

Imtiaz Ahmed

BANGLADESH FOREIGN POLICY: CONSTRAINTS, COMPULSIONS AND CHOICES

Abstract

Bangladesh foreign policy has undergone different transition and phases for the last 40 years. The first phase could be considered as the *diplomacy of recognition* as the country had to struggle to build relationship with those countries which were against the Liberation War of Bangladesh with Pakistan. The first phase, however, ended in 1974 especially after Pakistan's recognition to Bangladesh and this paved the way for a new phase referred to as the *economic diplomacy*. During this period, cementing the relationship with the West to ensure aid and assistance was the cornerstone of Bangladesh foreign policy. Although the thrust for *economic diplomacy* gained further momentum and brought newer dynamics due to building the good relationship with the Western countries, globalisation, open market economy as well as struggling to catch the international market have made the situation susceptible for Bangladesh. Besides, choices in foreign policy of the country are often limited by constraints and compulsion traced from energy insecurity and climate change. Against this backdrop, the main intention of the paper is to argue that Bangladesh must embark a new phase pursuing its *energy and climate diplomacy*. Moreover, there has to be a substantial investment on the *cultural* front or 'soft power' to minimise the foreign policy compulsions and materialise the choices.

1. Introduction

Heraclitus of Ephesus (c. 535 – c. 475 BCE) is on the record of saying that “No man ever steps in the same river twice” and that “Everything flows, everything changes.” Although the statement faced no change and continued to remain the same, the message remains true not only with respect to the materiality of the world but also with respect to ideas, institutions, perspectives and policies. Foreign policy of Bangladesh, with 40 years of experience now, is no exception and is, indeed, an interesting case to reflect, particularly on the issue of change. But then, policies do not unfold in a vacuum, neither do changes take place on its own. Rather, compulsions, disciplinary training, social motives, elite

Imtiaz Ahmed PhD is Professor of International Relations, University of Dhaka. His e-mail address is: imtiazalter@gmail.com

© Bangladesh Institute of International and Strategic Studies (BISS), 2011.

perspectives, class compositions, possible choices, even ingenuity, all tend to work towards framing policies. A closer look at Bangladesh foreign policy, having gone through several phases since the time of its independence, would make this clear.

Against the preceding setting, the objective of this paper is to take a brief stock of the Bangladesh foreign policy that has undergone different transition and phases for the last 40 years and to argue that Bangladesh must embark a new phase pursuing its *energy and climate diplomacy*. The paper has been divided into five sections including the introductory one. Section Two talks about the *diplomacy of recognition* phase which ended within few years of Bangladesh's independence while Section Three focuses on a phase in foreign policy, which could be best, referred to as *economic diplomacy*. In Section Four attempt has been made to elaborately discuss the issues of *energy, climate and cultural diplomacy*. In Section Five concluding remarks have been made

2. Diplomacy of Recognition

The first phase of Bangladesh foreign policy could be referred to as the *diplomacy of recognition*, which included the policy of bringing back the Bangladeshis stranded in Pakistan resulting from the break-up of the latter. Since Bangladesh emerged out of a Liberation War against Pakistan, with Bangladesh being aided by India, there were several countries that did not recognise Bangladesh at the initial stage of its independence in December 1971. Moreover, the United States, China and some Arab countries tilted towards Pakistan during the liberation struggle of Bangladesh (March-December 1971) and more particularly during the Indo-Pakistan War in December 1971. One of the first foreign policy challenges that Bangladesh faced was to change the position of those who had tilted towards Pakistan and have them recognise and support the newly independent country. This was also the time of the 'Cold War,' which complicated further Bangladesh's position internationally, as it meant that 'if you are not with us, then you are against us.' But this Bangladesh could ill-afford, as much of its economy was tied to the United States, and it was desperate to reconcile its relationship with the latter. It may be mentioned that during Bangladesh's liberation struggle, the then Soviet Union and East European countries supported Bangladesh, but when it came to economic relationship not much was there between the former and the latter. Rather, some trading relationship was there with China. But then the business elite, bureaucracy, even the intellectual class, all were familiar with the West, and so there was an element of hyper-activism in trying to avail the recognition of the United States, including the pro-US Arab countries and more significantly Pakistan. The United States' recognition came in April 1972, but Bangladesh had to wait to get the recognition from the rest of those who had sided with Pakistan.

This came about in 1974 when Pakistan was hosting the Organization of Islamic Countries Conference (OIC) in Lahore in February 1974. In fact, it was becoming extremely difficult for the OIC not to invite Bangladesh, which was then the second largest Muslim populated country in the world after Indonesia. Several key leaders of the OIC came to Dhaka and impressed upon Sheikh Mujibur Rahman to join the Conference, which he gladly did. By virtue of this, Sheikh Mujibur Rahman not only got the recognition of the Arab countries but also managed to get Pakistan's recognition before reaching Lahore for the Conference. Critics point out that India did not take this development in good spirit, and soon after this relationship between Bangladesh and Pakistan, India began to falter. The issue of enclaves, for instance, may be cited as a case in point.

Bangladesh and India have as many as 225 enclaves. Out of this, 119 are exchangeable Indian enclaves in Bangladesh (totalling 17,157.72 acres) and 11 non-exchangeable enclaves (totalling 3,799.35 acres) - *non-exchangeable* because India has no control over or access to these. Bangladeshi enclaves in India total 95, out of which 72 (totalling 7,160.85 acres) are exchangeable and some 5,128.52 acres are non-exchangeable. In May 1974, both the countries agreed to exchange the enclaves and also agreed to allow the people residing in the enclaves to either stay where they are or move to their parent country. While Bangladesh enacted a legislation to actualise the May 1974 Agreement in November of the same year, India is yet to do the same even after a lapse of over 35 years! Critics, such as Sumanta Banerjee, maintain that "there is a feeling in Dhaka that India is reluctant to exchange the enclaves because it would lose around 10 lakh acres of land to Bangladesh."¹ By delaying the process of ratification and implementation why is India contributing to such suspicions? Moreover, why did India request for a change of the text of the May 1974 Agreement after Bangladesh had ratified the Agreement in the Parliament and that again barely five days before the deadline (31 December 1974) for the signing of the relevant maps in respect of 'areas already demarcated' and interestingly with a plea to do away with a firm deadline and have it postponed until the Agreement 'has been ratified by the two Governments'?² This in fact had the effect of postponing the exchange of 'territories in adverse possession in areas already demarcated in respect of which boundary strip maps are already prepared' for an indefinite period, which in turn contributed to suspicions in the minds of the Bangladeshis. It may be mentioned that the May 1974 Agreement clearly distinguished between the 'already demarcated' and 'still to be demarcated' areas and made it clear that the latter would not pose an obstacle to

¹ Sumanta Banerjee, "Indo-Bangladesh Border: Radcliffe's Ghost," *EPW Commentary*, 5-11 May 2001.

² For a closer exposition, see, Avtar Singh Bhasin, ed., *India-Bangladesh Relations: Documents – 1971-2002*, Volume IV, New Delhi: Geetika Publishers, 2003, pp.1889-1901.

the exchange of enclaves ‘in areas already demarcated.’ What made India revise the original text then? With no official explanation as such, it now looks that forfeiting 10 lakh areas, as critics pointed out, may indeed be the reason. But this request for an amendment to the May 1974 Agreement by India at the last minute and that again after Bangladesh had ratified it in its Parliament did not go well with Sheikh Mujib. In fact, sources close to him opined that Mujib lost interest in developing further Bangladesh’s relationship with India following this incident. This issue, however, got ‘resolved’ following the recent visit of India’s Prime Minister, Dr. Manmohan Singh, to Dhaka and the signing of the border agreement between Bangladesh and India in September 2011. Critics, however, point out that apart from the opposition in Assam with respect to the exchange of enclaves the very change in the wording with regard to the Tin Bigha Corridor from the original ‘lease in perpetuity’ to ‘24-hour access to Bangladeshis’ would continue to be a source of contention and vex the relationship between the two countries.

3. Economic Diplomacy

Practically, the *diplomacy of recognition* ended in 1974, particularly following Pakistan’s recognition of Bangladesh. This gave way to a newer phase in foreign policy, which could be best referred to as *economic diplomacy*. There were good reasons for this. Apart from the slow pace of the post-war rehabilitation and reconstruction, mainly for the want of resources and misgovernance, Bangladesh faced two massive floods in consecutive years – 1973 and 1974, which not only led to famine at home but also created conditions for seeking a larger amount of foreign aid. Although the lack of entitlement, to follow Amartya Sen, is blamed for the famine, there was also the issue of ‘bureaucratic muddle’ contributing to it. This refers to the exporting of some 60,000 bales of jute to Cuba, which violated the conditions of the US food aid under PL 480 Title I. Receiving food under the latter disallows the receiving country from trading with the US ‘enemies,’ which then included Cuba. But food was desperately required following the unprecedented floods. Since the US stopped the flow it took some time for the required food to reach Bangladesh, which interestingly came via Russia. In the meantime, thousands died for the lack of food. The ensuing economic crisis made it clear that Bangladesh cannot do without the support of the West, and so catering to the interests of the West with the hope of receiving food and non-food aid from the West became a cornerstone of Bangladesh foreign policy. Following the changeover of the government in 1975 the thrust on *economic diplomacy*, particularly in cementing relationship with the Western economies, gained further momentum.

Globalisation, however, brought newer dynamics to Bangladesh foreign policy. Bangladesh’s garment industry, for instance, has progressed well by adding value to the commodity, which the industry could pursue to the envy of many, including big players like China and India, mainly because of the

relatively cheap labour and the ingenuity of some of the local manufacturers. This has contributed to a situation where our capitalists and workers are structurally tied up with the economies of the developed West and therefore ought to be more attentive about developments there, including the growth of the economy or lack of it or even who is in charge of the government. Now since the meltdown in the US economy there are regular discussions as to what impact it would have on Bangladesh economy. There is actually a possibility of gaining from the crisis. The reasons are not farfetched. Traditionally, products from Bangladesh abroad have catered to middle and low-income groups and since the US government is pledged to support the people of the 'Main Street' in contradistinction to the bosses of the 'Wall Street,' there is now a possibility that the middle class in the United States would directly benefit from such a policy and therefore would be able to afford goods imported from Bangladesh. This certainly would range from textile goods to pharmaceutical products. Now the challenge lies with Bangladesh whether it would be able to deliver the goods and broaden its market. In fact, in garment export alone the turnover this year could cross US\$ 15 billion mark, which is no mean achievement on the part of Bangladesh. After all, Bangladesh has emerged as the third garment producer in the world in 2011 after China and the European Union collectively.

4. Energy and Climate Diplomacy

Energy Diplomacy

Taking economic potential further would require resolving the deficit in the energy sector. Or, to put it differently, Bangladesh must embark upon a newer phase in its foreign policy, that is, start pursuing *energy diplomacy* creatively. Noteworthy is the fact that in addition to the economic meltdown the developed economies are facing global energy crisis, particularly in the backdrop of the US and West's military involvement in Iraq, Afghanistan and more recently Libya. This is bound to have a short if not a long-term impact on both developed and less developed economies,³ including Bangladesh, unless creative policy initiatives are undertaken to overcome them.

The skyrocketing of oil price from US\$ 3 per barrel in 1970 to a record high of US\$ 147.27 in mid-July 2008 and then scaling down now to US\$ 105.60 with possibilities of rising again in the backdrop of another war in the Middle East region only indicates that the energy crisis is far from over and will not go unless and until alternative energy resources come to feed our lifestyle.⁴ If Bangladesh is to go beyond its current economic growth of over 6 per cent and reach not so

³ Joseph E. Stiglitz and Linda J. Bilmes, *The Three Trillion Dollar War: The True Cost of the Iraq Conflict*, London: Penguin Books, 2008.

⁴ Associated Press (AP), "Economic fears drive oil below \$54: Price of crude down over 60 percent in four months," 19 November 2008. See also, "Oil – near \$106 and rising", Available at: <http://money.cnn.com/data/commodities/>, accessed on 25 March 2011.

implausible growth of 10 per cent in less than a decade's time then it needs to resolve its energy requirements on a priority basis. Here Bangladesh needs to think beyond oil and coal and keep all options, including civilian nuclear, open. This would require investment in knowledge creation, language competence, sophisticated dialoguing and expertise in drafting agreements at both bilateral and international levels. Any lethargy or slippage in what would be protracted external manoeuvrings is bound to cost Bangladesh heavily. There have been some policy initiatives in this sector. Noteworthy is the signing of an agreement with India where the latter would supply 250 MW of electricity to Bangladesh from the Indian grid. Secondly, on the issue of maritime boundary, which has energy security implications, Bangladesh has taken its claims against India and Myanmar to the international arbitration court. And thirdly, Bangladesh has signed an MOU with Russia to build a civilian nuclear reactor. But globalisation is inviting policy initiatives in other areas as well.

There has been some realisation in India that if development in the North East region is to be expedited and made meaningful then it would require active support from Bangladesh. In this regard, the two countries, following Sheikh Hasina's visit to Delhi in January 2010, signed a 50 clause agreement, which included a wide range of things, like India providing US\$1 billion loan to Bangladesh for infrastructural development, removing tariff and non-tariff barriers and bringing down the 'negative list' from 260 items to 47 items, resolving the border disputes in the light of 1974 Land Boundary Agreement, operationalising connectivity between Bangladesh, India, Nepal and Bhutan, sharing of rivers, and many more. The goal has been mainly to foster a win-win relationship; indeed, with the objective of having Bangladesh at India's side in the latter's quest to develop the North East. And there are good reasons for this.

Few will deny the fact that globalisation has made a difference to China, indeed, to a point that it had contributed to a 10 per cent GDP growth for many years, and even with the global economic meltdown, China is expecting a 9.8 per cent GDP growth and a 3.7 per cent rise of its Consumer Price Index for the year 2011.⁵ But more importantly, when it comes to South Asia, China has emerged as the largest trading partner of not only Bangladesh, Pakistan, Nepal and Sri Lanka but also India, although the political relationship between India and China remains far from being cordial. China, for instance, took its territorial dispute with India to Asia Development Bank where it blocked an application by India for a loan that included development projects in India's North East state of Arunachal Pradesh. China, in fact, claims the latter as part of its own territory

⁵ Jia Xu, "China predicts 9.8% GDP growth in 2011," *China Daily*, 24 January 2011, Available at: http://www.chinadaily.com.cn/china/2011-01/24/content_11905853.htm, accessed on 26 March 2011.

and refers to it as ‘Southern Tibet.’⁶ What is worrying for India is the marginalisation and alienation of the North East and the impact that China’s development could have on the region, as one critic pointed out, “The development of infrastructure by China in its border regions with India has been so rapid and effective and the Indian response so lackadaisical that the Indian Member of Parliament from Arunachal Pradesh was forced to suggest, in sheer exasperation, that the government should allow Arunachal to get a rail link from China as, even sixty years after independence, India has failed to connect this state to the nation’s mainland.”⁷ In fact, before work began in September 2010 to extend the world’s highest railway line onwards from the Tibetan capital Lhasa west to the second-largest city, Xigaze, near the Nepalese border, China had already announced another rail extension east to Nyingchi, less than 50 km from the Line of Actual Control in Arunachal Pradesh.⁸ India could respond only by deploying two additional army divisions, heavy tanks and ramping up its air power in the region,⁹ a far cry from the kind of development that is required to assuage the sub-nationalist aspirations amongst the people of North East India. This is where globalisation and Bangladesh comes. If China could end up as the largest trading partner of both Bangladesh and India then there is no reason for the three countries not to join hands and work for a win-win outcome in the region. At this stage, however, India is keen to solicit a newer positive relationship with Bangladesh that would come to its aid in developing the North East, indeed, with an eye of offsetting China’s influence there. But this hopefully would change soon and policymakers in both Delhi and Beijing would see merit in the three countries working together.

But globalisation ought not to be measured in statist terms alone. In contemporary times, amongst the many ironies that have found acceptance in our lives, the most outrageous is the simultaneity of war and rehabilitation. Apart from highlighting the futility of both it constitutes a sheer drainage of resources. But then contradictions of this kind also create opportunities for many. If the private US army, *Blackwater*, is super-profiting from wars in Iraq and Afghanistan¹⁰ then there is money to be made from rehabilitation work as well, and this is precisely what BRAC, a Bangladeshi NGO, is engaged in, albeit on a modest scale, in war-torn Afghanistan. But skill in rehabilitation work and disaster management does not come naturally, it is an outcome of years of

⁶ Harsh V. Pant, “China Rising,” in Ira Pande, (ed.), *India China: Neighbours Strangers*, Noida: HarperCollins, 2010, pp.95-96.

⁷ *Ibid.*, p.98.

⁸ The International Institute for Strategic Studies (IISS), *The Military Balance 2011*, London: IISS, March 2011, p.212.

⁹ Harsh Pant, *op.cit.*, p.99.

¹⁰ Jeremy Scahill, *Blackwater: The Rise of the World’s Most Powerful Mercenary Army*, London: Serpent’s Tail, 2008.

experience, and BRAC is a proven institution for that matter. Despite such proven record on BRAC's part, *non-governmental foreign policy initiatives*, particularly for want of state sponsorship and regulations, are susceptible to hazards and limitations. Killing and several kidnapping of BRAC officials in Afghanistan are cases in point. Not that this should provide reasons for postponement of such ventures but it is a clear indication that *non-governmental foreign policy initiatives* are no less vital than governmental initiatives and therefore demands constitution of newer structures and space for manoeuvrability. Take the case of Grameen Bank, for instance. That Professor Yunus has become Bangladesh's global Ambassador can easily be judged from the number of foreign dignitaries he meets and international awards he receives every year. Sadly there is no mechanism to honour such persons on a regular basis and put them into use for the service of the state in the like of the United Nations or some developed countries. Indeed, much to his credit micro-credit is now a global product for which Bangladesh can surely be proud of, and there is no reason why this expertise cannot be made into an exportable item for the benefit of Bangladesh and the world.

Climate Diplomacy

Choices in foreign policy are often limited by constraints and compulsions. One area that could be highlighted in this regard is the issue of environment and the dire condition of the marginalised people. Bangladesh is already on the top of the Global Climate Risk Index. International NGO, Germanwatch, prepared the index of 170 countries and Bangladesh tops the list with a death toll of 4,729 in 2007 due to natural calamities with an additional absolute loss of property worth more than 10 billion US\$.¹¹ But amongst the population it is the marginalised lot that suffer the most from global warming, floods, cyclones, droughts and now tsunamis. This would be a challenge that could only be met with regional and global efforts and therefore *climate diplomacy* is bound to emerge in the priority list of Bangladesh foreign policy agenda. Bangladesh did end up playing an active role at the 2009 Copenhagen Climate Summit, particularly in bringing about a compromise amongst the key global actors. It may be mentioned that although China and India are at loggerheads when it comes to territorial claims the two countries have no problem in working together on climate change, often to the detriment of disaster-prone countries of the region, including Bangladesh, Nepal and the Maldives. A creative effort, therefore, is required for Bangladesh to reap benefits from *climate diplomacy*. How much the policymakers are currently equipped in the environmental discourse is something that would be worth reflecting on and what should be done to overcome the weakness if there is any.

¹¹ *The Daily Star*, 5 December 2008.

Cultural Diplomacy

Gilles Deleuze and Felix Guattari have referred to the process of post-territoriality or deterritorialisation as giving rise to a simultaneous process of *reterritorialisation*, although the latter remains substantially different from the previous territoriality.¹² Indeed, a territorial meaning of Bangladesh has become less relevant and the meaning that is now having greater appeal is more demographic and cultural, which is inclusive of Bangladeshis living abroad. Indeed, given its civilisational and social links, Bangladesh is readily taken to be sympathising or even supporting the Islamic cause in the Arab countries and elsewhere, which at times creates the notion that it is 'soft' on the so-called 'Muslim militants' or 'Islamic terrorists.' This has particularly been the case with the United States in the post-9/11 period, the latter even categorising Bangladesh as 'high risk' in its global war on terrorism. If globalisation has deterritorialised Bangladesh, it has certainly also re-territorialised Bangladesh, albeit on a different plane mixed with anguish and apprehension.

This brings us to the issue of Bangladesh requiring a foreign policy initiative best referred to as *cultural diplomacy*. The Arab countries host around 6 million Bangladeshi expatriates accounting for 75 per cent of the country's migrant workers. In 2009-2010 fiscal year, Bangladesh earned a remittance of US\$ 10.99 billion, of which US\$ 7.22 billion was sent by workers in the Gulf region, including Saudi Arabia, United Arab Emirates, Kuwait, Bahrain, Oman, Qatar, Libya and Iran.¹³ But this is also the region catering to a precise Islamic *mazhab* (school of thought), namely Hanbali or Salafi or, as some now prefer to call, Wahhabism, which is relatively more rigid or inversely less tolerant than the Hanafi *mazhab* or the Sufi tradition found in South Asia and Bangladesh. There is no denying the fact that the power of petro-dollars and the empowered status of some of the Arab countries, particularly Saudi Arabia, made the confluence between Bangladesh diaspora and Wahhabism all the more easy if not deadly.¹⁴ It may be mentioned that there is a substantial difference between Wahhabism and what Muhammad Ibn Abd al-Wahhab wrote and preached in his lifetime. In fact, the orthodox *ulama* of Saudi Arabia and other Gulf states have succeeded in reproducing and even exporting their own brand of Islam, often, as it seems to be the case, in the garb of Wahhabism. Only now, following 9/11 and the terrorist activities of Al-Qaeda in Saudi Arabia, there is a serious realisation that things have gone out of hand. As King Abdullah of Saudi Arabia remarked: "Terrorism and criminality would not have appeared...except for the absence of the principle

¹²Gilles Deleuze and Felix Guattari, *Anti-Oedipus: Capitalism and Schizophrenia*, London: Continuum, 2004, pp.210-217.

¹³*The Daily Star*, 26 March 2011.

¹⁴ Imtiaz Ahmed, (ed.), *Terrorism in the 21st Century: Perspectives from Bangladesh*, Dhaka: University Press Limited, 2009, pp.4-7.

of tolerance.”¹⁵ And since the bulk of the Bangladesh diaspora are either unskilled or semi-skilled with few having profound knowledge of Islam there is a tendency among them to fall for the intolerant version found in the Arab countries and have them exported and reproduced at home. This is why there has to be a substantial investment in matters of culture or what Joseph Nye called the use of ‘soft power.’¹⁶

Our strength, in fact, lies not in our being as *homo politicus* (political being) or *homo economicus* (economic being) but in our being, if I may use the word, as *homo culturicus* (cultural being). To provide a regional example, we have not fared well politically, our ‘democratic culture’ has been marred by violence and divisiveness but when it comes to ‘cultural democracy’ we have fared much better than many of the developed democratic societies of the world. Ghalib and Tagore are living testimonies, so are Lata Mangeshkar, Monisha Koirala and Mutiah Muralitharan. More specifically, Bangladesh culture, rooted as it is in the Hanafi, Sufi, Bhakti and Baul traditions, not to mention reproduced in the literary voices of Tagore, Nazrul, Jinbananda Das, Shamsur Rahman and countless more, can certainly be channelized for spreading tolerance not only at home but also regionally and globally. This, of course, would require mainstreaming *cultural diplomacy* in Bangladesh foreign policy.

A beginning could be made by sponsoring *Bangladesh Parishod* or Bangladesh Cultural Centre in different cities of the world; albeit managed and run by a pool of officially-sanctioned, well-qualified members of the Bangladesh diaspora. The post-globalisation diaspora, in fact, is qualitatively different from the old diaspora. The former is passionately attentive to whatever is taking place in the motherland, from a game of cricket to the making of *futchka* and *roshgollas*, from political rumours to the price of petrol. At the same time, however, they are well-versed in the country of their residence, knowing well in many cases the personalities closed to the government, opinion-making agencies and business houses. If managed efficiently, such Councils can become information-gathering/delivering bodies and informal lobbies, helping Bangladesh in getting access to people and things, indeed, far more creatively than possible on the part of the formalised diplomatic missions. This would also

¹⁵ Cited in Robert Lacey, *Inside the Kingdom: Kings, Clerics, Modernists, Terrorists, and the Struggle for Saudi Arabia*, New York: Viking, 2009, p.271.

¹⁶ See, Joseph S. Nye, *Bound to Lead: The Changing Nature of American Power*, New York: Basic Books, Inc., 1990; Joseph S. Nye, “Soft Power,” *Foreign Policy*, Volume 80, Fall 1990, pp.153-71; Joseph S. Nye, *Soft Power: The Means to Success in World Politics*, Cambridge, MA: Perseus Books Group, 2004. See also, Mingjiang Li, (ed.), *Soft Power: China’s Emerging Strategy in International Politics*, Plymouth: Lexington Books, 2010; E. Fuat Keyman, “Globalization, Modernity and Democracy: Turkish Foreign Policy 2009 and Beyond,” *Perceptions: Journal of International Affairs*, Volume XV, Number 3-4, Autumn-Winter 2010, pp.1-20.

be cost effective as many a member of the diaspora would be willing to invest both time and money for bettering the cause of the motherland and having a reputation both at home and abroad. Indeed, instances of this kind are already there. Indeed, some major political parties have over the years managed to form international wings, albeit mainly to serve partisan cause. In the age of globalisation and post-territoriality it is only prudent that the state make use of Bangladeshis, whether residing at home or abroad, with greater efficiency and a spark of creativity.

5. Conclusion

In this age of globalisation and technological connectivity if foreign policy compulsions are to be minimised and choices materialised then it is imperative that newer institutions are built. Often Bangladesh missions abroad become target of criticism for want of efficiency on the part of some officials. Complaints are often raised regarding the level of efficiency with which they handle varied migrant related issues and the response time they need to act on a situation. Charges of corruption were also raised, which included stateless refugees from Myanmar - the Rohingyas - getting passports from Bangladesh and giving a bad name to the country for their misdemeanours! And when misgovernance partners with polarized politics, where partisanship and not merit dictates key international appointments, the combination could be deadly! This is as much an issue of quality as it is an issue of institution-building. It goes without saying that the parliamentary bodies in foreign policymaking needs to be active and the standing committees if and when required must call the concerned officials and make them accountable to public expenses and country's foreign policy goals. Key foreign appointments could be made subject to parliamentary sub-committee hearings in the like of the United States, to bring more efficiency to those appointed to lead the country.

Secondly, the colonial legacy of having to run the foreign policy bureaucracy independent of the public must come to an end. Even research institutions must cease to be at the mercy of the government. Instead, it should raise its own funds, recruit scholars for particular projects and build cells for independent and quality research, which the government would then have the options to accept, modify, postpone or reject. More qualitative transformation has to come by linking the Ministry of Foreign Affairs (MOFA) with independent research and academic centres, both formally and informally. Since officials of MOFA are transferred every three years it is important that they are fed by a permanent pool of researchers and scholars, and the most productive and cost-effective would be to link them up on a regular basis with such existing institutions. In fact, it is the latter, with continues interactions with foreign policy researchers, scholars and practitioners of both home and abroad can build a *culture of diplomacy* from which the government of the day could benefit readily. At the same time, to institutionalise the role of culture or 'soft power' in foreign policymaking it is

important that a Director General of Public Diplomacy be appointed at the MOFA at the earliest.

Finally, a National Civil College (NCC) in the like of the country's well-reputed National Defence College needs to be built. Any promotion above Joint Secretary or, as in the case of MOFA, Director General would require passing out of the College, after having gone through an intensive certificate programme matching the respective bureaucracies and national requirements. There is also a need for engendering foreign policymaking given that women constitute more than half of the country's population. A beginning could certainly be made in this regard by making NCC a gender-sensitive institution. NCC could also run mandatory training programmes for parliamentarians and other civil functionaries, including freshly appointed ambassadors. The institute could also recruit researchers on both short and long-term basis for feeding the senior level student-bureaucrats and even the respective ministries. A Foreign Policy Archive could also be housed in the NCC, which the public, as part of Right to Information, could access regularly, while 'secret and restricted documents' could be made available to the public after a lapse of 20 years.

Bangladesh foreign policy began its journey 40 years back with the *diplomacy of recognition*, which soon after being accomplished gave way to *economic diplomacy*. To make the latter meaningful, particularly in the age of globalisation, it is now important that Bangladesh embark upon a triadic foreign policy formulation encompassing *energy*, *climate* and *culture* in the backdrop of creative institutional reforms and newer structures. This, indeed, has the potential of bringing benefits not only to Bangladesh but also to the region.

Mohammad Jasim Uddin
Mahfuz Kabir

SAARC's POTENTIAL ROLE IN PROMOTING ECONOMIC DEVELOPMENT IN AFGHANISTAN

Abstract

The South Asian Association for Regional Cooperation (SAARC) has been playing a significant role to enhance economic development of the member states of the organisation. Afghanistan's inclusion as the eighth member to SAARC has offered the country an opportunity to begin a process of regional integration in order to facilitate its peace, political stability, and economic development. Likewise, the entry of Afghanistan in SAARC provides the organisation a gateway to Central Asia and beyond. Therefore, Afghanistan's association with SAARC has reciprocal benefits for the country and the organisation as well. This paper takes an attempt to explore the potential role of SAARC to promote economic development of Afghanistan. It reveals that there is a range of economic potential that can be tapped from SAARC, which includes greater trade and investment, regional connectivity to remove isolation, alleviating poverty, attaining food security, and better utilisation of energy resources. Given this backdrop, this paper suggests that to achieve maximum benefits from SAARC, Afghanistan should reset policy mechanisms, foster trade and investment, infrastructural development, improve customs clearance, and other facilitation measures including multi-modal transport. It should also develop its fiscal and tariff structure as well as improve trade negotiation skills to get benefit from SAFTA in which the other SAARC members can provide assistance. Moreover, greater confidence building, peace, and stability are required in Afghanistan to attract attention by the major players, both members and observers of SAARC, in economic development in Afghanistan.

1. Introduction

South Asian Association for Regional Cooperation (SAARC) is aimed at promoting economic development of its member countries. It believes in forging regional economic cooperation by expanding its horizon.¹⁷ Afghanistan's access to SAARC is important to reduce its isolation and inaugurate a process of

Mohammad Jasim Uddin is Research Fellow at BISS. His e-mail address is: jasim@biiss.org **Mahfuz Kabir**, PhD is a Senior Research Fellow at BISS. His e-mail address is: mahfuz@biiss.org

© Bangladesh Institute of International and Strategic Studies (BISS), 2011.

¹⁷ Razia Sultana, "Expansion of SAARC: Implications for South Asia", *BISS Journal*, Vol. 28, No. 2, 2007, p. 150.

regional integration in order to maintain peace and economic progress of the country.

SAARC has been trying to play a significant role to increase intra-regional trade, enhance regional connectivity, reduce poverty, ensure energy and food security in order to facilitate economic development of its member states. Now the question is what role SAARC can prospectively play to promote economic development of Afghanistan? More specifically, this paper looks into the following questions. Does Afghanistan's membership in SAARC indicate mutual benefits for the country as well as the organisation? What is the current state of economic development in Afghanistan? What are the arrangements of SAARC to promote regional economic development? In what sectors SAARC can play a significant role for economic development in Afghanistan?

This paper reviews existing literature and uses 'analytical narratives', a tool of case study method, to address the research questions. While 'analytic' means setting up of conceptual framework, 'narratives' indicates using of qualitative and also quantitative evidences.¹⁸ A major limitation in this paper is lack of information and consultation of published information materials. Therefore, existing literature have just been enough for providing general concluding remarks. Thus, this paper has been organised as follows. After the brief introduction, Section Two briefly discusses the question of mutual benefit due to Afghanistan's membership in SAARC. Section Three reviews the recent economic development in Afghanistan in terms of some commonly used indicators, while Section Four analyses the existing mechanism of SAARC toward facilitating development of its members. Section Five suggests a set of policy recommendation for SAARC to promote economic development in Afghanistan. Finally, concluding remarks have been made in Section Six.

2. Does Afghanistan's Membership in SAARC Indicate Mutual Benefit for the Country and the Organisation?

Since the collapse of the Taliban administration, both political stability and economic development are the main priorities of Afghanistan. What seems rationale to revitalise Afghanistan's economy is to come out of protectionist policies and improve relationship with its contiguous neighbours and international communities. Therefore, Afghanistan's interest to join SAARC was aimed to articulate its political and economic solidarity. Besides ending isolation and beginning a process of regional integration, thrust for economic benefit was also a strong driving force for Afghanistan to be associated with SAARC.

Afghanistan's access to SAARC is important for the bloc. There is insignificant amount of energy trade within South Asia or with energy-rich Central and West Asia.¹⁹ Afghanistan could be a key transit for energy, providing

¹⁸ Lee J. Alston, "The Case for Cases Studies in Political Economy", *The Political Economist*, Vol. 12, Issue. 4, 2005, p. 8.

¹⁹ Razia Sultana, *op. cit.*, p. 154.

a route for imports of hydropower from Central Asia, and natural gas from Central Asia and Iran. On the other hand, Afghanistan itself has natural gas reserves estimated to be nearly 100 billion cubic meters, and the country produces about 20 million cubic meters per year; all of it is consumed internally.²⁰ Therefore, Afghanistan's access to SAARC could possibly mean a major energy gain for the bloc. Simultaneously, the access may make the idea of connectivity even more crucial to South Asia, and provide SAARC a gateway to Central Asia and beyond. It would also enable SAARC to identify and develop sub-regional and regional projects, and draft appropriate regional agreements to build a series of corridors linking South Asia and eventually the bloc with Central and West Asia.²¹ Therefore, fresh impetus to regional connectivity linking South Asia to Central Asia and beyond may facilitate transit-border transport networks, expansion of regional trade, and free flow of people and ideas.

3. An Overview of Afghanistan's Economic Development

For a decade or so, Afghanistan has been experiencing volatility in economic developments and 'significant strides'²² in financial sector owing mainly to infusion of 'international assistance'²³, revitalisation of agricultural sector, service sector growth, and recent reconstruction and development efforts. Therefore, average growth in the last five Fiscal Years (FY) observes double digits (see Table 1), whereas international organisations, such as International Monetary Fund (IMF) predicts 15 per cent growth in

²⁰ Sudeshna Sarkar, "SAARC: Afghanistan Comes in from the Cold", available at <http://www.isn.ethz.ch/isn/Current-Affairs/Security-Watch/Detail/?ots591=4888CAA0-B3DB-1461-98B9-E20E7B9C13D4&lng=en&id=53216>, accessed on 24 July 2010.

²¹ India, Afghanistan and Iran have an agreement in place for development of over 200 km highway linking Afghan town of Delaram with Zaranj in Iran. See, *Ibid*.

²² For example, 13 commercial banks are now fully licensed, a leasing and financing company has begun operations, and 13 microfinance institutions are providing services to almost 200,000 active clients in 20 Afghan provinces. Therefore, the Afghan government is now able to meet two thirds of recurrent costs in the civil sector out of its own revenues.

²³ Afghanistan's economy is highly dependent on foreign assistance. Two thirds of national budget and about 90 per cent of public investment are financed by donor community. These investments are, to a very large extent, managed by donors directly, in other words without being channelled through Afghanistan's national budget. Therefore, international community remains committed to Afghanistan's development, pledging over US\$ 57 billion at three donors' conferences since 2002. More than 50 international donors are operating in Afghanistan to ensure aid effectiveness. While major international organisations providing assistance to Afghanistan are ADB, UNDP, etc., important bilateral donors are the US, the UK, Japan, Germany, India, etc. Until 2010, total contribution of Germany to Afghanistan is some US\$1.4 billion. The German government has also cancelled bilateral debts owed by Afghanistan amounting to about €65 million. On the contrary, contiguous neighbour, India had not only extended almost US\$200 million immediate financial assistance to Afghanistan soon after ouster of Taliban but also now is ready to spend US\$1 billion as aid for Afghanistan in the next two to three years.

Table 1: Afghanistan: Economic Indicators, 2005-2009

Economic indicator	2005	2006	2007	2008	2009
GDP growth (% change per year)	16.1	8.2	12.1	3.4	15.1
GDP (real growth rate)	-	-	12.1%	3.4%	3.4%
CPI (% change per year)	12.3	5.1	13.0	26.8	-10.0
Unemployment rate (%)	40	-	-	35	-
% of population living below national poverty line	-	-	42.0	-	36
Fiscal balance (% of GDP)	1.0	-2.9	-1.8	-3.7	-2.1
Export growth (% change per year)	9.2	0.9	1.3	18.9	-2.4
Import growth (% change per year)	20.5	10.0	16.2	12.1	3.5
Current account balance (% of GDP)	-2.8	-4.9	0.9	-1.6	-3.6
External debt (% of GNI)	162.0	146.2	19.8	-	-
External debt (billion US\$)	-	-	-	2.7	-

- = data not available, GNI = Gross National Income, GDP = Gross Domestic Product, CPI = Consumer Price Index

Source: Asian Development Outlook 2010; The World Factbook, 2010.

FY 2010. This is because of Afghanistan's links with international capital markets, almost no direct impact of global economic crisis on the country, and increasing trade with close neighbours (see Table 2).

Table 2: Afghanistan's Trading Commodities and Partners

Export commodities ----- Opium, fruits and nuts, hand-woven carpets, wool, cotton, hides and pelts, precious and semi-precious gems	Exports to		<table border="1"> <caption>Exports to</caption> <thead> <tr> <th>Country</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>India</td> <td>23.50%</td> </tr> <tr> <td>Pakistan</td> <td>17.70%</td> </tr> <tr> <td>US</td> <td>16.50%</td> </tr> <tr> <td>Tajikistan</td> <td>12.80%</td> </tr> <tr> <td>Netherlands</td> <td>6.90%</td> </tr> </tbody> </table>	Country	Percentage	India	23.50%	Pakistan	17.70%	US	16.50%	Tajikistan	12.80%	Netherlands	6.90%
	Country	Percentage													
	India	23.50%													
	Pakistan	17.70%													
	US	16.50%													
	Tajikistan	12.80%													
Netherlands	6.90%														
India	23.50%														
Pakistan	17.70%														
US	16.50%														
Tajikistan	12.80%														
Netherlands	6.90%														
Imports Commodities ----- Machinery and other capital goods, food, textiles, petroleum products	Imports from		<table border="1"> <caption>Imports from</caption> <thead> <tr> <th>Country</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Pakistan</td> <td>36%</td> </tr> <tr> <td>US</td> <td>9.30%</td> </tr> <tr> <td>Germany</td> <td>7.50%</td> </tr> <tr> <td>India</td> <td>6.90%</td> </tr> </tbody> </table>	Country	Percentage	Pakistan	36%	US	9.30%	Germany	7.50%	India	6.90%		
	Country	Percentage													
	Pakistan	36%													
	US	9.30%													
	Germany	7.50%													
India	6.90%														
Pakistan	36%														
US	9.30%														
Germany	7.50%														
India	6.90%														

Source: Calculated from IMF, *Direction of Trade Statistics*, Yearbook 2010.

Despite progress in some socio-economic aspects, major constraints for the overall economic development of Afghanistan remain unattended or are on rise owing to various causes. Endemic poverty across a large segment of total

population, with two thirds of the population living below or just above the country's official poverty line, continues to be a major barrier to development.²⁴ In some provinces, poverty rate is as high as 90 per cent. On the other hand, lack of rural entrepreneurship, non-existent market linkages, lack of access to financing and technology options are the significant hindrances to promote private sector vibrancy, job creation, and poverty reduction. The scenario becomes much worsened with unpredictable climatic and geographical conditions combined with low revenue collection, high levels of corruption, poor public infrastructure, poor law and order situation, high prevalence of crime, weak governance and long years of conflict followed by rapid population growth.²⁵ All these resulted in uncontrolled and unsustainable use of natural resources. The destruction of resource base and degradation of ecosystem services coupled with proliferation of illicit poppy economy and vulnerability to natural disasters in the major parts of Afghanistan are of serious concerns. All these pose threat to double Afghanistan's efforts to establish an economy that welcomes trade and investment, and facilitate achieving Millennium Development Goals (MDGs). Therefore, considerable support for the government's capacity and institution building remains high on Afghanistan's agenda for overall economic development.

4. SAARC's Arrangements to Promote Economic Development of its Members

The unprecedented rise in global food and fuel price, shortage of foodstuffs and ever-increasing uses and demand of energy are challenging to poverty alleviation in South Asia. On the contrary, insignificant intra-SAARC trade and inadequate arrangements for regional connectivity are the key impediments towards enhancing regional cooperation. Therefore, increasing trade and connectivity, poverty alleviation, and attaining energy and food security have been the major imperatives of SAARC to promote economic development in South Asia.²⁶

Trade

Trade integration among the member countries of a region is a key to economic development. Such realisation induced SAARC Preferential Trading Arrangement (SAPTA) in 1995. Later on, SAARC initiated regional approach of Free Trade Area (FTA) in 1997, and then decided establishing South Asian Free Trade Area (SAFTA) by 2001. However, SAFTA was not signed until 2004 due

²⁴ Available at http://www.adb.org/Documents/Fact_Sheets/AFG.pdf, accessed on 20 July 2010.

²⁵ Available at <http://www.undp.org.af/WhatWeDo/ee.htm>, accessed on 25 July 2010.

²⁶ Ishtiaque Selim and Mohammad Jasim Uddin, "15th SAARC Summit: SAFTA, Food Security and Energy", *BISS Journal*, Vol. 29, No. 4, 2008.

to political instability in the region. Though framework agreement of SAFTA was signed in 2004, it came into force on 1 June 2006. SAFTA consists of six core elements, such as trade liberalisation programme, rules of origin, institutional arrangements, safeguard measures, special and differential treatment for LDCs, and dispute settlement mechanisms. It stipulates trade with zero customs duty of almost all products in South Asia by 2016 (see Table 3). To implement SAFTA and to facilitate and enhance intra-regional trade, SAARC has recognised the need to address major barriers (sensitive lists of items, non-tariff and para-tariff measures) standing in the way of effective trade liberalisation. It has revised sensitive lists giving special consideration to least developed countries (LDCs), and called for creating regional customs union by 2012 and economic union by 2020. SAARC has also underscored the need for taking some concrete measures to adopt common tariff nomenclatures and harmonise customs procedure. Recently the bloc has signed SAARC Agreement on Trade in Services and called for early ratification of the agreement.

Table 3: Schedule of Tariff Reduction under SAFTA

Countries	Existing tariff rates	Tariff rates under SAFTA agreement	Time schedule
SAFTA first phase			
India, Pakistan and Sri Lanka	More than 20%	Reduce to 20%	2 Years
Bangladesh, Nepal, Bhutan, Maldives and Afghanistan	Less than 20%	Annual Reduction of 10%	2 Years
	More than 30%	Reduce to 30%	2 Years
	Less than 30%	Annual Reduction of 5%	2 Years
SAFTA second phase			
Pakistan and India	20% or below	0-5%	5 Years
Sri Lanka	20% or below	0-5%	6 Years
Nepal, Bhutan, Maldives and Afghanistan	30% or below	0-5%	8 Years

Source: Sharif M. Hossain and Ishtiaque Selim, "Regional Cooperation in South Asia: Future of SAFTA", *BISS Journal*, Vol. 28, No. 2, 2007, p. 397.

Food Security

Declining productivity of grains and inadequate food reserve has compelled most of the South Asian countries to depend on imported grains. Therefore, SAARC has taken a series of initiatives to face food insecurity, such as

- Signing an Agreement on South Asian Food Security Reserve in 1987 to provide a cushion against food shortages and scarcity situations in the region;
- Finalising a deal to establish SAARC Food Bank (SFB) in 2007 for extending cooperation among SAARC countries and meeting emergency food crisis owing to destruction of crops by natural calamities or other such reasons;

- Adopting 'Colombo Statement on Food Security' to evolve and implement a short to medium term regional strategies to ensure food security in South Asia;
- Putting emphasis on early drawing up of SAARC Agriculture Prospective 2020, and stressing on early operation of SAARC Food Bank with an initial food reserve of over two million tons of rice and wheat;
- Directing SAARC Agriculture Ministers to pursue regional cooperation in agriculture covering all sub-sectors to enhance overall agricultural productivity;
- Calling for regional efforts on increased sharing of best practices, technologies, techniques, and materials;
- Giving importance on quality seeds in enhancing productivity and directing early consideration of the concept of a regional seed bank, regional testing and certification of seeds, and a framework for transfer of plant genetic material and seeds; and
- Establishing SAARC Agriculture Centre (SAC) to take regional projects in order to increase food production and ensure food security.

Energy Security

Since Organisation of Petroleum Exporting Countries (OPEC) embargo on oil exports in 1973, energy has been one of the major global security concerns. With the recent increase in oil price, energy insecurity turns out to be more critical than ever. The impact of the price hike has also been felt in the SAARC countries, which are mainly dependent on imported oil and where per capita energy production capacity is only 0.1 kilowatt.²⁷ Therefore, energy security issue emerges as one of the key priorities in regular meetings of SAARC. It has taken various steps to reinforce intra-SAARC energy cooperation under SAARC Integrated Programme of Action (SIPA) and has approved establishing of SAARC Energy Centre (SEC) to develop energy resources through promoting regional energy trade, developing renewable and alternative energy resources, and enhancing energy efficiency in the region. It has stressed on concerted effort for conserving use of conventional energy, building up of renewable energy resources, and has given importance to development of regional and sub-regional energy resources in an integrated manner for tapping potential in this sector.

SAARC has also suggested for sharing of expertise, capacity building, technology transfer, and infrastructure development. Furthermore, it has called for developing and sharing of regional hydroelectric potential, grid connectivity, and gas pipelines. It has also urged for commissioning a definite survey to

²⁷ *Ibid.*

determine actual quantum of energy resources, and to devise a way in which energy could be used for maximum benefits of the member states. Likewise, SAARC has envisaged a network of trans-regional oil and gas pipelines and has emphasised the need to undertake studies for developing regional energy projects, promoting regional energy trade, efficiency, conservation and development of labelling and standardisation of appliances, and sharing of knowledge and technologies. Besides, it has called for creating a web portal on energy conservation for exchanging information and sharing of best practices among the SAARC member states.

Regional Connectivity

SAARC, over the last two decades recognised the importance of improving intra-regional connectivity, particularly physical, economic, and people-to-people connectivity to have smooth flow of goods and services, technologies, knowledge, capital, culture, and ideas for sustaining South Asia's economic growth and its competitiveness. It has completed SAARC Regional Multimodal Transport Study (SRMTS), and called for early implementation of the recommendations contained in the study in a gradual and phased manner and through mutual consultations among its member states. It has also directed Inter-Governmental Group on Transport to identify and develop sub-regional and regional projects based on prioritised recommendations of the SRMTS and to develop appropriate agreements on regional connectivity. Furthermore, SAARC has made progress of drafting Motor Vehicle Agreement (MVA) and has directed its member states to expedite work on examining technical inputs related to Regional Transport and Transit Agreement and Regional Multilateral Railway Agreement. Recently, it has called for collaborative efforts to achieve greater intra-regional connectivity. It has declared 2010-2020 as the 'Decade of Intra-regional Connectivity in SAARC' to expedite negotiations with a view to finalising two agreements on motor vehicles and railways.

Alleviating Poverty

Almost in all the Summits, SAARC has prioritised the issue of poverty alleviation and has taken efforts to integrate poverty alleviation programmes into the development strategies of its member states. In the last six Summits, the efforts become more apparent.

Table 4: SAARC Initiatives to Alleviate Poverty

SAARC Summits	Initiatives
11th Summit	Agreed to reconstitute Independent South Asian Commission on Poverty Alleviation (ISACPA) to review progress made in cooperation on poverty alleviation and suggest appropriate and effective measures
12th Summit	-Declared poverty alleviation as overarching goal of all SAARC activities
13th Summit	-Approving Plan of Action on Poverty Alleviation (PAPA) -Decided to declare 2006-2015 as 'SAARC Decade of Poverty Alleviation' -Endorsed SAARC Development Goals (SDGs) -Decided to replace three-tier mechanism by a two-tier one comprising Ministers and Secretaries dealing with Poverty Alleviation -Decided to establish a SAARC Poverty Alleviation Fund (SPAF) -Agreed that SPAF shall function within SADF to be reconstituted as SAARC Development Fund (SDF) to serve as umbrella financial institution for all SAARC projects and programmes
14th Summit	-ISACPA elaborated SDGs to make progress in attaining MDGs -Agreed that national plans for poverty alleviation should aptly mirror regional consensus reached at SDGs and PAPA -Decided that resource mobilisation to achieve SDGs would remain a high priority in Decade of Poverty Alleviation -Directed translation of highest regional level political commitment into action to create opportunities for productive employment and greater access to resources for poor -Directed that SDF be made operational at earliest, -Agreed that resources for SDF would be mobilised both from within and outside the region
15th Summit	-Committed to continue to share each other's experiences and success stories of pro-poor poverty reduction strategies such as micro-credit systems, community-driven initiatives, raising of consciousness of the poor on their right to resources and development -Signed Charter of SDF, finalised its by-laws, and called for early ratification of SDF Charter -Launched projects on women empowerment, maternal and child health and teachers' training under SDF
16th Summit	-Reiterated commitment to expedite financial contributions to SDF -Emphasised on deepening regional efforts on poverty alleviation -Called for expeditious mainstreaming of SDGs in national processes and completion of Mid-term Review of SDGs -Operationalisation of SDF projects with primary focus on poverty alleviation and social development

Source: Compiled from 11th to 16th SAARC Summits' Declarations.

In addition to the five pillars of economic development, SAARC has emphasised on promoting efforts to enhance intra-SAARC investment. Towards achieving economic integration, it has directed that Draft Agreement on Investment

Promotion and Protection would be early finalised, and SAARC Arbitration Council would also be operationalised immediately.

5. SAARC's Potential Role in Promoting Economic Development in Afghanistan

Enhancing Trade

SAARC provides Afghanistan an access to trade under SAFTA. Article 8 of SAFTA posits that states shall take steps to secure transit facilities for efficient intra-SAARC trade, particularly for the land-locked countries, whereas Article 7(6) of SAFTA stipulates that imports from the LDCs will be duty free.²⁸ Similarly, there are Special and Differential (S&D) treatment, Mechanism for Compensation for Revenue Loss (MCRL), and Technical Assistance clauses in SAFTA to enhance exports from the LDCs.²⁹ All the dispensations would increase Afghanistan's exports and trade opportunities. In addition, Agreement on Trade in Services would facilitate Afghanistan's trade liberalisation. However, what benefits Afghanistan would gain from implementing SAFTA may have trade implications for the country, India and Pakistan as well. Since, the two countries have greater stake in Afghanistan's trade, and if SAFTA is fully effective, Afghanistan, India and Pakistan will be linked for a common fortune by overcoming geophysical barriers.³⁰ Therefore, Afghanistan's trade may possibly observe a sharp change (see Tables 4 to 6) as far as SAFTA is concerned.

Table 5: Share of Bilateral/Regional Trade as a Percentage of World Trade in 2006

	Export							
	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	Afghanistan
Bangladesh	-	0.03	1.15	0.00	0.01	0.50	0.08	0.008
Bhutan	0.00	-	75.31	0.00	0.00	0.48	0.00	0.00
India	1.60	0.10	-	0.06	1.09	0.64	1.88	0.14
Maldives	0.00	0.00	0.76	-	0.00	0.00	11.81	0.00
Nepal	0.39	0.00	67.83	0.00	-	0.31	0.003	-
Pakistan	1.52	-	2.66	0.02	0.01	-	1.10	7.65
Sri Lanka	0.23	0.00	9.32	0.45	0.00	0.58	-	0.03
Afghanistan	0.96	0.00	22.00	0.00	0.00	21.02	0.49	-
	Import							

²⁸ Satyajit Mohanty, "Afghanistan in SAFTA: Issues and Implications", available at <http://www.ipcs.org/article/afghanistan/afghanistan-in-safta-issues-and-implications-2101.html>, accessed on 10 July 2010.

²⁹ *Ibid.*

³⁰ Available at <http://www.cassindia.com/fullarticle.asp?recno=167>, accessed on 20 July 2010.

	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	Afghanistan
Bangladesh	-	0.07	12.49	0.00	0.01	0.94	0.06	0.01
Bhutan	0.00	-	69.08	0.00	0.00	0.17	0.01	0.00
India	0.07	0.06	-	0.00	0.33	0.10	0.34	0.03
Maldives	0.00	0.00	11.18	-	0.00	0.38	5.65	-
Nepal	0.60	0.00	61.75	0.00	-	0.11	0.03	-
Pakistan	0.28	0.00	2.39	0.01	0.01	-	0.24	0.22
Sri Lanka	0.09	0.00	19.55	0.22	0.00	1.22	-	0.00
Afghanistan	0.02	0.00	5.06	0.00	0.00	37.50	0.07	-

Source: Calculated from IMF, *Direction of Trade Statistics* database, available at: elibrary-data.imf.org, accessed on: 12 September 2011.

Table 6: Share of Regional Trade in South Asia's Trade with the World, 2008 (%)

	Import								
	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	SAARC
Afghanistan	0.00	0.05	0.00	6.99	0.00	0.00	36.35	0.00	43.38
Bangladesh	0.01		0.06	14.69	0.00	0.37	1.24	0.07	16.44
Bhutan									
India	0.04	0.10	0.06		0.00	0.19	0.12	0.15	0.66
Maldives	0.00	0.00	0.00	9.21		0.00	0.35	4.51	14.08
Nepal	0.00	0.22	0.00	55.25	0.00		0.12	0.01	55.59
Pakistan	0.20	0.19	0.00	3.69	0.01	0.01		0.15	4.26
Sri Lanka	0.00	0.08	0.00	18.94	0.12	0.00	1.41		20.56
SAARC	0.06	0.11	0.05	2.70	0.01	0.16	0.77	0.15	
	Export								
	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	SAARC
Afghanistan		0.27	0.00	23.54	0.00	0.00	17.70	0.00	41.52
Bangladesh	0.02		0.02	2.34	0.00	0.04	0.58	0.08	3.08
Bhutan									
India	0.20	1.45	0.06		0.07	0.87	0.87	1.40	4.91
Maldives	0.00	0.00	0.00	0.00		0.00	0.00	8.54	8.54
Nepal	0.00	9.16	0.00	54.83	0.00		0.42	0.01	64.42
Pakistan	8.62	1.25	0.00	1.45	0.02	0.02		0.85	12.21
Sri Lanka	0.00	0.18	0.00	4.48	0.68	0.00	0.74		6.09
SAARC	1.00	1.32	0.05	0.72	0.08	0.70	0.80	1.21	

Source: Calculated from IMF, *Direction of Trade Statistics* database, available at: elibrary-data.imf.org, accessed on: 12 September 2011.

Table 7: Intra-regional Trade Share in South Asia

	Afghanistan	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka
Afghanistan	-	0.01	0.08	0	0	2.72	0.01
Bangladesh	0.09	-	0.66	0	0.15	0.44	0.16
India	6.3	7.98	-	9.72	63.35	2.22	15.54
Maldives	0	0	0.03	-	0	0.02	0.31
Nepal	0	0.02	0.64	0	-	0.01	0.02
Pakistan	36.76	0.82	0.32	0.33	0.16	-	1.2
Sri Lanka	0.03	0.09	0.81	5.01	0.02	0.39	-
SAARC	43.18	8.92	2.53	15.06	63.68	5.79	17.23

Source: Calculated from IMF, *Direction of Trade Statistics* database, available at: elibrary-data.imf.org, accessed on: 12 September 2011.

Tables 4 to 6 indicate that both before and after membership in SAFTA, Afghanistan's major export destinations are Pakistan and India. However, exports of Afghanistan face an estimated 'trade-weighted average tariff' of 16.6 per cent in Pakistan and India.³¹ While dried fruits, an important export item to Pakistan, face an estimated tariff of 22 per cent, carpets and animal skin face substantial tariffs.³² Therefore, greater market access for carpets for Afghanistan would help the country to increase 'value-added processing', and, also would result in return of carpet makers from Pakistan to Afghanistan. On the other hand, Afghanistan exports fruits and nuts to India. Exports to India also face high tariffs on an average of 28 per cent.³³ Dried fruits under a preferential agreement also face a tariff of 23 per cent.³⁴ Therefore, reductions in tariffs from 0-5 per cent may possibly help expand Afghanistan's exports. It would also help the country to find markets for its dried fruits in Nepal and Sri Lanka under the trade liberalisation regime of SAFTA.

Some issues, nevertheless, are crucial that can curtail SAFTA benefits for Afghanistan.

- First, if sensitive list excludes agriculture products, benefits to Afghanistan and its comparative advantage would be affected. On the other hand, rules of origin are not yet negotiated. If it excludes light manufacturing products, Afghanistan's benefits would also be curtailed. Therefore, trade facilitation should be a high priority for Afghanistan.
- Second, on opening Afghanistan's markets to India and Pakistan, there is a fear that Afghanistan's markets would be flooded by imports from the two countries. SAARC countries face 4.2 per cent simple average tariff and 3.3

³¹ Nuzhat Khanum, "SAFTA: A South Asian Perspective-III", *The World Trade Review*, Vol. 7, Issue. 11.

³² *Ibid.*

³³ *Ibid.*

³⁴ *Ibid.*

per cent trade-weighted average based on existing imports, whereas 92 per cent of Afghanistan's tariff lines are already according to SAFTA standards, *i.e.*, 5 per cent or less.³⁵ Therefore, how much Afghanistan would be willing to open its markets remains to be observed.

- Third, important concern is the effect of SAFTA on revenues. Tariff revenues are the biggest source of revenues for Afghanistan. Domestic revenues account for roughly half of government revenues, whereas 60 per cent of revenues come from custom duties.³⁶ SAFTA membership would lead to reduction of customs revenue from India and Pakistan. Afghanistan's potential losses in SAFTA imports would therefore nearly be 11 per cent, whereas loss of customs duties from SAARC countries may possibly be a minimal of 1.71 per cent.³⁷ Hence, there are apprehensions on this issue in Afghanistan.

Advancing Connectivity

It is widely known that Pakistan had been building a four-lane highway that would have linked Afghanistan to India through Pakistan. One estimate showed that about 70 per cent of the highway had already been completed,³⁸ which needs re-examination. On the contrary, since 2002, India, Iran, and Afghanistan had formalised cooperation on development of Iranian port, Chahbahara to serve as transit point for goods traffic to and from Afghanistan.³⁹ Simultaneously, India, over the last few years, had also been demanding transit facilities to reach Afghanistan and Central Asia through Pakistan. However, recently Pakistan and Afghanistan have signed a 'historic' transit agreement allowing Afghan lorries to use a land route⁴⁰ through Pakistan to carry goods to India, and giving Afghanistan an access to Pakistani ports to boost its trade with other countries.⁴¹

The initiatives indicate that Afghanistan is now at the centre of trans-national transport connectivity. However, political supremacy over people's benefit and mistrust between India and Pakistan along with Afghanistan's political instability necessitate advancing arrangements for formal regional physical connectivity among the countries concerned.⁴² Therefore, Afghanistan's accession to SAARC may offer a new multilateral dimension to India's quest for an overland transit

³⁵ Available at <http://www.cassindia.com/fullarticle.asp?recno=167>, accessed on 20 July 2010.

³⁶ *Ibid.*

³⁷ *Ibid.*

³⁸ *Ibid.*

³⁹ *Ibid.*

⁴⁰ A sensitive Pakistani land route through the Wagah border crossing.

⁴¹ "Pak-Afghanistan transit agreement signed Pakistan allows Afghan lorries to use its land to go to India", *The Daily Star*, Dhaka, 20 July 2010.

⁴² Ishtiaque Selim and Mohammad Jasim Uddin, *op. cit.*

facility through Pakistan for trade and investment with Afghanistan and Central Asia. Similarly, the accession may potentially improve Afghanistan's connectivity not only within South Asian region but also between South Asia and Central Asia.

It is important to note here that from trade to energy hub, Afghanistan has already emerged to be a central focus of many nations. As its strategic location straddles between energy-rich republics of Central Asia and South Asia, sharing borders with Iran, Pakistan, China, Tajikistan, Turkmenistan, and Uzbekistan. With such an opportunity to exploit its geo-physical positioning, Afghanistan is now focused on integrating itself with trans-border transport networks⁴³, whereas SAARC has called for an extension of SRMTS⁴⁴ to include Afghanistan as well, and has proposed outlining Dhaka-Kabul corridor to enhance transport connectivity in South Asian region.⁴⁵ Therefore, it is expected that SAARC with its existing initiatives would help improving Afghanistan's physical connectivity in the region and beyond.⁴⁶

Food Security

The daily life of Afghan people was affected by Pakistan's policy of banning its wheat export in 2008.⁴⁷ In a couple of weeks, the embargo doubled prices of bread and flour in Afghanistan.⁴⁸ In effect, wheat price in the country at times becomes so high that many Afghans cannot afford to buy flour to make breads. Therefore, sufferings of the Afghan people in terms of food price hike make serious concern in the country. In this context, SAARC Food Bank (SFB), with its efforts towards developing numerous food security related projects, could help Afghanistan in meeting challenge of unforeseen food crisis.⁴⁹ The SFB could also supplement Afghanistan's national efforts to provide food security to the people of the country. Furthermore, it could likely build confidence in the mind of Afghan people that SAARC at least has the capacity to fulfil food requirement in a crisis period.

⁴³ Available at <http://www.mfa.gov.af/regional-cooperation.asp>, accessed on 9 July 2010.

⁴⁴ It is identified with road, rail and air links to South Asian region that would be extended to Afghanistan.

⁴⁵ Razia Sultana, *op. cit.*, p. 153.

⁴⁶ Sudeshna Sarkar, *op. cit.*

⁴⁷ Pakistan, a net wheat exporter, had to buy wheat at a cost of US\$ 800 million from international markets to meet its domestic demand. As a result, Pakistan's spending on food imports had grown by 25 per cent in 2008. To manage food crisis and keep food inflation under control, government of Pakistan had imposed ban on export of rice and wheat. See, Ishtiaque Selim and Mohammad Jasim Uddin, *op. cit.*

⁴⁸ *Ibid.*

⁴⁹ "SAARC Now Deliberates More on Action", *The Daily Star*, Dhaka, 27 May 2010.

About 12 per cent of Afghanistan's surface area is suitable for agricultural production, of which only 5 per cent is currently being farmed.⁵⁰ Conversely, exports of traditional agricultural products are currently rising once more.⁵¹ Therefore, Afghanistan has prospect in agriculture and processing of agricultural product. In this respect, SAARC's efforts on increased sharing of best practices, technologies and techniques in agriculture, and on establishing a framework for transferring of plant genetic material and seeds might lead to increase in food production in Afghanistan. Besides, agreement that South Asian agriculture must benefit from collaborative efforts from within and among SAARC countries by undertaking specific agro-based initiatives and projects may facilitate Afghanistan's agricultural production to ensure food availability.

Reducing Poverty

Economic development is intrinsically interwoven with reducing poverty. Poverty, one of the most profound curse on the people of Afghanistan, could be well faced by various ongoing SAARC initiatives, and strong commitments from some SAARC observers.⁵² As a member state, Afghanistan shall be a part of SAARC Development Fund (SDF) a project of US\$100 million for poverty alleviation. SDF will cover mainly three windows such as social, economic, and infrastructure. Poverty alleviation issue would come under social window. Therefore, proposal to activate or operationalisation of SDF and a possible 'soft wing' might possibly be an important and visionary step for poverty alleviation in Afghanistan. Another important point is that there is an option of sharing best practices and ideas in SAARC initiatives on reducing poverty. Therefore, implementing and replicating microfinance project of Bangladesh would immensely help alleviating poverty in Afghanistan.⁵³ Moreover, Japan's strong desire to assist Afghanistan's rebuilding may possibly help the country to come out from chronic poverty, whereas China's motivation to discuss cooperative mechanism and carry out a comparative study on poverty reduction model might give a strong impetus to alleviate poverty in Afghanistan.⁵⁴

Potential in Energy Sector

Energy resources are crucial drivers of economic development. Afghanistan has reserves of copper, iron ore, gas, oil, and coal. At present, the country has 1.8

⁵⁰ Sudeshna Sarkar, *op. cit.*

⁵¹ *Ibid.*

⁵² Available at http://www.afghanistantimes.af/index.php?option=com_content&view=article&id=3711:saarc-can-play-vital-role-in-future-development-of-afghanistan&Itemid=69, accessed on 22 July 2010.

⁵³ Razia Sultana, *op. cit.*

⁵⁴ *Ibid.*

Trillion Cubic Feet (TCF) of proven reserve of natural gas as of 2011⁵⁵, 95 million barrels of oil and 400 million tonnes (mt) of coal, which could be mined or extracted to increase its energy trade and investment under the arrangement of SAARC.⁵⁶ Afghanistan can work as energy corridors through trans-border transport networks.⁵⁷ The country can also be an important partner in South Asian energy market to secure its energy potential and fuel economic development.⁵⁸ In this respect, Afghanistan's proposal to open corridors through Turkmenistan-Afghanistan-Pakistan-India is a good sign for the country.⁵⁹ However, a study on gas pipeline was prepared but it was not implemented because of unwillingness to involve Afghanistan in the project. As Afghanistan is now a member of SAARC, India and Pakistan can consider the venture with a concerted effort. The effort would facilitate Afghanistan's expected hope in developing a regional oil and gas pipeline to open its largely untapped market for business and investing on energy.⁶⁰

6. Concluding Remarks

This paper reveals that SAARC's role can be prospective for Afghanistan not to repeat its politico-economic isolation, to alleviate poverty, and promote economic development. To achieve maximum benefits from SAARC, Afghanistan should reset policy mechanisms to enable efficiency-seeking restructuring in various domains such as minerals, communications and agri-business, whereas a special thrust must be given to areas such as power, construction, energy, and urban management from the perspective of trade and investment. To foster trade and investment, infrastructural development, customs clearance, and other facilitation measures including multi-modal transport operations must be reinforced, whereas SAARC should constitute adequate regional transit arrangements for developing road and communication links.

To get reasonable compensation and full benefit of SAFTA, Afghanistan should develop its fiscal and tariff structure as well as improve trade negotiation skills significantly in which other SAARC members extend their helping hand. At the same time, Afghanistan, Pakistan, and India should emphasise on deriving mutual trade benefits under SAFTA process of phased trade liberalisation programmes and agreed lists of commodities to be traded on which market access negotiations could be focused. For this, present sensitive lists of India for the LDCs under SAFTA should be maintained.

⁵⁵ Energy Information Administration of the US government.

⁵⁶ *Ibid.*

⁵⁷ Connecting South Asia by land with Central Asia.

⁵⁸ Available at <http://www.mfa.gov.af/regional-cooperation.asp>, accessed on 9 July 2010.

⁵⁹ *The Daily Star*, Dhaka, 4 April 2007.

⁶⁰ Available at <http://www.embassyofafghanistan.org/04.04newssaarc.html>, accessed on 14 July 2010.

Before the potentials to be harnessed, two things are important. One is building trust between India and Pakistan on one hand, and Pakistan and Afghanistan on the other. And the second important thing is security situation of Afghanistan that must be stabilised, whereas the legal framework needs to be improved and infrastructure restored or built, which would help attract major players, both members and observers of SAARC, in economic development in Afghanistan.

Shebonti Ray Dadwal

CAN REGIONAL ENERGY COOPERATION IN SOUTH ASIA BE ENHANCED?

Abstract

The pace of economic development of South Asian countries, albeit unevenly distributed has been impressive in the recent times. The future growth prospects however, would to a large extent be determined by access to adequate and affordable supplies of energy resources. Despite the tremendous scope and potential for energy cooperation, there is very little energy trade taking place within the region due to a number of technical, financial and political factors. As a result, much of this energy potential remains untapped and/or underdeveloped. This has an impact on the quality of lives of the peoples of the region, besides contributing to environmental degradation and pollution. Consequently, the region, which is home to a third of the world's population, is coming under increasing international pressure for aggravating global warming and climate change. This paper looks at why, despite the many regional initiatives/projects that have been undertaken, few have succeeded in improving the energy situation. The paper will also attempt to identify the problems and impediments to regional energy trade and look at various options to overcome them.

1. Introduction

With the recent volatility in prices of fossil fuels, combined with factors such as increasing concentration of oil and gas resources in fewer countries and regions, depletion of surplus capacity in (conventional) oil, bottlenecks in refining, imposition of sanctions on some producing States as well as barriers imposed by some of these States on access to their energy sectors, have contributed to concerns about the security of energy supplies, and indeed the issue of energy security per se.

For the developing, industrialising countries, which have witnessed significant economic growth over the past few years, the need for ensuring their energy security to sustain their growth levels has made the issue a matter of

Shebonti Ray Dadwal is Research Fellow at the Institute for Defence Studies and Analyses (IDSA) in India. Her e-mail address is srdadwal@gmail.com

© Bangladesh Institute of International and Strategic Studies (BIISS), 2011.

national security. Till recently, most countries had been adopting a more or less ad hoc policy towards energy, which was premised on purchasing their energy as and when required. However, with the transition in the global energy sector and the unprecedented rise in prices of almost all energy commodities, the need to secure energy supplies, particularly for the consuming countries, has assumed a sense of urgency.

For the countries of South Asian region, the pace of development, though unevenly distributed amongst the countries, has been impressive. However, they realise that their future growth prospects would, to a large extent, be determined by access to adequate and affordable supplies of energy resources, given that the demand for energy is growing at a rate of 6 per cent per annum, and is set to double over the next two decades. Many of the countries can no longer meet their energy requirements from domestic resources and have to import increasingly large quantities of energy.

Ironically, the region has tremendous scope and potential for energy cooperation. For instance, Nepal and Bhutan have excess capacity for hydropower generation while Bangladesh and Myanmar have large natural gas reserves. On the other hand, India and Pakistan are large and growing energy markets, if not the only one for many of their neighbouring countries and even from a global perspective. Yet there is very little energy resources that are traded within the region due to reasons that are mentioned subsequently. Hence, much of this energy potential remains untapped and/or underdeveloped. As a result, more than half of the population of the region has little or no access to modern forms of energy and the people continue to be dependent on traditional fuels such as firewood, agri-waste and animal waste. This not only affects the quality of their lives, but also contributes to environmental degradation and pollution. Consequently, the region, which is home to a third of the world's population, is coming under increasing international pressure for aggravating global warming and climate change.

Moreover, this current unprecedented rise in oil and other energy prices are impacting negatively on the economies of these countries. In fact, according to a United Nations Development Programme (UNDP) report, titled 'Overcoming Vulnerability to Rising Oil Prices' released in October 2007, the rise in oil (energy) prices will affect countries that have "low economic strength, low economic performance and high oil dependency", and names Afghanistan, Bangladesh, the Maldives, Nepal, Pakistan and Sri Lanka as the worst off states in the region.⁶¹ Though India has not been named as one of the most vulnerable states, the Indian Planning Commission's Deputy Chairman, Montek Singh

⁶¹ Oil prices hit hard on Asia's poor, United Nations Development Programme, 25 October 2007, available at <http://content.undp.org/go/newsroom/2007/october/soaring-oil-prices-asia-20071025.en>, accessed on 30 November 2011

Ahluwalia, said that the prevailing high level of global energy prices was posing a serious constraint on the Indian economy and hoped that there would not be any further sharp rises.⁶²

Given that the region is deficient in hydrocarbons, the dependence of most of the South Asian countries on imported oil and gas will remain, and is, in fact, expected to increase over time. However, some of this import dependence can be reduced if the countries develop a cooperative framework with regard to energy trade within the region. Over the years, the need for cooperation in the energy sector has been gaining ground, based on the rationale that while individually, none of the countries produced enough energy to meet the growing demand and were becoming increasingly dependent on imports, often at high costs, the situation could be improved if an integrated approach to energy security could be adopted. A cooperative, collective action would help maximise economies of scale, reduce costs and assure guaranteed energy supplies, as well as encourage the adoption of new, renewable energy technologies for sustainable development in the region. This was the rationale behind the initiative of South Asian Association for Regional Cooperation (SAARC) when it set up a task-force to facilitate an integrated energy system. In 2005, at the 13th SAARC summit in Dhaka, the decision was taken to set up an Energy Centre in Islamabad, which would collectively address regional and global energy issues to identify areas of cooperation in the energy sectors within the region and to enhance more efficient use of the same. The Asian Development Bank (ADB) was tasked with preparing a regional energy technical study (SRETS) on the scope for cooperation with the objective of creating an enabling environment for optimising supply-demand for energy as well as to identify mutually beneficial investment options.

However, despite several initiatives, the energy scenario in the region remains poor, with countries like Pakistan and Bangladesh facing crisis-like situations with regard to energy availability.⁶³ Other countries in the region, including India, are also facing an energy crunch. This, in turn, has led to scepticism about whether the regional states will be able to transcend their political differences and mutual suspicions and, harness the benefit from a collective regional approach to energy cooperation.

⁶² "Energy prices, a drag on economy: Montek", *The Hindu*, 22 December 2007, available at www.hindu.com/2007/12/22/stories/2007122256561800/htm, accessed on 30 November 2011.

⁶³ Khaleeq Kiani, "Loadshedding back as power sector faces cash crunch again", *Dawn*, 18 October 2011, available at www.dawn.com/2011/10/8/loadshedding-back-as-power-sector-faces-cash-crunch-again.html, accessed on 30 November 2011 and Engr. Khondkar A Saleque, "Bangladesh's Energy Crisis: Anatomy of Failure", *Energy Bangla*, 9 May 2011, available at www.energybangla.com/index.php?mod=article&cat=SomethingtoSay&article=13515, accessed on 30 November 2011.

This paper looks at why, despite the many regional initiatives/projects that have been undertaken, few have succeeded in improving the energy situation, and will try and identify the problems and impediments to regional energy trade, and look at options to overcome these impediments. The paper has been organised in seven sections including the introductory one. Section Two delves into why regional cooperation is needed, Section Three highlights on the agenda of regional cooperation, Section Four discusses the rationale for regional cooperation, Section Five identifies the impediments to regional energy trade, and Section Six looks at options to overcome these impediments. Section Seven is the Conclusion.

2. Why Regional Cooperation

The rationale for energy trade in the region is clear. Despite a paucity of hydrocarbons in the South Asian countries, some of the countries have huge surpluses in energy resources such as hydropower. Energy exports could contribute significantly to earnings of these energy-exporting economies like Bhutan and Nepal. For example, Druk Green Power Corporation (DGPC) is the biggest contributor to the Bhutan government revenues in the form of dividends and taxes. It earned a pre-tax profit of US\$ 134.3 million (Nu 6.5 billion) in 2009 out of a total revenue of US\$ 206.5 million (Nu 10 billion), of which US\$ 204.5 million (Nu. 9.9 billion) alone accrued from exports to India.⁶⁴ Similarly, some of the countries neighbouring the subcontinent such as the Central Asian Republics, Myanmar and Iran have substantial hydrocarbon resources that exceed their domestic demand, and therefore can be exported to South Asia.

Moreover, in the event of trade in hydropower picks up, this can contribute significantly in bringing down the use of fossil fuels. This would not only assist individual countries in bringing down forex outflow for hydrocarbon imports, but would also benefit the region as a whole from a climate change perspective. By tying the regional neighbours in energy trade could increase regional peace and bring down hostilities. That, countries can gain economically from regional cooperation in the energy sector has been proved by successful regional energy cooperation initiatives. Given that, fossil fuels are expected to remain the primary source for energy supply for most countries, the rationale for cooperation lies in the fact that energy resources are not evenly distributed among countries. As economies grow and the demand for energy grows as well, the countries are faced with the consequences of environmental degradations as a result of the increased use of fossil fuel-based energy as well as the long-term challenges of availability and for some, affordability. As a result, countries are coming together to combat energy insecurities by pooling, sharing, and interconnecting resources

⁶⁴ Medha Bisht, "India-Bhutan Power Cooperation: Between Policy Overtures and Local Debates", *IDSa Issue Brief*, 7 October 2011, available at www.idsa.in/system/files/IB_IndiaBhutanPowerCooperation.pdf, accessed on 30 November 2011.

as they realised that regional energy cooperation offers the opportunity of not only economies of scale for the importing countries but preferential access to energy resources as well from exporting countries due to the creation of a large regional energy market.

The best known example of successful regional cooperation in energy is the Union for the Coordination of the Transmission of Electricity (UCTE) in Europe. Its success can be assessed by the fact that while the current UCTE covers most of the West Europe, many East European countries have recently joined the union. Some other examples of successful regional electricity grids are the South African Power Pool (SAPP), West African Power Pool, and the Central American Interconnected Electricity System.⁶⁵ The ASEAN countries too have begun the process of constructing a regional gas pipeline network, called the trans-ASEAN Gas Pipeline (TAGP) and ASEAN power grid (APG), where some 11 bilateral power inter-connection projects are being pursued, to enhance the availability and accessibility of energy in the region by 2020.⁶⁶

3. The Agenda

The South Asian governments have, albeit belatedly, recognised the need for a more regional approach to cooperation in the energy sector and a small amount of trading in energy is taking place, albeit in a bilateral mode rather than in a regional context. At the 12th SAARC summit in January 2004, held in Islamabad, the member states agreed to set up a Working Group on Energy, and the first such meeting was held in June of the same year wherein a number of areas for regional cooperation were identified. These included, among others, promotion of non-conventional and renewable sources of energy through sharing of manpower, expertise, know-how and training programmes; feasibility of establishing a Regional Fund for promoting non-conventional energy; promoting energy efficiency and conservation; and the possibility of setting up a SAARC Energy Centre to be located in Islamabad. The Centre became operational in March 2006⁶⁷ although as early as the organisation's first Session in December 1985, the SAARC member countries approved the recommendation of the then Technical Committee on Science and Technology to hold a workshop on

⁶⁵ "Potential and Prospects for Regional Energy Trade in the South Asian Region", Report by Sustainable Development Department, South Asian Region, World Bank, June 2007, available at http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1192413140459/4281804-1192413178157/4281806-1194474073434/SAR_Energy_Trade_Nov_07.pdf, accessed on 02 December 2011.

⁶⁶ "Ensuring Energy Security in ASEAN", ASEAN Secretariat, 01 February 2008, available at www.aseansec.org/Fact%20Sheet/AEC/2008-AEC-011.pdf, accessed on 02 December 2011.

⁶⁷ "Energy", SAARC Secretariat, available at www.saarc-sec.org/main.php?t=2.2, accessed on 02 December 2011.

Renewable Energy. Since then, various activities were held in the energy sector under the auspices of the Technical Committee on Science and Technology. Subsequently, cooperation in the energy sector was brought directly under the purview of the SAARC Integrated Programme of Action (SIPA) in January 2000 by establishing a new Technical Committee on Energy.⁶⁸

Since then several rounds of meetings on energy issues have taken place. At its third meeting in Colombo in January 2009, the energy ministers approved of the concept of Energy Ring that was developed by an expert group, while the latest ministerial meeting in September 2011, focused on areas of cooperation in energy amongst member countries.

The activities of the Energy Centre include a study on renewable energy projects, a study on instituting a regional energy database, holding training workshops on biofuels, energy efficiency and conservation, etc. Though various aspects of cooperation in energy are being looked at, the issue that has mainly caught the interest of all the SAARC countries is the concept of the Energy Ring. In fact, an Expert Group has been set up to facilitate the creation of the same. The leitmotif behind such a “ring” is the lack of sufficient power generation capacity in most of the member states which in turn has contributed to lower growth rates across the region. The basic concept behind this initiative is to purchase surplus energy, both renewable and non-renewable as well as electricity, from other countries in and outside the region and distribute it amongst the member states to maximise economies of scale, reduce capital and transport costs, and guarantee steady supplies of energy. Once this is successfully implemented, there is a possibility of broadening the scope of the Energy Ring to include Southeast Asia as well.

However, as of now, very little progress on this front has taken place given the vast potential, although some joint projects at a bilateral as well as sub-regional level have been initiated. For instance, India and Sri Lanka are also planning to construct a 285 km undersea power transmission line that is likely to cost around US\$ 450 million. A feasibility study for the proposed project is under way. If the project is deemed feasible, it will allow India to export an initial power capacity of around 500 MW to Sri Lanka, which will subsequently be increased to 1000 MW. The feasibility study is being done by the Power Grid Corporation of India Ltd (PGCIL). The link is likely to connect Madurai in Tamil Nadu and Anuradhapura in Sri Lanka’s North Central Province. Power Grid is also executing projects to bring electricity from Nepal and Bhutan and is looking at developing two transmission lines to Myanmar.⁶⁹ India and Nepal have also

⁶⁸ *Ibid.*

⁶⁹ “Undersea power link to Sri Lanka planned”, *Hindu*, 26 October 2008 and Sudheer Pal Singh, “India-Sri Lanka power link feasible: PGCIL”, *Business Standard*, 08 August 2008.

initiated negotiations on a cross-country pipeline project for supplying petroleum products from India to Nepal. Currently, petroleum products are transported by road, whereas a pipeline, if implemented, would reduce transportation cost by 40% besides facilitating the movement of fuels to the land-locked Himalayan country, which often faces shortages of fuel.⁷⁰

The World Bank has also identified some projects for potential regional energy cooperation. These are: increasing and broadening the existing India-Nepal transmission connections as well as the West Seti hydropower project in Nepal; a four-border project linking the power systems of Bangladesh, Bhutan, India and Nepal; power trade between Central Asian Republics and South Asia (viz. CASA 1000⁷¹) and possibly the Turkmenistan-Afghanistan-Pakistan-India Gas Pipeline (TAPI) project, although the Indian participation in the Iran-Pakistan-India (IPI) gas pipeline project has been put in cold storage for the time being. On the other hand, the shelved Myanmar-Bangladesh-India gas pipeline project may be resurrected following the improvement in ties between Dhaka and New Delhi recently.⁷²

However, none of these projects have been able to exploit the full potential of a truly regional cooperative model. Moreover, each of the South Asian countries are under immense social and political pressure to secure reliable, sustainable, and reasonably priced energy supplies to meet increasing demand for commercial energy, and there is a growing realisation of the need to address energy security from a regional perspective, as this facilitates a more comprehensive, cost-effective, and sustainable set of solutions to the challenges of energy security. According to a study by some eminent energy experts from the region, regional cooperation will enhance the energy security of the region as a whole, without compromising the energy security of individual countries.⁷³

⁷⁰ “India reviews progress on oil project with Nepal”, *India Today*, 07 December 2011, available at <http://indiatoday.intoday.in/story/india-reviews-progress-on-oil-project-with-nepal/1/163173.html>, accessed on 05 December 2011.

⁷¹ The governments of Afghanistan, Kyrgyzstan, Pakistan and Tajikistan signed a Memorandum of Understanding in November 2007 in Kabul and agreed on the scope of the transmission project. The project envisages the transmission of 1300 MW of electricity from Kyrgyzstan and Tajikistan to Afghanistan (300 MW) and Pakistan (1000 MW).

⁷² Nizam Ahmed, “Tri-nation gas pipeline project set to be revived”, *The Financial Express*, 19 November 2011, available at www.thefinancialexpress-bd.com/more.php?news_id=156489&date=2011-11-19, accessed on 30 November 2011

⁷³ T.L. Sankar, Hilal A. Raza, Abul Barkat, Priyantha Wijayatunga, Mahesh Acharya, D.N. Raina, “Regional Energy Security for South Asia”, SARI/Energy Program, available at www.sari-energy.org/ProjectReports/RegionalEnergySecurity_RegionalReport_Complete.pdf, accessed on 05 December 2011.

4. Rationale for Cooperation Through Regional Energy Trade

The basic rationale for energy cooperation in the region is that while all the countries of the region suffer from inadequate supplies/production in some energy resources, a few have supplies that are far in excess of their demand, current as well as potential.⁷⁴ However, they do not have the wherewithal, be it financial or technical to exploit the same, as well as markets. For instance, Nepal and Bhutan, as well as India, have huge hydropower potential. However, the former two are unable to exploit this potential because of the lack of investment and markets. Having comparatively low incomes and small market sizes, they are unable to benefit from economies of scale accruing from major infrastructure investments.⁷⁵ On the other hand, the larger economies, like India, Pakistan and Sri Lanka, have to rely increasingly on imports from outside the region to meet their energy requirements. In this situation, they realised that if they could cooperate, including trade in energy resources, it would be beneficial for all. Hence, regional cooperation would be a win-win situation for all.

If examples of other energy cooperation models are looked at, there is much to gain from cooperation and trade in energy and power resources. Apart from the revenues that can be earned from sale of fuels/electricity, interconnections facilitate substitution in seasonal shortfalls from one source, whether in fuels or power, as well as reduce development and operating costs, and increase the reliability of supplies.

Nonetheless, almost all the countries of the region suffer from power outages and underdeveloped power and energy infrastructures. Even those countries that have surplus energy derived from hydropower suffer from seasonal shortages. None of them have been able to supply electricity to all the households with a large number of villages yet to be electrified through power grid interconnections. Yet all the countries have plans to provide electricity to all their citizens, many of whom will be unable to pay for the service. To address this problem, either electricity costs must be drastically reduced or substantial funds must be provided by the governments to subsidise poor households. Under power

⁷⁴ India has oil resource potential of 5,576 mtoe, Pakistan has 3,600 mtoe and Bangladesh 0.96 mtoe. Pakistan, Bangladesh, India and Afghanistan have gas resources ranging from 120 bcm in Afghanistan to 38 tcf in India (1.08 tcm) and 7,985 bcm in Pakistan. On the coal front, the resource potential for India is 245,690 m.t., Pakistan 185,000 m.t., and Bangladesh 2,715 m.t. Other countries do not have viable coal resources. Hydropower potential represents one of the largest energy resources in the region. India's potential is 301,000 MW, Bhutan, 50,000 MW, Nepal 42,915 MW, Pakistan 40,000 MW, Sri Lanka 2,000 MW, and Bangladesh 775 MW, totaling 437,000MW, of which only 9 per cent has been exploited.

⁷⁵ Mahendra Lama, "Energy Cooperation in South Asia", Paper presented in SAFMA Conference on Regional Cooperation in South Asia, available at [www.southasianmedia.net/conference/Regional_Cooperation/energy .htm](http://www.southasianmedia.net/conference/Regional_Cooperation/energy.htm), accessed on 03 December 2011

sector reforms, most governments aim to transfer the responsibility for power sector ownership/management to the private sector. If the foregoing issues are to be resolved, policies and plans formulated at the respective national levels would need to be coordinated at the regional level through cooperative initiatives to reduce the cost of power generation and supply to the poor. At the same time, given that even power-surplus states experience seasonal shortages, a common power grid using multiple energy resources from several sources could ensure uninterrupted power supply.

For most South Asian states, India provides the largest and most practical market for export of energy, that is, gas and hydropower, for countries like Nepal, Bhutan and Bangladesh, as they all share a common border with India. At the same time, due to its geographical location, India is the only country that can facilitate power trading among the smaller countries in the eastern side. By so doing, India could also benefit from wheeling charges for the use of its transmission system between these countries.⁷⁶

Even in terms of simple intra-regional trade in energy, it would immensely benefit the countries. India has increased its refinery capacity to the extent that it has become a net exporter of petroleum products. It is ironical that while the UAE and Singapore are importers of Indian petroleum products, they are the biggest exporters of petroleum products to Pakistan and Bangladesh. If the South Asian neighbours import oil products from India at concessional rates, instead of buying the same at higher rates from third countries, it would result in huge savings for them and beneficial for India.

If the South Asian countries cooperate, the region as a whole would provide a larger and hence more attractive energy market for potential investors and energy producers. The region's neighbouring countries are endowed with huge energy reserves. Iran and other West Asian states and the Central Asian Republics to the west of the region have some of the largest reserves of oil and gas as well as hydropower potential, while Myanmar and Southeast Asian countries in the east are rich in gas. Given their geographical contiguity, these countries could supply the South Asian countries for much of their energy needs. Some amount of power trading is already taking place between Afghanistan and the Central Asian states as well as Pakistan and Iran. However, under a common energy ring, gas as well as electricity could be imported from the region's neighbouring states for the collective use of all the South Asian states.

Unlike some regions, South Asia, like Europe, has a single land mass (barring the Maldives and Sri Lanka), which allows the countries to plan and develop an integrated energy infrastructure, such as gas and oil pipelines as well as electricity grids which, if successfully developed, could reduce the cost of

⁷⁶ "Potential and Prospects for Regional Energy Trade in the South Asian Region", *op. cit.*

transporting energy as well as allow the states to enhance their energy security by allowing flexibility to meet unforeseen energy demand, particularly during peak demand periods.

Finally, given that the excess energy resources available in the region are hydro and gas, development of and trade in these resources would have environmental benefits for all the regional states. For instance, India could substitute a substantial part of its coal-based power generation by imported gas or hydro power from its neighbours, thereby reducing its carbon emissions and help the region in meeting environmental goals. At the same time, India is only country in the region which has a robust renewable energy programme, and is in fact one of the largest producers of wind and solar energy as well as a well-defined programme on bio-fuels. Given that development of renewable energy technology is a primary focus of the grouping as outlined by the Working Group on Energy, cooperation on this issue would benefit all the member states. If the world moves inexorably towards alternative energy models, India could provide its neighbours with the technological know-how.

5. Impediments to Regional Energy Trade

Despite the several benefits to energy cooperation, both at the intra-regional as well as the inter-regional, to date, these have been minimal.⁷⁷ Part of this is due to the fact that energy security is a concept that is comparatively new to the states in the region. Even after energy security did begin to impinge on the states as a national security issue, it was seen as being synonymous with national self-sufficiency. Hence, cooperation was of low priority, and was restricted to trade in fuels.

Though, it is a fact that most intra-regional energy projects would not make commercial sense without the huge Indian market, given that the energy consumption in most of the other states is not sufficient to attract foreign investors, the other states not being in consensus with India, prevented any successful regional cooperation, e.g. India-Nepal and India-Bangladesh disagreements over water-sharing issues, as well as trade and transit rights. In particular, strained relations between India and Pakistan have seen many regional project proposals being scuttled, as well as bilateral ones. Some examples include the proposal to sell surplus power from Pakistani Independent Power Producers (IPPs) to India in the late 1990s due to opposition in Pakistan to selling power at subsidised rates to India, as well as Indian concerns of becoming dependent on Pakistani power, as well as some technical problems such as synchronisation of power grids and transmission inefficiencies. Similarly, in the case of sale of Bangladeshi gas to India, the opposition parties in Dhaka were opposed to selling

⁷⁷ Only India-Bhutan and India-Nepal trade in hydropower, and Iran-Pakistan and Afghanistan-Central Asia trade in power.

off the country's only valuable natural resource to India without ensuring adequate reserves for domestic consumption.

Even in the case of multilateral energy trade, India's security concerns vis-à-vis Pakistan and its ability to cut off gas supplies to India, among others, have seen the Iran-Pakistan-India (IPI) gas pipeline project being stalled for almost two decades, while Bangladeshi opposition has seen the Myanmar-Bangladesh-India project being shelved.

With regard to inter-regional projects, security issues appear to be the biggest factor in impeding such projects. The case of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project is a case in point. The political situation in Afghanistan as well as in Baluchistan has been an obstacle for such projects with international financiers hesitant to underwrite the same. Also, the strained relation between some of the supplier states namely Iran and Myanmar, with Western countries, makes it difficult to finance such deals.

Some other factors that impede regional energy cooperation include the absence of well developed infrastructure, such as gas pipelines and power transmission networks, both at the national and inter-state levels; poor operational efficiency on the part of some of the existing power utilities (state electricity boards), with high system losses and poor revenue collections, which in turn deter trade, socially-oriented government policies, such as subsidised tariff regimes, ownership structure of energy infrastructure – most power sectors in the region are mainly state-owned, which in turn prevent competition - as well as private sector involvement in the energy sector, and lack of regulatory mechanisms.⁷⁸

However, while all these impediments are not unassailable and can be dealt with over time, it will be more difficult to overcome the political problems between the states in the region as well as changing the mindset of the political elite's of the various countries. This is most obvious in the case of the two largest economies of the region, namely India and Pakistan. In fact, the lack of success in transforming SAARC into an effective regional economic and trade grouping has been blamed on the strained relations between these two countries. Even in the case of energy cooperation, it would appear that the two nations cannot overcome their suspicions vis-à-vis one another. The IPI project is a case in point. As a result, as SAARC Secretary General, Sheel Kant Sharma said at a recent meeting, the regional states miss business opportunities worth US\$ 8 billion a year due to non-cooperation.⁷⁹

⁷⁸ "Potential and Prospects for Regional Energy Trade in the South Asian Region", *op. cit.*

⁷⁹ "SA States Miss \$8b Business Every Year", *South Asian Media Net*, 03 July 2008, available at www.southasianmedianet.net/index_story.cfm?id=513243&category=Frontend&Country=MAIN, accessed on 05 December 2011.

6. Overcoming the Impediments

One option of overcoming mutual suspicions is to approach energy cooperation through a regional or multilateral approach on the lines of SAFTA. A number of issues with regard to cooperation have been taken up by the members, such as connectivity, transport, poverty alleviation and health. Though energy per se, is not part of the SAFTA process, a case could be made to include it under the same. A similar exercise to include energy services is currently underway in the World Trade Organisation (WTO). Several countries, including Japan, have proposed that energy services should be included in these negotiations on the grounds that it is important for economic activities⁸⁰. Though no specific agreement on energy trade per se exists in the WTO, the issue of energy did feature in the Doha negotiations launched in 2001, particularly in the services sector. Members undertook limited commitments to open up their markets to foreign operators in energy services, including those in mining at oil and gas fields, distribution of gas and electricity, and pipeline transportation of fuels. With the unbundling of state-owned utilities and technological developments, the space for including private operators has increased. In fact, current negotiations on energy services encompass all energy sources, including renewable and clean technology. Some members have also proposed to include regulatory transparency, non-discriminatory third party access to networks and grids, need for independent regulator and requirements preventing anti-competitive practices.⁸¹

Currently, the SAARC member countries are in the process of negotiating an agreement in trade in services. As in the case of WTO negotiations, introducing energy as an issue would be beneficial. Since the SAARC member states have undertaken to abide by the rules, rights and obligations under the Marrakech Agreement establishing the WTO⁸², a case could be made to incorporate energy under the SAFTA trade in services. This would go a long way in alleviating the

⁸⁰ Japan has proposed that negotiations should cover the entire range of energy services, from sale to consumption, including transportation, transmission of and distribution of electricity, pipeline transportation and retail sales of energy. It however has recommended that energy production should be classified under goods production. See "Negotiation Proposal on Energy Services", The Ministry of Foreign Affairs of Japan, March 2002, available at www.mofa.go.jp/policy/economy/wto/energy0203.html, accessed on 05 December 2011.

⁸¹ Taken from Pascal Lamy's address on "Energy Trade in the WTO" to the 20th World Energy Congress in Rome, 15 November 2007, available at www.worldenergy.org/documents/kn2_151107_lamy.pdf, accessed on 05 December 2011.

⁸² See, text of South Asian Free Trade Area (SAFTA) accord, available at www.saarc-sec.org/data/agenda/economics/safta/SAFTA%20AGREEMENT.pdf, accessed on 05 December 2011.

concerns of the states in undertaking energy-related trade with its neighbours, particularly so in the case of the smaller states.⁸³

For instance, in 2007, at the World Energy Congress in Rome, WTO Director General Pascal Lamy, speaking on how the WTO could contribute to a more efficient allocation of energy resources and a better trading environment for energy, said, “Since our basic rules are applicable to all forms of trade, they also apply to trade in energy goods, including renewables, and services. These rules can be enforced through the WTO dispute settlement mechanisms” and include prohibition of restrictions in exports as also discrimination on the basis of origin or destination of products, freedom of transit, actions by state-trading enterprises and on trade-distorting subsidies.⁸⁴ He also said that the WTO General Agreement on Trade in Services (GATS) covers all services, including energy services, and can protect investments in energy services.⁸⁵

Yet another means of the South Asian states ensuring their energy security while adopting a regional or cooperative approach is by becoming members of the Energy Charter Treaty, which entered into force 10 years ago. The Treaty’s provisions focus mainly on five areas: investment, including protection of investment; trade, where all member states, whether belonging to the WTO or not can subscribe to WTO rules for trade in energy; transit, which requires members to facilitate energy transit without distinction as to its origin, destination or ownership of resources, price discrimination or delays; energy efficiency and dispute resolution.⁸⁶

According to Andre Mernier, Secretary General of the Energy Charter Secretariat, the Charter plays an important role in building a legal foundation for energy security. Being a legally binding instrument, its fundamental aim is to strengthen the rule of law on energy issues based on the sovereign core principles such as sovereign rights over energy resources, open and transparent energy markets and principles of sustainable development. One may question the applicability of the Energy Charter given its European origins and mainly Western membership. However, over time, the Treaty has achieved a truly multilateral status in the energy sector, uniting energy consuming, producing and transiting states alike, enabling them to collectively establish a common set of rules governing investments and cross-border energy flows. Its membership has expanded to include 51 member states, including the Central Asian Republics and Japan, and over 20 observers including China, South Korea, ASEAN and

⁸³ “Negotiation Proposal on Energy Services”. *op. cit.*

⁸⁴ Pascal Lamy, *op. cit.*

⁸⁵ *Ibid.*

⁸⁶ R.K. Batra, “The energy charter treaty”, *The Economic Times*, 06 June 2005, available at www.teriin.org/upfiles/pub/articles/arts8.pdf, accessed on 10 December 2011.

Iran. Recently, Afghanistan and Pakistan were invited to join the Charter.⁸⁷ India is being encouraged to join the Treaty as an observer state. At the 18th meeting of the Charter in December 2007 in Istanbul, following the approval of its accession, the Afghan Minister of Economy, Jalil Shams said, his country intends to use membership in the Energy Charter to consolidate his country's potential in providing a bridge between the energy producers of Central Asia and Iran, and the markets of South Asia, and told the international community that foreign investments were welcome in Afghanistan's energy sector.

While the Energy Charter promotes multilateral energy trade, it also minimises risks associated with investments due to the Treaty's binding provisions which operates on the principles of freedom of transit and reliability of inter-state supplies, besides removing barriers where possible. For instance, India has asked Pakistan to follow the principles of the ECT, that is, non-discriminatory, transparent and cost-reflective when negotiating the transit and transport cost of the IPI project. Pakistan's position is that the transit fee should be linked to the price of gas and should vary between 5-10 per cent of the price of gas, whereas India feels that the fee should be an absolute number and not linked to the price of gas.⁸⁸ At the same time, the Treaty does not obligate members to reform national energy markets or to even open domestic markets to foreign investments as despite the Charter favouring the idea that international flow of technology and investment are mutually beneficial, national sovereignty over energy resources is a core principle of the Treaty.⁸⁹

7. Conclusion

As seen in other cases in the EU, North American and ASEAN regions, effective regional energy cooperative projects increase the energy security of all member states by overcoming mismatches in energy resources and economies and allowing all to avail the cost-effective energy supplies – whether fuels or electricity – while mitigating some of the disadvantages such as unforeseen shortages, high marginal costs of alternative supply, and lack of sophisticated technology or financial resources by some of the members. In South Asia, despite an abundance of energy resources in some of the countries, the countries continue to be dependent on fuel imports as they are unable to exploit this

⁸⁷ Speech by Andre Mernier at the fifth Asia Gas Partnership Summit: The Asian Gas Market and Energy Security, New Delhi, 14-15 April 2008, available at www.encharter.org/fileadmin/user_upload/SG_speeches/SG_india-14-15_April_2008.pdf, accessed on 10 December 2011.

⁸⁸ Anupama Airy, "Pipe dream: India, Pak agree to disagree on transit, transport" *Financial Express*, 07 May 2008.

⁸⁹ Energy Charter, Part IV, Miscellaneous Provisions, Article 18, paras 1,2 and 3, available at www.ena.lt/pdfai.Treaty.pdf, accessed on 10 December 2011

advantage and consequently suffer from poor per capita energy consumption and lower economic growth.

No doubt several issues involving a multilateral project would have to be dealt with before it can be successfully implemented. The most difficult is the political mindset of the governments. In such a case, formal accession to the Energy Charter or even a multilateral trade agreement on the lines of SAFTA, could provide a level of comfort and confidence for the trading partners (as well as the transit ones) as it would allow them to carry out their trade relations under the framework of an internationally legal instrument with rules and regulations which supplement the national ones.

Moreover, besides allaying the concerns of the partners, adherence to international or regional agreements would also attract the participation of private players as well as international investors. Though the political and security-related issues are the most difficult to overcome, other technical and commercial impediments will also have to be dealt with before negotiating and implementing multilateral or regional energy projects. Between the signing and actual implementation of energy trade projects, a myriad of problems and risks can emerge, whose resolution would depend on the continued political commitment of the parties involved. Hence, it would be imperative for the participating countries/players to enforce commercially-oriented contracts. If large volumes of trade in power/energy are to be sustained, the projects would have to be premised on a sound commercial footing where the buyers and sellers would have to spell out volumes and patterns of supply, tariffs/pricing of resources/power and billing arrangements, dispute resolution norms and arbitration procedures. Several former attempts at transnational energy projects have failed to take off due to differences in expectations on price. The IPI project is one such example, while the earlier India-Pakistan electricity trade deal failed for the same reason. As has been seen in several cases, distorted tariff structures would eventually impact on consumption patterns and erode availability in the long run.

The contracting parties would have to ensure that, in the case of electricity trade, the grid codes are harmonised and coordinated. Moreover, independent and neutral regulatory authorities would have to be appointed to ensure transparent pricing norms, as well as efficient transmission and distribution services.

If the South Asian nations intend to sustain their growth levels and overcome their energy supply constraints, they will have to look seriously at cross-border projects to take full advantage of the abundant, but under-exploited energy resources, that are available within the region to ensure their energy security. To begin with, a “bottom-up” approach could be adopted. As several bilateral projects already exist, these could be expanded to trilateral and later to multilateral projects which would help to sustain and expand trade.

While initiating and implementing regional projects, the advice and assistance of international financial institutions (IFIs) like the World Bank and the ADB as well as some development assistance programmes of countries like the US, UK and Japan could be taken as they have, at some time or the other, been involved in the energy programmes of the region. The IFIs can facilitate the parties to reach agreements based on their specific interests. For instance, in 2004, the World Bank carried out an analysis of the power sector of Central Asian Republics, identified their export potential, reviewed the power sector in potential markets and demonstrated how the Central Asia-South Asia electricity trade could be a win-win situation for both. This has led to the Inter-Country Agreements and further action towards the realisation of the CA-SA 1000 project. The ADB too is actively promoting the TAPI project as well as power trade between Central Asia and Afghanistan. The USAID SARI Programme in South Asia has also carried out a large number of studies to identify and analyse various electricity and gas trade opportunities, and trade related issues in South Asia.

Also, many of the smaller South Asian countries do not have access to commercial sources and capital markets for investment in large power projects; their ability to borrow from IFIs are also limited due to the lending limits adopted by these institutions. Under these circumstances investment projects could be structured on a 'Public-Private partnership' basis involving a combination of foreign and/or local private sector, IFIs with equity and debt positions and the government. No doubt, some government involvement in energy projects is desirable, as they involve interaction with various aspects, such as land acquisition, right of ways, rural development issues, flood control and irrigation, etc. Moreover, governments would expect to get some revenue from the exploitation of its natural resource.

Finally, it is a reality that India, with its geographic position and the size of its economy, would play a critical role in regional energy integration in South Asia. In other words, the pace of regional integration will largely be determined by the pace of development of energy trade between India and its neighbours.

Bibhuti Bhusan Biswas
Abu Salah Md. Yousuf

INDO-RUSSIAN PARTNERSHIP: EMERGING DYNAMICS

Abstract

The collapse of the Soviet Union marked the end of the Cold War and changed the global balance of power and, the geo-political map of the world. It created a number of confusions in the relations between India and Russia. In fact, a pro-Atlantic shift in the post-Soviet Moscow's foreign policy sidelined the strategic character of its ties with India. Besides, India's position in international politics suffered a major setback by the loss of a 'time-tested' strategic partner. But, Russia intends to strengthen its traditional friendship with India, including their role in the international affairs, and to aid overcome security concerns persisting in South Asia thereby strengthening stability in the region. Therefore, New Delhi and Moscow renewed the Indo-Soviet Treaty of 1971 in 1991. In this context, the paper focuses on the nature and geo-strategic compulsions of Indo-Russian relations in the contemporary world. Furthermore, it elaborates the emerging cooperation between two countries in different levels of strategic, military, economic and scientific issues. Finally, it evaluates the new geo-political dimensions of Indo-Russian relations.

1. Introduction

Indo-Russian relations are known as 'time-tested' one in international politics. Since the independence in 1947, India continued an all-weather relation in diverse spheres with the former Soviet Union. Though India was one of the leading architects of the Non-Aligned Movement (NAM), in the context of strategic and military cooperation, India and Russia enjoyed close friendship during the Cold War period. The collapse of the Soviet Union came as a setback for Indo-Russian relations. Both were in dilemma as to how they would reframe their bilateral relations without any hindrance. Moreover, India's perceived threats from Pakistan and China made New Delhi more concern about the post-Cold War international scenario. It was also not clear what would be the role of new Russian Federation in the international politics. However, India renewed the

Bibhuti Bhusan Biswas, PhD and **Abu Salah Md. Yousuf** are Post-doctoral Research Associate at Southern Asia Studies Programme, UNESCO MISARC, Pondicherry University, India and Research Fellow, Bangladesh Institute of International and Strategic Studies (BISS), Dhaka respectively. Their e-mail addresses are: bibhuti.bhusanb@gmail.com and yousuf@biiss.org

Indo-Soviet Peace and Friendship Treaty of 1971 with Russia for a further period of twenty years in 1991. But it became evident soon when Russia was no longer in a position to continue to extend material support to India as done previously by the Soviet Union. The Soviet hardware constituted about 70 percent of India's weaponry including military hardware, nuclear science and space science.⁹⁰ But in the post-Cold War world the supply of military spare parts was seriously disrupted.⁹¹ Besides, India's position in international politics suffered a major setback by the loss of a 'time-tested' and reliable strategic partner. The support that India received from the former Soviet Union in the United Nations (UN) and other multilateral forums on issues of its vital national interest, such as the one related to Kashmir, could no longer be expected from Russia.⁹² In fact, a pro-Atlantic shift in the post-Soviet Moscow's foreign policy sidelined the strategic character of its ties with India.⁹³

The new Russia accorded higher priority to the Asia-Pacific region than South and West Asia, in which India did not find a high place in its list of priorities. The massive sales of weapons by Russia to many Asian countries, especially China, indicated the transitions in Russian priority.⁹⁴ The fact that Russian dependence on the US for its economic reconstruction brought about changes in Russia's foreign policy in general and its policy towards India in particular became evident when Russia refused to supply Cryogenic rocket technology to India in 1993 under American pressures.⁹⁵ Besides, there were indications of shifts in the Russian stance on issues such as non-proliferation,

⁹⁰See, for details, Ramesh Thakur, "The Impact of the Soviet Collapse on Military Relations with India", *Europe-Asia Studies*, Vol. 45, No. 5, 1993, pp. 840-41.

⁹¹*Ibid.*

⁹²Nalini Kant Jha, "Security Environment in South Asia in the 1990s", in Arun Kumar Banerji (ed.), *Security Issues in South Asia: Domestic and External Sources of Threat to Security*, Calcutta: Minerva Associates, 1998, pp. 186-87. See also, Shekhar Gupta, "India Redefines its Role", *Adelphi Paper*, No. 293, 1995, p. 61.

⁹³A Russian Foreign Ministry publication on the "Concept of Russian Federation's Foreign Policy" in January 1993 put Russia's priorities in this order: (1) The CIS (2) Arms control and international security (3) Economic reform (4) The United States (5) Europe (6) The Asia-Pacific region (7) West and South Asia (8) The Near East (9) Africa (10) Latin America. Thus, in the list of ten priorities, India and South Asia ranked seventh.

⁹⁴For details, Shashi Kant Jha, "India's Relations with New Russia: From Soviet Disintegration to Strategic Partnership", in Nalini Kant Jha (ed.), *South Asia in 21st Century: India, Her Neighbours and the Great Powers*, New Delhi: South Asian Publishers, 2003, pp. 207-10.

⁹⁵See, for details, Nalini Kant Jha, "Reviving US-India Friendship in a Changing International Order", *Asian Survey*, Vol. 34, No. 12, December 1994, pp. 3035-46.

human rights and the environment.⁹⁶ The disruption of the Russian economy and also of the defence industry started adversely affecting the economic and defence cooperation between the two countries. This setback reflected a short and medium term reality, which India had to acknowledge and adjust. India's own liberalization and economic reform programmes, and its policy of setting up links with Western powers after the end of the Cold War too contributed to create some distances in its relations with Russia. Besides, the opening of the Indian market after 1991 attracted multi-national companies into India. Moreover, the US offer to forge a strategic partnership with India made latter comfortable in the post-Cold War world.⁹⁷ India's sudden move towards the US induced the policy makers of the western capitalist world to be friendly with India.⁹⁸ India also changed its 'pro-socialist' slogans of the Cold War era because of her overall developments. In addition, India's historical rival Pakistan lost its importance to the US in the post 1990 period.⁹⁹ Nonetheless, in the process of emerging uni-polar system, the US emerged as superpower, which was not convenient for India. As Pakistan is a traditional ally of the US, the policies of the US in the region perceived by India always with certain motives that the US might try to help Pakistan against India's national interest.¹⁰⁰

But within a short span of time, Russia again emerged as an international player in a new world order. A desire for a multi-polar world system emerged in the international scenario as well.¹⁰¹ As it was common interest of both the countries, New Delhi and Moscow came closer. India and Russia signed the Declaration of Strategic Partnership in October 2000, during President Vladimir Putin's visit to India. The document spells out in detail the long-term nature of all aspects of Indo-Russian relations. Both sides have made it clear that the strategic partnership is not a new alliance; it can be traced back to the close linkages that

⁹⁶Nalini Kanth Jha, "India and Russia: New Realities and Equations", *Defence and Security Alert*, New Delhi, Vol. 2, No. 5, February 2011, pp. 25-28. See also, Subhash Shukla, *Foreign Policy of India*, New Delhi: Anamika Publishers, 2007, p. 66.

⁹⁷In January 1995, the US Defense Secretary William Perry visited India and launched a 'strategic dialogue' between the two countries, but several disruptive factors prevented its achievement. Former US President Bill Clinton's visit to India in March 2000 added impetus to forge a strong Indo-US strategic partnership.

⁹⁸When the USA offered India for strategic partnership, India also accepted it as an opportunity to promote its position at the regional and international levels.

⁹⁹For detail see, Peter R Blood, "Pakistan-US Relations", Congressional Research Service (CRS), 10 March 2002.

¹⁰⁰Janne E. Nolan, "India, Pakistan and American Nuclear Diplomacy", Working Group Reports, No. II, Georgetown: Institute of Study of Diplomacy, Georgetown University, 5 January 2007.

¹⁰¹Jeffrey Mankoff, *Russian Foreign Policy: The Return of Great Power Politics, USA: Rowman & Littlefield Publishers, Inc., 2009, p. 33.*

existed between the two countries for the last 50 years.¹⁰² Since 2000 to 2010, eleven summits took place between the two countries. The relations were termed as “Special and Privileged Strategic Partnership”. The old friends, India and Russia agreed to strengthen their relations in a changed international environment.

Against this backdrop, the objective of the paper is to evaluate emerging dynamics of Indo-Russian relations in the contemporary context. The paper focuses on the nature and geo-strategic compulsions of India-Russia relations. It describes the emerging cooperation between two countries at different levels of strategic, military, economic and scientific cooperation. Finally, it will evaluate the new geo-political dimensions of Indo-Russian relations.

2. Renewal of Equitable Partnership and New Dynamics

After the disintegration of Soviet Union, an economically declining Russia started an uneasy transition towards market economy.¹⁰³ The country’s fight to achieve a healthy economy and vibrant democracy drove it closer towards the US and European Union. After undergoing an eclipse lasting over a period of less than one year, when Moscow under the alternative spells of first pro-Atlantic and then pro-China policies sidelined the strategic character of its ties with New Delhi, the situation gradually began to change. Russian think tanks came up with the opinion that there was no need to preserve the special relationship with India, which existed in the Soviet era; a special relationship with India was likely to undermine Russia’s interaction with other countries in South Asia, and more particularly with Pakistan.¹⁰⁴ A shift of Moscow’s policy towards New Delhi was its belief that Moscow could no longer be a stable partner.¹⁰⁵ On the other hand, India’s new status as an emerging economic power made India more confident to compete in the international system.¹⁰⁶ As regards its relationship during the Cold War period, Russia was not getting enough importance from India.¹⁰⁷ But a new understanding brings India and Russia closer again. This new dynamics of

¹⁰²John Cherian, “A Strategic Partnership”, *Frontline*, Vol. 17, No. 21, 14 – 27 October, 2000.

¹⁰³Rajiv Sikri, “Why Russia and India Matter to Each Other”, available at <http://www.rediff.com/news/2007/jan/23guest.htm>, accessed on 12 October 2011.

¹⁰⁴R.R. Sharma, “Indo-Russian Relations in the Emerging Context”, in M. K. Rasgotra and V.D. Chopra (eds.), *India’s Relations with Russia and China: A New Phase*, New Delhi: Gyan Publishing House, 1997, p. 66.

¹⁰⁵Anuradha M. Chenoy, “India and Russia: Allies in the International Political System”, in P. Stobdan (ed.), *India-Russia Strategic Partnership: Common Perspectives*, New Delhi: Institute for Defence Studies and Analyses (IDSA), 2010, p. 134.

¹⁰⁶Umma Salma Bava, “India’s Role in the Emerging World Order”, FES Briefing Paper 4, Friedrich Ebert Foundation, March 2007.

¹⁰⁷M K Bhadrakumar, “Russia, India and China Go Their Ways”, *Asia Times*, Thailand, 5 November 2009.

relations are not based on ‘unqualified or speculative futuristic projections,’ but on ‘time-tested and empirically verified calculations.’¹⁰⁸

Firstly, in the post-Cold War world the US emerged as sole superpower and a unipolar system was dominating the global order.¹⁰⁹ India, Russia and China felt a necessity to show their presence in the emerging international order.¹¹⁰ After an impasse, Russia again expressed its ambition to be a player in the international power game.¹¹¹ On the other hand, emerging India felt a necessity to ensure the autonomy of its position in the international order. A desire to establish a multi-polar world system, brought India and Russia closer, and both the countries raised their voice for multi-polar system, where the United Nations (UN) would be the legitimate institution to solve international issues.¹¹² The idea has also emerged from many other countries including China. China in many occasions declared its commitment to establish a multi-polar world system.¹¹³ As a time-tested friends, New Delhi and Moscow thought that their common interests would be able to challenge unipolar world system and that would ensure their interests at the global level in a better way.

Secondly, India and Russia felt that in the emerging international system the continuation of their relations would enhance strategic advantage for both the countries. The military and strategic relations between them would help to curtail dependency on any other nation in terms of security, energy and influence in the international order. However, in the emerging international order the strategic calculations are getting new dimensions. Each country tries to acquire more involvement in the international order and the more links a country can open; the more benefits it can accrue. In this context, India and Russia realised that the enhancing partnership between the two countries would increase strategic advantage for both the countries in the regional as well as in the international levels.

¹⁰⁸ Anuradha M. Chenoy, *op. cit.* n. 16.

¹⁰⁹ Muzaffer Ercan Yilmaz, “The New World Order: An Outline of the Post-Cold War Era”, *Alternatives*, Vol. 7, No. 4, Winter 2008.

¹¹⁰ R N Das, “Russia-China-India Trilateral: Calibrating A Fine Balance,” *IDSIA Comment*, New Delhi: Institute of Defence and Strategic Analysis (IDSIA), 15 November 2010.

¹¹¹ Fyodor Lukyanov, “Rethinking Russia: Russian Dilemmas in a Multi-polar World”, *Journal of International Affairs*, Vol. 63, No. 2, Spring/Summer 2010.

¹¹² Anuradha M. Chenoy, *op. cit.* n. 16.

¹¹³ Surjit Mansingh, “India-China Relations in the Context of Vajpayee’s 2003 Visit”, *The Sigur Center Asia Papers*, Washington D. C.: The Elliot School of International Affairs, George Washington University, 2003.

Thirdly, Russia's position on Kashmir and the terrorism faced by India has been consistent and unconditional over time and regime change.¹¹⁴ Russia never changed its position on the issue that Kashmir is an integral part of India. Russian consistent position on Kashmir made it a reliable friend of India. It raised confidence in the policy making bodies of India to rely on Russia more than any other country. On the other hand, while the US is more concerned about terrorism in Iraq and Afghanistan, Russia and India consider Kashmir and Chechnya as their priority, due to their long history of unrest which could pose greater security threats than anything else. Hence, both the countries agreed for countering terrorism in the international arena. On the issue of terrorism, the threats perceived by Russia and India are more unique than any other country.¹¹⁵ Therefore, both countries feel the necessity to cooperate on terrorism.

Fourthly, as an emerging power, India's interests in the Central Asian Republics (CARs) and Shanghai Cooperation Organisation (SCO) are increasing continuously.¹¹⁶ Developing strong and long term relationships with CARs and SCO are important for India in the context of India's strategic and material interests of energy security and relations with China. India has already developed a long term, independent and autonomous relations with CARs. As a hub of oil and natural resources, the Central Asian countries are getting more importance in the international arena. Beyond natural resources, India has geo-strategic interests in this region, since the Central Asia share border with Afghanistan, Pakistan and the West Asia. However, for continuing Central Asian relations, Russia is the indisputable power. Increasing the US influence in this region on the name of 'colour revolutions'¹¹⁷ has been challenged by Russia. In this context, India has to continue effective relations with Russia to ensure its relations in Central Asia.

Fifthly, India is dependent on Russia for almost 70 per cent of its military hardware.¹¹⁸ Both the countries also developed their joint production of weaponry equipments. During the Cold War period, India-Russia relations were

¹¹⁴ Anuradha M. Chenoy, "India and Russia," in Atish Sinha and Madhup Mohta, (eds.), *Indian Foreign Policy: Challenges and Opportunities*, New Delhi: Foreign Service Institute, 2007, p.733.

¹¹⁵ Vijay Sakhuja, "India-Russia Strategic Partnership: Hallmark of Enduring Credibility", New Delhi: Indian Council of World Affairs, 2009.

¹¹⁶ Meena Singh Roy, "Changing Dynamics of India-Russia Relations", *The Financial Express, India*, 2 September 2002.

¹¹⁷ Colour Revolutions are democratic movements in the Central Asian countries. The revolutionists take one colour to unite people for democracy. However, most of the colour revolutionists are tilt with the USA.

¹¹⁸ Subhash Kapila, "Russia-India Strategic Partnership Continues to be Vibrant", *South Asian Analysis Group*, Paper No. 2868, 3 October 2008, available at <http://www.southasiaanalysis.org/%5Cpapers29%5Cpaper2868.html>, accessed on 5 November 2010.

mostly dominated by supplier-client relations. Similarly, after the Cold War, India's import from Russia helped sustain the economies of the Russian military industrial complex and 800 Russian defence industries kept working on Indian (and Chinese) orders.¹¹⁹ However, India is still one of the world's most lucrative arms markets, where Russian share is \$4.8 billion.¹²⁰ The US is keen to replace Russia as India's defence supplier. India and Russia, both are aware of the issue and New Delhi wants checks and balances for continuing its relations with Russia. Russia is also not willing to leave the Indian arms market. A mutual dependency between India and Russia in the defence areas are determinant of their relations.

Sixthly, India is an energy deficit country. Energy security has been defined by India's political leadership as being able to "supply lifeline energy to all our citizens as well as meet their effective demand for safe and convenient energy . . . at affordable cost."¹²¹ The 2006 Integrated Energy Policy report of India estimated that to sustain a growth of 8 percent till 2031–32, India's total primary energy requirement would increase to about 1,536 million tonnes of oil equivalent (mtoe) in the most energy efficient scenario.¹²² For ensuring India's energy security, the relation with Russia is therefore, essential.

Seventhly, the strengthening Indo-US relations did not change Indian elites' perceptions about India-Russia relations.¹²³ The US is going to be one of the most important friends to the Indian elites and emerging middle class. But the historical friendship with Russia is still influencing the mainstream perception in India that Russia is the reliable partner for India. On the other hand, Russian elites believe that India is the most reliable ally for Russia in Asia.¹²⁴

In the post-Cold War world, India was baffled about its place in the international politics. But the liberalisation of its economy and then its emergence as an economic power in the international arena reshaped India's foreign policy priorities. The emergence of new compulsions and the experiences of past goodwill relations opened up a new age of relationship between India and Russia. Both the countries share common perception of multi-polar world system. Therefore, the desire of economic and strategic opportunity created a mutual understanding between the two countries for forging a strong relationship.

¹¹⁹ *Anuradha M. Chenoy, "India and Russia: Allies in the International Political System," South Asian Survey, Vol. 15, No. 1, January/June 2008, p. 55.*

¹²⁰ *Anuradha M. Chenoy, op. cit. n. 25, p. 739.*

¹²¹ *Integrated Energy Policy: Report of the Expert Committee, Planning Commission, Government of India, August 2006, p. 57.*

¹²² *Ibid.*

¹²³ *K. P. Singh, "Indo-Russian Relations: From Friendship to Strategic Partnership", in V. D. Chopra, Significance of Indo-Russian Relations in the 21st Century, New Delhi: Kalpaz Publications, 2008, p. 31.*

¹²⁴ *Ibid.*

3. Strategic and Military Cooperation

The signing of the Strategic Agreement of 2001 lessened the stalemate of Indo-Russian relations that commenced after the Cold War. The agreement deepened strategic and military cooperation between the countries. India always wants Russia's support on Kashmir as its integral part—a support that New Delhi received from Moscow persistently. Russia's continuous support on Kashmir helps India to prevent any international debate on the issue. The resurgent and separatist movements in the territory of both the countries are perceived more-or-less same by the political elites of two countries.¹²⁵ In Indian case, the issues of Kashmir and North Eastern region's insuregency, and in the Russian case the resurgent groups of Chechnya are considered same in nature by New Delhi and Moscow.¹²⁶ However, the other global powers, like the US and China, have different perspectives on these issues. In addition, Russia and India had bitter experiences on terrorism and currently several separatist groups are disrupting smooth functioning of governments with constant support from their neighbouring countries. New Delhi and Moscow have agreed to help each other to curb terrorist groups in their countries.¹²⁷ Besides, both the countries are trying to draw world attention towards terrorism and safety of nuclear weapons.

In the post-Cold War world, where the US desires to prove as a responsible superpower and wants to lead global system without any challenge, India and Russia with the cooperation of China want to make the international order more legitimate and multi-polar.¹²⁸ These countries want to strengthen UN mechanisms for solving the international issues. India and Russia established "Joint Working Group on Global Challenges", where they have agreed to work together on the global issues.¹²⁹ The establishment of the "Eminent Persons Group" in 2000, with the objectives of 'rendering assistance' and 'preparing recommendations' indicate the essential cooperation between New Delhi and Moscow on the global issues. Hence, both the countries are forging strategic networks in favour of them. India is trying to achieve strategic presence in the Central Asia. India's rivals China and Pakistan already developed good strategic relations in the region. Nevertheless, India is trying to ensure and strengthen its position in the

¹²⁵B. Raman, "Counter Terrorism: India-China-Russia Co-operation", *South Asian Analysis Groups*, Paper No. 830, 11 November 2003, available at <http://www.southasiaanalysis.org/%5Cpapers%5Cpaper830.html>, accessed on 24 October 2011.

¹²⁶*Ibid.*

¹²⁷Ashok Tuteja, "Joint Fight: India, Russia Call for Stamping Out Terror", *The Tribune*, India, 9 May 2011.

¹²⁸Amresh Chandra, "Strategic Triangle among Russia, China and India: Challenges and Prospects", *Journal of Peace Studies*, Vol. 40, No. 2& 3, April-September 2010, pp. 40-60.

¹²⁹The first meeting of the India-Russia Joint Working Group on Global Challenges was held in New Delhi on 13-14 October 2003.

region for her economic as well as meeting energy needs.¹³⁰ In this context, the idea of Russia, China and India triangle are getting more relevance.¹³¹ Without affecting its relations with the US, India is eager to be part of the triangle.¹³² The prosperity because of the cooperation within BRIC countries (Brazil, Russia, India and China) is also influencing and promoting Indo-Russian relations.¹³³ In addition to that the post-Taliban Afghanistan is also a concern for India and Russia. Both the countries set up a “Joint Working Group” (JWG) on Afghanistan.¹³⁴ The two countries are cooperating to ensure their presence in Afghanistan for its development and peaceful settlement of its peoples. As New Delhi and Moscow are having similar concern towards Afghanistan, hence, they are not feeling any threat from each other on Afghan issues.

The military and defence cooperation has traditionally accorded the most prominent status in the Indo-Soviet relations. The first deal of India-Soviet military cooperation was signed in 1962, when India purchased helicopters, transport aircrafts and MIG-21 jet fighters from Russia. In mid-1990s, 70 percent of the Indian Army, 80 percent of the Indian Air Force and 85 percent of the Indian Navy was equipped by the Russian arms.¹³⁵ The cooperation in the military issues was continued after the collapse of the Soviet Union. By the signing of the Treaty of Friendship, Cooperation and Mutual Assistance between the nations in 1993, long term cooperation was achieved till 2000. In 1998, an integrated long term programme on military cooperation was adopted with validity till 2010. In 2000, both the countries reached an agreement on the creation of an Inter-governmental Commission on Military Technical Cooperation. The Inter-governmental Agreements have been signed between the two countries on the purchase and production in India of cutting-edge Russian tanks, armoured vehicles and fighter aircraft under Russian licenses. The final accord on the transfer of *Admiral Gorshkov* to India was signed in January 2004. The value of the deal was US\$ 1.5 billion.¹³⁶ It had stipulated to allocate US\$ 974 million for the modernisation and refurbishment of *Admiral Gorshkov* aircrafts

¹³⁰Fazal-ur-Rahman, “Pakistan’s Evolving Relations with China, Russia, and Central Asia,” in **Eager Eyes Fixed on Eurasia**, Vol. 1, in Iwashita Akihiro (ed.), *Russia and Its Neighbours in Crisis*, Hokkaido: Slavic Research Centre, Hokkaido University, 2007, p. 211-29, and Shah Ram Akbarzudeh, “India and Pakistan: Geostrategic Rivalry in Central Asia,” *Contemporary South Asia*, Vol. 3. No. 2, 2003.

¹³¹Amresh, *op. cit.*, n. 39.

¹³²*Ibid.*

¹³³Ambassador Ranendra Sen, “The Evaluation of India’s Bilateral Relations with India,” Policy Paper No. 2, India: ASPEN Institute, February 2011.

¹³⁴The Working Group was established in October 2000.

¹³⁵Russian Defense Minister Sergey Ivanov’s interview, *RIA-Novosti*, New Delhi, 30 November 2004.

¹³⁶Brian Kenneth Hedrich, *India’s Strategic Defence Transformation: Expanding Global Relationship*, USA: Army War College, 2009, p. 17.

carrier, US\$ 530 million for the delivery of 16 MIG-29K multi-role carrier based fighters, and Ka-31 and K-27 maritime reconnaissance helicopters. In October 2007, an Inter-governmental Agreement was signed in Moscow on joint development of an advanced multi-functional fighter aircraft of the fifth generation. The project is the largest collaboration ever between India and Russia on the military technical issues. The data provided by the Russia's Federal Service on Military-Technical Cooperation (FSMTC), the Military Technical Cooperation with India till 2010 comprises around 200 projects. Its total value is estimated at approximately US\$ 18 billion.¹³⁷ During the New Delhi visit of Russian President Medvedev in December 2010, both the countries agreed for joint development of a fifth generation fighter aircraft, the Sukhoi T-50.¹³⁸ The total cost of this project alone, which includes production of 200-250 jets, stands at over US\$ 30 billion.¹³⁹ It has implications that extend beyond the immediate deliverables for the armed forces. Indian Air Force will eventually acquire a technologically advanced aircraft as good as any being developed in the US or Europe. Besides, by signing such deals, New Delhi has enhanced its market's competitiveness at the international level.¹⁴⁰

India's space research programme has always been linked to Russia. India became the seventh member of the international space club in 1980. New Delhi always is very keen to enhance its position in the air space research. Russia-India space cooperation is mainly related with space navigation, lunar exploration and man-controlled space flight programmes. In 2008, during the visit of Vladimir Putin, an unparallel Agreement on Long-Term Cooperation in Joint Development and use of Russian Global Navigation Satellite System (GLONASS) was entered into. India approached Russia for a space flight for its astronaut as part of India's preparation for launching its own manned space vessel. Russia agreed on the issue and it is planned that an Indian astronaut will go to a space mission onboard a Russian space vessel tentatively in 2013. It will be followed by an Indian manned spaceflight in 2015. Apart from that Russia agreed to support India in her air space programme to develop its own space vessels.¹⁴¹

4. Economic and Trade Cooperation

Indo-Russian economic and trade cooperation is considered important by both the countries for enhancing their economic benefit and trade expansion. India was the largest trading partner of the former Soviet Union among the developing countries. During the Cold War, share of the former Soviet Union in

¹³⁷ Anuradha M. Chenoy, *op. cit.* n. 30, p. 50.

¹³⁸ Nalini Kant Jha, *op. cit.* n. 7.

¹³⁹ *Ibid.*

¹⁴⁰ "A Very Special Partnership", Editorial, *The Hindu*, Chennai, 23 December 2010; and "Old Ties Renewed," Editorial, *Times of India*, Chennai, 23 December 2010.

¹⁴¹ Kanwal Sibal, "Between the Old Friends," *Times of India*, India, 17 December, 2009.

India's foreign trade was US\$ 5.5 billion, which suffered a setback after the collapse of Soviet Union.¹⁴² At present, the Indo-Russian trade touched US\$ 8.5 billion in 2010, thrice as much the figure for 2005.¹⁴³ Both countries made a target of bilateral trade worth US\$ 20 billion by 2015.¹⁴⁴ However, one of the weak features of India-Russia trade has been the narrow base of the trade basket. Compositions of the Indian exports to Russia are dominated by tea, coffee, rice, tobacco, textiles and pharmaceutical products that constitute almost 80 percent. Similarly, in the case of Russian exports to India are limited in metals, newsprints, chemicals and fertilizers. The countries are optimistic to extend their areas of bilateral trade and cooperation. Two countries have agreed to cooperate in a number of areas and identified potential areas for trade enhancement.

During the visit of Russian president Vladimir Putin in 2000, Moscow and New Delhi signed a Memorandum of Understanding (MoU) for bolstering in the area of gold trade. Experts expressed opinion that India can import a huge amount of coal from the Russian Siberia and Far East.¹⁴⁵ India invited Russian companies for her huge highway construction and Russian construction companies are successfully taking part in highway constructions.¹⁴⁶ Here, it is worthwhile to say that Russian participation in India's multi-lane highway constructions is significant. India is also eager to take help from Russia for laying its gas and oil pipelines. The involvement of Russia in these sectors can be a major factor of trade growth. The cooperation in the Information Technology (IT) is considered another area where both the countries are willing to cooperate. India is the world's leading country in IT with a 40 percent annual growth.¹⁴⁷ Indian software export is compared with the Russian gas export to the Europe. President Putin visited India's IT hub in Bangalore in 2004. After that New Delhi and Moscow started cooperation in this sector also as well.

For opening a sound legal foundation to promote trade and economy, India and Russia signed mutual investment protection and avoidance of double taxation

¹⁴² Vidya Nadkarni, *Strategic Partnerships in Asia: Balancing without Alliances*, New York: Routledge, 2011, p. 98.

¹⁴³ *The Financial Express*, New Delhi, 19 October 2011.

¹⁴⁴ *Ibid.*

¹⁴⁵ Robert E Ebel, "The Geopolitics of Russian Energy: Looking Back, Looking Forward", USA: Center for Strategic and International Studies, July 2009.

¹⁴⁶ Report of the India-Russia Joint Study Group, 2007, available at [http://commerce.nic.in/publications/Report India Russia Joint Study Group 10 9 2007.pdf?id=15](http://commerce.nic.in/publications/Report%20India%20Russia%20Joint%20Study%20Group%2010%209%202007.pdf?id=15), accessed on 24 October 2011.

¹⁴⁷ Sanjay R Singh, "Information Technology in India: Present Status and Future Prospects for Economic Development", Kanpur: Indian Institute of Information Technology, May 2006, available at <http://www.iitk.ac.in/directions/may2006/PRINT~SANJAY.pdf>, accessed on 23 October 2011.

agreement.¹⁴⁸ Hence, both are trying to limit the obstacles in this respect. The opening of banking facilities, facilitating shipping arrangements, ensuring insurance coverage and solving the visa problems are under consideration of both countries.¹⁴⁹ India and Russia have now set an ambitious goal of doubling the two-way turnover to US\$ 20 billion by 2015.¹⁵⁰

The energy cooperation is one more significant area of Indo-Russian cooperation. India is an energy deficit country and Russia has surplus energy. Russia can contribute in ensuring India's energy security in the coming days. India has invested US\$ 2.8 billion in the Sakhalin Energy Project of Russia.¹⁵¹ Russian gas giant Gazprom has entered into a strategic cooperation agreement with Gas Authority of India Ltd (GAIL) and has also signed an MoU with Oil and Natural Gas Corporation (ONGC) Videsh Ltd. for projects to supply gas and hydrocarbons.¹⁵² Gazprom and GAIL also signed MoU for joint cooperation in each other's country as well as in any third country. Russia is the traditional partner for India in the electricity production. In this respect, Russian participation in the mini—hydro projects is significant. India is also eager to take help from Russia in the Coal and Metallurgy industry modernisation.¹⁵³

The nuclear energy cooperation is also significant. The Kudankulam nuclear plant with two reactors is under construction in Tamil Nadu of India with the Russian assistance. During President Medvedv's first ever visit to India in 2008; they signed an agreement for the construction of four more reactors with Russian technical assistance. Russia is likely to be involved in building several more nuclear plants in the east-coast of India. Experts talk about construction of about 20 nuclear reactors in India with Russian help.

The visits of the US President Barack Obama and Chinese Premier Wen Jiabao to India in 2010 may have yielded a bigger and more immediate harvest for the economic development of India. But the 30 agreements signed by Indian Prime Minister Manmohan Singh and President Dmitry Medvedev during the latter's visit to New Delhi in December, 2010, will, if fully implemented, pave the way for full-spectrum progress across a range of key sectors from nuclear energy and hydrocarbons to R&D, pharmaceuticals, and information technology. It will provide new quality of cooperation between India and Russia.

5. Scientific and Technological Cooperation

¹⁴⁸The agreement was signed on 21 August 1998.

¹⁴⁹“Report of the Working Group on Foreign Investment,” Department of Economic Affairs, Ministry of Finance, India, 30 July 2010.

¹⁵⁰*The Financial Express*, New Delhi, *op. cit.* n. 52.

¹⁵¹Arun Mohanty, “Energy: Russia Eyes Asia-Pacific, India Markets,” *Russia & India Report*, 7 October 2011.

¹⁵²The MoU was signed in 2004.

¹⁵³Nalini Kanth Jha and Subash Shukla, *op. cit.* n. 7.

The cooperation in the areas of science and technology are diversified and multifaceted between India and Russia. Bilateral cooperation between the countries was initiated at the level of individual projects, such as the creation of a vaccine against poliomyelitis. Soviet researchers and experts were involved in the establishment of more than 30 R&D centres and laboratories in India, including the Indian Institute of Technology in Bombay, Indian R&D Institute of Petroleum at Dehradun and Ahmedabad. More than 100,000 Indian nationals were trained by the Soviet experts in different institutions. Through the 1980s-1990s, certain initiatives were introduced for scientific and technological cooperation between India and Russia. Within the framework of Integrated long-term Programme for Cooperation in Science and Technology (ILTP), from 1984 through 1989, India and Russia jointly developed 112 themes in 22 priority scientific areas, including solar energy use, anti-corrosion metal protection, power metallurgy, foamed metals manufacture, high pressure physics, meteorology and oceanography. At present, 70 institutions in Russia and 55 institutes and laboratories in India are being implemented.¹⁵⁴

As part of the ILTP, India and Russia agreed for scientific exchange in laser and aerospace industries, biotechnologies, immunology and computer engineering. Both the countries agreed for cooperation in the six fundamental areas in science, such as: mathematics, applied mechanics, physics and astrophysics, environmental monitoring and protection, and general chemistry. Apart from above, Russia has agreed to help India in different scientific areas.¹⁵⁵ In Medicine, Russia is helping India to set up the National Centre for Production of Vaccines against Poliomyelitis to fully meet the demands of the Indian market. Further, Russia is willing to help India to develop new generation immunomodulators and is establishing a specialised anti-tuberculosis centre where Russian lasers will be used.¹⁵⁶ The cooperation is extended among the medical personnel in the studying and applying *Ayurveda* method and joint research in immunology, epidemiology, biophysics, oncology, endocrinology and cardiology. For producing new materials with unprecedented characteristics, India established a powder metallurgy centre in Hyderabad by the design and technology recommendations supplied by Russia.¹⁵⁷ India is also opening a radio-chemical research centre in Mumbai by the help of Siberian Division of Russian Academy of Sciences. Indian-Russian biotechnologies centre was commissioned in Allahabad, Uttar Pradesh. The centre is trying to generate high-yield transgenic plants resistant to adverse conditions to be used for food production

¹⁵⁴See Department of Science and Technology, Ministry of Science & Technology, Government of India web site http://dst.gov.in/whats_new/press_releases05/india-russia.htm, accessed on 15 February 2011.

¹⁵⁵Tatina Shaumyan, "Russia-India Bilateral Cooperation", in Stobdan (ed.), *op. cit.* n. 16, p. 154.

¹⁵⁶*Ibid.*

¹⁵⁷It was established in 2009 under ILTP.

purposes. Besides, they are also in process to develop a large scale production of semi-conducting silicone for microelectronics, power electronics and solar energy applications. The joint Saras-Duet project is being undertaken for developing a light transport aircraft for passenger carriage along routes up to 2000 km. India and Russia set up a centre for geophysical instrument making in Chandigarh.¹⁵⁸ It is a globally coordinated monitoring network in India for forecasting earthquakes.

The cooperation in High Tech technology between India and Russia is also of greater importance. India is manufacturing multi-role transport aircraft, fifth generation combat aircraft, and supersonic Brahmos missile by the help of Russia. They are also coordinating in the areas of space exploration, industrial accelerators, high-temperature synthesis, earth science and semi-conducting materials. The historic and traditional relations are helping them to forge their ties in extended way.

6. New Geo-Political Dimensions

A new geo-political dimension is developing in the Indo-Russian relations. India wants a close partnership with the US to deal with the challenge of a rising China.¹⁵⁹ But Moscow believes that the new US strategy of containing China is fraught with new tensions and security risks in the Asia-Pacific region.¹⁶⁰ Russia arranged an important meeting in July 2009 with Pakistan, Uzbekistan and Tajikistan, what had come to be known as Dushanbe Four. The main objective of the meeting was ensuring energy security for Russia's neighbours and sharing of hydro-electric power. The agreement opened an opportunity for Pakistan to enter into the energy resources of Central Asia. However, the meeting has raised many questions in the international arena. Some analysts argued that Russia may be trying to take Pakistan as a partner in the region, where India is tilted with the US.¹⁶¹ But, Russian response to India proved that Russian relations with Pakistan would not replace its relations with India.

On the other hand, the increasing influence of the US in the Central Asian countries is not perceived by Russia and China in a positive manner. Russia is competing in the Central Asia with the pro-American forces. The US influence in Georgia is one of the examples in this context. However, Russia responded to the US policies in a clear manner that Russia would not tolerate US influence in the region especially those that are affecting Russian interests.¹⁶² On the other hand,

¹⁵⁸It is under ILTP.

¹⁵⁹Nalini Kanth Jha, *op. cit.* n. 7.

¹⁶⁰*Ibid.*

¹⁶¹Tayyab Siddiqui, "Pakistan-Russia Relations — A New Beginning," *The Tribune Express, USA*, 30 November 2010.

¹⁶²Ariel Cohen, "Rethinking Reset: Re-examining the Obama Administration's Russia Policy," *The Heritage Foundation*, 21 July 2011.

China is aware about the US policy of ‘containment of China’. China is also aware that India and the US may try in a same manner to contain China at the regional level as well as at the international arena. In this context, Russia wants to promote a framework of cooperation among India-Russia and China.¹⁶³ But India’s response to the issue is not clear yet. However, though India and China are important trade partners, China’s confusion about India’s relations with the US is still affecting China’s policy towards India.¹⁶⁴ Hence, it would be a challenge for India to continue its relations with all the players of international arena. But the historic India-Russia relations may be the determinant of the emerging India’s engagement in the international arena. At the geo-strategic level India may not be so close to the US that can create confusion among the elites of Russia. It seems that India is still successful to ensure its position in the international arena to pursue its national goals. Russia is convinced that Indo-US relations in any way could not affect the geo-strategic interests of Russia in the region. On the other hand, India is also not feeling any inconveniency by Russia’s new relations with Pakistan. The interests in the Central Asia made a compulsion for India to continue strong relations with Russia.

President Medvedev’s visit to India in December 2010 injected fresh contents in the Indo-Russian partnership.¹⁶⁵ On the eve of Medvedev’s visit, there were tendentious reports that Moscow was wary of India’s deepening defence cooperation with the US. Russia’s support for India’s permanent membership in the UN Security Council was said to be weakening. There were also hints that Moscow was reaching out to Islamabad to compensate for its declining status in New Delhi. The results from his visit, however, prove that India and Russia have chosen to work together. The Russian leaders are realistic enough to recognise that in order to retain their historic standing in New Delhi, they must adapt. Hence, a popular elite perception of goodwill relations will improve relations between the two countries in the coming days.

Needless to add, by endorsing India’s bid for permanent membership in the UN Security Council, inclusion in the Nuclear Suppliers’ Group and other technology control regimes, SCO, and Asia-Pacific Economic Cooperation (APEC) as well as by calling upon Pakistan to bring to justice the perpetrators of 26/11¹⁶⁶ attack on Mumbai, President Dmitry Medvedev re-confirmed time-

¹⁶³The notion of “*strategic triangle*” comprising of **Russia, China** and **India** was used by former Premier of **Russia** Mr. Primakov, when he visited **India** in 1999.

¹⁶⁴ Lisa Curtis, “US–India Relations: China Factor”, *The Heritage Foundation Backgrounder*, No. 2209, 25 November 2008.

¹⁶⁵ M. K. Bhadrakumar, “India-Russia Ties in the Neo-liberal Era”, *The Hindu*, India, 1 January 2011.

¹⁶⁶ India’s largest city Mumbai was attacked on 26 November 2008 by the terrorists with eleven coordinated shooting and bombing. The attackers allegedly received reconnaissance assistance from Pakistan. The day is referred to as 26/11.

tested friendship with India. He also put to rest the doubts that had begun to creep in involving defence ties at a time of increasing the US, European and Israeli presence in the Indian defence market, as well as Russia's increasing security cooperation with Islamabad.

7. Conclusion

Indo-Russian partnership is getting more importance for both the countries in the contemporary contexts. Traditionally, India was only recipient country from the Soviet Union. But at present an emerging India can contribute more in the economic development of Russia. On the other hand, India needs Russia for multi-dimensional purposes: for scientific and technological cooperation, for modernisation of Indian military and for ensuring sufficient flow of energy. However, after a setback, during the transition of Russia from socialism to capitalism, a new framework of cooperation has emerged between India and Russia in the last decade.

In addition, Russia has shown the political will to transform the old buyer-seller relationship into a defence industrial collaboration that emphasizes joint development of weapons. That in turn has enormously increased India's bargaining power with the US and European suppliers of advanced conventional weapons. It is thus, clear that whereas ten years ago, the twin-headed eagle of Russia's national emblem had both heads turned West, today they look West and East as originally conceived. As Andrei Volod of the Institute of World Economy and International Relations says, "India has re-emerged as a kingpin of Russia's policy in the East, along with China."¹⁶⁷

In a new system of international relations, the multi-faceted relations are not affecting Indo-Russian relations. Rather, as a time-tested one, India-Russia relations are getting more relevance. India's emerging relations with the US are not creating any challenge for Russia. In another way, India's energy interests in the Central Asia convinced India that a traditional friend Russia is more essential friend for India. Hence, the areas of cooperation are extending between the two countries. However, India's desire to be a global power made it to enhance its relations with all powers of the world in all significant areas. India considers Russia as a time-tested reliable partner in this regard.

¹⁶⁷ Vladimir Radyuhin, "Is the Glass Half Full or Half Empty?" *The Hindu*, India, 17 December, 2010.

Bushra Hamid

WORLD TRADE ORGANIZATION AND CONCERNS OF DEVELOPING COUNTRIES: AN INSTITUTIONAL NEED ASSESSMENT FOR PAKISTAN

Abstract

Development is the main subject of multilateral trade negotiations in the World Trade Organization (WTO). The current regulation of international trade is primarily concerned with liberalising markets, neglecting the development perspective, or reducing it to economic growth. Currently, international regulation reduces State intervention in the promotion of development strategies, which may have a relevant impact for developing countries like Pakistan for their capacity to implement national development strategies. The paper emphasises on the institutional need assessment for inserting the development concerns of the developing countries like Pakistan in the regulation of international trade.

“For those who recall the development experience of the late 19th century, it should be obvious that the process of globalisation will not reproduce or replicate United States everywhere just as it did not reproduce or replicate Britain everywhere a century earlier.”

Deepak Nayyar

1. Introduction

Despite being criticised universally, World Trade Organization (WTO) remains the most dominant international mechanism in terms of negotiation, adjudication, regulation, implementation and enforcement. Globalisation, the focal promise of WTO, is termed by many as the system of consumerist-materialist lifestyle, inequitable accumulation of wealth, monopoly, waste of scarce resources, ecological degradation, unfair trade relations, widening gap between the rich and poor of society, and the increasing indebtedness of the poor

Bushra Hamid, PhD is Professor at Institute of Management Studies, University of Peshawar, Pakistan. Her e-mail address is: toi_2k@yahoo.com

© Bangladesh Institute of International and Strategic Studies (BISS), 2011.

countries to richer countries.¹⁶⁸ Regardless of the positive and negative impacts and effects of the organisation, Pakistan being one of the founder members and signatory to more than 90 percent agreements is obliged to comply with the standards required by WTO regulations. Pakistan needs to play its essential and effective role and should try to make most out of the pros and cons of the system, as being successfully utilised by Brazil and India.

Notwithstanding the claims made by the report of the Senate's Committee¹⁶⁹, there is an increased awareness about WTO among major stakeholders in Pakistan including government officials, trade representatives, media, NGOs and members of the civil society. Also, several groups and organisations, like Action Aid, Sustainable Development Policy Institute (SDPI), Labour Party Pakistan, Women Workers Helpline, The Sustainable Agriculture Action Group (SAAG), and others are working intensively on various issues related to globalisation. However, so far the affected people and diverse stakeholders have not been involved by the government, while preparing the social and economic development strategies to participate in crucial rounds of WTO negotiations. Therefore, various decisions made by the government are not essentially based on studies of the impact of implementation of various WTO agreements. Due to poor performance of the official delegation at Cancun, Pakistan also lost the opportunity of enhancing its image at international level. Therefore, it necessitates on part of the government to carry out a comprehensive institutional need assessment by involving people from all spheres. This will help in identifying, bench marking and inserting its specific developmental concerns in the next round of negotiations at WTO.

Given this backdrop, the objectives of this paper are to review the role of Pakistan in WTO negotiations, highlight the specific challenges faced by Pakistan in WTO and underscore the importance of institutional approach to carry out the need assessment for Pakistan. The paper has been divided into five sections including the introductory one. Section Two gives a brief background of WTO which is essential to understand the importance of the world body and its mechanisms for liberalising trade. Section Three reviews the role of Pakistan in WTO negotiations. Section Four highlights the specific challenges faced by Pakistan in WTO. Section Five underscores the importance of institutional

¹⁶⁸Antone S. Hope, "The challenges of globalization to religious education: Some experiences and reflections from Asia", *Religious Education*, Summer 2002, available at www.findarticles.com, accessed on 22 January 2007.

¹⁶⁹ Report of the Senate Special Committee Constituted by the House on 22 September 2003, available at <http://www.senate.gov.pk/reports/WTO/WTO.pdf>, accessed on 12 July 2011.

approach to carry out the need assessment for Pakistan and in Section Six concluding remarks have been made.

2. Background of WTO

WTO was founded on 01 January 1995 by the eighth round of negotiations on the General Agreement on Tariff and Trade (GATT), called the Uruguay Round. The GATT was incorporated into the WTO, and continues to be a central component of its trade rules. Beyond GATT, sector-specific agreements on trade in goods, such as the Agreement on Agriculture, are now in effect. WTO rules have been extended into new sectors by agreements such as the General Agreement on Trade in Services (GATS) and the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement. The consequence is that WTO trade rules now cover many aspects of social and economic policy, and negotiations are underway on new agreements that would extend WTO rules into even more spheres such as investment and competition policy. Governments are also using the current negotiations to look at a wide array of domestic regulations to see whether or not they are 'barriers to trade'.¹⁷⁰

WTO's basic objective is liberalisation of international trade, both goods and services, in order to reach sustainable economic growth and total prosperity of the signatory countries.¹⁷¹ Alongside with negotiations and regulations, another key feature of the WTO is its Dispute Settlement System that gives equal weight to its entire member, with special and differential treatment for its developing and least developed members. The WTO is also a partner with the World Bank and the International Monetary Fund (IMF) in pursuing a broader economic liberalisation agenda.

In theory, WTO agreements are based on two basic principles, both of which have to do with "non-discrimination"- countries should not treat some trading partners better than others, and they should not give preference to their own nationals over those of their trading partners.¹⁷² The first principle requires that all WTO members grant all other WTO members Most Favoured Nation (MFN) trading status. Under the MFN agreements, countries can not normally discriminate between their partners. It is so important that it is the first article of the GATT, which governs trade in goods. MFN is also a priority in GATS Article 2 and the Agreement on TRIPS Article 4. Although in each agreement the principle is handled differently. Together, these agreements cover all three main areas of trade handled by the WTO.¹⁷³

¹⁷⁰ "Canada's Voice in Global Governance: A Civil Society Handbook", November 2005, available at www.foecanada.org, accessed on 22 January 2007.

¹⁷¹ *Ibid.*

¹⁷² *Ibid.*

¹⁷³ Available at www.wto.org, accessed on 2 February 2007.

The second principle related to ‘non-discrimination’, referred to as “national treatment”, requires that foreign companies operating within a given country must be treated the same as local companies. Imported goods must be treated the same as locally produced goods once they have entered the country, and foreign service-providers must be treated the same as local ones. The other principles being freer trade, predictability regarding investment, more competitive and beneficial for less developed countries. All these principles of WTO aim at liberalising international trade.

People passionately disagree about the nature of the globalisation process, as they are not involved in the decision making process by their respective governments and developing countries are increasingly resentful of the burdens of adjustment placed on them that they argue are not matched by commensurate commitments from developed countries¹⁷⁴. During the WTO decade, economic conditions for the majority have deteriorated. The number and percentage of people living on less than US\$ 1 Purchasing Power Parity (PPP) a day has increased since the WTO began operating, while the number and percentage of people living on less than PPP US\$2 a day has increased at the same time. Growth rates in these regions have also slowed dramatically since the implementation of the neo-liberal policy package. In Latin America, from 1960 to 1980, per capita income grew by 82 per cent, while income per person grew only 9 per cent from 1980 to 2000. From 2000 to 2005, income per head grew 4 per cent. Similarly, in Africa, per capita income grew around 40 per cent from 1960 to 1980 and decreased more than 10 per cent from 1980 to 1998. The number of people living in poverty has also increased in South Asia, while growth rates and the rate of reduction in poverty have slowed in most parts of the world — especially when one excludes China, where huge reductions in poverty have been accomplished, but not by following WTO-approved policies.¹⁷⁵

Furthermore, according to Luis Fernando Jaramillo, former chairman of the Group of 77, the estimated gains of WTO reported by The World Bank, European Union and other agencies are highly embroidered especially for the developing economies and calculated that 70 per cent of the gains will go to the industrialised countries¹⁷⁶. He further advocated that out of the gains from trade liberalisation in the agriculture of US\$122 billion only US\$11.6 billion will go to the developing countries. Moreover, in the case of textiles, if quotas are fully

¹⁷⁴ Robert E. Baldwin, and L. Alan Winters (eds.), *Challenges to Globalization: Analyzing the Economics*, Spring 2004 Series: (NBER-C) National Bureau of Economic Research Conference Report.

¹⁷⁵ “Beyond the “Blame Game”: Why the WTO Doha Round Talks Have Collapsed – and a Path Forward,” posted on 26 July 2006, available at http://www.citizen.org/documents/WTO%20Memo_FINAL.pdf, accessed on 12 July 2011.

¹⁷⁶ Report of the Senate Special Committee Constituted by the House on 22 September 2003, *op.cit.*

eliminated, the estimated welfare gains for developing countries would range between US\$13-122 billions.

Moreover, formation of a WTO initiative for “full private stewardry of labour” for the parts of Africa is acknowledged even by the WTO representative as being similar in many ways to slavery.¹⁷⁷ One of the critics went explained it as “system of a kind of indigestible excess that cannot be absorbed and must eventually be expelled in dramatic, possibly violent, ways”.¹⁷⁸ It has been argued that globalisation is not a new phenomenon but something that has evolved through time, and that its impact is not only in economic terms but in cultural, political, ecological, and ideological terms as well.¹⁷⁹ Conversely, WTO is one of the most important international institutions today because it has enormous enforcement powers, and constantly holds the potential threat of trade sanctions over all WTO member governments in relation to many issues and areas of activity.

WTO, however, can be very effective for global growth and development as the decisions need to be based on negotiation and approval by consensus and ratification in all members’ parliaments. WTO agreements, if made in accordance with its principles, can be cost effective, give more choice to consumer, lead to growth stimulated by trade, and encourage good governance. Besides, it provides an international forum to all the member countries to voice their concerns and rich and poor countries have an equal right to challenge each other in dispute settlement procedures.

Given the gigantic mandate of WTO, Pakistan can not avoid the consequences and concerns of the global regime. The suspension of Doha negotiations in 2006 offers an opportunity to developing countries like Pakistan to do their homework and prepare for the next round of negotiations. Pakistan should take the inventory of its performance at various meetings of the WTO and critically evaluate its current status as compared to other countries of Asia and the potential role it can play to derive maximum benefit from the successively failed negotiations at WTO.

3. Role of Pakistan in WTO Negotiations

Pakistan has complied with almost all aspects of various WTO agreements.¹⁸⁰ In September 2003, the Senate of Pakistan constituted a special committee with a

¹⁷⁷ WTO News: 2006 Press Releases. Press/388, available at www.wto.org, accessed on 13 November 2006.

¹⁷⁸ Rana Dasgupta, *The Residue*, 31 October 2002, available at www.mail.sarai.net, accessed on 12 July 2011.

¹⁷⁹ Antone S. Hope, *op.cit.*

¹⁸⁰ Report of the Senate Special Committee Constituted by the House on 22 September 2003, *op.cit.*

term of reference to suggest ways and means to face the challenges of WTO. The committee in its report suggested many areas and negotiating strategies, within the framework of WTO agreements, through which Pakistan can benefit from the existing rules. Moreover, the report offered policy measures for the government to optimise benefits from trade liberalisation.

Pakistan became a member of the WTO in 1995. Currently Pakistan is also a member of WTO's G33¹⁸¹, G20¹⁸², Cairns group¹⁸³, Strategic Product Group¹⁸⁴, and Like Minded Group (LMG)¹⁸⁵. The ministerial conferences of WTO have clearly indicated the enthusiasm by the developing countries to build coalitions and groupings among themselves as a way of countering the supremacy of the rich countries during trade negotiations¹⁸⁶; however, so far Pakistan has not taken any lead to organise an alliance.

The highest decision making body of the WTO is the Ministerial Conference, which oversees issues related to negotiations of new agreements. Pakistan's Minister of Commerce represents the country on this body; and the General Council, which is second in authority and runs the organisation, implements existing agreements and finalises the decisions on most significant issues related to the functioning of the body and its agreements. The General Council also performs both as the Dispute Settlement Body (DSB) and the Trade Policy Review Body of the WTO. The Trade Negotiations Committee (TNC) of WTO is the body where the negotiations begin and Pakistan is represented by its chief negotiator.

In 1996, the WTO's First Ministerial Conference was held in Singapore. The Information Technology Agreement (ITA) was formally endorsed; Pakistan did not participate in the meeting on E-Commerce and IT, either due to deficient know-how or lack of preparation. However, Pakistan responded to ITA by establishment of E-Commerce Working Group and E-Commerce Cell at the Ministry of Science and Technology (MoST), facilitation of internet merchant accounts by the State Bank of Pakistan (SBP), legal recognition to digital signatures and electronic documents, protection of the intellectual property rights

¹⁸¹ G33 is led by Indonesia, spotlight proposals for special and differential treatment and special products.

¹⁸² G20 was formed by the efforts of Brazil, India, South Africa and China, based around an alternative proposal for agriculture.

¹⁸³ A group of 18 countries that argues for agricultural trade liberalisation.

¹⁸⁴ A group comprising of 23 developing countries, demanding special measures in support of their food security and rural livelihood.

¹⁸⁵ Group of 13 countries which is solidly against addressing core labor standards, in the WTO, insisting that the right place to deal with labor standards is within the International Labor Organization (ILO).

¹⁸⁶ Adriano Campolina Soares, "G20, G90 and G33: Challenges for Building a New Politic", available at www.globalpolicy.org, accessed on 21 January 2007.

through Electronic Transaction and Governance Ordinance and Electronic Funds Transfer (EFT) through 2000 branches in major cities.¹⁸⁷

At the Second Ministerial Conference held in Geneva 1998, Pakistan made reservations that majority of the developing countries were sidestepped by the increased trade and investment. Therefore, it would be improbable to expect that the developing countries would accept new parts of liberalisation unless a balance is restored in gains from trade liberalisation; which otherwise have been disappointingly unbalanced. Besides, Pakistan showed apprehension about the level of protection by developed countries, like the US, EU and Japan - as they have maintained protectionist policies and have given diminutive gains in agriculture to developing countries in terms of market access. Whereas the unimplemented measures to neutralise the negative effects of agriculture reforms on the least developed and net food importing developing countries have further caused resentment. Pakistan accentuated on the requirement for restoring the irregularities against the developing countries innate in the composition of agricultural reforms.¹⁸⁸ Pakistan's voice was very effective as part of many similar speeches made by the delegates from developing countries. Besides, it succeeded in aligning itself with the developing world.

At Seattle in 1999, Pakistan presented its paper on agriculture¹⁸⁹, asking for the instantaneous abolition of all kinds of export subsidies, domestic support and product specific subsidies by the developed countries. It further emphasised that the Agreement on Agriculture should either be simplified or amended so that developing countries should be given relief by excluding them from the discipline of import control and domestic support in the food product sector. Besides, Pakistan was supported by Egypt and New Zealand on its concern about the overvaluation of tariff equivalent, developed countries' use of collective domestic support schemes, discriminatory and opaque quota administration, as well as irregularities in the fulfillment of commitments toward the Net Food-Importing Developing Countries.

At Doha in 2001, Pakistan participated along with varying groups to make proposals on structural Agreement on Special and Differential Treatment, organisation of a Working Group for the Study of the Inter-relationship between Trade and Transfer of Technology Foundation of a Working Group for the Study of the Inter-Relationship between Trade and Finance, and on association of a

¹⁸⁷ Yousaf Haroon Mujahid, "E-Commerce and WTO: Digitalizing Trade Liberalization", available at www.pide.org.pk, accessed on 1 January 2007.

¹⁸⁸ Penny Fowler, "Reports From Geneva WTO Conferences: Trade and the WTO (15-17 May, 1998) and Second WTO Ministerial Conference (18-20 May 1998)", posted on 27 May 1998, available at www.ukabc.org, accessed on 21 January 2007.

¹⁸⁹ *International Center for Trade and Sustainable Development*, "Agricultural Subsidies Again Emerge as Top Priority of New WTO Round", *WT/GC/W/161*, available at <http://ictsd.org/i/news/bridges/19155/>, accessed on 30 December 2010.

Working Group for the Study of the Inter-Relationship between Trade and Debt.¹⁹⁰ Besides, it surfaced as the campaigner of the food security rights of the developing world.¹⁹¹

In Cancun in 2003, against the will of the 70 developing countries¹⁹², Pakistan's willingness to start negotiations on the Singapore issues¹⁹³ if they are linked to progress in agriculture. This can be equated as selling out the larger interest of others at one's own narrow interest. Except for some interest indicated by China and Malaysia, Pakistan's proposal was highly opposed by developing countries¹⁹⁴ and global organisations representing subsistence farmers, fisher folk and forest dwellers.¹⁹⁵ Hence, at Cancun, Pakistan exhausted an opportunity of enhancing its representation at the international level. The acts of the official delegation annoyed many who had looked forward to a progressive stance¹⁹⁶. Pakistan was used as a pawn by the developed countries and due to which Pakistan could not take a primary role among the G-21 partners¹⁹⁷.

Pakistan also made a proposal on Non-Agricultural Market Access (NAMA) which was based on the Swiss formula¹⁹⁸. As NAMA is identified as self-interested "offensive agenda". This proposal by Pakistan aroused extreme criticism by the developing countries as it was contrary to developmental strategies. NAMA is perceived as a scrupulous priority of developed countries, such as the USA and EU, which are now pushing the tempo of negotiations at the WTO, to attain a ruthless level of trade liberalisation for the benefit of the

¹⁹⁰ "Doha WTO Ministerial Conference 2001: Members' proposals and related statements", available at www.wto.org, accessed on 30 December 2006.

¹⁹¹ Abid Qaiyum Suleri, "Report Cancun-let the games begin!", available at www.himalmag.com, accessed on 31 October 2003.

¹⁹² Martin Khor, WTO "Singapore Issues: What's At Stake and Why It Matters", Briefing Paper 16, October 2003, available at www.twinside.sg/title/cancun3.doc, accessed on 30 December 2010.

¹⁹³ "New issues" or "Singapore issues" are investment, competition, transparency in government procurement and trade facilitation. Ministers had a choice between two options: (1) Launch negotiations now and complete the agreements at super speed by January 2005; or (2) Continue discussing (and "clarifying" the issues back in Geneva. These two options are in the draft Cancun Declaration. Most of the developing countries were for Option 2.

¹⁹⁴ Third World Network (TWN), "Lack of convergence continues on eve of General Council meeting", posted on 22 July 2005.

¹⁹⁵ Land Research Deal in the Action Network, "A Call to Action to Social Movements, Mass Organizations and All Civil Society Groups", available at www.landaction.org/display.php?article=351, accessed on 30 December 2010.

¹⁹⁶ 'Beyond the "Blame Game": Why the WTO Doha Round Talks Have Collapsed – and a Path Forward,' op.cit.

¹⁹⁷ Ibid.

¹⁹⁸ Swiss formula was based on two coefficients, with values of 6% for developed countries and 30% for developing countries.

world's richest countries, specifically to those multinational corporations seeking to expand into the emerging markets of the South by opening of industrial and manufacturing sectors. Developing countries believe in maintaining the policy freedom to choose their own course and speed of development and the current NAMA text hampers this policy freedom and intimidate developing countries with de-industrialisation and increased poverty.¹⁹⁹

Pakistan strongly supported the leadership role of Brazil and India in G-20 and more broadly of the low-income countries, in Hong Kong in 2005, where they refused to make any additional concessions demanded by developed countries on trade facilitation and tariff reductions on non-agricultural goods and services.²⁰⁰

Dispute settlement process of WTO is based on rules; however, the enforcement of its rulings is subject to the power of the complaining state to implement them. This obviously favours the most potent countries. Pakistan has been involved in either as a complainant (3 cases), respondent (2 cases) or as a third party (8 cases). Pakistan also served as panellist in 3 cases and co-sponsored a paper (TN/DS/W/47) based on a number of proposals on Dispute Settlement Understanding (DSU) reform submitted by LMG. After going through the hardship at DSB, Pakistan established at its permanent mission office in Geneva at WTO in October 2000, to protect Pakistan's export and other interest in international trade by intimating the changes in the system and rules to the relevant authorities in Pakistan. The Ministry of Commerce responded by immediately opening up of a WTO wing which now has a functioning cell, encircling six working groups on different WTO agreements.²⁰¹

The lessons learnt from Hong Kong are that negotiating environment to guard low-income country interests will become ever more difficult as the negotiating landscape becomes increasingly deceitful due to altering interests and shifting alliances. Similarly, Brazil and India's interests on numerous issues are now associated with those of high-income countries. Pakistan, as a conspicuously experienced and active negotiator, will have to take into account these changing dynamics. However, even as it defends its policy freedom as proficiently as possible through strategic alliances, it must stimulate internal competition policies, because in order to compete internationally is now on the sphere for all.²⁰²

¹⁹⁹ "Trade and WTO: Trade Justice - NAMA Watch", available at www.waronwant.org, accessed on 07 January 2007.

²⁰⁰ Shahrukh Rafi Khan, "Lessons from the Hong Kong WTO Ministerial." *SDPI Research and News Bulletin*. Vol. 13, No. 2 & 3 (March - June, 2006).

²⁰¹ Turab Hussain, "Victory in Principle: Pakistan's Dispute Settlement Case on Combed Cotton Yarn Exports to the United States", *Managing the Challenges of WTO participation, Case Study 34*, available at www.wto.org accessed on 05 January 2007.

²⁰² Shahrukh Rafi Khan, *op.cit.*

4. WTO Challenges Faced by Pakistan

Globalisation affected every country, its people and mainly the poor and disadvantaged. Without active participation of the affected people, the economic and social development strategies commenced by the governments are not people-centric. Pakistan being a developing country also faces challenges of globalisation, economic inequality, gigantic unemployment and the consequential poverty of the people. One of the major issues associated with WTO is that its regulations have inherent mechanism to reduce the intervention of State to device its development strategies and policies according to its specific realities. This tendency has the potential to put the sovereignty of the State in jeopardy. Pakistan faces numerous challenges to combat the WTO regime. The most fundamental amongst these is insertion of specific developmental strategies in accordance with Islam, to the negotiation process.

The relationship between Islam and trade is so secure that “one cannot be a Muslim and opposed to freedom of enterprise”²⁰³, something, it is not well appreciated in the West. The rise of Islam did not change, nor did it seek to change, the centrality of trade and commerce to the Arab way of life. Muhammad (MPUH) respected the market’s ability to set just prices and disliked price controls and limited his interventions to the prohibition of practices like fraud and *ribâ* (interest). The establishment of commercial law, the expansion of property rights for women, the prohibition of fraud, the call for the establishment of clear standards of weights and measures, and the uncompromising defense of property rights pushed the Islamic civilisation to the front of the world’s economic stage and made the Muslim world the defining force in international trade for over 800 years.²⁰⁴ Therefore, WTO regulations and Islamic principles can coexist provided implemented in letter and spirit and can improve the precarious prevailing environment towards development objective.

GATS, Agreement on Agriculture, NAMA, and the Trade Related Aspects of Intellectual Rights, all require opening all sectors of the economy of underdeveloped and developing countries. This generates the apprehension of Pakistan’s right to restrict the import of goods prohibited under Islam, including

²⁰³ “Islam enshrines private property as a sacred trust and specifies the terms for its wholesome and just enjoyment and employment. It should neither be used wastefully nor in a way that will deprive others of their justly acquired property (2:188). Inheritance rights are not only respected (4:33), but expanded to include women (4:7). Property rights of women are as sacred as those of men in other cases as well (4:24, 4:32) and the treatment of women as chattel is prohibited (4:19). Besides, Qur’an mandates the respect for property rights be extended to all human beings regardless of religious faith (3:75)”. Imad A. Ahmad, “Islam and Markets”, available at www.minaret.org, accessed on 30 December 2006.

²⁰⁴ *Ibid.*

alcohol, pork and pornography. Therefore, further talks are vital to be carried out at the relevant forum to clarify the position of the Muslim countries in this vicinity.

Secondly, observance of labour standards is not a prescribed obligation; however, Pakistan and other LDCs face substantial pressure to pursue core labour standards in connection with their trade liberalisation policies. On the contrary, the developed nations trading associates, seek pledges, upon intimidation of economic sanctions that LDCs' export products are made in accordance with accepted labour standards in order to defend their own industries and to evade scandals associated with child labour. However, these demands from the developed nations do not acknowledge the economic veracities of lesser developed nations.²⁰⁵

Thirdly, "Mode 4" is related to movement of Natural Persons in liberalisation of international trade in services under GATS which allows the supply of service by a service supplier of one constituent, through presence of natural persons of an associate in the terrain of any other constituent. Notwithstanding the fact that mode four is one of the four possible ways of trading a service under GATS; it remains one of the least negotiated issues of trade policy.

Approximation based on narrow empirical information suggest that "Mode 3", related to commercial presence reports for more than 50 per cent of world trade in services and "Mode 1", cross border trade, for about a 25 per cent, while "Mode 2", associated with consumption abroad represents less than 20 per cent. Mode 4 was found to be nearly trivial involving for just over one percent of world service trade.²⁰⁶ Although there is a basic convergence of economic interest between the developed and the developing world for liberalising Mode 4, yet the multilateral trading system has not facilitated greater workers mobility between the labour-surplus and labour-scarce countries.²⁰⁷ Pakistan's key area of interest is in the movement of its unskilled and skilled workers and highly skilled professionals through the "Mode 4" route. Moreover, problems like wage depression, insecurity of employment, discrimination, lack of access to services, and repression of democratic rights of the migrant workers of countries like Pakistan, who seek employment overseas, needs to be addressed at negotiations.

²⁰⁵ Asna Afzal, "Pakistan, the WTO, and Labor Reform", in Boston College International and Comparative Law Review, Vol. 29 No. 107 (Winter 2006), available at www.bc.edu. accessed on 30 December 2010.

²⁰⁶ Joint WTO–World Bank Symposium on Movement of Natural Persons (Mode4) Under the GATS, WTO, Geneva, 11-12 April, 2002.

²⁰⁷ Pradip Bhatnagar, "Liberalizing the Movement of Natural Persons: A Lost Decade?", *World Economy*, Vol. 27, No. 3, pp. 459-472, March 2004.

However, the rich countries on one pretext or the other are not willing to negotiate on this in the immediate future.²⁰⁸

Given the challenges of WTO, it has become quite obvious that developed countries do not follow the recipes that they stipulate to the rest of the world. There is more self-interest inherent in the mechanism than the shared one. Therefore, a more realistic approach would be to make one's views heard. There is no denying how pro-west these global bodies can turn out to be, but staying away from such organisations, or being a part of the proceedings half-heartedly, also serves no purpose. A more informed intervention by Pakistan may hasten this process of change, and this information can only come if we are aware of the happenings around us, rather than taking the easy option of remaining aloof from these happenings. It is, therefore, pertinent for Pakistan to evaluate whether it is ready to embrace the regulations of liberalisation in totality, and can reform its economy at the stake of its own industries and prevalent environment? Besides, it is also significant to appraise the stock of technical capacity of the country in order to present these issues most effectively on the global forum. Thus, Pakistan needs to protect its policy space to facilitate globalisation until it is ready to compete.

5. Institutional Need Assessment for Pakistan

Pakistan has been active in participating in the global negotiations within the domain of various groups. However, now it needs to work out the internal modalities according to its current compulsions. This will help in the process of persuasion and negotiation at the international levels. As manifest from the structure and working of WTO, it is more of an institution as defined by various economists rather than an organisation. Hence, it would be apposite to take an institutional course not only to counter the negative implications of the global body but also to make optimal use of the loopholes of such mechanisms. The indefinite suspension of the negotiations has given Pakistan an opportunity to reassess its strategies, policies, and capabilities. It allows Pakistan to make definite strides towards the final objective of a liberal competitive trading country, without compromising its Islamic identity. In the mean time, it can engage in active debate about what might and might not work in its unique socio-economic, political, and cultural environment.

As also recommended by the report of the Senate Committee, institutional development is the key factor to be taken into consideration for evolving a comprehensive strategy and policy measure to counter the challenges of the trade liberalisation regime. Pakistan at this junction needs to carry out a comprehensive Institutional Need Assessment (INA), which will enable the country to devise a

²⁰⁸ "Commerce Minister meets Director General of the WTO", *Press Release*, available at www.wto-pakistan.org, accessed on 24 January 2007.

clear and coherent policy towards WTO and optimal mechanisms to reap the benefits within the framework of the international body. Institutions have been defined as a set of formal rules and are distinct from the public organisations that emerge to administer and enforce them. Hence institutional development is a move from a less efficient to a more efficient set of rules. INA in Pakistan's context can be defined as stock taking and evaluation of the laws, rules, regulations, policies, methods, procedures, and plans devised over the period of time. This will lead to selection of optimal measures towards development and phasing out and elimination of those that are counterproductive for development.

INA to development is critical to bring about credible and sustainable change with emphasis on reducing the transaction costs. A credible assessment in all the sectors is required that come under the jurisdiction of WTO mandate by involving people from various spheres of life to identify the deficiencies in their relevant fields. Given the importance of INA, some of the areas that are vital to be looked into by the government, officials and relevant authorities to make effective and efficient use of WTO mechanisms are identified below:

- An appropriate point of departure would be to start with taking the inventory of legal infrastructure that is created so far and the one that is necessitated for the optimal discourse to development to tackle the intricacies of WTO. The process of enactment of laws in Pakistan is not democratic, specifically in terms of WTO. The law should be framed according to the larger interest of the people and having a desired outcome. On the contrary, the practice is that laws are made just to fulfill the requirements of the regulations of WTO without even initiating a debate about it. Therefore, while framing laws, the holistic rather than partial framework should be taken into account. For example, beside others, one of the principles of WTO states that regulation (and hence the laws of the respective countries) - "more beneficial for less developed countries" should be taken into consideration.
- Law enforcement mechanisms need to be strengthened. Enforcement of laws should be strict to achieve the desirable results. Otherwise, the entire exercise of framing and enacting the laws become futile, e.g. Pakistan has accepted TRIPS but has failed in implementing it. Pakistan agreed to it without taking account of the fact that it will be able to curb copy right violations given the weak infrastructure and resources. An estimate of losses due to violation of copyright law in piracy and reprinting of the books alone is US\$ 30 million. The price level of foreign books is much higher than the ability of the users in the developing countries like Pakistan; this is the main cause of book piracy benefiting the local publishers and booksellers. No action can curtail

book piracy until measures are taken to make them available at low price for the local readers.²⁰⁹

- Besides, it is interesting to note that all the public sector universities in Pakistan resort to inexpensive and reprinted books to meet their needs. Given the ineffectiveness of such laws, it would be prudent on part of the government to involve the stake holders and affected people before framing such laws and they should be debated in the parliament as well to muster effective support.
- Pakistan should also look into the mechanism of participation in the WTO meetings. The latest web information regarding the working of Pakistan's Permanent Mission to WTO Geneva disclose that Pakistan's highest representative at the WTO is the Commerce Minister, besides, minister of state for commerce and federal secretary and additional secretary of commerce also attend the ministerial meetings. Pakistan's Ambassador and permanent representative (also acts as the chairman of council for TRIPS on special session), along with the staff of its Permanent Mission to WTO, essentially performs the ongoing WTO work. They represent Pakistan in the routine affairs of the organisations, and have divided the work load and responsibilities to attend various meetings in the absence of appropriate representatives besides serving as the liaison with the WTO Secretariat for Pakistan. For negotiations of WTO rounds, Pakistan is not led by any chief negotiator along with a relevant team of specialists in particular area of trade policy under discussion. There is no formal framework of specialised representation by Pakistan at TNC and its other auxiliary bodies, mini-ministerial meetings and in more unofficial negotiations with other countries and negotiating community. Moreover, during the dispute settlement process, it was learnt that Pakistan does not have any financial provision to contest these costly and time consuming propositions. Therefore, Pakistan should look into the matter as to "who will be speaking for the country" at WTO and "who will be making the decisions for the country". Hence it is suggested that Pakistan should device a proper structure where appropriate responsibilities should be assigned to relevant and specialised people to speak for its interest in the WTO. Also, it would be appropriate that the Federal Cabinet on the recommendation of the Parliament should decide on behalf of the country. This will help in making appropriate, transparent, and well supported decisions that can lead to an efficient and coherent policy for the WTO challenges.

²⁰⁹ Khalid Mehmood and Mohammad Ilyas, "Copyright and Book Piracy in Pakistan", *IFLA Journal*, Vol. 31, No. 4, 2005. pp. 324-332.

- There is an urgent and continuous need for capacity building to develop relevant expertise through awareness, education, training, and other modes to produce effective and efficient professionals who can speak for the country internationally and also to make internal decisions for effective policy. Besides, appropriate measures like allocation of funds for DSBs and other bodies should be made, so that Pakistan's propositions can effectively be contested and its image improved.
- Finally, the government should initiate a continuous critical evaluation of the process for corrective measures through inviting debates and seminars on WTO related issues, including experts, politicians, and persons from the civil society and media. The resultants from such initiatives should be inserted into decision making process. Thus, Pakistan will have the required backing for its policies when they are initiated at the WTO forum.

6. Conclusion

Since inception, WTO has provoked much controversy globally. It has been criticised for being selective and exclusionary, non-transparent, biased, false, and highly compelling. However, its presence provides opportunity for developing countries like Pakistan to increase its trade and acquire the much needed development. When the negotiations start again, Pakistan along with the other developing countries and LDCs should stress upon the point of ensuring respectable living conditions for people - ordinary people - as the well-being of human race is the spirit of development. The pursuit for a more fair distribution of income, wealth, and power between countries will have to be a central part of any effort to move from a global economy to a global community. Regardless of what the critics of multilateralism and globalisation say, the real battle around the WTO is going to be fought from within. Be it the countries of South Asia or other developing countries, they can gain by evolving a common strategy to create a just and free trade world order, and seek due share in the world market.

Despite being a founding member of the WTO, Pakistan has not been able to play its due and effective role in international negotiations. The non-serious approach by the successive governments and deficient institutional capacity are the main obstacles in Pakistan's passive performance at international negotiations that are vital to its own development. Furthermore, Pakistan still does not have a coherent policy towards WTO, which halts its progress to lock into effective development dialogue internally and internationally. Moreover, capacity building initiatives have altogether been ignored through out the decade of negotiations, which is the core reason for its poor and ineffective growth of human resources.

Pakistan needs to develop its institutional infrastructure and carry out need assessment to identify and evaluate its current deficiencies and future needs towards development. Its policy towards WTO should be proactive instead of

reactive. It should assert and put its weight behind the arguments emphasising its developmental objectives. Meanwhile, the continuous process of institutional development and capacity building will enable the country to have effective mechanism to voice its concerns and formulate its policies accordingly. Moreover, this mechanism will further help in decision making process, which currently needs overhauling by including the excluded, e.g., stakeholders and affected groups of WTO agreements. Pakistan should come up with the proposals at the international negotiations to make adjustments to defuse the negative impacts of the delays of implementation of reforms by the rich countries. Emphasis should be put on gaining more concessions from the developed countries rather than making commitments at this stage. This will provide an even playing ground for all the players to a certain extent.