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2. Bhalla and Hazell (2003): "Rural Employment and Poverty: Strategies to Eliminate Rural Poverty within a Generation", *Economic and Political Weekly*, Vol.33, No.33, August 16, pp.3473-84.

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## **Making Social Capital Work in the Theory and Practice of South Asian Association for Regional Cooperation (SAARC)**

Santosh C. Saha

### *Abstract*

*The SAARC's strategic social engineering, when seen in a historical context, and examined from numerous social declarations, meetings and actual ground works, provides a pattern of development planning that appears to have some tangible work in various fields in human development in South Asia. Following a postmodern approach in analysis, this study argues that each culture has its own standard for judging human development, claiming that the claim for the universality of reason is ethnocentric in that it privileges a Western view of the development while discounting other processes. An eventual argument is developed to affirm that within SAARC, the principle of social justice has come to dominate over the ideal of social protection.*

### **Introduction**

In August 1983, seven South Asian nations signed an agreement in New Delhi establishing the South Asian Regional Cooperation (SARC), which was appropriately renamed in 1985 as the South Asian Association for Regional Cooperation (SAARC), to generally avoid political matters and shun strictly bilateral issues, providing avenues for the human development theme, an area largely neglected by individual countries. Since inception, SAARC played a positive role, some real and some potential, in social and human development through means such as prevention of child labor or stopping of traffic in women. My current analysis of the

activities in social development of SAARC is about the generation of social justice leading to human capital development, specifically two aspects — development of community spirit and individual progress, while examining some basic strategies and objectives in reducing existing anomalies in development theme. The state was not rolling back, but the larger regional association could possibly create flexible human development both at the regional level and personal field. The SAARC's strategic social engineering, when seen in a historical context, and examined from numerous social declarations, meetings and actual ground works, provides a pattern of development planning that appears to have some tangible work in various fields in

human development in South Asia. Following a postmodern approach in analysis, this study argues that each culture has its own standard for judging human development, claiming that the claim for the universality of reason is ethnocentric in that it privileges a Western view of the development while discounting other processes. An eventual argument is developed to affirm that within SAARC, the principle of social justice has come to dominate over the ideal of social protection. Of course, the outcomes of the current upsurge of interest in social capital are hard to predict. What is declared is that social capital will become another variable alongside physical, financial and human capitals in the equations of econometricians.

### **Postmodern Approach and Human Capital Development**

Jean-Francois Lyotard's "suspicion of meta-narratives" has been taken by Eastern scholars since the early 1980s. We are reminded that the postmodern condition manifests itself in the multiplication of centres of power as well activity and the end of the totalizing narrative which claims to govern the complex field of social activity. In the postmodernist vein, Ashis Nandy, Rajni Kotari, Veena Das, and others have argued for the development of civilizational ethos. A defence of local knowledge against rationalization and secularization underlies some theories of subaltern studies, which have found a worldwide following through the writings of Partha Chatterjee, Gayatri Spivak, Homi Bhabha, Dipesh Chakrabarty and others. Their attempts have given rise to regional movements for social justice, environmental protection and women's rights, which are also traditional left-wing liberal causes.<sup>1</sup> An

additional view of post-modernity is to regard it as a form of consciousness in which subjectivism replaces the prior emphasis on objectivity. Here the perspective conveys a sense of human responsibility, the prospects for decision-making on the basis of information available, and the opportunities for self-determination through social action. Peter Berger (1969) described the perpetual process in human behavior as involving the dual tasks of world-construction (realities created by tools, social norms, values, and aspects of culture), and world maintenance consists of the social supports by which people uphold their definitions of reality in a given context.<sup>2</sup> The SAARC leaders and intellectuals claimed that in all cultures there is a basic human need to act effectively within one's culture and society and to do this, individuals need a measure of health and autonomy. Health and autonomy are secured in culturally diverse ways through the meeting of intermediate needs for shelter, clothing, food, lovingness, security and education. Added to this, there is also a critical autonomy which would enable individuals not only to act effectively in their own culture but also critically challenge it or opt out of it.<sup>3</sup> Therefore different countries might have different set cultural goals in health care. SAARC societies work within different paradigms and cannot agree on certain things in health care. In slave-owning society the welfare of slaves did not contribute to aggregate welfare. In Islamic Republic of Pakistan and Muslim state of Maldives, the health care of women counts for less than that of men. It may be concluded that rationalist paradigm of health may differ from that of secular India, or even semi-secular Bangladesh.

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If post-modernity stands against the met-narrative, SAARC's social capital calls for local discourse and work in human development field. A meaningful conjunction is being traced in this study between post-modernity and the ideal involved in "social capital," which is about the values of civil society, a central argument of Robert Putnam, who launched social capital as a popular focus for both research and policy discussion. Social capital has also been upheld by the World Bank as a useful organizing idea. The bank argues that "increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable."<sup>4</sup> On another occasion, Putnam defines social capital as the norms of reciprocity and trustworthiness that arise from social connections among individuals.<sup>5</sup> Coleman, being more specific, argues that three forms of social capital need to be examined for assessment, obligations and expectations, information channels, and social norms.<sup>6</sup> Two other sources of social capital exist that fit the consummatory versus instrumental dichotomy, but in a different way. The first refers to Marx's class consciousness, which is the product of a common fate. The second refers to identification with one's own group, sect, or community.<sup>7</sup> The final source of social capital finds its origins in Durkheim's theory of social integration. A member of an ethnic group may give scholarships for young co-ethnic students, thereby expecting not repayment from recipients but rather approval and status in the "collectivity." In the ultimate analysis, three basic functions of social capital are applicable in a variety of contexts: (a) as a source of social control;

(b) as a source of family support; and (c) as a source of benefits through extra-familial networks.<sup>8</sup> For our current purpose, Coleman's stipulation is helpful. He argues that social capital is defined by its function. It is a variety of different entities, having two characteristics in common: they all consist of some aspects of a social structure, and they facilitate certain actions of individuals who are within the structure. In short, social capital is not just the sum of the institutions which underpin a society because it is the glue that holds them together.<sup>9</sup>

In sum, as post-modernity holds that reductionist abstraction based on Western rational discourse may not provide us with totality of "human subjects." Some Neo-Weberian theorists construct social capital as the combination of ties and norms binding individuals within constituent elements of larger organizations,<sup>10</sup> or linking them across different institutional realms,<sup>11</sup> whereas others regard social capital as a moral resource such as trust, or a cultural mechanism used to reinforce the borders of groups. This leaves unresolved whether social capital is the infrastructure or the content of social relations, or is it both?<sup>12</sup> Matters are complicated further when social capital is classified as a public good that is under-produced by society. Michael Woolcock and Deepa Narayan have examined the social capital issue under four distinct perspectives: the communitarian view (clubs, civic groups, and associations); the networks view (intercommunity ties that provides a sense of identity and common purpose); the institutional view (the vitality of community work depends on political,

legal and institutional environment); and the synergy view (synergy between government and citizen action is based on "complementarity and embeddings"). Michael Woolcock, a social scientist with the World Bank argued that many of the key contributions of the book, *Bowling Alone*, by Putnam, failed to make a proper distinction between different types of social capital.<sup>13</sup> However, these two authors are cautious to declare that the framework on analysis is not "to announce the arrival of a new paradigm," because there are some problems associated with the paradigm.<sup>14</sup> For Usha Sharma, women's empowerment in Nepal, Bhutan, and Bangladesh, etc., is not only an external process, but a process that has to bring about the intrinsic changes, not only in women but in men also.<sup>15</sup> Jitendra Kumar Sharma, referring to institutional environment, posits that the policy makers in rural development should develop specific instrumentalities in response to specific situations, and adapt these to new situations.<sup>16</sup> A. Ranga Reddy finds in South Asian ecological development "complimentarity," a paradigm in which women's development in South Asia is dependent on NGOs as well,<sup>17</sup> thereby implicitly affirming that "excessive dependence" on the state for every lead in social development has curtailed initiatives on the part of the people in Nepal.<sup>18</sup>

In the following pages, I will examine three elements in SAARC's social capital development, under the rubric of Coleman's thesis of coordination between the community and the individuals, an integrated approach, which obviously may have deficiencies. These are: (A) General strategies; (B) Community spirit and work, and (C) Individual progress.

### (A) SAARC's General Strategies in Social Capital

Recently during the 15<sup>th</sup> SAARC Summit in Colombo, a declaration said, "SAARC needs to be brought to the level of the people," indirectly admitting that SAARC has failed to "develop a strong constituency" within the civic groups.<sup>19</sup> SAARC has realized that the lower strata and the higher strata in society differ only in the fact that they are forced to choose different values. One plausible reason is that the SAARC nations have borrowed the Western ways at random at many levels believing that an introduction of economic development can hopefully raise the level of human accomplishment. The oriental cultural values are greatly compromised in order to bring success in several human development matters. The typical Western view of modernization, which encompasses ideas on civil liberty, freedom of speech and multi-party democracy, is partially challenged by SAARC leaders. They seek to devise a more communal and equitable form of development. It is a desire to reinstate the best of the old ways in the face of controversial rapid globalization. Francis Fukuyama sees social capital as the glue that holds the otherwise centrifugal structures of the market together.<sup>20</sup> Scholars have not differentiated the borders of national development and those of human development. It is wrong to confuse the progress in high literacy rate, for instance, in Sri Lanka or Kerala state in India with the work of SAARC. Two areas are taken up for our discussion. First, SAARC has attempted, with modest success, in developing the concept of group or community solidarity. Community initiatives, for instance, included

self-employment and wage employment programs in rural areas, like Integrated Rural Development Programme and *Jawahar Rozgar Yojana*. Bangladesh's provision of micro-credit by *Grameen* Bank (rural banks) along with other NGOs helped 8.8 million people in 1998. Keynesian economics dealt a blow to *laissez faire*; SAARC has thus intervened in social welfare. South Asia remains a largely informal society based on kinship and patronage. This impeded development of institutions and also, rules in favor of discretion and decisions made on the basis of political connections. Incomes are not treated in South Asia uniformly for tax purposes; there is no equity and efficiency. Large part of the subsidies has little impact on poverty reduction. Working under these unique adverse conditions, SAARC has made progress toward the generation of social capital that is not easy to observe and measure. Both national governmental and regional associational institutions strongly affect the level and type of social capital available to groups and individuals to pursue long-term development efforts. In this sense, there is "complimentarity" between the two. Empirical evidence derived from a study of 150 irrigation systems in Nepal supports this conclusion.<sup>21</sup>

That practical involvement and active participation in groups can have positive results for the individual and the community is a "staple notion," dating back to Durkheim's emphasis on group life as an antidote to anomie and self-destruction and Marx's distinction between an atomized "class-in-itself" and a mobilized and effective "class-for-itself." In this sense, the

term social capital simply recaptures an insight present since the very beginnings of the discipline.<sup>22</sup> A comparison with other models is helpful. East Asian Tigers' growth places priority upon economic progress instead of social development because of the explicit presumption that individual social rights are meaningless in the absence of basic material well-being. In East Asia, it is been assumed that there is a positive correlation between reformed better policies, higher growth, and higher human development. But there poverty level is not so acute and as such SAARC has to take a different route. The SAARC nations follow the guide lines of the World Bank. In 1991, after considerable international debate, the Bank acknowledged that investing in people provides the firmest foundation for lasting development. This meant in principle better education, higher standards of health and nutrition, less poverty, a cleaner environment and more equality of opportunity. Therefore, SAARC decided to spend fewer resources more efficiently in social services, shifting spending priorities. SAARC realized that there are clear complementarities between state and non-government organizations. In this view, social development is both a prerequisite and a consequence of economic growth.<sup>23</sup>

While admitting that the SAARC does not necessarily socialize citizens (as effectively as the European Union) in the community into different attitudes and values, it has given a sense of connection through loose networks as well as efficacy. Researchers indicate that there is a sense that social capital works best at the collective level and thus should be understood as a

collective good. Putnam and Pharr describe these collective effects as "rainmaker effects."<sup>24</sup> The collective identity sense is still loose among SAARC nations and as such its strategy has been a slow process, mostly for political reasons. The European Union seeks to develop into an integrated whole including politics and economic but SAARC is concerned with regional human development, rather than full integration. No doubt, both in letter and spirit, SAARC is a cultural, economic, and commercial association, aimed at creating a free zone, which may turn into a unified geographical zone like the European Union, but SAARC's social goals have a priority for cultural reasons as well.

Thus, for SAARC, the emphasis in development has moved from macro economic prosperity to specifics in literacy and eradication of poverty, and, more generally, "human development." The concepts of human development and economic progress are now considered as different because each of various human development factors independently carries considerable weight.<sup>25</sup> In order to highlight the importance of social development in literacy, adult education, health, poverty alleviation, and other related elements, Amartya Sen has drawn a contrast between Kerala in South India (a state with highest literacy rate in India) and North India (low literacy rate), arguing that literacy and communal violence are related, and that improved literacy is likely to lead to lower communal violence.<sup>26</sup> The implicit idea is that social development adds to an all-round progress of a country. Even though the concept of human development is larger than the measure, the Human

Development Index (HDI) has the virtue of incorporating human choices other than income. Life expectancy is not only an indicator of the quantity of life, but of its quality as well. Increases in longevity reflect progress along multiple fronts, including the incomes and earnings of people and the prevention of diseases.<sup>27</sup> In the same vein and in confronting the older emphasis on the eventual trickling down of the general economic development, a new ideological framework in the 1970s of the U.N. conferences offered the "Basic Needs Approach" that considered that health and education are motors for productivity. The noted Pakistani economist Mahbub ul Haq (1997) also argues that SAARC region has been sinking fast into a quagmire of human deprivation and despair, emerging as the most deprived region in the world, and as such meaningful development must include progress in individual empowerment, although he, like Sen, legitimately finds a connecting link between macro economy and human development. SAARC has been working in promoting regional cooperation in the context of post-sovereign international system, but its work in social development appears to have eroded some of the state's absolute authority for the greater good of the greater number of people.<sup>28</sup>

In sum, current investment in welfare infrastructure which is appreciated in SAARC countries contrasts sharply with the welfare burden mentality generally associated with liberalism, or so-called "compassionate conservatism" in the US.

### (B) Community Spirit and Actual Work: Cutting across Nationhood

Putnam uses a set of indicators that can be readily adopted in discourse – indicators, such as community organizations, clubs, civic organizations, public and group projects beyond the pale of national economy. Perhaps the best expression of community organizing document of SAARC is its social charter, which is still a quest. SAARC's "Social Charter" imitated many other international charters but has its own focus on poverty, food security, drug trafficking, and governmental relief to the disabled, and above all community spirit. Unlike the Western charters, SAARC does not include components like human rights, workers' rights, industrial relations because it is designed to be different from European Social Charter of 1961 which was revised in 1996. Effective cooperation in the field of trade has been one of the major concerns of the member states of SAARC, and therefore most scholars are engaged in the discourse about macro growth for regional advancement. Dutta (1999), Khan (1999), and Hassan (2000) provide an extensive overview of SAARC as well as regional and multilateral benefits of trade in the South Asian area.<sup>29</sup> But regional cooperation in social development or human resource development has not been institutionalized and as such political scientists and historians have virtually ignored the issue as a prime theme.

Social development arises from complex factors, including social policies initiated by the various governments, which are often in conflict with some other policies. Despite an egalitarian community based

ideology of the South Asian countries, many policies, designed to implement that ideology, are still in the planning stage, and hence a debate about the well being of the majority of population needs our attention. There is a consensus that social development, i.e. development of the citizens, should be understood as a broad phenomenon, one which includes social and welfare services, progress in tackling unemployment, poverty, drug uses, child welfare, and women's status, etc. This development has long-range implications. The ability to achieve satisfactory health and educational goals, for instance, "at relatively low incomes," has great implications for the welfare of local communities living in poor rural areas.<sup>30</sup> The process of social development appears to be in the case of South Asia not a "middle path" in which the state is central to economic and social development, not as the sole provider of growth but as a partner and facilitator, as in the case of East Asian means of eradication of poverty. In South Asia, the governmental role is very significant and this aspect has been highlighted without paying attention to parallel social and cultural movements in rural communities in SAARC countries. In short, other factors such as economy and politics have unduly attracted more attention.

Within the SAARC, it seems that the principle of social justice has come to dominate over the ideal of social protection. To Plato, justice means "just" (right); to John Rawls, justice involves morally approved "liberty," to Aristotle, it is "fairness" that treat people proportionately. Rawls' paradigm has some

meaningful relevance to our present analysis. He argues that for the fundamental liberties of the person, the social and economic policies are aimed at maximization of the long-term expectations of the least advantaged locals under conditions of fair equality of opportunity.<sup>31</sup> The key feature of social justice is that it facilitates coordination and cooperation for the mutual benefit of the members of the associations. Associations provide a framework for sharing information, coordinating activities, and making collective decisions. Building and utilizing physical, human, and social capital are analytically separable, but closely intertwined in reality,<sup>32</sup> and culture acts as a cementing force. People who keep their cultural identities face difficult dilemmas in the face of invasive globalization, but at least they tend to compromise themselves in more creative ways for social progress.

"The Coalition for Action on South Asian Cooperation" (CASAC), a non-governmental organization with regional chapters in all South Asian countries, made a good start as per the recommendations of the social charter. CASAC's attempts resulted in establishing a high-level group called the "Citizens Commission of South Asia." The commission was composed of noted personalities of South Asia to deliver upon the critical issues of development and personal security. The Citizen's Commission held its first session in December 2000 at Kathmandu to begin a process in which various segments of the civil society would be mobilized to work together to reinforce and strengthen the official and non-official framework for regional cooperation in the spirit of the social charter. The commission emphasized that to be relevant, SAARC

activities should have immediate impact on the lives of the people, which is the primary objective of the charter.<sup>33</sup> Additionally, each member of SAARC has so far launched social development programs in its own way and assessed also its performance in its own way. The Social Charter goals now impinge on each nation to move toward the regional goals and make assessment of their performance also against the regional standards. There are now the South Asian regional newer paradigms, as designed in the social charter, in planning, implementations and evaluations.

In sum, although SAARC social charter lacks a coercive power, it has become an increasingly useful reference point for the community development as well as individual growth. Reference by socially minded social activists to the obligations of the charter has frequently been used as a means of opposing a *laissez faire* attitude of some member states.

### (C) Individual Improvements and SAARC

#### (1) Health

SAARC has taken up several issues such as health, education etc. to improve individuals and these issues can be considered as elements in social capital. Putnam's *Bowling Alone* argues that social capital has important consequences for the health of a nation. This inclusion of health into sphere of social capital contradicts his stance taken in his book, *Making Democracy Work*. In this book, Putnam considered health as an input rather than output of social capital. Perhaps the acceptance of the idea

of social capital by health researchers convinced Putnam to consider how social capital might affect health. He wrote, "Of all the domains in which I have traced the consequences of social capital, in none is the importance of social connectedness as well-established as in the case of health and well-being."<sup>34</sup> For SAARC, the right to health, if it exists at all, is plainly a social and institutional right, and not a political right. The social welfare function governs the distribution of the vast range of goods that people want once their essential needs have been satisfied. In any decent society these rights can generally be taken for granted so that the burden of economic and political concern would relate to the residual goods like health care. The health care principle is then concerned with the ethical values and moral principles. It forms part of principle enunciated by the Jeremy Bentham (1780) – the greatest happiness of the greatest number; in this sense good health is the source of individual happiness. There appears to be a strong relationship between the possession of social capital and better health. Putnam writes, "If you belong to no groups but decide to join one, you cut your risk of dying over the next year in half. If you smoke and belong to no groups, it's a toss-up statistically whether you should stop smoking or start joining."<sup>35</sup>

The SAARC region has one of the poorest health indicators in the world. A doctor in India treats 2440 people while in Sri Lanka the number is 7,143. Most SAARC countries house the largest number of people with micronutrient deficiencies and diabetes. The region as a whole carries 40% of the world's tuberculosis burden, and has a high burden of cardio-vascular

diseases and one of the worst indicators for reproductive health in the world. Market failures and a concern for equity call for some government *financing* of health and nutrition services. One type of market failure is the under-provision of services to prevent or treat individual illness that spill over to the general populace. Another is the breakdown in insurance and credit markets, improvising people. Unlike East Asia, SAARC countries do not have any clear health policy. In South Asia, poor people are pushed further into poverty due to ill health and they are excluded from support networks that enhance the social and economic benefits of good health. Policy makers need to be accountable for health outcomes – which means greater investment in monitoring and evaluation mechanisms that capture disparities in health. It is now very well realized that economic development is not the quickest way to better health for all.

Since the inception of the organization, the SAARC declared that the primary health care would be a prime target area. In some instances, the policy initiatives were taken in areas of adequate food, safe water, family planning, immunization, and the provision of essential drugs and the treatment of illness. As a regional instrument, SAARC has both the mission and mandate to facilitate mechanisms that can contribute to achieving sustainable health outcomes and provides a practical platform for strategic actions. The environment for regional cooperation appears to be conducive.<sup>36</sup>

First, the expert knowledge of local individuals is encouraged. The *unani*

system, herbal medicine, yoga, and meditation have become powerful modalities for providing some remedies to the poor and ailing population in the region. Second, a coordinated strategy on drug trafficking has been in place with the SAARC Convention on Narcotic Drugs and Psychotropic Substances, signed during Male meeting in 1990. The convention was ratified in 1993 by members. A Drug Offences Monitoring Desk (SDOMD) was established in Colombo to collate, analyze and disseminate information of drug uses. Policies of media and community mobilization against drug abuses, preventive education, school curriculum development, treatment and relapse prevention and exchange of information on indigenous and innovative methods of treatment have been stressed.<sup>37</sup>

Third, efforts have been underway to forge partnerships with various private sectors in the health care system. Non-governmental organizations like "Heart-file" with regional health mandates and links with government have in the past played a part in health initiatives under SAARC framework.<sup>38</sup> Even in relatively low priority area of population ageing, SAARC is not silent. The nature, extent, impact, and experience of ageing seem quite varied in different countries of the world. The issue received recognition as an international challenge in 1982, when the first World Assembly on Ageing was convened in Vienna to adopt the "Vienna Plan of Action." The primary concern was to strengthen the capacities of governments and the civil society to deal effectively with the ageing of populations and to address the developmental potentials and dependency needs of older persons. The SAARC consultation on ageing was hosted by International Federation on Ageing (IFA) in

collaboration with the Government of India, *Bharati Vidyapeeth*, and Community Aid and Sponsorship Programme (CASP) in Pune, India, during August 17-19, 2001. At the meeting, a secretary of the Social Welfare Ministry of Bangladesh reported that the elderly population was losing the safety net of family support. He submitted names of organizations supporting the elderly – *Shanti Nibas* (old age home), *abosar* (a hospice). The national government, he concluded, offered allowances for the old, elderly widows, distressed and deserted women. There was a plan to provide medicare and geriatric health care services. The Sri Lankan representative, in the same vein, announced that the government had incorporated several social security schemes such as pension, provident fund, gratuity, and public assistance to the destitute, leprosy and cancer patients. As against this, the Nepalese delegate Ritu Raj Bhandari, an under secretary, argued that Nepalese predominantly lived in extended joint families where traditionally the elders were respected. The problem of Maldives was highlighted by assistant director who indicated that elderly were left behind as people migrated to urban areas for employment. Since the problem was not acute in Bhutan, the government had no formal policy but the government would soon have to address the issue.<sup>39</sup>

Fourth, UNAIDS and SAARC signed, in Kathmandu in April 2004, a memorandum of understanding to "mutually cooperate" to assist member states in supporting HIV/AIDS prevention and care efforts providing support for HIV-positive people and others affected by the disease.<sup>40</sup> The agreement addressed stigma, treatment and prevention services, which were

“significantly lacking” in the SAARC countries. India alone had four million HIV-positive people and predicted that the number could reach to 25 million by 2010.<sup>41</sup> UNAIDS Executive Director Peter Piot said, “By making AIDS a top priority, the partnership agreement between SAARC and UNAIDS marks another turning point in South Asia’s response to the epidemic.”<sup>42</sup> SAARC has reached out away from the “introverted, statist, cautious position.” It has effectively built up sincere cooperative institutional links with Japan, the venue of the U.N. University Conference on the U.N.O and South Asia. The SAARC/Japan Special Fund has supported many SAARC’s technical activities. Canada has provided support for a T.B. center in Kathmandu.<sup>43</sup>

### (2) Child Development: Girl Child

Putnam’s assessment of the benefits of what he calls social capital remains an important reference point. He argues that child development is powerfully shaped by social capital. Trust, networks and norms within a child’s family, school, and educational achievement have impact on their behavior and development.<sup>44</sup> The Year 1990 was the SAARC Year of the Girl Child. Two girls from each country, 8-12 years, would call on heads of respective governments to deliver a message of hope and confidence for the “Girl Child,” to depict a positive image of the girl. SAARC established the Farm School Projects/ Agricultural Training Centres to improve the skills and competence of the rural “girl child.” SAARC set up a “Women’s Cell” in SAARC secretariat for coordination of various measures in child misuse prevention. It was agreed that female children and

adolescent girls must not be neglected, and corrective measures must be taken up in advance. A “Work Shop on Girl Child” was held in Delhi on September 19-23 in 1988; women’s trafficking and girl child featured prominently.<sup>45</sup>

### (3) Poverty Reduction

A post-modernist presumption is that human subject is “emergent, contingent and revisable,” and this human subject fails to contribute if there are “risk factors” such as poverty, as Putnam suggests. SAARC social and political leaderships argue that poverty arises from domestic institution that discriminates both structurally and systematically against the poor. Thus, it has been assumed that the basic responsibility laid with the seven governments, whatever the configuration of their economic systems. SAARC governments have placed poverty reduction program high on the social agenda since the Sixth SAARC Summit in Colombo in 1991, which commissioned an Independent South Asian Commission on Poverty Alleviation (ISACPA), consisting of “eminent persons” from member states to conduct an in-depth study of the diverse experiences of member states and report their recommendations on the poverty alleviation to the summit. More specifically, a reinforced action plan was designed at the Seventh SAARC Summit in Dhaka in 1993, with a declaration that there must be a planned social mobilization, decentralized agricultural development and small-scale labor-intensive industrialization and human development to reduce individual poverty. Social mobilization in this case means adopting

entry points that are relevant to the everyday needs of the lives of the people. Measures have been taken to run irrigational channel to the lands of the members of the group or a proper drainage work that is needed by a village community. The UNDP provided some financial assistance to local communities in certain countries.<sup>46</sup> Although governments did take the initiative, the real work responsibility was given to the local communities. In asking the local communities to be directly involved, “The South Asian Poverty Alleviation Programme” took this approach as an antidote to the normal, not very effective, top-down method. Some results have been noted in “Village Development Council of Syangia District in Nepal,” which exchanged information in two sub-sectors - agriculture and animal husbandry.

Such policy logic is different from the structuralist argument that fundamental changes, such as land reform, as was done in West Bengal state in India, in the relations between classes resulting from the nature and mode of production, are a pre-condition for poverty reduction. On the other hand, it is distinguished from the new-classical approach that believes in enlarging the resource base and productivity to improve the level of welfare. The implicit idea behind the SAARC approach is that while productivity enhancement is independently pursued, rural poverty can be attacked by endowing the poor with the productive assets and inputs that will result in their self-employment. Where this can be achieved, the government-sponsored wage employment schemes would supplement the self-employment programs.<sup>47</sup>

In accordance with the ISACPA’s directives, the SAPAP began working with

over 350,000 households in six countries. In May 2001, a ministerial level consultation committee stipulated that priorities should be given to the poorest by giving access to credit. At the same time, the committee was quite conscious of the larger strategy: the national pro-poor plan was to be harmonized with the open economy and globalized structural adjustment strategies for economic reforms. The objective was to link economic liberalization with local designs to empower individuals and families.<sup>48</sup> An intricate mechanism was designed to reduce poverty. The ISACPA’s (1991) concept of “Daal Bhaat” (simple staple food but with right nutrition) could not be realized without an inter-locking system of management. The Eighth SAARC Summit in New Delhi, 1995, approved a plan of action with a three-tier mechanism to provide not only basic food but also to help economic growth. (A) The first-tier would engage the government secretaries to design a plan for social development. (B) The second-tier would comprise of Finance and Planning secretaries to scrutinize development schemes in respective countries. (C) The third-tier would comprise of the Finance and Planning Ministers. By January 1996, the first round of the three-tiers was done. By April 2002, the second round of such meeting was completed. The third round of the meetings began in July 2003 in Colombo.<sup>49</sup>

Empowering mechanisms has been based on a model of partnership among four major actors of the polity: government, NGOs, private sector, and local communities. Partnership in management implies different responsibilities for each partner, based on the different roles and strengths of each collaborative and keen partner. There are

already non-governmental organizations such as the Food-for-Work (FFW), Employment Guarantee Scheme (EGS), Nutritional Program in Tamil Nadu, Credit support scheme like the *Grameen* Banks for the poor in Bangladesh. Former Prime Minister of Bangladesh recalled in November 2002 that in line with the principles enshrined in the SAARC charter, a program of poverty reduction through five basics – food, clothing, shelter, education, and medicine, had been in place. She added that at the initiative of SAARC and because of the actual program, the human poverty index, which was 41 in 1995-97, had come down to 32 percent in 2001.<sup>50</sup>

Poverty in SAARC nations is not just economic, it is total. Poverty means poor health because one cannot afford sufficient calories or proper nutrition; it means disease and little access to modern medicine. According to the UNDP Report in 1999, South Asia has nearly half of the world's very poor. The average life expectancy is 77.7 in the developed world, whereas in South Asia it is 62.7 years. An individual in South Asia survives on less than U.S. \$1.00 a day. Of course, the poverty level varies from region to region. Ninety percent of rural Bhutanese live below poverty line. Again, within a country, Bihar is very low in income while Kerala state in the south has high average income. Sri Lanka's "public action" and high individual income has become a test case in poverty reduction. Mahbub ul Haq constructed the Poverty of Opportunity Index (POPI). The most striking gap between POPI and income poverty exists in Pakistan. Even if poverty rates declined in India, the total proportion of the country's population living in poverty has

remained stagnant at 42 percent between 1990 and 1993.<sup>51</sup>

National poverty alleviation programs are being implemented in accordance with specific domestic priorities and hence a single plan to fit the region has not been feasible. Yet, several common plans have already been designed: (a) Linking decentralization to poverty eradication by providing the poor access to financial credit; (b) developing alliances to forge ahead by deepening the social mobilization process; (c) translating lessons from grass roots activities into viable macro-policy options, and synergy with other social mobilization; and (d) emphasizing the linkage between economic liberalization within the region and poverty alleviation so that poorer and more vulnerable sections of the people are not adversely affected by current liberalization and globalization.<sup>52</sup> However, a link between free trade program and the development of a social program is clear from the SAARC policy statement. It declared "While seeking to evolve a regional strategy on poverty alleviation, emphasis is expected to be given to the linkage between economic liberalization within the region and poverty alleviation, so that the poorer and more vulnerable sections of the people are not adversely affected by liberalization."<sup>53</sup>

Realistic rather than rhetorical approaches to hunger issues at the regional level are emerging. The Ministerial Conference on Children in Rawalpindi city in 1996, which agreed on two sets of targets covering mortality, fertility, education, nutrition, health, water, sanitation and gender equality – one sets of targets to be achieved by 2000, and the second set to be achieved

by 2010. The focus on children and the girl child, in particular, emerged as one of the strongest features of SAARC's concern for human development. Targets seem to be impressive. The progress made so far up to 1997 indicates that with the exception of Sri Lanka, no one achieved the target for 2002. The target for 2000 is having the rates of infant mortality and child mortality that prevailed in 1990, but Pakistan shows 95 for infant mortality and 136 for child mortality. Nepal has a combination of high mortality and high fertility, the lowest rate of literacy and the lowest per capita income. Maldives has the highest fertility rate in the region, as well as the highest adult literacy, including female literacy. SAARC thus exhibited a committed priority in human development in accordance with the ability and culture of each member.<sup>54</sup>

#### (4) Education

For Coleman, education represented the strongest expression of the resources generated by the relationships, values, and trust that constitute social capital. He explicitly seeks to establish a direct and causal connection between social capital and human capital. But he wrongly downplays the ways in which social capital may also serve to underpin social hierarchies and create new sources of inequality. On the other hand, Bourdieu's work downplays how social capital can indeed contribute to greater social equity.<sup>55</sup> Concern for equity has been a goal among SAARC members. The SAARC activities in the field of education covered many areas including the primary education, literacy programs, continuing education, educational research and science and technical education. It is difficult to separate out the SAARC educational policy from that

of the national governments. National policies are often extended to other countries, taking into consideration local social and cultural practices. These policies are systemic.

First, teachers' education was emphasized to train teachers for modernized educational system. The three-day council meeting in the Nepalese capital Kathmandu on April 18, 2002 asked the Teachers' Federation to work out a program for action in training. The main objectives of the workshop there were to promote the concept, spirit, and principles in teachers' training. A declaration said, "Teachers must take upon national duty, promote national thinking; there is great expectation from teachers because our society still suffers from structuralism, many children in our rural areas are still out of school."<sup>56</sup> An emphasis has been placed on education with local flavor, i.e., character building or moral missions in life.

At the same time, the SAVE, "SAARC Audio Visual Exchange Programme," founded in 1987 was designed to work closely with the Technical Committee on Education so as to produce programs of common interest to the member countries in the field of modern technical areas. A SAARC Youth Programme (SYVOP) would enable young people to work in member countries in the agriculture and forestry sectors training. The Programme was for intra-regional exchanges and contact for various training. A Youth Awards Scheme to reward outstanding achievements by young people was inaugurated in 1996. SAVE gave broadcasts in radio and television for social and cultural progress. They were cast to all member countries, twice a month, in order

to disseminate information about SAARC and its members' social obligations for education training and preparedness. For further education, the SAARC Consortium of Open and Distance Learning were established in 2002.<sup>57</sup> Publication of an Anthology of South Asian Poetry has been completed and many short stories were already prepared for cultural satisfaction. The meaning of further education was thus expanded.

Second, for human development, a Workshop on Agriculture Extension, held in Dhaka on July 17-18, 1988, was opened by the wife of Bangladeshi President, who laid down a condition that women would help to achieve food "autarky" in South Asia. 17 women delegates from six SAARC countries except Bhutan participated in the empowerment conference on education.

Third, a strong connection of education for women with lower fertility has become increasingly apparent in nearly all developing countries, although the precise mechanisms are less clear.<sup>58</sup> The basic argument is that education often opens other opportunities besides motherhood, which may lead to further reduction in poverty. Careful analysis leads to the conclusion that the key factor in the fertility drops is connected with female literacy. A High level of female literacy is also associated with improvement in a series of social indicators of family well-being, including health and nutritional status, which translate directly into enhanced life expectancy and lower infant and maternal mortality.<sup>59</sup> Therefore, Education Ministers of SAARC countries, meeting in Islamabad in June 2003, called for "removal of gender disparities in education." The meeting noted that Bangladesh made "considerable progress

in recent years" but India and Pakistan continued to be high on rhetoric but low on performance. These two countries emerged, it was argued, as the least gender sensitive.<sup>60</sup>

Fourth, although all SAARC nations have subscribed to the ideal of universal primary education, and have adopted measures to achieve this objective by specified dates, actual progress has been modest. With nearly about 95 percent in schools, India and Sri Lanka have virtually succeeded in achieving the goal of universal primary education. But with more than 35 percent of primary school-age children not enrolled in schools, Bangladesh, Bhutan, Nepal and Pakistan have a long way to go to achieve universal primary education. In all these four countries, the enrolment of girls lags behind that of boys. Drop out among females are greater both in the rural and urban areas.<sup>61</sup>

Last, the prevailing idea still is that educational development, especially for the majority people, is secondary to other developmental issues which are regarded more critical as a foundation for sustainable development. Once corrective measures are taken in development, then basic education and health care can be improved. Good education has thus suffered due to other priorities in military and basic infrastructures.

##### (5) Women's Development

Social restrictions on women's mobility also contribute to lesser healthcare for women and children. Author Seher Mir reports that Pakistani women's status has gotten even worse because of contemporary

shifts toward political Islamization. Mir affirms that President Zia was responsible for the institutionalization of women's poor societal status. In South Asia, women are virtually the property of the fathers or older brothers and then of their husbands.<sup>62</sup> The UNDP has introduced a Gender-related Index (GDI) which concentrates on the same variables as the HDI but focuses on both the inequality between men and women as well as on the average achievement of all people taken together. In other words, the GDI is the adjusted for gender equality.<sup>63</sup> In this vein, the status of women refers to the position women are granted as individuals in the social structure, defined by their designated rights and obligations. Usually, analysts explore the status in terms of a role, or the position in society as a daughter, a wife, a mother, and a career woman. In this section, I will explore the status and plight in terms of trafficking of helpless women and the intervention by SAARC into trafficking.

Trafficking of women in South Asia is one of the major inter-regional trafficking markets. According to a report published by UNICEF and SAARC, on average 4,500 women and children from Bangladesh are smuggled to Pakistan alone in one year.<sup>64</sup> Causes for women's trafficking are varied and complex. First, Studies have shown that farmers driven to despair, either because of mechanization of agriculture, use of biotechnology or any natural disaster, are forced to sell their women and children to save themselves from starving to death.<sup>65</sup> Girl trafficking is an internationally recognized crime, both across national borders, such as between Bangladesh and Pakistan, Nepal and India, and within countries, especially from rural to urban areas, as in India. The line

between adult female migration for the purposes of prostitution and trafficking of girls who are used as prostitutes is a fine one. In some contexts the distinction may not be useful. But it is the second group with whom we are concerned – the sizable number of girls and young women who are sold, or given in bogus marriage, to become prostitutes without their knowledge or consent. Even when the girls know that they are going to work in Bombay, they often do not understand the conditions in which they will work, or the risks that they run. The girls have the virtual status of slave workers.<sup>66</sup>

Policy declarations point out to right directions. A South Asian Workshop on "Trafficking in Women and Children: Formulating Strategies for Resistance" was held in Tangail in Bangladesh during October 1996 by SAARC. The ground rules were set to develop a more comprehensive convention.<sup>67</sup> Thus, the Technical Committee on Social Development, meeting in Kathmandu in March 2002, proposed convention on preventing and combating Trafficking in Women and Children and an immediate formation of an "Autonomous Advocacy Group of Prominent Women Personalities" (SAWAG). Earlier, SAARC Women and Development Committee in New Delhi in 1986 had asked the Chairman to prepare a format to deal with trafficking. A guide book was planned to develop a program of action for consistency, compatibility of concepts, framework, and indicators.

Likewise, the Male Declaration, 1997, adopted a resolution to have a SAARC Convention to combat trafficking of women, children, and related social issues, but civil society groups and women's associations legitimately suggested to the Kathmandu

secretariat on how the scope and practical effect of conventions should be expanded and enhanced. Since many decisions were not implemented, a task force was initiated to review the status of past decisions in the social sector.<sup>68</sup> It is apparent that without strong and permanent monitoring mechanism, the "Convention" on trafficking will not be useful. The SAARC Trafficking Convention lacks a broad contextual and multi-pronged approach in linking gender, human rights and development. The India based trafficking advisor, Jean D'Cunha argues that strategic interventions must involve treating trafficking as a development concern, ensure a balance between post-trafficking assistance and long-term preventive intervention, while integrating a gender perspective and rights based principles and standards into all development policies, national and local policies. For instance, legal strategies were designed to adopt national legislation on trafficking.<sup>69</sup>

The Year 1990 was the SAARC Year of the Girl Child. Two girls from each country, 8-12 years, would call on heads of respective governments to deliver a message of hope and confidence for the "Girl Child," to depict a positive image of the girl. SAARC established the Farm School Projects/Agricultural Training Centres to improve the skills and competence of the rural "girl child." SAARC set up a "Women's Cell" in SAARC secretariat for coordination of various measures in child misuse prevention. It was agreed that female children and adolescent girls must not be neglected, and corrective measures must be taken up in advance. A "Work Shop on Girl

Child" was held in Delhi on September 19-23, 1988; women's trafficking and child girl featured prominently.<sup>70</sup>

#### (5) Civic Environmentalism

Ekins incorporates social capital alongside environmental, human and physically produced capital into a four-capital model of wealth creation.<sup>71</sup> SAARC environmental projects have developed at local, state, and national levels over the past fifteen years, sometimes on the foundations of regulatory approaches, and sometimes in response to their shortcomings. Several measures were implanted in the past by SAARC. First, at the initial stage SAARC formulated Marine Pollution Control which was one of the 13 areas indicated for possible cooperation among the countries. A Kathmandu declaration in November 1987 stated that extensive destruction of forests, among others, posed a threat to environment.<sup>72</sup> SAARC's policy formulations hold deep environmental values, which quite often went beyond instrumental value. SAARC noted that many Western governmental policy makers routinely failed to acknowledge environmental values. In the West, the problem became severe with techniques that relied heavily on what Partha Das Gupta calls "mathematization," particularly in economics.<sup>73</sup>

Second, SAARC's several means such as "Study on the Causes and Consequences of Natural Disasters," the "Protection and Preservation of the Environment," and the "Greenhouse Effect" had some positive impact in several regions. SAARC's had already instituted basic

institutions such as the SAARC Agricultural and Information Centre and SAARC Human Resource Development Centre. The Resource Centre had exchanged many related information. As a follow up of recommendations, a Nepal meeting of experts reported that there have been reforestation of 2.1 million hectares, afforestation of 5 million hectares, and also some desert development had been undertaken on behalf of the association. Interestingly, an annual "Regional Award" was given to a young environmentalist scientist or a group of scientists for a research paper on meteorological topics. The SAARC governments thus realized the need for regional cooperation in overcoming natural disasters including flood. Bangladesh realized that flood control required the coordination with neighbors with whom Bangladesh shared river basins. SAARC's "Committee on Environment" identified measures for environment management, including the establishment of a relief and assistance mechanism for natural disasters and regional cooperation on the development of modern disaster warning systems.

Third, SAARC sought to promote a balance between development and environmental protection. It commissioned two studies: one relating to the causes and consequences of natural disasters, and protection and preservation of the environment, and the other dealing with the greenhouse effect and its impact on the region. SAARC leaders maintained that all economic analyses were not seriously flawed as a tool for dealing with the long term consequences. In this respect, their environmental policy was value neutral. Since happiness of people seems to be determined to some extent by the direct and indirect presence of nature and its natural

environment, environment is more than physical level. SAARC leaders, being influenced by cultural affinity to rural serenity, think of close man-nature relationship. Thus, there has been an integration of ecological knowledge, standards, and economic incentives in environmental policy, taking into consideration of preserving environment as far as possible. Thus, SAARC heads of state or government underscore the importance of protecting "associated knowledge and other indigenous intellectual manifestations for the advancement of the region,"<sup>74</sup> in environment. While measuring impact in actual terms, we need to keep in mind this emotional factor.

#### Conclusion

Scholars such as Pierre Bourdieu, James Coleman and Robert Putnam have developed the concept of social capital in various ways. Writing from Marxist perspective, Bourdieu differentiates between three forms of social capital – economic, cultural and social. But these "potential resources" are linked institutionalized relationships of mutual recognition. He seems to conclude that the working networks are held by the elites. For Field, "social capital generally functions to mask the naked profit-seeking of its holders." His conclusion is that that type of social capital is inimical to the open democracy.<sup>75</sup> James Coleman (1988) elaborates the processes and experiences of non-elite groups. He argues that the lower classes also derive benefits. Coleman's explanations highlight the possibility of capital by different institutions and social structures, suited to the cultivation of reciprocity, trust and individual action. Robert Putnam's position is nearer the strategies of SAARC. He writes that social capital calls attention to the fact that civic

virtue is most powerful when embedded in a sense of network of reciprocal social relations. "A society of many virtuous but isolated individuals is not necessarily rich in social capital."<sup>76</sup> SAARC's vision is different from the development theory which posits that economic growth, i.e., growing GDP and modernization of the economy will generate a form political development that is akin to the Western model. The success of SAARC is based in part on building on existing social capital, reaching toward social consensus, maintaining reasonable levels of social cohesion, and fostering a broader sense of community. But each country faces its own individual challenges. Bhutan needs to strengthen its secondary and tertiary education. While SAARC faces different challenges, most of the countries are well poised to take advantage of many opportunities that are afforded by SAARC's internalization and its new approaches. SAARC social compact draws upon the involvement of an engaged civil society and a shared commitment to live as a community for social development. We have to admit that there are some significant differences between Western nations. Sweden, as a social democratic regime, is more successful at meeting the human development needs of women than liberal Japan. Sweden meets more of the human needs of its citizens more equitably than the USA. What is clear for SAARC is that direct political intervention in social progress as in Nepal, Pakistan and Pakistan, and indirect influence through the mechanism of the NGOs and civic associations, and with the readily available liberal support of Japan/SAARC Funds, SAARC has made a good start. SAARC does not accept the non-liberal approaches of the

state bureaucratic collectivist regime of Cuba, which has secured longevity and education levels unattainable elsewhere. Although there are still some controversies over the ways of defining and measuring human needs, we do have useful framework for both measuring and comparing how good different types of social development regimes are at enabling those needs to be met in time. The social policy of a country or even a locality is no longer wholly shaped by the policies and politics of the national government. It is increasingly shaped by the implicit social policies of many supra-national agencies like IMF, Japan Research Foundation, or the World Bank<sup>77</sup>

However, there are problems because community and group participation necessarily creates demands for conformity. The level of community control in rural settings is very restrictive of personal freedoms, economic and political. A conflict between the age-old dilemma between community solidarity and individual freedom has been expressed by Simmel, who as a typical Western scholar came out in favor of personal autonomy and responsibility.<sup>78</sup> Civil Society, NGOs and regional and local leaders in various fields of social activity have set up a constituency that is much wider than that of the seven states; there is now a deep sense of oneness for human progress in South Asia.<sup>79</sup>

Sampson and his associates stress the normative or goal-directed dimension of social capital.<sup>80</sup> They claim that "resources or networks alone – associations, organizations – are neutral and they may not be effective mechanism for achieving intended effects. Many argue that the developing world lack the social capital networks. Social capital may have adverse outcomes if the political institution and

democracy in a specific country, is not strong enough and is therefore overpowered by the social capital groups. Robert Putnam has shown that even in the USA there is a decline in social capital. In the SAARC area, unfortunately, the social capital programs are compromised by political confrontations. In sum, it is reassuring that passion, leaders' ambition, dedication, sensibility and sensitivity and ideal have emerged into clearer foci by the goals of SAARC. My paper has concluded that SAARC's mode of working, although often casual, claims to offer an alternative to modernist and socialist discourses about development.

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## Institutional Reforms in Water Sector: A Cross Country Perspective from South Asia

Satyapriya Rout

### Abstract

*The paper investigates the water sector institutional reforms in South Asia, by way of analyzing the trends, patterns, directions and implications of such reforms, with insights from the water sector of three major South Asian countries, i.e. Bangladesh, India and Sri Lanka. The paper sets a ground for institutional arrangements in water sector, and provides an analytical framework for analyzing water institutions. In the conclusion, the paper highlights certain common trends in policy reforms in south Asian region in water sector, such as i) change in perspective from water resource development to water resource management, ii) emphasis on farmer's participation in water management through decentralized institutional structure, iii) establishment of water rights, iv) change from sectoral to integrated approach in water management, v) role of internal donor agencies in heralding the institutional changes.*

### 1. Introduction

During the last one decade or so, water scarcity has emerged as one of the important themes in discussions on the socio-economic future of the world. There had been enough evidence to indicate that by 2025, nearly 1.4 billion people, amounting to a quarter of the world's population or a third of the population in developing countries, are destined to face absolute water scarcity (Cosgrove, 2003; Rosengrant, Kai and Cline, 2002; Seckler, Barker and Amarasinghe, 1999). One of the human consequences of such water scarcity, besides the environmental deterioration of water bodies, would be, what is now being termed as 'water poverty', indicating the difficulties

that human kind would face in procuring adequate and reliable access to safe water for productive and consumptive purposes (see, Shah and Koppen, 2006). Further, the population projections indicate that over the next 25 years, food will be required for another two to three billion people, creating additional stress on demand for water. Irrigated agriculture, which at present consumes more than 70 per cent of all water withdrawals, is estimated to increase another 15 to 20 per cent to feed the growing population of the world (GWP, 2000). This ever increasing demand for water is likely to arise serious conflicts between utilization of water for irrigated agriculture and for other human and ecosystem purposes.

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Besides population expansion, demand for water is ever increasing due to consequential effects of economic development and lifestyle changes. Over the years, there has been a substantial change in the urban demand for water owing to industrialization and growth of population concentration. Further, the increasing urban water use involves the demand for better quality of water, along with the increase in quantity of water required. The demand for better quality of water in urban areas, however, involves a paradox (see, Saleth and Dinnar, 1999). On the one hand, the urban dwellers having a better lifestyle and greater political articulation, stress upon better quality of water besides the requirement of quantity. On the other hand, since the growth of urban water demand means more residential sewerages and industrial pollution, every increase in urban water consumption, if not addressed properly, could lead to a deterioration of water quality. The challenges of water in terms of quantity are further magnified by the problems of deterioration of water quality in recent years. Deteriorating water quality caused by pollution through sinking domestic, agricultural and industrial wastes into water bodies, also influences water usability downstream, and threatens human health and the functioning of aquatic ecosystems by reducing effective availability and by increasing competition for adequate quantity of quality water.

Such being the seriousness of the problem in the water sector, which till recently was commonly considered as being plentiful and virtually free and good, global discussions have exhibited varieties of view points about how best developing countries

can cope up with this imminent situation. The emerging water scarcity, water conflicts at micro and macro levels, and deterioration of water infrastructures, in the recent decades, have resulted in greater policy attention being paid worldwide to institutional arrangements governing water resource development, allocation and management. The crisis in water sector, both in terms of quantity and quality, has also made explicit the inherent inadequacies of existing institutions in dealing effectively with new and emerging set of problems, which are not so much related to water resource development, but rather to resource allocation and management. Such emerging problems in water sector now demand that the means and ways for water allocation, water management, and mechanisms for resolution of conflicts arising over them have to be either created or reoriented by updating the existing policies concerning water governance. Water administration and management have to now accommodate the increasing and much acknowledged role of end users associations, non-governmental and grassroots level organizations, women and self-help groups, and those promoting causes and concerns for environment. In a manner of speaking, as countries move from a state of water surplus to water scarcity, water institutions, which design rules for water resource development, allocation and management, have to reorient themselves to meet the ever emerging challenges. Such reorientation of water institutions to best suit the current situations and meet the emerging challenges and crises in water sector paves the way for water institutional reforms throughout the world.

To be more specific, in the context of South Asian countries, most of the water

institutions, being developed in a time of water abundance – especially during the colonial period – are becoming increasingly ineffective in addressing water challenges arising out of water scarcity. Consequently, institutional arrangements governing water sector in the South Asian countries are undergoing significant policy changes in the recent years. Far from being the gradual process of institutional evolution, these changes have occurred as a result of purposive reform programmes, initiated by the respective governments. Notwithstanding the variations in nature and extent of these reforms due to country-specific economic, political and resource conditions, it is yet possible to insinuate some common patterns and trends in them.

While discussing water sector reforms, few fundamental questions arise: what are the motivating factors behind water sector reforms, in which direction such institutional changes are heading, and what are the future implications of these institutional reforms for water sectors as a whole. While attempting to answer questions of this nature, the present paper aims to investigate the water sector institutional reforms in the South Asian region. The broad objective of the paper is to analyze the trends, patterns, directions and implications of institutional reforms in the water sector in South Asia.

The methodology adopted for the paper is secondary in nature, by means of a review of published articles and unpublished documents on water sector of sample South Asian countries like: Bangladesh, India, and Sri Lanka. The paper is divided into four sections. Following this introduction, the

second section sets a ground for institutional arrangements in water sector and provides an analytical framework for analyzing water institutions. The third section describes the reform experiences of the sample countries from a historical perspective. The fourth section then proceeds to generalize the water sector institutional reforms in Asia bringing out its problems and future prospects for better water governance in the region.

## 2. Water Sector and Water Institutions: An Analytical Framework

Water sector, from a broader perspective, may be considered to cover all issues concerning water from sources such as surface, sub-surface, ground and recycled sources; along with the other water related issues covering water and sewage treatment, management of costal and waterway engineering. However, the main focus on water sector, the policy changes of which this paper tries to analyze, is on the macro level issues of development, allocation and management of water at a national level. In order to understand the institutional arrangements in water sector, it is apt to understand what institutions mean in the context of natural resource management, including water.

A study of institutions, in the context of natural resource management, focuses on the laws and conventions that either directly allocate resources, or establish processes and constraints for its members to make allocative decisions. Notwithstanding the casual use of the term ‘institution’ in our day-to-day life, it is mostly used in reference to rules, regulations, and prescriptions to behave in a certain way. It is often defined as rules about behaviour, ‘especially about making decisions’

(Rinker 1982: 4) and about 'individual expression and choice' (Pillott 1979: 156). Within the broader framework of the institutional economics literature, North (1991) defined institutions as humanly devised systems that structure the interaction of its members in social, economic and political arenas. As an organised and well-defined system, institutions constraint some behaviours and favour or facilitate others. They enforce sanctions negatively in the form of punishments when the prescribed set of rules are violated and positively in the form of rewards when such rules are complied. Institutions exist both as formal entities through constitutions, laws and well-defined property rights; and as informal agents through customs, traditions, norms, codes of conduct, social taboos etc.

In consistent with the understanding of institutions, as it is represented in the context of natural resource management and in institutional economics literature, water institutions may be conceived of something beyond the common understanding of institutions as mere organizations or associations. Water institutions may be conceptualized as an entity, which sets the rules and defines the action sets for decision making in the realm of water sector. Water institutions are the '... rules that together describe action situations, delineate action sets, provides incentives and determine outcomes both in individual and collective decisions related to water development, allocation, use and management' (Saleth and Dinar 2005: 2). Water institutions are subjective and path dependent (see, Hodgson 1998 and North 1990). The subjective nature of water institutions stems from the fact that they are often constituted and also influenced by belief systems, behavioral habits and

societal conventions. The path dependency nature of water institutions refer that their present status and future directions can not be separated from their earlier course and past history. Water institutions are also hierarchical in nature, being embedded within the cultural, social, political and economic context.

The New Institutional Economics (NIE) literature distinguishes between Institutional Environment and Institutional Arrangements (see, North 1990). With respect to the water sector, the Institutional Environment would include various government agencies that directly or indirectly deal with water, international agencies dealing with water resources, and water related laws and policies of the states. Institutional Arrangements, in contrast, are the structure that humans impose on their dealings with each other' (North 1990). In the water sector, institutional arrangements would correspond to ground water markets, water cooperatives, water users associations, etc. (see also, Shah 2005). Comparing these two aspects of institutions in water sector, we can observe that while the institutional environment functions at a macro level and represents the government's laws and policies, concerning development, use, allocation and management of water, the Institutional Arrangement function at a very micro level involving rules, practices, and conventions governing allocation and management of water at the grassroots level. In a similar fashion, Saleth (2004) distinguishes between institutional environment and institutional structure. While institutional environment is characterized by the overall physical, cultural, historic, socio-economic and political

situation of a country or region, the institutional structure corresponds to the interactive effects of legal, policy and organizational or administrative components of the government. The institutional environment of the water sector of a country or region would include factors determining the water situation of a country, along with other factors determining water resource conditions as well as to other water related sectors such as agriculture, environment, forest, and urban development. Likewise, the water institutional structure is defined interactively by aspects concerning water law, water policy and water administration.

Saleth and Dinar (1999, 2000, 2004, 2005), in their attempts to understand the innate nature and inherent features of water sector and water institutions, have developed the Institutional Decomposition and Analysis (IDA) framework, which becomes very much crucial to account for the recent reforms in the water institutions. As discussed above, water institutions, from a wider perspective, can be decomposed into water institutional structure and water institutional environment. Since the rules governing water institutions are formalized in terms of three inter-related aspects, i.e. legal framework, policy environment and administrative arrangements, Saleth and

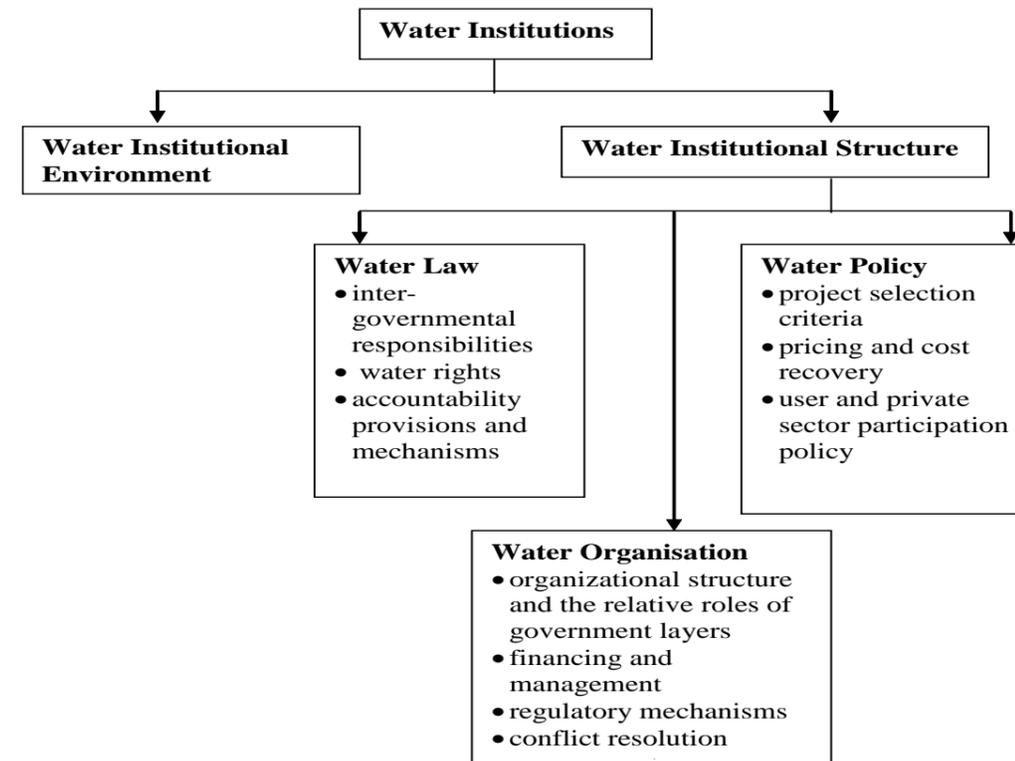


Figure 1: Decomposition of Water Institutions

Dinar, try to decompose the water institutional structure into three inter-related components: water law, water policy and water administration or water related organisations. These institutional components, which consists of both macro level (formal) and micro level (informal) arrangements, are further decomposed to highlight some of their major institutional aspects. Accordingly, the component of water law is decomposed to highlight factors like: inter-governmental responsibilities, water rights, and accountability provisions and mechanisms. Similarly, the water policy is decomposed to emphasise: project selection criteria, pricing and cost recovery, and user and private sector participation policy. Likewise, the organizational components of water institutions are decomposed to focus on: organizational structure and the relative roles of government layers, finance and management, regulatory mechanisms, and conflict resolution arrangements. Such a decomposition of water institutions can be as shown in the figure 1.

### Understanding Water Institutional Reforms

Since the rules governing water institutions revolves around three inter-related aspects, i.e. legal framework, policy environment and organizational framework, any attempts to introduce reform measures in the water sector require corresponding changes in water law, water policy and water organisations. The factors that influence water sector and bring changes in the above three main dimensions of water institutions are many with diverse origins and varying levels of impacts. These factors are also

country-specific, depending upon the over all water institutional environment, and the degree of formalization of the water economy of a nation. Saleth and Dinar (2000, 2005), however, identify two broad factors, i.e., endogenous and exogenous, which account for the corresponding changes in three inter-related components of water institutional structure. While the endogenous factors responsible for changes in water institutions are internal to both water institutional structure and water sector, exogenous factors lie outside the strict boundaries of both water institutional structure and water sector. These two factors capture the key features of the institutional environment and institutional structure, and the changes wrought out in them as response to societal demands and water sector crisis. While the endogenous factors correspond to physical and ecological problems of water sector, coupled with the crisis in its legal, policy and organizational frameworks, exogenous factors are mostly related to wider socio-economic problems, which influence the water institutional environment.

The endogenous factors that induce institutional changes in the water sector include water scarcity, emerging conflicts over water due to improper water laws and policy frameworks, financial and physical deterioration of water infrastructure affecting water resource development, and operational inefficiency of water organisations. Besides, the poor linkages between various components of water institutional structure (i.e. water law, policy and organisation) also forms an endogenous factor, since the performance of water institutions depends very much upon these linkages between these water institutional components (see, Saleth 2004).

The exogenous factors resulting in water institutional reforms are related to demographic growth and mounting pressure on water resources for fulfilling the increased targets of food production, economic development and technological pressure resulting in greater demand for water, reforms in the spheres of economy and polity, international pressure and commitments for ensuring sustainability, natural calamities concerning water, such as flood and drought, and changing socio-political values for ensuring equity, inclusion and justice. The exogenous factors, therefore, include the over all environment within which the water sector and water institution functions. Notwithstanding the independent impacts, these factors have upon water sector and water institutions, it is the synergy between these endogenous and exogenous factors, which determine the structure and pace of institutional changes within the water sector.

The endogenous and exogenous factors of institutional change are inter-related phenomena, and do not operate in isolation, since they influence each other. For example, the exogenous factor of socio-economic and technological development puts additional pressure on water withdrawal and forms the basis for water scarcity and conflicts over water. Similarly, the international pressure and commitment for sustainability may be understood as a response to water scarcity, which forms one of the endogenous factors. The inter-connectedness of these two factors makes it difficult to understand the individual roles of these factors, and thereby generalize the impact of these factors upon the pace and direction of water institutional changes. The institutional transaction cost theory, in the New Institutional Economics literature, however, tries to understand the direction and

pace of institutional change by linking factors for institutional change into transaction cost and opportunity cost (see, North 1990; Saleth and Dinar 2004). The transaction cost of water institutional changes corresponds to the real economic and social costs of inducing changes in the Water Institutional structure. In contrast, opportunity costs in the context of institutional change may be referred to the opportunities lost because of changes in status quo. The transaction cost theory of institutional economic literature predicts that institutional changes occur only when the transaction costs of inducing changes in institutional framework becomes lesser than that of the opportunity costs.

Extending this institutional transaction cost argument to the water sector, we may find that while the transaction cost of water institutional changes include both real and monetary costs of altering the regulatory, monitoring and enforcement mechanism related to water development, allocation and management. Similarly, the opportunity costs in water sector may include real and economic values of opportunities foregone, or the social costs of the status quo. These opportunity costs are also the benefits of water institutional reforms in the sense that, in the absence of changes in the existing water institutions these benefits can not be gained. Several studies have estimated the opportunity costs in the water sector and the expected gains from the changes in water institutions or particular components of water institutions (see, Frederikson 1992; Picciotto 1995; Saleth 1996; Gazmuri and Rosegrant 1994).

Rather than being a one time affair, water institutional reforms are continuous

and gradual changes occur over time in response to the factors identified above, depending upon the costs and benefits of reform. Since the water institutions are path dependent, the benefits from the earlier reforms smoothens the prospects for further reforms in the water sector. Saleth and Dinar (2004), in their attempts to study the pace of institutional changes in water sector, have developed a stage-based perspective of institutional change. They identify four main stages of water institutional changes, which progress as a circular process, and are mediated by information and learning, political lobbying and bargaining, organizational power and politics, and behavioural changes and performance expectations (see also, Saleth and Dinar 2005). The first stage of water institutional changes correspond to 'mind changes' among individuals, which occur from subjective and objective evaluation of current water situation and water crisis, information feedback and learning experiences they gain from existing institutions and ongoing changes. The second stage of water institutional changes is that of 'political articulation', where intense political debates, bargaining, campaigning and counter-campaigning take place before arriving at a political agreement about the details of the institutional change. The third stage is that of 'institutional change', where agreed upon changes are implemented. This stage is the most crucial stage in water institutional reforms, since, at this stage, there is every possibility of differences occurring over reform implementation and actual changes, due to financial, organizational and administrative constraints. There have been many instances

where, reform implementation is reduced to procedural changes with policy declarations, creation of new organisations or remodeling earlier ones, without any actual or real changes taking place. The fourth and final stage of water institutional changes relate to actual impact of the changes implemented in stage three.

Identification of these stages of institutional change in water sector does not, however, mean that water institutional reform is a linear and unidirectional process. In the process of reform, the institutional changes may proceed to the next stage, or remain constant in one stage for a longer period, or even revert back to the previous stage, depending upon the suitability of the over all environment for reforms. Institutional change is always slow, evolutionary and continuous, sometimes involving a time gap between the implementation of reforms and the actual gains out of such reform processes. While the implementation of reforms exhibits itself in substantial behavioral as well as organizational changes, the real impact of reforms depends upon the speed and amount of influence that these changes have upon the allocation, use and management of water.

### **3. Institutional Reforms in Water Sector: Country Specific Experiences**

As discussed in section one, institutional changes in water sector have been largely a response to the emerging crisis in water resource development, allocation and management. The crisis, partly, has aroused because of failure of the existing institutional arrangements to cope

up with the emerging situations of water scarcity and the increased demand for both quantity and quality of water. Often factors outside the purview of water sector, such as population pressure, economic development, economic and political reforms, etc. have contributed to the crisis in the water governance, resulting in greater pressure for inducing institutional reforms in water sector. In the recent years, countries in the South Asian region have responded to such crisis by introducing institutional reforms in water sector in their respective countries. Though the success and pace of these institutional reforms in water sector are country specific depending upon factors like political commitment, nature of crisis, and other socio-economic and political factors specific to the countries, yet, it is possible to draw some inferences regarding the nature, trend and direction of such changes. Keeping this in mind, the present section attempts to highlight the experiences of the South Asian countries regarding the on going process of reforms in the water sector. Three sample countries, i.e. Bangladesh, India and Sri Lanka have been identified to generalize upon such institutional reforms in water sector in South Asia. The following paragraphs depict the water management principles and water institutional reforms in the sample countries from a historical perspective.

#### **Bangladesh**

Bangladesh is located in towards the North-East of Indian subcontinent, and covers a total area of 1,44,000 km<sup>2</sup>. Most parts of Bangladesh is located within the floodplains of three great rivers: the Ganges, Brahmaputra and Meghna, and their

tributaries, such as: the Teesta, Dharla, Dudhkumar, Surma and Kushiya. In 1990, the total water withdrawal for agricultural, domestic and industrial was estimated to be 14.64 km<sup>3</sup>, of which 86 per cent was consumed for agriculture, 12 per cent for domestic and 2 per cent for industrial purposes. Approximately 73 per cent of the total water withdrawal comes from ground water, where as only 27 per cent comes from surface water.

Organized efforts to water sector development in Bangladesh after decolonization dates back to the devastating floods of 1954. Following the floods, in 1955 a United Nations mission investigated the possibilities of water resource development in the then East Pakistan. On the recommendation of the UN mission, the East Pakistan Water and Power Development Authority (EPWAPDA) was created in 1959, having the responsibility of planning, designing, operation and management of all water development schemes. In 1964, the EPWAPDA prepared a 20 year Master Plan with assistance from USAID, dealing with strategies of massive flood control, drainage and irrigation. This marked the centralized, top-down and civil engineering approach to water resource management in Bangladesh. Water resource development during this period was strictly sectoral with very little inter-sectoral communications (CWPD, 2001).

Following independence in 1971, the EPWAPDA was restructured and the responsibilities concerning planning and management of water resources was handed over to the newly created Bangladesh Water Development Board (BWDB) in 1972,

which has long been the most powerful agency in the water sector in Bangladesh. The BWDB relied heavily on international development assistance from agencies like, International Bank for Reconstruction and Development (IBRD) and the Asian Development Bank. The IBRD conducted a Land and Water Sector study in Bangladesh and recommended a strategy of extensive minor irrigation in winter using Low Lift Pumps and Tube-wells, and for flood control in small scale, low cost and quick-gestation flood control projects. Following this recommendation in 1972, minor irrigation through Lift Pumps and Tube-wells spread rapidly, along with implementation of large scale water control projects (see Duyne 1998). The potential for Low Lift Pumps was soon exhausted due to lack of surface water availability, but growth of Tube-wells continued rapidly. The water sector crisis emerged in Bangladesh with long conflicts over sectoral use of water, amongst various water users in the form of fishery versus pump irrigation, and domestic hand tube-wells versus tube-wells for irrigation. The problem in the water sector became more serious with drastic reduction of flow in the Ganges due to construction of Farakka Barrage on the Ganges in India at about 20 km upstream from Bangladesh border in 1974. As a response to this situation, a joint mission of Government of Bangladesh and the World Bank reviewed the water sector in Bangladesh, and made detailed recommendation for institutional reforms and the need for a new Master Plan. By the early 1980s, exogenous factors like pressure of burgeoning population, expanding agricultural and industrial sector and international political treaty with India regarding the sharing of the water of Ganges created the ground for long-

term reforms in water sector for comprehensive water resource development and management (CWPD, 2001).

In the background of these developments, the National Water Resources Council (NWRC) was established in 1983 as an inter-ministerial body to look into the issues concerning water resources. On the recommendations of NWRC, in the same year, the Master Plan Organisation was created, and entrusted with the responsibility to draft the first National Water Plan. The National Water Plan was complete by 1991, and to recast the Plan within the appropriate inter-sectoral focus, Master Plan Organisation was restructured as Water Resources Planning Organisation (WARPO) with the mandate to 'evolve national policies and strategies for utilization and conservation of water by all'.

Years prior to the National Water Plan, Bangladesh was hit by two severe floods in 1987 and 1988, which resulted in endorsement of Flood Action Plan (FAP) in 1989. FAP was a five-year plan (1990–95) enacted by Government of Bangladesh in collaboration with the World Bank. In the final report of FAP, in 1995, Bangladesh Water and Flood Management Strategy (BWFMS) was adopted, which recommended people's participation and Environmental Impact Assessment (EIA) as a mandatory and integral part of water management. Based on recommendations of BWFMS, Ministry of Water Resources of Government of Bangladesh issued Guidelines for People's Participation for all water development projects in 1994. As a follow up to this, several other agencies such as Local Government Engineering Department, Bangladesh Water

Development Board, etc, developed guidelines to involve local people in various projects.

In response to the Bangladesh Water and Flood Management Strategy, the World Bank produced a report titled as 'The Steps Towards the New National Water Plan', which described the structure of the water sector and the need for coherent water strategy for water exploitation, use and management (see, World Bank 1997). All these initiatives led the Government of Bangladesh to come up with the first ever National Water Policy, published in January, 1999.

The new National Water Policy (1999) of Bangladesh stated its broad objective as:

*"... to provide direction to all line agencies working with the water sector and institutions that relate to the water sector in one form or another ..."*

The Water Policy of 1999, aimed at ensuring water for all, promoting social justice in allocation of water, accelerating sustainability of the public and private water delivery systems, bringing out institutional change for decentralized management of water resources with increased participation of women, and developing legal environment that will help the institutional change (GoB 1999).

The new policy made provisions for River Basin Management, and aimed at fostering international cooperation in water management by working with co-riparian countries (NWP 4.1, GoB 1999). The policy, for the first time, made it clear that processes

of planning and management of water sector require a comprehensive and integrated analysis of relevant hydrological, topographical, environmental, institutional and socio-economic and political factors across all water using sectors. It directed the government to frame rules, procedures and guidelines for combining water-use and land-use planning (NWP 4.2, GoB 1999). The new policy, while retaining the absolute right over water with the state, for ensuring equitable distribution, efficient development and use of water and to address poverty, made provisions for empowering the local governments to exercise its right to allocate water in scarcity zones, and during periods of severe drought (NWP 4.3, GoB 1999). The policy also made provisions for private sector involvement in water sector of Bangladesh.

## India

India is the world's largest peninsula, second most populous country and seventh largest country, covering a geographical area of 3,287,590 km<sup>2</sup>. The two main sources of water in India are rainfall and the melting of the snow from the glaciers in the Himalayas. In 1990, the total water withdrawal was estimated at 500 km<sup>3</sup>, of which nearly 92 per cent are consumed for agricultural purposes, 5 per cent for domestic purposes and remaining 3 per cent for industrial purposes.

The organizational aspects of the water institutional structure in India can be explained by highlighting the important agencies in the water sector. The Union Ministry of Water Resources (MoWR), which evolved from the department of irrigation under the Ministry of Agriculture

is the national organization for over all planning and management of water resources in the country. The technical support to the ministry comes from important agencies working under it, such as Central Water Commission, Central Ground Water Board, and National Water Development Agency. Several research organisations including the Water and Land Management Institutes provide the research support to the Union Ministry of Water Resources. There are also important organizational arrangements, like National Water Resources Council (NWRC) and National Water Board (NWB) for inter-state and centre-state coordination. The NWRC, created in 1983, is an important policy making agency in Indian water sector, chaired by the Prime Minister, and includes the Union Minister for Water Resources and the Chief Ministers and Governors of all States and Union Territories. The NWB is the executive arm of NWRC, and is chaired by the Secretary of the MoWR and includes Chief Secretaries of all states, Secretaries of the concerned Union Ministries.

Although India does not have any separate and exclusive laws regarding water, there were water related legal provisions dispersed in various irrigation acts, Central and State laws, constitutional provisions, etc. The federal political structure of the country resulted in creation of dual institutional structures in India. Most of the water resource development responsibilities and legislative powers are with the state governments. However, the Central government has also certain indirect power because of its role in project clearance, resolution of inter state water disputes, and control over several technical organisations.

The Central government has also regulatory roles in the water sector vide Article 252, which is related to inter-state water projects, and through the Forest Conservation Act, 1980, which requires the states to get Central government clearance for executing ecologically sensitive water projects. More so, the Central government has an important role in resolving inter-state water disputes as per the provision under Article 262 of the Constitution of India, and the Inter-state Water Disputes Act of 1956 (Saleth, 2004).

Most of the water related laws were either passed during the colonial period or were the amended versions of colonial law, and were outdated due to their inability to correspond to the newly created water demands and water crisis. The drought of 1987, coupled with the macro economic crisis of the late 1980s have led to some policy changes in the water sector in India. While the National Water Policy of India, which was formulated in 1987 was a response to the water scarcity due the drought situation, the reduced water sector investment caused by impact of the economic crisis of the 1980s has forced many states to raise internal resources through better cost recovery and external resources through mobilization of private funds (Saleth and Dinar 2000).

The main goals of the National Water Policy (1987) of India are the promotion of conjunctive use of water from surface and sub-surface sources, supplemental irrigation, water conserving crop-patterns, and irrigation and production technologies. The policy has called for increase in canal irrigation water rates and promotion of user participation in canal water management (GoI 1987).

Although the water policy of 1987 has recognized the need to limit individual and collective water withdrawals and user participation in water management, it has failed to identify the institutional mechanism of such (Saleth 2004).

The 1987 Water Policy made it explicit that water is a vital natural resource, and its effective management is crucial for livelihood and environmental security. Recognizing this, the National Water Resources Council (NWRC), the apex body of policy making in water sector, amended the water policy and adopted the new National Water Policy in the year 2002. The new National Water Policy, 2002 calls for a regulation of ground water extraction so as not to exceed the recharging potential. There has been an urge for integration of water-use and land-use policies. In a remarkable departure from previous policy, the policy of 2002 introduces participatory approach to water resource management in the field of irrigation. The policy makes an attempt to maintain the quality of water and prevent environmental pollution. Finally, the policy calls for appropriate changes, reorientations and reorganization of water institutions, in order to give effect to the planning, development and management of water resources (see Rout 2002).

In the line with the New National Water Policy, 2002, several State governments have also amended their state water policies paving the way for user participation in management. Although many states have attempted to involve users in water distribution, cost recovery and system maintenance, the extent of actual Irrigation Management Transfer is insignificant excepts in some individual state experiences such as

Andhra Pradesh, Tamil Nadu, Orissa. Incidentally, these states are under the financial assistance from the World Bank through the Water Resource Coordination Projects, have not only restructured their water administration and amended their water policies, but also have made significant progress in promoting user participation in water management (Saleth and Dinar 2000).

### Sri Lanka

Sri Lanka is a tropical island, situated close to the south-east tip of the Indian subcontinent with a total geographical area of 64,630 km<sup>2</sup>. In 1990, the total water withdrawal in the country was estimated to be 9.77 km<sup>3</sup>, which is 15 per cent of the total resource, and out of which nearly 96 per cent are consumed for irrigation purposes, and domestic and industrial purposes required 2 per cent each. Although irrigation dominates the total water use, there is a growing demand for water for domestic and industrial use. The 2000 data for water sector in Sri Lanka, the total water withdrawal is estimated to be 10.92 km<sup>3</sup>, of which 90 percent is for agriculture, 7 per cent for domestic purposes and remaining 3 per cent for industrial purposes.

After Constitutional Amendments in 1987, water sector responsibilities in Sri Lanka were divided between the Union and Provincial governments, with inter-provincial and intra-provincial water responsibilities respectively. Although there are 40 government agencies yielding varying degrees of influence over Sri Lanka's water sector, only 7 of them form the core water administration at national level (Nanni, 1996). The Ministry of Irrigation and Ministry of

River Basin Management (the erstwhile Ministry of Mahaweli Development) are the key organisations responsible for irrigation development policy. The Irrigation Department and Mahaweli Authority of Sri Lanka (MASL) are the major organizations vested with the responsibilities of policy implementation. The National Water Supply and Drainage Board (NWSDB) and the Urban Development Authority are responsible for domestic and industrial water supply.

Water allocation and right to access to water are addressed in a number of legislative enactments in Sri Lanka. There are over 50 laws relating to such diverse aspects of irrigation, land, agriculture and drinking water supply (Samad 2005). The Irrigation Ordinance was first enacted in 1856 by the British Colonial Administration to legalize customary irrigation practices and to prescribe the conditions for water extraction. The Mahaweli Authority of Sri Lanka Act, 1979, is one of the important acts affecting water management in Sri Lanka, which empowers the Mahaweli Authority to use and develop water resources of Mahaweli river or any other major river. The National Water Supply and Drainage Board (NWSDB) Act of 1974 describe the statutory function of NWSDB to provide water supply for public, domestic and industrial purpose, and to operate a coordinated sewerage system.

Sri Lanka does not have an exclusive and formally approved water policy. Policy documents are often made in official documents, such as public investment programmes, annual budget speeches and President's address to Parliament (Samad

2005). However, the draft Water Resources Bill, being discussed since early 1980s, has all the right ingredients for a modern water policy, including water permit systems, full cost recovery, conflict resolution etc (World Bank 1992). A comprehensive proposal for National Water Policy was prepared during 1990s with financial and technical support from Asian Development Bank (ADB), United States Agency for International Development (USAID), and Food and Agriculture Organisation (FAO). The proposal, however, could not be approved by the Parliament owing to difficulties of achieving consensus within the political circles.

Despite absence of a unified and formal water policy, there have been substantial reform initiatives in water institutions and water sector in Sri Lanka, through introduction of several policy measures concerning water. The draft Water Bill of 1980 had provisions for full cost pricing, setting up of inter-ministerial Water Resources Council as a coordination mechanism, water courts for conflict resolution, etc. (World Bank 1992). A significant change took place in the water sector in Sri Lanka, when in 1984, government instituted irrigation fee with the aim of recovering the cost of operation and maintenance of irrigation facilities from farmers. In view of difficulties in fee collection and success of experiments in farmer participation in irrigation management, in December 1988, the government formally adopted the Participatory Irrigation Management (PIM) Policy for all major irrigation schemes. To facilitate the implementation of this policy, an Irrigation Management Policy Support Activity was

launched on the initiatives of International Water Management Institute (IWMI), USAID and government support. At present, some 3,000 Distributory Canal Organisations or Water Users Associations (WUA), and about 15,000 Field Channel Organisations have been established and vested with the responsibility of operation and maintenance of canal systems (Samad 2005).

In 1993, the government of Sri Lanka initiated an action plan for water policy and institutional reforms in Sri Lanka under technical assistance from ADB and USAID. Arriens *et al.* (1996) have identified five critical factors integral to water sector, which prompted the urgency for a comprehensive water policy: i) inadequate attention to watershed management, ii) deterioration in water quality, iii) uncontrolled ground water abstraction, iv) deterioration of irrigation facilities owing to inadequate operation and maintenance, and v) lack of inter-sector coordination and mechanism for managing multiple uses of water (cited in Samad 2005). In 1996, Water Resource Secretariat (WRS) was set up to implement the project, and was vested with the task of formulating the National Water Policy. Subsequently, Water Resources Council (WRC), consisting of bureaucrats, academicians, NGO personnel, women's groups and farmers' representatives, was set up to direct and guide WRS in its functioning.

As a part of the reform process, WRS adopted 'stakeholder consultation' as a key strategy for policy development in water sector. WRS organized several stakeholder meetings involving Government agencies, policy makers, water managers, private sector, professional bodies, NGOs, and major water

users. By early 2000, a draft policy document titled National Water Resource Policy and Institutional Arrangements has been prepared, which was approved by the Cabinet of Ministers of Sri Lanka in March 2000 (Samad 2005). The reform programme has also proposed a new organizational setup that will fill some major gaps in the existing arrangements of water management.

#### 4. Common Trends and Patterns in Water Institutional Reforms

The institutional changes in the three countries in the South Asian Region discussed in the above section provide us with a scope to highlight the commonalities in such reforms in the water institutions and water sector. Notwithstanding the variations in degree, pace, coverage, duration and effectiveness of institutional reforms in individual countries, this section attempts to identify the common trends, patterns and directions of such changes. These commonalities correspond to changes in orientation of water management, involvement of farmer communities in management and decentralisation, establishment of water rights defining rights to access water.

##### *From Water Resource Development to Water Resource Management*

The reform process in the South Asian region have resulted in a fundamental shift in orientation in water sector from water development to water allocation and management. This paradigm shift in water sector required a radical reorientation of the water institutions. The pre-reform era in all the three sample countries was characterized

by structural engineering approach for development of water, with little or no emphasis on allocation of such water at the field level. The engagements with Flood Control, Drainage and Irrigation (FCDI) projects in Bangladesh and large-scale irrigation projects through construction of bid dams reflected the civil engineering dominance in the water sector in the periods prior to reform. However, the reform policies of all the three countries emphasised upon the allocation of water at the field level and the required institutional arrangements for its effective management. The PIM policy of Sri Lanka, IMT in India and the Guidelines for People's participation in Bangladesh indicate the shift in trend towards water management from water development.

#### ***Farmers' Participation in Water Management through Decentralized institutional structure***

One of the central themes of water institutional reforms in South Asia has been acknowledgement of farmers as stakeholders in the resource and ensure their participation in management of use and allocation of water. The shift in orientation from water development to water management, has brought into focus the potentials of decentralized institutional structures. The centralized management policies do not find a place in the newly emerged paradigm, which require decentralized institutional arrangements for promoting social justice and sustainability of the resource. The functional distinction between centralized mechanisms needed for coordination and enforcement and the decentralized arrangements for user participation and water allocation have been

widely acknowledged as a result of the reform process.

Irrigation Management Transfer (IMT) through Participatory Irrigation Management (PIM) aims at transferring managerial responsibilities including cost recovery, and operation and maintenance, to formal Water User Associations, forms the main mode of decentralisation in irrigation sector. Sri Lanka has quite extensively persuaded with the IMT programme, while it is gaining momentum in India. Similarly, the provisions for formation of River Basin Organisations (RBOs) as per the New National Policy of Bangladesh, is an attempt to promote decentralisation water sector with the active involvement of water users.

#### ***Establishment of Water Rights***

The water rights arrangements under the reform process have become a dynamic phenomenon. The reform process by emphasizing water allocation and farmers' inclusion in water management has specified property rights over water. Under the auspices of IMT, user based allocation has become an institutional to agency based allocation. Further, with provisions for private sector investment in water sector, the reforms are also paving the way for market based institutional alternative for water allocation. Water rights have got a wider connotation in the wake of reform programmes in the water sector in South Asia. Prior to the water institutional reforms in water sector, under the top-down centralized model of water development, farmers were only possessing use rights over water, while the state retained with it the ownership and decision making rights.

Further, when and how these use-rights will be exercised by the farmers was also to a greater extent influenced by the state. However, with the changes in water management orientations and priorities, farmers are supposed to possess all the three property rights, i.e. use, ownership and decision-making rights over water. The IMT process and the RBO approach relies on WUAs and extend all the above three water rights to farmers. Though the state retains with it the *de jure* ownership rights over water, the *de facto* ownership rights are now vested with the farmer, who by virtue of his membership to WUA gains access to the water.

#### ***From Sectoral to Integrated Approach to Water Management***

The pre-reform period in water sector was dominated by sectoral approaches to water, with little scope and platform for inter-sectoral communication. However, the recent policy changes in water sector call for integrating the sectors and agencies relating directly or indirectly to water sector. Therefore, the new National Water Policies of both Bangladesh and India call for integrating land-use policies with water-use policies. As a consequence, Integrated Water Resources Management (IWRM) has emerged as the dominant paradigm in the water sector in South Asia. The South Asian countries are on the process of developing a National Water Plan for providing a technical framework needed to promote IWRM and integrated perspective to water resource management. administrative rearrangements are being planned out for implementation of such an integrated and comprehensive approach to water management.

#### ***International (donor agency) pressure as a source of change***

The endogenous and exogenous factors of institutional change had both long term and immediate impact respectively upon the change process in water sector in the South Asia region. While crisis in water sector in terms of water scarcity, flood, and drought have been present for a long term and evolutionary factors causing institutional change in water sector of South Asia, the immediate factor resulting in such changes has been exogenous in nature. For instance, the impact of the economic crisis of 1980s forced countries like India and Sri Lanka to come out with reform measures for recovering operation and maintenance charges from the farmers by increasing the irrigation fee. One of the most important immediate factors contributing towards institutional reforms in water sector of South Asia has been the intervention, influence and pressure from international agencies. The international lending agencies such as IBRD, and the World Bank had profound influence for water sector reforms in Bangladesh from the very beginning. Similarly in the case of India and Sri Lanka, donor agencies like World Bank, USAID and ADB and technical organisations like IWMI and FAO have been crystallizing factors for water institutional reforms. Some of these agencies have also played important roles in drafting Water Policies of South Asian countries.

#### **5. Conclusion**

Since its evolution, human society has encountered many challenges, and has accordingly experienced corresponding changes to over come those challenges.

However, what is important is that the speed in which the world has changed over last few decades has been unprecedented compared to earlier times. In the water sector too, there has been a profound change over the last couple of decades owing to corresponding changes due to globalisation, technological change, relentless competition for economic growth, rapid increase in population, etc. Thus, water policies and institutions of current times have to be significantly different from the policies, strategies and institutions that were previously in practice to meet the emerging challenges. Countries in South Asian region have accordingly approached the institutional changes in water sector in a positive manner and have under taken several policy and institutional changes. The present paper attempted to underscore such attempts in the South Asian region, while at the same time carried out a conceptual review of terminologies like water sector, water institution and water rights arrangements.

Water sector, for all analytical purposes, was conceptualised as an umbrella term consisting of all issues concerning water from various sources, and the issues relating to generation, withdrawal and governance of water. However, the important issues that were identified in water sector were those of macro issues concerning development, allocation and management of water at a national level. A study of institutions, in the context of natural resource management, focuses on the laws and conventions that either directly allocate resources, or establish processes and constraints for its members to make

allocative decisions. Arguing in a similar fashion, the paper tried to conceptualise water institutions as an entity, which sets the rules and defines the action sets for decision making in the realm of water sector. Having carried out a conceptual analysis of water sector and water institutions, the paper proceeded further to describe country specific experiences in the South Asian region with respect to changes that were brought forward in the water institutions. Taking countries like Bangladesh, India and Sri Lanka as a point of reference, several common trends and perspectives were identified in the whole process of water institutional changes in South Asia. To conclude, the paper identified that there has been substantial change in the perspective in which water sector has been approached in the region. To be precise, the region has experienced a change from water resource development perspective to that of water resource management. The current perspective towards water has been holistic in nature in contrast to the excessive importance to techno-engineering approach that characterized the earlier period of water sector. Further, there have been changes acknowledging the rights of farmers, women and end-users as stakeholders in the whole process of water governance. In this regard, the policy changes has proceeded hand in hand with other reforms in decentralized governance, providing greater emphasis on user participation in decision making concerning water governance. Finally, the paper identified that external pressure, especially from the donor agencies, has acted as an important catalyst in generating institutional changes in water sector in South Asian region.

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## The Afghanistan Crisis: Geo Politics, Issues and Perspectives

K S Pavithran

### Abstract

*The Afghan conflict is a potent example of contemporary conflict resulting from a complex mix of factors, caused by years of underdevelopment, militarisation, tribal and ethnic schisms and the United States's geo-political ambitions of the containment of China and extracting Central Asian oil and gas to the world market. Since 2001 the US has spent \$127 billion on the war in Afghanistan. Overall the US and the NATO has nearly 70,000 troops in Afghanistan. More than 7,000 people were killed and civilian casualty rate has far more than are estimated to have been killed in Taliban attacks. The fighting between US and Taliban has drawn more than 80,000 from their homes. However, in the backdrop of the 9/11 tragedies the US ambitions have not been succeeded in Central Asia. The US designs of exporting democracy and to change the balance of forces and keep the countries of the region in its orbit is a highly disturbing scenario. The US occupation of Afghanistan proved that the so called humanitarian interventions are merely smoke screen to hide and sell larger geopolitical agendas by the super power.*

### Introduction

Reminiscing the Huntington thesis of "clash of civilizations,"<sup>1</sup> the events of 9/11 brought an unexpected close to the transitional phase that followed the end of the Cold War. In fact, with this incident, the time honoured myth of an invulnerable US hegemony, secure between two oceans has been debunked. [Wenger and Zimmermann 2004: 1] As the evidence against Al - Qaeda, became more apparent, the US government pressurized the Taliban government in Afghanistan and with a loose coalition of its allies invaded the country in October 2001. With these developments the United States

opened another battlefield in Asia. In fact, the Afghan conflict is a potent example of contemporary conflict resulting from a complex mix of factors, caused by years of underdevelopment, Cold War politics, militarisation and tribal and ethnic schisms. The conflict has been going on for two and a half decades.<sup>2</sup> Since 1994 the War entered a new phase with the emergence of Taliban. The present article is an attempt to comprehend the reasons and intentions of United States and its allies in invading Afghanistan and focuses on the humanitarian crisis the Afghan people face as a consequence of the US led invasion.

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### Historical backdrop

The history of Afghanistan stretches from ancient *Aryana* to the empire of the *Kushans*, finally reaching its peak with the foundation of Afghanistan - the first Afghan state in history. The year 1747 is regarded as its date of birth with Ahmad Shah Abdali, later Durrani as its founder. [Vartan 1969: 14] The importance of Afghanistan lies in its strategic position as a gateway to not only the Indian sub-continent, but also to Central and West Asia and in a way to Europe. It has been a buffer state between Russia and British Empire for more than one hundred years. [Labh 1980: 18] Afghanistan's strategic importance increased after World War II, with the withdrawal of the British from the sub-continent and the Gulf area. The super power rivalry for suzerainty over Indian Ocean and Gulf area has boosted its strategic sensitivity. It is said that "from Kabul you can look both in North and South." [Chopra 1980: 22]. The above said facts have transformed this country as the crux of contention.

Prior to Afghanistan's independence in 1919, the state was characterized as a tribal confederacy. The state was weak and could not extend its authority throughout the country. Each section of the country was ruled by a feudal landowner until king Abdur Rahman forcibly subdued tribal chiefs and feudal landowners during his rule in 1880-1901. Abdur Rahman and his successor king Habibullah (1901-1919) succeeded in building a strong army and maintaining a relative political stability in the country. The preliminary foundation for a modern nation-state in Afghanistan was laid when the country gained its independence from the British colonial government of India in 1919 under the leadership of king Amanullah. [Emadi 1991: 176]

Amanullah's socio-political reforms like land reform, modernization of higher educational institutions, and restricting the power of religious leaders in politics, etc., damaged the vested interests of feudal landowners and religious clerics within and outside the state apparatus. They were in favour of preserving the old feudal system in the country. The feudal landowners and the highest religious circles (mullahs) were engaged in instigating public opinion against the state under the pretext that the state violated Islamic law and the traditions of Prophet Mohammad. In January 1929 Habibullah, organized a group of armed men and rebelled against the state on the pretext of fighting a holy war to establish an Islamic state in Afghanistan. Amanullah did not fight but fled to Italy. He believed that resistance would ruin the country and bring disaster to the nation. However, Habibullah's short rule collapsed in 1929. The resistance to Habibullah was led by General Mohammad Nadir and his four brothers. Mohammed Nadir was assassinated in 1933. He was succeeded by his young son Mohammad Zahir, who ruled the country until 1973.

In 1953 the governmental control was assumed by Prince Sardar Muhamad Daoud as Prime Minister. Daoud was a nationalist who wanted to pursue his policy of *betarafi* (without taking sides) of non-alignment. While modernization of army helped to alleviate the threat of hostile tribes, politically Daoud was quite conservative, failing his critics, ignoring parliament, and suppressing hostile publications. He was dismissed from the helm of affairs in 1963. But after a series of developments in 1973, through a military coup the monarchy was overthrown and

Daoud returned as president of the newly proclaimed Republic. [Ratnam 1981: 9] The Soviet Union was the first country to extend diplomatic recognition to the new Afghan state and agreed to provide political and economic assistance to the country. Although the United States was dismayed with president Daoud's pro-Soviet socio-economic policies, it extended diplomatic recognition to the new state in Afghanistan. The US administration regarded Afghanistan's close ties with the Soviet Union as a threat to the political stability in South Asia and the Middle East.

The year 1978 saw the overthrow of Muhamad Daoud and the installation of Nur Mohammad Taraki as President. This was the culmination of popular upsurge against the murder of Mir Akbar Khyber, a respected Marxist intellectual on 17<sup>th</sup> April 1978, which created wide resentment and demonstrations resulting in the arrest of Taraki, Hafizzullah Amin etc., by Daoud government. After assuming power, on 5<sup>th</sup> December 1978, Taraki signed a *Twenty Year Treaty of Friendship and Cooperation* with the Soviet Union. History shows that right from the early days Russia has been the greatest factor in shaping Afghanistan's internal and foreign policies. That is why Mikhail Ilyinsky, upheld, "the 1978 *Saur* (April) national democratic revolution "as a land mark not only in the history of Afghanistan but also in the overall national liberation struggle against feudal and imperialist oppression". [Ilyinsky 1982: 5] "From literacy to land" wrote David Selborne "Taraki regimes radical programmes brought a new life to the downtrodden masses – a development which was testified even by Western critics" [Selborne 1980: 11].

To introduce radical reforms, in a near primitive society is not an easy task. The result was the alienation of Taraki from the conservative elements of the country. The *mullahs* found Taraki's policies to be communistic and thus anti-Islamic. Further, the ruling "People's Democratic Party of Afghanistan" (PDPA) was rent asunder by two factions, the *Kalq* (people) and the *Parcham* (flag). The result was the coup of September 1979, by which Taraki was killed and Hafizzullah Amin the Prime Minister under Taraki, installed himself as the new President. The policies of Amin especially the politicization of the armed forces created serious drift among officers and rank and file. Meanwhile, some elements of the feudal order, antagonized and affected by the drive for reforms in the country physically went over to Pakistan, the newly installed Islamic Republic, while others remaining within Afghanistan established their linkages with Pakistan [Sharifi 1981: 37]. In Pakistan, on the border with Afghanistan there were twenty special camps and fifty bases where rebels were trained by Chinese and US instructors. The rebel activities of the United States and its allies assume different forms with the active participation of the authorities in Pakistan. The Central Intelligence Agency (CIA) has set up in the territory of that country a network of military camps and training centers for training bands of *ruffians* to be sent later to Afghanistan. The United States supplied bands of Afghan rebels with all types of weapons-carbines, machine guns, mortars, rocket launchers and so on. The U S, Britain, Saudi Arabia, Egypt and Pakistan allocated millions of dollars for waging this undeclared war<sup>3</sup>. At this juncture, the

*Parcham* elements, invited, Babrak Karmal, their well acclaimed leader, who was in exile to succeed Amin. Ultimately on 27<sup>th</sup> December 1979, the Soviet troops marched into Kabul and installed Karmal as the president of the Republic of Afghanistan with an estimated 85,000 Soviet troops to help the regime<sup>4</sup>. Thus the rule of Taraki and Amin spounded a period of twenty months-from April 1978 to December 1979.

The view which found most support among analysts was that the Soviet Union aimed at finding a direct route to the warm water port of Gwadar in Arabian Sea, thereby giving them leverage over the entrance to Persian Gulf and enhance their presence in the Indian Ocean. However it had reiterated by Moscow that her troops crossed the frontier because it had a twenty year mutual security agreement with Kabul, because the Kabul government requested for help and because Article 57 of the United Nations Charter provided the inalienable right of the states to collective and individual self-defense against aggression. Above all, when criticism arose, the Soviets made it clear that they would withdraw their men in Afghanistan immediately, if asked by the Afghan leaders.

The Soviet invasion set off a chain reaction which brought America and its European allies into open confrontation with the Soviet bloc. Particularly the then American President Jimmy Carter expressed 'surprise' at the Soviet move, which inaugurated a new era of Cold War, which the Western analysts inclined to call as Cold War II. [Srivastava 1980: 58] The fact was that the US administration had been facing a serious situation with its powerful armed bases in Iran going in to shambles with the

exit of Shah. The nuclear war head carrier Seventh Fleet was swiftly deployed in to the Gulf region. Fifty thousand American troops were permanently stationed in West Asia. Diego Garcia base had been activated fully at the same time. Carter, spelt out, what came to be known as the 'Carter doctrine', that any attempt at giving control of the Persian Gulf would lead to war. It would, he said, "be regarded as an assault on the vital interests of the United States. It will be repelled by use of any means necessary including military force. Britain vehemently condemned the Soviet invasion, while, Deng Xiao-ping, the then vice premier of People's Republic of China stated that, the invasion was "by no means an isolated case but a component of the global strategy of Soviet hegemonism" [Nayar 1981: 49]. However Chinese presence, through the Karakoram, in the neighbouring Pakistan, which has been under ferment, since the execution of Zulfikar Ali Bhutto could easily be interpreted to mean that a serious danger threatened Afghanistan with her new revolution in its birth pangs.

After having come to power in April 1978 the Afghan communists despite internal squabbles among the Parchami and Khalqui groups and a number of hour-handed decisions, did indeed introduced major reforms to benefit the poor - compulsory primary education for both boys and girls; abolition of mortgages and debts and reduction of interest on loans in the rural areas; ban on forced marriages and fixation of minimum age for marriage and imposition of land ceiling to release excess land for distribution among the landless. Opposition to these measures came from the rich landlord-money lenders and their

religious allies, the village *mullahs*. The latter issued *fatwabs* denouncing these reforms as un-Islamic and called upon all Muslims to resist them. As a result, the landlords and the *mullahs* could recruit *mujahideens*<sup>5</sup> from rural Afghanistan to fight a holy war against the infidel Marxists with the sophisticated weapons and military that began to pour in from Pakistan and the United States.

In June 1982, foreign ministers of Pakistan and Afghanistan entered into negotiations through the intermediary, Mr. Diego Cordovez, Under Secretary General for special political affairs and the personal representative of the UN Secretary General. Since that first meeting two such discussions were held in 1982. Further 'proximity talks' were held at Geneva in August 1984, 1985, 1986 and 1987. Meanwhile, on December 24<sup>th</sup> 1986, The Revolutionary Council Presidium elected Dr. Najibullah as the Council President i.e., the President of Afghanistan in place of Babrak Karmal, who resigned the office in November. Efforts toward national reconciliation in Afghanistan were continued. In July 1987 Dr. Najibullah travelled to Moscow and indicated that he would be willing to step down if that would lead to national reconciliation. He also reiterated his support for a coalition government which would include representatives of the rebels. During a visit by the UN Secretary General to Moscow also in July 1987 Mikhail Gorbachev stated in unequivocal terms that he was more than willing to withdraw all Soviet troops from Afghanistan. All that he wanted was an independent, neutral and friendly Afghanistan.

On February 1<sup>st</sup> 1988 Gorbachev announced that the Soviet Union is prepared

to withdraw its troops in Afghanistan beginning from May 15<sup>th</sup> [The Hindu May 16, 1988]. With the withdrawal of Soviet Troops followed by the collapse of PDPA a coalition headed by Abdul Shah Masood's force took over control of Kabul. This triggered off full scale fighting, mainly between Burhannuddin Rabbani's Jamiat-i-Islami and the Hezb-i-Islam led by Gulbudeen Hekmatyar. Hekmatyar become the Prime Minister in June 1993 as a follow up of the Jalalabad accord. The Taliban emerged only in 1994 from the debris of civil war from among millions of refugees living in the camps of Pakistan [Navlakha 1996: 2913].

The Taliban began its activities in Pakistan and being helped financially by Saudi Arabia and the United States. This is because, Taliban are conservative Hanafi Sunnis and they are opposed to Shiaite Iran. Thus with the financial and military support of the United States and Saudi Arabia the Taliban wrested power in Afghanistan in September 1996. The Taliban rule began with retrogressive policies like prohibition of education for girl children and prohibition of women from going outside home etc<sup>6</sup>. The Taliban was, in fact engaged in executing a carefully prepared plan to destroy the Islam promoted by, Amir Habibullah in the early 20<sup>th</sup> century. This was an Islam that attempted to bring together Shia and Sunni, Tajik and Uzbek, Hazara and Pashtun to form a unified nation state, an Islam promoted and accepted by an urbanized middle class and which brought increased cohesion to the country. Knowing that the imposition of rigid rules would lead to social fragmentation the Taliban policy was more carefully calibrated policy pursued at the behest of Pakistan. [Khosia 2008: 45] However, United States

made diplomatic contacts with Taliban. The US assessment was that Taliban did not practice anti-US policies such as Iran does. The United States' strategy was that through the Taliban controlled Afghanistan they can influence central Asian politics and counteract the influence and activities of Iran and to destabilize parts of China and India. Thus here is an effort to dominate and exploit the countries of an important region.

### The impact of 9/11 and the Humanitarian crisis in Afghanistan

With the 9/11 tragedy in the United States things began to change. The US never expected that Osama bin Laden, one of its own original creations would now turn around and attack the creator itself. As the evidence against Osama and his terrorist network AL-Qaeda mounted, the US pressure on the Taliban Government in Afghanistan, which was then believed to be AL-Qaeda's mainstay of support, markedly increased. Finally, the evident non compliance of the Taliban regime to handover Osama bin Laden and his associates in AL-Qaeda, the US supported by the UK began nocturnal bombings of Afghanistan on October 7, 2001. By mid November 2001 Kabul fell to the Northern Alliance.

The UN Security Council decided to play a role in Afghanistan. The heads of delegations of the six immediate geographical neighbours of Afghanistan - Pakistan, China, Iran, Tajikistan, Uzbekistan and Turkmenistan-along with those of United States and Russia (ie. six plus two) met in UN headquarters and adopted a declaration on November 12, 2001. Following this 'Six plus Two' declaration, the Security Council

adopted a resolution on November 14 welcoming the declaration and expressing its support for the "efforts of the Afghan people to establish a new transitional administration leading to the formation of a government". The government should be "broad-based, multi-ethnic and fully representative of all the Afghan people", based on respect for human rights of all Afghan people "regardless of gender, ethnicity or religion" [Muni 2002: 295]. The resolution also asserted; "the United Nations should play a central role in supporting the efforts of the Afghan people to establish urgently such a new transitional administration" [UN Resolution 1378]. Subsequently week long negotiations were held at Bonn among 23 representatives of four Afghan groups-excluding Taliban-led to the 'Agreement on Provisional Arrangements in Afghanistan Pending the Re-establishment of Permanent Government Institutions'. The agreement was signed on 5<sup>th</sup> December. The Security Council endorsed it on December 6<sup>th</sup> and came in to force on December 22<sup>nd</sup> 2001.

Now the United States and its allies are involved in everything in Afghanistan. The US has so far spent a staggering \$ 127 billion on the War in Afghanistan since 2001 [Cherian 2008: 58-60]. There is the United States led 'Operation Enduring Freedom' (OEF), an International Security Assistance Force (ISAF) created by a UN resolution on December 2001. There is NATO which took control of ISAF in August 2003. There are the Provincial Reconstruction Teams (PRTs). Overall the United States and NATO has nearly 70,000 troops in Afghanistan. Three thousand more marines have been deployed in Southern parts of the

country. At the beginning of the invasion in 2001, there were only 20,000 foreign troops in Afghanistan. However, in 2007 there were 140 suicide attacks. The Afghanistan Study Group, in its report warned that the US/NATO mission to "stabilize Afghanistan" is faltering and renewed violence, rising opium production<sup>7</sup> and falling confidence of Afghans in their government and its international partners.

For Afghans, six years after they were supposed to have been liberated, life is getting worse. As the International Committee of the Red Cross reported, the humanitarian situation is deteriorating and civilians are suffering "horribly" from growing insecurity and violence in an increasingly dirty War. The fighting in the south has drawn 80,000 from their homes, and the civilian casualty rate has doubled over the past year. More than 200 were killed by American and other North Atlantic Treaty Organisation (NATO) troops in June alone – far more than are estimated to have been killed in Taliban attacks. The savagery of indiscriminate United States' aerial bombardments provoked violent demonstrations and is widely seen as having increased support for the Taliban's armed campaign.

The data presented in Table I, reveal that at the very least some 6500 to 7200 Afghans died at the hands of the United States and NATO in the past seven years.

To forestall the emergence of another Taliban and another Al – Qaeda, the United States had partners in the European Union, Japan, India and Pakistan. There is also a rich irony in the fact that the US, which fought a proxy war against the Soviet forces in Afghanistan from 1979 – 1989, is now asking

Russia to help NATO combat the same Mujahideen who were armed and trained by Washington to fight the Russians [Radyuhin 2008]. The Russian corridor will greatly reduce the NATO dependence on the violence plagued Pakistan route, impart critical flexibility for military operations in Afghanistan. Russia is using its offer of help to NATO in Afghanistan as a bargaining chip to stop the alliance's eastward expansion – ie., shelving NATO's membership plans for the strategically important ex-Soviet nations of Ukraine and Georgia. At the same time Moscow believes that the US and NATO are heading for defeat in Afghanistan. Russia wants to make sure that if and when the US and NATO forces pull out, it will not be confronted with a hostile regime or a power vacuum in Kabul. That was why the problem of Afghanistan has been high on the agenda of the Shanghai Co operation Organisation (SCO), dominated by Russia and China and the Collective Security Treaty Organisation (CSTO), a defence pact of former Soviet states. The SCO and CSTO have both declared their resolve to take responsibility for the security and stability in Central Asia. [Ibid] The Afghan President Hamid Karzai has attended all recent summits of the SCO, while the CSTO has set up a working Group on Afghanistan that has instituted regular contacts with Afghanistan's military, security and law-enforcement agencies. Further, an Indo-Russian joint working group on Afghanistan has been meeting regularly since 2000.

The basic objective of Pakistan policy in this regard has been to weaken the Afghan state. It needs strategic depth *vis-à-vis* India and has to settle its own Pashtun problem. There remains the prospect of

**Table 1**

Summary of Civilian impact deaths resulting from US/NATO military actions in Afghanistan, October 7, 2001 – May 28, 2008*		
Time Period	Low estimate	High estimate
October 7, 2001 – May 31, 2003	3,082	3,606
October 7, 2001 – December 10, 2001	2,569	2,949
June 1, 2003 – July 31, 2004	412	437
August 1, 2004 – December 31, 2006	727	855
During 2006	303	360
<b>Sub Total</b>	<b>4,221</b>	<b>4,898</b>
Injured from US bombing who later died	640	796
<b>Sub Total</b>	<b>4,861</b>	<b>5,694</b>
January 1 – December 31, 2007	1,008	1,295
<b>Sub total</b>	<b>5,869</b>	<b>6,989</b>
January 1 – may 28, 2008	154	206
<b>Grand Total</b>	<b>6,023</b>	<b>7,195</b>

\* Source, Marc .W Herold (2008), 'An Empty Buffer', *Frontline*, 25 (13), June 21 – July 4.

getting gas and oil from Turkmenistan through Afghanistan. To implement this policy Pakistan worked hard to create, train, equip and finance the Taliban to seize power in Kabul. However, under the post 9/11 circumstances the Pakistan President Musharraf was literally forced by the Americans to withdraw support to Taliban.

#### American Strategy in Central Asia

The undeclared American objective of promoting its geo-political interests in the backdrop of the 9/11 tragedies has led to strong disapproval and resentment among the countries of the region. Russian, Chinese and Iranian unhappiness is particularly visible in this context. Washington's concept of a greater Central Asia, that should link former Soviet Central Asia with South Asia through

Afghanistan to the exclusion of Russia and China will be kept off balance by the regional powers. This will keep Afghanistan fragile and fragmented. In the process, America might get bogged down militarily in Afghanistan, which has a long history of fighting against the foreigners. The US geo-political drive is motivated by twin objective of the containment of China and extracting Central Asian oil and gas to the world market [Meher 2004: 144].

However six years after "Operation Enduring Freedom" and occupation of Afghanistan started only 30 percent of the country is under the control of the Kabul government. Taliban formations, have been able to conduct frontal assaults. As the situation stands, the writ of the government,

which was hesitantly moving around the country outside the capital, is now crawling back into the safer environs created and maintained by the American and NATO troops. The attempt to impose a Western-style democracy has failed in Afghanistan. In other words, the credibility of the Karzai government<sup>8</sup>, which despite being a popularly elected one, is largely perceived to be a US – backed puppet regime, stands further damaged. Despite Karzai's political assertions against the powerful Mujahideen leaders from time to time, and his attempts to wedge in the Tajik and Hazara leadership, authority and power for various reasons continued to elude him [Chandra 2007: 231]. The inexcusable delay by the West in providing funds for reconstruction failing to help the Afghans improve security and take a firm position against war were all reasons for the failure of Americas' Afghan policy.

Taking into account the US proclaimed design of "exporting democracy" and attempts to influence the development of internal socio-economic and political dynamics of the countries of the Central Asia and Middle East, as in elsewhere with the objective of enabling the American protégés to come to power. Striving to change the balance of forces and keep the countries of the region in its orbit, Washington throws up even new ideas like, for example, establishing a transport corridor between Central Asia and South Asia by engaging Afghanistan in the Central Asian regions transport and energy communications. The aim is Afghanistan's reconstruction and its integration with Central Asia [Ali 2006 : 8].

Given the manifest failure of the US/ NATO forces to bring either peace or

development to Afghanistan, its not immediately obvious why it's still considered by some analysts to be a good war – through majority of Americans, Britons, Canadians, Italians and Germans, it should be said, want their troops withdrawn. By intervening on one side of an ethnically charged civil war to overthrow the Taliban – rather than say, targeting special forces against Al – Qaeda – the US and its allies ended up exchanging warlords for theocrats and training most of the country into a collection of lawless and brutal fiefdoms [Milne 2007]. Instead of Al – Qaeda terror networks being rooted out, they were allowed to migrate to the border lands, Pakistan and Iraq; Osama bin-Laden, whose capture was the first aim of the war, escaped; and the limited expansion of women's and girls' freedom in Kabul and a few other urban areas was offset by an eruption of rape and violence against women. Afghanistan is as UN warned last year a failed state, which now produces 90 percent of the worlds opium and where corruption and insecurity prevails over reconstruction. The new so-called humanitarian interventions are merely become a smokescreen to hide and sell larger geo-political agendas [Bricmont 2007: 176].

In this highly disturbing scenario, India is a major stake holder and hence the imperative for Indians to keep constant track of developments in Afghanistan. There are approximately 2000 Indians presently working in various fields and in a wide range of capacities in the country both in public and private sector including multi-national corporations. India also has the largest diplomatic presence in the country with its

embassy in Kabul and consulates situated in different strategically significant parts of the country. While India is easily the most popular country in Afghanistan, it also ranks uncomfortably close to the United States in the list of the Taliban Al- Qaeda. Equally importantly, Pakistan remains staunchly opposed to the growing Indian influence in a country it is used to consider its natural satellite [Mukarji 2006: 12-13].

### Conclusion

The fall of the Taliban regime in November 2001 did nothing to change the political mechanism at work in Afghanistan. The strategic landscape of the Afghanistan conflict is changing. After nearly a decade of disentanglement from the conflict following the withdrawal of Soviet forces from Afghanistan, major power interests are once again on the rise in the war – torn country. The United States and Russia, who engaged in the proxy war in Afghanistan in the 1980s, have now found a common ground in their opposition to what has been created in the intervening period the Pakistan backed ultra – orthodox Islamic Taliban militia.

Despite all claims of ‘successes’, the United States has failed to accomplish the main objectives of the war. It has failed to kill or capture top leadership of Taliban and Al- Qaeda, including Osama bin Laden. America has also failed to bring about any reconciliation among different factions, ethnic groups, warlords etc. Further American policy has failed to initiate a nation building process. Afghan society remains fragmented politically, socially and economically. All this happened because of four important factors, [Meher 2004: 222].

1. A flawed American policy of over-dependence on Pakistan army and intelligence (ISI) which clandestinely supported the Taliban and the Al – Qaeda.
2. United States disinterests in ISAF.
3. Washington’s policy of weaponizing warlords; and
4. American geo - political ambition and shift in policy.

The fact is that there is no end in sight to the insurgency unless and until Pakistan is obliged to end its sanctuaries and drive out Taliban and Al – Qaeda elements from its territory. Another factor of the situation is the growing unpopularity of the American role in the post – Taliban period due to highly injurious and largely ineffective military campaigns and coalition military effort in Afghanistan.

The Bush administration was successful in maneuvering the Security Council Resolution 1373 adopted on September 29, 2001 and in the formation of a coalition against its war on terrorism. However the War in Afghanistan has dragged on far longer than the Bush administration expected, and may last longer than it ever imagined. The American commander of United States and allied forces in Afghanistan Karl Eikenberry, observed recently that five years on from the American invasion and occupation “the enemy is fighting hard, and we have to fight harder..... In the next ten years things will get better, but things will still be hard” [Mian 2006: 4234].

There are certain under currents behind the American over action in this issue. Through projecting and propagating the War on terrorism the United States had succeeded to a very great extent in averting the attention of the world, especially that of the Arabs, from the Palestinian problem. Any sort of division among the Arab world should be maintained to preserve and protect the Western interest in the Gulf area. Another most important reason, behind America’s occupation of Afghanistan is that, their nerve centre is more or less here. The United States is the giant consumer of world’s raw materials such as oil, aluminum, chromium, lead, nickel, tungsten and uranium. The fact is that, the Afghan crisis added a new dimension to the gigantic strategic areas stretching from Japan to Australia and across the Indian Ocean to Southern African region and the Persian Gulf. It is a serious threat to the littoral countries of this region, Central Asia and to India’s Security. The arrogance of unlimited American power has led Niall Ferguson to observe;

“sadly, there are still a few places in the world that must be ruled before they can be freed. Sadly, the acts of ruling them will sorely try Americans, who instinctively begrudge such places the blood, treasure, and time they consume. Yet saddest of all, there seems to be no better alternative available to the United States and to the world.... Once, a hundred and sixty

years ago, America’s imperial destiny seemed manifest. It has since become obscure. But it is America’s destiny just the same [Ferguson 2006: 45].

The Solution of the Afghan problem guaranteeing peace, freedom and non-interference can be worked out taking the above mentioned factors into consideration. At the same time, the United States needs to develop a sound strategy towards South, Central and West Asia, ie, a serious move to bring about a resolution of the Afghan conflict, with support from Russia, Iran, India and Central Asia. A failure to do so may occasion America to regret the passing of a valuable opportunity. The 9/11 attacks and the “war on terror” have provided foreign policy makers in the Bush administration with firepower to pursue a more active US foreign policy guided by a first-strike national security doctrine of – pre-emptive military force and preventive war – all grounded in the notion of self defence. However in the present climate of regional changes and America’s own geo-strategic requirements, the prospects for a settlement of the Afghan conflict are quite dim. Thus a multi-dimensional framework which can provide opportunities to discuss not only matters concerning Afghanistan, but also the issues connected with the balance of power in the region, is needed. The democratization and normalization process in Afghanistan appears to have reached a crossroad which demands immediate answers.

## Notes

1. For a detailed theoretical exposition see, Huntington, P, Samuel (1996): *The Clash of Civilization and the Remaking of World Order*, Viking, Delhi.
2. The Afghan War, which broke out in 1979 and until 1989 was conducted as a Cold War confrontation. During the continuing conflict in the 1990s, attention faded against a background of a changed mood in world politics.
3. For more documentary evidence see, *The Truth about Afghanistan: Documents, Facts, Eyewitness Reports*, Moscow: 1981.
4. For more details see, *The Europa Year Book 1981: A World Survey*, Vol. 1, London.
5. Notwithstanding the enormous financial support from the United States, Saudi Arabia and China, the Hizb ul-Mujahideen have got split in to seven groups and unable to form a government. There were three broad strands in the seven Mujahideen groups of the Islamic Alliance of Afghanistan. Three of them were moderates and traditionalist, three hard liners and fundamentalists and one in between the two extremes. What divided them is not only ideology but also tribal instincts and their ethnic stamps. It was the presence of Soviet troops in Afghanistan that unified them for a joint struggle.
6. The rigid interpretation of the *Sharia* by Taliban had the effect of antagonizing the more liberal minded minority ethnic groups, as also many of the Pashtuns. The Taliban Edicts forbade flying kites; the use of paper bags; playing football or chess; listening to music; dancing or going to cinema. Insurance interest and gambling was banned as was photography of people or animals or reading of foreign books or magazines. Men were compelled to grow beards.
7. A main source of unofficial revenue in Afghanistan is the drugs trade. Afghanistan has become the biggest producer of opium in the world. The area under poppy cultivation was approximately 63,674 hectares, while it is estimated that dry opium produce was 3,269 tonnes. Many Afghan Warlords have used drugs money to fund their military campaigns. For more details see, Jonathan

Goodhand (2002): 'From Holy War to Opium War? : A Case Study of the Opium Economy in North-Eastern Afghanistan', in Christine Noelle – Karimi et al., eds., *Afghanistan: A Country Without a State*, Vanguard Books, Lahore.

8. Presidential election was held in Afghanistan on October 9 2004 and Parliamentary and provincial councils elections were held on September 18, 2005. Western Politicians like to describe the Afghan government as democratically elected, when in fact the elections were marked by large scale fraud and intimidation in polls that gave warlords pride of place while political parties were not allowed to take part.

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## Indo-US Nuclear Deal and South Asian Regional Security

C Vinodan

### Abstract

*South Asian security is at a crossroads. The region is passing through an unprecedented strategic transformation following the signing of the Indo-US Civil-Nuclear Cooperation Agreement. The region is fast getting sucked into the vortex of terrorism. The fundamental problems of regional stability and security are being spontaneously transformed by a powerful combination of circumstances in the aftermath of the deal. It is argued that, if other alternatives are not explored, there is a risk that South Asia will experience a dangerous and costly build up of nuclear arsenals, which would directly invite the risk of nuclear terrorism. But both the parties ignored the realities in the South Asian regional security order involving the triadic relationships of India-Pakistan-China and India-China-US.*

The United States-India Civil Nuclear Pact has virtually rewritten the rules of the global nuclear non-proliferation regime and the South Asian regional security order by underlining India's credentials as a responsible nuclear state that should be integrated into the global nuclear order. The Indo-US nuclear deal, which was born out of India's growing energy needs and the United States', renewed strategic interest in the larger Asian region. The South Asian region is passing through an unprecedented strategic transformation following the signing of the Indo-US Civil-Nuclear Cooperation Agreement. The fundamental problems of regional stability and security are being spontaneously transformed by a powerful combination of circumstances in the aftermath of the deal. Some believe that if other alternatives are not explored, there

is a risk that South Asia will experience a dangerous and costly build up of nuclear arsenals, which would directly invite the risk of nuclear terrorism<sup>1</sup>. Others have hailed the deal as the equivalent of President Richard Nixon's opening to China in 1972<sup>2</sup>. The Bush-Singh Accord also reflects the new US foreign policy thinking inherent in the Bush Doctrine<sup>3</sup>. As part of America's new grand strategy, the US wants to incorporate a democratic, multi-ethnic and rising India in to its strategic fold to shape the emerging international system and also to make the Asian power balance in its favour<sup>4</sup>. The Doctrine also aims at using India's growing influence to counter the Iranian nuclear threat and the Chinese influence in the larger Asian region.

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As a region of burgeoning economic and political importance, South Asia offers a crucial test of proliferation's effects in the aftermath of the Indo-US civil nuclear cooperation agreement. The nuclear agreement creates a major exception to the US prohibition of nuclear assistance to any country that does not accept international monitoring of all its nuclear facilities. In fact the deal gave defacto recognition to India's long-standing position on the flawed non-proliferation regime sponsored by the nuclear haves. For the Indian strategic planners, a strategic nuclear alliance with the US, which occupies the apex of the political, military, economic and technological power in the post cold war international system, will fulfill its growing energy needs and further strengthen its great power ambitions<sup>5</sup>. Indian official statements, including at the highest level, have taken the line that this deal is all about civilian nuclear energy, not about India's nuclear weapons programme. But getting US support for India's civilian nuclear energy programme is merely one element, and not the most important one, in the Indian (and US) considerations behind this deal. Each party to the agreement only considered the relative strategic gains and ignored the wider ramifications of the deal in the emerging regional security order in South Asia. Does the Indo-US nuclear deal cause another phase of proliferation of nuclear weapons and to intensify the risk of nuclear war in South Asia? This paper examines the debate surrounding the nuclear pact and implications on the regional security matrix in South Asia. This paper argues that nuclear weapons have destabilized the subcontinent, principally because of their interaction with India and Pakistan's territorial preferences and relative military capabilities. It also argues that the

nuclear agreement is about much more than mere nuclear technicalities: it is about the emergence of a new configuration in the global balance of power and a broader need for a new international nuclear order in the face of a global nuclear non-proliferation regime that seems to have become ineffective in meeting the challenges confronting the international community today.

### Background

On July 18, 2005, US President George Bush and Indian Prime Minister Manmohan Singh announced a bold agreement to restore US nuclear cooperation with India.<sup>6</sup> For the United States, the Civil Nuclear Cooperation Initiative (CNCI) was designed to allow US exports of civilian nuclear technology to India, while India, in essence, pledged to prevent the proliferation of nuclear weapons to non-nuclear weapon states. The CNCI was preceded by an agreement on 28 June 2005 between the two countries' defence ministers, which stipulated *inter alia* that India and the USA would 'expand [their] collaboration relating to missile defense'.<sup>7</sup> The two agreements are steps in the development of a strategic partnership between India and the USA that was formally initiated in 2004 in a process called the Next Steps in Strategic Partnership (NSSP).<sup>8</sup> The NSSP was founded on a growing realization in the USA of the geopolitical advantages that would follow from closer ties with India. For India, the main advantage—apart from recognition of what it sees as its status as a 'responsible nuclear weapon power'—is the prospect of technical assistance for its endeavour to increase its production of nuclear energy for the rapidly growing Indian economy.<sup>9</sup> In fact

the nuclear deal was part of an ambitious US and Indian strategic partnership which launched after the cold war. This new global partnership includes strategic, economic, and energy dialogues. One component of the energy dialogue would allow the US to transfer nuclear technology to India, as the latter takes a number of non-proliferation steps, including measures to safeguard its civilian nuclear infrastructure. The civilian nuclear element of the new partnership requires that the US keep two balls in the air at the same time. Although the US wants to expand its bilateral relationship with India, it also wants to maintain its strong non-proliferation policy. Neither should come at the expense of the other. In the eyes of many non-proliferation specialists, this new relationship rewards India for its recalcitrance regarding the NPT; it undercuts countries that accepted nuclear constraints; and it compromises longstanding US non-proliferation policy and the global non-proliferation regime.

The Indian nuclear establishment was very eager to get out of the nuclear denial regime sponsored by the nuclear haves. India is seeking to modernize its aging nuclear power plants with the hope of addressing its growing energy needs. India also hopes that the agreement will allow India to acquire nuclear technology and materials from the United States and other suppliers. The nuclear deal reflects an influential view in India that the nonproliferation regime embodied in the NPT is defective<sup>10</sup>. According to Indian Prime Minister Manmohan Singh, the regime is ineffective and that the international community should introduce measures that restrict nuclear proliferation more effectively without suppressing peaceful uses of nuclear

energy<sup>11</sup>. At the same time, the contention is that India is a responsible nuclear state that has adhered to the guidelines of nonproliferation (without legally being part of the NPT regime) through strict export controls and denying nuclear assistance to other states, unlike the record of some nuclear weapon states<sup>12</sup>. The critiques argue that by acquiring uranium from foreign sources (to free up domestic supplies) and by placing a set of nuclear facilities on the military list, India can increase its fissile material production for weaponization purposes. However, a different line of analysis examines the implications of increased uranium supplies in the context of India's fledgling nuclear submarine project. This perspective views that rather than increasing nuclear warhead production, New Delhi would use the expansion of its uranium supplies and enrichment capability to fuel its nuclear submarine project,<sup>13</sup> a key element of India's desire to achieve a secure second strike capability under its credible minimum deterrence doctrine.

Under the 18 July 2005 agreement, the United States recognizes India "as a state with advanced nuclear capabilities . . . and responsibilities" and commits each side to a set of reciprocal steps that will enable US assistance to India's civilian nuclear program<sup>14</sup>. But more importantly, in the Joint Statement, the United States implicitly acknowledged the existence of India's nuclear weapons programme. There was also public recognition that as a responsible state with advanced nuclear technologies, India should acquire the same benefits and advantages as other states, which have advanced nuclear technology, such as the United States. The Joint Statement offered

the possibility of decades old restrictions being set aside to create space for India's emergence as a full member of a new nuclear world order<sup>15</sup>. The official US version is that the agreement is designed to help India overcome its energy deficit through nuclear energy, without undermining US nonproliferation goals and commitments<sup>16</sup>. In India, the major section of the political class and nuclear establishment was unanimous in seeing the agreement as tacit US recognition of India's status as a de-facto nuclear weapons state, a claim that was repeated by Prime Minister Manmohan Singh in the *Lok Sabha*, the lower house of parliament<sup>17</sup>. Criticism of the agreement in New Delhi took a very different track. Critics of the agreement—representing both left and right—have largely posed their concerns in terms of the future costs of closer ties with the United States. Was the deal a sellout by diluting Indian sovereignty? What did it augur for retaining an independent foreign policy, a *sine qua non* for postcolonial India's aspirations to be recognized as a great power? Did it curtail India's ability to defend itself by imposing limits on fissile material and nuclear weapons production? In India too, the same question—is it worth it?—was being asked; the implicit trade-off, however, is altogether different.

In essence, the deal separated India's civilian nuclear complex from its weapons complex and place the former under the safeguard of the International Atomic Energy Agency (IAEA). All US and international co-operation will be exclusively confined to this civilian complex, with the safeguards ensuring that no external assistance can be diverted to India's weapons complex. Further, India will submit a plan listing the indigenous reactors and facilities that it will place in the

safeguarded complex, including the timeline when each will come under safeguards, and also undertakes not to transfer any of these civilian designated facilities, or any component thereof, to its weapons complex. . Fourteen of the existing 22 reactors would be on the civilian list and under safeguards. (India already allows safeguards on six reactors)<sup>18</sup>. The remaining reactors will be on the military list and one of them will be shut down. In addition, New Delhi's fast breeder reactor program will not be under safeguards. In return for placing its civilian reactors under safeguards, India would be allowed to import select nuclear technology and fuel from foreign suppliers. The July agreement committed India and the United States to a number of reciprocal and sequential steps to fulfill their obligations for civil nuclear co-operation to begin (summarized in Table 1). Negotiations pursuant to the July agreement led India to provide a separation plan (finalized and signed by President Bush and Prime Minister Singh in New Delhi on 3 March 2006) and some additional steps that both sides undertook to pursue (also summarized in Table 1). In addition to the separation plan India also harmonized the control lists related to its nuclear and missile spheres with those of the Nuclear Suppliers Group (NSG) and the Missile Technology Control Regime (MTCR). It is also working to align its control lists relating to chemical, biological and conventional dual-use sectors to those of the corresponding multilateral regimes, *viz.*, the Australia Group and the Wassenaar Arrangement. India is also working to provide more transparency and details to the regulations designed to implement its expanded export control obligations under The Weapons of Mass Destruction and Their Delivery Systems

(Prohibition of Unlawful Activities) Act of 2005. Further, India also committed to a stipulation, of not supplying any enrichment or reprocessing technology to states that do not place the facilities receiving such assistance under International Atomic Energy Authority safeguards.

**Hyde Act and 123 Agreement**

The most significant and controversial development in the Indo-US civil nuclear cooperation agreement was the passage of the Hyde Act and the conclusion of the 123 Agreement. The U.S. Congress passed the Hyde Act in December 2006, which authorized the Bush administration to negotiate a nuclear agreement with India under certain guidelines. The Hyde Act,

which was passed with strong bi-partisan support in both chambers of Congress, essentially establishes a waiver specific to India (contingent on certain Presidential determinations) from a long-standing requirement under American non-proliferation law that NNWS be subject to full-scope. A reading of the Hyde Act brings out clearly Congressional thinking and motivation in passing the Hyde Act. The broad objectives of the Bush Administration were no different, as confirmed by various statements of top officials of the US Administration. Two principal US objectives stand out. The first, perhaps the more important one, is to ensure that India's foreign policy is "congruent" to that of the US, with this deal expected to "induce greater

**Table 1: US and Indian Commitments**

<i>Indian commitment</i>	<i>US commitment</i>
Separate civilian from military facilities (65:35)	Amend Atomic Energy Act (Sections 123, 128, 129)
Place civilian under IAEA safeguards	Remove India-specific "NPT-plus" sanctions (NNPA-1978)
Negotiate India-specific safeguards agreement with IAEA (beyond INFCIRC 66 Rev.2)	Get exemption from Nuclear Suppliers' Group
Align control list with NSG and MTCR	Restore uninterrupted nuclear fuel supply to Tarapur
Strengthen export control laws and enforcement	Induct India into cutting-edge nuclear energy consortiums (ITER & Generation IV Forum)
<hr/>	
<i>Additional steps</i>	<i>Additional steps</i>
Agree to "in perpetuity" safeguards for reactors receiving external fuel supply	Incorporate assurances for fuel supply within 123 agreement
Sign & ratify Additional Protocols of IAEA	Assist India in creating its strategic nuclear fuel reserve
Accept NSG-plus conditions (no transfer of Uranium-enrichment or Plutonium-reprocessing technologies to countries that do not have them)	If disruptions still occur, work with friendly supplier states (France, UK, Russia) to restore fuel supply
Continued moratorium on nuclear testing	Join India in negotiating India-specific safeguards

political and material support to the achievement of US goals." India's growing economic and political role in the world is seen as a "new and significant strategic opportunity to advance U.S. goals." Iran gets a specific mention, with the US expecting India's "full and active cooperation to dissuade, isolate and if necessary sanction and contain Iran." There is also talk of India as an "ally" or at least a "strategic partner." The second objective relates to non-proliferation, through strengthening and sustaining the implementation of the NPT. India remaining outside the NPT poses a "potential challenge to the goals of global non-proliferation." A corollary objective is to curb India's nuclear weapons capability. In a semantic concession to the earlier Democratic mantra of "cap, rollback and eliminate", the objective now is to seek to "halt the increase in nuclear weapons arsenals in South Asia and to promote their reduction and eventual elimination."

The next step was negotiating the actual details of the agreement under Section 123 of the U.S. Atomic Energy Act, which deals with international nuclear cooperation. The text of the "123 agreement" was agreed to in July 2007, and 'frozen' pending approval of the two governments. In August 2007, India and the US released the final text of the 123 Agreement for nuclear cooperation simultaneously<sup>19</sup>. The completed text of the proposed 123 Agreement is respectful of both the July 18, 2005, and March 2, 2006 Joint Statements issued by President Bush and Prime Minister Singh.

Key features of the agreement are:

- Confirms the desire of both countries to engage in full civil nuclear

cooperation, including research and development; nuclear safety; and commercial trade in nuclear reactors, technology, and fuel;

- Affirms the fuel supply assurances made to India by President Bush on March 2, 2006, including creating the necessary conditions to allow India access to the international fuel market, and by supporting the creation of an Indian strategic fuel reserve;
- Grants consent to India for certain nuclear fuel cycle activities. In particular, grants consent to reprocessing, with such right being brought into effect by India establishing a new national facility under International Atomic Energy Agency safeguards dedicated to reprocessing safeguarded nuclear material, and our two countries agreeing on arrangements and procedures under which reprocessing will take place;
- Commits India to appropriate safeguards on all civil nuclear material and equipment subject to the agreement and to assuring that nuclear items subject to the agreement will be used only for peaceful purposes, including through a reaffirmation of India's commitments to safeguards in perpetuity;
- Reinforces the commitment of both countries to global nonproliferation efforts;
- Preserves the rights of both countries to terminate cooperation

and request the return of transferred items under appropriate circumstances; and

- Creates the legal basis for the United States to be a stable, reliable, and predictable supplier for India's civil nuclear energy market.

The conclusion of negotiations on the 123 agreement opens the door for the completion of the remaining steps in the broader U.S.-India Civil Nuclear Cooperation Initiative. These steps include:

- Conclusion of a safeguards agreement between India and the International Atomic Energy Agency applicable to India's separated civil nuclear sector and progress toward an Additional Protocol;
- Achievement of a consensus decision in the Nuclear Suppliers Group to make an India-specific exception to the full-scope safeguards requirement of the Group's export guidelines; and
- Approval of the 123 Agreement by the U.S. Congress.

The Hyde Act invited severe criticisms from many quarters in India. Many of the provisions in the Hyde Act are apparently against the provisions of the Bush-Singh accord in 2005 and 2006. It is widely regarded as an attempt by the United States to force India into the US strategic fold. But the final text of the 123 Agreement reflects the spirit and contents of the joint declarations in 2005 and 2006 between Prime Minister Manmohan Singh and US President Bush. The agreement

also confirms the Prime Minister's assurance to India Parliament. The Indian government declared that, India is only committed to the text and spirit of the agreement reached with the United States in July 2005 and March 2006. In fact, many of the provisions of the Hyde Act are incorporated to pacify the non-proliferation lobby within the US Congress and outside. The government also claims that the 123 agreement does not mention the Act at all, and that its provisions are binding not on India, but only on the US. The US legislation has binding and non-binding provisions, and the US administration implements only the binding portions. The US president, in his signing statement, has made it clear that he would ignore the non-binding provisions of the Act. . . . According to Article VI of the US Constitution, as interpreted by the US Supreme Court, obligations of an international agreement supersede provisions of domestic law. The agreement argued that civil nuclear cooperation between the United States and India would offer benefits to both of countries' citizens through enhanced energy security, a more environmentally friendly energy source, greater economic opportunities, and more robust nonproliferation efforts<sup>20</sup>.

#### **The IAEA Safeguards Agreement and the NSG Waiver**

After several rounds of hectic negotiations beginning in November 2007, the International Atomic Energy Agency (IAEA) finally approved the India-specific safeguard agreement on August 1, 2008<sup>21</sup>. The International Atomic Energy Agency's 35-member Board of Governors approved the plan by consensus despite criticism that ambiguous wording could end up limiting

international oversight of India's reactors, possibly help supply India's arms programs with fissile material and that it would lead to the undermining of the international nonproliferation regime. Prime Minister Manmohan Singh hailed the IAEA decision and said, "This is an important day for India, and for our civil nuclear initiative for the resumption of India's cooperation with our friends abroad." The IAEA decision was a green signal for India to approach the 45-member Nuclear Suppliers Group (NSG) to grant a waiver to India to commence civilian nuclear trade<sup>22</sup>. The 45-nation NSG granted the waiver to India on September 6, 2008, allowing it to access civilian nuclear technology and fuel from other countries<sup>23</sup>. The implementation of this waiver makes India the only known country with nuclear weapons which is not a party to the Non-Proliferation Treaty (NPT) but is still allowed to carry out nuclear commerce with the rest of the world<sup>24</sup>. The US House of Representatives passed the nuclear deal on September 28, 2008. Two days later, India and France inked a similar nuclear pact making France the first country to have such an agreement with India. On October 1, 2008, the US Senate also approved the civilian nuclear agreement allowing India to purchase nuclear fuel and technology from the United States. In a well-attended ceremony that underlined the strategic importance of the Indian nuclear deal to the United States, President George W. Bush on October 8, 2008, signed into law the 'U.S.-India Nuclear Cooperation Approval and Nonproliferation Enhancement Act.' The Act, known as **HR7081**, was passed by Congress on October 1 and represents the American legislature's formal approval of the U.S.-India

bilateral nuclear cooperation agreement — the '123 Agreement' concluded in July 2007.<sup>25</sup>

Allaying India's fears on certain provisions of the legislation on Indo-US nuclear deal which he signed into law, President George W. Bush has said there are "no changes" in fuel supply commitments as provided in the 123 Agreement. "This legislation does not change the fuel assurance commitments that the US government has made to the Government of India as recorded in the 123 Agreement," Bush said while signing the **HR7081** bill into law last. Bush's remarks came against the backdrop of concerns expressed by India over the fuel supplies following his Administration's assertion that the assurances were only political commitments and not legally binding. "The Agreement grants India advance consent to reprocessing which will be brought into effect upon conclusion of arrangements and procedures for a dedicated reprocessing facility under IAEA safeguards," Bush said. In a statement released by the White House after the signing ceremony, Bush described the passage of the bill by Congress as a "milestone" in achieving the vision set by Prime Minister Manmohan Singh and himself of transforming the bilateral ties. "I am pleased to sign into law the United States-India Nuclear Cooperation Approval and Non-proliferation Enhancement Act, which approves the US-India 123 Agreement," he said. Bush said this act would strengthen the bilateral relationship and deliver valuable benefits to both nations. "The legislation does not change the terms of the 123 Agreement as I submitted it to the Congress. That Agreement is consistent with the Atomic Energy Act and other elements of US law. "This legislation is important as it enables me

to bring the 123 Agreement into force and to accept on behalf of the United States the obligations contained in the Agreement," he said. The passage of this legislation, Bush said, reflects the common view of his administration and the Congress as to the value of nuclear cooperation and is in the interest of both the US and India. By undertaking new cooperation on civil nuclear energy, India will be able to count on a reliable fuel supply for its civilian reactors, Bush said in his speech during the signing ceremony that was applauded on several occasions by the distinguished gathering assembled at the White House's ornate East Room. Calling India and the US natural partners, Bush said New Delhi "will continue to build on its strong record of responsibility in operating its nuclear facilities. "And India and the United States will cooperate more closely to keep the world's most dangerous weapons out of the hands of extremists and terrorists." "This agreement sends a signal to the world: Nations that follow the path to democracy and responsible behaviour will find a friend in the United States of America," Bush said<sup>26</sup> But all these rhetorical remarks will become reality only with the support of the new Obama Administration. The Indian policy makers are well aware of the challenges ahead especially in the context of the global financial meltdown and the growing menace nuclear terrorism.

#### **Changing Regional Security Environment in South Asia**

South Asian security is at a crossroads. The South Asian region is passing through an unprecedented strategic transformation following the signing of the Indo-US Civil-Nuclear Cooperation Agreement. The region is fast getting sucked

into the vortex of terrorism. The Afghan war has crossed the Khyber and is stealthily advancing towards the fertile Indo-Gangetic plains. The fundamental problems of regional stability and security are being spontaneously transformed by a powerful combination of circumstances in the aftermath of the deal.<sup>27</sup> The US led war on terror initiated in the aftermath of the September 11 incidents is now centered in South Asia. The assassination of Benazir Bhutto in Pakistan and the 26-11,2008 Mumbai terror attack proved the magnitude of the emerging situation in a conflict ridden, nuclear-armed region.<sup>28</sup> It is one of the few remaining parts of the world to have failed meaningfully to move its security away from the exercise and manipulation of military threat and towards the building of transparency, cooperation and trust, and the creation of frameworks and institutional arrangements within which security issues can be handled at the political level and without violence.

The Indo-US civil nuclear cooperation agreement if implemented without initiating sufficient confidence and security building measures could lead to arms competition in the region involving Pakistan, India and China, thus destabilizing the entire region. US objective of making India global or at least a regional military power to achieve its own perceived interests could also impinge upon security interests of other countries. It could force major stakeholders to re-evaluate their security interests in the face of emerging Indo-US strategic partnership thus triggering transformation of regional alliance structures, where India is seen decisively shifting towards the United States and Pakistan exploring defence and nuclear pact

with China. Pakistan's dominant concern is that the implementation of the nuclear cooperation agreement would enable India to make quantitative and qualitative improvement in its nuclear arsenal. Pakistan considers the assurance for perpetual nuclear fuel supply from the US would free India's indigenous uranium reserves to be exclusively used for making more number of nuclear weapons. Besides, India's insistence on keeping large part of its nuclear facilities outside the inspection regime, insistence on US assurances for perpetual fuel supplies for civilian facilities even if it violates part of the agreement, and India's reluctance to declare unilateral moratorium on fissile material production clearly sent wrong signals to Pakistan. This could make other nuclear weapons states in the region uncomfortable. As Senator Sam Nunn wrote in his article; "there is every reason to suspect that Pakistan and China will react to this deal by ratcheting up their own suspicions and nuclear activities – including making additional weapons material and weapons".<sup>29</sup> The US Administration officials and the proponents of the deal, however, do not agree with this assertion and argue that India is self sufficient in uranium reserves and if India wanted to increase its fissile stocks, it could have done so - with or without the nuclear deal<sup>30</sup>. Some of the nuclear experts believe that if India indeed decides to make qualitative improvement in its nuclear arsenal, it would require testing of the new designs. As part of nuclear cooperation agreement, India has made no binding commitment that prohibits nuclear testing. On the contrary a pledge to supply nuclear fuel in perpetuity, even if the agreement is revoked because of some reason, provides an option to India to test new designs in the future if it needs validation. India's

continued resistance to sign CTBT indicates that India would like to keep the option of nuclear testing open, and would not succumb to US pressures as part of the new nuclear order.

Another major dimension of the emerging regional security environment in South Asia is the growing role of Non-State Actors in the unfolding regional security environment in the region. This is particularly significant in the context of the expansion of India's civil nuclear energy sector. The 26-11-terror strike shattered the entire peace process in the region and also exemplified the growing menace of terrorism and transnational threats in the region.<sup>31</sup> The nuclearisation of South Asia following the Indian and Pakistani nuclear tests in 1998 held out the prospect that nuclear weapons might induce caution and push both states towards the cooperative management of their nuclear relationship, if only to avoid the shared danger of nuclear war. The evidence thus far of the 1999 Kargil Conflict and 2001-02 border escalation crises, and, indeed, the post 26-11, 2008 developments, does not appear to support this. In each successive crisis, nuclear weapons have become a more explicit issue and have played a more important role—yet their presence has deterred neither direct and large-scale military confrontation, nor military adventurism.

One explanation for this stability-instability paradox suggests that nuclear weapons may be creating a degree of paralysis at the nuclear level that allows, and may even stimulate, military activity at lower levels.<sup>3</sup> The tautological second tenet of the paradox—that nuclear adversaries will avoid nuclear war despite the increased tensions

and crises that arise from military activity at lower levels— appears to have been adopted by India and Pakistan, at least in relation to their own activities, as a cast-iron law of nuclear engagement, rather than being treated with caution as a high-risk and unproven assumption. India charges that Pakistan demonstrates little regard for the nuclear dangers in continuing to support cross border infiltration and promote instability, particularly in Indian-Administered Kashmir. Pakistan counter-charges that India is similarly purblind to the risks in: continuing its conventional military build-up, which reduces Pakistan's conventional options; developing and fielding ballistic missile defence technology, which undermines Pakistan's deterrence confidence; and toying with punitive and coercive conventional options, which risk rapid escalation to the nuclear level. It is instructive in this regard that India and Pakistan do not even agree where the locus of instability is to be found. The promotion of strategic stability (i.e. assuring that neither side is incentivised nor pressured to use nuclear weapons) is an urgent, albeit complex, requirement if the region is to avoid nuclear war and, in due course, move towards a less conflictual and more predictable security relationship. As traditionally conceived,<sup>33</sup> the term strategic stability comprises at least three elements, the realisation of each of which poses far-reaching questions for the nuclear state. The first of these is deterrence stability: each side is credibly deterred (in relation to threats to core norms, values and interests)<sup>34</sup> by the other, and there is no uncertainty in the minds of either party about the 'pillars' (means to deter, ability to carry out deterrence threats, willingness to carry out deterrent threat, assured control of deterrent forces, and

rational adversary making expected cost-benefit calculus) on which deterrence rests. The second traditionally conceived element of strategic stability is crisis stability; that is, stability is robust during crises (periods of unanticipated threats to core norms, values and interests, characterised by time urgency and the risk of imminent escalation to the nuclear level). The third element is arms-race stability, or stability that is not undermined by trends in arms developments (qualitative, quantitative or both), including the development of new technologies. The demands of meeting the aforementioned requirements are complicated further by the dynamic nature of strategic stability; that is, the fact that it is subject to change over time (in crises perhaps even on a minute-by-minute basis). Strategic stability also is subject to the vagaries of events and process outcomes within the state (e.g. the rise of religious extremism, the terrorist threat), within the region (e.g. asymmetric economic development, the War on Terrorism, the role of external players such as the United States and China) and at the international level (e.g. the emergence of an 'Asian supercomplex', globalisation).

As aforementioned, nuclear weapons development and enhancement in South Asia are intricately related to long-standing rivalries between the concerned states. However, instability does not just stem from the risk of nuclear warfare between states in the region. Non-state actors also play a significant role in the nuclear security framework, aside from their role in facilitating nuclear proliferation. First, terrorist groups (such as Jaish-e-Mohammed and Lashkar-e-Toiba) that are connected to the Pakistani religious-political establishment

can provoke tensions between India and Pakistan through mass casualty attacks. This was amply demonstrated following the December 2001 attack on the Indian Parliament by Jaish-e-Mohammed militants, which led to a ten-month stand-off between the two armies. A second danger is through a Kargil-style episode in which militants, in cooperation with official Pakistani agencies and the military, occupy territory in Kashmir. As the July 2007 siege of the Lal Masjid (Red Mosque) complex in the heart of Islamabad showed, militant groups are steadily expanding their geographical area of influence, adversely affecting the stability of Pakistan. Although the nuclear weapon complex is under military control, there might be pockets within the military that are sympathetic to fundamentalist groups. At the very least, political and religious instability in Pakistan creates uncertainty in the minds of policymakers within and outside the region.

Finally, fears have been heightened since 9/11 over the possibility of nuclear weapons technology transfers from Pakistan to terrorist networks, especially after it was revealed that some senior Pakistani nuclear scientists met with the Al Qaeda leadership prior to 9/11. A related concern in the aftermath of 9/11 is that a fundamentalist Islamic group with Taliban/Al Qaeda links could take over Pakistan and with it, possession of the country's nuclear arsenal.<sup>35</sup> Thus, Indian threat perceptions include not just bilateral nuclear stability issues between India and Pakistan, but also the consequences of nuclear technology and materials falling into the hands of militant groups. In general, the complex nuclear weapons scenario in South Asia is shaped by two main factors. First, the intense nature of the dispute between India

and Pakistan strikes at the very core of their nationhood. It involves territorial disputes and terrorist violence, and is further complicated by the desire of some terrorist groups to acquire non-conventional technology. Second, South Asia is part of a broader nuclear weapons context that includes China and the United States. Military developments by either Washington or Beijing, which are perceived as a direct threat, also impact military policies (both conventional and non-conventional) in South Asia. At the same time, the continued strategic military collaboration between China and Pakistan (such as the joint development of the JF-17 fighter plane) is a factor that motivates India to continue nuclear and conventional modernization. Furthermore, while the territorial disputes between India and China are relatively dormant, there is no final resolution. As developments in 2006-2007 demonstrated, there is still a considerable gap between the two sides on the territorial issue.<sup>36</sup> Due to this combination of factors; there are no clear incentives for either party to drastically reorient its nuclear policy.

### Conclusion

South Asian security is at a crossroads. The region is passing through an unprecedented strategic transformation following the signing of the Indo-US Civil-Nuclear Cooperation Agreement. The region is fast getting sucked into the vortex of terrorism. The fundamental problems of regional stability and security are being spontaneously transformed by a powerful combination of circumstances in the aftermath of the deal. It is argued that, if other alternatives are not explored, there is a risk that South Asia will experience a dangerous and costly build up of nuclear arsenals, which would directly invite the risk of nuclear

terrorism. But both the parties ignored the realities in the South Asian regional security order involving the triadic relationships of India-Pakistan-China and India-China – US. In fact, deal comes at a time when the non-proliferation regime has not yet fully adapted to the challenges posed by non-state actors, whether non-state suppliers like, A.Q. Khan Network or terrorist groups such the Al-Qaida. Beyond these problems, the deal will have major strategic ramifications for the triangular relationships involving India, Pakistan and China and India, China and the U.S. It is clear that proliferation dynamics in the subcontinent are affected by numerous factors centered on security issues, regional and global power politics, and domestic considerations. Broadly speaking, proliferation dynamics in South Asia are driven by a need to establish some measure of relative parity against their principal adversaries-India against China and Pakistan against India. Such competing security agendas ensure that nuclear modernization, through production of fissile material and development of more effective delivery systems will continue for the time being. The continued global hegemonic nuclear order and the flawed non-proliferation regimes also influence the regional nuclear development. Though there have been significant confidence building measures between India and Pakistan, including an agreement on reducing nuclear risk as well as reestablishment of transport links, they have not yet brought about any significant progress on basic security disputes, such as Kashmir and terrorist violence. Similarly, Sino-Indian negotiations on resolving the border question, while reiterating the need for a long-term solution, have not made any headway. In general, concerns of negative shifts in the

future balance of power persuade the protagonists to adopt a more cautious policy. Thus, the driving forces for nuclear modernization remain in place and this will continue to develop in the aftermath of the Indo –US nuclear deal. Based on balance of power theory, and long-term behavioral patterns, China will accelerate nuclear and strategic cooperation with Pakistan. China will try to contain India. And it will engage in a nuclear arms buildup vis-a-vis India. US will also work toward forming a balancing coalition with India. South Asia has been a major theater of rivalry during the Cold War era but has seen relatively immuned of great power rivalry for the past 15 years or so. Balance of power politics will bring back great power rivalry to the region and renewed conflict between India, Pakistan and China and squandering of limited resources which could be used for developmental goals.

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## Islam and Media Discourses in India: Constructing *Islamophobia*

T Marx

### Abstract

*The creation of enemies is easy. The right inflammatory rhetoric, judicious selection of facts and malicious parodies of custom can successfully demonise vast swathes of the human race: there are many situations where the society in question lacks the cognitive instruments to see the message that is hidden behind the myths and will accept the causation that is being offered as proper explanation for its fate. The use of xenophobia narrative and scapegoating is an easy next step.*

The Indian as well as the South Asian media, visual as well as print, devoted columns and time slots to report incidents ranging from stories of Islamic threat to national security to cross border terrorism. In this context of growing media attention to Muslims, the role that the media plays in reinforcing certain negative stereotypical images of the community becomes a critical issue. The national media is biased in its coverage of issues and events pertaining to the Muslim community. Hostility towards Islam and Muslims has been a feature of Asian societies that has taken different forms at different times and has fulfilled a variety of functions.

This paper examines the nature of current media campaign aiming at the distortion of the image of Islam, identifies several tactics used by the detractors of Islam and its symbols, and proposes an appropriate response for dealing with the

challenge posed by the mainstream media. It is a contention that the media campaign against Islam is politically motivated, is led by powerful quarters in the Indian society, who see in Islam a potential power and societal alternative capable of challenging Hindu hegemony. The recurring view in the media is that there’s no common ground between the Muslims and non-Muslims, and that conflict between them is accordingly inevitable. Muslims in India are seen in the media as a threat to traditional Indian customs, values and ways of life.

In terms of the biased media, the word Islamophobia is a term used for referring to text, or visual images that presents the malicious and fabricated narrative about Islam and Muslims ignoring or misrepresenting alternative narratives. Such narratives are likely to increase insecurity and vulnerability amongst Muslims and also to provoke anxiety, fear

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and panic amongst non-Muslims. The biased narrative will not help diminish levels of hate crime and acts of discrimination against Muslims and will not contribute ways of maintaining and developing multicultural, multi-plural democracy.

The paper attempts to understand the root causes of recent attacks on Islam and the efforts to distort its image must begin by examining the relationship between Islam and emerging realities on the ground. The campaign against Islam is a conscious and deliberate effort by the established mainstream media to discredit a universal belief system which has been presenting itself as a societal alternative to Hindu hegemony, and to undermine the fastest growing religion in the world. The media, as we know, have been for so long hostile towards Muslims, especially after the sad episode of 9/11, and for each event that takes place anywhere, the Muslim world is severely criticized and condemned with contradictory and misleading terminology, such as Muslim terrorists and Islamic fundamentalists.

Indian Muslims are subjected to a higher than usual level of abuse in mainstream media whenever there is a bomb blast or terrorist attack in India. Why is it, Indian media invariably asks, that Muslims have been so reticent about criticizing terrorism? Muslims don't condemn terrorism for the same reason that Hindus don't condemn the demolition of Babri Masjid. Muslims are not particularly sympathetic to terrorism. Moreover, terrorism is a response to aggression and not a product of religious extremism. The moderate Muslims should wrest the souls of their children from the clutches of self-pity and resentment. The

snowballing effect of Islamophobia's various features, exacerbated by the relative factors is that Muslims are made to feel that they do not truly belong to India – they feel that they are not truly accepted, as full members of India. On the contrary, they are viewed as 'an enemy within' or 'second class citizen' and they feel that they are under constant siege. It's in the interests of non-Muslims as well as Muslims, that Islamophobia should be rigorously challenged, reduced and dispelled. The time to act is now, no time in the future.

A further negative consequence of Islamophobia is that Muslim insights on ethical and social issues are not given an adequate hearing and are not seen as positive assets. The most subtle and perilous consequence of Islamophobia is "the silencing of self-criticism and the slide into defending the indefensible" (Richardson 2004: 9). Muslims decline to be openly critical of fellow Muslims, their ideas, activities and rhetoric in mixed company, lest this be seen as giving aid and comfort to the extensive forces of condemnation.

According to Wikipedia, media bias is a term used to describe a real or perceived bias of journalists and news producers within the mass media, in the selection of which events will be reported and how they are covered. The term "media bias" usually refers to a pervasive or widespread bias contravening the standards of journalism, rather than the perspective of an individual journalist or article. Islamophobia affects all aspects of Muslim life including attacks, abuse and violence against Muslims, and discrimination in education and employment. Paranoia has focused on a more global

threat: Muslims and Islam. The September 11 further mobilized the stereotypes that Muslims are "predisposed towards crime, rape, illegal entry [...] and terrorism (Hage 2003: 68). The Muslims who are projected as anti-nationals by the mainstream media behave the same way. Schopflin rightly says that "those stigmatised as hostile 'begin to accept the demonic role assigned to them and behave in accordance with it'" (Schopflin 1997: 134). It is time to challenge Islamophobia and to dispel myths about Islam deliberately spread by the mainstream media.

The heave of Hindu communalism during the last decade is a reflection on the inadequacies of secular practice in India. In India, a strong secular state, conspicuous religious symbols are prevalent in educational institutions and offices. The display of visible religious symbols such as the pictures of Hindu Gods, and certain rituals during Saraswathi pooja and Ayutha pooja celebrations are explicit. But, Iftar parties are not organised in any offices or educational institutions. Muslims consider this an injustice and feel they are second class citizens.

Muslims are viewed as aliens incompatible with Hindu society and values. Some writers in the mainstream media have been no less culpable in fomenting the prejudice against Muslims. When terms like "Islamophobia" and "Islamic terrorism" run riot in the media, why not terms like "Hinduphobia" and "Hindu terrorism" etc? When the mainstream media is subservient to the aggressiveness of a majority religion and negligent in case of the minority religions, where are the secular principles?

With its enormous power, the Media shapes discourses and influences public perceptions on Muslims. Indian mainstream media is one of the major factors creating and perpetuating Islamophobia and negative attitudes towards Muslims. It was also shown to be a factor in Muslims feeling ambivalent about their identity as Indian citizens. Negative attitudes intensify discrimination among Indian Muslims. If a Muslim is involved in some crime, then the word 'Muslim' becomes the common identifier of that person. Casual and standardized interpretation of violence is amply critiqued by Gyan Pandey (1990) as construction of a "master narrative" that provides a ready, and often misleading categorization. Similarly Paul Brass (1998) draws our attention to the construction and availability of a pre-framed 'context' of Hindu-Muslim violence (qtd. in Kaur 2005: 26).

The media has immense power because it shapes the way we understand reality, especially when we have no direct experience of what it shows us. It has "symbolic" power to "mark, assign, and classify." What we see on our screens or read in our books does not merely reflect reality. Reality is presented to us through imagery and discourse that tend to reflect the cultural consensus of the dominant hegemony. This is bad news for minorities, who often find themselves being defined by their difference and represented in stereotypical and negative ways. Whittaker identifies four Muslim stereotypes in the media- intolerant, misogynistic, violent, and different. These stereotypes are deeply rooted in history. Oriental discourse constructs a monolithic "Other" "as its

barbaric, despotic, and inferior opposite or alter ego,” according to Edward Said. Stereotypes and misconceptions about Islam in the media are rooted in prejudice, and ignorance.

The mainstream media expresses unfavorable views of Islam regarding the status of women, refusal of Uniform Civil Code etc and they say that Muslims are disproportionately prone to violence. There is a dangerous gap between the Non-Muslims and the Muslims and it should be bridged. The real challenge would be to embrace an intellectual chat with those who honestly admit there are differences with the mainstream society. Muslims oppose Uniform Civil Code because Islam is democratic in spirit and the Islamic law enjoins Muslims to govern themselves by discussion and consensus. In mosques, there is no particular priestly hierarchy and each individual is responsible for the condition of his/her own soul.

Islam is termed in popular media as an aggressive faith because of the concept of Jihad, a misunderstood term. The biased media wants everyone to see Islam “as oppressive (hence women in Hijab); that Islam is out-moded (hence hanging, beheading and stoning to death); that Islam is anti-intellectualist (hence book burning); that Islam is restrictive (hence ban on post-and extra-martial affairs, alcohol and gambling); that Islam is extremist (hence Algeria, Lebanon and of course Egypt); that Islam is backward (hence Pakistan, Saudi Arabia and the Sudan); that Islam causes conflict (hence Palestine, Kashmir and Indonesia); and that Islam is dangerous (hence Turkey and Iran).” (Said 1997: 200)

Besides the fact that the media creates inaccurate ideas about Islam, the Indian media is also very influential to its audiences in making negative Islamic stereotypes, such as the assertion that all Muslims are fundamentalists. The term “fundamentalist” is actually a term that is misinterpreted by the media. A fundamentalist, in fact, only represents a normal Muslim who follows his or her religion. Fundamentalism means an attitude, an effort, or a movement that an ideology, group, or religion tries to promote in its fundamental beliefs. The “fundamental” beliefs of a Muslim is to believe in only one God (Allah) and the Prophet Mohammed is His messenger, pray five times a day, fast the month of Ramadan, give alms to the poor, and make a pilgrimage to Mecca. This means that all Muslims are fundamentalists if they believe in their own religion’s fundamentals. Although the media is uncomfortable with religious groups, it focuses heavily on “Islamic fundamentalism”. A majority of the media’s reports that talk about Islamic fundamentalism usually describes most Muslims as terrorists.

Allah condemns violence very strongly: “And fight in the Way of Allah those who fight against you, but transgress not the limits. Truly, Allah likes not the transgressors” [TMQ Al-Baqarah: 190]. Regarding the status of woman, the right of women to seek knowledge is not different from that of men: “Seeking knowledge is mandatory for every Muslim”. (AlBayhaqi). In terms of religious obligations, such as the Prayers, Fasting, and Pilgrimage, woman is no different from man. Francis Fukuyama has the following to say about Islam: “It is true that Islam constitutes a systematic and

coherent ideology, just like liberalism and communism, with its own code of morality and doctrine of political and social justice. The appeal of Islam is potentially universal, reaching out to all men as men, and not just to members of a particular ethnic or national group.” (Fukuyama 1992: 45) In some cases, woman has certain advantages over man as she is exempted from the daily prayers and from fasting during her menstrual periods and forty days after childbirth. A woman cannot be forced to marry anyone without her consent, so also her right to seek an end for an unsuccessful marriage.

The Quran forbids the social custom of female infanticide, and considered it a crime like any other murder: “Whosoever has a daughter and he does not bury her alive, does not insult her, and does not favor his son over her, God will enter him into Paradise”. (Ibn Hanbal, No. 1957). Annie Besant, who was writing in the 1930’s, observed that, “It is only in the last twenty years that Christian England has recognised the right of woman to property, while Islam has allowed this right from all times (Besant 1932: 32).

The media creates the equation that terrorism equals Muslim and inflammatory stereotypes of Muslims also permeate the movies and other entertainment. Muslims find themselves suspected of being a fifth column or of having divided loyalties. This is reflected in the portrayal of Muslims as “the enemy within” in the Indian movies, *Bombay* and *Roja*. Indian movies generally portray Muslims in negative ways, even the secular ones, typically as terrorists or under world dons. The Indian movie industry has confined the portrayal of Indian Muslims to bearded

men in sherwanis, burqa-clad women, skull-capped mullahs, inebriated nawabs and dancing girls is just a symbolic indicator of this harsh reality. Particularly disturbing is the way in which this behaviour is linked with the religion of Islam itself. Thus, scenes of violence and terror are interspersed with shots of Muslims praying, to the extent that terrorism is elevated to the level of a ‘religious ritual.’

The Indian media is responsible for widening divisions between Muslims and the rest of the society. The report called for the government to get involved with encouraging a debate and commissioning studies on this problem. Some media groups engage in conventional propaganda but spike it with acts of violence. It has to be understood primarily in terms of one-sided propaganda. Violence and propaganda however, have much in common. “Violence aims at behaviour modification by coercion. Propaganda aims at the same by persuasion.” (Jackson 2004: 33) The media should take responsibility for monitoring how Muslims are represented and should aim for balance through positive presentation of Muslim characters including in movies. Both Media and politicians should improve access to minority groups including Muslims, so that different points of view can be heard.

Most glaringly in recent years, Islam and Muslims have come to be viewed primarily through the lens of religious extremism and terrorism. Media tend to focus disproportionately on this dangerous and deadly minority who threaten global security and offer minimal coverage of the faith and lives of the mainstream majority of Muslims. The result of the “propaganda blitz” and communal hysteria is a warrior

nation that “turns many in the TV audience into fanatic supporters” of communalism. ( Kellner 1995: 214)

One striking aspect of much Indian mainstream media reporting about Muslims is an obsession with sensational events that are inevitably used to project Muslims in a particularly negative light, as a community marked out by a certain exceptionalism. Muslims are reported about in the mainstream media almost entirely in the context of some controversy or violent incident. It is as if Muslims are considered newsworthy only if involved in some tragic and horror-filled event, generally as perpetrators of violence. A major factor, which contributes to Islamic stereotyping in India, is due to the media’s ignorance of selecting their words that describe Muslims. Some common names heard or seen in the news about Muslims are “extremist” or “terrorist”. These words are misleading and are mainly anti-Islamic. The media rarely uses more neutral terms such as “revivalist” or “progressives” (Hassan 1995: 2).

In India as in other Asian countries, manifestations of anti-Muslim hostility include verbal and physical attacks on Muslims in public places, attacks on mosques and desecration of Muslim symbols, widespread and routine negative stereotypes in the media, including the ‘common sense’ of non-Muslims’ talk and writing about Muslims in ways that would not be acceptable, and negative stereotypes and remarks in speeches by political leaders, implying that Muslims in India are less committed than others to democracy and the rule of law, lack of attention to the fact that Indian Muslims are disproportionately affected by under-representation and social exclusion and bureaucratic delay and inertia

in responding to Muslim requests for socio-cultural space.

Serious and substantial problems emerge out of the dangerous bias in the coverage provided by many media outlets. Recently, a few young men including two lecturers were arrested in a town in the southern Indian state of Tamil Nadu on charges of sending e-mail threat to the President of India. Since all of them happened to belong to the Muslim community, within a day of their arrests, police sources leaked to the media that they suspected the trio might be involved in e-mail threat. This was enough to trigger a series of speculative stories in the mainstream media. Every publication and television channel, without exception, went into a competitive frenzy, all of them clamouring for a first shot at the most horrifying story about the ‘terrorist trio’. Almost every reporter with imaginative talent wrote pages of articles quoting unnamed ‘reliable police sources’ and narrated how these young men were planning to send similar e-mails to various leaders.

What was remarkable about these reports was their contention that the three young men had links right up to Osama bin Laden and down to the local outfits such as the Lashkar-e-Toiba and the banned Students Islamic Movement of India (SIMI). The men were also suspected of conducting Jehadi training in nearby mosques, of flying the Pakistani flag in their minority Muslim college, of aiding and abetting various ‘sleeper cells’ across the state, of recruiting hundreds of students to terrorist organisations, etc.

Facts are frequently distorted, exaggerated or over-simplified. The tone of

**Table 1 : Basic Misconceptions in Different Media Narratives**

Areas of Conflict	Mainstream Narrative/Misconceptions	Alternative Narrative
<b>Homogeny</b>	All Muslims are equally bad	There is multiplicity amongst Muslims
<i>Distinct Feature</i>	Muslims are different from non-Muslims	Many common features exist between Muslims and non-Muslims
<i>Position</i>	Muslims are morally bad barbaric, irrational, primitive and sexist	There are cultured men and unlettered everywhere-both in Muslims and non-Muslims
<i>Security</i>	Muslims are violent, aggressive, threatening, supportive of terrorism, engaged in a 'clash of civilisations' and a threat to national security	Threat to national security involves both Muslims and non-Muslims
<i>Perception</i>	Muslims consider India as an alien land	Muslims are treated like second class citizens and aliens
<i>Society</i>	Muslims are seen as separate and 'other'. It does not have values in common with other cultures, is not affected by them and does not influence them.	Muslims can be good neighbors for non-Muslims and will co-operate in the process of nation building.
<i>World View</i>	Anti-Muslim hostility is seen as natural or normal.	Anti-Muslim hostility is deliberate and racist.

Source : [www.conservapedia.com/islamophobia](http://www.conservapedia.com/islamophobia) Accessed on 13-10-2008

language is frequently emotive, immoderate, alarmist and abusive. The coverage is likely to provoke and increase feelings of insecurity, suspicion and anxiety amongst non-Muslims. Alternative world-views, understandings and opinions are not mentioned, or are not given a fair hearing. The contents of these reports, well laced with the terms ‘suspected’ and ‘alleged’, had so much of unsubstantiated and un-sourced ‘facts’ attributed to ‘reliable sources’. As citizens and discerning readers,

none could merely accept in good faith that these reports were genuine. *So far no proof has been unearthed to label these youths as terrorists. The media is indulging in blatant fabrication of news. What if their case too turns out to be another Dr Mohammed Haneef case? Haneef, who worked in Australia, was mistakenly arrested by the Australian police after being wrongly accused of links to a failed UK terror plot.*

Surely the police need to interrogate the arrested youth and the courts have to pass their judgements before such serious conclusions are drawn. But the media chose to sidestep the process of law altogether and took it upon itself to 'investigate' the so-called crime and then pronounced its 'judgement' before the court's judgement.

Through mainstream media, the Hindu communalists send a veiled threat to the Muslims that their safety depends on the goodwill of the majority community. Over the years, the BJP and its sister organizations, all carefully nursed by the RSS, succeeded in (mis)using its religious appeal to weaken Hindus' resistance to communalism. The Hindutva forces argue that India was predominantly a Hindu land and it must be declared a "Hindu Rashtra" creating a fear psychosis in the minds of the Muslims. Hindu communalism locates Islam as an internal enemy and makes it the target of mass hatred.

The trust of people on the protectors of law and order in a country is imperative for peace to exist. Unfortunately Muslims in India have been victims of press biasness. Allegations of being a Pakistani are levied on Indian Muslims on account of common religion and thus the word 'traitor' finds a synonym with Muslims.

Positive stories about Muslims are hard to appear in the mainstream media, thus further reinforcing the tendency to see Muslims in negative terms. The real social, economic, educational and political marginalization of Muslims as a community and the pathetic conditions in which the vast majority of the Indian Muslims live are almost never commented about in the mainstream

Indian media. In mainstream media discourses about Muslims, it is often the case that the most conservative maulvis are projected as representatives of the entire Muslim community. The voices of ordinary Muslims, desperately poor, living in squalid ghettos, ignored by the state and the wider society, for whom the struggle for sheer survival is more pressing never get reflected in the mainstream media.

India's long-cherished portrait of itself as a model of democracy, secularism and religious-cultural pluralism has been cast into doubt by a new government study. The Sachar Committee's report shows clearly that Muslims, India's largest religious minority, face systematic exclusion and serious discrimination at multiple levels. The truth is that Muslims now constitute India's 'new underclass'; they are worse off than the rest of the population in respect of access to public services, literacy, education, income, social mobility, and jobs. Muslims form 13.4 per cent of India's population of a billion-plus people, but are seriously under-represented in schools, universities, government jobs, and Parliament. They typically claim a share of only 4 to 6 percent in state employment. In some respects, Muslims are compared with the Scheduled Castes, India's former untouchables, who have suffered systematic, cruel discrimination for centuries at the hands of the so-called upper-caste Hindus.

The Sachar Committee submitted its report in November 2006. The committee, after extensive home work, found that the Muslim minority is way behind the national averages in most of the parameters of social development, its economic status has been

sliding seriously, its representation in jobs, bank loans is abysmal, and its representation in the political process has been very poor and worsening on the top of that. In sum and substance, Muslim community is under-represented in most of the arenas of society barring the jails.

Muslim representation in the Indian media is dismal, while Muslims' share in media ownership is even more pathetic. Muslims do not have any considerable hold over the media. The representation of Muslims is also grossly under-represented in the national media, the survey notes. Muslims, who comprise 13.4 per cent of the country's population, have a share of only four per cent in top media posts. But despite the importance of electronic media and the profound impact it has made in effecting cultural change, they have not yet become tools and instruments for the dissemination of the message of Islam. One important sign of the lack of appreciation of these powerful tools may be seen in the fact that Islamic higher learning institutions do not consider arts and technology to be useful means for reaching out with the message of Islam, but continue to focus on interpersonal communication, and to a lesser extent on public speaking for this purpose. Only recently, print media has received a relatively more emphasis among Muslims.

Admittedly, the Muslim response to media distortion of Islam is, for the most part, meager and ineffective. On the whole, the campaign of distortion and misinformation against Islam has not been effectively countered by Muslim media, simply because the latter is virtually non-existent. For beyond a few publications, which normally circulate

among small groups of people who are already committed to the cause of Islam, one can hardly speak of Muslim mass media. While the ineffectiveness of Muslim media and its inability to counteract the campaign against Islam may be to some extent explained by the economic and political imbalance between the established global order and the world of Islam.

Indian media is owned and controlled largely by caste, middle-class Hindus. The vast majority of the editors and staff of mainstream Indian newspapers and media houses are of this caste-class background. A Report (June 2006) by Anil Chamaria, Freelance Journalist, Jitendra Kumar, Independent Researcher, Yogendra Yadav, Senior Fellow, Centre for the Study of Developing Societies, New Delhi, examined the social profile of media-persons working in 40 media organizations. These findings are based on a survey of the social background of 315 key decision makers from these media organizations. Its key findings reflect the sources of media bias. Hindu 'upper' caste men dominate the media. They are about 8 % of India's population but among the key decision makers of the national media their share is as high as 71 %. Muslims are severely under-represented in the national media: they are only 3 % among the key decision makers, compared to 13.4% in the country's population.

#### **India's mainstream media**

- lacks social diversity
- does not reflect the country's social profile

Negative portrayals of Muslims in the mainstream media reflect, to a large

extent, the widely held assumption that Indian nationalism is somehow synonymous with Brahminical Hinduism, the bedrock of the world-view of the castes. Bhabha (1990) emphasizes how nationalism involves a construction of linear narratives of nation, culture and identity. Misinformation and negative stereotypes heighten tensions in intercultural relations and legitimise war against Muslims. Distortion of the image of Islam stems from the fact that Islam is seen by powerful interest groups as a challenger to the established global order. To stop the expansion of Islamic appeal and to mobilize public opinion against its symbols, Islam has to be presented as a negative force. Combating distortion and restoring the true image of Islam is by no means an easy task.

The use and abuse of terminology is an important issue because terminology defines the social as well as the intellectual discourse in this area. Cultural exchanges are needed at a level other than investigative journalism so that journalists and writers are more sensitive to Muslim feelings and sentiments. Criticism should be constructive

and set out against the background of objectivity. If Muslim communities are themselves to articulate a response to what they see, hear or read in the media, they should have access to those areas of the media that are seemingly inaccessible to them. There will always remain a minority of people who present a uniformly negative image of Islam and Muslims, not out of Ignorance or misunderstanding but for ideological or political reasons or may be religious bigotry – one must isolate these people and not let them dictate the discourse.

The Muslim response has been influenced by the relative sense of marginalisation Muslim communities feel in secular India. Muslims rarely gave feedback to the media about their feelings on what is written or telecast about them due to lack of experience and organization on the part of the Muslim community and partly due to apathy and nonchalance. Many developed a siege mentality and do not ever read. The lack of any clear leadership and representative Muslim voice has not helped

**Table 2: Representation Share in decision making in Mainstream media Status**

Representation	Share in Decision Making in Mainstream media	Status
Caste Hindus	71%	Dominant
Women	17%	Gender biased
Dalits	Nil	Conspicuous
OBCs	4%	Abysmally low
Brahmins	49%	Key-role
Muslims	3%	Under-represented

Source : [www.indianmuslims.info/indian\\_muslim\\_and\\_the\\_mainstream\\_media.html](http://www.indianmuslims.info/indian_muslim_and_the_mainstream_media.html) Accessed on 13-10-2008

either as the Media does not know who speaks for the community. The Muslim response has been inadequate. Responses in the main have either been radical or confrontational. The radicals are always keen to appear in the media and say what many in the media want to hear, thus further enforcing existing stereotypes.

The media needs to take account of Muslim views, monitor output to see how Muslims are represented, and improve accountability. The fourth estate should not represent Muslims as monolithic groups. They should try to cover the victims of harassment, murder and other hate crimes as thoroughly as you cover the victims of overt terrorist attacks. They should avoid using word combinations such as ‘Islamic terrorist’ or ‘Muslim extremist’ that are misleading because they link the whole religion to criminal activity. It is always better to avoid using terms such as ‘jihad’ unless the journalists are certain of their precise meaning and include the context when they are used in quotations. The basic meaning of ‘jihad’ is to exert oneself for the good of Islam and to better oneself. News organizations should review their coverage of issues and events involving Muslims and Islam, and should consider drawing up codes of professional conduct and careful in the use of terminology. They should take measures, perhaps within the framework of positive action in equalities legislation, to recruit more journalists of Muslim heritage.

The government must ensure that Muslims are protected from hate speech. The government and media must try to do more to tackle the negative portrayals of Muslims

and create a cohesive and fair society. Michael Thorburn says assertively, “everyone who cherishes the rights of the people should join the struggle against the anti-Muslim propaganda, which is nothing but a justification for colonialism, fascism and war” (Thorburn 2006: 72).

Indian secularism means that there is no official religion for the country and that the government would maintain an attitude of perfect neutrality towards all religions. In the era of globalization, no nation is mono-religious or mono-cultural. Due to fiscal migrations, all nations become pluralistic and all the religious and cultural minorities enjoy equal constitutional rights throughout the world. In a secular state, no community, whether minority or majority can insist that its security depends on the goodwill of the other community. The Government should adhere strictly to its secular tenets and undo religion from the media. The rising tide of communalism in the media-majority or minority- can be stemmed only by an uncompromising secular stand.

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## Challenges and Opportunities of Micro-finance for Poor Women's Empowerment

S Vasantha & Hansa Lysander Manohar

### Abstract

*The subject of micro-finance is considered as significant and emerging trend in the present scenario for the empowerment of women and reducing poverty. Micro finance programmes are presently being promoted as an important strategy for concurrently addressing both poverty alleviation and women's empowerment. In the present scenario commercial banks are expanding rapidly and providing loans to small business and core micro financial services to poor people. NGO's are competing with commercial banks in providing micro financial services. This paper examines the efficiency of micro finance as a solution to women's empowerment and whether micro financial institutions effectively improve their well being. It also focuses the challenges of micro financial institutions to reach out the poor. In Tamil Nadu State, Tuticorin district was selected for study. The survey shows that SHG were satisfied about Group financing from Micro financial institutions. The data also supports that transaction cost makes micro financing costlier.*

### Introduction

Microfinance is one of the powerful weapons to fight against poverty. Microfinance service industry is growing predominantly over the past three decades of time in the financial market. It offers financial services to support the poor especially women both financially and socially. Though microfinance services have witnessed tremendous growth, still it is not able to reach out to all the segments of the poor section. The critical challenge faced by the micro financial institution is high transaction cost which makes micro financing comparatively

costlier. The reason behind this being high cost of supervision, small size and large number of loans. It is high time for MFIS to formulate new strategies to reduce the cost of financing. Microfinance organizations should provide livelihoods finance through its innovative strategy. The innovative scheme of micro financing has transmitted the real economic power in the hands of women through Self Help Groups (SHGs) and has significantly reduced their dependence on men. This has helped in empowerment of women and economic independence of women.

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This research is divided into three parts. The first part explains how the Micro financing plays a significant role in intensifying the scale and an instrument of economic empowerment of poor women in the rural area. In part II the paper discuss the problems of SHG in getting financial assistance from Micro financial institutions and finally in part III the paper analyses the challenges of Micro financial institutions to reach out the poor women and conclude with the presentation of cost reduction strategy to reach out poor.

#### Poverty in India at a Glance

Poverty is an acute problem in India. The poverty line (\$1.25 a day) as described by world bank report, in India the number of poor living in poverty line has increased from 421 million in 1981 to 456 million in 2005. According to Asian Development Bank (ADB), the new poverty line is roughly \$ 1.35 per day. If this measure is used to measure poverty, nearly two-thirds of India's population or about 740 million are in poverty. To achieve a higher rate of poverty reduction, India realized the importance of poverty reduction programme of micro financing to reach out the poorest people Micro-finance has become one of the most effective tools for economic empowerment of the poor women. Now the poor people are able to access financial services which previously were exclusively available to the upper and middle income population. In India banking system NABARD developed the Self Help Group [SHG] - bank linkage programme as the innovative strategy for increasing their reach out to the poor. According to the McKinsey India survey (April 2006) report, rural India has the potential to become a US\$500 billion market by the year 2020.

#### Self-Help Group

Self help group is an informal association of 12 to 20 small economically homogeneous affinity group of poor women. The SHG encourages small savings among its members. The savings are kept with a bank, obtain loans from bank and subsequently they decides which woman should get the loan at what rate of interest and also how much should be the repayment period. The main characteristic of Self help group is instead of one woman, the entire group is to negotiate with the bank. The SHG can then on-lend the money to its members, helping them to employ it in some income-generation activities. Presently there are about 800 MFIs and 22 lakh self-help groups (SHGs) that are the main sources of microfinance. The primary objective of a self-help group is to provide credit access to members of poor households on sustainable basis.

#### Characteristics of Self help group

- Mostly focus on women
- SHG is commonly an economically homogeneous group formed based upon the affinity of its members
- Poor people are able to access credit
- Encourage savings and thrift among poor people and achieve reasonable standard of life
- Avoid the dependence on moneylenders
- Helps to achieve empowerment of women
- Progressive lending

- Easy repayment terms

The Reserve Bank of India influenced Commercial Banks, Regional Rural Banks and Cooperative Banks to aggressively participate in the linkage

programme. Under the RBI's Guidelines, banks were given authorization to open saving bank account in the name of SHG, without any collateral security requirements. Thus, an informal credit system was progressed with assistance

**Table 1: Basic data on SHGs in Tamil Nadu(2005-2006)**

	Rural	Urban	Total
Number of SHG Members	1,26,404	35,735	1,62,139
Number of SHG Members	21,46,856	6,03,518	27,50,374
Funds Generated by SHGs (Rs. Cr)	316.76	78.18	394.94

*Source: Tamil Nadu Women's Development Corporation*

from formal financial institutions. The various organizations involved in the schemes were NABARD, Banks, NGOs and SHGs.

#### Role of NABARD

NABARD has been doing well with its Self-Help Group (SHG)-Bank Linkage Programme. It conducted several studies of the pilot programme which "showed clearly that the SHG-Bank Linkage model was by far the most cost effective".

More than ten years, the linkage programme not only finances SHGs through commercial banks, Regional Rural Banks (RRB) and cooperatives, but has also

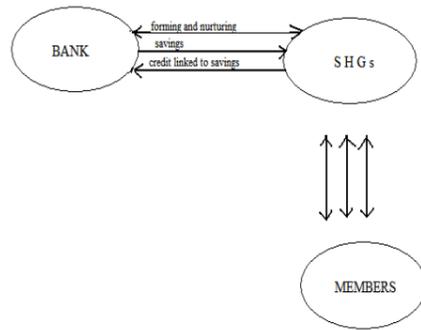
educated bankers to become SHG supporters. The most general model for linkage is where an NGO forms a group and a bank links to it directly. Training and capacity building is a vital module of NABARD's strategy.

The various Micro finance service providers include apex institutions like National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), and, Rashtriya Mahila Kosh (RMK). At the retail level, Commercial Banks, Regional Rural Banks, and, Cooperative banks provide micro finance services.

**Various kinds of SHG-Bank Linkage Models**

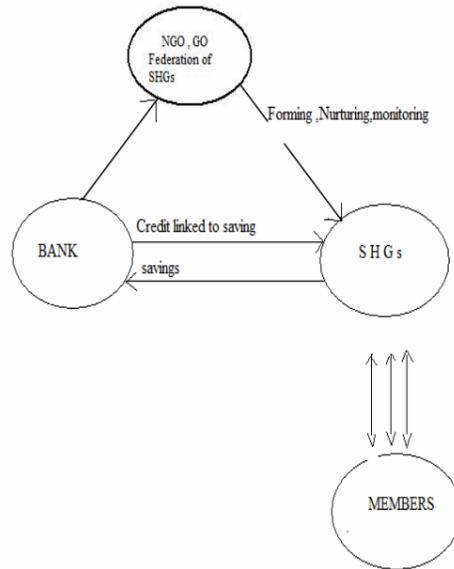
**MODEL-I:**

SHGs formed and financed by Banks



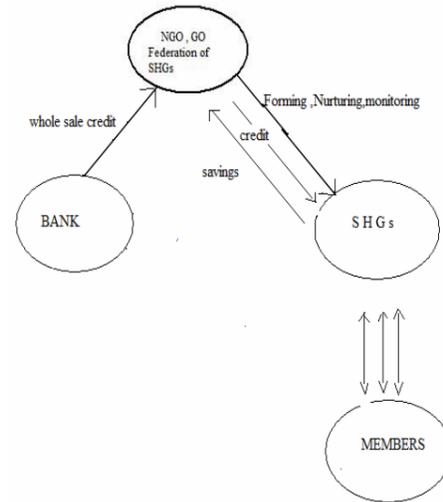
**MODEL-II:**

NGOs act as Facilitators, SHGs financed directly



**MODEL-III:**

SHGs financed by Banks using NGOs as Financial Intermediaries



**MICROFINACE IN TAMIL NADU**

**Tamil Nadu's Rural Population**

The first SHGs in Tamil Nadu were created successfully in 1989 in Dharmapuri district through the International fund for Agricultural Development (IFAD). In 1991, the scheme was extended to all the remaining parts of Tamil Nadu. The amount assigned for the creation of the SHGs was Rs.84.26 cr through IFAD. In 1996, the activities of SHGs were accepted as a policy matter by the government of Tamil Nadu and later from 2001, this idea of SHG has been growing and expanding at a very fast rate (V.Ramanathan, S.Rajmohan, marketing mastermind, April, 2008). In Tamil Nadu the major political parties – DMK and AIADMK

**Table 2: Tamil Nadu's Rural Population & Literacy**

	Male	Female	Total
<b>Rural Population</b>	1,75,31,494	1,73,90,187	3,49,21,681
<b>Literates</b>	1,18,35,689	84,83,809	2,03,19,498

*Source: Census of India, 2001*

have contributed maximum funds and avenues to the growth of SHG movement in Tamil Nadu.

The total loan disbursed by commercial banks through the self help groups (SHGs) in Tamil Nadu increased Rs. 1,302.41 crore in 2007-08 from Rs. 1,098.44 crore. Of this, India's largest public sector bank, State Bank of India (SBI) disbursed over Rs. 750 crore to 6 million people through 124,000 SHGs in the state. For the current year, the bank has proposed to disburse over Rs. 500 crore. Nabard sanctioned Rs. 1 crore for capacity building programme during 2007-08. As part of its bank-linkage programme, it has covered over 3 million SHGs covering more than 50 million people in the country.

**Tuticorin district empowers women**

In Tuticorin district, the government takes all initiatives to empower the women this was endorsed through news published in the "The Hindu" on Sep 12, 2006. It is understood that the Tamil Nadu Corporation for Development of Women Limited (TNCDWL) would extend 'credit-linked revolving fund subsidy' to the women self-help groups functioning in the municipal and town panchayat limits in the district from this fiscal. Previously, the corporation was offering the subsidy only to the women SHGs from village panchayats, under various schemes like Swarnajayanthi Grama

Swarozgar Yojana. Project Officer M. Madasamy, TNCDWL, stated that now the Tamil Nadu Government would offer the subsidy grant at the rate of Rs.10,000 to each group, with the remaining Rs.30,000 to come in the form of credit from financial institutions. And this could be utilized for internal lending and micro-credit. Since Rs.10,000 was considered as subsidy grant, banks would charge interest only on the credit component. Overall 1,453 women SHGs functioning in the 19 town panchayats and 1,831 groups in the three municipalities had been selected for the scheme.

The subsidy would be disbursed only to those groups that fulfill the Tamil Nadu Government criteria of grading such as internal lending, audit of accounts, thrift, refund of credit and maintenance of records, pertaining to each group. Those groups which score 60 per cent would be chosen as beneficiaries. The successful group could apply to the banks for the release of the subsidy to them through TNCDWL.

**Literature Review**

A majority of microfinance programs target women with the explicit goal of empowering them. However, their underlying premises are different. Some argue that women are amongst the poorest and the most vulnerable of the underprivileged. Others believe that investing

in women's capabilities empowers them to make choices, which is valuable in itself, and also contributes to greater economic growth and development. Another motivation is the evidence from literature that shows that an increase in woman's resources result in higher well-being of the family, especially children. Finally, an increasing number of microfinance institutions prefer women members as they believe that they are better and more reliable borrowers thereby contributing to their financial viability. The United Nations has declared the year 2005 to be the Year of Micro credit.

Grameen Bank groups and self-help groups; what are the differences? That, Grameen groups are much better protected against internal or external threats; their members are less vulnerable, but also less empowered, since empowerment is freedom and this must also include freedom to face and if possible to overcome threats. SHGs are a more empowering instrument than Grameen groups, but they also demand more of their members, and expose them to greater risks. Freedom does not come without a cost (Malcolm 2005).

The self-help group model has been identified as a potential pathway to alleviating poverty. The number of poor women and men who are enrolling in SHGs all over rural India has been increasing remarkably. They are not only active in thrift and credit management but are also taking up other activities, such as natural resource management and development work, literacy, knowledge management, nutritional security etc. SHGs lay the foundation for self-reliance through building up of institutions, which have the capacity to generate employment opportunities

for the rural poor, and the poorest, and lead to job-led economic growth (Kavitha & Ramachandran 2007).

This paper argues for a more coherent interpretation of women empowerment using Kabeer's notion of women empowerment within the South Asian context. It therefore defines women empowerment as the process in which women challenge the existing norms and culture of the society in which they live to effectively improve their well-being. A distinction is made between the outcomes that lead to greater efficiency within the existing norms, development of the community and outcomes that can be directly interpreted as women empowerment.

Micro finance institutions target not only for giving them loans, so that they can provide financial assets to the family, but also to give them the opportunity to explore their own talents of doing economic activities (Rafiqul, Shahnaz and Hamid 2007).

Not all activities that lead to an increase in well-being of a woman are necessarily empowering in themselves. It is difficult to say which factors are more important for empowering women. For SHG programs, the results seem to indicate that the minimalist microfinance approach is not sufficient. Additional services like training, awareness raising workshops and other activities over and above microfinance programs that merely focus on financial services are also an important determinant of the degree of its impact on the empowerment process of women (Ranjula and Fan Yang 2007).

Microfinance activities were developed to target the poor women and to set up empowerment activities. Initially, the empowerment of women was started for poverty alleviation. She defined Empowerment is a process of change by which individuals and groups gain power and ability to take control their lives. It involves an increased well being, access to resources, increased self-confidence, self-esteem and respect, increased participation in decision making, bargaining power, control over increased benefits and resources and one's own life (Renu 2008).

The idea of micro financing- small-scale loans to the entrepreneurial-minded poor - reached the front page this fall when the Bangladeshi economist Muhammad Yunus and his Grameen Bank won the Nobel Peace Prize. But now the San Francisco-based nonprofit Kiva.org may have taken the idea a step further: with just a few clicks of the mouse, most everyone can become a micro financier (Sonia 2006).

It is clear that most micro finance programmes have a long way to go before they make their full potential contribution to gender equality and empowerment. Many of the strategies promoted for financial sustainability may exacerbate the negative impacts of debt, because of over rapid expansion, rigid product design inappropriate to women's economic activities, cutting of necessary support services and lack of attention to local economic contexts. If micro-finance programmes are to fulfill their very significant potential, evidence indicates there is a need to rethink current 'Best Practice' to ensure that women have equal access to all types of financial services. Gender 'Best

Practice' must also be integral to micro-finance design rather than a marginal and marginalized add-on to financial sustainability or poverty reduction. There is also a need for innovation to ensure that access translates into a significant and sustainable contribution to women's empowerment. Different women have very different needs, even though they are often subject to similar forms of discrimination and disadvantage (Linda 2006).

The future sustainability of SHG Banking hinges on five factors: (a) A sound self-supporting institutional framework is in place. (b) Despite exceptionally low interest rates, linkage banking was found to be viable and profit-making for all financial institutions and SHGs; however, many rural banks require restructuring. (c) SHGs have substantially increased their level of self-reliance and deposited reserves, while banks are constrained by high statutory liquidity requirements. (d) Given the low inflation rate, preservation of the value of resources is no major issue, except in distressed banks. (e) With continually increasing internal funds, effective supervision of SHGs through a delegated system, together with the enforcement of prudential norms in banks and cooperatives, emerges as a major challenge to the long-term sustainability of SHG banking and rural finance in India. (Hans & Harishkumar 2002).

There is a greater need for MFIs to carefully design service that meet the needs of poor. MFIs have to understand and ensure financial and environmental sustainability and outreach of financial services designed to meet the needs of those mostly in need of such services (Sheenu & Ravindra 2008).

**Objectives of the study**

- To analyse the impact of micro financing on women's empowerment
- To analyse the constraints and problems faced by SHG
- To analyse the challenges of Micro financial institutions to reach out poor

**Research Methodology**

The present study uses both primary and secondary data. For the purpose of the study well- structured Questionnaire was designed by incorporating scaling technique. This study is partly exploratory and descriptive in nature and is aimed to identify the impact of micro financing on women's empowerment and challenges of MFI The research was based on 100 SHGs from Tuticorin district in Tamil Nadu State using a questionnaire instrument .The questionnaire was translated from English to Tamil because the survey was undertaken in southern rural part of TamilNadu .The paper analyses the data and test the hypotheses, by using the data collected from the respondents and finally concluded with findings.

**Analysis of Data**

The data collected through questionnaire were tabulated and further suitably analyzed by applying following statistical tools:

- Ø Percentage Analysis
- Ø Frequency analysis
- Ø Chi-square test
- Ø One-way ANOVA test

**Analysis and Interpretation**

**Characteristics of groups**

100 groups were included in the study it is fully based on Women. The groups comprised of Minimum 12 to maximum of 20 members. Group size varied from 12 to 20.On average the age of the groups are approximately 3.5 years old. Over 35% of them are by commercial banks 34% respondents were financed Regional rural banks, 17% of them are by co-operative banks, 14% of them by NGO. The study shows that SHG members save between Rs.50-Rs.100.On the observation of group leader it was found that leader of the group have good interpersonal skill, command over group and ability to deal with the bank personnel. Due to good organizing capacity of leader the repayment of loan is highly satisfactory.

**Testing of Hypothesis**

**Chi-Square Test - Table-3**

**H<sub>0</sub>: Satisfaction level of SHG and changes taken place after joining the SHG are independent**

**H<sub>1</sub>: Satisfaction level of SHG and changes taken place after joining the SHG are dependent**

The result is shown in the following table

**HS-Satisfied, S- Satisfied, N- Neutral, D-Dissatisfied, SD- Strongly Dissatisfied**

By applying Chi-square test, it was found that calculated value (226.91) is more than the table value at 5% level of significance (36.415), hence Ho is rejected.

**Inference: Satisfaction level of SHG and changes after joining the SHG are dependent**

It means that the satisfaction level of SHG members in SHGs depends upon the changes take place after joining the group.

**Table 3: Sources of Microfinance**

Sources	No. of Respondents	Percentage
Commercial Banks	27	27
Regional rural banks	34	34
Co-operative Bank	17	17
NGO	22	22
Total	100	100

**One way ANOVA**

**H<sub>0</sub>: The reasons for joining SHG members in SHG group are independent**

**H<sub>1</sub>: The reasons for joining SHG members in SHG group are dependent**

The result is shown in the following table

**Table 4: Changes after Joining the SHG**

changes	HS	S	N	D	SD	Total
socio-economic status	67	3	30			100
Savings	55	45				100
Investment in the business	48	22		30		100
Standard of living	63	22	15			100
Family income	37	43	20			100
Economic Independence	54	24	17	5		100
Self-confidence	33	51	16			100
Total						700

Table 5: Reason for Joining SHG

Reason	SA	A	N	D	SD	Total
Ease in formalities	68	27	-	5	-	100
Low interest rate	43	30	21	6	-	100
More time for repayment	74	14	12	-	-	100
No delay	58	32	8	2	-	100
Economic independence	48	18	27	7	-	100
To meet emergency needs	75	23	2	-	-	100
Children's education	58	32	20	-	10	100
Total				-	10	700

SA- Strongly Agree, A- Agree, N-Neutral, D- Disagree, SD- Strongly Disagree

By applying one way ANOVA, it was found that calculated value (11.17) is more than the table value at 5% level of significance (2.81), hence Ho is rejected.

Inference: The reasons for joining SHG members in SHG group are dependent

Table 6: Problems of Self Help Group

Problems	No. of Responses	Frequency
Lack of literacy	34	34
Lack of experience	64	64
Waiting long hours in the bank	32	32
Transportation problem to go to bank	50	50
High interest	25	25

Source: Primary Data

Table 7: Transaction costs of SHG

Various cost	No. of Respondents	Percentage
Transport Bank charges	51	51
Telephone charges	6	6
Stationary charges	28	28
Meeting with higher authorities	7	7
Remuneration of office-bearers	-	-
Loan documentation	3	3
Auditing fees	5	5
Total	100	100

Source: Primary Data

In general, there are four main types of intermediaries offering microfinance:

**Full- service private commercial banks**

Its presence can be felt world wide and it provides variety of financial products and services through various branches of network. They are using SHGs as channels to distribute their potential business.

- State-owned banks - These banks act as a channel for providing multiple services. Finance companies and specialized banks. These banks operate at the regional level. E.g. P a n d i a n banks, Tamil Nadu Mercantile Banks
- Micro-lending NGOs - These institutions are smaller in size. NGO's are providing variety of financial services for uplifting the lives of the poor. These are transformed into regulated banks or specialized financial institutions.
- Co-operative Banks
- NGO's are competing with commercial banks in providing micro financial services. Commercial banks are finding it very difficult to cover up their transaction cost at the low interest rate on micro loans

**Challenges and opportunities of micro financial institutions**

- The first challenge relates to sustainability. It has been reported that the MFI model is comparatively costlier in terms of delivery of financial services.
- The cost of supervision of credit is high, the loan volumes and loan size is low.

- Sizable proportion of the clients is illiterate or barely literate, they would prefer simple procedures and minimal paperwork

- In spite of a huge banking network, the facilities, particularly in rural areas, are not easily accessible.

- The banking hours are not adjusted to the convenience of the small rural client who would prefer to deal with his financial matters in the morning or late evening

- Rural banker being male has failed to understand the psyche of the micro-finance client., who are predominantly female

- On the savings side, the savings bank account in the name of the SHG is the only product available.

- Further, the RBI has fixed the interest rate on savings bank deposits and there is no scope for innovation by the banks in this regard.

- Similarly, on the credit side, banks take into account the savings made by the group and provide credit only up to a fixed multiple of the savings (generally four times).

- Costs for micro-finance are simply higher than those for conventional banking

- In fact, MF has become a tool for political party to collect votes.

**Comparative Advantages of Commercial Banks in Micro-finance**

In the present scenario commercial banks are expanding rapidly and providing

loans to small business and core micro financial services to poor people. Banks are now competitive with Non-banks and NGO's. The Comparative Advantages of Commercial Banks in Micro-finance are:

- They are regulated institutions and facilitated by proper management
- Adequate physical infrastructure helps to reach out more micro finance clients
- Good administrative and accounting control system
- They have their own source of funds which in turn facilitates sustainability
- The variety of core financial services attract small micro finance clients

#### **Obstacles for Commercial banks in microfinance**

In spite of all these competitive advantages over NGO's, still Commercial banks are finding it very difficult to cover up their transaction cost at the low interest rate on micro loans .It suffer from financial strategies to reach out low income population segments. Banks are required to sort out some key related issues to achieve success in the micro finance market:

- The commitment of commercial banks towards micro lending is very important and it should be one of the missions of the organization
- The bank organizational structure should facilitate to handle thousands of small transactions efficiently.

- Banks must identify an appropriate innovative financial strategy to suit the needs of poor clients.
- Banks must recruit and retain specialized staff to handle poor women micro clients.
- The large number of small size of micro finance loans make micro financing little costlier.
- Regulation and supervision: Continuous and tight monitoring and imposing regulatory requirements are compulsory to ensure effective implementation of micro finance programme.

Generally interest rates charged by MFIs are higher than what banks charge, but it is lower than interest rates of money lenders .The reason being high transaction cost, these costs have effect on interest rate. MFIs are just to cover the cost they charge between minimum 12% to maximum 24%. The Goal of every MFI is to identify innovative strategies to bring down the costs of transaction. But still, it is difficult to bring down the interest rate to 8% to 10% since the cost of lending small loans is basically high.

In spite of various steps taken by banks and financial institutions they could not reach out to the poor clients successfully. The main reason for high transaction cost is high cost of delivering a number of small loans in a fragmented location. The main difficulty of MFIS is to identify a borrower, appraising them, disbursing money and then collecting it back within twelve months in

small installments. Generally there are three kinds of costs that a lending institution encounters when it offers a loan:

- Cost of the lending money
- Cost of prudent financial practices such as provisioning for loan defaults;
- Cost of transaction

#### **Cost of transaction**

It is defined as the cost of the transactor (usually the field worker) doing the group-loan transaction. It generally includes the cost of identifying and screening the client, processing the loan application, completing the documentation, disbursing the loan and collecting the repayments on date.

Its three main components are

- Group formation costs
- Cost of direct Administrative activities and
- Cost of monitoring

#### **Cost of group formation**

Cost of group formation includes the cost of formation and training of the group with the objective of using it to deliver credit.

#### **Cost of direct administrative activities**

Direct administrative activities cost comprises cost of appraisal, documentation, disbursement, other direct administration activities and the cost of branch manager supervision.

Cost of appraisal refers to a charge by a lender for appraising, grading the group

before the sanction of a loan. It includes Cost of documentation, appraisal of documentation, disbursement and the completion of documentation formalities. These relate to the loan and the allocated supervision cost per loan of the branch manager.

Cost of other direct administrative activities include the cost of time spent by the field worker in completing administrative formalities such as report and format completion, reporting to immediate supervisor, filling up movement registers, filling up expense claims for travel and bank related duties etc.

#### **Cost of monitoring**

Cost of monitoring refers to cost of monitoring of loan utilization checks and collection of installments and cost of "avoiding default" .Evidence from article of Mr. Amrit Patel and Mr. Gopal Kalkoti in Business line on, Feb 28, 2007 "Micro-finance needs soft norms, tough monitoring" .Further they added that Micro financial institutions portfolio tends to be extremely volatile and can deteriorate any time because of an unsecured loan going bad or even default of a secured loan. In such a case, the collateral does not sufficiently cover the principal, interest and the collection cost. This happens as the borrowers have no collateral at risk, and they do not feel constrained to repay.

#### **Indirect transaction cost**

Apart from direct transaction costs other costs such as rent, electricity and facility maintenance also have impact on increasing the cost of financing. In addition, there are other expenses of the regional offices and

head offices – which do not do direct business but supervise the branches. Such costs need to be considered in the Cost reduction strategies.

### Findings

On the basis of the research undertaken the researcher is able to elucidate the following findings

### Bank Lending

Banks can explore various innovative strategies to reduce transaction cost to reach out to the poor people. Many banks spend large amount of money for recruiting and retaining staff. The salary paid to the staff can be saved through appropriate cost saving measures. The micro financial institutions and banks can also follow the guidelines of RBI issued on NOV 2006 regarding 'outsourcing of financial services'. The guidelines being:

- The micro financial banker can outsource the financial services of a bank including processing of loan application, document processing, marketing and research and supervision of loans to reduce the cost of transaction
- Banks can appoint direct selling agent (DSA) and direct marketing agent (DMA) to disburse large number of small loans to ensure the reduction of cost the sensitive operations of all the banks is loan recovery. This job can be done professionally by appointing loan recovery agent by imposing certain code of conduct on its functioning.

### Other suggestions

- Another method of reducing transaction cost is minimizing the cost of SHG formation costs and costs of lending to the poor. The government can fund and allocate resources for formation of self help group.
- The amount of transaction cost can be reduced to some extent by professional methods of management and by use of technology, information system and computerized methods of administration. . It helps micro financial institutions to increase their efficiency, thus lowering their overhead costs, and help them to achieve sustainability.
- The SHG can be brought under the self employment scheme of government of India operated through commercial banks. Under this scheme, the subsidy of 25% is given by the government through district industry centre. This can reduce the 'burden of interest' of the poor people, eventually reduce the cost of operation and indirectly motivates the borrower to repay the loans promptly.

Banks could explore new methodologies to expand lending. . In order to reach out poor people and women the micro financial institutions require to launch new products further than credit like insurance, deposit, remittances, securitization of the loans to adhere the conventional of the worldwide financial system. Specialized

outlets can also be designed exclusively for delivery of micro-finance products. Such as smart cards, automated teller machines (ATMs) and mobile phones may be employed, as is being done in other countries.

### Conclusion

The researcher is able to conclude on the basis of primary and secondary data that micro finance helps to attain empowerment through self help group. The study is able to prove that the microfinance clients are suffered from high transaction cost and this ultimately adds to the cost of financing. Micro financial institutions must maintain efficiency levels to increase their scale of operations. This surely will bring down the cost of financing and ultimately the benefits will be transferred to the poor people in terms of improving the standard of living and reasonable cost of borrowing. Micro financial institutions should adopt innovative strategies to meet the challenges of high transaction cost to reach out to the poor. Many studies also prove that bankers need to regulate their loan prices and their operating procedures to formulate appropriate cost-saving measures.

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## India-Pakistan Relations and Prospects of SAFTA: *Political Conflict vs. Economic Cooperation*

Saroj Bishoyi

### Abstract

India-Pakistan trade relations are of immense interest not only to both the countries but also to the whole South Asian region. The interest in understanding the trade dynamics between the two countries has arisen following the signing of the South Asian Free Trade Agreement (SAFTA) in January 2004. While it is widely recognised that SAFTA's success depends critically on promoting trade links between the two countries, bilateral trade between India and Pakistan remains extraordinarily low – less than 1 per cent of their global trade. Their volatile political relationship has overwhelmed attempts to encourage trade between the two countries, and has also impacted economic integration in the South Asian region as a whole. There are both political and economic obstacles in expanding trade between the two countries. Greater economic co-operation could, however, provide mutual economic benefits, such as lower prices for consumers, much-needed revenue for the governments, and cost-effective gas import to India via Pakistan. This paper is an attempt to understand, describe and analyse India-Pakistan relations and its impact on the prospects of regional economic integration through SAFTA. It asks and seeks to answer four essential questions: Can trade improve relations between hostile nations? Can economic benefits and cooperation overtake political conflicts? Are better trade relations between two nations possible only after a settlement of all conflicts? And, finally, how India-Pakistan relations impact on the development of SAFTA?

India-Pakistan trade relations are of immense interest not only to both countries but to the whole South Asian region. The interest in understanding the trade dynamics between the two countries has arisen following the signing of the South Asian Free Trade Agreement (SAFTA) in January 2004. While it is widely recognised that SAFTA's success depends critically on promoting trade links between the two countries, bilateral trade between India and Pakistan remains extraordinarily low – less than 1 per cent of their global trade. Their volatile political

relationship has overwhelmed attempts to encourage trade between the two countries, and has also impacted economic integration in the South Asian region as a whole. There are both political and economic obstacles to expanding trade between the two countries. Greater economic co-operation could, however, provide mutual economic benefits, such as lower prices for consumers, much-needed revenue for the governments, and cost-effective gas import to India via Pakistan. This paper is an attempt to understand, describe and analyse India-

Pakistan relations and its impact on the prospects of regional economic integration through SAFTA. It asks and seeks to answer four essential questions: Can trade improve relations between hostile nations? Can economic benefits and cooperation overtake political conflicts? Are better trade relations between two nations possible only after a settlement of all conflicts? And, finally, How India-Pakistan relations impact on the development of SAFTA?

According to the Classical Trade Theory, international trade serves to reduce political conflicts. Trade between two nations accrue gains to both while the loss of existing trade ties, resulting from a political conflict between the two nations, imply a loss of economic benefits. Two countries trading with each other, therefore, make an effort to avoid conflicts in order not to suffer such a loss.<sup>1</sup> For instance, China and Japan have shown they can have good trade relations despite having differences over important political issues. In the case of India and Pakistan, the political conflict over Jammu and Kashmir (J&K) seems to be holding free trade hostage. This affects measurably on the prospects of SAFTA.

Indo-Pakistan relations are grounded in the historical, geographic, demographic and economic links between India and Pakistan, two of the largest and fastest-developing countries in South Asia. The two countries share much of their common geographic location, and religion (most notably Sikhism, Hinduism, Islam, and Buddhism); yet diplomatic relations between the two are defined by numerous military conflicts and territorial disputes. India and Pakistan have fought four wars over the J&K since 1947, when the two countries were partitioned into

separate states following the end of British colonial rule. The two countries fought wars over Kashmir in 1947, 1965, 1971 and 1999. Efforts at achieving normal relations and peace between India and Pakistan have collapsed or run into a dead-end so many times in the past. The Agra summit meeting of July 2001 between Prime Minister Atal Behari Vajpayee and Pakistan President Gen Pervez Musharraf failed to resolve differences over the “core issue” – for Pakistan, Kashmir; and for India, an end to “cross-border terrorism”. In 2002, escalating tensions – caused by an attack on India's parliament building by Islamic militants in December 2001 – led each country to amass hundreds of thousands of troops along the Line of Control (LoC), which brought the nuclear-armed nations to the brink of war.

The peace process was resumed in April 2003, when Prime Minister Vajpayee offered talks, which was duly reciprocated by his Pakistani counterpart Zafarullah Khan Jamali. Since relations began warming between India and Pakistan in the spring of 2003, the steps forward have been small and slow. Negotiations on issues from trade to transportation links have yielded some symbolic successes – like the 7 April 2005, opening of a bus line that crosses the LoC – but a few concrete gains have been made on the most important areas of conflict. The biggest barrier to intra-regional trade is, therefore, the persistent political problems between the two countries. Because of India's market size and central location, 80 per cent of intra-regional trade in South Asia is to or from India. India's all neighbours share a concern about being overwhelmed by Indian goods. Decades of mutual political hostility and suspicion compound the challenges in

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trying to build strong trade relations between India and Pakistan. Both sides tend to see progress on issues like trade as a favour to the other country rather a benefit to one's own country. Pakistan, moreover, is reluctant to move too fast toward normalization of trade and other relations with India lest the issue of Kashmir get sidetracked.<sup>2</sup>

India and Pakistan struggled to hide their exasperation with each other at the start of a fifth round of "composite dialogue" between their foreign secretaries on 21 July 2008. New Delhi warned that the recent attack on its embassy in Kabul had put the talks under stress. Islamabad said given its enormous sacrifices it could not be put on probation in the war on terror. After the round of the dialogue on peace and security, J&K and other Confidence-Building Measures (CBMs), Indian Foreign Secretary Shiv Shankar Menon said that the talks were happening at a "difficult time of our relationship with Pakistan". "Unfortunately, there have been several issues in the recent past which have vitiated the atmosphere and the composite dialogue process is under stress," Menon said. He referred to recent alleged violations of the ceasefire along the LoC, cross-border terrorism and alleged incitement to violence in J&K.<sup>3</sup> Moreover, India said on 1 August 2008 that peace talks with Pakistan were at the lowest point in their four-year history after a spate of bombings in Indian cities and at the country's embassy in Kabul. Foreign Secretary Menon said the blasts had "affected the future" of negotiations between the nuclear-armed neighbours.<sup>4</sup>

While the Kabul attack has been the main reason for the diplomatic downturn in the peace process, Indian concerns over its

relations with Pakistan have predated the deadly bombing. Several times over the last four months, India has conveyed its concerns over ceasefire violations on the LoC, and the sudden and quite public resurgence of banned militant groups in Pakistan to the new government in Islamabad through diplomatic channels. They were also communicated at the political level during the visit of India's External Affairs Minister Pranab Mukherjee to Islamabad in May 2008.<sup>5</sup> However, Pakistan has formally denied the Indian charge that the Inter Service Intelligence (ISI) was involved in the bombing, demanding evidence that New Delhi is said to have refused to share. Contrary to this, *The New York Times* (NYT) reported that, according to American intelligence agencies, the ISI helped plan the suicide bombing of India's embassy in Kabul based on "intercepted communications between Pakistani intelligence officers and militants who carried out the attack, US officials said, providing the clearest evidence to date that Pakistani intelligence officers are actively undermining American efforts to combat militants in the region".<sup>6</sup> Subsequent forensic investigations by the North Atlantic Treaty Organisation (NATO)-led International Security Assistance Force (ISAF) have also reportedly established that the explosives used bore markings of the Pakistan Army Ordnance Factory.<sup>7</sup>

The recent agitation in the Kashmir Valley over the issue of land transfer to the Amarnath Shrine Board and subsequent Pakistan's stand on this issue has further created question mark on their fragmentary peace process. In a series of calibrated - and seemingly pre-planned - moves, Pakistan has swiftly waded into the situation in J&K.

The Upper House of the Pakistani parliament passed a resolution condemning the Indian government's handling of the situation. The Pakistan Foreign Ministry issued a statement expressing "deep concern" over the situation, which, it said, held "serious humanitarian implications", and called on New Delhi to "address the situation and prevent human-rights violations". Moreover, Islamabad dramatically raised the ante by several notches with Foreign Minister Makhdoom Shah Mahmood Qureshi issuing a separate statement. The minister's statement was couched in strong language expressing the condemnation by the Pakistan government of the "excessive and unwarranted use of force against the people of Indian-occupied-Kashmir". Qureshi also expressed deep concern over the "deteriorating situation" and called on the Indian government to take "immediate steps to end violence against innocent Kashmiris".<sup>8</sup> Most importantly, the Pakistani minister linked the prevailing situation in J&K to the India-Pakistan bilateral dialogue and the larger issue of the "long-standing dispute of Jammu and Kashmir". New Delhi has taken exception to the Pakistani statements, terming them as "clear interference" in India's internal affairs and cautioning that such rhetoric wouldn't help the bilateral dialogue move forward.<sup>9</sup>

According to the Lt. Gen. (ret.) Talat Masood, a strong supporter of the India-Pakistan peace process, a two-fold problem confronts the peace process that makes the coming months a "very crucial period for India-Pakistan relations:" a weak government in Pakistan that is unable to assert its political will for peace with India over the "establishment," and the onset of election season in India during which no political party

would want to be seen as being soft on terror, and consequently a government in New Delhi that would not want to appear conciliatory towards Pakistan after blaming it for something as big as the Kabul attack.<sup>10</sup> Indian officials who have been interacting with the new government in Pakistan too say the main worry now is that the new set-up is too weak and unstable to give any assurances that it can rein in "the elements" which have been chipping away at the peace process, whether it is on the LoC or the attack in Kabul. Therefore, these recent developments have further raised questions about the ongoing peace process between the two countries and early implementation of the SAFTA for greater economic integration of the South Asian region.

#### **South Asian Association for Regional Cooperation (SAARC)**

The South Asian Association for Regional Cooperation (SAARC) comprising seven South Asian countries; Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka was formed in 1985 at the initiative of Bangladeshi President Ziaur Rahman, with the adoption of its Charter at its first Summit in Dhaka, Bangladesh. Afghanistan became eighth member of the SAARC at its summit held in New Delhi in April 2007. SAARC provides a platform for the peoples of South Asia to work together in a spirit of friendship, trust and understanding. It was created for the purpose of holding periodic, regional consultations on matters of mutual interest and to explore the possibility of cooperation in economics, social, cultural and other fields.<sup>11</sup> The rationale was based on the success of similar regional groupings elsewhere and strength of the concerted

action in international representation with enhanced competitive position ensued.

The SAARC, however, has not achieved much since its initiation in 1985, primarily due to the tenuous political relations between India and Pakistan and a general environment of mistrust among member countries. Political economy considerations are important. At the time of its inception, "each country of the group was pursuing autarkic economic policies and had almost no integration with the international and the regional economy."<sup>12</sup> Compared to other regional blocs, the SAARC performance is dismal. With a total population over one-fifths of the world population and a combined gross national income of \$3 trillion, SAARC only provides about one per cent of world production. Despite geographic proximity, trade and weak transit links, infrastructure difficulties, high tariff and non-tariff barriers hamper investment.

Intra-SAARC trade has remained low at a mere 3 per cent since the organization's inception and it still remains small because of high tariffs and a variety of non-tariff barriers such as quantitative restrictions, fiscal charges and discriminatory practices and outright ban on imports. It has been viewed that SAARC must deal with the world's major trading blocks as a composite unit to maximize the gains of trade for both sides. Although the intra-region trade is not impressive, the South Asian nations have been maintaining strong links with the outside world with the advanced countries.<sup>13</sup>

#### **Economic Cooperation under SAARC**

The acceleration of economic growth is a Charter objective of SAARC.

Cooperation in the core economic areas among SAARC Member Countries was initiated following the Study on Trade, Manufactures and Services (TMS), which was completed in June 1991. Currently, the following important processes of SAARC are promoting cooperation in the field of Trade, Economy and Finance, and related areas<sup>14</sup>:

Committee on Economic Cooperation: Overall Coordination of cooperation in economic areas;

South Asian Free Trade Area (SAFTA) Committee of Experts and SAFTA Ministerial Council: Administration and implementation of SAFTA;

Finance Ministers Mechanism: Cooperation in the field of Finance and related areas;

Standing Group on Standards and SAARC Standards Coordination Board: Cooperation in the field of harmonization of Standards;

Group on Customs Cooperation is dealing with issues related to harmonization of Customs rules and procedures.

#### **South Asian Free Trade Agreement (SAFTA)**

The South Asian Free Trade Agreement (SAFTA) has been seen as an important tool that can take SAARC away from its jinxed past. Though this agreement came into operation on 1 January 2006, its Tariff Liberalisation Programme (TLP) started only on 1 July 2006, because the member-countries were not ready. Under this agreement all member-countries are

expected to conduct trade with each other on all items, except those in the negative list on which duties are not reduced.<sup>15</sup> Article 3 of the SAFTA Agreement states that the objectives of this agreement are to promote and enhance mutual trade and economic cooperation among Contracting States by, inter-alia:<sup>16</sup>

Eliminating barriers to trade in, and facilitating the cross-border movement of goods between the territories of the Contracting States;

Promoting conditions of fair competition in the free trade area, and ensuring equitable benefits to all Contracting States, taking into account their respective levels and pattern of economic development;

Creating effective mechanism for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and

Establishing a framework for further regional cooperation to expand and enhance the mutual benefits of this Agreement.

Moreover, article 4 of the SAFTA agreement says that this agreement will be implemented through the instruments of Trade Liberalisation Programme; Rules of Origin; Institutional Arrangements; Consultations and Dispute Settlement Procedures; Safeguard Measures; and any other instrument that may be agreed upon.<sup>17</sup> Therefore, the signing of the SAFTA agreement at its Islamabad Summit in 2004 regarded as a landmark in the evolution of the SAARC. The SAFTA agreement has the potentiality of going beyond its stated objective of freeing trade in goods. It can make South Asia a magnet for vastly enhanced foreign investment and lead to a

restructuring of the economies making the region one of the fastest growing and most competitive economic blocs.<sup>18</sup> However, there is a significant exception to this rule – that is the trade from India to Pakistan. This exception considerably lowers the prestige of SAFTA and raises question about its future.

The origin of the SAFTA can be traced back from the sixteenth session of the Council of Ministers where they agreed on 18-19 December 1995 in New Delhi, the need to strive for the realization of SAFTA and to this end an Inter-Governmental Expert Group (IGEG) was set up in 1996 to identify the necessary steps for progressing to a free trade area. The Tenth SAARC Summit held in Colombo on 29-31 July 1998 decided to set up a Committee of Experts (COE) to draft a comprehensive treaty framework for creating a free trade area within the region, taking into consideration the asymmetries in development within the region and bearing in mind the need to fix realistic and achievable targets. The Agreement on SAFTA, drafted by the COE, was signed on 6 January 2004 during the Twelfth SAARC Summit in Islamabad. The Agreement came into force on 1 January 2006. Under the Trade Liberalisation Programme scheduled for completion in ten years by 2016, the customs duties on products from the region will be progressively reduced. However, under an early harvest programme for the Least Developed Member States, India, Pakistan and Sri Lanka are to bring down their customs duties to 0-5 per cent by 1 January 2009 for the products from such Member States. The Least Developed Member States are expected to benefit from additional measures under the special and differential treatment accorded to them under the Agreement.<sup>19</sup>

SAFTA has also evolved a framework for the creation of a free trade zone covering 1.4 billion people with zero customs duty on the trade of practically all products in the region by the end of 2012. It required India, Pakistan and Sri Lanka to bring their duties down to 20 per cent in the first phase of the two-year period ending in 2007. In the final five-year phase ending in 2012, the 20 per cent duty will be reduced to zero through a series of annual cuts. The four least developing countries – Bangladesh, Nepal, Bhutan and Maldives – get an additional three years to reach zero duty level. But in order for SAFTA to achieve its goals and on schedule, India and Pakistan, the two leading economies of the region, need to cooperate rather than indulge in a wasteful game of one-upmanship.<sup>20</sup>

The Governments of the SAARC motivated by the commitment to strengthen intra-SAARC economic cooperation to maximise the realization of the region's potential for trade and development for the benefit of their people, in a spirit of mutual accommodation, with full respect for the principles of sovereign equality, independence and territorial integrity of all States; recognized that Least Developed Countries (LDC) in the region need to be accorded special and differential treatment commensurate with their development needs; and it is necessary to progress beyond a Preferential Trading Arrangement to move towards higher levels of trade and economic cooperation in the region by removing barriers to cross-border flow of goods.<sup>21</sup>

The heads of State or Government at the 14<sup>th</sup> SAARC summit on 3-4 April 2007 in New Delhi stressed the need for ensuring

effective market access through smooth implementation of trade liberalization programme and directed the SAFTA bodies to review the progress on a regular basis. They emphasized that SAFTA should be implemented in letter and spirit. Successful implementation of SAFTA will catalyse other areas of regional economic cooperation.<sup>22</sup> Indian Prime Minister Manmohan Singh on 3 April 2007 in New Delhi said that "South Asia is in the midst of an unprecedented political and economic transformation. The political transitions, painful as they may be, are something that each one of us has to work out for ourselves, within our countries and between our governments. I see signs of hope that our governments are now addressing the bilateral political issues that have prevented us from achieving our potential. We must now make a break with the past and join hands to realise our common shared destiny."<sup>23</sup>

South Asian leaders signed a legal cooperation pact in its Colombo Summit on 3 August 2008 to combat terrorism and agreed to set up a food bank to fight hunger in the face of rising food prices in one of the world's poorest regions. But the SAARC made little progress on trade, the central theme of the group formed in 1985. The summit provided no concrete steps to invigorate the SAFTA agreement which came into effect in 2006 but which has failed to take off. Aimed at achieving zero tariffs on almost all products by 2012, SAFTA has witnessed squabbles over tariff concessions, with Pakistan accusing India of violating the agreement with various non-tariff barriers.<sup>24</sup> Terrorism in one of the world's most troubled regions dominated the summit.

### India-Pakistan Trade Relations

While Pakistan has so far not applied the provisions of SAFTA to Indo-Pakistan trade relations, the largest component of intra-regional trade in South Asia, it remains the case that strong economic relationships between India and Pakistan would go a long way to securing SAFTA's success. There are three key reasons why trade between India and Pakistan needs to be enhanced. First, viewed in a larger regional context, South Asia is the least integrated region and stronger economic relations between India and Pakistan is a key element of regional integration and stability in South Asia. Second, there are vast untapped trade and investment possibilities between the two countries which can be gainfully exploited with significant welfare gains and opportunities to alleviate poverty and strengthen human security. South Asia is home to 24 per cent of the world's population but 42 per cent of its poorest people. Third, as natural trading partners with a common border, trading with each other can be substantially higher as the potential is estimated to be 10 times the current level.<sup>25</sup>

### Initiatives by Pakistan

Pakistan ratified SAFTA on 15 February 2006. This step by Pakistan raised hopes that the trade barriers between it and India might soon come down. With SAFTA making the Most Favoured Nation (MFN) treatment automatic, there were also hopes that Pakistan's refusal to give India MFN status would cease to matter. India gave Pakistan the MFN status in 1995. But, soon after the 15 February 2006 ratification Pakistan's commerce minister Humayun Akhtar Khan said that full-fledged commercial

relations between the two countries would have to wait for the resolution of the Kashmir issue.<sup>26</sup> Until then, bilateral trade would continue to be guided by the positive list.

Pakistan ratified SAFTA, but trade between India and Pakistan will not be initiated under this agreement, instead it will continue under the existing import regime. "We will not allow import of Indian items under SAFTA, as Pakistan will continue to have limited bilateral trade with India under existing arrangements," a news report quoted as saying after a meeting of the federal cabinet which approved the agreement with Pakistan Prime Minister Shaukat Aziz in the chair.<sup>27</sup> "Unless and until there is visible progress on political issues between the two countries including the Kashmir issue, Pakistan cannot initiate open trade with India. Both the countries are holding composite dialogue to solve the political issues, which are the main hindrance in the way of open trade".<sup>28</sup>

In line with this stated policy, Pakistan's Central Board of Revenue (CBR) issued an order notifying the tariff concessions under the SAFTA agreement. The tariff reduction would be available on import of 4,872 products from Sri Lanka, Bangladesh, Bhutan, Nepal and Maldives. But, imports from India would be subject to the Pakistan import policy order of July 2005, which restricts imports of goods from India or goods of Indian origin to a positive list of only 773 items.<sup>29</sup> Pakistan's argument is liberalisation of trade has to be linked to progress on the resolution of long-standing disputes between the two countries, the core issue being that of Kashmir. Pakistan dismisses New Delhi's position that trade must not be held hostage to the settlement of a long-standing problem.

Thus, despite the SAFTA agreement becoming operational from 1 July 2006, Pakistan has decided not to accord the MFN status to India. It will also not be extending tariff concessions due under SAFTA.

Surprisingly, the State Bank of Pakistan published a report departing from this traditional argument, though it bears no relation to Pakistan's official trade policy with India. The report released on 10 July 2006, said that Pakistan stands to save between \$400 million and \$900 million on its import bill if it would expand the positive list and allow imports from India that it presently imports from other countries at a higher cost. There are 2,646 items that are common in Pakistan's imports and Indian exports. The report, based on 2003-2004 data, said that after excluding the items that are on the positive list for India, 45 per cent of the items could be imported by Pakistan at lesser cost from India than the current cost of import from the rest of the world.<sup>30</sup> For instance, in the iron and steel sector, the report said Indian imports are on the whole not as cheap as Iran's. But, it identified 47 products that were cheaper to import from India. It also pointed to chemicals and pharmaceutical products. In these sectors, Pakistan's imports from India were 4.3 per cent and 6.8 per cent respectively of its total imports in these sectors. As many as 166 of these items cost less to import from India than from other countries.<sup>31</sup> The paper also argued that trade liberalisation is not a one-way street and points to tariff and non-tariff barriers in India that discourage Pakistani exporters, despite India having given the MFN status to Pakistan as far back as 1995. It said that unless these barriers are brought down, Pakistan cannot gain from bilateral trade, the potential for which, according to estimates, ranges from \$0.75 billion to \$6.25 billion.<sup>32</sup>

However, the trade policy of Pakistan for the fiscal year 2008-09 unveiled on 18 July 2008 set an ambitious export target of \$22.10 billion, but avoided projecting an import target because of rising international oil and food prices. The policy, announced by Commerce Minister Ahmad Mukhtar, offered a number of incentives for traditional products. It envisages establishment of 11 new industrial clusters, reactivation of the Federal Export Promotion Board and review of the TDAP Ordinance to improve its working.<sup>33</sup>

Import of more than 136 new items from India has been allowed. Of these, 72 tariff lines were added to the importable list for raw materials, chemicals and industrial inputs, nine tariff lines for pharmaceutical products and vaccines, two for fruits and vegetables, 19 for fertiliser, 32 for machinery and parts and two for POL and diesel. With the inclusion of these items, the total list of tradable products with India has been increased to 1,938 tariff lines from earlier 1,837. The global import of these 136 tariff lines stood at \$2.8 billion of which \$2.2 billion was spent only on import of POL and diesel. This means the government has diverted this import value of \$2.8 billion to India which will increase its exports to over \$3 billion from the current level of \$1 billion and becomes the second largest trading partner of Pakistan after China.<sup>34</sup> After this increase in imports from India, the grant of MFN status to India would become meaningless, but Commerce Minister linked it with the removal of non-tariff measures by India. A Halal Certification Board will be set up to devise a standard and certification mechanism for the export of Halal food products. Import of paddy harvesters and

dryers from India will be allowed through Wagha by road. The government will allow the import of used buses not more than 10 years old under the transfer of residence scheme for overseas Pakistanis and import of Compressed Natural Gas (CNG) buses from India. If Indian manufacturers of CNG buses make a firm commitment to the manufacturing of such buses in Pakistan, the ministry of Commerce may provide special dispensation for import of 10 buses by road via Wagha from each possible investor as test consignments. Duty and taxes have been withdrawn on plant, machinery and equipment imported to set up a unit under the Duty and Taxes Remission for Export (DTRE) scheme. Inputs in DTRE have been allowed to be imported from India, even if these are not included in the importable items from India, or manufactured locally.

Imports of gold, silver, platinum, palladium, diamond and precious stones have been exempted from customs duties and sales tax to increase exports and encourage investments in the sector. The import of machinery/equipment for mining/quarrying and grinding of minerals (along with spares) will be allowed from India to improve availability of good quality stones for further processing. It has been decided that the subsidy given to exporters to comply with environmental standards from the Export Development Fund (EDF) will be increased to eight per cent or 50 per cent of the mark-up, whichever is lower.<sup>35</sup> Meanwhile, Pakistani officials complain that the government's new trade policy, with its expanded positive list of imports from India, has not been appreciated by New Delhi despite the massive hardline criticism the Pakistan People's Party (PPP)-led government is facing for "trying to please

India." They list the "small but incremental steps" that Pakistan has taken since the new government came to power to improve ties, such as quietly allowing Indian films to be screened. They worry that "compulsions" in an election year are making India adopt an aggressive and unrelenting posture.<sup>36</sup>

### Initiatives by India

India, as the largest country in the region, "is ready to accept asymmetrical responsibilities, including opening her markets to her South Asian neighbours without insisting on reciprocity". The Government of India reiterated its continuing and consistent commitment to the SAARC process, towards enhancing prosperity of the SAARC region through social development and regional economic integration.<sup>37</sup> In line with this stated policy, India has unilaterally decided to cut the negative list with regard to the Least Developed Countries (LDC) – Bangladesh, Nepal, Bhutan and Maldives – in the SAARC region to around 500 from 744, to expand trade in goods in the region. Union Minister of Commerce and Industry Kamal Nath, while addressing the Third SAFTA Ministerial Council meeting in New Delhi on 3 March 2008, said that "In keeping with our commitments, we have already notified the advancement of the trade liberalisation programme in respect to LDCs by one year and with effect from 1st January 2008, the import duty on all items other than those in the negative list has been reduced to zero". He further said that "Various SAARC mechanisms have focussed on developing specific short, medium and long term cooperation projects to deliver direct benefits to the people. Operationalisation of the SAARC Development Fund and full

implementation of SAFTA would pave the way for this development. The South Asian University and the SAARC Food Bank can also bring benefits to South Asia", Kamal Nath said.<sup>38</sup> He also expressed confidence that the new government in Islamabad will soon implement the SAFTA with New Delhi and take necessary measures, including duty changes, to facilitate trade.

Prime Minister Manmohan Singh, at the Inaugural Session of the 15<sup>th</sup> SAARC Summit in Colombo on 2 August 2008 said that "India has experienced vigorous growth at an average of 8.8 per cent per year for the past four years. India is now an open economy welcoming investment from everywhere. The other countries in our region have also done well. Today, Asia has become the engine of growth of the world economy and South Asia is a part of this resurgence. This growth must have a multiplier effect in our region. We have rich and varied experience in development, which we must pool together to create a model of inclusive and sustainable regional development. He further said that "Economic cooperation, connectivity and integration will be the cornerstone of SAARC in the years ahead. We have already agreed to move towards a South Asian Customs Union and a South Asian Economic Union in a planned and phased manner. India has granted zero duty access to our markets to LDC members from 1 January 2008, one year ahead of the target and also pruned our sensitive list for these countries. We will go ahead with these initiatives at a pace we are all comfortable with".<sup>39</sup>

Meanwhile, India lifted the ban on trading in 264 items and pruned the list to 480

commodities, India's Science and Technology Minister Kapil Sibal said after a Cabinet meeting in New Delhi on 8 August 2008. "This is in pursuance of India's announcement during the SAARC summit regarding its readiness to accept asymmetrical responsibilities including opening her markets to her South Asian neighbours without insisting on reciprocity," Sibal said.<sup>40</sup> India, South Asia's biggest economy, and seven other nations including Pakistan and Sri Lanka, during the 15<sup>th</sup> SAARC summit in Colombo in August 2008 vowed to cut trade barriers to accelerate growth, underscoring the importance of regional groupings after the collapse of World Trade Organisation (WTO) talks.

Even though Indian and Pakistan are currently entangled in political and economic deadlock, the Associated Chambers of Commerce and Industry of India (ASSOCHAM) has suggested host of measures to achieve the target of Indo-Pak two-way trade to \$ 9 billion in next few years. Despite their trade as per current estimates has touched around \$ 2 billion and its potential will grow many fold as their inter dependence on economic and trade related issues would leapfrog in future, thereby bury deep down Indo-Pak political differences, said the ASSOCHAM President, Sajjan Jindal, while releasing its recent publication on "Indo-Pak Trade Ties" in New Delhi on 19 August 2008.<sup>41</sup> The ASSOCHAM Chief also expressed optimism that in future, rail and road linkages between India and Pakistan would witness intensifications, thus, pave ways for larger movements of trade and tourism.

The prospects for increased two way trade are also based on the assumptions that cooperation between India and Pakistan has been accelerating in field of banking, freight transport and goods like tea and rice. After the launch of SAFTA in January 2006 and opening up of rail and road transport, bilateral trade increased to \$ 400 million. With SAFTA becoming operational in July 2006, over 4000 commodities were opened for trade compared to less than 1000 under the India "Positive Lists" maintained by Pakistan. Exports from India to Pakistan have grown at a Compounded Annual Growth Rate (CAGR) of 60 per cent and imports at a CAGR of 64 per cent for the period 2002-07.

Bilateral trade swelled from \$ 235.74 million in 2001-02 to more than \$ 1 billion in 2006-07. Share of Pakistan's exports to India in total exports rose from 0.5 per cent in 2001-02 to 1.8 per cent in 2005-06. Balance of trade has remained in favour of India. The main commodities of exports to Pakistan include sugar, dyes, plastic and petroleum products and cotton while main import items from Pakistan are petroleum and crude products, fruits and nuts (excluding cashew nuts), cotton yarn & fabrics and organic chemicals.<sup>42</sup> The Chamber has come out with host of recommendations which included the key to solving Indo-Pak issues lie in increasing bilateral trade, promoting people to people contact and raising businessmen's stake. India has granted Pakistan MFN status in 1996, though Pakistan has not reciprocated presumably because the trade balance is highly in favour of India. Therefore, both the countries should device means and ways to reduce the imbalance by opening fresh trade routes and encouraging Indian traders to identify more commodities for import.

Improved trade relations between Indian and Pakistan would lead to an environment more congenial for strengthening SAARC as a whole.

A recent study done by the Asian Development Bank (ADB) and the United Nations Conference on Trade and Development (UNCTAD) on Regional Cooperation in South Asia, "Benefits from SAFTA and Way Ahead" tried to quantify benefits of SAFTA. It has undertaken both quantitative and qualitative assessment of the outcome of SAFTA. The study observed that the full implementation of the SAFTA would contribute to stronger economic growth in the region. While there would be losses in some sector in the region, there would be gains in other sectors, the net effect on economic output being positive. Much higher gains for the region can be secured, the study said if SAFTA would be simultaneously implemented with measures to reduce transaction costs and create more efficient regional transportation and infrastructure networks. Increasing the scope for intra-regional trade in energy, improving road, rail and air links within the region, building modern customs and border crossings, developing sophisticated telecommunications links like optic fibre were vital to this endeavour, it said.<sup>43</sup>

Another study done by the Indian Council of Research on International Economic Relations (ICRIER), a New Delhi based economic think tank, said that India and Pakistan have a trade potential of \$11.7 billion (Rs 46,098 crore), but the two neighbours need to take proactive measures to exploit untapped areas of economic cooperation. The study, based on surveys of

business people, has identified export potential of \$2.2 billion from Pakistan to India, while India can ship goods worth \$9.5 billion per annum to its neighbour.<sup>44</sup> Removal of tariff and non-tariff barriers between India and Pakistan can also take bilateral trade to \$9 billion in a short time frame, according to Muhammad Nasir Khan, President, Islamabad Chamber of Commerce and Industry.<sup>45</sup>

The year 2008 has in fact already seen a wide-ranging number of breakthrough developments in areas such as film, finance and flights. Bollywood could finally be coming to Pakistan as Pakistanis Parliamentary committee on culture has given its go-ahead to lift a four-decade ban on Hindi films. The Securities and Exchange Board of India (SEBI) and the Securities and Exchange Commission of Pakistan (SECP) have signed a Memorandum of Understanding (MoU) to encourage greater cooperation in promoting and developing their respective capital markets. Of perhaps the greatest impact, both countries have agreed to double the number of weekly passenger flights with direct flights commencing between Delhi and Islamabad.<sup>46</sup>

In recent years, the private sector has played an active role in identifying areas of trade interest, areas of possible joint ventures and other forms of co-operation between the two countries. Potential sectors for mutual cooperation between India and Pakistan include agricultural products, tyres, auto spare-parts, minerals, chemicals, pharmaceuticals, leather, textiles, tele communications, gas pipeline, electricity generation using coal and wind energy in the Sindh province of Pakistan. Studies undertaken by the private sector also see a large scope for trade in several service sectors such as health, entertainment services, information technology, energy and tourism.<sup>47</sup>

Moreover, India and Pakistan, at a meeting of the Joint Working Group on Cross-LoC Confidence-Building Measures (CBMs) on 22 September 2008, finalised the modalities of the cross-Line of Control trade. Zero-tariff trade of items produced in both regions will be conducted on the Srinagar-Muzaffarabad and Poonch-Rawalkot routes. The two sides also agreed to resume truck services between Srinagar and Muzaffarabad from 1 October 2008.<sup>48</sup>

However, the greatest economic benefit of trade relations between India and Pakistan would occur in the sphere of energy cooperation. India is one of the most rapidly growing energy markets in the world and will be able to absorb new sources of supply as they materialize in the region. Pakistan's potential role in fulfilling this need is not as a supplier but as a potential transit route for energy from Iran and Central Asia. This would require construction of one or more new pipelines, a major capital investment that makes sense only if the political stability and economic feasibility of the project can be counted on.<sup>49</sup> Meanwhile, India and Pakistan have resolved commercial differences holding up a proposed multi-billion-dollar gas pipeline from Iran, Shah Mehmood Qureshi and Murli Deora, oil ministers of both South Asian nations said on 27 June 2008.<sup>50</sup> The project, which aims to transport gas from Iran to Pakistan and India, was first mooted in 1994 but has been stalled by a series of disputes over prices and transit fees.

President SAARC Chamber of Commerce and Industry (CCI), Tariq Sayeed appreciated the initiatives of the Government of Pakistan and India for trashing out a comprehensive plan to improve bilateral engagement and hoped that it would lead to

economic cooperation subsequently promoting regional trade in the South Asian region as the future of South Asia depends on the relationship between two major players. President SAARC CCI said that since the escalating tensions between India and Pakistan had threatened to cast a shadow over the South Asian Association for Regional Cooperation summit should aim at improving regional economic growth and cooperation with letter and spirit.<sup>51</sup> President SAARC CCI was of the opinion that in addition to political mediation, economic diplomacy was also required to shift the priorities and to achieve the objectives for which SAARC was created. He added that economic cooperation was a must to make South Asian region a tension-free zone.

### Conclusion

Free Trade Area in South Asia has little meaning unless India and Pakistan are involved in it whole heartedly. It is easy to list the benefits of expanded India-Pakistan economic relations, but much more difficult to develop a road map for getting there. Ultimately, trade is unlikely to be the lead issue in this complex relationship. Both sides are accustomed their current economic isolation from one another. Once the two countries' leaders decide to start a political dialogue, however, expanding trade could become a useful adjunct to the political process, instead of being hamstrung by it. With an improved security and political environment and a resolution of the long-standing Kashmir conflict, citizens of both countries would be able to reap a large peace dividend. It would come not only through more trade in goods and services, but also from joint ventures and investments in each other's country, improved coordination of economic and financial policies, and, from financing investments in human

capital and economic infrastructure by releasing budget resources that are now committed to defence and security. Both countries, therefore, need to make an effort to avoid conflicts in order not to suffer such a welfare loss. The development of trade relations between the two countries will serve to resolve their political conflicts. For this, political will and long term vision is required.

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## Mitigating Gender Inequality: Road to Development An approach through Women Empowerment

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### Abstract

Gender inequality is a ubiquitous phenomenon in the Indian society which is a deterrent factor in attaining sustainable and inclusive development of the country at large. The issue of gender inequality which is being faced by educated and empowered women as well has been rightly depicted in the scene (Scene No. 9) which has inspired this paper. The paper has identified the areas of gender discrimination and has analyzed the same from social, economic and political angles. A mitigation strategy for resolving this issue would be to holistically empower women from the grass root level. Financial inclusion through microfinance should prove to be a competent measure to achieve the same. The Self Help Group (SHG) model which has already been implemented in different parts of the country is the most workable approach towards women empowerment. Access to Microfinance in the past few years has economically empowered women to a great extent. This has a "trickle down" effect on other social, economic and political issues of great concern.

### 1. Introduction

Gender Inequality has always haunted the Indians time and again in all the strata of society which has been depicted in the ninth scene of 'Swades'. Geeta, who is educated, self-reliant and who wants to contribute to the upliftment of society by teaching children, is asked to quit her job after marriage. She chooses to opt out of a possibility of such a marriage. It is women like her who are relatively more empowered than myriad others to make choices. They are the ones who can and do raise voice against gender discrimination. But more voices are needed to protest and condemn the practice which can be done only if women across the society in all regions, classes, castes and religions are empowered especially in the economic aspect. Once that is achieved, political and social empowerment will follow sooner or later.

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The main inspiration for this paper has been to provide a commercially viable solution to one of the most troubling issues in India - gender inequality. Empowering women through microfinance is considered as a viable mitigation strategy to alleviate this century old issue. The profit generating capability of the proposed solution will provide a least corruption prone system. The concept of "fortune lies at the bottom of the pyramid" supports the sustainability of microfinance to empower women both as business model and societal upliftment model.

### 2. Gender Inequality

Of all the multi dimensional problems existing in India, gender inequality is one of the most critical factors that need to be addressed for the sustainable economic and social development of the nation. According to the budgetary document of 2001 'Gender bias' is a term commonly used to describe how far

behind women have remained in seizing opportunities for improving their level of living. Gender inequality has direct and indirect impacts on poverty and alleviation of the same will lead to the holistic upliftment of all sections of the society. There is little doubt that India, although in a sky-rocketing growth phase, is not able to do justice in this issue because the benefits of the growth phase hardly reaches the women population especially in the rural sections. In the Indian society where structurally embedded discriminations prevail, women are kept aloof from the mainstream proceedings. In most parts of rural India, women possess near to nil decision making power and financial assets. Daughters are considered as a liability in the family and female foeticides are quite common. This increased marginalization of women affects sustainable development thus highlighting the importance of engagement of women to ensure economic, social, cultural and ecological vitality. Gender inequality can be discussed under three subheads: social, economic and political. The first factor is more elusive than the other two as it cannot be quantified.

### 2.1 Social Gender Inequality

This is a very broad and subtle form of gender inequality where the culture sanctions

male dominance thereby restricting women from entering the mainstream and narrowing down their role to that of a home maker. This is facilitated by societal taboos like the dowry system, domestic violence against women and inheritance rights biased towards the male offspring. In the Indian society a woman has always been the shadow of a man be it her father, brother or husband. She is forced to accept their decisions in matters concerning her life as well as her children's lives.

The qualitative aspects like access to paternal property and resources, ability to take independent decisions, nutritional standard of their diets and accessibility to primary health services can be used to subjectively summarize the degree of social gender inequality.

In a quantitative sense, the factors that can be used to measure the level of social gender inequality are sex ratio, female life expectancy at birth, infant mortality rate, maternal mortality rate and child mortality rate. Figure 1 shows the declining levels of sex ratio in India through the years which indicates higher levels of infanticides and foeticides. Table 1 shows a global comparison of selected health indicators for females which shows India does not enjoy an enviable position in the same.

Figure 1: Sex Ratio levels in India

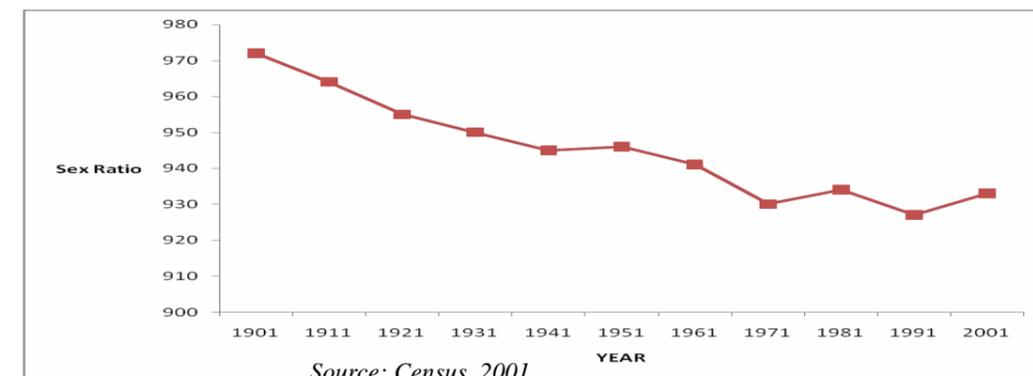


Table 1: Global Comparison of Selected Health Indicators for Females

	Life expectancy at birth	Infant Mortality Rate	Child Mortality Rate	Maternal Mortality Rate
<b>High Human Development</b>	80.3	-	-	-
Australia	81.2	5	-	-
<b>Medium Human Development</b>	68.9	-	-	24.5
Sri Lanka	75.6	16	20	-
China	72.3	48	11	65
Indonesia	67.5	43	20	450
<b>India</b>	<b>60.9</b>	<b>72.2</b>	<b>25.3</b>	<b>408</b>
Pakistan	65.6	73	104	-
<b>Low Human Development</b>	51.9	-	-	-
Bangladesh	58.7	79	116	440
Ethiopia	44.4	109	-	-

## 2.2 Economic Gender Inequality

Economic gender inequality can be summed up through wage differentials, less opportunities in the economic spectrum for women and skewed professional education in favour of men. The GDP per capita for women is generally extremely low in South Asian countries. In India it is 38 per cent of that of men. The reason for the same being their low social status despite the fact that women work considerably longer hours than men do in both household and productive labour especially agriculture.<sup>1</sup> Economic gender inequality is very much linked to social gender inequality as depicted in the selected scene of Swades where the society lays down restrictions on women from going to work. Generally according to the Indian society, the job of women is that of a home maker which is also not taken into consideration by the System of National Accounts thereby underestimating their productive contribution to the society which brands them as economically less active. UNDP Human Report of 2004 suggests the same by indicating the women's economic activity rate in India is just 50% as that of the male rate.

## 2.3 Political Gender Inequality

Gender inequality in a political sense refers to lack of proportionate female representation in key decision making posts in the government corridors. The percentage of women parliamentarians was as low as 13% in 2004<sup>2</sup> which signifies the male dominance on important issues and political ineffectiveness of women at the macro level. In a grass root level, general political awareness and relative participation in public decision making are factors which affect political gender equality.

## 3. The Road Ahead -Women Empowerment

A frontal attack on the root cause of gender inequality which is the inaccessibility to resources coupled with lack of information and societal constraints will be the optimal solution to the much discussed issue of gender inequality. In other words, holistic empowerment of women from the grass root level is the need of a fast developing country like India. The term empowerment has been interpreted in several ways by various analysts in the field and most of the findings point towards a strong correlation between sustainable development and women empowerment. The World Bank report of 2001 explains that societies which discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance and a lower living standard for their people. It also identifies four key elements of empowerment to draft institutional reforms: access to information, inclusion and participation, accountability and local organizational capacity.

### 3.1 Measuring Empowerment

Empowerment is a very qualitative term. An all encompassing quantifiable measure for empowerment is yet to be found out. Neither the World Bank nor any other major development agency has developed a rigorous method for measuring and tracking changes in levels of empowerment. The UNDP report of 1995 introduced two new complementary indices: the Gender-related Development Index (GDI) and the Gender Empowerment Measure (GEM). The GDI indicator measures the inequalities between men and women in terms of access to basic needs. GEM evaluates women's access to political and economic posts. The GDI and GEM are in fact indices which throw light on the level of empowerment but even those are not comprehensive.

The most plausible explanation of empowerment is found in related literature talks about three levels of empowerment to attain sustainability. Those are social, political and economic empowerment.

### 3.2 Social and Political Empowerment

The entry of women into the mainstream activities and subsequent control over resources will improve their standard of living and boost their confidence levels. It will also help them to form their own networks and organizations. Such initiatives will act as a platform to help each other to improve their standard of living without any external support. This does not necessarily imply change of gender relations at the household levels. This exactly is the underlying concept behind Self Help Groups (SHGs) which will be explained in the subsequent sections.

### 3.3 Economic Empowerment

Attaining self sufficiency and ability to take independent decisions in matters related to income generating activities captures the essence of economic empowerment. Increased access to savings and credit facilities to women ensures maximisation of their own as well as the households' welfare. Besides, women's income can be considered as a second source of income for the family thereby enhancing their status within the family as well as in the society. Therefore any institutional attempts like Microfinance aiming at women empowerment should be encouraged for the overall upliftment of the society apart from a sustainable business model.

### 4. Women Empowerment Through Microfinance

Microfinance refers to small savings, credit and insurance services extended to

socially and economically disadvantaged segments of society. The concept of Microfinance is very much prevalent in South Asia where there is a dire need for such services. Grameen Bank of Bangladesh was such an initiative, whose success has attracted a lot of players like banks, credit organizations and NGOs into the same. Rural India is a huge market for Microfinance products and activities and in addition to generating profits, they also result in increasing social values. At present, a large part of micro finance activity is confined to credit only.

#### 4.1 SHG: Collective Effort towards Sustainable Empowerment

Statistics show that a good proportion of the clients of Microfinance are women who don't have any securities to offer, no asset is in their name and most of the time their husbands are defaulters of the banks. Therefore a sustainable model for women empowerment should be focused on how women can be made the recipients of the services of microfinance. The Self Help Group (SHG) model is an initiative forwarded in this direction.

A Self Help Group (SHG) has been defined by NABARD as a group with an average size of about 15 people from a homogenous class who come together to address their common problems. Their regular voluntary savings are pooled together to make small interest-bearing loans to their members. Thus, they imbibe the essentials of financial intermediation including prioritization of needs, setting terms and conditions and keeping accounts, building financial discipline in all of them. They also learn to handle resources of a size that is

much beyond any of their individual capacities. SHG members begin to appreciate that resources are limited and have a cost. Once the groups show this mature financial behaviour, banks are encouraged to make loans to the SHG in certain multiples of the cumulated savings of the SHG. The bank loans are given without any collateral and at market interest rates. The groups continue to decide the terms of loans to their own members and peer pressure ensures timely repayments.

The SHG-Bank Linkage model evolved from the pioneering efforts of NABARD and two NGOs, MYRADA and PRADHAN, which had persuaded the government in 1992 to remove legal obstacles so that NGOs could take loans from banks that could be further lent to the SHG members. The expansion of the SHG bank linkage programme has accelerated in the past few years. It has reached an estimated 121.5 million people and disbursed more than Rs.68 billion in cumulative bank loans up to March 2005, using a network of 41,082 bank branches and 4,323 NGOs<sup>3</sup>.

#### 4.2 Modus Operandi of SHGs

Different SHG models all over India have diversified modes of providing financial access to its members. The whole concept of SHGs revolves around the fact of creating unity, solidarity and accountability. The credit services are obtained only through the SHGs to the member women. The amount of each loan and the priority of disbursement are decided by the SHG members. The interest income from thrift is generally used for re-lending. The interest rates are usually steep, averaging 2 percent per month. SHGs are free to charge any interest rate they believe prudent, though the commercial bank charges

10.5 percent and are refinanced by NABARD at 6.5 percent. The high interest rate discourages credit for consumption and ensures that the loans are for productive income-generation activities.

This system by itself is very empowering as all the decisions are in the hands of women. In this case instead of one woman, the whole group is negotiating with the bank. The fact that it is the woman who is getting the loan and not the husband makes her confident and at least she has some say if not complete on how the money should be used. If against the loan some asset is purchased then the SHGs register it in the name of the woman. Out of the loan she takes, she will like to influence the fact that the children should go to schools and have a better lifestyle. There is a constant improvement in the health and nutrition. If women get empowered, they do influence social issues at the community level. Their self esteem goes up and they consider that they are also the productive part of the society.

#### 4.3 "Kudumbashree" –A Proven Initiative

The SHG model has been successfully implemented by the Government of Kerala through its innovative initiative named "Kudumbashree". The programme was launched with an ultimate objective of complete poverty eradication by 2008. It followed a methodology of creating Neighbourhood Help Groups (NHGs) among women who were involved in many collective activities like diary farming, handicrafts, fishery, nursing etc. Kudumbashree has successfully launched microcredit system to meet the poor women's inaccessibility to banking. The financial empowerment

achieved through thrift accessibility intends to improve their social status.

This success story should be replicated in the other parts of India as well especially in regions where the Human Development Indicators (HDIs) are substantially low like Bihar, UP, MP etc.

**4.4 Is Access to Sound Financial Service Synonymous to Empowerment?**

Formulation of sound SHGs having organized structures and which are self sufficient is the responsibility of the State and Central governments. Let us assume that ten years down the line, India has a sound micro-finance network through SHGs and 75% of the women have access to financial services. Does this imply empowerment? The whole idea of women empowerment would go down the drains if the rural women get loans and services from SHGs to satisfy their husband's or in-law's demands. As explained earlier empowerment should happen in economic, social and political terms. Attaining high levels of literacy is one of the most important factors for empowerment. The Southern-most state of Kerala is the best example in this case. Kerala has 88% female literacy rate as against 54% of entire India<sup>4</sup>. As a result of which "The God's Own Country" experience very low levels of gender inequality as compared to rest of the country.

**5. Sustainable Solution Model**

Most of the steps taken in the direction of mitigating gender inequality have been State or Central government initiatives with the aid of global agencies like World Bank, ADB, UN etc. Individual efforts and participation are required to make such initiatives more effective. In a diverse country like India, a sustainable solution

for mitigating Gender Inequality should be formulated in a manner which accommodates all sections of the society. At an individual level, a feasible solution to mitigate the problem is through active participation of NGOs which facilitate microfinance solutions. Broadly this can be further bifurcated into solutions for the issues faced by rural and urban women.

**5.1 Urban Women Empowerment**

In comparison to their rural counterparts, urban women are empowered to a great extent in terms of education and job opportunities. The awareness and exposure levels among urban women are generally high and hence microfinance solutions can be introduced among them efficiently. NGOs can design micro-enterprises for unemployed but educated women and can have awareness programs to make them socially and politically active so that they can leverage it for their advantage. Women's clubs and social gatherings can be organized by NGOs as a measure in this direction.

**5.2 Rural Women Empowerment**

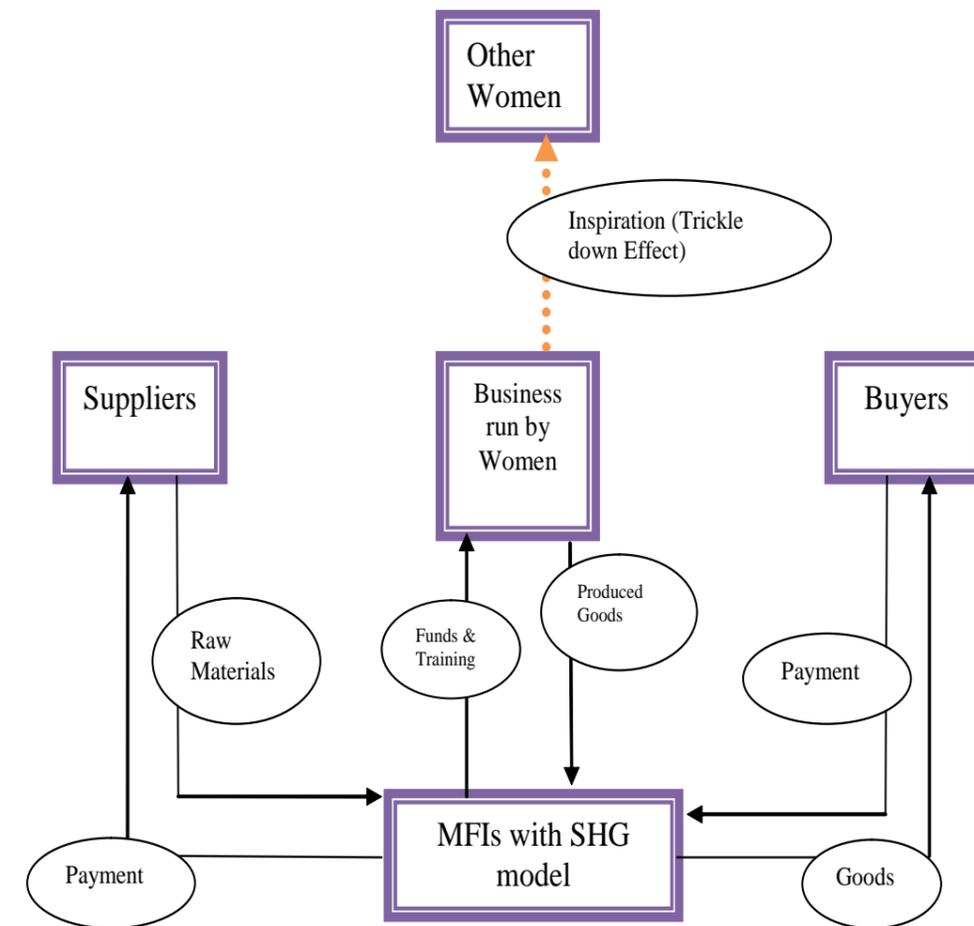
A lot of business opportunities have been identified in rural India by several academicians and researchers in this field. Management guru C K Prahalad defines this as "the fortune at the bottom of the pyramid". Efforts need to be made by individuals to capitalize such opportunities and channelize them in a way that will empower women. Microfinance can be leveraged in many ways for attaining sustainable women empowerment. A few of those are being discussed in the following sections.

**5.2.1 Backward and Forward Integration through SHGs**

To reduce their credit risk, the microfinance institutions have to go one step further to guarantee the proper utilization of the disbursed funds. Reducing exploitation by middle-men and providing symmetric information to all the women included in the

value chain are responsibility of the SHGs. This motive can be realized through forward and backward integration where the former ensures finding proper markets, right prices and customers for the products and services provided by the enterprises availing microfinance facilities. Backward integration can help them find suppliers and raw materials to carry out the respective activities

**Figure 2: Backward and Forward Integration through SHGs**



### 5.2.2 Women Employment through SHGs

In addition to providing credit, microfinance institutions can themselves get involved in small business startups thereby providing employment opportunities for rural women. This will also prove to be a training ground for women who intend to acquire skills to start their own entrepreneurial units in future.

### 5.2.3 Providing Loan Products Exclusively to Women

Taking a cue from Grameen Bank of Bangladesh, Microfinance institutions and NGOs should insist on giving loan products like home loan, farm equipments loan etc only to women. Further they should take measures to ensure that the assets are registered in the name of women. Such measures will help in reducing domestic violence against women and their abandonment by men.

### 5.2.4 Spreading Awareness and Providing Support for Women Education

NGOs through a proper network of SHGs should also provide awareness among the rural women regarding their social, political and legal rights. As explained in the previous section, access to financial aid may not necessarily empower women.

Apart from this, providing support for promoting education at the grassroots level, these SHGs should take effective and innovative measures. Out of a total of 1024996 schools in 2003, 45.9% did not have toilets and 17.3% did not have water supply. 58% of girls dropped out of school before reaching class VIII as an indirect consequence of this fact.(Ministry of HRD 2003).

Individual efforts by NGOs and SHGs can be taken to provide proper sanitation and

drinking water supply in schools. Another initiative can be to set up day care for small kids in particular areas who are otherwise taken care of by the young girls when their mothers go out for work.

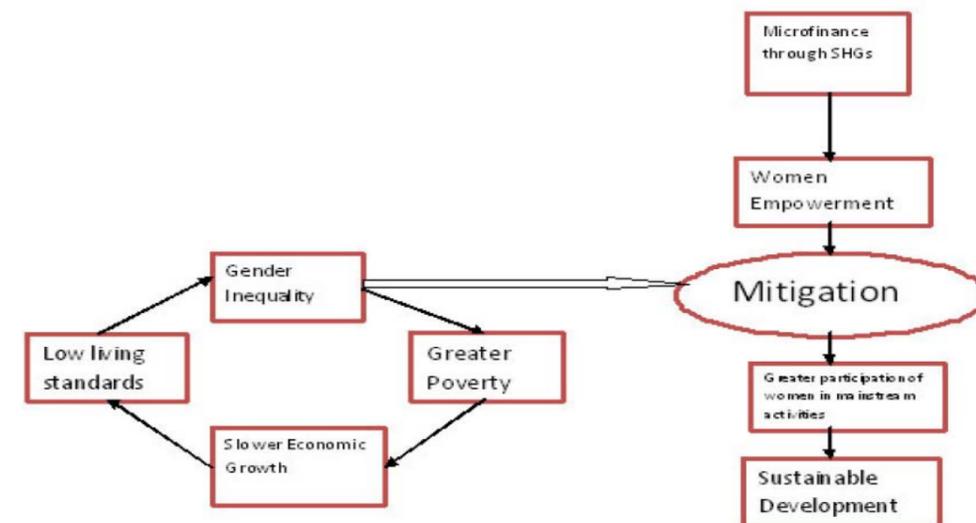
The above mentioned steps are purely individual efforts which can help in bringing down the drop out rate in schools and education is an inevitable feature of empowerment.

## 6. Conclusion

The key elements of the above discussions have been depicted in the figure below. It shows a vicious cycle where gender inequality leads to greater poverty, slower inequality and low living standards. To break this chain, mitigation of gender inequality is required and this paper analyses one of the most feasible solutions which is women empowerment through microfinance.

Educating women about the various functional aspects of small scale farming and giving them general awareness about how the money given by MFIs can be utilized should be in the primary agenda of the SHGs. The member women of the SHGs should be empowered enough to handle their own household budgets thereby succumbing less to male domination. This will help in the economic empowerment of women. As SHGs are a society initiative where like-minded people come together, the social empowerment part will be well taken care of. Political empowerment should also be made possible through awareness campaigns and giving specific importance in particular to women. Making them accountable and responsible for the political happenings in a particular area should prove to be an efficient strategy.

Figure 3 : Mitigation of Gender Inequality



## Notes

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## The Prospects of Economic Integration of South Asia with Regard to Intra-Regional Conflicts and Tensions

Arvind Adityaraj

### Abstract

*The process of economic integration with regard to the ongoing conflicts and tensions has been taken as panacea for preventing any future escalation of tension. It has brought historically rival countries under one umbrella in Europe and South East Asia. The concept 'economic integration' leads to peace is not workable in every possible setting, however. By taking South Asia as an example, this article will make an endeavour to answer the question whether economic integration is conducive to peace. Despite attempts to bring countries together through the process of economic integration, thanks to the initiatives taken under the auspices of SAARC (South Asian Association for Regional Cooperation) – neither peace nor the process of economic integration itself has been fully realized in South Asia due mainly to inter and intrastate conflicts. The article traces the process of evolution and prospects of peace through regional economic cooperation in South Asia and argues that the legacy of state formation in South Asia to some extent pre-empt any sort of regional cooperation. Political strife's rooted on the religious and cultural belief surrounding the countries of South Asia show somewhat uncompromising picture for the full-scale of integration in the region and hence the peace thereof. The article ends with a cautious positive note that durable peace through regional economic integration in South Asia is not impossible in the present settings.*

### Introduction

The formation of regional integration has been greatly successful in bringing historically hostile countries together. The factors that push countries closer are both economic and political but economic factors have always prevailed over the political ever since the formation of nation states – the classic example is the states in the European Union and the South East Asia where economic dimension have brought long time foes in the same dais.

The present international economic situation, characterized by stagnant growth, recessionary conditions and protectionist tendencies in the developed countries has seriously underpinned the economic growth in developing countries.<sup>1</sup> The worsening terms of trade, acute balance of payment crisis and debt burden on developing countries have further crippled the potential economic growth of these countries. Therefore current world economic conditions underscore the need for a greater economic cooperation among the developing countries.

The term 'economic integration' encompasses broad areas of socio-political, economic and cultural links with nations joining together in a forum generally belong to one or several regions.<sup>2</sup> The Association of South East Asian Nations (ASEAN), European Union (EU), North American Free Trade Area (NAFTA) are few examples of such integration. The degree of economic integration ranges from Preferential Trade Arrangements (PTA) to Free Trade Area (FTA), Customs Union (CU), Common Market (CM) and Economic Union (EU).<sup>3</sup>

### An Overview of South Asia

Viewed from either the global or regional perspective, South Asia provides a disappointing picture in every social, economic, and political context. This is due to the fact that South Asia is almost perpetually plagued by various domestic and intra-regional conflicts and crises originating from myopic attitudes of the largely illiterate masses and the lackadaisical approach of the ruling elite toward resolution of such problems. Moreover, constant and often excessive preoccupation with internal problems renders such states highly vulnerable to external threats and interference, which also challenges their sovereignty and consequent legitimacy. In other words, the persistence of multifarious problems, both within and between the South Asian states, hampers the sustenance of an environment wherein the basic essential needs of the common man are fulfilled.

Taken collectively, though the governments of India, Pakistan, Bangladesh, Sri Lanka, and Nepal have been making efforts to improve their socio-economic conditions

through democratic means, these attempts have often been frustrated by the background of colonial rule and societies behest by extraordinary religious, ethnic, and linguistic complexity. Among the issues related to welfare, the most important concerns of South Asia include limiting population growth, raising literacy levels, and addressing environmental degradation. South Asia today contains 20% of the world's population. At present levels of growth, the most recent World Bank projections for the year 2025 put India's population at 1.3 billion, Pakistan's at 244 million, Bangladesh's at 180 million, Nepal's at 38 million, and Sri Lanka's at 24 million. These high rates of population growth threaten to undermine the benefits of economic development, as well as advances in agricultural productivity, and place massive pressures on the land and its resources. With a substantial population living below the poverty line in most of the South Asian countries (one-third, in the case of India) and with extremely low Physical Quality of Life Indices (39 for a well-established democracy like India), none of these nations can really afford added detriments to their overall growth and progress. In fact, the South Asian region contains more people living in abject poverty than any other region of the world. In terms of providing for these people, the nations of the region are required to come closure for having an integrated economy. However, Politics have prevailed over economics and political disputes have prevented the formation of cohesive economic bloc in South Asia. Despite the slow pace of economic cooperation, there is an increasingly greater urge to forge an economic cooperation on the lines of European Union and Association of

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South East Association for Cooperation (ASEAN). The smaller countries are especially keen for such cooperative mechanism. Bangladesh has been pioneering the efforts of regional cooperation despite the lukewarm response by India and Pakistan.

Although SAARC was established in 1985, the South Asian Preferential Trade Agreement (SAPTA) was accepted only in 1993 and came into operation with the ratification of the first round of negotiations only in December 1995. Developments in the global trading system undoubtedly exerted their own influence on South Asian policymakers. South Asia was increasingly being marginalized as a region – Europe, North America, Latin America and South East Asia were all moving either in the direction of forming new regional trade arrangements or strengthening existing ones. For South Asian countries, in the absence of an entry point into a more dynamic regional body, the second-best option appeared to be to cooperate amongst themselves in the hope that it would generate political goodwill, if not actual economic benefits in the medium to longer term. The first round of trade negotiations covered only 226 products, largely of little relevance to the actual trade that was taking place amongst the member countries, sufficient to build enough confidence amongst the regional partners to actually initiate a dialogue of taking South Asia from a preferential agreement to a more intense level of integration in the form of a regional free trade area. In principle, the concept was accepted by member states in 1996 and a date of 2000 but not later than 2005 was proposed for the establishment of SAFTA. Thereafter, at the 1997 Summit in Male, the date was

inexplicably brought forward to 2001. However, in the following year – voicing concerns of some member states – the Eminent Persons Group proposed a longer timeframe of 2008. But the constant reversals of dates did not help in instilling confidence that SAARC had carefully thought out its agenda. Rather, it appeared far too hasty in setting itself an ambitious timeframe for the establishment of SAFTA, without due consideration to overcome the problems and challenges it was likely to face.

#### **Intra-Regional Conflicts**

South Asia is one of the ‘critical regions with complex security’ in the world primarily due to the fact that most of the South Asian states are engulfed with varying degrees of conflicts and disputes. Intra-regional conflicts in South Asia probably are highest compared to any other regional blocs. Bilateral relations are defined by antagonism and mistrust. The differences between India and Pakistan over Kashmir, between Sri Lanka and India over the nationality of Tamilians, where Sri Lanka accused India, especially state government of Tamil Nadu for supplying arms and providing trainings to the Tamil terrorists in its Southern areas are only two of the most outstanding examples in this regard.<sup>4</sup> The problems between India and Nepal exists regarding an open border and the Indo-Nepal Treaty of Peace and Friendship of July 1950. (The Treaty of Peace and Friendship between India and Nepal is a major point of debate between India and Nepal as it completely ignores Nepal’s right to decide anything on its own sphere. Some academicians of international law believe that the treaty itself was illegal because it was signed by the

caretaker Prime Minister of Nepal in his final retreat from the state affairs just to appease Indian rulers.) Disputes between India and Bangladesh are over illegal migration from the Chittagong Hill Tracts (CHT) and the demarcation of boundaries involving fertile islands<sup>5</sup>.

Divergences are also manifest in values and principles followed in governance and statecraft. The Indian political system has been professedly a blend of democracy, federalism, secularism and socialism. Bangladesh and Pakistan are Islamic states where the influence of religion runs very high as an instrument of political profiteering rather than indicator of prevailing public opinion. Maldives is an Islamic society with relatively lesser influence of religion in politics. Nepal remains under Hindu influence while Bhutan and Sri Lanka are Buddhist societies. Not surprisingly, a leading scholar of South Asia remarked that ‘South Asia presents as different political order and powers structures as one seldom finds in any other geo-political region of the world’.<sup>6</sup>

Almost inexorably, South Asian nations, despite their apparent adherence to the ideal of nonalignment, have pursued extremely dissonant foreign policies. Consequently, the major global powers have played their roles in aggravating the intra-regional cleavages of South Asia. Finally, India’s overwhelming regional preponderance creates certain basic insecurities and sharp differences between India and its neighbourhood. All these aspects have created a multitude of problems for the South Asian region. These problems collectively boil down to a crisis of legitimacy, welfare, and order in the affected area.

Certain serious misgivings about the SAARC developing into a vehicle of purposeful and effective cooperation among the member countries are created by the history of the subcontinent, which has been replete with conflicts and discords. On top of this, since its inception in 1985 there have also been serious differences among member countries over the aims and functioning of SAARC (The main point of debate hinges on the Charter of SAARC which does not allow bilateral issues to be discussed at the regional level summit diplomacy). Such differences have been pronounced in verbal bickering in several SAARC meetings. This is in the face of the fact that closer social, economic and cultural ties (the espoused ideals of SAARC) are considered the one and only hope for building regional cooperation efforts in South Asia in the coming years. Indeed, increasing rationalization of world trade and the fluidity of the emerging global system has increased trade within each trade blocs and those countries that do not belong to any trade blocs are likely to be the losers. This also provides a strong rationale for sustaining the SAARC vis-à-vis future trade prospects of South Asia.

#### **Economic Integration**

The proposal of economic integration among South Asian countries has long been discussed. The basic reason for such proposal has been the acute under development of the region. The sources of capital accumulation are limited, and the most promising source of foreign exchange is the export of industrial raw materials to the industrial West. The prospects for increasing domestic capital generation and accumulation are essentially the same as for the general economic growth

of which capital accumulation is a vital part. Population increases and the obstacles to industrialization becloud these prospects. Most of the countries in the region have largely agricultural economies and depend heavily on primary production. Primary production can be as profitable as industrial production, even in commercial terms. But it is obvious that profits from primary production are most effective in terms of general economic growth when the total size of the population is relatively small and when the bulk of the labour force is engaged in commercial rather than subsistence production. This is not the case in South Asia which is the most heavily populated region of the world. In such scenario, the possible economic union can enable the regional countries to trade in the primary production at a cheaper cost. Moreover, the export of primary products from smaller countries to relatively more industrialized India and Pakistan can reduce the cost of production.

Countries in South Asia have more socio-cultural similarities than European Union and ASEAN. The experience of ASEAN proves that economic benefits can drive the countries to focus more on convergences rather than divergences. Moreover, European Union has been able to integrate developed countries like Germany and France and under developed countries like Lithuania and Latvia. The key seems to be political will, not economic and cultural uniformity.

#### **Free and Fair Trade Agreements**

It is ironic that intra-regional trade among SAARC countries is lowest among all similar regional arrangements. The intra-

regional trade among South Asian countries was only 4.5% of total exports in 2003 as compared to 21.2% of ASEAN countries. There is no denying the fact that South Asia has great economic strength in terms of market potential, rich natural resources and human capital. Considering the huge comparative advantage that these countries have in export sector, the increased regional trade through an integrated economic arrangement is likely to benefit the South Asian countries especially smaller countries. The protectionist policies of the Western countries and increased emphasis on regional blocs also necessitate the fact that promotion of regional trade would eventually be inevitable. The counter argument to the idea of relatively free and fair trade in South Asia lays stress on the political disputes that seem to effectively marginalize the attempts of economic integration.

The economic managers of the region are cognizant of the importance and potential of a free trade arrangement in South Asia. The initiation of SAARC Preferential Trade Arrangement (SAPTA) in 1996 was an attempt in this direction. In continuation of SAPTA, an Agreement on the South Asian Free Trade Area (SAFTA) was reached at the 12th SAARC summit at Islamabad in 2004. It creates a framework for the creation of a free trade zone. SAFTA aims to arrive at zero customs duty on the trade of practically all products in the region by the end of 2012. The new agreement will be operational following the ratification of the agreement by the member governments. SAFTA required the developing countries in South Asia that is, India, Pakistan and Sri Lanka, to bring their

duties down to 20 percent in the first phase of the two year period ending in 2007. In the final five year phase ending 2012, the 20 percent duty will be reduced to zero in a series of annual cuts. The least developing country group in South Asia consisting of Nepal, Bhutan, Bangladesh and Maldives, gets an additional three years to reach zero duty.<sup>7</sup>

The free trade agreement was considered to be a big move towards the goal of regional economic integration. However, the success of the agreement still seems far from certain. Doubts are being expressed that SAFTA may not deliver as expeditiously as required without separating trade from politics of bilateral conflicts and overcome a tendency to dominate and fears about hegemony of one over the others. Faced with the challenges of an irreversible globalization, growing engagement with numerous bilateral and multilateral Free Trade Areas (FTAs), within and beyond the region, and quite radical reduction in tariffs under structural adjustment program of IMF, undertaken by most South Asian nations, it is essential that member countries of SAARC take a big stride.<sup>8</sup>

#### **Deepening Cooperation in South Asia**

The key Summit decisions indicate a commitment towards deepening cooperation in South Asia. The SAFTA agreement is only the first stage in this direction. However, if South Asia's trade is to be integrated, it will require integration of the infrastructure of the region. This would point to cooperation in the areas of energy as well as the strengthening of transportation, transit and communication links across the region. This would further require harmonization of standards and simplification of customs procedures. Trade

cooperation would point to monetary cooperation thereby suggesting the need for greater coordination among Central Banks. Sustaining trading links would require investment cooperation involving public and private sector cooperation through joint ventures. Investment cooperation would need to be underwritten by financing through a prospective South Asia Development Bank. It would follow from such levels of cooperation that the governments would discuss, coordinate and exchange information with a view to adopting common positions, where appropriate, at multilateral forums.

In each of the above-mentioned areas, there would be scope for deepening cooperation. The Free Trade Area could evolve into a Customs Union with a common tariff barrier with the rest of the world. The Customs Union could lead to a common exchange rate policy and eventually a common currency underwritten by coordination of macro-economic policy across the region. Energy cooperation could evolve into a common energy grid across the region with integrated electricity and gas systems as is the case in Europe today. Transport cooperation would lead to an integrated transport infrastructure which permits uninterrupted travel from Peshawar to Chittagong and from Kathmandu to Colombo as in the European Union. Investment cooperation would culminate in regional corporations with production facilities located across the region within vertically and horizontally integrated production systems. Shares of both national and regional companies would be quoted in the stock exchanges across the region as capital flows without hindrance across national boundaries

to underwrite investment in any part of the South Asia region.<sup>9</sup>

Moves towards deepening cooperation would have to take the ultimate step, which today binds Europe, by integrating our labour markets. Today in Europe any European can move across national boundaries to seek work anywhere in the region. The countries of South Asia would need to aspire to a similar situation in South Asia after making due allowances for our prevailing social and political realities. The first stage in deepening cooperation would be to enhance trade. For a region which aspires to an economic union, it has one of the lowest levels of intra-regional trade anywhere in the world. While this originates from prevailing trade barriers in each country, the more substantive constraint lies in the structural asymmetries in the national economies which limit the scope for trade. Moving towards SAFTA is the first phase in a process of deepening economic cooperation. The problems to be faced at this stage remain less severe than may be apparent at first glance, but one should not underestimate the enormity of the challenge.

### Investment Cooperation

The move towards SAFTA will be meaningless unless the issue of stimulating investment in the region, particularly in the less developed areas, including Sri Lanka, is accelerated. The substantive point of a free trade area is for small economies with narrow markets, such as Bangladesh, Nepal and Sri Lanka, to be able to use the incentive of the larger South Asian and particularly Indian market to stimulate enhanced investment from within and without. In Bangladesh as in Sri

Lanka, it is widely believed that the expectation of servicing a market of one billion people in India will open up new investment horizons. Given the opportunities for unrestricted access to an integrated South Asian market, deep structural changes in their production capacities which can expand and diversify the basket of goods available for export are essential to transforming the fortunes of the smaller economies of South Asia. Structural changes have the potential of transforming the dynamic comparative advantage of an economy and can, therefore, never be adequately captured in the static gravity models used to forecast gains from regional cooperation. Business houses in India and outside investors could also be expected to adjust their production base by locating plants to serve South India in Sri Lanka or Northeast India and Eastern Bangladesh rather than servicing them from Mumbai or Kolkata or Bangalore. New patterns of vertical and horizontal integration, with plants located across the region, could serve to restructure the manufacturing landscape of South Asia.<sup>10</sup>

The proposal for a dedicated South Asian development fund may also be encouraged. The Fund was endorsed by SAARC more than a decade ago but has been virtually stillborn. The Fund's mission needs to be clarified and new life needs to be breathed into the organization. There is some confusion as to the scope of this fund and whether it will cover both financing of infrastructure projects as well as private investment. Here it is suggested that two funds may be developed. One fund should be dedicated to financing infrastructure development projects mostly located in the

less developed countries. As in the case of the European Union, a special fund is needed to enhance the development capacity of weaker countries to enable them to enhance their competitiveness in an integrated market. Billions of Euros were invested through the EU in such funds, to finance investment in Spain, Portugal, Greece and Ireland when they entered the EU, to enable them to upgrade their infrastructure and enhance their competitive capacity. A similar fund, underwritten from within SAARC but supplemented by aid resources from outside the region should be established to enable Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka to invest in infrastructure projects. Investment which modernizes and enhances capacity in transport and communications as well as energy, perhaps with a special focus on regional connectivity but not exclusive to it, will enhance the attractiveness of these economies to prospective investors.

A second fund should be established as an Investment Fund, serviced by both public and private capital, to finance private sector investment projects within the weaker economies, which involve cross border investment as well as projects for serving regional markets. This should attract prospective investors from India and Pakistan and could be used to leverage further private investment from outside the region which may even cover private investment in infrastructure projects.

### Integrating the Infrastructure

The Islamabad Summit quite appropriately identified energy, transport and communications as important areas for cooperation. Of these, the need for transport

integration is perhaps the most urgent since it is integral to the operationalization of a free trade area. South Asia inherited an integrated transport infrastructure from the British who were themselves bequeathed a road network by the Mughal Empire. This infrastructure was fractured not by the partition of India but by its political aftermath and now needs to be rebuilt within the context of greater political harmony in South Asia.

Across the mainland of South Asia the original transport infrastructure is already in place, but in many areas has fallen into disuse or needs upgrading. The main obstacle to improving connectivity is political. The barriers to cross-border movements make neither commercial or logistical sense and originate in the pathologies of inter-state as well as domestic politics. The political leaders of South Asia will therefore need to first dismantle the political barriers to transport integration. Once this is done, procedures for facilitating cross border movement of people and goods will need to be harmonized (visas, customs facilities) and system connectivity will have to be established. Infrastructure where fractured will have to be rebuilt or upgraded to sustain a heavier traffic load and capacity will need to be expanded to accommodate the enhanced traffic emanating from intra-regional movements. In some cases new investment would be needed to build transport links where none exists today.

So far SAARC has done very little to address the issue of transport integration. Some meetings have been convened by the SAARC Secretariat to look at the issue of standardizing the transport infrastructure but there is no strategic vision to guide the

integration process largely because of the underlying political tensions which constrain issues of transport connectivity. Whatever dialogue on improving linkages has taken place owes either to the enterprise of multilateral bodies such as the World Bank, Asian Development Bank or UNESCAP or civil society initiatives. The mandate from the Islamabad Summit has inspired the SAARC Secretariat to place the issue of improving transport linkages on its work programme. However much work is needed to both design an underlying vision and then translate it into programmes and projects which free up movement of traffic across South Asia.<sup>11</sup>

### Energy Cooperation

South Asia is, in aggregate, an energy deficit area largely because India is emerging as one of the world's largest energy markets. In contrast, Nepal and Bhutan retain the potential to emerge as major sources of energy exports though harnessing the vast hydro power potential in their rivers. Indeed power is already Bhutan's largest source of export earnings directed to India which has helped to make it the only country in the region with a trade surplus with India. However, Nepal's export-oriented hydropower projects have been tied up in protracted negotiations with India, its principal prospective market for power. These negotiations have acquired political overtones which have strained bilateral relations and have also become a major issue in domestic politics in Nepal. Bangladesh has a potential for exporting natural gas to India but is reluctant to do so because of domestic political opposition to such exports on the grounds that its gas reserves are insufficient to justify such exports. Pakistan remains a potential transit

point for connecting the vast energy reserves of West and Central Asia to South Asia but has not been able to benefit from its strategic location because of its political tensions with India.<sup>14</sup>

The SAARC governments have already recognized the need for cooperation in the energy sector. The Summit in Islamabad reaffirmed this interest. A meeting of SAARC ministers was held in Dhaka in 2003 to explore the scope for cooperation. But so far very little has been done to work out the economics or explore the political implications of such cooperation. At the level of civil society a Task Force was set up to explore the scope for cooperation. Its report identified the attendant benefits as well as the complex issues of politics, ownership, pricing and management associated with building energy linkages in the region. This report was presented to the SAARC Summit in Islamabad. Another study by the Coalition for South Asian Cooperation (CASAC) has taken the work of the Task Force forward and completed a more comprehensive study on energy cooperation. There is a need for both SAARC and civil society institutions in the region to come together to draw a substantive and implementable programme for energy cooperation which can be discussed more comprehensively by the SAARC governments before concrete proposals for cooperation are placed before the Summit.

### Harmonizing Macro-Economic Policies

Any move towards an Economic Union cannot limit itself to a free trade area. SAARC will sooner or later have to explore

the scope for a Customs Union. This issue will not be as complex as it might have appeared some years ago. Under the pressure of the WTO convergence in tariff levels across the world is the order of the day. Since all SAARC countries have been lowering their tariff rates, mostly under pressure from the World Bank/IMF structural adjustment reforms, the deep disparities in tariff levels which once characterized the region are less apparent today. It, therefore, makes sense to open up discussion on adopting a common tariff policy vis-à-vis the rest of the world. It would therefore make sense to initiate work on the implications of a Customs Union within South Asia in order to see when, under what circumstance and at what pace such a Union can be put in place.

Deepening integration will involve moving beyond trade to address the broader issue of harmonizing macro-economic policies. This would cover areas such as fiscal, monetary and exchange rate policies. Such a level of cooperation would demand coordination amongst SAARC finance ministers to ensure that their budget deficits, inflation, exchange and interest rates maintain some element of alignment. Such issues have never been discussed at any level within SAARC. Coincidentally, such macro-economic indicators, with episodic variations, have in recent years not significantly diverged across the SAARC countries. However, this cannot always be the case so that some consultation, if not coordination, amongst finance ministers would be in order.

The more advanced move towards a common currency lies even further ahead. The two studies on monetary cooperation carried

out at Colombo, and at New Delhi, has examined the implications of moving towards exchange rate harmonization and eventually a common currency. Both studies have recognized that any move in the direction may be premature. However, what has emerged out of these civil society consultations is the suggestion that a parallel currency rather than a common currency may be put in place largely to underwrite trade and investment transactions in the region. So far little or no discussion at the official level has taken place among SAARC finance ministers on macro-economic policy.

### Integrating Labour Markets

To the extent that SAARC governments may remain inhibited about discussing the problem of labour flows it is suggested that at the level of civil society serious discussion of the issue should take place. These dialogues would need to be backed by major research on the underlying economics, the social implications in the receiving and sending countries and the political fallout from this process. Such an exercise should recognize that important issues of human rights as well as national security are involved along with the criminal dimension associated with human trafficking of women and children. It is hoped that out of such research and consultation, a realistic and humanitarian policy will emerge which can serve to formalize the process of labour flows and integrate this into the process of economic cooperation in South Asia. Such an exercise will need to recognize that if a South Asian Economic Union is to emerge labour market integration will have to be a central component of the process.

### Peace and economic integration: An analysis

Economic cooperation yields peace and prosperity if the differences among the member states are put aside. Current level of cooperation in South Asia, however, is manifested by historical legacy of state formation as said earlier; economic well-being and the size and power of individual states. The spontaneous Indo-Pakistan tensions have put a damper on any kind of activities to increase the pace of economic integration and bring about peace in the region. It seems that powerful nations of South Asia are not interested to accelerate economic integration towards its stipulated goals. Hence 'unless there is a dramatic change between India and Pakistan relations and they commit their genuine interest chances of SAFTA coming into action are very low, let alone the prospects of peace'.

South Asia also holds the dubious distinction of lacking economic incentives for regional cooperation. History shows that regional economic integration can be successful only if the countries concerned establish a commonality of political purpose. The driving forces behind regionalism should be to forge closer links between historical rivals to prevent the occurrence of wars. As in the case of France and Germany who fought three titanic wars between 1871 and 1945 but were able to thaw differences through EEC. The Cold War gave western European nations another urgent reason to bind economically together to gain strategic strength. Finally, basic EEC rule was that only democracies could become members (which meant that Spain, Portugal and Greece did

not qualify until they discarded their dictatorships in the 1970). This drives home the point that political harmonization must precede economic harmonization. The same pattern is evident in the ASEAN, which was formed as a political grouping to oppose threat of Communist expansion from Vietnam and China. This helped bring together ASEAN members that were otherwise dogged by political disputes. These factors hardly exist in South Asia.

To create a sense of 'easiness' among her neighbour, the former Indian Prime Minister I K Gujral adopted a doctrine called '*Gujral Doctrine* (I K Gujral first became India's foreign minister and then Prime Minister in mid 1990s enunciated Gujral Doctrine') as a tool of conflict management in the region. The Gujral Doctrine is a set of five principles to guide the conduct of foreign relations with India's immediate neighbours. Among other factors, these five principles arise from the belief that India's stature and strength cannot be divorced from the quality of its relations with its neighbours. It, thus, recognizes the supreme importance of friendly, cordial relations with neighbours. These principles are: first, with neighbours like Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka, India does not ask for reciprocity, but gives and accommodates what it can in good faith and trust; second, no South Asian country should allow its territory to be used against the interest of another country of the region; third, no country should interfere in the internal affairs of another; fourth, all South Asian countries must respect each other's territorial integrity and sovereignty; and,

finally, they should settle all their disputes through peaceful bilateral negotiations.<sup>13</sup> But in reality it has never been applied or discussed at the policy level. Indian bureaucrats were skeptical about the idea. Also once Gujral was out of power, the doctrine went with him.

There are growing concern that regionalism in South Asia might end up as a great fiasco concerned efforts are not made beyond the turmoil of political exigencies. Even the newly formed SAPTA has met with extremely limited success in promoting intra-SAARC trade. (Under SAPTA, SAARC countries have agreed on tariff provisions only on 226 objects). Similarly, hopes of forming a South Asian Free Trade Area (SAFTA) considered being more unrealistic. For instance, a free trade implies to dismantling customs barriers, which means all SAARC members will have to agree on a common import policy, either formally or informally and no country will retain sovereignty over the import policy.<sup>14</sup> However, it is felt that unless countries of a region enjoy considerable political harmony, they cannot possibly agree on concessions like surrendering sovereignty over their import policy.

### Conclusion

South Asia has emerged as a regional entity in the international political system with the creation of SAARC but it failed to strengthen regional cohesiveness. Regional cooperation in South Asia cannot be said to have evolved into a complete bloc in terms of 'regionalism and economic integration' due mainly to the prevalence of conflict over the desire of peace and stability. Given the historical legacy and contemporary reality of

endemic conflicts and mistrust in the region, the fact that the formal cooperation process in the region has survived recurrent setbacks is testimony of resilience of the organization. The antagonistic nature of relations with large sets of outstanding issues, low levels of intra-SAARC trade and joint economic ventures, inadequate information and infrastructure facilities; independent and largely uncoordinated economic policies pursued by each country in the subcontinent and increasing 'militarization' of the region are all indicators of lack of 'region-ness' and herald a bleak future for any type of sustainable economic integration. The realization of durable peace and the future of economic integration through SAARC lies on the ability and interest of South Asian leaders to resolve domestic as well as long-standing intra-regional differences. Any realistic assessment of the prospects for the growth of economic integration depends on as how individual country address existing contentious issues and their commitment in promoting regional cooperation given the extensive heterogeneity of state formation and economic dynamics in South Asia

Lessons from other parts of the world (such as neighbouring Southeast Asia) prove the fact that regional organizations have thrived mainly on cooperation in trade and economic relations that bring visible and tangible benefits to the people. The emergence of several trading blocs and economic groupings all over the world clearly indicates that the economic survival and prosperity of any nation in this increasingly competitive post-Cold War era crucially depends on its ability to successfully integrate

with other economies. Despite some indications to the contrary, it would not be erroneous to state that the prospects as well as compulsions for enhancing regional cooperation in South Asia are tremendous. In fact, according to certain analysts of South Asian politics, there has been a growing realization among South Asian states of the importance and necessity of constituting South Asia as a region and looking for solutions to the problems of resource and security management within a regional framework. Once such a path has been well and truly adopted, South Asia can indeed begin to hope for a more effective role in the post-Cold War global environment. In this context, it must also be remembered that without an integrated economic, technological, and military technology, none of the South Asian countries can ever hope to become significant global players. Thus, akin to the problems of South Asia, the solutions also seem to be intrinsically inter-related in nature. It must still be hoped that, however complex, such solutions will ultimately be implemented in order to build an economically stronger and socio-politically more cohesive region called South Asia.

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## **Regional Economic Integration and Development: Sustaining Trans-regional Cooperation in South Asia**

**Sailaja Gullapalli**

### **Abstract**

*The issues relating to the global economy and economic regionalisation have become central to international economic affairs. The increasing economic interaction and integration is leading to open economies and there are massive trade and investment flows to the benefit of many crisis-ridden economies. The co-ordination and harmonisation of the policies between the regional groups expands trade linkages and facilitates greater economic interdependence. The paper intends to look into the origin, efficacy and the need to forge economic blocs. It also deals with the problems of regional trade in South Asia, and what could be done to increase the trade flow without compromising on the environmental concerns.*

### **Introduction**

Economic regionalism has become a universal phenomenon, with the degree of integration spanning across the globe, even among the culturally heterogeneous nations. With the expansion of markets and removal (partial or complete) of trade barriers, the regional trading groups are thus no longer confined to a specific region. The growth of the regional economic zones is characterised by new technologies in not only trade and investment, but also in knowledge intensive areas like computers and electronics. Foreign direct investments, Technology transfers, joint ventures, co-production, cross-licensing etc. call for a wider area of co-operation and the regional trade agreements have greatly facilitated these moves.

Many a nation today, including India, are engaged in sustained efforts in forging

stronger relations with their neighbours-both far and near and these efforts are based on the consciousness to proceed beyond the confines of the traditional approach of integration theories. Economic diplomacy thus assumes an important role in the wider context of the global trend towards regionalism and the success is more or less ensured depending on the bargaining and negotiating strategies of the nations. The regional groupings represent the collective efforts of the states to fulfill their economic objectives and improve their bargaining position while retaining their autonomy. There are divergent views on whether economic regionalism is a viable alternative or not, especially in the context of the globalisation of the world economy. These groups are also labelled as being contrary to the spirit of the multilateral trading system i.e. the World Trade Organisation.

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With this background, the paper intends to examine the regional trade groups in historical and contemporary perspectives and how they are effective for regional development. The paper is divided into four sections. Section I deals with the conceptual framework; section II analyses the trend towards increasing regionalisation; section III examines the prerequisites for an effective regional integration and development; section IV studies the trade patterns in South Asia and how these can be improved upon.

### I. Globalisation

The concept of globalisation has now become the hub of the foreign policies of different nation states. The present globalisation process is characterised by rapid growth in international financial transactions, fast growth in trade, surge in foreign direct investment, emergence of global markets and diffusion of technologies and ideas through rapid expansion of transportation and communication system (Singh 1998: 3-4). Rapid developments in communication, information technology and economic activity enabled rapid movement of the processes too, spanning across distant miles. While some of the nations associated themselves with their affluent neighbours and improved the status of their economies can be seen in North America, while many of their counterparts failed to initiate liberal economic policies, owing to apprehensions. Therefore, an uneven relative growth performance by individual countries and changing patterns of trade, investment and production has tilted the balance towards the formation of regional trading groups to withstand the shifts of balance of economic power. With this, the resurgence of regionalism at a much faster pace has been on the rise. The role of trans-

national corporations (TNCs) has increased, mergers of companies across borders have multiplied and private finance has assumed greater role in world trade. The developing countries, in particular, perceive the global financial integration as an indispensable factor for securing financial stability and providing them with better economic opportunities, thus making the cross-border linkages the order of the day. These developments have occurred against the backdrop of globalisation: new technologies and more liberal trading regimes have led to higher trade volumes, larger investment flows, and increasingly footloose production (Schiff and Winters 2003: 3).

### Defining Regionalism

Regionalism is defined as an attempt by a group of states to order their relations amongst each other. Their purpose is to advance “commonly agreed aims, to avoid local conflict and to manage it, if it does break out, as much as possible, on a regional basis” (Chimpman 1997: 22). It is aptly pointed out that the ‘regional economic integration can be compared along various dimensions of the scope (the range of issues included), depth (the extent of policy harmonization), institutionalization (the extent of formal institutional building) and centralization (the degree to which effective authority is centralized)’ (Smith 1992: 5). According to another definition, regionalism is a “sustained co-operation, formal or informal, among governments, non-government organisations or the private sector in three or more contiguous countries for mutual gains” (Alagappa 1994: 158).

From the above definitions, it can be understood that regionalism is a tendency

to prefer a regional method or a system where the aim is towards a greater degree of autonomy in managing their own affairs. It is definitely not an alternative to globalism as it is generally viewed upon; neither is it an escapism nor a challenge to nationalism. It is an effective alternative that can dampen local conflicts, and enable to find more compatible solution to a regional problem. As the Cold War ended, there arose much complex issues leading to new conflicts, tensions, local wars, decline of living standards, environmental degradation and so on. In order to achieve a more balanced development, the nation states converged their common interests to create compact regional groups to achieve common goals. This helped them manage their relations in a much more cordial manner which would have been otherwise difficult at a global level. They have thus become the dominant players in a “fragmented and unstable world characterised by free trade within each of the blocs and managed trade with them and other countries” (Sideri 1997: 49).

### II. Trend towards Increasing Regionalism

The earlier wave of regionalism has not been very productive barring the success of the European Union. But the resurgent phase of the late 1980s and 1990s is increasing the scope of the bilateral and regional agreements. This has further led to the debate as to whether regional trading system is a threat to the multilateral system of trade. The parallel growth has been significant particularly in the developing countries. In a way, it stimulates the fact that if we cannot benefit in a wider context of multilateralism, why not adopt a regional approach? The proponents of regional trade groups fervently support the system as contributing to the welfare and

economic growth, investment and development, facilitating cross border movement of goods and technology transfer thus ensuring an overall scope of cooperation and convergence in policies. Regional trading arrangements can be valuable arenas for tackling volatile trade issues such as agricultural subsidies and trade in services; political initiatives and regional diplomatic efforts can resolve issues that cause an impasse in multilateral negotiations. The critics hold the view that the system is nothing less than trade diverting, leading to the breakdown of the multilateral approach. The trade groups create preference systems that transcend regional boundaries, while some even argue that political and economic tensions will lead to hostility and increased retaliation.

The conditions and terms governing the regional trade have been approved by the WTO though compliance to the rules and regulations depends much on the guidelines formulated under the regional trade groups (RTGs). The RTGs do discriminate against the non-members, thus going against the multilateral principle of non-discrimination as enshrined in the erstwhile General Agreement on Tariffs and Trade (GATT) and World Trade Organisation. Nevertheless the WTO monitors the functioning principles of the RTGs through Committee on Regional Trade Agreements (CRTA). The fundamental object of this review process is to scrutinise whether the agreement is in tandem with the principles as laid down in the multilateral system. It prescribes that trade barriers against non-members should not to be raised and need to be eliminated subsequently in case they are imposed.

The trend towards regionalism arose basically with the disenchantment with the functioning of the multilateral system where the negotiations were long and arduous. The non-compliance to the rules of the system even by the most developed countries and to their own benefit has left a myriad of economic problems for the developing countries. The problems that arose during the Uruguay Round of trade negotiations gave new dimensions to it. The GATT was mainly handicapped by its institutional weakness; further, some provisions underlined the fundamental protectionist concepts and have been criticised by many a nation as lack of conceptual clarity. Thus the rise of new regional groupings as a free trade area or customs union as a more profitable alternative strategy to tackle the problems gained momentum in place of dealing with the GATT directly.

In the face of increasing globalisation, various nations are in the process of redefining their identity, thus enabling economic globalisation to go hand in hand with political nationalism. Today we have over 150 nations around the world aspiring to be members of one regional bloc or other. To put it aptly, regionalism is redefining the power equations at the regional level and increasing awareness of economic interdependence. It is more open to new approaches for a deeper integration. Since the negotiations involved fewer members, the formalization of rules and regulations of the trade become transparent and easy to implement.

Some of the fundamental and practical reasons for the increasing regionalism can be summarised as below:

- The post-cold war international order, devoid of bipolar alliances, provided an opportunity

for a better economic interaction among the nations. The states, in order to sustain and prosper, have started adapting themselves to economic arrangements and technology transfers. Thus, being a part of a regional agreement helped them to enhance their relative gains in terms of trade. The weakening of the Bretton Woods system that was created in the post war order gave way to the rise of these regional economic alliances.

- For all practical purposes, GATT was never complete and many important sectors were excluded at the very outset. In the agricultural sector, many of the rules became ineffective as one country after another avoided the implementation of the prescribed disciplines on agriculture.
- Each nation understandably insisted on setting its own economic and social priorities and could not give way to a more international vision. The nations were unable, rather unwilling, to change the traditional political and economic structures. They wish to bind themselves to better policies-including democracy-and to signal such bindings to domestic and foreign investors. (Schiff and Winters 2003: 6).
- The interests and priorities of the developing countries varied in comparison to the unified demands of the developed countries. This variation amounted to their disagreements over various issues. The deadlock over many an issue proved costlier for the developing countries leaving them with

no option but to forge alignments at a regional level.

- The intense competition among the three powers-the European Union, the United States and Japan made it difficult to arrive at consensus on various issues at the GATT forum. Each of these nations was highly competent in itself and found it difficult to compromise on various contentious issues. The US followed an aggressive trade policy and imposed high non-tariff barriers thus ruling out any reconciliation.
- Departure from the non-discrimination principle and increasing protectionism have gathered momentum and some of the policies were designed in a way as to harm the interests of the developing countries in areas like agriculture, steel and textiles.
- GATT was often criticised for its inability to secure agreements among countries with diverse interests, its slowness to act, its limited agenda and its inability to enforce established disciplines (Low 1993: 31).
- With the end of the Cold War and the transformation of Russia and the East European Countries into market economies, the power as well as economic relations has also gone through a transitory phase. The arrangements for accommodating the socialist countries involved discrimination against them and many of these countries of the Eastern Europe were rather marginalised in the GATT. These Republics sought renegotiations regarding their status in the

global economic scenario. With increased special arrangements, the challenges and difficulties for the system started mounting. (Ibid 26)

- For decades, the US had been a strong advocate of the multilateral trade. The attitudinal change towards regional and bilateral trading agreements resulted out of its decreasing competitiveness and increasing competition from other advanced nations. Forging these agreements has, in a way, answered its economic insecurity and thereby, it did not lag behind in opting for regional trade arrangements.

The gradual decline of the rules based multilateral system considerably weakened institution of the GATT. With this, there was a surge in the number of regional groupings. Moreover the co-ordination of the macro-economic policies among the large number of states became much difficult to achieve and the deregulation worldwide was unsuccessful. More and more states favoured the expansion of market forces and deregulation that had given scope for expanding regional ties. In this context, the regional groups became the preferred lot to multilateral approaches.

### III. Regional Route to Development

The regional organisations are created by states by which the members pursue their common goals and without a member's consent, no regional action or decision can be taken. Here the negotiations and diplomatic relations are major determinants that characterise the approach of the states in achieving regional co-operation and development. Since the decision-making is an outcome of the combined efforts of the

regional actors, modern diplomacy offers to defend the interests of the states in various issues of economic co-operation. Thus regional trade is an effective platform to further trade interests and provides an open access to prosperous business and flourishing markets, facilitating further liberalisation and investment etc. on a much larger scale.

It also facilitates multilateral rule making or rule changing, creating a favourable political setting or legal framework at a bilateral or regional level, resolution of disputes, and creation of innovative agreements, conventions and treaties (Bulajic 1997: 9-10). Precisely these trade blocs are, for the developing countries, the easiest way to development, while at the same time offering solutions to their longstanding regional peace and security problems. Regionalism is thus characterised by politico-economic objectives.

#### Dimensions of Economic Development

What merits does the regional trade offer? Why is it preferred? The following explains the same:

- Stimulates investment in the region
- Initiates reforms from governments
- Provides conducive trade environment due to cultural commonalities
- Aids further industrialisation that is development-oriented
- Enables better coordination of policies, harmonisation and mutual recognition
- Strengthens institutional mechanisms
- Acts as an insurance against negative effects of trade

For example, a recent study reported a registered growth in the trade patterns of the South Asian region. On an average, they have registered 5% of growth per year bringing down considerably the levels of poverty in the region (Devarajan et al: 3573). Since the region suffers from numerous demerits like political conflicts, unprecedented levels of corruption and persistent fiscal deficits, the growth rate comes as an indicator that given the necessary direction and political will, the region can see a much higher level of development. Some of the factors that constitute core ingredients of regional trade are enumerated as below:

(1) Economic Reforms: Reforms constitute necessary prerequisites for the holistic aspect of trade and investment growth. The institutional regulations are complementary to these efforts. As the study reports, factors like external finance in consonance with reforms of the banking and energy sectors, privatisation of state-owned enterprises and improved public finances and accelerated the growth rate, even in relatively underdeveloped countries.

(2) Coordinated Policies: Regional trade complements the reform efforts through coordinated trade policies, and the governments can make the best use of their membership in the trade bloc. Evidently, the success of the trade bloc depends on the convergence and cooperation between its members, even if the volume of the economies vary. For a larger country, the export of its goods means better revenue and for the smaller countries, it is expanding the bulk of their trade and meeting the demands of the domestic consumer markets.

(3) Investment: Investment is a key determinant of economic growth and development of a nation. The economic programmes and plans of action for implementation in different sectors depend greatly on these resources. Larger markets, more competition and improved policy credibility will increase the incentives for investment and so raise incomes (Schiff and Winters: 17). But at the same time, they point out that the principle applies differently to South-South countries trade and North-South countries.

(4) Capital Returns: The rate of return on capital is much higher in the contemporary times than it was earlier, as it is suggested by the latest economic analysis. This is regardless of the economic condition of the investing countries, be it developed or developing. But a cautious approach is needed with an effective management from the financial sector. As Schiff and Winters point out, there are few empirical evidences of the impact of regional trade on investments. In other words, the performance of the individual nations in economic terms is more important than its regional affiliations. On an optimistic note, the regional trade groups boost FDI, particularly the inflows of investment from nonmember countries. Nonetheless, pessimism can be set aside as there is no ample evidence of any negative effects so far.

(5) Institutional Reforms: Institutional reforms that facilitate market access, stimulate growth, effectual banking sector, effective planning and implementation, clearly articulated terms and conditions, enhanced productivity, appropriate locations and well defined insurance norms further facilitate the movement towards integrated policies. APEC

is an exemplary model that has brought together nations from different quarters of the world based on the above-mentioned principles.

(6) Convergence: Convergence between the policies of the state and market forces is more often than not an uphill task. A conglomeration of nations that intend to integrate policies for economic purposes have to ensure the following aspects: (1) domestic regulation and control mechanisms (2) result oriented strategies (3) monitoring of trade policy implementation and (4) the degree of reciprocity.

Convergence is crucial for deciding on policies related to market access, transaction costs and standards, safety regulation, tax benefits and so on. Cooperation on domestic policies can also assist in overcoming market failures and can help ensure that trade restrictions are not reimposed through the back door (Schiff and Winters: 20). In the absence of such coherence, not only do superficial goals engulf a trade bloc but also likely to end up in formulating the terms that are technically distorted. Convergence also lessens the regulatory costs and needless delay in the regulation of transactions. Unfortunately, the sustenance of the convergence depends on the political stability, mutual respect and recognition of the members towards each other. Therefore, coordination in collective action is a necessary condition for the success of a trade bloc.

Finally, policy integration involves the merits of flexibility and stability of the concerned region. As Wade says, "markets can be embedded not only nationally but also in regionally distinct configurations, with policy

solutions tailored to the different vulnerabilities of different countries and regions” (Gallagher 2005: 97).

#### IV. Regional Economic Integration in South Asia: An Overview

Economic cooperation in the South Asian region has been painfully slow and discouraging. Weighed down heavily by the regional conflicts and apprehensions, the region lost out on what may have been economically fruitful openings and thus lags behind in spite of 20 years of existence. The most menacing feature has been its poverty and the resultant inequality that afflicts almost 400 million people in the region. South Asia's high and growing inequality may itself act as a brake on future growth and poverty reduction (Devarajan 2006: 3574-75). The reasons for this are mainly political in nature with the conflicts looming large over the efforts towards regional cooperation. In spite of the formation of the South Asian Association for Regional Cooperation (SAARC) in the mid-eighties, intra-regional trade between the member countries remain negligible even in absolute terms...restricted by numerous quantitative and administrative measures. This can be called inverse regionalism. (Lahiri cited in Wolfgang-Peter Zingel, see URL) The region has over one-fifths of world population and a combined gross national income of \$ 3 trillion but provides for only 1% of world production. Despite geographic proximity, trade and weak transit links, infrastructure difficulties, high tariffs and non-tariff barriers have hampered the investment prospects (Roy 2005: 6).

Yet, as already mentioned in the preceding paragraphs, South Asia is reported to have achieved a relatively high growth in

the past decade despite numerous obstacles, such as conflicts in Sri Lanka and Nepal, corruption in Bangladesh and many Indian states, and high fiscal deficits in India and Sri Lanka (Devarajan 2006: 3576). But as to how far this situation is sustainable remains to be seen. For a real consistent development, the required percentage of growth level is anything between 7-10% a year. It needs a massive effort akin to the growth rate in the South East Asian countries during the last decade. As observed in the above study, the South Asian region lags far behind in the areas of intensive technology, infrastructure, savings and investment, manufacturing and export orientation. If one looks forward to the regional (trade) route to development, the observations are further disappointing. It quotes that the intra-SAARC trade figures at 6% (of the area's worldwide exports) as compared to 23% of ASEAN, 56% of NAFTA, 61% of EU. Worse, even MERCOSUR stands at 12%, which is double that of SAPTA (now SAFTA).

In the absence of substantial investments and liberalisation of services, simplification and harmonisation of rule, the risks of trade diversion are more and likely to result in a downward trend. For example, trade-facilitating indicators are rated to be far below normal in South Asia. The export dwelling rates and inefficient customs management have not only made the transaction time and methods cumbersome but also increased the cost of trading substantially.

Besides, the management of ports and transport infrastructure too are far below in comparison to the South East Asian nations that enjoy the advantages of better infrastructure, faster clearance for exports,

lower transaction costs, latest technology, streamlining regulations, sound investment, climate and macroeconomic stability. Bangladesh, Bhutan and Nepal especially face enormous infrastructure deficits, apart from inefficient communication networks. This logistic deficiency is a common denominator along with tardy regulatory mechanisms. Regional trade thus needs a sound base without which the purpose of integration is lost forever. One of the most important measures that need to be taken includes addressing the issues related to high average tariff levels, which are major constraints to those who want to invest. South Asia is undoubtedly a favourable destination for investors considering the cheap labour and flexible environmental standards but the cumbersome process keeps the investment rate at an abysmal low.

SAFTA has set a very ambitious target of multiplying its volume of trade but in the absence of conducive investment and liberalisation of trade, the goal is rather impossible to achieve. The following measures are likely to enhance regional trade in the region.

- (1) The trade group should be devoid of any political undertones. For it is the political conflicts that are greater impediments to the cooperation in the region.
- (2) There should be stringent terms related to anti-dumping measures and rules of origin. Since most of the countries have similarities in some of the sectors, a strict regime of rules of origin helps in avoiding duplication.
- (3) One of the most important sectors for cooperation can be agriculture, where India can help develop its regional counterparts by

providing modern agricultural tools and equipment.

(4) Cooperation in technology-both indigenous and modern-can be enhanced for better infrastructure development and facilities.

(5) Improve upon the existing transport facilities via road, rail and air links and help construct related infrastructure that meet international standards.

(6) Expanding the investment horizons and attracting private investment will also help in generating the job opportunities, thus minimising the poverty levels and providing for better livelihood standards.

(7) Location of industrial sites, human resources, entrepreneurship skills, infrastructure and enhancing competitiveness automatically leads to increasing investment and trade.

(8) Through minimum levels of education and training facilities, high standards in productivity can be achieved and this itself is a crucial factor for an investment led growth.

(9) While there is no dearth of poverty alleviation programmes in the region, the implementation of the same remains to be answered. Almost all the countries have scored remarkably high on corruption index and this depicts the insensitivity of the administrations in implementing the public welfare schemes.

(10) Cooperation in energy and water resources is of utmost importance considering the deficiencies in these resources in some of the regions. It is much easier to tap the resources from the energy intensive nations

such as Nepal and Bhutan rather than importing the same from a region that is much far off and at a higher cost. Similarly agreements regarding the sharing of waters should be concluded not only to avoid further water disputes but also to enhance the farm productivity of the adjoining areas of the river basins.

(11) Minimise the shipping and transaction costs and ensure the implementation of investor friendly policies and capital protection through effective insurance and profit repatriation.

(12) Promoting trade expansion not just in the capital cities but also in other areas that hold a lot of promise will be the key to success; as these areas are much more cost effective in terms of capital, labour and infrastructure, that ensure high returns.

(13) Introducing the latest technology in data collection and business transactions, promoting e-commerce and showing flexibility in business visa rules will all help in faster movement of goods, capital services etc.

(14) Using the regional platform to address trade issues at various multilateral forums and trade negotiation rounds is the best way to ensure regional development.

(15) Opening up of traditional (trade) routes akin to that of Nathula (India-China border) trade route will not only arrest the inordinate delays in movement of goods but also reduce transport costs while, at the same time, generating local employment opportunities.

(16) There should be consistent efforts to work out a common currency in South Asian region on the lines of Euro (in European Union). This brings about uniformity in business transactions.

(17) The free trade often involves an unscrupulous depletion of the natural environmental resources, especially in the timber and wood products where the forest resources are prone to enormous risks. Introducing the principles and obligations relating to environmental protection in the trade agreements would greatly contribute towards avoiding damage to the natural resources.

### Bridging the Gaps in Mindsets

Most importantly, mutual suspicions, lack of confidence and obstinate conflicts need to be resolved to facilitate meaningful economic cooperation. To promote coordination among the member countries, stronger economies like India should extend cooperation in the area of investment, technology transfer, technical assistance, and trade promotion to the relatively underdeveloped countries to shrink the existing inequalities. It is this movement towards greater equality and stability that determines the strength of the regional trade cooperation. While the challenges are enormous, the dynamism and openness that characterise South Asia today make us optimistic that they will be met, and the region will be substantially free of poverty in a decade (Devarajan 2006: 3580). Though the optimism can be very much shared, the elimination of corruption, which is a major obstacle to the implementation of the agreed policies, remains an uphill task.

If regional economic integration is rated high as a route to regional development, the South Asian region should extract maximum leverage from this approach. As cited in the preceding sections, regional economic integration involves a high degree

of convergence and coordination of policies. Given the cultural homogeneity of the region, the trade creation and cooperation is much easier to realise. India has a greater role if this process has to be expedited and should display its sincerity as a reliable trading partner.

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## Workers Managing Sick Industry: The Experience of Kamani Tubes Limited from Mumbai

Jose George & Manoj Kumar

### Abstract

*The union of workers and cooperative had to confront a number of problems which was aggravated by the institutional discriminations manifested through inadequate state policies and affirmative endeavours as well as non-cooperative prejudicious attitude of financial institutions like various banks who were supposed to make available the requisite capital support to the Company for its operation and sustenance under the managerial control of the workers cooperative. The state and its associated institutions showed keenness to help revive the sick industry and assist in its successful operation by making some provision though enactment of legislations. Their support reflected more on paper than in practice. It would not be an exaggeration to say that this exhibits the classic character of the capitalist system.*

The industrial units incurring continuous losses instead of sustainable benefits and suffering from the financial crunch, mismanagement, non-payment of salaries and wages to employees, non-availability of raw material and the problems of marketing of products for a certain period are generally known as sick industries. To revive such industrial units and make them operational and profitable, a bill was introduced in the 1985, which was assented, by the President of India in the 1987, and came to be known as Sick Industrial Companies (Special Provisions) Act (SICA), 1987. Under the provisions of this act, the Kamani Tubes Limited (KTL) (established in the 1960, by Ramjibhai Kamani, and closed down in the 1985, because of various reasons) was taken

over by the Workers' Cooperative Society of the Kamani Employees Union (KEU). It was a unique experiment of management of a sick industry by the workers in the history of the Trade Union Movement in India. The workers had high level of zeal and enthusiasm on attaining the ownership of an industrial unit and pinned high hopes to make a substantial gain. In the beginning, after takeover, satisfactory progress was made but soon it began petering out and started facing a number of crises in the early 1990s<sup>1</sup> leading to its virtual closure in the 1997. Since then no concrete step was taken to bring it back into operation and the employees' union is mainly fighting for arrears and dues of workers basing their arguments on the plea that the unit was never officially closed down

(Interview with D. Thankappan on 08.9.07). There were many sick companies spread all over the country some of which were taken over by the workers cooperatives but most of them failed to survive for long time due to a number of reasons (Interview with D. Thankappan on 08.9.07). This has necessitated debates on the feasibility of workers' takeover of sick industries. It is in this context that this study is focused upon.

The issue of workers' takeover of Kamani Tube industry and its management by the workers cooperative society generated curiosity, debates and discussions among various segments of society, especially the activists, intellectuals, academicians, and policy makers, regarding viability of this kind of experiment in which the mass media also played a very important role (Palande 1991; Srinivas 1993; Thankappan 1992; Aarti Dua 1993; Kanika Dutta 1993; Ramaswamy 1998). The minds of workers and their leaders were filled with zeal and enthusiasm which proved to be short lived. The significance of the study lies in the fact that this kind of experiment of control of industrial units by working class promised restructuring of socio-economic order of Indian society along the lines of democratic and socialist principles which could have reduced the degree of unjust economic inequalities in society by ensuring the protection and promotion of the interests of marginalised sections like industrial workers. It becomes important to identify the key factors that were responsible for failure of the management of sick industry by the workers of the company and determine the elements to make suggestions for success in reviving and managing sick industry by workers' cooperative society. This paper is an attempt to look at the whole story of Kamani Tubes

Limited with special attention to analyse and locate the still unrevealed causes of the decline of the Kamani industry, especially after the industry was taken over by the workers' union of the Kamani Tubes Limited, the problems faced during the process of takeover of the industry, including its management, and finally the major causes of the failure of this experiment. The study also aims to critically examine the role played by various leaders, bureaucrats, bankers and management bosses (including promoters) in revival and management process or in this unique experiment and ascertain the factors for success of such industry. The hypothesis, this paper tries to test, is this that the experiments of takeover of a sick industry for revival and management by workers' cooperatives are found to fail in the bourgeois socio-economic system in the absence of favourable government policy and the policies (and also attitudes) of other related institutions and agencies to workers' cause (which is rather often regressive and prejudicious in nature).

The study is descriptive and analytical in nature and the sources of data are official and organisational published/unpublished documents, news articles and reports published in journals, magazines, and newspapers, documents of court cases related to this matter, including interviews with the leaders of Kamani Employees' Union, Kamgar Ekta, and creditor bank officials. The reports and documents prepared by the workers union and other institutions like BIFR and banks concerned, including petitions filed by the Kamani Employees Union in recent past along with schemes framed by financial institutions and other associated agencies have been referred.

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### Background of the Kamani Industry

An industrialist, Ramjibhai H. Kamani, who belonged to the Kamani family (earlier the Kamanis had established Kamani Engineering Corporation Limited (KEC, now KEC International Limited) and the Kamani Metals and Alloys Limited (KMA) in the 1944 and 1945 respectively), formed an industrial company, the Kamani Tubes Limited in 1960 in Kurla of Mumbai, to manufacture non-ferrous tubes. It made high profits over a decade which had been increasing since its inception and reached its peak in the 1972. The main customers of its copper based alloy tubes and rods were the sugar industry, thermal power stations and the defense establishments. The demise of Ramjibhai H. Kamani and ensuing feuds among Kamani brothers paved the way for decline of this highly profitable industrial unit. The decline of this company began in 1973 that led to its closure in the 1985 after water and power supply was disconnected due to non-payment of bills (Palande 1991: 2). In 1984, just before its closure the Company had shown an all time low performance with a huge loss. The situation of continued losses leading finally to closure occurred as a consequence of feuds in the Kamani family, problems in management, prolonged litigation and appropriation of finance resulting in shortage of requisite amount of working capital.

### The Process of Takeover by the Workers' Society

Though the Kamani Employees Union had started approaching the state (Maharashtra) as well as central government to takeover the management of the company after the mid-1970s, the serious endeavours

to takeover the company and revive it was made after the closure of KTL in 1985. The situation worsened when the Company owners expressed their inability to restart it and no one was ready to buy and run it. The KTL was declared a sick industry under the provisions of the SICA, 1987 and on the basis of the same KEU approached Supreme Court in the 1987 with a proposal to takeover, revive and manage the operation of KTL. The apex court, after realising the substance in the proposal, referred this case to the Board of Industrial and Financial Reconstruction (BIFR) which was a newly constituted body to examine viability of such scheme. As the BIFR did not have many cases with it, this case was given early attention and quick disposal. The Industrial Development Bank of India (IDBI) was appointed as the Operating Agency (OA) and was directed to submit its report on the viability of the scheme prepared by the KEU. After submission of report by the IDBI, the BIFR took up this takeover offer of the KEU with the parties concerned, banks, financial institutions and the State and Central governments to confirm and ascertain their commitments for the support in form of concessions and relief to be made available for smooth operation of the Company. The IDBI was asked to revise and make some amendments in its report which was complied by the bank. On the basis of the report prepared by the IDBI and the discussions held with other parties and institutions concerned, the BIFR prepared its own feasibility report and submitted it to the Supreme Court. Originally, the scheme proposed by the KEU for takeover of the sick company was the basis of the report prepared and submitted by the IDBI and ultimately, sanctioned by the BIFR (Palande 1991: 6).

The main provisions in the scheme sanctioned by them were; (i) the industry would restart in about six months after completion of required repair works which would incur approximately Rupees sixty lakhs; (ii) the shares of the Kamanis and others of ninety six lakhs to be transferred to the workers' cooperative at the reduced cost of rupee one per share against the face value of rupees ten per share; (iii) the KTL to be managed by the Board of Directors consisting of professionally qualified or experienced persons and two representatives of the workers cooperative; (iv) the workers cooperative to raise an equity capital of rupees seventy lakhs. The cooperative, with its membership of nearly six hundred, was directed to arrange this amount of capital from each of its members who would manage rupees twelve thousand each consisting of rupees two thousand from their provident fund account and rupees ten thousand by taking loans from urban cooperative banks; (v) the State government to provide equal amount to augment the share capital after the workers' cooperative corrected its share of contribution; (vi) the scheme did not make any additional long term loan from financial institutions and banks as the requirement of margin money for working capital was to be met from the balance of funds to the extent of rupees seventy lakhs (Palande 1991: 6). The BIFR also assigned certain responsibilities to Bank of India, Canara Bank, Dena Bank, State Government, Central Government, Management and Share Holders to ensure smooth operation of the industry (Palande, 1991: 6). The workers made considerable sacrifices in the process of implementation of the scheme. As the Company was officially not closed, the workers were entitled for salary and other wages privileges as per the

provisions of the existing legislation related to industrial labour. The arrears that were calculated from December 1984 to August 1988 amounted to rupees six crores and fifty lakhs exceeding the amount of liabilities of the Company which was five crores and forty seven lakhs (Srinivas 1993: 90, Palande 1991: 3). Besides this, the scheme settled and approved by the BIFR demanded further sacrifices from the workers such as, the retrenchment for some of the workers, wage freeze for three years, the payment of wages restricted to seventy five per cent of the wage rate in the first year of operation and eighty five per cent from second year onwards, deferment of the annual increments for a period of two years, postponement of payment of dues of workers during the closure period until all other dues were cleared, linking certain salary/ wages with certain production norms, liquidation of loans taken by workers for their contribution through profit sharing mechanism, stoppage of overtime and ban on strikes, etc (Palande 1991: 10).

After going through the exhaustive tribulations and the endorsement of the scheme by the Supreme Court on 19<sup>th</sup> September 1988, the workers' cooperative succeeded in taking over the KTL under the leadership of D. Thankappan in October 1988, under the provisions of the Sick Industry Companies (Special Provision) Act, 1987. After doing required repair works the company was made operational in April 1989. While making efforts for revival of the KTL, workers had agreed to the provisions of the scheme prepared by the BIFR by which their privileges of arrears and increments in wages were curtailed. Thus the takeover involved a lot of sacrifice from the part of workers. In the beginning the workers and their leaders

were overzealous and started the work of production with great enthusiasm and made profits for nearly two and half years. Later on many-fold problems started occurring. The main causes of problems were shortage of working capital due to dilly-delaying nature of fund provider banks and apathy of the BIFR and the State government. The situation aggravated in the post-1992 period due to the communal riots (as a consequence of Babari Mosque demolition in December 1992), and related problems besides the negative impact of the liberal import policy of the government. In the early 1997, the KTL, finally, ceased functioning leaving the workers jobless. Kamkar Ekta a Parallel Union came into existence since 1998. Since then no serious and sincere effort was made to revive it either by government institutions or any other agency like promoters. The promoter, Kalpana Saroj & Associates (KSA), primarily a developer in construction area came forward to revive the dying industrial unit but indulged itself in dubious acts of manipulations and maneuvering to appropriate the assets of the Company giving way to dispute litigations involving court cases. The KEU, at present, is making efforts to get the dues and arrears of the workers and rehabilitate them.

#### **Problems Faced by the Workers' Cooperative and re-occurrence of crisis**

The union of workers and cooperative had to confront a number of problems which was aggravated by the institutional discriminations manifested through inadequate state policies and affirmative endeavours as well as non-cooperative prejudicious attitude of financial institutions like various banks who were supposed to make available the requisite capital support to the Company for its operation and sustenance under the

managerial control of the workers cooperative. The state and its associated institutions showed keenness to help revive the sick industry and assist in its successful operation by making some provision though enactment of legislations. Their support reflected more on paper than in practice. It would not be an exaggeration to say that this exhibits the classic character of the capitalist system.

Right from the process of takeover of the sick industry by the workers cooperative to aspects of maintenance, operation and sustenance of the Company and finally to secure their equitable arrears after the closure of the industrial unit in 1997, the workers' society had been facing a number of problems which could have been avoided or at least reduced to the comfortable degree by the sincere and favourable policies of State and their proper implementations. What were the problems that the Workers' Cooperative faced as a result of which the management of the Company by the workers stated fizzling out generating the atmosphere of disappointment, anger and frustration among the workers that resulted in their desertion from their parent union the KEU and join a new Union the Kamgar Ekta? Why did the experiment of the management of a sick industry by cooperatives of the working class fail? The answer probably lies in critical examination of the internal and external factors such as attitude of workers after attaining the ownership of the Company, the level of their cooperative culture and consciousness as well as their training and education, and the evaluation of the role related state policies, policies of associated banking institutions and their implementation.

It could be easily realised that the KEU had to face many obstacles before it took over the management of Kamani Tubes Limited in October 1988 which was due to the exploitative and repressive characteristic of the capitalist socio-political order. It has been observed over the period of centuries that capitalist system tries to create an illusion of reform and welfare of the marginalised sections with sole purpose of containing their outbursts and maintaining its hegemonic position. The story of the experiment of the workers' management of the sick industry, Kamani is no different. The Company under the management of workers society performed well and made profits during 1989- 1992 period. It was made possible despite the difficulties to successfully re-establish its position in the market after a gap of five years. The Company had to face tough competition from the companies operating from Rajasthan. The latter had to pay low sale tax compared to that of KTL and also exemption of turnover tax provided them an edge over the marketing position of the KTL. The Kamani Tubes Limited developed problems in 1992. The liberal import policies of government and communal riots at large scale crippled the production and market profits of the Kamani Tubes Company. The shortage of working capital, lack of efficiency on the part of management and continuous losses faced by the Company created a situation leading to its closure in the March 1997 when the water and electricity supply to it was disconnected. After the closure of the Company in the 1997, dissension came to surface and a separate union of workers, Kamgar Ekta was formed by the dissident group of the KEU which was joined by many disappointed workers of KEU. The angry and frustrated workers blamed their earlier leader, D. Thankappan who had led

them in difficult time, for the emergence of new problems in the Company. One of the reasons of the formation of the Kamgar Ekta is said to be promises made by the prospective promoter for better arrears and prospect for the workers.

The Kamani Tubes was in deep trouble since the 1995. A management consultant, appointed by the IDBI in August 1996 to assess the viability of the KTL had suggested that the Company could be brought back into smooth operational mode by providing an additional rupees four crores of working capital and the equal amount rupees of capital investment for modernisation of the industry. The consultant valued the surplus assets of KTL at Ballard estate at a minimum of rupees twenty six crores which, after paying tax dues and liabilities of creditor banks that was estimated rupees ten crores sixty lakhs as on 31 December 1996, would leave a comfortable reserve capital for stable operation and investment for modernisation (CWM 1999:13). The plan of selling out the Ballard estate building could not be implemented because of the difference shown and delaying tactics adopted by the IDBI. However, the IDBI was instructed by the BIFR to honour the report prepared by the consultants (Interview with D. Thankappan, 14.02.1999). When the plan for the sale of the Ballard estate was making progress through multilateral discussions, the prices of real estate suddenly crashed as a result of which the party negotiating for the purchase of the building backed out. The attitude of the IDBI was negative in this regard as it did not believe the economic feasibility of the Company if investment were made in its revival after the sale of the Ballard estate building (K. V. George 19.02.1999).

Despite of the favourable historic judgment of Supreme Court, support of the financial institutions and the governments in the initial phase, supportive mass media coverage, united and committed union membership, gaining good ground in the market even entering the market after the gap of five years, this unique experiment met with utter failure. The major factors responsible for the failure of this takeover and management experiment included, the attitude of the financial institutional agencies such as, BIFR, Appellate Authority of Industrial and Financial Reconstruction (AAIFR), Industrial Development Bank of India (IDBI), other banking institutions as well as government machinery, the lack of diversification of the products, the lack of an efficient marketing executive, failure of the union to cope up in the changed situation, managerial difficulties, and the lack of development of the cooperative culture and understanding, besides some sudden external factors. In the capitalist system of production many of the industrial units cease to operate and sustain due to market competition and only the big monopolist industries survive and maintain their hegemonic position.

In capitalist system of production an impression is created among the workers that the government institutions are meant to look after the interests of the workers and downtrodden. The state uses such tactics to hide its real interests of serving to augment and consolidate the capitalist system. This was evident even during the phase of process of takeover of management by the workers as the BIFR had sanctioned the scheme after inserting some conditions that loss of wages and arrears of the workers that the latter were entitled to get according to the existing

industrial legislation at that time. The fate of such experiments is also determined by the level of class consciousness and the intensity and pattern of mobilisation (whether political or economic aspects given priority)<sup>2</sup>.

### **The Struggle of KEU Continues**

The management of the KTL was run by the workers' cooperative society, the Kamani Tubes Limited Kamgar Audyogic Utpadak Sahkari Society Limited. For nearly three years, the Company made satisfactory progress and thereafter it started facing crises of various kinds and incurring losses. During the 1994-95, G.D. Apte Consultancy Services Private Limited was appointed to carry out the Techno-Economic Viability (TEVS). On the basis of the report prepared by the Consultancy, the BIFR declared that the scheme (of take over of the KTL by the workers) sanctioned on 6 September 1988 had failed and the Board directed the IDBI (OA) to conduct TEVS and submit a long term revival plan. In May 2000, the BIFR instructed the IDBI to advertise for sale of the Company. The IDBI put out advertisements for take over of the KTL. The Kalpana Saroj & Associate (KSA) group applied but its proposal was not found acceptable and therefore this promoter group was asked to resubmit a revised plan. In August 2003, the KEU filed its objections to the proposals submitted by promoters as they were not in favour of workers. In March 2004, the KSA group was given clear control of the management of the Kamani Tubes Limited appointing its Chairperson, Kalpana Saroj as the President of the Company and employees of KSA as officers of the Company. In August 2004, the KSA fraudulently entered into agreements for sale

of property belonging to the KTL, though the promoter group was not authorised to do that. An advance cheque of rupees fifty lakhs was issued in the name of M/s Kalpana Saroj and Associates and not in the favour of the KTL. The KEU, after getting this information by end of the October 2006, brought it to the notice of the AAIFR. The Kamgar Ekta which was not recognised by the Industrial Court supported the promoter, KSA.

The KEU had been struggling against the manipulative promoter group and had been raising objections by making several representations in the High Court, Mumbai as well as to various authorities concerned. The KEU lost the case in the court of AAIFR and thereafter it has approached the Bombay High Court. The Division Bench consisting of the Chief Justice of Bombay High Court Swatantrakumar and another Judge heard the case on 06<sup>th</sup> February 2008 and stayed the sale of the Bangalore land and Mumbai property of Kamani Tubes Limited until the disposal of the case/next hearing. Later hearings were held on 15.2.2008 and 18.3.08. However the matter remains to be settled finally. The KEU is opposing the unjust method of selling out the real estate assets of KTL which has the value much higher than that of what the KSA was trying to sell out. And also the Union is making its all out efforts to safeguard and secure the interest, wages and arrears of the workers.

### **Summary and Conclusion**

The takeover of the management of the Kamani Tubes limited in the 1988 was a unique experiment of its kind in annals of the history of the Trade Union Movement in India which, unfortunately, failed due to apathy of the bourgeois democratic social system. The

KTL which was established in the 1960 grew prosperous and made substantial profits for over a decade. After the death of its founder, Ramajibhai H. Kamani in the 1972, the Company started petering out as a consequence of, mainly, the family feuds among the Kamani brothers, mismanagement and appropriation of the Company's profits by the feuding employers leading, finally, to its complete closure in the 1985, however, unofficially, when the supply of water and electricity was cut off. The workers union, the KEU, after undergoing the arduous task of process of takeover of the industry under the provisions of the Sick Industry (Special Provision) Act, 1987, succeeded in its historic mission of taking over the management of the Kamani Tubes Limited and after the necessary repair works started its operation in April 1989.

The Company made satisfactory progress under the management of the workers' society but after nearly three years, it started confronting a number of internal and external problems. The main causes among them were the lack of sufficient working capital, the institutional discrimination, non-cooperative and prejudicious attitude of the financial institutions like banks that were to support the industry by making required finance available which was aggravated by the sudden outbreak of the communal riots between the Hindu and Muslim community in December 1992 in the aftermath of the demolition of the Babari Mosque by the Hindu religious fundamentalists which intermittently continued till March 1993 involving not only the City of Mumbai but many parts of the country, thus affecting the prospect of trade and commerce very badly. The effort to

revive the company and keep it operational began sending strong signals of its failure in the 1995 by making continuous losses resulting, ultimately, in the closure of the Company when the water and power supply to it was disconnected. However, this time too, declaration of closure of the Company was officially not announced.

No sincere and serious effort was made to bring the Company back into life either by any state agency or private promoter. A private promoter, the Kalpana Saroj & Associates, primarily, a developer in the area of Construction Work, came forward with the declared objective to revive the Company but, contrary to working towards its official aims, it began manipulations and manoeuvring activities to appropriate the real assets of the Kamani Tubes Limited even on the expense of the interests of the workers in tacit connivance (it is widely believed by the members of the KEU) with some officials concerned. The Kamani Employees Union have been struggling against such manipulations to secure the arrears of its members and if possible help in revival and reopening of the Company (however, the Union also does not appear to be too optimistic on this issue. The possibility of revival and re-starting of the Company seems to be a distant possibility due to discriminatory and prejudicious attitude of the State and its associated financial institutions. The conditions of the institutional constraints, the lack of development of the cooperative culture and class consciousness among the workers, the lack of proper training and education among them, including the lack of modernization and the non-cooperative attitude of the banking institutions and their dilly-delaying behaviour are main causes of the failure of this

experiment of the management of a sick industry by the workers' cooperative.

Is the option of the management of a sick industry by the workers cooperative viable? Such experiments are bound to fail in bourgeois democratic system unless the State and its related institutions take sincere and active interest in making it a success by making available the required infrastructural inputs and also directing its financial institutions to cooperate, or until working class has its own resources like banking agencies to depend on. The sick industries can be revived and managed successfully only if state is committed to the cause of the workers along the lines of socialist principles and the working class is adequately indoctrinated and trained in the cooperative culture as well as takeover and management of sick industries.

#### Notes

1. The problem was aggravated by the Hindu-Muslim communal riots in aftermath of the Babari Mosque demolition by the Hindu fundamentalist under the leadership of the Bharatiya Janata Party, a national political party and cultural -religious organisations like the Rashtriya Swayam Sevak Sangh (RSS), Vishwa Hindu Parishad and Bajrang Dal. The supply of raw material needed for the production and also marketing of products were badly affected due to the large scale-disruption of public life and other facilities like transportation. Interview Comrade Sreedharan, Secretary, KEU, KTL, 20 March 2008, Mumbai and also D. Thankappan, Working President, KEU, 8<sup>th</sup> September 2007.
2. The workers of the KEU comprised of various political leanings (leftist and rightist). They could not think beyond the boundary of economic gains and therefore could not develop

the political consciousness and the consciousness of being 'class for itself'. No effort was made by the leadership to join with the other established trade unions having national character and patronised by the party such as CITU or AITUC as a result of which no concerted endeavour was made to form an alliance with other trade unions and struggle unitedly in the interests of working class. The outstanding examples of successful management of industrial and commercial units by the workers in India are the Indian Coffee House Workers Co-operative functioning in all major cities in India and Dinesh Beedi Workers Cooperative functioning in Kerala. These are being successfully managed by the class and politically conscious workers with support from the leftist political parties.

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## Civil Society in South Asia: Nepal and Pakistan in a Comparative Perspective

Anil Kumar Mohapatra

#### Abstract

*The year 2008 has been a year of triumph for the forces of democracy in most parts of South Asia. One single factor that has provided impetus to this phenomenon of democratic upsurge to a great extent has been the substantial growth of civil society in the constituent states. Mostly these civil society groups have played a commendable role in bringing down authoritarian regimes in Nepal and Pakistan. These bodies have enhanced the prospects of democratic transition in the said states. With the insistence of these bodies in both the states are now more and more engaged in the policy discussions that affect them. In both the states, the civil society does not have the same achievements and handicaps. However, on one count, both share one thing in common. Both have to play a more crucial role in the process of democratic consolidation in their respective states in the years to come.*

Until recent times the fertility of South Asia with regard to democracy was a question mark. But today South Asia as a region has been a witness to a wave of democratisation spilling across its most part since the dawn of the year 2008. As a result of which, within the last six months South Asia has attracted increasing attention of scholars of democracy across the globe having nestled in its precincts the 'youngest democracy' i.e. Bhutan (*Hindu* 2008: 26 March) and the 'youngest republic' (i.e. Nepal) of the world today. Not only this, Pakistan has made great strides in the direction of democracy by successfully conducting Parliamentary elections in last February being freed from the clutches of an authoritarian rule for nine years. Bangladesh is also making slow but promising headway in its march towards democracy and stability. Recently the

head of its military backed caretaker government has announced to hold 'the parliamentary elections' and 'the Upazilla elections' in December, 2008 (*Hindu* 2008: 21 September). In a similar way the Election Commission of the island nation of Maldives has finalized to hold 'the first-ever multi-party presidential elections' (*Hindu* 2008: 8 August) on 8<sup>th</sup> of October this year. Sri Lanka and India, despite their internal difficulties have been successful in their tryst with democracy. This is how in total South Asia has become a prospective haven for democracy. In addition to the structural features and formal signs of democracy the uniqueness of this phase of democratisation in South Asia has been that it is preceded by a substantial growth of civil society in all constituent states of the region.

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### Civil society in South Asia

The civil society groups have made their presence felt and have made their voices heard across South Asia. These bodies today have played a significant role in engaging the public in their respective countries in policy discussions. They are not only the brokers of new ideas but also have projected themselves as one of the major stake holders by posting their reactions- both positive and negative against their respective governments. In India they oppose the policy of the Central Government to go for 'Ready-to-eat meal scheme' (Hindu 2008: 3 October); in Sri Lanka they are critical of the government policy of 'racial profiling' (Ibid) while demanding for setting up a 'humanitarian corridor' (*Hindu* 2008: 21 September) in the battle torn Vavuniya in Northern Sri Lanka; in the republic of Maldives their main concerns are : facilitating multi party elections involving 'civil service employees in politics and political parties' (Maldives Institute for SDD 2008) , fighting corruption in every sphere of life through transparency, addressing the issues of vulnerability coming from climatic change and promoting 'press freedom'; in Bangladesh they fight for rehabilitation of the disgraced, lifting up of emergency and holding of multi party elections early; in Bhutan they talk about human rights violation and environmentalism; in Pakistan they support peace deal with India instead of war and the restoration of the independence of the judiciary; and in Nepal they are the chief advocates of democracy, development, republicanism, secularism and federalism. But the growth of civil society is not uniform in all the states in South Asia. It is in a nascent stage in the Maldives and Bhutan; in Bangladesh it is gathering momentum 'since mid 1980s'<sup>1</sup>; it is in infancy

nevertheless very active in Nepal and Pakistan; and in India and Sri Lanka it is maturing. In Maldives civil society groups are expected to get a fillip after the country joined the Commonwealth Foundation as its 47<sup>th</sup> member<sup>2</sup>. In Bhutan it is beginning to exist. In the Draft Constitution of Bhutan(2005) there has been a special mention of civil society in its 9<sup>th</sup> article. The said article directs the state that 'it shall endeavour to create a civil society free of oppression, discrimination and violence based on the rule of law' (Mohapatra 2008: 109-10).

### Speciality of civil society activities in Nepal and Pakistan

The narrative above brings us to home that civil society has made a phenomenal progress in South Asia. Today these bodies have made their voice heard which was not having that much impact and influence earlier. Taking the whole scenario into account, however, one would make a special appreciation of its activity in Nepal and Pakistan where its emergence has been phenomenal. The success stories of civil society organizations in these two countries are exemplary. They have achieved successes in their respective countries in sailing against current. These bodies are found to be not only very active but also very effective. In this backdrop this new force needs a careful study in the so called semi-democracies i.e. Nepal and Pakistan which are heading towards a kind of substantial democracy. Since civil society is a sine qua non for the growth and sustainability of democracy and vice versa a comparative study of civil society in those states will be of a greater significance in assessing the role of civil society in the

prospective democracies in particular and in the region of South Asia in general.

As a sovereign entity Nepal is older than Pakistan but as countries undergoing great hardship and toil in establishing democracy in their respective states both are contemporary and similar. Their experience in democracy has been almost the same. Both are hanging in between hope and despair. They have witnessed several offs and ons of democracy within almost six decades of their striving for and experiments with democracy. Both of them are more known for coups d'etat than for democracy. If Pakistan has long being grappled with military coups Nepal has been tormented by royal interventions or takeovers. For both the countries their experiences with regard to democracy have been almost the same. Both have had the bitter experiences in seeing toppling down of democratically elected governments several times, gagging of press freedom, censoring media operations, wrapping up of the freedom of speech of people, oppression and torture of the common man and an iron hand repression of any movement or dissenting move against the authoritarian regime. Under such circumstances the growth of a civil society was like a mirage since those were detrimental to the growth of it. However, today both the states have undergone a process of democratic transformation. A democratic upsurge has enveloped both of them. As a result their society, economy, polity and culture are taking new moulds. In these days a democratic space has been widening for which a civil society has been emerging as a new force in both the countries. Especially the last two years in particular and the last two decades in general have brought a sea change in the democratic landscape of

the said countries. It is suffice to to say that before and after February — April (2008) elections in Pakistan and Nepal respectively have seen new forces and actors coming into existence of which civil society has been a prominent one. It has been evidenced by frequent reference to civil society in all matters and issues that these states confront today. Now this non-state actor i.e. civil society has played and will be playing a crucial role in these two countries in the democratic consolidation of their respective states. In this background a comparative study of civil society in both the states is of greater importance and of relevance to both the states and to the scholars of democracy in the third world as well. Taking notice of this new development and its growing importance the present paper makes an attempt to discuss the concept of civil society followed by its evolution and lacunae in both the states in the following four sections that concludes with a summation that outlines its future role.

### I Civil Society: A Conceptual Analysis

Civil Society is a much hyped term today. At present any discussion on democracy and development seems to be incomplete without taking a reference to civil society. In this context C.D.Bhatta is worth quoting here who said, "Since the last couple of years, the word 'civil society' have been used frequently in different perspectives of state affairs. Nothing is complete without an explicit reference to the civil society"(Bhatta 2006).

Despite the wider publicity and use of the term, it still lacks a universally acceptable definition. There has been a persistent debate on a precise definition of Civil Society. In the development discourse it

is regarded as one of the haziest terms. The concept has been subjected to widespread disagreements over its meaning and scope. However for the sake of a minimum understanding of the concept in order to appreciate the present paper let's consider few definitions and views of some leading exponents on the subject to be preceded by a discussion on its evolution and meaning as we accept in usage in regard to this phenomenon today.

### Meaning

Civil society implies a domain between individual/family and the state where social associations exist allowing individuals to pursue their private interests in free associations with others. Civil society represents a distinct sphere of human relations and activity; distinguished from the state- it is neither public nor private –but perhaps both at once. As a sphere it is independent of and protected by the state whereas it may challenge the excesses of the state. In that light CSOs (Civil Society Organisations) imply independent self-organisations within society where people work collectively to solve their own problems, articulate and channelize public opinion and exert pressure on government. Therefore undemocratic governments are afraid of civil society and they do not allow them to flourish. However, democracy facilitates its growth and vice versa. Modern democracies cannot function without a vibrant Civil Society since democracy implies the authority of the state to be limited by the existence of social associations organised independently of the state. It derives support and inspiration from the assumption that democracy at the level of the state will be weak if the rest of society

e.g., family, school, church, trade unions etc. is based on authoritarianism. The CSOs give the experience of self-organisation or co-determination to the people at all levels and make them responsible and active citizens. Without them it is almost impossible at the individual level to further legislation, protect individual liberties, and engage in the very demanding task of placing checks on governmental power. Signifying their importance the liberals like J.S. Mill and Alexis De Tocqueville expressed their apprehension that “without these active social associations, even democracies could become despotic regimes” (Indira Gandhi National Open University 2006 : 214). It is therefore said that civil society could exist prior to democracy but democracy can not sustain without civil society.

### Evolution

Civil society as a phenomenon is European in origin. Traces of its origin can be found in the ancient and mediaeval period but in the 18<sup>th</sup> century it became conspicuous. The developments that accelerated its growth were the decline of absolutist state when political power came out of the royal courts to the popular assemblies, emergence of a secular authority, the coming into existence of the institution of private property, the growth of urban culture, the rise of nationalist and democratic movements. It resulted in a public sphere. With the change in political and socio-economic conditions in the society people began to form associations or groups for the fulfilment of their needs. Those were formed independent of the state. Community organizations, social welfare bodies were created for mutual help. With

the increase in the level of literacy commoners began to increasingly involve themselves in those groups. That period was too marked by a rapid expansion of the middle class. Through those bodies they started demanding the services like education and health etc. from the state. That resulted in the downward stretching of the state. Local government units came into existence as a result of that. It was the story of late-19<sup>th</sup> and early-20<sup>th</sup> century. Those bodies were not having any political objective nor were revolutionary. Limited in both size and programme, such groups sought more and improved services for their community. However, today some of those bodies are utilized for political ends. In the 21<sup>st</sup> century we find a quite different form of civil society organizations. We are talking about international civil society. These bodies are no longer bound by time and distance. We find how widely scattered persons with common interests in larger issues have begun to join together. Non-Governmental Organisations, foreign or domestic development groups, charities for relief, special interest groups, research organizations, advocacy groups and media etc too are regarded as components of civil society.

### Views and Definitions

For a deeper understanding of the concept let's take some leading definitions and views especially of three schools (Liberals, idealists and Marxists) into consideration.

Civil society has been defined by many in many different ways. From the point of view of its relationship with development and good governance several international agencies/ organizations have there own interpretations and perceptions of civil society.

Commonwealth expects these people's organizations to promote culture, good governance, human development and livelihoods while addressing Commonwealth goals for development, democracy and cultural understanding. USAID regards these bodies to be non-business and non-partisan; UNDP identifies these bodies with freedom of association and participation and the World Bank identifies them with freedom of association and expression of opinion (Guhathakurta and Karim 1998). There are some other definitions given by scholars of civil society too. Let's begin with a useful analysis given by Mahmood Monshipouri (Monshipouri 1997). To him 'In general, civil society is thought of to provide a buffer between state and citizens: it counter balances the power of the state by promoting societal interests vis-à-vis the ruling elite. Thus conceived, civil society includes professional associations, guilds, syndicates, labour unions, federations, political parties, and other non-governmental groups. Some scholars even include 'informal politics' as a component of civil society, arguing that clans, tribes, and religious groups can be considered part of the definition'. Such a definition falls short of what we mean by civil society in our own country usages. It is not always anti state nor does it seek to balance the state. Blair's definition seems more acceptable. Civil society, according to Harry Blair, comprises the collective social organizations that enjoy autonomy from the state, and have one important goal, among others, to influence the state on behalf of their members. A strong civil society supports democratic participation, assures the right and probity of the citizenry and contributes towards a deepening of policy accountability (Rahman et al. 2002 : 424).

### Views of Three Schools

Let's discuss views of three schools namely Liberal, Idealist and Marxist. (i) As a theory it forms an essential part of liberal democratic theories. Hobbes, Locke, J.S. Mill, Tocqueville and Adam Smith etc. were its chief advocates. It stands against the idea of a totalitarian state that had sought to regulate all social institutions leaving no democratic space for them. According to the Liberal School an active civil society is regarded to be a precondition for the realization of true democracy and development. It strengthens and facilitates democracy and acts as an antidote to authoritarianism. Hobbes and Locke were the early thinkers who made a clear reference to 'civil society' as distinguished from the 'state of nature'. Through social contract a civil society or political society came into being. Both talked about a public sphere where individuals had some inalienable rights which were protected by the state. The concept of civil society then got a fair treatment in the hands of the classical political economy theorists like Adam Smith. They demanded more freedom of the individual and the least intervention of the state in the domain of individual. This helped the civil society as a historically evolved area of individual rights and freedoms, where individuals in competition with each other pursued their respective concern. J.S. Mill and De Tocqueville wished to limit the growing power of the state through the mechanism of civil society. Tocqueville termed them as intermediate associations. He said such civil associations prepare people for democracy and puts a check on the state. Accordingly the role of the state witnessed an eclipse vis-à-vis the civil society. For the liberals, civil society presupposes democratic states

together with the accountability of the states, the limits on state power, the responsiveness to the spontaneous life and the interactions of civil society. (ii) Next school of thought was idealism. It was Hegel who represented it. Instead of keeping the state below the civil society he kept the state above the latter. To him state was the synthesis of the thesis (family) and anti-thesis (civil society). For Hegel civil society was a negative institution which was the result of the irrational forces of individual desires. It was, to him, an expression for the individualist and atomistic atmosphere of middle class commercial society. According to Hegel state was the final form of social institution and thus ultimately civil society should be kept below the state. There was essentially no dichotomy between the state and civil society. (iii) Marx's view came in sharp contrast with the Hegelian view. Marx sought to restore the civil society to the position of making it the theatre of history. But Marx found that in liberal democracies civil society had failed to live up to creating a situation where the individual could find freedom and democratic transformation and could integrate into society and the state. For him civil society was too a bourgeoisie institution. It had become an arena of class conflicts, selfish competition and exploitation. It was in contrast was serving the interests of the owning classes. Marx therefore demanded the abolition of the antithesis between political society (state) and civil society through the abolition of both. Therefore he said with the withering away of the state the civil society would also come to be abolished.

In the backdrop of the views discussed above a definition of civil society should take

into account the insights of all. Accordingly first, it is required that the state power must be controlled and it has to become responsive through democratic practices of an independent civil society; second, political accountability has to reside not only in constitutions, laws, and regulations, but also in the competence of the social fabric or political public.

### State, Civil Society and Democracy

Since this paper is going to discuss the role of civil society in the democratic transition and consolidation in two states which were for a long time were under dictatorial rule it is necessary to find whether there exists a relationship between state, civil society and democracy. According to some scholars state and civil society are mutually antagonistic since civil society wishes to restrict the state authority and vice versa. In dictatorial regimes state power is used to restrict the activities of the civil society and thus state becomes the spokesperson on behalf of the civil society. It becomes a zero-sum game where one grows at the cost of other. However democracy or a democratic system unites them and keeps both the state and civil society in a harmonious relationship. State gives legitimacy and protection to the civil society and civil society gives stability to the state. Civil society can not grow if the state is not democratic and the state can not survive for a long time if it does not provide conditions for the growth of civil society. Therefore in the liberal democracies there is found a constant reciprocation between both the state and civil society.

Thus from the above discussion it is realized and understood that civil society as a concept leaves much scope for confusion. It is an evolving concept. However for the

purpose and requirements of the present paper we shall have to agree to the proposition that civil society can be understood in contrast with political and military society. It implies a zone or space which is neither political nor militaristic. It is also a zone that includes associations which are not selfishly private and at the same time which do some public good. Civil society thus includes all human associations excluding the formal wings of the government (also the local self governing units and military establishments) and private sector trading and manufacturing units. In the same vein, civil society is regarded to have composed of all institutions that are inherently non-governmental in nature. It includes NGOs (Non Governmental Organisations), media, trade associations, sports clubs, advocacy groups, and groups of special interests. According to Beetham and Boyle the elements of Civil Society include "(i) independent media of communication that includes television, radio, news papers, internet, journals, periodicals; (ii) expert bodies on all aspects of govt. policy; (iii) a net-work of voluntary associations in all walks of social life through which people manage their own affairs among them some assume significance for the promotion of democracy those are trade unions, professional associations, women groups, self help groups (SHGs), human rights and developmental organisations, religious bodies and grass-root organisations of any kind" (Beetham and Boyle 1995 : 95-106). And finally from the usage and normative point of view we have to accept that it embraces an entire range of assumptions and facts that are indispensable preconditions for democracy or at least a vital component of a democratic movement.

Most of us would agree that it is an essential component of well-functioning governments – democratic or otherwise.

## II Civil Society in Pakistan: A study of its Evolution and Present Initiatives

Civil society grows in a politically liberalized society having democratic institutions and a general level of mutual tolerance among, between and within different ethnic/religious groups in the society. Pakistan is known for the conspicuous absence of such a culture which could have been conducive to the growth of civil society. In Pakistan after independence political power went into the hands of elite of military generals, feudal lords and bureaucrats who hijacked the very process of popular government in their favour by gagging the press and aweing the judiciary into silence. They perpetuated their rule in the garb of a fabricated ideology and thus kept the commoner participation off the politics. They too did not accept the federal formula which could have dissuaded the growth of ethnic strife and the growth of religious militancy. As a result what to say of the CSOs, even the democratically elected governments on four occasions have been yielded to military dictatorships and its leaders like Nawaz Sharif (leader of the PML ) and Benazir Bhutto( the ex-PPP supreme) are been forced to be in exile. This historic legacy has precluded the development of a culture of participation and accountability, causing not only the waning of institutional mechanisms such as parliamentary institutions, mass media and CSOs, but also has squeezed citizen expectations in Pakistan. Therefore CSOs are being marginalised in Pakistan politics until the recent past because the democratic and political space afforded to civil society organizations was limited. As a result these

organizations have had limited impact on policymaking and implementation.

But today the situation is quite different. At present Pakistan is passing through a phase of transformation. Its society, polity, economy and culture – all are on the verge of a marked change. Today new forces, new factors and new players are making their presence felt in Pakistan. Now there is a new movement in the making, surrounded by vastly changed social and economic circumstances in the country. One of the key features of this new movement has been civil society activism. The old power structure is on the wane. The role of Pakistan's army and its intelligence agency, the Inter-Services Intelligence (ISI), who had long been on top of the power structure in the country are facing challenges from commoners today in the form of civil society movements. Today these CSOs are increasingly emerging as an important group. Even the civil society activists have dared to register their protest against any crackdown or lapses by government or the military.

Pakistan's civil society has been growing in various spheres of social life. Its traditional focus had been on human rights, especially minorities and women, and on social development in rural communities. Its recent focus is on the establishment of the rule of law, independence of judiciary, representative government and democracy as a universal social value and development as well. While activism in these areas grew appreciably, the traditional associations, like labour unions and student groups that had played a major role in the past (in toppling Ayub Khan's regime) are found to have declined.

Civil society in Pakistan today comprises of non-governmental organizations (NGOs), community-based organizations (CBOs), think tanks, trade unions, cultural groups, and informal citizen organizations. It is gathered from a statistics (in 2001) that there were around 10,000 to 12,000 active and registered NGOs and up to sixty thousand unregistered groups like NGOs and eight thousand trade unions in Pakistan. Civil Society in Pakistan can be seen in terms of three broad groups: NGOs and CBOs (including welfare, service delivery, human rights, advocacy, social, and membership groups); professional and other membership associations (such as labor and trade unions, the press/media); and academic and research institutions. Political parties and religious groups are in a category of their own.

Free press (privately owned), non-governmental organizations are on the increase today. It's an irony that General Musharraf who has been the target of civil society movements in 2007(March and November) was its creator and promoter eight years back. In 2000 after assuming power, Musharraf changed the landscape for private broadcast media in the country. A range of television, and radio outlets, as well as Internet sites, opened up as more and more private players won licenses to operate. Private T.V. channels like Geo TV network, ARY-TV, and AAJ TV started competing with state run news channels. People of Pakistan then were exposed to an open information environment unprecedented before. The information systems of Pakistan became an important factor in shaping the course of the present civil society movements. Sabar Zaidi( Zaidi 2008:10-11)has observed that "In 2002 when the last elections were held, there was

only one private T.V. channel in the country; today there are more than thirty private news and information channels, in all major languages. With constant information, analysis and chatter about even minuscule political tremors and developments, much of Pakistan's society has become involved with and informed about what goes on in the country. While numerous rumours and spins are given to political stories, no one can any longer claim to be uninformed." Besides the media and press the human rights groups, environment protection and conservation groups and women and child welfare movements are already making their voices heard across the country. The human rights activists like Hina Jilani, I.A. Rehman and Asma Jahangir are household names in Pakistan who have gained prominence in the international community. The Human Rights Commission of Pakistan is devoted to the promotion of human rights and democratic development in the country. Today there are ninety registered political parties in Pakistan. There are several religious militant organizations having tie up with political parties.

### Recent Initiatives and Achievements

The year 2007 was most significant and of relevance for the Civil Society Movements. Since November 2007 things took a swift turn that began in March that year. The judiciary provided the lead which was then joined by media, lawyers, social activists, and secular and religious political opponents of the authoritarian regime of General Musharraf. When in November 2007 President Musharraf sought the approval of the Supreme Court for the suspension of the Constitution and (to rule by decree) the

imposition of emergency/ martial rule it was declined by the Court. Several of its judges including the Chief Justice Iftikhar Muhammad Chaudhry refused to sign Musharraf's decision. That was an unprecedented incident in Pakistan's history. To avenge this Musharraf deposed Mr. Choudhury (who he had initially tried to dismiss in March 2007) and some other judges and put them under house arrest. Musharraf then moved to crack down on the media, lawyers, social activists, and secular and religious political opponents- the emerging players in Pakistani society. The media was intimidated but they did not fear to give a wide coverage to such undemocratic action. Nirupama Subramanian (Subramanian 2007) wrote on that incident in the following words that "Most analysts had already given up the deposed judiciary as a lost cause... then there is Pakistan's civil society. In Islamabad, there are near daily citizens' rallies to the deposed judges' homes, with the participants- lawyers and retired judges, school children, college students, academics, teachers, human rights activists, news paper columnists, journalists and even house wives- carrying flowers for Mr. Chaudhry and the other judges elaborately handing them over to the policemen who stop the rallies midway." That was how the civil society asserted itself. The result was culminated in the 'Fairest' (Zaidi op cit) Parliamentary elections in Pakistan's history after the restoration of Constitution and Rule of Law. It has played a substantial role in forcing general Musharraf to resign from the office of the President of the republic of Pakistan followed by the election of Mr. Zardari (the president of PPP) to the august office. Today these bodies, especially the lawyers' and judges' associations are putting

pressure on the minority government run by the PPP to reinstate all the judges including the Chief Justice Iftikhar Mohammed Choudhary suspended/ dismissed by Musharraf.

### III Civil Society in Nepal: A study of its evolution and present initiative

Like the Pakistani experience the erstwhile Himalayan Kingdom of Nepal has had a mixed experience with democracy and autocracy. Within a span of 239 years of monarchy more than a century (1846-1951) Nepal was kept under a hereditary prime ministerial autocracy called 'Ranacracy'. Next phase saw the advent of democracy in Nepal but of no avail. Within the last 57 years after the introduction of parliamentary democracy in it democratic governments in the real sense had prevailed over there for only a very few years yielding to royal interventions and coups on several occasions. After the completion of more than one year in office of the first ever democratically elected government of Bishweshwar Prasad Koirala the then monarch reasserted his reign by dismissing the democratic government in 1962. From 1962 to 1991 Nepal saw a King dictating a party less democracy phase called 'Panchayat System' followed by incessant squabbles among, between or within political parties causing political instability during 1992 to 2006 which indirectly strengthened and consolidated the reign of the kings. Such an undemocratic circumstance was further deteriorated and accentuated by the Maoist insurgency that created havoc for a decade (1996-2006) by terrorizing people spearheading a protracted struggle against the monarchy having over '1300' (New

Indian Express 2008) innocent lives as its death-toll. These circumstances allowed little democratic space for the CSOs to flourish in Nepal. Given background was quite discouraging for the growth of civil society. Hence civil society has had a stunted growth in Nepal till the recent times.

Despite being mostly an authoritarian system the existence of civil societies in Nepal has a long past. During the period of Prithvi Narayan Shah such organizations were non-existent. However, Nepal did not remain devoid of social movements during the 104 years of Ranacracy. Arya Samaj was formed in Kathmandu in 1896 to spread political awareness and social reform which was eventually suppressed by Ranas. Some organizations like the Gorkha League operated in India published newspapers to raise awareness about the state of Nepal amidst Nepalese migrants. The other notables were the first educational movement known as Library Parva, the establishment of Nepali Civil Rights Committee in 1936 followed by the emergence of Nepal Praja Parishad (Nepal People's Council)-the first political party inside the country and slowly other political parties began to grow in numbers. There were also women organizations run by the wives of political leaders. The Revolution of 1950 which overthrew Ranacracy ushered a new era in modern political history of Nepal. A type of trans-national civil society, Indian National Congress was the source of inspiration of Nepali Congress. The educated middle class were at the forefront of political and social movements with some exceptions of few "enlightened" people from other ethnic groups. Then the new source of authority was defined by popular sovereignty and women were granted adult franchise in 1951. The then

time provided an atmosphere which was conducive for promoting and strengthening civil society. But with the comeback of "assertive monarchy" in 1962 that suspended the first ever elected government the civil society movement received a jolt.

However, in the late 1980s, the civil society's movements again got a fillip. The "mode of occurrence" of the triumph of liberalism was "televisional." So the winds of change were blowing in Nepal too. Although the then liberal monarch, King Birendra allowed political society to exist, it was subjected to coercive measures when it got active and hostile to the regime. Next came the period of low economic growth of the country with growing fiscal deficits and declining international reserves. It resulted in an acute macro-economic instability followed by the "strategic" economic blockade imposed by India for 15 months. This situation indirectly empowered opposition political society and a civil society as well to a great extent. They came down the street to demonstrate against the King. That resulted in the restoration of multi-party democracy in April 1990.

Since the restoration of multi-party democracy in April 1990 there has been the ushering of a liberal tradition in Nepal. Free press (private owned), non-governmental organizations are on the increase today. Formally registered civil society organisations in Nepal are over fifty thousands. Some of the NGOs are emerging into powerful pressure groups and advocating for sweeping changes in the socio-economic and cultural milieu of the society. The human rights groups, environment protection and conservation groups and women and child welfare

movements are already making their voices heard across the country. Since 1990 the people of Nepal are being exposed to an open information environment unpredicted before. With all the attributes of a free and liberal democratic environment, the information systems of Nepal are increasingly emerging as an important factor in shaping the course of civil society movements.

Some Scholars argue that it manifested itself in a more concrete way through the showdown of 'people's power' in the April 2006 Jana Andolan-II (mass movement) that played a crucial role in regime change. During the Jan Andolan II, civil society regrouped demonstrating its resilience and commitment to democracy. The Civil Society Organisations (CSOs) and NGOs were able to connect by e-mail, and human rights groups issued an appeal that called upon the international community to demand some specific measures from the Nepalese authorities. These include the unconditional release of those arrested and a halt to the ongoing atrocities by the security forces.

Nepal's Civil Society consists of business, sports, social, political, health and religious interests and Nepalis (in Nepal or abroad) participate in a wide variety of clubs and associations. The most visible and most vocal of the lot from Nepali Civil Society, of course, are the media and the Human Rights NGOs – the political component Civil Society. Civil Society in Nepal today is gaining new momentum. Today, according to Prasant Kumar (Kumar 2008: 34), "Civil societies in Nepal provide an 'alternative space' for the historically suppressed voices and intervention in the affairs of state and

society. For the first time in the history of Nepal, different marginalized sections, races and nationalities have raised their voices through Civil Society Platforms and provided their vision and blueprint of New Nepal."

#### Recent Initiatives and Achievements

Since the Jan Andolan II in March-April, 2006 the CSOs have emerged as a potential force in Nepalese politics. The civil society movement now motivates people towards social, economic and political cooperation. People are gradually relying more on these non-state social institutions, through which they can work collectively to solve their own problems, which can act as channels of popular opinion and put pressures upon the government and which can serve as a protection against its encroachments. These civil society institutions are trying to enhance social democratisation and national development. Not only these civil society organizations are inculcating civic virtues but are also insisting the furtherance of democracy in the country. Credit goes to the leaders of the civil society who had succeeded in organising an interaction among all stake holders, the disputing political parties and factions along with the Maoists in Lalitpur on 23<sup>rd</sup> December, 2007 to sort out all political issues including the decision on holding the Constituent Assembly (CA) elections in mid-April, 2008. That resulted in the 23-point agreement which sustained the hopes of democracy active and alive and led to the successful conduct of the historic CA elections on 10<sup>th</sup> April, 2008. Today these bodies are very much active in urging the political parties to build consensus on national

issues. The recent agreement of the SPA (Seven Parties Alliance) over some crucial issues that has brought few proposals for amendment to the interim constitution which is hoped to pave the way for government formation after the CA election in April (2008) has been regarded as an outcome of the persistent insistence of the CSOs on the political parties to break the deadlock among them.

#### IV Lacunae in the Civil Society

Nepal and Pakistan are more authoritarian than a democratic system as a result of which civil society has been prevented to grow properly in both the states. In Pakistan even its existence has been debated by its scholars in the country and beyond. Iftikhar H. Malik (Kapila 2008) – a known Pakistani intellectual has made a remark regarding the existence of civil society in Pakistan that a 'civil society' cannot be taken as a given reality; it has to be created and strengthened. He has made the following observations: "The Pakistani State has successfully refurbished itself at the expense of vital civil institutions – Constitution, pluralism, political parties, independent judiciary, free press and activist groups. The imperatives for establishment of a civil society in Pakistan have been side lined. Totalitarianism, elitist monopolization, majoritarian coercion and ethnic fascism which normally stand rejected by a 'civil society' are all pervasive and predominant in Pakistan." In the opinion of a leading political analyst in India Dr. Subhash Kapila (Ibid.) "some may be able to discern a semblance of a 'civil society' in Pakistan from a handful of objective political commentators, intellectuals and human rights activists, Pakistan otherwise

seems to be devoid of an effective and a widely established civil society".

In 2001, Civicus, an international alliance of civil society groups, too described Pakistan's civil society as a "collection of incoherent voices, conflicting worldviews and opposing interests" characterized by "unresolved struggle between the practices and values of pre-capitalist society and new modes of social life, between authoritarian legacies, and democratic aspirations" (Jayashree 2007).

In addition to the above the other thing that weakens the role of civil society is the very low rate of literacy in a country like Pakistan where more than 50 per cent of its people are illiterate. There has been an alarming increase in the level of violence and intimidation against journalists and media organizations in the country. There are too several voluntary groups which have slipped into fanaticism and religious militancy. Now some of them are used to preaching intolerance and inciting sectarian hatred and violence. All civil society groups in Pakistan are thus not a part of a democratic civil society. The other deficiency in the civil society movement in Pakistan is that while it is encouraging to see that the legal associations have spearheaded the movement to restore democracy but it must take other such groups to build a common and potent platform to work for the furtherance and consolidation of democracy in Pakistan. Its challenge thus lies in mobilising people, creating unity among diverse social and political groups and providing an alternative leadership that would win the trust of the people.

In Nepal, in a similar manner, some critics are of the view that what we call a 'civil society' is nothing but an amorphous notion of people's power as demonstrated in the April mass movement in 2006. These bodies are neither organized nor are having any ideal or consensus. These bodies have become agents facilitating the global neo-liberal process. The political agendas of NGOs come from the economic, political and financial power in the developed countries. It is the result of foreign funding through which there has been the cropping up of CSOs and NGOs in the name of conflict resolution. These are formed in order to tap the monetary benefits it brings. Their motivation is not voluntary but monetary gain. Mostly the people from middle class and elite have formed them. They wish to continue the conflict without resolving them. Had they been resolved the conflict many organizations would go bust and would have been dried up. Therefore they do not have consensual opinion/ voice in terms of peace building and conflict resolution. Creating NGOs are like a business on which depends their livelihood. This professional civil society is a donor driven society. Thus the transformation of this amorphous notion of power into civil society should be the first and foremost task to be undertaken and accomplished in Nepal.

Despite these lacunae in Nepal and Pakistan we have to admit that both are transitional democracies where the ideal conditions of a civil society are not yet achieved but a marked shift has been occurred. Today therefore despite having these inconsistencies civil society has emerged as one of the most powerful means in the political discourse of the respective states and a great deal of expectations is pinned on it in both the

states. The growth of civil society and its activities in recent times evidence the broadening of the democratic space in both the states. With the revisit of democracy, it is expected that the institutions like universities, schools, newspapers, banks, hospitals, professional associations which will be made accessible to all and in turn that would strengthen civil society. Today in view of the numerical growth of the CSOs it is said that the states are being 'societalized'. Today the legitimacy of the state has begun to be obtained or withdrawn according to the demands of civil society which the state can not overlook. The states in Nepal and Pakistan are slowly coming out of the hang-over of the past, and understand those demands put by the CSOs. However the future of civil society depends on how it pulls together with the political society. In both the states the governments need to appreciate the contributory role of the civil society and they must learn to build partnership with these bodies to lead the respective countries towards democratic consolidation, stability and development.

### Conclusion

It is said that civil society develops and plays an essential role in influencing the political system either before or after the downfall of non-democratic regime. This is true in case of Nepal and Pakistan. In case of Nepal the civil society organizations not only waged a successful revolution that brought the regime change in April, 2006 but these bodies did extend their support to Peace Negotiation between 7 Parties' Government and Maoists as per the Mandate of the People's Movement and these bodies too have played an active role to accomplish

Constituent Assembly Elections in April 10, 2008. In view of its success during April 2006 today it is believed that it could play a more significant role in the Post-CA-Poll Nepal both in addressing the immediate issues like drafting of the Constitution, to bring about a consensus among political parties on all national issues like deciding upon the nature of republic and federation, bringing improvement in the deplorable Human rights situation, securing freedom and representation for all, fight against exploitation, conflict resolution among different sections and long term issues like strengthening the democratization process, nation building, institution building, integration of Maoist rebels into the army and mainstreaming of the Maoists etc. In a similar way the civil society in Pakistan is now found to be very active. People are getting aware of political happenings and are thinking of asserting their role through them. With the insistence of the civil society organizations some unprecedented developments like restoration of the Constitution, establishment of rule of law and the independence of judiciary and conduct of parliamentary elections after six years and above all winding up of the dictatorship of Musharraf in Pakistan - have taken place in Pakistan. Despite its preliminary successes the CSOs have a lot to do in the present political situation where a coalition between (Pakistan People's Party) PPP and PML(N)(Pakistan Muslim League led by Nawaz Sharif) has been failed to pull together resulting in a minority government of the PPP with the withdrawal of the PML(N) from it. Under such circumstances the question that then arises is regarding the possibility of a military coup, and should the democratically elected government fail. Nobody knows what is going to happen in 2010 after the retirement

of the present General Kayani(?). The way the army reacted against the move of Prime Minister Gilani to 'put the ISI under the control of the Interior Ministry' (Sharma and Reddy 2008) has been a matter of concern. The people of Pakistan are too critical of Pakistan's policy towards Afghanistan and its war on terror. In this backdrop civil society needs to go hand in hand with the political parties to strengthen the forces of democracy. The civil society too has a role to play in redefining the national interests and national threats of the country. In this regard civil society in Pakistan has to take a firm stand on terrorism and peace deal with India. Besides these issues the success of democratic switch over and its sustainability depends much on the civil society. How does it respond to the prevailing situation is a matter that counts. In conclusion it can be said that civil society is gaining new momentum in both the states today. Civil society in both the states has expanded considerably and has made effective use of the media as a platform to put forth its views and articulate a sharp critique of government policies. The public perception in Pakistan and Nepal vis-a-vis India has witnessed a steady change, with civil society engaging in a critical questioning of their governments policies towards India. However it is to be admitted that both Pakistan and Nepal being transitional democracies, the ideal conditions of a civil society are not yet achieved but a marked shift has occurred in both the states. Despite its commendable initiative and success in the respective states the current situation of renewed internal conflict (especially in Pakistan's Federally Administered Tribal Agencies) and political degeneration characterized by schism between the major political parties in both the states calls for soul-searching and

introspection on the part of both civil and political society of both in giving shape to a new Pakistan and Nepal.

#### Notes

1. Bangladeshis in general seem to be skeptical about the future of democracy and democratic governance. Political parties have chosen a path of confrontation than consensus. Development debates and issues are addressed from mere partisan perspectives. However, since mid 1980s Civil society has emerged as an alternative force along with the conventional political parties and pressure groups in Bangladesh. Though there has been some criticism about its focus, effectiveness and partisan inclinations, however the civil society has now being recognized as a credible channel for voicing the critical issues ranging from politics and governance to participative development and human rights. Civil society has opened a new 'window of opportunity for the community to monitor public institutions, identifying critical issues and constraints in legal, institutional and judicial processes of governance, persuading the political parties to follow 'modus operandi' for participative and responsive politics. (See Asaduzzaman, M. (2003): 'Politics, Development and Civil Society in Bangladesh', University Grants Commission of Bangladesh and Department of Public Administration, University of Dhaka, Bangladesh, 7 October at <http://atlas-conferences.com/c/a/m/m/37.htm> -web accessed on 25 September, 2008).
2. Recently the Maldives has joined the Commonwealth Foundation (an inter-governmental forum and a sister concern of the Commonwealth organization) as its 47th member. Speaking on the occasion Dr Mark Collins, Director of the Foundation said: "We are delighted to welcome Maldives into membership. This is good news for the Commonwealth and for Maldivian civil society. The benefits of being a member of the Foundation mean that people's organisations in the Maldives can now benefit from

grants and participate in initiatives in each of our four programme areas on culture, governance, human development and livelihoods. The Foundation will now be able to strengthen the work of civil society in Maldives and encourage partnerships with governments and others in addressing Commonwealth goals for development, democracy and cultural understanding." (See "Maldives joins Foundation" at <http://www.commonwealthfoundation.com/news/news/detail.cfm?id=440> -web accessed on 4 September, 2008).

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## Northeast India As a gateway to India's Look East Policy

Munmun Majumdar

### Abstract

"... Yet all experience is an arch where through  
Gleams that untraveled world... for my purpose holds  
To sail beyond the sunset, ..."

(Ulysses: Tennyson)

India's Look East policy was launched nearly simultaneously with its economic reform when India began to see South East Asia as the region where politico-strategic and economic conditions offered an opportunity to play a substantial role. Launched in the early 1990s as an economic and security-oriented foreign policy initiative linking India and East Asia, it took fifteen years for the Ministry of External Affairs to bring the policy to the Northeast India. The emergence of the look east policy as a model of development for the Northeast arose out of external and internal security concerns.

New Delhi's long-standing quest to integrate the Northeast Region with the rest of India can be fulfilled only with the economic integration of Northeast India with Southeast Asia which will in turn foster the region's political integration with India. Therefore, to reach Southeast Asia via Northeast India New Delhi cannot circumvent and downplay the continental dimension of the Look East policy. And more importantly India's engagement with Southeast Asia will be incomplete without the participation of its Northeastern States.

**Key Words:** Look East Policy, ASEAN, Northeast India, Asian engagement, Connectivity.

With Prime Minister Narasimha Rao's visit to South East Asia and the exposition of a new Look East Policy in his much publicized and well received Singapore lecture at the prestigious Institute of South East Asian Studies, stating; "I have come to extend my hand of partnership in this venture—a partnership having so much in common, and so close already in multi-faceted cooperation", marked the beginning of India's effort to renew a closer relation with the South East Asian countries. India's Look East Policy was launched nearly simultaneously with its

economic reform when India began to see South East Asia as the region where politico-strategic and economic conditions offered it with an opportunity to play a role. The emergence of Asian Tigers<sup>1</sup> and the growth of the Association of South East Asian Nations (ASEAN) as the foremost economies of Asia provided further fillip for the Indian policy makers to look at the East as a possible avenue for economic transaction.<sup>2</sup> Consequently India's foray into Southeast Asia was the logical extension of India's search for potential markets in newer

economies as well as for avenues to get its own economy integrated into the global market. For that reason India deliberately fostered a "Look East" Policy, in foreign affairs, and made resolute efforts to strengthen and upgrade ties with ASEAN as a group. With this the Government of India, for the first time since independence, turned its attention towards the ASEAN region with economics in mind.<sup>3</sup>

The combined effects of the systemic changes that followed the collapse of the former Soviet Union, resolution of the Kampuchean conflict, and the liberalization and economic reform program initiated during the Prime Ministership of Mr. Narasimha Rao, in turn, helped to persuade ASEAN countries to step up trade and investment in India. Thus, in looking east, India sees a great opportunity in terms of trade expansion and economic opportunities and also to position itself as a determining factor in the security and stability of the region. This was well articulated by India's former Prime Minister A.B. Vajpayee: "This region (Southeast Asia) is one of the focal points of India's foreign policy, strategic concerns and economic interests. We have always sought to integrate India's strengths in various social, scientific and economic sectors into the relevant ASEAN processes. Reflective of India's interest in intensifying its engagement with ASEAN, we are in the process of jointly developing an India-ASEAN Vision 2020, as a road map to our mutually desired objectives. The move towards greater economic liberalization in the ASEAN Free Trade Area and the ASEAN Investment Area reflects this recognition".<sup>4</sup>

Gradually the ASEAN region has emerged as a central pivot in the Indian view of Asia and its future, and essential to the

construction of a security order that will be in India's interests. This is not only on account of the perception of Asia-Pacific as a zone of increased threats, potential turbulence and unbridled great power rivalries are gaining greater currency in India, but also for the reason that ASEAN is seen as potentially sharing a range of common military and non-military threats and concerns, including those related to issues as diverse as energy, economics and sustainable development, non-traditional security issues, human security etc. India sought a more active role in the region also since it was deeply concerned about the uncertainties of the future involving China's predominance. Thus the policy was more than just a foreign policy alternative in view of the fact that it provided a development alternative as well. To quote Prime Minister Manmohan Singh, "it was also a strategic shift in India's vision of the world and India's place in the evolving global economy". It is only with the formulation of the Look East Policy that India has given Northeast India focal reference in its foreign policy planning. Significantly, this approach has received unanimous support from all governments that came to power in New Delhi since that time, regardless of their political ideologies. According to Prime Minister Dr Manmohan Singh, "The look east policy is more than a slogan, or a foreign policy orientation. It has strong economic rationale and commercial content. We wish to look east because of the centuries of interactions between us".<sup>5</sup>

Though the policy was given an initial thrust with India becoming a sectoral dialogue partner with ASEAN in 1992, it was accepted as a full dialogue partner in 1995, and a member of the ASEAN Regional Forum (ARF) in 1996. The policy was pursued in

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fits and starts till recently. It was given a boost when India became a summit level partner of ASEAN (2002) involved in regional initiatives such the Ganga Mekong Cooperation and became a member of the East Asia Summit (EAS) in December, 2005. These regional initiatives such as the Ganga-Mekong sub region, BIMSTEC etc can be relevant to the prospects of the emergence of a cross-border region bringing together the North East India and the adjacent trans-national areas on its east. The Framework Agreement on Comprehensive Economic Cooperation (for establishing a FTA in a time frame of 10 years) was concluded in Bali in 2003, an ASEAN-India Joint Declaration for Cooperation to Combat International Terrorism has also been adopted. India and Southeast Asia have no history of wars between them and through India's accession in October 2003 of the ASEAN Treaty of Amity and Cooperation (TAC), India has reaffirmed ASEAN's territorial integrity and sovereignty and also non-interference in ASEAN's internal affairs. Defence cooperation agreements with a number of countries and regular joint military exercises and top-level political exchanges have also taken place. In short a number of institutional mechanisms have been put in place for regular interaction at all levels and simultaneous strengthening of bilateral linkages with individual member-states. The current phase marks the beginning of a vibrant relationship on the economic, political and strategic fronts. These developments suggest that India appears to be well poised for a more meaningful role in the Asia-Pacific affairs. Although India's look east policy was premised more on economic rather than strategic considerations, in recent times however India has expanded her talks with Asia Pacific to include political, defence, maritime, strategic

and hitherto unexplored areas of economic cooperation. In other words, the look east policy has presently acquired a strategic dimension. The Southeast Asian countries are also simultaneously beginning to see a strategic dimension. As a result the Look East Policy is responsible in making India an inalienable part of the Asia-Pacific strategic discourse. This can be viewed as the second phase of the engagement which began in 2003 as a more comprehensive phase involving players extending from Australia to East Asia with ASEAN as its core.<sup>6</sup>

India is gradually looking at its developing relations with its eastern neighbors from the prism of its domestic compulsions particularly in the North East and in the Andaman Sea. The security of the Andaman Sea, the sea lanes and the Indian economic zone will require sub-regional cooperation with countries such as Thailand, Myanmar, Indonesia and Bangladesh in preserving the ecology, environment and the unique biodiversity of the region. This region has also emerged as a focal point for piracy, poaching and maritime crimes. Even intelligence gathering by foreign powers in this space is said to have increased. If China's growing influence and military presence in this strategic space is to be managed especially in view of China's military bases in Myanmar close to India then India will need to strengthen ties with its eastern neighbors. That will be the rationale of India's renewed Look East Policy in the contemporary context.

To view India's perusal of friendship with ASEAN in purely strategic terms as an attempt to counter China, however, would be to miss the point. The fact is that there

are real possibilities for increased capital and trade flow between the two regions. The presence of a large expatriate Indian community in ASEAN economies can always act as a bridge between India and the nations of Southeast Asia. One of the dangers for the Indian diaspora though would be to reduce itself to a business network only. Business should be a propelling force for people to come together and not an end in itself.

Another serious cause of concern for India is the role of fundamental -Islam in South East Asia in the coming years. The spread of fundamentalist Islam from the Moro islands in Southern Philippines through the Maluku peninsula to Aceh and Malaysia, the bombings in Indonesia and the secessionist movements all pose a cumulative threat. Its consequences have the potential to spread beyond the borders. All of these necessitate a common approach to redress the problem. The growing non economic convergence include areas such as the war against global and regional terrorism and extremism, transnational crime, cross border subversion and insurgencies and maritime cooperation, including safety of sea lanes, ports, economic zones etc. The economic convergences go beyond the traditional trade and commerce and now include areas such as energy security, human resource development (HRD), environment, science and technology.

India and ASEAN countries face similar problems of human development. New Delhi's offer to lower trade barriers, extend help in making generic drugs to combat bird flu and taking part in regional maritime security in the recent years are part of India's attempts to assume not just a greater role for itself but a more responsible one as well. While greater investments and economic co-operation were

the two major thrust areas, Prime Minister Manmohan Singh mooted the idea of a pan-Asian Free Trade area (FTA) on the lines of the North American Free Trade Area and the European Union to make the region an economic powerhouse. He said, "I believe the objective basis for economies of our region to come together exists. The desire to create an East Asian community, bringing together ASEAN, China, Japan, Korea-and also Australia and New Zealand-is manifest. A Pan-Asian FTA will be a dynamic, open and inclusive association of countries in the region. I am convinced that this is the only way to move forward".<sup>7</sup> Noting that the process of Asian engagement had taken off, he hoped that it would be "Self sustaining, increasing peoples interface in the region".<sup>8</sup>

Between engagements and estrangements, India-ASEAN relations witnessed early exchanges replaced by periods of isolation. It is evident that both India and ASEAN need each other and recent developments have created conditions conducive to greater coordination of policies between the two sides. Improvement of bilateral relations with the nations independent of the grouping is equally important. Each nation has its own strengths and characteristics and the bilateral relations have to be tailored to suit the requirements of that particular state and that of India. As the Indian Prime Minister Manmohan Singh noted, "The abundance of natural resources and significant technological skills in the ASEAN region provides a natural base for the growth of synergies and integration between ASEAN and India-both in trade and investment. The challenge, however, is to create and maintain a regional and international environment that enables us to attain and sustain high rates of

economic growth"<sup>9</sup>. Hence they have a very broad scope for cooperation that would help strengthen and enlarge India's ties with the region that is of great strategic and economic importance to it. The absence of conflict on vital issues and the presence of common challenges make it possible to expand constructive ties between the two peoples. One important facet of the Look East Policy that has received very late attention from Indian policy makers relates to Northeast India. I shall endeavor to traverse the arch and take the road less travelled and highlight some of the important facets of Northeast India as a gate way to Southeast Asia.

#### **India's Look East Policy via North East India**

India's landlocked North East covering an area of 255037 sq.km bordering China, Myanmar, Bhutan, and Bangladesh comprises of seven states. They are Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura. The construction of a region called northeast is a post-1947 development. At the time of India's independence in 1947, the northeast was organized as two entities: the state of Assam and Northeast Frontier Agency (NEFA). In 1949 the principalities of Tripura and Manipur were incorporated into India as a centrally administered area and union territory respectively. Continuing with the British tradition of the inner line under section VI of the Constitution tribal people in the Northeast had special autonomy over their local affairs including language, social policy and in migration<sup>10</sup>. It is strategically located at the centre of three giant markets of the world i.e., China, ASEAN and the SAARC region. Lying at the cross roads of South and Southeast Asia the region is geographically

and culturally remote from the heartland of India and incorporates a cultural kaleidoscope of more than 200 ethnic and tribal groups, who are ethnically, linguistically and culturally distinct. This makes it a hopefully future tourist paradise and an intriguing enigma for social scientists. They belong to the Southeast Asian culture zone that includes the Assam valley, Northern part of Myanmar and Thailand and the Yunan province of China. Unlike their counterparts in the rest of India who speak languages belonging to the Indo-European and Dravidian family of languages a large number of people from Northeast India speak Sino-Tibetan languages or Austro-Asiatic languages.<sup>11</sup> Northeast India is connected with the rest of India by the 22 km wide Siliguri corridor (the famous Chicken neck or Siliguri neck). The Siliguri strategic neck controls access to the seven sisters of the Northeast and represents a developmental hurdle as much as it acts as a psychological barrier to the integration of the region with the rest of India. Southeast Asia is geographically contiguous with parts of Northeast India sharing a long border that forms a land bridge that connects India with Southeast Asia. This fact and also the reality that over 95% of the borders of the Northeast India are with foreign countries<sup>12</sup>, are the ones that India cannot ignore. The Northeast region is unique and historically has had trans-national links. The geostrategic and economic stakes involved in the Indo-Burmese region may be underestimated but they are far from negligible. Subversion and terrorism, drugs and its nexus with crime and trans-border trade and economic links have to be seen in a historical and traditional context. While there is no precise estimate of the volume of trans-border informal trade

it is widely believed that it is much more than the formal trade. There are other trans-border links too based on cultural affinities, tradition, connectivity and ethnicity that have governed relations between the Northeast India and the neighboring countries. Thus, real politic demands that India cannot keep away from its neighbors like the ASEAN countries, India too has tried to woo the Burmese generals in a diplomatic network in order to attempt to secure the strategic zone between India, China and Southeast Asia. This movement fitted perfectly with India's desire to make its presence felt much more in Asia, through Myanmar.<sup>13</sup> Consequently New Delhi has been engaging Myanmar and this policy has prompted Myanmar to deny assistance to militants in the Northeast though the nature of its cooperation may be of a limited scale. The poor border security facilities necessitated the establishment of controls on the Indo-Myanmar border to prevent large scale movement of illicit arms, drugs and goods. Although the Ministry of External Affairs of India has sanctioned funds to expedite the work of fencing parts of the Indo-Myanmar border this again is a sensitive issue since fencing would divide many ethnic communities like Lushais, Nagas, Chins or kukis who inhabit hamlets on both sides of the international border.

Natural gas is available in abundance in Myanmar and this fact should be of interest to India. In areas such as energy, the policy is yet to yield results with the Indo Myanmar energy relations mired in controversy. However the actual fact remains that infrastructural projects connecting Northeast with Myanmar and other Mekong countries are faced with problems such as time-lag, incomplete projects and lack of resources. Nor

has India been able to develop a coherent approach to address the throttling of democracy in Myanmar. Nonetheless these aspects make it imperative for India to engage the regime in Myanmar in a meaningful dialogue. At the same time, it is crucial to keep lines of communication open with the democratic activists in Burma, for their cause is worthy and will bear fruit in the years to come.

Any development in Myanmar therefore has to be closely watched and an improper handling of Myanmar would hurt India's strategic interest as well as the Look East Policy. Myanmar is strategically located between India and Indo-China and offers an alternative way to reach out to the East and Southeast Asian markets. As a land bridge to South East Asia developing communication and trade relations with Myanmar as an option India is keen to build up. India is Myanmar's second largest export partner and fourth largest source of imports. Trade between India and Myanmar is said to have expanded from \$87.4 million in 1990-1991 to \$569 million in 2005-2006 in the wake of the Look East initiative India's trade with countries bordering the North East has seen the most dramatic expansion, with their share in India's total trade going up more than five times (from 1.7 per cent to 8 per cent). For the first time, India has initiated a free trade agreement (FTA) with Thailand and is in the process of negotiating similar agreements with Singapore and Malaysia. It is clear that in the days to come, India is willing to pursue closer trade and economic ties with its eastern neighbors, and there are possibilities for the entire North East region to acquire a place as India's Eastern entrepôt. Unfortunately, these initiatives have not yet changed the fate of

the North East region. Most of India's trade expansion with Southeast Asia has taken place through seaports. To improve trade and transit by land, a direct bus service between the Indian border town of Moreh and Burma's second largest city, Mandalay, has been planned. The bus service will run on a route, which is part of the proposed Trans-Asia Highway and Trans-Asian Rail link. It would take Burmese traders and tourists from Mandalay only 12 hours to reach the Indian border town and this has been one of the major demands of the Indo-Myanmar Border Traders' Union. A more ambitious venture is to link the ports on India's East coast and Sittwe in western Myanmar. The Kaladan Multi-Modal Transport Project will provide an access to Mizoram and to other North Eastern states of India as well as an outlet to the sea. This facility, envisages connectivity between Indian ports on the eastern seaboard and Sittwe Port in Myanmar and then through riverine transport and by road to Mizoram, thereby providing an alternate route for transport of goods to North East India. Discussions are also on to start the work on trilateral Highway project, which proposes to connect Moreh in Manipur to Mae Sot in Thailand via Bagan in Myanmar. He said efforts are also on to improve road links at the border trade point at Rhi-Zowkhathar in Mizoram sector by upgradation of the Rhi-Tidim and Rhi-Falam Road segments in Myanmar. There are also efforts to have rail links from Jiribam in Assam to Hanoi in Vietnam passing through Myanmar. Mr Pranab Mukherjee said that in order to have digital connectivity, there is a plan to have optical fibre cable link between Moreh in Manipur and Mandalay in Myanmar. India therefore now has added a new dimension to its look east vision by making serious attempts

to force the pace of development in North Eastern states.

It is part of the larger project to build Eurasian land and rail corridors that could connect Singapore with Istanbul and Europe via both India and China. The transcontinental highway and railway could lead to the ultimate link up of China, Russia and Central Asia, bringing immense benefits to all the countries. India recently opened the road linking Tamu with Kalewa and Kaleymo, and from there to Mandalay, the commercial heart of Myanmar. China has already agreed in principle to build a highway connecting Bangkok with Kunming in the thriving Yunan province of China, through Laos. A road from Kunming to Ruihi on the Chinese border with Myanmar already exists. China is also developing the "Irrawadi Corridor", beginning in Kunming and reaching the western coast of Myanmar facing the Indian Ocean Rim. Thailand also has plans to build another highway linking it with Vietnam through Laos. This will give Thailand access to the Danang port on the Vietnamese coastline to the east and hopes to connect this road to Moulmein in Myanmar.

The essence of this road and rail diplomacy involving India, China, Myanmar and Thailand is also about linking the Indian Ocean to the South China Sea. In economic and Strategic terms India wants to develop its North East by increasing its connectivity with the rest of the world through commercial linkages with ASEAN countries. By taking advantage of Myanmar's links with other ASEAN countries. India hopes to transform the North East from a security burden into a land of economic opportunity. The Mekong Basin also has the potential to emerge as a

major granary as its vast lands are very fertile. India and Thailand can do much to tame the Mekong River, and enhance cultivation by spreading irrigation.

With Bangladesh there is an agreement to run a passenger train service from Sealdah to Joydebpur and it is hoped that the service will start shortly. The bus service between Kolkata and Dhaka is already operational. Bhutan also figures in the scheme; here we are reminded by what Mr Pranab Mukherjee said that there is increase in the export of raw material and agricultural produce from North East to Bhutan. India's new north east Industrial policy recognizes the need to have more investment in the Northeast and aims to provide higher incentives for industrial development and investment promotion. He said since the service industry is not very quite developed in the region incentives have also been provided to some specified sectors like hotels, adventure and leisure sports, tourism, nursing homes and vocational training institutes. Considering the rich biodiversity of the region, bio-technology has been brought under the purview of the new policy.

Briefing newsmen prior to the investment opportunity week in Bangkok which sought to pave the way for one to one interaction between the state governments of Northeast India and industrialists and prospective investors from Bangkok, the Minister for Development of Northeastern Region (DoNER) Mr. Mani Shankar Aiyar said that Thailand was eager to have trade and transit relationship with the Northeast. "Unlike us", he added "the Thai's see the geological and economical advantage in investing and interfacing with Northeast." In

course of his four-day visit to Assam, Meghalaya and Tripura from 21-25 June 2007, Thailand's Commerce Minister, Krik Krai Jirapet<sup>14</sup> had expressed interest in investing in the region and identified it as a zone of convergence between Thailand's Look West and India's Look East policies. Earlier, Jirapet was invited as the chief guest for the valedictory session of the 3rd Northeast Business Summit, held in April 2007 in New Delhi. In his speech, Jirapet had offered to collaborate with India in various investment efforts in the North Eastern states covering areas of road construction, inland water transport and rubber production. With this Thailand became the first ASEAN country to agree to invest in the Northeast.<sup>15</sup>

Three key sectors have been identified, that offer immense opportunities for Thai investment in the Northeast, which are exceedingly important for the economic development of the region as a whole. First, Thai companies are willing to invest in the agro-based and food processing sectors since the region is rich in raw material and also in terms of a large market. A leading Thai food-producing company, the C P Group, has decided to negotiate directly with the government of Tripura regarding investment in this sector. In the agro-based industries, rubber and bamboo have drawn the attention of the Thai companies.

Infrastructure, especially energy and the transport sector, is another area, which has appealed the Thai investors. Of a fifty member business contingent accompanying the Thai Minister, some fifteen private companies, which specialize in the development of infrastructure, have expressed interest in investing in the region.

Tourism is the third important subject in the proposed Thai investment in the Northeast. There are two basic aspects of Thai investment in this sector- to make the region attractive to tourist and to facilitate diversion of tourist arriving in Thailand to the Northeast.<sup>16</sup>

Thailand's proposed investment in the region along with India's facilitating role can pave the way for economic development of the entire Northeast by supporting local industrial entrepreneurship and creating an enabling atmosphere, for further investment. While the development of infrastructure is essential for operationalizing production facilities in the region, they also offer incentives for investment due to growing demand in India.

Though the Look East Policy was launched in the early 1990s as an economic and security-oriented foreign policy initiative linking India and East Asia, it was some fifteen years later, that the External Affairs Ministry brought the policy to the North East for the first time (in course of a consultative meet held in Shillong in June 2007). The idea of inclusion of North East development concerns are an important component of the look East policy came up in 1997 following a report – "Transforming the North-East: High Level Commission Report" placed before the Prime Minister, in March 1997. Consequently it is only in recent times that New Delhi has recognised the importance of opening it up for commercial linkages with South East Asia and has opened up to the potential of economic integration of its Northeast region through joint economic co-operation and development with Southeast Asia. In its effort to Look East, India has the vision for North East, as the gateway to the East and a springboard for launching

intense economic integration with Southeast Asia.

Taking cognizance of the urgency of the development of the Northeast and its strategic potential for advancing the objectives of the Look East policy, a three-pronged approach of - offering incentives, developing infrastructure, and marketing assets has been adopted. The government, under the North East Industrial and Investment Policy (NEIIP) has offered various financial, fiscal and investment incentives for a decade. The proposed accelerated North-East Road Development Project and the proposed four-laning of the East-West Corridor will connect various capital cities and district headquarters both within the Northeast and with mainland India. Mr Pranab Mukherjee had emphasized that in order to improve connectivity India is involved in a variety of cross border development projects with Myanmar in diverse fields such as roads, railways, telecommunications IT, science and technology and power. These initiatives are aimed at improving connectivity between North East India and western Myanmar and are expected to give impetus to the local economies as well as bilateral trade.<sup>17</sup>

Former Prime Minister of India Atal Bihari Vajpayee had India's 'Look East' policy in mind when he had proposed it at the ASEAN-India summit in Bali 2003 the holding of an India-ASEAN car rally "to draw dramatic attention to our geographical proximity". A possible route according to him could be from Guwahati in Northeast India, through Myanmar, Thailand and Cambodia to Hanoi in Vietnam. He said then "It would draw commercial interest in infrastructure along the route, promote tourism and development".<sup>18</sup>

Subsequently flagging off the First India-ASEAN Rally at a colorful function at the Nehru Stadium in Guwahati (Assam) in November 2004, Prime Minister Dr Manmohan Singh had said, "We are now rediscovering the age old relations" while referring to India's Northeast as a gateway to the "Asian Century." He had expressed his desire to forge deeper engagement with ASEAN states through enhanced interaction between India's Northeastern States and the states of Southeast Asian grouping in the presence of the ASEAN Secretary general Ong Keng Yong and several other dignitaries from the ASEAN states. Apart from being a sport event the car rally had meant to attract commercial interest in the infrastructure along the route and also aimed at promoting business and development activities. This inaugural car rally had been an important step in India's ambitious plan to link its Northeast region with Southeast Asia. Since then there has been much speculation on the potential that the Look East Policy has of transforming the economy and geopolitical status of India's Northeast Region that borders ASEAN.

The first India –ASEAN car rally served to convey the message to Southeast Asianations that both have a very good reason to forge closer ties. It was in fact a precursor to initially to the building of a 1400km long highway (proposed in April 2002) that would link India, Myanmar and Thailand which would be eventually be extended to include Singapore, Malaysia, Cambodia, Laos and Vietnam. Despite the geographical contiguity between Northeast India and Myanmar and Thailand the poor physical connectivity hinders them from reaping full benefits of cross border overland trade. Until now the only direct land route between India and ASEAN is the road

linking Moreh in Manipur with Kalewa in Myanmar with Kalewa that was built in February 2001.

The North Eastern region has been on the southern trails of the silk route. Francoise Pommaret review of historical literatures on ancient trade between Bhutan, Cooch Bihar and Assam reveals the clear picture of Northeast India's strategic location in these trade routes where he stated that, "Kamrupa (which denotes almost the whole of the present day Northeast India) was on the trading route between Southwest China and India."<sup>19</sup> N.K. Basu, wrote that "Assamese merchants went to Yunnan in China by the line of trade through Sadia, Bisa and across the Patkoi range of mountains."<sup>20</sup> Captain Welsh, who led a British military expedition to Assam between 1792- 1794, reports that regional trade was very active.<sup>21</sup> Apart from silk and other goods, the Silk Road also carried ideas, art and cultures, thereby facilitating the spread of Buddhism across Asia. The Northeast region's difficulties as a result of loss of connectivity following the partition in 1947 are well established. Preceding this, the nineteenth century British colonial decision to delimit free trade between the hills and the plains by means of inner line restrictions and other artificial barriers between Bhutan and Assam and to treat Burma as a buffer against French Indo-China and China disengaged the region from its traditional trade route - the Southern trails of the Silk Road. While colonial rulers built railways and roads mostly to procure tea, coal oil and other resources out of Assam, the disruption of old trade routes remained the time most lasting legacy.<sup>22</sup> After more than a century and a half of forced restrictions which has pushed the economies of the Northeastern

states to the brink the time has come to reverse the consequences of colonial geopolitics. India historically has had strong maritime ties with the countries of Southeast Asia, given that it is both cheaper and easier to trade by sea than by land with the ASEAN countries. Hence, it may therefore be a while before the Northeast is actually translated into a centre of a thriving economic space linking two dynamic regions with a proposed network of highways, railway pipelines and transmission lines crisscrossing the region.

Despite the massive increase of India's international trade during the 19th century its impact, if any, on the economy of the northeastern region has been negligible. This is a sad lesson from the past. Here, the lack of intra regional as well as intra-state connectivity, poor infrastructure and the issue of security and governance have been the stumbling blocks. The Northeast India-Investment Opportunities Summit facilitated by the Thai government correctly emphasized on connectivity especially air connectivity. The basis of this argument is that integration will allow increasing trading opportunities for the northeast region with the promising markets of the East and the Southeast Asia. There is a strong case for a new continental perspective for the region in the context of the Look East initiatives. Thus, a successful Look East policy should have both a maritime as well as a continental thrust. Downplaying the continental dimension may have adverse effects on India's emerging role as a major power.<sup>23</sup> If the Look East policy is to live up to its potential of becoming the North East's road to peace and prosperity, it has to have a robust continental thrust and include a clear vision of a trans-national region-building project. India, has to fine tune its foreign

policies towards China, Myanmar and ASEAN with its domestic policies towards Northeast India.

One has to be careful to ensure that the roads do not become easy passage to siphon off the rich natural resources and abundant forest products. The region should increase the size of the market by allowing scope for trade and specialization within the Northeast through improvement of intra-regional connectivity etc. and the attempt to rediscover the old silk route to bolster trade from Northeast to China and other East Asian markets. The external affairs Minister Mr. Pranab Mukherjee has assured the people of North East that the Look East policy would be evolved in keeping with particular needs and sensitivities of the North Eastern people but subtly reminded them that all economic development would come at a price. He advocated a balanced approach in terms of trade activities with Southeast Asia and at the same time warned them against risking the security of the country. Mr Pranab Mukherjee is of the firm opinion that the North Eastern states can become the bridge between the Indian economy and the fast-growing and dynamic East and Southeast Asian region. What must not be overlooked are the real issues - apart from the lack of integration - which have resulted in tardy growth of the economy of the North East as a whole and have posed insurmountable constraints in the way of its development and it's so called isolation from the rest of India. Care should be taken to ensure that mere facilitation of trade through the region with the neighboring countries will have only a marginal impact on the economy unless the region can be converted into a production centre. Greater participation of

the local people in production and distribution activities should be ensured and the education sector must be assigned greater role. Educational institutes of higher learning located in North East must include courses on Southeast Asian studies and its languages and engage specialists in Southeast Asian studies, to disseminate knowledge about the Southeast Asian region in all its aspects. What has to be kept in mind is that climate of investment, market integration and local economic development can disappear if certain hurdles such as lack of infrastructure, poor connectivity, problems posed by the insurgency and the atmosphere of local-versus-migrant tension are not removed or contained. Most importantly, however, the government has to make sure that the pattern of investment and development gives appropriate representation to all sections of the people.

The emergence of the Look East Policy as a role model of development for the North East arose out of the security concerns both external and internal. Addressing the security concerns of the country Mani Shankar Aiyar<sup>24</sup> suggested that a prosperous North East can act as a shield against the threats to the security of the country emanating from the eastern frontiers. He said, "Emergence of the Northeast as an economically prosperous zone could be the best guarantee to the security concerns" and that India can enter South East Asian region by using the option of Myanmar through Northeast India.<sup>25</sup> Mr Jairam Ramesh, a noted economist and politician, is of the opinion that the India's North East requires political integration with the rest of the country and economic integration with the Southeast Asian countries.<sup>26</sup> This is not new to Northeast

although we often tend to overlook the fact that through the centuries there has been a natural exchange of peoples', goods and services between our Northeast and the countries of South and South East Asia.<sup>27</sup> The Ahoms of Assam, after all, migrated several centuries ago from the Shan State of Myanmar; a language almost identical to theirs is spoken in Laos and Thailand. The Chins from Myanmar have migrated over the past centuries to Manipur and Mizoram and the Maiteis of Manipur have had ties lasting over 2000 years with the Burmans of Myanmar. There has been a similar migration to the Northeast from the Yunan Province of China. The ties between what is now Bangladesh and its neighbors like Assam and West Bengal are also so close that there is little that governments can do to prevent the free movement of goods and services across national boundaries. Likewise, there are now nearly half a million people of Indian origin living in Myanmar who retain close cultural, emotional and spiritual ties with India. Before national boundaries were drawn in 1947, the Northeast and Burmese territories shared deep cultural, economic and political ties.<sup>28</sup> Then, when the boundaries began to define rival nationalistic aspirations and conflicting priorities, these historical links were severed, except in a few stray instances of informal trade such as Indo-Myanmar trade via Manipur and Mizoram. What has received little attention is the anguish that local communities continue to feel about them being severed from the plurality of relationships that they enjoyed with the people in and beyond Myanmar. In Asia, political boundaries have separated peoples who have cultural, historical, racial and ethnic affinities and share socio-economic and climate conditions. But, for the people of the North Eastern states

the exchanges of goods across borders artificially drawn up by the British merely is a continuation of their historical links with countries like Myanmar, Laos, Thailand and China.

The hurdles to the Look East Policy developing its Northeast thrust have prompted a growing sense that there may be more rhetoric than substance to the talk of the region becoming a gateway to Southeast Asia. If the concerned governments, particularly that of India, Burma and Thailand, and local authorities of these countries are serious about their declared intentions, then these new initiatives would indeed rediscover, renew and rejuvenate the age-old cultural and historical ties between the peoples of Southeast Asia and Northeast India. This in turn, would encourage greater interaction leading to an increase in trade, commerce and tourism in the entire region. The development model resulting from India's Look East Policy has tremendous potential for the Northeast. It serves as a contiguous gateway to the Association of Southeast Asian Nations (ASEAN) countries with which India has established engagement models. The share of North East India in the trade with ASEAN was around 12 percent annually. There is tremendous scope to increase this further.

Thus, looking into the political, strategic and economic aspects of the Look East policy of India involving the ASEAN can spell a never imagined success story for North East India and in due course sort out her age old political and economic ills.

At this point diverting from the general mood of euphoria and gung ho optimism one may add that the economic priorities, which are increasingly turning our

leaders away from their democratic responsibilities as in the case of India's (the land of Gandhi and Nehru) obvious reluctance to critique the incarceration of the tallest democratic leader of Myanmar. There is no doubt that there are enormous potential of economic integration with its transnational neighbors that could open up for Northeast India but what matters is a viable time-frame Development must be brought about without much loss in terms of preservation of indigenous culture and its practices, security parameters, justice and democracy. The region's interests must not be sacrificed at the altar of national and international aspirations. Great care will need to be taken to ensure that the benefits are not appropriated by the elite in the region with political muscle power. The common people, the farmers, artisans, wage earners and subsistence labourers, in short all those people who have either had a raw deal or those who are vulnerable to the machinations of the separatist groups and India-baiters must be brought into the net.

Past attempts to integrate the Northeast with the Indian mainstream, economically at least, have yielded no tangible results. Therefore, the focus has now shifted to trans-national and sub-regional cooperation between India and Southeast Asian countries, seen as the only way to bail out the region from its state of underdevelopment and political instability. But the share of benefits for the Northeast region from such integration will also depend on how much of the trade traffic will move through the land routes via Northeast India. Yet another way of giving a continental orientation to the Look East policy would be to give a direct role to the North East

states similar to what China has done in the Yunan province. India can refer to the Southeast Asian roots of the Tai Ahom[29], or the Balinese Hinduism and art forms that are close to Manipur's culture and thereby convert North East's history and culture into a soft power resource.

If New Delhi wants to fulfill its long standing quest to integrate the Northeast region with the rest of India it can be done meaningfully only with the economic integration of its Northeast India with Southeast Asia which will in turn foster the region's political integration with India. Therefore to reach Southeast Asia via North East India New Delhi cannot circumvent to intelligently yoke the continental dimension of the Look East policy to its domestic concerns.

#### Notes

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3. See *Annual Report: 1992-93*, Ministry of External Affairs, Government of India, New Delhi, 1993, p.27, p. 6
4. See Vajpayee, Atal Bihari, "India's Perspectives on ASEAN and the Asia-Pacific Region", *Address* by H.E. Atal Bihari Vajpayee, Prime Minister of

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7. *The Times of India*, 13 December 2005.
8. *Ibid.*
9. "Make 21<sup>st</sup> Century Truly an Asian Century", *Keynote Address* at special Leaders Dialogue of ASEAN Business Advisory Council, Press Information Bureau, Government of India, Press Release, 12 December 2005, <http://pib.nic.in/release/release.asp?relid+14102>.
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14. Vibhanshu, Shekhar (2007): "Thailand's Investment Strategy in India's Northeast", *Institute of peace and Conflict studies*, Article No.2384, 29 September.

15. *Ibid*
16. *Ibid*
17. Sarath, Kumar (2007): "Burma Visists Highlights India's Look East Strategy", *World Socialist Web site* 6 April, at [http://www.wsws.org/articles/2005/apr2005/india06\\_prn.shtml](http://www.wsws.org/articles/2005/apr2005/india06_prn.shtml), accessed on 20 May.
18. Vajpayee, Atal Bihari, *Address*, ASEAN-India Summit , Bali 2003.
19. Francoise, Pommaret, "Ancient Trade Partners: Bhutan, Cooch Bihar and Assam (17<sup>th</sup>-19<sup>th</sup> Centuries)," *Journal Asiatique*. 287: pp285-303. English translation available online at <http://www.bhutanstudies.org.bt/journal/vol2no1/v2n/ancienttrade.pdf>
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21. *Ibid*.
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