port access for these land-locked regions. The decision last year by India and China to open the Natu La pass for border trade between Tibet and Sikkim could be the precursor for transit trade between the two regions.

China has also been pursuing the prospects for regional economic cooperation between its Yunnan province and India, Bangladesh and Myanmar at the Track Two level under the so-called Kunming initiative. India has been cool so far to this initiative. But as Sino-Indian relations continue to improve this could change. Associating China with the economic development of the Subcontinent is an idea whose time has come. The Twelfth SAARC Summit affirmed its “determination to develop mutually beneficial links between SAARC and other regional and international organisations...and agree to establish dialogue partnership with other regional bodies and with states outside the region, interested in SAARC activities”. The Thirteenth SAARC Summit in Dhaka will have to flesh out ideas on how to leverage China’s growth for the development of South Asia.

## 7. Energy Cooperation

The prospects for trans-border energy cooperation have emerged as one of the more exciting ideas in the political discourse within the SAARC. In its declaration, the Twelfth SAARC Summit stated that "a study on creating a South Asian Energy Cooperation including the concept of an Energy Ring, should be undertaken by the Working Group on Energy". This indicates the willingness of SAARC countries to deal with the prevailing differences on the issue rather than an affirmation of a shared understanding. The fact is that the huge potential for trans-border energy cooperation in the Subcontinent has been hobbled by the unprecedented politicisation of these issues. The prospects for natural gas pipelines between India, Bangladesh, and Myanmar in the East and those linking Iran and Central Asia with India and Pakistan have become politically controversial.

It is a common trend in the world to transport energy, in whatever form, from the sources of generation in one country to markets in another. Whether it is through shared electricity grids or natural gas pipelines, transborder energy cooperation has been shaped by the dynamics of market calculations. Nowhere is politics absent from the mega transborder energy projects. But in South Asia the logic of negative politics has overwhelmed economic common sense. No country could be singled out in this unfortunate development in the Subcontinent. Many countries in the region today firmly defend absolutely inconsistent positions. They support trans-border energy cooperation where it suits them and oppose it when they consider it to be politically sensitive.

To break this logjam, it is important for South Asian nations to begin to depoliticise the debate on these mega trans-border energy

projects. All countries involved must start negotiations on implementing these projects without prejudice to their current positions. No country can force another to act against its will on these projects. The challenge before the SAARC nations lies in beginning to think together about these projects rather than posturing to their political constituencies. To focus on further studies at the government level will tend to delay these projects rather than move them forward. The focus must also shift to the private sector, which can hammer out the technical details and outline the mutual benefits in such projects pending the resolution of political differences.

## **8. Transport Corridors**

The Islamabad Declaration of the Twelfth SAARC Summit stated that for “accelerated and balanced economic growth it is essential to strengthen transportation, transit and communication links across the region”. The formulation of the Islamabad Declaration is in logical correspondence with the proclaimed desire to create a free trade area and an eventual economic union. Here again the wishes expressed stand in sharp contrast to the political reality on the ground. At a time when the rest of the world is rushing towards modern transportation links across continents in order to facilitate greater commerce and easier movement of people, the South Asian nations appear determined to deny each other transportation access.

At a time when the Silk Roads around the Subcontinent are being revived, transport links that were in use less than two generations ago have been allowed to degrade both physically and politically in South Asia. India, for example, has no transit facility to its North East and beyond through Bangladesh. It cannot access

Afghanistan through Pakistan. Islamabad and Dhaka have to go around India to send goods to each other. To overcome the denial of access by its neighbours, India is trying to develop connectivity to Afghanistan and Central Asia through Iran, and to its North East and Southeast Asia through Myanmar. These can only be complementary measures and not the basic ones. The time has come for the nations of South Asia to begin to depoliticise the issues relating to transit and trade. While seeking *quid pro quo* for these facilities is a natural part of diplomacy, the opportunity costs for all sides in not providing access to each other need to be publicised.

Absence of modern transport links, cumbersome customs procedures, and deliberately difficult policies on visas have meant a conscious decision by the South Asian nations to forego huge potential revenues from tourism, pilgrimage and people-to-people contact. The Twelfth SAARC Summit has designated 2005 as "South Asia Tourism Year". But to be credible, the governments in the region will have to act quickly to liberalise visa regimes and begin to act on improving transport infrastructure.

### **9. Primacy of Economics or Politics?**

South Asia has long debated a simple question: What comes first – politics or economics? A section in South Asia has argued that without a resolution of long-standing political disputes, it would be impossible to construct economic partnership. Another view has insisted that the lessons from other more successful regional organisations underscores the importance of putting aside difficult political issues and focusing on economic cooperation which would ultimately create the right environment for the resolution of political disputes. Neither side will, however, be able to win this argument.

Instead of seeking to define which sequence is better for South Asia, it makes sense for everyone in the region to focus on a simultaneous movement on all the fronts. The speed, it would be right to assume, will not be the same on all issues. But the sense of movement on either of the issues will reinforce positive movement on the other. South Asia cannot afford the opportunity costs of not travelling down the road of economic cooperation. At the same time it makes little sense to delay the discussion of major political differences. Too much emphasis on either of these approaches has taken its toll on the SAARC.

India has often argued that contentious bilateral political issues should not be brought into the SAARC ambit. India has not, however, precluded the discussion of bilateral issues in an "informal manner", as the Islamabad Declaration states. The Twelfth SAARC Summit has also talked of expanding political cooperation among the member states. But the section on political cooperation has a long-winded sentence on general principles, rather than any specifics. It could be argued that the signing of the additional protocol to the regional convention on terrorism is a major advance towards political cooperation. That would, however, be an excessively optimistic interpretation. The SAARC Convention on Terrorism was drafted years ago and has largely been superseded by a dramatically expanded international regime on counter-terrorism cooperation. But the reality in South Asia has been that despite a shared threat against terrorism, there is hardly any institutionalised cooperation between South Asian governments and their security agencies. The Thirteenth SAARC Summit in Dhaka will have to remedy this if political cooperation is to further develop in the region.

## **10. A Case for India's Positive Unilateralism**

As the largest country in the region, India needs to assume the leadership role in the SAARC. In the early years of the SAARC, it was argued by many that New Delhi must maintain a low profile in the organisation. It was suggested that if India as the largest nation took the initiative, the others would get uncomfortable. India's strategy of lying low has not worked. It has led to a mindless drift. If the SAARC is to become productive, India has to take the lead. No one else will. Leadership is not about asserting India's will. Leadership in multilateral organisations lies in defining a positive direction and moving other partners towards more ambitious goals through unilateral action wherever possible.

In the past, India had emphasised bilateralism and reciprocity in its dealings with the neighbours. But since the mid 1990s, India has begun to articulate a more sophisticated approach that has begun to underline a willingness to move more than half the distance to resolve long-standing problems. This view expressed most strongly in the so-called Gujral Doctrine has been continued by other governments that followed since. India now needs to take additional steps towards a bolder policy that seeks to promote regional economic integration through unilateral actions. Given the size of its market and the trade surpluses that it has with most of its neighbours, it is in India's interest to offer its partners in the SAARC greater access to its economy. Unilateral steps are a useful device towards breaking diplomatic ice and generating confidence.

South Asian regionalism will dramatically benefit from India's positive unilateralism; but in the end give and take on the basis of shared interests remains the key to the success of SAARC. The Islamabad Summit of SAARC has laid the foundation for thinking

more radically about the future of regionalism in South Asia. Many opportunities beckon the region today. But the ability of SAARC to grasp them will depend upon some sustained hard work at the bureaucratic level and some political vision at the top.