

**SMALL STATES AND REGIONALISM: A STUDY OF NEPAL IN
SOUTH ASIAN ASSOCIATION FOR REGIONAL
COOPERATION**

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PAMIR GAUTAM



**CENTRE FOR INTERNATIONAL POLITICS
ORGANIZATION AND DISARMAMENT
SCHOOL OF INTERNATIONAL STUDIES
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI- 110067
INDIA
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DECLARATION

I declare that the dissertation entitled “SMALL STATES AND REGIONALISM: A STUDY OF NEPAL IN SOUTH ASIAN ASSOCIATION FOR REGIONAL COOPERATION” submitted by me for the award of the degree of Master of Philosophy of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other university.

Pamir Gautam
Pamir Gautam

CERTIFICATE

We recommend that this dissertation be placed before the examiners for evaluation.

[Signature]
Prof. Swaran Singh 25.7.11

(Chairperson)
Centre for International Politics,
Organization & Disarmament
School of International Studies
J.N.U., New Delhi

[Signature]
Prof. C.S.R. Murthy

(Supervisor)

To my father, Kamal Gautam and my mother, Gita Gautam

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Abbreviation

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CEC	Committee on Economic Cooperation
ECSC	European Coal and Steel Community
ISACPA	Independent South Asian Commission on Poverty Alleviation
LAFTA	Latin American Free Trade Association
LDC	Least Developed Country
MFN	Most Favored Nation
OAU	Organization of African Unity
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asia Free Trade Agreement
SAGQ	South Asian Growth Quadrangle
SAPTA	South Asia Preferential Trade Agreement
SASEC	South Asia Sub-regional Economic Cooperation
SDF	SAARC Development Fund
SDG	SAARC Development Goals
SRMTS	SAARC Regional Multimodal Transport Study
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WFP	World Food Programme

WTO

World Trade Organization

ZOP

Zone of Peace

Preface

Background

Small states have not received much attention in mainstream theories of international relations especially the realist school, the argument being, as small states are weak and powerless they are not able to influence the international system. However, other views maintain that as small states constitute the majority of states in world, study of small states occupies a niche position in international relations (Neumann and Gstohl 2004). Nevertheless, small states in recent years have attracted many scholars and the studies on small states have proliferated. But despite the proliferation of study on small states, there is no agreed upon definition of small states and scholars take different variables and characteristics to define small states. However, there is a consensus among scholars that, in contrast to big states, small states try to maximize joint actions by banking on international institutions. The argument being that because of resource constraints functioning through international organizations is the most cost-effective way of participating in the contemporary international system for small states and also to promote their national interests.

The end of the Cold War presented a drastic and fundamental change in international relations. As the intense motives of attracting other states towards themselves declined, the super powers now no longer saw it necessary to appease smaller states. Moreover, the period has been marked by rapid globalisation, and many new issues have appeared on the global agenda making small states more vulnerable towards it. In this environment, regionalism emerged as a most effective strategy to cope with the changing world order and to meet the challenges facing them. It is therefore state leaders have been promoting and strengthening the regional project so as to deal with various common problems such as growing poverty, cross border terrorism, negative impact of globalization, security threats (both external and internal) and to avoid being marginalised from the world economy. Moreover, as small states cannot effectively participate in the multilateral trading system because of their resource

constraints, limited production capability, and small market size, regional arrangements is seen to be a promising strategy.

Similarly, small states of South Asia have been actively participating and strengthening SAARC. This can be attributed to the fact that for smaller states, regional integration can offer an opportunity for overcoming the small size syndrome in world politics, overcoming the small size of the national domestic market, provide an outlet to the international market and, for exploiting the enormous potential of resources of the region. Moreover, by actively participating in regional cooperation, it would generate and strengthen individual and collective self-reliance that would in turn avoid marginalization of the member states of SAARC from the world trade system, and also help them to solve common problems more efficiently. Moreover, regional arrangements also provide small states of south Asia to actively participate in the regional issues as every issues dealt will have a direct bearings on states.

It is in this background, this study taking a case study of Nepal in SAARC looks at various constraints faced by small state in international system and also to understand the factors that motivate small state to bank on regional organization and also the role played by it in the organization to realize its interests.

Literature Review

The pre-dominant theory of international politics, (neo) realism measures states in terms of power and smallness in terms of state's ability to influence outcomes. Hans J. Morgenthau in his book "*Politics among Nations: the Struggle for Power and Peace*", argues that small nations have always owed their independence either to balance of power, or to the preponderance of one protecting power (bandwagoning), or to their lack of attractiveness for imperialistic aspirations (neutrality).

On the other hand institutionalists argue on the importance and power of institutions which would help them to overcome their vulnerabilities. Robert O. Keohane (1969) in his article, "*Lilliputians' Dilemmas: Small States in International Politics*" defines small power as a state which recognizes that it cannot obtain security primarily by use of its own capabilities, and that it must rely fundamentally on the aid of other states, institutions, processes, or development to do so. In this context three attributes of international organisations namely formal equality, the potential security of

membership, and the possible capacity of the organizations to restrain big powers appeal small states. Through international organizations, the small states attempt to promote attitudes favourable to their survival.

Iver B. Neumann and Sieglinde Gstohl (2004), in their article "*Lilliputians in Gulliver's World: Small States in International Relations*", argue that international institutions perform two functions of vital importance to small states in international relations. Firstly, they make traditional power capabilities (i.e. military power) less important, because they create common rules for all despite power disparities; and second they make the use of power more visible, because of the formalization of what is agreed by institution members to be acceptable behaviour

Looking at the foreign policy behaviour of small states in international politics, Maurice A. East (1973), in his article, "*Size and Foreign Policy Behaviour: A Test of Two Models*", argues that the relative lack of resources such as lack of information, an inability to perceive situations at an early stage, and a tendency to employ high-commitment, high-risk types of behaviour available for foreign affairs, small states seek methods of interaction that are less costly and more economical. In this situation East is of the view that, small states rely more on multilateral diplomacy, international conferences, regional organizations, and multiple diplomatic representations. The hypothesis is that small states are more likely to engage in joint behaviour in foreign policy because this allows them to pool their resources to achieve greater influence.

Andrew Hurrell (1995) sees regionalism during the Cold War era to be a means of responding to external challenges and of coordinating regional positions in international institutions or negotiating forums and also secure welfare gains, to promote common values or to solve common problems, especially problems arising from increased levels of regional interdependence and also a means to reduce the scope for outside intervention. In his article "*Explaining the Resurgence of Regionalism in World Politics*" he argues that the 1980s saw the revival of regionalism in many parts of the developing world which was a response to the erosion of the Third World coalition on which so many hopes had been pinned in the 1970s. Therefore, the combination of fear of being marginalised and vulnerable, pressed developing countries in Africa, Latin America and the Middle East towards 'group solidarity' of a more limited, regional character.

Paul Sutton and Anthony Payne (1993), in their article "*Lilliput Under Threat: the Security Problems of Small Island and Enclave Developing States*" are of the view that regionalism is the most important foreign policy tool for small states. They argue that small states could overcome their intrinsic vulnerabilities including openness, islandness, dependence, and weakness, by closer co-operation among themselves, both in existing regional organisations and through the creation of new ones. Sutton and Payne also specify that within the growing anarchy of the international system in the 1990s the best defence for small states lies in enhancing the resilience of their political systems and by promoting schemes of collective military and economic security among regional states.

Maurice Schiff (2010), in his article "*Small state regional cooperation, south-south and south-north migration, and international trade,*" argues that increased regional cooperation among small states and with their larger neighbours is essential both to enhance ability to reap economies of scale and to achieve the degree of competitiveness necessary to succeed in a global economy. Thus small states looking for an opportunity of overcoming the small size of the national domestic market and to increase its engagement with a globalizing world, regionalism is seen to be a promising strategy, as by forming a regional cooperation agreement and negotiating as a block, small states would benefit from greater bargaining power and lower international negotiating cost.

Anasua Basu Ray Chaudhary (2000) in her article *Small States and Regional Cooperation in South Asia* is of the view that it was the small states of the region that took the major initiative in establishing SAARC, with a view that the multilateral platform would generate and strengthen individual and collective self-reliance that would in turn avoid marginalization of the member states of SAARC from the world trade system and develop mutual trust and understanding among the member states. She further notes that regional cooperation in South Asia have come through different distinct phases, and in all these phases it has been the smaller states who have taken the lead.

On the other hand, Amalendu Misra (2004) argues that SAARC has been largely ineffective in providing support, cooperation and assistance to the small states like Bhutan, Maldives and Nepal, despite their active participation in the regional forum

and their immense contribution towards confidence building measures between the big states of South Asia. In his article “*An Introduction to the Small and Micro states of South Asia*” he is of the view that the small states like Bhutan, Maldives and Nepal have received little attention at the international level and their proximity to immediate great powers have affected their socio-economic and political process. He notes that the immediate larger states should help to uplift the small states to equal footing in the international community by making sure that the latter receive generous packages in order to improve their socio-economic deficit.

Rationale and Scope of Study

South Asia has in recent years attracted many international relations scholars but major focus of their study has centered on either India as an emerging power or Indo-Pakistan relations or on India and China. Small states of South Asia hardly receive any attention. Even many of the regional integration theorists have concentrated on the regional integration process in Europe, some have attempted to look at the regional integration process in developing countries but SAARC has received very little attention. Similarly, many of the literatures on SAARC have been issue specific and largely concentrated on India and Pakistan. No doubt given the internal geo-political environment of South Asia, India and Pakistan can in no way be ignored and moreover, the success of SAARC is dependent on relationship between these two big countries of the region, this dissertation asserts that it is equally important to study SAARC from small state’s perspective.

This study taking the case study of Nepal in SAARC, attempts to look at the role and interest of Nepal in the establishment and promotion of SAARC, factors behind it and how it has used the SAARC forum to promulgate its various issues of its interests and also look at various impediments it faces. This study also attempts to look at how SAARC has contributed to Nepal’s role in regional politics.

Research Questions

The study raises and explores explanations for the following concerns:

1. What are the constraints experienced by small states in international system?
2. How is the global- regional dichotomy in international cooperation relevant to small countries like Nepal?

3. Why Nepal was interested in SAARC and how important has been its role in the evolution of the organization?
4. How useful has SAARC been in enabling Nepal to pursue its own developmental concerns?

Hypothesis

Given the geopolitical limitations of small countries like Nepal in contemporary globalised international system, active promotion of and participation in regional cooperative mechanism like SAARC enhance their policy options aimed at safeguarding political and economic interests while fostering a sense of regional community.

Methodology

The nature of study would be largely analytical and descriptive. This study would use qualitative method and rely on primary and secondary sources such as books, journals, research papers, articles, internet resources, official documents etc.

Chapterization

The opening chapter looks at the behaviour of small states in the international political system and what make them invest in institutional framework for cooperation as a viable foreign policy option. International organisations and regional organisation in particular are of vital importance for small states to overcome their developmental challenges as well as political weakness. As the main purpose of the dissertation is to look at small state in regionalism phenomena, the chapter will look at the practice of regionalism in international relations and various theories pertaining to regionalism.

The next chapter examines the foreign policy behaviour of Nepal vis-à-vis its neighbouring states and various strategies it has employed for its security and to preserve its independent identity. The chapter also looks at the reasons for Nepal being interested in the regional cooperation project.

Third chapter assesses the role of Nepal in the evolution of SAARC. The chapter begins with the initial stage of evolution of SAARC and proceeds to examine the contribution made by Nepal in SAARC. The chapter looks at the initiatives and interactions of Nepal in SAARC and attempts to trace the rationale behind them. The chapter also looks at Nepal's attitude on the issues proposed by other countries. The

chapter ends with looking at the domestic politics of Nepal in order to understand how various interest groups look at SAARC.

The fourth chapter focuses on various issues like economic security, social security, environmental security, trans-national crimes etc. that have received strong priority in the post-cold war era and the institutional response of SAARC towards such challenges from the perspective of Nepal.

The fifth and final chapter summarizes the study and sees the validity of hypothesis proposed. It will also make some suggestion for making SAARC a successful project.

CHAPTER I

Small States and Regionalism

This chapter is intended to look at the behaviour of small states in the international political system and what make them invest in institutional framework for cooperation as a viable foreign policy option. International organisations and regional organisation in particular are of vital importance for small states to overcome their developmental challenges as well as political weakness. As the main purpose of the dissertation is to look at small state in regionalism phenomena, the chapter will look at the practice of regionalism in international relations and various theories pertaining to regionalism.

Regionalism and Related Concepts

Region and Regionalism both are ambiguous terms (Hurrell 1995). In political economy, regionalism is being defined as preferential trade agreements among neighbouring states (Bhagwati 1992). Payne and Gamble defines regionalism as a states-led project designed to reorganize a particular regional space along defined economic and political lines (Payne and Gamble 1996: 2). In the study of regionalism scholars often tend to emphasize on relation between region, regionalism and regionalization. Joseph Nye defines international region as a limited number of states linked together by geographic relationship and by a degree of mutual interdependence and in this line defines regionalism as the formation of interstate groupings on the basis of regions (Nye 1968 quoted in Fawcett 1995: 11). However, geographical proximity and contiguity in themselves do not tell much about either the definitions of regions or the dynamics of regionalism (Hurrell 1995: 38). In this view region should not be seen as something that is given but be seen as how political actors perceive and interpret it: thus regions are socially constructed and hence politically contested which has tendency of both reconstruction and deconstruction (Hurrell 1995: 38-39, Hettne and Soderbaum 2000). But once states and non-state actors perceive of a particular region, regionalism implies a policy whereby states and non-state actors cooperate and coordinate strategy within a given region in order to pursue and promote common

goals in one or more issue areas (Fawcett 2004). Regionalism is both a policy and project (deliberate action) and ranges from promoting a sense of regional awareness or community (soft regionalism) through consolidating regional groups and networks, to pan- or sub regional groups formalized by interstate arrangements and organizations (Hard regionalism) (Fawcett 2004). On the other hand regionalization refers to ongoing (and not necessarily deliberate) concentration of activity at regional level (Hurrell 1995, Fawcett 2004) which may in turn give rise to the formation of regions, and in turn to the emergence of regional actors, networks and organisations. Regionalization may thus both precede and flow from regionalism (Fawcett 2004).

Theoretical Approach to Regional Cooperation

The focus on Regionalism in international relations theory started gathering force after the Second World War. The studies on regional integration have been primarily interested in understanding the institutional and policy dimensions of integration and the purpose of implementing regional integration projects in the international system. One early strand in the study of integration is Mitrany's functionalism what he called a 'functional approach based on sociological framework as opposed to a political-constitutional approach advocated by the federalists. Mitrany suggested that international co-operation should begin by dealing with specific transnational issues (social issues in which the interest of the peoples is plainly akin and collective and not political issues which divide), which could be dealt by providing a joint government managed by technical elites. He observed that such a process could begin as governments began to acknowledge their growing responsibility for providing welfare to their citizens, a responsibility that they could not fulfill in isolation and if the organizations are successful such 'functional' arrangements would lead to further efforts to replicate the experience in an ever-widening process. He also believed that, if they began to transfer functional responsibilities to international agencies with specific mandates to deal with issues over which there was a wide consensus regarding the need for cooperation, over time the principle of territorial and legal sovereignty would weaken. The political lines will then in time be overlaid and blurred by this web of joint relations and administrations and a world government would gradually evolve through their performance (Mitrany 1948). However, Mitrany has been criticised for separating political and technical issues and the functionalist approach was later challenged by Haas claiming that the technical realm was in fact

made technical by a prior political decision (Hettne 2008). The Neofunctionalism approach to regional integration founded by Ernst Haas was highly inspired by the development of integration project taking place in the Western Europe. Neofunctionalism restates the assumptions of functionalism, refines its analytical tools, and embeds earlier concepts into an analytical framework that proposes to study not international but regional integration (Mattli 1999). Haas defined integration as the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities towards a new and larger center, whose institutions possess or demand jurisdiction over the pre-existing national states (Haas 1970). The theory attempts to explain European integration as a result of high and rising levels of interdependence that led to an ongoing process of cooperation culminating in political integration (Hurrel 1995). For Haas, the drive of integration is the expansive logic of spillover where the process begins with low-key technical and non-controversial issues, but because of linkages the original goal can be assured only by taking further actions in related sectors, which in turn create a further condition and a need for more action, and so forth (Haas 1970). The concept of “spillovers” entails two kinds of variations. Firstly, functional spillover, which assumes that small integration steps create new problems leading to demand for further integration, and second, political spillover refers to the existence of supranational institutions that would set in motion a self-reinforcing process of institution building (Hurrell 1995). However, the events of 1960s and 1970s were a critical test for the neofunctionalists. The clipping of Commission’s wings by President de Gaulle of France and the “Eurosclerosis” of the 1970s meant that the neo-functionalist writers had to tone down their expectations (Archer 2008). The development taking place in the Western Europe clearly manifested that integration happened only as long as it coincided with the national interest. Schmitter called integration theory a failure and admitted that he and Haas had failed in providing an adequate account of the integration process, and consequently suggested an overhaul of the theory (Schmitter 1970). By the mid-1970s Haas himself had decided that regional integration theory was “obsolete” in Western Europe (Ernst Haas 1975 quoted in Archer 2008: 10). Moreover, the neofunctionalist claim of spillover where cooperation in low political issues will gradually lead to higher level of political cooperation was not concurrent with the integrative process taking place in other parts of the world.

With the stagnation of growth in the Europe the interest of looking at the regional phenomenon also seemed to decline. Moreover, in the subsequent years neorealism emerged as the dominating theory of international relations which was then challenged by the neoliberal scholars. Subsequently, the interest shifted from regional level analysis to systemic level characterized by the neorealism-neoliberalism debate. Neorealists are very pessimistic about cooperation in the international system characterized by anarchy and mistrust where security and survival become the major concern for states functioning in a self-help system. For realist states do need to maximize and check the power of other states if they want to survive and for this purpose relative gain consideration and concern about cheating are the two factors inhibiting cooperation (Mearsheimer 1991). For neo-realists since the asymmetric gains produced by cooperation are potential security risks states will tend to cooperate only in order to balance or bandwagon power endangering their security (Mearsheimer 1991, Walt 1985) and moreover, powerful states may support or create international institutions to fulfill their interests (Mearsheimer 1991). On the other hand Gilpin is of the view that cooperation between states will happen only if there is a hegemon- regional or otherwise- to appease or counter (Gilpin 1971). Thus for neorealists regionalist arrangements among countries will be predominantly security-related and the focus will be on warding off threats (internal or external), the existence of a regional 'hegemonic' state will greatly facilitate the creation of regionalist arrangements, either because the dominant power will impose cooperation or because it will bear a disproportionate part of the burden of the arrangement involved, and regionalist arrangements will be evaluated on the basis of the relative gains accruing to the different partners in the arrangement (Hout 1999). Regionalist arrangements that lead to disproportionate benefits for one or more of the partners will be opposed by states that fear that they will suffer a relative loss (Hout 1999).

Neoliberals on the other hand accept the central realist proposition about the characteristics of international system i.e. anarchy; however they are optimistic about cooperation in international system and view that cooperation can mitigate the anarchism in international system. For liberal institutionalists, interdependence creates interests in cooperation and international regimes or institutions are a necessary response of states effort to manage complex interdependence (Keohane 1998). When states realize that they can jointly benefit from cooperation, states promote the

creation of formal and informal institutions in order to facilitate the solution of common problems and to coordinate action. For liberal institutionalists, institutions can provide information, reduce transaction costs, make commitments more credible, establish focal points for coordination, and in general facilitate the operation of reciprocity (Keohane and Martin 1995). Unlike realist, liberal institutionalists are more concerned about absolute gains rather than relative gains. Institutions can alter the extent to which governments expect their present actions to affect the behavior of others on future issues because once cooperation is set up various issue linkages emerge and the state which has borne loss because of the defiant state can respond through reciprocity (Axelrod and Keohane 1985).

Moravcsik's Liberal Intergovernmentalism (LI) which incorporates both realist and liberal elements has in recent years emerged as a preeminent theory in studying the European Union. The LI is based upon three essential elements: the assumption of rational state behavior, a liberal theory of national preference formation, and an intergovernmentalist analysis of interstate negotiation (Moravcsik 1993, Moravcsik and Schimmelfennig 2009). For the LI, states are rational actors in a context of anarchy and states achieve their goals through intergovernmental negotiations and bargaining rather than through a centralized authority making and enforcing political decisions. Where the achievement of domestic governmental goals depends on the policies of its foreign counterparts then only national governments have an incentive to cooperate, thus giving rise to intergovernmental negotiations and bargaining for policy coordination. Once the member states reach an agreement they delegate authority to supranational organizations capable of acting against the subsequent preferences of governments and these institutions incorporate unintended and unwanted consequences under conditions of uncertainty. In other words states delegate authority to international institutions to ensure commitments to agreements by their fellow member states.

Unlike the realists and the liberals, constructivism is more inclined towards construction of identities and interests and take a more sociological than economic approach to systemic theory (Wendt 1994). Constructivists criticize the realist and the liberal institutionalist for taking states and interests as constant and exogenously given and argue that interests are constructed by the actors through processes of

communication and interaction. Wendt for instance argue that state by engaging in cooperative behaviour will gradually change its own beliefs about who it is, helping to internalize a new identity for itself and, moreover, by engaging in a cooperative behaviour, actors are simultaneously learning to identify with each other to see themselves as a "we" bound by certain norms (Wendt 1994). On the regional front, constructivist theories focus on regional awareness and regional identity, on the shared sense of belonging to a particular regional community. They stress the extent to which regional cohesion depends on a sustained and durable sense of community based on mutual responsiveness, trust, and high levels of what might be called 'cognitive interdependence' (Hurrell 1995).

However, most of the theories on regional integration focus on the European Union. This might be because of the success of the EU in regional integration project. But political scientist in the developing world emphasize on the developmental view. In this view regional integration is viewed as a route for collective self reliance which provides member countries a platform with which to interact with the global economy and pursue relations with other groups and countries.

The end of the Cold War marked the resurgence of regionalism what also came to be known as new regionalism and also open regionalism, found its place both in practice and theory. The New Regionalism Approach (NRA) sees international regionalism as a product of the tension between global and regional tendencies, between an inextricable global interdependence and the need to cope with particular local issues (Hettne 1999). While differentiating between the old regionalism that took during the Cold War era and the post Cold War regionalism, Hettne moves from state centric regionalism as used to be theorized earlier and is of the view that current process of regionalization that is taking place in the multipolar world system are more from below and within, and regional projects are being promoted not only by states but also by large number of non-state actors (Hettne 1999). Moreover, the current wave of regionalism is multidimensional in approach, what Hettne calls, comes as a package. It is not confined itself to the only issues of economy or security but also environment, social policy, security and democracy etc. Unlike, the earlier study of international regionalism, mainly the variants of realist and liberal school which focused solely on rational calculation of interest for cooperation seems to be challenged by the NRA which sees Regionalism as a strategy to develop regionness.

Development regionalism is the key concept of the NRT as it seeks to provide solutions to many development problems for the South.

Regionalism is imperative, particularly in the case of small states that either have to cooperate to solve common problems or become client states of the core countries (Hettne 2001). In this regard coordination of production, improvement of infrastructure and making use of complementarities at the regional level may help in overcoming the problems of small and weak states that cannot be solved at national level and, moreover, collective bargaining on the regional level could improve the economic position of the marginalized member in the world system (Hettne 2001). Regionalism can not only become a strategy to counter the disruptions caused by globalization but also to reinforce societal viability by including social security issues and an element of redistribution in the regionalist project for instance by regional compensation, development funds or specialized banks (Hettne 2001). In this sense regionalism is not only to project the interest of one state but the welfare of the whole region.

The end of the Cold War not only marked the resurgence and proliferation of regional trading arrangements, but has also given rise to a debate whether; regionalism is a stepping stone or stumbling block in the multilateral trading systems (MTS) under the GATT/WTO framework. Economists tend to see regional agreements as good if they are 'trade-creating', i.e. reinforce globalization by lowering policy impediments to trade between countries and in case if the agreement favour trade between countries inside a region at the expense of trade with countries outside the region than the trading arrangement is considered to be bad.

However, there is no clear consensus regarding the impact of regional integration on globalisation. Economists like Jagdish Bhagwati who are more vocal about multilateral trading system are of the view that regionalism diverts trade by creating preferential treatment for the members of a RTA and discriminating non-members and argue that countries might lose interest in the multilateral system when they engage actively in regional initiatives competing for spheres of influence. For this reasons, Bhagwati considers the current wave of regionalism very unfortunate (Bhagwati 1992). On the other hand, the proponents of regionalism argue that RTAs enhance rather than reduce the prospects for global trade liberalisation as trade creation

generally exceeds trade diversion. Such a stance promotes a view of regionalism as combining the benefits of regional integration without jeopardising the strengths of multilateralism (Mashayekhi, Puri and Ito 2005). Though it is true that it was during the old regionalism era where RTAs were engaged in trade diversion, new regionalism differs from the old regionalism in the sense that the new regionalism is the consequence of multilateral success, not failure, and it in turn strengthens rather than undermines the basis for a commitment to the multilateral order (Ethier 1998).

The simple stumbling block-versus-stepping stone dichotomy has been criticized as being reductionist in approach and suggests the need for taking into account the diversity of relationships between globalisation and regionalism (Hettne and Soderbaum 2008). The New Regionalism approach (NRA) sees international regionalism as a product of the tension between global and regional tendencies, between an inextricable global interdependence and the need to cope with particular local issues (Hettne 1999). In this view regionalism is seen as a phenomenon supporting the globalisation process and at the same time a means of controlling the negative externalities arising out of globalisation. Scholars arguing in this line are of the view that regionalism can be understood as reproducing the conditions of global governance at the regional level, helping to insert regional actors into the global economy, on the other hand, regionalism can also be a resistance to globalisation aimed at preserving particular national political, social and economic arrangements 'that are difficult to sustain individually under conditions of globalisation (Nesadurai 2005: 158). And moreover, it may aim to address national and transnational problems that arise out of the globalisation process without actually rejecting or resisting globalisation (Nesadurai 2005: 158).

A few authors have taken quite a critical approach in the debate between regionalism and globalisation. Samir Amin for instance argues that in order to challenge the current capitalist globalisation process, developing countries must shift their focus towards regional integration. The argument put forward is that operating in a large, more powerful unit, the voice of the South becomes more likely to be heard which would help them to become more assertive to stop the exploitation they have been exposed to for decades by the industrialised world (Amin 1999: 54-84).

Though the current regionalist projects are not intended as rivals to the globalist projects, but rather as means to help achieve it as the current regionalist projects is committed to the open regionalism, there is scope to be sceptical about the existing regionalism and the underlying motives of the leading actors. Regionalism originates in discussions and negotiations within the policy-making elites in the core countries and it is a part of the hegemonic power of free market capitalism and liberal democracy (Gamble and Payne 1996). There is a long way to go before contemporary regionalism contributes to social regulation and social control, which could be achieved by regulatory regionalism rather than neoliberal 'open regionalism' (Payne and Gamble 2003 quoted in Hettne and Soderbaum 2008).

Although the debate between regionalism and multilateralism has continued till date, it has not stopped the proliferation of regional organisations and arrangements in international practice as regionalism has been seen as an effective strategy for development but in order to benefit from the regionalism project, states must move beyond economic issues only (Thakur and Langenhove 2008).

Regionalism in World Politics

The practice of Regionalism is not of new origin and has a long history (Mansfield and Milner 1999, Mattli 1999, Fawcett 1995); however, regionalism and regional cooperation in world politics gained momentum only after the Second World War (Fawcett 1995). Regionalism has been seen as an effective instrument for interstate cooperation. The post Cold War war era saw momentous growth of regionalism in world politics. State leaders have been promoting and strengthening the regional projects since they can serve as a means of responding to external challenges and of coordinating regional positions in international institutions or negotiating forums. Moreover, they also serve to secure welfare gains, or to solve common problems such as growing poverty, cross border terrorism, negative impact of globalization, security threats (both external and internal) and marginalisation in the world economy and especially problems arising from increased levels of regional interdependence. Thus, growth of regionalism in many parts of the world both as a result of the globalisation process and the inability of nation-states to deal with negative externalities created by interdependence solely, states have been promoting regional projects as a strategy to meet their developmental challenges.

The regionalist view emphasises on territorial closeness that counts for a great deal in interstate relations, interstate cooperation, and interstate organization. Claude summarizes this regionalist argument as:

The world is too diverse and unwieldy; the distances-physical, economic, cultural, administrative, and psychological-between peoples at opposite ends of the earth are too formidable to permit development of a working sense of common involvement and joint responsibility. Within a region, on the other hand, adaptation of international solutions to real problems can be intelligently carried out, and commitments by states to each other can be confined to manageable proportions and sanctioned by clearly evident bonds of mutuality...At bottom, the regionalist position is that the regional unit is capable of more effective organizational action than the global unit (Claude 1959 quoted in Rana 1979: 494).

Scholars of regional integration/regionalism identify two waves of regionalism, one that took place during the cold war era and the other post-Cold War regionalism. This however, does not mean regional arrangements per se began after the Second World War. Regional arrangements for security and trade have been here for a very long time (Kleffens 1949, Mattli 1999, Mansfield and Milner 1999) but prior to the twentieth century regionalism seems to be exclusively European phenomenon. But it was only the post-First World War, regionalism that fits the distinction between regionalism and regionalization understood in modern sense and where regionalism was distinguished from other entities, including the universal, which meant regionalism to be an activity that is less than global (Fawcett 2004). In the inter-war period several regional arrangements and pacts like the Locarno Treaties, the Little Entente, the Balkan Pact, the Baltic Union, the Four-Power Pact of 1933 etc. emerged (Kleffens 1949) but the main purpose of these arrangements was to counter balance each other because of the political and military instability of the period. In the economic front several economic regionalism emerged because of states' inability to arrive at multilateral solutions to economic problems which resulted in highly protectionist regional arrangements mostly confined to Europe and outside Europe, the United States which forged several bilateral commercial agreements during the mid- 1930s, many of which involved Latin American countries (Mansfield and Milner 1999). Thus the very purpose of regional arrangements of the inter-war period was to militarily defend and economically protect the member states of the particular arrangement and not to enhance the common problems and welfare of member states. For this purpose the inter-war regionalism may not be considered true regionalism.

It was only after the Second World War, regionalism truly developed (Fawcett 1995, 2004). The creation and success of the European Coal and Steel Community (ECSC now the European Union), states in other parts of the globe were persuaded in the regionalist projects.

Beginning in the 1960s, the Latin American and Caribbean region was in the forefront of global South efforts to integrate regionally. The EC's common external tariff and protectionist agricultural policy was critical in triggering integration project as it had negative impact on Latin American countries which were heavily dependent on markets of industrialist countries for its primary commodity exports. In this situation, successful economic integration based on import substitution industrialization was hoped would improve not only Latin America's bargaining power and raise the price of its exports but also contribute to specialization of economy within the framework of the expanded and protected regional markets (Mattli 1999).

In other parts of the globe there was a realization that while political self determination had been achieved, the global economy was still dominated by the same northern metropolitan countries from which the Southern countries had just gained their freedom (Braveboy-Wagner 2009). Jackson in his study observes many of the states though with a process of decolonisation were granted juridical statehood, these states lacked the capacity to support themselves without outside assistance, or to contribute to the international order (Jackson 1990). In such states the population did not enjoy many of the advantages traditionally associated with independent statehood. Authorities in weak states usually are not able to provide citizens with decent human rights' protection, socio-economic welfare etc. and sovereign statehood of such states extends only on the governing elites and does not reach the citizens. The international community could not empower such states and their elites with empirical statehood and recognition in the domestic realm as it did on the international level, so state building remained a primary domestic process requiring combination of will and efforts of both governments and populations (Jackson 1990).

Many small states and newly independent states tried their effort to articulate their interests through the UN platform, but as the UN was paralysed by the Cold War, and the Western developed states (specially the United States) were more interested in promoting the Bretton Woods institutions as an instrument of their foreign policy

because of the privilege granted to them by the weighted voting system, the smaller and the weak states were clearly on a losing side. As political independence granted by the international institution was meaningless without a measure of economic independence, and in view of the resource constraints to cater to development problems solely, a significant number of developing countries embraced the complimentary concepts of regionalism and regional integration. Thus in the 1950s and 1960s, developing countries established a number of integration arrangements. Thus regionalism and regional integration became an effective strategy to expand market and reduce both economic and political dependence on the North (Braveboy-Wagner 2009). Regionalism became an essential component of the South's strategy of collective self reliance.

Some of the regional organisations that emerged in the 1960s were Latin American Free Trade Association (LAFTA), the Organization of African Unity (OAU), and the Association of Southeast Asian Nations (ASEAN) etc. LAFTA was established in 1960 as a response to protectionist common market in Europe with objectives of establishing a Latin American common market and to achieve the complementarity and integration of the economies of member states. The OAU was established in 1963, with an aim to promote solidarity of African states, defense of state sovereignty, and to promote international cooperation. The creation of ASEAN was basically triggered by a war in neighbouring Indochina. The organisation was founded in 1967 with an aim to accelerate the economic growth of the member states and to ensure the members' stability and security from any external interference and to strengthen the foundation for a prosperous and peaceful community of South-East Asian nations (Mattli 1999).

In the security field, the post Second World War era was marked by the emergence of bipolar world system where two camps emerged, one was the communist Soviet Block and the other the Western Block led by the United States. As the ideological war became intensely fierce, competition for allies started. The Western Block created NATO while the communist bloc had the Warsaw Pact. These two super powers promoted and relied on regional security arrangements as an integral element in their overall global policy of containing the other bloc and increasing their influence in the region. Several regional arrangements like Australia, New Zealand, United States Security Treaty (ANZUS), Central Treaty Organization (CENTO) or the South East

Asia Treaty Organization (SEATO) are such regional arrangements driven by the superpowers.

Thus the thrust for regionalism for developing countries in the post-World War II era were to create conducive environment for peace and development at the regional level. Moreover, as the big powers and superpowers took initiatives in their own interests rather than appreciate the problem of Third World countries, regional cooperation became an imperative for the South for collective self reliance and promote South-South cooperation. In other words, regionalism in the developing regions during the cold war era was a response of weak states trapped in the world of the strong designed to improve their region's position in the international system, either by increasing its bargaining strength or by attempting to seal off the region and reduce the scope for outside intervention (Hurrell 1995).

However, the promise of regionalism remained largely unfulfilled during the Cold War. Regionalism during the Cold War era was adversely affected by political dissension among regional partners, distributive imbalances, inter-state rivalries, protectionist trade policy and parochial nationalism (Jackson and Rosberg 1986, Hettne 1999, Acharya 1999, Braveboy-Wagner 2009). Moreover, Superpowers were seen as ignoring, bypassing, and manipulating indigenous security arrangements in the Third World geared to pacific settlement of disputes, and encouraging balance-of-power arrangements that often aggravated ideological polarizations within Third World regions (Acharya 1999).

The post Cold War era marked renewed interest and resurgence of regionalism. Fawcett and Hurrell have identified several reasons for the revival of political and academic interest in regionalism. The end of the Cold War, the impact of increasing economic integration and globalization, changing attitudes towards economic development in many parts of the developing world, and the impact of democracy and democratisation followed by the success of the European Union have been identified as major factors contributing to the renewed interest for regionalism in developing parts of the world (Fawcett and Hurrell 1995). Moreover, the post-Cold War regionalism also called the new regionalism is multidimensional in encompassing both economic and security imperatives. Regionalism today is seen to serve to secure welfare gains, or to solve common problems such as growing poverty, cross border

terrorism, negative impact of globalization, security threats (both external and internal) and marginalisation in the world economy and especially problems arising from increased levels of regional interdependence. This could have been the major lesson learnt from the Cold War regionalism that, only if regional integration processes go beyond economic integration, regional projects will have the potential to solve the problems facing the developing countries and reap the benefit from globalisation. Thus the post Cold War have witnessed the revitalization of old regional movements and the flourishing of new ones and even reluctant actors moving towards deeper cooperative arrangements and enhanced integration with neighbouring countries through either formal or informal institutional frameworks. This clearly manifests that, global south nations continue to put their faith in institutions, both because it is the practical and cost effective approach, and because institutions remain channels for yielding both tangible gains and global influence (Braveboy-Wagner 2009).

Regionalism has thus for weaker states, provided a point of entry into a Western dominated order, in which their interests are often perceived as marginalized, and also a forum where interaction and agenda-setting are possible. A lesson here for emerging states that may yet have only poorly developed institutions, or those who have traditionally relied on the politics of power, is that they cannot afford to ignore the potential of regionalism (Fawcett 2005).

Small State in the International System

In the literature on small states there is general agreement that there is no satisfactory and acceptable definition of small states (Jazbec 2001). Despite the acknowledged ambiguity of the concept of the small state, the characteristics of describing a small state may be categorized into three approaches: quantitative approach, qualitative approach, and the perceptual approach. The quantitative approach focuses on a state's physical and material features, with population, territory, economic growth indicators and material resources considered to be the main determinants of the state's size-related characteristics (Crowards 2002). For Maurice A. East, small states are characterised by one or more characteristics namely, small land area, small population, modest economic and military capabilities (East 1973). Raimo Vayrynen while classifying small states examines five dimensions, low rank/ status (measured in

terms of GDP, diplomatic network and military capability), high degree of external penetration, specific type of behaviour (alliance formation, peaceful and accommodative foreign policy, and regional orientation), specific interest of small states (achievement and strengthening of right of national self determination) and specific role of small states (Vayrynen 1971). However, he does not find the five dimension of equal importance and is inclined to regard rank and role as basic definitional elements and consider the interest approach as very promising but to a large extent unexplored. Defining small states on the quantitative approach is equally difficult because of absence of acceptable threshold for that matter. For instance there is no consensus as to the size of the population, the amount of land that a state occupies, or the exact level of a particular economic indicator that should be used in defining a small state¹.

In contrast to quantitative approach, the qualitative approach to understanding small states highlights the impact of the state at the international level. It is comprised of a state's capacity to rule and secure itself and control over other states' abilities to influence its actions and its own ability to influence the actions of other states. This approach attributes more importance to the capacity-related components of a state that are associated state's power. This understanding is concurrent with Morgenthau's definition of great power: "a great power is a state that is able to have its will against a small state but the small state in turn is not able to have its will against a great power" (Morgenthau 1972 quoted in Neumann and Gstohl 2004: 13-14). The policies of small states thus are affected more from the international system than by its endogenous processes, and the small states have not at all, or only to a limited extent, possibilities to influence the functioning of the system (Vayrynen 1971).

Complementary to their relative material characteristics and capacities, how states are perceived and recognized is also important in determining the respective status of small states and great powers. For instance, a state cannot become a great power simply by declaring itself to be one; it needs both qualification – i.e., it must possess relative power and material capacity reflected in the international system – and

¹ World Bank and Common wealth for instance use 1.5 million population cut-off while defining small state, various authors have used various cut-off. Thorhallsson and Anders (2006), argue measuring a state's GDP does not necessarily tell us about how this state will behave, what influence it will wield and how it is perceived by other states. In the context of population and size they ask why a country with 20 million people should be a great power and a country with 18 million should be a small state.

justification – i.e., it must be recognized as a great power in the eyes of other states. Hey defines “if a state’s people and institutions generally perceive themselves to be small, or if other states’ people and institutions perceive that state as small, it shall be considered small (Hey 2003: 3).

Summarizing all these three approaches, Rothstein (1968) defines small power as a state which recognizes that it cannot obtain security primarily by use of its own capabilities, and that it must rely fundamentally on the aid of other states, institutions, processes, or development to do so; the small power’s belief in its inability to rely on its own means must also be recognized by the other states involved in international politics (Rothstein 1968 quoted in Keohane 1969).

Small states and great powers adopt different approaches and strategies in their interactions with each other in relation to international circumstances and the characteristics of the existing international system (Bjøl 1968). Small states may make different foreign policy choices embracing non-alignment, alliance or neutrality (Rothstein 1966). The foreign policy options of small states are generally evaluated in relation to their security considerations, which may be linked to the inherent weakness of small states (Knudsen 2002).

The aftermath of the Second World War presented a drastic and fundamental change in the international system and the way in which foreign policies were made. The international order was characterised by very tense and competitive bipolar international system. The United States and the Soviet Union emerged as two superpowers whose power far exceeded that of any other country. The confrontation between the two superpowers soon spread to almost all spheres of activity, and security became the major priority for all states. During the Cold War era, Small states are considered to have been the importers of security (Knudsen 2002).

For the small states the post-World War II developments brought not only insecurity, but opportunities as well. On the one hand they tried to compensate for their military weakness by entering into alliances with one of the two superpowers. These small states opted to form or join alliances with other states or groups of states in order to compensate for the weaknesses that inhibit their capacity to guarantee their own security (Rothstein 1977). However, the nature of these alliances changed from

'balancing' to 'bandwagoning', Small states joined alliances in an effort to guarantee their security by sharing the burden.

On the other hand, following the Second World War, a new type of 'neutrality' – 'nonalignment' – developed as an international movement, and countries opting for this strategy came to be known as the Third World. These were the countries that wanted to avoid becoming a party to the competition between superpowers. Non-Alignment as a policy served two basic functions; to extract the widest range of advantages from a particular kind of power configuration as well as it facilitated the quest for national unity and a national identity (Rothstein 1977). Thus during the Cold War era, it can be seen that small states adopted different approaches and strategies in their interactions with each other. But the basic purpose was small states could not simply assume their sovereignty/independence would be respected by greater powers who often interfered in the domestic policies of small states, and violated their territorial integrity when deemed necessary for their strategic interests (Cooper and Shaw 2009: 3).

The end of the Cold War also saw increase in the number of small states as a result of the disintegration of the Soviet Union. The post-Cold War era is also seen as an era of rapid globalisation which introduced new challenges and threat to small states. Though the threats they have faced have not been specific to them, it is argued that in some cases the impact on them is greater than for other states. The number of threats have also multiplied and changed their relative weightage, with economic and environmental threats assuming greater significance in the security agendas of small states (Charles 1997).

Even though the definitional issues related to the concept of 'small states' remains, it is usually seen that in various studies concentrating on the small states behavior, there is a consensus that, in contrast to big states, small states try to maximize joint actions by banking on regional and international institutions (Rothstein 1977, Keohane 1969, Vital 1967, East 1973).

The pre-dominant theory of international politics, (neo) realism measures states in terms of power and smallness in terms of state's ability to influence outcomes. For realists, small states being powerless or weak opt for a strategy of bandwagoning for security as well as economic protection, and if they prefer not to, then neutralism is

seen as a good strategy whereas, a liberal approach emphasizes on organizational activity and coalition building a necessity for states with limited capacity to act on their own (Braveboy-Wagner 2008: 9). Small states perceive international organizations as an instrument to act collectively which would help them to shape international attitude, and codes of proper behaviour (Keohane 1969). International institutions perform two functions of vital importance to small states: they make traditional power capabilities (i.e. military power) less important, because they create common rules for all despite power disparities; and 2) they make the use of power more visible, because of the formalization of what is agreed by institution members to be acceptable behaviour (Neumann and Gstohl 2004).

Because of the resources constraints, several studies have noted the tendency of small states to utilize intergovernmental organizations as it will help in minimizing the cost of carrying out their foreign policy (East 1973). Membership in IGO is usually the most cost-effective way of participating in the contemporary international system for small states, because acute shortages of resources-in personnel as well as finance- set severe limits to the ability of small states to participate actively and profitably in world affairs. Membership in international organizations gives small states both life and voice in international affairs and also to promote their national interests (Kassimeris 2009) which would help them lessen their vulnerability and strengthen their actual position (Jazbec 2001). For this reason, many newly decolonized states, most of which were small practiced much of their diplomatic activity within the United Nations, which was seen as a guarantor of sovereignty and equality. Moreover, the UN also became a platform for the newly independent states to challenge the perceived inequality and reduce their economic and political dependence on the rich and advanced countries.

Thus it is widely accepted that small states prefer collective behavior and international organizations provide a forum for small states to raise its voice in international affairs and also to promote their national interests. But the thing to be seen is what influence they can make in decision making at multilateral forum. It is not to say that multilateral organizations are irrelevant to small states but that in these multilateral forum states have to deal with issues not always directly related to their particular interest where as regional organizations and arrangements provide a forum where issues handled will have a direct bearing on states. Hence small states are likely to

influence the regional order more than global level. Similar argument is made by Hansel who writes, small states are inclined more towards developing regional institutions because their smaller territories make them more susceptible to the negative externalities of interdependence (Hansel 1997 quoted in Thorhallsson and Anders 2006). Increased regional cooperation among small states and with their larger neighbours is seen to be essential both to enhance ability to reap economies of scale and to achieve the degree of competitiveness necessary to succeed in a global economy. Thus small states looking for an opportunity of overcoming the small size of the national domestic market and to increase its engagement with a globalizing world, regionalism is seen to be a promising strategy, as by forming a regional cooperation agreement and negotiating as a block, small states would benefit from greater bargaining power and lower international negotiating cost (Schiff 2010).

CHAPTER II

Nepal's Perspective on Regional Cooperation in South Asia

As discussed in the first chapter, smallness should not be solely defined in terms of one particular variable but smallness should also be measured in terms of relative to and self perception of state, and moreover by looking at the behavior of a given state. Though in terms of size and population Nepal does not falls under the category of small states, its smallness and vulnerability comes from its geographical location between two large and strong states which has contributed to earlier explained qualitative and perceptual criteria of defining a small state. Thus this chapter is aimed at studying the foreign policy behaviour of Nepal vis-à-vis its neighbouring states and various strategies it has employed for its security and to preserve its independent identity. The later portion of the chapter looks at the reasons for Nepal being interested in the regional cooperation project.

Early Trends in Nepal's Foreign Policy

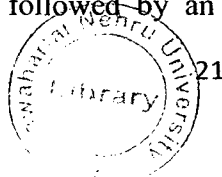
There are three major objectives of Nepal's foreign policy: to ensure that there is no threat to its national security, to maintain its independent status, and to promote its economic development. Being a small and a landlocked country situated in highly strategic area between two larger and powerful states China and India, but with the Himalayan on the northern part of the country that separates it from China, the only viable option for Nepal regarding outlet to the sea makes it depends upon its southern neighbour that is India. Therefore, Nepal has always regarded the proper handling of its foreign policy as being the essential doctrine for its survival and critical prerequisite for its economic development (Rose and Scholz 1980, Das 1986).

The founder of the Nepali state, Prithvi Narayan Shah once compared Nepal to a yam between two big boulders and therefore, Nepal should maintain friendship with the Chinese Emperor as well as with the Emperor beyond the Southern seas (i.e. the British). It was a time before British rule in India and in his statement he had kept India suppressed and continued entrenching himself on the plains (southern part). He

was clear that one day the British army will come in the region and in that case, given the physical location and size of Nepal, he maintained Nepal should formulate defensive strategy avoiding confrontation with either, i.e. British and the Chinese emperor (Nath and Acharya 1951 quoted in Shaha 1975: 104). The subsequent Nepali rulers followed the expansionist policies which continued until the signing of the Sugauli Treaty in 1816, after the Gurkhas were defeated by the British Indian Government. Nevertheless, the Sugauli Treaty did not compromise with Nepal's independence.

Another development in the politics of Nepal was the rise of the Rana Regime in 1846 after the bloody massacre (Kot Parva), where Junga Bahadur launched a coup and seized power. The Rana regime which was interested more in perpetuating their family oligarchy, developed cordial relations with the British Indian Government. The British on the other hand, who were most interested in the existence of an Independent Tibet which could serve as a buffer between India on the one side and Russia and China on the other, wanted to have a friendly Nepal in the periphery of the Indian Empire (Das 1986). With this in mind, the defence and the external relations of Nepal were looked after by the British Indian Government, and the Ranas were assured of British support against both internal subversion and external aggression. Thus the British extended complete cooperation to the Ranas in retaining and strengthening the isolationist policy of the Ranas, which was seen as necessary for the Ranas not only to perpetuate their family oligarchy but also safeguard Nepal's independent status (Rose 1973, Das 1986). Thus during the Rana regime (1846-1951), Nepal followed no foreign policy of its own; the Rana rulers who chose to align themselves with British India's holdover. Nepal's foreign policy was so formidable that no foreigner could even visit Nepal without the permission of the British Government in India (Baral 1981).

It was only after the prospect of the withdrawal of the British from India; the Rana realized the need for diversification of Nepal's external policies and tried to establish relations with as many as influential countries as possible. With the withdrawal of the British from India, it was clear that the isolationist policies which Nepal had been following for a century gradually came to an end. Before the British withdrew from India, Nepal had secured recognition as an independent nation from the United States in April 1947. This was followed by an agreement of friendship and commerce



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providing for the establishment of diplomatic and consular relations. Then, in May 1949, Nepal established diplomatic relations with France at ambassadorial level (Josse 2004). In an attempt to seek friendship from as many countries as possible, the Rana Prime Minister Mohan Shamsher in May 1948 said:

In modern times it is neither possible nor desirable for any state to keep itself in isolation from the world's affairs. It shall be our policy therefore to enter into diplomatic relations with all such countries that seek our friendship. It is evident that we shall require much help and cooperation from abroad to our nation building project. We hope we shall obtain such needful assistance and cooperation from our neighbouring and friendly countries (Hindu Outlook 1950 quoted in Rose 1973: 180).

But given the geographical location of Nepal, the Nepali political elite was aware of the importance of both China and India in its external relations. A mission was sent to China in 1947 but was not successful because of Nationalist China's preoccupation with the communist rivals. However, with the emergence of communism in mainland China in 1949, the Rana Regime's interest in China subsided. The Rana also realized the necessity to mollify to an Indian Government led by a party that had ample grounds for resenting the interventionist role the Ranas had played in Indian politics since the time of Junga Bahadur (Rose 1973).

The upsurge of democratic movements in Nepal was a threat to the Rana regime's desire of perpetuating their family oligarchy and India's support was necessary for the same. India on the other hand was more interested in Nepal from strategic and security point of view. After the communist China takeover of Tibet by military means, Nehru proclaimed India's determination to stop further Chinese incursion into the neighbouring Himalayan state. In December 1950, speaking in the Indian Parliament Prime Minister Nehru observed:

Now we have had from immemorial times, a magnificent frontier that is to say, the Himalayas. It is not quite so difficult as it used to be, still it is very difficult. Now so far as the Himalayas are concerned, they lie on the other side of Nepal, mostly not on this side. Therefore, the principal barrier to India lies on the other side of Nepal and we are not going to tolerate any person coming over that barrier. Therefore, much we appreciate the independence of Nepal, we cannot allow anything to go wrong in Nepal or permit that barrier to be crossed or weakened because that would also be a risk to our security (Parliamentary Debates, Part II: December 6, 1950: Cols. 1267-71 Excerpts in Bhasin 1970: 25).

The Rana's keenness in seeking India's friendship to fulfil their own interests and Nehruvian India interest in Nepal for its own security vis-a-vis China resulted in the signing of the 1950 Peace and Friendship Treaty in July 31, which contains a number of security related provisions. Thus India was successful in bringing Nepal within its sphere of influence that has always been the Indian interest, whereas, the treaty has always been seen in Nepal as diminishing its sovereignty and autonomy².

At the same time in order to safeguard its self image as a champion of democracy, India supported the democratic forces. Thus the result was the middle path policy that culminated into what is called the "Delhi Compromise" that created a Rana-Congress Coalition Government³. The consequence of the Delhi Compromise was that the Indian Ambassador became the single most influential person in Kathmandu; Indian advisors were assigned to the palace, Nepal secretariat and the Nepal police (Shah 1993). During the period 1951-1955, which is often said to be period of special relationship between India and Nepal, India enjoyed unprecedented role in both internal and external politics of Nepal. During this period the diversification policy was severely handicapped by Nepal's explicit alignment with India and when Nepal wanted to extend its relations with other countries, New Delhi discouraged it. Thus in the 1951-1955 period there was, for instance, no Nepali foreign policy, as such, as New Delhi defined both the principles and the conditions under which Nepal participated in international affairs (Rose and Dial 1969, Rose 1973). Even the 1954 decision to recognize Communist China was originally designed to underline Nepal's alignment with India, rather than its own sovereignty and Kathmandu's recognition of Peking came by way of Delhi, and only after Nehru thought he had received Chinese assurances that Nepal was in India's sphere of influence (Rose and Dial 1969). In the period of so called special relations, Indian intent for influence over the Himalayan

² The letter exchanged with the treaty, which was kept as a secret document until 1959, explains the necessity of mutual consultation by stipulating that: Neither government shall tolerate any threat to the security of the other by a foreign aggressor. To deal with any such threat the two Governments shall consult with each other and devise effective counter measures. With regard to the importation of arms and ammunition or other war materiel, the letter says: Any arms, ammunition or warlike material and equipment necessary for the security of Nepal that the Government of Nepal may import through the territory of India shall be so imported with the assistance and agreement of the Government of India. The Government of India will take steps for smooth and expeditious transport of such arms and ammunition through India.

³ The Delhi Compromise, in the words of Rose and Dial, "reflected the objectives of the Indian government much more than it did those of the revolutionary leaders. Although the revolution itself had not been an Indian concoction, its results were" (Rose and Dial 1969).

kingdom led Indian leaders to take a paternalistic attitude towards Nepal and to increasingly growing interference in Nepal's internal affairs, which resulted in the growth of anti-India feelings in Nepal. The special relationship with Nepal, which Indian statesmen stressed so much rested not only on the contiguity and interest between the two states but mostly on the interest of India so as to keep the Himalayan buffer kingdom out of Chinese influence.

Shifting Focus: From Special Relationship to Equal Friendship

The death of King Tribhuvan and the accession of Mahendra to the throne in early 1955 marked a watershed in both internal and external policy in Nepal. In contrast to his father Tribhuvan, who had been content to follow India's guidance, the new monarch identified closely with those Nepalis who insisted that a change in direction in foreign policy was absolutely essential if Nepal was to gain a greater measure of real independence. Another fact that also must be acknowledged is, prior to the occupation of Tibet by China, China had been considered too distant both in physical and cultural terms. But with the development taking place in the region and emergence of China as a major power, Nepal had to embark on a more independent policy. Moreover, with the 1962 Sino-India border war in which India had to face defeat, it was clear for the Nepali side that it could no longer rely upon India to meet aggression from the North. Though China had stated "in case any foreign army makes an attempt to attack Nepal, China will side with the Nepalese people" (Dai 1963, Rose 1973), and Nehru's even more stronger declaration that "any attack on Nepal would be considered as an attack on India"⁴, Nepal could not remain unconcerned to her own security in case a real war broke down between its two antagonist neighbours. This not only necessitated Nepalese foreign and security policy planners to redefine Nepalese security policy but also provided an opportunity to consolidate Nepalese non-alignment between her two neighbours and to move away from the so called "Indian Security Umbrella" to a policy of more balanced relationship between China and India, which Mahendra projected as equal friendship.

⁴ Prime Minister Nehru in his speech in the Indian Lok Sabha Dated 27th November, 1959 had said that "any aggression on Bhutan or Nepal will be considered by us as an aggression on India" this statement caused huge outcry and anti-India protest in Nepal. However, B.P Koirala trying to calm the situation said Nehru's statement as an expression of friendship that in case of any aggression against Nepal, India would help Nepal if its help is sought, and by no means the statement meant India would take unilateral action.

Thus it was only with the rise of King Mahendra, the concept of foreign policy began to take shape. As scholar notes, Nepal moved away from the policy of special relations with India and evolved a certain balance of power in relation to its neighbours (Muni 1973). According to Muni (1973), Nepal's regional balance of power had three features: i) the extension and maintenance of friendship based on mutual respect and goodwill with everyone of the neighbours; ii) the exploitation of regional differences between the neighbours to further self interests; and iii) the declared stand of neutrality in disputes between neighbours. However, Mahendra's determination to gain for Nepal a greater degree of flexibility and independence in dealing with both of his principal neighbours did not try to disturb India's vital security interest, despite India's misinterpretation to the contrary. Efforts were, however, afoot for mooted a policy of equidistance at the state-to-state level with China and other countries on the basis of the five principles of peaceful co-existence (Dharamdasani 1976, Baral 1988). The ultimate objective was a careful balancing of external influences in the country in order to (1) minimize their capacity to restrict Nepal's freedom of action; (2) maximize the benefits (for example, foreign aid) derived there from; and (3) contribute to Nepal's security against external aggression (Rose and Dial 1969, Rose 1973). When first adopted as a basic principle of Nepali foreign policy in 1951, nonalignment was both not genuine, and also irrelevant, because it was not considered important by the two super powers, viz. the United States and the Soviet Union. But in King Mahendra's era, balance was sought through nonalignment in the disputes between the two neighbours and through a process of political and economic diversification that was intended to mitigate Nepal's "semi-satellite" relationship with India (Rose and Dial 1969).

Nepal secured the membership of the United Nations in December 1955 after overcoming the Soviet reservation about Nepal's claims of sovereignty. It actively participated in various international gatherings and UN forums. In the UN, Nepal strongly advocated the needs for poor and least developed countries. Nepal for its own security strongly advocated the representation of People's Republic of China in the United Nations and on various occasions condemned the big powers for violating the territorial integrity of small states (Shrestha 1977: 162-176). It consistently supported the UN peacekeeping actions and also regularly contributed army personnel for the same. Till the end of the Cold War, NAM membership provided Nepal a useful forum

to maximise its foreign policy gains, including the preservation of political independence. But, however, throughout King Mahendra's tenure, Nepal's foreign policy was heavily focussed on its neighbouring states, particularly India, and China in order to balance the Indian influence. For the Nepal's foreign and security planners, because of Nepal's geopolitical location, India and China are seen as real guarantors of its security (Baral 1986).

King Mahendra also actively revived and expanded diplomatic relations with a number of countries. Nepal by establishing diplomatic relations with various powerful and developed states including the USSR was able to extract aid from these countries (Kumar 1977). With the tension in the Sino-Soviet relations, the USSR sought to extend its influence in countries like Nepal and Pakistan, and on the other hand US aid programme in Nepal was aimed not only against China but also against the USSR and India (Kumar 1977). Thus Nepal was successful in creating an atmosphere of competition among the aid giving states which has had the effect of increasing the quantity of aid available but Nepal strongly opposed proposals to coordinate the programs of the aid giving states either in specific projects or as a totality (Rose 1973).

Though Nepal used China in order to reduce the Indian influence in Nepal, China had its own interest in Nepal. One of China's strategies was to keep Indian influence and later Soviet influence out of Nepal and in order to achieve this; China mostly relied on the political strategy of capitalising on the growing anti-Indian feelings and the sense of nationalism in the Nepalese elite's psyche (Khadka 1999). Accordingly Sino-Nepal border dispute was settled on terms in Nepal's favour. Moreover, China gave up its claim over Mt. Everest, as a mark of respect for Nepalese emotional attachment to the mountains. In fact, China's claim of Mt. Everest was a tactic adopted by China in order to pressurise Nepal to achieve its objective in Nepal (Dharamdasani 1976). Mao Tse-tung in 1961 during Mahendra's visit to China stating China would be more careful to respect Nepal's national sentiments projected China to be a generous state with its affairs with small neighbour (Shaha 1975).

These developments annoyed the Indian political elites. Moreover, the establishment of diplomatic relation with Pakistan and signing of the trade agreement with Pakistan in 1962, and particularly the 1961 agreement with China for the construction of

Kathmandu-Kodari road (on the Nepal-Tibet border) was seen by India as breach of the mountain barrier in the strategic section of the Himalayas and undermining its position along the entire Himalayan border and a channel through which anti-Indian influences could spread through-out Nepal (Rose 1963). The Nepali side tried to justify the actions on the economic grounds alone that it would provide an optional outlet to Nepal's expanding trade and commerce and it was not detriment to India's vital interest (King Mahendra speech at the Indian Council of World Affairs: April 20, 1962 in Bhasin 1970: 75). Nevertheless, Nepal permitting to construct such a road was infact insensitivity in Nepal's part disregarding the genuine interest of its southern neighbour.

The intensive bickering between Kathmandu and New Delhi, apparently over the insurrectional activity by Nepali political refugees in India⁵, contributed to serious deterioration in the relationship between the two countries. The Panchayati government of Nepal demanded from India to disallow the Nepali rebels carry their activities from India. On its part New Delhi assured that no trouble will come to Nepal from India but it was not possible to take legal action against the Nepali political refugees as they have not violated Indian law⁶. India proposed the King for a compromise settlement between the royal regime and the Nepali congress. These all development further widened the gulf in Indo-Nepal relations. Mahendra who had earlier in order to maintain Nepal's identity and reduce India's influence in Nepal had moved towards China, now saw India's soft attitude towards the democratic faction as a direct threat to his regime. The Indian attitude engendered anti-Indian protests in Nepal especially from the royal machinery. On the other hand, New Delhi tried to exploit the rebels in its own campaign to pressure Mahendra into major concessions, both to his internal opposition and to India with regard to relations with China. As

⁵ King Mahendra on 15 December, 1960 had dissolved the democratically elected B. P Koirala's Cabinet and the parliamentary system calling it corrupt and inefficient in dealing with state's affairs and introduced the Panchayati System under his own leadership, which he called Panchayati democracy. The unsatisfied political parties found a safe haven in the Indian soil in organizing movements against the King and demanding for the restoration of parliamentary democracy.

⁶ Nehru replying to the debate on the motion of thanks to the President in the Rajya Sabha, New Delhi on March 15, 1962 said "we will not allow India to be made a base for any kind of armed attack (against Nepal), but subject to all that, the Nepalese in India, can function, under the law, under our constitution, as they like (Rajya Sabha Debates: XXXVII (3): March 15, 1962: Cols.382-83 Excerpts in Bhasin 1970: 66)." Lakshmi Menon made a similar statement in Lok Sabha on 16th March "Nepalese in India found violating Indian Laws would be dealt with according to those laws" (Lok Sabha debate: LXI (5): March 16, 1962: Cols. 689-90 in Bhasin 1970: 66-67).

part of this strategy India imposed an unofficial and undeclared economic blockade of Nepal. A number of minor incidents on the border were used to rationalise a total interruption of trade relations between the two countries and for several days, the flow of essential commodities into Nepal was halted, although no formal ban was placed on their exportation (Rose 1973, Das 1986). Contrary to Rose and Das, S. K. Jha maintains that the Royal machinery deliberately disrupted the movement of goods and described it as an Indian blockade on Nepal, in order to malign India in the world and solicit sympathy and support from foreign powers (Jha 1977: 202-218). Nonetheless, scholars agreed that the situation clearly exposed the vulnerability of Nepal. Then came the statement of Chinese foreign minister on the first anniversary of Nepal-Chinese Boundary Treaty "in case any foreign army makes a foolhardy attempt to attack Nepal, China will side with the Nepalese people" (Dai 1963, Rose 1973). But in Nepal there was a realisation that it was not the Indian army but rather Indian economic pressure with which Nepal had to contend, and Chinese support in this respect was at best of limited value (Rose 1973). The deteriorating relationship between India and Nepal and its impact upon the Nepalese economy at this juncture placed Mahendra in a situation where he would have had no option but to make concession to India and to the Nepali political refugees. But the outbreak of an armed conflict between India and China in October 1962 saw a shift in the Indo-Nepal relations.

India's defeat in the Sino-India border war made New Delhi to have a fresh look at some aspects of its foreign policy. India felt that any instability in the Himalayan kingdom would have grave consequences along its northern borders. Therefore, the result was India's adoption of a policy of appeasement towards Kathmandu for limiting Chinese influence. In this regard not only were the terms of trade between India and Nepal changed to the latter's advantage, but the procedures governing the Nepalese imports in transit through India were liberalized. In order to please the Nepali monarch India accepted and supported the royal regime and assured Nepal of all possible assistance in the form of aid for Nepal's economic development. New Delhi was even careful in objecting to Nepal's trade relations with China or to the construction of the Kathmandu-Tibet road on the base of the assurances that Nepal would not allow the Chinese to act against India's vital interests in Nepal. In the same period when China had agreed to construct parts of East-West Highway along the

terai in southern part of Nepal, India government offered to build those parts as it did not want Chinese working too close to its borders. The King respected Indian sensitivity in this regard and the project was carried out with Indian assistance⁷.

In the subsequent years Nepal was convinced that the success of Nepal's trade diversification was totally dependent upon India and without the cooperation of New Delhi, Nepal would not succeed. Therefore, Nepal became vocal in several international gatherings on the issues and rights related to landlocked countries. At the 1964 UN Conference on International Trade and Development (UNCTAD-I) at Geneva, it raised the issues of landlocked and least developed countries, although both these questions were not on the agenda of the conference (Upadhyaya 1985). As a result the conference recommended a 23 clause convention on this subject for approval of member states. At UNCTAD-II, held in New Delhi in early 1968 Nepal presented a nine point program that would have further expanded the obligations of coastal countries to landlocked states if it had been accepted (Rose 1973).

The Indo-Nepal relations again entered into crisis in the late 1960s. Subsequent statements from both sides caused tumult in the bilateral relationships. To illustrate the point, a reference would suffice to the negotiations on a new trade and transit treaty in place of the older which was to expire on October 1970. India was not flexible at the negotiating table. Nepal on the other hand brought the issues into international forum for India's non-cooperative behaviour towards a landlocked country. King Mahendra's open and public demand in 1970 for "justice" for Nepal in accordance with the principles of international law as applicable to landlocked countries had both been intended to pressure New Delhi into granting concessions (Shaha 1972). But this did not work. The failure of the two governments to sign a new treaty within the stipulated time led to the unilateral restrictions imposed by the Indian Government on its trade with Nepal which had a traumatic impact on Nepal's economy (Jha 1977: 216). However, the two governments signed the treaty in 1971 which was weighed in favour of India and India made practically little concession to the Nepalese demand for a number of changes (Baral 1978).

⁷ In a newspaper interview granted to the Indian Express on November 27, 1966, King Mahendra on Indo-Nepal relationship stated "Unfortunately, some years back there were differences between the two countries on a few issues. Happily, they are clearing up. Understanding between the two countries is progressing well. I welcome every opportunity for further sincere cooperation in all matters appropriately beneficial to both the countries."

Dynamics in South Asian Region and Options for Nepal

Mahendra's successor, King Birendra was determined to formulate policies that had to be consistent with Nepal's geo-strategic location and the aspiration for a truly independent political identity and national security.

The developments taking place in South Asia in early 1970s were disheartening to the Nepali security and foreign policy planners who tended to exaggerate the importance of China's role in the Himalayan region and to advocate policies based on the presumption of an approximate balance of power between India and China in this region. Peking's failure to come to the rescue of its West Pakistan ally in the Indo-Pakistani war in late 1971 and the emergence of Bangladesh as an independent state in the face of Peking's determined-if only vocal- opposition was a clear indicator of China's inability to directly challenge India's status as the hegemonic power in South Asia (Shaha 1972). Nepal initially criticised the Indian action in Pakistan, accusing India of interfering in the internal affairs of other state but it was clear to the Nepali policy-makers that they could now no longer operate on the assumption that China could be of great importance to their country in the hour of crisis. Furthermore, the era also marked the active involvement of the United States and the USSR in the politics of the South Asian region.

The Nepalese fears further grew after the incorporation of Sikkim into the Indian union as an "associate state" in 1975. The Sikkim issue was raised in the Rastriya Panchayat and Indian action was criticized. From the Nepali side it was clear that, seeing a small state in the same Himalayan belt lose its protectorate status in the name of the people's wish when the whole administration was controlled by the Indian government had been discomfoting and disappointing as well (Lohani 1975). King Birendra's speech at the Nepal Council of World Affairs in July 1973, clearly expressed Nepalese concerns as he said:

A cursory glance at the theatre of world politics today gives one an impression that while the colonial era has come to an end, the attempt to create a respective sphere of influence by furtive means has continued.... A look at the Drama of world politics makes a dispassionate observer feel pity at the fate of small nations which, striving for liberation or freedoms, have only succumbed to subjugation and drudgery (in Pradhan 1982: 111-114).

But the Nepali criticisms against these two developments did not go without cost and India retaliated by economic leverage against Nepal. Nepal did put this issue during the Non-Aligned Nations Summit Conference in August 1976, where Birendra without specifically mentioning India said:

Prosperity or security of a nation no longer depends upon living within the umbrella of a powerful nation. Nevertheless, there are moves and furtive stratagems, when a poor nation is made a hapless object of subjugation. It is ironic that some countries which themselves achieved independence out of long and bitter struggle should embark upon a course against the currents of their own history. Many countries are being prevented from exercising the freedom of action which is their natural right (quoted in Scholz 1976, in Pradhan 1982: 140-148).

Thus in the early 1970s the situation in South Asia was becoming increasingly worrisome, as the superpowers and regional powers did not appear reluctant to undermine the sovereignty of smaller states if they deemed it necessary for their strategic interests (Subedi 2005). But for a small state like Nepal which was not able to take part in the arms race, as were other regional powers, or to defend the country through military strength the developments in the regional politics were really disheartening.

The developments in Afghanistan in 1979 created a sense of fear in Nepal when the Soviet troop intervened landlocked and non-aligned Afghanistan. So it was obvious for Nepal to feel vulnerable when a country in a similar situation is overrun. On several occasions, Nepal expressed grave concern over developments in Afghanistan, called for the withdrawal of foreign troops from both Afghanistan and Kampuchea, and indicated it was prepared to support any regional or other effort to resolve the Afghan crisis (Heck 1981). India's abstaining in the United Nations General Assembly- where all the non-aligned countries, including Bhutan, had condemned the invasion was interpreted in Nepal as India's hegemonic propensities (Mehta 2004) thus increasing its fear.

The Zone of Peace Proposal

Against these backgrounds, Birendra searched for alternative approaches to not only respond to such immediate problems but for a strategy to permanently insulate Nepal from the negative consequences of external power politics because reliance on the basis of power had become too risky. Thus in an era where power politics and

attempts by major powers to create respective spheres of influence by furtive means had continued, Nepal not only needed to respond to the immediate situation but also to develop a long term strategy for its survival and transformation enabling Nepal to maintain its independent identity *vis-à-vis* its neighbours and devote all energies and resources towards economic development. Thus the Zone of Peace (ZOP) idea was conceived as the best policy platform for such an endeavour. The royal declaration of 1975 by King Birendra at the farewell reception hosted at the conclusion of his coronation proposing that Nepal be declared a Zone of Peace (ZOP), he said:

We believe that only under a condition of peace will we be able to create a politically stable Nepal with a sound economy which will in no way be detrimental to any country. I also wish to declare that in making a proposition for the zone of peace, we are not prompted out of fear or threat from any country or quarter. As heirs to a country that has always lived in independence, we wish to see that our freedom and independence shall not be thwarted by the changing flux of time when understanding is replaced by misunderstanding, when conciliation is replaced by belligerency and war. It is with such a perspective view of the future that, with the help of our friends, we seek peace⁸.

The King's declaration of ZOP has three major components: security, development and Independence. Nepal's passionate pursuit of recognition as a ZOP by its immediate neighbours and the international community became the broad policy framework within which the major themes of the Birendra era were to be articulated. It is in this context that the Nepalese ZOP became an important policy instrument for Nepal in the 1970s and 1980s. Various efforts were made at national and international level to clarify the nature of the proposal; the then prime minister of Nepal in his address to the Nepal Council of World Affairs explained seven principles of the ZOP proposal (full text in Pradhan 1982: 165-172⁹):

1. Nepal will adhere to the policy of peace, non-alignment and peaceful co-existence and will constantly endeavour to develop friendly relations with all countries of the world, regardless of their social and political system, and particularly with its neighbours, on the basis of equality and respect for each other's independence and sovereignty.

⁸ Speech from King Birendra at the farewell reception hosted at the conclusion of his coronation at Narayanhity Royal Palace on 25th February, 1975, Appendix- C: 124-127.

⁹ Appendix- L, Text of the Address Delivered by the Prime Minister Surya Bahadur Thapa on the occasion of the 35th Anniversary of the Nepal Council of World Affairs on 21st February, 1982 .

2. Nepal will not resort to the threat or use of force in any way that might endanger the peace and security of each other's independence and other countries.
3. Nepal will seek peaceful settlement of all disputes between it and other state or states.
4. Nepal will not interfere in the internal affairs of other states.
5. Nepal will not permit any activities on its soil that are hostile to other states supporting this proposal and, in reciprocity, states supporting this proposal will not permit any activities hostile to Nepal.
6. Nepal will continue to honour the obligations of all existing treaties which it has concluded with other countries as long as they remain valid.
7. In conformity with its policy of peace and non-alignment, Nepal will not enter into military alliance nor will it allow the establishment of any foreign military base on its soil. In reciprocity, other countries supporting this proposal will not allow the establishment of a military base on their soil directed against Nepal.

Though the king said that the proposal was not prompted out of fear or threat from any country or quarter, the following sentences read "we wish to see that our freedom and independence shall not be thwarted by the changing flux of time", this clearly implied the then ongoing development in the region and India's assertive role towards the smaller neighbouring, and it was imperative for the king to say so obliquely, so as to make his proposal accepted by all the states. By proposing the ZOP, it was an attempt from the Nepali side to assert greater freedom in the conduct of its domestic and foreign policies, just as the peace zone proposal was a manifestation of the desire to free Nepal from the so called Indian Security umbrella (Subedi 2005). By April 1990, although 116 nations - including China, the U.S., the U.K. and France - had endorsed ZOP, India refused to endorse it.

Nepal's proposal could not assume much relevance without the endorsement of India. This also becomes clear when the first Japanese Foreign Minister to visit Nepal sympathized with Nepal's position but stated that "there must first be a consensus among the countries directly involved on the conditions for the maintenance of peace in the region" before Japan could support Nepal's Zone of Peace proposal (Scholz 1978). On the other hand, India was not supportive of the Peace Zone Proposal for its own concern with security factors on the Himalayan border with China, which has

kept it suspicious of the proposal. India's reluctance is presumably a reflection of its apprehension that once endorsed; the proposal might render the Indo- Nepalese Treaty of Peace and Friendship of 1950 automatically redundant and might encourage Nepal to demand that it should be abrogated (Baral 1978, Baral 1986). The other factor that also led to India's scepticism about the peace zone was the promptness with which China and Pakistan endorsed the idea soon after it was declared.

However, some also pointed out that the basic purpose of the proposal was King's interest in perpetuating the panchayati system under his leadership and curb out the democratic movement going on. Nepal on its side, however, could not convince India that the proposal was simply meant to institutionalize peace as a national anchorage so essential for security, stability, and development and that it would not use India's endorsement of the proposal as a weapon with which to strike down the treaty (Baral 1978).

When King Birendra ascended the throne, it was clear that he had to live with a more powerful and assertive India and Nepal's opportunities for extracting concessions from India through manoeuvring foreign policy were lost forever. Moreover, a growing tendency by foreign powers to accept India's leadership in the South Asian region worked to the disadvantage of Nepal. The subsequent years saw a tough attitude on the part of India which got reflected in trade and transit negotiations. As already argued Nepal's stand on the Pakistani crisis and later on Sikkim affair was met with retaliation by India by using economic leverage against Nepal. King Birendra actively sought international recognition that Nepal no longer lived under India's economic or defence umbrella and in various international conferences, Nepal continued to lobby for international guarantees of unrestricted transit rights to and from the sea for landlocked states.

During the 1976 trade and treaty negotiations with India, Indian negotiators appeared unwilling to compromise. In order to diversify its foreign trade, just prior to the 1976 trade and treaty negotiation with India, Nepal had signed trade and transit treaties with Bangladesh providing for the export of Nepalese rice to that country. During the negotiation with India, India protested that Nepal did not consult India since trade and transit was to be carried on through Indian Territory, but the Nepali side replied that Nepal's relations with other sovereign states were of no concern to India (Scholz

1978). After the failure of trade talks with India in June and August, the King again attempted to seek international support against India's unwillingness to abide by the rights of landlocked countries. India was severely criticized for not recognizing the demand of a landlocked, or rather India-locked country like Nepal for unfettered transit right to and from the Indian sea waters, a demand that was legitimate and was in line with well-established norms of international law. India's non-cooperative stance was seen as nothing but an attempt to make landlocked countries politically and economically dependent. The Indian Minister of External Affairs, Y. B. Chavan, during a visit to Kathmandu warned that economic relations depended on political goodwill, not on natural rights (Scholz 1978).

Nepal and South Asian Regional Cooperation

While rest of the world witnessed a remarkable growth of regional organizations, South Asia was lagging behind. The South Asian states were either entangled with their internal political instability or shared bitter equation with their neighbouring states. Moreover, since independence, the two bigger states of the region India and Pakistan were hostile to each other and were engaged in balancing each other. South Asia could not be kept off the Cold War politics; Pakistan joined the Western military alliance to counter India in fifties whereas India had signed a Peace and Friendship treaty with the Soviet Union in 1971. Other small states of the region did not matter much and were more or less marginalized. Although the two bigger states of South Asia have been crucial to the South Asian politics since the decolonization and partition of the Indian subcontinent, it is the smaller states, particularly Bangladesh, Nepal, Bhutan and Sri Lanka, who took major steps forward since the 1970s in building blocks for a more peaceful and secured South Asia (Chaudhary 2000). In this situation these smaller states of the region, took special interest in the proposal for South Asian regional cooperation because they believed that their identity, status and even interdependence against big powers would be better preserved by promoting regional cooperation (Upreti 2000).

Though King Birendra expressed his interest in December 1977 about regional cooperation in order to harness the Himalayan water resources that would benefit the whole region, the concrete steps towards establishing South Asian regional framework was taken by the late president of Bangladesh, Ziaur Rahman. In his letter

to his South Asian counterparts, he hoped that a framework for regional cooperation in South Asia could be established, as in other parts of the world as there is no better way to strengthen global harmony than on the bedrock of regional cooperation. The point Rahman made in his proposal was “economic cooperation must be consequently formulated with the greatest care in order to ensure that the weak are not exploited and that strong do not dominate” (SAARC Secretariat 1988: 2). Moreover, the Rahman communication noted, “the uneven levels of development should, if anything, inspire on the one hand the less developed to catch up with their more fortunate neighbours, while on the other hand encourage the more developed to help to narrow the gap existing between them” (SAARC Secretariat 1988: 2). Rahman communication recognized the paradox between fear of small states being dominated by their bigger neighbor and the support of the bigger ones to promote cooperative arrangements. The Bangladeshi proposal for the establishment of regional project was promptly endorsed by Nepal and other small states of the region. Nepal on its part played an active role for the realization of the regional forum. So what has have made Nepal so enthusiastic about the South Asian cooperation?

As outlined in the first chapter, the success of the European Union persuaded many other states across the world towards regional projects. The EU also set the example where bilateral conflictual relations were been dealt effectively with by the larger concept of win-win situation generated by regionalism (the case of France and Germany). On the other hand international institutions perform two functions of vital importance to small states in international relations i.e. they make traditional power capabilities (i.e. military power) less important, because they create common rules for all despite power disparities; and 2) they make the use of power more visible, because of the formalization of what is agreed by institution members to be acceptable behaviour (Neumann and Sieglinde 2004). In a similar vein, Nepal’s aspiration towards South Asian cooperation can be seen as motivated by its quest for security interest, political interest, and economic interest.

Security Interest

As noted, the development taking place in the 1970s were quite disheartening to Nepali foreign and security policy planners. India’s role in the creation of Bangladesh, the annexation of Sikkim into Indian state, India’s assertive attitude towards its small

neighbouring states, and the USSR intervention in Afghanistan in 1979 clearly manifested that the superpowers and regional powers did not appear reluctant to undermine the sovereignty of smaller states if they deemed it necessary for their strategic interests. Nepal too could not remain indifferent to this. As the prospect of India endorsing Nepal's Zone of Peace proposal seemed dim, regionalism could be seen as an alternative for maintaining Nepal's sovereignty and independence.

Jagdish Shumsher Rana, the then foreign Secretary of Nepal during the first meeting of foreign secretaries meeting, expressed the hope that regional cooperation could "impart a new vigour to our existing good relations and also facilitate the solution of bilateral problems through peaceful means". Striking an optimistic note, he declared that having achieved a closer and deeper sense of mutual belonging, "each one of us will feel more secured, more stable, more self confident, which will contribute to more friendly relations and to a better atmosphere of peace, cooperation and goodwill". The progress of the first meeting of foreign secretaries clearly indicated that regional cooperation should reflect the spirit of mutual trust, understanding, and appreciation among the countries of the region; and such cooperation should be based on respect on for the principle of sovereign equality, territorial integrity, non-interference in internal affairs of other nations, and mutual benefit (SAARC Secretariat 1988: 9).

Thus, the requirement of national security of Nepal could be enhanced by SAARC in two ways: by reducing tension and conflict in the region, and placing obligation on the member states to respect each other's sovereignty and thus not use force against each other.

Political Interest

Since King Mahendra came to power, Nepal has always attempted to project itself as an independent state and sought greater freedom in the conduct of its domestic and foreign policies and free Nepal from the so called "Indian Security Umbrella" and maintain equitable relationship with its neighbouring states, particularly India. Though Nepal continued to expand its international activities it gradually became clearer that these activities were of little use for solving problems with India. Because of geopolitical location of Nepal, Nepal's efforts to this end did not seem to have been appreciated by India and as a result a big and small power syndrome seemed to be at

work in the bilateral relations between the two. The then Indian foreign minister, Narshima Rao's statement in the Indian Parliament in 1981, of the difficulties of evolving a relationship "on the basis of independence and sovereignty with a country (Nepal) with which we have so much in common" (The Times of India, December 11, 1981 quoted in Panday 1982), was seen as an attempt to undermine the sovereignty and independence of Nepal. This clearly is what Rishikesh Shah writes, India never seems to recognise Nepal as an independent country (Shah 1975: 120). Moreover, the major powers too accepted Nepal to be part of India's sphere of influence that had undermined the identity of Nepal in international politics. South Asian Regional Cooperation could be viewed as a plus factor to overcome Nepal's diplomatic vulnerabilities and to create conducive environment to safeguard its political interests.

Economic Interest

Nepal has had resentful attitude in its overwhelming economic dependency on India for it sees such dependency has imposed several limitations to conduct its independent foreign policy. From the earlier analysis it is clear that India has been using economic leverage time and again so as to pressurise Nepal. And with the existence of centre-periphery pattern in relations with India, Nepal had followed several available options in order to bring change in traditional economic relations with India.

Moreover, it has been generally acknowledged that lack of direct sea access presents growing challenges to the global integration and growth prospects of many landlocked developing countries working to progress toward trade diversification and economic development (Faye et al. 2004). As the objective of economic diversification policy of Nepal has been to reduce its existing over dependency on India and maximise with others, the option possibilities SAARC could help its economic diversification. Through regional cooperation, it could not only enhance its economic relations with other regional states but also weaken India's economic leverage against Nepal. Moreover, by engaging in regional cooperation Nepal could expect that regional cooperation would help in its efforts to increase industrial production which would boost up Nepal's economy.

CHAPTER III

Nepal's Role in the Evolution of SAARC

The present chapter aims to look at the role of Nepal in the evolution of SAARC. The chapter begins with the initial stage of evolution of SAARC and proceeds to examine the contribution made by Nepal in SAARC. The chapter looks at the initiatives and interactions of Nepal in SAARC and attempts to trace the rationale behind them. The chapter also looks at Nepal's attitude on the issues proposed by other countries. The chapter ends with looking at the domestic politics of Nepal so as to understand how various interest groups look at SAARC.

The Early Period of the SAARC Evolution

King Birendra in several forums had expressed his interest on the South Asian regional cooperation. He once observed that: "it has been our desire to promote regional contacts and cooperation also in this part of Asia in line with our traditional policy of safeguarding the interest of all through a network of increasing friendship and cooperation among all the neighbours of the region" (quoted in Upadhyay 2001: 384-385). It was again in 1976 during the summit conference of the non-aligned countries that Nepal emphasized the need for regional cooperation among the neighbouring countries. It was at the inaugural address of the 26th consultative committee of the Colombo Plan in 1977 that King Birendra emphasised the need for regional cooperation for the exploitation of Himalayan water resources (Singh 1987: 14-15). King Birendra's approach received appreciation from the President of Bangladesh during the King's visit to Dhaka in 1978 and, therefore, when the President of Bangladesh put forward the concrete proposal for the establishment of a South Asian regional organisation, Nepal endorsed it promptly (Dash 2008). Since the concrete steps towards establishing South Asian regional framework was taken by the late president of Bangladesh, Ziaur Rahman, Nepal has been enthusiastic and is committed to regional cooperation in South Asia.

Though small states in the region were enthusiastic about the regional cooperation and actively promoted it, the two large countries of the region viz. India and Pakistan were

skeptical initially. India's main concern was the proposal's reference to the security matters in South Asia and it feared that Ziaur Rahman's proposal for a regional organization might provide an opportunity for the small neighbors to regionalise all bilateral issues and to join with one another to "gang up" against India. On the other hand, Pakistan assumed it to be an Indian strategy to organize the other South Asian countries against Pakistan and ensure a regional market for Indian products, thereby consolidating and further strengthening India's economic dominance in the region. However, both the big countries could not reject the proposal either but instead sought to modify it so as to satisfy their respective apprehensions and requirements (Muni 1984).

It was only after a series of diplomatic negotiations, the organization was formally launched in 1985. Nepal on its part, during the negotiation period for the establishment of SAARC, wanted to include bilateral issues in the political framework of the SAARC, but as India linked its participation to the acceptance of the unanimity rule and the exclusion of 'bilateral and contentious issues' from the deliberations, followed by criticism by other members viz. Bangladesh and Sri Lanka, the idea was taken back by Nepal (Chaturvedi 2000). This clearly shows India's interest that the other member states not be able to gang up against India and moreover, small states could have accepted the terms because they too will have a veto power in decision making which was a sign of equality vis-à-vis the larger states.

Nevertheless, the South Asian Association for Regional Cooperation (SAARC) was formally established by seven states Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka in December 1985. The underlying rationale behind the creation of SAARC as envisioned by its Charter is the realization by its member states that their aspirations of a better life through promotion of welfare and prosperity of the people could best be fulfilled through cooperation in a spirit of trust, friendship and mutual understanding. Its objective as contained in the Article I of the SAARC Charter are to: a) promote the welfare of the peoples of South Asia and improve their quality of life; b) accelerate economic growth, social progress and cultural development in the region and provide all individuals the opportunity to live in dignity and realize their full potentials; c) promote and strengthen collective self reliance among member states; d) contribute to mutual trust, understanding and appreciation of one another's problems; e) promote active collaboration and mutual

assistance in the economic, social, cultural, technical and scientific fields; f) strengthen cooperation with other developing countries; g) strengthen cooperation among themselves in international forums on matter of common interests; and h) cooperate with international and regional organizations with similar aims and purposes. Thus promoting cooperation through the creation of SAARC has been a logical response to the region's problems.

Pride and Honour in Hosting SAARC

As discussed already in the preceding chapter Nepal's main interest in regional cooperation was basically motivated from its security, political and economic interests. Security at that point of time was defined in its traditional sense, i.e. managing the threat arising from another state and in case of Nepal; it was basically a psychological threat arising from "Big State-Small State Syndrome" vis-à-vis India. However, with the end of the Cold War, the scope and definition of security has expanded at least for the small states which cannot afford to take part in the competitive arms buildup. The post-Cold War era which is also seen as an era of rapid globalisation has introduced new challenges and threats to small states. Though the threats they have faced have not been specific to them, it is argued that in some cases they have impacted on them with greater force than for other states. The number of threats have also multiplied and changed their relative weightage, with economic, social and environmental threats assuming greater significance in the security agendas of small states. Because of this regionalism is imperative, particularly in the case of small states that either have to cooperate to solve common problems or become client states of the core countries. In this regard coordination of production, improvement of infrastructure and making use of complementarities at the regional level may help in overcoming the problems of small and weak states that cannot be solved at national level and, moreover, collective bargaining on the regional level could improve the economic position of the marginalized member in the world system (Hettne 2001). Similarly, Nepal, a small and least developed country has been attempting to use regional organization as a shield in the multilateral process to counter the ills of globalisation and trade liberalization and as a vehicle to achieve development.

Since the establishment of SAARC, Nepal has accorded great importance to SAARC. SAARC has also been an effective instrument for Nepal to play its role in regional

politics. As the SAARC Charter affords all its member states, large and small, equal rights and status to use their right of veto, it puts Nepal on an equal footing and give it equal voice in the regional issues. Moreover, the doctrine of equal representation can be seen as fundamental element in the equality between the member states. The rotating post of the Secretary-General and Chairmanship also accords high value for small state like Nepal as it help to maintain a high profile.

Nepal has been committed and playing an important role in upholding the spirit of SAARC as well as articulating its interests in the SAARC forums. Even the Maoists entering the mainstream politics after a decade long civil war have been highlighting the need for economic revolution within a liberal framework and maintaining cordial relationship with India. Such measures are bound to contribute positively to the dynamics of regional cooperation (Muni and Jetly 2010, Baral 2010).

The unanimous choice of the Nepalese capital Kathmandu for hosting the SAARC Secretariat was a diplomatic success for Nepal. It is naturally a matter of pride for a country like Nepal which had so long remained isolated from the world, to hold a Secretariat of the organisation. It obviously adds to the image of a country in the world. With regard to the location of a Secretariat, Colombo and Male were geographically not conveniently located for a permanent secretariat and the hostile relationship between India and Pakistan would not be acceptable for the two countries to host the Secretariat in either of their capitals. Initially Dhaka showed an interest in the honour as it held the view that Dhaka deserved the distinction in recognition of its initiative in formally floating the idea of the regional grouping. But when others went for Kathmandu, the host did not persist with the interest (Kharel 2008). Thus the member states decision for accepting Nepal's proposal for hosting the Secretariat shows Nepal's consistent and cordial relationship with the South Asian countries which would also help in establishing communication links with the rest of the SAARC member states. Along with the SAARC Secretariat Nepal holds two more regional centres, SAARC Tuberculosis Centre (STC), and SAARC Information Centre (SIC). The establishment of SAARC Secretariat at Kathmandu also reflected its enthusiasm towards regional cooperation (Upreti 2000). The SAARC logo, sketched by a Nepali artist was eventually selected after an open invitation to artistes of the region to submit their designs (Kharel 2008). SAARC also helped Nepal in

getting close and strengthening relationship with other member states which were earlier considered to be distant neighbours.

Nepal gained a diplomatic victory by organising the 3rd SAARC Summit in November 1987 and discussed the possibility of enhancing South Asian Cooperation. The occasion was treated by the Nepalese as a national festival. Nepal's excitement on holding the Summit was given a vivid expression to by King Birendra during the inaugural ceremony where he stated "We in Nepal are conscious of the honour bestowed upon our country in hosting this summit. For us, holding a summit of this nature is a new experience. Today, SAARC kindles our dreams and excites our imagination."

Strengthening of SAARC

Small states' strategies are often characterised by a preference for strong institutions. Small states are supportive of the power of institutions in the hope that enforced rules and procedures will help them defend their vital interests and promote their national aspirations because they believe that states will adhere to international agreements whose compliance is monitored by institutions more effectively (Antola 2002). Institutions also give small countries an opportunity to influence the compliance of powerful states with joint decisions and rules while emphasising their own input in common projects. It is because of this Nepal since the establishment of SAARC has been advocating the need to strengthen the SAARC and has also been playing an important role in strengthening and holding SAARC together. Nepal has consistently held the view that SAARC should develop and evolve into a vibrant, strong and effective organisation and set an example for others to draw lessons from its experience. In this regard King Birendra's words during the First SAARC Summit, when the SAARC Charter was signed are worth mentioning:

After a long winter of mistrust, coldness and suspicion this region of south Asia certainly looks forward to a new spring giving birth as it were to a new era of enlightened self interest based on a common desire to replace conflict with cooperation, to substitute discord with harmony, and finally move from an attitude of self centredness to a widening horizon of contacts in the region in a spirit of reciprocity, give and take (Institute of Foreign Affairs 2010: 3).

However, it was only a few years later that the enthusiasm in promoting SAARC gave way to bilateral disputes and it also indicated how bilateral issues could be a

constraint in the SAARC process. After the Indian relief materials supplies mission over Jafna Peninsula in 1987 against the wishes of Colombo, Sri Lanka indicated it would not attend the foreign ministers meeting in Delhi, which was supposed to finalise the draft for the Kathmandu Summit. Determined to keep SAARC alive, the foreign minister of Nepal along with other member states wrote personal letters to Sri Lankan President and foreign minister urging them to participate fully in the SAARC session at New Delhi (Dash 2008).

Some member states have time and again argued that one of the reasons for the poor functioning of the SAARC is that, the bilateral issues are to be kept out of the SAARC forum and have also demanded to include bilateral issues in the SAARC forum. Sri Lanka had taken this position when it had problem with India on the Tamil issue, but Pakistan and Bangladesh continue to voice their reservations (Muni 2000). But as there has been no consensus among the member states regarding to addressing the bilateral issues in the SAARC forum, it has been the bilateral disputes, particularly the lingering Indo-Pak dispute over Kashmir, that have continued to cast a shadow on the SAARC process causing in turn a setback to annual summits which have been postponed from time to time. However, with the softening of relationship between India and other smaller states of the region and the understanding that without the cooperation of the Indian state (which has till today opposed the introduction of bilateral contentious issues in the SAARC) SAARC would not succeed; the smaller states in recent years seem to have given up this demand. They have instead begun to stress upon not to make the activities of SAARC to remain hostage to Indo-Pak bilateral wrangling and make utilisation of informal political consultations provided by SAARC which would prove useful in evolving mutual trust and understanding and help the socio-economic development of the region (Murthy 1998). Abiding by the SAARC Charter, Nepal did not press for bringing the bilateral issue regarding the Bhutanese refugee to the SAARC forum in 1994. However, it utilised the informal bilateral meeting held during the Summit which paved the way for full length bilateral negotiations between Nepal and Bhutan on the question of Bhutanese refugees in Nepal (Muni 2000). When the 13th SAARC Summit that was scheduled to be held in Bangladesh was postponed citing the security situation in Bangladesh, former foreign minister of Nepal, Ramesh Nath Pandey observed:

The postponement of the SAARC Summit in Dhaka is a major setback to provide much needed momentum to the SAARC process. We strongly hold the view that SAARC process should move forward unobstructed and we should be able to leave behind the past wherein undeserving issues are allowed to impinge on the SAARC process. (Ministry of Foreign Affairs 2004).

Nepal has also stressed upon the holding of the annual summits at a fixed date each year upon the recommendation of foreign ministers.

It has been generally argued by the analysts and practitioners of regionalism that one of the key factors accounting for the failure of developing countries regionalism to live up to their liberalizing and welfare enhancing potential is incomplete implementation of the common integration commitments. Moreover, the lack of monitoring mechanism which is crucial for the implementation of commitments both at the national and regional levels undermines the performance of any regional project (Lombaerde et al. 2008). Similarly, SAARC has been characterised by ‘regional integration deficit’ which is linked to the “monitoring deficit” for its failure to monitor the implementation of commitments agreed upon at the regional level. As a strongly intergovernmental organization, the SAARC Secretariat situated in Kathmandu has no capacity to take initiatives, to be the catalyst for further integration or to be the facilitator of formal monitoring initiatives (Tavares 2008). Nepal has since long requested the member states to make SAARC more action oriented, and take it more seriously than it had been done so far. In this regard, King Birendra in the Third SAARC Summit said:

Our deeds must match our words as in the end, it is the result that counts far more than words or seminars. Surely, we cannot talk tall and then deliver so little (Institute of Foreign Affairs 2010: 9).

Requesting the member states to be more serious about implementing the agreed upon commitment, the Nepali Prime Minister in the Fifth SAARC Summit said:

decisions which have already been made and which are likely to induce cooperation at the policy level should receive priority over new disparate specific projects (Institute of Foreign Affairs 2010: 19).

Nepal has also advocated on several occasions the need to strengthen, equipped and modernize SAARC Secretariat.

In the 23rd Session of the SAARC Council of Ministers held in Kathmandu in 2002, Nepal presented a concept paper on Rationalization and Institutional issues relating to SAARC, which was warmly received by the Council. In the concept paper, Nepal emphasized the need for the consolidation of gains and concentration on the implementation of decisions approved and adopted by the Summit. Nepal also proposed holding a senior officials level meeting immediately after the Summit in order to draw up a clear action plan on the decisions made at the Summit, together with the mechanism for their implementation and regular monitoring and follow-up on the progress or lack of it. A concept of Troika/Core group, at the senior official level from the past, present and future, as well as SAARC Chairs had also been put forward to ensure timely implementation and follow-up on the decision. The proposal had also underlined the need for augmenting the institutional capacity of the SAARC Secretariat to enable it to respond adequately to the emerging challenges as regional cooperation activities gather pace (Institute of Foreign Affairs 2004). At the eleventh SAARC Summit held in Kathmandu in 2002, the Prime Minister of Nepal stated:

Nepal believes that mechanisms for implementation and monitoring should be streamlined and strengthened so that our commitments translate into performance. One way of doing that would be the further strengthening and empowering the SAARC Secretariat. He further noted that as regional cooperation could flourish only when pursued with vigour and dedication, he requested all the member states for political will and commitment at the highest level (Institute of Foreign Affairs 2010: 45).

The eleventh SAARC Summit directed the Chairman of the Council of Ministers to undertake a review of the functioning and operation of SAARC Secretariat and at the twelfth and thirteenth SAARC Summit agreed to strengthen the capacity of the SAARC Secretariat along with the SAARC regional centers. Moreover at the thirteenth Summit, the head of states also dedicated the third decade of SAARC to implementation of the commitments agreed upon by the member states.

Expansion of SAARC

The Fourteenth SAARC Summit did not only saw expansion of SAARC member by adding Afghanistan as eighth member of the organisation but it also welcomed China, Japan, the European Union, South Korea, the United States, Mauritius, and Iran as observers. Similarly, Australia and Myanmar were included as observers in the Fifteenth SAARC Summit. But taking into interest of Nepal, two countries

Afghanistan which is now a member of SAARC and China which has secured an observer status in SAARC require special attention.

Though Nepal has actively participated in the institutional development of SAARC for realizing its interests and interests of member states, its views on the expansion of SAARC have been quite ambiguous. It could be seen from the fact that Nepal and Pakistan were reluctant to the idea of including Afghanistan as a member state of SAARC in 1988 and had maintained that Afghanistan was a trans-Himalayan state and does not belong to South Asia (Upreti 2000). As there was no consensus among member states regarding Afghanistan, the proposal could not be taken up for consideration. Similarly, when a move towards including Afghanistan as the eighth member of SAARC was made before the thirteenth SAARC Summit, the initial position of Nepal and Bangladesh was reportedly lukewarm. However, the initial reluctance of Nepal and Bangladesh, has been interpreted by some on following lines: first they apprehended that, given the warm relationship between Kabul and New Delhi the entry of Afghanistan would increase Indian leverage within SAARC; and second, they feared that their share of SAARC development assistance would decrease once the aid hungry Afghanistan entered SAARC (Husain 2008). Though the second inference seems convincing, the first argument is contestable given the unanimity principle of decision making in SAARC, where all states have veto power to stop another state from influencing decision making.

In a related development, China has been showing interest towards SAARC in recent years. Nepal along with other member states has viewed favourable the idea to bring China into the South Asian forum and has viewed China's observer status as a positive development. Nepal's interest in bringing China into the forum could be interpreted in two ways. One relates its economic development interest; Nepal could serve as a transit point between India and China, the two largest emerging markets in the world¹⁰. The other reasons could be for counterbalancing Indian domination as China is often perceived as a good counterweight to India (Baral 2006). But the attempt to counterbalance India by using China card has always been a tragic failure for the South Asian countries. China was of little help during the Indo-Pak war of 1971, as well as during the 1990 economic blockade imposed by India on Nepal.

¹⁰ This View was maintained by King Gyanendra during the 13th SAARC Summit 2005.

However, in the recent years the Sino-India relations have not been hostile, and India does not see China as an immediate threat despite China's support to Pakistan (Buzan and Wæver 2003). The foreign policy of India throughout the Cold war era was basically focussed upon not allowing external influence in the region, however, this policy of India seems to have changed in recent years. In 2005, the then Indian foreign secretary, Shyam Saran observed:

If we really wish SAARC to move ahead, if we really want to achieve our dream of a South Asian economic union. unless we move forward to inter-connect from South Asia to the larger Asian capitals, then we cannot really move forward in any significant manner (quoted in Muni and Jetly 2010: 20).

Setting aside border disputes the two states are expanding their economic relations. The SAARC Chamber of Commerce and Industry and the China Council for the Promotion of International Trade established the South Asia-China Economic Forum in December 2004, which functions well and has brought the two economies closer and has experienced a rapid increase in trade between the two economies. For instance, China's trade with South Asia in 2007 was estimated to be US \$ 40.89 billion of which 75 per cent of trade was with India (Muni 2010). Similarly in 2008 China-South Asia trade stood at US \$ 65.7 billion an increase of over 25 per cent (Sheshang 2010). Therefore, it is in this context that Nepal could play an important role by serving as a transit point between the two largest emerging markets. As professor C Raja Mohan argues:

A cooperative approach with China would actually make it easier for India to bring its neighbours on board the massive long-term project of reconnecting South Asia. India's neighbours, in turn, could take advantage of their location as bridge states between India and China, two of the world's largest and fastest-growing economies. Consider, for example, the prospect of the Chinese and Indian rail networks connecting up in the Kathmandu Valley – which is no longer beyond the realm of possibility, with China's plans to extend the Lhasa railroad and the Indian Railways broad gauge network aiming at Raxaul on the Bihar-Nepal border. Also imagine Nepal offering full transit facilities for Chinese and Indian goods, and getting Beijing and New Delhi to invest in building north-south road networks that could transform the country's geo-economics (Raja Mohan 2008).

Therefore, the role of Nepal should be in connecting the two larger states, which could in turn benefit Nepal. But Nepal must avoid playing China card over India, as it would be detrimental not only to the SAARC process but for Nepalese economy also, as history has taught Nepal.

Some Issues of Interest to Nepal

Nepal has shown considerable interest in a range of issues, viz. Trade and economy, transport and transit, and several social and economic issues etc.

Trade and Economy

Economic security has emerged as an important security dynamic in the post Cold War era. The general proposition that emerges from the economic security thesis is that a dependent, economically weak state is ipso facto insecure; that is to say there is an inverse relationship between dependency and security (Adibe 1994). Therefore for small and weak states regional trading arrangement has emerged as an effective strategy for strengthening their economy and reducing dependency and vulnerability. The period between late 1980s and the early 1990s marked by rapid economic liberalization in different parts of the world and many countries created or were engaged in creating trading blocs with their neighbouring states. In South Asia it was felt that in the absence of any such bloc, SAARC could be marginalized in the global political economy. In order to bring various trade and economy related subject within the framework of SAARC, it was the smaller states which took the initiative in this regard. Given the apprehensions and reservations by the member states, SAARC was hesitant to take up bold initiatives particularly in the field of economic cooperation during its establishment (Pattanaik 2006). Nepal, strongly supported Sri Lanka which took a step forward in formulating the proposal for trade cooperation among the South Asian countries (Chaudhary 2000). Nepal was also vocal about the concession to be given for the least developed countries of the organization, so that they would not be marginalized and gain from such project. Addressing the Sixth SAARC Summit held in Colombo in 1991, the then Prime Minister of Nepal Girija Prasad Koirala was of the view that “the SAARC process has to strike a balance between the expanding economic interactions of some big member countries and the less developed ones”. Stating that the current levels of economic relations within the region do not create conditions for greater regional cooperation giving rise to doubts about the prospects of SAARC itself, the Prime Minister stressed on the institutionalization of intra-SAARC cooperation in core economic areas which would strengthen the SAARC and for that the trade liberalization policy with appropriate safeguards for special interests of

economically weaker partners will inevitably help the countries in the region to collectively reap benefits from such trade expansion.

Thus the Sixth SAARC summit in Colombo in 1991 decided to establish SAPTA, and this laid the foundation of cooperation in the area of trade in the region. The agreement was subsequently signed in Dhaka in April 1993 during the Seventh SAARC Summit. Moreover, the Annexure I of the agreement provided for special and favourable treatment of the least developed countries of the region. Nepal enthusiasm in trading arrangement among the SAARC member states could be seen from the fact that Nepal introduced a unilateral across-the-board 10 per cent tariff concession on all products imported from member states (Kumaraswamy 1999) and was also the first member state to ratify the SAPTA.

SAFTA¹¹ and the advocacy for Common Agenda in International forum

Nepal has also strongly advocated creation of the South Asian Free Trade Area (SAFTA). It was Nepal which during the Ninth SAARC Summit in Male in 1997 proposed that South Asia should realise free trade area by 2001 (Dhakal 2004). Moreover, all the six preparatory meetings of the Committee of Experts for SAFTA were chaired by Nepal (Ministry of Foreign Affairs 2004). Nepal had also been vocal on the inclusion of trade in services within the SAFTA framework and the Sixteenth SAARC Summit held in Bhutan agreed to incorporate service sector under the SAFTA commitment. There are some service sectors in which Nepal is more competitive than in any other areas, such as tourism and hydroelectricity. However, these sectors cannot develop unless Nepal devotes its resources towards harnessing the potential both for the domestic as well as international market (Adhikari 2004). Being a poor country, regional cooperation becomes imperative for Nepal in exploiting its resources. This is why regional cooperation in managing of Nepal's massive hydro resources was one of the main reasons for Nepal's interest. With only small market size, Nepal can capture big market in the region, particularly India where energy consumption has been increasing at a rapid rate, through cross border trading. Therefore, the Nepali Heads of state since the First SAARC Summit have

¹¹ SAPTA was an arrangement that aimed at promoting mutual trade and economic cooperation through exchange of concessions within the region under a step-by-step approach. Three rounds of preferential tariff reductions were introduced for individual products. In the twelfth SAARC Summit the member states signed the SAFTA which sought to establish a free trade zone in South Asia by reducing tariffs among members to 0%–5% by 2016 and establish a free trade area.

been urging the member states for collective utilization of water resources. However, it was only during the Twelfth SAARC Summit the member states endorsed the concept of an 'energy ring' of interconnected energy system in the region to promote regional energy trade in South Asia (Institute of Foreign Affairs 2010: 191). In this regard SAARC has set up a Technical Committee exclusively on energy sector cooperation under its Integrated Programme of Action and has set up an Energy Centre in Islamabad.

Nepal gained the membership of the World Trading Organization in 2003 and therefore, Nepal's interest on the regional trade on commodities and services arises from its serious lack of capacity whether in terms of being able to trade or to participate in the trade negotiating process or in terms of implementation of the commitments assumed in the multilateral trading system (Adhikari 2004) as small states are unable to act effectively on their own but they may have a major impact in a small group or through international institutions. Therefore, Nepal has been advocating the need to articulate common views and positions of the South Asian countries on various international issues and events, in order to strengthen collective role in the international arena. Nepal too sees increased regional cooperation with its larger neighbour to be essential both to counter the limited ability to reap economies of scale and to achieve the degree of competitiveness necessary to succeed in a global economy and negotiating as a block, it could benefit from greater bargaining power and overcome its problem of the lack of skilled human resources which is the key to tapping the opportunities of market openings (Adhikari 2004). Thus in this respect Nepal sees SAARC as an important forum in strengthening its competitiveness in world economy.

Nepal in recent years has seen its share of trade with SAARC increase. For instance Nepal's total intra-regional trade in 2000 accounted for 37.7 per cent of its total trade whereas in 2006 Nepal's trade with SAARC countries increased to 71.9 per cent of its total trade (Weerakoon 2010). But out of the increased trade 98.3 per cent of Nepal's intra-regional trade has been with India (Kumar and Singh 2009). The increase in Nepal's trade has not been because of SAFTA but because of bilateral FTA between India and Nepal which provides for reciprocal grant of unconditional MFN status to both the countries granting Nepalese primary products full access to the Indian market, free of duties and quantitative restrictions (Rana and Dowling 2009).

Moreover, the agreement also provides for refunds to Nepal for excise and other duties collected by India on goods produced in India and exported to Nepal (Rana and Dowling 2009).

Issues of Transportation Infrastructure Development

Lack of direct sea access presents growing challenges to the global integration and growth prospects of many landlocked developing countries aspiring for trade diversification and economic development (Faye et al. 2004). A 1970s study by the UN Conference on Trade and Development (UNCTAD) noted that lack of access to the sea constitutes a major obstacle for economic and social development as their productive activities are not sufficiently diversified and their export revenues depend on a limited number of products. Moreover, their lack of direct access to the sea entails additional expenses because of the costs of transporting goods through a transit State, resulting in a less than competitive international trade and causing delays or even interruptions in their development and economic growth (Uprety 2006). Lack of an efficient regional transport network and transit facilities often involve high handling and transportation charges, and delays in delivery, thus hampering the flow of trade between Nepal and its trading partners in the region. For these reasons, facilitating trade in landlocked countries is important because such geographical restrictions are the primary reason that developing countries are unable to benefit from trade preferences. Therefore, facilitating the signing of regional or multilateral conventions aiming at ensuring freedom of transit, and developing regional transport infrastructure are seen as standard approach used to tackle the cost of being land locked (Arvis et al. 2010). Improving the regional transport and transit facilities would benefit not only Nepal and South Asian landlocked countries but the entire region as high cost of transaction linked to weak infrastructure has been one of the impediments in increasing intra-regional trade in SAARC. Therefore, Nepal has been vocal about the same for a very long time.

On the initiative of Transport, a study entitled “Transport Infrastructure and Transit Facilities in the SAARC Region” was completed by an independent agency in Nepal in 1993. For a long time, the report remained under the consideration of the Committee on Economic Cooperation (CEC), and could not yield any progress (Lama 2010). However, the 12th SAARC Summit in Islamabad in 2004, called for

strengthening transport, transit and communications links across South Asia and a new project, SAARC Regional Multimodal Transport Study (SRMTS), was carried out by the Asian Development Bank for the SAARC in 2006 to strengthen transport, transit, and communication links across the region (Lama 2010). On the request of Nepal, the 33rd meeting of SAARC Council of Ministers held in February 2011 in Thimpu, approved the idea of the demonstration run of a cargo train from Bangladesh to Nepal via India. If the demo run proved successful, SAARC countries could decide on commencing cargo train service on a regular basis which would help in increasing connectivity among the member states (The Kathmandu Post February 8, 2011).

Sub-Regional cooperation in SAARC

Nepal has very enthusiastically supported the idea of sub-regional cooperation in the region. Bangladesh and Nepal in the 17th meeting of the SAARC Council of Ministers (New Delhi, 19-20 December 1996) proposed that subregional co-operation be initiated among Bangladesh, Bhutan, Nepal and the North-eastern states of India on mutually agreed areas (Nuruzzaman 1999). When Nepal presented an approach paper in the SAARC Council of Ministers meeting on the feasibility of the sub-regional cooperation among Nepal, Bhutan, Bangladesh and India in the form of growth polygons, the stress was on the creation of production complementarities for the sub-region, laying emphasis on cooperation in water, energy, environment, transportation, transit, communications, tourism, trade and investments (Pandian 2002). The idea was positively responded by India, whereas, Maldives, Pakistan and Sri Lanka strongly opposed for them being let out and argued that such initiative could erode the spirit of SAARC. Pakistan saw it as an attempt by India to advance its influence in the region and isolate Pakistan (Muni 1997). India played a positive role in this regard. The then Indian Prime Minister Inder Gujral in an attempt to convince Sri Lanka even asked the Sri Lankan Foreign Minister to act as the coordinator for subregional cooperation among India, Sri Lanka and the Maldives and also asked Pakistan to join with India in evolving projects for subregional cooperation (Muni 1997).

Nepal's interest in sub-regional cooperation arises from two objectives. On the one hand, Nepal had been demanding inclusion of Bangladesh in the river water issues between India and Nepal and also demanding alternative sea route in Bangladesh and it would be possible to realize these goals through sub-regional cooperation. And

from the institutionalization of subregional cooperation, Nepal could be benefitted in matters of river water utilization, environmental management, trade and development (Upreti 2000). On the other hand, it was based on the understanding that the rapid liberalization of the economy could marginalise the less developed small countries in South Asia which have limited production capabilities (Chaudhary 2000). Hence, in order not to miss the economic opportunities emerging from the mainstream world trade, in terms of investment, technology transfers etc and to overcome the problem of economic insecurity, sub-regional cooperation among contiguous countries was seen as an alternative to strengthen the capacity of the least developed countries. On the other hand the evolution of sub-regional cooperation within SAARC framework is also seen as a result of slow progress of economic cooperation within SAARC since its inception (Palit and Islam 2010).

In the Male conference in May 1997, the Nepali Prime Minister advocating the importance of Sub-regionalism for the least developed countries in the region stated:

while speaking about cooperation in core economic areas, we cannot remain indifferent to the fact of asymmetry in terms of resources and level of development among ourselves. The least developed members of SAARC need particular attention in terms of regional investment for infrastructure development. This alone can ensure a systematic pursuit of balanced development for regional economic growth and create growth poles in the least developed member states and the least developed region of a member state. When they reach a point of economic take-off, they will be able to participate in sustaining growth in the whole region and participate meaningfully in a free trade agreement. It is for this reason that Nepal has advocated sub-regional cooperation for specific projects within the larger framework of SAARC (Institute of Foreign Affairs 2010: 34).

Once the idea was accepted Nepal was selected as a coordinator and was entrusted with the task of preparing a plan for sub-regional cooperation among the countries of the eastern-Himalayan region. The idea of South Asian Growth Quadrangle got institutional and technical support from the Asian Development Bank leading to the establishment of the South Asia Sub-regional Economic Cooperation (SASEC) in September 2000. The SASEC emphasizes on project based development in the South Asian Growth Quadrangle on six different sectors, namely, transport, energy and power, tourism, environment, trade, investment and private sector cooperation, and information and communication technology (Palit and Islam 2010). Nepal's role in

inclusion of sub-regional cooperation within SAARC has also opened options for other member states to engage in such initiative within the ambit of SAARC.

Socio-economic Issues

Nepal which has for long remained a least developed country, has been equally troubled by the issue of poverty. Therefore, it has since the establishment of SAARC maintained that regional cooperation within the framework of SAARC could complement the national efforts in reducing the poverty in the region. However, it was the Sixth SAARC Summit, where the Nepali Prime Minister made a strong statement regarding the issue of poverty and the need for coordinated action plan in order to achieve the goal of poverty reduction:

While I stand before this august gathering, I cannot lose sight of the fact that we together represent more than one-fifth of humanity, the majority of which is economically poor and under-privileged. Unless we focus our attention on their plight and channelize resources to improve the quality of their lives, we will have failed in our goals. Nepal would, therefore, like to see concrete and coordinated programmes for the alleviation of poverty accorded highest priority in the framework of our regional cooperative efforts (Institute of Foreign Affairs 2010: 23).

That Summit came up with a resolution for fighting poverty in the region through collective action, and to this end, recommended to identification of important areas wherein such cooperation could be possible. The Heads of State or Government of the SAARC countries also passed the resolution that an Independent South Asian Commission on Poverty Alleviation be set up with Nepal as its convener. The commission was required to examine causes and consequences of poverty in South Asia; to disseminate positive lessons from successful and sustainable experiences in the region; to diagnose causes of past failures; and to identify critical, concrete and practical elements of a coherent strategy for poverty alleviation. The report was prepared and placed before the SAARC Summit in Dhaka in 1993. The Summit indeed set 2002 as the date by which poverty would not just be alleviated but eliminated from South Asia. However, much could not be achieved in this regard. The 11th SAARC Summit again reconstituted the ISACPA-II under the convenership of Nepal, whose report was submitted to and endorsed at the Islamabad Summit in 2004. Nepal also actively contributed to the formation of SAARC Development Goals and SAARC Social Charter. It strongly supported the formation of SAARC Development

Fund (SDF), which helps projects on poverty alleviation, social development and several infrastructural and non-infrastructural funding. Therefore, Nepal can benefit from such funding.

Nepal is a country critically vulnerable to climate change because of its unique topography and fragile mountain ecosystem. It is the second highest country at risk of flooding, country second to Bhutan in South Asia. Many lakes of glacial origin in the higher Himalayan regions are expanding rapidly in both area and volume, because of glacial melting, which is in turn thought to be due to rising global temperatures (ISDR 2009). Increased temperature in the Nepal Himalayas has resulted in the melting of snow at faster rate than before. There are over 3,000 glaciers and 2,000 glacial lakes in Nepal. Rapid melting of glaciers also results in the formation of glacial lakes at high altitudes. There are 20 potential glacial lakes which are on the verge of bursting and are likely to affect millions of people, living both upstream and downstream. Nepal had voiced the need for cooperation on the issue of environmental degradation way back in 1987 at the third SAARC Summit and has been advocating for cooperation on the issues of climate change. SAARC has taken the issues of environmental degradation and climate change seriously and several mechanisms have been established for cooperation regarding the issue. Similarly Nepal greatly contributed to the establishment of SAARC Food Bank and has contributed to it according to the agreed upon criteria. Nepal's rationale behind active participation in the establishment of the food bank lies in the fact that it is one of the countries that is likely to be impacted by food price increase because it is net food importer. Moreover, climate change has impacted the production of food grains in Nepal. According to the World Food Programme (WFP) about 3.7 million people in Nepal are at risk of food insecurity (Sapkota 2011).

Another problem of Nepal is that it is a source country for human trafficking for the purpose of sexual exploitation and bonded labour. Women and children are trafficked to India and to other countries via India. It is estimated that 200,000 Nepali girls are in Indian brothels, and 12,000 new ones are trafficked into India each year. A study by the Institute of Social Sciences in Delhi notes that 31 per cent of the victims rescued from Delhi, Mumbai, and Kolkata brothels are from Nepal (Balachandran 2008). This transnational crime can only be arrested through regional cooperation. The signing of SAARC convention on Preventing and Combating the Trafficking in

Women and Children for Prostitution can be expected to help Nepal deal with the problem. Nepal also greatly contributed to the conclusion of the SAARC convention on narcotic drugs and psychotropic substances, and also on the convention on terrorism.

The Nepali proposal to institute a SAARC Award to honour the outstanding work of individuals and organizations within the region in the fields of peace, development, poverty alleviation and regional cooperation was appreciated by the member states in the Eleventh SAARC Summit and requested Nepal to submit a concept paper for consideration by the next session of the Council of Ministers. The Nepali proposal was accepted in the Twelfth SAARC summit which subsequently established SAARC Award along the line of Nepal's concept paper to honour the outstanding work of individuals and organizations within the region in the fields of peace, development, poverty alleviation and regional cooperation.

Domestic politics of Nepal and SAARC

The role of interest groups and other non-state actors and domestic politics in regional cooperation has been highlighted by several scholars of regionalism. Liberal intergovernmentalism for instance emphasizes on the distributional consequences of economic policies for domestic societal groups and the desire of political leaders to hold onto power. At its core, this approach contends that governments' policies are strongly influenced by distributional conflict among societal groups; that groups that expect to lose from integration will oppose it and those that anticipate to benefit from it will support it; and that economic policies often reflect the preferences of the more powerful and better organized interest groups in society (Moravcsik 1993). Moreover, one of the characteristics of the new regionalism is that it is not only state but various non-state actors as well who do actively participate in the regional projects (Hettne 1999). It is argued that support of various domestic groups is necessary for the decision makers to pursue regional cooperation policies (Dash 2008).

Taking this point into consideration, when we look at Nepal, NGOs, professionals, academics, media and civil society are strongly in support of strong SAARC and has also been working in their capacities to make SAARC an effective organization (Pandey 2005). Businessmen have found that their voice can be included in the cooperation process through the SAARC Chamber, and the most vocal in integration

debates in the SAARC Chamber of Commerce have been the Nepalese businessmen (Khatriwada 1999, Khetan 2005).

On the other hand even political leaders across parties are developing positive outlook to SAARC. If we look at the last 16 Annual Summits of SAARC, the Summit was attended by the King five times, royalist party leader twice, Nepali congress leader seven times, and Nepal Communist Party (UML) twice. In all these Summits, Nepali heads of state have stood for strengthening SAARC, for implementing all the decisions taken, and upheld their commitment towards SAARC. Even though the Maoist party which is considered to be critical of India, Prachanda (head of the Maoist party) while addressing the 2nd annual summit of Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) (where other four South Asian countries, India, Bangladesh, Bhutan and Sri Lanka are also member) spoke about enhancing cooperation in exploiting hydro resources and reducing poverty in the region. This make clear that even the Maoist cannot ignore the importance of SAARC for Nepal. Thus all the ruling elites despite of their ideological differences have understood the importance of SAARC for Nepal in order to overcome its vulnerabilities.

However, the political culture prevalent among Nepali political leaders needs fundamental reorientation in their attitude. Politicians of different hues cry foul of unwarranted foreign interferences particularly from India when it goes against their interest and do not shy away from seeking undue external blessing when it benefits them (Pudasaini 2009). Nepali leadership should stop using two vacillating sets of rhetoric on foreign policy, one belligerent and other conciliatory, when they are in power and out of it respectively (Mahat 2009). Using nationalistic rhetoric to exploit the national sentiments for partisan favour does not create a good neighbour. Instead the political elite should clearly state their priorities and problems that are hurting Nepal's national interest through diplomatic dealings rather than using foreign policy matters for domestic political consumption (Acharya 2009). It is unnecessary to beat the drum of nationalism by creating an imaginary threat from India for their personal benefit and giving rise to anti-India feelings among the Nepali population. The Nepali political leaders must acknowledge the fact that, because of geographic conditions, Nepal has to have more cooperation with India in all fields of its economic activities:

tourism, hydropower, agriculture, healthcare and education and even different kinds of transnational crimes (Acharya 2009).

The professional approach to dealings with neighbours particularly India on the basis of trust could bring substantial benefits to Nepal. Especially the problems related to transit, terrorism and floods control, etc. should get higher priority to the mutual satisfaction of Nepal and India. By addressing these issues, Nepal will not only be able to strengthen the bond of friendship but also strengthen its economy. It must be noted that India is not only the largest trading partner of Nepal but also the biggest investor in various sectors in Nepal.

Harnessing Nepal's river water was one of the key interests for Nepal in raising the need for regional cooperation. But it may be surprising to note that India, one of the energy-thirstiest nations sits next to an immensely energy-rich neighbour, Nepal. Yet, because of inadequate cooperation with India, Nepal has barely exploited its hydropower potential (Ahmed and Ghani 2010). Nepal's export-oriented hydropower projects have been tied up in protracted negotiations with India which have acquired political overtones and have not only strained Indo-Nepal relations but have also become a major issue in domestic politics in Nepal (Sobhan 2006).

No doubt there had been mistakes on both the sides during the Cold War in understanding each other. But the post- Cold War era has seen change in India's attitude towards its neighbouring countries. The Gujral Doctrine can be cited as an example, which stresses that India's strength and stature cannot be assessed in isolation from its relationship with neighbours, particularly the smaller neighbours such as Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka. To emphasise the importance India should accommodate the wishes of its smaller neighbours without demanding reciprocity (Murthy 1998). Indian opinion makers have been taking the same line. However, Nepal seems to have failed in understanding this.

India has been one of the largest growing economies in the world. Therefore, Nepal being one of the closest neighbour of India, should grab this opportunity for its own development by encouraging India's joint venture and investment in various sectors. On the other hand India should also refrain itself from the issues that Nepal considers to be sensitive and being the largest state in the region must engage in building confidence among the smaller states. It is good understanding and constructive

diplomacy between neighbouring countries that boost up regional cooperation and helps in evolving a regional identity.

CHAPTER IV

Nepal and Evolving Agenda at SAARC

The end of the Cold war saw the widening of the definition of security, to include various issues such as economic security, social security, environmental security, transnational crimes etc. Thus this chapter attempts to look at such challenges before SAARC, institutional response and analyse the achievements gained by SAARC from Nepal's perspective. The chapter than look at several reasons obstructing the success of SAARC.

Throughout the Cold War period security was conceived solely as defence of national territory against "external" military threats. But, with the end of the Cold War, the very definition of security has expanded to include various other issues such as political, economic, social and environment and as well as many linkages between them. These various issues that have emerged today in various studies are often referred to as the non-traditional security threats. It has been argued that the emergence of "non-traditional security issues" represent an intellectual shift from the Cold War understanding of security. This shift can be partly attributed to the belief that the traditional security framework could not adequately incorporate various problems such as economic dislocation, migration, human trafficking, political violence, refugees, environmental degradation, and the possibility of sustainable livelihoods into its analysis (Wang and Curley 2004).

The growing salience of non-traditional security issues emerges from the understanding that non-traditional security challenges can and do spill over territorial borders and cause a range of wider security threats and emerging as sources of instability – such as refugee flows, illegal trafficking in narcotics and humans – or otherwise disrupt international markets (Thakur and Newman 2004). They have security implications for both short and long terms and could aggravate violent tendencies to trigger cross-border conflicts and affect the conduct of war (Freedman

1998). Emphasising the impact of these non-traditional security threats, the President of the United Nations Security Council noted:

The absence of war and military conflicts amongst States does not itself ensure international peace and security. The non-military sources of instability in the economic, social, humanitarian and ecological fields have become threats to peace and security (quoted in Najam 2004).

Moreover, the post-Cold War period which has been characterised as an era of rapid globalization has not only exacerbated the fear of developing countries from being marginalised in the world economy, but has also strengthened the capabilities of groups such as drug smugglers, political terrorists, criminal organizations, and ethnic insurgents to carry out their agenda more aggressively (Cha 2000). The threat posed by drugs, terrorism, transnational crime, environmental degradation and other socio-economic issues has been intensified precisely because of globalisation.

It must be noted that the solutions to many of the issues mentioned above in terms of enforcement or containment are ineffective through national or unilateral means because of the limitation of state capacity. Such limitation is more severe in the developing world and small and weak states in particular, because of lack of resources. In this situation multilateral frameworks are better suited for dealing with the problems of non-traditional security threat (Freedman 1998, Thakur and Neuman 2004).

In this context, the role of regional organisations appears to be of vital importance for that within a region, adaptation of international solutions to real problems can be carried out better and commitments by states to each other can be defined within manageable proportions. The argument is, the geographical proximity and close historical, economic and cultural ties between members of regional organisations give them the advantage of understanding the root causes of regional problems and thus of developing peaceful solutions to these problems (Thakur and Langenhove 2008).

It is in this respect, that the post-Cold War saw momentous growth of regionalism in world politics and state leaders have been promoting and strengthening the regional projects. Regionalism is expected not only to enhance the economic growth of the member states and for coordinating regional positions in international institutions or negotiating forums, but also to solve common problems such as growing poverty,

cross border terrorism, negative impact of globalization, and marginalisation in the world economy. Thus, growth of regionalism in many parts of the world both as a result of the globalisation process and the inability of nation-states to deal with negative externalities created by interdependence solely has brought regional cooperation as a major line of development strategy.

The South Asian region (comprising of eight member states of SAARC, Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) too is not unaffected by different non-traditional security threat. Four out of eight member states of SAARC (Afghanistan, Bangladesh, Bhutan, and Nepal) are categorised as the least developed countries of the world. And moreover, South Asia is home to the largest number of world poorest. Climate change and environmental issues have become other serious issues for the South Asian states. South Asia has also been the home for several transnational criminal activities such as terrorism, drug smuggling, and human trafficking etc that have become threats to peace and security in the region and outside. Therefore, SAARC today faces tremendous challenges before it. It has to deal not only with the economic development of the member states but also the social well being of the people living in the region.

Economic and Trade Cooperation

As stated earlier, majority of SAARC members are the least developed countries, therefore the first challenge facing the SAARC is the economic development of these member states by encouraging economic and trade cooperation. Since Nepal is least developed in industrial raw materials and highly equipped machinery, there is minimum chance of cost-effectiveness. Small domestic market seems to be an obstacle to economic growth (Sharma and Bhandari 2005). As increasing trade has been identified as one of the strategies for achieving broad-based economic growth (Adhikari 2008), economic and trade cooperation therefore is of utmost importance for a country like Nepal to overcome its small market size, overcome its landlocked constraints, improve its production capability and to increase its engagement with a globalizing world. Hence, membership in SAARC can be seen as an important instrument for Nepal for increasing its trade and for its sustained economic growth which is essential for expanding the resources base for development and hence for economic, technical and social transformation.

In order to encourage economic and trade cooperation among the member states of SAARC, in 1993, SAARC countries signed an agreement to generally lower tariffs within the region through SAPTA. Three rounds of preferential tariff reductions were introduced for individual products. At the Ninth SAARC Summit held in Male in May, 1997, the Heads of State or Government recognised the importance of achieving a free trade area by the year 2001 and reiterated that steps towards trade liberalisation must take into account the special needs of the smaller and the least developed countries and benefits of trade liberalisation must accrue equitably. This mandate was reiterated at the Tenth SAARC Summit held at Colombo in July, 1998. Towards this end, the member states constituted Committee of Experts, to work on drafting a comprehensive treaty regime for creating a free trade area. Recognising the need to move quickly towards a South Asian Free Trade Area, the Heads of State or Government directed the Council of Ministers to finalise the text of the Draft Treaty Framework by the end of 2002 at the Eleventh SAARC Summit held at Kathmandu, January 2002. They also directed that in moving towards the goal of SAFTA, the Member States expedite action to remove tariff and non-tariff barriers and structural impediments to free trade. The Committee of Experts held several meetings during 2002 and 2003 in Kathmandu to finalise the text of the agreement. The agreement was signed during the Twelfth SAARC Summit held in Islamabad in 2004. Subsequently, the South Asian Free Trade Agreement (SAFTA) has been ratified and entered into force in mid-2006. The objectives of SAFTA are: eliminate all tariffs and import restrictions; harmonize customs procedures; facilitate intra-regional banking, and port and land transport facilities; develop a program to facilitate trade-related services; establish a review and monitoring mechanism; ensure equitable benefits to all member countries; and remove structural impediments to regional trade. Representatives from the members of SAARC meet yearly to discuss progress and ensure that the benefits from trade expansion resulting from the implementation of the agreement are distributed equitably. If the agreement is implemented, all countries in the region could benefit from scale economies and greater competition; this would also pave the way for greater trade with the rest of the world.

Scholars writing on the South Asia regional trading arrangement seem to be divided on the benefits accruing from such arrangement in the region. On the one hand, there are strong arguments for the regional economic integration in South Asia, as this

integration is expected to generate significant intraregional trade and welfare gains for the South Asian countries. It is envisaged that SAFTA will lead the growth in intraregional formal trade from US\$11 billion in 2007 to US\$40 billion by 2015 (RIS 2008 quoted in De et al. 2010). If South Asian countries develop an integrated economy, then South Asia could become the second largest economy in the world after China (Hussain 2010). On the other hand, critics have pointed out that the potential benefits from the SAFTA and other regional trading arrangements in South Asia are negligible because there are limited complementarities in the region (Kemal 2006). The pessimistic view on the regional arrangement in South Asia basically points at the presence of small and weak economies, high level of protection among the SAARC economies and the provision of excluding sectors from tariff liberalization along with the provision of rules of origin, make South Asian Regional trading arrangement unattractive (Panagariya 2007). Moreover, it is argued that these features present in South Asia will likely be trade diverting rather than trade creating.

Several studies conducted on the effects of SAFTA have concluded that the smaller member states-Nepal and Bangladesh-would gain the most from the full elimination of tariffs among South Asian members whereas, India, Pakistan and Sri Lanka would have only marginal benefits but would enjoy larger gains if there were a liberalization agreement with the European Economic Community (Rodriguez 2007, Winters 2001). Another study finds that the removal of restrictions between India and Pakistan would lead to substantial increase in the volume of trade that would result in substantial economic benefit to Pakistan (Nabi and Nasim 2001). Similarly, India's economic growth, which has so far been based on the domestic market, will, in the foreseeable future, require rapidly increasing exports for which Pakistan and other South Asian countries are an appropriate market, thus, the sustainability of India's economic growth requires cooperation with Pakistan (Hussain 2010). A study by the State Bank of Pakistan in 2005 found that 32 per cent of the types of products exported by Pakistan were imported by India from countries other than Pakistan even though the unit price of Pakistani products was lower than that of the competing imports to India (Desai 2010). Likewise, nearly 50 per cent of India's export products were imported by Pakistan from countries other than India even though the Indian products were cheaper. The 2005 study estimated that Pakistan was losing between US\$400-US\$900 million annually by obtaining such imports from alternative sources (Desai 2010).

The study is a clear manifestation of benefits that these countries can gain through trade.

Despite the fact that, implementation of trade agreement would benefit all the member state and would also pave the way for greater trade with the rest of the world, the intraregional trade in the SAARC has been too low. The intraregional trade among the SAARC member states has been only around US\$10.48 billion in 2006, or around 5 per cent of the total trade, compared to 45 per cent in East Asia and 26 per cent in ASEAN sub-region (Rahmatullah 2010). Critics point that this low level of intraregional trade is because of identical pattern of revealed comparative advantage and lack of strong complementarity in the bilateral trade structure of South Asian countries (Kemal 2006). However on the other hand, it is argued that there exists in fact, a large untapped trade potential in the region, which is yet to be realised and South Asian trade indicates significant trade and services sector complementarities across the region (Burki 2004 quoted in Khan et al. 2009, ADB 2008). They also suggest that increased trade flows are likely to engender technical efficiency, improve resource allocation and allow countries to create niches by specialising in different products within a given industry. The high incidence of unofficial trade in the region is an indicator of the enormous potential that exists for furthering trade flows between these countries. Although a large part of the problem is related to a high level of formal trade barriers and the political unwillingness to liberalize interregional trade, the poor state of trade facilitation, as well as both gateway and behind-the-border issues, also play a critical role in keeping inter-South Asian trade low (Taneja 2006, Roy and Banerjee 2010).

But given the limited production capability of country like Nepal, trade expansion in the SAARC region, through trade liberalisation alone would not be beneficial for it. It is therefore necessary for the big states to take into account the special circumstances of Nepal and promote intra-industry trade in the region through production sharing arrangements and vertically integrated regional production structures which would strengthen the economy of Nepal and thus contribute to intra-regional trade in the region (Kemal 2005). Vertical specialisation would not only allow the regional trading partners to strengthen their trade ties, but also enable them to reap economies of scale by concentrating on a specific production process in the value addition chain (Ahluwalia 2002). For country like Nepal, trade–investment nexus is of crucial

importance. The flow of investment in the SAARC region could be facilitated by establishing a SAARC Investment Area similar to the ASEAN Investment Area (Sobhan and Zaman 2004). Therefore, encouraging intra SAARC joint ventures would not only enhance intra SAARC trade, but also extra SAARC exports and help Nepal in tackling issues of regional trade imbalance, with India. This seems to be recognised by the SAARC leaders when in the Ninth SAARC Summit in 1997 they agreed that SAARC efforts to enhance trade and economic cooperation in the region should be strengthened through the adoption of measures promoting SAARC joint ventures. Nepal could also benefit if the member states agree to create a reasonably large sized fund” for the development of LDCs’ infrastructure, human resources, and export production and diversification capacity to increase the competitiveness of LDCs’ exports to the region which is the key to the sustainability of SAFTA (Adhikari 2010).

Even though in every Summits the South Asian leaders have emphasised on the importance of regional cooperation for the development of the region, progress on SAFTA remains limited and argument has been made that SAFTA has already lost a great deal of momentum in the evolving dynamics of regionalism in Asia (Weerakoon 2010).

The failure of SAARC to make any progress in the economic cooperation in the region is attributed to several reasons, particularly the contentious relationship between member states, particularly India and Pakistan, the poor infrastructure in the region to facilitate trade among the member states and persistence of several market access barriers along with high sensitive list even in goods of trade interest.

Pakistan though recently has agreed in principle to grant MFN status to India, it had long refused to grant so which contravened the SAFTA spirit. The basic fear in the Pakistani political elites being that Kashmir issue could be skirted should trade volumes and reliance upon India increase. On the other hand, a strong sense of nationalism coloured by religious discourse has created an inward-looking mindset vis-à-vis India (Khan et al 2009b). On the one hand Pakistan has been maintaining that until the bilateral disputes are settled (i.e. the Kashmir issue) SAARC cannot move forward. Whereas, India has been maintaining not to bring bilateral issues into the SAARC forum, and has instead stressed upon the economic gain that would result from the mutual cooperation. Unless India and Pakistan come out with the concrete

understanding it is difficult for SAFTA to emerge as a dynamic institution for regional integration. South Asia's economic integration is too important a part of the regional development agenda to be held hostage to a bilateral political dispute that excludes six of the region's eight countries (Roy and Banerjee 2010).

The other factor obstructing South Asia from achieving its full potential is the absence of regional transit trade. Integration of the transport network of South Asia is important for country like Nepal to end its landlocked status and reduce its cost of trade. The distance from the sea, the relatively small volumes of cargo and the intermediate handling costs raise the transportation cost of Nepalese exports. A study conducted by the Ministry of Industry, Commerce and Supplies found that Nepalese firms pay, on average, over 50 per cent more for export than firms in other developing countries. In addition, the low frequency of air cargo flights, the inadequacy of container trucks, time delays, loading and unloading expenses along the road at checkpoints, and theft and pilferage further aggravate the transportation problem (Ministry of Industry, Commerce and Supplies 2003: 47). High transport costs arising from its geographical location has in a significant way constrained Nepal and put it at a disadvantage compared to many other low-wage countries in attracting export-oriented FDI (Athukorala and Sharma 2006).

Building up of transportation infrastructure is equally important for other member states as it provide shorter transport and transit links to their desired destinations¹². The inefficient transport facilities have added to the cost of trading between the countries within the region. This problem has not gone unnoticed by the leaders. The 12th SAARC Summit in Islamabad in 2004, called for strengthening transport, transit and communications links across South Asia. The Secretariat pursued this decision, and conducted the SAARC Regional Multimodal Transport Study (SRMTS) during 2005-06, with financial assistance of ADB, with the main objective of enhancing multi-modal transport connectivity among SAARC member states. The 14th SAARC Summit held in New Delhi in 2007 decided to pursue the implementation of SRMTS

¹² A container takes 35 days to move from New Delhi to Dhaka, as the maritime route is via Bombay and Singapore/Colombo to Chittagong Port and then by rail to Dhaka. But the same container could have reached Dhaka within 5 days, if direct rail connectivity was there between New Delhi and Dhaka. Similarly, for moving a container from Dhaka to Lahore, it is now required to travel 7,162 km by sea has instead of 2,300 km, because overland movement across India is not allowed. Transport cooperation among Bangladesh, India and Pakistan could have restored movement along shorter routes (Rahmatullah 2010).

recommendations, and urged their Transport Ministers to oversee the task. Taking note of the recommendations of the SAARC Regional Multimodal Transport Study, the SAARC Transport Ministers agreed to reach a Regional Transport and Transit Agreement as well as a Regional Motor Vehicles Agreement in 2008 (De et al. 2010). However, the surface transport networks in South Asia still continue to remain fragmented due to various historical, political, and economic reasons as well as lack of cooperation among the member countries. Bangladesh has been reluctant to offer transit facilities to India as it fears leakage of Indian goods into Bangladesh. Similarly, The first expert group meeting held at the end of 2009 to negotiate on the draft regional agreements on establishment of road and railway links concluded without any significant progress. The draft road vehicle agreement which could not be brought into the negotiation table due to objection of Pakistan as the road network was proposed to proceed through Afghanistan (Sultana 2011). Therefore, unless the major countries such as Bangladesh, India, and Pakistan take the initiative to address the transport barriers no positive outcome can be expected on the improvement of transport and transit facilities in the region (Rahmatullah 2010).

Unless India and Pakistan participate in a healthy trading relation as per the principle of SAFTA, there is little hope that Nepal will be able to attract huge amount of trade–investment from these two big countries, and any mechanism to strengthen the economy of small state like Nepal will be undertaken.

Energy Cooperation in South Asia

The energy needs of the South Asian countries are growing fast and therefore there is a need to promote cross border energy trade. The region is already undergoing energy shortages, usually in the form of frequent, costly and widespread power outages. Given this situation and its economic, social and political ramifications, improvement of energy supplies in general and electricity in particular is of vital concern for countries of the region (Malla 2008). The South Asia region has one of the richest sources of hydel power in the world but only small proportion (hardly 15 percent) of this great regional potential (231245 MW) has been exploited so far (Lama 2006). It has been argued that development of energy infrastructure is the backbone of the economic development of any nation and this assumes greater significance for the South Asian countries where poor energy infrastructure has been the main cause of

the slow economic growth (Thakur 2006). To meet the growing aspirations of the people and economies in South Asia, the region is under immense social and political pressures to secure reliable, sustainable and reasonably priced energy supplies and therefore, energy security is no longer a catchphrase but an inevitable reality for vital economic development throughout South Asia (Kelegama 2010). Relieving this constraint through the sustainable provision of secure energy supply at affordable prices remains a significant challenge that deserves the attention of governments of the region on a priority basis (Vucetic and Krishnaswamy 2009).

The most compelling argument for advancing cooperation in the area of energy lies in the fundamental energy dynamics in South Asia: India relies on poor quality domestic coal and imported petroleum products and represents a large and expanding market for energy; Sri Lanka needs to import more fuel for power and Bangladesh wants to minimize its dependency on petroleum import, for that it spends about 12 per cent of its total import bill on petroleum products (Thakur 2006, Wijayatunga 2006). In South Asian region India, Pakistan, Bangladesh, Sri Lanka have energy demand surpassing their domestic supply, while Bhutan and Nepal have energy resources, hydropower in particular, far in excess of their domestic needs that could be traded within the region. On the other hand Bangladesh India and Pakistan have potential for significant electricity and gas trade within the region. But since each of the countries in South Asia tries to implement various strategies to address the issue of energy security; there is a growing need to address the issue from a regional perspective (Kelegama 2010).

Nepal does not have any fossil fuel reserve nor coal mining and technological development of the country does not allow development of nuclear power. The development of alternative energy such as solar or wind is also limited due to the cost involved in such development (Karmacharya 2007). Hence, for all commercial energy needs, Nepal depends on imported fuel which amounts to over 60 per cent of the country's export earnings (Rai 2011). In a small economy such as Nepal, pressure on the foreign currency reserve, because of the petroleum products bill, is substantial and therefore, hydropower development plays a vital role not only in terms of lessening the pressure on foreign currency reserves, but also in ensuring energy security against uncertainty in supply as well volatility in oil market prices (Karmacharya 2007). It is estimated that Nepal has a potential of 83,000 MW of hydropower capacity, out of which 43,000 MW has been identified as economically viable. Total revenue from

hydropower, once a significant share of the potential is tapped, could reach many billion US dollars per year but Nepal current utilisation is only around 1 per cent of its hydropower capacity which itself is not sufficient in meeting its domestic demand (Ministry of Commerce and Supplies 2010). Lack of investment is a major problem in exploiting Nepal's abundant hydro resources as country's own resources both in the public and private sector cannot meet the financial investment needed for hydropower development.

It is where regional approach facilitates a more comprehensive, cost effective and sustainable set of solutions to the challenges of energy security. It is therefore, power exchange through common markets/pools has been increasingly experimented and the economic gain based on regional cooperation in the energy sector is a phenomenon now a firmly established practice across the regional groupings (Lama 2006). Hence the creation of a South Asian energy market and cooperative development of the available diverse energy sources in the region could help increase the level of energy security in the region which would in turn enhance the economic development of the South Asian countries. The concept of a common market, created by sharing energy between SAARC nations, holds tremendous potential in terms of improved energy availability in the region on account of improved distribution. Large hydroelectricity resource of Nepal can be shared with other countries in the region through the electricity grid of India. India, the most energy deficient country in the region, stands to gain from investment partnerships with Nepal which has hydropower surpluses and on the other hand Bangladesh and Sri Lanka will have an enormous advantage of being directly linked to the Indian subcontinent through its electricity grid (Wijayatunga 2006). Thus from hydro-power trading Nepal can also realize significant economic benefits. Pakistan is on line as a conduit for Iranian natural gas to India. Bangladesh's considerable gas reserves have yet to be tapped. Ultimately, over a long-term planning horizon, one could envisage connectivity through a network of energy, gas and oil grids to help lower energy costs (Khan et al. 2009a).

Moreover, forecasted energy requirements of the South Asian countries for the year 2020 project the fact that the region cannot fulfil its demand of energy requirements with the available resources. Thus the region will have to accommodate non-commercial resources like wind power and bio-fuel in to the energy mix and form a

regional cooperation amongst its regional members in order to satisfy the expected energy demand (Kelegama 2010).

The potential for developing energy market for the available resources in the region would highly contribute in reducing dependency on petroleum imports and thus lessen the stress on balance of payment problems of countries in the region. Therefore, cooperation in energy sector promises a win-win situation for all the countries in the region. The very first step for progress in this direction would be to construct an infrastructure for free movement of energy between countries. An integrated energy grid would allow increased movement of energy (electricity and natural gas) between countries and improve the national economies. To move further for promoting regional energy trade in South Asia, SAARC has already endorsed the concept of an 'energy ring' of interconnected energy system in the region, which was mandated by the Twelfth SAARC Summit (Islamabad 4-6 January 2004). The SAARC has set up a Technical Committee exclusively on energy sector cooperation under its Integrated Programme of Action and has recently set up an Energy Centre in Islamabad.

Despite the fact that energy provides a highly complementary sector for trading, very little has come out of it. Lack of political stability in recent years likely has been a major deterrent for any foreign investor in hydropower. Trade in energy has been made a political issue. Nepal's export-oriented hydropower projects have been tied up in protracted negotiations with India which have acquired political overtones and have not only strained Indo-Nepal relations but have also become a major issue in domestic politics in Nepal. Similarly Bangladesh which has a potential for exporting natural gas to India is reluctant to do so because of domestic political opposition to such exports on the grounds that its gas reserves are insufficient to justify such exports. Pakistan remains a potential transit point for connecting the vast energy reserves of West and Central Asia to South Asia but has not been able to benefit from its strategic location because of its political tensions with India (Sobhan 2006, Lama 2010).

Poverty in South Asia

South Asia contributes the largest share of the world's poor where 49.6 per cent of Bangladeshi, 41.6 per cent of Indian, 55.1 per cent of Nepali, 22.6 per cent Pakistani and 14 per cent of Sri Lankan population lives below \$1.25 a day (UNDP 2010). The well being of majority of South Asian population becomes clear after looking at the

Country's performance in the Human Development Index, Sri Lanka ranks 91, Maldives 107, India 119, Pakistan 125, Bangladesh 129, Nepal 138 and Afghanistan 155 (UNDP 2010). The 2006 Human Development in South Asia report described South Asia as "the most deprived region" in the world (The Mahbub ul Haq Centre 2007). On depicting the poor condition of the region the report states:

South Asia remains the most impoverished region in the world in terms of income as well as human development indicators, such as health and education. The largest absolute number of poor in the world lives in South Asia. The statistics of South Asia's poverty are staggering:

- While South Asia's share in the world population is 22 per cent, it contains more than 40 per cent of the world's poor.
- An estimated 437 million people live below US \$1 a day, while three-fourths of the population survive below US \$2 a day.
- Nearly 237 million people in the region are at risk of dying before the age of 40.
- There are over 867 million people without access to basic sanitation, more than 400 million adults are unable to read or write, and 300 million are undernourished.

Therefore, any move to integrate South Asia cannot bypass this reality of the region. It is for this reason that there has been a growing recognition among the leaders of the region of the need to make poverty reduction and improving the living condition of the population the central objective of the process of development.

In fact, promoting people's welfare and quality of life has been one of the objectives for the formation of SAARC as stated in the SAARC Charter. The first attempt to address the issue of poverty within the framework of a regional governmental body was initiated during the SAARC summit in Colombo in 1991 which constituted the Independent South Asian Commission for Poverty Alleviation (ISACPA) in November 1992. The Summit also envisaged that a significant portion of poverty-stricken population would be relieved from the grip of the problem through development attained with collective effort, leaving thus only a small portion of such people, who could be served with safety net measures and other regular types of relief measures in the short run (Alam 2006, Ahmad 2006). The report was prepared and placed before the SAARC Summit in Dhaka in 1993. The Summit indeed set 2002 as the date by which poverty would not just be alleviated but eliminated from South

Asia. However between 1993 and 2002 not much was done at the national level to honour this commitment nor was any attempt made at successive SAARC summits to take account of progress in this area (Sobhan 2009).

The beginning of the twenty first century marked the global emphasis on poverty with the establishment of the Millennium Development Goals. Taking care from the global initiative and the past failure of the SAARC initiative in dealing with the issues of poverty in the region, the SAARC leaders were once again inspired to have a fresh impulse on poverty reduction at the regional level which could be seen at the Eleventh SAARC Summit. The Summit accordingly commissioned an ISACPA-II to address the issue of poverty again and also declared that a SAARC Social Charter be formulated at the earliest. The ISACPA-II report was submitted to and endorsed at the Islamabad Summit in 2004. It set itself the more modest goal of alleviating rather than eliminating poverty which was rewarded by the Summit that perpetuated the life of the ISACPA to oversee the implementation of its goals (Sobhan 2009). The Twelfth Summit declared poverty alleviation as the overarching goal of all SAARC activities and stressed the necessity to relate regional cooperation to the actual needs of the people. The Summit pointed out the importance of undertaking effective and sustained poverty reduction programmes through pro-poor growth strategies and other policy interventions with specific sectoral targets. The 12th and 13th SAARC Summits endorsed the SAARC Plan of Action on Poverty Alleviation and the SAARC Development Goals. SAARC also declared 2006-15 as a Decade of Poverty Alleviation. The SAARC Development Fund (SDF) which Social Window primarily focuses on poverty alleviation and social development projects can be seen as a positive initiative towards poverty reduction in the region. Nepal can benefit from such fund to undertake several projects that would help in reducing poverty and uplift the living standard of the poor people. However, SAARC has very little to do in reducing poverty and it all depends at the national level how much they honour and remain committed to the commitment.

Terrorism and Transnational Organised Crime

Globalisation has not only brought states together but has also strengthen the capabilities of groups such as terrorists, criminal organizations, drug smugglers, human traffickers etc. to carry out their agenda more effectively (Cha 2000). Opening

up of the regional countries to trade, travel and cultural exchange permits criminals, terrorists, illicit firearms and other illicit products, along with illegal migrants and victims of trafficking, to move more freely throughout the region (Gordon 2009). South Asia too is not devoid of such problems. Cross-border threats to security such as proliferation of light weapons, international terrorism, human trafficking, and money laundering which transcend national boundaries do constitute major threats not just to national security and peace but to peace and security of the whole region (Chari 2004).

With the world's fastest-growing markets, Asia has also become an epicenter of international terrorism. Much of Asia's terrorist violence is concentrated in its southern belt, which has emerged as the international hub of terrorism and the region is wracked by terrorist, insurgent, and separatist violence in a manner rarely witnessed in the world (Chellaney 2001/02). A report issued by the State Department in 2000, entitled, *Patterns of Global Terrorism*, suggests that Asia accounts for 75 per cent of all terrorism related casualties worldwide (Khatri 2010). The 2007 Report on Terrorism by National Counter-terrorism Centre in Washington DC ranked Afghanistan, Pakistan and India second, third and fourth on the list of highest number of deaths caused by terror attacks (Khatri 2010). The specter of transnational terrorism has risen from a peripheral issue of 1980s to one of the foremost security challenges facing the SAARC region (Sahgal 2005).

The issue of terrorism has been in SAARC since the late 1980s and since then it has been on the major agenda of the SAARC countries. The SAARC Regional Convention on Suppression of Terrorism that provides for a regional approach to well-established principles of international law in respect of terrorist offences came into force in 1988. It has even provisions of extradition, exchange of information, intelligence and expertise and other cooperative measures to prevent terroristic activities through precautionary measures. SAARC Terrorist Offences Monitoring Desk (STOMD) has been established in Colombo to collate, analyze and disseminate information about the terrorist incidences, tactics, strategies and methods. After eleven years, the Legal Experts met for the first time in Sri Lanka in 1999 and formulated future guidelines and identified three key elements in the convention as requisites for its successful implementation viz., creation of offences listed in the convention as extraditable offences under the domestic laws of SAARC member

states; treatment of such offences as “non-political offences” for purposes of extradition and vesting of extra territorial criminal jurisdiction in the event of extradition not being granted (Khatri 2010, Lama 2010).

Recognizing the ominous link between terrorism, drug trafficking, money laundering and other transnational crimes, the SAARC member states at the twelfth Summit (Islamabad, January 2004) signed an Additional Protocol to the Convention to deal effectively with financing of terrorism. The additional protocol takes into account obligations devolving on Member States in terms of the United Nations Security Council resolution 1373 and the International Convention for Suppression of Financing Terrorism 1999. The thirteenth summit called on member states to expand their cooperation through exchange of information, coordination and cooperation among their relevant agencies. The 15th SAARC Summit called for strongest possible cooperation in the fight against terrorism and transnational crimes and the SAARC convention on Mutual Legal Assistance in Criminal Matters was signed but is yet to be ratified by all the member states (Rodrigo 2010).

Despite the initiative taken by the SAARC, in actual practice, however, no effective coordination is occurring because of a “trust deficit” among SAARC member countries, particularly, Pakistan and India. India has been the main target of terrorist attack operating from Pakistani territory. In some cases, there is empirical evidence of the involvement of Pakistani Inter-Services Intelligence, indulged in such activities. For instance, the US intelligence services which leaked intercept information suggests ISI involvement in the bombing of the Indian embassy in Kabul in July 2008, in which 54 died (Gordon 2009). Similarly, the terrorist attack in Mumbai on 26th November 2008 was also carried out by the terrorist groups operating from the Pakistani territory, but the non-cooperative behaviour on the Pakistani side has not eased the mutual suspicions between the two states. A small section in India even believes that India should militarily retaliate against Pakistan, but the government is cautious about the political and diplomatic fall out of the possible escalation into full scale nuclear exchange (Gordon 2009, Khatri 2010).

New Delhi has also raised serious concerns of cross border operations taking place from both Bangladesh and Nepal, allegedly conducted by the ISI supported groups acting against India (Chari 2001, Khatri 2010). The hijacking of the Indian Airline

from Nepal which was taken to Kandahar in 1999 clearly shows how the terrorist outfit could use the third country to carry out their objectives. Moreover, the open border between India and Nepal also makes it easier for terrorist groups to carry out their activities. Nepal in its part has ratified the regional conventions and protocols on terrorism and has been committed to cooperate in the issues of terrorism. But given its resource constraints India could help Nepal in strengthening Nepal's security at border points by providing logistical support, by information sharing, and strengthening expertise.

It has been estimated that every year 1 to 2 million women, men and children are trafficked worldwide and around 225,000 of them are from South Asia (India, Nepal, Pakistan, Bangladesh, Sri Lanka, Afghanistan, Maldives, and Bhutan). According to UNICEF the trade in women and children for sex is spiralling out of control in South Asia and referring to a rising tide of commercial sexual exploitation in the region, UNICEF asserts that the numbers being trafficked in Asia represented nearly half the world total, and that South Asia is bearing the brunt (Huda 2006). All the South Asian countries have been facing the problem of women and child trafficking either for sexual exploitation or bonded labour. The countries in the region are not only the source for such trafficking, but also the destination as well as transit from where they are taken to the Middle East and South East Asia (Balchandran 2008). Regional cooperation for combating women and child trafficking is of great importance to Nepal because it is estimated that annually around 12,000 Nepali women are trafficked into India or to other countries via India for sexual exploitation.

South Asia has equally been plagued by the issues of arms smuggling and narcotics trade which have severe terrorism's insidious connectivity (Rodrigo 2010, Ravi 2002). In order to curb with the problem of organized crime, the 11th SAARC Summit, signed the SAARC Convention on Preventing and Combating the Trafficking in Women and Children for Prostitution. The Convention aims at promoting co-operation amongst member States to effectively deal with various aspects of prevention, interdiction and suppression of trafficking in women and children; repatriation and rehabilitation of victims of trafficking, and preventing the use of women and children in international prostitution networks. Similarly, the SAARC Convention on Narcotic Drugs and Psychotropic Substances (1990) augments regional efforts to eliminate drugs trafficking.

The diversity and complexity of the threat posed by transnational crime outruns the capacities of states to respond unilaterally and therefore, potential solutions need to be regional in focus. Cooperation between the South Asian countries is critical to effectively deal with these heinous crimes if transnational crimes and activities are to be controlled.

Climate Change and Environmental Degradation

In the recent past, climate change has emerged as the single most pressing issue facing society on a global basis, with serious implications for the food security of billions of people in the developing countries. The UNDP 2007/2008 Human Development Report (HDR) on the issues of climate change stressed upon the impact of the climate change issues and called upon collective action for mitigating the negative consequences of climate change. The study identified five transmission ways agricultural production and food security; water stress and water insecurity; rising sea levels and exposure to climate disasters; ecosystems and biodiversity; and human health by which climate change could stall and then reverse human development (UNDP 2007).

Rising temperatures, more intense droughts, floods, and greater weather variability all mean productivity losses to crops and livestock (Selvaraju 2011). It is projected that climate change associated with global warming could decrease crop yields in South Asia by 30 per cent by the mid-twenty-first century. This could result in an increase in the intensity and extent of the food crisis and sharply increase poverty in the region (Hussain 2010). South Asia is endowed with great rivers having their origin in the Himalayas which have become lifelines of the economy in the region as majority of population of the region is dependent upon water resources for agricultural purpose. However, accelerated glacial melt caused by the climate change questions the very perennial nature of many of the Himalayan flowing rivers (UNDP 2007). In Nepal and Bhutan, melting glaciers are filling glacial lakes beyond their capacities contributing to Glacial Lake Outburst Floods. Glacier melting in the Himalayas is projected to increase flooding and affect water resources within the next two to three decades (Spijkers 2011). Of 2,323 glacial lakes in Nepal, 20 have been found to be potentially dangerous with respect to such floods which could affect availability of water for irrigation especially in the Indo-Gangetic plains, and thus affect food and

livelihood security of millions (Sivakumar and Stefanski 2011, Aggarwal and Sivakumar 2011). Moreover, Nepal one of the least developed landlocked countries with low-income, weak human resources and economic vulnerability, the climatic conditions combined with socio-economic situations such as natural resource degradation, with continuing high rates of poverty and food insecurity make it one of the most vulnerable countries to the impacts of climate change (Oxfam International 2009, Sivakumar and Stefanski 2011). The adverse impacts of climate change are a major barrier to food security and achievement of sustainable development goals in South Asia. They are anticipated to exacerbate the impact of existing development challenges such as loss of market and declining value of traditional exports, declining domestic food production and increasing imports; and environmental degradation (Spijkers 2011). On the other hand, problem of flood is big problem in Nepal and India and because of open border between the two countries it can also lead to inter-state mass migration which in the long term may be threatening to ethnic strife about cultural identity, and competition for livelihoods. Therefore it is necessary for the two countries to cooperate each other in managing river water. Thus, cross-border cooperation on water between India and Nepal offers the only long-term solution to flood mitigation. Watershed management and storage on Ganges tributaries in Nepal could generate hydropower and irrigation benefits in Nepal and flood mitigation benefits in Nepal, Bangladesh and India (Ahmed and Ghani 2010).

In South Asia both climate-related hazard and vulnerability levels are likely to be drastically affected by climate change. It is therefore necessary, based on the regional cooperation among South Asian countries, to establish systematic integration between the institutional frameworks, policies and strategies to address disaster risk with those related to adaptation to climate change (Srivastava 2011).

The need for regional cooperation addressing the concerns for environmental degradation in South Asia was voiced way back in 1987 during the Third SAARC Summit. The trans-boundary linkages of natural disasters with environment in the region were recognized for regional cooperation. The SAARC initiated a 'Regional Study on the Causes and Consequences of Natural Disasters and the Protection and Preservation of Environment' in 1991 and another study on "Greenhouse Effect and its Impact on the Region" in 1992, which recommended regional measures in sharing experiences, scientific capabilities and information on climate change, sea level rise,

technology transfer etc. (SDMC 2008). As a follow-up to these studies, SAARC Plan of Action on Environment was adopted in 1997. The Action Plan provided for the establishment of Regional Centers of Excellence. The SAARC Meteorology Research Centre (SMRC) was established in Dhaka in 1995; the SAARC Coastal Zone Management Centre (SCZMC) was set up in Male in 2004; SAARC Disaster Management Centre (SDMC) came up in New Delhi in 2006 and the SAARC Forestry Center was established in 2008 in Bhutan. All these SAARC Regional Centers provide credible institutional support for taking up climate change and disaster risk reduction issues in the region (SAARC Disaster Management Centre 2008).

In the recent years there has been a strong feeling among the SAARC leaders that common problems like flooding, glaciating, overflowing of rivers could only be overcome by coordination and collaboration. The fourteenth SAARC Summit (New Delhi, 3–4 April 2007) expressed deep concern over global climate change and called for pursuing climate-resilient development in South Asia. The SAARC Ministerial Meeting on Climate Change held on July 3, 2008 in Dhaka adopted the SAARC Action Plan on Climate Change. Accent has been laid on intensifying the regional cooperation on climate change adaptation. The effort is also placed on moving the SAARC from a declaratory to implementation phase with the SAARC Regional Centres to play the important role therein. The Fifteenth SAARC Summit held in Colombo reiterated the need for increased regional cooperation in assessing and managing risks and impacts of climate change, and to develop a people-centered short to medium term strategy to ensure region-wide food security. Climate Change was the theme of the Sixteenth SAARC Summit (Thimphu, 28-29 April 2010) and, among others, the Heads of State or Government of SAARC adopted the Thimphu Statement on Climate Change which outlines a number of important initiatives to strengthen and intensify regional cooperation to address the adverse effects of climate change in a focused manner. A SAARC Convention on Cooperation on Environment was also signed by the Ministers of Foreign/External Affairs of Member States during the Sixteenth SAARC Summit. The Convention provides for cooperation in the field of environment and sustainable development through exchange of best practices and knowledge, capacity building and transfer of eco-friendly technology in a wide range of areas related to the environment.

SAARC as a regional platform has made efforts to address the disaster vulnerability emanating from climate change collectively. SAARC has also adopted common positions at various international meetings related to environment and climate change. A common SAARC position on Climate Change was presented by Sri Lanka as the SAARC Chair at the COP 15 Conference on Climate Change (Copenhagen, December 2009). However, adaptation measures need to focus on strengthening measures that already exist, such as sustainable natural resource management, water management and enhanced water productivity, climate risk management, early warning systems, disaster risk management, rural investments to reduce the impacts of climate variability on food security, through crop insurance and incentives that encourage farmers to adopt better agricultural and land use practices (Selvaraju 2011). The third meeting of the SAARC Food Board in November 2009, keeping in view the rising population and threat of natural disasters, agreed to double the SAARC food bank (Ghimire 2009) which is a positive development and shows the member states seriousness towards the issue.

Evaluating the SAARC Performance

The above sections clearly showed that all the South Asian countries today are facing similar challenges which can only be addressed by cooperating with each other through SAARC. SAARC in fact has touched upon all the matters of vital interest to the member states. We have free trade agreement but intra-regional trade only accounts for around per cent of the total trade, and still no transportation infrastructure. SAARC was one of the few organizations to have terrorism issue in its agenda in the 1980s but still south Asia is the most terrorist and trans-national organized crime prone zone. SAARC Food Security Reserve was established in 1988, primarily aimed to provide for a reserve of food grains to meet emergencies in member countries. However, it was never used despite pressing demands in several disaster situations, including the wheat crisis in Pakistan, a cyclone hit in Orissa, a flood in Bangladesh, the tsunami in Sri Lanka, and Maoist violence leading to food insecurity in certain districts of Nepal (Lama 2010). The yearly flooding of the Koshi river that threatens hundreds of lives annually, has become problem to both India and Nepal but still much has to be done in this regard. The two countries have not efficiently cooperated in managing the river. Reducing poverty was considered to be

one of the overarching goals of SAARC in the early 1990s, but little has been done in this regard.

Despite, enormous reasons to cooperate which could transform South Asia as one of the major groupings in world politics, South Asia remains the least integrated and highly divided region in the world. It is therefore, necessary to look at the factors impinging the poor performance of SAARC.

Lack of Leadership

As the realists would argue the requirement of a hegemon for the success of the regional arrangements as a 'hegemonic' state will impose cooperation or because it will bear a disproportionate part of the burden of the arrangement involved (Gilpin 1971). The neoliberals too do not completely refute the role of a hegemonic leadership to facilitate cooperation at the beginning of the cooperative arrangements (Keohane 1984). Similarly in his analysis on the study of regional arrangements in different parts of the world, Mattli points out absence of leadership as one of the factors for the failure of regional arrangements. Mattli argues that the presence of a benevolent leading country within the region seeking integration would serve as a focal point in the coordination of rules, regulations, and policies; and would also help to ease tensions that arise from the inequitable distribution of gains from integration through side-payments. Moreover, contested institutional leadership or the absence of leadership makes coordination games very difficult to resolve (Mattli 2003). So what does this analysis pertain to the South Asian regionalism? The attitude and profile of the largest regional power in South Asia has been substantially different from that of other regional organizations. India has been a reluctant regionalist (Sridharan 2010) despite being a regional power in economic, political, military and international terms. Its role in shaping the future of South Asia is minimal and continues to behave as a 'status quo power and remains in a dilemma over whether it should take the lead or not (Baral 2006) as it was not the country to take the initiative in South Asian regionalism. Moreover, the other argument is "uncontested leadership" for making the coordination game easy. In the south Asian region India's bilateral relations have become crucial for all South Asian countries except Pakistan – because of its conflictual relations with India. This conflict between India and Pakistan has given rise to two contrasting ideas regarding cooperation. While India stresses upon 'soft'

and non-controversial areas in which consensus can be easily achieved for cooperation, Pakistan argues that unless political dispute (i.e. Kashmir) is settled, there is no point in pursuing other cooperative initiatives. The lack of a benevolent and uncontested leadership in SAARC can be attributed to one of the reasons for poor performance of SAARC.

The Size factor

Small countries are always suspicious of large neighbours, and South Asia is no exception. One of the very reasons for the smaller states to take the initiative for the formation of SAARC itself was triggered by security threat, not external but from within the region i.e. from India. On the one hand smaller states have psychological fear of India attempting to impose restriction on their independent foreign policy and interfering on their internal matters and disregarded India's genuine security concern. On the other hand instead of making an attempt to build confidence among smaller states, India reacted in a harsh manner further exacerbating their fear. In fact, the tarnishing of the relationship between the South Asian countries could be attributed to the hangover of century long colonial rule where nationalism and sovereignty became the biggest issues in the third world, and the impact of the Cold War, where survival was the primary concern for any state. Due to their small size, economic dependence, cultural similarity and political anxieties of preserving a distinct national identity; hiccups occasionally occur in the context of these countries forging relations with India. The smaller states of the region fear that due to India's sheer size and economic and political influence, India behaves in a hegemonic way. This Indo-centricity erects a psychological barrier that aggravates the insecurities of its small neighbours and therefore, for each member state, SAARC's real utility lies in managing its relationship with large neighbour India, often to the detriment of maximising their economic priorities in the region as a whole (Pandian 2002). However, there is a general feeling among the smaller member states at least in the academic circles- that the success of SAARC as a regional organization for mutual cooperation and development is contingent upon India's initiatives to promote a cooperative atmosphere in South Asia. In view of its pervasively dominating position in South Asia, it has to be realized that India constitutes the core while all its neighbours form a periphery of the South Asian region (Khatiwada 1999). India therefore has necessarily

a central and careful role to play in the future of SAARC, to be active without suppressing other voices (Bhaumik 1997). It is not difficult for India to manage its bilateral relations with its smaller neighbours; the Gujral Doctrine could be viewed in this respect, which was aimed at strengthening India's relationship with its neighbouring countries (Murthy 1998). Even many Indian academics have argued for the positive role of India in the region. India should be able to generate a consensus on key issues in the economy and politics of the region, and it should be able to extract major concessions from international bodies on issues considered important by the regional countries (Bhaumik 1997). On the other hand, the smaller states should also genuinely be concerned about India's interest and avoid tactical anti-Indianism as the recourse when in the opposition.

Contentious Bilateral Issues

In the first SAARC Summit, the King of Bhutan in his inaugural speech observed: in the geopolitical realities of our region, it would be unrealistic to ignore the primacy of the political factor, as in the final analysis, it will be the political environment of the region which will determine the shape and scope of regional cooperation in South Asia (quoted in Bimal Prasad 1999). Mohammad Ayoob termed the South Asian region as "the primacy of the political" (Ayoob 1985). Though the SAARC Charter prohibits the bilateral contentious issues in the SAARC forum, some SAARC member states at some point of time have argued for their inclusion, particularly when they had problem with other member state. Sri Lanka had advocated for the same when it had problem with India on the Tamil issue, but Pakistan and Bangladesh continue to voice their reservation (Muni 2000).

The bilateral issues between India and Pakistan are the most severe one that have derailed the SAARC process as a whole. For Pakistan, Kashmir has become a central pillar of national pride, national aspiration and national identity and is considered the litmus test of Pakistani nationalism and even patriotism. It is thus politically suicidal for any politician in Pakistan to be seen as weak on the Kashmir question (Yusuf and Najam 2005 quoted in Khan et al. 2009). For India, the rhetoric of Kashmir being an 'inseparable part' of India is repeated tirelessly by all Indian governments. It is for this reason Pakistan continued to refuse MFN status to India, as it fears that the Kashmir issue would be skirted should trade volumes and reliance upon India increase

(Khan et al. 2009). It is for this reason that Pakistan has been arguing that unless political dispute (i.e. Kashmir) is settled, there is no point in pursuing other cooperative initiative, on the other hand, India has been stressing on the common problems facing the region. This unresolved dispute between India and Pakistan has prevented both regional integration and cooperation; profound nationalistic sentiment has made bilateral reconciliation difficult, and the dispute has thus far resulted in two armed conflicts and three crises. The severity of the dispute makes it 'the single largest constraint' for regional aspirations (Khan et al. 2009b). And therefore, unless the pressing internal problems as well as key bilateral issues which pollute the political environment are meaningfully addressed, SAARC will keep running into obstacles (Rajan 2005).

Absence of Intra-regional complementary trade

The South Asia region is the least integrated region in the world. The intraregional trade among the SAARC member states has been only around 5 per cent of the total trade. This low level of intraregional trade is because of identical pattern of revealed comparative advantage and lack of strong complementarity in the bilateral trade structure of South Asian countries (Kemal 2006). The South Asian countries produce similar products and compete for the same in international market (Kemal 2006). The optimism that once the member states open up their trade; the increased trade flows are likely to engender technical efficiency, improve resource allocation and allow countries to create niches by specialising in different products within a given industry has not materialised. Intra SAARC joint ventures that would help the smaller states to overcome their limited production capability remain a distant dream. SAARC member states still maintain high tariff barriers and member nations' lists of items exempt from the agreement's conditions together constitute 53 per cent of total current trade. Former Foreign Secretary of India Muchkund Dubey observed: trade liberalisation in South Asia has been "flawed" from the start – and this has been a conscious "political choice" on all sides. A key aspect of all such agreements is the 'negative list', which specifies the product lines where free trade does not apply. As yet, no South Asian country, least of all the region's largest, has shown the generosity or courage to prune this list to a meaningful level. In the inchoately formed and contentiously interpreted SAFTA, India's negative list is four times larger than that on the most recent offer it has made to the Association of Southeast Asian Nations

(Dubey 2007). Similarly the issues of transportation and trade infrastructure development has been made hostage to political mistrust, particularly by Bangladesh and Pakistan.

Institutional Weakness and Lack of Monitoring Capability

Analysts and practitioners alike tend to concur that many developing country RTAs have failed to live up to their liberalizing and welfare enhancing potential, and that one of the key factors behind this performance is slow and incomplete implementation of the common integration commitments. Monitoring is crucial for the implementation of RTA commitments both at the national and regional levels. It can contribute to good regional governance practices, such as accountability, participation, and effectiveness. The deepening and widening of the regional integration process, one of the outcomes of successful monitoring, can also help consolidate regional governance, as well as facilitate inter-regional interactions, something of particular importance to small, less developed countries.

The setting up of formal monitoring instruments is useful to increase the level of effectiveness in integration in the institutional, political, trade, and economic sectors; it amplifies the level of awareness and legitimacy of the integration process, and facilitates comparative exercises with other regional integration groups. In a globalized world marked by regionalization, lack of formal monitoring, on the other hand, will further marginalize the region in the club of regional integration projects (Tavares 2008).

But when we look at SAARC, SAARC till date is bereft of any proper monitoring mechanisms to keep abreast of its activities and to suggest how the ongoing and future programmes may be implemented more effectively and cohesively. There is lack of policy integration and coordination of activities to be carried out by the member states. Most decisions taken by the SAARC leaders have not been implemented due to each country's own judgement and level of commitment.

The Secretariat is not only unable to transcend the usual political objections of its member governments; it does not even have the human resources to offer any additional perspectives on regional issues. It has no data banks or intellectual capital

that it can bring to bear, to transform the way in which the region looks at various problems (Bajpai 2000).

In this context, it is worth citing the opinion of the former Foreign Secretary of Nepal, “I have realised regional cooperation is a difficult endeavour. Our activities have proliferated. I wonder if anybody can keep track of so many things under SAARC. But most of these are meetings, workshops, and conferences. We have oceans of documents, ideas, proposals and studies. But we have hardly implemented them. After twenty years, we don’t have one regional project that has a SAARC trademark. As one foreign minister joked SAARC may soon become NATO: No Action Talk Only” (Acharya 2005: VI).

Internal Political Factors

The argument for democracy and regional cooperation is that democratization creates a deeper basis for regional socialization and also broadens the scope of the agenda of regional institutions, permitting a more relaxed view of sovereignty and allowing them to address issues that might have been considered too sensitive (Acharya 2004). Moreover, democracies are also liberal towards other non-state actors which would apply pressure on their own governments to find regional approaches to transnational issues thus increasing the overall relevance of regional institutions in promoting regional peace and stability (Acharya 2004). The other argument put in favour of democracy is that democratic states are more likely to promote compromise and comply with international obligations (Simmons 1998).

However, countries of South Asia region have been long entrenched with internal political instability and lack of democratic regime. The Tamil issue in Sri Lanka, the so called decade long peoples war in Nepal, several military coup in Pakistan and Bangladesh where army still is the dominant factor in state’s activities, monarch in Bhutan all presents a sorrow state of politics in the countries. India too has been facing several secessionist movements in different parts of the country but has been able to keep them under control. Majority of South Asian countries do not have strong democratic culture. Because of several internal problems South Asian countries have been preoccupied with their own internal politics which in turn has diverted the attention and resources of leaders away from regional cooperation. On the other hand, the divergence in the political systems of South Asian countries constitutes another

basic cause for disharmony in the region (Prasad 1999). However, this atmosphere is changing now and all the South Asian countries have democratised now. This can have positive impact upon reducing intra-regional and bilateral political tensions which would in turn stimulate better regional understanding and cooperation, giving a positive push to the SAARC process (Muni 2010).

Lack of Regional Identity

The south Asian elites do not have much sense of regional identity and solidarity. Kishore C. Dash in his study made a cross-national comparison on the role of elites of the South Asian countries and their perceptions towards SAARC. Dash discovered that there is a strong sense of nationalism and a lack of south Asian identity among the many elites in the region. His study also found that regional identity to be much less developed in case of elites of both India and Pakistan than their counterparts in smaller south Asian countries (Dash 2008).

CHAPTER V

Conclusion

Small states are often characterised by acute shortages of resources which not only set severe limits to their ability to participate actively and profitably in world affairs but also to meet their developmental challenges. And therefore, membership in international organizations for small states is seen as the most cost-effective way to participate in the international system, promote their national interests and lessen their vulnerability and strengthen their actual position. Moreover, regional organisations are of special interest to the smaller states because regional organizations and arrangements provide a forum where issues handled will have a direct bearing on states and on the other hand, by participating in regional projects small states are likely to influence the regional order more than global level by participating through multilateral institutions. During the Cold War conflictual environment, the newly independent states turned toward the United Nations in order to guarantee their sovereignty and tried their effort to articulate their interests through the UN platform. The small states perceived that international institution by creating common rules for all despite power disparities make traditional power capabilities less important, and by adhering to international law and norms they could influence others. But the paralysed UN though recognized their political independence could not do much to address their other problems, on the other hand the big powers were seen ignoring the problems of Third World countries and pursuing their own interests and sometimes even violating the territorial integrity of smaller states when deemed necessary for their strategic interests. In this situation regional cooperation became an imperative for the smaller and weak states not only to meet their developmental challenges and overcome their resource constraints but also to create conducive environment for peace and reduce the scope for outside intervention. With the end of the Cold War, regionalism has become an effective strategy for small states not only to overcome their development challenges but also to effectively deal with the negative externalities arising out of globalisation and to avoid their marginalization from the world economy.

Like any other small states, sovereign identity and security was the major issue confronted by Nepal during the Cold War era, and this could be seen from Nepal's vacillating policy, sometimes getting closer to China when it perceived threat from India, and sometimes towards India. However, the political developments taking place in South Asia in 1970s were disheartening to the Nepali security and foreign policy planner. The Indo-Pakistan war, the annexation of Sikkim into India, and the soviet intervention in Afghanistan exacerbated the psychological fear of Nepali political elites. Moreover, given the geographical location of Nepal, it was aware of the fact that it had to depend upon its southern neighbours, which it perceived to be a greater threat. Under this circumstances Nepal's attraction towards regional organization was based on its belief that regional organization will make traditional power capabilities (i.e. military power) less important, and by adhering to the regional norms it could influence others and safeguard its interests. On the other hand, given the limitation of Nepal to influence international issues regional organisation could help it play an important role in the regional issues and meet its developmental challenges. Therefore, Nepal's aspiration towards South Asian cooperation was basically motivated by its quest for security, political identity, and economic interest.

The post-Cold War era, also expanded the very definition of security where non-traditional security threats assumed more priority with the decline of inter-state military threat. In the post-Cold War period economic development and trade promotion, climate change and environmental degradation, food security, poverty reduction, transnational crimes etc. emerged as basic challenges for Nepal. However, given the geo-political location, small market size and poor production capability, and resource constraints of Nepal, Nepal does not have a choice but to relentlessly pursue regional cooperation in order to better cope with the new economic and political order. It is for these reasons Nepal has been attempting to use the SAARC forum as a survival strategy to reduce the possibility of further marginalization as well as to counter the ills of globalisation and trade liberalization and as a vehicle to achieve development.

Nepal's active participation and advocacy for the creation of free trade area in South Asia clearly manifests its interest in overcoming its small market constraints and also its expectation that increased trade flows within the region will engender technical efficiency, improve resource allocation and allow countries to create niches by

specialising in different products within a given industry. Moreover by engaging in free trade it expects to attract investments from the economically well off countries of the region in various sectors where it enjoys competitive advantages like hydroelectricity and tourism. These all factors would help Nepal to overcome its poor production capability and enhance its economic growth. On the other hand, engaging in regional cooperation and by articulating common views as a block, along with India which has emerged as an important player in the international politics, can strengthen Nepal's position in the negotiating process in the multilateral trading system and other multilateral forum. It is for this reason Nepal has been stressing on need for collective action. Of other issues like climate change and environmental degradation, food security, and other trans-national crimes and issues, Nepal clearly lacks resources to deal with them of its own and therefore makes regional cooperation imperative.

As Hettne argues regionalism is imperative, particularly in the case of small states that either have to cooperate to solve common problems or become client states of the core countries (Hettne 2001), Nepal's role and interest in SAPTA and SAFTA, sub-regional cooperation and other issues as discussed in the third chapter clearly manifests the same.

Being aware of the fact that lack of monitoring mechanism has resulted in incomplete implementation of the common integration commitments and thus seriously undermined the liberalizing and welfare enhancing potential of SAARC, Nepal has been vocal about strengthening the monitoring mechanism of SAARC and asking the member states to implement the integration commitments. Nepal's interest in strengthening the SAARC and preference for strong institution arises from its hope that enforced rules and procedures will help it defend its vital interests and promote national aspirations and also give it an opportunity to influence the compliance of powerful states to joint decisions and rules while emphasising its own input in common projects.

SAARC clearly is an example to show despite the powerful external push factors arising from globalisation and inspite of common issues that can be solved only through regional cooperation; the adversarial political culture within member states serves to slow down the pace of regional cooperation. As highlighted elsewhere

already the major reason that has slowed down the SAARC process relates to the political wrangling, particularly between the two big states of the region India and Pakistan. The obsession of most of the South Asian governments with their national identity and sovereignty and their inability to enforce commonly agreed policies have contributed to debilitating patterns of regionalisation.

SAARC also presents a clear example of regional institutionalisation in the absence of an undisputed leadership. However, the fact that SAARC has survived for over twenty five years amidst serious odds, is testimony to the power of SAARC's resilience, and is also a proof of its inherent importance to the member states. SAARC therefore, cannot be termed as a failed regional project, but stagnated one waiting for efficient leadership to move it forward.

Future Possibilities

Despite over 25 years of existence, the performance of SAARC does not mark up to its expectation. SAARC has not been able to overcome the mistrust among member states. There is political mistrust among all the member states, particularly small states continue to see India as a hegemonic state and interfering in their internal affairs. However, mistrust between India and other smaller states are not as wide as that between India and Pakistan. Many bilateral issues between India and smaller states can be and have been solved through diplomacy. But political mistrust between India and Pakistan has shown little sign of improvement. The very difference in attitude of two larger members, where a positive step taken by one member state is seen by the other as fanciful and premature in the absence of right political atmosphere have not only worked as an obstacle to regional cooperation but also worked against the fate of other smaller member states (Sridharan 2010). It was in the 16th SAARC Summit where, Bhutan Prime Minister Lyonchhen Jigmi Thinley said "SAARC's journey has not been one of outstanding success" and further stated "fractious and quarrelsome neighbours do not make a prosperous community". Similarly, Maldivian President Nasheed openly talked about bitter India-Pakistan relations.

India and Pakistan should learn from France and Germany and even from Brazil and Argentina for that matter, that it is cooperation that will lead to a peaceful region. France, despite its intense memory of the cruel military aggression of Nazi Germany,

quickly reconciled with the post-war Germany. Likewise, regional cooperation in South Asia requires that India and Pakistan build their policies on the imperative of cooperation. But India and Pakistan seems to have learnt little from the better aspects of the European experience as well as from other parts of the world. As one author aptly writes:

if South Asian leaders do not see the potential of peace through economic integration, then they have failed to notice at least two points. First, they have overlooked the unprecedented opportunity through globalization in the twenty-first century and second, they have disregarded the desires of millions of poor people who are eagerly waiting to move out of poverty- setting aside fruitless, egoistic political tensions in the region (Robbani 2007).

However, in recent years this attitude seems to have changed. At the 12th SAARC Summit the Indian Prime Minister acknowledged that mutual trust and confidence were necessary for any regional endeavour, and further stated that for many decades, South Asian countries which have a complex and troubled colonial legacy- have been unable to forge an integrated economic understanding, circumventing political differences which have led to mutual suspicions and petty rivalries and because of this the peace dividend has bypassed our region. The Indian Prime Minister further asked the regional leaders to look forward now, with a collective approach in mind. Similarly former Indian foreign minister Yashwant Sinha at a talk program held at the Woodrow Wilson International Centre on Jan 2004 said “we (South Asia) have the potential, talent and resources to make South Asia an economic powerhouse of the world. We only need the necessary political will to make this happen...India is ready to do everything that is necessary, to walk as many extra miles as may be required to make this vision a reality” (Quoted in Pandey 2004).

Similarly, Indian Prime Minister Manmohan Singh in August 2004 in a meeting with the members of the South Asia Center for Policy Studies, observed “the gains of peace were great for both India and Pakistan and that history had placed the prime minister and the Pakistani leadership in a position to make history by actualizing these potential gains for the people of both countries”. He further noted “the gains from peace are immense, yet old attitudes of strife, mistrust, and suspicion could lead us to a sub-optimal solution” (Hussain 2010). At the 16th SAARC Summit, the Indian Prime Minister opined:

We have created institutions for regional cooperation, but we have not yet empowered them adequately to enable them to be more proactive. The challenge before us is to translate institutions into activities, conventions into programmes, official statements into popular sentiments. Declarations at summits and official level meetings do not amount to regional cooperation or integration... The 21st century cannot be an Asian century unless South Asia marches ahead and marches ahead together.

India taking the lead in the establishment of a South Asian University, a tele-medicine network, and a SAARC Museum of Textiles and Handicrafts and its unilateral liberalisation of visas for students, teachers, professors, journalists and patients from SAARC countries can be seen as its interest in moving SAARC forward.

Similarly, the recent decision of Pakistani Government to grant MFN status to India could be seen as a positive step towards South Asian regionalism. Pakistan too understands that increased Indo-Pakistan trade is essential for Pakistan if it is to achieve and sustain its economic development, overcome poverty, and build a democracy based on a tolerant and pluralistic society (Hussain 2010).

In recent few years all the SAARC countries have democratic government. And moreover, the adoption of "SAARC Charter of Democracy" on 8th February 2011 by the SAARC Council of Ministers can be expected to have positive impact in promoting democracy in the region and strengthening SAARC. Moreover, important members of the international community joining as observers in SAARC are an encouraging development which testifies to the growing recognition and credibility of the association (Lohani 2008) and this could inspire the regional leaders to be committed towards the regional project.

Recommendations

In order to be an effective organization, following things must be taken into consideration:

Transformation in the Political Culture

In order to develop SAARC as an efficient regional organization, there is very important need for a transformation in the political culture in the South Asian region. South Asia is an ideal region where Nationalism is spurred against another state, for partisan political interest which further aggravates the relations between the countries and this has proven to be a stumbling bloc for regional cooperation in the region.

Historical factors which have shaped the interstate relations till date have weakened SAARC. The SAARC member states share common history, culture, civilization, but are yet characterized by instability, political and economic fragmentation, psychological political mistrust, and potential religious conflict. Political problems have been decisive for not implementing integration policies.

It is therefore necessary for South Asian leaders to transform their attitude and take a more consistent long term view of their national interest consistent with the goals of regionalism (Dash 2008).

A Common Shared Vision:

This implies taking into account the need of individual member states and the need of the region as a whole. Given the bilateral tensions between the member states, this is not an easy task and therefore greater participation of various civil society groups, the business community, the media should also be taken into consideration. This implies SAARC should not be strictly centralized. Infact, the SAARC process has triggered a large number of non-official interactions and contacts among various sets of people and institutions, including NGOs, professionals, academics, media and civil society (Lama 2008). And it has been the NGOs, media, chambers of commerce that have carried the torch of regional cooperation forward even during the times when SAARC had been dormant. For instance, Organizations such as the South Asia Foundation (SAF) founded by UNESCO Goodwill Ambassador Madanjeet Singh has been organizing various programmes and supporting in spreading of South Asianess among the 7 loosely knit and politically charged member states of SAARC. Infact, it was SAF that first inducted Afghanistan as one of its chapters, paving the way for the due recognition of Afghanistan as a member of SAARC in the 13th Summit held in Dhaka (Pandey 2005).

Moreover, in order to build a South Asian identity, a course on South Asian culture could be added to the curriculum from the primary level to higher level. This could help in shaping young minds to lay the foundation for the future of South Asia.

Taking Small States into Consideration and Building Confidence

Given the size and constraints facing the small states like Nepal, Bhutan, Maldives etc, a strong SAARC may not emerge. For this to happen, the bigger states will have

to show regard for the special circumstances of weaker ones by supporting to strengthen their economy. The larger member states could strengthen the economy of the weaker member states by promoting joint ventures, and investing on several sectors that would be beneficial to all the countries in the region.

Establishing a regional fund from the contribution of member states as well as from multilateral agencies for price support and technology transfer support during the period of adjustment (related to trade liberalization) to help small farmers and small and medium enterprises (SMEs) improve competitiveness could be a positive step (Jayaratne 2010).

Disharmony and a lack of consensus on India's leadership role in the region meant that there was no focal state to facilitate the coordination of policies and activities among members (Desai 2010). India must develop a framework in which it can find a style of regional leadership that the smaller states in the region find acceptable and take initiatives in building better relations in the region by comforting smaller states security concerns and fears of domination. As one Indian diplomat pointed out, India, being the largest country in South Asia, has an obligation towards its smaller neighbours and should be reasonable in dealing with them, especially in resolving respective bilateral problems. In their turn, the smaller neighbours also have to be responsive and assume reciprocal responsibilities (Mohsin 2005).

Strengthening the SAARC Secretariat and Monitoring Mechanism

There is lack of policy integration and coordination of activities to be carried out by the member states. Most decisions taken by the SAARC leaders have not been implemented due to each country's own judgement and level of commitment (Baral 2006). The lack of institutional capacity to support and implement cooperative programs in the region has hampered progress towards integration. It is therefore necessary that such capacity be built up by empowering and strengthening the SAARC Secretariat to promote, support, and monitor SAARC initiatives, and persuade members to work together in managing the region's collective challenges and exploiting its opportunities.

A strengthened Secretariat would monitor implementation of the agreed-upon initiatives, identify problems, and suggest necessary corrective actions for

consideration by concerned member governments. Such a process would help in eliciting needed attention to implementation problems and enhance the chances for the successful and timely achievement of objectives (Desai 2010).

Prospects for Nepal

With the end of the Cold War, when other developing countries were striving towards economic development, Nepal was plagued with several internal political crises and later on was engulfed with a decade long civil war. The political crisis not only had negative impact on the economic growth of Nepal but also severely undermined the well being of Nepali population. However, now the decade long war has come to an end and a parliamentary democracy reinstated in the country. It is, therefore, now time to seriously look at the economic development of the country, and also to counteract various socio-economic issues. Nepal needs to effectively direct its foreign affairs to deal with the changing regional and global politics and particularly on economic diplomacy such as technology transfer, investments on various sectors like water resources, enhancing trade, tourism promotion and etc. Moreover, there is an urgent need for Nepal to look at various other issues like climate change, food security, and trans-national crime etc. Nepal must make optimum utilization of SAARC and play more active role towards regional cooperation. Nepal on its part should be particularly alert to acquire capacity to prevent the misuse of its open borders for arms and drug smuggling and terrorism activities. It should be able to raise the use of Nepal's water resources to the regional level and should increase the mutual transaction in the energy sector and also be able to attract concessions for the least developed countries of the region.

India has been one of the largest growing economies in the world. Therefore, Nepal being one of the closest neighbour of India, should grab this opportunity for its own development by encouraging India's joint venture and investment in various sectors. However, for this the Nepali political elites must create an effective environment for foreign investors as political instability and chaos discourages investors. Providing industrial security and political consensus on clear policy towards investors are crucial for attracting FDI. Nepal could also play a constructive role in connecting China with South Asia. Nepal has lot to gain by cooperating with the South Asian countries.

But for this to happen, the current political culture prevalent among Nepali political leaders needs fundamental reorientation in their attitude and they should stop creating an imaginary threat from India for their personal benefit and giving rise to anti-India feelings among the Nepali population when things goes against their interest. The Nepali political leaders must acknowledge the fact that, because of geographic conditions, Nepal has to have more cooperation with India in all fields of its economic activities. And therefore, Nepali political elite should employ professional approach to dealings with neighbours particularly India and should clearly state their priorities and problems that are hurting Nepal's national interest rather than using foreign policy matters for domestic political consumption (Acharya 2009). By addressing these issues, Nepal will not only be able to strengthen the bond of friendship but also strengthen its economy. It is good understanding and constructive diplomacy between neighbouring countries that boost up regional cooperation and helps in evolving a regional identity.

In conclusion, the lack of resources severely restrains small states to actively participate in the international system and therefore international institutions have been the most effective way for them to participate in international issues and to promote their interests. The end of the Cold War not only changed the framework of international relations, but is also seen as an era of rapid globalisation which introduced new challenges and threats and in some cases making the small states most vulnerable. In this environment working through regional arrangement and organisation became the most efficient ways and means to adjust with the changing global environment. Nepal, a small state in the South Asian region too has to cope with the challenges posed by the changing global political and economic order and cooperating through regional mechanism has been imperative to it. The only regional arrangement in the South Asian region is SAARC. SAARC may not be the most successful regional organisation but it has progressively evolved, no doubt, taking advantage of improvement in political relationships and requirements of its member countries. Moreover, various issues and interests of Nepal like overcoming its geographical constraints and trade promotion, harnessing of hydro resources, mitigation of negative impacts of climate change and environmental degradation and various issues linked to it, overcoming the problems of transnational crimes, and arresting the danger of being marginalised from the world economy etc are the issues

that Nepal can practically deal only by cooperating with the South Asian countries through SAARC. Therefore, the initial hypothesis, viz. “Given the geopolitical limitations of small countries like Nepal in contemporary globalised international system, active promotion of and participation in regional cooperative mechanism like SAARC enhance their policy options aimed at safeguarding political and economic interests while fostering a sense of regional community” stands validated in view of the aforesaid observations and findings.

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