

SOUTH ASIAN ASSOCIATION FOR REGIONAL COOPERATION

AGENDA

ECONOMIC STAGNATION IN SOUTH-ASIA BECAUSE OF INDO-
PAKISTAN CONFLICT

CHAIR
ASHFAQUE ALI

VICE CHAIR
RAHUL SONI

Letter from the Executive Board-

Respected delegates,

It is our pleasure to welcome you all to the South Asian Association for Regional Cooperation for CENMUN 2017. It is our distinct privilege to serve you all as the Executive Board of the Committee. To the veterans of MUN, We promise you a very enriching debate that you've never experienced before and to the newcomers, We are really excited to be a part of your maiden voyage. What we desire from the delegates is not how experienced or articulate they are. Rather, we want to see how she/he can respect disparities and differences of opinion, work around these, while extending their own foreign policy so that it encompasses more of the others without compromising their own stand, thereby reaching a unanimously acceptable practical solution. The following pages intend to guide you with the nuances of the agenda as well as the Council. The Guide chronologically touches upon all the different aspects that are relevant and will lead to fruitful debate in the Council. It will provide you with a bird's eye view of the gist of the issue. However, it has to be noted that the background guide only contains certain basic information which may form the basis for the debate and your research. You are the representative of your allotted country and it is our hope that you put in wholehearted efforts to research and comprehensively grasp all important facets of the diverse agenda. All the delegates should be prepared well in order to make the council's direction and debate productive. After all, only then will you truly be able to represent your country in the best possible way. We encourage you to go beyond this background guide and delve into the extremities of the agenda to further enhance your knowledge of a burning global issue.

May the odds be ever in your favour.

Feel free to contact us-


Ashfaque Ali
Chairperson

Rahul Soni
Vice-Chairperson

South Asian Association for Regional Cooperation

The South Asian Association for Regional Cooperation (SAARC) was established with the signing of the SAARC Charter in Dhaka on 8 December 1985. SAARC comprises of eight Member States: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The Secretariat of the Association was set up in Kathmandu on 17 January 1987.

The objectives as outlined in the SAARC Charter are-

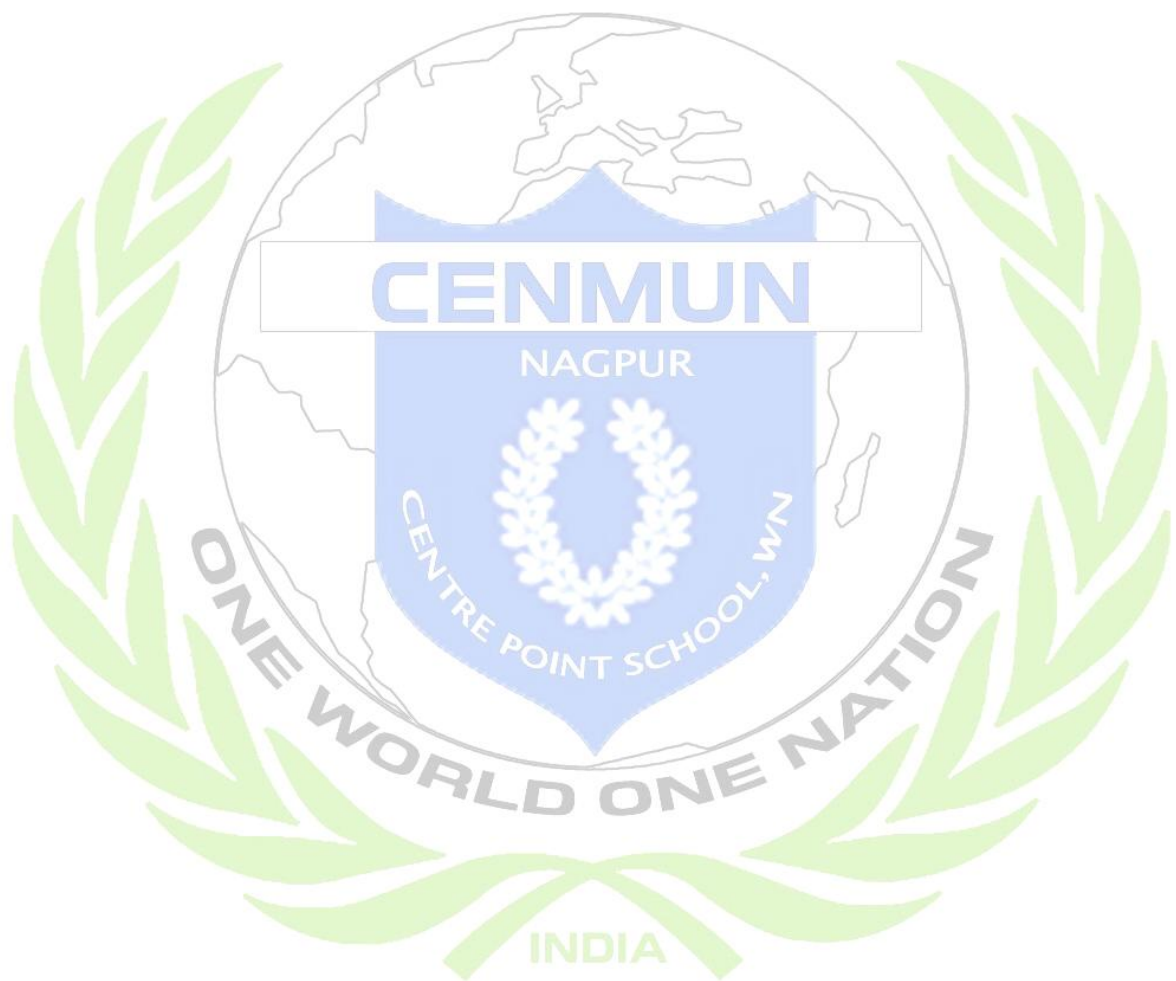
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- a) to promote the welfare of the peoples of SOUTH ASIA and to improve their quality of life;
 - b) to accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potentials;
 - c) to promote and strengthen collective self-reliance among the countries of SOUTH ASIA;
 - d) to contribute to mutual trust, understanding and appreciation of one another's problems;
 - e) to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;
 - f) to strengthen cooperation with other developing countries;
 - g) to strengthen cooperation among themselves in international forums on matters of common interests; and
 - h) to cooperate with international and regional organisations with similar aims and purposes.

Decisions at all levels are to be taken on the basis of unanimity; and bilateral and contentious issues are excluded from the deliberations of the Association.

SAARC's Structure Today

SAARC is currently divided into three different committees i.e. Standing Committee. Technical Committee and Action Committee according to the Article V, Article VI and Article VII of the SAARC Charter respectively. It even

consists of Council of Minister who are the Foreign Ministers of Member



States and the Secretariat of the Association. The first Secretary General of SAARC was Bangladesh's Abul Ahsan who served from 1987-89.

Today, SAARC contains of 17 member states (8 Permanent and 9 Observers). The Permanent Members are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka while the observer member states are Australia, China, the European Union, Iran, Japan, the Republic of Korea, Mauritius, Myanmar and the United States of America.

Themes of SAARC

Upon its founding, SAARC's goal was to promote peace, stability, amity and the progress in the region by fostering mutual understanding, good neighbourly relations and meaningful cooperation among the Member States which are bound by ties of history and culture. The cooperation within the framework of the association is based on respect for the principles of sovereign equality, territorial integrity, political independence, non-interference in the internal affairs of the state and mutual benefit. To reach these goals, certain fields of action are set. They include Human Resource Development and Tourism, Agriculture and Rural Development, Environment, Natural Disasters and Biotechnology, Economic, Trade and Finance, Social Affairs, Information and Poverty Alleviation, Energy, Transport, Science and Technology, Education, Security and Culture and others.

Member States have decided to engage the SAARC Observers into productive, demand-driven and objective project based cooperation in priority areas as identified by the Member States, i.e. (Communication (ii) Connectivity (iii) Agriculture (iv) Public Health (v) Energy (vi) Environment and (vii) Economic Cooperation.

Introduction to the Topic-

The South Asian region is full of contradictions, disparities and paradoxes. In the post-colonial period, the South Asia has been a theatre of bloody inter-state as well as civil wars; it has witnessed liberation movements, nuclear rivalry, military dictatorships and continues to suffer from insurgencies, religious fundamentalism and terrorism, besides serious problems associated with drugs and human trafficking.^[1] There have been ups and downs in relations between India and Pakistan due to territorial and maritime disputes, accusation of cross-border terrorism, disagreements over the sharing of river waters, and curbs on trade. As SAARC aims at promoting economic cooperation via free trade in the region; therefore, the economic ties between India and Pakistan have been of great significance. India and Pakistan are the two major countries in South Asia owing to their density and economy. So, being the most influential, both of them are trapped in various conflicts and issues including political, economic, religious, security, military and historical. Sometimes these conflicts are so severe that they resulted in complete deadlock. However, efforts have been made by the two sides to normalize the relations during different periods starting from Composite Dialogue series in 2004 which is going on. At present, the economic ties between the two neighbours are heading towards progress with a good pace.^[2]

History of Topic

The two most potent countries in the region have very low bilateral trade ties soon after getting independence. Both the countries have granted the Most Favoured Nation (MFN) status to each other in 1948, right after signing the GATT agreement. According to Tabish et al (2011), Pakistan's exports to India were 56 per cent of its total exports whereas its imports from India were 32 per cent of the total imports in 1948-49. A major jerk in relations occurred during the 1965 and 1971 wars which hampered the economic relations. Moreover, disparities kept on increasing with the passage of time. To restore the trade ties, both the countries adopted the 'Positive List' approach in 1973. With the adoption of Positive List approach, both the countries violated the GATT agreement in the wake of non-provision of MFN status to each other. Nonetheless, in 1996 India granted the MFN status to Pakistan with signing of SAFTA agreement but Pakistan did not. Nevertheless, it has been argued that despite granting the MFN status, India kept its trade policy restrictive for Pakistan and raised many tariff and non-tariff barriers on Pakistani products and services

Impact of the four Indo-Pak wars-

Kashmir accedes to India after '47 war, Pakistan claims Kashmir is a territory of Pakistan

Victory of India in '65 war due to lessons learnt during the '61 Sino-Indian war in which India lost. China's repeated threats to intervene in support of Pakistan increased pressure on the government to take an immediate decision to develop nuclear weapons

'71 war and Bangladesh Liberation war- East Pakistan becomes Bangladesh, Pakistan loses half of its navy, a quarter of its air-force, and a third of its army. The largest number of POWs seen since WWII

Kargil war- The already fragile Pakistani economy weakens further

Current Situation

The process of convergence and divergence has been going on in the global economy in the last three hundred years after the scientific discoveries and technical innovations that have fundamentally changed the nature of production, exchange and consumption. Industrialisation passed through various episodes of its development from 18th century to the last quarter of 20th century. This process has been spreading to Asian economies in the last six decades. While the countries in the West were successful in achieving higher growth till 1980s, the growth pole has now gradually shifted towards the countries in developing Asia including India in the South Asia; every country in the world wants to achieve a higher rate of growth of GDP per capita. The average growth rate in developing Asia has been 7 to 8 percent in the last 30 years, twice the global average and three times or more of that in the EU economies. After decades of sluggishness, growth rates in South Asian countries have been higher than those in other regions of the world. The change in the policy construction of the countries from the past Planning Commission led to increasing growth in the region. Though, the aggregate rate of development in the region is increasing but the gaps remained between targets and accomplishments. Further gaps were increased due to success of reforms in India which led to mistrust between the nations. The rate of development was not so significant in other countries of the region as compared to India and still the region remains to be one of the least integrated regions of the world. The stagnation remains constant and the

mistrust between the two nations is reducing the stand of South Asia as the leading economic destinations of the world.

SAFTA AT A GLIMPSE

The South Asian Free Trade Area (SAFTA) is an agreement reached on 6 January 2004 at the 12th SAARC summit in Islamabad, Pakistan. It created a free trade area of all the people in Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

The basic principles underlying SAFTA are as under;

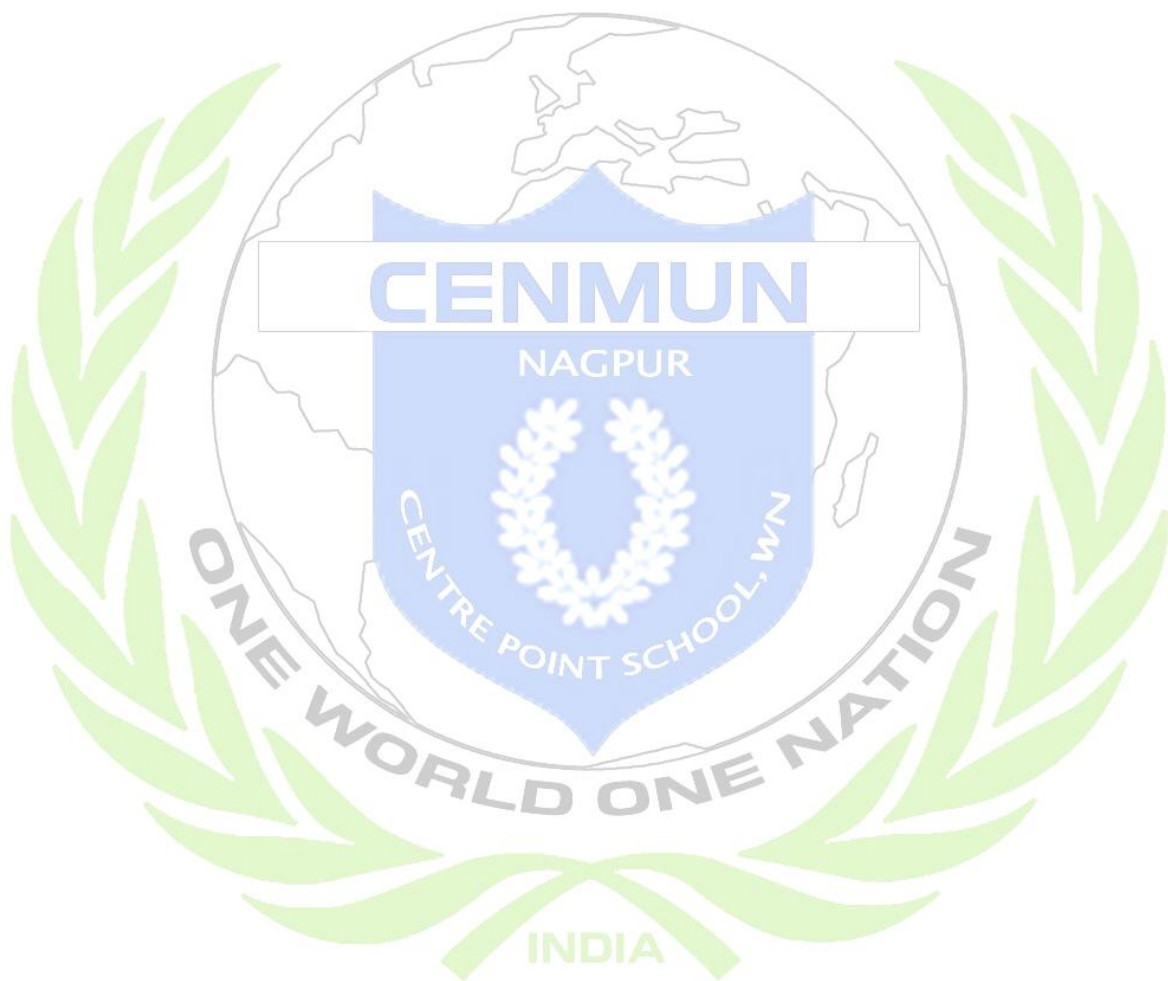
1. overall reciprocity and mutuality of advantages so as to benefit equitably all Contracting States, taking into account their respective level of economic and industrial development, the pattern of their external trade, and trade and tariff policies and systems;
2. negotiation of tariff reform step by step, improved and extended in successive stages through periodic reviews;
3. recognition of the special needs of the Least Developed Contracting States and agreement on concrete preferential measures in their favour;
4. inclusion of all products, manufactures and commodities in their raw, semi-processed and processed forms.

The main objective of the agreement is to promote competition in the area and to provide equitable benefits to the countries involved. It aims to benefit the people of the countries by bringing transparency and integrity among the nations. SAFTA was also formed in order to increase the level of trade and economic cooperation among the SAARC nations by reducing the tariff and barriers and also to provide special preference to the Least Developed Countries (LDCs) among the SAARC nations.

Impact of the conflict on the economy of states-

The tensions are being perceived as causing instability in the South Asian region and therefore, global investors are bound to take a wait and watch approach towards bringing in further investment to the various other states which is decreasing the growth and FDI in the region. There has been increasing expenditure on defence and the threat of rising terrorism is another problem leading to economic stagnation the South Asian region. A set of past studies suggest deeper economic relations between India and Pakistan would not only

benefit Pakistan or India alone but also the entire South Asian region in raising



its trade competitiveness, growth and quality of life of the region's population. The economic stagnation could be seen as rising Protectionist Calls amongst the member nations as stated by IMF in its report. The rising economic stagnation is even the reason for greater socio-economic problems between the member states. The rising investments by the People's Republic of China is considered unacceptable by the government of India leading to social and sovereignty issues in the region. The problems have led to Secular Stagnation in the South Asian Region and it is one of the least integrated regions of the world till date.

Trade between India and Pakistan

India-Pakistan trade ties have three components, namely: "black" or illegal trade transacted through the land borders; circular or "informal" trade which is carried out through "third" countries and re-exported from there to Pakistan; finally, formal trade through imports/ exports of merchandise through all recognised seaports, airports, land customs stations and inland container depots. The illegal trade channels are smugglers who operate along the 675 km unfenced stretch of the Rajasthan sector along the contiguous Indo-Pakistan border; besides carriers, khepias who misuse personal baggage through the "green channel" facilities at international airports. Circular trade is conducted through agents who are stationed in free ports like Singapore or Dubai and estimated to be US \$1 billion. Thus, the combined volumes of illegal and circular trade are much larger than formal levels of trade which in reality, therefore, amounts to "pseudo" trade between the two countries.

The formal trade between India and Pakistan can be clearly understood by the following statistical data.

Table 1: India's Trade with Pakistan (US\$ million)

Year	Exports (X)	Imports (M)	Trade Balance (X-M)	Total Trade (X+M)	Trade Balance Ratio (X-M/X+M)*100 (%)
2003-04	287	58	229	345	66
2004-05	521	95	426	616	69
2005-06	689	180	510	869	59
2006-07	1350	324	1026	1674	61
2007-08	1951	288	1663	2239	74
2008-09	1440	370	1070	1810	59
2009-10	1573	276	1297	1849	70
2010-11	2040	333	1707	2372	72
2011-12	1542	398	1144	1939	59
2012-13	2065	542	1523	2607	58
2013-14	2274	427	1847	2701	68
2014-15	1857	497	1360	2354	58
2015-16	2171	441	1730	2612	66

Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

The Increasing Need for Multi-Lateral Agreements

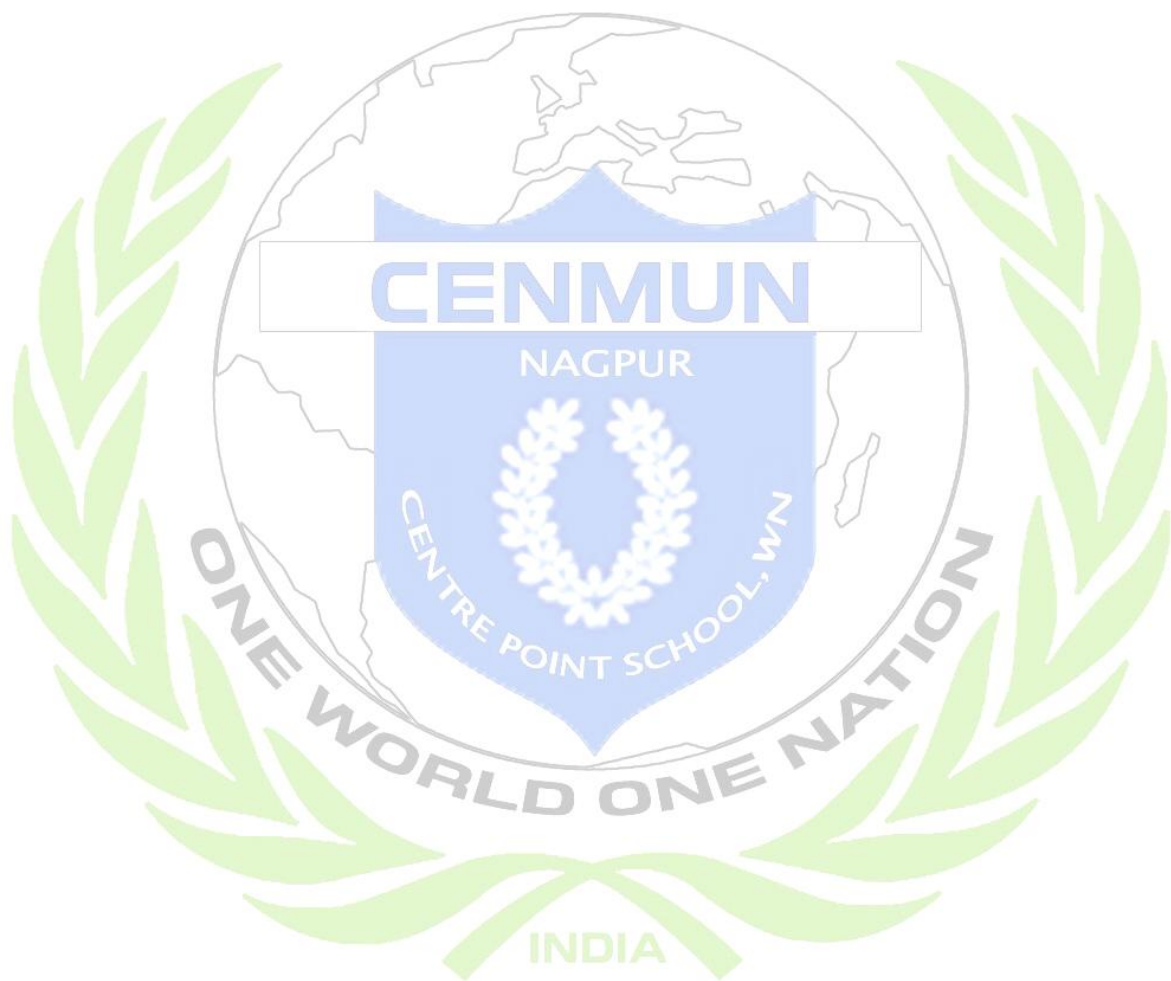
Individual states now use bi-lateral trade agreements to boost their economic interests. It is not surprising that trade between India and Pakistan is largely due to Third parties mainly Dubai. However, trade between states like Pakistan and Bangladesh is moving swiftly while India made several bi-lateral trade agreements with other states like Bangladesh and Nepal which further provided movement of goods among the countries. Therefore, bi-lateral, not multi-lateral, agreements have facilitated much of the trade that does occur in South Asia.

A focus on bi-lateral negotiations shifts attention away from the region and onto individual countries where states are pursuing bi-lateral agreements since it is easy to negotiate one country instead of seven others.

Relevant Actions by SAARC-

Agreements implemented by SAARC to boost economic and financial cooperation between member countries are the renewed commitment of leaders to achieve South Asian Economic Union(SAEU), preferential facilities under SAFTA and SATIS and the SAARC Motor Vehicles Agreement and SAARC Regional Railways Agreement. The SAARC Integrated Program of Action (SIPA), SAARC Development Fund (SDF) and the rising work programs in collaboration to UNESCAP and UNDP have been successful in

rising economic conditions in the region by alleviating Poverty.



Conclusion-

The trouble with SAARC is that its member-states have in many instances involved in creating trouble in their neighbourhood. Some of the bilateral problems have greater implications for interstate cooperation. SAARC has made progress in fulfilling some of its commitments under its social charter. As an organisation it also brings the leaders of all the South Asian countries together to work for a common regional destiny. SAARC needs to aim at uniting the region economically, preserving the commonality of the socio-cultural ethos and at the same time allowing the countries to retain their sovereign political identity. The challenge would be to overcome the bilateral political differences in order to make the region a coherent whole where the geographical boundaries do not act as a barrier to economic integration. This will be possible if the states shed the notion of absolute sovereignty and look at South Asia as a region in broader terms than an amalgamation of seven different countries. Greater success in trade, investments, travel, and communications would in turn create the political constituencies and conditions for bilateral dispute resolution.

Suggested Moderated Caucus Topics-

Role of External Power in South Asian Region

Increasing need for Regional Cooperation

Beating Middle Income Trap (MIT) in Southeast Asia

The Issue of MFN Status under the WTO

Steps which must be taken by the political leadership of South Asian countries to enhance regional trade and economic co-operation

Impact of terrorism in the South Asian Economy

Documents for Further Research-

Beating the Middle-Income Trap in Southeast Asia, Heritage.org, Aug 27 2014; Web

India-Pakistan Trade: Qualitative Perceptions from Stakeholders;
Afsheen Naz; Web

Ineffectiveness in Promoting Economic Cooperation in South Asia;
Raghav Thapar; Web

India-Pakistan Trade Relations; Bidanda M. Chengappa; Web

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2. India-Pakistan Trade: Qualitative Perceptions from Stakeholders; Afsheen Naz; Web
3. Recent Trends in India-Pakistan Trade 2015-16; ICRIER; Web
4. Dash, "Political Economy", p. 196
5. 2004a. Our Future Our Responsibility: A Road Map towards a Poverty Free South Asia. Report of the Independent South Asian Commission on Poverty Alleviation
6. Frustrated from the dismal growth performance from 1950-1980s Malenbaum (1982) even stated pessimistically that "decades of slow growth lie ahead before either nation emerges as a modern industrial state of developed-nation status". Fortunately, there occurred a structural break in the growth process around mid 1980s in India motivating Rodrik and Subramanian (2005) to assess policy and structural factors that caused a surge from "Hindu growth" to productivity surge. These surges occurred because of the reforms of the labour market giving freedom in hiring and Öring of workers to Örms, end of reservation in small scale industries, reforms of the banking sector, simpliÖcation of FDI rules, improvement in infrastructure and reduction of debt. These policy factors accelerated growth in India starting in early 1990s (Kaur (2007)).
7. The World Economic Outlook and International Financial Statistics of the IMF, Asian Development Bank and the World Bank accessed through the data archive in the UK (UKdata.stat).
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