1. What are the factors that contributed to the formation of SAARC? Identify the major challenges confronting SAARC in realizing its objectives.

Ans: The SAARC countries have historical reasons, and many other factors for non-cooperation. The differences in political as well as mutual suspicion and lack of trust are the greatest enemies of cooperation among the SAARC countries the problem and issue of Kashmir between India and Pakistan, water and refugee disputes between India and Bangladesh the intervention of India in Sri Lanka’s military, trade and transit treaty between India and Nepal, the ethnic problem between Bhutan and Nepal etc. are some of the troubled spots in the SAARC region where all the countries have to come out open and join for cooperation wholeheartedly.

There is also a compulsion and intra-competition among SAARC countries for political factors superseding the economic factors with each other. Some examples like competition on between India and Sri Lanka for export of tea, jute market competition between India and Bangladesh, rice export competition between India and Pakistan, cotton textile between Pakistan and Sri Lanka, in the world market. The fear of the SAARC countries towards India is that India dominates in terms of area, population, technological advancement and military which may lead the basic factor for continuous and slow growth of cooperation among SAARC countries.

The religious and cultural factors also hinder to some extent the growth of SAARC. Country like Pakistan prefers economic and cultural cooperation with Islamic nations; Nepal and Bhutan are religiously and culturally closer to India as these countries are dominated by the Hindu and Buddhist religions. In the economic perspectives also there are different apprehensions that India and Pakistan are more advanced and developed than Bhutan, Nepal and Maldives as more relatively developed partners would exploit them.

Though there is lack of trust and suspicion irritating one another, yet, still there is vast scope for cooperation among SAARC countries. The SAARC countries must focus on agriculture. Agriculture is the only way to grow and progress is cooperation because these countries have core competence in this sector and their economies are dominated by agriculture too. There must be constant attempts made to remove the major irritants of mutual apprehension in the form of political and economic domination by India. The best way and the need of the hour is the sincerity of purpose and honesty in efforts. The SAARC countries must realize and learn a lesson that in cooperation we can swim across the turbulent river while individually we may be drowned even in the still waters.

Constraints/Challenges of SAARC

The threats to India’s peace and security environment have multiplied enormously, just as the threat to world peace is far more somber and sinister now. The regional and international balance of forces is menacingly hostile. The most ominous problem, the most agonizing issue, facing India today is the nuclear option. On the multilateral level Indo Pak cooperation became a part of the South Asian effort to generate coordinated and concerted momentum for mutual development. India played a low-key role in the beginning for fear of arousing suspicion among smaller neighbours, but Bangladesh and Nepal displayed greater initiative. The Foreign Secretaries of the seven South Asian nations (Nepal, Bangladesh, Sri Lanka, Pakistan, Bhutan, Maldives and India) met in early 1981 in Colombo to promote mutual cooperation in areas which would benefit the entire region and set up working groups for cooperation in the fields of agriculture, rural development, meteorology, health and population, and telecommunication. The working groups identified some 13 projects in these areas. The second meeting of the Foreign Secretaries in Kathmandu in November 1981 expanded the scope of regional cooperation by including for study three new projects, postal service automation, technology and transport. The Kathmandu meeting provided the much-needed spur and accelerated the pace of finding common ground for cooperation.

The South Asian region was beset by many political problems, besides the massive economic difficulties. The legacies of suspicion, often bitterness, loomed too large to be easily dismissed. Clearly regional cooperation was necessary as a form of political cooperation forthwith. Yet, the lesson of history was equally clear. Either cooperate and advance together or stagger separately and individually. South Asia had to find its road towards regional cooperation that would not ignore regional realities and would not, therefore, die premature death. Necessarily this road had to be the road of economic cooperation to begin with, so as to lay a stronger foundation for overcoming political problems. The process had just begun and it was too early to say whether political turbulence would swamp it or whether it would be able to control political vicissitudes. It was for the politicians, bureaucrats, intellectuals, in fact for the whole people in all these countries to safeguard, consolidate and carry forward this process of regional cooperation.

2. Evaluate the impact of liberalization and SAPs in Indian economy.

Ans: India launched massive economic reforms in July 1991 to overcome the economic crisis which has set in the economy because of shortage of foreign exchange (forex) reserves.

The foreign reserves since the beginning of 1990 was in balde because of rising import bill, fall in exports and meagre inflows of FDI. Severe strain on forex reserves was caused by high levels of imported raw material component in India’s exports. Especially the import of oil and petroleum products amounted to about 20 per cent of total import bill; The US-Iraq Gulf War of 1990-91 which led to sharp increase in international oil prices affected India directly and forex reserves began to decline from US$ 1.1 billion in August 1990 to US$898 million in January 1991.

The Gulf War also affected India's exports to Iraq, Kuwait, and other West Asian countries following United Nations trade embargo on Iraq and tense situation in the Arabian Sea. Besides, the remittances of the Indian labour working in Kuwait ceased to flow in as they were evacuated and shifted back to Kuwait following the War.

The impact of all these factors was multiple on the Indian economy and it disrupted industrial production, accelerated inflation to peak level of 16.7 per cent in August 1991 and sharp decline in real GDP growth rate to 2.5 percent.

Amidst all this economic chaos, there was political instability at the national level and a caretaker Central government was in the office. The elections were declared and the new government assumed office in June 1991.