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**Global Recovery, New Risks and
Sustainable Growth**
Repositioning South Asia

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Towards a South Asian Model of Inclusive and Sustainable Growth

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Almost all South Asian countries today face challenges which span across political, economic and social spheres. These economies require urgent reforms in order to improve governance, make markets work for poor, increase connectivity between people and places, and engage the youth bulge in the most productive manner. Recently South Asia has shown resilience to global financial crisis in the form of record high growth in exports and remittances from abroad. There has also been some rhetoric at the government level that promises greater regional integration.

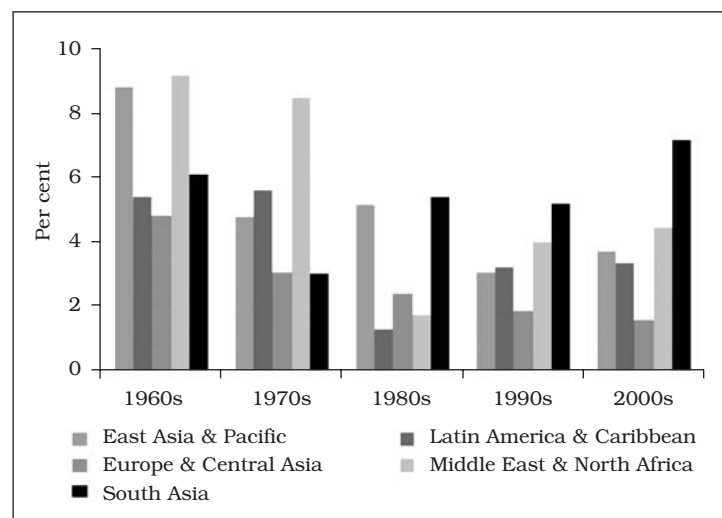
Something on which South Asia can build its promise for tomorrow is the ongoing economic growth spree, which although not inclusive or sustainable, still stands impressive in comparison to other parts of the world. Figure 1 indicates how the growth of real gross domestic product (GDP) while remaining lower or at par vis-à-vis other developing regions across the 1960s-1980s, remained higher during and after the 1990s. This can partly be explained by the persistently rising investment levels in South Asia (Figure 2), and some evidence of rising total factor productivity in the region, particularly for India and Pakistan (Figure 3). However, as many will argue this growth has not served everyone. Since the early 1980s poverty in South Asia has remained stubbornly high, and is still around 40 per cent in terms of poverty headcount ratio. During the same period, several Asian economies halved poverty levels, including Indonesia and China (Figure 4).

A good starting point in our inquiry may be as to why such slow progress in poverty and inequality? There seems some consensus in South Asian literature on the answer to this question. First, sustaining growth (a necessary condition for poverty reduction) has been a challenge for most economies in the region. In many cases, growth spurts were

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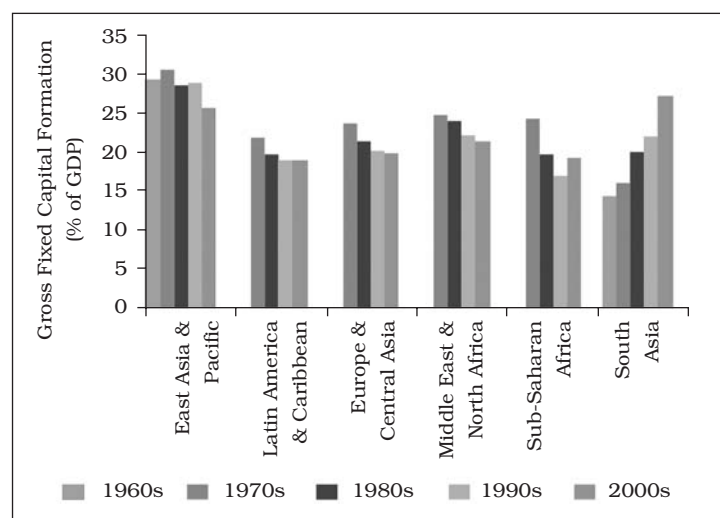
result of external resource inflows, which implied that growth plummeted once these inflows dried up. Second, in several respects these economies have resisted structural reforms for which there are recurrent budgetary challenges, e.g. low tax to GDP ratio or energy shortage, which in turn, constraints industrial growth in the region. Third and most importantly, these economies have not invested enough in the single most important ingredient of long-term growth, i.e. human capital.

Figure 1: GDP Growth in Developing Regions: 1960s-2000s



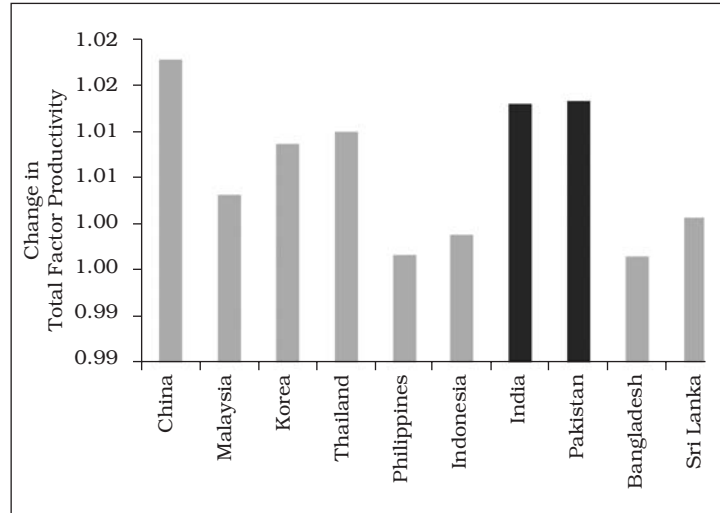
Source: World Development Indicators (WDI).

Figure 2: Investment in Developing Regions



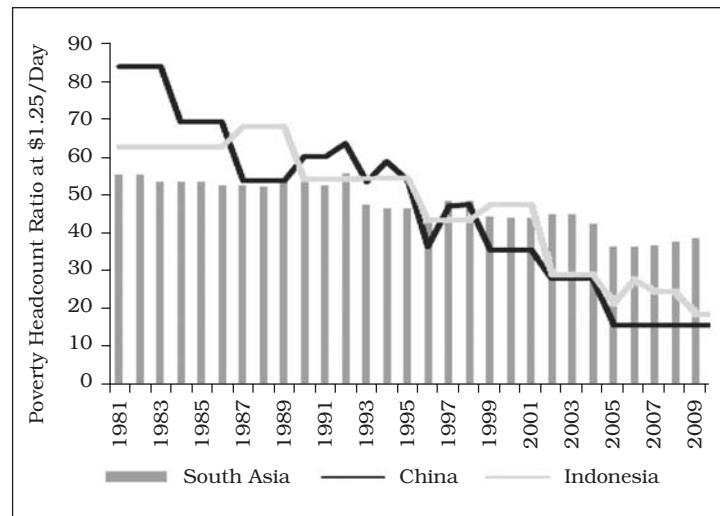
Source: World Development Indicators (WDI).

Figure 3: Productivity in Asia: 1961-2000



Source: World Development Indicators (WDI).

Figure 4: Poverty in Asia: 1981-2009

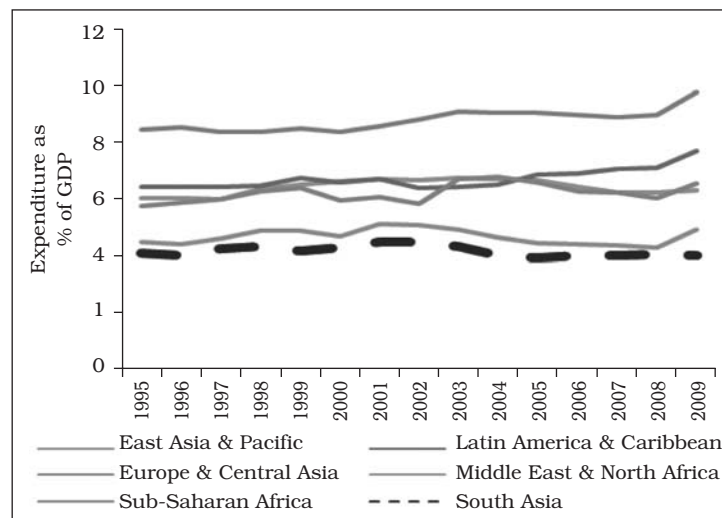


Source: World Development Indicators (WDI).

The neglect of human capital requires a bit more detail discussion at this point. It comes as no surprise that spending on social sectors has remained a low priority across the budgets of South Asian economies. However, what indeed is surprising is the fact that a region with respectable levels of GDP growth since the 1960s and rising investment levels, has in fact spent lower than Sub-Saharan Africa towards meeting health and education needs of its population (Figures 5 and 6). It is well known in empirical and anecdotal evidences that as soon as the current expenditures of South Asian economies expand, education budget is the first to be slashed. This also explains

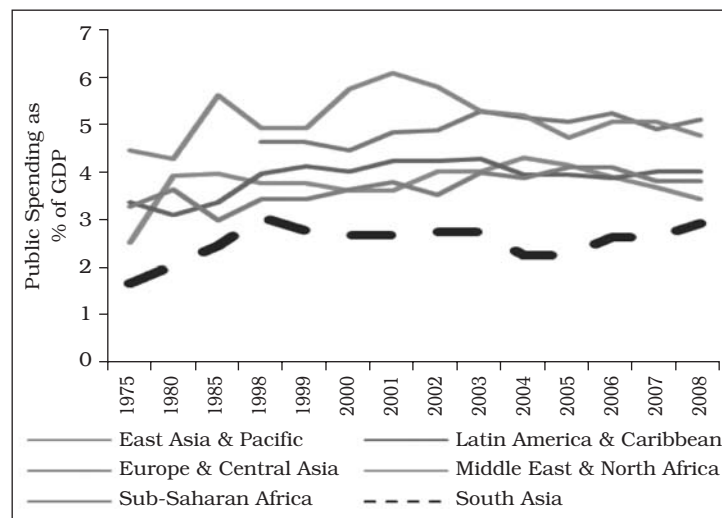
the uneven productivity growth across South Asia. A healthy and educated population helps nations to build upon their comparative advantages and move swiftly towards growth and welfare improvement.

Figure 5: Health Expenditure in Developing Regions



Source: World Development Indicators (WDI).

Figure 6: Education Expenditure in Developing Regions



Source: World Development Indicators (WDI).

The missing links in welfare improvement in South Asia also take several other forms. First, the development budget portfolios that show a dismal investment in human capital also indicate a liking of all political parties towards investing in brick and mortar (hardware of growth). Agreed that infrastructure is important, but so is the governance of existing infrastructure (software of growth). There is poor absorption of development budgets not just due to leakages in the system, but also due to poor management of existing public assets. The value for money is of essence as rising commodities prices now imply increasing cost of incremental infrastructure for the public sector. Herein lies an opportunity for South Asian countries to deregulate infrastructure sectors for private sector competition, and seek benefits of proximity through attracting infrastructure investors from within South Asia. Larger South Asian countries such as India will be best positioned to reap advantages of such cross-border infrastructure-related investments.

The issue of governance goes beyond institutions involved in service delivery of social sectors and infrastructure. It directly impacts institutions that are responsible for spurring entrepreneurship and making private sector the engine of economic growth. Table 1 indicates shortcomings of South Asian countries in taming corruption, improving property rights, reducing burden of government regulations, and removing factor market rigidities. In almost all governance indicators, these economies have persistently been poor performers.

Table 1: Selected Governance and Institutional Indicators (Rank out of 145 Countries)

Country	Corruption	Property Rights	Burden of Government Regulations	Labour Market Efficiency	Electricity and Telecom	ICT Use
Malaysia	37	26	8	20	48	57
China	44	43	21	36	69	74
Sri Lanka	64	54	32	117	79	100
India	99	63	96	81	116	117
Pakistan	104	105	76	136	126	111
Bangladesh	128	112	89	100	137	132
Nepal	126	121	103	128	141	128

Source: Global Competitiveness Report (GCR) 2011-12.

Note: ICT: Information and communication technology.

Moving towards the search for an inclusive and sustainable growth model in South Asia, the task is eased due to the similar laws and regulations that exist on ground. Below we discuss some strategies that may be adopted at national and regional levels. These proposals are not new, and have been at least part of the rhetoric by South Asian governments for some time. The need now is to finally put this rhetoric into action.

Over the recent past, many of these economies have moved towards deregulation of markets, liberalisation of trade and privatisation of public assets. However, still further needs to be done. First, in order to deepen the reforms of markets and trade, national competition policies should be respected. In many parts of South Asia while these national commissions have been constituted they lack strength to counter market cartelisation.

Second, trade between South Asian countries and beyond cannot be expected to increase unless the domestic connectivity reforms are pursued aggressively. Major reforms are required in transport, warehousing and related logistics sub-sectors. Each one of them plays an increasingly important role under the present liberalised trade regime. This region will reap the benefits of bilateral free trade agreements or ultimately South Asian Free Trade Area (SAFTA), only if the above mentioned sub-sectors see some improvement in their standards and delivery.

Third, in order to make the growth process sustainable, respect for environment and natural resources is imperative. A concerted effort should be made towards cleaner means of generating energy and production in large-scale manufacturing. Here immense economies of scale are possible through regional cooperation in use of energy. In the area of environment almost all South Asian Association for Regional Cooperation (SAARC) regional centres can play a very important role. However, one is appalled to see that these centres have been left at the mercy of South Asian bureaucracies due to which even conceptualisation of basic issues remains poor. There is also a need to look into the implications of climate change in the region in terms of food insecurity and livelihoods. Initiatives such as SAARC Food Bank lack luster due to low levels of understanding and conviction amongst South Asian political leaders regarding the efficacy of such measures. Civil society will have to play its role in keeping such initiatives alive.

Fourth, any regional approach towards South Asian economic model cannot ignore connecting people. Mobility of people across history is the single most important element in lifting people out of poverty and reducing the divide between have and have-nots. The distrust that still prevails in the form of restricted visa regime indicates how insecure each country in the region feels from its largest neighbour – India and vice versa. However, through more regular and transparent exchange of information across borders, these irritants can be removed. Many services sectors including tourism, education and health are bound to benefit due to a more liberal mobility of people. The lack of mobility is now akin to non-tariff barriers. Such barriers are now in fact limiting the scope of benefits that one could derive from lowering of tariffs in the region. As one industrialist in Islamabad explained that after Pakistan's easing of negative list for India, he was able to import steel machinery from India at relatively lower cost vis-à-vis other parts of the world. However, in order to install this machinery he still awaits the Indian engineer who has not been given visa for the past six months. The increased intra-regional trade will require for financial sector to open up bank branches in neighbouring countries to facilitate transactions. Similarly, harmonisation of customs and insurance procedures should remain a priority.

Fifth, serious brainstorming is still required in the cooperation around sectoral issues, such as energy and water. The entities such as SAARC Energy Centre need to be empowered for ensuring regional energy cooperation over the medium to long-term. There are blueprints available, which for implementation, require courage more than wisdom. On such sectoral issues of strategic regional interest, one also needs to have harmonisation of domestic foreign policies. Case in point is Iran-Pakistan-India gas pipeline, which despite of all its feasibility for the region, has not seen the light of the

day due to USA pressurising South Asian countries not to deal with Iran while it is under sanctions. Another example is Free Trade Agreement (FTA) between India and the European Union (EU), whereby all left out South Asian economies have reservations about EU dealing with India in bilateral mode. In order for India to promote trust in the region, it will need to assure other South Asian countries how their interests in the EU will not be harmed. The third example is that of water flows across South Asia. All countries will need to realise that water remains a scarce commodity, and any reduction in supply of water to one part of South Asia will ultimately impact other parts in the form of alternate natural resource exploitation, which in turn, can have exacerbate climate change impacts across the region.

The demand for an inclusive and sustainable growth in South Asia ultimately has to come from the civil society and the business community. It is important to discover the power of new tools and mediums of engagements. At the local level, initiatives such as right to information and social accountability should be understood and employed by the civil society. Organising the stakeholders in a manner that acts as a pressure on national governments will also require enhanced people-to-people interaction through media. More recently the power of social media has exhibited how governments ultimately succumb to people's agenda. Finally, the civil society needs to continuously remind the political leaders about their commitments to the SAARC and its objectives of promoting peace and stability in the region for reaping the benefits of economic, social and technical cooperation.

The present volume includes a select set of contributions along with summaries of the discussion at the plenary sessions of the Fourth South Asia Economic Summit (SAES IV), hosted by the Centre for Policy Dialogue (CPD) in Dhaka on 22-23 October 2011. The SAES IV was held in continuation of the three earlier SAES events held in Colombo, New Delhi and Kathmandu. The compendium covers a wide range of issues that are critically important for deepening cooperation and advancing integration in South Asia. The overarching theme of the SAES IV was *Global Recovery, New Risks and Sustainable Growth: Repositioning South Asia*. Within this broad theme, the event focused on a set of cross-cutting issues and a cluster of thematic issues. These issues included current global recovery and its implications, inclusive growth and regional cooperation, accelerating trade and investment, promoting energy and transport connectivity, ensuring food security, managing water resources and climate change, streamlining international migration and remittance flow, and strengthening the role of non-state actors. Recommendations originating from the SAES IV were forwarded to the appropriate focal points of the preparatory process of the Seventeenth SAARC Summit which was held in Addu City, Maldives during 9-11 November 2011.

Policymakers, experts and the wider readership interested about regional cooperation in South Asia will hopefully benefit from the wealth of information and evidence and the rich analyses contained in this unique volume.

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