

SAARC AND EU: A STUDY OF THE PROCESS OF REGIONAL INTEGRATION

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Introduction

Regional organizations are a strong mode of integration and promotion of cooperation among the member countries. They have the potential to facilitate economic and commercial relations which may lead to political cooperation. The level of cooperation depends upon the will of the member nations to address the problems of the region. The post-Cold War era witnessed the strength and growth of regional organizations since the emphasis was shifted from security to political economy.

In Europe, the European Union (EU) has emerged as the most advanced and successful entity in handling economic problems. This experience of EU can contribute immensely to the enrichment of economic agenda in South Asia. For this, there is an urgent requirement to make concerted efforts in the right direction for implementing regional programmes to realize economic goals.

The 1.5 billion people of South Asia are still facing poverty, illiteracy, underdevelopment and unemployment despite having human as well as natural resources. The inability of the SAARC to address these critical problems demands an appraisal of its performance and the need to identify main hurdles in achieving its objective. On the other hand, the EU model has become an efficient model of regional integration which can be followed by SAARC.

The first section of this paper covers the structure and working of the European Union as a model for regional integration. The second deals with the structure of SAARC and the challenges faced by it. The third section compares

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both regional organisations and offers suggestions to implement the EU model in South Asia keeping in view the fact that the economic status, political systems and social set-ups are different in both regions. It also recommends that the bilateral rivalries between the SAARC countries especially between India and Pakistan should be managed if not ended, to consolidate SAARC's role as a regional organisation.

Regionalism

Regionalism is a significant development that marked the post-World War II period, though the notion was already there in international relations. This trend emerged due to the need for pooling national resources in a divided and war-threatened world in addition to other political pressures on the states. "The nation state system...is evolving towards a system in which the regional groupings of states will be more important than the independent states."⁽¹⁾

Before defining regionalism, it is relevant to define the word 'region.' In international relations "a region is invariably an area embracing the territories of three or more states. These states are bound together by ties of common interests as well as of geography."⁽²⁾ In post-World War II, the Cold War rivalry and threat from both superpowers augmented by desire of identity led to the development of regionalism and Western Europe became the most effective example for other regions to follow. In the post-Cold War era this process of regional assembling became more rapid due to unilateralism of the United States as the sole superpower and rising challenges of economic dominance of great powers in the form of globalisation.

The word 'regionalism' is often used in the studies of regional cooperation, regional organisation, and regional integration. In its most accepted meanings, regionalism is about regional cooperation which appears under certain economic conditions and aims to improve economic efficiency through reinforcing market-driven regionalisation. It leads to economic interdependence among geographically adjacent nation states. Regionalisation refers to those state-led projects of cooperation that are the result of intergovernmental discussions and agreements.⁽³⁾ These agreements of economic cooperation lead to a voluntary removal of trade barriers to the mutual exchange of goods, services, capital, or persons by nation-states. Such type of regionalism tends to shift policy-making in economic sectors from a national level to regional level. Therefore, "regionalism is a recognition of the existence of interdependence as well as enhancing positive interdependence by means of international co-operation or coordination between adjoining state, that can facilitate regional integration at the highest level."

Importance of regional organisations

The world has been moving towards economic globalization since the end of the Cold War. The process involves "the inexorable world integration of finance, market, nation states and technologies within a free market capitalism on a scale never witnessed before, in a way that is enabling individuals,

corporations and nation states to reach around the world faster, cheaper and deeper.”⁽⁴⁾ Globalization led to the deepening of interdependencies which paved the way for the growth of regionalism and regional organisation.⁽⁵⁾ While regional organizations became an essential part of world politics, they provided platform to the states to enhance economic and political cooperation and to remove trade barriers by eliminating hostilities in relations. Regional integration focused on pooling together economic strength of a cluster of states located in a particular region and strengthening their economic capabilities.

In modern international system, regional organizations have enhanced unity among states and reduced conflicts between member states by engaging them in economic activities and strengthening their diplomatic and cooperative relations. These organizations provide security to the states from extra-regional interference and help increase trade and investment.

The European Union (EU)

The post-World War II period saw emergence of various formats of economic integration in different parts of world. Under the integration trends a number of regional organizations came into existence like the Arab League of Middle Eastern countries, which was formed in 1945. The European Union (EU) appeared in its initial form in 1958. The Association of Southeast Asian Nations (ASEAN) was created in 1967, which united Southeast Asian states into a family. The South Asian states came together in 1985 under South Asian Association for Regional Cooperation (SAARC). The Caribbean Community (CARICOM) was signed between Caribbean states in 1995, while in Africa the African Union (AU) was established in 2002.

Background of EU

The EU was the natural outcome of a “strong determination” of the European leaders to eliminate potential conflicts especially in the post-World War II era in international system.⁽⁶⁾ The war had severely affected the European nations and forced a change in their mindset. Previously these nations used to enter into conflict for territorial expansion, power dominance and utilization of world resources exclusively to their own benefit. History shows that large areas of Europe had previously been built as empires; the Roman Empire, Byzantine, Ottoman, the First French Empire and Nazi Germany were some of the examples. The clash of mindsets and traditional rivalries had resulted in the outbreak of World War I which led to the breakdown of big empires. The World War II and its aftermath left Europe a war-ravaged continent making its leaders realise that war was not a solution to their problems.⁽⁷⁾

European Coal and Steel Community

European nations were affected by the World War II not only in terms of human suffering but severe economic losses as well.⁽⁸⁾ It was realised that peace was not the sole agenda for post-war Europe. They were thinking of

solutions to their economic problems as well and vigorously working for their economic and social uplift. In order to start economic cooperation.

It was suggested that coal and steel resources, particularly those of France and Germany may be put under common ownership and control. It was intended that placing these raw materials, which were at that time the main ones used in the production of weapons, under common ownership would make it impossible for another world war to start in Europe. Moreover, rivalry over the coal and steel producing areas of Europe would be contained and French fear of Germany would be neutralised. It was further intended that the nations of Europe, France and Germany in particular would be bound together in peaceful, economic cooperation.⁽⁹⁾

The six founding-member states of European Communities, Germany, Italy, France and the Benelux countries (Belgium, the Netherlands and Luxembourg) signed the Treaty of Paris in 1951, creating the European Coal and Steel Community (ECSC). Under this agreement a common market in coal and steel was set up. The significance of the treaty was that it “created supranational institutions, the High Authority, the Assembly, a Council and a Court with powers over the signatory states.” Britain refused to join in due to its “implications for national sovereignty.”⁽¹⁰⁾

The success of the ECSC motivated the European nations to sign the Treaty of Rome in 1957. The treaty created two new institutions, the European Economic Community (EEC) and European Atomic Energy Community (Euratom). The aim of the former was to establish a common market having no tariffs on goods traded among members countries and ensure free flow of labour and goods among them, so as to rebuild their economies and make Europe economically independent of the US.⁽¹¹⁾ The mission of the latter was to create a pool of knowledge regarding atomic energy related issues for the participating nations and place the development of nuclear energy for peaceful purpose under their common control. The EEC had administrative bodies including a Council of Ministers having powers to make decisions; Common Assembly (renamed European Parliament in 1962) as an advisory body; a Court which could even overrule member states; and a Commission responsible for implementing the EEC policies.⁽¹²⁾

Steps towards EU formation

The need for unanimous agreements on major issues in the 1960s resulted into giving member states a veto power. The institutions of the EEC, Euratom and ECSC were merged into single set of institutions during 1967. In the 1970s and 80s, the membership of the EEC expanded. First Denmark, the United Kingdom and Ireland joined in, followed by Greece, Portugal and Spain. In 1979, the European Parliament arranged first direct elections,⁽¹⁵⁾ before that the European Parliament was elected by national parliaments.

In 1992, the Treaty of Maastricht was signed which came into force in 1993. It resulted into formal creation of European Union (EU) and facilitated

three pillars of it.⁽¹⁴⁾ This treaty provided new cooperation mechanism between member states. European nations formally introduced defence, justice and other issues on the common platform of EU.

EU nations also agreed to form an Economic and Monetary Union while introducing common currency for all European nations to be managed by a Central European Bank. They formally agreed to progress towards single currency within a decade's time frame. With these reforms, the concept of forming 'Single Market' which was formally completed however still much work was needed towards free travelling of their citizens and transferring goods, capital and services.

On 30th March 1994, three more European countries, Austria, Sweden and Finland were included in EU. The Schengen Agreement was signed in 1995 allowing free movement of people in the countries signing the agreement. More concrete steps were taken towards the dream of single currency during this period. The dream came to reality during 1999 when Euro was formally introduced and the European Central Bank was established.⁽¹⁵⁾

EU Charter

One of the main objectives of the creation of EU was to endorse human rights within nations and around the globe, because they claim that the "human dignity, freedom, democracy, equality, rule of law and respect for human rights are core values of the EU."⁽¹⁶⁾ For this very reason, Treaty of Lisbon was signed among EU nations and was known as 'Charter of Fundamental Rights,' which bound all the EU nations legally to uphold it.⁽¹⁷⁾

The preamble of the Charter of EU clearly indicated the reason behind the charter and their core values as:

Conscious of its spiritual and moral heritage, the Union is founded on the indivisible, universal values of human dignity, freedom, equality and solidarity; it is based on the principles of democracy and the rule of law. It places the individual at the heart of its activities, by establishing the citizenship of the Union and by creating an area of freedom, security and justice. The EU contributes to the preservation and to the development of these common values while respecting the diversity of the cultures and traditions of the peoples of Europe as well as the national identities of the member states and the organisation of their public authorities at national, regional and local levels; it seeks to promote balanced and sustainable development and ensures free movement of persons, goods, services and capital, and the freedom of establishment.⁽¹⁸⁾

This Charter practically established the EU citizenship at the heart of the organisation.

Institutional mechanism

There are three institutions which hold the executive and legislative powers for the EU: the European Parliament which is directly elected by EU citizens; Council of European Union represents the governments of EU member nations. The Presidency of the Council is rotated among the member states. The third institution is European Commission which represents the organizational interests of EU as a whole. It acts as the guardian of the treaties and ensures implementation of legislations.⁽¹⁹⁾

The Council, Parliament or any other party may request for legislation to the Commission. The Commission then proposes fresh laws and policies, and Parliament and Council has to approve and assent them. Once it is approved and signed by both bodies, it becomes law. The European Commission and the member countries are responsible for implementing them. The commission also ensures that the laws should be properly applied and implemented in spirit.⁽²⁰⁾

Besides these decision-making institutions, a Court of Justice was established for effective implementation of the community laws, a Court of Auditors for the financial monitoring of EU. On key economic, social and regional issues a number of advisory bodies were established. The most important institution that facilitates the financing of projects and promotes balanced development of the EU is the European Investment Bank.⁽²¹⁾

EU economic cooperation and political integration

The Treaty of Lisbon proved a landmark in the process of integration of Europe. It was signed on 13 December 2007 and came into force on the 1st of December 2009. The treaty amended the previous treaties including the Maastricht Treaty. It empowered the already working European Parliament with new prerogatives pertaining to legislation for the EU, budgeting and concluding treaties and agreements with other countries. It also provided more clarity in defining the roles of member states viz-a-viz the European Union. National parliaments of the member states are provided greater involvement in monitoring the Union affairs. Member states can quit the EU, if they desire so.⁽²²⁾

This treaty also empowered the citizens of EU member nations greater voice and enabled them to directly propose new policies to the Commission. Better policies are adopted to ensure protection of European citizens, promoting the EU values and including the 'Charter of Fundamental Rights' into European primary law.⁽²³⁾ These steps further consolidated the direct relationship of EU with its citizens.

Economics played an essential role in bringing all the members at one platform. Therefore, the main achievement of the EU is the formation of its Single Market. Starting from the European Coal and (steel) Community (ECSC) economic issues remained at the heart of the EU ever since. This very first community was undoubtedly a project for facilitating economic integration of the member countries. The success of Single Market is demonstrated by the fact that the EU has now become the largest trading area in the world. Its population

has exceeded 500 million with a GDP of more than 12 trillion euro.⁽²⁴⁾ Being the largest economic bloc the EU has significant influence on the world trade. This brings combined benefit to all the member nations and therefore results in greater political integration and unification of the bloc. Any company seeking to sell goods to EU market has to conform to EU rules.⁽²⁵⁾ Economic integration helped bring member nations close enough to join politically.

Political integration facilitated the EU in having its own foreign policy. This single policy for all member states enables them to act as one unit in international matters.⁽²⁶⁾ The office of the High Representative of the EU for Foreign Affairs and Security Policy is established to look after the foreign policy issues and other strategic policies. It coordinates among the EU member nations to formulate and implement a joint foreign policy. It is assisted by experienced civilian and military staff. Although the European External Action Service and, to some extent the European Commission and European Parliament, are connected with the process, the EU government exercises considerable authority in foreign affairs.⁽²⁷⁾

Achievements of EU countries

As far as the achievements are concerned, the EU has emerged as the most successful organisation despite some of its limitations. It has established itself as the practical demonstration of functionalism leading to political integration from economic integration and stands as a role model for other regional organisations. The European nations like France, Britain and Germany learning from the material and human losses and suffering of the two World Wars set aside their traditional hostilities and became cordial economic partners later to join hands as a part of European Union to form a greater Europe again. Some of the achievements are:

The common currency of EU, the 'euro' is shared by 17 member nations making up the Euro area. More than 330 million EU citizens use it for all types of transactions. Its benefits would be extended more widely as other EU countries adopt euro. The introduction of the euro in 1999 was a major step in European integration. Initially, the 11 member states adopted it as their official currency replacing the old national currencies since its launching on 1 January 1999, in two stages.⁽²⁸⁾

Euro was first introduced as a virtual currency for cash-less payments and accounting purposes, while the old currencies continued to be in use for cash payments and considered as 'sub-units' of the euro. It was not before January 2002 that it appeared in the form of banknotes and coins. Denmark and the United Kingdom followed an 'opt-out' clause exempting them from replacing their national currencies with euro. While Sweden along with many of the nations which joined EU recently has yet to meet the criteria required for adopting euro, there are hopes that they would fulfil the conditions soon.⁽²⁹⁾

In order to make a single EU Market through free movement of capital, goods, services and citizens, the EU took a number of steps. It abolished customs duties to facilitate the circulation of goods produced by any member nation within the internal markets of member states. The exemption also applies

to goods imported into the internal market from third countries since the EU member states agreed on common customs tariffs and duties on imports from outside EU. The aim is to remove all barriers to free movement of goods, whether fiscal, physical or technical.⁽³⁰⁾ EU countries may restrict the free movement of goods only in exceptional cases, i.e. if they have reservations pertaining to “consumer protection, public health or environmental issues.”⁽³¹⁾

Along with goods, services are also very important to the internal market of member nations as they account for over 70 per cent of economic activity in the European Union. The central principles governing the internal market for services are set out in the EC Treaty. This guarantees to EU companies freedom to establish themselves in other member states, and the freedom to provide services in the territory of another EU member state other than the one in which they are established.⁽³²⁾

Free movement of capital is the most important step towards the establishment of a single market and is one of its 'four freedoms.' It facilitates EU citizens “to do many operations abroad, such as opening bank accounts, buying shares in non-domestic companies, investing where the best return is, and purchasing real estate. For companies, it principally means being able to invest in their homeland and in other European companies and take an active part in their management.”⁽³³⁾ The aim is to ensure more open, competitive and efficient financial markets, bringing more integration among the member countries providing many advantages to all EU citizens.

European sovereign debt crisis

The fiscal integration is not without repercussions. The Euro zone crisis has emerged as a major challenge for the Union. The weak economies of Portugal, Italy, Greece and Spain are in trouble due to extravagance and overdebiting while the strong economies of member countries refused to bail them out.

The euro was introduced in 2002 as the single currency of the European Union. At that time a number of conditions were laid down for those European countries that wanted to enter the Euro zone. They were required to ensure that their inflation rate did not exceed 1.5 per cent a year, the budget deficit was no more than 3 per cent of GDP and that they maintained a debt-to-GDP ratio of less than 60 per cent.

To meet the criteria, many countries had to enforce strict budgetary regulations by cutting public spending and raising taxes. However, governments of weaker economies deferred budgetary measures due to domestic challenges. Moreover, weaker economies like Greece, Portugal and Ireland went on spending sprees creating huge fiscal deficits which became un-sustainable with the onset of global recession. Liquidity dried up and banks were put under major pressure thereby generating strains on stronger economies like Germany to bail out the weaker ones. Imprudent loaning regimes extended to the housing sector by Ireland and pumping of huge funds in pension and wages of public sector personnel by Greece started the rot. A temporary bailout fund called the European Financial Stability Facility (EFSF) was created in May 2010 which

provided Greece with a \$163 billion loan in exchange for assurance that the country would implement strict standing cuts and tax hikes. In December 2011, EU leaders agreed to the formation of a fiscal union which allowed EU to dictate national budgetary policies to participating nations. They also agreed to introduce \$650 billion European Stability Mechanism; it was a permanent bailout fund which replaced EFSF.⁽³⁴⁾

There are now 27 EU member states. This represents a sizeable proportion of the states in the world today and comprises the majority of the states in Europe. The EU has developed into an advanced and sophisticated market. The reason for its success is that its members give regional interests priority over their own interests. No work permit, visa or passport is required for the citizens of EU for doing intraregional business. The vision of a common political and economic future has turned former archrivals like France and Germany into strong allies. Their relationship has transformed the continent into a zone of peace. It has ended the old rivalries between member states which have come closer for economic benefits.

The peace, stability, and prosperity delivered by the EU have helped all member states raise the living standards for their citizens. The EU has ensured free movement of capital, goods and services by launching a single European currency and a single Europe-wide market. With the abolition of border controls among all the member countries people can travel freely for recreation, living and working. It has moved much forward from economic integration to political integration.

South Asian Association for Regional Cooperation (SAARC)

South Asia comprises developing countries which are struggling hard to improve their economies. Most of the population of this region is illiterate. It is the poorest and the most overpopulated region in the world. Due to poor economic conditions these countries have not been able to invest in infrastructure and human resource development. This has resulted in human deprivations and weak economies.

More than one-sixth of world's labour force is in South Asia.⁽³⁵⁾ Despite huge differences in physical and demographic aspects, South Asian nations have some common features as well, i.e. all the countries here have low income, high population densities (except Bhutan), poor health and literacy rates, etc. The economic structures are better in India, Pakistan and Sri Lanka which are placed in the developing countries category while the other four — Nepal, Bangladesh, Bhutan and Maldives — fall under the category of the least developed countries.

In order to improve the living conditions in the region, the first and foremost requirement is to establish peace so that the huge budgetary allocations being made for defence are diverted to development. And peace can only be achieved through economic and political cooperation among the South Asian countries. For that they need to learn from the experience of the European Union. For ensuring bilateral and multilateral cooperation, the South Asian governments will have to resolve their longstanding disputes and identify

priorities at the regional level. The policy of open borders and removal of visa restrictions as already prevalent in Europe would help the South Asian countries to overcome poverty and illiteracy.⁽³⁶⁾

Establishment of SAARC

The South Asian Association for Regional Cooperation (SAARC) was established in the year 1985. It initially comprised seven countries — Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Afghanistan joined in 2005. The idea behind creation of SAARC was to foster enduring peace, economic progress and social development by having good-neighbourly relations among the member states. It was believed that countries trading with one another would become economically interdependent and thus avoid conflicts. It would help reduce defence spending and promote the welfare of the people of the region. But the realisation of the vision remains painfully slow due to the historical animosities between the two major nations of the region, India and Pakistan.

Aims and objectives

The SAARC was established for economic cooperation so that countries of the region could work together for ensuring and accelerating socio-economic and cultural development. The objectives of the Association as defined in its Charter are:

- To promote and strengthen collective self-reliance among the countries of South Asia;
- To contribute to developing mutual trust, understanding and appreciation of one another's problem;
- To promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;
- To strengthen cooperation with other developing countries;
- To strengthen cooperation among themselves in international forums on matters of common interest; and
- To cooperate with international and regional organizations with similar aims and purposes.

Cooperation among the SAARC countries is based on the principles of sovereign equality, territorial integrity, political independence and non-interference in the internal affairs of the member states.⁽³⁷⁾

SAARC institutions

Summit meetings of member states are the highest authority in SAARC in which heads of states or government are supposed to annually or more often as and when considered necessary by the member states. Such summits are not as useful as those of the ASEAN⁽³⁸⁾ and EU because bilateral issues and disputes cannot be discussed at the forum. However, they can be discussed in bilateral informal meetings of the heads of the member states on the sidelines of the SAARC summits. Not very effective indeed, but still these informal meetings

contribute a lot towards reducing tensions between the rival nations like India and Pakistan. In fact, formal SAARC summits provide opportunities to the heads of the states to meet each other once a year and establish personal relations that could be helpful in improving relations between their countries. These summits were postponed or cancelled many times due to the tension between India and Pakistan. Nonetheless, SAARC helped to break the deadlock ultimately.

SAARC Secretariat

The SAARC Secretariat, located in Kathmandu, Nepal, is responsible for coordinating and monitoring the implementation of various activities, preparing for and arranging services for meetings. It acts as a channel of communication among the members of the association as well as with other regional organisations. The Secretariat is headed by the Secretary General, who is appointed by the Council of Ministers from the member states in alphabetical order for a period of three years. The secretary general is assisted by eight directors who are taken on deputation from the member states.⁽³⁹⁾

Council of Ministers

The Ministers of Foreign Affairs of the member states constitute the Council of Ministers. Article IV of the SAARC Charter provides that the Council would formulate the policies of the Association, review the progress of cooperation under SAARC, take decisions on new areas of cooperation, establish additional mechanisms as deemed necessary and decide on other matters of general interest for member states. The council is mandated to meet twice a year.⁽⁴⁰⁾

Standing Committee

The Standing Committee of SAARC consists of all the Foreign Secretaries of the SAARC member states. Under Article V of the Charter, they are responsible for the following functions: Overall monitoring and coordination of various programmes initiated in different areas, approval of projects/programmes, and modalities of their financing, determination of inter-sectoral priorities, mobilisation of regional as well as external resources and identification of new areas of cooperation. The meeting of the Standing Committee may be called as and when considered necessary. Generally, the meetings are held before the sessions of the Council of Ministers.⁽⁴¹⁾

Technical Committees

The Technical Committees consist of the representatives of all member states. The committees are tasked to oversee the implementation, coordination and monitoring of the programmes in their respective areas. Apart from determining the potential and scope of regional cooperation in the agreed areas, these committees are involved in formulating programmes and preparing

projects. Their basic purpose is to provide support to SAARC activities. These committees include those on Agriculture and Rural Development; Health and Population Activities; Women, Youth and Children; Science and Technology; Transport, and Environment.⁽⁴²⁾

Areas of cooperation

The main areas of cooperation are agriculture and rural development, culture, energy, environment, economy and trade, funding mechanism, human resource development, poverty alleviation, security aspects, social development, education, science and technology, communications, and tourism. The focus of the SAARC is to develop better communication among the member states, facilitate the progress in trade and investment, expand tourism, assist in power and energy sector and endorse the private sector. However, bilateral and contentious issues are excluded from the purview of SAARC.

SAARC Preferential Trading Arrangement (SAPTA)

The Sixth SAARC Summit, held in Colombo in December 1991, constituted an Inter-Governmental Group (IGG). The group was made responsible for establishing SAARC Preferential Trading Arrangement (SAPTA) by the year 1997. The Agreement on SAPTA was concluded on 11 April 1993 and enforced two years sooner on 7 December 1995. In this agreement, the SAARC states desired to promote mutual trade and economic cooperation within the region through exchange of concessions.

- Overall reciprocity and mutuality of advantages so as to benefit equitably all contracting states, taking into account their respective level of economic and industrial development, the pattern of their external trade, trade and tariff policies and systems;
- Negotiation of tariff reform step by step, improved and extended in successive stages through periodic reviews;⁽⁴³⁾
- Recognition of the special needs of the least developed member states and agreement on concrete preferential measures in their favour, and
- Inclusion of all products, manufactures and commodities in their raw, semi-processed and processed forms.⁽⁴⁴⁾

South Asian Free Trade Area (SAFTA)

SAPTA was considered as the first step towards transition to a South Asian Free Trade Area (SAFTA) leading subsequently towards a Customs Union, Common Market and Economic Union. An Inter-Governmental Expert Group (IGEG) was set up in 1996 to identify the necessary steps for progressing towards a free trade area.⁽⁴⁵⁾ A Committee of Experts (COE) was assigned the task of working out a comprehensive framework for facilitating a free trade area in the region.

The SAFTA Agreement was signed on 6 January 2004 and enforced on the 1st of January, 2006. Afterwards, the SAFTA Ministerial Council (SMC) consisting of the commerce ministers of the member states was established. A Committee of Experts (COE) was also formed to assist the SMC. The COE submits its report to SMC every six months. The SAFTA Agreement provides that “The SMC shall meet at least once every year or more often as and when considered necessary by the Contracting States. Each Contracting State shall chair the SMC for a period of one year on rotational basis in alphabetical order.”⁽⁴⁶⁾

The main emphasis of SAFTA is gradually eliminating most of the tariffs and other trade barriers on products and services crossing the borders between member states through creating a free trade bloc among the SAARC countries so that fair competition is promoted in the area and equitable benefits go to all the member states. The SAFTA Agreement provided that special preference be given to the least developed countries (LDCs) among the SAARC nations whereas the developing countries like India, Pakistan and Sri Lanka were required to bring their duties down to 20 per cent in the first phase of the two-year period ending in 2007. From 2007 to 2011, the 20 per cent duty was to be reduced to zero in a series of annual cuts. It also provided that the LDCs — Nepal, Bhutan, Bangladesh, Afghanistan and Maldives — would have an additional three years to reduce their tariffs to zero. The treaty was ratified by India and Pakistan in 2009 while Afghanistan ratified it on 4 May 2011.⁽⁴⁷⁾

According to the Trade Liberalisation Programme (TLP), contracting countries must follow the tariff reduction schedule. However, this scheme is not applicable to the sensitive list, which is to be negotiated among the member states before trade in its items starts. The TLP provided that the sensitive list would involve common agreement among the contracting countries favouring the LDCs. The SAFTA Ministerial Council (SMC) would reconsider the sensitive list every four year.⁽⁴⁸⁾

India, Pakistan response on SAFTA

Initially, there was complete misconception between the two countries. India was of the view that the positive list arrangement for imports from India to Pakistan and non-implementation of South Asian Free Trade Area (SAFTA) obligations were acting as barriers to trade. On the other hand, the private sector in Pakistan observed that India was not allowing them a level playing field despite abolition of the positive list due to the travel restrictions, technical standards and regulations, cumbersome and complex import regulations and customs clearance and customs variations problems. Recently, both countries have realised the importance of improving trade relations and signed three agreements, namely the Customs Cooperation Agreement, Mutual Recognition Agreement and Redressal of Grievances Agreement. Both have agreed to normalise trade relations, dismantling of non-tariff trade barriers (NTBs) and full implementation of obligations under SAFTA. Pakistan has agreed to phase out the negative list by the end of 2012.⁽⁴⁹⁾

Challenges faced by SAARC

The path of regional cooperation has never been smooth anywhere in the world. It is difficult for the member states at times to think beyond their national interests. The member countries of the SAARC have remained more concerned about inter-governmental cooperation rather than supranational integration.

- Both India and Pakistan since their independence in 1947 have a serious conflict on the Kashmir issue and have fought three major wars over it. The situation has further aggravated due to differences over equitable sharing of river waters and flood control mechanism. The SAARC has thus not been able to achieve the desired results due to bilateral disputes between the two major countries of the region.
- The Indian economy is growing at a much faster pace as compared to the rest of the member countries of SAARC. India being a big market is a source of attraction for other economies of the world. Due to its big size and booming economy, it is emerging as a regional power whereas other neighbouring countries have been overshadowed. This situation has created imbalance among the SAARC countries hindering progress in the integration process.
- Due to strained relations between India and Pakistan, the defence budget of both countries has been increased manifold. The nuclear race between them has further aggravated the situation and is posing a potential threat to regional stability.
- Some member states fear that interdependence will erode their sovereignty and political autonomy. The sense of insecurity of small states has become a main impediment in the implementation of SAARC agenda. Safeguarding the political independence, territorial integrity and national sovereignty of small states has become a formidable challenge.

Since the 9/11 terrorist attack in the US, South Asia has attracted world attention. Both Pakistan and Afghanistan have become a hub of suspicion, political instability and Muslim extremism. Exchange of allegations of supporting terrorist activities in each other's country has created distrust, which is undermining regional cooperation among SAARC countries.

Comparison between SAARC and EU

At the outset, it can be said that comparison between SAARC and EU is not fully justified as there is a huge difference between the environments of both the organisations. The member countries of EU were industrialised at the time the European Union was formed in 1950, whereas SAARC countries were developing countries in 1985, at the time of its creation, and they have not been able to improve this status to date. In the EU, people are well educated and can solve their problems through mutual discussion. On the other hand, SAARC

nations lack such qualities. Despite these limitations, SAARC can be compared with EU in the following areas:

Both EU and SAARC were established to facilitate the economic growth of their regions and promote collaboration by addressing regional conflicts amongst their member nations. In this context the EU has succeeded to a large extent whereas the SAARC is still struggling to resolve basic problems of the region.

There is a growing acceptance in the EU that adherence to unanimity would often result in a stalemate. The notion of qualified majority voting has been accepted in the case of some institutions. This attempts to reconcile the notion of member states being equal in law whilst being unequal in size by using the references both to a majority of the member states and to a majority of the EU population. On the other hand, the SAARC Charter clearly stipulates that all decisions will be taken on the basis of unanimity and that all bilateral and contentious issues will be excluded from discussion. The centrality of India by size, location and important position in SAARC practically rules out any amendment to these provisions.

The opinion-, policy- and decision-makers in the European Union subscribe to the dictum that recognizing the difficulties does not mean surrendering to them. A confident and determined approach marks the working of the European Union. On the other hand, many SAARC leaders have a tendency to highlight the difficulties and constraints, particularly those arising from unresolved bilateral problems.

Establishment of the Customs Union among the EU countries has been an important step in the process of economic integration. It developed trust and paved the way for economic cooperation. It has maximized total economic efficiency by allowing competition among member states. SAARC countries are lacking this confidence which restricts advancement towards a customs union.

In the EU there is an ongoing process of adapting the institutions, i.e. the European Parliament, the Council, the Commission and the Court of Justice. Whereas in the SAARC there is resistance to the idea of revising its Charter or even the terms of reference of the bodies established under the Charter — the Standing Committee of the Foreign Secretaries, the Technical Committees, the Committee on Economic Cooperation and the Council of Ministers.

Conflicts, wars and arms race in the subcontinent are the prime factors in the ineffectiveness of the SAARC. Its major components — India and Pakistan have spent most of their resources on war preparations and purchase of weapons because of their conflictual relations. They have not learned to live in peace even after three major wars. On the other hand, the European countries learnt the lessons from World War II and have resolved their conflicts through negotiations after joining the European Economic Community (EEC).

The EU, which is a successor to the EEC, has rich experiences in the field of regional cooperation. There are now treaty-based provisions, inter alia, with regard to common foreign and security policies and development policy whereas the SAARC is a fledgling organization less than half of EEC age. It is the most populous regional grouping in the world — though potentially a big

market for industrial and new technologies. It operates in agreement with the SAARC Charter and has no institutions comparable to those of the European Union. Unlike the EU, SAARC has yet to develop institutions like a SAARC Parliament to broaden and legitimise its actions for peaceful resolution of political quarrels. They are still unsuccessful in running the already established institutions.

In SAARC, the process of decision-making is the major hurdle in advancing towards integration. Any proposal submitted by any member country or group of countries could be passed only when approved by all members unanimously. The unaccommodating political culture of South Asia hinders any meaningful progress. On the contrary, the EU has a flexible process of decision-making. In the EU the individual country is allowed to withdraw itself from the treaties and agreements reached by the majority. This provision proved very helpful for it in going ahead successfully. Although some countries opted to drop out of some treaties or policies, most of them generally continued to abide by their commitments with the organisation.

The EU has opened up its borders and the fruits of development generated by integration are transferred to the people of the region, while the SAARC is still working on government-to-government level. This people's participation and prosperity is further strengthening the EU. On the other hand, the inhabitants of South Asia have yet to feel tangible and visible benefits of cooperation.

The European Commission, which is the secretariat of the EU, is mandated to undertake policy initiative, propose legislation as the executive body of the organization and act as the guardian of treaties along with the European Court of Justice. It negotiates trade and cooperation agreements with foreign countries and international organizations. On the other hand, the SAARC Secretariat hardly exercises even a modest role assigned to it by the Charter. It has only occasionally been involved in the preparation of documentation for important meetings.

In SAARC, individual states have entered into bilateral agreements to pursue their economic agenda. This trend of entering into bilateral relations has shifted the focus from regional cooperation to national interests. Even in the bilateral agreements, there is a long negative list of goods which cannot be imported from other countries. Thus the overall trade relations among member states have remained relatively low under SAARC as compared to other regional blocs. On the other hand EU countries have open trade policies and have developed common criteria for imports to the EU region. Such policies helped to enhance not only internal trade among EU countries but also added to the trading partners' list of the EU around the world.

Under the SAARC, political integration has been kept aside whereas the main emphasis has been on economic integration. Although it was considered that economic cooperation and socio-cultural exchanges would build the required mutual confidence in the region, thereby strengthening political understanding. The conflictual issues among the member states have even been haunting the process of economic cooperation. Although Pakistan and other

members of the organization support the idea of using the SAARC forum for raising bilateral and contentious issues, India's resistance remains the major hurdle. On the other hand, the EU has worked on both fronts simultaneously; economic cooperation continues due to managing bilateral conflicts successfully.

The EU has differences in size of economies and power status of its members but there is no country having the status of hegemon. The incomparable size of India, its military power and economy vis-a-vis to all other countries of the region are the major hurdles in SAARC's growth. South Asian countries have a strong desire to attract foreign investment and seek access to each other's markets, but at the same time they share this apprehension that trade relations with India would increase its dominance in the region.

What needs to be done

- SAARC countries in varying degrees have kept a large number of items in their respective Negative Lists (NLs) which cannot be traded. The number of these items should be reduced gradually. Similarly, efforts for lowering tariffs among the SAARC countries must be made. Such initiatives can promote intra-regional trade. For this purpose, SAFTA has provided an effective platform to reduce the NLs but political differences are the main hurdle. India being the biggest player in SAARC should take initiative by injecting dynamism in SAARC trade by lowering or eliminating various trade barriers.
- The trade community of SAARC is already working for the upgradation of existing economic relations and has formulated a SAARC-Trade Promotion Network (SAARC-TPN) which is exploring trade opportunities for small and medium enterprises (SMEs). Besides that, possibilities of initiating joint projects and investment in high value-added areas must be explored so that even less developed countries can benefit out of it.
- The entire SAARC region is bestowed with rich natural resources. World's highest mountain peaks, long rivers and vast forests are located in the region. Like the EU, SAARC needs to work for a common market. With better trade prospects in the region, all countries would benefit from the low transaction costs and reduction in exchange rate risks. Furthermore, like the EU, SAARC countries should open their borders for free flow of goods, services and capital. This would definitely enhance peace and prosperity in the region.
- If SAARC has to follow EU, then it is imperative for Pakistan and India to work for economic integration and resolve their conflicts. South Asia should use economic diplomacy to resolve political and regional disputes which is considered to

be a prerequisite of integration. The current events in the Euro zone should not cast a shadow on the efforts being made to build a South Asian Union.

- SAFTA would be in a better position to deliver if realistic deadlines are set for implementation, a fund for the less developed member nations is created and NTBs barriers are abolished through a well-defined plan of action.
- In order to enhance intra-SAARC trade, the member countries should reduce the size of their sensitive lists of non-tradable items and liberalize visa regimes as without free movement of people across borders trade would not flourish in the region. A SAARC agreement on trade in services has been signed; however, it is essential that a schedule of specific commitments under the services agreement is finalized and notified.
- It is suggested that the non-tariff barriers should be reduced by 50 per cent and at least two banks should be opened in each country every year.
- In order to promote trade relations between India and Pakistan, there is an urgent need to focus on logistics. For facilitating transportation of goods from either side of the border, road infrastructure needs to be developed. Similarly issues relating to banking, insurance services and visa issuance must be resolved immediately.
- Pakistan and India should develop trade relations by reducing customs duties for their mutual benefit. The economic interdependence between countries would help in resolving the political problems of the traditional rivals. Geographical proximity gives Pakistan an edge over its competitors in the Indian market.
- Fighting over Jihad, extremism and terrorism in Kashmir are not solution to the problems of those millions of people who are crying out for alleviation of poverty and are deprived of basic needs like food, shelter and security. Although Kashmir is a core issue between the two countries, yet it is not appropriate to shun all types of relations with India pending the resolution of this issue. In fact engagement within the SAARC will help to continue the peace process in the region.
- It is essential that Pakistan and India remain engaged in meaningful dialogue, using informally the platform of SAARC, to resolve their bilateral conflicts. Resolution of Indo-Pakistan disputes would transform the region into a peace zone. The main objectives of SAARC are not attainable in the presence of hostility between these two member countries. Their bilateral cooperation can encourage other states as well to actively participate in the SAARC. Keeping

the issue of Kashmir alive, Pakistan must make concerted efforts to increase trade, establish people-to-people contacts and improve cultural relations with India.

Conclusion

The SAARC is still struggling to form its regional identity and infusing any sense of regional belonging among the member states, even after 25 years of its existence. The mistrust among the members, contested national identities and religious animosities did not allow a common socio-cultural heritage to take root on the basis of common regional identity. The irony of the situation is that South Asian countries welcome engagements with powerful states of the world, but are still reluctant to conduct regional engagements. The reason is that their bilateral relations are marked by mistrust and suspicion and that has made the process of regional cooperation stagnant.

The EU is not without troubles. Ethnic divisions, the Catholic-Protestant divide, memories of bilateral and multilateral wars other than the two world wars were there. Difference in size of economies and development level were also a reality. However, a strong commitment to a greater Europe and realisation of economic benefits helped them resolve the issues. A long period of economic cooperation and a desire for enduring peace led to the political integration of Europe. Recently, the sovereign debt crisis has emerged as a challenge for the member states but economic and political institutions helped to deal with the problem. The SAARC can learn from the experience of EU to address the human deprivations of this region, to develop economies of South Asia and to bring the long-awaited peace to the region.

Strengthening SAARC is in the interest of all the South Asian nations. Improved trade and common stakes in the field of economy will help bring peace. People-to-people exchanges and trade relations will help address the misunderstandings about each other and reduce the capacity of political leaders to manipulate the contentious issues. Therefore, Pakistan should focus on building up close ties with all the SAARC countries of the region.

Pakistan and India have strained relations since the partition of the subcontinent in 1947. In the shape of SAARC, best the opportunity is available to both to come closer and resolve their conflicts. If European nations like France and Germany didn't allow the EU to be held hostage to their historical hostility, why can't the South Asian states, especially India and Pakistan, overcome their longstanding animosities in the interest of their people.

The SAARC is not only helpful for the smaller countries of South Asia, it is also vital for India to play an effective role at the SAARC platform. On the external side, it will reduce the trust deficit against India prevailing among its neighbours and will open up South Asian markets for it. On the domestic side, it will also help India to cut back on defence spending and use the funds thus made available for the welfare of its over 40 per cent population living below the poverty line and convert them into a productive human resource. The same is true for Pakistan. For improving the human development index and bettering the

economic conditions, it should switch from a security state to a welfare state on the basis of a self-dependent economy.

India is desirous of securing a permanent seat at the UN Security Council. Pakistan should work, in collaboration with other South Asian countries, to make India realise that before assuming the role of world's peacekeeper India should work for peace in its own region. It cannot realise its UN ambition without winning the support of its region.

The peace, stability, and prosperity delivered by the EU have helped all member states to raise the living standards of their citizens. The EU has ensured free movement of capital, goods and services by launching a single European currency and a single Europe-wide market. Border controls among all the member countries have been abolished, people can travel freely for recreation, study, business and jobs. In South Asia the internal rifts and external fear of terrorism, unqualified interference by security agencies in each other's country, hostility at peoples-to-peoples level and religious intolerance are matters crucial to open borders at this stage. Greater economic cooperation for a longer period would help overcome these hurdles and South Asia could advance towards integrated economies. But that requires strong political will of the member states and commitment of their leadership towards establishing peace and bringing prosperity in the region.

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