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

Edited by
Debapriya Bhattacharya
Mustafizur Rahman



CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
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PREFACE

The Backdrop

The Fourth South Asia Economic Summit (SAES IV), hosted by the Centre for Policy Dialogue (CPD) in Dhaka during 22-23 October 2011, had the good fortune of benefitting from the presence of some of the finest thinkers and scholars, prominent policymakers and development practitioners from the South Asian region and beyond. In keeping with the spirit of the SAES initiative, an endeavour launched in 2008 by a number of leading think tanks in South Asia, the fourth meeting of this process provided an opportunity to discuss and debate the prospect of regional cooperation within the current global context. In this backdrop, in the course of three plenaries and nine working sessions, the SAES IV participants had deliberated on a number of issues that were critically important from the perspective of reinvigorating the pursuit of South Asia's common prosperous future.

SAES IV was also important because of its timing. It took place immediately before the Seventeenth SAARC Summit held in Maldives during 9-11 November 2011. A major objective of the SAES IV was to prepare a set of recommendations to be put forward to the SAARC Summit. These were eventually passed on to the official preparatory process of the Summit, and it is satisfying to note here that a number of SAES IV recommendations found reflection in the final outcome document of the Summit.

The Volume

The present volume captures the rich discourse of SAES IV and the ideas that originated from it. Thus the volume embodies a compendium of selected articles presented at the various sessions of the event, summaries of discussions taking place at various plenaries and statements made by dignitaries who addressed the event. The volume will hopefully provide the readership with a unique opportunity to appreciate how major stakeholders perceive the idea of deepening South Asian integration, how barriers and irritants to regional integration could be addressed, what role civil and political actors could play in this regional dynamics, and how best South Asia could

take advantage of closer cooperation in a crisis-afflicted global economy. The volume, thus, represents both scholarship and vision, evidence and ideas, rigour of analyses and boldness of thoughts. Justifiably enough, the volume reflects the backdrop of global economic crisis in which SAES IV took place and the implications that the crisis had for the economies of South Asia. At the same time, writings in the volume try to anticipate the shifting fortunes in a changing world with its attendant risks and anticipated rewards for South Asia.

The Discussion: Four Key Questions

As was noted above, SAES IV was held at a time when the global economy was going through a hesitant and halting recovery from the multiple crises experienced during the immediate past years. The choice of the overarching theme of the Summit, *Global Recovery, New Risks and Sustainable Growth: Repositioning South Asia*, was informed by a number of considerations and expectations. *First*, there was an urgent need to revisit and review the nature of the global crises in order for South Asia to draw appropriate lessons. *Second*, it was important to examine closely the transmission channels and implications of the crises for the South Asian economies. *Third*, keeping this in the rear view, there was a need to come up with evidence-based solutions towards strengthened regional and global integration of South Asia through bilateral, plurilateral and multilateral initiatives, embracing various prospective areas of cooperation. *Fourth*, looking ahead, it was critically important to share ideas about a common South Asian vision, the best ways to work towards such a vision, and the role that political, private sector and civil society actors could play in realising that vision. Furthermore, there was also a need to share thoughts on how to take the SAES process forward so that the ambition of transforming the SAES into a *South Asian Davos* could eventually be attained.

Statements of distinguished guests and deliberations held at the panels and various sessions of SAES IV searched answers to four sets of key questions which captured both the aspirations and experiences regarding South Asian integration.

The *first set* of questions were concerned with the role that regional cooperation could potentially play in the backdrop of the experience of the global crises, in terms of both mitigation and addressing the impacts. In this regard the participants focused on the nature of the financial and economic crises, how South Asian economies have adjusted to the emergent situation and what was the learning curve in this regard, and how cooperation among countries of South Asia could be effectively deployed should this type of crisis be repeated in future. In respect to this, the participants discussed a number of issues including repositioning South Asia's production base to cater to the large and growing regional market, supporting entrepreneurship in the region, raising competitiveness through inter and intra-industry cooperation within the region, developing regional value chains, and learning from regional best practices.

The *second set* of questions were related to identifying concrete measures to harness the potential benefits of regional cooperation in various sectors through closer cooperation in the areas of trade, investment, connectivity and regional commons. In

this regard, participants came up with a number of recommendations to accelerate intra-regional trade, address non-tariff barriers, enhance trade in services including energy services and establishment of a regional power grid, opportunities of greater market access through bilateral comprehensive partnership arrangements, harvesting opportunities of trade and investment complementarities, exchange of expertise and technical know-how, and realising potential benefits through effective management of regional commons such as water and climate change impacts. A number of presentations particularly highlighted the potential benefits accruing from meaningful regional initiatives to safeguard food security and energy security related interests of individual SAARC countries. There was a consensus that greater connectivity and more effective trade facilitation could lead to significant reduction in trade and investment-related logistics costs in the region which were at present one of the highest in the world. The issue of raising competitive strength of South Asia through strengthened regional cooperation in various sectors of the economy was also given prominence in the course of discussion.

The *third set* of questions focused on identifying ways and means to translate the growth momentum of South Asia into reducing poverty and inequality and raising the standard of living for the common people of the region. Discussions here dealt with the issue of inclusiveness of growth, meeting the Millennium Development Goals (MDGs) and the design of South Asia's own development goals (the SAARC Development Goals or SDGs). Participants debated on the issue of whether there was a *South Asian model* of inclusive and sustainable growth, and how this model could be further strengthened.

The *fourth set* of questions explored the role of both political leadership and non-state actors in advancing the cause of South Asian integration. Participants thought that South Asia was in need of leaders who could think within a bigger frame and were capable of thinking big; leaders who could articulate the South Asian vision and were willing to boldly reengineer inter-governmental relationships towards this vision. The scholars and experts highlighted the need to blend developmental perspectives and developmental praxis to realise the common South Asian vision. It was noted that civil society and other non-state actors were playing an increasingly influential and important role in promoting the idea of a *South Asian identity* based on the ideas of inclusive democracy and safeguarding of fundamental human rights. Discussion in this regard focused on how these key actors could draw synergies from each other and leverage their respective comparative advantages. Constructive ideas were floated with regard to various initiatives that could be undertaken to address the irritants and to change the entrenched 'mindsets' that inhibit the realisation of win-win solutions that were many but remained unrealised. Participants put forward a number of possible *early harvests* in this context.

The Outlook: Six Key Messages

Discussions by experts on the state of South Asian regional cooperation usually end up in lamentation, highlighting lack of progress in this regard. The sense of disappointment gets heightened as one recalls that more than two and half decades have elapsed since the establishment of South Asian Association of Regional

Cooperation (SAARC) in 1985. Not surprisingly, SAES IV participants particularly underscored the need to strengthen the institutional structure of SAARC by improving its relevance, outreach and effectiveness. Whatsoever, one could not fail to notice that a number of promising trends are finding place in South Asia, notwithstanding the institutional shortcomings of the regional cooperation framework and modalities. Indeed, at least six such messages could be captured from the wide ranging presentations and interventions that were made at SAES IV.

The *first* observation, in this context, related to recognition of the prominent role that South Asian economies are playing in the ongoing process of 'Asian resurgence', particularly in the face of lingering global economic crisis. It was underscored that South Asia is fortunate to have one of the two emerging giants – India, located in the region itself, while the other, China, is a next door neighbour. It is worthwhile to recall that India and China had maintained a robust economic growth rate defying the global slowdown. Indeed, the low-income countries in the region have also not done that bad in the recent years given the adverse global economic environment. Yet, the issue remains as to how the relatively poor regional countries could benefit economically while being advantageously placed between and around these two production powerhouses. The issue is whether these countries can compensate a fall in global demand of their goods by incrementally accessing the regional markets. Moreover, can these countries devise trigger mechanisms which would activate regional stabilisers to counter-act external shocks.

The *second* positive reading that comes across from the SAES IV discourse relates to emergence of non-state actors – private sector agents in particular – as the dynamic conduit for regional integration. It was maintained that, despite the lack of expected momentum of the SAARC initiative, the process of regional integration is moving forward, albeit slowly, energised by the endeavours of the private sector. Indeed, the private sector entities – for profit as well as not-for-profit – are expanding their interactions and joint activities, often overcoming the hindrances created by underdeveloped cross-border regulatory framework and the almost absent support facilities. The shares of intra-regional trade and intra-regional investment flows are showing signs of modest upward movement in the recent years. While the private business entities from the region are spearheading this uptake, the prospects for engagement of extra-regional investors are also becoming stronger. It may be noted here that the enhanced prospect of extra-regional investment inflows concern not only the manufacturing sector, but also various types of services sector activities (e.g. primary and commercial energy sector).

On the other hand, the private development organisations, often referred to as the non-government organisations (NGOs), have stepped up their research, analysis and advocacy role in creating a strengthened knowledge-base for promoting regional cooperation. Moreover, the NGOs in the region, engaged in development practices at the grassroots levels, are increasingly sharing and exchanging their experiences of social innovations among themselves and exploring new frontiers of development praxis in the regional context through active networking.

The *third* feature of the contemporary conversation on South Asian regional cooperation relates to identification of a set of second generation market barriers. As the quantitative restrictions are done away with and import duties lose their importance in the trading regimes of the regional countries, market actors have started to increasingly complain more about non-tariff barriers. Indeed, sanitary and phyto-sanitary measures and other market impediments emanating from health and environmental concerns now dominate the discussion on effective market access in the region. No wonder, the challenges of ensuring food safety, along with the issue of food security, are gaining prominence in the analysis concerning regional engagements. Possibly, the issues of rule-based trading practices, trade remedies and trade and investment-related intellectual property rights will soon gain increasing prominence and relevance in this context. Thus, the need for streamlining various technical and non-tariff requirements including mutual recognition of standards is considered important for taking the cross-border economic relationship to newer heights.

The *fourth* dimension of the emerging discourse of South Asian cooperation reflects the recognition regarding the need to move away from stand-alone issues to a comprehensive agenda for regional integration. The regional cooperation agenda was once exclusively dominated by tariff liberalisation-based market access related debate. Currently, the scope of discussion includes not only non-tariff issues, but is much more focused on improving trade facilitation-related services. Indeed, the current trade agenda has been complemented by discussion on connectivity, particularly in the area of multi-modal transport system. It is increasingly recognised and now being more frequently mentioned that regional cooperation can only deliver benefits to all countries when trade promotion is linked to investment flow, coupled with cooperation not only in the area of trade in goods, but also trade in services, energy services being a case in point.

The *fifth* encouraging message that currently resonates quite loudly concerns the imperative to ensure an inclusive economic growth in South Asia, bolstered by regional cooperation. If till the other day, the problématique of regional integration was defined by trade and investment agendas, now-a-days the interests of the absentee and marginalised stakeholders are voiced most strongly by their proxy agents. Accordingly, there is an emerging consensus that the success of regional cooperation ought to be measured in terms of its efficacy in mitigating intra-country and inter-country poverty and deprivation. It is reckoned that enhanced regional economic interventions do not only have to improve the material well-being of the disadvantaged populace of the participating countries, but should be able to broaden the opportunities of these underprivileged, so that they can strengthen their capabilities and secure their entitlements.

The *sixth* dimension of the forward-looking agenda for South Asian regional cooperation calls for revisiting issues relating to peace and security. It is widely acknowledged that the SAARC process in the past has largely remained hostage to Indo-Pakistan relationship. One often has viewed with curious concern about expansion of bilateral free trade regimes between regional countries, while the initiatives like South Asian Free Trade Area (SAFTA) agreement moved at a faltering pace. However, in recent period it is

being observed with great optimism and hope that a subtle process of decoupling of economic interest from political posturing has been taking place in the region. Indo-Pakistan relationship is entering into a new phase not only because of the normalisation and deepening of their trade relationship, including the offer of Most Favoured Nation (MFN) status to India by Pakistan, but also because of the bold initiatives these two countries have taken in the area of energy cooperation, involving Afghanistan, Turkmenistan and Iran. Similarly, easing of Bangladesh-India political relationship has led to energetic discussions, and some tentative steps, regarding transport connectivity and energy trade. These positive developments are being paralleled by new developments, whereby smaller economies in the region are engaging with each other with broadened bilateral cooperation agendas. For example, a new scenario is unfolding at present with the land-locked Bhutan and Nepal seeking maritime access through Bangladesh sea ports, after transiting their goods through India.

The positive trend of relative decoupling of economics and politics within the framework of regional cooperation demonstrated its maturity when it was able to sustain the shocks instigated by terrorist activities in the concerned countries. This emerging maturity in economic interfaces are not only going to strengthen peace and security in the region, generating 'peace dividends', but will also strengthen confidence of the global actors as they engage substantively in the region. A validation of this prospect is evidenced by the increasing interest of the extra-regional powers to obtain Observer status in the SAARC.

Many of the above mentioned promising trends in the area of South Asian regional cooperation are still at the nascent state. How does one ensure irreversibility of these positive trends and processes? One of the ways would definitely be by enlarging our knowledge and information resource through sustained analysis and research activities involving concerned areas and issues. A key factor here will be the presence of enlightened policymakers and political leaders in South Asia who in their wisdom and statesmanship are capable of rising above the immediate predicaments and concerns, and are willing and able to make the *South Asian Vision* a reality. Drawing inspiration from the proceeding of SAES IV, one is tempted to cautiously observe that we are making meaningful progress on both these counts.

Centre for Policy Dialogue (CPD), Dhaka
August 2012

Dr Debapriya Bhattacharya
Distinguished Fellow

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Executive Director

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The Fourth South Asia Economic Summit (SAES IV) had assembled eminent people who included ministers, government advisors, members of parliaments, scholars, academics and researchers, government officials, business leaders, development activists and representatives from various civil society and grassroots organisations and international development partners, from South Asian region and beyond. On behalf of the Centre for Policy Dialogue (CPD) and also the co-organisers we would like to express our deep appreciation to all the distinguished participants for their presence and contribution to the immensely rich discussions in the various sessions of SAES IV. That SAES IV was such a resounding success owed to the commitment of these important people to the SAES process.

In organising the SAES IV CPD had the good fortune of collaborating with the leading think tanks in South Asia which have been taking the SAES initiative forward over these past several years. These are: Institute of Policy Studies of Sri Lanka (IPS), Colombo; Research and Information System for Developing Countries (RIS), New Delhi; South Asia Centre for Policy Studies (SACEPS), Kathmandu; South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu; and Sustainable Development Policy Institute (SDPI), Islamabad. We are very happy to recognise their support towards SAES IV held in Dhaka. This gives us the confidence and hope that this pioneering effort will continue to go from strength to strength in future.

SAES IV could not have been possible but for the generous support of our partners. Our special thanks go to the Asian Development Bank (ADB), Manila; Canadian International Development Agency (CIDA), Bangladesh office; Commonwealth Secretariat, London; United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP); Friedrich-Ebert-Stiftung (FES), India; Oxfam Novib; The Royal Norwegian Embassy in Bangladesh; and Asia-Pacific Regional Centre, United Nations Development Programme (UNDP), Bangkok. CPD would also like to acknowledge the capacity building support it has received as an awardee of the Think Tank Initiative (TTI) which enabled the Centre to organise the SAES IV in a befitting manner.

The papers included in the current volume were presented at various sessions of SAES IV. We are very grateful that many of the authors responded positively to our request to put in additional work towards publication of their contributions in this volume. Those who were not able to do so, have kindly given us their permission to post their presentations on the CPD website, and we appreciate their gesture.

Various panels and sessions of the two-day event of SAES IV were joined by a very distinguished set of participants from Bangladesh who were present at various sessions of the event and represented a wide spectrum of experience and expertise. Their contribution is appreciated most sincerely.

To ensure successful organisation of SAES IV, colleagues at the three divisions of CPD, Research, Dialogue and Communication, and Administration and Finance have worked for long hours over a long period, with an exceptional degree of commitment and dedication. We would like to thank all our colleagues for their tireless efforts under the able leadership of CPD Head of Dialogue and Communication Division *Ms Anisatul Fatema Yousuf* and *Dr Khondaker Golam Moazzem*, Senior Research Fellow, CPD.

Special thanks are due to the team of rapporteurs of the various sessions who have helped us prepare the recommendations of the SAES IV. These recommendations were subsequently sent to the preparatory process of the Seventeenth SAARC Summit which was held in Maldives during 9-11 November 2011. We are happy to note that many of the recommendations got reflected in the final document of the SAARC Summit. In this regard we would like to particularly acknowledge the contribution of CPD Head of Research *Dr Fahmida Khatun* in preparing these recommendations under very tight schedule. She was ably assisted in this work by Senior Research Associates *Mr Syed Saifuddin Hossain* and *Mr Toufiqul Islam Khan*.

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CPD's Dialogue and Communication Division had put in tremendous effort in bringing out this volume within a tight schedule. *Mr Avra Bhattacharjee*, Senior Dialogue Associate has prepared the cover design and graphic works of the volume, and has been in-charge of overall design of the publication. *Mr Fazley Rabbi Shakil*, Publication and Print Associate, and *Mr Md Shaiful Hassan*, Programme Associate (DTP) have provided able support to get the volume in the pre-printing format. The contribution of *Ms Nazmatun Noor*, Senior Dialogue Associate ought to be specially mentioned in this regard. Indeed, without her exceptional hard work, commitment and dedication it would not have been possible to bring out this volume within such a short time. She deserves our sincere admiration. We would also like to acknowledge the contribution of *Ms Anjum Noor Choudhury*, former Intern, Dialogue and Communication and *Ms Nandini Shahla*

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August 2012

Debapriya Bhattacharya
Mustafizur Rahman

CONTENTS

<i>Preface</i>	<i>iii</i>
<i>Acknowledgement</i>	<i>ix</i>
<i>Acronyms</i>	<i>xix</i>

STATEMENTS AT THE INAUGURAL SESSION

In Pursuit of a South Asian Community <i>Rehman Sobhan</i>	3
Taking the SAES Initiative Forward <i>Mustafizur Rahman</i>	4
In Support of Democracy and Development in South Asia <i>Sarah Hees</i>	9
Sharing a Common South Asian Vision <i>Nagesh Kumar</i>	10
South Asia, Regional Integration and the MDGs <i>Neal Walker</i>	11
Regional Solidarity for Strengthening Economic Competitiveness <i>Edwin Laurent</i>	14
Facing Global Risks through Regional Cooperation <i>Uz. Fathimath Dhiyana Saeed</i>	17
The Role of Regional Cooperation in Countries in Conflict <i>Sham Lal Bathija</i>	20

The SAES Process: From Colombo to Dhaka <i>Sarath Amunugama</i>	22
South Asia – The Challenges Within <i>Ibrahim Hussain Zaki</i>	23
Emerging Demands Call for Innovative Forms of Cooperation <i>A M A Muhith</i>	24
Including the Bottom Fifty per cent in South Asian Agendas <i>Rehman Sobhan</i>	27
 Keynote Address	
Global Economic Crisis and Asian Resurgence <i>Sultan Hafeez Rahman</i>	29
 SUMMARY OF THE PLENARIES	
<i>Plenary I</i> Current Phase of Global Recovery and Implications for South Asia	41
<i>Plenary II</i> Towards an Inclusive Growth in South Asia: Role of Regional Cooperation	48
<i>Plenary III</i> Delivering on South Asian Dream: The Political Challenge	58
 PAPERS PRESENTED	
Inclusive Growth and Regional Cooperation	
Towards a South Asian Model of Inclusive and Sustainable Growth <i>Vaqar Ahmed</i>	65
SAARC's Encounter with Poverty Alleviation: Looking Back to Look Beyond <i>Saman Kelegama</i>	72
 Accelerating Trade and Investment	
South Asian Economic Integration: Need to Harvest Trade and Investment Complementarity <i>Ajitava Raychaudhuri</i>	77

Acceleration of Intra-Regional Trade in South Asia <i>Mohammad Abdur Razzaque</i>	85
Low Intra-Regional Trade, Rise of Bilateral FTAs and the Future of South Asia's Trade <i>M Shahidul Islam</i>	92
Intra-Regional Trade of Agriculture and Food Products in South Asia: Problems and Prospects <i>Puspa Sharma</i>	103
Issues Limiting Growth of Business within South Asia <i>A Matin Chowdhury</i>	112
Accelerating Trade in South Asia: A Case Study of Pakistan <i>Hamid Mahmood</i>	117
Promotion of Intra-Regional Investment in South Asia: In Search of an Effective Policy Framework <i>Khondaker Golam Moazzem</i>	128
 Promoting Energy and Transport Connectivity	
Energy Integration in South Asia: Key Challenges and Opportunities <i>Lydia Powell</i>	143
Energy Cooperation in South Asia: From Bilateralism to Regionalism <i>Nitya Nanda</i>	152
Shared Pasts Provide Answers for Connectivity in South Asia <i>K L Thapar</i>	159
Issues of Transport Connectivity in South Asia <i>Amita Batra</i>	167
Transport Connectivity: The Case for Pakistan <i>Ghulam Samad</i>	174
Towards South Asian Common Market: Trade Facilitation Agenda <i>Prabir De</i>	178
Air Services Liberalisation in South Asia <i>Anushka Wijesinha</i>	191

Ensuring Food Security

High Commodity Prices and Food Security in South Asia: Policy Initiatives in view of Supply Uncertainty and Price Volatility <i>Aynul Hasan, Clovis Freire and M Hussain Malik</i>	216
Food Security in South Asia: Status, Challenges and Policy Considerations <i>Mahabub Hossain</i>	229
Food Security in South Asia: Challenges, Responses and Proposals for SAARC <i>Khadija Haq</i>	247
Food Price Volatility and Uncertainty: The Case of Nepal <i>Bishwambher Pyakuryal</i>	257
Agricultural Research and Technology Development under SAARC <i>Uttam Deb</i>	264

Managing Water Resources and Climate Change

SAARC's Water Future: From Beggar-My-Neighbour to Grand Opportunity <i>B G Verghese</i>	268
Water Resources in the SAARC Region: Some Thoughts <i>Md Khairul Islam</i>	274
A Regional Outlook for Climate Finance in South Asia <i>Fahmida Khatun</i>	277
Requirements of a Robust Climate Financing in South Asia <i>Tirthankar Mandal</i>	284

Streamlining International Migration and Remittance Flow

Migration and Remittances in South Asia in the Wake of Emerging Global Challenges <i>S M Turab Hussain</i>	299
South Asian Regional Collaboration on Protection of Migrant Rights <i>Tasneem Siddiqui</i>	309

Strengthening the Role of Non-State Actors

Strengthening Democracy and Human Rights: Role of the Non-State Actors <i>Ahmed Saleem</i>	324
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Promotion of Development and Democracy: Experiences of Selected Non-State Actors in South Asia <i>Arif A Waqif</i>	332
Role of Non-State Actors in Promoting Development in South Asia <i>Anura Ekanayake</i>	339

ANNEXES

Concept Note of the Conference	349
Recommendations of the Conference	361
Programme Schedule of the Conference	377
Participants of the Conference	386
Titles of Presentations Not Included in the Volume	398

ACRONYMS

ADB	Asian Development Bank
AEZ	Agro-Ecological Zone
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Area
AICO	ASEAN Industrial Cooperation
AITD	Asian Institute of Transport Development
AMDISA	Association of Management Development Institutions in South Asia
APEC	Asia-Pacific Economic Cooperation
APTA	Asia-Pacific Trade Agreement
ASA	Air Services Agreement
ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated System for Customs Data
BAIRA	Bangladesh Association for International Recruiting Agencies
BASA	Bilateral Air Services Agreement
BBS	Bangladesh Bureau of Statistics
BDT	Bangladeshi Taka
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BOO	Build-Own-Operate
BOOT	Build-Own-Operate-Transfer
BRRI	Bangladesh Rice Research Institute
bcfd	Billion Cubic Feet per Day
CAA	Civil Aviation Authority
CAGR	Compound Annual Growth Rate
CARICOM	Caribbean Community
CDM	Clean Development Mechanism
CGIAR	Consultative Group on International Agricultural Research

CIMMYT	International Maize and Wheat Improvement Center
CNG	Compressed Natural Gas
COMESA	Common Market for Eastern and Southern Africa
COMTRADE	Commodity Trade Statistics Database
COP	Conference of Parties
CPI	Consumer Price Index
CSIRO	Commonwealth Scientific and Industrial Research Organization
CSO	Civil Society Organisation
CUTS	Consumer Unity and Trust Society
DOTS	Direction of Trade Statistics
DPR	Development Project Report
EBA	Everything But Arms
ECSC	European Coal and Steel Community
EEC	European Economic Community
EPZ	Export Processing Zone
ESMAP	Energy Sector Management Assistance Programme
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GCF	Green Climate Fund
GCR	Global Competitiveness Report
GDF	Global Development Finance
GDP	Gross Domestic Product
GEF	Global Environment Facility
GEP	Group of Eminent Persons
GFMD	Global Forum on Migration and Development
GHG	Greenhouse Gas
GHI	Global Hunger Index
GIS	Geographic Information System
GMS	Greater Mekong Subregion
GNI	Gross National Income
GTAP	Global Trade Analysis Project
HIES	Household Income Expenditure Survey
HRCM	Human Rights Commission of the Maldives
HS	Harmonized Commodity Description and Coding System
HVDC	High Voltage Direct Current
HYV	High-Yielding Variety
IATA	International Air Transport Association

ICAO	International Civil Aviation Organization
ICIMOD	International Centre for Integrated Mountain Development
ICOR	Incremental Capital-Output Ratio
ICRISAT	International Crop Research Institute for Semi-Arid Tropics
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
IGG	Inter-Governmental Group
ILO	International Labour Organization
IMF	International Monetary Fund
INR	Indian Rupee
IOM	International Organization for Migration
IPA	Integrated Programme of Action
IPCC	Intergovernmental Panel on Climate Change
IRRI	International Rice Research Institute
ISACPA	Independent South Asian Commission on Poverty Alleviation
IT	Information Technology
IWT	Inland Water Transport
KSE	Karachi Stock Exchange
kgoe	kg Oil Equivalent
LDC	Least Developed Country
LDCF	Least Developed Countries Fund
LKR	Sri Lankan Rupee
LNG	Liquefied Natural Gas
MDG	Millennium Development Goal
MFN	Most Favoured Nation
MNC	Multinational Corporation
MW	Mega Watt
MoU	Memorandum of Understanding
mmbtu	Million British Thermal Unit
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NBFI	Non-Bank Financial Institute
NCAR	National Centre for Atmospheric Research
NGO	Non-Government Organisation
NTC	National Trade Corridor
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OMS	Open Market Sales
OSA	Open Skies Agreement
PFDS	Public Food Distribution System
PIA	Pakistan International Airlines

PKR	Pakistani Rupee
PNSC	Pakistan National Shipping Corporation
PPP	Public-Private Partnership
PPP	Purchasing Power Parity
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PTA	Preferential Trade Agreement
RCA	Revealed Comparative Advantage
RMG	Readymade Garments
RMMRU	Refugee and Migratory Movements Research Unit
RTA	Regional Trade Agreement
RoO	Rules of Origin
R&D	Research and Development
SAARC	South Asian Association of Regional Cooperation
SACOSAN	South Asian Conference on Sanitation
SACU	South Asian Customs Union
SADC	Southern African Development Community
SAFAS	South Asia Framework Agreement on Services
SAFTA	South Asian Free Trade Area
SAPAP	South Asia Poverty Alleviation Programme
SAPTA	SAARC Preferential Trading Arrangement
SARI/Energy	South Asia Regional Initiative for Energy
SARSO	South Asian Regional Standards Organization
SATIS	SAARC Agreement on Trade in Services
SAWTEE	South Asia Watch on Trade, Economics and Environment
SCCI	SAARC Chamber of Commerce and Industry
SDF	SAARC Development Fund
SDG	SAARC Development Goal
SLBFE	Sri Lanka Bureau of Foreign Employment
SME	Small and Medium Enterprise
SPS	Sanitary and Phytosanitary
SRETS	SAARC Regional Energy Trade Study
TBT	Technical Barrier to Trade
TPES	Total Primary Energy Supply
TRIPS	Trade Related Intellectual Property Rights
toe	Tonnes of Oil Equivalent
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe

UN-ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNFCCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development
USD	United States Dollar
USDA	United States Department of Agriculture
VAT	Value Added Tax
VGf	Vulnerable Group Feeding
WDI	World Development Indicator
WDR	World Development Report
WEF	World Economic Forum
WFP	World Food Programme
WITS	World Integrated Trade Solution
WRI	World Resources Institute
WTO	World Trade Organization



Fourth
South Asia
Economic Summit

**STATEMENTS
AT THE
INAUGURAL SESSION**

In Pursuit of a South Asian Community

Rehman Sobhan*

The South Asia Economic Summit was conceptualised some years ago in the South Asia Centre for Policy Studies (SACEPS) in consultation with partner institutions. Originally, we had somewhat lofty ideas about what we aspired to. The idea in those days was that we would attempt to recreate a *South Asian Davos* in the region. South Asian eminences from different segments of the society were regularly going to Davos, and they were of course very distinguished contributors to those proceedings. Periodically, there were recreations of the Davos projects within the region. So the idea was that we should attempt to eventually bring all these initiatives together, and create a platform within this region which would bring together the leading policymakers of the region with the business community leaders and leaders of civil society. In each area, South Asia has acquired eminence and distinction.

What we have now attempted to do is to initiate a process whereby the Davos project can at least have an opportunity to test itself through annual conclave of people of some distinction from these broad constituencies of society. So, we have over the years assembled in each of the capitals of the region, groups of people to interact with each other as part of a process which would demonstrate both the cohesion of a South Asian community and also the need for various elements of that community to come together. We essentially recognised that whilst our governments are preeminent in building South Asian community (we will be having the Summit of SAARC in Maldives next month), the building of a community is a much broader process. So we invite you to participate in that wider project as people who are engaged with the concept of a broader community of South Asia which transcends nation states' primary loyalty.

Now today we are happy to welcome amongst us a number of Ministers who have in fact come from various countries to join the Hon'ble Finance Minister of Bangladesh, Mr A M A Muhith, MP, who is here as our Chief Guest. I am happy to welcome Dr Sham Lal Bathija, Hon'ble Senior Advisor Minister for Economic Affairs to the President of Afghanistan. Dr Bathija is particularly an honoured guest here because we have not had opportunities to interact that frequently with the most recent member of the South Asian community, and so his presence is very welcomed.

We are happy to welcome Mr Ibrahim Hussain Zaki, Hon'ble Special Envoy of the President of Maldives and the Former SAARC Secretary General; but his primary incarnation amongst us originates in the fact that he was associated with the process of building a South Asian community before he became the Secretary General of SAARC, and has continued to remain a partner with us in virtually every major venture since then. So today he is the Principle Advisor to his President who will be hosting the SAARC Conference in the Maldives.

I was recently in the Maldives and had the opportunity to meet the Hon'ble President. And we can all be reassured that there you will be hosted by a Head of the State who is

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passionately committed to the concept of building a South Asian community. To whom this is not just going to be a routine conference where he is going through the rituals of a SAARC process, but a person who sees himself as a missionary in the building of a South Asian community. Hopefully, he will have a strong partnership with our own Prime Minister and other Heads of the States who feel as strongly about the process as he does.

I am happy again to welcome Dr Sarath Amunugama, Hon'ble Senior Minister for International Monetary Cooperation, Government of Sri Lanka. Dr Amunugama is another veteran of this process. In fact, I have a feeling that this may well be the fourth SAES conference that he is attending, because the very first one was in Sri Lanka where he played a very active part in initiating the process. This I think is particularly significant for us.

And then of course there is Mr Abul Maal Abdul Muhith, MP, our Hon'ble Finance Minister. Whilst he is here today as the Finance Minister of Bangladesh, he again, has been associated with this process over many years, in a number of different incarnations where he has graduated along the route of professionals concerned with South Asian issues, professionals involved through civil society with attempts to build the South Asian community. And now he is engaged in giving substance to the ideas which he has strongly supported.

We have Dr Nagesh Kumar who has come from the UN-ESCAP, but before that he had been very actively associated with this initiative through the RIS (Research and Information System for Developing Countries). We have Ambassador Edwin Laurent from the Commonwealth Secretariat whose organisation has been associated with this process for a long time. We are happy to have Ms Sarah Hees of the FES (Friedrich-Ebert-Stiftung) which is again an organisation which has very long pedigree of trying to help us to build the South Asian community. We have Mr Neal Walker who is the Head of the UN Community in Bangladesh, and of course his organisation UNDP has been actively supported us.

With these introductory words, I welcome this very distinguished audience who have all in their own ways contributed much, and yet have much to contribute to this process. Let me invite Professor Mustafizur Rahman, Executive Director, CPD. He is associated with the distinguished partners of this project.

Dr Mustafiz, over to you.

Taking the SAES Initiative Forward

Mustafizur Rahman*

On behalf of the Centre for Policy Dialogue (CPD), the host organisation of SAES IV, the Board of Trustees of the CPD, and all my CPD colleagues, it is my immense pleasure to

**Professor Mustafizur Rahman* is the Executive Director of the Centre for Policy Dialogue (CPD), Bangladesh.

extend a very warm welcome to you all to this Inaugural Session of the Fourth South Asia Economic Summit in Dhaka.

In welcoming you on behalf of the CPD, I am also joined by our five co-organisers of the SAES IV: the Institute of Policy Studies of Sri Lanka (IPS), Colombo; Research and Information System for Developing Countries (RIS), New Delhi; South Asia Centre for Policy Studies (SACEPS), Kathmandu; South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu; and Sustainable Development Policy Institute (SDPI), Islamabad. I am also happy to extend a very warm welcome to you on behalf of our eight partners of SAES IV: the Asian Development Bank (ADB), Manila; Canadian International Development Agency (CIDA); Commonwealth Secretariat, London; United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP), Bangkok; Friedrich-Ebert-Stiftung (FES), New Delhi; The Royal Norwegian Embassy in Bangladesh; Oxfam Novib; and Asia-Pacific Regional Centre, United Nations Development Programme (UNDP), Bangkok.

Let me also express my sincere appreciation to H E Uz. Fathimath Dhiyana Saeed, Hon'ble Secretary General of SAARC, for her support towards SAES IV. Because of pressure of work in connection with the upcoming SAARC Summit, she was unable to join us today, but she has been very kind to send us a video message with her warm wishes for the success of SAES IV. I would also like to put on record our special thanks to Dr Sultan Hafeez Rahman, Director General, South Asia Department, ADB who has been a great supporter of SAES IV, and had accepted our invitation to deliver the keynote speech this morning. Because of urgent call of duty he was not able to come to Dhaka. He has conveyed his regret, and his best wishes for SAES IV. He was very kind to send us his keynote paper which he had prepared for presentation. We have circulated the paper for your consideration.

I would like to give you some background information about the SAES initiative. As many of you will perhaps recall, SAES originated from an initiative by a number of well-reputed civil society think tanks in South Asia, who are also the co-organisers of this event of today. The objective was to create a platform for open and in-depth discussion, to promote and advance South Asian cooperation, with participation of policymakers, leading thinkers and experts, and representatives of private sector and other stakeholders from the region and beyond. The previous three SAES events were held in Colombo (in 2008), New Delhi (in 2009), and Kathmandu (in 2010). The relay has now been passed on to CPD to host the SAES IV in Dhaka. We are very happy to rise up to this challenging task.

CPD has special reasons to be happy to organise SAES IV. Since its founding in 1993 by Professor Rehman Sobhan, one of the core activities that CPD has pursued in a single-minded manner, was to advance the cause of South Asian cooperation and integration. Some in our audience of today, both from Bangladesh and the region, have been veterans of these Track II endeavours pursued by the CPD over the past years. I would like to mention in this connection the 16 rounds of Indo-Bangladesh dialogues that CPD and its partners have organised between 1995 and 2005, which we like to believe, have contributed to a better understanding on many key areas of our bilateral

relationship with India. Indeed, for the initial few years CPD also hosted the SACEPS which, now in Kathmandu, was set up as a regional think tank focusing on issues of regional cooperation in South Asia. Over the years, CPD has undertaken, and been associated with, many initiatives whose aim was to try to build consensus around the region on issues that concerned us in areas of poverty alleviation, trade, investment, water resources, security and others. So, from the standpoint of CPD, we were very happy to be associated with the SAES initiative from its very beginning. We are happy to work with our fellow think tanks and partners to take the SAES initiative forward – an initiative whose ambition is to gradually move towards a *South Asian Davos*.

The overarching theme of SAES IV is *Global Recovery, New Risks and Sustainable Growth: Repositioning South Asia*. As the Concept Note, prepared by CPD Distinguished Fellow, Dr Debapriya Bhattacharya states: "...there is a serious need to reflect on how the South Asian economies are going to reposition themselves collectively in the changing global environment so as to attain political cohesion and inclusive economic growth. It is in this context that challenges in the areas of promotion of trade and investment, ensuring food and energy security, sustaining flow of foreign remittances, improving transport connectivity, managing water resources, and broadening the space for the civil society in the process of development have to be addressed, with efficacy and effectiveness, drawing on fresh thoughts and new initiatives." SAES IV, in its plenaries and working sessions, will explore the possibilities of addressing attendant concerns in each of these aforementioned areas.

SAES IV is taking place at a time when both development thinking and development praxis are undergoing serious rethinking. However, as we talk about the centre for gravity in the global economy being gradually shifted to Asia, we cannot but reflect on the fact that South Asian region has the highest concentration of assetless and resourceless people anywhere in the world; that share of intra-regional trade and investment in our region continues to remain one of the lowest; and that South Asia remains the most disconnected region in the world. We cannot but ask ourselves, what will be the destiny of South Asia in the century which is perceived by many to be the *Asian Century*. Over the next two days, in three plenaries and nine thematic sessions, we hope to apply our collective wisdom to come out with actionable agendas which we can then pursue through subsequent initiatives at citizens' level, through our policy advocacy work, and through our work at government and inter-governmental levels. We also hope to submit our recommendations for consideration at the Seventeenth SAARC Summit in Maldives which will take place during 10-11 November 2011.

You shall be happy to know that SAES IV has been joined by 83 participants coming from all the SAARC member countries. We have 21 participants from India, 13 participants from Pakistan, 9 participants from Sri Lanka, 10 from Nepal, six from Bhutan, two participants from the Maldives, and of course we have the Hon'ble Advisor to the President of Afghanistan with us at SAES IV. They are joined by 21 colleagues who represent a number of regional and multilateral organisations and agencies which play an important role in supporting various initiatives in the SAARC region. We are very hopeful that the richness and diversity of their experience and knowledge will make SAES IV an exceptionally rewarding event.

I would like to take this opportunity to express our profound gratitude to our Chief Guest, the Hon'ble Finance Minister for his support to CPD and SAES IV. Indeed, the Hon'ble Minister has been a veteran of the Track II process, and was actively involved in many of the initiatives CPD had pursued over the past years to advance the interests of South Asian cooperation. We appreciate the key role he is now playing as an influential member of the Cabinet in pursuing his government's policies towards more meaningful bilateral and multilateral cooperation with countries of the SAARC region. Thank you Sir for your presence today.

We are indeed grateful to Dr Sarath Amunugama, Hon'ble Senior Minister for International Monetary Cooperation, Government of Sri Lanka. His presence and support for SAES IV is really an inspiration for us. Thank you Sir for coming and joining us.

We are very grateful for the presence of Mr Ibrahim Hussain Zaki, who as Secretary General of SAARC during 1992-93, had played an important role in building up the SAARC as an inter-governmental body mandated to steer the process of South Asian cooperation and integration. As Special Envoy of the President of the Maldives, Mr Zaki of course will be playing a key role in the upcoming Seventeenth SAARC Summit in Maldives, and we are hopeful that he will take note of the recommendations emerging from SAES IV as inputs for the upcoming Summit. Thank you Sir for your presence.

Only recently, Afghanistan has joined SAARC as the eighth member of the regional group. We are very grateful to Dr Sham Lal Bathija, Hon'ble Senior Advisor Minister for Economic Affairs to the President of Afghanistan for this gesture of support and goodwill towards SAES IV. Your participation, Sir, is greatly appreciated.

I would like to register my sincere thanks to our five co-organisers for being such excellent supporters. I would like to recognise in the audience the presence of Dr Saman Kelegama, Executive Director, IPS; Dr Biswajit Dhar, Director General, RIS; Dr Posh Raj Pandey, Executive Chairman, SAWTEE; Dr Abid Suleri, Executive Director, SDPI; and the Co-Chairs of SACEPS Board Mr Syed Babar Ali and Professor Muchkund Dubey.

Our partners have been extremely generous in extending their fullest support to the CPD in hosting SAES IV. Four of our partners are with us here on the podium and we look forward to their statements. At the same time, I would like to recognise the presence of representatives of our other partners from ADB, CIDA, Oxfam Novib and the Royal Norwegian Embassy who have joined us at this event, and will be contributing to our discussion over the next two days.

Taking this opportunity, I would also like to recognise the presence of representatives of the Think Tank Initiative (TTI) who have come to Dhaka to participate in SAES IV. Indeed, the Think Tank award which CPD has received in 2010, through a highly competitive process, has contributed to significant strengthening of the institutional and organisational capacity at CPD, and we would like to recognise the support under this global initiative.

We also have amongst us the High Commissioners, Ambassadors, and high officials from countries from which our overseas guests have come, and I would like to take this opportunity to thank them for their presence, and support to SAES IV.

On behalf of the CPD, our co-organisers and our partners, I would like to express our sincere appreciation to all our overseas participants who have so kindly accepted our invitation and come to Dhaka to share their knowledge, expertise and experience with us.

Over the next two days, various sessions of SAES IV will be joined by a very distinguished set of participants from Bangladesh who will include ministers, members of parliament, academics and experts, business leaders and representatives of the civil society. Taking this opportunity, I would also like to register our deep appreciation for their time and support.

I would like to thank the electronic and print media for their support in taking the message of SAES IV to a wider audience, and in raising public awareness about issues of importance and interest to our region.

As we all know, organising such an important event involves tireless efforts and sleepless nights and very hard work. I would like to take this opportunity to register my gratitude to Professor Rehman Sobhan, Chairman, CPD for his advice and guidance, and for the inspiration that he is for all of us at CPD. The CPD Board of Trustees have been with us all along in this effort, giving us encouragement and support from the very beginning when we decided to host this event. I would like to recognise the presence of our Board Members amongst the audience.

My colleagues at CPD have put in immense effort to organise the SAES IV in a befitting manner. CPD Distinguished Fellow Dr Debapriya Bhattacharya had prepared the Concept Note for SAES IV which got our preparatory process rolling in the first place, several months back. Since then, Ambassador Bhattacharya has played the lead role in steering the entire range of activities related to preparation of SAES IV. As the main organising focal point, Ms Anisatul Fatema Yousuf, CPD's Head of Dialogue and Communication, has been working exceptionally hard, along with our colleagues at her Division, to ensure that as host of SAES IV, CPD lives up to its past reputation and attains even newer heights. Dr Fahmida Khatun, CPD's Head of Research, and our colleagues at Research Division have been playing an important role to ensure that the intellectual inputs to SAES IV coming from such a distinguished group of participants are adequately reflected in our intermediate outputs and final document. I would like to take this opportunity to register my particular appreciation for the tireless efforts put in by Dr Khondaker Golam Moazzem, Senior Research Fellow, CPD who has been playing a key coordinating role in the organisation of SAES IV. Our colleagues at CPD Administration and Finance Division, under the able leadership of Mr M Shafiqul Islam have been taking excellent care of the logistics and organisational matters involved. Indeed, to all my CPD colleagues, individually and collectively, I owe an immense debt of gratitude. I personally feel extremely privileged to have the good fortune to be part of, and work with, such a talented, dedicated and hardworking collective.

More than a decade back, at the Ninth SAARC Summit in 1997 in Malé, the leaders of SAARC asked a Group of Eminent Persons (GEP) to design and present a roadmap for South Asian integration. The GEP in its Report *Moving Towards a South Asian Economic Community*, which was submitted at the Tenth Summit in Colombo, presented a vision of a *South Asian Economic Union by the Year 2020*. We are extremely happy to have three of these eminent personalities here with us today. H E Mr Ibrahim Zaki, Ambassador Muchkund Dubey and Professor Rehman Sobhan. The report submitted by this Group of Eminent Persons put before us a vision of a South Asia by 2020, joined by seamless multi-modal connectivity, secured in its food and energy needs, and with a thriving regional value chain and multi-country production network – a South Asia where growth will be inclusive and citizens empowered.

South Asia has changed in many ways since the 1990s. But that dream still persists in our minds and thoughts; this dream has now been passed on to a new generation, inspiring us to renew our efforts and redeem our pledge to attain those lofty goals. One and half decades later, our political leaders will once again meet in Maldives, the country where the dream was born, under the banner of *Building Bridges*. It is for our leaders now to demonstrate once again their commitment to that dream and that vision. On our part, we can promise, on behalf of all our SAES co-organisers and our partners, that we are ready to pursue that dream through our combined intellectual inputs and sharing of our practical experience. And over the next two days, we are determined to challenge ourselves as to think how best to attain this common ambition of ours and move towards realisations of that enlightened vision of a South Asian Economic Union.

In Support of Democracy and Development in South Asia

Sarah Hees*

I would like to extend a very warm welcome on behalf of the Friedrich-Ebert-Stiftung (FES). I am very happy to meet you all here at the South Asia Economic Summit (SAES), and very proud to make a small contribution to such an important initiative and to cooperate with the Centre for Policy Dialogue, Bangladesh which has so greatly organised this Summit. FES would like to congratulate CPD for its great work.

To reposition South Asia, as the title of the conference suggests, is crucial here to bring together economists, experts and policymakers from the region to establish a dialogue on sustainable growth in Asia. The structural risks and challenges of all the SAARC member countries are strikingly similar: poverty, unemployment, political tension as well as lacking regional cooperation. Therefore, it is very important to promote a common understanding of shared challenges, but there is also a need for joint efforts to improve the future of all SAARC countries.

The inclusive and sustainable growth of South Asian economies is as crucial to the economic development of the region as it is to the stability of the rest of the world. Regional trade has the capacity to strengthen peaceful political relationships, boost sustainable economic prosperity, and increase mutual understanding. The promotion of

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good economic relationships with your neighbours is an important step towards peaceful regional integration. This conference has been partially funded by the Friedrich-Ebert-Stiftung. FES is a German political foundation founded in 1925, as a political legacy of the first democratically elected President of Germany. In his spirit, the Friedrich-Ebert-Stiftung is committed to the ideas and values of social democracy.

The aim of the international activities of FES is to promote democracy and development, to contribute to peace and security, and to make globalisation socially equitable. FES has five offices in South Asia, and through its projects in more than 100 countries, FES supports civil society and strengthens political institutions.

A crucial objective for FES India is to work towards the development of the South Asian economy which is both more socially just and globally integrated. We, therefore, have established a regional taskforce which is called the 'Economy of Tomorrow.' FES is determined to establish a dialogue to discuss elements of a socially just, sustainable and a dynamic growth model. We call it 'Decent Capitalism.' The core thinking of any such economic model is by definition the multi-dimensionality of progress and growth. No country, and especially no region, is bound for isolated development. For this very reason, a progress dialogue within South Asia on how to strategically adjust your economies for the challenges of today and the opportunities of tomorrow is crucial.

This is why FES supports the initiative of South Asia Economic Summit which increases the participation of stakeholders and promotes common approaches and collective actions. The issues that are to be tackled by you, the distinguished participants of the Summit are not easy. You are here to identify new risks, to provide advice on how to reposition the economies of South Asia in times of crisis, and how to steer them towards sustainable growth.

I wish you good luck with your task and a very successful conference. May this be a forum for fruitful discussion and meaningful exchange of ideas.

Sharing a Common South Asian Vision

Nagesh Kumar*

It is a privilege and honour to be a part of this very distinguished and very eminent group of experts, scholars and policymakers from the sub-region and beyond, and to represent the UN-ESCAP at this very important conference.

It is a privilege for ESCAP to be a partner of South Asia Economic Summit (SAES) and contribute to it. Personally for me, having attended all the three previous South Asia Economic Summits, it is very gratifying to see the process of the SAES gathering momentum, growing from strength to strength and becoming a very important platform for civil society discussion and dialogue to assist the process of regional economic cooperation and development in this sub-region.

*Dr Nagesh Kumar is the Chief Economist of the UN-ESCAP, Bangkok and Director, ESCAP Sub-Regional Office for South and South-West Asia, New Delhi.

South Asia has emerged as one of the fastest growing sub-regions of the world. It has also been a very important laboratory for development experiences and experiments, where a number of very important concepts of development have taken shape. Yet it continues to be home of a very large chunk of world's poor, more than 40 per cent; and its record in achieving Millennium Development Goals (MDGs) has been rather poor compared to other sub-regions of Asia, except for the Pacific sub-region. Obviously the fruits of development or dynamism have not yielded to the expected extent.

Also there is the fact that it is in the economic structure of the South Asian shared culture and systems of governance which also facilitates regional economic cooperation. And the bottomline is that we have not been able to harness the fruits of regional economic integration. The SAES blueprint which was proposed by a group of eminent persons some years ago continues to be a very fitting vision for South Asian cooperation and integration. I hope this process of dialogue that the South Asia Economic Summit is facilitating would contribute to fulfillment of that vision one day.

ESCAP is increasing its attention to this sub-region. ESCAP as you know is the regional arm of the United Nations, covering entire region from Turkey to the Pacific Islands, 55 countries throughout this region. It is now focusing its attention to the South Asian region, and has set up a South and South-West Asian sub-regional office in New Delhi.

This sub-regional office will serve all the SAARC countries and include Iran and Turkey. Formal opening of the office has been planned on December. We really look forward to working with all the partners, institutions, organisations and individual experts present in this South Asia Economic Summit for advancing the cause of economic cooperation and economic development for the sub-region.

With these words, I again congratulate CPD, our partners, for bringing us all together and providing us with a platform or a forum for discussion on the common issues, common concerns for regional economic cooperation and development in the sub-region.

South Asia, Regional Integration and the MDGs

Neal Walker*

I am delighted to join this august gathering on behalf of the United Nations Development Programme (UNDP) today. It is heartening to notice that the annual South Asia Economic Summit (SAES) conceptualised about four years back in Colombo has now emerged as a mature and credible platform devoted to fostering regional cooperation efforts in South Asia. It gives me immense pleasure to note that it enjoys the confidence and broad-based support of the policymakers, businesses, media and the civil society, and is a harbinger of regional cooperation efforts in the region.

I would like to congratulate the Centre for Policy Dialogue, Dhaka as this year's Summit host along with the esteemed partner institutions for their dedicated efforts in organising

* *Mr Neal Walker* is the UN Resident Coordinator and UNDP Resident Representative in Bangladesh.

this event. On behalf of the UNDP, please allow me to join the organisers in extending a warm welcome to all the eminent dignitaries and delegates assembled here today.

I am sure all of you have been closely following the worrying deterioration in the global economic outlook: recovery efforts which were already fragile have been dragged down further by multiple weaknesses and downside risks, not least due to the ongoing European sovereign debt distress. Of particular concern has been the lack of adequate monetary and fiscal space in the hands of the governments which is needed to put the countries firmly on a sustainable and inclusive recovery path. On top of this, we have exchange rate volatility and unpredictable jumps in capital flows to developing countries. When all these are taken together, our abilities to keep up with the growth momentum and address longer-term structural challenges are severely stretched.

South Asia has demonstrated considerable resilience to the unfolding of the crisis and fared relatively better than many other developing sub-regions in recent times. However, the protracted nature of the ongoing crisis and the uncertainty around its depth and duration is projected to have wide-ranging medium to longer-term development impacts, especially on accelerating the progress of MDGs in the run-up to 2015. Other risks such as climate change trends and the resurgence in food prices are additional dimensions in search of a strategic regional response tailored to the region's unique development context.

I firmly believe that the achievement of the MDGs at the sub-national level must form the underlying foundation of a regionally coordinated development centred response. The recent MDG scorecard for South Asia shows a mixed picture: while the region has recorded good progress on indicators such as addressing gender gaps, prevalence of HIV and tuberculosis, it has progressed relatively slowly on meeting poverty-related goals. For instance, despite a decline in the percentage incidence of poverty, in absolute terms, South Asia is still home to nearly half of the world's poor, estimated somewhere between 450-550 million, the vast majority of whom are concentrated in rural areas, with agriculture as their mainstay.

Shortfalls in achieving hunger and malnutrition MDG targets in the region are particularly disturbing. The number of hungry people in the region has increased significantly from 286 million to 337 million in the period between 1990 to 2006. In several countries across South Asia, more than one-fifth of the population is estimated to be undernourished. In fact, more than half of the world's underweight children are in South Asia with underweight prevalence of 41 per cent. Please allow me to repeat that: *more than half of the world's underweight children are in South Asia with underweight prevalence of 41 per cent.* I think that all of you would agree with me that this is an alarming situation, indeed.

There has been a concern that despite a strong period of economic growth in the South Asian region, the proportionate impact on human development has lagged even though significant poverty reduction has been achieved over the years. In other words, the average economic growth, for instance, in Bangladesh, of 6 per cent per annum over the past decade, has NOT translated into an equal and proportionate reduction of poverty

in Bangladesh; whereas Bangladesh is actually doing better than most of its neighbouring countries. Please allow me to be explicit. The Government in Bangladesh has given real priority to INCLUSIVE economic growth and has made impressive strides in poverty reduction. The difficulty in getting proportionate reductions in poverty, alongside economic growth, exists everywhere and highlights the importance of social protection programmes. Just last week, the UNDP and the World Food Programme, with financial support from AusAid and the United Kingdom, carried out a major conference on social protection. The Hon'ble Prime Minister joined for the inauguration and her deep personal commitment to social protection, evident in her remarks and her presence, were a point of inspiration for the conference.

The conference, also interestingly, highlighted that the successful developments in social protection programmes are not a result of academics deliberating on the best approaches, or a result of the investments by international donors. Rather, the successes in social protection began with home-grown efforts in Latin America and expanded to similar adaptations of national programmes in different parts of Asia. In bringing together the practitioners in social protection, in Dhaka, we were able to highlight not only the importance of these programmes in achieving inclusive economic growth, but able to document the best practices, from around the world.

So, we can fully acknowledge the principle that fostering inclusive and sustainable growth patterns and effectively expanding social protection for the poor lies at the heart of achieving the MDGs in the region. Social protection programmes have acted as a much needed cushion in times of income and consumption shocks. Indeed, inclusive growth strategies with a focus on agriculture, rural development and creation of productive and stable jobs achieve multiple dividends: they lead to stronger domestic demand, boost recovery efforts, improve human development outcomes, and lay down a robust foundation for future growth.

So please allow me to move back to the 'Regional Perspective' that we are addressing here today. For sure, inclusive growth nationally needs to be logically extended to inclusive patterns of regional integration across South Asia. The imperative to accelerate regional cooperation was never as urgent as before with its strong potential to act as an effective countervailing force to the weakening of external demand in the major developed countries. Regional cooperation efforts would also act as a multiplier force for accelerating MDG progress.

A number of empirical studies including by Research and Information System for Developing Countries (RIS), Asian Development Bank (ADB), United Nations Conference on Trade and Development (UNCTAD) have demonstrated the potential of intra-South Asian trade through regional integration. Thus for instance, the potential of intra-SAARC trade was earlier estimated by RIS to be nearly USD 40 billion compared to the existing formal trade amounting to USD 10.5 billion. Dear colleagues, please IMAGINE: almost USD 30 billion worth of potential trade remains unrealised!

Other studies document more of these truths. The recent ADB-UNCTAD study and UNDP study have found a range of complementarities straddling across both goods and

services sectors in all the South Asian economies which are ready to be leveraged for imparting a new regional growth momentum. A mutually beneficial South Asian Free Trade Area (SAFTA) Agreement has all the ingredients to serve as a key driver of structural change, long-term growth and poverty reduction for millions of poor and vulnerable in South Asia.

UNDP studies have also drawn attention to the fact that regional economic cooperation should not be narrowly settled only on the expansion of trade per se, but rather recrafted to serve the inclusive and sustainable national growth strategies. We also need to ensure an inclusive SAFTA framework which is beneficial to LDCs and yields tangible benefits for them in a reasonable timeframe. Market access issues need to be considered side-by-side with the issues of productive capacity building and other supply-side measures for the LDCs.

Before I conclude, I would like to add that we are delighted to see that the annual South Asian Human Development Report produced by Ms Khadija Haq, Head of Mahbub-Ul-Haq Human Development Centre is being launched at SAES IV. The Report, supported by UNDP and other partners, seeks to promote South-South solutions to human development challenges in the region. This influential publication has over the years earned its own unique niche and I am sure the audience of this SAES would benefit from the rich data and policy analysis contained around issues of human security, technology access and trade in the reports of current and previous years.

Finally, I am confident that this SAES IV will be yet another milestone event and bring out key policy recommendations on repositioning South Asia to accelerate progress on MDGs. It is encouraging to see that the outcome of the Summit would be channelled into the official proceedings of the upcoming SAARC Summit in Maldives in November. I wish you all success and hope that the Summit process ultimately yields the desired development results which we all wish to see in the region.

Regional Solidarity for Strengthening Economic Competitiveness

Edwin Laurent*

I bring you warm greetings from Mr Kamalesh Sharma, Secretary-General of the Commonwealth Secretariat who cannot be here with you today because he is in Perth, Australia preparing for next week's meeting of the 54 Heads of Government of the Commonwealth.

It is a tremendous honour and great privilege for me therefore to address you today, and to join with other regional partners, and particularly with the Centre for Policy Dialogue that is organising this Fourth South Asia Economic Summit (SAES IV). I thank the Centre, via Professor Rahman, for the tremendous effort that has been made to ensure our welcome and comfort.

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The promotion of regional integration and trade flows in South Asia has been an important area of the Commonwealth Secretariat's work, and we have undertaken or commissioned numerous analytical studies and co-sponsored several high-level conferences on these policy issues. The Commonwealth Secretariat is therefore pleased to be associated with this annual Summit. Just as it was also with the 2008 Summit in Colombo, and the 2010 Kathmandu Summit, we look forward to strengthening the relationship and continuing to work with regional partners.

This Summit so appropriately captioned, *Global Recovery, New Risks and Sustainable Growth: Repositioning the South Asia* is taking place at a critical juncture, when early prospects for the recovery in the global economy are bleak, and the long running WTO Doha Round shows no sign of a successful conclusion. But if a single region can be identified as having a key role to play in eventual global recovery, I am convinced that this is the one. This is a dynamic region with a GDP that is growing at more than twice the global average. Despite the economic slowdown, GDP grew last year by about 8.7 per cent, and is projected at over 7.5 per cent for this year. This is a special region with remarkable dynamism, ancient cultures and formidable scholarship that has contributed immensely to the expansion of the stock of human knowledge and to global development. Current growth trends and advances in research, productivity, business as well as the traditional indicators of economic performance, underline the success story of this region.

There is nothing that attracts more than success. With the opportunities for profit multiplying, entrepreneurs and investors from all over the world are drawn here in the hope of sharing in what they see as a potential bonanza. Also, knocking on your door are donors and multilateral agencies that wish not only to help and support development, but also to encourage and promote particular policies that are in line with their vision.

Somewhere in that scramble is the Commonwealth, ready to play a unique role for which it is particularly suited. Firstly, because most of the South Asian states also belong to the Commonwealth; but more importantly, we recognise the scope and mutual value of our mature partnership with you. True, there is a lot of support that we provide in a range of areas including gender issues, policy making, democratic and judicial development among others. But may be the greatest value that the Commonwealth Secretariat can provide is to serve as a portal for two-way exchange of knowledge and best practice. We can facilitate both inputs from abroad as well as help mobilise, structure and disseminate to the rest of the Commonwealth your home-grown knowledge, experience and lessons that can contribute to growth and development elsewhere. This is a mature partnership – a partnership of equals – a partnership for the 21st century, founded on shared principles and values. As the region moves to fulfil its destiny the Commonwealth will be there alongside.

The world has been witnessing a proliferation of regional trading blocs (of course many are not regional in the geographic sense, their composition sometimes more a function of host of other considerations including the commercial and political factors). But the Regional Trading Arrangement (RTA) can contribute ultimately to the multilateral system by serving as a building block towards multilateralism as participating countries venture into free trade, first within their region (or trading bloc), before progressing out

to the rest of the world. Of course, there are certain challenges associated with this scenario and failure to tackle them effectively may undermine the value of the exercise and its ability to deliver the intended results in the long term.

In the context of regional integration and trade, South Asia is evidently a logical zone for progress via an RTA. It is made up of generally contiguous countries that together enjoy impressive economic and trade growth. However, intra-regional trade has been languishing; currently intra-regional trade is just about 5 per cent of the total trade. Therefore a key aim of member countries must be to energise trade with neighbours even whilst promoting arrangements to expand trade with the rest of the world.

Let me venture to explore some of the significant challenges and opportunities for South Asia:

- a) Tariffs in some South Asian countries are quite high, so liberalisation with third country partners can threaten considerable trade diversion.
- b) Non-tariff barriers are a problem in the region, undermining the positive effect of tariff reduction. Studies have found cases of South Asian countries with more stringent trade regimes for their neighbours than those applying to some third countries. A Commonwealth study by Professor Milner on the 'Structure of Trade in the Commonwealth,' has suggested that just implementing effective trade facilitation measures, can substantially increase intra-regional trade in South Asia.
- c) The widespread misapprehension that South Asian neighbours do not have trade complementarity, and hence the scope of intra-regional trade is very low, has been challenged by recent research by the Commonwealth Secretariat and UNCTAD. This notion does not hold even in the case of textile and clothing sector, where South Asian countries compete amongst themselves in global markets. Currently unexploited intra-regional trade opportunities can actually enhance the competitiveness of regional supplies.
- d) South Asian countries are involved in various trade liberalisation arrangements involving countries both within and outside the region. In South Asia, we now have bilateral trade deals (e.g. Indo-Sri Lanka, India-Nepal, India-Bhutan FTAs), regional free trade arrangements (SAFTA), trade integration initiative involving some members from the region and others from outside (BIMSTEC), and bilateral deals with extra-regional partners (such as, the ongoing EU-India FTA talks). Care is needed to ensure that the complex structures of interconnected trading arrangements provide sufficient clarity for business persons and investors both in the region and outside, and actually combine to contribute to the competitiveness of South Asian countries.
- e) Expanding cooperation in new sectors such as transit trade and transshipment can provide substantial net trade and welfare gains, and constitute additional valuable growth opportunities.
- f) Intra-regional services trade can offer great promise for South Asian countries. Services sector, which is undeniably very efficient and internationally competitive, currently accounts for more than half of the economic activities in the region. Logically given the vastness of the area and the diversity and maturity of many of the service industries (including energy and tourism), there should be scope for

complementarity among countries of South Asia. A major beneficiary of the conclusion of intra-regional trade preferential arrangements would be services suppliers who would gain from diversion to regional sources.

- g) The last opportunity that I will mention stems from the widespread involvement of the population and its recognition of the wider benefit and value to them of the expanded trade with their neighbours provides an enduring motor for regional integration. The case of the European community is almost now a cliché, but well worth revisiting. Economic integration of countries of Western Europe beginning shortly after the end of the Second World War, always had overall mass appeal and strong involvement of the business community. For that among other reasons, it has not only been a major contributor to growth and development, but contributed immeasurably to more than half a century of political stability, security and peace in a region of the world, where from time immemorial conflict and warfare had been virtually endemic.

This Summit I hope will discuss all the above factors and the many other pertinent issues, including emerging challenges. I am confident that the reflections and deliberations of the remarkable and distinguished mix of leaders in policy making, scholarship, civil society and business that the Centre for Policy Dialogue has been able to bring together will generate a wealth of new insights and thought-provoking ideas for South Asia to consider, and pursue.

Let me end with a personal perspective, if I may. The overall economic indicators for the region are clearly remarkable, but the aggregated figures mask sharp differentiations not only among, but also within countries. If the region as a whole is to attain its full potential, then all communities must be able to contribute fully, i.e. produce and generate income, thereby expanding domestic and regional markets. An implication of such an objective is that in concluding business and trading arrangements, there should be consideration of consequences not only for the parties directly involved, but also neighbours. For this, creative arrangements can be devised to ensure that excluded or weaker parties also share the benefits. The concept of regional solidarity is not just a pious principle, but one well worth pursuing that can often be in tune with enlightened self interests.

I thank you for your kind attention, and on behalf of the Commonwealth Secretariat extend best wishes for fruitful deliberations that will contribute to greater cooperation in the region and to economic progress for the quarter of humanity who call South Asia home.

Facing Global Risks through Regional Cooperation

Uz. Fathimath Dhiyana Saeed*

I would like to extend warm greetings to the distinguished delegates attending the Fourth South Asia Economic Summit (SAES IV) being convened here today in this bustling and dynamic city of Dhaka.

* At the time of the conference, *HE Uz. Fathimath Dhiyana Saeed* was the Secretary General of SAARC.

I must express my appreciation to Professor Rehman Sobhan, Chairman of the Centre for Policy Dialogue for convening such an important event on the eve of the Seventeenth SAARC Summit, which is just two weeks away from today. The coming together of several eminent policymakers, scholars, development thinkers and practitioners from our region and beyond augurs well for the success of this Economic Summit.

The central theme of the Fourth South Asia Economic Summit is *Global Recovery, New Risks and Sustainable Growth: Repositioning South Asia*. As we have seen, the increasingly open economies of South Asia have been exposed to global economic shocks and market volatilities, to varying degrees, through trade, foreign direct investment, remittances and migration. In general, South Asian countries were able to navigate the period well. But as we brace ourselves for yet another period of volatility, we need to think anew on how we are going to face the challenges, and how we can advance regional cooperation and integration. It is only befitting that all relevant stakeholders of regional cooperation in South Asia, including policymakers, scholars, thinkers, business people and development practitioners apply their minds towards the convergence of views – so that the SAARC countries can address the attendant challenges, and are able to adequately meet the emerging tasks.

The acceleration of economic growth is one of the Charter objectives of SAARC. At successive Summits, the SAARC Heads of States and Governments have emphasised on the imperative to accelerate cooperation in the core areas of trade, finance and investment in order to realise the vision of a South Asian Economic Union. Thus, it is evident that right from the inception of SAARC, our Leaders have been cognisant of the fact that regional economic cooperation and integration lies at the core of our grouping, and would be instrumental in promoting the welfare of the people of South Asia.

The emergence of SAFTA, therefore, marks a significant milestone in the history of our Association. Trade under SAFTA has shown a steady growth each year, ever since the liberalisation of trade was initiated in 2006. Yet, it is distressing to note that the figures indicate intra-regional trade in South Asia to be much less, compared to other regions. A number of initiatives are underway to address the related issues. Drawing from the success stories of other regional groupings, facilitating investment is seen as an important measure to boost intra-regional trade. In this context, SAARC did initiate a Regional Agreement on Promotion and Protection of Investments, the finalisation of which has been pending for some time now. We are calling upon the member states to finalise the Agreement as early as possible, so as to create an enabling environment to facilitate investments. With this Agreement in place, I am confident that the volume of intra-regional trade will grow significantly.

In spite of the slow progress SAARC has registered in economic integration as compared to other regional groupings, its achievements in other areas deserve acknowledgement and commendation as well. Still, there is much more that needs to be done to help our countries and our people to cope with the emerging challenges confronting them. While ours is a region of diversity and complexity, our approach should be to build on our commonalities and common interests. All of our countries must commit themselves to work hand-in-hand to serve the cause of every country individually, and the region

collectively, in order to make South Asia a vibrant and self-sufficient region in the 21st century, a century, which has been dubbed as the 'Asian Century.'

As you deliberate on several important issues before this meeting, I am certain you will try to find pragmatic solutions on questions as to why and how existing and future initiatives could be better implemented at the national levels; how best to create ownership for regional products and initiatives at the country level; and how to make the SAARC institutions like the SAARC Secretariat and the regional centres deliver more effectively and efficiently. Indeed, your reflections and suggestions on these issues would be of much interest for us at the SAARC Secretariat, and I believe, all the stakeholders in our capitals as well.

In the pursuit of enhanced regional economic cooperation, there is an imperative need to factor in the views and insights of all the stakeholders in business and industry. Recognising this imperative, SAARC leaders at the Sixteenth Summit created the South Asia Forum to generate debate, discussion and the exchange of ideas on South Asia and its future development, for charting out the future course of SAARC in the medium and long-run, and recommend, if required, the necessary improvements in the existing mechanisms.

Following the Sixteenth SAARC Summit directive, convened in New Delhi early last month, the First Meeting of South Asia Forum concluded that in its 25 years of existence, SAARC has done well to lay the institutional base for regional cooperation, and the challenge for SAARC now is to benefit from the process of globalisation through deeper regional integration, eventually creating a South Asian Economic Union. To achieve this goal, the South Asia Forum noted that a deliberate shift from 'independence' to 'interdependence' is needed with identified priority areas for implementation.

The SAARC Chamber of Commerce and Industry (SCCI), purely as a private sector initiative, organised the Fourth SAARC Business Leaders' Conclave in Kathmandu in the third week of September. The Conclave, devoted to the theme, *Peace and Prosperity through Regional Connectivity*, brought together over 500 business leaders, eminent experts, academicians, social scientists and media to deliberate on a variety of issues relating to regional economic cooperation. The Conclave called upon member states of SAARC to take appropriate measures to achieve peace and prosperity in the region through improving intra-regional connectivity.

The Government of the Republic of Maldives, in collaboration with the Asian Development Bank, also convened two separate consultation sessions; one on *Knowledge Sharing on Regional Cooperation and Integration*; and the other on *Strengthening SAARC and its Institutional Mechanisms* in Malé on 8-9 October 2011. The first session made a number of recommendations in fast-tracking regional cooperation and integration. The other made recommendations to strengthen SAARC and its institutional mechanisms, as a pre-requisite to achieving that ultimate end. It is hoped that the recommendations of these two sessions as well as those of the South Asia Forum would provide useful inputs to the Seventeenth Summit.

As members of the global community, we need to improve upon both physical and people-to-people connectivity. Hence, repositioning South Asia in view of recent developments in global economic and environmental settings calls for renewed emphasis on strengthening our cooperation and collaboration not only within the region, but also beyond. Hence, the bridges that need to be built within the region will have to be further extended beyond our regional boundaries.

Let us put our best effort today to make our future better. Indeed, contributions of civil society and think tanks like the Centre for Policy Dialogue would be crucial in realising that end.

I wish this meeting every success.

The Role of Regional Cooperation in Countries in Conflict

Sham Lal Bathija*

First of all, I want to express my happiness in seeing Professor Rehman Sobhan in the chair of the opening session of this very important entry of our region. It is my utmost pleasure to be here at the Fourth South Asia Economic Summit (SAES IV) being held in the historic South Asian city of Dhaka, located on the beautiful celebrated Bay of Bengal, and home of intellectuals, poets and writers. In Afghanistan, that is how we know about Dhaka.

I take this opportunity to present my warm thanks to Professor Mustafizur Rahman, the Executive Director of the CPD of Bangladesh, and his most able team members for organising this event so comprehensively, and bringing together distinguished participants from the realm of scholars as well as senior level policymakers of this region. The policy making bodies are very active in this region, and I am very pleased to see that.

I would also like to express my cordial thanks to those partners and institutions that have contributed and made possible today this gathering to discuss issues of significant importance to our region, such as global recovery, new risks and sustainable growth with a view to repositioning South Asia.

Availing this opportunity, allow me also to express my gratitude for development partners, including governments of our SAARC region for their active participation in the Afghan reconstruction process and for their invaluable role played in the stabilisation process of Afghanistan.

We are gathering here today at a special juncture of time for South Asia – home of SAARC's five least developed countries (LDCs), among which three are landlocked and one is an island state. Mr Muhith also knows well the problems and constraints of LDCs all too well as the LDC spokespersons, in Paris, New York and Geneva.

**Dr Sham Lal Bathija* is the Hon'ble Senior Advisor Minister for Economic Affairs to the President of Afghanistan.

As has been mentioned, Afghanistan joined very recently at the SAARC. Afghanistan is one of the SAARC regional LDCs, landlocked developing countries (LLDCs) and conflict-affected member states. While our region as a whole is experiencing significant achievements in economic and social development, it is also facing some of the most daunting challenges of our time. Despite our various achievements, gains in vital areas such as fighting terrorism, extremism, narcotics and organised crimes have not been far reaching and reassuring enough for Afghanistan or the region or the international community.

Although these challenges are at the regional level, they are interconnected in many different ways and threaten our society. Therefore, there is still much to be done to achieve the goal of stable and secured prosperity in my country which is in the common interest of the whole region and beyond.

It was based on such an obvious belief that President Karzai sends his greetings to this meeting. He highlighted five important pillars of a successful Afghan strategy, namely security, reconciliation, socioeconomic development, good governance and regional cooperation. Some of these themes are already part of this Summit.

Many of you know what is happening in my country, but I will take the liberty to say a few words. Working closely together, Afghanistan and the international community have achieved marked progress over the past decade. They have invested in Afghanistan's most important resource, its people, by vastly increasing their access to education, improving healthcare for all Afghans. Intra-regional trade between the South and Central Asia only accounts for 15 per cent of their total trade, but the road, rail and power connectivity fostered by current plans in economic development initiatives can boost regional trade significantly. It will build on the initial assessment of the prospect of regional cooperation taking advantage of the SAARC and ADB Central Asia economic cooperation programmes.

Opportunities for regional economic cooperation are abound with examples of progress underway within the framework of transport connectivity in South Asia. Mention can be made of the Afghanistan-Pakistan Transit Agreement signed on 18 July 2010, following three years of negotiations. Regional approaches to energy security can be exemplified through the emerging Turkmenistan-Afghanistan-Pakistan-India or TAPI natural gas pipeline as well as the Kajaki hydro power projects. The acceleration of investment in South Asia could include the Haziga iron mines – one of the biggest deposits in the world – will soon be awarded, hopefully, to one of the South Asian countries. Afghanistan's mineral wealth has been estimated to be between USD 2-3 trillion, and as President Karzai has mentioned in all the SAARC Summits it is in the best interest of the region to take advantage of exploiting these resources and being our partners in this regard.

Given the huge potential for continental transport across connectivity, Afghanistan seeks to participate in this form of regional cooperation. Economic benefits in such areas as energy, minerals extraction, agriculture and water management so far have remained largely untapped. The SAARC region members are fully invited to actively participate in these cooperation ventures.

Apart from our main priorities in the context of regional cooperation trade and transit, energy cooperation and infrastructure development, areas such as food security, labour integration, human resources development also need to get deserving attention in our current and future plans.

It is my hope that the outcome of these planned sessions to be held during the context of very relevant themes will provide us with appropriate recommendations, clear directions for the future course of policy responses for South Asian national institutions, regional bodies and interlinked entities for clear response to the emerging challenges. We are very much looking forward to the upcoming SAARC Summit in Maldives. Hopefully, the recommendations of SAES IV will help us when we take them back to our home and provide some guidance on that matter.

At the end, let me emphasise the fact that Afghanistan is participating in such a regional policy dialogue for the first time. Hopefully, our participation will be beneficial not only to us, but to the region as whole. There is an obvious need for accelerated and integrated implementations of the recommendations agreed upon at this important gathering. The SAARC Secretariat is to play an important role in facilitating, monitoring and evaluating the outcomes of this meeting. We count on the long-term support of our regional and international partners for their initiatives concerning our country. We look forward to the deliberation on this Summit's themes, and surely we will make strong efforts to translate the outcome of SAES IV during the SAARC Summit.

The SAES Process: From Colombo to Dhaka

Sarath Amunugama*

On behalf of all the Sri Lankan participants I want to say that we are very happy to be here in Dhaka. And I want to thank CPD and all our friends here for inviting us and making our stay very comfortable.

The South Asian economic forum process began in Colombo in 2008 and I think that it has gone from strength to strength; and this is probably the best represented of these meetings. We would like to think that all good things begin in Colombo.

We are meeting here at a time when global events are crowding in and impinging on our agenda. The events in the Middle East, the double-dip in the developed countries and the general feeling of turbulence globally are the backdrop to this meeting. In this situation, Asia has played and will continue to play a very decisive way. In the general environment of economic decline, Asia is a success story. In the Asian region, South Asia also has a particular role to play. We have all shown good development figures. Sri Lanka, my own country, for the last three years has been growing at a rate of 8 per cent per annum; the macroeconomic situation is quite desirable and we hope to accelerate the growth process in the near future. The growth trends are quite similar all over the Asia, although the extent varies. Some countries are growing very fast, some a little

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slow, while all have specific problems. Whatsoever, one general problem which we hardly address or do not highlight adequately is the importance of the security situation. This is something that is very important for the region and is likely to loom larger in the days to come. We, in Sri Lanka, are now two years after our decisive victory over the terrorist organisation in our country. And this itself has contributed very much to this great increase in growth in our country.

Meetings such as this, which was earlier referred as a possible Davos for South Asia, offers an opportunity to all stakeholders to be involved in the economic growth process. Very often Asian governments, particularly South Asian governments think that they have all the answers. Perhaps they do, but also perhaps not. So, I think it is very important to utilise this dialogue to interact with each other to build a more intimate and closer relationship.

We are going to meet in the next two days; we are going to get opportunities of going into detail. I only want to take this chance to say how happy we are to be in Bangladesh. They have been our closest friends. They were the originators of the idea of SAARC; and we would like to pay tribute here, and say, participants from Sri Lanka will play an active role in the deliberations to follow.

South Asia – The Challenges Within

Ibrahim Hussain Zaki*

I am not going to talk too long at this juncture. But at the outset let me convey my very kind greetings and best wishes to this important conference. At the same time, I also register my appreciation for the kind invitation extended to me, the excellent arrangements made, and also the greatest hospitality that has been extended to all of us. I would also like to convey the greetings and best wishes of H E President Mohammad Nasheed to this conference. He looks forward greatly to the outcome of this conference which will make major contributions in the forthcoming Seventeenth SAARC Summit that is to take place in the Maldives.

The global financial crisis in 2007 largely resulted in an economic downturn in both developed and emerging markets including South Asia. During the global recovery process, South Asia continues to face new challenges. It is my greatest fear that we will never be able to avoid such situations unless we learn from the past.

South Asia today is one of the fastest growing economic regions in the world. With the expansion of India's economic reach, our region is opening itself to new and emerging markets. Although South Asia withstood the brunt of the full scale crisis, a plethora of economic and social ailments including marginalisation and inequality have plagued our region. But we continue to face problems in our efforts to implement sound fiscal policies, sustainable economic initiatives and implement effective development policies. Problems affecting these efforts include corruption, misappropriation and mismanagement.

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Alongside these issues, the global climate change, energy crisis and growing disparity are now evident in communities across our region. In order to realise their full potential, our young population needs to be safeguarded against these shocks. We need new ideas and innovative thinking for a viable response. Regional integration of economies and regional cooperation offer us such a solution.

We need to reinvigorate SAARC efforts and work towards greater integration of member states, in the area of economies and policies. To become more relevant at the international stage, South Asia needs to bring forward a unanimous outlook. This will be one of the key issues to be delivered at the forthcoming Seventeenth SAARC Summit in Maldives. Maldives is very optimistic about the outcomes of the upcoming Summit, and we hope that new ideas will prevail at the first Summit to be held in the south of the equator.

I wish all the participants of this forum the best of everything, and hope that you will work together to answer the many challenges we face today.

Emerging Demands Call for Innovative Forms of Cooperation

A M A Muhith*

SAES IV appropriately focuses on issues related to *Global Recovery, New Risks and Sustainable Development* because this theme captures some of the most pressing challenges of our times. In view of the consequences of the financial crisis of the recent past, it is only pertinent that a serious attempt is undertaken to understand the factors driving the crisis, the nature of the process of economic recovery, policy initiatives that are needed to address the newly emerging risks, and measures that will be required towards future development that will be sustainable. In the backdrop of these multidimensional perspectives, the organisers deserve to be appreciated for choosing this particular theme.

As is known, the ongoing process of global recovery is threatened by considerable uncertainties; both the economies of the United States and those of the Eurozone areas are passing through difficult times. The worrying signs that characterise the ongoing uncertain global recovery will likely have important implications for the developing countries of Asia, particularly for the countries in South Asia. In view of this, there is an urgent need for in-depth analysis of, and discussion on, issues that inform the interface between global economic recovery and the South Asian economies. One is hopeful that the various discussion sessions of the SAES IV will do justice to the attendant concerns, and will come up with concrete policy suggestions to address the attendant tasks.

The SAES IV is taking place in Dhaka is very appropriate. Historically, Bangladesh has played a key role in promoting regional cooperation in South Asia and in cementing this through various bilateral and multilateral initiatives. Of particular interest to Bangladesh are the potential opportunities of sub-regional cooperation with

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participation of India, Nepal, Bhutan and Bangladesh. In recent times a number of joint activities including in the areas of transport cooperation and connectivity, energy development and energy trade, have been initiated. Yet another important area where some work has started, relates to flow of remittances with respect to which a work plan for the SAARC region was adopted very recently in Dhaka.

It will be worthwhile to recall here that SAARC countries began to talk of regional integration, with all seriousness in 1997, when the preferential trading arrangement – SAPTA – was put in place. Subsequently, a free trade regime – SAFTA – was negotiated in 2006. The road has not been an easy one. But, in spite of the difficulties and roadblocks, there is a need to keep the bigger picture in the perspective. It was, thus, very pleasing to hear the SAARC Secretary General mention about *peace and prosperity through connectivity and integration in the region towards an Economic Union*. These are excellent ideas that need careful consideration by policymakers and all interested stakeholders.

Of the nine sessions that SAES IV will focus on, five are of particular importance to South Asia in the current juncture. One hopes that SAES IV will come out with concrete recommendations in these areas. Trade and investment are obvious pre-conditions for deepening economic cooperation in the region, these are of course much-talked areas. Even in the 1960s Gunnar Myrdal had underscored the need for greater cooperation in the areas of trade and investment as essential pre-requisites for a deeper regional cooperation in South Asia. However, necessary emphasis ought to be put also on the newly emerging areas which need urgent attention of all the concerned stakeholders.

The first and foremost issue of interest from the perspective of South Asia should be food security. This has emerged as a serious problem in recent years. There was perhaps some complacency that enough had been done for food production, for green revolution, and for food security. However, subsequently it became apparent that there was a serious problem here, and countries were lagging behind in bridging the gap between the rising demand for food and the supply that could be ensured. Some of the global food security initiatives, like the one agreed in Washington, D.C. last year, are important in this context. One will need to keep in mind that food security concerns ought to be always given the highest priority. Identifying the most appropriate modalities to ensure food security for the common people must be given highest consideration.

The other important issue was population growth. Despite all efforts, the population is going to continue growing at least for the next thirty years. Catering to food for this growing population will remain a major concern, and should be given continuous and consistent attention. Ensuring access to food at affordable prices remained a key issue for policymakers in South Asia. Cross-country experience shows that even when food is available, access remained a problem. This could be quite reasonably handled, even if not fully resolved, through social safety net programmes that include food transfer programmes. Bangladesh's own experience is a case in point where safety net programmes have been successfully deployed to address food security concerns.

The next point that needed to be emphasised was water and sanitation. These are basic human rights that are also key to attaining the Millennium Development Goals (MDGs).

Measures that were needed to make these available to common people should be discussed in all important platforms.

The next item in the list was related to connectivity. This issue is often narrowed down to transport connectivity only; however, this idea and concept should be expanded and broadened to include all types of connectivity. The focus should be on development of various modes of connectivity in the region. Of particular interest here should be the development of sub-regional connectivity with participation of Bangladesh, Nepal, Bhutan and India, particularly taking into cognisance developments that are taking place in recent times. Bangladesh's cooperation in the area of connectivity has, till now, involved initiatives undertaken in the form of bilateral cooperation with India. However, for the first time, it has gone beyond this to include Nepal and Bhutan. This type of plurilateral cooperation should be further strengthened in the near future, for all forms of connectivity. All the countries in the region will stand to benefit from this.

The other important area concerned energy trade and energy sector development in the region. Ensuring energy security and strengthened connectivity were two most critical concerns in the context of promoting South Asian economic integration. Generation of hydro-electricity, through sub-regional cooperation, could be an important initiative towards energy security in South Asia. No doubt, hydropower also has a number of problems. Any type of man-made obstacles that obstruct the natural flow of water has its downside. Perhaps it would have been best if nature was allowed to take its own course. Emphasis ought to be put on renewable energy, particularly on extracting power from solar energy. As of now, not much is being done in this front. The research on solar energy has remained stalled since the 1970s. Progress for research on using air has also been very slow, but this is where South Asia should be particularly interested, because renewable energy sources are abundantly available in this part of the world. This is also the case for Middle East, but at present they do not have the urgency to use these alternative sources. Although it may sound like a dream from the current vantage point, there is also a need to think about hydrogen-based energy which is the best possible option in terms of energy efficiency.

The last point relates to the issue of migration. The Colombo Process is a good initiative to deal with this complex issue. In the recently held meeting in Dhaka a very good understanding was reached between the exporting countries and receiving countries. Of course this discussion was related to movement of manpower on a temporary basis, not in the form of immigration. Some models are being set up, particularly one could talk of the one in the UAE. It was decided that these models should be tried out in other countries as well to test their suitability. While labour export was beneficial to both the receiving and sending countries, migrant workers themselves were often faced with formidable problems. Their difficulties should also be seen from a humanitarian angle. There is a need to examine the relevant issue. Almost all South Asian countries have large number of citizens living abroad as migrant workers and South Asian thinkers should pay more attention to their problems and interests.

The current volatilities in the commodity markets ought to be seen as a major concern for South Asian countries. This was particularly relevant as far as the prices of oil and food were concerned. It should be reiterated here that the global turmoil in finance,

money and trade was the result of high volatilities in the commodity markets. Lord Keynes in his time had tried his best to provide some solutions to this problem, but many of the problems continue to persist till this date. There is a need to revisit this discourse and find some tools for timely interventions in key commodity markets to reduce the increasing volatility.

Yet another concern related to the increasing volatility in the currency market. This was a concern for Bangladesh and was also relevant to India, not to talk of China and Europe. There is a need to go back to the drawing board to find out how international transactions are to be estimated, if not managed. This could be the first step towards managing currency volatility in future.

There is no doubt that this two-day Conference will be very fruitful and will come out with important recommendations in all the areas it plans to take up for discussion. This, of course, is a wonderful opportunity for which the organisers, who are very skillful in designing such events, must be the congratulated. The effort put in by the Centre for Policy Dialogue (CPD) in hosting such an important event must be appreciated very highly. There is no doubt that participation and contribution of such a galaxy of intellectuals and representatives of major stakeholder groups, from around the region and also beyond, will definitely make SAES IV a resounding success.

Including the Bottom Fifty per cent in South Asian Agendas

Rehman Sobhan*

This brings us to the conclusion of a very productive morning. I was to make the concluding remarks, but I suspect that my eloquence may be somewhat constrained by my rapidly fading voice. So, I will just try to be very brief over here, and touch just three issues raised in the course of the presentations.

One of the central themes of the conference is, of course, the recovery from the global economic downturn and its implications for South Asia. It is recognised that South Asia, probably, has demonstrated considerable resilience in coping with the downturn. Bangladesh especially managed to do particularly well in this period. However, I think what might be of relevance to the process of building cooperation and a community in South Asia is the fact that it is a region with a population which is approaching one and a half billion. South Asia is very advantageously placed to cope with future downturns, because we have our own regional market located within ourselves. Further, one of the central elements of the process of building a South Asian community would be to create a market which is seamlessly integrated. This, in fact, will really sustain this process of surviving downturns. Rather than be victims of the forces outside our control, South Asia would then have this capacity to grow, driven by domestic (regional) market demands.

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More to the point, we are neighbours now to the most dynamic region in the world, which will define the 'Asian Century.' Accordingly, our capacity collectively to interact with East and Southeast Asia should be our greatest strength.

Now having made this point, I would like to maintain that the biggest undiscovered market within South Asia remains the bottom 50 per cent of our population. Our ability to feed, clothe, decently educate, train and absorb this population should not only be our greatest challenge, but also our greatest opportunity. This essentially suggests that the agenda for South Asia over the next decade should be to find both policies and institutions which would be able to include this excluded 50 per cent of our population in the dynamics of the growth process. This I think should be a very central element in the agenda of South Asia.

Finally, regarding the problems of food security it should be recognised that it is a by-product of the exclusionary nature of our economic systems. We did face in the earlier crisis a significant failure within the SAARC process itself of responding to the food security needs in particular countries. Hopefully, in the days ahead, we will be able to convert what was in practice a theoretical construct into a working system for being able to share our food surpluses and respond to the deficits.

But more to the point again, food security remains basically a distributional problem. The relevant problem is to create the effective demand and enhance the capabilities of those whose food security remains one of the critical elements of the desired South Asian integration process. This is not just a problem of production and trade; it is also a problem of internal distribution. As a part of this particular agenda, it will not just be sufficient to have strong safety nets. The relevant issue is to convert people from just being beneficiaries of safety nets into people who have their own safety nets through opportunities to own land, productive assets and skills, where they will not be dependent on the safety nets. The real measure of an ineffective system of food security will be derived from that.

Finally, the prospect of peace through connectivity has been mentioned as one of the issues which we should recognise. Ongoing initiatives in this regard have been mentioned.

Here we need to reaffirm that South Asia is uniquely placed in the global strategic geography. We are at the cross-roads of the fastest growing regions in the world in Asia. We provide connectivity to the regions which are the most energy-rich; in West Asia and Central Asia. If South Asia can use its opportunity to once again reconstruct the integrated South Asian community which will provide the bridge between the two Asias, then the 21st century can be seen as a truly 'Asian Century.' This will establish an Asian community stretching from the heartlands of the Central Asia through Afghanistan, from Western Asia through Pakistan, into India, and across the region. The opportunities provided by this seamless integrated community will not just be of significance to South Asia, but it will change the strategic balance in the global system.

This is a prospect which we should think about and we should integrally address our political agendas and work progress to realise this possibility.

Keynote Address

Global Economic Crisis and Asian Resurgence

Sultan Hafeez Rahman*

1. Introduction

As we speak, world is in the grip of an economic conundrum not seen since the Great Depression. Curiously, this is happening after a prolonged period – covering nearly the entire first half of the 20th century – of unprecedented economic expansion and prosperity in the industrialised market economies of the world. This period represents a remarkable period in economic history during which the mature market economies transformed themselves from industrial economies to services-led economies, underpinned by increasing sophistication of financial markets. However, a sequence of severe economic 'shocks', beginning with the United State's subprime mortgage crisis in 2007, the global financial crisis (triggered by the Lehman collapse) in 2008, followed by the global recession (and weak recovery a year later), and then the Greek debt crisis in 2010 and its contagion resulting in the current Eurozone crisis. In this short span of five years, the global discourse on economic growth and structural transformation has shifted from an almost universal belief in the pre-eminence of unfettered markets as the guarantor of economic prosperity for all, to a deep reflection which, at its extreme, calls into question the liberal economic policies which fuelled the impressive economic growth. This paper attempts a brief narrative of the unprecedented economic expansion in the second half of 20th century, the crisis it bred, and what they might mean for an economically resurgent Asia.

2. Economic Growth and Prosperity

The Golden Age of Capitalism

The 'Golden Age of Capitalism', stretching from the end of World War II to the early 1970s is congruent with continuously rising prosperity in war-torn Western Europe and

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post-war United States. The period is characterised by financial stability, high savings and investment rates, which translated into strong and sustained output growth, low inflation, and very low unemployment. The Organisation for Economic Co-operation and Development (OECD) member countries experienced real gross domestic product (GDP) growth rates of 4 per cent per annum in 1950s, which rose to 5 per cent in the 1960s. Unemployment fell below 5 per cent in the United States, and was a mere 1.2 per cent in France during this period. Life expectancy at birth in the United States increased from 65 years in 1940 to 72 years by the 1970s.

In fact, despite two of history's most brutal wars, the Great Depression of 1929-33 and the increasing frequency of economic crises since the oil price shock of 1973, virtually the entire 20th century was a period of spectacular capital accumulation, wealth creation and rising living standards in the industrial economies of the world. On the first trading day of 1900, the Dow Jones Industrial Index stood at 66; a century later, i.e. on the first trading day of 2000 it stood at an astounding 11,500. This translates into an average return of 5.3 per cent annually. Warren Buffett has termed it as "a wonderful century" and noted that the DJIA would need to close at 2,000,000 by end-2099 to yield the same 100-year return in the 21st century.

The remarkable economic growth and prosperity over such a prolonged period along the collapse of the Soviet Union (reflecting a 'crisis' of socialism), fuelled a belief that the upward growth trajectory would continue into the future. The fact that similar economic transformation also took place in some countries outside Europe and the United States, most notably in Japan, followed by Korea and Southeast Asia, China, and later in India and Brazil, practically universalised the belief that free markets backed by liberal economic policies afforded the greatest prospect of economic growth and prosperity for all countries, and somewhat unfortunately, that it could continue unabated into the future. Capitalism and its superiority as a system of social and economic organisation almost became self-evident in a manner even the classical economists would disagree with. Thus, Fukuyama proclaimed in his book "The End of History and the Last Man" (1992):

"What we may be witnessing is not just the end of the Cold War, or the passing of a particular period of post-war history, but the end of history as such: that is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government"

Implicit in the statement is a belief that market capitalism can only be sustained by liberal democracy. The fairy tale growth experience, however, began to falter merely within a decade of Fukuyama's assertion. The world moved quickly from unprecedented growth and prosperity to what many think may be a protracted period of economic crisis/weak growth or even decline of the industrialised world.

3. The Crises

The Rise of Financial Markets and Poor Regulation

Memories tend to fade and lessons learnt from the starkest experiences tend to be forgotten quickly especially when times have been 'good' for long periods. The harshest

lessons learned from the 'Great Depression' were likewise to be forgotten in the period that followed.

On average, interactions among market agents in financial markets seem to reflect 'rational' behaviour. However, surprisingly, equilibrium of market forces in financial markets seem to be caused by a balance of 'greed' and 'fear', i.e. two polar emotions. Periods of sustained growth and prosperity tend to bring forth a new set of 'players' who have experienced only positive outcomes in the markets. As the newer entrants from a prosperous time period flood the markets, market players who have experienced 'brutal' market corrections and suffered huge losses become less of a countervailing force. This change in balance, the dominance of excessive risk takers ('bulls') over the risk-averse ('bears') creates periods of what Allen Greenspan famously described as "irrational exuberance."¹ Even the most astute investor and conservative rating agencies start questioning time-tested fundamental principles of asset creation and management during periods of 'irrational exuberance'. Instead, the focus is more on upward momentum, leveraged betting, and advocacy of unregulated markets or even 'self-regulating' markets. The peaks of 'irrational exuberance' are 'asset bubbles', and their 'bursting' cause market correction of varying degrees, and could even result in recession.

Sharply rising markets tend to unleash a search for risky and unsustainable financial products and strategies. Leveraged products based on large debt financing and a dizzying array of derivative products, such as credit default swaps (CDS), collateralised debt obligations (CDOs), etc. were far too convoluted for the bulk of the investors to understand. These 'fuzzy' products combined with the reckless mantra that markets were 'self regulating' made financial markets much more complex and dangerously non-transparent. On the contrary, 'credit rating' and market regulation became more challenging with the induction of these new products, and risk assessment became much more difficult. Reckless risk taking and the regulatory failures made the markets highly vulnerable to systemic financial crisis and contagion. Overwhelmed by risk taking behaviour fuelled by sheer 'greed', the asset 'bubble' finally burst causing the ensuing financial and economic crisis, which continues to this day. In hindsight, the Lehman collapse and the subsequent Euro crisis were just waiting to happen. In my view, the prolonged nature of the crisis in Europe reflects more deep rooted structural problems such as the rigidities of their labour markets, demographic profile, social welfare institutions, etc.

The remaining part of this section mainly provides an overview of key market – equity and debt – indicators which reflect evidence of excessive risk taking and growing asset bubbles.

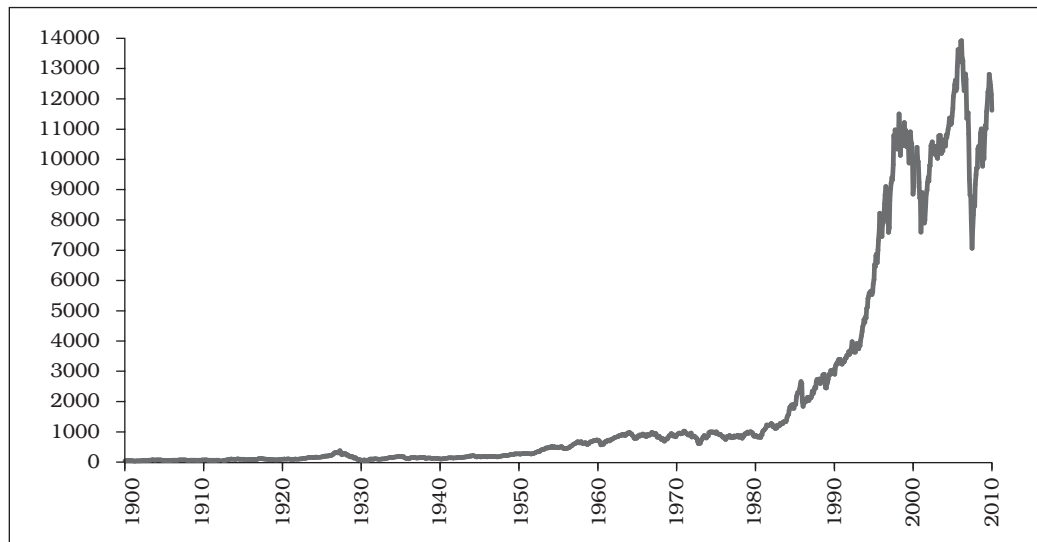
Stock Markets

The pre-Great Depression 'bull' run started around 1924 when Dow Jones crossed 150 for the first time in March 1926 and 200 around December 1927, and 300 in January

¹The epitome of 'irrational exuberance' was highlighted by authors James K. Glassman and Kevin A. Hassett through the title of their book: *Dow 36,000: The New Strategy for Profiting from the Coming Rise in the Stock Market*.

1929, and peaked on 3 September 1929 recording a high close of 381.2. After the great bubble popped, Dow Jones lost 90 per cent to a subsequent bottom of 41.22 on 8 July 1932. It took 25 years for the Dow to regain its 3 September 1929 high.

Figure 1: Dow Jones Index 1900 to Present



However, with sustained growth from 1940 to 1970, the DJIA crossed the 500 for the first time in 1956, 1,000 for the first time in 1972, 2,000 in 1987, 3,000 in 1991, 5,000 in 1995, 10,000 in 1999, and peaks on 9 October 2007, the Dow Jones Industrial Average closed at the record level of 14,164.53, a clear sign of impending 'trouble' – a growing asset bubble which would inevitably burst.

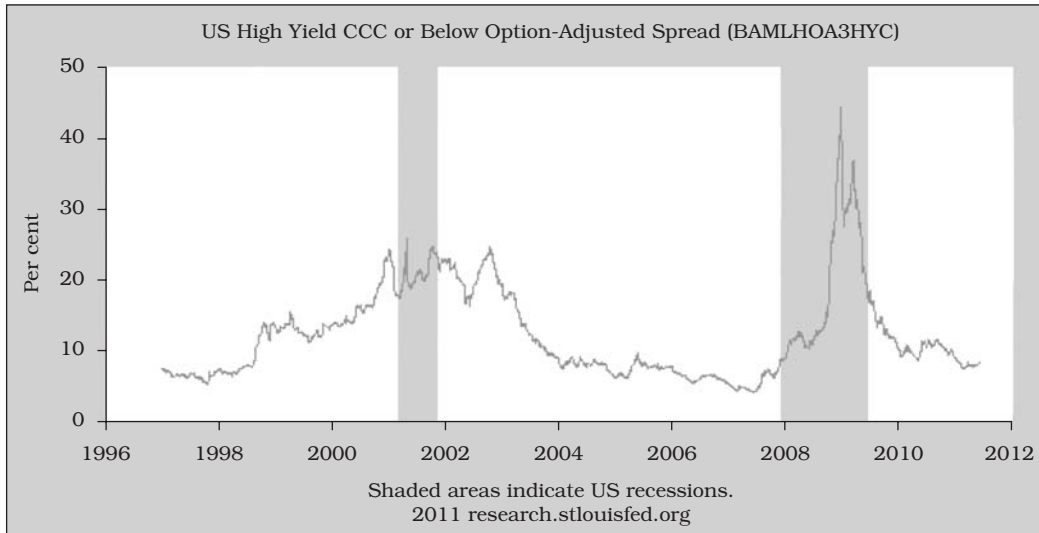
The Nasdaq index, which is a better representative of technology stocks, showed an even more spectacular rise. From as low as 56 in September 1974, Nasdaq index increased 90 times by 2000. It crossed 100 in July 1977, 200 in 1980, and 500 in 1991. On 17 July 1995, the index closed above the 1,000 mark for the first time. On 10 March 2000, the index peaked at an intra-day high of 5,132.52. The decline from this peak signaled the beginning of the 'dot-com' bubble burst.

Debt Markets

Bond investors are risk averse compared with equity investors. However, even bond investors exhibited 'above normal' appetite for risk taking.

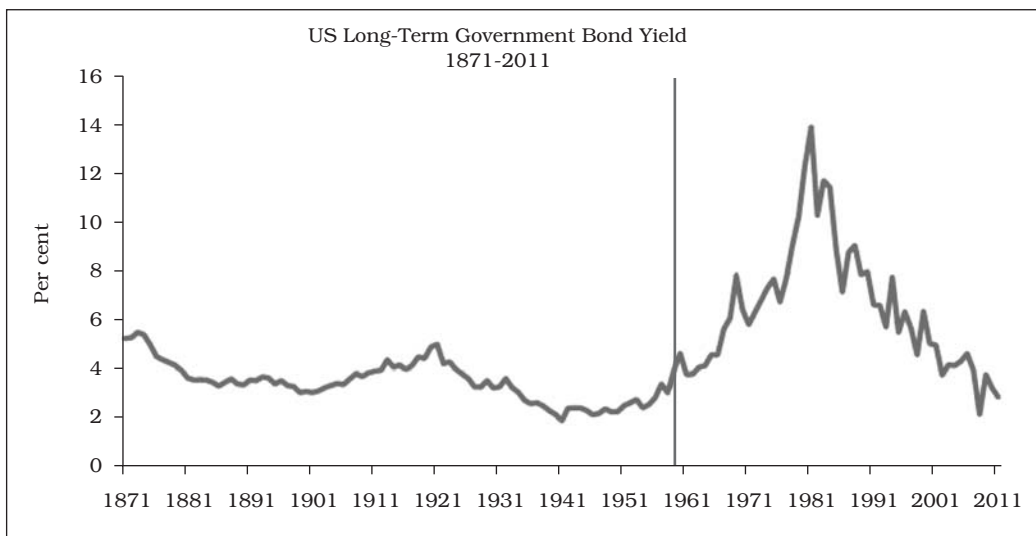
One popular measure of risk aversion in the bond market is the spread between the US government treasury and high yield bonds, which are also called 'junk' bonds or 'CCC' rated bonds. A 'normal' spread between treasury and high yield bonds is about 440 basis points. In the recent decade yield spreads have varied from as low as 240 basis points at the peak of the 'bubble' in June 2007, to as high as 1,770 basis points in the peak of market 'panic' in December 2008.

Figure 2: Yield Spreads between High Yield CCC and US Treasury



Source: Bank of America Merrill Lynch.

Figure 3: Three Month Treasury Bill: Historical Secondary Market Rate



Source: 1871-1961: Robert Shiller, Yale; 1962-Present: Bloomberg.

The three month average US Treasury rate has been around 370 basis points since 1934. It was as high as 1,630 basis points in May 1981, and as low as 10 basis points in September of 2011. The average of three month treasury since January 2010 has been 230 basis points, and average since September 2001 was 185 basis points.

The problem of 'fuzzy' financial products and weak regulation was addressed above. Expansionary monetary policy was also a crucial component of the 'liberal market

policies' which fed the crisis. Low interest rates supported by aggressive deregulation in a period of excessive market optimism proved to be a recipe for irrational risk taking, where analysis of market behaviour and trend is readily sacrificed for amateur technical advice. Households, investment managers and rating agencies lost perspective, aggravating asset bubbles.

At the height of a bubble, households were also duped into 'ponzi' schemes, and those who enter the market last when the 'party' is almost over, are the worst affected.

The European Debt Crisis

The bursting of 'bubbles' usually results in a 'double whammy' to economies experiencing it. The *first* is the overnight 'drying up' of the large amounts of 'wealth'. The *second* is when banks and non-bank financial institutions (NBFIs) reveal their balance sheets with large 'hits'. Governments are compelled to start capitalising post-bubble balance sheets of the banks and NBFIs and in the process accumulate unsustainable sovereign debt. The recapitalisation of banks has been viewed by some as causing systemic 'moral hazard' albeit for compelling reasons. We witnessed the bail outs of US, British and many European banks. The maxim of 'too big to fail' was in full display.

When the asset bubbles burst in some European countries, the Eurozone financial markets took notice of the large sovereign debt issued by governments was unsustainable, and panicked. This happened, just when weak sovereigns need more liquidity to deal with ongoing crisis, and consequently the markets start demanding higher yields. The demand for cash to meet maturing debt obligations added to the market panic and it spread to other sovereign issues, resulting in a full-scale 'contagion'.

In the first stage of Euro crisis, as the true magnitude of the mounting debt and fiscal deficits in Greece became known (i.e. debt-to-GDP ratio beyond 120 per cent, fiscal deficit-to-GDP ratio well above 10 per cent, low average maturity structure of Greek sovereign debt, and low tax revenues in a weak economy) in the spring of 2010, interest rates for Greek government debt increased sharply pushing up the country's refinancing costs in the face of large refinancing needs.

Not long after the introduction of the first rescue package for Greece, sovereign debt markets for other Eurozone economies were under pressure with bond yields rising and rating agencies downgrading European government bonds. Particularly, Portugal, Ireland, Spain, and recently Italy came under severe pressure. Fiscal resources in these countries have been strained by active fiscal policy after the 2008 financial crisis (fiscal stimuli, falling tax revenues, actual and prospective bank recapitalisation needs), and markets cast doubt on the overall economic shape of these countries. Some have argued that the specific 'architecture' of the Eurozone also increases the risk of contagion since each member of the monetary union is exposed to the vulnerabilities of the other members. Spain and Italy are cases in point where the crisis of the peripheral economies has provided the trigger for market investors to focus on the Italian economy's long-run ability to service an increasing stock of public debt.

Many of the European countries witnessed much faster increase in labour cost in the years prior to the crisis compared to its main competitors. In Latvia, between 2001 and 2008, unit labour cost increased ten times faster compared to the United States. With wages growing faster than productivity in the run-up to the crisis, competitiveness also suffered, and this resulted in sluggish performance of exports and a widening of the current account deficit.

The current account deficit was being financed to a great extent by foreign savings. While a significant part was financed by non-debt creating inflows like foreign direct investment (FDI), external borrowings by the private sector also started witnessing rapid growth. The easy access to cheap funding along with high commodity prices, mitigated the need to move ahead on some key reforms in areas such as infrastructure, health and education.

At the same time the potential gains for newer members from improved trade arrangements were being exhausted as they joined the European Union (EU). The situation is not expected to improve in the immediate future with countries in Western Europe, which acted as the main destination of exports, expected to experience weak growth.

The global financial cost has entailed a huge cost in terms of GDP foregone. While the overall cost of the crisis has run into several trillion dollars, there is a much larger human cost. According to recent reports, the International Labour Organization (ILO) estimates that 40 million could be lost by 2012 because of the global financial crisis. As mass austerity programmes engulfed the developed and developing world, it is bound to lead to a rise in the number of people afflicted by chronic undernourishment, and the heavy price being paid by children and other vulnerable groups. In a recent study, the Red Cross found that the number of people worldwide who are undernourished must be at least 1 billion while a total of 178 million children under five have stunted growth as a result of lack of food. These numbers could easily amplify as countries introduce wage cuts, tax increases, benefit reductions and cuts in subsidies.

Given the widely held view that the crises since 2007 had much to do with weak regulation, it is important to remember that the fathers of modern political economy had sounded an alert on this as early as the 18th century.

"Such regulations may, no doubt be considered as in some respect a violation of natural liberty. But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments; of the most free, as well as or the most despotical. The obligation of building party walls, in order to prevent the communication of fire, is a violation of natural liberty, exactly of the same kind with the regulations of the banking trade which are here proposed." (Adam Smith: The Wealth of Nations)

Quite clearly there were manifest signs of asset bubbles and stress and growing risks of the bubble bursting in the financial markets, and yet, too many policymakers were condemned to repeat the mistake of the past.

4. Economic Resurgence – The Rise of Asia

Asia has been the fastest growing region of the world for three decades. Consider, for example, Japan's transformation in a relatively short time period, a feat followed by the Republic of Korea, China (Taipei), China (Hong Kong), and Singapore. Malaysia and Thailand, once among the poorest, have established themselves as upper-middle income countries. And now two of the region's largest countries, the People's Republic of China (PRC) and India, are advancing at an impressive pace as major global economic powers. Indonesia and Viet Nam are also growing rapidly, and Bangladesh, too has performed very well. The rest of Asia, and perhaps the rest of the world, now aspires to emulate these success stories.

Today, Asia accounts for more than a quarter of global output. In developing Asia, per capita incomes grew at around 9 per cent annually over the last decade, reaching nearly USD 5,000 in purchasing power parity (PPP) terms in 2010 – up from about USD 2,000 in 2000. Investment rates reached record highs, averaging 35 per cent of GDP over the past decade. The average annual growth of exports in the region was 11.4 per cent between 2001 to 2010. Net inflows of private capital averaged USD 83 billion a year. External debt fell to 14.5 per cent of GDP, and foreign exchange reserves of USD 3.5 trillion were accumulated. These are truly remarkable achievements.

Developing Asia's growth has also shown significant resilience despite the slowdown in advanced economies. The most visible dividend of economic growth has been a sharp decline in income poverty in Asia. By some estimates, the number of people living on less than USD 1.25 per day declined by 513 million between 1990 and 2005, and contributed significantly to global poverty reduction. Collectively, Asia is well on track to slashing by half the proportion of people living in extreme poverty, although progress is uneven across countries.

A recent Asian Development Bank (ADB) study titled *Asia 2050: Realizing the Asian Century* predicts that if Asia's growth momentum is sustained, the region could account for over 50 per cent of global output, trade and investment by 2050. Thus, Asia could regain the dominant global economic position it held some 300 years ago, i.e. before the Industrial Revolution. Some have called this possibility the 'Asian Century.' However, as we indicate below its realisation is by no means preordained.

Daunting Challenges

Despite its remarkable progress, Asia remains home to the majority of the world's poor. Moreover, in many areas, the region is off track in meeting the Millennium Development Goals (MDGs). Almost two billion people live without basic sanitation and nearly half a billion without safe drinking water. Infant mortality in some countries in Asia is more than 10 times higher than in developed countries; and rising food prices are putting severe pressures on Asia's poor.

While high economic growth is essential, it must also be more inclusive – the benefits of high economic growth must be distributed more broadly, and people must have increasing access to opportunities and basic social services. Rising disparities within

regions of many countries is also a concern. One ADB study found that income inequality (Gini coefficients) in 14 out of 20 developing Asian economies had increased in recent years. Large inequality in access to basic social services also persists. Economic and social inequality must be a top policy concern for Asian planners as they continue on their strong growth path. The cost of neglecting the issue is pointedly summed up by Roubini:

"Any economic model that does not properly address inequality will eventually face a crisis of legitimacy. Unless the relative economic roles of the market and the state are rebalanced, the protests of 2011 will become more severe, with social and political instability eventually harming long-term economic growth and welfare."

Asia thus has a 'second face', one that is characterised by widespread poverty and inequality – half a billion poor, pervasive malnutrition, low real nominal wages/earnings, and much human trafficking. This is the 'less shining', 'soft underbelly' of Asia, and which is inconsistent with its ambitions for the 21st century.

The region's environment also faces daunting threats. Developing Asia's rapid growth has come, in significant part, at the expense of environmental sustainability – dramatic loss of forest cover and water and air pollution. They undermine the quality of life of all Asians even as incomes increase. The threats of global climate change are becoming increasingly more apparent. Rising sea levels, higher temperatures, extreme weather events, and increased frequency and intensity of natural disasters, will hit the poor, vulnerable and women the hardest and pose serious development challenges. A recent ADB study on Southeast Asia, estimates that if nothing is done, the total cost of climate change for Indonesia, the Philippines, Thailand, and Viet Nam could be as high as 7 per cent of their combined GDP each year by 2100. How best Asians use, recycle and regenerate resources will be critical to their long-term competitiveness. How we manage vital resources such as air, water and food as well as the carbon footprint could well determine whether Asia stays on the path of high economic growth and prosperity well into this century. Asia must take radical steps now to invest in innovation and technology development.

The great challenges of good governance – the Achilles' heel of development are arguably Asia's most serious concern. Transparency, predictability, accountability and enforceability are key ingredients for a successful transition to higher incomes and living standards as well as personal well being. Good governance also assures more efficient delivery of basic services – education, healthcare and social safety nets, and the management of the global commons. Managing the changing demographics, youth unemployment, urbanisation, increasing demands of an expanding middle class, and unfolding communications revolution requires solid governance. Asia will need to deliver impressively on this.

5. Conclusion

Let me stress that the Asian Century is not about Asia alone. Indeed, ADB's vision is one of an 'open regionalism'. Although Asian economies have experienced strong growth

and resilience since the 2007 crises, the same cannot be said of the future, i.e. despite the economic performance of the United States and Europe. Their economies remain by far the largest, and Asia can benefit from their commanding lead in knowledge and technology. The world is far too economically interdependent. The ripples from Greece have already begun to affect the economic outlook for Asia. A complete decoupling of Asia from the economy of the rest of the world is neither feasible nor desirable. While rebalancing of Asian economies is necessary for stable economic growth, autarky is not an option. The Asian Century can be a century of shared prosperity. Asians can take their place among the ranks of the affluent along with those in Europe and the United States. It should not grow at the expense of the rest of the world.

Asia's development challenges are formidable and there are many 'miles to go', before Asia achieves the living standards of the industrialised world. The policies and strategies needed have gestation periods spanning several decades. So we must get a head start. *Asia 2050* is not a prescription. It was designed to be thought-provoking, stimulate debate, and keep us thinking even as we act with required urgency in preparing new plans.

Asia has a historic opportunity to use its growing economic 'clout' to influence this century in a new direction – lead global and regional partnerships to end poverty and stark socioeconomic inequalities, manage the commons for the benefit of all peoples and to conserve the planet's wealth for future generations, foster good governance and rapidly promote economic integration to sustain high growth and prosperity.

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Fourth
South Asia
Economic Summit

**SUMMARY
OF THE
PLENARIES**

Current Phase of Global Recovery and Implications for South Asia

Overview

Panel I on *Current Phase of Global Recovery and Implications for South Asia* was chaired by *Dr Debapriya Bhattacharya*, Distinguished Fellow of Centre for Policy Dialogue (CPD), Dhaka. *Dr Sarath Amunugama*, Hon'ble Senior Minister for International Monetary Cooperation, Government of Sri Lanka was the Chief Guest; and *Sir Fazle Hasan Abed*, Chairperson, BRAC was the Guest of Honour. The panelists in this session were *Dr Nagesh Kumar*, Chief Economist, UN-ESCAP, Bangkok and Director, ESCAP Sub-Regional Office for South and South-West Asia, New Delhi; *Dr Kalpana Kochhar*, Chief Economist, South Asia Region, The World Bank; *Dr Ashfaque Hasan Khan*, Director General and Dean, NUST Business School, Pakistan; *Dr Mohan Man Sainju*, Chairperson, Institute for Integrated Development Studies (IIDS), Nepal; and *Dr Wahiduddin Mahmud*, Former Finance Advisor to the Caretaker Government of Bangladesh. The focus of this session was on the major distinguishing features of recovery from the global financial and economic crisis in the recent past and what it meant for the South Asian countries. The purpose was also to identify appropriate strategies for South Asian countries in view of the emerging scenario.

Issues Discussed

Global Economic Crisis and South Asia

A major thread in the discussion was related to identifying the nature of the current phase of global economic recovery. Panelists thought that global economic shocks were becoming increasingly complex, and the borderline between recession and the phase of recovery was blurred and not easily discernible. It was rather difficult to foresee how the global economy would shape up in the coming days as was evidenced by the

moderation and refinement of projections being made from one quarter to another. Some of the panelists felt that the current crisis in the West was primarily concerned with debt management; some were apprehensive that yet another recession was in the making – how deep this recession would be, and for how long this would last, was anybody's guess however. Periodic episodes of global energy crisis and food crisis seen in recent times could exacerbate the situation.

It was apprehended that overall economic growth in the rich countries will continue to be sluggish for a few more years to come. Some of the panelists thought that economic recessions and adverse developments in the global economy would perhaps recur more frequently in the future than in the 1980s and the 1990s. South Asian countries will need to learn to live with these possible emerging scenarios. Since South Asian economies are becoming increasingly entwined with the global economy to a significant extent, their economies will be affected by the fluctuating nature of these developments. The strategy for these countries should be not to rely only on ad hoc measures but to try to combine short-term policy responses to long-term policy plans in a manner that ensures sustained economic growth in a global economy that will remain turbulent for some time to come. Their policies should be crafted in way that relies on taking the advantage of growth potentials in the domestic economies and making best use of windows of opportunities in the global and regional markets.

Economic Crisis and Economic Rebalancing

There are clear signs that balance of economic power is shifting from west to east. The global economic crisis has reinforced the shift in the economic cloud that has already been moving from the United States and the Eurozone countries to the emerging markets of Asia. As evidence suggests, South Asia as a region was able to demonstrate considerable resilience in the face of adverse global developments of the recent past. Herein lies South Asia's promise and purpose. However, the panelists also cautioned that these are volatile times and it is still not clear in what ways the rules of global capitalism were going to be rewritten, how the post-crisis global economy is going to shape up, and how effectively South Asia will be able to face new challenges from the possible double-dip recession. During the first phase of the crisis most South Asian countries were able to come up with remarkable and effective response mechanism; they were able to deploy policy flexibility which enabled them to reposition in view of the emergent situation. However, this time around their policy options are rather limited because of several reasons.

Inflation has emerged as a common problem for all the South Asian countries. This was fuelled by the price hike in the global commodity markets when signs of economic recovery became evident. However, global prices have now stabilised, and in some instances were even declining. To a large extent, sources of inflation were now domestic, except when currency devaluation had adversely affected import prices. The pressure of rising prices have persisted long enough now to cast doubt on the ability of South Asian economies to register high growth rates without subjecting their economies to overheating. Panelists argued that calibrating policies was becoming difficult for South Asian economies in the backdrop of fiscal space becoming limited, inflation gaining

pace, public sector spending increasing, and the currency volatility and depreciation gaining steam. Most of the South Asian economies do not have the financial resources to underwrite costly stimulus packages. They do not have resources to underwrite short-term safety net programmes and pay for the medium-term infrastructural development programmes. As a consequence of high inflation, the interest rate was going up and access to credit for the private sector was also coming under pressure. The challenge was to handle the domestic macroeconomic management under the aforesaid circumstances, so that inflation could be tamed and commendable growth rates of the recent past are also sustained. Thus, whilst it is true that signs of economic prowess shifting to Asia are becoming increasingly evident, it is also true that this is not going to be automatic, and much will depend on South Asia's ability to calibrate and craft its policies in accordance with the demands put on by the emergent situation. In this context, much will hinge on how South Asian countries are able to take advantage of closer cooperation amongst them and deepen regional integration.

Deepening Regional Cooperation and Integration

Panelists and participants who took part in the discussion, were of the opinion that closer cooperation among the South Asian countries should be seen as an important strategy by the South Asian Association for Regional Cooperation (SAARC) member countries as they strive to address the consequences of global crisis and reposition their economies to take advantage of the global recovery. They came up with a number of ideas in this connection.

Intra-Regional Trade

There was a broad consensus that South Asian countries should do more to enhance intra-regional trade. Some panelists observed that skepticism about prospects of intra-regional trade in South Asia often arose from the observation that they competed in the export market for a number of similar items. However, the prospects and possibilities of mutual comparative advantages in the value chains, within the same broad sectors, tended to get ignored in this argument. If, for example, garments trade was liberalised within the region, it was most likely that each country would still be exporting garments to the rest of the world; while Bangladesh will still be exporting garments to the global markets and also within the region, partly by using fabrics and yarn produced in India and Pakistan. A significant amount of intra-regional trade would be generated by vertical integration. But these sorts of scenario, although appealing to economists, do not necessarily appear so exciting to politicians and business lobbies.

The region's domestic growth has been boosted in recent times also by strong export growth to highly performing developing economies. It was noted that according to the World Bank Global Economic Prospect report, export growth rates posed by South Asia in 2009 was 6.3 per cent, whilst it rose to 12.7 per cent in 2010. Significant demographic transitions were also taking place in the region. This would result in emergence of workforce that was young and educated and with lots of potential. South-South trade is expected to be on the rise in the future. Investment-driven trade is likely to play a key role in this. Deploying the rich human resources for development of trade,

commerce and investment will be important. Analysts estimate that by 2020 South Asia will have the youngest labour force in the world, with 18 million people to be added to the working age population every year for the next 20 years. The region's middle class has also experienced significant growth, experiencing a 12 per cent rise on an annual basis since 2000. It is estimated that by 2025 South Asia may have a middle class of approximately one billion people, with India projected to have the largest middle class in the world at that point. This growth has important implications for intra-regional trade. This human resource will also enable South Asian countries to leverage on regional cooperation to capture a larger share in the global market. Both small and large, as well as least developed and developing economies, will stand to gain from closer cooperation and further deepening of cooperation among countries of South Asia.

Emerging Food Security

The threat of global food crisis, such as the one of 2008, is not there, for the time being. However, medium-term forecast is that global grain prices will remain high in both real and nominal terms; a supply shock in a tighter market situation could well trigger another crisis. Food-deficit low-income countries such as Bangladesh remain particularly vulnerable in view of this likely scenario. Designing an appropriate regional strategy in securing and ensuring food security was felt by the panelists to be a major task facing the policymakers of South Asia. It was felt that South Asia had enough agro-climatic variations to result in complementarities in crop production. Freer regional trade in staples and other food crops will result into win-win outcomes for each of the participating countries. It would help stabilise prices, avoid seasonal fluctuations, tackle shortfalls in particular countries and sub-regions, and help avoid excessive and costly stock build ups by individual countries. This kind of cooperation can also help create enormous political good will which would in turn generate a peace dividend.

Attracting FDI

Panelists felt that foreign direct investment (FDI) could play an important role in the economic development of the South Asian region; however, FDI flow to the region has been rather mute, including to India in recent times. This has only partly to do with the global economic turmoil; the main problem concerns poor investment climate in the region. South Asian countries did well with the initial economic reforms towards market liberalisation. However, far less progress has been achieved in terms of institutional reforms. Infrastructure development has remained a neglected area; reforming the markets land, labour, capital and power has also not been given due importance. There is no reason to believe that high growth is a given. A continuing flow of investment and attendant technology, know-how and learning transfer will be needed if current growth performance and momentum is to be sustained over future. Panelists felt that policy stability and policy continuity were important in attracting foreign investment to the region. Developing value chains within the region through investment in the various nodal points along the value chain would contribute to deeper trading relationship among South Asian countries. Panelists argued that intra-regional FDI could play a conducive role in promoting the cause of strengthened integration of regional countries in the process of globalisation.

A South Asian Poverty Elimination Model

The panelists discussed the issue of devising a South Asian model of poverty reduction. The experience of Bangladesh was highlighted in this context, and it was noted that Bangladesh has to its credit excellent track record in terms of microfinance, education of children from deprived families and child survival. It was noted that Bangladesh has been home of non-government organisation (NGO) activities for many years. It was noted in this context that world's largest NGO, BRAC, maintains a large spectrum of activities, in Bangladesh and in the region, which have direct implications for poverty alleviation, empowerment of the poor, and socioeconomic development of the deprived sections of the population.

BRAC has a large number of branches in Afghanistan, Pakistan and Sri Lanka which are implementing poverty elevation programmes and undertaking various projects in healthcare, education and microfinance. BRAC's programme of support to the ultra poor, the poorest of the poor, is also being replicated in many developing countries. Eleven projects in eight countries are being funded by the World Bank. Many studies are looking at how the graduation from poverty is actually taking place. The BRAC University, a leading academic establishment, is developing a core group of professionals dedicated to serving the cause of development in developing countries. In view of its success of BRAC in pursuing the interests of poverty alleviation in South Asia, BRAC could serve as a model for all South Asian countries, and all SAARC countries will stand to gain enormously from BRAC's rich and diverse experience spanning many years and many countries. GO-NGO collaboration of the type being promoted by BRAC could serve as an excellent model for others.

Implications of the Rise of China and India

Panelists were unanimous in thinking that the rise of China and India had important and far reaching implications for the other countries of the region. Some of the panelists felt that China could serve as a stabiliser for South Asia. China and India could be drivers of regional growth in South Asia. With respect to trade, China was at present the third largest economy in terms of exports as well as imports. Since the 1980s China's annual gross domestic product (GDP) growth rate has exceeded 9 per cent, reaching 13 per cent and 14 per cent in certain years. Per capita income growth in China, between late 1970s and mid-2000s far exceeded that of the Western Europe and the United States. China is now the second largest economy in the world in terms of purchasing power parity (PPP). As of 2010 the China's GDP was USD 10 trillion which, according to some analysts, meant that it was on track to overtake the USA as the largest economy in the world by 2050.

According to the panelists, South Asia's growth rate from 2003 to 2008 was about 7 per cent per annum. Following the global financial crisis South Asia's GDP rose to 9.3 per cent in calendar year 2010. But large fiscal deficit and high price pressure have led to tightening of macroeconomic policy resulting in some slowdown in the region's growth to 7.5 per cent in the first quarter of 2011. India has been the driver in the economic performance of the region. India, an emerging major power of the 21st century, has

been able to recover from the global economic crisis relatively well. The experience of India shows that its recovery was based strongly on domestic consumption. The Indian GDP growth rate has actually accelerated after the crisis and the economy was making a rebound. However, some of the panelists felt that despite having emerged as a global political and economic power of consequence, India is yet to be in the same league as China. India does not have the same export power as China; its GDP was USD 4 trillion, placing it in fourth place in the global ranking, two places behind China. Some of the panelists felt that India's reform efforts have stalled since mid-2000s, and its economy needed major restructuring and her agriculture and industries needed major overhauling. India also needed to do more in terms of pursuing autonomous trade liberalisation. And some analysts have criticised its defensive stance in the World Trade Organization (WTO). However, India will remain the dominant power in South Asia and was expected to play a more proactive role in South Asia's development. Offer of market access by India has been generous, but more will need to be done to infuse the regional economies with India's dynamism. For this to happen, closer cooperation with regional countries will be needed, particularly in such areas as development trade facilitation measures, customs harmonisation, transport connectivity and ensuring food security.

The Case of Sri Lanka

One of the panelists highlighted the case of Sri Lanka as a test case to study the impact and implications of the global economic crisis, and also as an example of how bilateral and regional cooperation could be deployed to benefit smaller economies. Sri Lanka had one of the most open trading regime in South Asia, and was keen to explore avenues to make regional cooperation in various areas work for its economic development.

Sri Lanka ranked sixth among 10 countries of the region in terms of trade in goods and was ranked fourth in terms of services. Exports rose by 17.5 per cent in 2010 and imports posted a growth of 24 per cent based in value in constant prices. However, forecasts were less optimistic indicating 8.6 per cent growth of export in 2010. Sri Lanka was faced with a continuing merchandise trade deficit over the past decades, recording a deficit of USD 5 billion or 10 per cent equivalent of the GDP at the end of 2010. Sri Lanka was relatively highly dependent on export with share of export in GDP being 70.2 per cent in 2009, higher than those of India and Pakistan. The slow recovery of developed countries following the global economic crisis had adversely affected Sri Lanka's export earnings and remittance income. Problems in USA and Eurozone economies were likely to affect the demand for Sri Lanka's textile and garments products. Unrest in the Middle East high fuel prices, global crises have all combined to impact negatively on growth prospects on Sri Lanka. Exports and remittances have both suffered. Sri Lanka was a member of the South Asian Free Trade Area (SAFTA) and at the same time it had signed a bilateral Free Trade Agreement (FTA) with India in 2002. Sri Lanka's exports are well matched with India's import demands with a complementarity ratio of approximately 59 per cent. Bilateral trade has increased since then, although the trade deficit continues to persist. Sri Lanka and India have decided to sign a Comprehensive Economic Partnership Agreement with the objective of extending economic cooperation beyond trade. Sri Lanka's country experience demonstrates the need to deepen regional cooperation and the necessity of making

regional cooperation work for strengthened global integration. The experience also reemphasises the need for pursuing open regionalism, so that efforts towards greater regional integration runs in parallel with efforts to deepen economic cooperation with countries and Regional Trade Agreements (RTAs) outside of South Asia.

Concluding Observations

The discussion by panelists and from the floor transmitted several messages. The Chair summed those up in the following manner. The first message was that the global recovery was mute and hesitant, and the adverse consequences of the financial and economic crises of the recent past are likely to persist for some time to come. The effects of the crisis had weakened the efficacy of macroeconomic management in major economies and these weaknesses are likely to have implications for the way critically important sectors would develop in the post-crisis time. Energy security and food security could emerge as important concerns for policymakers. Climate change impacts could exacerbate these concerns. South Asian economies will need to function and survive within these challenging global contexts. The second message is that the various channels of transmission of the global crisis would work in different ways for different countries. So countries will need to calibrate their policies accordingly. The issue of heterogeneity and varying nature of vulnerability will need to be kept in mind.

The third message which was being transmitted very strongly was that this time around, it would be much more difficult to unleash a response mechanism compared to the earlier case because of several reasons: fiscal space has reduced; inflationary trends were gaining momentum; commodity prices notwithstanding the fall in demand was not coming down; and also that the pressure on the domestic currencies were rising. The critical question was how to protect the poor and the vulnerable, and how to ensure that macroeconomic management is able to generate growth and keep inflation down. The fourth message that comes out clearly is that, enhanced regional cooperation and greater regional integration could serve as an important avenue for regional countries to address the impacts of the crisis and also to take advantage of the economic recovery.

Plenary II _____

Towards an Inclusive Growth in South Asia: Role of Regional Cooperation

Overview

Panel II on *Towards an Inclusive Growth in South Asia: Role of Regional Cooperation* was chaired by *Mr M Syeduzzaman, Lt Col (Retd) Muhammad Faruk Khan, psc, MP* Hon'ble Minister of Commerce, Government of Bangladesh was present as the Chief Guest; and *Dr Sham Lal Bathija*, Hon'ble Senior Advisor Minister for Economic Affairs to the President of Afghanistan attended the session as the Guest of Honour. The distinguished group of panelists included *Dr Atiur Rahman*, Governor, Bangladesh Bank; *Dr Saman Kelegama*, Executive Director, Institute of Policy Studies of Sri Lanka (IPS); *Dr Shekhar Shah*, Director General, National Council for Applied Economic Research (NCAER), India; *Dr Lyonpo Om Pradhan*, Chairman, Druk Holdings and Investment and Former Minister for Trade and Industries, Bhutan; and *Dr Vaqar Ahmed*, Research Fellow, Sustainable Development Policy Institute (SDPI) and Former Advisor to the Planning Commission of Pakistan.

Issues Discussed

The session focused on the issue of inclusive growth in South Asia and dwelt on the role of regional cooperation and integration as the way forward towards faster and more inclusive growth and poverty reduction in the countries of the region. It was acknowledged that all South Asian countries have useful lessons to draw from the experience of one another in the areas of physical and human development, trade, investment and poverty alleviation. The session highlighted the role of regional cooperation in alleviating poverty, creating synergies, leveraging comparative advantages, and putting in place mutually rewarding solutions.

Poverty Alleviation

Poverty alleviation in the South Asian region was a key theme that was picked up by many of the speakers. Persistent poverty is a concern that preoccupied the policymakers in South Asia and also international development community who are involved in South Asian region. As is known, South Asia continues to have the largest concentration of world's poor, and the largest percentage of malnourished children in the world. Experiences show that for reducing poverty and improving the standard of living of the poor, growth is a necessary factor, but in no way it is sufficient. Enhancing income equality and promoting and increasing growth rates are essential pre-conditions for raising the standard of living of the hardcore poor and those below the income poverty line in a visible and sustainable manner. Panelists of the session argued that achieving poverty alleviation targets, be it in national policies or the Millennium Development Goals (MDGs), will require more than macroeconomic and growth targets.

Some of the panelists recalled that one of the key micro level recommendations articulated in the SAARC Charter, in reference to reduction of poverty, was to emphasise social mobilisation. Several recommendations also emerged from such initiatives as South Asia Poverty Alleviation Program (SAPAP), Independent South Asian Commission for Poverty Alleviation (ISACPA) with its three-tier mechanism to eradicate poverty. However, in the backdrop of reduced but persistent poverty in the region, a new poverty alleviation commission was later appointed (ISACPA II). Additionally, each country was requested to prepare Regional Poverty Profiles highlighting the poverty situation in respective countries. Amongst many, key recommendation of ISACPA II included mainstreaming of the informal sector, enhancing gender equities, prudent macroeconomic policies, sustainable development, and mobilising the power of the poor. While the targets of ISACPA I were at the macro level, the targets were more at the micro level in case of ISACPA II which also emphasised the need for learning from regional best practices. ISACPA II emphasised the need for setting a database on poverty correlates of the region, and also drew attention to the need for reviewing laws and policies which impacted on the livelihood of the poor people.

In spite of various declarations concerning poverty alleviation, various plans of action on poverty alleviation, articulation of SAARC Development Goals (SDGs), encouraging regional projects, dissemination of information through SAARC Poverty Profile and creation of a SAARC Development Fund, actual implementation of the various initiatives had been rather weak. Panelists agreed that poverty has come down significantly in the South Asian region, however, the pace of reduction left much to be desired. Discussion as to what has actually gone wrong triggered a debate amongst the participants. Some felt that adequacy of funding for poverty alleviation is an issue, whilst others thought that many of the existing programmes, both at national and regional levels, are not being implemented properly.

Discussants felt that the issue of ending poverty in our lifetime should be put on the agenda. However, the recent financial crisis with its consequences has again drawn our attention to the challenges that developing countries of the South face in this regard. Combining growth with policies to protect the poor and providing them with

opportunities to accelerate human development through better service delivery and improved governance, are the keys to accelerating poverty alleviation in the region. Challenges of poverty alleviation are now much greater than they were in the mid-2000s. The fragility is clearly more, and the resources are tighter. Pockets of poverty persist in many regions and bringing poverty down to single digit would require significant advances in human development, skill augmentation and education. Countries of this region will need to learn from each other, through various governmental and non-governmental channels, and also from the rest of the world.

Reduction in poverty levels in the region was achieved, mainly thanks to high gross domestic product (GDP) growth rates, which sustained till the mid-2000s. More importantly, this high growth in SAARC countries created political space where there was a willingness to redistribute the incremental benefits of growth. This is observed from the various safety net programmes including employment guarantee kind of initiatives. Policy decentralisation pursued by some countries facilitated this process; in many instances service delivery was improved and fiscal resources being generated through high tax revenues were deployed to tackle many of the long-standing issues concerning development of health and education services. The other side of the coin was that, expectations from and accountability on the part of the government have also been on the rise. Citizens' movements pursuing such aspirations are gaining momentum. In India dramatic manifestations of confrontation between civil society and government are observed on an increasing scale and intensity. Some of the panelists felt that poverty has not declined at the expected pace of citizens, and this has given rise to a lot of frustration and anger.

Lack of inclusivity in development resulted in persistence of poverty in South Asia. The poverty in South Asia was also to a large extent, a reflection of the structural design of societies. Analysis reveals that caste, ethnicity and gender were very important variables. Growth process continues to isolate the marginalised population who happen to belong primarily low-caste people, indigenous population and women. Approaching poverty in a true sense and not as a welfare-oriented programme would mean that the marginalised population have to be brought to the centre point where they would own the programmes, run these programmes, and utilise the resources which are provided to run these programmes. Discussants argued that poverty was not an income poverty issue, but in fact, it is a human development issue – socially, educationally and healthcare wise.

Rising Inequality

The associated externality of poverty alleviation was that of the amplification of inequality in some cases. This remains a concern; while it is true that GDP growth led to reductions in poverty, but in many instances in case of South Asian countries this has also led to a dramatic increase in inequality. The current scenario is that some of the well-off regions are faring better than their weak counterparts. For example, the low-income states of India in the 1990s did not do well in this regard compared to the relatively high-income states. Similarly, the Western province of Sri Lanka post significantly better compared to rest of the country. Redirecting the pattern of

development in a manner that reduces income inequality and regional disparity must be seen as a necessary pre-condition for inclusive growth.

Agricultural Productivity and Employment

In the 1970s, 70 per cent of Bangladesh economy was agrarian; in contrast, at present agriculture accounts for only 20 per cent of the country's GDP. However, since the majority of population lives in rural areas, a key strategy of Bangladesh remains creation of employment opportunities for the rural population. This can be done in a speedy and inclusive manner only through adequate investment in agriculture and in the non-farm rural economy. A good example in this context is China, where investments in backward and forward linkages in agriculture have generated rich dividends and modernisation goal has complemented industrialisation.

Indeed, the majority of the people in South Asia live in rural areas, and hence, development of employment must be seen as a critically important driver of the economic development of South Asian countries. Thus, the growth process in South Asia calls for new and greater emphasis on agricultural productivity which is needed for a dynamic rural non-farm economy and create more employment opportunities for South Asian people.

Several countries in South Asia had enjoyed relatively high GDP growth rates; however, high levels of poverty, malnourishment and gender disempowerment accompany this growth performance. This anomaly is needed to be corrected.

Public Investment and Regulatory Framework

The discussants emphasised the need for significantly high public investment in rural infrastructure development and non-farm employment. Budgetary and sectoral reforms in this regard had been neglected in many cases.

The panelists felt that regulatory reforms must be seen as necessary pre-condition for inclusive development in South Asia; in this connection, the issue of simplification of bureaucratic processes and paperwork was stressed in order to encourage and facilitate economic and social entrepreneurship, and to discourage discretion and malgovernance. It was, however, conceded that many countries of the South Asian region have taken important steps to make the regulatory environment more business-friendly by implementing regulations that are efficient, accessible and sustainable. Such steps should continue to ensure that investment in private enterprise can flourish; it was also felt that many laws and regulations that concerned everyday life of common citizens, also needed to be made citizen-friendly. Areas such as access to various services and functioning of judiciary government offices were mentioned in this context.

Inclusive Growth

The discussants were apprehensive that increasing inequality has been emerging as a major concern in South Asia. It is becoming evident that exclusive growth was not the solution. China represented a good example of inclusive growth where there was high

growth simultaneously with high rate of reduction of poverty. Weak implementation in spite of the good plans has led to a situation where poverty reduction in the South Asian region has moved at a rather slow pace.

Participants thought that more emphasis should now be put on inclusive growth so that the poor and the hardcore poor could enjoy the benefits of growth. Fostering inclusive growth is essentially a national function, though through joint and collective efforts of governments, the private sectors, non-government organisation (NGOs) and the civil society, this process could be accelerated. Professor Rehman Sobhan's monumental work *Challenging the Injustice of Poverty*, brings out clearly how many of the issues important to the poor have been systematically ignored in the process of development in South Asia in spite of the many good examples to address the attendant areas of concern. The major task, as Rehman Sobhan pointed out, was to raise consciousness of all stakeholders and take corrective actions with regard to political and administrative institutions, financial institutions and local government institutions. All of these relate to the broad area of ensuring good governance. An environment of rule of law, good governance, stability and trust has to be established in order for inclusive growth to be ensured. It was pointed out that political stability and good governance are closely associated with robust growth, and this high correlation is also corroborated by the experience of South Asia over the last several years.

Participants felt that the South Asian nations should integrate at a faster pace and this could work in favour of the cause of inclusive growth. For example, countries sharing border with India could gain significantly through sub-regional cooperation which will allow the citizens from neighbouring areas to benefit from higher flow of goods, services and investment across borders. The economic rise of China should also be seen as a positive development for South Asia, as it is becoming increasingly evident from the growth of South Asia's trade with China.

The notion of 'inclusive development' in modern times should be one that gives emphasis to transformation of rural agrarian economy into a modern industrial economy by putting emphasis on agriculture, small-scale industries and microfinance. Agriculture and rural economy ought to be seen as an important pillar of development in South Asia. It was pointed out by some panelists that there is no trade-off between growth and inclusive growth.

Openness to Trade

Given the current low level of total trade among the South Asian Association of Regional Cooperation (SAARC) countries, about 5 per cent of their global trade, a concerted effort was required to realise the full potential for trade between and amongst the SAARC countries. Participants were of the opinion that this potential is enormous. South Asia accounts for only 14.9 per cent of the global GDP despite being home to about 20 per cent of the world's population, and trade could play a key role in raising the economic profile of South Asia in the coming days.

It was recognised that SAARC countries have been implementing trade liberalisation programme as per commitment under the South Asian Free Trade Area (SAFTA). Some

of the countries have already initiated the process of reducing the 'sensitive lists'. India has virtually eliminated its sensitive list for low-income members of the SAARC. In spite of the progress towards trade liberalisation, there are concerns regarding the pace of rise of intra-SAARC trade. It is to be noted that during the five years of the implementation of the SAFTA, trade under this Agreement averaged only USD 1.4 billion. On the other hand, intra-SAARC trade has increased manifold during this period, amounting to more than USD 10 billion in 2010. In case of Bangladesh, in FY2009-10, less than 50 per cent of exports in non-sensitive items were conducted under the SAFTA. In case of import, the situation is same. Hence, there is a heightened need for careful examination of the causes that inform the fact of less than desirable intra-SAFTA trade. Appropriate policy initiatives are needed to address this. Moreover, non-tariff and para-tariff measures constitute major impediments that constrain intra-regional trade. The South Asian Regional Standards Organization (SARSO) is expected to address the issues relating to standards related non-tariff barriers. Hopefully, once the organisation starts its operation in full swing, impediments to trade associated with standards and certification will be gradually removed.

Participants recalled that the services sector is playing a major role in the economic development of the South Asian countries contributing more than 50 per cent of respective country GDPs. South Asian Agreement on Trade in Services (SATIS) is expected to come to effect soon and it was the duty of the respective governments together with the civil society to move the agenda forward. In South Asia, trade had sometimes been used as a political weapon. This has deprived the common man of South Asia from reaping the potential benefits. This practice of playing the 'trade card' should be discarded and the interests of trade and economic cooperation should be put above political score-making.

Capacity Building

Capacity building of the citizens must be seen as an important driver of inclusive growth both from national as well as regional perspectives. Individuals with relevant education, work skills, experience, professionalism and exposure to international knowledge will be well positioned to exploit available opportunities in the regional and global market, and compete from a position of strength in those markets. Hence, it is imperative for governments to work with the civil society and the private sector to prioritise and invest in capacity building, particularly harnessing the capacity of those who are currently marginalised. The objective to cultivate a skilled, flexible, robust and competitive workforce, across all sections of the population, will have to be achieved through education, skills up gradation, training and access to financial resources, with support through appropriate policies and programmes.

Graduation from low-employment to higher-employment opportunities and enunciation from low-wage trap, provision of decent employment opportunities are critical to inclusive development. South Asian countries have not made adequate investment in social sectors to strengthen their human capital, and this is evident from the fact that South Asia has the lowest level of expenditures in health as a share of total fiscal-budgetary allocation, lower even than that of Sub-Saharan Africa. This situation must be reversed if South Asia is to realise its full potential.

Health and Education

The percentage of GDP spent on education and health is low meagre in the South Asian countries. In Bangladesh, the percentage of GDP spent on education was as small as 2 per cent in 2004; although recently the number had risen to 2.5 per cent. One of the speakers pointed out that a definitive focus on health and education in terms of certain social areas, along with focus on such sectors on horticulture, animal husbandry, livestock, fishery and agriculture, which are perhaps not directly associated with industrialisation, are very important for faster and inclusive development of regional countries.

With respect to expenditure on the social sectors, some participant felt that absorption capacity of South Asian countries needed to be enhanced. The current state of affairs in the education and health sectors in South Asia shows that funds have to be surrendered at the end of the fiscal year due to low absorption capacity of the system. The capacity to spend funds, ensuring the needed quality of expenditure, was perceived to be important by the participants.

Rising price of accessing education and falling quality of education were perceived by some participants as emerging problems that needed to be addressed on an urgent basis.

Energy for Growth

At present, the pressure to go for cooperation, particularly in the area of energy, was gaining momentum in South Asia. Cooperation among countries of the gangetic plain and the Brahmaputra basin was seen to be critical to address concerning in the area of water management and water sharing and growing energy demand. A stronger domestic political pressure needs to be generated within the countries which will then force politicians to come to get on with the task of dealing with regional shared assets. In view of the energy shortages that exist in each of these countries, Nepal, India and Bangladesh were discussing and exploring various avenues to foster regional and sub-regional cooperation to address the energy availability concerns.

Regarding electricity shortage in Bangladesh, some of the participants thought that if a transmission line between Northeast and mainland India is connected through Bangladesh, it would be viable for India to provide Bangladesh with 100 MW of power on a regular basis. This would add to Bangladesh's existing power electricity. At the same time, these arrangements will double the rate of return on the hydro-power assets in the Northeast India.

Movement within the Region

Visa-free movement within the region, with reduction of the significant transaction costs involved, could play an important role in deepening South Asian cooperation. With closer, more harmonious, social and cultural ties, consolidated by the process of inclusive growth, higher mobility of people within the region will help promote regional identity in South Asia. More collaboration among countries of the region to facilitate

movement of people, like the one that exists in the European Union, was highly desirable. The ease of movement of people will generate positive synergy in the form of sharing of experience, exchange of technology, know-how and expertise.

Strengthening SAARC

For regional cooperation to succeed in achieving inclusive growth, the South Asian countries must take urgent steps to improve their political relationships with the neighbouring countries, putting differences on the sideline. Regional and sub-regional cooperation which will enhance the possibility of attaining the SAARC Development Goals. SAARC institutions could play an important role in this context. The potential role of the SAARC Development Fund was noted in this context. Closer communication between decision making public authorities, businesses, academics and civil society organisations in South Asia could act as building blocks in advancing South Asian integration. Learning from each other's experience and promoting trade, investment, social and cultural ties was emphasised by all participants. Regional cooperation will help ensure energy security in the region by generating significant hydro-electricity, facilitate effective management of water resources, expand intra-regional investment, and generate employment.

Speakers noted that trade connectivity leads to economic efficiency, which in turn, leads to economic growth and to equity and poverty alleviation. Economic efficiencies are at present being stymied as a result of lack of cooperation.

The signing of SAARC Preferential Trading Arrangement (SAPTA) in 1993 was the first step towards economic integration in the South Asia Region. Agreement on SAFTA was signed in 2006. Establishment of SARSO, SAARC Arbitration Council and SAARC Food Bank and signing of the agreements on customs matters, avoidance of double taxation, and notably, the SAARC Agreement on Trade in Services (SATIS) endorsed on the last SAARC Summit, demonstrate a desire on the part of governments of SAARC countries to have a strong economic cooperation in the region. Besides, regular interactions of SAARC Commerce, Agriculture and Finance Ministers, Governors of Reserve Banks, Commerce and Finance Secretaries have created an opportunity to bring about new ideas to develop new avenues and platforms for deepening of regional cooperation. The idea to reconceptualise SAARC was given prominence by some participants who recommended that the SAARC countries should not limit their efforts to only working within the bounds SAARC, but should also look at other potential avenues. These could include cooperation at sub-SAARC levels, and understandings at bilateral and trilateral levels through signing of appropriate agreements.

It was noted by participants that sub-regional connectivity has been growing between India, Nepal, Bhutan and Bangladesh, including in areas of trade promotion and connectivity. It is expected that these will be further broadened and deepened to include the entire region, where feasible. Where bilateral initiatives have been put in place, such efforts ought to be seen as building blocks for closer and stronger multilateral cooperation.

Other Issues

A number of participants noted the positive developments in South Asia and drew attention to the need to leverage these. South Asia was the only region which has not seen, in overall terms, a reversal in the investment levels as was the case for many other regions. This was evident from the rise in the investment-GDP ratio over successive years. It was also noted that there have been some rise in the productivity levels as well.

Sustaining output growth in the face of weakening of the demand in the global export markets will call for making best use of the growing demand within the region. This can be achieved through cooperation in intra-regional trade, social safety net, public expenditures, utilising the region's substantial foreign exchange reserves and investments in employment-intensive infrastructure.

Infrastructure was being dubbed as the future engine of growth, especially investments in the field of connectivity and transport. However, thus far, models such as public-private partnership (PPP), build-own-operate (BOO) and build-own-operate-transfer (BOOT) have been implemented only on a very limited basis in South Asia.

It was also felt that the welfare of citizens should be seen as an important driver of inclusive growth. Governments can address this through adequate investments in social safety nets, initiatives and programmes in healthcare, education, protection of human rights, addressing particular concerns of women and children, timely and adequate disaster relief programmes, and the provision of an environment where individuals can exercise their fundamental rights.

Some of the participants felt that, with high frequency of natural calamities, food security concerns needed to be addressed with due care in the context of South Asia. Some of the participants felt that the SAARC Food Bank has to assume a more proactive role. Some others thought that, financial markets in South Asia have proven to be ill-equipped to intermedicate the region's financial requirements of the region. Reserves of foreign exchange in the region could harness development in the region; however, the needed arrangements and infrastructure were not there. A number of participants hypothesised that there will certainly be opportunities for large-scale tourism within the region in view of the current level of economic growth in the region. Hence, tourism needs to be promoted as this has the potentiality to contribute to the region's economic development and promote people-to-people connectivity.

Concluding Observations

South Asia had about 47 per cent of the world's poor, earning a Dollar or less per day. Nowhere is the issue of inclusive growth as important as it is in South Asia. This calls for pro-poor policies and programmes to be encouraged in South Asian policy making. The countries should interact with each other with a common cause, seeking common solutions for common benefits. Confrontational mindset, historical baggage and hostile attitudes will only bring setback to the momentum towards closer cooperation seen in recent years.

Exploring the opportunities of the growing regional market, and closer cooperation in the areas of trade, transport and connectivity, investment, tourism, energy and food security could benefit all countries of South Asia within a win-win scenario of partnership and friendship. The cost of non-cooperation and benefits of integration must be highlighted in an appropriate manner in order that South Asian political leaders, who are committed to poverty alleviation and inclusive growth, are put on the spotlight to persuade them to keep to their promise. SAARC leaders are responsible to attain the SAARC Development Goals which are ambitious than the MDGs. SAARC institutions must work with higher efficacy, and all stakeholders including the civil societies and private sectors in respective SAARC member countries must join hands in putting pressure on the political leaders in this regard.

South Asia is one of the most dynamic growth regions in the world, and the prevailing scenario suggests that the region will continue to remain so in foreseeable future. Close cooperation in economic and trade areas in SAARC will facilitate to boost the momentum of growth that is already in motion in the region. Measures should be taken to maintain this momentum in a manner that stimulates growth and promotes the cause of inclusive growth. From this perspective the possible avenues and modalities identified by the distinguished panelists and discussants merited close consideration by the policymakers in the region.

Plenary III _____

Delivering on South Asian Dream: The Political Challenge

Overview

Panel III on *Delivering on South Asian Dream: The Political Challenge* was chaired by *Professor Rehman Sobhan*, Chairman Centre for Policy Dialogue (CPD), Bangladesh. The Chief Guest was *Professor Dr Gowher Rizvi*, Hon'ble International Affairs Advisor to the Prime Minister, Government of Bangladesh; and the Guest of Honour for the session was *Mr Ibrahim Hussain Zaki*, Hon'ble Special Envoy of the President of the Maldives and Former SAARC Secretary General. The panelists were – *Mr Syed Babar Ali*, Co-chair, South Asia Centre for Policy Studies (SACEPS) and Pro-Chancellor, Lahore University of Management Sciences (LUMS), Pakistan; *Professor Muchkund Dubey*, President, Council for Social Development, India; *Ms Arifa Khalid Parvez*, Member, Provincial Assembly, Punjab, Pakistan; and *Mr Asoka Gunawardena*, Executive Governor, Marga Institute, Sri Lanka.

A better life and livelihood for the people of the South Asian region, that was peaceful and vibrant and based on an integrated regional economy, with a strong sense of regional identity, has been the essence of South Asian Dream as was envisaged by the pioneers of the South Asian cooperation. This dream is often interpreted in economic and social terms. The aim of Plenary III was to define the dream in political terms.

It was thought that closer economic integration will lead to greater political understanding among regional countries. The session dealt with issues which were related to challenges of delivering the South Asian dream from the perspective of political challenges.

Current Economic Outlook and the Case for Regional Integration

South Asia's economic success posted over the past two and half decades has been commendable by any measure. A large part of the growth originated from an export-led growth strategy supported by trade liberalisation, increased savings and investment rate, ability to take advantage of the competitively-waged labour available in the region, technological changes in some of the key sectors of the economy that enabled South Asian economies to leverage their respective comparative advantages, raise productivity, and enhance competitive strength in global markets.

South Asia must take advantage of the 'Asian Century'. Many of the countries in Asia are either in a free trade relationship with India or China, or are in the process of negotiating one. This has inspired India in promoting and to have a Pan-Asian integration that is going to be of great political significance. However, an integrated South Asia needs to be seen as a building block of this Pan-Asian integration.

It was noted that if the current growth momentum of the Asian economies sustains, then in purchasing power parity (PPP) terms, over the next ten years, combined by South Asia as a region will be the third largest economy in the world. It was argued that, even though bigger Asian economies may not be interested in entering into any economic relationship with individual economies of the region, they would definitely be interested in building economic relationship and partnership with an integrated South Asia. The smaller countries of South Asia in particular were, thus, expected to particularly benefit from a regional cooperation. Political leaders in the region ought to keep the bigger picture in the perspective and work towards this. South Asian political leaders should recognise that in the face of the global economic turmoil seen in recent times, the growing regional market should be seen not only as a complementary opportunity, but as an opportunity to accelerate the development of regional countries. The positive externalities of leveraging avenues of cooperation in various areas, such as addressing flood, disease, illiteracy and hunger, were huge, and this would provide rich political dividends. One of the participants drew attention from the example of Punjab that portrayed the strength and benefits from bilateral and regional cooperation. The Punjab region recently faced the epidemic of dengue fever, which was a rather new phenomenon for the region. Sri Lankan and Indonesian governments extended help and sent teams and resources to address the crisis. This was much appreciated by the common people. The experience vividly showed that if the countries of the region came forward and tried to help each other, by sharing knowledge and resources, this will create goodwill, improve people-to-people contacts, and give rich political dividends.

The Role of Politicians and Other Stakeholders

Despite the evident benefits that could originate from deepened South Asian integration, there is a lack of progress in the inter-governmental process. Hence, redirection was needed in government's thoughts, actions and mindsets. Politicians will have to play a major role in resolving the existing doubts, lack of trust, and in some cases conflicts among nations. They can do so through direct negotiations; they could also do so through promotion of economic cooperation, which in turn will lead to better

understanding among countries, and better policies. In order to enable the politicians to perform this task, the necessity of 'political will' was repeatedly mentioned by various participants. It was said that "Mr Political Will, will not walk in on its own and there was no opportunity to wait for this to happen, forever either." Therefore, the moot issue was how the 'political will' may be created and how the political process could be influenced to attain the South Asian dream.

The establishment of the South Asian Association for Regional Cooperation (SAARC) was the embodiment of the then existing 'political will' for the regional cooperation among the leaders of the region at that time. As is known, over the decades the SAARC Secretaries have met numerous times and held Summits. But questions have been raised about the effectiveness of the SAARC as an institution in successfully bringing about the aforesaid regional dream. It was mentioned in the session that about 200 SAARC meetings were held annually causing a huge dent on the SAARC budget, but concrete outcomes were hardly achieved. A number of SAARC institutions have become redundant. There was, thus, an increasing need for SAARC to remain focused on its mandate in order to be able to carry the vision of regional cooperation forward.

Some participants argued that the growth story and development achievements in South Asia over the past decades were a people-driven phenomena rather than a government-driven one. They also drew attention of the participants to the fact that the socio-political and economic demographics in South Asia have changed a lot since the establishment of SAARC. The then forthcoming Eleventh Summit in Maldives was seen by some participants as a new opportunity to get over the past barriers and failures, and start fresh with a new beginning.

It was noted in the session that since the 1990s the role of government in this region has changed, and has become one of a facilitator. Consequently, governments should focus on the basic humanitarian needs of the common people by providing them food, education, security and infrastructure to further facilitate their development. However, this will not necessarily give voice to the people which they needed. SAARC political leaders, thus, should give more attention to promoting participatory democracy in their respective countries.

As distinct from the time SAARC agreement was signed in the early 1980s, democracy has taken a firm root in the psyche of the people in South Asia. Misuses of electoral process will no more be accepted by the people and people's interest should get front seat. However, many political leaders in the region are not being able to perceive and comprehend this change. From this perspective, there is a need for the political leaders to wake up to the reality. It was felt that democracy should be participatory and effective, where decentralisation, people's movement and local governments could play a key role in development of the country. If this can be attained, inclusive regional cooperation, where people are at the heart of the process and play an important role in directing the ethos of regional cooperation, can also be attained.

The task of bringing about regional cooperation no longer rests on the politicians and their 'political will' only. Some participants felt that it was not the 'political will' but the long-winded and complicated bureaucratic process, inherited from the region's colonial

past, that was holding back regional integration. Some argued that the ministries had a long-term understanding of the regional issues and had the scope of working towards long-term goals unlike the government which had their own short-term agenda. Consequently, there was need for 'champions' of regional cooperation who could drive the process.

In the above connection, some participants gave examples of the complications involved in obtaining visas for SAARC countries such as India and Bhutan. They argued that appropriate changes were needed in institutional structure and culture in the relevant ministries to correct the situation. Politicians had an important role to play in this regard.

Enormous changes including economic globalisation, information revolution, technological advancement and greater movement towards trade liberalisation have exposed South Asian countries to the wider world. However, political mindset is yet to catch up with the realities on the ground. Conventional ethnic, linguistic or regional identities are no longer applicable to people's thoughts and sentiments, and politicians should take account of these changes. On the other hand, these changes have brought about unprecedented rise in the power of civil society organisations that has been playing a critical role in bringing forward and advancing national and regional interests. Also the private sector is playing an important role in pursuing regional economic integration. In view of all these radical changes, the political leaders will have to be open to new ideas, be willing to work with the new forces and draw upon their strength. Thus, the role of the politicians in advancing the cause of regional integration was one of a facilitator who was ready to listen to the voice of the new energy forces (civil society, private sectors, business and trade bodies), and willing and able to give substance to this voice by putting in place the needed institutions, and ensuring that these work effectively and efficiently.

Addressing the Political Challenges

Politicians, thus, must see regional cooperation as a collective and collaborative endeavour of many partners who bring to the table their own comparative advantages towards a common cause. A major challenge facing the politicians was to reconcile the often conflicting interests of stakeholders. This is where the concerns about unequal gain, trust deficit, conflict of interests and lack of confidence among the neighbours become important. It was important that politicians play the expected role, within their countries, to change the 'mindset' of stakeholders. Participants felt that the attendant apprehensions must be discussed with all stakeholders in an open manner. If the concerns are genuine, it was the duty of the politicians to resolve those at the negotiating table. However, even when these are honestly addressed, mistrust tends to persist. All stakeholders have a responsibility to ensure that there is commonality of interests which are secured and safeguarded on that solutions proposed are 'win-win' ones.

Participants discussed the issue of what role SAARC could play in forging common regional perspectives. It was felt that SAARC should engage itself more proactively, as an institution, to promote common regional perspectives. This would require an understanding of how far the regional agendas interface with national policies and how

interests are to be reconciled. Just as the national policy making should go through consultation process among democratic institutions to ensure its ability to reflect national interest, in a similar way regional policy issues should also go through national policy dialogues and intra-regional dialogues to ensure that its initiatives and policies are accepted nationally and regionally. This buy-in is crucial to success of regional endeavours and efforts. Building trust among stakeholders and member states was crucially important. High level of transparency in information and knowledge sharing at the national and regional levels was also a key to success.

In order to gain national support in the regional agenda, it was thus, important to have an inclusive process of consultation that involved representatives of different stakeholder groups. Of course, the problem that arises in this process is the lack of unity in opinion which makes it difficult to accommodate the multiple interests regarding the decision making. However, it was the responsibilities of the policymakers to explain the trade-offs, and move towards a common policy stance.

Some participants felt that youth exchange programmes among the SAARC countries, and increasing travel and tourism within the SAARC region were important avenues to promote a SAARC identity. It was mentioned that as young people are free from the baggage of history, it will be easier for them to come with an open mind and be drivers and change agents of the new South Asian identity. However, for this to happen, travel in the region must be made easy and affordable. Youth must be seen as the face of new South Asia, the pall bearers of South Asian integration and identity, an identity that faces challenge both from national and global fronts. However, these identities can live in harmony, and are not mutually exclusive.

All the participants taking part in the discussion agreed that there was a growing momentum towards greater regional integration in South Asia. The political will was there, so was the will of major players. However, the existing bureaucratic processes, poor governance, mistrust, mindsets, perceptions, lack of transparency in knowledge and information sharing with and among the South Asian countries and most of all weak participation of major stakeholders in the discourse on regional cooperation, are not allowing South Asia to realise the full potentials of this momentum. The challenge confronting the politicians is to harness the achievements, build on the success, and promote a culture of dialogue and discussion, so that what has been achieved can be taken forward. The achievements could serve as building blocks of future success. Bilateral, plurilateral and regional level initiatives could feed into one another, drawing mutual strengths and synergies. Cooperation in trade, energy and other areas at each of these levels could serve as building blocks. Private sector, civil society, media and youth could play an important role in promoting the cause of cooperation. Delivering the South Asian dream, in a participatory and inclusive manner, was the key to success, and also the key challenge facing South Asia's political leaders.



Fourth
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Towards a South Asian Model of Inclusive and Sustainable Growth

Vaqar Ahmed*

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.

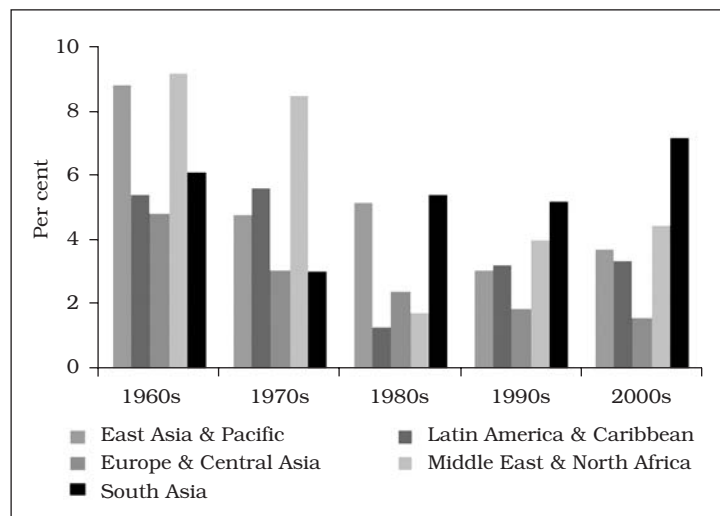
Something on which South Asia can build its promise for tomorrow is the ongoing economic growth spree, which although not inclusive or sustainable, still stands impressive in comparison to other parts of the world. Figure 1 indicates how the growth of real gross domestic product (GDP) while remaining 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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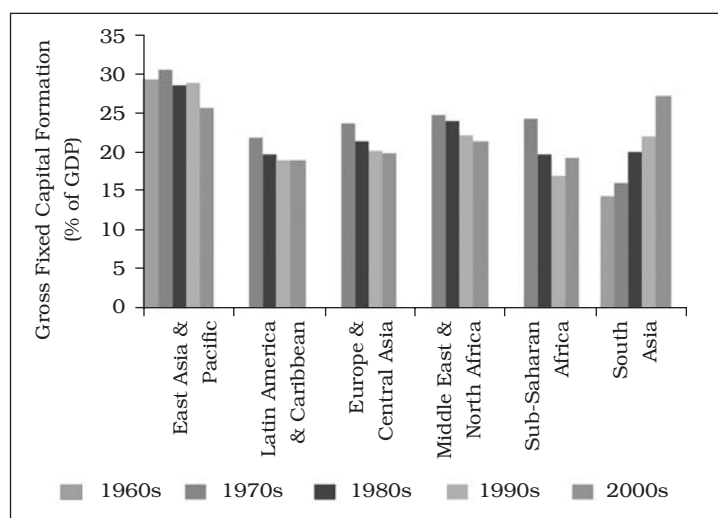
result of external resource inflows, which implied that growth plummeted once these inflows dried up. Second, in several respects these economies have resisted structural reforms for which there are recurrent budgetary challenges, e.g. low tax to GDP ratio or energy shortage, which in turn, constraints 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



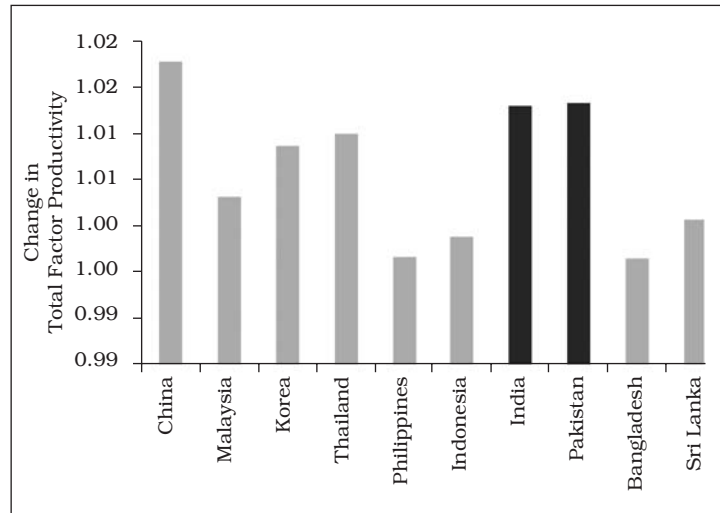
Source: World Development Indicators (WDI).

Figure 2: Investment in Developing Regions



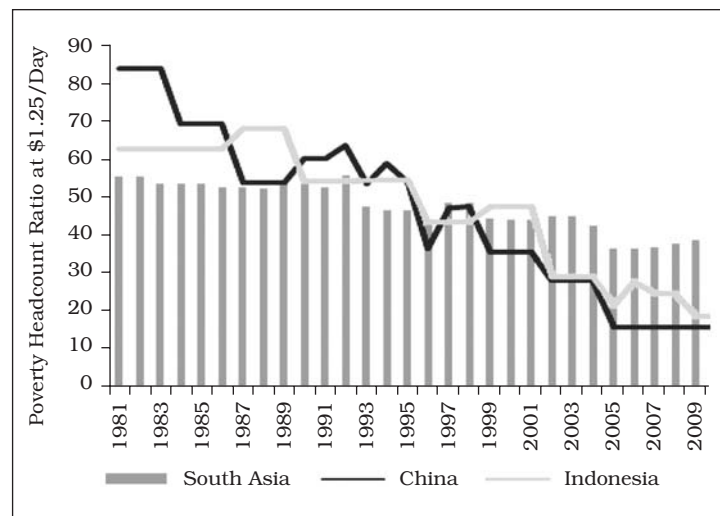
Source: World Development Indicators (WDI).

Figure 3: Productivity in Asia: 1961-2000



Source: World Development Indicators (WDI).

Figure 4: Poverty in Asia: 1981-2009

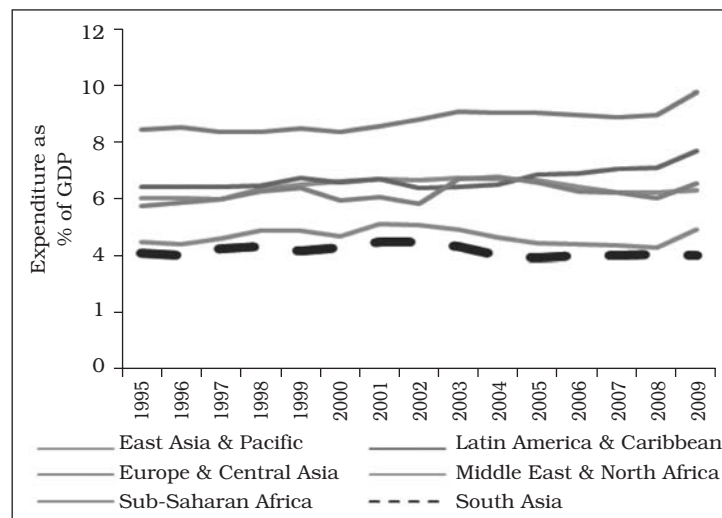


Source: World Development Indicators (WDI).

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

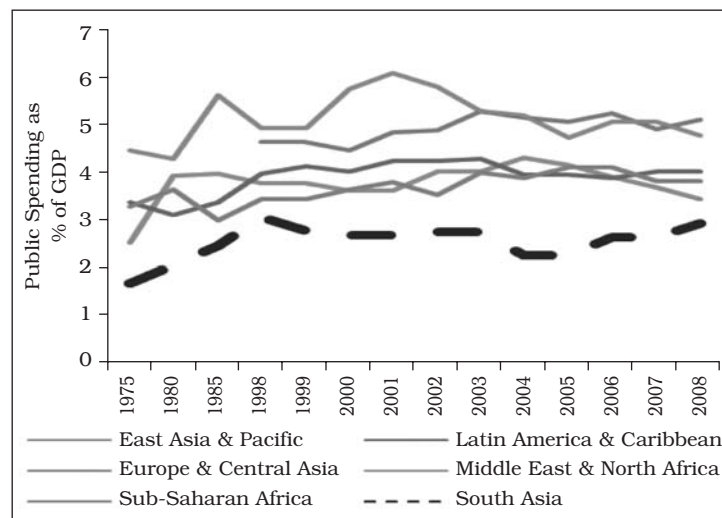
the uneven productivity growth across South Asia. A healthy and educated population helps nations to build upon their comparative advantages and move swiftly towards growth and welfare improvement.

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.

SAARC's Encounter with Poverty Alleviation: Looking Back to Look Beyond

Saman Kelegama*

Ever since its formation in 1985, South Asian Association for Regional Cooperation (SAARC) has made a concerted attempt to address the issue of poverty. The SAARC Charter, drafted in 1985, referred to enhancing the living standards and improving the welfare of the people via regional cooperation. This was at a time when the SAARC agenda was focusing on non-economic issues. Initiation of Integrated Programme of Action (IPA) incorporated this people's welfare-related objective in the Charter by constituting IPAs in agriculture and rural development, human resources development, and social development.

In the early 1990s, Sri Lanka was implementing its second wave of liberalisation with a strong poverty alleviation programme to cushion the adverse impacts of liberal economic reforms on the poor. When the Sixth SAARC Summit took place in Colombo in 1991, the President of Sri Lanka, who personally pursued for the poverty alleviation programme in the country, suggested that poverty alleviation should also be a priority agenda in the SAARC. His suggestion was accepted, and accordingly, the Heads of States of the SAARC countries decided to appoint an Independent South Asian Commission on Poverty Alleviation (ISACPA 1) to study and recommend policies to address this pressing issue of the region in the next SAARC Summit scheduled in 1993. The Commission was chaired by the Former Prime Minister of Nepal, Krishna Prasad Bhattarai.

ISACPA 1

In late 1992, ISACPA 1 came out with a report titled *Meeting the Challenge* with the following key recommendations: (a) achieve an average growth of 9 per cent during 1992-2002; (b) enhance the average savings rate in the region to 27 per cent of gross

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domestic product (GDP); (c) improve the efficiency of capital in the region (bring down incremental capital-output ratio (ICOR) from 4:1 to 3:1); (d) double the per capita income in the region from USD 300 to USD 600; and (e) engage in micro-level intervention by social mobilisation.

The Commission argued that the poor are proactive and agents of social change, and therefore, the poor should be empowered by social mobilisation. The Commission highlighted a number of projects in the region where social mobilisation had been effective in empowering the poor, viz. BRAC in Bangladesh, Agha Khan Rural Support Programme of Pakistan, Small Farmer Development Programme of Nepal, Self Employment Women's Association (SEWA) of India, Grameen Bank of Bangladesh, Monagar District Health Project of Bhutan, etc. The Commission argued that if the suggested strategy is pursued by all member countries of SAARC, poverty could be eradicated in the region by 2002.

At the Seventh SAARC Summit in 1993 in Dhaka, the ISACPA Report was adopted and member states were requested to take appropriate policy measures to implement the recommendations. The World Bank organised a workshop in 1993 on South Asian Poverty Alleviation to examine how the policies recommended by the report could be put into practical operation. United Nations Development Programme (UNDP) and United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP) were also keen to be partners in the poverty alleviation exercise, and decided to finance some social mobilisation projects via a programme called South Asia Poverty Alleviation Programme (SAPAP). Social mobilisation projects with SAPAP funding took place in all SAARC countries, except Bhutan, with the prominent one taking place in backward areas in Andhra Pradesh, India. In the 1995 SAARC Summit in Delhi, a three-tier mechanism to monitor poverty alleviation situation in the region was formed with the Ministry of Finance officials, secretaries and ministers, in the respective member states.

All these steps taken to combat poverty in the region also caught the attention of the SAARC Group of Eminent Persons (GEP) formed in the Ninth SAARC Summit in Malé. The GEP came up with a report in 1998 articulating a vision and Road Map for SAARC that made reference to poverty alleviation in the region along the following lines: "The momentum generated in South Asia for action on poverty eradication following the adoption of [ISACPA 1] ...should be carried forward, and the trends in poverty profiles in the region should be monitored regularly... The SAARC three-tier mechanism on poverty eradication should be effectively utilized... for sharing experience, as well as formulation and implementation of appropriate regional policies, complementing national poverty eradication policies. To demonstrate renewed commitment made at the highest level within SAARC to eliminate poverty, a decision should be taken to present a report to each summit spelling out progress made during the previous year in the alleviation of poverty on the basis of the agreed norms and standards."

ISACPA 1 certainly triggered a debate on poverty alleviation in the SAARC region and did excite some donors, but in terms of achievements on combating poverty, the record was far from satisfactory. None of the ISACPA 1 targets were achieved by 2002, and poverty remained a key issue with South Asia, sheltering 40 per cent of the world's

poor, although the region accounted for 23 per cent of global population, and the number was far higher than Sub-Saharan Africa.

ISACPA 2

At the Eleventh SAARC Summit in 2002 (in Kathmandu), due cognisance was taken of the poverty situation of the region, and there was a reluctant admission that the region is far from achieving significant progress in addressing poverty despite ISACPA 1 based initiatives. The SAARC Leaders noted that global conditions have now changed since the mid-1990s with international institutions such as the World Bank coming up with Poverty Reduction Strategy Papers (PRSPs), International Monetary Fund (IMF) coming up with Poverty Reduction and Growth Facility (PRGF), and the United Nations (UN) coming up with the Millennium Development Goals (MDGs); and thus, there is a need to have a fresh look at poverty in the region. Accordingly, a decision was taken to appoint a new ISACPA (hereafter indicated as ISACPA 2) with new terms of reference and to be again convened by the Former Nepali Prime Minister, Krishna Prasad Bhattarai, but with new members. The Summit also recommended that monitoring of poverty in the region has to be strengthened, and for this purpose, mandated the SAARC Secretariat to prepare a Regional Poverty Profile on an annual basis.

The Twelfth SAARC Summit in 2004 (Islamabad) was a landmark event; a number of poverty alleviation-related decisions were taken, viz. (a) the ISACPA 2 report was adopted; (b) the first SAARC Poverty Profile, published in 2003 by the SAARC Secretariat, was recognised and the Secretariat was encouraged to keep producing it annually; (c) the SAARC Social Charter, which especially refers to poverty alleviation, was ratified; and (d) the existing three-tier mechanism was formalised by the formation of the SAARC Plan of Action on Poverty Alleviation.

The key recommendations of the ISACPA 2 titled *Our Future Our Responsibility*, which was published in 2003, were as follows: mainstreaming the informal economy; reviewing laws and policies which impact on the livelihoods of the poor; enhancing gender equities; prudent macroeconomics; sustainable development; and mobilising the power of the poor. It highlighted the regional best practices under the theme *Garden of Hope*; and required regional initiatives such as developing a poverty database and documenting best practices, promoting rural technology, experience sharing, etc. Halving poverty in the region by 2010 was the main objective of the strategy. Specific emphasis was given on halving the number of people without safe drinking water and sanitation, and the number of people without access to primary education, by 2010.

The Twelfth Summit requested ISACPA 2 to continue as an advocacy body and submit to the next summit a comprehensive blueprint setting out SAARC Development Goals (SDGs) for the next five years in the areas of poverty alleviation, education, health and environment giving due regard, inter alia, to suggestions made in the ISACPA 2 report. For the Thirteenth SAARC Summit in 2005 (Dhaka), a report titled *Engagement with Hope: SDGs 2005-2010* was submitted by ISACPA 2, and it was endorsed. The SAARC Leaders requested the Commission to further elaborate on SDGs and identify indicators, and benchmark them with projected targets for the next five years, and to

develop a credible monitoring and evaluation framework. Besides this step, the Thirteenth SAARC Summit declared the period 2006-2015 as the Decade of Poverty Alleviation. SAARC Development Fund (SDF) was formalised (the successor to the South Asia Development Fund initiated in 1996), and the three-tier mechanism was made a two-tier mechanism to make it a less bureaucratic structure. And this new mechanism was to play a concrete role in monitoring poverty.

For the Fourteenth SAARC Summit in 2007 (Delhi), the ISACPA 2 came up with a Report titled *Taking SDGs Forward: 2007-2012* with 67 indicators for the 22 SDGs formulated under livelihoods, health, education and environment. The Summit accepted the report and suggested that all member country national plans on poverty alleviation should appropriately mirror the regional consensus reached in the form of SDGs and the SAARC Plan of Action on Poverty Alleviation. The two-tier mechanism was requested to monitor member states to ensure that SDGs are achieved by 2012.

The Fifteenth SAARC Summit in 2008 (Colombo), ratified the SDF and requested that regional and sub-regional projects should be promoted to achieve SDGs by 2012. At the Sixteenth SAARC Summit in 2010 (in Thimphu), the SDF Secretariat was stationed in Thimphu, Bhutan. The funds from the 'Social Window' of the SDF, to which India voluntarily contributed USD 100 million, will play a key role in funding some of the regional poverty alleviation initiatives in the coming years.

Looking Back

Over the last two decades, we have seen a plethora of poverty-related declarations, high-powered Commissions, Plans of Action on Poverty Alleviation, setting SDGs, promoting regional projects, preparation of SAARC Poverty Profiles, establishing SDF, and so on, to combat poverty in the region. The intention of SAARC Leaders for poverty alleviation needs nothing but praise; however, most of these intentions have far from been achieved. The implementation has been poor and monitoring weak, and as a result, none of the targets set by the SAARC Leaders on poverty alleviation could be achieved.

When one looks at SAARC Declarations, it can be seen that there is reference to poverty alleviation in all of them. The key issue here is the limitation of regional projects/programmes in reducing poverty in individual member states as was clearly seen in SAPAP projects under ISACPA 1. It was due to this limitation, ISACPA 2 emphasised the need to look at regional best practices by individual member states. Programmes such as the Grameen Pay Phone Scheme in Bangladesh, Mechanisation of Fishing Boats Project in Maldives, etc. can be emulated with due adjustments to initial conditions, country-specific factors, and implemented, if politically feasible, in individual member states. Such attempts by member states can be more effective than regional projects.

For implementation of such projects, some seed capital may be required, especially for SAARC least development countries (LDCs). The Indian contribution to the 'Social Window' of SDF provides the setting for other donors and well-wishers contributing to the same. SAARC Observer countries, multilateral lending agencies, and

philanthropists (such as Mananjith Singh Foundation) can make contributions that can be utilised to initiate such projects.

The regional monitoring of poverty reduction in individual member states is also not effective, as it is not a strong enforcement-related exercise. Moreover, given the politics of the region, a member state will find it intrusive to be monitored by other members in the region. SAARC Poverty Profile is a good exercise as it has been an eye-opener for individual member states to gauge their position vis-à-vis other member states. It is up to member states to initiate action in lagging areas and engage in a self-monitoring exercise, rather than being told by others on what to do!

One of the most effective ways of addressing poverty under a regional framework is to enhance and deepen economic integration. Existing regional frameworks such as SAFTA (South Asian Free Trade Area) and SAFAS (South Asia Framework Agreement on Services) need to be deepened and broadened for further economic integration in the region. Such a process will enhance overall regional economic growth and contribute to some degree of poverty reduction. This fact was duly recognised by the GEP report along the following lines, "GEP... firmly believes that regional cooperation in core economic areas as suggested (in the GEP), if effectively operationalized, will certainly contribute towards accelerating economic growth in the member states, reducing poverty in the region as a 'whole'."

It is high time that SAARC Leaders recognise the limitations of poverty alleviation through regional projects and regional poverty monitoring, and put a freeze on further Commissions and on setting poverty targets. Strengthening the existing mechanism in SAARC for implementing policies agreed upon in the Summits and deepening economic integration under the existing frameworks can be far more effective in combating poverty in the region than any new regional poverty-specific initiatives. South Asia has a long road ahead in poverty alleviation and SAARC can only play a facilitating role in achieving the set targets by individual member states. A host of declarations will not be a substitute for concrete actions at the ground level.

South Asian Economic Integration: Need to Harvest Trade and Investment Complementarity

Ajitava Raychaudhuri*

South Asia is one of the most populous as well as poor regions of the world. The region is also characterised by very little intra-regional economic interaction, although its potential is tremendous. This is well recognised as one can verify from the following quote from a document of the Asian Development Bank (ADB 2009:1): "South Asia's potential to take itself to greater heights is real. However, it still faces a regional poverty situation that is nothing short of severe. The region is home to 40% of the world's poor, with 29.5% of its population living on less than \$1 a day. While almost a quarter of the world's population lives in the region, South Asia accounts for only 3% of global gross domestic product (GDP), 1.9% of world exports, and 1.7% of world foreign direct investment (FDI) ... Present data on South Asia show so much untapped economic opportunity: of the region's total trade volume of \$517.5 billion in 2007, only 4% was intraregional trade."

Most efforts for economic integration in this region are done through bilateral as well as multilateral agreements like South Asian Free Trade Area (SAFTA) or bilateral Free Trade Agreements (FTAs) like India-Sri Lanka FTA or Pakistan-Sri Lanka FTA. As Taneja *et al.* (2011: 1) very succinctly summed up: "South Asian Free Trade Agreement (SAFTA) commenced in 2006, envisaging a duty free area by 2016 for all Member Countries. However, the success achieved under the treaty has been quite limited; intra-SAARC trade has continued to be around 4 percent of the total trade of the region. It has been argued that one of the reasons for SAFTA being ineffective is the large Sensitive (sometimes called negative) Lists maintained by Member Countries... Such items are not offered concessional tariffs." Unfortunately, little effort is taken to try integration through markets which creates true economic interdependence.

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This paper tries to highlight the fact that the great success of regional integration in Southeast and East Asia was not only due to bilateral or multilateral treaties. The countries agreed to reduce tariffs in order to facilitate trade only when the market transactions across the border clearly warranted such an action. South Asian countries need to take a lesson from this and try to reorient its intra-regional cooperation so that more success is attained.

The Success of Association of Southeast Asian Nations (ASEAN) and Its Underlying Rationale

World trade in the first half of 20th century clearly showed either the Heckscher-Ohlin or Ricardian type comparative advantage principle. Thus, countries specialised in production of such goods in which they enjoyed either endowment advantage or technological superiority. However, over time, communications and transportation services became less costly, leading to the worldwide phenomenon of vertical specialisation across borders, which came to be known as fragmentation or outsourcing. This leads to what is known as intra-industry trade. This was made possible due to advancement of statistical measurement wherein each industry, smaller parts and components could be identified, and their trade volumes recorded in balance of payments accounts.

The major driving force behind the proliferation of intra-industry trade in European countries is horizontally differentiated products characterised by quality differences. This has given rise to what is called love for variety models (see, Rivera-Batiz and Oliva (2003) for a good summary). In addition, there can be horizontally differentiated products within an industry which combines Heckscher-Ohlin kind of models with Ricardian technology difference logic, incorporating scale economies in the models. However, the intra-industry trade in East and Southeast Asia developed through the process of fragmentation of production process, and could be termed as vertically differentiated trade. Kimura *et al.* (2007: 25) gives a good idea about this difference between East Asia and Europe thus, "Fragmentation of production processes takes place when (i) production costs can be substantially reduced and (ii) the costs of service links connecting production blocks are not prohibitively high. Reductions in production costs are realized by taking advantage of location differences in production conditions. A new site for a production block must have location advantages such as low wages, inexpensive infrastructure services, the existence of supporting industries and industrial agglomeration, a favorable policy environment, and others. Service-link costs must be low enough not to cancel production cost advantages; costs arise from tariffs and other trade impediments, transport cost, telecommunication cost, and various kinds of coordination costs among production blocks. We call this model the 'East Asia' model."

Table 1 gives an idea of rapid growth of trade from ASEAN countries, both to the world as a whole, and within the region as well. Data for South Asian countries (South Asian Association for Regional Cooperation (SAARC) to be precise) are also given for comparison purposes.

Table 1: Trade Data for ASEAN and SAARC Countries*(in Per cent)*

Reporter	Partner	Indicator	1990	1995	2000	2005	2010
ASEAN	ASEAN	Export Growth	N/A	23.54	25.90	16.57	35.17
ASEAN	ASEAN	Export Share	18.94	24.41	22.98	25.33	24.56
ASEAN	ASEAN	Intra-regional Trade Share	18.84	23.95	24.69	27.18	26.37
ASEAN+3	ASEAN+3	Export Growth	N/A	27.71	28.73	14.80	35.75
ASEAN+3	ASEAN+3	Export Share	26.77	34.84	33.63	35.12	36.07
ASEAN+3	ASEAN+3	Intra-regional Trade Share	29.41	37.52	37.32	38.82	39.56
SAARC	SAARC	Export Growth	N/A	39.39	23.58	32.07	33.50
SAARC	SAARC	Export Share	3.45	4.50	4.55	6.54	5.57
SAARC	SAARC	Intra-regional Trade Share	2.91	3.98	4.28	6.02	4.31

Source: ADB Data Bank, available from www.adb.org

Note: N/A means not available.

ASEAN has 10 members and ASEAN+3 has in addition People's Republic of China, Republic of Korea and Japan.

The Table reveals two important facts. One is that ASEAN+3 countries, which is a regional trading bloc aiming at promoting free trade through drastic reduction in tariffs, have increased their intra-regional trade from 29.4 per cent in 1990 to almost 40 per cent in 2010. In contrast, another regional bloc SAARC has increased its intra-regional trade from 2.9 per cent in 1990 to a mere 4.3 per cent in 2010. The second is rather a similarity between these two groups in terms of exports growth, which was 35.75 per cent in 2010 for ASEAN+3 countries among themselves, while that for SAARC countries was 33.5 per cent among themselves. Thus both regional trading blocs increased their exports quite rapidly. However, ASEAN+3 did it on a much larger base, while SAARC did it on a much smaller base. Thus the final outcome looks quite contrasting as far as intra-region trade is concerned.

Along with this, one notable point is mentioned by Kimura *et al.* (2007: 26), "East Asian intra-regional trade in machinery parts and components increased rapidly ... Intra-regional machinery parts and components trade increased by 1,000%, and its intra-regional share rose from 30% in 1987 to 53% in 2003." This is a crucial aspect of trade in ASEAN+3 region. This clearly supports the fragmentation of vertical production process across borders argument. In fact, Aminian *et al.* (2008) showed Revealed Comparative Advantage (RCA) reveals that ASEAN+3 have transcended to more export-oriented 'Processing' stage compared to import-based 'Assembling' stage. The East and Southeast Asia have shown to the rest of the world the importance of this type of vertical specialisation.

Shatz and Venables (2000) suggest that in developed Europe, FDI is mostly horizontal looking for bigger markets, whereas in developing Asia (mainly the ASEAN bloc) investment is vertical searching for cheaper factors. Shatz and Venables (2000) describe it thus: "Two distinct types of theoretical models describe the two distinct forms of multinational activity. In models of horizontal activity, the decision to go multinational is described as a trade-off between the additional fixed costs involved in setting up a new plant, and the saving in variable costs (transport costs and tariffs) on exports. In models of vertical activity, direct investment is motivated by factor cost differences. Tariffs and transport costs both encourage vertical multinational activity, by magnifying

factor price differences, and discourage it, by making trade between the headquarters and the affiliate more expensive. Both types of models suggest concentration of multinational activity."

The ASEAN bloc countries show this kind of vertical activity by concentrating on parts and components production in an industry, notably electronics, automobiles and textiles, thereby promoting both intra-industry and intra-regional trade. The biggest advantage of the ASEAN+3 countries is that the headquarters of the multinational corporations (MNCs) in many cases are located inside the region, thereby overcoming the trade frictions like high transport and infrastructure costs. The ASEAN+3 exhibits a model of utilising full potential of vertical specialisation across the borders, taking advantage of low factor prices, low transport and trade costs, as well as sometime combining the market size advantage. Thus they could surge ahead of all other regions and establish a model of intra-regional trade leading to rapid growth of countries. The SAARC countries have similar opportunities, but so far have not captured this golden opportunity which has a potential of even surpassing what the ASEAN+3 had done.

One major reason for this difference in achievement is purely economic, although this may also be attributed to non-economic factors as a corollary. This is already mentioned earlier, namely the issue of multinationals being located in the region itself. One way to show this is the figure for intra-region investment in the two regions, ASEAN and SAARC. Tables 2 and 3 establish the point clearly.

Table 2: Intra-Regional Investment Flows in ASEAN Region

(in Per cent)

Criteria	Malaysia (1995-2003)	Thailand (1995-2003)	Singapore (1995-2003)	Vietnam (1995-2003)
Share of ASEAN countries	25.1	20.9	23.6	9.7

Source: Hiratsuka (2006).

Table 3: Intra-Regional Investment Flows in SAARC Region

(in Per cent)

Criteria	India (2006-07)	Bangladesh (2005-06)	Pakistan (2006-08)	Nepal (2006-07)	Sri Lanka (2005)
Share of SAARC countries	0.023	2.820	0.102	46.600	7.000

Source: Aggarwal (2008).

It is clear from Tables 2 and 3 that intra-regional investment is growing and quite prominent in the ASEAN region. In SAARC region, except Nepal, intra-regional investment is minimal. The biggest economy India hardly invites or attracts investment from within the region. As Hiratsuka (2006) rightly points out, such trade takes advantage of market size, low factor costs, modified gravity model (resulting in low transport costs due to shorter distance), and low trade costs. In ASEAN region, MNCs of ASEAN countries took advantage of all of these and invested heavily within their own region. This gave them a competitive advantage. These multinationals are not necessarily the big ones – they consist of even the medium or even small firms. Such a philosophy, even if present in the mind of the investors, is not implemented in practice within the SAARC region. Unfortunately, SAARC gives great advantage in terms of

market size, low wage costs, as well as short distance. The only negative point here is the high trade costs within SAARC, which ranges from poor infrastructure to poor governance leading to low confidence among businessmen for doing business across the borders within the SAARC region.

The intra-regional trade within ASEAN region is driven by trade in parts and components. As Aminian *et al.* (2008) have argued, the ASEAN countries have shown a distinct upward movement of RCA figures for processed export goods compared to RCA in imported assembling components. They argue that unlike Latin American countries, ASEAN region has gained superiority in processing manufactured goods compared to assembling them. This automatically gives a fillip to the industrial diversification and growth in the region. What types of goods have figured prominently in the trade basket of parts and components in the ASEAN region? Hiratsuka (2006) gives examples in terms of market-seeking versus efficiency-seeking investments by local multinationals. For example, according to him, communications industry is more efficiency-seeking in terms of cheap labour and low transport costs, but beverage industry is more market-seeking as is the automobile industry. Whatever be the driving rationale behind such cross-border locations of investment, ASEAN has outperformed others in this type of intra-regional investment, which has led to large amount of trade among them, mainly for cheaper parts and components.

Problems and Hindrances to Promotion of Intra-Regional Investment in the SAARC Region

One major problem that acts as a significant barrier to trade promotion is the political instability and mutual mistrust among the countries in the region. The political instability somewhat plagued most of the SAARC countries except India. Mutual mistrust creates problems between the two major economies in the region, namely India and Pakistan. But these are oft cited reasons and not something new. Rather, a more dangerous hindrance to the promotion of intra-regional investment and trade in the SAARC region is the ingrained attitude among policy planners and researchers in this region that this needs to be done through signing of bilateral treaties among countries. Thus India-Sri Lanka FTA was hailed as the model for the promotion of intra-country trade in the region. However, this certainly enhanced trade in some items between India and Sri Lanka, but it did not change the investment scenario. Not too many companies from either India or from Sri Lanka made cross-border investments. Thus the ASEAN model of linking investment to trade in parts and components did not succeed here.

This is an issue quite rightly highlighted by Aminian *et al.* (2008). As they have shown with examples and data, ASEAN success story came through firms crossing the border taking advantage of liberalisation of foreign investment laws in these countries. This is driven by the logic of gaining both static and dynamic comparative advantage through fragmentation of production processes. The ASEAN nations (including the +3 members) hardly waited for the signing of treaties so that they could start relocating production among each other. The liberalisation process saw the average Most Favoured Nation (MFN) and bound tariff falling drastically across the region. Taking advantage of this, the MNCs in the region, big and small, ventured into each other's territories in a

manner explained earlier. Aminian *et al.* 2008 argued that this did not happen for Latin America, which went for the path of agreement first and then trade. The result shows much less trade within the regions in Latin America than ASEAN+3 countries.

SAARC region is following, by and large, the Latin American model. As shown by Taneja *et al.* (2011) and Jain and Singh (2009), the overall emphasis of the negotiators in this region is to bargain for the number of commodities which could be included in the concessional list. However, both average MFN and bound tariff rates in general have fallen significantly in the SAARC region. Jain and Singh (2009) showed that in 2006, Bangladesh, Pakistan and India had average MFN tariff rate around 14 per cent, and Sri Lanka had it at 11 per cent. So tariffs were low, and any investor or trader could avail that. Thus, investors could have taken advantage of this falling tariff barrier to fragment their production process as was evidenced in the ASEAN+3 region. But this did not happen despite large market, low wages, short distance, common culture (and in some cases language), etc. This is because of the mindset that unless specific bilateral agreement is signed, it is too risky to invest and trade across the borders. The market forces could not prevail over this official policy orientation in the region.

One may give some examples of opportunities which exist but not exploited due to such mindset. South Asian countries have succeeded mostly in the textiles and clothing sector in a global perspective (ADB 2009). In the textiles sector, less than 7 per cent is intra-regional, while for clothing it is less than 1 per cent. India and Pakistan have comparative advantage in the textiles sector, while Bangladesh and Sri Lanka have the same in clothing sector. Apparently the Cut, Make and Trim model for orders placed from abroad is the cornerstone of clothing exports from both Bangladesh and Sri Lanka. They also contain foreign affiliate production. The supply of yarn and fabric to Bangladeshi producers is partly done by India. Only very recently, Indian textile producers showed any interest in investing in Bangladesh garments industry; simultaneously well known Bangladeshi manufacturers like Pran could not open production units to produce yarn and fabric in India. Sri Lankan multinational company Brandix opened a production facility in India to produce fabric. The Bangladeshi producers bought their automatic sewing machines from Italy or Taiwan, whereas India could have been a place where such machines could be manufactured. Such examples are plenty.

ADB (2009) highlights the dependence of clothing sector of Sri Lanka as well as Bangladesh on East Asia for the 'quota hopping' nature of producers there, whereby these producers try to override their quotas in the developed countries markets before 2004. Once this system gained currency, it is difficult for the producers in both the countries to move towards new firms in India. Such a model fragmentation within SAARC may well work for some other manufacturing activities like communication equipments, electronics, gas exploration, agro processing industries, as well as information technology (IT)-enabled services sectors, among others.

A proper trade facilitation effort may even produce finally a strong economic corridor in the lines of Southeast Asia as well. Such an endeavour requires liberalisation of services like transportation, banking and insurance. Thus the intra-regional services

trade may also rise as complementary to goods trade. All these, however, require a change in the mindset so that a longer-term perspective is chosen by the countries in the region. The political tensions contribute to this, but the long-run advantage to such policies needs to be widely disseminated among common people. Information is a major tool through which markets can work better, and governments need to disseminate such information free of cost.

Conclusion

Multilateral or bilateral FTAs should have equal focus on investment, keeping in mind the advantage of vertical specialisation models in terms of distance and scale in South Asia. Such efforts should encourage investment by big as well as small firms in South Asia even if detailed agreements may not be in place. The framework naturally evolves when markets demand such clarity. The countries should not wait for the moment when agreements are signed among them and prolonged bargain takes place regarding expansion of the tariff concessions list. The advantage of liberalisation of trade barriers should be taken by firms in this region so that all the advantages of fragmentation are fully exploited by them. The agreements may naturally follow to make the gains sustainable in the long-run. All measures of trade facilitation, which may require complementary services sector liberalisation, should be given due attention. An economic corridor does not only develop by autonomous local border trade, but also depends on finely crafted designs of the policy planners in concerned countries.

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Acceleration of Intra-Regional Trade in South Asia

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Introduction

This paper is focused on two specific areas: (i) reasons behind lower levels of intra-regional trade in South Asia despite the individual economies being relatively open; and (ii) impact of the rise of bilateralism on South Asian integration. At the outset, the two issues may appear to be isolated, but a closer analysis would reveal that more effective policies to enhance intra-regional trade would also address some of the consequences arising from bilateral deals.

SAFTA and Low Levels of Intra-Regional Trade

As it is known, there has been a proliferation of Preferential Trading Arrangements (PTAs) in recent years. The number of such preferential deals being in force in 2010 was close to 300. Intra-PTA trade has also been rising: its share in global trade was estimated to be 18 per cent in 1990, in contrast to a most recent estimate of about 35 per cent (WTO 2011). There are of course regional variations. For example, intra-PTA trade is 70 per cent for the European Union (EU), 49 per cent for North American Free Trade Agreement (NAFTA), 25 per cent for Association of Southeast Asian Nations (ASEAN), 16 per cent for Caribbean Community (CARICOM), and 10 per cent for Common Market for Eastern and Southern Africa (COMESA). For South Asian Free Trade Area (SAFTA), the share is a mere 5 per cent of the SAARC countries' total global trade, which appears to be the lowest amongst major regional integration schemes. During the past 20 years or so, individual South Asian economies have opened up at a rapid pace. Their overall exports and trade have risen enormously. However, the relative significance of intra-regional trade remains appallingly low.

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One important point to keep in mind is that not all trade taking place among countries belonging to preferential arrangements of some type, is actually preferential in nature. Indeed, only a very small proportion of within-PTA trade can be attributed to preferences exchanges under their regional integration initiatives. An influential study (WTO 2011) estimates it to be only about 16 per cent, i.e. 84 per cent of the trade amongst PTA partner countries tend to take place not because of preferences, but on the basis of the Most Favoured Nation (MFN) principle even when they belong to a particular trading bloc. In other words, the growth of intra-regional trade has been dominated by exports and imports of goods under partner countries' MFN regime.

In view of the above, a question that begs answer is: why more than fourth-fifths of intra-regional trade is taking place outside of preferential concessions provided to member countries belonging to the PTAs? This is because many countries belonging to their respective PTAs are actually 'natural trading partners'. The literature and empirical findings on economic geography and international trade show that distance between countries (as reflected in the transportation costs) has significantly large negative effects on trade. According to one estimate, a 10 per cent rise in transportation costs could reduce trade by 20 per cent (Limao and Venables 2001). There is also quantitative evidence to suggest that distance and thus trading costs have contributed to countries' reduced volume of trade and economic output. For example, Redding and Venables' (2004) empirical exercise reveals that while the effect of pursuing open trade policies is to raise per capita income by around 25 per cent, the comparable consequence of distance is at least twice as much. Conversely, this would imply that, potentially, neighbours were able to engage in trading activities with relatively low transportation and transaction costs, controlling for all other factors determining the flow of goods.

By contrast, as evidence would suggest, South Asian countries have formidable trade barriers amongst themselves. Such restrictions are widespread and cover all spectrums of cross-country flows including goods, services and capital movement. A World Bank study observes (World Bank 2010) that when it comes to regional trade, South Asian countries tend to impose more stringent barriers on intra-regional trade flows compared to their trade flows with the rest of the world partners. True, South Asian countries are at present relatively more open economies as far as their trade-weighted average applied MFN tariff rates are concerned. Over time the share of exports and imports in GDP – a simply statistical measure most popularly used to indicate a country's 'openness' – has also substantially increased for each of the South Asian countries. However, as both these measures fail to capture the state and depth of the problems inflicted by non-tariff barriers, they can be quite misleading. Particularly, when a substantial part of the regional trade is more likely to be channelled through land borders, which are exclusively accessible by neighbouring countries, the traditional measures of openness may be misleading if such trade is subject to more stringent and other forms of barriers. When the existing infrastructures, trade facilitation measures and other non-tariff measures in regional trade are considered, one is likely to find that the record of South Asian countries' 'openness' was not as robust as it would appear on the surface. That is, to their neighbours they have opened up in an insignificant manner only. Low levels of intra-regional trade, thus, owes much to the limited intra-regional openness.

Linking it to empirical findings of the economic geography literature would imply that South Asian countries are not actually neighbours but distant trade partners. The advantages of being neighbours should be translated into quick and easy access to each other's markets (both by sea and land routes), even, if required, under the MFN principle. Poor and inaccessible land routes and/or other trade-related barriers in regional trade restrict the participation of many traders and limit the trading of many products, resulting in fewer gains.

A study undertaken by the Commonwealth Secretariat (Milner 2007) to understand the nature and dynamics of trade flows found that, although there was no Commonwealth-wide preferential trade mechanism, significant trade flows do exist among the countries of the Commonwealth fraternity, and over the years, this trade has seen a notable rise. Based on the estimated cross-country goods flow, the aforesaid study found that intra-South Asian trade was much lower than what could be predicted from cross-country experiences, controlling for all the standard relevant factors economists use to explain variations in countries' exports and imports. Particularly, the study deduces that just by promoting trade facilitation measures, intra-regional trade in South Asia can be increased substantially.

In the light of the foregoing, it would be useful to consider the direction that the SAFTA negotiations are taking. All the South Asian countries (barring India which has recently eliminated such lists for South Asian least developed countries (LDCs)) have long sensitive lists – items belonging to this list are not allowed preferential treatment, and trade in those goods is carried out under MFN principles. Trade officials of the SAARC countries have negotiated over a long period of time, and the process continues, to curtail items on the negative lists and bring down bilateral tariffs. The underlying assumption that informs such negotiations is that trade potential in the region can only be materialised through exchange of tariff preferences for selected products. In this backdrop, the central argument of this paper is that such an approach of regional trade promotion has been deeply flawed. If only about 16 per cent trade in PTAs involves preferential exchanges and more than four-fifths is carried out on MFN basis, one will need to look beyond just the tariff concessions. Actually, it would not appear unrealistic at all to argue that trade (tariff) preferences are almost redundant for promoting regional trade. It is the non-tariff barriers, poor trade facilitation measures, and absence of a supporting environment to allow greater involvement of traders over a range of regional products across the borders that are actually the root causes behind the low levels of intra-SAFTA trade. While commitments to curtail the sensitive lists could provide a strong signal favouring meaningful liberalisation, it will be far from enough in generating regional export response. Also, by focusing too much on tariff negotiations, SAARC countries are not according the needed attention to non-tariff related matters. Policymakers' and trade officials' time should be seen as a finite resource, and currently most of it is being spent on addressing not the really important determinants of within region trade flows. This is an important issue to take cognisance of; regrettably, as it stands, oftentimes the related discussion is either ill-informed or misplaced.

Bilateralism and Intra-SAFTA Trade

In connection with the above discourse, it will also be pertinent to flag the issue of bilateralism and its impact on regional trade. One could categorise the bilateral deals into two groups: one involving partners within South Asia (e.g. the Indo-Sri Lanka Free Trade Agreement (FTA), Sri Lanka-Pakistan FTA, etc.), the other involving members and non-members of SAFTA (e.g. the India-EU FTA). Briefly, the first ones, i.e. bilateral deals between SAFTA members, may not appear to be a cause for concern, since in the absence of any tangible SAFTA-wide progress, certain members may choose to take a faster route towards deeper integration through closer bilateral cooperation. Nonetheless, it needs to be kept in mind that for relatively smaller and weaker economies, bilateral negotiations could prove to be much more challenging (as a matter of fact, this is one of the important reasons for weaker economies' greater support for a WTO-led multilateralism).

The other type of PTAs could trigger some genuine concerns. The specific case of the proposed EU-India FTA could serve as a good example. A Commonwealth study (Winters *et al.* 2009) shows that such an arrangement could potentially have trade reorientation effects for about 97 per cent of Bangladesh's exports to the EU. Bangladesh is a major beneficiary of the EU's Everything But Arms (EBA) preferences, and as such, comparable preferences extended (by the EU) to India will likely to generate some pressure on Bangladesh's export competitiveness. Similar adverse implications are also found for Pakistan, Nepal and Sri Lanka.

The potential trade consequences will take place both in European as well as Indian markets. The market implications in the EU are not subject matter of this paper, and hence, are not dealt with adequately. In passing, however, it needs to be pointed out that average MFN tariffs in the EU are already very low in most sectors (with textiles and clothing being a major exception) leaving the limited room for tariff preference-induced competitive advantage. Furthermore, even under high textile and apparel-related MFN tariff rates, e.g. in the US market, countries like Bangladesh has maintained its competitiveness vis-à-vis India and other global suppliers. Therefore, tariff advantages explain only a part of export success.

Coming back to more likely implications for regional trade within SAFTA, arising from a potential EU-India deal, there is a need for careful assessment. Once again, since the major part of the bilateral trade under PTAs takes place outside the ambit of preferential trading regimes, by tackling non-tariff barriers and by undertaking improved trade facilitation measures, involving management of land borders and transshipment, regional trade can be significantly boosted. If these tasks cannot be adequately addressed, it would only indicate that the actual issues are being neglected. More importantly, in the absence of such initiatives, global suppliers (such as the EU and East Asian suppliers) will enjoy competitive advantages over regional suppliers in South Asia. This is because extra-regional suppliers have to use sea routes and MFN trade barriers, while South Asian suppliers face more stringent cross-border trading environment within the region.

South Asia is one of the world's most dynamic regions, witnessing rapid growth and transformations. The growth has not been limited to India, the region's economic powerhouse; rather, all individual South Asian nation countries are achieving high growth rates. Given this, it is quite natural that trade involving these countries should also expand rapidly. The subdued intra-regional trade is largely due to more fundamental factors, and is not related to lack of bilateral trade preferences. In other words, whilst bilateral deals of South Asian members involving extra-SAARC partners could have some implications, the potentials of expanding regional trade remain mostly unexplored and unexploited.

A relevant interesting case is thus worth noting. An important way of boosting regional trade may be to consider the promotion of cross-border supply chains. It involves the possibility of trading components that are used in the production of final goods (also known as the fragmentation of supply networks). As economists always warn, regional trade, promoted merely through preferential schemes, tend to result in trade diversions, leading to adverse welfare consequences for participating countries since trading blocs discriminate against most efficient import sources from the rest of the world. On the other hand, by putting in place supply chains, trade-creating effects are generated, triggering welfare gains.

In a recent rigorous study, conducted jointly by Commonwealth Secretariat, UNCTAD and CWO/IIFT, an attempt has been made to understand the scope of South Asian countries in developing advantageous supply chains. The study, making use of the actual data on export and production of industrial units located in different countries, has focused on the textiles and clothing sector, maps out production and export structures to find out comparative sources of imports into the production processes while assessing the possibility of regional sourcing in this regard.

The findings of the study challenge the perceived notion that because they compete in world markets, South Asian countries do not have complementarities in regional textiles and clothing trade. The study unearths significant unexploited scopes for intra-regional trade which is likely to enhance the overall competitiveness of the region. For example, in the case of Bangladesh, several product lines (at highly disaggregated trade classification level) are found for which some intermediate inputs are sourced from the region. However, currently only about 18 per cent of such inputs are being imported from South Asia, while the same region is exporting about 20 times Bangladesh's imports (Table 1). Since the region is exporting significantly more to countries outside South Asia, regional sourcing is likely to be highly competitive. Evidently, there exists significant opportunities for higher amount of sourcing from the regional suppliers. The same prospect also applies to other South Asian countries, namely India, Pakistan and Sri Lanka (as also shown in Table 1).

What is perhaps more interesting is that for this trade to take place, South Asian policymakers do not need to design any trade preference mechanisms. The results the joint study (Commonwealth Secretariat 2011) present do not consider the role of trade preferences in the advancement of such intra-regional supply networks. However, absence of information, lack of confidence amongst traders about long-term

Table 1: Scope of Developing Supply Chains in South Asia's Textile and Clothing Sector

Country	Global Imports from Selected Tariff Lines with Supply Chain Potentials ('000 USD)	Imports from South Asia Region in the Same Tariff Lines ('000 USD)	Global Exports of Three other Countries in the Identified Tariff Lines ('000 USD)	Imports from the Region as % of Country's Global Imports	Global Imports of a Country as % of Global Exports of the Region
Bangladesh	493150	146628	2690257	29.7	18.3
India	4834969	221657	1380133	4.5	350.3
Pakistan	1166083	202466	15543371	17.3	7.5
Sri Lanka	327176	94808	3623488	28.9	9.0

sustainability of supply sources across the borders, absence of strong policy vision on regional supply networks, and particular preference of the international buyers about the source of materials have been identified as major obstacles. None of these relates to tariff or trade preferences; most of these relate to non-tariff measures.

Concluding Remarks

There is a need to make a distinction between deep and shallow integration. Integration on the basis of mere reciprocal tariff liberalisation is likely to lead to shallow integration. On the other hand, what is needed is deepened integration that facilitates and promotes intra-regional trade and investment flows. This type of deeper integration is preconditioned by fully-committed arrangements that take care of issues such as non-tariff barriers, trade facilitation, harmonisation and mutual recognition of standards, etc. Acceleration of the process of South Asian integration can only be achieved when South Asian policymakers will give attention to addressing these issues with the seriousness that they deserve. Based on the existing evidence, they need to realise that tariff preferences may not trigger any substantial trade response. Rather, South Asian countries need to focus on their main advantageous factor, i.e. being located in the region as neighbours, which should reduce trading costs, and make possible greater and easier involvement of traders in across-the-border trade.

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Low Intra-Regional Trade, Rise of Bilateral FTAs and the Future of South Asia's Trade

M Shahidul Islam*

Introduction

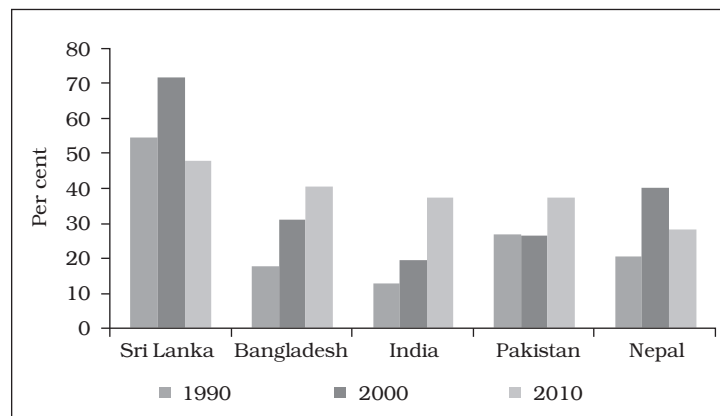
The nexus between free trade and economic growth is discussed comprehensively, among others, by classical (Smith 1776; Ricardo 1817), neoclassical (Heckscher 1919; Ohlin 1933), structural (Lewis 1954), new growth (Romer 1986; Lucas 1988), and new trade (Krugman 1979) schools. Nevertheless, there are many studies that recorded inverse or ambiguous relationship between the two variables. However, following the East Asian miracle which has been premised to large extent on export-led growth model (World Bank 1993), supports for free trade has intensified. China's spectacular economic growth, based on the same philosophy (Xu 2010), has heightened the phenomenon. After economic liberalisation during in the 1980s and 1990s, export promotion has been an important aspect of South Asia's growth dynamics (Paridaa and Pravakar 2007).

Trade-GDP (gross domestic product) ratio, one of the key indicators of trade openness, indicates that most South Asian economies are relatively open to international trade (Figure 1). The region has experienced one of the fastest growth rates in trade in recent years. Table 1 shows that the volume of trade in South Asia increased from about USD 53 billion in 1990 to about USD 646 billion in 2010, with India witnessing fastest trade growth in the region. However, very low intra-regional trade in South Asia, only 3.3 per cent in 2010, does not match with the region's overall progress as far as trade openness is concerned. This is despite the fact that the region has formed a free trade agreement under the framework of South Asian Free Trade Area (SAFTA) in 2006. Nevertheless, this low intra-regional trade share could undermine their actual trade volume if one discounts the region's very high level of informal trade, which, according to some accounts, could be as high as their recorded trade (Taneja *et al.* 2004; World Bank 2006).

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Another crucial development in regard to regional trade is the rise of bilateral Free Trade Agreements (FTAs) and their disproportionate impacts. Given the deadlock in the global trading system as well as a less than expected progress of regional cooperation under the aegis of South Asian Association for Regional Cooperation (SAARC), most South Asian economies have been pursuing FTAs to manoeuvre their trade. In South Asia, there are at least seven dozens of bilateral FTAs either in operation or under negotiation (also see Table 4).

Figure 1: Trade Openness in South Asia



Source: Direction of Trade Statistics (DOTS), International Monetary Fund (IMF).

Note: Trade Openness is calculated by share of total trade as per cent of GDP.

Table 1: Trade Volume and Direction of Major South Asian Economies: 1990-2010

(Billion USD)

Country/Region	South Asia	World	South Asia	World	South Asia	World
	1990		2000		2010	
Bangladesh	0.2	5.3	1.0	14.6	4.3	42.4
India	0.5	41.8	2.0	93.0	9.8	573.7
Nepal	0.1	0.8	0.9	2.3	2.6	4.5
Pakistan	0.3	13.0	0.5	19.6	3.6	65.3
Sri Lanka	0.2	4.5	0.8	12.1	4.2	23.9
South Asia	1.0	52.7	4.8	122.5	21.1	645.9

Source: Direction of Trade Statistics (DOTS), International Monetary Fund (IMF).

Against this backdrop, this paper aims to answer two key questions concerning regional trade in South Asia: (a) why South Asian economies, even being relatively open in terms of trade and existence of the SAFTA since 2006, are not being able to increase intra-regional trade? and (b) has the rise of bilateralism undermined SAFTA and affected regional cooperation, particularly in terms of trade, among the South Asian countries? These two issues are discussed in the subsequent two sections of the paper. The final section concludes the paper.

Reasons behind Low Intra-Regional Trade in South Asia

It is generally argued that economic integration in South Asia could increase welfare of the region. Nevertheless, this enthusiasm is more prevalent among politicians and

business communities than academics. Economic integration process, by and large, begins with trade liberalisation with necessary reforms in domestic markets. However, the picture is quite dismal in South Asia as far as trade, finance and other integrations are concerned, although most countries in the region liberalised their economies to a large extent. The formation of SAARC Preferential Trading Arrangement (SAPTA) in 1995 and SAFTA in 1996 has had limited impact on intra-regional trade in South Asia (Weerakoon 2010). Table 2 shows that larger countries in South Asia that constitute lion's shares of the region's GDP and trade volume have relatively lower share in regional trade than the smaller ones. In fact, smaller economies, viz. Nepal, Bhutan and Sri Lanka (to some extent Bangladesh) have higher trade share with the region's largest economy, India.

Table 2: Trade Share among South Asian Economies

(in Per cent)

Country	South Asia		India	
	1990	2010	1990	2010
Afghanistan	13.14	6.60	13.50	6.50
Bangladesh	4.10	10.10	3.60	9.80
India	1.20	1.70	NA	NA
Nepal	9.20	58.80	11.50	57.40
Pakistan	2.60	5.50	0.70	4.20
Sri Lanka	3.80	17.70	3.10	17.20

Source: Direction of Trade Statistics (DOTS), International Monetary Fund (IMF).

Note: NA: Not applicable.

Economists and trade practitioners have identified a plethora of factors behind the poor state of intra-regional trade among SAARC member countries. Partly due to various tariff and non-tariff barriers, the intra South Asian trade is much lower than their trade with other regions. Despite trade liberalisation, the world's most populous region still has one of the conservative tariff regimes vis-à-vis other regions (Ahmed *et al.* 2010).¹ For instance, average tariff rates in South Asia are higher than in any other regions in the world (Raihan 2012).

Non-tariff barriers, particularly measures other than border tariffs, in the form of anti-dumping measures, import licence, sanitary standards, inter alia, affect trade in goods, services and factors of production adversely. Table 3 shows the share of various non-tariff barrier measures in South Asia.² The practices of non-tariff barrier often

Table 3: Share of Specific Non-Tariff Barriers in SAARC

Measure	Share (%)
SPS, TBT and other measures	86.3
Tariff quota	9.8
Anti-dumping measures	7.4
License requirement	5.3
Countervailing measures	1.2

Source: ADB-UNCTAD (2008).

Note: SPS: Sanitary and phytosanitary; TBT: Technical barrier to trade.

¹Indeed, some argued that the region has the most restrictive agriculture trade policies.

²For country-specific non-tariff barrier measures and an extended analysis of this issue, see Rahman (2010).

create political backlashes in the region. However, the phenomenon is not unique in the case of South Asia.³

Some argued that even under free trade environment, benefits from trade is limited in South Asia, as most economies in the region end up producing similar exportable commodities owing to their comparative advantages (Ahmed *et al.* 2010). In other words, there are limited complementarities in South Asia. Nonetheless, some trade economists argued that while similarities in the exports profiles are viewed as a reason for this low value of trade in the region, it might not be a valid one, given the rising income in South Asia. The intra-industry trade theory suggests that complementarity might actually increase trade in the presence of a rising income. There may be other important factors, such as trade costs⁴ (Banik and Gilbert 2008).

Studies show that liberalisation of international transport services fosters international trade as much as tariff liberalisation does (Baier and Bergstrand 2001). South Asia has one of the poorest infrastructures and restrictive border trade regimes in the world. Higher transaction and transportation costs affect the regional trade adversely (De 2007).

Many experts believe that apart from economic factors, as discussed above, non-economic factors are no less responsible for the poor state of intra-regional trade in South Asia. Regionalism has been hostage to the hostile relations between the region's two dominant economies, viz. India and Pakistan (Burki 2011). History weighs heavily when it comes to the region's trade and other economic relations. In 1948-49, for instance, 70 per cent of Pakistan's trading transactions were with India, while 63 per cent of India's exports went to Pakistan (Burki 2011). India imposed a trade embargo on Pakistan in 1949 when the latter refused to devalue its currency vis-à-vis the US Dollar (USD). This has been a water shed moment for both the countries' trade and overall economic relations. The divergence caused the two-way trade to be declined strikingly defying the propositions of the 'gravity model of trade.' A less than congenial relation between New Delhi and Islamabad has had cost over the trade dynamics of the whole region. By 1967, intra-regional trade came down to just 2 per cent of the region's total trade (Chowdhury 2011). Then the economic policies in the region were formulated based on the import substitution principles that further restricted free trade in South Asia until the 1980s. Since 1990, the region has liberalised its trade regime, but Indo-Pak animosity remains a barrier not only to augment their bilateral trade volume, also to constraint trade, transport, finance, and overall regionalism in South Asia.

Hence, the political aspects of trade barriers in South Asia are no less important. In fact, a number of recent studies show that trade volume in South Asia could increase from current low level to a much higher trajectory if the region's political leaders and policymakers are able to remove the existing trade barriers (Ahmed *et al.* 2010).

³WTO Secretariat reports increase in new anti-dumping investigations, see WTO (2009).

⁴Trade costs include transportation costs (both freight costs and time costs), policy barriers (tariff and non-tariff barriers), information costs, contract enforcement costs, costs associated with the use of different currencies, legal and regulatory costs, and local distribution costs (wholesale and retail) (Anderson and Wincoop 2004).

The next point to ponder is what the trade growth looks like under SAFTA in the near future. Two factors are critical in this regard. First, whether SAFTA would be at all economically attractive. Second, whether the rise of bilateralism would undermine potential trade growth under SAFTA. The second question will be discussed in the subsequent section to some detail.

On the first issue, Baysan *et al.* (2006) argued that SAFTA could divert trade owing to three factors: South Asian economies' relatively small share in relation to the world GDP and trade flows; political economy of the selection of excluded sectors; and rules of origins (RoO). Similarly, Rodriguez-Delgado (2007) predicted a minor effect on region trade.

Using the GTAP (Global Trade Analysis Project) model, Raihan and Razzaque (2007) explored the welfare effect of SAFTA and showed that there could be a substantial net welfare loss for Bangladesh. Raihan (2011) showed that under full implementation of SAFTA, India would be the largest beneficiary, followed by Pakistan, Bangladesh and Nepal.

In a recent paper, using the Global General Equilibrium model, Raihan (2012) showed that gains from trade facilitation in South Asia are much higher than the gains from mere reduction in tariff on goods. The author's broad conclusion is that in order to make SAFTA effective, trade liberalisation is a necessary condition, but not a sufficient one. Using the Gravity model, Weerahewa (2009) showed that there exists room to expand bilateral trade by reducing trade costs and time delays in South Asian countries.

Trade facilitation measures generally include efficiency of customs and other border procedures, quality and cost of transportation, among others. On the question of trade facilitation and trade growth, Arnold (2007) identified, among others, road density, rail lines, tele-density per capita, lengthy customs and port clearance times, poor transport and communications, regulatory constraints and higher transport cost as the reasons to hamper South Asian trade (also see, Wilson *et al.* 2003; and Djankov *et al.* 2006).

Finally, as discussed earlier, the political impasse between India and Pakistan is a major hurdle to invigorate the regional trade. For SAFTA to be the catalysts for this process of integration, the two economies that remained the least integrated in the SAARC region, i.e. India and Pakistan will need to enforce an expanded trade liberalisation programme (Weerakoon and Thennakoon 2008).

Rise of Bilateralism, SAFTA and Future of South Asian Trade

As discussed in the previous section, owing to a plethora of factors, both economic and non-economic, SAFTA has not made significant dent in raising the intra-regional trade in South Asia. As a result, most economies in the region are pursuing bilateralism to augment their trade volume. Table 4 shows the proliferation of FTAs in South Asia (both intra and extra-regional). India and Pakistan's increasing focus on bilateralism, both intra and extra-regional, is the key reason behind the explosive rise of FTAs. While Pakistan has either signed or is negotiating a large number of FTAs, it is rather upon

India to lead the phenomenon, given its sheer size of market, trade and foreign direct investment (FDI). The economic rise of India in the post-1990s has made it a systematically important economy in the global economy. A number of South Asian economies, notably relatively smaller ones (Nepal, Bhutan and Sri Lanka in particular) rely heavily on India to source their imports as well as to export their commodities⁵ (Weerakoon 2010).

Table 4: Status of Free Trade Agreements by Country: 2012

Country	Proposed	Under Negotiation		Concluded		Total
		Framework Agreement Signed/Under Negotiation	Under Negotiation	Signed but Not Yet in Effect	Signed and in Effect	
Afghanistan	1	1	0	1	2	5
Bangladesh	0	2	1	1	2	6
Bhutan	0	1	0	0	2	3
India	7	4	9	0	13	33
Nepal	1	1	0	0	2	4
Pakistan	11	4	3	3	6	27
Sri Lanka	2	1	0	1	4	8

Source: Asia Regional Integration Centre (ARIC), Asian Development Bank (ADB).

New Delhi's approach to regionalism as far as its neighbourhood is concerned has been two-pronged: first, given the deadlock in global trade system as well as less than expected progress of SAARC and SAFTA, the region's largest economy has been perusing bilateralism in the form of FTA to manoeuvre its trade. India-Sri Lanka FTA, signed in 1998, being the prime example in this regard. India has signed a similar FTA with Bhutan.

New Delhi has offered asymmetric concessions to the bilateral FTAs that have been signed with Sri Lanka and other countries in its immediate neighbourhood. For instance, only 13 per cent of Sri Lanka's exports to India were subject to the Indian negative list under the India-Sri Lanka FTA; the corresponding figure is 42 per cent under SAFTA (Weerakoon and Thennakoon 2008). The FTA, however, has conferred significant benefits in terms of closing the bilateral trade gap as well as encouraging a higher inflow of Indian FDI in subsequent years (Weerakoon 2009). Under the respective bilateral FTAs with India, Bhutan and Nepal (and 97 per cent of Sri Lanka's exports) have virtual zero duty market access to India (Weerakoon 2009).

As a result, Bhutan, Sri Lanka and Nepal have experienced higher trade growth vis-à-vis India. Hence, bilateral market access to India, for a number of smaller South Asian economies, has evolved much faster than the trade growth under SAFTA, and some experts, observed that SAFTA has already been overtaken by FTAs and other regional initiatives (Weerakoon 2010).

⁵This dependence is more so for relatively smaller landlocked economies. Bangladesh also depends on India to source some key commodities.

Further, partly owing to SAARC's less than expected progress and largely due to its own necessities, New Delhi has heavily invested beyond the region of late. India has signed a Comprehensive Economic and Strategic Treaty with the United States. New Delhi's economic ties with East Asia (including China) under the aegis of the so called 'Look East Policy' and FTA with the Association of Southeast Asian Nations (ASEAN), a Comprehensive Economic Cooperation Agreement with Singapore, among others, have helped India's trade volume to rise markedly in recent years. India's trade volume vis-à-vis ASEAN+3 stood USD 138 billion in 2010, from a merely USD 6.4 billion in the 1990s and USD 14.6 billion in 2000.⁶

Similarly, South Asia's second largest economy Pakistan has also signed a bilateral FTA with Sri Lanka. The country is also in the process to sign an FTA with Nepal. It has inked a major trade agreement with Afghanistan. Like New Delhi, Islamabad has accelerated trading relations with a number of East Asian and ASEAN member countries in the form of bilateral FTA, notably with China and Malaysia. Bangladesh, the late comer in this business, is also considering the possibility of signing bilateral FTAs with a number of SAARC members, including India. There is also a plan to sign an FTA with Malaysia. While India witnessed the highest trade growth with ASEAN+3, most South Asian countries also experienced an upward growth in this regard in the past decade (Table 5).

Table 5: South Asian Economies Trade Share vis-à-vis ASEAN+3

(in Per cent)

Country	2010	2000
Bangladesh	29.0	23.0
India	24.0	16.0
Pakistan	29.0	19.0
Sri Lanka	27.0	23.0
Nepal	26.0	18.0

Source: Direction of Trade Statistics (DOTS), International Monetary Fund (IMF).

So, another notable development is increasing trade relations of South Asian economies with ASEAN +3 economies. This is largely due to the region's steady economic growth and growing complementarities between the two regions (Deepika 2010). Moreover, global centre of economic activities is now fast shifting from the Atlantic to the Pacific. According to Dany Quah, an academic from London School of Economics, the global centre of economic gravity that was once at a point deep in the middle of the Atlantic Ocean in the 1980s, has shifted east over the past 30 years, and could well shift even further over the next 30 years clustering around the border between China and India (Quah 2011). As a result, South Asian economies could continue experiencing a higher trade growth with East Asia.

Within South Asia, there could be some changes in comparative advantages owing to fundamental shift in the region's exchange rate. India, with its steady openness to international finance, is experiencing a long-term appreciation in its exchange rate. On the other hand, most other countries have seen either large depreciations or low

⁶Direction of Trade Statistics (DOTS), International Monetary Fund (IMF).

appreciations in recent years. This could help some economies (for instance, Bangladesh's readymade garments (RMG) sector) to have access to the growing India market, apart from bilateral FTA mechanisms.

Now the point to ponder is whether the intra-regional and extra-regional FTAs undermine regionalism in South Asia. FTAs are likely to have both trade creation and trade diversion effects, and the net impacts depend on which effect dominates. Nevertheless, given the development of FTA-led trade growth is relatively new in the region, very little quantitative research have been conducted to verify if these pacts divert or create trade, or undermine SAPTA-led regionalism. So, while this section captures the trend in South Asia's trade following the proliferation of bilateral FTAs, it has limitations in explaining the net impacts of the rise of bilateralism (efficiency, welfare, trade creation, diversion, etc.).

The Way Forward

We have discussed two critical issues concerning South Asia's trade. First half of the paper shed light on the potential causes of relatively low intra-regional trade in South Asia. The second part discussed the causes and implications of the rise of bilateral FTA as far as South Asian trade is concerned. While tariff and non-tariff barriers remain the significant obstacles in South Asia, there is much doubt if the region can increase its trade share in the near future owing to lack of complementarity, high trade cost and disproportionate welfare effects on individual countries. While it is necessary to further reduction in tariffs and removal of the non-tariff barriers, recent research shows that there is also a need for broad trade facilitation in South Asia to make a real dent in terms of trade growth.

The political barriers to trade and regionalism in the region, particularly owing to India-Pakistan animosity, are equally important. This has caused the decline of intra-regional trade in the long-run. Moreover, there is little sign of any fundamental or paradigm shift in India-Pakistan relations in the near future. Along with the deadlock in multilateralism and regionalism, the existing FTA-induced bilateralism is likely to dominate over SAFTA-led regionalism, deferring the ASEAN or European Union (EU) type trade facilitation and regionalism in South Asia.

This development highlights two emerging trends in South Asia: firstly, the relatively small economies, notably Sri Lanka, Nepal and Bhutan, trade share vis-à-vis India is rising fast. The recent development in India-Bangladesh relationship could translate into better trade engagement between the two countries. Moreover, India's steady appreciation of real exchange rate could have some sectoral and micro effects in terms of trade growth (such as RMG of Bangladesh) in the region. Secondly, the larger economies, particularly India and Pakistan (Bangladesh to some extent), are experiencing greater trade relationships with East Asia. In fact, smaller economies of the region have also witnessed a favourable trade growth with China and other East and Southeast Asian economies. This is largely due to the region's increasing complementarities with East Asia, and global economy's shifting centre of gravity towards China and India.

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Intra-Regional Trade of Agriculture and Food Products in South Asia: Problems and Prospects

Puspa Sharma*

Background

South Asia is home to about 1.6 billion people. Of these, around 500 million people live on less than USD 1.25 a day. Most South Asian countries' economies are still predominantly dependent on agriculture. According to the World Development Indicators (WDI) the share of agriculture to gross domestic product (GDP) of South Asian countries ranges from about 3 per cent in the case of the Maldives to 36 per cent in the case of Nepal. Similarly, the majority of the population in South Asia is dependent on agriculture, much of that in the rural area (Table 1). In Nepal, 31 per cent of the employed labour force is engaged in the agriculture sector even in the urban area. Hence, agriculture is the major source of livelihood for people in South Asia, which makes the sector highly sensitive.

Table 1: Share of Employment in the Agriculture Sector in South Asia

(in Per cent)

Country (Year)	Rural	Urban	Total
Afghanistan (2007)	68	9	59
Bangladesh (2009)	47	12	39
Bhutan (2007)	85	9	68
India (2010)	65	7	50
Maldives (2004)	24	5	17
Nepal (2008)	80	31	73
Pakistan (2009)	60	6	43
Sri Lanka (2008)	34	2	31

Source: Nayar *et al.* (2012).

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Despite South Asian countries' heavy dependence on agriculture, most of them are net importers of agriculture and food products.¹ In 2010, all countries, except India and Sri Lanka, had an overall negative trade balance in agriculture and food products (Table 2). They import a larger part of such products from countries around the world than from within South Asia. Hence, there exists potential for enhanced intra-regional trade of agriculture and food products in South Asia.

Table 2: Trade Balance of Agriculture and Food Products of South Asian Countries: 2010

(000 USD)

Country	Export to World	Import from World	Trade Balance
Afghanistan	245148	746435	501287
Bangladesh*	882428	3940043	3057615
Bhutan	28400	91593	63193
India	18168300	12242841	5925459
Maldives	71347	225251	153904
Nepal	186475	565951	379476
Pakistan	3592511	4940515	1348004
Sri Lanka	2206407	1843991	362416

Source: Author's calculation based on the Commodity Trade Statistics Database (COMTRADE) accessed through the World Integrated Trade Solution (WITS).

Note: *Data for 2007.

Intra-Regional Trade of Agriculture and Food Products

The share of intra-regional trade of agriculture and food products of South Asian countries is much better than their overall intra-regional trade that still hovers around 5 per cent of their total global trade (Table 3). Still, there are prospects for even more trade in these products under the Agreement on South Asian Free Trade Area (SAFTA).

SAFTA has been put in place to govern the intra-regional trade among members of the South Asian Association for Regional Cooperation (SAARC), and has been in operation since mid-2006. The major instruments of SAFTA are the sensitive lists, rules of origin

Table 3: South Asia's Exports and Imports of Agriculture and Food Products: 2010

(000 USD)

Export					
Country	Export to South Asia	Export to World	Total Export to South Asia	Share as % of Total Exports to South Asia	Share as % of Such Exports to World
Afghanistan	133021	245148	216700	61.38	54.26
Bangladesh*	38365	882428	641601	5.98	4.35
Bhutan	26904	28400	361524	7.44	94.73
India	2251289	18168300	11114203	20.26	12.39
Maldives	14449	71347	17035	84.82	20.25
Nepal	170091	186475	615929	27.62	91.21
Pakistan	720367	3592511	2863377	25.16	20.05
Sri Lanka	205794	2206407	602787	34.14	9.33

(Table 3 contd.)

¹Agriculture and food products in this paper cover all products included in Chapters 1-23 of the Harmonised Commodity Description and Coding System (HS), except alcoholic beverages included in Chapter 22 (HS 220300 and beyond). Tobacco and tobacco products covered in Chapter 24 have also been excluded.

(Table 3 contd.)

Import					
Country	Import from South Asia	Import from World	Total Import from South Asia	Share as % of Total Imports from South Asia	Share as % of Such Imports from World
Afghanistan	170842	746435	712024	23.99	22.89
Bangladesh*	767248	3940043	2552085	30.06	19.47
Bhutan	89189	91593	657926	13.56	97.38
India	549619	12242841	2063704	26.63	4.49
Maldives	77525	225251	194369	39.89	34.42
Nepal	255106	565951	2937885	8.68	45.08
Pakistan	571816	4940515	1826965	31.30	11.57
Sri Lanka	392198	1843991	2857625	13.72	21.27

Source: Author's calculation based on the Commodity Trade Statistics Database (COMTRADE) accessed through the World Integrated Trade Solution (WITS).

Note: *Data for 2007.

(RoO) and the trade liberalisation programme. These instruments in relation to intra-SAARC trade of agriculture and food products are discussed below.

Sensitive Lists

Under SAFTA, member countries have agreed to gradually reduce their tariffs on imports from other members. However, they have maintained their own lists of products that would not be subject to such tariff cuts. These lists are called the sensitive lists, and are so long that they cover most of the products that have the prospects of being actively traded in the region, thereby effectively hindering intra-regional trade. Therefore, reductions of tariffs on products outside the sensitive lists have had little effect in enhancing intra-regional trade in South Asia.

According to Weerakoon and Thennakoon (2006), products included in the sensitive lists by SAARC member countries amounted to nearly 53 per cent of the import trade among them, and some of the countries' sensitive lists accounted for more than 20 per cent of their respective tariff headings. Many of the items included in the sensitive lists are agriculture and food products. The rationale behind the inclusion of many agriculture and food products in the sensitive lists is the need to protect the domestic agriculture sector that has direct bearing on food security and livelihoods of majority of the population in all SAARC countries.

Because many of the agriculture and food products were included in the sensitive lists, they were subject to the Most Favoured Nation (MFN) tariff rates, that is, they were subject to the same rates of tariffs in an importing member country as the latter would impose on the import of the same products from non-member(s). Such MFN tariff rates on agriculture and food products are high in South Asian countries. For example, according to the World Trade Organization's (WTO) Tariff Profile 2011, Bangladesh's simple average bound tariff on agriculture products is 192 per cent, and about 95 per cent of the agriculture tariff lines have bound tariff rates of more than 100 per cent. However, the simple average MFN applied tariff rate is about 18 per cent with a maximum tariff of 25 per cent in some items. Since the bound tariff rates are extremely

high, there are possibilities of the MFN applied rates rising higher, if necessary. Similarly, in India, the simple average bound tariff on agriculture products in 2009 was 113 per cent, although its simple average MFN applied tariff was 31.8 per cent. Also, in 2009, MFN tariff rates on 68.9 per cent of the agriculture tariff lines were in the range of 25-50 per cent.

As per the recommendations of the Working Group on Reductions of Sensitive Lists under SAFTA, with effect from 1 January 2012, all SAARC members, except Bhutan, removed at least 20 per cent of the items from their sensitive lists. In a positive development, India unilaterally reduced almost 97 per cent of the items it had in its list for the least developed country (LDC) members, and so its new sensitive list for LDC members contains only 25 tariff lines that include only alcoholic items, and tobacco and tobacco-products. Similarly, Maldives removed about 78 per cent of the items from its sensitive list.

The result of this pruning exercise in relation to agriculture and food products is presented in Table 4. While in the case of India there are now no agriculture and food items (as defined in this paper) in its sensitive list for LDC members, the Maldives has removed 78 per cent of such products from its earlier list. Similarly, Nepal's revised sensitive lists for both LDC and non-LDC members now contain 72 per cent less agriculture and food items than its earlier lists. Pakistan also removed about 60 per cent of such items from its sensitive list. Hence, there has been a sharper reduction in agriculture and food products from the sensitive lists, particularly in the case of Nepal

Table 4: Agriculture and Food Products in SAFTA Sensitive Lists

Country	Sensitive List for	Initial Sensitive List		Revised Sensitive List		% Change (3 over 1)	% Change (4 over 2)
		No. of Agriculture and Food Items (1)	Total No. of Items (2)	No. of Agriculture and Food Items (3)	Total No. of Items (4)		
Afghanistan		425	1072	377	850	-11.29	-20.71
Bangladesh	LDC	121	1233	100	987	-17.36	-19.95
	Non-LDC	124	1241	100	993	-19.35	-19.98
Bhutan		102	150	No revision			
India	LDC	247	763**	0	25	-100.00	-96.72
	Non-LDC	259	868	NA*	695	-	-19.47
Maldives		178	681	39	152	-78.09	-77.68
Nepal	LDC	331	1257	92	998	-72.21	-20.60
	Non-LDC	331	1295	92	1036	-72.21	-20.00
Pakistan		121	1169	49	936	-59.50	-19.93
Sri Lanka	LDC	445	1042	NA	845	-	-18.91
	Non-LDC	445	1042	NA	906	-	-13.05

Source: Author's compilation based on the initial and revised sensitive lists of SAARC member countries.

Note: *Not available.²

**This was later revised to contain only 480 items, but the list could not be available. Therefore, comparison is made between the initial list and the recently revised list.

²The total number of items in the sensitive lists of India and Sri Lanka were available from the SAARC Secretariat's website, but India's revised sensitive list for non-LDC members and Sri Lanka's revised sensitive lists for both LDC and non-LDC members were not available.

and Pakistan. It is only Afghanistan and Bangladesh which shortened their sensitive lists by eliminating less than 20 per cent of the agriculture and food items from their lists. Bhutan was not required to shorten its sensitive list as its initial list, with a total of 150 items, was already much shorter than those of other countries. About 68 per cent of the total items in Bhutan's sensitive list are agriculture and food products.

This exercise of pruning the sensitive lists has been very encouraging, mainly because most of the member countries have removed a large number of agriculture and food items from their lists. However, the sensitive lists are still long and there is need to prune them further. Realising this, the Seventh Meeting of the SAFTA Committee of Experts, held in Islamabad on 14-15 February 2012, decided to form an ad hoc Working Group on Reduction in the Sensitive List under SAFTA (Phase-III) with the mandate to devise modalities of reduction in the sensitive lists and make its recommendations for consideration in the Eighth Meeting of the SAFTA Committee of Experts. Hopefully, more agriculture and food items will be removed from the sensitive lists in the next phase of revision.

Rules of Origin

Under SAFTA, products not in the sensitive lists are provided preferential market access in the form of tariff concessions in another member country's market. However, to receive preferential market access, products should meet some criteria as has been set out in the agreement. The set criteria are called the rules of origin (RoO), and have been put in place to determine the genuineness of the origin of the product in question. According to the RoO requirements under SAFTA, a product will receive preferential market access in a member country if at least 40 per cent (30 per cent for LDCs) of the value addition of the product takes place in the exporting country. The product can also receive preferential market access if it undergoes a minimum of 50 per cent regional value addition with at least 20 per cent domestic value addition.

Unlike in the case of manufactured products, such RoO requirements are not stringent in the case of agriculture and food products since most of such products are wholly originated in the exporting country. However, since most of the agriculture and food products were placed in the sensitive lists earlier, they could not enjoy preferential market access by fulfilling the RoO criteria.

Trade Liberalisation Programme

The Trade Liberalisation Programme under SAFTA consisted of mechanisms for tariff reduction, and reduction/elimination of non-tariff and para-tariff barriers. While the Agreement has been specific in terms of tariff reduction, it has not been so in terms of non-tariff and para-tariff barriers.

Tariff Reduction

SAARC countries had agreed that tariff reduction under SAFTA would take place in two phases. The first phase of reduction ended in 2008. In the second phase, all member

countries have to reduce their tariffs on products not in the sensitive lists to 0-5 per cent as follows: non-LDC member countries except Sri Lanka by 2013, Sri Lanka by 2014, and LDC member countries by 2016. Therefore, agriculture and food products that have been removed from the sensitive lists recently, and those that will be removed in coming phases, will also be subject to 0-5 per cent tariffs after the end of the implementation period of the Tariff Reduction Programme – Phase II. But unless issues related to non-tariff and para-tariff barriers will be addressed, it might be difficult to stimulate intra-regional trade of agriculture and food products to the desired extent.

Elimination of Non-Tariff Barriers and Para-Tariff Barriers

SAFTA does not have a formal and binding provision to address the issue of non-tariff and para-tariff barriers. Therefore, these barriers continue to hold back the full potential of intra-regional trade in South Asia. Non-tariff barriers in South Asia are imposed in various forms such as sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT), quotas, anti-dumping measures, license requirements, and countervailing measures (ADB and UNCTAD 2008). Of these various forms of non-tariff barriers, the percentage share of SPS, TBT and related measures faced by SAARC countries in the region was the highest at 86.3 per cent in 2008. Das (2009) has compiled a list of some specific non-tariff barriers that are imposed by some South Asian countries. Many items in this list constitute agriculture and food products. Regarding para-tariff barriers, various forms exist in South Asian countries. For example, India imposes education cess, additional duties, etc.; Bangladesh imposes supplementary duty, regulatory duty, etc; and Nepal imposes agriculture reform fee, and so on.

As per provision on SAFTA, member countries are required to notify the SAARC Secretariat about all non-tariff and para-tariff measures on an annual basis, which would then be reviewed by the SAFTA Committee of Experts. This provision has not been implemented in earnest, i.e. countries have not been notifying non-tariff and para-tariff measures on an annual basis; but they have been doing so occasionally. One such instance was in October 2009 when the Fourth SAFTA Sub-group Meeting of Committee of Experts discussed member countries' complaints on the imposition of such measures by other members and the defendants responded to the complaints. The list of such complaints shows that many relate to agriculture and food products.

Since tariffs are being reduced gradually and agriculture and food products are being removed from the sensitive lists in a phase-wise manner, one should be optimistic about the increase in intra-regional trade of agriculture and food products in South Asia. But there are fears that non-tariff and para-tariff barriers would be imposed even more stringently in the future with protectionist intent, and such fears are not ill-founded. In Bangladesh, tariff barriers declined between 1991-92 and 2004-05, but para-tariff barriers actually increased by more than three times during the corresponding period, with the protection of agriculture products rising more rapidly (Adhikari and Kharel 2012). For example, in 1991-92, the simple average weighted tariff was 17.64 per cent and para-tariffs were 2.98 per cent, but they were 16.39 per cent and 10.23 per cent respectively in 2004-05 (Adhikari and Kharel 2012). Even today,

para-tariffs in Bangladesh are so high that in FY2008-09, the revenue that the country collected from the imposition of supplementary duty on imports was one-fourth of the total customs duty collected that year (MoF 2010).

Transit Issues

Difficulty in getting transit facility via one member country reach another member country, and in some cases even to other parts of the same country, is another major impediment to intra-regional trade in South Asia. Transit-related problems are even more serious concerning trade of agriculture and food products due to their perishable nature and the fact that they are everyday necessities. Also, the additional costs incurred due to the need to travel longer distances add to consumers' expenses.

Rahmatullah (2009), (2010) and Thomas (2009) have elaborated the problems and the costs of not having a regional transit arrangement in South Asia. It is not only the landlocked developing country members such as Afghanistan, Bhutan and Nepal that are facing the problems and bearing the costs of poor connectivity in South Asia (Box 1).

Box 1: Costs due to Lack of Intra-Regional Transit Facilities in South Asia

- A 20-foot container takes at least 30-40 days to move between New Delhi and Dhaka through the maritime route (via Mumbai and Singapore or Colombo to Chittagong, and then by rail to Dhaka), at a cost of around USD 2,500. If there were direct rail connectivity between New Delhi and Dhaka, the time would be reduced to 4-5 days, and the cost would drop to around USD 850.
- Due to severe railway capacity constraints, goods traded between the bordering Indian state of Punjab and Pakistani province of Punjab travel more than 3,000 km through the sea route via Mumbai to Karachi rather than a land route of less than 300 km.
- A container from Dhaka to Lahore needs to travel 7,162 km by sea instead of 2,300 km, as overland movement across India is not allowed.
- Agartala, the capital of the Indian state of Tripura in Northeast India, is only 75 km from Chittagong in Bangladesh. But goods from Agartala travel 1,645 km to Kolkata. Similarly, tea from Assam, another state in Northeast India, travels 1,400 km to reach Kolkata Port. If there was transport cooperation, goods would have to travel only around 400 km across Bangladesh to reach Kolkata.

Source: Adapted from Kharel (2009).

Another example of the problem in intra-regional trade of agriculture and food products due to lack of transit passage is the inability of Nepal to export tea and cardamom to Pakistan in desired quantities. According to Nepalese business people involved in international trade of tea and cardamom, there is good demand for Nepali tea and large cardamom in Pakistan. But because it is difficult to access the Pakistani market with India providing transit passage, these products are exported to Pakistan in limited quantities, mainly via Singapore. Hence, a regional transit arrangement is a pre-requisite for enhanced intra-regional trade of agriculture and food products in South Asia.

Conclusion

Trade in agriculture and food products has better prospects in South Asia. The prospects could not be realised so far since the sensitive lists maintained by member countries under SAFTA contained a large number of such products and tariffs maintained on these products were very high. There are also a number of non-tariff and para-tariff barriers hindering intra-regional trade of these products.

After rounds of negotiations, member countries have shortened their sensitive lists by eliminating many agriculture and food items from the lists, and they have agreed to prune the lists further. This could pave way for greater intra-regional trade of agriculture and food products in South Asia since many of these products now will not have to face tariff barriers. However, unless non-tariff and para-tariff barriers facing agriculture and food products are eliminated, there will be room to be skeptical about enhanced intra-regional trade of such products in South Asia.

Regarding non-tariff barriers, some work on harmonisation/identification of product standards has progressed quite well. The South Asian Regional Standards Organization (SARSO) has been established and draft proposals on SAARC Standards on three products – sugar, biscuits and instant noodles – have been formulated. A few other products, not many of them agriculture and food products though, have also been identified for the development of SAARC Standards. While this is a good initiation, much still remains to be done to address issues related to non-tariff and para-tariff barriers. Moreover, there is fear that in the light of tariffs on agriculture and food products being reduced/eliminated, member countries could resort to even increased use of these barriers. Therefore, reduction/elimination of non-tariff and para-tariff barriers should be a priority of all SAARC countries.

Finally, transit-related problems are one of the major hurdles to intra-regional trade in South Asia in general, and more importantly for trade in agriculture and food products. It is not only the landlocked LDCs that stand to gain from a regional transit arrangement in South Asia, but all members stand to gain from it. Hence, SAARC countries should not delay in entering into a regional transit arrangement. That will provide further hopes that the regional integration process in South Asia is gradually gaining pace.

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Issues Limiting Growth of Business within South Asia

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This is not the first time the topic of trade barriers in South Asia is being explored. Many eminent personalities have written over this particular subject over the years. It is a very pertinent topic which has direct relevance for trade in the Indian sub-continent. It is not an exaggeration to state that cooperative and healthy development of trade among the member countries of South Asia has remained a mirage which we want to make a reality.

Through the ages it has been seen that free trade, without hindrances and barriers is the key to prosperity. Nobody can prosper in isolation. So inter-regional relationship affects each and every member country in the process.

The major obstacles to trade in South Asia can be divided into the following headings:

- Political
- Unequal advantages
- Bureaucracy
- Lack of trust amongst the business community
- Protectionism amongst the nation states of South Asia
- Textile industry and global trade
- Global trade competition in the textile industry

Political

The partition of British India in 1947 had created distrust among the countries carved out from Indian sub-continent, and to this day shows little sign of dissipating.

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Pre-partition India was a united economic and geographical entity. Its infrastructure and institutions had a unified structure. The creation of new border resulted into multidimensional changes in the region, engulfing it in disturbance and upheaval.

With the geographical partition, the newly formed sovereign entities soon embarked on independent planning for development in every sphere of life. The independence of planning kept the regional integration out of consideration by the stakeholders and thinkers. This was primarily because of absence of goodwill among countries, and obviously such course of attitude resulted in creating of many redundant facilities and duplication of efforts.

Unequal Advantages

Although each South Asian country has potential of becoming a leading economic power, it is only India who has a unique geographical advantage. India is the only country which has common borders with all other countries in the region. This natural advantage was further augmented due to its intelligent governance and political stability.

As a result, India can comfortably engage in overland trading with each of the countries in this region through its own borders in a number of ways, which is a severe trade obstacle for other regional countries. Thus, despite their potential and willingness, smaller countries of the region like Bangladesh cannot trade freely with the likes of Bhutan, Nepal, Pakistan and Afghanistan.

India has the advantage of being abundant in raw materials such as coal, bauxite, iron ore, oil and gas required for a modern industrial economy to flourish. It has a vast domestic market which alone can sustain many sectors. India's agricultural base is also larger and more developed than its neighbours. Aside from foodgrain, India is also one of the largest producers of cotton. The Indian economy is, by virtue of its size alone, larger than the economy of all the other South Asian countries put together.

Bureaucracy

Bureaucracy is the driver or the mainframe of the entire governance system throughout the sub-continent. The partition of British India proved to be a boon for the bureaucracy. It remains a vital institution in every South Asian country that guards its power and status. This legacy has been handed down from generation to generation over the decades. One may even say that the bureaucracy enjoys absolute power in these countries, and that it is not even accountable to any other institution or agency.

The bureaucrats of the individual countries have so far interested in protecting their turf and acting as custodians of the perceived interests of their individual countries. Instead of thinking of the region as a whole, they make decisions and policies for their own constituency, which subsequently leads to wrong investments that are detrimental for all parties involved. For example, considering the trade volume between India and Bangladesh the road leading to the Haridaspur-Benapole border, through which most of

the goods are coming in and going out of Bangladesh, is a narrow one. There is no urgency among the planners and bureaucrats in India to widen this road.

In many cases, the bureaucracy does not hesitate to block the political will of the elected representatives by imposing several obstacles whilst citing many pretexts. They have been observed to be hyper sensitive to new vistas, ideas and progressiveness, and dislike competition.

They are too inclined towards living in a centrifugal environment and isolating themselves; behaviour exhibited by the imposition of bans, countervailing duty, tariff and non-tariff barriers. This gives them the ammunition to shoot down the notion of any collective regional growth.

Trust amongst the Business Community in South Asia

The current business generation grew up in the post-partition era with the bitter taste of the pre-partition residue still fresh in mind. Thus a mindset was instantly in place not to see eye-to-eye with each other, which drove South Asian countries to a path of growth in isolation within their respective frontiers. Their prime objective was to achieve self-sufficiency in every aspect of the economy. This inevitably enabled them to cultivate captive market mentality.

Most of the countries have inherited and nurtured hostile relationships. They could never learn to go hand-in-hand with each other, thus resulting in the abject lack of goodwill and trust within the business community. Hostile relationships are the main reasons which force them to look for raw materials and markets outside the region. When we buy garlic from China instead of within the region, the region as a whole loses.

The doctrine of growing in isolation dug its way into the psyche of individual countries. As the regional countries grew over the years, their need for export market grew accordingly. Unfortunately, because these countries were growing in isolation, they all have a very similar export basket. Instead of complementing each other, they are competing with each other. The pressing need of the hour is to shun this overly egoistic approach to international trade, and to face the emerging challenges with some sort of cooperative move that will work in the favour of all countries in the sub-continent.

Protective Tendency

The mindset in the region is so deeply committed to protective tendency that the slightest hint of deviation from it is forced off the track. Although the very idea of protectionism is now abhorrent in the current concept of globalisation, the South Asian region is willfully paying no heed to it, adamantly nurturing protectionism and losing sight of its adverse effect in the long-run.

Protectionism always has a high cost tagged to it. To sustain its impact on the country, some regimes in the region go all out to create their own regulations, and as a result

defy all acceptable norms even if a high price is to be paid for it. Some elements are so highly inclined with the idea of protectionism that they would turn a blind eye to comparative trade advantages at any cost. Protective tendency does not appear to protect in real terms, but are still indulged in the South Asian countries.

It would not be out of place to compare South Asia with East Asia here. In South Asia, India is the dominant force, and in East Asia, it is China. Despite the differences that China has with its other neighbours, China through very pragmatic and visionary thinking has been able to create an environment where trade and business flourish. In the South Asia region on the other hand, the differences individual countries have with each other have created a bitter environment which is hampering the trade and business and the potentials in terms of economic benefit.

Whatever way the state of affairs is explained, the fact remains that the East Asia region is growing with leaps and bounds. South Asia is growing too, but its growth rate is nowhere near to that of China and its neighbours. Even India, which is the largest country in the sub-continent and has the greatest potential amongst all South Asian countries, has a growth rate much lower than China and the other East Asian countries.

Global Trade Competition in the Textile Industry

All the countries in the South Asian region have tremendous interest in textile market, as it is the region's most lucrative product. The lion's share of Pakistan, Sri Lanka and Bangladesh's foreign exchange earnings hinges on the export of textile products. Textile is one of the few products in which the region covers the entire supply and value chain starting from fibre to garments. There is a serious disparity when it comes to the point of procurement of raw materials for textile products by the smaller and disadvantaged countries in the region. When it comes to procurement of raw cotton and synthetic fibres from this region, Bangladesh and a few others are at a disadvantage that threatens their exports.

In this sub-continent, there exists a sequence in which the advantage of some spells disadvantage for other countries. For example, India and Pakistan have been endowed with indigenously produced raw cotton and synthetic fibres, but in their quest for no 'unwanted' competition they are grudgingly continuing to protect their local industry with the net of high tariff and non-tariff barriers. In the pursuit of this pernicious goal, regulations that are tailor-made to protect local producers hinder their exports of these crucial raw materials.

The resulting fallout has come down heavily on Bangladesh and Sri Lanka as such barriers make it absolutely difficult for these two countries to depend on India and Pakistan to get the supply of these raw materials. Many see this as unscrupulous manipulation aimed at obliterating competition from the smaller countries in the region.

The concept of regional cooperation for development becomes a dream because of such barriers. In an atmosphere of regional cooperation for development, the bigger power

should not trap smaller countries in a tight corner. The much publicised *South Asian Charter of Declaration* calls for all countries to work together for the growth and betterment of the billion plus population in the region.

It is painfully disheartening to note that in the face of competition from the smaller countries, superpowers resort to vicious measures in the form of bans, quotas, countervailing duties, tariff and non-tariff barriers that dwarf regional growth. India, being the largest in terms of size, rich in local production of raw materials, industrial bases both domestic and international, tends not to accommodate fair competition from smaller neighbours like Bangladesh and Sri Lanka. In the same light, Pakistan also torments neighbouring competitors devoid of their raw material resources.

Conclusion

The above mentioned points depict an undesirably pessimistic scenario surrounding the prospects and obstacles in store for the textile trade in and out of our South Asian region. These issues, if not righted, are bound to lead to disastrous consequences for all, particularly the smaller countries. If we turn our attention to the emerging reality in regard to the projected decline of Chinese textile trade in the not so distant future, it is pertinent for all countries of South Asia to engage in some cooperative and concerted work to carve out a better share for themselves in the world market.

Textile and clothing is the only area where the region has a significant global presence. The emerging situation is definitely pointing to a substantial improvement in export volume in this sector from this region. In order to take advantage of this opportunity the mindset of policymakers of the countries needs to change. The toiling millions whose blood and sweat help run the textile wheel in the region deserve nothing less.

In this context, it must be pointed out that the South Asia region at present meets 17 per cent requirement of the textile demand of Europe and the United States. China alone supplies 42.74 per cent of the demand of that particular region. When the textile industry of China loses its market share, the South Asian textile industry can take over the reins. It is estimated to be a market of almost USD 66 billion.

Hoping against hope, one can only wait with his fingers crossed for a change of heart amongst the policymakers of the region. The sooner it happens, the better it will be for South Asia. If European countries have been at war with one another for centuries and could leave their bitterness behind to come together for the common good, there is no reason for South Asia not to be able to do the same.

It is pertinent to hope to compete with each other on the business field whilst following the practices of fair trade and transparency instead of wasting the energy in polemics and protectionism. That is what is needed at this juncture in time.

Accelerating Trade in South Asia: A Case Study of Pakistan

Hamid Mahmood*

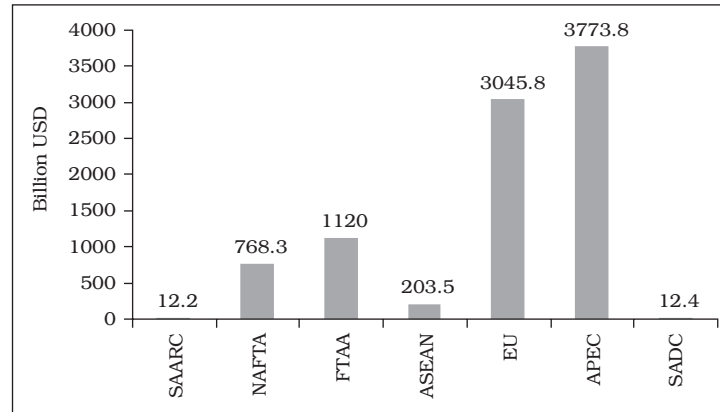
South Asia's Position in terms of Trade

The South Asia region occupies a central position in terms of robust growth and increasing youth bulge in the region. This provides for an opportunity to explore avenues of cooperation between the regional countries to transform and accentuate the economic growth, realising the vast potential and resources. The region has been labeled as fast growing for the last decade, especially due to its vibrant growth in the trade and services sectors. This has helped in revitalising the growth pattern globally, and more specifically the region itself. The recent trend also indicates that the region has absorbed the crisis better compared to other regions in the comity of the world.

The intra-regional trade share for the South Asia region currently stands at 4.5 per cent of the global trade, which is notably little for the regional potential. Growth and natural resources suggest for a rapid transformation. The SAARC Preferential Trading Arrangement (SAPTA) was concluded in 1995, which was refined to a new role in the form of South Asian Free Trade Area (SAFTA) to liberalise trade pattern, but still no rapid stride has been witnessed. The global intra-regional trade comparison suggests that trade among the South Asian Association for Regional Cooperation (SAARC) members has grown only by USD 12.2 billion in 2010, whereas the Asia-Pacific Economic Cooperation (APEC) has grown by USD 3,773.8 billion, European Union (EU) by USD 3,045.8 billion, and Free Trade Area of the Americas (FTAA) by USD 1,120 billion (Figure 1). Good performance of other regional pacts is illustrative of good policy initiative, and liberalised policies towards trade, which have widened the scope and potential for those regions.

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Figure 1: Global Intra-Regional Trade: 2010



Note: SAARC: South Asian Association for Regional Cooperation; NAFTA: North American Free Trade Agreement; FTAA: Free Trade Area of the Americas; ASEAN: Association of Southeast Asian Nations; EU: European Union; APEC: Asia-Pacific Economic Cooperation; SADC: Southern African Development Community.

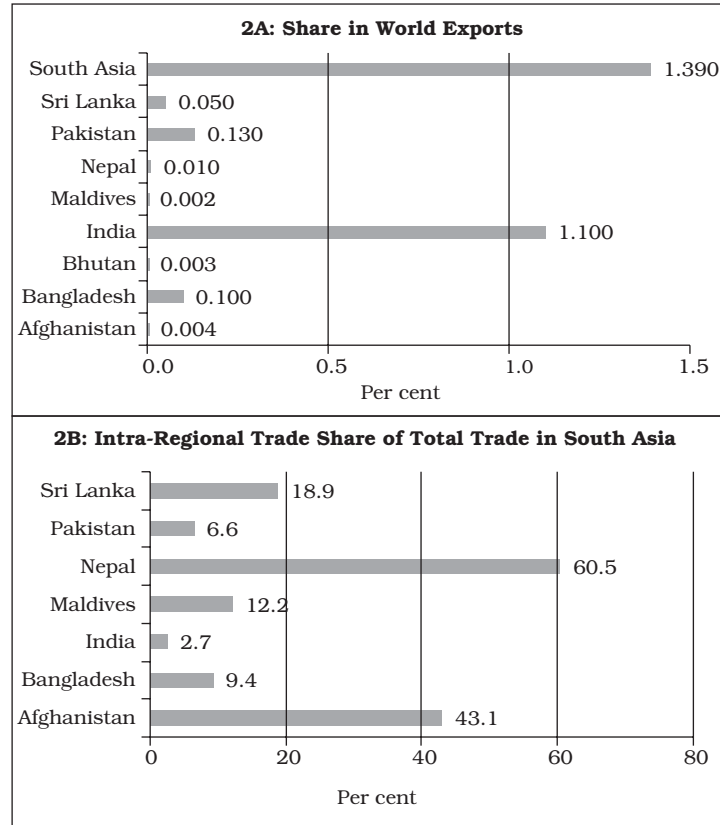
The South Asian position in terms of global integration is low. This is measured by international trade as a ratio to gross domestic product (GDP), which was 49 per cent in 2010 compared to 20 per cent of the late 1990s; however, the regional share in terms of global GDP is only 2 per cent, which is 40 per cent for East Asia (Mamoon *et al.* 2010).

The mantra of regionalism has brought laurels for many global agreements and has accelerated trade in goods and services. This is largely attributed to the position in terms of international share of trade and intra-regional trade across borders. The share of South Asian export to world export is only 1.4 per cent (Figure 2A), which reflects the poor state of affairs in the vital area of trade openness.

This is bifurcated in the case of India share at 1.1 per cent, Pakistan at 0.13 per cent and Bangladesh at 0.1 per cent. The share of other countries has been at the lower side. Similarly, the intra-regional trade within South Asia has also been at the lower side, with highest intra-regional share belonging to Nepal (60.5 per cent), followed by Afghanistan (43.1 per cent) and Sri Lanka (18.9 per cent) (Figure 2B).

All South Asian countries exhibit strong comparative advantage in the industry group of textile, fibres, yarn, fabrics and clothing. In the overall manufactured goods sector, Bangladesh and Pakistan have comparative advantage, followed by Nepal and Sri Lanka. India has a comparative advantage by having the highest number of sectors; Pakistan, Sri Lanka and Bangladesh also have sectors which have comparative advantage after India. It is important to observe that South Asian economies are not taking advantage of all that is offered at both ends of the market. Although it has created a ripper of competition in the international market, it could easily be absorbed and diversified with inputs of technological innovation within the vicinity of the region (Table 1).

Figure 2: South Asian Position in terms of Trade in 2010



Source: World Development Indicators (WDI).

Table 1: Comparative Advantage of Tradable Commodities for South Asian Countries

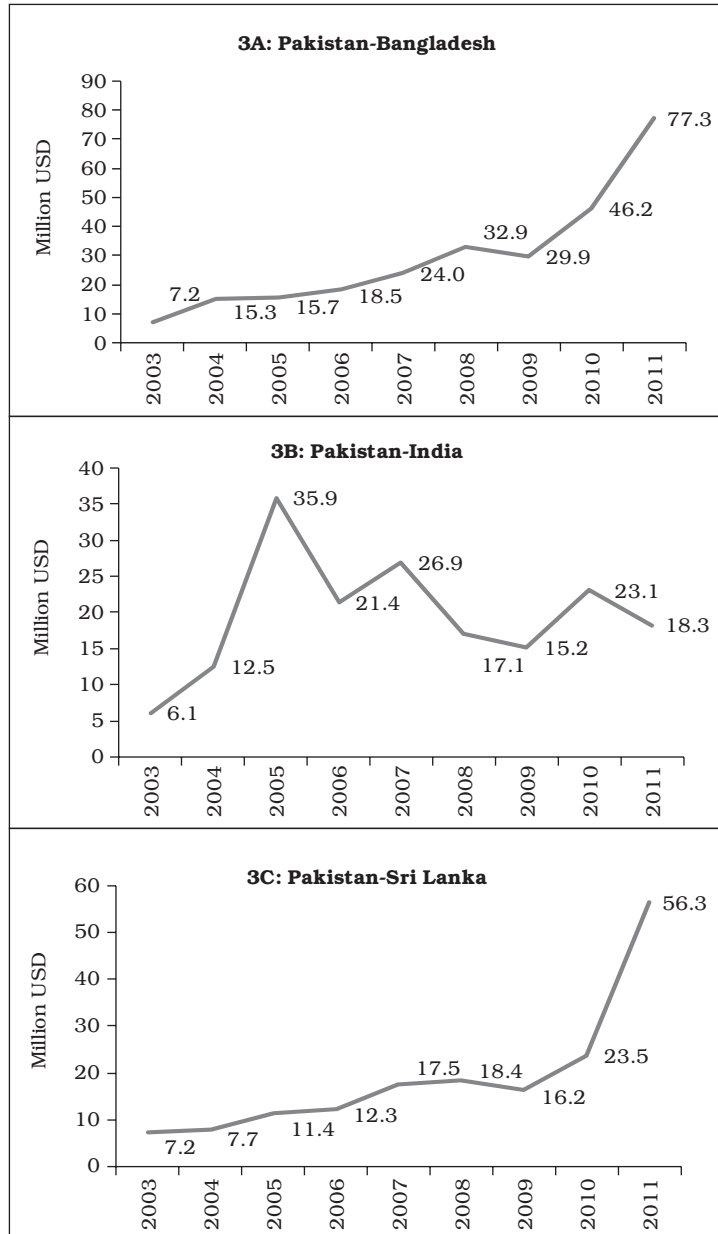
Pakistan	India	Sri Lanka	Maldives	Nepal	Bangladesh
Textiles	Gems and jewelry	Textiles	Textiles	Metal	Animals
Vegetables	Textiles	Vegetables	Food stuffs	Chemicals	Leather
Leather	Chemicals	Plastics			Textiles

Source: UN (2009).

Pakistan's Trade with South Asia

Pakistan's export share shows Bangladesh to occupy the largest share. The trade increased from USD 15.3 million in 2003 to USD 77.3 million in 2011. However, trade with India saw a dip, and increased depending on political relations. It is seen trade with India increased from USD 6.1 million in 2003 to USD 35.9 million in 2005, then dropped to USD 15.2 million again in 2008, which slightly increased to USD 23.1 million in 2010. The fluctuating trade reflects the anomalies prevalent between the neighbours in many areas of trade interest. The free trade agreement with Sri Lanka, however, has seen an increase from USD 7.2 million in 2003 to USD 23.5 million in 2010, which further increased to USD 56.3 million in 2011 (Figure 3).

Figure 3: Pakistan's Trade with South Asian Countries



Source: State Bank of Pakistan.

With regard to the services sector, Pakistan has witnessed an increasing share in terms of GDP for the last two decades. This is evident from domestic liberalisation of the market and inviting new investments in the information technology (IT) sector, financial services and telecommunication. Though Pakistan has opened its trade and services sector, the visibility in terms of growth is relatively slow in the goods and services sector.

Constraints Observed in Pakistan's Trade with South Asia

There are many weak areas observed which are hindering Pakistan's trade within the region. Some of them, which are pertinent in nature, are highlighted below:

- The tariff and non-tariff barriers when compared with other regional platforms are still high. Comparison with other regions indicates that they have gone to the extent of allowing free investment and zero tariff and non-tariff rates. Besides this, smuggling, trade facilitation, customs procedure, sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT), visa restrictions, negative product list, and items under sensitive list have also played a critical role in hampering the free flow of trade in the region (Mamoon *et al.* 2010).
- The region is still subject to increased economic costs related to transshipment procedures at borders and little effort is diverted towards reaching agreement on a regional transport and transit arrangement (Sohail 2009).
- Trading procedures and institutional formalities at the border.
- Lack of innovation adaptability and swift facilitation of information. This includes the database and payment procedures afterwards which have stipulated the attraction of investors. For instance, in the North American Free Trade Agreement (NAFTA), exemptions policies grant access to each other's goods for making profits and realising the product diversification and comparative advantage being offered through these measures (Jain and Singh 2009).
- There is no arbitration council to resolve disputes at the border, which restricts trade to a large extent (SDPI 2011).
- The non-cooperation attitude and the Most Favoured Nation (MFN) status between the two big neighbours (Pakistan and India), accounting for 90 per cent of South Asian GDP, have been considered important factors in determining the sluggish performance of trade.
- In the services sector the application of Mode 4 under the World Trade Organization (WTO) has not been fully implemented in the region.

State of Current Negotiations

Pakistan has taken some liberalising steps in its economy in order to increase its trade share in the region (e.g. reducing the average tariff rate from 30 per cent in 2001 to 14.6 per cent in 2009). This has directly impacted the doubling of trade between Pakistan and Sri Lanka, and Pakistan and Bangladesh. Some of the latest bilateral negotiations are summarised below:

Pakistan-Sri Lanka Trade Agreement

The Pakistan-Sri Lanka Free Trade Agreement was signed in Colombo on 1 August 2002, and its rules and official procedures came into force on 12 June 2005. The terms of agreement include the following specifications:

- Zero tariff on items included in the 100 per cent immediate concession list: Pakistan placing 206 tariff lines at 6 digit HS code with Sri Lanka 102;
- Numbers of tariff lines with respect to Pakistan and Sri Lanka are 540 and 697 respectively;
- Phase-out list comprising products of comparative advantage and not included in the immediate concession or no concession list.

The future roadmap to bilateral trade between the two sides hinges on expansion in trade in services, investment and customs cooperation. The first review meeting in this regard was held in Islamabad on 16 March 2007. The following decisions were taken there in this regard:

- Pakistan is to reduce tariff on betel leaves from 35 per cent to 20 per cent and remove quantitative restrictions on 1,200 tonnes;
- Pakistan is to provide tariff concession on herbal cosmetics manufactured and marketed by national brand of Sri Lanka on MOP of 50 per cent with customs duty of 25 per cent;
- Sri Lanka is to resolve the issue of auto sector from Pakistan's side on a permanent basis and placing 88 tariff lines in its no concession list on demand of local industry.

The President of Sri Lanka visited Pakistan on 10-12 February 2012 with reciprocation of Pakistan President visit to Sri Lanka on 27-30 November 2011. The views expressed include: barter trade, opening of National Bank branch in Sri Lanka, exchange of land in the export promotion zone, utilisation, export credit, currency swap, encouraging businessmen participation, and facilitation of market research.

Pakistan-Bangladesh Trade Arrangement

Pakistan and Bangladesh agreed on the establishment of a joint business council in 2002 for working out the parameters of business exchange and institutional arrangements. The Prime Minister of Bangladesh visited Pakistan in 2006, and it was decided that bilateral Free Trade Agreement (FTA) between both countries will be upgraded, and new avenues will be worked out for expanding trade. Some of the decisions taken by both the countries at regular meetings between 2005 and 2006 are the following:

- Early completion of study on bilateral trade arrangements and resumption of negotiations;
- Establishment of regular shipping service and reduction of air freight charges;
- Rejuvenation of joint business council;

- Promotion of institutional lines between export promotion agencies;
- Opening of bonded warehouse to be allowed by Bangladesh.

It is important to highlight some crucial impediments to the slow trade liberalisation between the two countries:

- Increased smuggling of Indian goods in Bangladesh;
- Transportation issues and high freight charges;
- Low purchasing power in Bangladesh, and competition with cheap Indian goods for the Pakistani goods in Bangladesh market;
- Hectic procedures and requirement of performance certificate submission;
- Consideration of Bangladesh as non-lucrative market by many business houses in Pakistan;
- Requirement of radiation-free certificate for imported food items by Bangladesh;
- Delaying of Pakistani consignments due to absence of direct and regular shipping services;
- Shipment delays due to the office of authorised agents in Dubai;
- Free sale certificate for registration of drugs by Bangladesh, which acts as another barrier;
- Non-payment or late payment by Bangladeshi banks, where in most cases the import document has been released but goods not accepted.

These are the typical non-tariff barriers which have not only impacted the slow growth between Pakistan and Bangladesh, but also affected the overall trade in the context of South Asia. This can primarily be the most important reason why SAFTA has not flourished comparing with the other regional global trade platforms.

Pakistan-India Trade Arrangement

The two countries have moved forward in liberalisation of trade and realising the issues affecting the free flow of trade between the two countries. Over the years, six rounds of talks were held:

- 1st round: 8 August 2004, Islamabad
- 2nd round: 9-10 August 2005, New Delhi
- 3rd round: 28-29 March 2006, Islamabad
- 4th round: 31 July-1 August 2007, New Delhi
- 5th round: 27-28 April 2011, Islamabad
- 6th round: 14-16 November 2011, New Delhi

In pursuit of these deliberations, confidence building measures were imminent by both sides to resume bilateral trade, which according to many studies, have a lot of potential for increasing growth, rationalising prices and accentuating growth in the long-run

through mutual benefits via trade liberalisation. The following decisions have been taken to improve trade ties:

- Moving towards full normalisation of trade vis-à-vis Pakistan's transition from the positive list approach to the negative list in the first stage with all items on the negative list to be freely importable, and reduction of sensitive list as well with the provision of timing of notification of list on both sides.
- Taking into confidence the stakeholders and industries regarding the liberalisation of trade with India and the likely steps to be taken in future via consultation and meetings.
- Setting up of customs cooperation agreement, mutual recognition agreement, redress of grievance agreement and preferential tariff under SAFTA arrangement. The agreement will help control border distortions, swift flow of trade, reduction in transaction cost affiliated with hefty procedures, and laying down a roadmap for building confidence for other investors to expand and take interest in the business to business arrangement on both sides.

In the wake of increased liberalisation and its likely effect (as seen by the local industries negatively), protection to local industry will be provided using the following WTO clauses and through local set up in Pakistan, assuming that the industry is affected very badly:

- National Tariff Commission Act, 1990
- Anti Dumping Duties Ordinance, 2000
- Countervailing Duties Ordinance, 2001
- Safeguard Measures Ordinance, 2002

The visit of Mr Anand Sharma, Indian Minister for Commerce, Industry and Textiles, from 13-16 February 2012, is a step in the right direction for improving trade ties. Following this, decisions and consultations were taken place between the two sides:

- New avenues of trade need to be explored (Munabao-Khokharapar) for expansion and better connectivity between the two countries;
- Regular inspection of border management for making the trade effective;
- Appreciation and vote of thanks for Indian support of EU package to Pakistan;
- Inspection of infrastructure development for trade facilitation;
- Work out mechanism in dealing with non-tariff barriers on Indian side;
- Arrangement of meetings between Pakistani businessmen and Indian regulatory authorities on trade regulations, standards, labeling, marking requirement and other aspects related to non-tariff barriers for developing a mechanism for evolving better future trade ties;
- Taking into consultations the progress and suggestions on expert group on trade in petroleum products, expert group on electricity and working group of Ministry of Interior and Home Affairs;

- Work on the parameters of allowing for opening bank branches of Pakistan in India and for this purpose central banks of both countries should be involved in discussions;
- Positive lessons to be emulated from the success of 'Indian Show' held at expo centre from 11-13 February, Lahore as trade promotional activity. New Delhi has planned for similar arrangement in India for promoting Pakistani products in India;
- Moving from the positive list to a small negative list, which will eventually be phased out. All items other than those in the SAFTA list would get preferential access at peak tariff levels of 5 per cent by the end of the year 2012;
- Discussion to be launched on reducing the size of the sensitive list and drawing up liberalisation up to 30 per cent of the sensitive list shall be considered by India within the four months of notification of reduction in small negative list from Pakistan's side.

Pakistan-Afghanistan Trade Arrangement

Pakistan and Afghanistan entered the new era of trade agreement after several rounds of bilateral Joint Working Group meetings on trade and transit with the Commerce Ministers of Afghanistan and Pakistan signing a 'Record Note' called "Afghanistan Pakistan Transit Trade Agreement" on 18 July 2010. This was a revised version of the previous pact where movement of goods and transit procedure were relaxed and routes further expanded. This also included the goods from India via Pakistan to Afghanistan. The following provisions of transit are to be used:

- Maritime ports in Pakistan
- Airports in both the countries for air to air transit only
- Transit/rail corridors upgradation
- Land stations between the contracting parties

The contracting agreement stipulates the following points:

- Building and upgrading the required infrastructure in accordance with international practices
- Clearance of transit traffic without delay
- Establishing customs clearing facilities
- Coordinated controls for movement of goods
- Ensuring adequate human resource development to be made available
- Coordinating hours of operations
- Facilities for priority clearance of commercial vehicles
- Adequate and secure parking space for container trucks and other vehicles
- Maintain and establish rapid and reliable telecommunication services.

Pakistan's phase-wise trade performance has witnessed import substitution, export promotion zones (EPZs) and policies of protectionism. The new era requires liberalising

the domestic market and accentuating competition in the domestic market. In case of Pakistan, demographic advantage and geography provide an opportunity to increase trade in goods and services across the borders. Currently, the pattern has seen liberalisation taking place on account of reduction in tariff rates, non-tariff barriers and other constraints. It is time to move beyond these measures where trade can benefit the country within the region in the long-run. Moreover, the trade regime in Pakistan was never linked with the overall growth paradigm, and it was an effort to increase growth in the short-run, thus generating savings and investment. This can be seen from the stagnant current account, that records export and import performances of the country.

Pakistan's Current Trade Policy

According to the recent trade policy strategic framework, several steps have been announced for the promotion of trade across the borders. Below are the key highlights of the Trade Policy 2009-12:

- Enabling firms and entrepreneurs to be competitive through support of structural transformation and increasing export competitiveness;
- Diversifying exports through incentive based schemes and promoting trade in services;
- Embarking on domestic commerce reforms and integrating local productive capacity;
- Providing incentives to facilitate technology acquisition, adoption with the objectives of energy efficiency and environmental protection;
- Utilising the Reconstruction Opportunity Zones and establishing a centre of excellence;
- Undertaking initiatives for greater market access, and developing and enlarging acceptability of Pakistani textiles and clothing in niche markets and diversification of exports to new destinations.

The trade policy is currently embarked on sector-picking approach, and does not accentuate the attributes of competition that bring value addition and open the domestic market to increase the exports. This is seen in the case of industrial policy and its sharp contrast with the new growth framework worked out by the Planning Commission of Pakistan, which stipulates software-led growth, increased connectivity and productivity, youth entrepreneurship, community development and new models for accentuating growth in the country.

The Way Forward

Although the South Asian region is prone to many internal and external crises, it has an edge in terms of labour and huge market potential. Realising the true essence of the SAFTA platform can transform the domestic market into a viable opportunity for increased economic growth. This will lead to better investment and increased trade, savings and employment opportunities in the country. Besides this, it will also offer benefits in terms of cheap labour provisions and food security in the region. Regional

cooperation is hampered by regional bilateralism that undermines SAFTA. Lack of enforcement of terms from the SAARC Framework Agreement on Services (SAFAS), and more engagement of the the government than business community. To sum up, the South Asian region provides many opportunities; it is just the realisation of better policies, trust building, commitment and accentuating the assets present in the market that will impact the region in the longer run, and will benefit millions of people living below the poverty line.

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Promotion of Intra-Regional Investment in South Asia: In Search of an Effective Policy Framework

Khondaker Golam Moazzem *

1. Background

Despite liberalising investment policies, undertaking various support measures under national policies and signing investment treaties with major investment sources, foreign direct investment (FDI) in South Asia has remained at a low level. During 2011, FDI flow in South Asia was USD 35 billion which was a mere 1.6 per cent of global flow of FDI; similarly, the stock of FDI in South Asia was only 2.3 per cent at the end of 2011. Except for India, none of the South Asian countries have received a considerable amount of FDI which indicates lack of diversity in terms of location of FDI within the region. Needless to say, intra-regional FDI flow has accounted for a marginal share of FDI. This poor state of FDI flow in South Asia raises doubt about the efficacy of various policy measures undertaken by South Asian countries over the last two decades. However, literatures show that national, bilateral and regional policies undertaken by developing countries have had a positive impact on the FDI flow (Banga 2003).

Promotion of regional FDI through application of specific policy instruments did not get due attention in the South Asian Association for Regional Cooperation (SAARC) framework. SAARC Declarations in the late 1980s, 1990s and early 2000s put little focus on this issue; it has only been addressed in recent SAARC Summits. Besides, SAARC initiatives for the promotion of FDI appear to be undertaken within the framework of regional trade integration. Given the limited level of intra-regional trade in South Asia and weak interlinkage between trade and investment, there is doubt about the efficacy of existing trade-based initiatives only to promote investment in South Asia. Besides intra-regional investment in South Asia face a number of other constraints

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which include structural barriers, institutional bottlenecks, political movements, narrow nationalism and mutual distrust (Aggarwal 2008; Jayasuriya and Weerakon 2002). The existing initiatives perhaps address little on those challenges, and therefore would not be able to cater more FDI in the region.

In this backdrop, the present study would like to focus on development of an effective policy framework for enhancing intra-regional investment in South Asia. The paper comprises of six sections. Sections 2 and 3 provide a brief overview on structure and composition of FDI in South Asia and the FDI-related policies practiced in South Asian countries. Section 4 analyses the existing institutional approach for enhancing intra-regional FDI particularly under the SAARC framework. Section 5 discusses the institutional framework in Association of Southeast Asian Nations (ASEAN) for enhancing FDI in Southeast Asia with a view to appreciate the possible lessons for strengthening institutional initiatives under the SAARC framework. Finally, Section 6 provides a set of recommendations for strengthening institutional measures to enhance intra-regional investment in South Asia.

2. FDI in South Asia: A Brief Overview

South Asia is the lowest recipient of FDI in the world; out of USD 1.5 trillion worth of global flow of FDI in 2011, only USD 35 billion was directed to this region (Table 1). In contrast, FDI flow to other regions was quite high; for example, USD 452 billion in European Union (EU), USD 267.8 billion in North America, USD 116.6 billion in Southeast Asia, USD 42.7 billion in Africa and USD 217 billion in Latin America. Other than India, none of the locations in South Asia are considered to be attractive to transnational corporations, and more importantly, India is perceived to be the third most potential investment destination to these corporations (UNCTAD 2012; Bartels *et al.* 2009). India's liberal economic policy, large domestic market, skilled manpower, infrastructural facilities, natural resources, technology and productive capacity have made it an attractive investment destination. As a result, FDI is increasingly

Table 1: FDI in South Asia

Region/Economy	2006	2007	2008	2009	2010	2011
South Asia (Million USD)	26271	32689	50958	39323	28098	34791
Share of FDI Flow in South Asia (%)						
Afghanistan	0.9	0.6	0.2	0.2	0.8	0.2
Bangladesh	3.0	2.0	2.1	1.8	3.2	3.3
Bhutan	0.3	0.0	0.0	0.0	0.1	0.0
India	77.4	78.0	85.2	90.5	86.0	90.7
Maldives	0.4	0.4	0.3	0.4	0.8	0.8
Nepal	0.0	0.0	0.0	0.1	0.3	0.3
Pakistan	16.3	17.1	10.7	5.9	7.2	3.8
Sri Lanka	1.8	1.8	1.5	1.0	1.7	0.9
Share of Global Flow of FDI (%)						
South Asia	2.0	2.0	3.0	4.0	2.0	3.0
Southeast Asia	4.0	4.0	3.0	4.0	7.0	8.0
East Asia	9.0	8.0	10.0	13.0	15.0	14.0
Africa	3.0	3.0	3.0	4.0	3.0	3.0

Source: Prepared by the author based on UNCTAD (2012).

Table 2: Sources of FDI

Host Country	Year	Top 5 Countries	Share of Top 5 Countries (%)	Share of Traditional OECD Countries (%)*	No. of Identified Source Countries*
India	2010-11	Mauritius, Singapore, USA, Japan and Netherlands	65.4	27.0	100
Bangladesh	2010-11	UK, USA, Hong Kong, South Korea and Egypt	61.3	51.0	44
Pakistan	2010-11	USA, UAE, UK, Hong Kong and China	57.6	61.0	33
Nepal	2010-11	India, China, South Korea, Japan and Canada	67.0	22.0	25
Sri Lanka	2010	USA, Malaysia and UAE	62.0	NA	NA

Source: Author's estimation based on Aggarwal (2008); Bangladesh Bank (2011); State Bank of Pakistan (2011); Central Bank of Sri Lanka (2010); Kamaladevi (2011).

Note: *Data for 2006.

concentrated to India – from 35 per cent of total regional stock of FDI in 1990 to 85 per cent in 2011; consequently the share of other South Asian countries (Pakistan, Bangladesh and Sri Lanka) has decreased over time. Both developed and developing countries outside the region are the major sources of FDI for most of the South Asian countries: top five sources account for about two-thirds of total FDI flow in South Asia (Table 2). Such kinds of concentration of FDI flow reflect locational disadvantage of other South Asian countries in terms of building horizontal and vertical linkages within the region. Weak intra-regional trade can partly explain this poor situation of regional investment.

Intra-regional FDI is accounted for by a marginal share of FDI in most of the South Asian countries. Although India's outward investment is about USD 1.5 billion over the last several years, only a marginal share of those investments is directed to South Asia (Table 3). These investments are mainly targeted toward infrastructure building, resource extraction, information technology (IT) and high-tech sectors, where South Asia has limited potentials and opportunities. India's FDI to Sri Lanka is mainly directed to steel, cement, rubber products, tourism, computer software, IT training and other professional services (Aggarwal 2008); Indian FDI in Nepal is mainly in textiles,

Table 3: Outward Flow of FDI from South Asia*(Million USD)*

Country	2006	2007	2008	2009	2010	2011
Afghanistan	-	-	-	-	-	-
Bangladesh	4	21	9	29	15	9
Bhutan	-	-	-	-	-	-
India	14285	19594	19257	15927	13151	14752
Maldives	-	-	-	-	-	-
Nepal	-	-	-	-	-	-
Pakistan	109	98	49	71	47	62
Sri Lanka	29	55	62	20	46	50
South Asia	14427	19768	19377	16047	13259	14873

Source: UNCTAD (2012).

chemicals, food and beverages and fabricated metals, etc. A major constraint for outward investment of South Asian countries is to put restriction over outward flow of capital (Habib *et al.* 2004).

Strong interlinkage between trade and investment is considered to be highly important for enhancing regional investment. Since the 1980s, South Asian countries have gradually liberalised their trade regimes and have also signed a number of bilateral, sub-regional and regional trade agreements both within and outside the region which have contributed to increase the overall trade of South Asian countries – from USD 398 billion in 2006 to USD 718 billion in 2010. However, no significant change took place in the direction of trade – 96 per cent of South Asia's total trade is directed outside the region (Table 4). Intra-regional trade has increased at a much slower rate; while extra-regional trade of South Asian countries has registered a rise of 20 per cent per year between 2006 and 2010, intra-regional trade has increased only at 8.5 per cent during the same period.¹ A number of factors have contributed to the low level of intra-regional trade which includes long sensitive lists, Pakistan's positive list approach for India, non-tariff barriers, and similarity in export basket, etc. (Rahman 2010). South Asia's increasing link with broader production networks with East and Southeast Asian countries is an important aspect in future cooperation for trade and investment. Thus the regional trade integration under the South Asian Free Trade Area (SAFTA) should be broadened through effective operation of other sub-regional integration initiatives such as Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC).

Table 4: Intra and Extra-Regional Trade of South Asian Countries

Component	2006			2010		
	Export	Import	Trade	Export	Import	Trade
Value (Billion USD)						
Total	158.5	239.9	398.4	289.4	289.4	718.0
Extra-regional	148.5	229.4	377.9	277.8	273.4	690.4
Intra-regional	10.0	10.5	20.5	11.6	16.0	27.5
Share (%)						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Extra-regional	94.0	96.0	95.0	96.0	94.0	96.0
Intra-regional	6.0	4.0	5.0	4.0	6.0	4.0

Source: <http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=99>

3. An Overview on FDI-related Policies of South Asian Countries

South Asian countries have provided various kinds of incentives and supports for attracting FDI under national FDI policies (Table 5). In case of pre-entry treatment phase, measures include few sectoral bans, limited use of caps on foreign ownership, requirement of screening in specified projects, almost no minimum capital requirement and no locational clause, etc. In case of post-entry treatment, measures include, among others, no employment requirement, limited performance requirement, allowing import

¹India is the major trading partner for most of the South Asian countries.

Table 5: FDI Policies of South Asian Countries

Criteria	Bangladesh	India	Nepal	Pakistan	Sri Lanka	Bhutan	Maldives
Pre-Entry Treatment							
Sectoral ban on FDI	Private ownership restricted in four sectors	Nine broad sectors		Alcohol		Positive list of sectors	
Caps of foreign ownership	None	Ownership cap on 16 sectors	FDI prohibited in 23 sectors	100 per cent in all	A negative list of sectors	Maximum 70 per cent equity allowed	Investment >5 million can be wholly owned
Screening	No screening except in telecom, power and mineral	Screening for FDI in specified sectors	Approval from department of industries	No screening except in five manufacturing sectors	Strict screening by Board of Investment	FDI committee which meets once in three months	Mandatory screening if foreign equity >51 per cent; Conditional screening if it is <51 per cent
Minimum capital requirement	None	None	None	Agriculture: USD 0.3 million; Infrastructure: USD 0.3 million; IT & Telecom: USD 0.15 million	None	Manufacturing: USD 1 million; Services: USD 0.5 million	None
Location	None	None	None	None	None	None	None
Post-Entry Treatment							
Employment							
Performance requirement	None	In the small-scale sector	None	None	None	Restricted	No
Technology imports	None	None	Subject to approval	Limits in agriculture and services	None	Subject to approvals	No
Restrictions on repatriation of capital and profits	None	None	Subject to approval	None	None	Subject to restrictions	No
Tax incentives	Tax incentives on expatriate incomes	Non-discriminatory	Non-discriminatory	50 per cent on plant and machinery and depreciation	Non-discriminatory	Non-discriminatory incentives	Foreign investors have to pay royalty to the government

Source: Aggarwal (2008).

Table 6: Bilateral Investment Treaties Signed by South Asian Countries

Country	1980	1985	1990	1995	2000	2011
Bangladesh	1	1	8	8	12	19 (0, 3)
India	0	0	0	1	13	33 (1, 4)
Nepal	0	1	2	3	3	4 (0, 3)
Pakistan	2	4	7	10	15	23 (1, 4)
Sri Lanka	4	13	16	17	20	23 (2, 4)
Afghanistan						3
Total	7	19	33	39	63	105

Source: Banga (2003) and author's calculation.

Note: Figures in the parentheses indicate number of bilateral investment treaties and avoidance of double taxation treaties signed within South Asia.

of technologies, no restriction on repatriation of capital and profits, and provision of different tax incentives (Aggarwal 2008).

Most of the South Asian countries have signed bilateral investment treaties with a number of developed and developing countries (Table 6). Within South Asia, such treaties are not so common. These have specific provisions for safeguarding foreign investment in the destination country. Various analyses show that bilateral investment treaties signed by South Asian countries have limited impact in attracting FDI in the region (in case of Bangladesh, see Bhattacharya 2004; Bhattacharya and Moazzem 2006).

Imposing different kinds of restrictions over bilateral investment is a major deterring factor for low level of investment in South Asia. India has put restriction over investment of Pakistan and Bangladesh. A number of developments took place in the political arena under which India has recently withdrawn restrictions over Bangladesh's investment at limited scale. The development of India-Pakistan relationship would make way to withdraw restrictions over Pakistan's investment in India.

It is clear from the above discussion that South Asian countries are yet to put adequate attention toward enhancing regional investment. Policies and measures for regional investment cooperation in South Asia have experienced marginal development compared to those related to trade integration. More importantly, promotion of intra-regional investment seems to be considered mainly through promotion of trade between South Asian countries. Regional cooperation for investment has yet to be considered as a major policy instrument for strengthening regional integration.

4. Institutional Approach for Enhancing Regional Investment: An Analysis of SAARC Initiatives

SAARC is the main body to take initiative towards enhancing intra-regional investment in South Asia. However, SAARC initiatives were often found to be marginal and

sporadic. During the 1980s and early 1990s, SAARC initiatives for promotion of FDI were largely absent perhaps due to low level of global flow of FDI at that time (Table 7). With the rise in global flow of FDI in 1990s, SAARC put emphasis on encouraging extra-regional FDI. Malé SAARC declarations in 1997 had urged developed countries to take domestic measures for encouraging investment in South Asia.

A major part of SAARC initiatives for economic cooperation in the 1990s and early 2000s were largely confined towards promotion of regional trade cooperation by establishing SAARC Preferential Trading Arrangement (SAPTA) in 1995, and then by establishing South Asian Free Trade Area (SAFTA) in 2006. Discussion on regional cooperation for investment was confined for the preparation of draft act for promotion and protection of intra-regional investment. This was implemented perhaps with the assumption that with the enactment of SAFTA, intra-regional investment will be increased.

The most concrete initiative so far made under the aegis of SAARC is to draft an agreement on promotion and protection of investment of regional countries. The major objective of the agreement is to ensure equal treatment for investments of SAARC countries without restriction, quota and marketing. Products of such investments will not be listed under the sensitive list in order to promote cross-border trade and investment. However, the draft agreement has been pending for approval since 2007. During the Seventeenth SAARC Summit held in Maldives, a fast-tracking of the regional investment treaty was called for along with the creation of regional production chains in order to deepen linkages in the SAARC region.

SAARC initiatives for the promotion of investment need to take into account a number of characteristic features of the region, particularly with regard to domestic production base, production network, and intra-regional and extra-regional investment. First, FDI in South Asia is mainly targeting toward local markets particularly domestic market-oriented manufacturing and services-related industries. Thus, intra-regional trade would have little implications on promotion of regional flow of FDI. Second, South Asia is a part of global production networks linked with countries outside the region. Thus, promotion of an exclusive regional production network would not be attractive to the foreign investors including those of regional investors. Third, since foreign investors outside South Asia predominate in FDI in most of the South Asian countries, promotion of extra-regional investment should be equally considered or at least should not be adversely affected through other measures. Fourth, with the rise of global flow of financial capital, South Asian countries need to consider further relaxation of the capital account in order to enhance regional flow of capital. In the last SAARC Summit held in Addu, Maldives in 2011, regional flow of financial capital was stressed along with promotion and protection of investment. Thus there are scopes for taking initiatives beyond the traditional framework of regional investment cooperation in South Asia. Future institutional framework for investment should cater multidimensional aspects of investment cooperation both within and outside South Asia.

Table 7: SAARC Declarations on Promotion of Regional Investment

Summit	Vanue and Year	Status of Mention	Major Highlights
First	Dhaka, 1985	No mention	
Second	Bangalore, 1986	No mention	
Third	Kathmandu, 1987	No mention	
Fourth	Islamabad, 1988	No mention	
Fifth	Malé, 1990	No mention	
Sixth	Colombo, 1991	No mention	
Seventh	Dhaka, 1993	<ul style="list-style-type: none"> • Importance of adequate investment in the health and education sectors for the success of their population programmes • The economies of developing countries continued to suffer as a result of limited market access for their exports, dwindling resource flows, absence of adequate foreign investment, mounting external indebtedness, inadequate transfer of technology and inequities in the global monetary, financial and trading systems • Referring to the competing demands for capital investment resources, the Heads of States or Governments underscored the need to ensure the adequate flow of investment resources to the developing countries through increasing global savings and a more equitable utilisation of the peace dividends 	<ul style="list-style-type: none"> • Extra-regional FDI stressed
Eighth Ninth	New Delhi, 1995 Malé, 1997	<ul style="list-style-type: none"> • No mention • The Heads of States or Governments agreed that the efforts to enhance trade and economic cooperation in the region would be further strengthened by initiating specific steps to promote and protect investment, increase complementarities in economic activities of member states and other measures supportive of promotion of SAARC joint ventures • They also welcomed the offer of India to host a meeting on promotion and protection of investment and the offer of Pakistan to host a meeting on avoidance of double taxation • They also welcomed measures of cooperation in the areas of customs standardisation, arbitration and enhancing industrial economy and management • The Heads of States or Governments reaffirmed their determination to encourage the private sector in the region to contribute increasingly to the strengthening of intra-SAARC links in key areas of trade, investment and finance 	<ul style="list-style-type: none"> • Promotion and protection of intra-regional investment stressed • Domestic measures of developed countries to enhance investment in developing countries

(Table 7 contd.)

(Table 7 cont'd.)

Summit	Venue and Year	Status of Mention	Major Highlights
Tenth	Colombo, 1998	<ul style="list-style-type: none"> • They welcomed the decision by the SAARC Chamber of Commerce and Industry (SCCI) to convene annually an Economic Cooperation Conference in conjunction with the annual meeting of SAARC Commerce Ministers and SAARC Trade Fairs • The Heads of States or Governments called on the developed countries to assist the developing countries through the creation of a favourable and supportive global economic environment, in particular, through domestic action in their countries for purposes of accelerated investment flows to developing countries, thereby generating a positive impact on the developmental efforts of developing countries as well as assisting their integration into the multilateral trading system • Increased opportunities in trade and investment have bypassed many developing countries. The least developed countries (LDCs) have in particular been marginalised through a series of developments including the shrinking of official development assistance (ODA), concessional and other financial flows to these countries • The Heads of States or Governments cautioned that potential efforts to formulate a new multilateral investment agreement should not overlook the need to ensure the continued independence of developing countries and LDCs to formulate specific investment policies appropriate to their stage of development • They acknowledged the need to enhance the collective capacity of SAARC in respect of policy analysis, with a specific emphasis on international financial, monetary, trade and investment issues and their domestic ramifications • The Heads of States or Governments agreed that the benefits of economic liberalisation would be more extensive and better balanced through the promotion of trade-creating joint ventures, investment and trade in services such as tourism 	<ul style="list-style-type: none"> • Multilateral investment agreement should provide scope to LDCs and developing countries to formulate specific investment policy • Building analytical capacity at regional level
Eleventh	Kathmandu, 2002	<ul style="list-style-type: none"> • The Heads of States or Governments agreed to accelerate cooperation in the core areas of trade, finance and investment to realise the goal of an integrated South Asian economy in a step-by-step manner • The Heads of States or Governments also decided to instruct the Secretary General to facilitate the early finalisation of a regionally agreed investment framework to meet investment needs of the SAARC member states 	<ul style="list-style-type: none"> • Finalisation of regional investment framework stressed

(Table 7 cont'd.)

(Table 7 contd.)

Summit	Venue and Year	Status of Mention	Major Highlights
Twelfth	Islamabad, 2004	<ul style="list-style-type: none"> The Heads of States or Governments acknowledged that investment in poverty alleviation programmes contributes to social stability, economic progress and overall prosperity Investment in human resources is critical for future development of South Asia. It is, therefore, essential to establish a network of centers of higher learning, training and skill development institutes across South Asia 	<ul style="list-style-type: none"> Investment in human resources
Thirteenth	Dhaka, 2005	<ul style="list-style-type: none"> The Heads of States or Governments recognised the need to take the process of regional economic integration further by expanding the scope of SAFTA to include trade in services, enhanced investment and harmonised standards 	<ul style="list-style-type: none"> Acceleration of trade in services and investment under SAFTA framework
Fourteenth	New Delhi, 2007	<ul style="list-style-type: none"> They stressed that to realise its full potential, SAFTA should integrate trade in services. They called for finalisation of an agreement in the services sector at the earliest. They also directed that the Agreement on Investment Promotion and Protection be finalised 	<ul style="list-style-type: none"> Finalisation of Agreement on Investment Promotion and Protection stressed
Fifteenth	Colombo, 2008	<ul style="list-style-type: none"> Towards achieving further economic integration, they directed that the Draft Agreement on Investment Promotion and Protection be finalised early and the SAARC Arbitration Council be operationalised 	<ul style="list-style-type: none"> Finalisation of Agreement on Investment Promotion and Protection stressed Operationalisation of SAARC Arbitration Council
Sixteenth	Thimphu, 2010	<ul style="list-style-type: none"> The leaders emphasised the need to strengthen the role of private sector in regional initiatives through appropriate mechanisms including through public-private partnership (PPP) as well as the need for greater intra-SAARC investment promotion efforts 	<ul style="list-style-type: none"> Strengthen the role of private sector through greater intra-regional investment promotion efforts
Seventeenth	Addu City, 2011	<ul style="list-style-type: none"> To direct the SAARC Finance Ministers to chart a proposal that would allow for greater flow of financial capital and intra-regional long-term investment To make available an appropriate percentage of national income towards the respective countries' renewable energy investments, subject to the approval of national arrangements 	<ul style="list-style-type: none"> Proposal for greater flow of financial capital and inter-regional long-term investment Investment in renewable energy

Source: Prepared by the author based on the SAARC Declarations.

5. Experience of ASEAN towards Enhancing Regional Investment: Learning for SAARC

SAARC can take lessons from ASEAN with regard to the initiatives undertaken for the promotion of investment in Southeast Asia. Although there is huge difference between the two regions in terms of size of the economy, level of economic development and level of integration, the success of ASEAN would be a good learning experience for the SAARC region. A major characteristic of ASEAN initiatives is to promote investment along with trade, both within and outside the region.

Under the institutional framework of ASEAN, investment cooperation between Southeast Asian countries has evolved over the years with a view to promote both intra and extra-regional investment. In 1987 ASEAN countries signed an agreement on promotion and protection of investment.² In continuation of this process, a framework agreement on the ASEAN Investment Area was signed in 1998 with a view to promote ASEAN as an investment area, to strengthen and increase the competitiveness of ASEAN economic sectors, and to work on reduction of investment barriers in order to enhance investment.³ Over time ASEAN members have joined in the Agreement on the ASEAN Investment Area (AIA). The major objectives of establishment of an investment area are to implement coordinated ASEAN investment cooperation and facilitation programmes, to implement a coordinated promotion programme and investment awareness activities, to grant national treatment facilities, to ensure active involvement of the private sector in the AIA development process, to provide a more streamlined and simplified investment process, and to eliminate investment barriers and to liberalise investment rules and policies. To oversee the implementation of the AIA framework agreement, a ministerial-level ASEAN Investment Area Council was established which was assisted by the ASEAN Coordinating Committee on Investment. In 2009, ASEAN further widened the investment cooperation by signing the Comprehensive Investment Agreement. In order to integrate trade, investment and production-related activities within the region, ASEAN put emphasis on three core integration schemes which include ASEAN Investment Area (AIA), ASEAN Free Trade Area (AFTA) and the ASEAN Industrial Cooperation (AICO) scheme.

The institutional mechanism followed in the ASEAN region is definitely a learning model for SAARC. However, its replication in SAARC region is not so easy, particularly because of lack of preparedness of SAARC to address core challenges such as low trade integration, limited market size, weak intra-regional production network, lack of infrastructural facilities and insufficient human resources. However, ASEAN initiatives could provide directives to SAARC for the promotion of regional investment.

6. Suggestions for Accelerating SAARC's Institutional Initiatives for Enhancing Intra-Regional Investment in South Asia

SAARC Secretariat is the official body that pursues investment-related initiatives through a Trade and Investment Sub-committee. Given the importance of regional

²This act was amended in 1996.

³In 2001, a protocol is signed to amend the framework agreement.

investment cooperation in South Asia's economic growth and its growing link with trade and non-trade issues, SAARC should consider forming a separate sub-committee with specific terms of reference to deal with investment-related issues. This committee should identify a possible mechanism for enhancing regional investment and should set a work plan with a specific timeline for implementing various activities. One of the major activities of the proposed sub-committee would be to work out an effective mechanism to ensure regional capital flow to enhance investment in potential sectors in different South Asian countries.

A major constraint for prospective regional investment is very limited knowledge about investment potentials in different SAARC countries, particularly lack of information such as regional markets, sectors, investors and facilities. Various studies have identified potential sectors at regional level where regional value chain could be developed (Moazzem 2005; Aggarwal 2008) (Table 8). In this context, each country should make information accessible to the investors through national level investment promoting agencies.

Table 8: Priority Industries for Investment in South Asian Countries

Pakistan	Value added export industries: manufacturing categories such as garments, bed linens, surgical instruments, and sporting goods High-Tech and IT industries: chip manufacturing, software development and precision equipment manufacturing Others: tourism, housing, engineering, chemicals and construction
Bangladesh	Textiles, electronics, IT, natural gas-based industries, frozen foods, leather, ceramics, light engineering and agro-based production
Nepal	Medicinal and aromatic plants, agro-based (mushroom, spices, vegetables, fruits), dairy, tea, sericulture, hydropower, leather, poultry and textiles
Sri Lanka	Electronics, light engineering, textiles, rubber, mineral and processing, tourism, IT, gems and jewellery, healthcare and pharmaceuticals, ceramics and services
Bhutan	Hydropower, agro-processing, tourism and medicinal plants
Maldives	Marine-based industries, tourism, infrastructure, and air and sea transport

Source: Aggarwal (2008).

Given the importance of extra-regional FDI for the development of South Asia, SAARC initiatives should continue to provide necessary incentives and support for that. ASEAN experience shows that both intra-regional and extra-regional investments should be treated equally, and should be promoted with equal emphasis. Thus SAARC should work on regional investment promotion taking broader and long-term issues into consideration.

A number of initiatives are currently under discussion and at the phase of implementation at the SAARC, which if completed successfully, could facilitate intra-regional investment in South Asia. This includes establishment of SAARC Arbitration Council, SAARC limited multilateral agreement on avoidance of double taxation, and mutual administrative assistance in tax matters, etc. Operationalisation of these agreements and institutions would help to increase trade and investment in South Asia. SAARC should put emphasis on timely completion of these agreements.

SAARC Chamber of Commerce and Industry (SCCI) is formed to enhance trade and investment, to safeguard economic and business interests of SAARC, and to promote the exchange of commercial and industrial management, and scientific information and education and know-how amongst the member countries. This private sector trade body is pursuing for broader investment cooperation in South Asia through creating awareness building activities in the business communities. A major area of interest of the SAARC Chamber is to develop an institutional framework for supporting economic cooperation. SCCI should facilitate regional investment by facilitating investors at the pre-establishment phase through providing important market-related information.

Awareness building for enhancing intra-regional investment should be expedited through the initiative of the private sector trade bodies both at local and regional levels. SAARC Chamber has to play a proactive role in this direction. According to ADB and FICCI (2010), intra-regional investment has been constrained by restrictive policies such as, excluded sectors, equity restrictions, lack of sufficient protection for investors, underutilisation of bilateral investment treaties and lack of strategic promotion of intra-regional investment. In this context, the Chamber has suggested the following proposals: opening up the excluded sectors on a limited basis; allowing FDI for those sectors in specific cities; expansion of the use of bilateral investment treaties and harmonisation of investment provisions in Free Trade Agreements (FTAs); promoting more intra-regional investment through Boards of Investment; establishing dedicated country offices; expanding the marketing strategies and targeting the priority sectors; and conducting a feasibility study on creating an umbrella investment body for South Asia. In this context a separate institutional structure is needed in order to enhance regional investment.

Trade-led FDI will play a major role in the coming decade, particularly India's ongoing endeavour for building economic cooperation both within and outside the region. In this context further tariff liberalisation under the SAFTA accord particularly reduction of member country's sensitive lists would contribute to enhance regional trade. Such tariff liberalisation would have direct implications on intra-regional investment in South Asia. Besides, ongoing discussions on a number of bilateral trade agreements between South Asian countries might facilitate investment in the future. Moreover, a number of sub-regional initiatives (BIMSTEC) are ongoing. Extra-regional initiatives such as India-ASEAN, India-EU, India-Mercosur trade agreements would have direct implications on extra-regional investment in South Asia, particularly in India. Analysis shows that such agreements will have an adverse impact on small countries (CARIS 2008). Moreover, financial capital would also be invested within the region which needs to be accommodated in the framework for investment cooperation in South Asia.

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Energy Integration in South Asia: Key Challenges and Opportunities

Lydia Powell*

Introduction

The idea that energy trade and cooperation among South Asian countries is the passport out of the region's 'energy insecurity' and 'energy poverty' has been promoted in regional policy forums for over the two decades. Western development agencies, such as the Energy Sector Management Assistance Programme (ESMAP) of the World Bank and the South Asia Regional Initiative for Energy (SARI/Energy) of the United States Agency for International Development (USAID), have also promoted and invested in this idea for decades.¹ Part of the rationale is that energy abundant small countries can export their way out of poverty given the large and energy starved market in their backyard, namely India; while the broader rationale is that energy insecurity of South Asia can be resolved by augmenting supplies from energy abundant regions around South Asia. Bhutan's export of hydro electricity to India is offered as the real time example. All electricity generated in Bhutan is through hydro power, and out of that 80 per cent is exported to India (ADB 2011). Power exports are the largest source of revenue for Bhutan in the form of taxes and dividends from hydro power companies of that country (ADB 2011). Despite the economic and political attractiveness of this idea of cooperation and regional energy trade, little of it has materialised in the South Asia. Initiatives and efforts promoted by regional organisations such as South Asian Association for Regional Cooperation (SAARC) too have failed to make any significant impact. This paper is an enquiry into why initiatives for regional cooperation and trade in energy in South Asia have not succeeded to the desired extent.

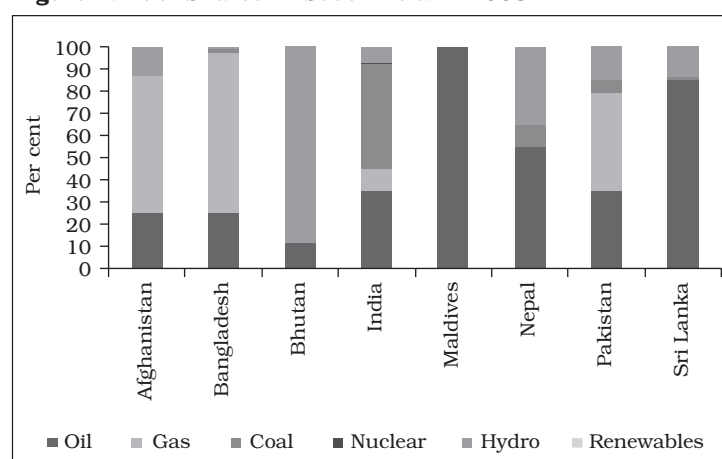
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¹See for example World Bank (2008); also see the Mission Statement of SARI/Energy available on its website (http://www.sari-energy.org/PageFiles/Who_We_Are/WhoWeAre.asp), which lists cross-border energy trade, energy market formation and regional clean energy development as its focus areas.

Energy Profiles of South Asian Economies

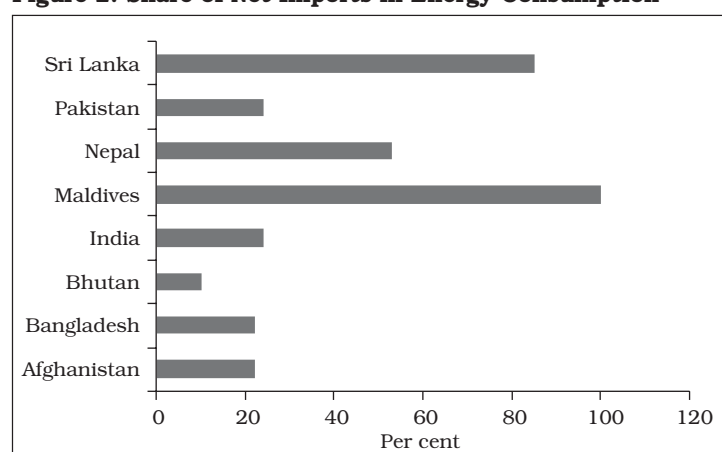
India's overwhelming size dominates the South Asian region with 75 per cent of the population, 64 per cent of the land mass and 82 per cent of the combined gross domestic product (GDP) of USD 4.96 trillion in terms of purchasing power parity (PPP).² India along with Pakistan (9 per cent) and Bangladesh (6 per cent) accounts for over 95 per cent of the region's GDP with corresponding energy consumption (Ding and Masha 2012). The commercial energy mix of South Asian economies differs widely. India is primarily a coal based economy, while the two island states Maldives and Sri Lanka along with Afghanistan are oil-based. Bhutan is the 'greenest' among South Asian economies as most of its commercial energy is derived from hydro power. Bangladesh's energy basket is dominated by natural gas, while that of Pakistan is dominated by oil and gas. Overall, all are fossil fuel-based economies, except Bhutan (Figure 1).

Figure 1: Fuel Shares in South Asia in 2008



Source: USAID (2008).

Figure 2: Share of Net Imports in Energy Consumption



Source: USAID (2008).

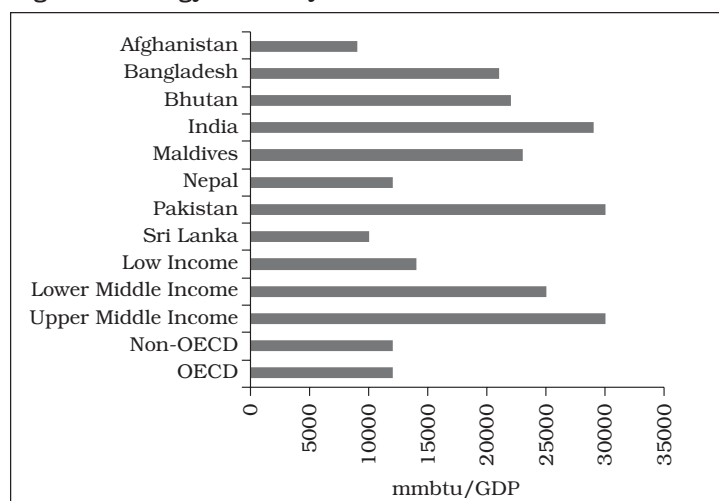
²Population and landmass from World Bank (2008); GDP from Merchant (2012).

In terms of overall commercial energy imports, the shares are relatively low except for Maldives, Sri Lanka and Nepal (Figure 2). South Asian economies have high levels of energy import dependence for oil, and are vulnerable to volatility in global crude prices.

India, the largest South Asian economy, imports 80 per cent of its crude oil needs, while Pakistan, the second largest, imports over 84 per cent of its crude oil needs. Bangladesh imports over 95 per cent, while all other South Asian economies are completely dependent on imported oil.³

Most of the economies have highly regulated domestic energy markets and have limited ability to alter their energy consumption patterns significantly. As the price of energy does not often reflect the 'value' of energy, South Asian economies are not among the most efficient energy users. Except India, Pakistan and Bhutan, energy intensity or the amount of energy the economy consumes to produce one unit of GDP is quite low in South Asia. This would have been a sign of efficient energy use had the economies been fully industrialised, but unfortunately, low energy intensity levels in South Asia indicate low levels of industrialisation and energy poverty. Pakistan and India have the highest energy intensities in South Asia due to their relatively higher levels of industrialisation. India's energy intensity is slightly lower than that of Pakistan, as the services sector in India contributes relatively more to the GDP compared to Pakistan (Figure 3).

Figure 3: Energy Intensity of South Asian Economies



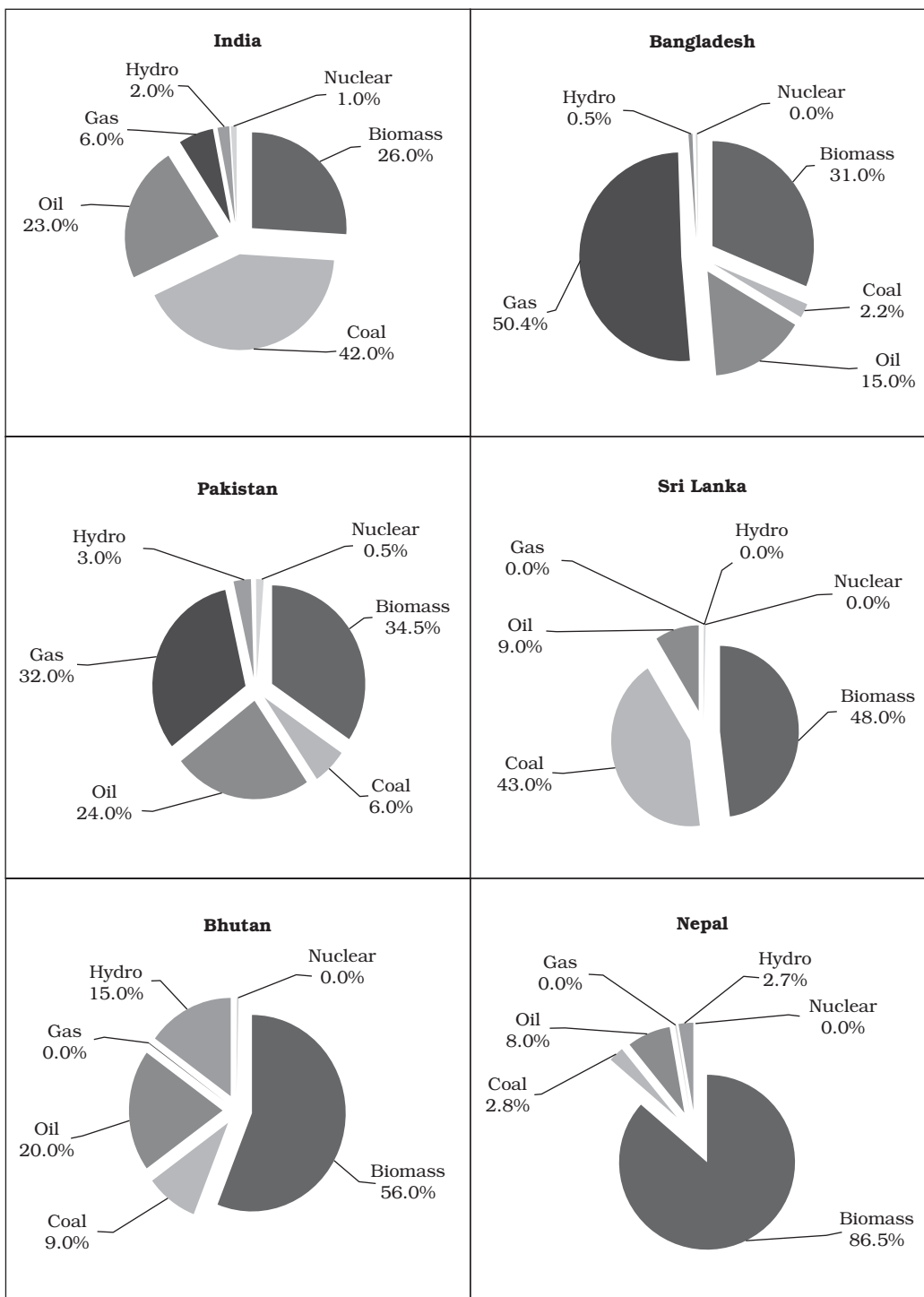
Source: USAID (2008).

Note: mmbtu denotes Million British Thermal Unit.

Starting with India whose primary energy basket contains over 25 per cent of fuel wood and dried animal dung (biomass), the share of biomass use increases as we go along the list of other South Asian economies such as Bangladesh, Pakistan, Sri Lanka and Bhutan, and ends with Afghanistan and Nepal, where biomass meets over 80 per cent of energy needs. Though India is the least dependent on non-commercial energy forms

³All Country Profiles accessed from Energy Information Administration (www.eia.org)

Figure 4: Share of Biomass in Primary Energy Basket: Selected South Asian Countries

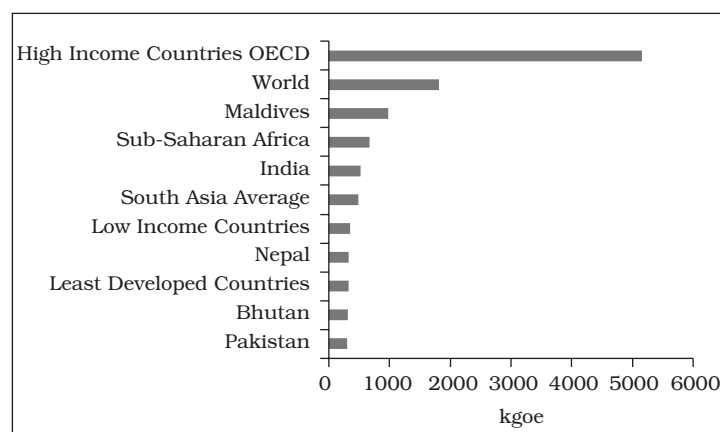


Source: USAID (2008).

within South Asian countries, it has the highest number of people dependent on non-commercial or primitive use of energy forms (e.g. kerosene lamps for lighting). 25 per cent of the Indian population does not have access to electricity, and 75 per cent continue to use fuel wood and dried animal dung for cooking.⁴ Out of over 1.3 billion people without access to electricity worldwide, 22 per cent live in India; and out of the 2.6 billion people without access to modern cooking fuels, 31 per cent live in India (IEA 2011). The high share of biomass use in South Asia indicates the low income levels and low levels of urbanisation (Figure 4).

According to 2007 data, Pakistan has the lowest per capita energy consumption level in South Asia at 312 kg oil equivalent (kgoe), and Maldives the highest at 985 kgoe.⁵ As shown in Figure 5, South Asian average energy consumption level is lower than that of Sub-Saharan Africa (developing countries only), about a fourth of the world average, and one-tenth of the OECD (Organisation for Economic Co-operation and Development) average.

Figure 5: Per Capita Energy Consumption in South Asia



Source: USAID (2008).

Regional Energy Initiatives in South Asia

The driving vision in most South Asian forums is to integrate the regions trade and infrastructure so as to sow the seeds for deeper South Asian integration. The motivation is from the European Union (EU) which began with the integration of its infrastructure. The Schuman Plan, as it came to be known sought to connect energy and industry infrastructure in Europe, eventually became the basis for European integration. The European Coal and Steel Community (ECSC), established in 1952, evolved into the European Economic Community (EEC) in 1958. In 1993, the organisation was renamed the European Union and in January 2002 the Euro became the sole currency. Along with political will and resolve, the need to share and cooperate

⁴Government of India Census Data 2011 from the National Sample Survey; from Datalab of the Observer Research Foundation (ORF).

⁵http://data.un.org/Data.aspx?d=WDI&f=Indicator_Code%3AEG.USE.PCAP.KG.OE

in developing resources like coal and steel contributed to promoting European economic cooperation and integration.

Towards the cherished vision of regional integration in the energy sector, SAARC energy ministers agreed in 2005 to cooperate in harnessing all forms of energy in order to achieve the objective of creating an 'Energy Ring' in South Asia. A special purpose vehicle called the SAARC Energy Centre, was eventually created in order to facilitate the process. The basic premise was that South Asian economies were energy insecure and that this shortage can be addressed by harnessing surplus energy resources of countries around South Asia. Hydro power potential of countries such as Uzbekistan, Tajikistan and Kyrgyzstan and the hydrocarbon potential (particularly natural gas) of countries such as Myanmar, Iran, Qatar and Turkmenistan were to be tapped through a ring of infrastructure consisting mainly of gas pipelines and electric grids. In 2007, the SAARC Secretariat finalised the terms of reference for the SAARC Regional Energy Trade Study (SRETS). The terms of reference included analysing the prevailing trade regimes, the regulatory and legal frameworks of the member states; examining the international and regional best practices and their relevance as well as applicability to the region; analysing various technological, financial and commercial options for promoting trade and related projects; and examining the viability and modalities for development of transnational energy lines (electricity, gas and oil) keeping in view the broader concept of the 'Energy Ring.'

At the Fifteenth SAARC Summit in 2008, it was decided to develop and conserve conventional sources of energy along with a strong focus on alternate and renewable energy sources, energy reforms, energy efficiency, transfer of technology and energy trading. In an expert group meeting, the concept paper on *SAARC Energy Ring* was finalised. The meeting decided that the member states would develop common regional highways of energy within and across the region for movement of energy commodities and services in a market-based environment. Possibilities of harnessing hydro potential in Bhutan and Nepal; getting natural gas from West, Central and East Asia; sharing expertise of India in wind and solar energy; and of Nepal in micro-hydro; and the successful experience of compressed natural gas (CNG) technology in Bangladesh, India and Pakistan were also discussed. In December 2008, a task force was constituted to evolve a Common Template of Technical and Commercial aspects of Electricity Grid Interconnections among SAARC member states in order to have better understanding of the power system of each country.

In 2009, SAARC Energy Ministers' meeting underscored on regional energy trade study, set an action plan on energy conservation and efficiency, and discussed the concept of the South Asian Energy Ring and the common template on technical and commercial aspects of electricity grid interconnections among SAARC member countries, and a concept paper on joint import of crude oil. In 2010, state leaders emphasised the need to undertake studies to develop regional energy projects, promote regional power trade, efficiency, conservation and development of labelling and standardisation of appliances, and sharing of knowledge and technologies.

India proposed preparing a roadmap for SAARC Market for Electricity on a regional basis, supported by an enabling market in the region. The proposal's main emphasis

was on coupling the independent electricity grids of different countries through HVDC (High Voltage Direct Current) links. More recent rounds of SAARC discussed modalities of the earlier initiatives. Under the theme *Building Bridges*, the Seventeenth SAARC Summit in 2011 called for implementing energy initiatives that are already in the pipeline, such as the Energy Ring concept.⁶

Despite these laudable initiatives, there is little or no concrete progress towards cooperation and trade in the energy sector except from electricity trade between India and Bhutan, and to a much smaller extent, between India and Nepal. The problem lies in framing of the 'energy problem' in South Asia as one of 'resource scarcity' and 'energy shortage.' Under this framing the natural solution is that of augmenting supplies which justifies strategies for 'cooperation' and regional 'integration.' The problem is perceived as a 'material' problem which requires material (or physical) solutions. In reality, the energy problem in the South Asian region is an 'economic problem', which requires 'economic' solutions.

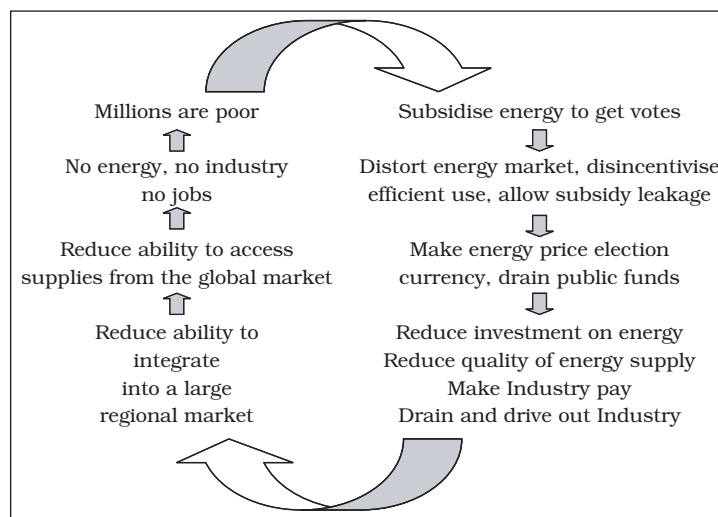
While South Asian economies have varying economic and commercial energy profiles, there are some characteristics that are common to all, such as high levels of skill, income and energy poverty, high levels of energy shortage, energy loss and energy theft as well as inefficiency in energy use. As all countries in South Asia are oil import-dependent, they have low resilience to oil price volatility, and limited ability to change their existing energy resource base. Deforestation and environment degradation on account of inefficient combustion of biomass and firewood used as cooking fuel are other concerns common to South Asian economies.

In order to increase access to commercial energy forms, most South Asian countries use a variety of subsidy schemes, such as price control, channelled distribution or free provision of energy. The subsidy schemes create a direct physical cost, and this cost is partly borne by the government, but mostly transferred to other parts of the economy (such as public sector oil and coal companies), and also to the future in the form of various debt instruments. India, for example, wipes out close to 3 per cent of its GDP to energy subsidies and passes on part of the burden to state-owned energy companies. 3 per cent of India's GDP is about USD 120 billion in PPP terms, a sum which could have been invested in energy infrastructure (ORF 2012).

Subsidies increase the debt burden of South Asian countries and the countries' energy companies and also reduce their ability to invest in energy infrastructure. Poorly designed subsidy schemes also lead to substantial economic and physical leakages, which in turn, create constituencies of rent-seekers who profit from the leakages (Figure 6). The result is 'energy shortage' which is in reality, not a physical supply shortage, but rather an 'economic shortage' created by the problem of 'affordability' arising from high levels of poverty and poor governance of redistribution schemes. This 'economic shortage' can only be addressed with 'economic solutions', not material supply solutions.

⁶For details, please see: Declaration of the Seventeenth SAARC Summit; available at: <http://www.saarc-sec.org/2012/02/15/news/Declaration-of-the-Seventeenth-SAARC-Summit/87/>

Figure 6: The Vicious Circle of Corruptions and Subsidies



Systematic inefficiency in pricing energy also promotes closed domestic markets that cannot be integrated with regional or global energy markets. Coexisting with closed markets are inadequate political, social and institutional mechanisms that are incapable of facilitating change.

As the Nobel Laureate Amartya Sen's work has clearly shown, not all resource scarcity (food, energy and water) problems arise from issues of supply. They arise from issues of access which must be addressed through domestic economic and administrative interventions. In order to look outward and realise the vision for prosperity through regional integration, South Asian economies must first look inward at their own inadequacies.

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Energy Cooperation in South Asia: From Bilateralism to Regionalism

Nitya Nanda*

South Asia is among the fastest growing regions of the world. However, despite rapid economic growth over a couple of decades, the region has among the lowest per capita incomes in the world. In line with that, per capita energy consumption is also among the lowest globally. The region is also poorly endowed with energy resources at least in the case of conventional energy sources. South Asia accounts for more than one-fifth of the world population, but its share of global oil reserve is about 0.6 per cent and the share of global natural gas reserve is about 1.4 per cent only. Its share in global coal reserve is relatively better with about 10 per cent, but still much lower compared to the population. Most countries in the region suffer from huge demand-supply gaps in energy products and services even after importing substantial quantity of energy from abroad. Another common factor in the region is that there is significant energy poverty, i.e. a significant segment of the population cannot meet their minimum energy requirements. It is also expected that energy demand is likely to grow by three times in the next two decades.

Table 1: Energy Indicators in South Asian Countries: 2009

Country/Region	TPES/Pop (toe/Capita)	TPES/GDP (toe/thous 2000 USD)	TPES/GDP (PPP) (toe/thous 2000 USD)	Electricity Consumption (KWh/Capita)
OECD	4.28	0.18	0.16	8012
World	1.80	0.31	0.19	2730
Africa	0.67	0.75	0.26	561
Bangladesh	0.18	0.38	0.09	228
India	0.58	0.77	0.15	597
Nepal	0.34	1.30	0.22	91
Pakistan	0.50	0.77	0.22	451
Sri Lanka	0.46	0.37	0.09	416

Source: IEA (2011).

Note: toe denotes tonnes of oil equivalent.

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It is thus quite obvious that for the South Asian region, energy resources are not only strategic, but scarce as well. The issue of energy cooperation in South Asia, therefore, has to be seen in the context of efficiency in management and use of such resources. Experts are often sceptical about the prospects of regional energy cooperation in South Asia, since the region as a whole is not comfortable with energy resources. It is also noted that there is not enough complementarity not just in trade in general, but in energy trade in particular. However, the assessment of complementarity is based largely on the existing trade flows which, in turn, are the result of policies followed so far, and hence cannot be the benchmark. Moreover, often accessing energy from a neighbouring country is more economical and efficient than getting it from a distant location within the country. This is the reason that several countries including the United States, Canada, France, Germany and Switzerland are all among the top exporters as well as importers of electricity (IEA 2011). Thus it may well be the case that even though most countries in South Asia are energy deficit, there can be significant scope for trade and cooperation on energy resources.

All the countries in the region are heavily dependent on outside countries for their oil requirements. One may thus conclude that there is hardly any scope for trade in oil within the region. Indeed, this is quite true for crude oil. The situation, however, is quite different if one looks at the production and consumption of refined petroleum products. All countries in the region, except India, consume much more than their refining capacity. India, on the other hand, has become a significant exporter of refined petroleum products. Pakistan and Bangladesh import significant part of their refined oil from United Arab Emirates (UAE) and Singapore respectively which are also the major export destinations for Indian refined oil. Thus, there is significant scope for trading in refined oil within the regions that is still unutilised.

As with oil, the region is poorly endowed with reserves of natural gas. Hence, trade in natural gas would be limited within the region. However, the real benefit in this sector will accrue from a region wide integrated gas pipeline network. As of now, only India imports liquefied natural gas (LNG) in limited quantity. There is no other trade in natural gas within the region or with outside countries, as there are no gas pipelines and no other country has LNG import facility. Although Pakistan has been talking about building up of LNG import facility near Karachi, not much progress has been made. Both India and Pakistan have been exploring the possibility of importing natural gas through cross-border pipelines. However, though Pakistan has made some progress in terms of working out some arrangements for Iran-Pakistan and Turkmenistan-Afghanistan-Pakistan pipelines, India is yet to make any progress. While the Iran-Pakistan-India pipeline and the Myanmar-Bangladesh-India pipeline are dead, the proposal of extending the Turkmenistan-Afghanistan-Pakistan pipeline to India is also not so certain.

A region-wide gas pipeline network will connect the entire region to Iran, Myanmar and even Central Asia as Afghanistan is also a member of the South Asian Association for Regional Cooperation (SAARC). Import of LNG is not only more expensive, it also needs substantial investment in LNG import facilities. As of now, Nepal and Bhutan are not using natural gas, but they might find it difficult to ignore this option in the future.

Though both have substantial hydro-electric capabilities, they might like to have gas as cleaner fuel to run vehicles and for other uses. India's difficulties as well as apprehensions in getting gas pipelines through Pakistan and Bangladesh may get mitigated to some extent if it looks for a regional network including even Nepal and Bhutan rather than bilateral arrangements with them.

Almost all countries, except Bhutan, have shortage of electric supply. Except in Sri Lanka, access to electricity is rather poor in all countries. Since trade in electricity in the region is quite limited, the production pattern also reflects the consumption pattern across countries except Bhutan. In other words, production and consumption patterns are the same. Consumption patterns, however, by no means, are reflective to demand patterns as there could be excess demand in all countries.

Since the region is not well endowed with fossil fuel reserves, harnessing of hydroelectric potentials is of crucial significance. Fortunately, the region is far better endowed in terms of hydroelectric potential. Globally, the potential of hydroelectricity generation is about 13,000 TWh per year, of which about 1,083 TWh (about 8 per cent) is in South Asia. In 2009, the region could utilise just about 14 per cent of this potential. South Asia has, however, been able to create an installed hydroelectric capacity of 49,700 MW, which is just about 11.4 per cent of the potential capacity (Table 2).

Table 2: Potential and Actual Hydropower Generation in South Asia

Country	Potential Capacity '000 MW	Installed Capacity (2011) '000 MW	Annual Generation Potential TWh/Yr	Actual Generation (2009) TWh/Yr
Afghanistan	18.40	0.39	55	1
Bangladesh	0.78	0.23	2	2
Bhutan	30.00	1.48	70	5
India	301.00	38.75	660	107
Nepal	44.00	0.59	158	3
Pakistan	40.00	6.49	130	28
Sri Lanka	2.00	1.77	8	4
South Asia	436.175	49.70	1083	150

Source: HDIP (2005); Thapa *et al.* (2007); IEA (2011).

Among the South Asian countries, Sri Lanka has almost exhausted its potential capacity. The potential capacity in Bangladesh is quite low and it cannot do much. So much of the additional capacity would come from other countries, with the largest share coming from India. However, tapping the unutilised potential would be relatively easier in Nepal, Bhutan and Afghanistan as their current utilisation levels are very low. These are also the countries in the region that can generate surplus electricity only through hydropower. For example, the current installed capacity in Bhutan is about 1,500 MW as against the potential of about 30,000 MW of electricity. Yet, Bhutan is the only country in the region to have substantial surplus in capacity and generation.

On the other hand, India has almost half of the potential hydroelectric capacity of the region, yet the total potential cannot even satisfy the current level of demand in the country. The same is true for Sri Lanka as well. Pakistan is in a better situation, but its potential is not enough to satisfy its entire demand in the long-run. Thus, it appears

that Afghanistan, Bhutan and Nepal can have substantial surplus electricity generated from hydropower alone which can be exported to other countries in the region. Though India and Pakistan are unlikely to export electricity to other countries on a net basis, they can be engaged in exchanges with neighbouring countries. India and Nepal are already engaged in such exchanges.

The potential capacities in Afghanistan, Bhutan and Nepal cannot be utilised without outside support. Bhutan today has substantial surplus capacity that has been developed largely with outside support, particularly from India. Hydropower contributes more than 19 per cent to the country's gross domestic product (GDP) and about 40 per cent to export earnings. It also brings almost half of the government revenue and funds critical for improvement in health and education. Bhutanese success story can easily be replicated in Nepal though they need to follow the exactly same model.

Seasonality in power supply and demand in a year as well as variations in demand within a day can also be the source of complementarity and cooperation across South Asian countries. Inability to match supply and demand can lead to major losses. This can be particularly difficult in a country where the climatic conditions remain similar in the entire country. For instance, in Bangladesh sizeable generation capacities to the tune of 1,200 MW remain unutilised during the off-peak hours though the country faces shortage of power during the peak hours. This available capacity can be a ready source for regional cooperation for import-export of electricity from neighbouring countries (Nanda and Goswami 2008). India, by virtue of being a large country, can manage such fluctuations better. Nevertheless, there exists clear seasonality in power generation, particularly in hydro power generation. The peak months for hydro power generation are August-September while the lean remain from January to June.

In Nepal and Bhutan, the peak demand is usually during December-January, and is minimum during the months of August and September. During the months of peak demand, generation from hydro power plants is relatively low. The supply capacity, in turn, is maximum during the wet months of August and September. This seasonality mismatch in energy supply and demand is where the complementarity in cross-border power trade emerges. It is during the hot summer months that the Indian system is starved of energy and capacity. Though the peak season starts in May, it continues till August and September, thus overlapping with the peak generation and lean demand season in Nepal and Bhutan. Indian thermal plants generation has been mostly designed to match and balance the lean dry months created by the hydro plants in winter and the pre-monsoon season, but the same can be designed to account for fluctuations in Nepal and Bhutan as well.

An integrated regional electricity grid with trading arrangements among the countries can improve efficiency in the entire region. Even if most countries in the region have excess demand in electricity, there can still be trade on it. Trade occurs even in such situation because it reduces the distance between the points of production and consumption, and thereby reduces transmission losses. South Asia, where transmission and distribution losses of electricity are among the highest in the world, will do well to take a regional cooperation approach. Needless to say that such an

approach will not only help climate change mitigation, but also be of immense economic sense in an energy-starved region like South Asia.

Recent Developments

Recognising the potentials and needs, SAARC Energy ministers in principle agreed on intergrid exchanges. A task force has finalised a common template on technical and commercial aspects of electricity grid interconnection amongst the SAARC member states. Expert Group on Electricity in its meeting held in January 2011 considered the (i) Concept Paper on the Road Map for Developing SAARC Market for Electricity (SAME); and (ii) Concept Paper on SAARC Inter-Governmental Framework Agreement for Regional Energy Cooperation. Progress on these concepts was reviewed by the Energy Ministers' Meeting held in September 2011.

However, there has been more progress at the bilateral levels involving India on one hand, and other South Asian countries on the other. The Bhutan-India energy cooperation is a success story, but progress is being made between other pairs of countries as well. Recently there has been an agreement between India and Bangladesh for export of electricity from India to Bangladesh. Construction of transmission line is on in both India and Bangladesh. The issue of pricing and power purchase agreement became contentious and dragged for some time, but finally, it has been sorted out. India is also building a coal-based power plant in Bangladesh as a joint venture.

As noted earlier, there have been negotiations between India and Pakistan on the possibility of a gas pipeline from Iran and the Central Asian countries passing through Pakistan, but progress has been elusive. However, the talks of energy cooperation between India and Pakistan have taken a different turn now. India is proposing to extend a natural gas pipeline to Lahore; it has recently installed from the west coast to Bhatinda in Indian Punjab which is around 25 km away from the India-Pakistan border. The Indian company concerned has plans to import LNG at one of its import terminals in Gujrat course this gas through the Dahej-Vijaipu-Dadri-Bawana-Nangal-Bhatinda pipeline to Punjab, and then into Pakistan. Pakistan may experience its worst gas crisis in 2016 when the deficit is expected to hit 3.021 bcf/d (billion cubic feet per day). Since Pakistan has not built any LNG import terminal so far, this venture would be more sensible for Pakistan to pursue. The LNG terminal will take a minimum of four years to build while the existing pipeline can be expanded into Lahore within months.

Similarly, it is now recognised that if Pakistan imports gasoline and diesel from India, it would largely benefit itself, and would result in saving of USD 300 million. Presently, gasoline and diesel is imported through Karachi and then it is shipped to upper country, and if it lands in Lahore from India through the Wagah Border, it would save cost and time. The possibility of India supplying electricity to Pakistan is also being discussed.

There has also been some progress on cross-border infrastructure projects, such as the memorandum of understanding (MoU) recently signed for transmission lines between India and Nepal, and the agreement for an inter-connecting submarine electricity cable

between Sri Lanka and India. While the progress on the India-Nepal project is not noteworthy, the India-Sri Lanka power connection project has got momentum now, and the deadline of 2014 has been fixed.

Concluding Remarks

The recent developments indicate that there is growing recognition for the potential and usefulness of a regional collaboration on energy. Such collaboration can be a win-win situation for all the countries in the region. India, with its growing energy needs, will benefit not only in terms of greater energy security in absolute sense, but also get energy that will be cleaner which will help it address its climate change mitigation concerns. For exporting countries, it will mean substantial revenue that will be used for development purposes. As of now, Nepal maintains substantial trade deficit both globally and with India. Like Bhutan, development of hydroelectricity can turn it from a trade deficit country to a trade surplus country. Surely, the Bhutan model cannot work for India-Nepal cooperation in its unaltered form. For example, India cannot provide so much funds as grants or concessional loan as required by Nepal to make achievements comparable to Bhutan's progress; however, there are lessons to be learnt.

It is often argued that when South Asian countries have not been able to achieve trade and investment integration, promoting energy cooperation will not be easy. However, as a matter of fact, energy cooperation can be the precursor of greater trade and investment integration. It is worth noting that the European Coal and Steel Community (ECSC) was established in 1952, much before the European Economic Community (EEC) was established in 1958. There might be domestic constituencies against trade/investment integration but unlikely so in the case of energy cooperation. Indeed, Pakistan is keen on energy cooperation even though it is hesitant on offering Most Favoured Nation (MFN) status to India. Energy insecurity has become a common threat to South Asian countries, but there is no such visible common threat as far as trade is concerned. This common threat can induce the South Asian countries to achieve greater progress on energy cooperation.

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Shared Pasts Provide Answers for Connectivity in South Asia

K L Thapar*

1. Past to Ponder

In the 16th century, the Indian sub-continent accounted for about a quarter of the world's gross domestic product (GDP). By the middle of 20th century, this share had declined to barely 2 per cent. In the last 20 years, South Asian countries have merely doubled their per capita income while China has increased it six times; and the rest of East Asian countries have trebled or quadrupled theirs. One reason for this is the lackadaisical regional cooperation which has not delivered either on promise or potential.

South Asia has been hostage to closed and divisive mindsets, a persistent distrust of neighbours and institutional insensitivity to the high incidence of poverty. Restrictive policy regimes have also neutralised the beneficial effects of common cultural affinity, common geography, and the 'gravitational' pull of proximity on movement of goods and people. At present, South Asia has the least reported intra-regional trade of any developing country groupings.

2. Snapped Links and Consequences

The Indian sub-continent is probably the best-defined subsystem in the contemporary international polity. Until recently, it was not subject to the current geographic divisions and trade within it proceeded unhindered. It was a single geographic and economic entity with traditional trade and accompanying transit facilities that went back two millennia.

The division of the sub-continent in 1947 led to the creation of extensive land borders (7,419 km), mostly unnatural and porous disrupting geographic space and economic

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and transport linkages. As a result, the approach distance between Agartala and Kolkata has increased from 350 km to 1,645 km, and between Lahore and Dhaka it has gone up from 2,300 km by rail to 7,162 km by rail-cum-sea-cum-rail route (via Chittagong and Karachi).

The traditional transit across the countries has suffered the most. Rail and inland water transport (IWT) transit across the then East Pakistan continued till 1965 and was then suspended. Only IWT transit was restored in 1972. Transit through Pakistan, however, stands suspended. Aggressive border management has led to closure of historical land routes at a number of points. Several parts of the sub-continent, more specifically northeast India, have virtually become landlocked territories.

3. Half-hearted and Faltering Steps

Present levels of connectivity and services are a reflection of the restrictive policy regimes. Six decades have seen only half-hearted steps to restore some of the transport linkages. Land transport facilitation agreements have still not been finalised. Meanwhile, incompatible transport technology platforms have emerged, impairing interoperability of cross-border services, particularly of rail transport.

4. Cost of Disruption

It is a matter of concern that trade transaction costs are high, ranging between 13-14 per cent of the commodity value compared to 7-8 per cent in the developed countries.

Table 1: Transport Interchange Mechanism between India and Bangladesh

Transport Mode	Transit through Bangladesh	Movement of Road Vehicles, Trains and Vessels across the Border
Rail	Presently not allowed	Goods trains from India are allowed up to the next station across the border. While the locomotive is returned with or without a load, wagons are left behind for commercial handling, for which the Bangladesh Railways pay detention charges to Indian Railways
Road	Presently not allowed	Different practices prevail: in case of Petrapol-Benapol interchange point, road vehicles are permitted up to the customs warehouses in Benapol situated about two km away from the border; At Dawki-Tamabil interchange point, road vehicles carrying coal are permitted up to coal dump at a distance of three km from the border
Waterways	Allowed; there is a protocol between the two countries on Inland Water Transport and trade derived directly from the provisions of Article VIII of the Trade Agreement	Vessels belonging to the two countries are permitted to ply over the designated waterway routes and up to the designated riverine terminals
Ropeway/Conveyor Belt	NA	Limestone and shale transportation over a 17 km long conveyor belt from a query in Meghalaya to Sunamgarh in Bangladesh

For example, additional burden on transport costs due to bottlenecks at land crossing stations between Bangladesh and India work out to USD 8-10 per ton of freight. A 20-foot container takes at least 30 days to move between New Delhi and Dhaka via circuitous routes and costs around USD 2,800, though by land transport it could reach its destination in about 5 days with around one-fourth of the cost.

The skewed transport interchange matrix between Bangladesh and India is a classic example of the closed mindsets. Table 1 shows the irrationality of the prevailing interchange mechanism. While transit by rail and road transport stands suspended, it is available for inland water transport.

5. The World Shows the Way

Transport and communications form an important component of regional cooperation between the following country groupings: Association of Southeast Asian Nations (ASEAN), North American Free Trade Agreement (NAFTA), MERCOSUR (Southern

Map 1: Iran Develops Rail Network for Transit Traffic



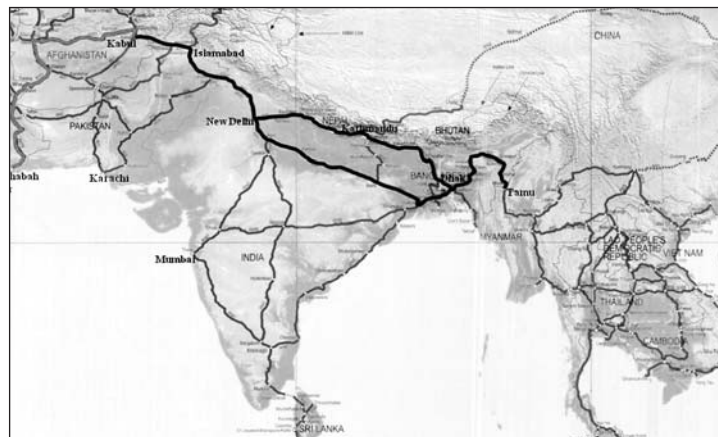
Map 2: Kazakhstan Builds Rail Route to Link Europe with China



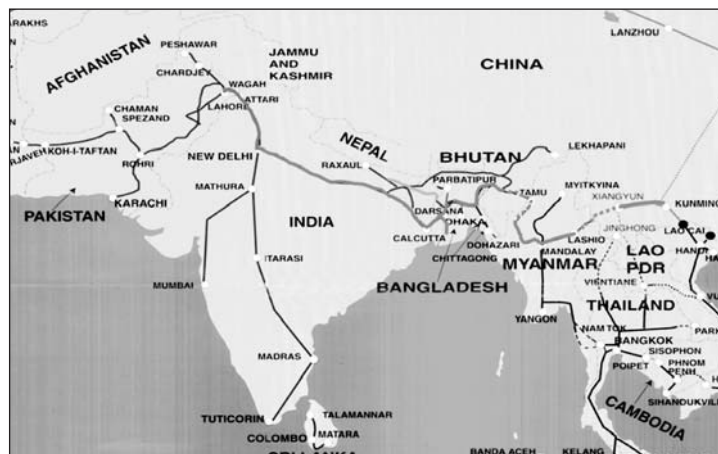
Map 3: Jordan Developing Rail Links for Transit Traffic



Map 4: Asian Highway Route Map



Map 5: Trans-Asian Railway



Common Market), and the Southern African Development Community (SADC). Inter-country and trans-continent corridors have emerged connecting Europe, Caucasus and Asia.

6. Beneficial Impact of Transshipment Traffic

Transit or transshipment traffic would be treated as trade in services, and thus benefit the trade matrix of the transit countries. The additional traffic would improve the viability of the relatively smaller rail systems, which presently do not have the minimum critical mass resulting in virtual death of a socially beneficial mode of transport. Eminent experts have calculated about 18 million tonnes of inter-state and international traffic for Bangladesh as a transport hub for South and Southeast Asian region.

7. Recent Bilateral Initiatives

India has agreed to provide transit facilities for traffic from Mongla and Chittagong Ports in Bangladesh for destinations in Bhutan and Nepal. An initiative has been taken to designate a new port of call and transshipment port on the inland waterways of Bangladesh for onward connectivity to Tripura in India. Furthermore, bilateral container traffic between India and Bangladesh, carried by both rail and IWT, has been allowed.

In a welcome move, the Indian Railways' network is being extended to the inland container depots in Nepal and Bhutan. New trading points along the border between India and Bangladesh have been opened thereby benefitting the common people living along the borders. The ferry services between Sri Lanka and India, which had been suspended for long, have been reintroduced.

8. Benefits of Proximity

It needs to be appreciated that distance does matter in trade matrix, more so, in the context of looming depletion of fossil fuels. The increase in the freight charges due to increase in oil prices will give a fillip to the trend towards bringing products closer to the market. As a result, regional rather than global production networks are likely to become more important in the future. Equally important would be the availability and access to relevant technologies in the neighbouring countries. This would not only be a cost-effective solution, but would also bring about harmonisation of transport technologies in the long-run.

9. Direction Markers

Pending integration at the regional level, sub-regional cooperation could yield substantial benefits. Sub-regional building blocks would facilitate long-term development of regional networks. There is also considerable merit in following a path of unilateral initiatives, as the long-term benefits in this case would far outweigh the short-term costs.

Restoration of the transport links by rail, road and waterways would involve minimal investments, and would result in maximum benefits in the shortest possible timeframe. Trans-Asian Railway and Asian Highway networks would facilitate emergence of new land transport linkages at the regional level, and the member countries should work towards that end. Chittagong Port provides the most cost-effective link for the northeastern part of India.

Restoration of exchange of goods and produce of local economies would mitigate the hardship of the people living along the borders. Thus, there is imperative need for restoring 'haats' at the borders and providing road links to these informal markets. In the eastern and northeastern parts of the sub-continent, riverine routes can provide a cost-effective and environment-friendly mode.

Overland multimodal transport infrastructure should be encouraged to gain benefits in terms of cost reduction and speedy and safe movement of goods. Projects that have a regional footprint like a bridge over river Jamuna should be treated as regional projects, so as to reflect the larger gains to the related economies. It is important that multilateral bodies prepare and fund transport projects on inter-country network basis.

10. Softer but Important Measures

Fuller benefits of infrastructure facilities cannot be achieved unless parallel measures are taken to improve procedural and operational efficiency. A set of international conventions and agreements which facilitate cross-border movements by different modes of transport have evolved over the past 50 years, and have been operationally tested in Europe and other member countries of the United Nations. An 'off the peg' system is thus available with the added advantage that the necessary documentation has already been developed. This provides an opportunity to compress the time-scale to evolve a framework for land transport facilitation in South Asia. It hardly needs to be stressed that the international conventions describe general principles and leave the details to be agreed on a bilateral or multilateral basis. As such, they do not cause any infringement of the sovereignty of the country.

11. Promotion of Socially Beneficial Modes of Transport

There is a new and compelling challenge that is not without opportunities: climate change. Railways and inland water transport should be promoted in the sub-continent keeping in view their relatively benign impact on environment. Fast changes in technology and operating environment necessarily require far-reaching transformations in the skill-set of the personnel. The relatively smaller systems do not have the necessary wherewithal to support training institutions in all disciplines. Hence, there is apparent need for cooperative effort in the area of human resource development.

12. Initiatives of the Asian Institute of Transport Development (AITD)

Regional cooperation need not be only at the government level. Non-government organisations having a regional base also have an important role to play in this regard.

The Asian Institute of Transport Development has been arranging training courses for railway personnel from South and Southeast Asia. This role has been appreciated by the member countries who participated in the UNESCAP Ministerial Conference (2006). Apart from filling up the palpable void as noted above, this initiative has long-term benefits in terms of development of the Trans-Asian Railway network.

As a further step in this direction, the Asian Railways Association has been established to promote cooperative research, harmonisation of hardware technologies and operational practices. Nurturing merit and talent through award of scholarships is one of the initiatives of AITD. This programme is planned to be extended to South and Southeast Asian countries.

13. Mobilisation of Resources

Some of the measures to mobilise additional resources would include extension of line of credit by member countries and funding of projects by multilateral agencies – Asian Development Bank (ADB), World Bank, etc. Public-private partnerships (PPPs) also provide a useful mechanism to garner finance from the private sector. Another feasible method is to levy a fee on EXIM traffic to be used exclusively for upgradation of facilities at the borders. Furthermore, a dedicated infrastructure fund can be set up with contributions from the member countries and multilateral bodies.

14. South Asia and Beyond Linkages

In South and Southeast Asia, as in case of other regions, transport projects are an essential component under various regional groupings (South Asian Association for Regional Cooperation (SAARC), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), Mekong-Ganga Cooperation). There is need for their integration, particularly in the context of development of Trans-Asian Railway and Asian Highway networks. In this context, it is necessary for the member countries to sign operational agreements. A beginning can be made at bilateral or sub-regional levels.

15. Some of the Initiatives Underway

Prior to Independence, land transport linkages included ferry crossings of the major rivers. The rail system was beset with problems of multi-gauge. In the post-Independence period, major programmes have been undertaken to build bridges over the rivers in India and Bangladesh – Brahmaputra, Jamuna, Meghna. Also, the two countries have adopted a policy of reconfiguring their railway systems on broad gauge standards. Thus, for the first time in history, through services between Kolkata and Dhaka have become possible.

In an important inter-country cooperation, a multimodal transport project between Indian ports on the eastern seaboard and Sittwe Port in Myanmar and its inland extension to the north-eastern states in India is underway. This would provide an alternate link to this land-locked region. Stillwell road from Ledo in India to Myanmar is in the process of being operationalised after decades of closure. In the western part of

the sub-continent, a rail link between Karman and Zahidan has been operationalised (Pakistan-Iran).

16. Messages

- (i) Transport networks are basic instruments for economic growth and poverty alleviation. Therefore, make use of the infrastructure already in place in the region for this purpose.
- (ii) Make borders irrelevant and aim at integrated seamless South Asia.
- (iii) Promote investment in inter-country infrastructure and develop Asian Highway and Asian Railway networks.
- (iv) Promote rail and inland water transport in the context of looming environmental crisis.
- (v) Regional rather than global production networks are likely to become more important in future.
- (vi) Historic opportunity to be a part of resurgent Asia. There is a noticeable shift in the epicentre of trade from West to East.
- (vii) Regional cooperation would strengthen democratic polity that has emerged in South Asia after a long period of time.
- (viii) Technical issues must not be held hostage to antagonistic political environment.

Issues of Transport Connectivity in South Asia

Amita Batra*

Regional connectivity is often narrowly perceived as a facilitator in enhancing intra-regional trade. However, the meaning and purpose of regional connectivity is to be understood within a broader framework of making a region globally competitive. The underlying function of integrated transport and communication systems is to improve access to sub-regional markets in response to which individual countries would be required to make structural changes in their production capacities that can then help expand and diversify the basket of goods available for exports. Well connected regional markets are also more attractive as destinations for foreign direct investment (FDI) than individual countries. The larger connected markets provide scope for exploiting economies of agglomeration and integrated production networks that contribute to more efficient and competitive production possibilities. The positive spillover effects of physical infrastructure across borders are particularly beneficial for smaller economies that may otherwise be constrained by their size, limited resources and markets. For South Asia, regional connectivity holds relevance as cross-border connectivity can be an essential contributory factor to the region's developmental prospects by connecting economies at varying levels of development, and thereby helping to leverage complementary strengths and synergies in the region. In South Asia in particular, connectivity ought to be promoted to take advantage of the economic dynamism that India and the rest of the region has experienced over the last decade. An over 5 per cent rate of growth experienced by almost all the economies, combined with an over 8 per cent average annual rate of growth of the Indian economy prior to the global financial crisis augurs especially well for a cooperative and collaborative economic agenda, and regional connectivity would give it the necessary push. India has also been among the first few economies in the world to regain its pre-crisis growth of 8 per cent in 2010. The emphasis on regional connectivity acquires added significance in the wake of the global financial crisis when looking inwards for growth impulses has become imperative

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for all regions. South Asian countries that have pre-dominantly looked westwards for export markets now need to reorient themselves towards South Asian markets as the former may yet take a long time to regain their pre-crisis growth levels. Physical connectivity is therefore imperative for regional prosperity, and this may also be able to provide a stepping stone towards realising the vision of a South Asian economic community in the long-run.

An added dimension to connectivity in South Asia is with reference to the landlocked countries. In South Asia, Bhutan, Nepal and Afghanistan are landlocked and geographically constrained in accessing other markets unless facilitated by the neighbouring countries. The landlocked countries by virtue of being physically bound on all sides by another country become dependent on the neighbouring countries' goodwill and support to further their own progress. The neighbouring countries' willingness to allow them to share their infrastructure is, in turn, a function of their bilateral relations at the political level, neighbour's domestic rules and regulations, laws and practices governing trade and transit, as also the neighbour's internal conditions with regard to peace and stability.¹ To a large extent, therefore, trade and related growth prospects for a landlocked country are tied to adjoining countries. Given that three small and less developed of the South Asian economies are characterised in this manner, there is even greater need for the region to place appropriate emphasis on developing regional connectivity. The bilateral trade and transit arrangements in this regard, as presently designed and implemented, do not suffice and need to be carefully reexamined.

Thus, given the need to evolve and develop connectivity in South Asia, it may be appropriate to examine the scope for connectivity in the region. In South Asia, road transport accounts for 65-70 per cent or more of the freight movement, and dominates the overall regional transport system. Additionally, South Asia has one of the largest railway networks in the world, and even though railways have been losing market share to road transport, this trend could be reversed by undertaking investments in railway development plans in the region. There is also scope for development of the existing regional inland waterways between Bangladesh and India as a means for facilitating trade between these economies. Inland waterways could play a more prominent role in the transport of low-value bulk cargo across some points in India and Bangladesh. At the same time, it is important to improve sub-regional land and inland water connectivity to and from the eastern and northeastern part of the sub-continent with a view to facilitate connectivity within the region and to Southeast Asian and East Asian countries.

While there are multiple modes and transport systems in the region, there remain many challenges that would need to be dealt with prior to integrating systems across countries in South Asia. First and foremost, even though road network dominates the region, the overall quality of road infrastructure in South Asia requires improvement as it has not been in use for a long time since independence, is disrupted or fragmented and gaps have appeared because of neglect and poor, or lack of maintenance over time.

¹See Faye *et al.* (2004).

As regards rail transport, gauge difference is a major challenge for efficient international trade. As a basic requirement to regional connectivity, the gauge system, the distance between two rail tracks, that varies from country to country would need to be harmonised. Only after gauge standardisation will rail transport become a possible substitute or supplement to land transport in the region. In addition, regular container service networks would need to be upgraded to enhance competitiveness of railways in the region (Batra 2005). Some immediate tasks in this context could, therefore, include modernisation and upgradation of the quality of road, rail and inland water and coastal and international shipping and communication networks along with efforts towards promoting joint ventures in construction of transport capacities and production of rolling stocks and communication hardware in the region. In aviation, improvements are needed in airport capacity, cargo handling capacity and intermodal connectivity to further trade potential of this mode of transport.

As an essential support to regional connectivity, it is also necessary that trade facilitation be taken up more seriously in the region. While trade facilitation is multidimensional and there is scope for improvement on several fronts, some immediate measures would greatly help in regional connectivity. For example, full utilisation of information technology (IT) for automated customs clearance is required in parallel with overall customs modernisation and reforms. Electronic data interchange that is widely used in other regions allows the electronic exchange of documents and forms, and thereby the streamlining of clearances. This should be implemented by all South Asian economies also. The adoption of the UNCTAD-developed Automated System for Customs Data (ASYCUDA) system in many countries across the world has led to a reduction in paperwork transactions, and the same can be done in South Asia. Border infrastructure also needs to be improved. Finally, improving IT services is as important to trade facilitation as developing physical infrastructure. Continuing to deregulate telecommunications, opening markets to competition, and investing in and financing infrastructure will not just lead to better quality of services, but will also lower transaction costs and expand trade across the region. Efforts need to be made both at the regional and national levels to organise movement of goods across borders in shorter period of time, unencumbered by unnecessary paperwork and bureaucratic hurdles.

Alongside infrastructural improvements, there is also the need to evolve and implement specific transit trade agreements to promote intra-regional connectivity, as well as connectivity to neighbouring regions in Southeast, Central and West Asia. Again, going beyond South Asia to other sub-regions of Asia contributes to broadening the horizons for complementarities to be established and exploited towards more trade in the region. Ultimately, this would contribute also to the larger vision of Pan Asian economic integration. In particular, this should be taken up by Bangladesh, India, Afghanistan and Pakistan, all countries that are currently constrained by existing transport infrastructure and lack of supporting formal agreements on a bilateral and/or regional level. In this context, Afghanistan, Pakistan, India, Bangladesh and Myanmar should jointly and actively promote and develop transport corridors through Asian Highway, Trans-Asian Railways and land and sea routes as corridors to Association of Southeast Asian Nations (ASEAN) countries, China, Central Asia and West Asia. As additional but

necessary support measures, South Asian countries also need to enter into local currency swap agreements with assistance from the central banks for settling payments in local currencies for charges and fees for cross-border movements of goods, people and investment, as also introduce multiple entry visas for transport operators, consider issuing to SAARC (South Asian Association for Regional Cooperation) nationals visas on arrival, and increase visa exemption stickers to businessmen recommended by business and trade.

Having outlined the temporal relevance of connectivity for South Asia within and with countries of the other sub-regions in Asia, it may also help to delineate some of the recent landmark decisions by the SAARC towards achieving this objective. The Fourteenth SAARC Summit was held in New Delhi with the central theme of connectivity. As an outcome of the Summit, Heads of Governments of member countries agreed to improve intra-regional physical, economic and people-to-people connectivity. Since the Summit, there have been four ministerial meetings organised to focus on areas of physical, financial and security connectivity. At the Sixteenth SAARC Summit at Thimphu in Bhutan, the 2010-2020 decade was jointly declared as the *Decade of Intra-regional Connectivity in SAARC*. The centrality of connectivity to further deepen and consolidate regional integration was reiterated in the joint declaration as was the importance of developing transport infrastructure and transit facilities in the region, especially for landlocked countries. Other developments in this context include the 2010 Agreements on regional connectivity between Bangladesh and India, recent initiative of Bangladesh to sell seaport services to Bhutan, India and Nepal, USD 1 billion soft loan that India granted to Bangladesh to help it upgrade its transport infrastructure as well as the agreement by Pakistan in 2010 to allow transit facilities to Afghanistan.

In order to take the agenda of regional connectivity forward, some important transport corridors have also been proposed. These include the Lahore-Delhi-Kolkata-Petrapole-Benapole-Dhaka-Akhaura-Agartala (2,453 km); Kathmandu-Nepalgunj-Delhi-Lahore-Karachi (2,643 km); Kathmandu-Birgunj-Kolkata-Haldia (1,323 km); and the Thimphu-Phuentsholing-Jaigon-Kolkata-Haldia (1,039 km). At the same time, two priority routes have also been identified in the Asian Highway network touching upon South Asia. One of these routes connects Iran, Afghanistan, Pakistan, India, Bangladesh, Myanmar, Thailand and Vietnam, while the other route links Iran, Pakistan, India, Nepal, Bangladesh and Myanmar. Some other proposed and possible links that can be established and would go a long way to establish regional connectivity include bringing the railways of India and Bangladesh under the Trans-Asian Railways which consists of the railway systems of Pakistan, India and Bangladesh; integrating Ganga, Brahmaputra and Meghna waterways with the sea ports in India and Bangladesh; initiating ferry service between Colombo and Kochin, and Colombo and Tuticorin; and establishing air links so that tourism can receive a great boost. Airports in Nepal and Bhutan should be upgraded with the objective of promoting tourism.

An important requirement in establishing and facilitating regional connectivity is the formulation of a regional transit arrangement. At present South Asia does not have a regional transit agreement. The regional trade agreement South Asian Free Trade Area

(SAFTA) under Article 8 provides for adoption of trade facilitation measures, transit facilities for efficient intra-regional trade, especially for the landlocked member states, and development of communication systems and transport infrastructure. However, little progress is evident apparently on account of Article 8 being more a reflection of member states' positive intent rather a concrete specification of implementation strategy or design. The absence of transit arrangements between bordering non-landlocked countries, such as between India and Bangladesh, or India and Pakistan, has in particular impeded South Asian landlocked developing countries efficient integration into the global economy as well as diversification of their intra-regional trade. It may be noteworthy that a regional transit agreement/arrangement helps create a level playing field and addresses the problem of low bargaining power of the smaller and vulnerable nations, particularly landlocked ones. Although in South Asia bilateral agreements involving landlocked developing countries exist, these have often been unbalanced, with the corresponding transit state(s) frequently in a dominating position and dictating the terms of the Agreement. If, instead, a regional agreement is formulated and implemented, the landlocked countries stand to secure better transit rights, and the realisation of such rights will be less dependent on their political relationship with any particular country as any restriction and the resultant dispute will be a regional issue as opposed to a bilateral issue. Other regions and sub-regions like the Shanghai Cooperation Organisation, ASEAN, Greater Mekong Subregion (GMS) have arrangements and agreements towards transit and transport. The bilateral transit arrangements between the three landlocked developing countries and their principal transit neighbours are not observed to work equally well, and this has been most evident in the case of Bhutan and Nepal. Bhutan owing to its special relationship with India enjoys better transit procedures in comparison with Nepal. Bhutan is an exception to the administrative burden of transit as all Bhutanese trade transit through India is handled by Bhutan's own custom's agency. While part of the ease of transit is because of its good working relations with India, it is also on account of the small size of trade transit in the case of Bhutan. Nepal has a generally positive relationship with India, but when bilateral relations have been strained India has exercised its inherent advantage over Nepal. Nepal does not enjoy the hassle-free transit enjoyed by Bhutan. Both Bhutan and Nepal are unique in having only one transit neighbour, India (Faye *et al.* 2004).

As regards Afghanistan, the issue of transit is strategic given its geographic location. Afghanistan has the potential to serve as an energy transit corridor in Asia. Thus far Afghanistan has had difficulties in trade and transit owing to internal disturbances, civil war that have affected its transit trade through Pakistan. Domestic political instability has also prevented it from fully exploiting its rich resources of oil, gas, coal, iron, chrome and copper for trade purposes. Besides security issues, poor quality of roads and logistical hurdles also hamper Afghanistan's accessibility in the region. Also, continued unofficial trade, including opium trade and re-export trade, is an increasing source of tension with Pakistan. Under the 2010 Trade and Transit Agreement between Afghanistan and Pakistan, Afghanistan has been allowed to export consignments to India border via the Wagah border. In return Pakistan gets access to the Central Asian Republics through Afghanistan. The Agreement, however, does not allow Delhi a trade corridor to Afghanistan via Pakistan. Negotiations are also underway for a pipeline that

will transport natural gas from Turkmenistan through Afghanistan to Pakistan, and then to India. Pricing and transit fee in this regard are currently under discussion and finalisation between these involved countries.

Finally, it may be insightful in the context of regional connectivity to draw a comparison between South Asia and ASEAN. ASEAN has been observed to face similar challenges as South Asia with regard to physical connectivity such as poor quality of roads and incomplete road networks, missing railway links, inadequate maritime and port infrastructure including dry port, inland waterways and aviation facilities, widening of digital divide, and growing demand for power. To resolve these connectivity constraints, the regional organisation has drawn up seven strategies through multimodal transport system, enhanced information and communications technology (ICT) infrastructure and a regional energy security framework. To establish institutional connectivity ASEAN has adopted ten strategies that include harmonisation of standards and conformity assessment procedures among regional economies and operationalising key transport facilitation agreements including ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT), ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST) and ASEAN Framework Agreement on Multimodal Transport (AFAMT). ASEAN also requires that its member states must fully implement their respective national single windows towards realising the ASEAN Single Window by 2015 to bring about seamless flow of goods at, between and behind national borders. At the same time, an ASEAN Single Aviation Market and an ASEAN Single Shipping Market are to be pursued in order to contribute towards the realisation of a single market and production base, which is the ASEAN goal of an economic community. For each of these objectives, ASEAN has formulated an agreement that is designed and programmed for implementation. There is, therefore, formal participation by all in the process of institutional connectivity. As regards people-to-people connectivity, two strategies have been formulated. These include promotion of deeper intra-ASEAN social and cultural interaction, and understanding through community building efforts. Greater intra-ASEAN people mobility is also facilitated through progressive relaxation of visa requirements and development of mutual recognition arrangements to provide the needed impetus for concerted efforts in promoting awareness, collaboration, exchange, outreach and advocacy programmes to facilitate the ongoing efforts to increase greater interactions between the people of ASEAN. In all aspects ASEAN has a master plan and identified prioritised projects. There is in ASEAN's case, therefore, a clear and firm desire to overcome the constraints in regional connectivity. Towards the objective of regional connectivity, formal strategies and plans with programmes of implementation have been taken up by respective authorities at the national and regional level. In addition, alongside the master plan critical inputs like mobilisation of required financial resources and technical assistance to implement the key actions and prioritised projects stipulated under the adopted strategies have been taken care of through innovative approaches like the establishment of an ASEAN fund for infrastructure development, public-private partnership (PPP), development of local and regional financial and capital markets, particularly to finance the key deliverables identified to be achieved by 2015. ASEAN will further strengthen partnership with external partners, including multilateral dialogue partners, and they have worked out an institutional

mechanism for coordination and monitoring the progress scorecard, etc. Similarly, South Asia needs a more proactive and cooperative approach to achieving regional connectivity that is essential to not just enhancing intra-regional trade, but also for regional competitiveness and growth.

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Transport Connectivity: The Case for Pakistan

Ghulam Samad*

Introduction

Realising the importance of the transport connectivity, the Pakistan government initiated the National Trade Corridor (NTC), worth USD 9 billion in 2005. Out of this, total USD 5 billion was allocated for highways development, USD 1.5 billion for modernisation of Pakistan Railways, and expanding its tracks to Afghanistan and Iran, and around USD 2.5 billion for improving ports and airports. The NTC map showcases

Map 1: National Trade Corridor (NTC)



Source: New Growth Strategy 2011, Planning Commission of Pakistan.

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the Pakistan trade corridors. In the north, it has been linked with China; at the south, linked with Afghanistan, Central Asian countries, and extended to Iran; and at the east linked with India. It has also been estimated, that the NTC would annually save around USD 4.75 billion. However, certain challenges like fiscal constraints hinder the objectivity of the NTC.

State of Transport and Logistic Infrastructure

Road Sector

The Global Competitiveness Report 2010 ranked Pakistan 65 out of 133 countries. Among the South Asian countries Pakistan's performance in the road sector is relatively better; India is ranked 89, Sri Lanka 60, Bangladesh 95 and Nepal 126. However, the road density, which is an important determinant of infrastructure development, is low at 0.32 km/km². For India the Figure is 1 km/km². Japan has the highest road density with 3.07 km/km², United Kingdom (UK) has 1.62 km/km², and United States (US) has 0.65 km/km². Out of total expenditure, Pakistan spends around 65 per cent on National Highways and Motorways, which comprises of 3.65 per cent of total road network and carries 80 per cent of the total road traffic. The sector is pre-dominantly regulated by the National Highway Authority, which is quite reluctant about private sector investment. The Pakistan roads sector is a crucial link with India and Afghanistan, but it is barely operational in the present environment of political will and security situation.

Rail Sector

Pakistan Railways is currently underperforming as compared to its state of the 1980s. The changes in the government's priorities towards roads and air transport affected this sector most. Most of the freighting has been shifted to National Logistic Cell (NLC), and passenger trafficking is also at a low level. The productivity of Pakistan Railway's freight services is about one-eighth of Chinese Railways, one-third of Indian Railways, and half of Thai Railways. Currently Pakistan Railways has no freight train. Cross subsidising of the passenger services from freight services, continuous increase in railway fares to overcome the financial burden, and corruption no longer make the railways the economic mode of transport. Railroads in Pakistan are not linked with India and Afghanistan presently, although there are plans to operationalise the Peshawar (Khyber Pukhtoonkhawa)-Jalalabad (Afghanistan) railway track.

Civil Aviation

The Civil Aviation Authority (CAA) is responsible for managing all the airport services in Pakistan. Jinnah International Airport (Karachi) is the largest commercial airport both for passenger traffic and cargo shipments, followed by airports in Lahore (Punjab) and Islamabad (the capital). Since the mid-1990s the total international air traffic has been gradually decreasing. In Pakistan, many of the international airlines have stopped their operation from Pakistan. The growth of airline trafficking has been hindered by the

monopoly of Pakistan International Airlines (PIA), worsened security situation, and heavy regulation by CAA. Currently, PIA's weekly flight routine consists of four flights to Nepal, five to Bangladesh, four to Sri Lanka, and four to five flights to India. With such low air connectivity most of the passengers travel indirectly to these neighbour destinations via Dubai, Qatar and Abu Dhabi, spending more money and time.

Ports and Shipping

The Karachi Port Trust, Port Qasim and Gwadar Port are the three main ports contributing substantially to the Pakistan national economy. The Karachi Port handles around 35 per cent of the export cargo and 65 per cent of import cargo. The Port Qasim handles around 80 per cent of the import cargo and 20 per cent of export cargo. However, the Gwadar Port, operationalised in 2008, will require road linkages, provision of utilities and political commitments to become fully functional. Pakistan National Shipping Corporation (PNSC) is the largest state-owned corporation with the largest market share. The direct sea linkage between Pakistan and India are again very low. Most of the trade takes place via Mumbai-Dubai-Karachi, which require around 6 days without delaying; the direct trade from Mumbai-Karachi would, on the other hand, require 1.5 days without delaying.

Connectivity Issues and Reforms

The Pakistan transport sector is heavily regulated and the entry of private sector firms is difficult. Recent medium-term growth strategy plans released by the Planning Commission of Pakistan, strongly calls for deregulation of the transport sectors. There is a lack of coordination when it comes to Pakistan's transport, transport infrastructure and connectivity with the rest of the South Asia, particularly in terms of consensus on standards and quality.

Key issues and some reform measures are suggested below in order to improve the transport connectivity in Pakistan.

Issues

Roads and Railway

- Government spending for roads between 2004-2009 was PKR 141 billion, while for railway it was a mere 40 billion;
- Both suffer from neglect in maintenance;
- Subsidies on rail travel crowd out the prospect of private sector investment;
- Long clearing times, insufficient capacity and higher costs at dry ports;
- Due to poor rail freight, trucks charge higher prices;
- Excessive burden on national highways due to other modes of freight transport not economically feasible for traders.

Aviation

- Poor time slots for long journeys where travel is mostly during business hours;
- Few direct flights to US, China and European countries. Almost no direct flights to Southeast Asia and Africa;
- An 18 hour journey to US takes 26 hours due to a single direct flight available between JFK airport from Lahore;
- Long delays on local flights due to inadequate airport handling, frequent bird hits, slow check-in procedures, and unavailability of sufficient aircrafts make air travel unattractive.

Reforms Measures

Roads and Railway

- Pakistan Railway should be privatised; including components such as stations, management of tracks, and services management;
- Create an independent regulatory body for Railways and Trucking;
- Sialkot Dry Port Trust model should be replicated by all the national dry ports;
- National Highway Authority of Pakistan's subsidies include: 1971-85 imports tariffs <5 per cent machinery imports free, EDB compulsory license for every construction imports for the sake of indigenisations;
- Computerised customs system piloted in Karachi should be implemented at all customs posts of Pakistan.

Aviation

- Domestic and international routes should be auctioned in a transparent manner instead of giving priority to PIA;
- All airports should be privatised in a phased manner while ensuring competition;
- PIA should also be privatised to ensure that the government does not have any financial stake in the market;
- Sixth freedom right should be introduced to make it economically feasible for airlines to serve on routes with less demand.

Conclusion

Physical infrastructures such as roads and aviation in Pakistan have performed better in South Asia, although, its connectivity is very minimal. Strong political commitment is required to boost the transport connectivity along with trade facilitation measures at borders. In addition, issues such as institutional capacities and consistency in infrastructure development would require attention in the case of Pakistan. Finally, Pakistan Railways, ships and ports, and the PIA should be separated from government authority and meaningful deregulation measures in these sectors should be introduced.

Towards South Asian Common Market: Trade Facilitation Agenda

Prabir De*

1. Introduction

Among the fast growing regional trading blocs, South Asia is distinctive for not being able to raise its regional trade share more than historical 5 per cent. Where the other regional trading blocs grew by facilitating trade within the region with greater access to transit of goods and services, South Asia has relied, to a greater extent, on a trade liberalisation approach having no presence of dedicated trade facilitation programme. Some studies indicate that improved trade facilitation would enhance regional trade very much the same way tariff liberalisation does.¹ Another group of studies suggest that an important means of promoting regional trade could be improved trade facilitation, which will not only enhance regional trade, but will also make the South Asian landlocked countries as land-linked. Undoubtedly, whatever implemented so far on trade facilitation front in South Asia has been mostly driven by bilateral and/or unilateral initiatives of the countries in the region. Unlike European Union (EU), region-wide comprehensive trade facilitation measures are simply missing in South Asia.

Trade facilitation is not end in itself – it is a continuous process of improvement of facilitating trade. It has several direct benefits such as improved trade competitiveness, increased foreign direct investment (FDI), and increased participation of small and medium enterprises (SMEs) in international trade.² Some trade facilitation measures like transit in South Asia are very critical to regional trade flow. The current transit arrangement in South Asia is fragmented and not seamless. We need to adopt a

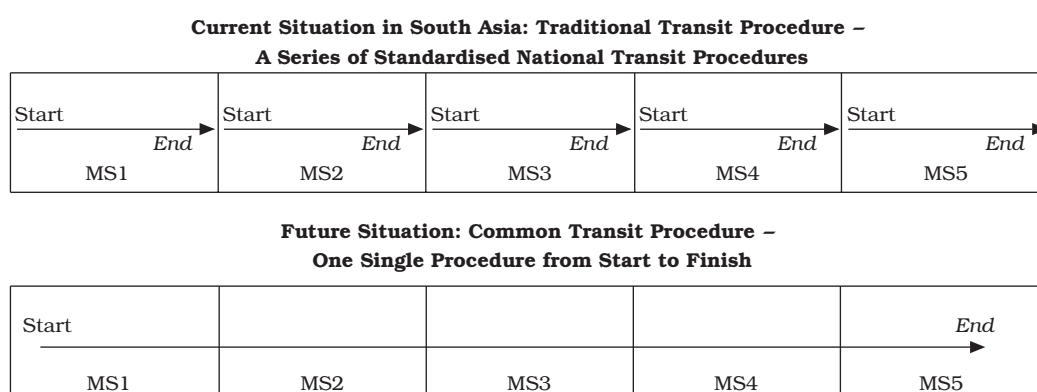
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¹ See *De et al.* (2012), for example. There are also many studies which show that trade liberalisation alone cannot generate the trade if not supported by trade facilitation. See for example, ADB and UNCTAD (2008).

² See, ADB and UNESCAP (2009).

common transit procedure for the entire region where we allow a seamless movement of vehicles with one single procedure from start to finish. Figure 1 diagrammatically presents this standard operating procedure. Although the overall economic performances of most of the South Asian countries in recent years have been impressive, there is concern that increasingly stubborn attitude towards regional transit may limit the potential for further scope of regional integration in South Asia. Therefore, a regional transit is a priori in order to achieve the goal of South Asian Customs Union (SACU) in 2015 and an Economic Union in 2020. Nevertheless, a regional transit would certainly pave way for deeper economic integration of the region.

Figure 1: Transit Procedure for South Asia



Source: Author's elaboration.

Note: MS stands for member state in a regional cooperation bloc.

2. Trade Facilitation in South Asia: Some Stylised Facts

South Asia's intra-regional trade has increased from USD 2.89 billion in 2000 to USD 14.67 billion in 2010. The trends in regional export share between 2000 and 2010 presented in Table 1 indicate exports from Afghanistan, Maldives and Nepal were increasingly directed to South Asia. Due to rising regional export growth, the gap between a single large exporter (i.e. India) and other South Asian countries has been narrowed in the last decade. Pakistan has witnessed an almost 21 per cent annual growth rate in regional export in the last decade, which was the highest in South Asia. However, wide variations in regional export are continuing to persist in the region (Table 2). With the rising regional trade, smaller economies, be it landlocked or island, are getting higher market access in South Asia. Pakistan's trade with Afghanistan has a close resemblance with India's trade with Nepal, where both Afghanistan and Nepal are landlocked countries, and solely depend on transit through neighbouring countries for their regional and global exports. Therefore, 'freedom of transit' means 'freedom to trade.' However, transit is not the sole determinant of regional trade growth. A whole lot of trade barriers have been penalising the regional trade, of which some are purely policy variables such as high sensitive list, complex non-tariff barriers, etc. As a result, South Asia continues to underperform in regional trade. In other words, South Asia has high trade potential, but is largely unrealised. In 2010, the intra-regional trade in South Asia was USD 15 billion against an intra-regional trade potential of USD 40

Table 1: Regional Export Trend

Country	Regional Export Value (Million USD)		Regional Export Share* (%)		Regional Export CAGR** (%) (2000-2010)
	2010	2000	2010	2000	
Afghanistan	274.66	60.30	51.61	42.61	16.37
Bangladesh	419.63	92.69	2.86	1.66	16.30
India	10160.08	1819.95	4.57	4.47	18.76
Maldives	22.89	13.81	21.66	18.13	5.18
Nepal	532.04	309.20	66.10	42.90	5.58
Pakistan	2688.54	404.26	12.56	4.55	20.86
Sri Lanka	568.20	189.88	6.70	3.48	11.58
SAARC	14666.04	2890.09	-	-	17.64

Source: Calculated based on IMF (2011).

Notes: *Share in global exports. **CAGR stands for Compound Annual Growth Rate.

Table 2: Intra-Regional Trade Matrix: 2010*(Million USD)*

Export to →	Afghanistan	Bangladesh	India	Maldives	Nepal	Pakistan	Sri Lanka	SAARC
Afghanistan		0.92	135.94	0.00	0.00	137.80	0.00	274.66
Bangladesh	7.36		321.79	0.00	9.81	68.63	12.03	419.63
India	562.38	3234.21		96.56	1828.76	1878.17	2560.01	10160.08
Maldives	0.00	1.11	3.94		0.00	0.01	17.83	22.89
Nepal	0.00	32.68	496.92	0.01		0.97	1.47	532.04
Pakistan	1724.09	393.69	294.75	4.53	0.90		270.58	2688.54
Sri Lanka	0.00	21.47	417.13	64.56	0.58	64.47		568.20

Source: Calculation based on IMF (2011).

billion.³ Therefore, about 65 per cent of intra-regional trade potential is remained unrealised in the region.

Causes of high underutilisation of intra-regional trade in South Asia are mostly economic in nature, and some of them are as follows: (i) high trade barriers, both visible and invisible; (ii) poor transportation links and lack of transit; (iii) inadequate trade facilitation measures; (iv) lack of supply capabilities of least developing countries (LDCs). Because of these barriers, the loss to industry and consumers in general is considerable. As a result, the informal trade in South Asia has grown considerably and in many cases has also exceeded the formal trade volume. Nonetheless, considering the economic strengths of South Asian countries, there exist much space and huge potential for the development of trade and economic relations in the region.

From trade perspective, and to forge greater regional integration in South Asia, there is a need to reduce the elements of trade costs. Despite falling tariffs, geographical proximity, and economic and cultural similarities, trade in South Asia has not been growing because of higher trade costs. According to Banik and Gilbert (2010), for a 100 per cent increase in trade costs, the value of exports from India to neighbouring Asia is expected to fall by between 42 and 7 per cent. De (2009) found that the trade transportation costs across South Asia are not only expensive, but also vary across

³ Author's own estimation based on a gravity model. For further details on gravity model estimates, please contact author (prabirde@hotmail.com).

goods and countries. The cost of trade transportation increases if the country is landlocked (e.g. Nepal). The land border in South Asia is over crowded, and needs special attention in order to reduce time delays and transaction costs. Therefore, the estimated intra-regional trade costs (tariff equivalent) for South Asia has appeared to be very high (Table 3). Higher trade costs not only restrict trade, but can also downplay the political will for forming a greater regional cooperation in South Asia.

Table 3: Intra-Regional Comprehensive Trade Costs in 2007 (Tariff Equivalent) (in Per cent)

Region	Southeast Asia	South Asia	East and Northeast Asia	North and Central Asia	Australia-New Zealand	EU	North America
<i>Intra-Asian Trade</i>							
Southeast Asia	53						
South Asia	139	138					
East and Northeast Asia	141	227	113				
North and Central Asia	280	282	204	149			
<i>Extra-Asian Trade</i>							
Australia-New Zealand	90	168	155	329	61		
EU	113	139	135	166	129	59	
North America	109	162	122	259	130	107	50

Source: Duval and Utoktham (2010).

There is another set of studies on the role of trade facilitation in achieving greater regional integration in South Asia. Trade facilitation reforms significantly contribute to greater regional integration in South Asia in terms of intra-regional trade (ADB and UNCTAD 2008). Greater intra-regional trade helps countries obtain lower-priced imports of intermediate inputs that are used in the production of exportable commodities. This increases the marketability of South Asian products to other regions in the world. Following trade facilitation reforms, all countries in South Asia produce and export more textile and clothing, and India gains a larger share of the global market both for automobiles and their parts and for other manufacturing goods. Such specialisation towards manufacturing can potentially enable South Asia to attain higher economic growth rates similar to those in East Asia (Ahmed and Ghani 2007). Export growth increases employment, particularly women's employment in textile and clothing. Improvement in trade facilitation increases the export prices, which further lead to increases in real wages. This rise in real wages can lift large numbers of low-income households out of poverty. Thus, trade facilitation has become an integral part of the agenda for regional economic integration and development in South Asia. Hertel and Mirza (2009) observed that trade facilitation plays an important role in determining patterns of global trade flows, where the relative effect on bilateral trade of improving an exporter's border logistics is larger than improving an importer's trade facilitation. This study has also revealed that proportionate increases in intra-regional trade are larger in all countries for textile and clothing, automobiles and their parts, and other manufacturing goods.

South Asia is also known for its dismal performance in trade facilitation at border.⁴ Landlocked countries in South Asia have been suffering, comparatively at a higher

⁴See, for example, De and Ghosh (2008).

scale than other South Asian countries, in improving trade facilitation performances, particularly at border. While larger economies (such as India) could be successful in lowering time to export, landlocked country like Afghanistan has witnessed a reverse trend, where export of a consignment still takes about three and a half months (Table 4). Export time in Nepal and Bhutan is still on higher side, compared to developing South Asian countries. In the case of cost to export (Table 5), most of the South Asian countries have witnessed a higher export cost except Pakistan, showing not only a wide variations in cost to export across the countries in the region, but also need for stronger policy interventions for improvement of trade facilitation in countries like Afghanistan, Bhutan, Nepal and Maldives.

Table 4: Time to Export (Days)

Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
2006	66	35	38	27	21	43	31	25
2007	67	35	38	27	21	43	22	25
2008	67	28	38	18	21	43	22	21
2009	74	28	38	17	21	41	22	21
2010	74	25	38	17	21	41	22	21
2011	74	25	38	17	21	41	21	21

Source: World Bank (2012).

Table 5: Cost to Export (USD per Container)

Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
2006	2500	902	1150	864	1200	1600	996	647
2007	2500	902	1150	864	1200	1600	515	647
2008	2500	844	1150	820	1200	1600	515	660
2009	3000	970	1210	945	1348	1764	611	715
2010	3350	970	1210	945	1348	1764	611	715
2011	3865	985	1352	1055	1550	1960	611	715

Source: World Bank (2012).

South Asian region suffers from excessive direct costs and time taken in crossing borders and witnesses inefficiency in cross-border transactions, which ultimately affect the trade negatively. Trade in this region is constrained by poor condition of infrastructure, congestion, high costs and lengthy delays. These problems are particularly severe at border crossings, many of which pose significant barriers to trade. De and Ghosh (2008) argued that transaction costs of India's exports to Bangladesh have increased despite simplification of documentations at border. This study also concluded that the rent-seeking informal economy is very much deep-rooted and makes the trade transaction expensive at border. Sharma (2007) observed that removing such inefficiencies in trade transactions would increase welfare in the region by about USD 116 million per year as compared to a gain in income of USD 418 million from a preferential removal of trade tariffs in the region. However, it is worthwhile to note that the gains accruing to some smaller countries in the region are much larger from removal of transaction inefficiencies than those from trade liberalisation. Therefore, the results underscore the importance of implementing reforms in border infrastructure and logistics in tandem with other policy reforms, such as transit to enhance the regional integration.

In order to reduce the delays in customs clearance procedures, South Asian countries have recently decided that electronic copies of specimen signatures and seals of officials who are authorised to sign the SAFTA (South Asian Free Trade Area) Certificates of Origin, may also be accepted in addition to sending the original copies of such documents in order to save time, and to ensure that the consignments are not held up at the customs border points (SAARC Secretariat 2012).

Transit in South Asia is long overdue. Mistrust among South Asian countries along with shortfall in institutional capacity primarily caused a long delay in accepting regional transit although bilateral transit exists between countries (e.g. India and Bhutan, or India and Nepal). The benefits of regional transit favour economies like Bangladesh (De *et al.* 2012). As noted in Table 6, Bangladesh can earn hefty revenue (over USD 1 billion) as transit fees from Indian vehicles plying to and from India's northeastern region to rest of India using Bangladeshi soil through two corridors. The amount may go up if other corridors between India and Bangladesh are also counted. Similarly, transit arrangements between India, Pakistan and Afghanistan will fetch a hefty royalty to Pakistan for movement of vehicles between India and Afghanistan using Pakistani soil. Studies indicate that there are also huge gains associated with energy conservation due to transit and efficient use of resources. Since much of the trade in South Asia has been taking place along land routes, particularly through the road corridors, the potential for freight movement by road between the geographically adjacent countries of South Asia is tremendous, once such transport movements can be facilitated.

Table 6: Estimated Transit Revenue of Bangladesh for India-Bangladesh Trade

Corridor	Country	Border Crossing	Revenue of Bangladesh from Transit (Million USD)*
Shilong-Sylhet-Dhaka-Kolkata (721 km)	India and Bangladesh	Dawki (India)/Tamabil (Bangladesh); Benapole (Bangladesh)/Petrapole (India)	660-1060
Agartala-Akhaura-Dhaka-Kolkata (478 km)	India and Bangladesh	Agartala (India)/Akhaura (Bangladesh); Benapole (Bangladesh)/Petrapole (India)	110-180

Source: Author's calculation.

Note: *Average of the period 2007 to 2010. Several assumptions applied.

3. International Conventions and Transit Arrangements in South Asia

Cross-border infrastructure alone would not facilitate the movement of goods and vehicles between countries if non-physical impediments are not removed (UNCTAD 2007; Subramanian and Arnold 2001). Trade facilitation can only serve its purpose, if based on harmonised legislation, institutions and practices, at sub-regional, regional and international levels. In spite of consistent efforts and achievements over the years, significant differences continue to exist between South Asian countries in terms of their legislation, institutional arrangements and practices. Operational standards that differ between neighbouring countries lead to lack of traffic and transit rights and barriers to the movement of goods and people, having a negative impact on countries' trade and economies. As goods begin to move along international transport corridors, the need for

harmonisation of laws and processes amongst a larger group of countries becomes clear. International conventions related to transport are essential in facilitating the movement of goods, especially at border crossings, by reducing procedures and formalities and time required.

In recognition of the fact that harmonised transport facilitation measures at the national and international levels are pre-requisites for enhancing international trade and transport along road and rail routes of international importance, United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP) at its 48th session adopted the Resolution 48/11 of 23 April 1992 on road and rail transport modes in relation to facilitation measures. It recommended that the countries in the region, if they had not already done so, consider the possibility of acceding to seven international conventions in the field of land transport facilitation, which were originally developed under the auspices of the Economic Commission for Europe (ECE)⁵:

- (a) Convention on Road Traffic, 1968
- (b) Convention on Road Signs and Signals, 1968
- (c) Customs Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention), 1975
- (d) Customs Convention on the Temporary Importation of Commercial Road Vehicles, 1956
- (e) Customs Convention on Containers, 1972
- (f) International Convention on the Harmonisation of Frontier Controls of Goods, 1982
- (g) Convention on the Contract for the International Carriage of Goods by Road (CMR), 1956.⁶

There has been a less concerted effort to accede to the aforesaid United Nations Conventions in South Asia. Most of the South Asian countries are yet to ratify international conventions for cross-border movements of goods and vehicles. There are seven United Nations Conventions that set out a basic framework for the cross-border movements of goods and vehicles. The regional extent of accession to these conventions is shown in Table 7.

In South Asia, Bangladesh and Sri Lanka have signed the Convention on Road Traffic, while India and Pakistan have signed both the Convention on Road Traffic and Convention on Road Signs and Signals. Bhutan, Maldives and Nepal have not signed any one of these seven United Nations Conventions. Except for Afghanistan, no South Asian countries have signed the Customs Convention on the Temporary Importation of Commercial Road Vehicles or the Convention on the International Transport of Goods under TIR Carnets. Accession to different versions of Conventions is likely to undermine facilitation objectives. For example, many countries are contracting parties to the Convention on Road Traffic (1949), but have not ratified the new version (1968) of the

⁵Currently, there are 56 transport-related international legal instruments aimed at facilitating the movement of goods, people and vehicles across international borders, initiated by the Economic Commission for Europe.

⁶For details of selected international Conventions on transport facilitation, including those contained in ESCAP Resolution 48/11, see UNESCAP (2007).

Table 7: International Conventions and Agreements and South Asian Countries*

Convention	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Convention on Road Traffic, 1968	No	Yes	No	Yes	No	No	Yes	Yes
Convention on Road Signs and Signals, 1968	No	No	No	Yes	No	No	Yes	No
Customs Convention on the International Transport of Goods under Cover of TIR Carnets, 1975	Yes	No	No	No	No	No	No	No
Customs Convention on the Temporary Importation of Commercial Road Vehicles, 1956	Yes	No	No	No	No	No	No	No
Customs Convention on Containers, 1972	No	No	No	No	No	No	No	No
International Convention on the Harmonisation of Frontier Controls of Goods, 1982	No	No	No	No	No	No	No	No
Convention on the Contract for the International Carriage of Goods by Road, 1956	No	No	No	No	No	No	No	No
GATT Article V (Freedom of Transit)	No**	Yes	No**	Yes	Yes	Yes	Yes	Yes

Source: Compiled based on UNESCAP (2007).

Note: *As of December 2007. **Accept to Article V of General Agreement on Tariff and Trade (GATT) as non-Member of the World Trade Organization (WTO).

Convention. The Convention on Road Traffic (1949) is still valid in relations between the contracting parties to it.

There are, however, bilateral transit arrangements between countries in South Asia. Some of them are as follows.

Bangladesh-India Agreements

Bilateral trade between India and Bangladesh is conducted under the provisions of the prevailing India-Bangladesh Trade Agreement, which was first signed on 28 March 1972.⁷ Under the agreement, both countries provide Most Favoured Nation (MFN)

⁷This was an interim arrangement that identified the commodities to be traded, and which fixed a monetary ceiling for the export/import of each commodity with a view to achieving balanced trade. This arrangement was later replaced by a new agreement in July 1973. The new agreement was amended in December 1974 to include a clause that bilateral trade between the two countries would be conducted in convertible currency effective from 1 January 1975. The current agreement was signed on 21 March 2006, replacing the earlier trade agreement signed on 4 October 1980.

treatment to each other except in the case of transit trade. India and Bangladesh signed a bilateral agreement entitled 'Protocol on Inland Water Transport and Trade' on 4 October 1999, and which was renewed in 2007, for bilateral and transit trade between the two countries. This agreement derives directly from the provisions of the aforesaid India-Bangladesh Trade Agreement. Besides, they also signed agreements related to the operation of railways for the purpose of trade in goods and services between the two countries. Under these agreements, both countries agree to operate trains (goods/passengers) through three specific border routes.⁸

India-Nepal Agreements

India and Nepal signed a bilateral trade agreement, the Treaty of Trade, on 6 December 1991. The validity of this Treaty of Trade in its existing form stands extended for until 5 March 2012. A protocol attached to this agreement defines the operational modalities, including the list of bilateral trade routes. They also signed an agreement on 6 December 1991 to control unauthorised trade, which sets out certain procedures for the control and prevention of smuggling. India and Nepal also signed a Treaty of Transit on 5 January 1999, under which India provides maritime transit and supporting services, and facilities to Nepal at Kolkata and Haldia Ports, which are located in the state of West Bengal, India. A protocol attached to the Treaty of Transit specifies detailed operational modalities, including entry and exit points to and from India for the transit trade of Nepal. In addition, both countries signed a memorandum to the protocol that specifies the detailed procedures to be applied to imports to, and exports from, Nepal. Besides, India and Nepal entered into a Rail Services Agreement for operating and managing rail services for Nepal's transit trade as well as bilateral trade between the two countries. Specifically, it delineates transit trade between Kolkata/Haldia Ports in India and Birganj in Nepal, via Raxaul in India, as well as between stations on Indian Railways and Birganj, via Raxaul, for bilateral trade.

Bhutan-India Agreement

India and Bhutan signed a bilateral trade agreement in 1995 that sets out the broad contour of free trade between the two countries.⁹ The protocol to this trade agreement specifies the bilateral trade routes (including transit) and detailed trading procedures. Interestingly, there are no references to transport, although the common understanding is that the free movement of vehicles between the two countries is accommodated by the Agreement. India provides transit to Bhutan through Kolkata and Haldia Ports.

Bangladesh-Nepal Agreement

Nepal and Bangladesh do not have a bilateral trade agreement. Instead, they have a transit agreement, signed on 2 April 1976, and a protocol attached to this transit

⁸The routes are Gede (India)-Darsana (Bangladesh), Singhabad (India)-Rohanpur (Bangladesh), and Agartala (India)-Akhaura (Bangladesh).

⁹Also to mention here that the India-Bhutan Agreement of 2003 states that "there shall be free trade and commerce between the two countries" and "free movement of goods flowing between the two countries." There are no references in either the agreement or the attached protocol, however, to road vehicles or other forms of surface transportation, or of the rules governing the use of Indian road space by Bhutanese vehicles (and vice versa).

agreement. This transit agreement and the protocol provide transit rights to Nepal in order to access overseas markets (third country markets), but they do not deal with their bilateral overland trade. In order to operate the bilateral transit trade, Bangladesh and Nepal signed an agreement entitled Operational Modalities for an Additional Transit Route between Nepal and Bangladesh, which provides terms for the use of Banglabandha (Bangladesh)-Phulbari (India)-Khakarbitta (Nepal) as a transit corridor for bilateral trade. India provides transit to Nepal and Bangladesh exclusively for their overland bilateral trade, but not for their extra-regional transit trade.

Bangladesh-Bhutan Agreement

Bangladesh and Bhutan signed a bilateral trade agreement on 12 May 2003 granting MFN status to each other's trade. The protocol attached to this bilateral trade agreement defines Burimari (Bangladesh)-Changrabandha (India)-Jaigaon (India)-Phuentsholing (Bhutan) as the transit route for bilateral trade between Bangladesh and Bhutan. India provides transit for the bilateral overland trade between the two countries.

Pakistan-Afghanistan Agreement

The Afghanistan Transit Trade Agreement, 1965 (ATTA) was signed in 1965 with the objective of granting and guarantee to both parties the freedom of transit to and from their territories. The routes that were identified included: (a) Karachi-Peshawar-Torkhum, and (b) Karachi-Chaman-Spin Boldak from Karachi Port. The provision to include additional routes was also incorporated in the agreement. After establishment of Port Qasim it was included in 1988. Pakistan is committed to UN conventions which require member countries to facilitate transit trade of landlocked countries like Afghanistan. Both the countries renewed the ATTA 1965 in 2010. The need for entering into the new Afghanistan-Pakistan Transit Trade Agreement, 2010 (APTTA, 2010) arose as the 1965 agreement did not facilitate containerised cargo and did not address the issues related to pilferage and smuggling of goods. The salient features of APTTA, 2010 include freedom of transit to both countries, allowing Pakistan access to Central Asian countries, allowing Afghanistan access to Pakistan's sea ports as well as to Wagha for its exports to India. The agreement does not allow Indian exports to Afghanistan through Wagha land border.

Regional Transit: Current Progress

South Asia is yet to conclude a regional transport and transit arrangement for cross-border movement of goods and vehicles. The South Asian Association for Regional Cooperation (SAARC) has the Inter-Governmental Group (IGG) to provide advice on the facilitation of transportation in South Asia. A succession of IGG proceedings shows that harmonisation of standards and mutual recognition in the transport sector has been the key issue in South Asia.

In recent years, there have been some important developments in the regional transportation in South Asia. Apparently, all SAARC countries have in principle agreed to a regional transit arrangement. As per the directives of the Fourteenth SAARC Summit, held in New Delhi in April 2007, the Ministers of Transport of SAARC

countries for the first time met in New Delhi on 31 August 2007. 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. Another development is that SAARC Expert Group has finalised the text of the Regional Agreement on Railways in August 2011 (SAARC Secretariat 2011). At the same time, sub-regional transit has been agreed between India, Nepal, Bhutan and Bangladesh. Bilateral document between India and Bangladesh was signed during the state visit of Indian Prime Minister to Bangladesh in September 2011 to facilitate overland transit traffic in eastern South Asia sub-region. Given the current progress, according to SAARC Secretariat, demonstration run of container train between Bangladesh, India and Nepal is getting ready.¹⁰ India's integrated check post project in Petrapole (West Bengal part of India) has been launched very recently, which, once completed, would reduce time and cost of trade, and subsequently raise the trade competitiveness and trade flow. India's integrated check post at Attari-Wagah border, which was opened earlier this year, is a very positive development towards improvement of trade facilitation. Apparently, we find huge trade opportunities exist if Afghanistan-Pakistan Bilateral Transit Agreement also extends to cover Western South Asia sub-region.

There are several projects ongoing on transit and transportation in South Asia. For example, construction of railway line from Agartala in Tripura state of India to Akhaura in Bangladesh (14 km) and subsequently to Chittagong Port in Bangladesh has commenced. Ferry link between Colombo in Sri Lanka and Tuticorin in Tamil Nadu state in India has started earlier this year. Air Services Agreement (ASA) is being negotiated to facilitate travel between South Asian nations with single ticket to fly.

4. Conclusion

Transaction costs and time at borders affect trade flows very much the same way as do tariffs. It could therefore be argued that the benefits of trade liberalisation in South Asia have been limited so far, since the region has largely failed to reduce the transaction costs and time at borders. There are indeed sizeable gains to be made if it is made simpler for goods to cross the borders. Nevertheless, this study holds out, among other points, the importance of regional transit as major source of advantage for regional trade. It can be suggested that an important means of promoting regional trade could be improved trade facilitation measures such as regional transit.

In view of the role of GATT Article V (Freedom of Transit) and the required facilitation, the regional transit system in South Asia is a pre-condition for higher trade. Therefore, South Asian countries have to go beyond the existing pseudo bilateral transit arrangement in order to infuse a new dynamism in regional trade and investment, improving the connectivity, and building bridges among the people of the region.

The transit is a critical factor in a region's competitiveness and its trade prospects. We also need to undertake a series of trade facilitation programmes along with regional

¹⁰ Author's own communication with SAARC Secretariat, Kathmandu.

transit. Transit is as important as trade liberalisation. It is an intrinsic element of any cross-border movement of goods and vehicles, and yields significant influence on national and regional economies. Seamless movement of goods and services across the region would certainly help reduce trade transaction cost and time. With the increasing emphasis on administrative reforms, governance and security, there is an urgent need for a regional transit agreement in South Asia. Among the major causes of high trade transaction costs in Eastern South Asia are the cumbersome and complex cross-border trading practices, which also increase the possibility of corruption. The goods carried by road in South Asia are largely subject to transshipment at the border, which imposes serious impediments to regional and multilateral trade. The position is further compounded by lack of harmonisation of technical standards. Considering the region's emergence as a free trade area from 2006 onward, a regional transit will help South Asian countries to achieve the potential benefits of moving a Customs Union in 2015 and an Economic Union in 2020.

There are many possible areas of cooperation in South Asia. Undoubtedly, better market access, improved physical connectivity and regional transit, and the energy trade are important factors for unlocking regional trade potential. Besides, a greater engagement in these areas would generate employment opportunities and other economic and social activities, which, in turn, would help in reducing poverty (particularly in the bordering areas), enhancing FDI flows, and generating new business opportunities for the private sector.

At the same time, a regional transit arrangement will help South Asia to better integrate the region and also to strengthen the globalisation process. The scope and issues covered under the GATT Article V, which addresses traffic in transit, have become extremely important since intra-regional trade in South Asia has expanded. Quite naturally, in order to bring into operation a South Asian transit system, WTO offers several lessons.

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Air Services Liberalisation in South Asia*

Anushka Wijesinha**

1. Background and Objectives

The mutual interdependence between regional economic integration and transport connectivity is clear. Transport connectivity is necessary for increased exchange of goods and services and people-to-people connections to stimulate investments and business transactions. At the same time, transport linkages will not materialise in a substantial manner unless there is a degree of existing regional integration. Therefore, these two factors are interdependent and mutually reinforcing. It has long been recognised that South Asia is one of the least economically integrated regions in the world, with intra-regional trade stagnating at around 5 per cent. At the same time, transport connectivity in the region is also weak, characterised by a lack of direct capital-to-capital connectivity in many cases (for example, Sri Lanka-Bangladesh, Sri Lanka-Nepal, Pakistan-Sri Lanka, among others). Accordingly, in order to travel between these cities it is necessary to transit in the Middle East (usually Dubai or Doha) or Southeast Asia (Singapore or Thailand), increasing both cost and time of travel. These limitations in intra-regional connectivity undermine the potential for interaction of traders and investors to engage in business transactions.

In this context, it is important to identify the factors that contribute to limiting connectivity in the region, particularly air connectivity. Global air services are among the most restricted and regulated sectors of international exchange. This is influenced by the fact that the beneficiaries of liberalisation are fragmented and receive relatively small marginal benefits, while the losers are large, usually politically influential

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industries such as entrenched domestic airline monopolies. International air services have long been governed by a complex matrix of Bilateral Air Services Agreements (BASAs), which specify limitations on air traffic rights, number of airlines allowed to operate, methods on setting capacity on a route, tariffs and destinations that can be operated on flights between two countries. Air Services Agreements (ASAs) are notoriously opaque, with many provisions not being available for public consumption due to confidentiality clauses.

While in recent years, as a result of bilateral negotiations, these ASAs have become more flexible and liberal on the global scale, in South Asia they remain relatively restrictive. Organisation for Economic Co-operation and Development (OECD) countries have made substantial headway over the last two decades in liberalising market access and ownership. For example, the pioneering US domestic deregulation of 1978, the Australia-New Zealand Single Aviation Market Arrangement of 1996, and the European Single Aviation Market completed in 1997. Moreover, in the last two decades, over 85 'open skies' BASAs providing full market access without restrictions on designation, traffic rights, capacity, frequency, tariffs or code sharing, have been completed by around 70 countries (Findlay and Goldstein 2004).

Although the current level of air transport activity in South Asia is only a fraction of that in other regions, for example Southeast Asia, the prospects for future growth are strong. The key objective of this paper is to identify the factors that inhibit air connectivity in South Asia, and to suggest policy measures that could lead to greater air connectivity.

The rest of the paper is organised as follows. Section 2 reviews existing literature on air services liberalisation, while Section 3 gives an overview of the economic benefits of air services liberalisation. Section 4 describes the framework of air services regulations. Section 5 examines the extent of restrictiveness of the regulatory apparatus in effect in South Asia, that is, the available information on BASAs in the region; and Section 6 provides the current degree of connectivity in the region by mapping out the existing flight route operations in South Asia and identifying poorly serviced routes. An important component of the research involved consultations with key airlines that operate in the region to capture their perspectives on the factors inhibiting connectivity in the region. These perspectives are discussed in Section 7. Section 8 outlines a possible policy roadmap that could be adopted at the SAARC (South Asian Association for Regional Cooperation) level in order to enhance air connectivity in South Asia, and Section 9 concludes.

2. Literature Review

It may not be immediately convincing that aviation should be considered a key policy issue for developing countries, particularly those in the low-income group. As noted by Samson *et al.* (1998: 140), "the traditional wisdom that air transport is a luxury transport mode is still common in much of Asia." However, this industry is essential for the developing economies in Asia to gain more from globalisation and international trade.

Findlay and Goldstein (2004: 38) note that it "reduces the costs of trade, especially in high-value added supply chains such as electronics, perishable food, or cut flowers; attracts privatization-related investment supports tourism and more generally weaves together a modern society." Although it can be argued that the growth of civil aviation within a region is, to a great extent, contingent on the level of income, a dynamic civil aviation system can reduce transactions costs, facilitate access to global markets and integration with global and regional supply chains, and encourage foreign investment inflows.

Existing studies on the impact of air service liberalisation look at the impact of air service regulation on airfares and passenger flows. Using a statistical index of bilateral air service liberalisation, Gonenc and Nicoletti (2000) examine the effects of bilateral air service agreements on prices of air passenger transport in 13 OECD countries. This methodology was extended by Doove *et al.* (2001) to cover 35 countries. This research finds a direct and significant effect of restrictiveness on airfares, with larger effects for developing countries compared to developed countries.

Micco and Serebrisky (2005) draw similar conclusions on the differentiated impact of air service liberalisation for developed and developing countries, but with a reversed outcome. Examining the US Open Skies Agreements (OSAs), they investigate the impact of these agreements on airfares and on the share of US imports arriving by air. The study finds that for developed and upper-middle income countries, signing OSAs on average reduces airfares by 9 per cent and increases the share of imports arriving by air by 7 per cent, three years after the OSA is signed. Interestingly, they do not find significant effects of OSAs for low-income countries.

The most comprehensive study on the impact of liberalisation on passenger flows is conducted by InterVISTAS-ga (2006). The study covers 1,400 country-pairs worldwide and uses a gravity-type approach to explain passenger traffic. The impact of specific ASAs provisions is estimated using regressions analysing the impacts based on whether the agreement provides fifth freedom rights, price controls, capacity constraints and designation requirements.

A study, conducted on intra-APEC (Asia-Pacific Economic Cooperation) passenger traffic (Geloso and Shepherd 2009), provides some but not robust evidence that air service liberalisation has increased traffic in the region. This study relies on the Index constructed by the World Trade Organization (WTO).

Piermartini and Rousova (2008), using a gravity model, explain bilateral passenger traffic and estimate the impact of liberalising air transport services on air passenger flows for a sample of 184 countries. In order to assess the effective degree of liberalisation of the aviation market introduced by bilateral air service agreements, this study also uses the Index constructed by WTO (2006). They find robust evidence of a direct and significant relationship between the volumes of traffic and the degree of liberalisation of the aviation market. An increase in the degree of liberalisation from the 25th percentile to the 75th percentile increases traffic volumes between countries linked by a direct air service by approximately 30 per cent.

Grosso and Shiplend (2009) looked at liberalising air transport services in the Asia-Pacific region under the APEC Agreement. The detailed analysis of BASAs concluded by APEC economies reveals that, although some progress has been made, key restrictions on market access and on ownership links remain largely in place. Estimates, using the gravity equation, find a direct and statistically significant relationship between relaxing bilateral air services restrictions and air passenger traffic.

InterVISTAS-ga (2006) found extensive and significant evidence that supports the generally accepted 'conventional wisdom' that liberalisation of air services between countries generates significant additional opportunities for consumers, shippers, and the numerous direct and indirect entities and individuals affected by such liberalisation. Conversely, it has shown that restrictive BASAs between countries stifle air travel, tourism and business, and consequently, economic growth and job creation. This study has found that traffic growth subsequent to liberalisation of ASAs between countries typically averaged between 12-35 per cent, significantly greater than during years preceding liberalisation. In a number of situations, growth exceeded 50 per cent, and in some cases reached almost 100 per cent of the pre-liberalisation rates.

Piermartini and Rousova (2008) emphasised that increases in international air passenger transport are positively correlated with developments in trade as well as the growth of tourism. Grancay (2009) notes that removal of air services restrictions opens up new destinations and creates more frequencies and better flight connections, resulting in new markets for international businesses.

Studies have also considered regional aspects of air services liberalisation. ComMark Trust (2006), in their study on 'The Importance of Air Transport Liberalisation for Shared Economic Growth,' shows that if air transport in the South African Development Community (SADC) is liberalised, the entire region will reap the benefits of increased economic growth and employment opportunities. The study involved 12 SADC member states. The impact of liberalisation of air fares on 56 routes in SADC was analysed. The results show that air fares are 18 per cent lower on liberalised routes, which according to the available literature, could have increased passenger volumes by 14 to 32 per cent. The analysis also shows that the presence of a low-cost airline on a given route has reduced prices by an average of 40 per cent, which could have increased passenger volumes by 32 to 72 per cent.

Forsyth *et al.* (2006) have analysed the open skies options in the Association of Southeast Asian Nations (ASEAN) which have agreed to the formation of open skies within the region. The paper has recognised the wide diversity among member countries in many aspects, such as in terms of their gross domestic product (GDP) per capita, their size, aviation policies and the strength of their aviation industries – much like the SAARC countries. The study has looked at several options for greater convergences including taking an economic approach to aviation negotiations, liberalising within sub-regional groupings, a staged framework of liberalisation, and increasing the scope for low-cost carriers to compete, possibly through development of secondary markets. It will also be necessary to consider complementary issues such as competition and subsidy policies and ownership.

3. Economic Benefits of Air Services Liberalisation

The economic impact of the aviation sector in general is strong and pervasive. Aviation directly is a strong economic sector in its own right. It indirectly, contributes to the USD 700 billion global tourism industry as well as to the logistics industry. The industry also has a catalytic economic impact as improved aviation connectivity can contribute to higher national productivity by providing access to markets, enhancing communications and interactions between and within firms, and providing access to a larger labour/talent pool (Tretheway 2010). In a panel regression study, covering 48 countries over nine years, the author finds that a 10 per cent increase in aviation connectivity per USD 1 billion of GDP increases labour productivity by 0.07 per cent (as per aviation connectivity index supplied by the International Air Transport Association (IATA)).¹

Recent history has proved that the economic benefits of liberalised regional ASAs are substantial and compelling. It is no coincidence that the most developed economic regions in the world enjoy liberal air services markets. Countries have long since recognised that BASAs stifle regional progress, and steadily push for those agreements to be replaced by liberal multilateral agreements. USA was the first to initiate liberalisation of air travel, closely followed by the European Union (EU). In 1997, ASEAN members, inspired by success in the USA and EU, took significant steps to liberalise regional air travel (Tham 2008). In terms of air services, the South Asian region lags behind the aforementioned trade areas by some distance.

It may be argued that the rapid worldwide growth in air traffic over the last few decades is owing to the removal of air service restrictions within economic regions. Accelerated development in air services (through the removal of restrictions) was prompted by the growing development in global and regional production networks and the advent of Just-in-Time (JIT) logistics (Tham 2008). These networks and processes required strong support services, such as air travel. Furthermore, the growth in tourism and trade in newly industrialised and emerging markets necessitated speedy civil transport services.

We now consider the different benefits that emerge from the relaxation of air service regulations from a South Asian perspective, and four key areas for discussion have been identified:

- Creation of jobs in aviation
- Trade and economic growth
- Impact on air cargo
- Tourism

¹An example cited in this study is the case of Poland, where the connectivity index increased by 27 per cent with flights to the UK increasing from 58 per week to 250 (seats increasing from 7,000 to 40,000), which resulted in a cumulative increase in productivity of 0.19 per cent, valued at approximately USD 600 million. The UK too saw a rise in productivity, with the corresponding figure at USD 45 million.

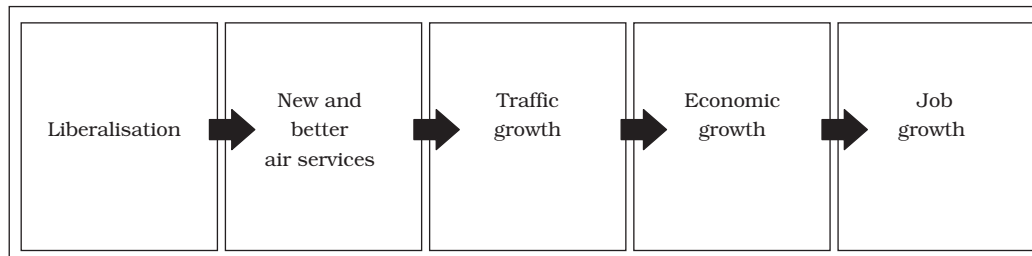
Creation of Aviation Industry Jobs

As stated earlier, the liberalisation of air services stimulates growth, which subsequently creates more jobs in the industry. This, in turn, will have a catalytic effect on the economy as a whole (discussed later). The expansionary effect of liberalisation (of air services) is best illustrated through a graphical presentation by Button and Drexler (adapted by Grancay 2009). In his illustration, Grancay compares the effects of liberalisation on supply and demand within the air services market, both at present and in the future.

According to Balaz and Williams (2006), within EU, the overall number of employees in civil aviation increased from 435,000 to 489,700 after liberalisation during the period between 1988 to 1996. Liberalisation, which creates increased air services, results in the creation of new airlines, branch offices and airports. The new jobs created necessarily include flight crews, administrative staff and ground handling staff. The easing of the restrictive Bermuda II agreement between the UK and USA resulted in the creation of just over 25,000 jobs in this two countries by 2004 (InterVISTAS-ga 2006).

In the long-term, liberalisation will have a catalytic effect (discussed below), creating more trade and jobs, which results in economies of scale. These economies of scale will create a new price at the predicted equilibrium point (P2). This phenomenon can also be illustrated as a chain of events as presented in Figure 1.

Figure 1: Impact Chain of Aviation Liberalisation



Source: InterVISTAS-ga (2006).

Trade and Economic Growth

Catalytic changes to the economic landscape caused by liberalisation can be separated into *demand-side factors* and *supply-side factors* (Grancay 2009). Demand-side factors refer to the growth initiated by end consumers, while supply-side factors refer to infrastructural changes. These are discussed below.

Demand-side Factors

Removal of air services restrictions opens up new destinations and creates more frequencies and better flight connections, which result in new markets for international businesses (Grancay 2009). Piermartini and Rousova (2008) also identified that developments in trade are positively correlated to increase in international air

passenger transport. They state that passenger transport is important for trade because travel is necessary to set up and maintain long distance business relationships. Relaxation of restrictions and falling costs encourage travel, which expedites business negotiations and stimulates investment and commercial transactions in the long-run. Ease of travel also encourages greater people-to-people connectivity, which has indirect implications for stimulating building of long-term regional cooperation and commerce. All these factors are of particular significance in the SAARC region.

Additionally, more comprehensive and cost-efficient air connectivity also complements and catalyses global and regional value chain development. Global value chains have transformed international production fragmentation worldwide, and firms are increasingly adopting new strategies of vertical integration and specialisation. Better air services connectivity, intra-regionally as well as between this region and others, would help South Asian firms to better integrate into 'global production networks.'

Supply-side Factors

As supply-side factors involve infrastructural aspects, it is important to understand what conditions need to be present for investors to be attracted to a particular market. Large multinational corporations (MNCs) treat proximity to airports as an important criterion in deciding where to invest (Grancay 2009). It is also understood that along with close proximity to airports, multinationals must consider the flight routes and flight costs to and from a particular territory. Liberalisation of air travel will increase flight frequencies as well as give consumers greater choice in flight routes and travel packages, thus encouraging multinational firms to invest in the region.

Finally, liberalisation of air services paves the way for changes in market structures (Grancay 2009). Producers and buyers get access to foreign markets, transport becomes more cost-efficient and administrative process minimised, thus changing market dynamics and increasing competition.

Tourism

Tourism is an economic driver for many developing regions, and South Asia is no exception. Tourism makes a significant contribution to the South Asian gross GDP, and is one of the top foreign exchange earners for the smaller countries in the region. The tourism industry is entirely dependent on the discretionary spending of consumers, and therefore, ease of travel will factor heavily in the traveller's decision on whether to patronise a particular tourist destination. Using a gravity model, Piermartini and Rousova (2008) established relationship between tourism and development of air services. They believe that the development of air services is essential for the tourism sector, especially for remote locations. South Asia would also benefit by promoting tourism in a regional manner, drawing on the vast diversity of attractions in the region and enabling the promotion of a unique product with several complementary facades. However, to make such options a reality, it is essential that travel within the region can occur in a simple, timely and cost-effective manner. This is far from the reality today. It should be noted that tourism was a key reason why ASEAN included air services as an area for development in the *Action Plan for Transport and Communication* in 1997.

4. Background to Air Services Regulations

Given the technical nature of the subject, it would be useful at this stage to provide a background to the nature of regulation of the global air services industry.

Civil aviation services for passenger and goods transport have always constituted a *sui generis* market, possibly with the exemption of its pioneering days when entry to global air services was essentially unrestricted. Some core characteristics distinguish the civil aviation market from others, and they include (adapted from Findlay and Goldstein 2004):

- Dominance of state ownership of airlines, except in USA and UK;
- High degree of immunity from competition laws, partly on grounds of national security and national pride;
- Rigid controls on market entry, capacity, tariffs, on the grounds of size of investment needed and the presence of network externalities;
- Existence of an international regime with specific international organisations and institutions;
- High degree of vertical integration, with de jure or de facto control and ownership links between physical infrastructure and air and ground-handling services.

A complete exposition of various air services regulations and their degrees of openness (referred as grant of rights) are provided in Annex 1 and Annex 2.

5. Air Services Agreements in South Asia

In this paper we look specifically at the air connectivity among five major economies in the SAARC region, namely India, Pakistan, Sri Lanka, Bangladesh and Nepal. We begin with an assessment of the restrictiveness of the ASAs, using an Index created by the WTO, that operate within this region. Based on the QUASAR referred to earlier, the WTO Secretariat has developed a scoring system that rates the openness of different ASAs in the world. The scoring structure of this Air Services Liberalization Index (ALI) selects key features of bilateral ASAs that affect air traffic and gives scores according to the degree of liberalisation of each feature, i.e. designation, withholding², tariffs, capacity, traffic rights, absence of exchange of statistics and allowance of cooperative arrangements (e.g. dual approval of tariffs, a very restrictive provision, is attributed zero points, whereas free pricing, the most liberal of the tariff provisions, is given eight points). The ALI has four different rating schemes, each providing a different weighting to a particular feature of restrictiveness that may be particularly influential depending on the nature of an ASA. The first scheme is a standard ALI, the second provides additional weight to the provision of the 5th freedom, the third gives additional weight

²The term 'withholding clause' is used by the International Civil Aviation Organization (ICAO), but this clause is often referred to as 'designation' or, more frequently, 'ownership' clause, given that the 'standard' requirement is that, to be designated by a Contracting State to utilise the rights granted in an ASA, an airline be 'substantially owned and effectively controlled' by the nationals of that Contracting State.

to ownership (withholding), and the fourth gives extra weight to the designation clause. We use this to generate ALI ratings for the ASAs that operate in South Asia and for which data was available. This is provided in Table 1.

Table 1: Air Liberalisation Indices of South Asian BASAs

Bilateral ASA	ALI Standard	ALI 5+	ALI O+	ALI D+	Type
Sri Lanka-Pakistan	8.0	13.5	6.5	7.0	i
Sri Lanka-India	6.0	12.0	5.0	5.5	c
Bangladesh-India	10.0	15.5	8.5	13.0	e
Bangladesh-Nepal	6.0	12.0	5.0	5.5	c
Pakistan-Nepal	6.0	12.0	5.0	5.5	c

Source: WTO Air Services Liberalisation Analytical Tool (www.wto.org).

Note: i = incomplete data; c = 3rd, 4th and 5th freedom, double approval of tariffs, single designation, substantial ownership and effective control, pre-determination of capacity; e = 3rd, 4th and 5th freedom, double approval of tariffs, multiple designation, substantial ownership and effective control, pre-determination of capacity.

The maximum ALI score that is possible is 50, and this applies to all four different scoring schemes presented in the Table 1. From this perspective, it appears that South Asian ASAs are very restrictive, with the highest ALI (standard) being 10 out of 50. However, as mentioned earlier, most ASAs that operate globally, remain somewhat restrictive, and therefore one finds that even the most liberal of the ASAs do not score very high, as is evident in Table 2.

Table 2: Weighted Air Liberalization Index (WALI) of High-Traffic Bilateral ASAs

ASAs Concerned	WALI
Top-67 ASAs	16.6
Top-100 ASAs	16.1
Top-200 ASAs	15.4
All QUASAR ASAs (1970)	14.0

Source: WTO (2006).

Nonetheless, it is clear that South Asian ASAs are even more restrictive than average ASAs that operate globally. Furthermore, from Table 3, it is clear that South Asian countries are relatively more liberal, in terms of BASAs with third parties, than with other countries in the region.

Table 3: ASAs between South Asian and Selected Extra-Regional Countries³

Country	Singapore				Japan				UK			
	St	5+	O+	D+	St	5+	O+	D+	St	5+	O+	D+
Sri Lanka	14.0	19.0	12.0	16.5	10.0	15.5	8.5	13.0	14.0	12.0	12.0	16.5
India	10.0	15.5	8.5	13.0	12.0	17.0	10.0	14.5	10.0	15.5	8.5	13.0
Pakistan	14.0	19.0	12.0	16.5	-	-	-	-	14.0	12.0	12.0	16.5
Nepal	17.0	21.5	14.5	15.5	10.0	15.5	8.5	13.0	8.0	7.0	7.0	11.0
Bangladesh	10.0	15.5	8.5	9.0	6.0	12.0	5.0	5.5	-	-	-	-

Source: WTO (2006).

³Singapore, Japan and the UK are selected due to the data availability for these countries' ASAs with almost all the selected South Asian countries.

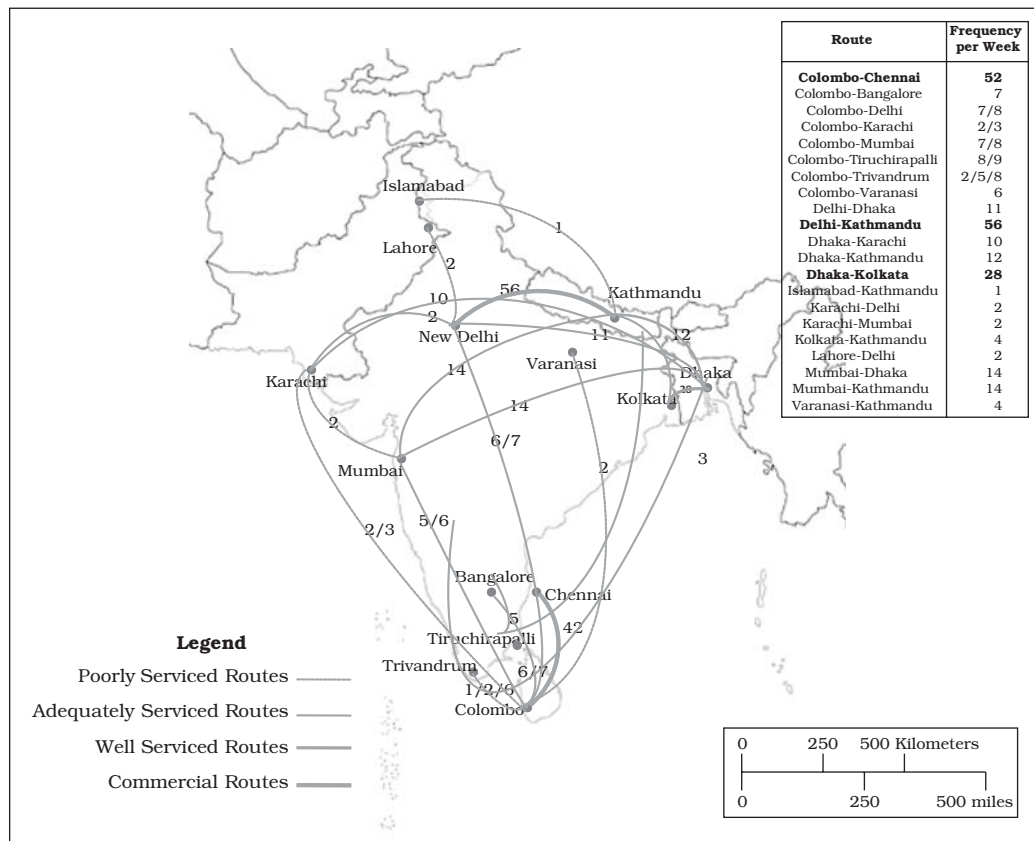
Therefore, quantitative evidence suggests that ASAs within the South Asian region are relatively more restrictive than most global ASAs and South Asian ASAs with parties outside the region. Thus the restrictiveness of bilateral ASAs could potentially be an important determinant of limited connectivity in the region. We now examine the extent to which the South Asian region is connected by air.

6. Extent of Air Connectivity in South Asia

Map 1 shows the existing air connectivity in the region based on respective airline websites flight schedules (as of April 2010).

It is evident that there are currently three routes that are considered 'commercial routes' in the region (more than double daily flights): Colombo-Chennai, Delhi-Kathmandu, and Dhaka-Kolkata. Mumbai-Kathmandu and Mumbai-Dhaka are considered 'well-served routes' with double daily flights. Three other routes are considered 'adequately serviced routes,' with more than 10 flights a week – flights between Dhaka-Karachi and Kathmandu-Delhi.

Map 1: Air Connectivity in South Asia (April 2010)



Source: Various South Asian Airline websites.

Considering a country-by-country basis, it is clear that India is the most connected country in the region, while Pakistan is the least connected in the region. Sri Lanka has no direct flights with Nepal, and to reach it passengers must travel via Delhi, Bangkok, Singapore or the Middle East. In a recent development, the Sri Lankan budget carrier, Mihin Airlines, launched a Colombo-Dhaka direct flight, which flies three times a week. Table 4 illustrates the level of connectivity.

Table 4: Number of Flights per Week by Country in South Asia

Country	India	Pakistan	Sri Lanka	Bangladesh	Nepal
India	-	6	120	53	78
Pakistan	6	-	3	10	1
Sri Lanka	120	3	-	3	0
Bangladesh	53	10	3	-	12
Nepal	78	1	0	12	-

Source: Various South Asian Airline websites.

The picture is even less encouraging when considering capital-to-capital connectivity. In this case, Colombo is not connected directly with Kathmandu or Islamabad. Islamabad is only connected with Kathmandu by one flight a week. Based on these statistics, the low air connectivity of South Asia is clear.

The next step is to identify whether this is a result of excessive regulations, as outlined in the previous section, or whether other factors are at work. It was necessary to supplement the quantitative findings pertaining to the restrictiveness of ASAs with qualitative research by obtaining the perspectives of representatives of airlines that operate in the region and aviation officials. In the next section, we discuss the findings of this qualitative research.

7. Findings from the Stakeholder Consultations

In order to obtain stakeholder views on factors that inhibit greater air connectivity in South Asia, the research included a number of interviews with key airlines and governments in the region. These included Sri Lankan Airlines, Jet Air and Kingfisher Airlines. Likenesses were also held with the Civil Aviation Authority of Sri Lanka and the Ministry of Tourism and Civil Aviation in Nepal.⁴ Despite best efforts to interview Pakistan International Airways (PIA) and Bangladeshi Airlines, it was not possible to interview them.

In this section of the paper, we summarise the findings from these interviews which identified perceptions on key constraints to increasing air connectivity in South Asia.

Commercial Viability

A unanimous perception among the stakeholders consulted was that commercial viability of routes in South Asia is as much an integral issue as regulatory factors. Given the fact that the region remains relatively poor with low per capita incomes, the demand for air travel in most countries other than India remains sub-optimal. This is

⁴Due to confidentiality issues, we will not disclose names of individuals who were consulted.

particularly true for intra-regional travel. The demand for flights for purposes of tourism and commercial interest between South Asian countries other than India remains low, and this low traffic potential is one factor that makes more frequent scheduled flights between these countries less commercially viable. Sri Lankan industrial players noted that India has moved little on granting more rights (on capacity) to metro airports, while granting more and more rights to operate to secondary airports. They noted that commercial potential is limited in these secondary airports, and that opening up more capacity rights to metro airports will be key in expanding air services to India.

Stakeholders further noted that there are certain aspects of regulation that could provide a marginal boost to intra-regional connectivity, and code sharing is one such factor.

Code Sharing

Civil aviation regulatory bodies in the region place restrictions on code sharing in some cases. Stakeholders who were interviewed stated that both Pakistan and Bangladesh do not allow code sharing between two third party airlines, and expect all agreements to take place with their national carriers. One of the interviewees was of the opinion that among the biggest barriers to travel from Sri Lanka to Bangladesh is the restriction to code sharing. He pointed out that only 10-15 passengers per flight travel from Sri Lanka to India with intention of disembarking in Bangladesh. Therefore, allowing Sri Lanka to code share with a third party airline will reduce costs and inconvenience to passengers. At present, divergence in quality and safety records deter certain airlines from code sharing with other national carriers in the region.

Operational Costs

Another factor that could affect commercial viability of routes is the magnitude of operational costs. The commercial viability of a route is contingent on the potential revenue and the cost of operating the route. Therefore, a reduction in the latter could, mitigate shortfalls in the former to an extent. In South Asia, high operational costs are prevalent in many cases in ground handling, airport charges and a number of other expenses. Some of these could be addressed by policy changes, such as revisiting monopoly rights accorded to ground handling, in cases such as Sri Lankan Airlines in Sri Lanka. In other cases, it is important for continued emphasis on enhancing efficiency in ground handling and other airport operations across the region.

Visa Bottlenecks

Another problem identified by the stakeholders was that in some cases immigration laws and visa processes undermine smoother connectivity. It was pointed out that the process of obtaining double-entry transit visas to India is cumbersome and this makes it difficult for passengers to transit via India in travelling through the region. The issue of more liberal visa regimes in general has been alluded to earlier in the section on the lessons from the Indo-Lanka air services liberalisation. It is clear from that case that a more liberal visa regime within South Asia will help spur tourism, creating much

required commercial demand for air connectivity within the region. Given the present limitations in economic integration and interaction within South Asia (other than on a bilateral basis with India), business visitors alone will not be sufficient to generate sufficient air traffic within the region; therefore, increasing intra-regional tourism will play a central role, and flexible visa regimes are an important determinant of this.

Geographic Issues

One other prohibitive factor in the development of air services is geography of the region. One interviewee illustrated the difficulties in navigating through the mountainous terrain surrounding the Kathmandu airport and the requirement of non-automated 'visual landing.' He pointed out that airlines have to set aside additional funds to pay for specialist pilots who are licensed to land in mountainous terrain, particularly when visibility is sub-optimal (a frequent occurrence at Kathmandu airport due to geographical reasons) and after dark. It was noted that only one international airline operates a night flight owing to the requirement of specialist trained pilots in landing at night at Kathmandu airport.

Route-specific Issues

Stakeholders were also asked for feedback on factors influencing the lack of flights between certain specific routes.

Colombo-Kathmandu

As far as Kathmandu is concerned, the geographic positioning of the airport makes night flights challenging. Sri Lankan Airlines indicated that their entire schedule will need to be altered to accommodate this destination point.

Colombo-Dhaka

The fact that Bangladesh does not allow code sharing on third party airlines, and that Sri Lankan Airlines is not willing to code share with Biman, makes this route unviable.

It was also pointed out that with regard to routes such as Colombo to Kathmandu and Dhaka, even if 5th freedom rights are granted by neighbouring countries, travel to those countries need to be economically viable in order to utilise those rights. This is not the case for travel to Kathmandu and Dhaka from Colombo. Commercial viability would require at least 100 passengers on a given flight to make the route feasible.

India-Pakistan

Being the two largest economies in the region, there is undoubtedly potential commercial viability, *ceteris paribus*. However, it was felt by interviewees that the political relations between the two countries have compromised negotiations between the airlines of the two countries. The negative spillover of political tension has therefore undermined connectivity between these two countries.

Challenges

Stakeholders were also asked for perceptions on the key challenges that would result from a more liberal environment in civil aviation regulations in South Asia.

Low-Cost Carriers

Deregulation will lower entry costs for low-cost carriers (LCCs), which will threaten national full service carriers (FSCs) in terms of commercial viability. Existing LCCs too will thrive and expand in an open aviation market. However, it was felt that rather than creating a new market through low pricing, LCCs tend to infiltrate and erode the target market of full service carriers. The end result is that new benchmark pricing is created below the breakeven point of FSCs (at least where some routes are considered).

Infrastructure

While at present, capacity is not significantly affected by shortfalls in infrastructure, both in cases of airports and airlines, these issues would be important to rectify in the long-run in order to accommodate potential increased traffic in a liberalised environment.

Tretheway (2010) shows that in several countries investment in airport infrastructure (along with investment in airline capacity) provides strong rates of return by increasing connectivity and contributing to increases in the national GDP (Table 5).

Table 5: Investment in Air Transport: Developing Country Rates of Return

Country	Airport Investment (Million USD)	Aircraft Investment (Million USD)	Increase in Connectivity 2000-2005 (%)	Increase in National GDP (%)	National GDP in 2000 (Million USD)	GDP Increase (Million USD)	Annual Rate of Return (%)
Cambodia	248	538	61	0.323	31085	100	19
El Salvador	256	546	43	0.245	34592	85	16
Jordan	26	334	76	0.385	26048	100	28
Jamaica	23	168	34	0.199	13123	26	16
Kenya	61	348	85	0.417	50007	209	59

Source: Tretheway (2010).

Political Economic Factors

As this paper noted in an earlier section, the beneficiaries of liberalisation are numerous and fragmented and receive relatively small marginal benefits, while the losers are large, usually politically influential industries such as entrenched domestic airline monopolies. Given this, deregulation poses inherent political economic challenges. For example, deregulation of airline-related services at Sri Lanka's main international airport, currently held in monopoly by the full state-owned national flag

carrier Sri Lanka Airlines, is not considered an option.⁵ Much of the losses of the airline's direct operations have been more than offset by the monopoly profits earned from its ground handling and catering services provided to all airlines.

8. Policy Roadmap for South Asia

The case for greater liberalisation of air services is strong. South Asian policymakers and stakeholders examining the issue need to take note of the substantial evidence from other research studies which demonstrate the economic benefits of air services liberalisation like reduced fares and some employment creation in the short-run, and the catalytic growth of direct and indirect employment and enhanced trade in the longer run.

This paper has examined the nature of air service connectivity in South Asia and found that the regulatory issues, as per the BASAs that operate within the region, are fairly restrictive, but there are several other related issues that have caused the region to be characterised by limited air connectivity. The paper also finds that, as revealed by stakeholder consultations, the limited number of economically viable routes poses a key challenge in profitably expanding air connectivity in the region.

While efforts are made to formulate a more liberal South Asian air services connectivity framework, these other related issues, for instance introducing more competition in national air transport and support services markets and addressing infrastructure constraints, need to be simultaneously addressed. A SAARC-led collaborative programme could give the necessary impetus for South Asian countries to begin addressing these issues. It would be useful if such a programme is informed by an examination of other regional efforts at tackling similar issues. Sector stakeholders need to be made aware of the process and measures adopted by these regions.

This section outlines some key steps in enhancing commercial viability of air services in the region, suggests some measures for broader liberalisation of air services under a phased approach, provides as a case study, a brief overview of the India-Sri Lanka bilateral effort to liberalise air services, and finally highlights the emphasis placed on connectivity within the SAARC agenda which provides the impetus to move more aggressively towards air services liberalisation in the region.

Enhancing Commercial Viability: Key Steps

The research found some policy-related measures that could help enhance viability of certain routes. These include:

- Enabling code sharing with third party airlines;
- Reducing operational costs in the region; liberalising ground handling by breaking monopolies and introducing competition in some cases;

⁵At a recent discussion (March 2011) on Sri Lanka's civil aviation sector, responding to a question on the need to deregulate airline-related services to infuse competition, and thereby reduce operating costs, the state-owned airports company (Airport and Aviation Services Limited, AASL) stated that "allowing a second ground handler is not seen as possible at this point."

- Grant of 5th freedom rights on certain routes; it will also be important to consider the 'quality' of liberalisation; for example, in case 5th freedom rights are granted by a country, whether the allocated landing times of a commercially viable nature or not;
- Simplification of visa processes – Indian visa accessibility, in particular, is a pressing constraint;
- Investment in airlines to enhance competitiveness – possibility of encouraging greater foreign equity in national airlines.

These measures would need to be supplemented by greater overall investment in airline-related infrastructure, particularly airport capacity and airline strength itself. To catalyse such infrastructure development, South Asian countries would need to place more emphasis on involvement of the private sector. India has already strongly embraced this, and is the forerunner in promoting public-private partnership (PPP) in airport development in the region.⁶

While these would address some of the key infrastructure bottlenecks, a significant driver of increased connectivity would be greater demand for travel within the region, and this would require greater regional integration in general on fronts such as commerce, tourism and people-to-people transactions. The case of Indo-Lanka air services liberalisation, set out later in this section, highlights the central role played by the relaxation of visa regulations by Sri Lanka in spurring demand for flights between the two countries.

In the current environment of limited demand for flights, it appears that the regulatory environment of the BASAs is not the only significant inhibitory factor. However, assuming demand increases in the long-run as economic integration and tourism increases, regulatory factors will pose greater constraints. Additionally, it must be borne in mind that as regional air services connectivity is further liberalised, this would have dynamic effects, which may in turn, cause certain routes that are currently commercially unviable to become viable. For instance, a current commercially unviable route connecting two South Asian capitals, as identified in earlier sections of this paper, may become viable due to the granting of 5th freedom rights in a country. Sri Lanka's own experience of the initial attempts to move towards open skies via unilateral liberalisation of air services with India highlights the positive spillover effects of such liberalisation: increased tourist arrivals and greater people-to-people connections which stimulate investment and commerce.

Measures Towards Greater Liberalisation: A Phased Approach

The paper emphasises that it will be necessary for SAARC to approach liberalisation of air services in a phased manner as was done by ASEAN and Europe.

⁶Several Indian airports have been developed under the PPP model since the Indian authorities opened the sector for private investment over five years ago, e.g. development of existing airports at Delhi and Mumbai, building 'greenfield' airports in Hyderabad and Bangalore, and calls for investment for proposed second airports in Chennai and Navi Mumbai.

The ASEAN region, for instance, began by enabling foreign equity participation in domestic airlines, which would help airlines face up to increased competition in times of downturn. The relatively easy and less contentious measures such as easing capacity controls and tariff restrictions could be implemented first and then progress on to more complicated areas. Such a staggered approach to liberalisation will help airlines in the region to cope better with the adjustment costs entailed in the process of liberalisation. The key challenges for policymakers in the region will be to balance the regional interest with the national interest of countries whose carriers are likely to struggle to survive in an increasingly competitive environment.

The following steps in liberalising bilateral ASAs in South Asia could be undertaken as a tentative roadmap for air services liberalisation in South Asia in the longer term.

1. **Begin with easing restrictions on withholding** (i.e. allowing foreign investment in airlines). This can enhance quality and magnitude of services. This is also important for enabling code sharing as well as to enable an increase in flights since current airline capacity in many South Asian countries is limited and for countries like Nepal even viable routes cannot be serviced due to lack of aircrafts.
2. **Ease restrictions on designation (double designation) and capacity (Bermuda I)** (i.e. reducing limits on the number of destinations that airlines are allowed to fly into and also the number of passengers permitted). This will benefit smaller countries to tap into the Indian market better, for example, Sri Lanka was able to enter into the Indian market as a result of increased flights allowed into Indian cities (an important parallel measure was extension of visa on arrival in Sri Lanka). Such a venture into the Indian market can help profitability of airlines in the region and will facilitate a move to the rest of the region in the longer term.
3. **Full liberalisation of capacity (free determination)** for 3rd and 4th freedoms for capital-to-capital flights in the region and allow multiple designation (i.e. multiple destination points).
4. **Tariff liberalisation, ownership as principal place of business and extension of 5th freedom** across the SAARC region.

(More complicated measures such as allowing cabotage have not even been mentioned in this roadmap since they are of a very advanced nature).

While the exact nature of the steps to be taken could change as circumstances change, the roadmap in this paper provides a starting point from which to work towards liberalisation of air services in South Asia. It is important to see this initial roadmap as a precursor to a much more ambitious and proactive liberalisation plan by SAARC, possibly even adopting the ASEAN plan, with suitably adaptations to suit this region's context.

As indicative from the India-Sri Lanka experience discussed in the following section, it is clear that a multifaceted approach is required, not just deregulation of the BASAs, but also easing visa restrictions and promoting closer trade and tourism relations.

India-Sri Lanka Bilateral Air Services Liberalisation Experience

India and Sri Lanka have in the past 'tested the water' regarding various international commercial ventures by engaging in bilateral exercises along the same lines. This was the case in Regional Trade Agreements (RTAs) where India and Sri Lanka signed the Indo-Lanka Free Trade Agreement in 1998, the first bilateral FTA signed by each of the two countries. Six years later both countries signed the South Asian Free Trade Agreement (SAFTA). Likewise, both countries ventured into more liberal air services agreements by progressively liberalising the Indo-Lanka bilateral Air Services Agreement in the early 2000s. The results of this exercise could provide some indication of the potential implications of air services liberalisation on air traffic flows.

Liberalisation of air services between the countries began from around the year 2000. According to the joint study group report on India-Sri Lanka Comprehensive Economic Partnership Programme (2003), "between 2000 and 2003 the number of Indian destinations to which Sri Lankan Airlines flies increased from 5 to 8, the number of flights from 29 to 44 per week and the number of seats from around 8000 to nearly 9500, representing a significant increases in capacity." In 2003, it was agreed between the two countries to eliminate the requirement of commercial agreements between the designated airlines of the two countries for asymmetrical operation. By around 2005, Sri Lanka had the most flights into India for any international carrier and was soon operating 110 flights a week prior to the global economic crisis reduced the demand for travel. Sri Lankan Airlines' venture into the Indian market helped it stay afloat after a debilitating terrorist attack on Sri Lanka's international airport in 2001, resulted in a reduction in travel to and from Sri Lanka. A key factor that influenced the increase in flights between the two countries was the extension of visa on arrival by Sri Lanka to Indian visitors (which was later extended to 73 countries worldwide). This facilitated travel a great deal and resulted in increased demand for Indian visitors to Sri Lanka. Unsurprisingly, India soon became Sri Lanka's leading source of tourism. At the same time, the movement of Sri Lankans to India was also increasing for educational, medical and business activities. The fact that the two countries had a very visible and effective bilateral FTA helped spur business travel between the two countries as bilateral trade and investment grew exponentially. At the same time, the increase in capacity allowance enabled Sri Lankan Airlines to position itself as a gateway to and from India, connecting India with Southeast Asia (even today a number of migrant workers travel from India to Malaysia and other countries in Southeast Asia). The fact that Sri Lankan airlines had direct flight access to numerous Indian cities made it a good option for people who did not necessarily want to fly direct to the popular metros such as Delhi and Mumbai, to which access was not usually problematic. In this case, the liberalisation of regulations enabled Sri Lankan airlines to design its strategy in a more flexible manner, keeping in mind long-term commercial viability.

The case of India and Sri Lanka outlines the fact that for air services to increase there needs to be both a viable market for air services (and this was created by the relaxation of visa requirements and the increase in economic interaction and exchange between the two countries), and a relaxation of the stringent bilateral air service agreements that govern air services. The problem among many South Asian countries is that other than

in terms of bilateral relations with India, the economic and tourism integration between countries is still at a nascent stage. If one were to pinpoint the driver of increased air service operations between India and Sri Lanka, the relaxation of visa regulations by Sri Lanka would be a key candidate, with tourism being an important determinant. This is further illustrated by the fact that it is only in November 2010 that any of the Indian airlines began operations on the Colombo-Delhi route as demand has increased following the end of the war in Sri Lanka.

9. Concluding Remarks

With forecast of stronger growth in passenger aviation and air cargo in the Asian region in general as well as in the South Asian region in particular, it is important for South Asia to critically evaluate the various elements affecting the growth of its civil aviation industry. The nature of bilateral air services liberalisation agreements, the level of competition and contestability in domestic airport services markets, the level of investment in and competitiveness of its airlines and the level of supporting infrastructure need to be investigated; also anomalies and barriers used to be addressed on a SAARC-wide, collaborative basis.

South Asian policymakers need to note the significant interdependence between regional economic integration and transport connectivity. A significant driver of increased connectivity would be greater demand for travel within the region, and this would require greater regional integration in general on fronts such as commerce, tourism and people-to-people transactions.

In the longer run, South Asia needs to embark on a more ambitious framework of liberalisation on a regional basis. Research studies highlighted in this paper have shown that restrictive air services regulations between countries stifle air travel, trade, business interactions and tourism, and in turn economic growth and job creation.

As part of the broader effort to improve multi-modal intra-regional connectivity in SAARC, better and freer air services can spur a virtuous circle of increased dynamism in South Asia air transport markets, reduced fares, higher passenger flows within the region, and increased air cargo. This, in turn, will help lower transactions costs of doing business in the region, catalyse intra-regional trade, boost South Asian exports in global production networks, and increase trade, tourism and other forms of regional integration.

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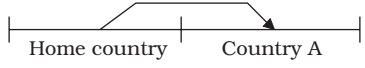
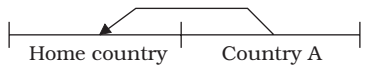
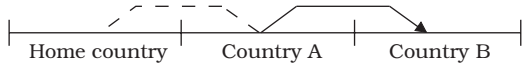


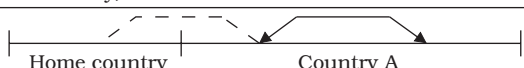
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Annex 1: Features of ASAs that Restrict Air Services

Restriction	Description
Grant of Rights	Defines the rights of carriers to provide air services between two countries. In particular, 5th freedom (transport of freight/passengers of two countries by an airline of a third country, with the flight originating/terminating in the home country of the airline) and 7th freedom (allows an airline to carry passengers between two countries with no connection to the airline's home country) and cabotage (allows an airline to carry passengers within a country with origin/termination in the home country of the airline)
Capacity	Refers to restrictions on volume of traffic, frequency of service and aircraft types. Pre-determination requires that capacity is agreed prior to the commencement of service; Bermuda I regime gives limited right to the airlines to set their capacities without a prior governmental approval and free determination leaves the capacity determination out of regulatory control
Tariff Approval	Regulates the regime of price determination. Ranges from dual approval, whereby both parties have to approve the tariff before this can be applied, to free pricing, when prices are not subject to the approval by any party
Withholding	Defines restrictions on the ownership of the foreign airline operating in the country with whom the agreement stands. The most restrictive of these requires the airline to be the flag carrier of the partner country. More liberal regimes include community of interests (where country can designate airlines) and principle place of business removes the requirement for substantial ownership
Designation	Defines the number of points between which airlines can operate between the two countries in question
Cooperative Agreements	Regulates the freedom of airlines to enter into code sharing and alliance formation
Exchange of Statistics	Requirement of airlines to disclose statistics to governments enabling the latter to monitor changes in traffic and other areas; this is in general perceived as a restrictive feature

Annex 2: Definitions of the Freedoms of Air

 <p>1st FREEDOM The right of an airline of one country to fly over the territory of another country without landing</p>
 <p>2nd FREEDOM The right of an airline of one country to land in another country for non-traffic reasons, such as maintenance or refuelling, while en route to another country</p>
 <p>3rd FREEDOM The right of an airline to carry freight and passengers from the home country (country of registry) to another country</p>
 <p>4th FREEDOM The right of an airline to carry freight and passengers to the home country from another country</p>
 <p>5th FREEDOM The right of an airline of one country to carry freight and passengers between two countries outside of its own country, with origin/destination in its home country</p>
 <p>6th FREEDOM The right of an airline of one country to carry freight and passengers between two countries on two routes via its home country (combination of 3rd and 4th Freedoms)</p>
 <p>7th FREEDOM The right of an airline to operate stand alone services entirely outside the territory of its home country to carry freight and passengers between two foreign countries (on a route with no connection in its home country)</p>
 <p>8th FREEDOM OR CABOTAGE The right of an airline to carry freight and passengers between two points within the territory of a foreign country (on a route with origin/destination in its home country)</p>

Source: Second Review of the Air Transport Annex, WTO (2006).

High Commodity Prices and Food Security in South Asia: Policy Initiatives in view of Supply Uncertainty and Price Volatility

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Clovis Freire
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1. Introduction

High inflation and food prices remain a major challenge across much of the Asia-Pacific region, threatening to slowdown economic growth, poverty reduction and achievement of Millennium Development Goals (MDGs). South Asian governments have taken various measures to address these threats. They have reduced taxes on imports of food commodities, implemented measures to increase food supply, restricted exports, controlled prices, provided subsidies to consumers, and implemented social safety net programmes that included cash transfers, feeding programmes, food for works programmes and strengthening of existing public distribution systems. Regional cooperation has also played a role. In addition to bilateral export quota arrangements from food producers to net importer countries, South Asian countries have continued to push forward the proposal of establishment of a SAARC (South Asian Association for Regional Cooperation) Food Bank, and the region would greatly benefit from its implementation.

This paper reviews the policies adopted to manage rising prices in domestic markets and outlines policy options at national, regional and global levels to mitigate their adverse effects. Section 2 presents the impact of the high international prices of food in

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the ESCAP region and South Asian countries in particular, including on growth, inflation and poverty reduction. Section 3 presents and discusses some of the policies implemented by South Asian countries to mitigate the adverse effects of rising food prices. Section 4 outlines a set of policy option at the national, regional and global levels to reduce the risk of the adverse effects of the increasing food prices. Finally, Section 5 presents a brief conclusion.

2. Impact of High Food Prices

While increase in international prices of food is worrisome, its impact on individual countries varies according to various transportation, logistic and regulatory factors that affect the transmission from international to domestic prices. This is illustrated in Table 1, which presents, for selected Asia-Pacific countries, the change in prices of rice and wheat during the period of skyrocket rise of international prices (May 2010 to January 2011) than during the recent and quieter period. The variation across countries within each period was pronounced. The spread ranged from 8 per cent to 11 per cent in the case of rice and 7 per cent to 36 per cent in the case of wheat.

For food importing economies, increased import prices would certainly lead to deterioration in the terms of trade and the trade balance, and consequent pressure for exchange rate depreciation and increased prices of other imported consumption goods and inputs for production. Many of South Asian countries have already experienced such decline in terms of trade in the past decade. The annual growth of net barter terms of trade during this period was (-) 5.5 per cent in Bangladesh, (-) 4.6 per cent in Pakistan, (-) 2.8 per cent in Sri Lanka, and (-) 2.4 per cent in Nepal.¹ India has not experienced such decrease mainly because of the share of minerals and oil in its total exports (i.e. petroleum products, refined and iron ore and concentrates comprise 13 per cent of its total exports).²

Table 1: Price Change of Staple Foods in Major Cities of Selected Asia-Pacific Countries
(in Per cent)

Country	Rice			Wheat		
	Price Change (in Real Terms)		% of Dietary Energy Supply	Price Change (in Real Terms)		% of Dietary Energy Supply
	May 2010- Jan 2011	Dec 2010- Jun 2011		May 2010- Jan 2011	Dec 2010- Jun 2011	
Armenia	-	-	-	14	3	48
Bangladesh	17	-14	71	-	-	-
Bhutan	16	-4	40	-	-	-
China	6	4	27	-	-	-
Georgia	-	-	-	69	12	50
Indonesia	16	1	51	-	-	-
India	6	-5	30	6	2	21

(Table 1 contd.)

¹Authors' calculations based on World Bank's World Development Indicators (WDI) (available at: <http://data.worldbank.org>)

²Authors' calculations based on the data from the United Nations Commodity Trade Statistics Database (COMTRADE) (available at: <http://comtrade.un.org/db/default.apx>)

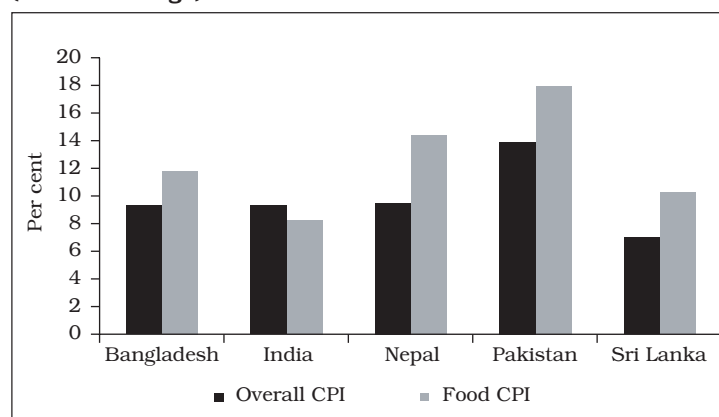
(Table 1 contd.)

Country	Rice			Wheat		
	Price Change (in Real Terms)		% of Dietary Energy Supply	Price Change (in Real Terms)		% of Dietary Energy Supply
	May 2010- Jan 2011	Dec 2010- Jun 2011		May 2010- Jan 2011	Dec 2010- Jun 2011	
Kyrgyzstan	-	-	-	31	9	49
Lao PDR	20	-13	64	-	-	-
Mongolia	-	-	-	38	-7	42
Nepal	11	-2	34	-	-	-
Pakistan	-2	12	7	-2	-7	37
Sri Lanka	-1	-4	39	29	1	15
Tajikistan	-	-	-	107	5	58
Viet Nam	34	-13	62	-	-	-
Median	14	-4	40	30	3	45
Average	12	-4	43	37	2	40
Standard	11	8	20	36	7	15

Source: Authors' calculations based on data from FAO, Global Information and Early Warning System (available at: www.fao.org/giews/pricetool)

Higher food prices exert an upward pressure on inflation, particularly in South Asian countries where such prices account for a major proportion of the inflation basket. For example, Consumer Price Index (CPI) weightings for food account for 58.8 per cent in Bangladesh, 46.2 per cent in India, 46.8 per cent in Nepal, 40.3 per cent in Pakistan, and 41 per cent in Sri Lanka. In 2010-11, rising food prices have exceeded headline CPI in Bangladesh (2.5 percentage points), Nepal (4.9 percentage points), Pakistan (4.0 percentage points), and Sri Lanka (3.3 percentage points), representing a key factor in the rise of overall CPI (Figure 1).

Figure 1: Comparison between Overall and Food CPI in Selected Developing Economies: August 2010-August 2011 (Period Average)



Source: ESCAP staff calculations based on data from CEIC Data Company Limited (available at: <http://ceicdata.com/>)

Note: Data refer to July 2010 to July 2011 for India and Pakistan.

High inflation is a major challenge in South Asia, where inflation has been in double digits in recent years. To make matters worse, when subsidies, for example on electricity and petroleum products are slashed to contain budget deficits, those also lead to higher inflation.

At country level, high inflation rates are being experienced by most countries in South Asia (Table 2). Pakistan has been experiencing a double-digit inflation for some years now. Inflation decelerated from 20.8 per cent in 2009 to 11.7 per cent in 2010, and increased to 13.9 per cent in 2011. Increases in electricity and natural gas charges and upward revision in petroleum prices in the wake of rising global oil prices have been increasing production costs and prices of other consumer goods also. High inflation is becoming a major concern in India with adverse impact on its strong economic growth momentum and the people. Consumer price inflation (for industrial workers) increased to over 12 per cent in 2010. Food prices, which are heavily weighted in the consumer basket, remained elevated. Some deceleration in inflation to 7.5 per cent in 2011 is expected. In Nepal, inflation, which stood at 9.6 per cent in 2010, has also remained close to double-digit in 2011. Inflationary pressures also reemerged in the Bangladesh economy as the CPI increased by 8.8 per cent in 2011 from 7.3 per cent in 2010. Sri Lanka, after some respite from high inflation in 2010, is again experiencing a rising inflation.

Table 2: South Asian Rates of Consumer Price Inflation: 2008-2012

(in Per cent)

Country	Inflation ^a				
	2008	2009	2010	2011 ^b	2012 ^c
Afghanistan	26.8	-8.3	8.2	9.8	9.1
Bangladesh	9.9	6.7	7.3	8.8	7.5
Bhutan	8.8	3.0	6.1	6.8	5.8
India	9.1	12.4	12.0	7.5	5.0
Maldives	12.3	4.0	4.7	6.0	5.8
Nepal	7.7	12.6	9.6	9.6	7.5
Pakistan	12.0	20.8	11.7	13.9	12.0
Sri Lanka	22.6	3.4	5.9	7.4	7.3

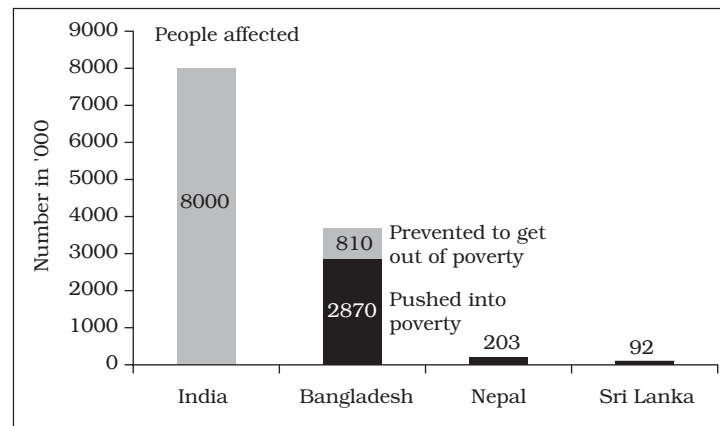
Source: ESCAP (2011a), based on national sources; IMF (2011); ADB (2011); CEIC Data Company Limited.

Notes: ^aChanges in the CPI; ^bEstimates; ^cForecasts (as of 29 September 2011).

Impact on Poverty

ESCAP (2011b) has estimated that, based on USD 1.25-a-day per capita poverty line, additional 19.4 million people in the ESCAP region remained in poverty due to increased food and energy prices in 2010. Out of these, high prices prevented 15.6 million people to get out of poverty, and pushed other 3.7 million below the poverty line. Given the economic dynamism of the region, the actual number of poor decreased by 24.5 million people between 2009 and 2010, but if staple food prices had not increased above domestic rates of inflation, the number of poor would have decreased by 43.8 million people. Thus the main effect of the high staple food prices in 2010 was a significant slowdown of the pace of poverty reduction in Asia and the Pacific.

Figure 2: Impact of Staple Food Prices Increase on Poverty in 2010: Selected Countries



Source: Freire and Isgut, personal communication, 18 October 2011.

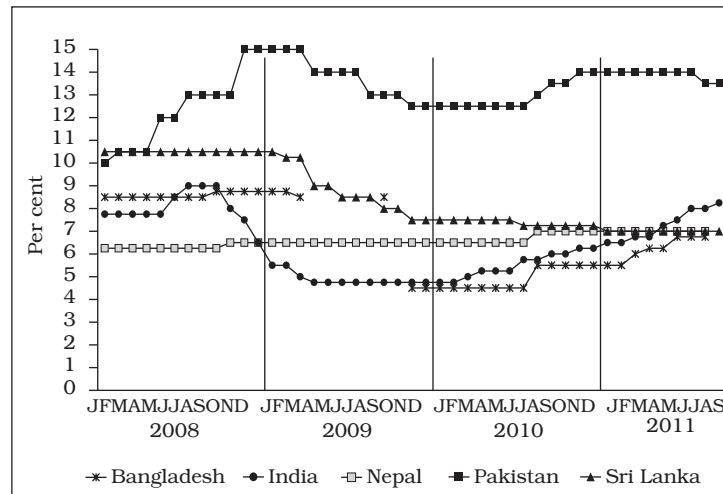
The country in which most people were pushed into poverty was Bangladesh: about 2.9 million people out of the 3.7 million for the whole region. The country where most people were prevented from stepping out of poverty was India, where 8 million people were affected, slightly above half of the total for the region (15.6 million) (Freire and Isgut 2011). Anecdotal evidence suggests that the situation in Pakistan is likely to have been as worrisome as in the other South Asian countries, but lack of reliable data prevent the estimate of the impact on poverty.

3. South Asian Response to the Rising Food Prices

To contain inflationary pressures, since early 2010 many countries in the region have started tightening monetary policy mainly through raising policy rates (Figure 3). These rates were lowered earlier to stimulate the economies and help their recoveries in the wake of the global financial and economic crisis. India continues to tighten its monetary policy since the beginning of 2010, and policy rates have been raised by more than 10 times over this period. Pakistan, after several increases in the policy rate, in a surprise move lowered the policy rate by 50 basis points in July 2011, and by 150 basis points in October 2011, despite inflation remains elevated. The move was aimed to stimulate private investment and economic growth. With easing of inflation, Sri Lanka lowered policy rate in January in 2011 and kept it unchanged after that.

Given that inflationary pressures are more from the supply-side, use of monetary policy alone as the main tool to combat inflation may not be appropriate. Rising international commodity prices can reduce aggregate demand in net commodity importing countries and tightening of monetary policy excessively under such circumstances could weaken the growth. However, when supply-side factors such as increases in global oil and food prices lead to higher wages and increase of domestic prices of other commodities in the second round, use of monetary policy can help in curbing inflationary expectations. Tightening of monetary policy can help in appreciation of exchange rate, and this can

**Figure 3: Policy Rates in Selected South Asian Countries:
January 2008-Latest**



Source: ESCAP staff calculations based on data from CEIC Data Company Limited (available at: <http://ceicdata.com/>)

provide some insulation from imported inflation because of higher commodity prices. Countries in the region with exchange rate appreciation tend to have somewhat lower rates of domestic food and energy price increases.

In addition to monetary policy, South Asian countries have taken various measures to address the risk of adverse effects caused by high international food prices (Table 3). They have reduced taxes on imports of food commodities, implemented measures to increase food supply, restricted exports, controlled prices, provided subsidies to consumers, and implemented social safety net programmes that included cash transfers, feeding programmes, food for works programmes, and strengthening of existing public distribution systems.

The majority of these measures were implemented in the second half of 2010, when the international prices of food were going over the roof. During that period, governments implemented policies to avoid the disappearance of food in the domestic markets, due to the tendency of producers and traders to keep stocks to put them in the market only when price rise even further. India facilitated imports of food by suspending tariffs and extending duty-free privileges. Such measures increase the availability of food in the domestic markets and help avoid price increases. Even the simple announcement of these measures may trigger the immediate increase in availability of food in local markets if shortage was created by producers and traders keeping their stocks to speculate. India and Pakistan increased the minimum support price of wheat to reassure that it would be brought to the market at affordable prices while supporting local farmers. India also released buffer stocks of wheat and rice to keep domestic markets prices down, and distributed wheat and rice to targeted poor families. These measures have proven effective to tame domestic prices of staple food. While the price of wheat in international markets increased by 72 per cent from May 2010 to January

2011, domestic prices in India increased by only 6 per cent, and they actually reduced in Pakistan by 2 per cent.

Regional cooperation has also played a role. In August 2010, India lifted export restrictions and allowed exports of 0.3 million tonnes of rice and 0.2 million tonnes of wheat to Bangladesh. Between February and May 2010, India had approved exports of 0.4 million tonnes of wheat and 0.1 million tonnes of rice to Bangladesh, 0.2 million tonnes of rice to Sri Lanka, and 0.25 million tonnes of wheat to Nepal. Pakistan had also allowed exports of 2 million tonnes of wheat in April 2010, but it had to suspend the measure in August 2010 due to the catastrophic impact of the summer floods.

Table 3: Main Food-related Policies Adopted by Selected Countries: 2010-2011

Reduced Taxes on Imports of Food Commodities to Manage Shortages		
India	22 Dec 2010	Import tariff (5 per cent) on onions suspended, arrangements for new imports and ban on exports until 15 January 2011. In addition, the government eliminated the 4 per cent countervailing duty on onions
India	28 Nov 2010	Duty-free import of rice, introduced in October 2009, extended to 30 September 2011
Bangladesh	15 Jul 2010	Import quota of 0.4 million tonnes of wheat allowed in order to stabilise market prices
India	1 Apr 2010	Duty-free imports of rice, wheat, pulses, edible oils and raw sugar extended until 31 March 2011
Sri Lanka	7 Jan 2010	An import quota of 25,000 tonnes of rice for the festive season has been allowed, of which high quality varieties (basmati and ponni samba) were duty-free. Import tax on sugar has been reduced
Import of Food Commodity to Manage Shortage		
Bangladesh	1 Apr 2010	Import of 25,000 tonnes of rice from Myanmar by the end of April to meet the domestic demand
Increased Taxes on Imports to Promote Domestic Production		
Sri Lanka	22 Jun 2010	Import tariff of 15 per cent on wheat re-imposed; the tax was waived in November 2009 to facilitate the use of wheat flour as a substitute during rice shortages
Sri Lanka	22 Jun 2010	Import duty of LKR 10 (USD 0.09) per kg set on wheat
Sri Lanka	25 Mar 2010	Rice import tariff has been reinstated
Subsidies		
Bangladesh	5 Feb 2011	Government sold foodgrains at subsidised prices to 300,000 fourth class civil servants
Bangladesh	1 Nov 2010	Fair price cardholders programme resumed, targeting 1.12 million of low-income cardholders who are permitted to buy up to 20 kg of rice per month at BDT 24 (USD 0.34)/kg
Bangladesh	3 Oct 2010	The Open Market Sale (OMS) of rice at BDT 24 (USD 0.34) per kg, which started in August in Dhaka and in some divisional cities, has been extended to the upazila (sub-district) level. Rice prices in the open market ranged from BDT 28 to 47, depending on the quality of the commodity

(Table 3 contd.)

(Table 3 contd.)

India	6 May 2010	Wheat and rice to be sold through ration shops at a price of INR 8.42 (USD 0.18) and INR 11.82 (USD 0.25) per kg, respectively. These prices are lower than the minimum support prices which are: INR 11/kg for wheat, INR 10.50 for paddy common variety, and INR 10.80 for higher variety
India	1 Apr 2010	A subsidy programme to support the use of a mix of nutrients and integrate the use of urea with other nutrients has been approved. Before, subsidies were given only on urea, making it cheaply available and endemically overused
India	1 Mar 2011	Measures aimed at creating additional storage capacity for foodgrains in the rural sector, including subsidies to storehouses and financial support to private sector investment
Bangladesh	11 Feb 2010	An input subsidy programme of USD 107 million was launched, introducing the Agriculture Input Assistance Card that allows rice producers to open a bank account and receive cash subsidy on diesel. Marginal and small farmers will receive BTD 800 (USD 11.4), medium size farms (with land from 1-3 hectares) will get BTD 1,000 (USD 14.3) as cash incentives
Pakistan	5 Feb 2010	Allocation of PKR 260 billion (about USD 3 million) as credit subsidies for farmers
Pakistan	5 Feb 2010	A subsidy of PKR 500 (USD 5.79) per 50 kg bag potash has been granted to support farmer's use of fertiliser
Bangladesh	3 Feb 2010	The OMS of rice has been extended after its launch in January 2010 to all divisional capitals (<i>bibhags</i>) and the three labour-intensive districts of Narayanganj, Narsingdi and Gazipur. Rice is sold at BDT 22/kg (USD 0.32/kg), slightly below the national average market price
Export Ban		
Pakistan	7 Dec 2010	Export licenses granted to the private sector for 1 million tonnes of wheat, after export plans were suspended in August 2010 due to devastating floods
Pakistan	7 Oct 2010	The government allowed the private sector to export 1 million tonnes of wheat. Earlier export plans were deferred in August after summer floods destroyed around 0.725 million tonnes of wheat
Pakistan	1 Aug 2010	Planned exports of 2 million tonnes of wheat suspended after summer floods
Bangladesh	30 Jun 2010	Rice export ban extended until December 2010
Bangladesh	1 Jan 2010	Rice export ban extended until June 2010
Bilateral Export Arrangements		
India	9 Aug 2010	The government partially lifted its export ban by allowing the export of 0.3 million tonnes of non-basmati rice and of 0.2 million tonnes of wheat to Bangladesh
India	14 May 2010	An export quota of 0.4 million tonnes of wheat and 0.1 million tonnes of rice to Bangladesh has been approved
India	12 May 2010	Approval of an export quota of 0.2 million tonnes of non-basmati rice to Sri Lanka
India	10 Feb 2010	Export of 0.25 million tonnes of wheat to Nepal
Pakistan	13 Apr 2010	The wheat export ban has been partially lifted by allowing the export of 2 million tonnes of wheat. In August 2010 the measure

(Table 3 contd.)

(Table 3 contd.)

		has been deferred after summer floods destroyed at least 0.725 million tonnes of grain
Use of Buffer Stocks		
India	28 Dec 2010	Release of 2.5 million tonnes of wheat and rice from the federal reserve stocks, to below poverty line population, to be sold at INR 4.15 (USD 0.092) per kg of wheat and INR 5.65 (USD 0.13) per kg of rice, significantly lower than market prices. In addition, 2.5 million tonnes of wheat and rice will be released and sold to above poverty line population at INR 11.85 (USD 0.26) and INR 8.45 (USD 0.19) per kg
India	15 Nov 2010	Plan to release an amount of 2.5 million tonnes of wheat by June 2011 from federal stocks, to be sold at a subsidised price of INR 6.10 (USD 0.14) per kg of wheat, and INR 8.3 (USD 0.18) per kg of rice (less than half the prices in domestic markets)
India	1 Jul 2010	Release of 5 million tonnes of wheat and rice from state reserves planned under the Open Market Scheme by March 2011
India	3 Mar 2010	An amount of 0.5 million tonnes of wheat from government reserves sold to small processors in order to stabilise local prices
Government Procurement and Minimum Support Price		
India	21 Apr 2011	Government procurement price of wheat increased by 4.5 per cent to INR 11,700 (USD 264) per ton, in order to support farmers' incomes following bumper harvest
Pakistan	3 Nov 2010	A new ministerial committee has been created to review the existing wheat purchase policy based on guaranteed procurement and issued prices. In the new scheme, the government's role may be limited to purchases of strategic reserves only
India	20 Oct 2010	Minimum procurement price of wheat increased by 1.8 per cent to INR 11,200 (USD 252) per ton, for the 2011-12 marketing year (April-March)
Pakistan	19 Oct 2010	Minimum procurement price of wheat increased by 2.6 per cent to PKR 975 per 40 kg (USD 285 per ton)
India	18 Jun 2010	The minimum support price for wheat for the 2010-11 marketing year has been set at INR 11,000 (USD 238) per ton, up from INR 10,800, with an increase of 1.85 per cent
India	27 May 2010	The minimum support price for rice has been increased by INR 50 to INR 1,000 for 100 kg common grades (USD 210 per ton) and to INR 1,030 for superior grades (USD 224 per ton)
India	1 Apr 2010	Minimum support price for wheat for the marketing year 2010-11 (April-March) has been increased to INR 11,000 (USD 247) per ton, up by INR 200 in the previous year. The government has planned to buy 24 million tonnes of wheat at the new price by March 2011. Wheat procurement for 2009-10 marketing year amounted to 22.48 million tonnes
Pakistan	18 Mar 2010	The minimum support price for wheat has been confirmed at PKR 950 (USD 11.3) for 40 kg, as of September 2009
Pakistan	4 Feb 2011	The wheat procurement target set at 6.5 million tonnes for 2011 in expectation of a bumper crop, with a minimum support price of PKR 950 per 40 kg (USD 11)

(Table 3 contd.)

(Table 3 contd.)

Food Distribution		
India	27 Jul 2010	Distribution of additional 0.456 million tonnes of foodgrain (0.182 million tonnes of rice and 0.274 million tonnes of wheat) to above poverty line families. Since May 2010, the government has allocated more than 3 million tonnes of foodgrain to targeted poor families
Price Controls		
Sri Lanka	9 Dec 2010	The government fixed maximum retail price of samba rice at LKR 70 (USD 0.63) per kg, and nadu, white and red rice maximum retail price at LKR 60 (USD 0.54) per kg
Sri Lanka	27 Oct 2010	The government lifted price control on rice: the price cap of LKR 70 (USD 0.63) per kg in market sales imposed in April 2008 has been removed
Sri Lanka	27 Oct 2010	Price control on rice lifted: the price cap of LKR 70 (USD 0.63) per kg in market sales imposed in April 2008 has been removed
Promotion of Domestic Production		
Sri Lanka	9 Nov 2010	Ban on sale of flour-based food items in canteens and start of a programme to promote rice flour-based products in order to support domestic rice consumption and production

Source: Authors' elaboration based on the FAO Country Policy Monitoring (available at: http://www.fao.org/giews/countrybrief/policy_detail.jsp)

In addition to bilateral export quota arrangements from food producers to net importer countries, South Asian countries should continue to pursue the establishment of a Regional Food Bank as decided at the Twelfth SAARC Summit held in Islamabad in 2004.³ Since then, a concept paper was prepared by India and has been discussed within the SAARC Technical Committee on Agriculture and Rural Development, but faster progress should be made to realise the establishment of the Regional Food Bank, which will greatly benefit the countries of the region.

4. Policy Options to Contain Food Inflation and Minimise Adverse Impact on Poor

Agricultural Productivity

Sustained efforts should be made to enhance agricultural productivity. Higher agricultural productivity is especially important, because as stated earlier, food prices have been proven to be a critical inflation trigger. Higher productivity increases the real wage and exchange rates compatible with low inflation, thus breaking down the inflation propagation mechanism. Strategies to accomplish such goal depend on the country's stage in structural transformation. Poorer countries, those with low urbanisation rate, large labour surplus in the agricultural sector, and large share of agricultural employment, should continue to diversify their economies and to increase the productivity of their agriculture sector by expanding productive employment out of agriculture and increasing the domestic market for agricultural products. That can be

³ Islamabad Declaration, Twelfth SAARC Summit, Islamabad, 4-6 January 2004 (available at: <http://www.saarc-sec.org>)

accomplished through industrial policy, including infant industry protection policies, investing in infrastructure to support new productive activities, technology upgrading, and growth-oriented stable macroeconomic policies that sustain expanding productive employment. Countries that are moving faster with their structural transformation (i.e. increasing urbanisation rate, decreasing share of agricultural employment) should provide continued support for crop and rural development, instituting a new knowledge-intensive Green Revolution. That can be accomplished by the use of modern technology, new seed varieties, and better financial systems for provision of credit to farmers.

South-South Cooperation to Enhance Agricultural Productivity

Vast gaps exist in agricultural productivity in terms of crop yields across countries and regions in the world. These gaps can be reduced through South-South and triangular cooperation on knowledge and technology transfer. This will help in accelerating the introduction and adoption of higher-yielding varieties (HYVs) as well as the delivery of new post-harvest technologies to reduce losses. Existing endeavours on cooperative agricultural research should be promoted and their results should be made available across countries. In this regard, it is important to note that the system of the Consultative Group on International Agricultural Research (CGIAR), which includes the International Rice Research Institute (IRRI) in the Philippines and the International Crop Research Institute for Semi-Arid Tropics (ICRISAT) in India, have generated new knowledge and technology in agriculture and made it available to national agricultural research systems for adaptation to their geo-climatic conditions. South-South and triangular cooperation in the area of agriculture can play an important role in fostering the second Green Revolution in Asia and the Pacific.

Buffer Stocks of Foodgrains

Buffer stocks of foodgrains at the national level should be established and utilised in a counter-cyclical manner to moderate the price volatility. However, establishment and management of national food stocks can be very costly, especially for small countries. For this reason, establishment of food stocks at the sub-regional and regional levels for managing price shocks is a better option. An example of such a scheme is the Rice Reserve Initiative of ASEAN+3, which is planned to be formally established by the member countries in October 2011. Another positive initiative is the agreement to establish the SAARC Food Bank, which would maintain food reserves and support national as well as regional food security through collective action among member countries.

Social Protection Policies

Without social protection programmes, high inflation and food price increases leave the poor with limited, often harmful coping mechanisms – such as reducing the number of meals, selling livestock and other assets, or taking children out of school. Some of these coping mechanisms may alleviate hunger temporarily, but they may over a longer period also lead to malnutrition, harm livelihoods, and put children's future at risk.

The coverage of basic social protection programmes is generally very low in developing countries of the Asia-Pacific region. For example, only 20 per cent of the population has access to healthcare assistance; 30 per cent of the elderly receive pensions; and 20 per cent of the unemployed and underemployed have access to labour market programmes such as unemployment benefits, training or public works programmes, including food for works programmes (ESCAP 2009). Strengthening social protection programmes can help the vulnerable sections of the society to cope with crises such as spiraling food prices. Therefore, social protection should be strengthened through distribution of food vouchers to the needy or targeted income transfer schemes to minimise the adverse impact on the poor who usually have higher expenditure on food. Midday meals schemes in schools, as implemented in certain parts of the region, are important for minimising malnourishment of children. Moreover, public distribution systems should be strengthened to protect the vulnerable sections of population from rising prices of food items.

Global Response

Given the seriousness of the problem, measures to contain inflationary pressures at the national and regional levels may not be sufficient. Global cooperation is needed as well. ESCAP has been advocating decisive action by G-20, as a major forum for global economic cooperation, to moderate the volatility of oil and food prices that are highly disruptive to the process of development (ESCAP 2011b). To contain the volatility of commodities prices, regulation of commodity markets should be stepped up to curb speculation. Global markets where commodity-based financial derivatives are traded and priced, should be more closely supervised so that speculative bubbles do not develop. Legislation at the national levels for this purpose may not be enough. Therefore, financial speculation in international commodity prices should be addressed through international cooperation. Global legislation on regulation of speculative activities can be carried out through fora such as the United Nations or G-20. To restore the proper operation of commodity markets, tighter regulation should be introduced, including imposition of position limits and banning proprietary trading by financial institutions that are involved in hedging the transactions of their clients (UNCTAD 2011). To curb food price volatility, G-20 could also agree on regulations concerning the conversion of cereals into biofuels, implementing the so called L'Aquila Food Security Initiative, which includes provisions for financing mechanisms to assist developing countries to attain food security.

5. Conclusion

Given the strong link between food price inflation and overall inflation in the chain of causation, the single most important policy initiative that developing countries in the region can adopt is to give priority to boosting productivity in the agriculture sector in the years ahead. Such an approach will not only increase the output of food and non-food crops, but as a bonus, reduce poverty as well.

It was also observed that a prosperous rural economy depends not only on agriculture but also on rural non-farm and urban economic activities, including industries,

commerce and other services. Such activities provide additional sources of demand for agricultural products and raise urban wages attracting surplus labour from agricultural sectors in countries that are in the early stages of their structural transformation. Increasing food production is a fundamental objective not only to contain inflation in the short and medium-terms, but also for long-term sustainable development.

Finally, when faced with a temporary supply shock countries should avoid actions that meet national needs but make the problem worse for other countries. At the regional level, it is necessary to develop support mechanisms for improving emergency access to food through stock sharing and fewer restrictions on the release of stocks to other countries under emergency conditions.

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- <http://www.saarc-sec.org>

Food Security in South Asia: Status, Challenges and Policy Considerations*

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1. Introduction

Achieving food and nutrition security requires coordinated action in a number of fronts: a) increasing food availability through faster agricultural growth, more efficient markets, and less restrictive trade both within the country and internationally; b) improving poor people's access to food by increasing their employment and remuneration, combating social and gender inclusion, reducing price volatility, developing resilience against external shocks, and extending safety nets and social protection to the weakest sections of the society; and c) improving nutritional status through improved healthcare, provision of safe water, improved sanitation and hygiene, and awareness raising for proper child feeding practices.

South Asia has over 420 million people living on less than one dollar a day and accounts for over 40 per cent of the world's hungry people. It has the highest proportion of undernourished people (300 million), and of undernutrition among under-five children – even higher than most countries in Sub-Saharan Africa. Undernutrition is a key mechanism by which poverty is transmitted from generation to generation. It constrains the cognitive and physical development of children, results in significant loss of human potential, that in turn adversely affects the long-term economic growth. Despite strong economic growth in many countries over the last two decades,

*Some of the interpretations of the data and literature till 2008 used in the paper are drawn from the author's joint work with Steve Jones for an unpublished Technical Report on *Status of Food Security in South Asia*, prepared for DFID in 2009. This paper includes updated data available till 2011 and takes note of literature on the subject published since then. The author gratefully acknowledges the contribution of Steve Jones in the Technical Report. Research assistance provided by Josephine Narsiso of the Social Sciences Division of the International Rice Research Institute (IRRI) is also gratefully acknowledged.

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undernutrition have only reduced slightly in the South Asian region, and is a major cause of concern for the policymakers.

This paper presents an overview of the progress made in food availability, access and nutrition, and the challenges and issues for achieving and sustaining food security in South Asia. It outlines the progress and current situation, and key issues and important policy choices in the region to meet the food security challenge. It has three sections: an overview of the food and nutrition security situation, the main challenges facing the region with regard to achieving food security, and suggested actions that policymakers may wish to consider for improving the situation particularly with regard to regional cooperation.

2. Food Security and Nutrition Situation

Food Availability¹

Food can be made available to the market through adequate domestic production and/or through imports. Until recently most countries in the region had limited access to foreign exchange. Because of this South Asia basically followed a policy of self-sufficiency in domestic production to meet the food needs of the people.

Despite high pressure of population on limited land and water resources and an agrarian structure dominated by small and marginal farmers (except northwestern India and Pakistan Punjab), South Asia has made remarkable progress in food production over the last 40 years, transforming the region from a food-deficient to a food self-sufficient region. Indeed, India and Pakistan have become major exporters of rice in the world market. Between 1970-72 and 2008-10, wheat production tripled and rice production more than doubled, exceeding the population growth which increased by 2.1 times from 720 million in 1970 to nearly 1.6 billion in 2011 (Jansen and Ahmed 2010; Pingali *et al.* 1997). The record of growth in rice and wheat production in the countries of the region can be noted in Table 1.

Table 1: Trends in Annual Growth Rates of Rice and Wheat in South Asia: 1980-2010

(in Per cent)

Country	Area		Yield		Production	
	1980-00	2000-10	1980-00	2000-10	1980-00	2000-10
Rice						
Bangladesh	-0.07	0.76	2.24	2.39	2.17	3.15
India	0.59	-0.87	2.33	1.59	2.93	1.56
Nepal	0.85	-0.27	1.72	0.20	2.57	-0.07
Pakistan	1.12	1.95	0.82	1.68	1.94	3.62
Sri Lanka	-0.22	2.69	0.91	1.35	0.69	4.04
South Asia	0.50	-0.34	2.21	1.78	2.70	1.43

(Table 1 contd.)

¹This section is based on author's earlier works with IRRI including Hossain (2007); Pingali *et al.* (1997). Information is also drawn from Mittal and Sethi (2009); Kundu and Srivastava (2007); Jansen and Ahmed (2010); Ahmad (2003); Ahmad and Faruque (2011).

(Table 1 contd.)

Country	Area		Yield		Production	
	1980-00	2000-10	1980-00	2000-10	1980-00	2000-10
Wheat						
Bangladesh	2.20	-9.13	0.20	-0.12	2.40	-9.25
India	0.90	0.80	2.82	0.42	3.72	1.22
Pakistan	0.97	1.02	1.86	1.10	2.83	2.12
South Asia	0.81	0.97	2.61	0.74	3.42	1.71

Source: Author's own estimate from time series data available from FAO AGROSTAT database.²

These rapid increases in production were the result of the 'Green Revolution', which involved the development and dissemination of high-yielding varieties (HYVs) of rice and wheat through an effective research and development (R&D) systems in India, Pakistan, Sri Lanka and Bangladesh, supported by positive public policies involving: a) investment in expanding irrigation, flood control and drainage systems; b) provision of subsidies on irrigation and fertiliser; c) expansion of agricultural credit on easy terms; d) provision of incentives to producers through minimum support prices, particularly in India (Pingali *et al.* 1997).

The impact of 'Green Revolution' varied among the countries in South Asia. Tables 1 and 2 and Figures 1 to 4 depict the growth patterns and trends across the region.

India experienced relatively slower growth in both rice and wheat in the 1970s, but the growth sped up in the 1980s and 1990s as irrigation coverage expanded, and policies of high input subsidies and procurement of grains at minimum support prices to feed the national Public Food Distribution System (PFDS) gave farmers incentive to produce more. In recent years the rice area has declined in absolute terms and the yield growth has slowed down because of poor monsoons and the technological progress reaching plateau in the favourable irrigated systems. Despite high public investment in irrigation, over half of the rice is grown under rain-fed conditions, particularly in eastern India, where rice is the main staple food. The yield in the rain-fed systems remains much lower than in the irrigated system and the increase in yield has been slow.

Nepal exhibited a similar trend in rice with relatively stagnant position in the 1970s, rapid growth in the 1980s and 1990s, and then relatively slower growth in the last decade. The yield growth has slowed down from 1.7 per cent per year in 1980-2000 to only 0.2 per cent in 2000-10, and the production has remained stagnant (Table 1).

Sri Lanka, which had existing irrigation systems, took advantage of the green revolution technologies earlier than other countries in the region with fast growth in the 1970s and 1980s; though growth has tapered off since then. In the last decade Sri Lanka achieved a 4 per cent per year growth in rice production mostly due to expansion in rice area (Table 1).

²The growth rates are estimated from fitting semi-logarithmic trend lines with time series data for 1980-2010 as follows: $\ln Y = a + bT + cD + dD*T$, where $\ln Y$ = the natural logarithm of the dependent variable (area, yield or production); $T = 1$ to 30 years from 1980 onwards; D = the dummy variable with '0' for 1980 to 1999, and '1' for 2000 to 2010. The parameter 'b' is the estimated trend growth for the period 1980 to 2000, and the parameter '(b+d)' is the estimated trend growth for the period 2000 to 2010.

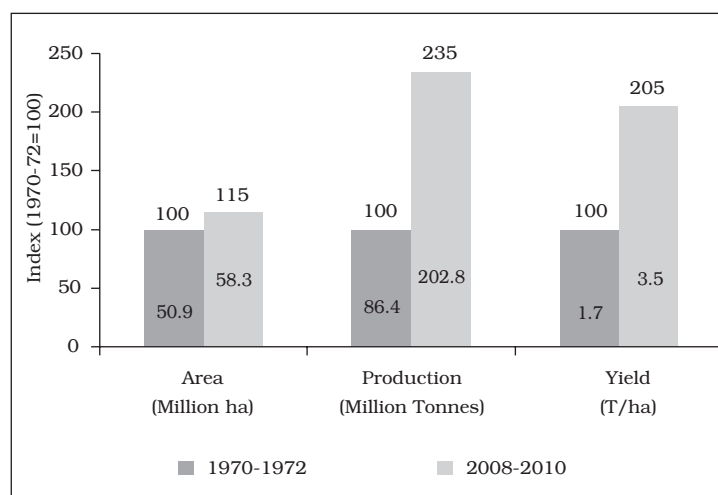
In Bangladesh rice production grew slowly for the first two decades, but then increased rapidly due to private investment in minor irrigation equipments (power pumps and shallow tube-wells) leading to a rapid spread of irrigated rice farming in the dry season, locally known as Boro. Boro rice contributed merely to annual rice production in 1967 when the green revolution was initiated, but at present nearly 60 per cent of the total rice production comes from this type. Nearly 80 per cent of the increase in rice production over the last two decades came from Boro rice (Hossain 2010).

For Pakistan wheat is the pre-dominant staple food, while rice is a commercial crop and a major export item. The growth in rice production has been steady throughout 1970-2000, but with fluctuations depending on the price of rice in the world market. In the last decade the production growth has accelerated to 3.6 per cent per year through both area expansion and increase in yield. For wheat, the production growth was faster during the first two decades, then the growth slowed down considerably, but in recent years the growth accelerated due to favourable prices after the food crisis in 2007-08.

Wheat is also a major food staple in Afghanistan. The production has been badly affected by conflict and instability over the last three decades. In the late 1970s, the country produced 2.8 million tonnes of wheat which went down to less than 2 million tonnes in the 1980s and 1990s. In the last few years it has approached 3 million tonnes due to favourable weather and positive policy regime.

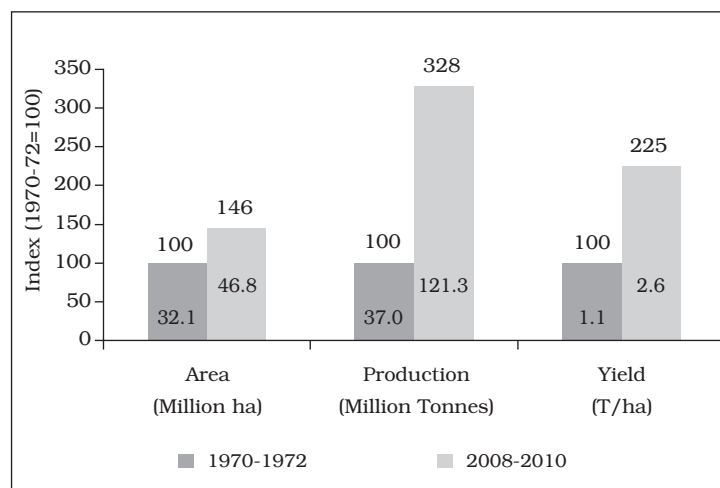
Between 1970-72 and 2008-10, the area under rice increased by 15 per cent and wheat increased by nearly 46 per cent, with the biggest increase in Pakistan due to the spread of irrigation (Figures 1 and 2). Over the same period the yield increased more rapidly than area expansion in Bangladesh, India and Sri Lanka, but much slower in Pakistan, Nepal and Afghanistan (Figures 3 and 4). Wheat yields in Pakistan and India doubled

Figure 1: Change in Area, Yield and Production of Rice in South Asia: 1970-2010



Source: FAOSTAT (2012).

Figure 2: Change in Area, Yield and Production of Wheat in South Asia: 1970-2010



Source: FAOSTAT (2012).

from 1.2 to 2.7 tonnes/hectare (t/ha) over the last four decades. The rice yields in India, Sri Lanka and Bangladesh has also doubled from 1.7 to 3.5 t/ha, with more rapid growth in Bangladesh where more than 90 per cent increase in production came from the growth in yield resulting from rapid technological progress.

Overall, the growth in rice production has slowed down in almost all countries during the last decade due to expansion of area reaching its limit, and plateauing of technological progress in the irrigated ecosystem. The expansion of irrigation that contributed to both expansion of cropped area and increase in yield has also slowed down substantially as water has become a scarce natural resource as land. In South Asia overall, the production growth has drastically slowed down to 1.4 per cent in 2000-01 compared to 1980-2000 due to slow down in yield and absolute decline area for rice. For wheat, the slowdown is even faster, which is a cause for concern. The growth in future production will depend on the development and diffusion of improved technology in the rain-fed ecosystems.

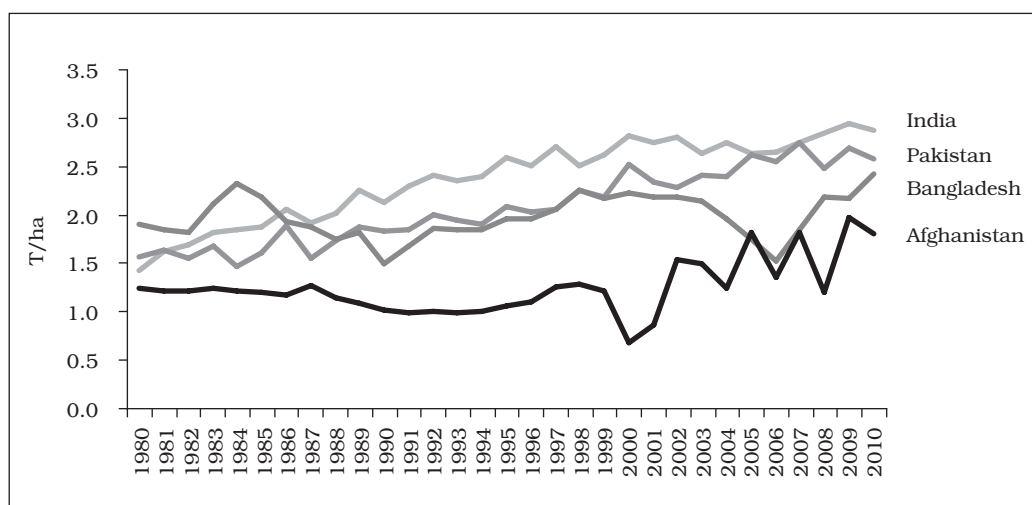
At a first glance, it appears that the potential to increase in yields is still vast (Figures 3 and 4). Rice yields in East Asian countries average over 6.5 t/ha, and wheat yields in major producing countries are over 4 t/ha. While the average yield in South Asia is substantially lower, in areas with good water control, such as in Indian Punjab, Andhra Pradesh and Tamil Nadu, and for Boro rice in Bangladesh, the yield is approaching 6 t/ha. The major cause behind the lower yield is a large proportion of area under rain-fed systems which are subjected to stresses such as floods, droughts, submergence and soil salinity for which improved varieties are just being developed in the research systems using the modern biotechnological tools.

Figure 3: Trends in Rice Yield of the South Asian Countries: 1980-2010



Source: FAOSTAT online (2012).

Figure 4: Trends in Wheat Yield of the South Asian Countries: 1980-2010



Source: FAOSTAT online (2012).

Dependence on imports for availability of adequate food in the market has come down substantially in the major food-importing countries – Bangladesh, Nepal, Sri Lanka and Afghanistan. India and Pakistan have become major exporters of rice in the world market. India has become more or less self-sufficient in wheat with marginal imports and exports depending on the monsoon. In Pakistan the volume of rice exports increased from 0.42 million tonnes per year in 1970-72 to 2 million tonnes in 1999-00, and further to 3.1 million tonnes in 2007-09. Pakistan remained a net importer of wheat until 1990s, but has since been importing occasionally depending on the harvest. It now exports wheat to Afghanistan through informal markets.

The dependence on imports for food availability have however become more risky due to tightness in the international market for food, monopoly behaviour of major food-exporting countries, imposing ban on exports when own national food security is at risk, and diversion of agricultural products to feed the expanding bio-fuel industries in the exporting countries (Jansen and Ahmed 2010).

The combined effect of domestic production, food aid, imports and population growth on the availability of staple food – rice and wheat – is shown in Table 2. It seems that except for Pakistan, all other countries have been able to maintain a favourable food-population balance. The level of cereal availability appears to be high, and has increased respectively in Bangladesh and Afghanistan than in other countries in the region. According to the Food and Agricultural Organization (FAO), a daily per capita consumption of 500 gm of cereals is needed to get the calorie intake required for living a healthy productive life, given the age-sex and occupational distribution of the population. It appears from the data that Bangladesh and Pakistan has exceeded that norm.

Table 2: Changes in the Availability of Cereals (gm/person/day): 1970-72 to 2007-09 (Estimates from Food Balance Sheet Data)

Country	Rice		Wheat and Other Cereals		Total Cereals	
	1970-72	2007-09	1970-72	2007-09	1970-72	2007-09
Afghanistan	48	44	464	485	512	529
Bangladesh	413	471	45	64	459	535
India	182	191	217	209	399	401
Nepal	211	217	201	255	412	472
Pakistan	82	45	374	325	456	370
Sri Lanka	255	276	118	122	373	398
South Asia	193	197	217	218	410	415

Source: Estimated from the FAO AGROSTAT Database.

However, the following caveats may be noted:

- For Afghanistan, the figures for the most recent years do not represent the long-term trend in food availability due to the highly favourable weather conditions and favourable foreign assistance for food imports. The per capita availability of cereals was only 362 gm/person/day during 1999-2001.
- For Bangladesh, the food balance sheet data gives a substantially higher estimate of cereal availability than the estimates obtained from the Household Income and Expenditure Surveys (HIES) conducted by the Bangladesh Bureau of Statistics (BBS).
- For Pakistan, the major factor behind the relatively dismal progress in cereal availability is the continued high growth of population compared to other countries in South Asia.

The green revolution in rice and wheat in most parts of South Asia has not been an unmixed blessing. The expansion of area under cereals resulted in a decline in the cultivation of minor cereals such as millets, and of pulses and oilseeds. Although many countries tried to compensate for the decline in the domestic production of minor crops by increasing imports, the growth in supply could not match the increase in demand. Till the food crisis in 2007-08, prices of rice and wheat fell in real terms having a

favourable effect on the accessibility of the staple for the low-income people. The prices of pulses, oilseeds and other quality food (fish, meat and egg) have increased relative to cereals making it difficult for the low-income groups to access the quality food. Since these quality foods are important sources of protein and other micronutrients, it had a negative effect on nutrition security.

Access and Food Entitlements

The ability of an individual to access food depends on many factors. Sen (1981) introduced the concept of 'food entitlement' to better understand the nature of food security and famine. In a market economy food entitlement depends on a number of elements: a) production-based entitlements which depend on ownership of productive assets and/or access to land in the tenancy market; b) trade-based entitlements which depend on market prices of food and its volatility; c) household labour-based entitlements which depend on the productivity and the opportunity cost of family and hired-out labour; and d) inheritance and transfer-based entitlements which include intra-households distribution of assets and other resources, and safety nets and social protection measures implemented by the government for the weaker sections of the society.

Economic growth in South Asia was relatively slow during the 1970s and 1980s, but growth has accelerated over the last two decades, except in Nepal and Pakistan where economy has suffered from political factors. However, economic inequality has increased with faster economic growth. Low-income economies did not benefit as much from the economic growth due to persistent inequality in the access to opportunities and resources, and poor quality of human resources.

Cross-country comparisons of the incidence of poverty is difficult because each country uses a different poverty line, reflecting its own consumption pattern and national norms on calorie intake required for living a healthy productive life, and also uses different measurement techniques. With these caveats, we note from available information (Sen and Himansu 2004; Hossain and Sen 1992; Hossain and Bayes 2009; Sen 2010; Narayan and Zaman 2009) that despite respectable progress in poverty reduction, the level of poverty remains at an unacceptable level of 25-40 per cent of population. In all countries poverty is higher in rural areas than in urban areas. A substantial proportion of population faces difficulty in accessing food from the market due to low incomes.

The trend in the average consumption of different food items, as estimated by the household income and expenditure surveys for India, Pakistan and Bangladesh shows the following patterns:

- Food consumption in India and Bangladesh has increased over time and is approaching balanced nutrition, but not in Pakistan;
- There has been a decline in the consumption of pulses and oils and fats, but a substantial increase in the consumption of vegetables and livestock products. The

level of consumption of fish and livestock production, however, still remains much below the level required for balanced nutrition, particularly in rural areas;

- The consumption of cereals has started to decline with increased consumption of quality food, and the food basket has started to become more balanced than it was earlier.

The disaggregated data on food intake by different income quintile groups reveal that in India and Bangladesh, there is substantial inequality in food consumption across socioeconomic groups. The differences in consumption between the top and the bottom quintiles is much higher for better quality foods, such as fish, meat and milk, than for the cereals, tubers and vegetables. Since meeting energy requirements is the most basic human need, the poor spend much of their incomes (as much as 40-50 per cent) on cereals that provide low-cost calories, leaving very little income to access nutritious food such as pulses, oils, fish and livestock products (Hossain *et al.* 2005; Sen and Himansu 2004).

In addition to inequalities in access to food across the income scale, socially excluded groups, such as *dalits* and schedules castes and tribal people in India, enjoy less access to food than people from other communities. There is some evidence that men and boys compared to women and girls, enjoy better access to food within families in South Asia. However when the data are adjusted for the differences in the energy-intensity of the work done by men and women, the evidence on the intra-household inequality in food consumption is less certain (Haddad 1996). Greater disparities are more pronounced across wealth, income and education scales.

The poor are also vulnerable to external shocks such as floods, droughts, cyclones, ethnic conflicts, price volatility emanating from global markets (particularly for imported food), and sudden death and disability of earning members, that are common phenomena in most South Asian countries. Such shocks can tip them into extreme poverty with serious impact on child nutrition that transmits poverty to the next generation (Sulaiman *et al.* 2009). While the non-poor are generally able to cope with shocks by using their savings or taking loans, or selling assets, the poor generally have to reduce consumption of nutritious food, try to find extra work through migration (often leaving the wife and the children to fend for themselves), and take children out of school (Rashid 2010; Matin *et al.* 2009). Social safety nets play an important role in augmenting the incomes of the poor households and help them cope with stresses and shocks.

Since the 1970s, most countries in the region have operated some form of safety nets and social protection to address the vulnerability of the extreme poor, though the programmes have varied from country to country (a notable exception was Afghanistan). Social safety nets play an important role in augmenting the incomes of the poor, and help reduce fluctuations in food consumption across the lean and peak seasons of employment (Rashid 2010; Ahmed 2002, 2004, 2007; Government of India 2010; Basu 2011; Gazder 2011). Sri Lanka has one of the most extensive safety net programmes for its vulnerable people. India has a large public food distribution system that aims to provide food-based transfers to all those living below the poverty line. Despite shortcomings in targeting, the programme has served the country well during the food

price crisis in 2007-08. India also operates a nationwide employment generation scheme under the provision of the National Rural Employment Guarantee work. Bangladesh has a plethora of targeted food and cash-based programmes and some innovative non-government organisation (NGO) programmes (e.g. BRAC-operated Targeting the Ultra Poor Programme) leading social protection to ladder out of extreme poverty (Ahmed *et al.* 2009; Bandiera *et al.* 2011); while Pakistan and Nepal have generally less developed programmes. In recent years there has been a shift from food-based to cash-based safety nets, though there is still debate on relative efficiency and effectiveness on different approaches (Akhter *et al.* 2002, 2007).

Until recently, the overall cost and coverage of the safety nets programmes in South Asia was quite low and much lower than in many developing countries, particularly compared to Latin America where they operate effective large-scale conditional cash transfer programmes that combine relief with health, nutrition and education objectives.³ In the early 2000s safety net expenditure ranged from a low 0.3 per cent of the gross domestic product (GDP) in Pakistan to a high 2 per cent in India. However, in the last few years safety net spending has increased markedly in India, Pakistan, Bangladesh and Nepal. In Pakistan, the recently introduced Benazir Income Support Programme provides cash transfer to the people living below the poverty line, which is being implemented using the poverty scorecard method (Gazder 2011). In 2007-08 the Bangladesh government increased the allocation under the safety nets programme from 1.6 per cent to 2.1 per cent of the GDP by introducing a 100-day employment guarantee scheme for four lean months for one member of each rural household, and extending the coverage of the Vulnerable Group Feeding (VGF) programme. Although most of these programmes target the bottom two quintiles of the people in the income scale, evaluations of the programme notes that people from higher quintiles do benefit, and many households from targeted groups remain uncovered (Ahmed 2004; Parikh 1994).

Nutritional Status⁴

The Global Hunger Index (GHI) of 2011 shows that the undernutrition rates in South Asia are even worse than many countries in Sub-Saharan Africa (IFPRI and Concern Worldwide 2011). To reflect the multidimensional nature of hunger and malnutrition, GHI combines three equally weighted indicators in one index number:

- *Undernourishment*: The proportion of the population with insufficient calorie intake;
- *Child underweight*: The proportion of under-five children with low weight and less height for age reflecting wasting and stunted growth;
- *Child mortality*: Mortality rate of children under-five reflecting the fatal synergy of inadequate dietary intake and unhealthy environments.

³Only Bangladesh operates a large cash for education programme providing stipend for girls enrolled in secondary schools. A Food for Education programme was also implemented earlier, but it was discontinued after an evaluation that found large leakages in the implementation of the programme (Ahmed 2002).

⁴The information for this section is drawn from the latest Demographic and Health Surveys of the countries in South Asia.

The Index ranks countries and the regions on a 100 point scale, with zero as the best score (no hunger) and 100 is the worst. Countries with scores of 30 and above are considered having an extremely alarming situation, and those with 20 to 29.9 are considered having an alarming situation. Although the hunger situation has improved in South Asia from 30 in 1990 to 22.6 in 2001, the situation is still alarming. On Average the Sub-Saharan Africa fares better than South Asia with a score of 20.5 in 2011 (IFPRI and Concern Worldwide 2011). Out of the 81 countries for which the Index has been estimated, Bangladesh has the worst situation in this region with the rank of 70 (from top to bottom) and a score of 24.5. India and Pakistan are also within the group of alarming hunger situation with the rank of 67 and 59 respectively. Only Sri Lanka fared better with a score of 14 that ranks it at 36.

Good nutrition is the foundation stone for survival, health and development. Well-nourished children perform better in school, grow into healthy adults, and in turn give their children a better start at life. The damage caused by malnutrition is difficult to reverse unless addressed early in life. The window of opportunity is small, from starting of pregnancy to the first two years of the child's life (the first 1000 days). The nutrition situation of South Asia is as follows:

- Between 38 and 45 per cent of the under-five children are chronically undernourished with low height for age or are stunted;
- Between 14 and 20 per cent of the children are acutely malnourished with low weight for age and suffer from wasting, though the figure fluctuates depending on seasonal and temporal situation with regard to access to food;
- Over half of the pre-schoolers are affected by nutritional deficiencies which impair children's growth and physical and mental development, and reduce their resistance to infections and affect their survival rates.

Although there has been a drop in child undernutrition rates in all South Asian countries (reports of the Demographic and Health Surveys), between 1988-92 and 2009-10, it fell by only 1.7 per cent per year, and the rates remain very high except in Sri Lanka.

3. Challenges and Issues

The main challenge to achieving and sustaining food security in South Asia is obviously the continued growth of population. Despite commendable progress made in reducing population growth, Pakistan is still growing at 2.2 per cent per year, India at 1.6 per cent, and Bangladesh at 1.4 per cent. The annual increase in population is about 23 million people, larger than the total population size of Sri Lanka, in these three most populous countries in the region. The annual rice and wheat production must increase by at least 3.5 million tonnes every year in order to feed the additional people.

But the natural resource base for the production of additional food has been shrinking. The land available for cultivation is extremely scarce in most part of the region. According to the latest Agricultural Census (1988) the average farm size in Bangladesh has reached 0.53 ha. The situation is almost similar in the eastern and southern states

of India, the terai in Nepal, and the wet zone in Sri Lanka. Over 80 per cent of the farms in eastern India and Bangladesh are of <1 ha in size. Only in northwestern India and Pakistan Punjab, the farms are of reasonable size. Even the middle and large landowners get their land cultivated by small-sized tenant farmers. The small and marginal farms and widespread tenancy cultivation may act as a constraint to capital accumulation in agriculture, diffusion of farm mechanisation, and adoption of capital-intensive higher yielding crop varieties.

The land available for cultivation has also been shrinking due to demand for land for housing, industrialisation and infrastructure development. The process of losing land to other economic activities has become accelerated with faster economic progress. The reports of the agricultural censuses show that in Bangladesh the cultivated area has been declining by almost 1 per cent per year since early 1980s. The fertility of the soil has also been declining from intensive farming, unbalanced use of agro-chemicals, and lack of availability of farm yard manure and the use of dung for fuel rather than for nutrient supplementation of the soil. There are already signs of productivity decline in the intensively cultivated rice-wheat systems in South Asia (Pingali *et al.* 1997; Janaiah and Hossain 2003).

The water has also become a scarce natural resource. Although water is in plenty at the peak of the monsoon season, which often causes floods, it is in scarce supply in the long dry season. Even in the monsoon season long dry spells cause drought causing substantial yield loss. Excessive use of tube-wells for irrigation in the dry season has drawn down the aquifers, contributing to high cost of irrigation, adverse effect on the supply of drinking water, and inland soil salinity. In eastern India and Bangladesh, the extraction of ground water from upper aquifer through shallow tube-wells has reportedly caused contamination of soil and drinking water with arsenic which put the people in the region at risk of severe health hazard (Brammer 2009).

The Intergovernmental Panel on Climate Change (IPCC) predicts that the global warming induced climate change will result in sea level rise, more erratic monsoons, and higher frequency and more intense floods, droughts and cyclone. This external shock is likely to hit the low potential areas such as drought-prone and the salinity-affected coastal regions the most (IPCC 2007). In Bangladesh 17 per cent of the area in the coastal zone is predicted to be submerged with sea water, further reducing the limited cultivable land in the country. Studies on future impact of the climate change conducted by the World Bank and the International Food Policy Research Institute (IFPRI) predicts that the yield of wheat and rice will decline substantially (World Bank and UN 2010). With the melting of the glaciers in the Himalayan and Hindu Kush Mountains may cause more serious flooding in Bangladesh and northeastern India, and in the long-run will cause droughts that will threaten irrigated agriculture in the entire South Asia region. The recent experience of change in rainfall pattern indicates that there might also be some silver bullets. The humid regions experience longer rainy seasons and the seasonal distribution of rains become less extreme, while the arid and semi-arid regions experience higher rainfall and more frequent floods. This change will have positive impact on cropping intensity and cropping pattern and land productivity.

The key concerns facing South Asia with regard to food availability are as follows:

- The green revolution technologies have mainly benefitted the high potential and irrigated areas. They have not had the same impact on the unfavourable rain-fed ecosystems.
- Yields in the high potential areas, most suitable for foodgrain production, have plateaued over the last decade. Sustaining the growth in foodgrain production in future would depend on the development and diffusion of appropriate HYVs for the rain-fed system, and further shift in the yield frontier for the irrigated system such as hybrid rice (Janaiah and Hossain 2003).
- There is insufficient attention paid to the role of women in agriculture, and the constraints they face which include lack of access to agricultural credit, information, and training; lack of ownership of land and other productive assets; and discrimination in the labour market. This is increasingly important with the growing trend of the feminisation in agriculture as men shift their labour to rural non-farm activities and migrate to urban areas in search of work.
- Inadequate investment for agricultural R&D; in all countries except India the allocation for agricultural research in national budget has declined over time.
- There is insufficient attention paid to the links between agriculture and nutrition. The emphasis on growing more cereals will continue to be important, but more needs to be done to breed varieties of crops that provide more vitamins and minerals, and to the production of dairy, fish and meat.

A key problem facing all South Asian countries is the poor management of research organisations and limited effectiveness of the frontline extension staff. There are a huge number of agricultural researchers working in the National Agricultural Research Systems, but they are not as effective as they have been in the past in developing the green revolution technologies. Part of the problem is that the researchers lack training in cutting edge technologies and methods, such as genetic engineering, systems analysis, geographic information system (GIS) and crop models which are becoming increasingly more important for agro-ecologically diverse ecosystems and system-based research. Similarly agricultural extension workers lack the skill to act as an effective interface between researchers and farmers, are insufficiently trained, and lack incentives to work effectively.

4. Policy Considerations

Over the next two decades, the demand for higher value foods such as vegetables, fruits, oil, fish and livestock products will increase faster than the demand for cereals due to increase in income and growing urbanisation. So policies must be directed towards removing supply bottlenecks for agricultural diversification. The allocation for the fisheries and livestock sectors in the national budget must increase. Government support will be needed for improving intermediate breeds, disease management, and access to credit for promoting subsistence-based home gardening and livestock farming for the landless and marginal landowning households, particularly involving women.

But we should not be complacent that the cereal sector does not need any further policy support. It is true that the per capita demand for cereals have started declining, so the growth in demand for rice and wheat will slow down. But the population is continuing to grow albeit at a slower rate. Also, there is still unmet demand for cereals in the poverty-stricken households, and the per capita consumption of cereals will increase with the reduction in poverty. Also, the population growth remains high in the poverty-stricken areas such in eastern and northeastern states in India, Pakistan and Afghanistan. So the demand for cereals will continue to increase at least for some time in the future. Also, in order to promote crop diversification, the dominant crops, rice and wheat, have to release land for faster growing non-cereal crops. It means that the countries in the region must target the growth in cereal yield at a higher rate than the growth in supply to meet the given increase in demand.

To sustain the growth in cereal yields, the policymakers must give attention to the following:

1. Shift the yield frontier for high potential irrigated areas, such as hybrid varieties. Considerable progress has already been made in this area in the public sector R&D institutions (Janaiah and Hossain 2003). The private sector research organisations and NGOs have been playing an important role particularly in adaptive research and development of the seed systems for fast reaching varieties to farmers. The government must provide enabling environment to promote public-private partnership (PPP) for commercialisation of hybrid rice.
2. Increase productivity in the less favourable rain-fed ecosystems, which are most susceptible to climate change and where large numbers of poor people live. The R&D system should further strengthen efforts to develop and deploy submergence, drought and salinity-tolerant rice varieties, heat-tolerant wheat, and high moisture-tolerant maize crops. The probability of success in developing these technologies is now much higher due to scientific advancements in the field of molecular biology and biotechnology.
3. Use of improved crop husbandry practices for further reducing the yield gap with the existing varieties in the irrigated area, such as alternate wet and dry irrigation system, the system of rice intensification, the use of leaf colour chart and site-specific nutrient management, improved seed quality management, and other resource conserving technologies such as minimum tillage and zero tillage (Erenstein 2010).
4. Ensure that farmers have adequate incentives to continue to generate marketable surplus for the growing urban population through having a favourable terms of trade for agriculture and farmers. In the medium to long-term this can be tackled through raising the productivity of farming with technological progress. For the short-run policy of providing subsidies on fertilisers, irrigation and agricultural credit for keeping the cost of production low should continue.

There is a need for increased investment in agricultural R&D for strengthening national agricultural research systems for improving the quality of agricultural education, post-graduate training for agricultural scientists in centres of excellence within the region

and overseas, developing lab facilities for conducting research of international standards, and increased remuneration of agricultural scientists. The governments should promote joint agricultural research programmes for development of abiotic stress-tolerant improved varieties and hybrids, and natural resource management techniques (minimum tillage, water saving rice, etc.) because there are similar ecosystems across countries. The entire region will benefit by coordinated research for those ecosystems regionally. Cooperation in new sciences such as GIS, remote sensing, weather forecasting, systems modelling should be promoted. India with its highly trained vast number of agricultural scientist may provide leadership in this area.

Collaboration on agricultural development and food security is a priority area for the South Asian Association for Regional Cooperation (SAARC). As yet SAARC has not been very effective in regional cooperation for R&D for food security. It has set up a small food buffer stock designed to be used after disasters. But there is little sharing of experiences and best practices in agricultural R&D or joint research among South Asian countries. The only notable exception is conducting research for the rice-wheat system in the Indo-Gangetic Plains coordinated by the Consultative Group on International Agricultural Research (CGIAR) system.

The policymakers in the countries could consider regional cooperation in agricultural R&D in the following areas to boost food security in South Asia:

- Joint agricultural research programmes for: research for shifting the yield frontiers through hybrid rice, and water and natural resource management techniques for similar ecosystems found in different countries; cooperation in new scientific advancements such as remote sensing and GIS, water and flood forecasting and disaster management; and developing a standard common research protocol. India may provide leadership in this area;
- Exchange of germplasm and elite lines; exchange of crop varieties and animal breed; and improved crop husbandry practices;
- Capacity building through development of regional facilities and training, e.g. sanitary and phytosanitary (SPS) standards compliant facilities, certification system for organic farming, food quality and food safety standards;
- Regional programmes for plant and animal transboundary insect and disease control;
- Harmonisation of policies and legislation such as protection of plant varieties, bio-safety protocols for research and release of genetically modified organisms (GMOs), protection of biodiversity and promotion of use of indigenous knowledge in technology development research.

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Food Security in South Asia: Challenges, Responses and Proposals for SAARC

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Since 2008, the world has been experiencing a food crisis when the majority of the developing countries in the world have been failing to meet the challenge of adequate food requirements for all their people. For the vast majority of the South Asians, food insecurity has become the most urgent concern. The region's food insecurity has been worsening starting with the global food, fuel and financial crises, and these challenges got exacerbated by a number of the region's domestic challenges such as declining availability of food, run-away food inflation, conflicts, high levels of job loss, and the adverse effects of climate change on food production. During 2010-11, all the countries of South Asia have been experiencing increased hunger, malnutrition and poverty.

Food insecurity is caused by a variety of economic, political, social and environmental factors. Food availability is dependent on domestic production, imports, stocks and aid. Access is determined by income, purchasing power, assets distribution, population growth, market infrastructure and social safety net programmes. The absorption of food suffers from inadequate health and sanitation facilities, as well as poor child feeding practices, eating habits and nutritional knowledge. Fluctuating world prices, conflicts and variations in the weather hurt the stability of food production, access and utilisation.

Challenges

Today South Asia as a region faces a huge food security challenge.

The region produces about 14 per cent of the world's cereal production, but it is home to over 43 per cent of the world's poor and 39 per cent of the hungry. This is

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despite the fact that the region includes one of the leading economic power houses of the world, and with a few exceptions, other countries are not doing too poorly in terms of economic growth. So why is it that the region has failed to reduce hunger and poverty significantly?

First of all, supply of food has not kept pace with increasing demand for a variety of reasons including increased population, technological limitation to productivity, impact of extreme weather conditions, prevalence of violent conflicts in some countries disrupting supply lines, and proliferation of smuggling, hoarding and profiteering of essential food products.

Second, the worsening food security situation has more to do with socioeconomic access rather than availability of food. Access to food has to be ensured to all including the unemployed, the poor and the unreached. This means more efficient food distribution system including storage, marketing, pricing and public food distribution for the vulnerable people. Today about 40 per cent of South Asians live below the international poverty line of USD 1.25-a-day. And if we raise the bar to USD 2-a-day, about 70 per cent of the population would fall below the poverty line.

Third, the basic aim of food security is to ensure that everyone has access to adequate food in terms of quantity and quality to enable them to lead a healthy and productive life. This aim also requires that proper hygienic environment is maintained to ensure appropriate utilisation of food. This condition is not being met in South Asia as could be seen in the statistics of human deprivation in terms of malnourished children and paucity of drinking water and sanitation facilities.

Fourth, one of the reasons for the massive food price inflation of recent years is hoarding and speculation by private traders of food. Corruption at each level of food distribution chain is leading to smuggling, hoarding and profiteering, resulting in artificial shortages and increase in prices.

Fifth, as a result of climate change, droughts, floods and untimely rainfalls are devastating lives and livelihoods including crops. In Pakistan, for example, standing crops of rice, maize, cotton, sugar, vegetables, fruit orchards and livestock have been destroyed by the 2010 and 2011 floods.

Access to adequate supplies of food seems to be a bigger problem in South Asia than the availability of food. This is reflected in the alarming number of people who remain undernourished despite increases in per capita availability of food in the region. Economic indicators such as income, employment and prices determine food security through their influence on access to food. Government policies have a critical role to play in ensuring food security. These policies include the maintenance of buffer stocks, support prices, land reforms and management of the food distribution system. Agricultural liberalisation in South Asia has been associated with increased volatility in both prices and production at the national level. Trade policies affect food security through their effect on incomes, expenditures, employment and government revenues. Education levels and gender inequalities play a significant role in creating food

insecurity within households. Research suggests that higher education levels lead to better health and nutritional outcome. Education also increases farm and non-farm productivity and improves food utilisation. As a result of climate change, the glacier melt in the Himalayas threatens the long-term availability of water supplies and more frequent and extreme flooding. Rising temperatures and changing precipitation patterns will increase the frequency of droughts. Sea level rise, storm surges and cyclones can lead to salinisation of freshwaters, damaging fisheries and reducing drinking water supplies.

Economic Growth vs. Food Security in Selected Countries¹

In India, the high economic growth rate of the past few years has not been accompanied by an equal success in rural development, employment generation and delivery of public services. In recent years, Indian agriculture is facing a crisis pushing rural India towards impoverishment, food shortages and hunger. For example:

- Growth rate of both productivity and production in agriculture has declined;
- Poverty has increased in rural areas, though it is also alarming in urban areas;
- Unemployment has grown faster than population;
- There has been a continual rise in food prices. Food inflation has been in double-digit for prolonged periods;
- Rise in fuel prices has exacerbated the situation;
- One in every four rural households does not have access to safe drinking water or sanitation facilities;
- 7-10 per cent of urban households also do not have access to safe drinking water.

The worsening food security in Pakistan is due to a number of factors including poor socioeconomic access. For example:

- Though food production has been increasing, the growth has been volatile, with increase in one year followed by a collapse in the next. In contrast, wheat utilisation has constantly been rising as a result of population growth, implying worsening food security situation;
- Overall agriculture growth rates have declined owing to declining productivity and limited water availability. This has been due to restricted crop diversification, unequal distribution of land, poor agricultural research and development, and declining credit availability, especially to small and subsistence farmers;
- Growth in per capita income has been overtaken by inflation, reducing the real purchasing power of people;
- Unemployment has gradually increased over the years. The employed labour force also has a significant share of unpaid family workers;
- Limited access to safe drinking water and weak sanitation facilities, especially in rural areas and urban slums, has resulted in poor food absorption and utilisation.

¹MHHDC (2011).

Bangladesh has serious food security concerns on all fronts, in availability, access and utilisation of food. Food insecurity in Bangladesh largely originates from natural calamities like floods, cyclones or draughts that are beyond human control. The country, however, is making serious efforts to address these concerns and to avert food insecurity for its vulnerable population.

Food availability in Bangladesh has improved since the late 1990s largely due to acceleration in growth of production, increased trade and the success in achieving population growth reduction. Production of rice and wheat has increased significantly over the years due to adoption of high-yielding varieties (HYVs). The production of cereals has become more resilient to natural disasters because of change in seasonal composition of production.

Strategies for Food Security

The main elements of a food security strategy include at least the following four²:

- To ensure adequate supply of food by improving both production and productivity through higher investment in research, technology and rural infrastructure, and bringing marginal land/state land under cultivation;
- To evolve an efficient and equitable system of food procurement, storage and distribution to ensure that food is available at affordable prices throughout the year in all parts of the country;
- To improve the access of poor households to food by adopting a pro-poor growth strategy and providing non-farm employment on a substantial scale;
- To build a transparent and well-managed system of safety nets to provide food or income support to every poor household.

The policymakers need to evolve a comprehensive food policy, addressing both the supply and demand side constraints in order to ensure food security of all people. The country has to increase agricultural growth and improve its productivity to ensure sufficient food to the rapidly growing population. It has to ensure adequate production to meet domestic needs. To ensure that production translates into food availability, government needs to implement a coherent plan for ensuring proper procurement, storage and distribution of food. The government also needs to ensure that available food is within the access to people, and thus adopt a pro-poor growth strategy that leads to adequate employment and livelihood opportunities for all. And there must be social safety net programmes specifically targeted towards those households who fail to meet their food requirements.

Adequate Production to Meet Domestic Needs

Sustained agricultural growth can only be achieved by actively supporting agricultural research and extension including developing improved crop varieties and crop management technologies and promoting these to the farmers. Currently, the focus has

²See MHHDC (2011).

been on a few major and minor crops. In addition to enhancing productivity of the existing crops that the country produces, agricultural research should focus on crop diversification to exploit the diverse ecological zones in the country. It should also promote the notion of multiple cropping – growing more than one crop on the same land during the suitable season. This technology increases the efficiency of inputs such as water, fertiliser, etc., maintains soil fertility, and increases output per unit of land.

Accompanying crop diversification, farmers should also be encouraged to diversify their income sources and livelihoods. For this on-farm livestock, poultry and fish ponds should be encouraged through provision of better breeding facilities and improved animal feed. Horticulture is another sector that adds significant value and has a potential to generate secondary livelihood opportunities for farmers.

Water scarcity poses a grave threat for future of agriculture sector in South Asia. Therefore, the focus of agricultural research, while enhancing productivity, should be on efficient use of this resource. In this regard, cultivation of less water-intensive crops should be promoted. Agricultural research should also develop water-saving technologies like drip irrigation and sprinkler irrigation. Wastage of water in channels and canals should also be curtailed by proper lining of water courses.

Available land for cultivation should be expanded by giving state lands to small farmers and implementing meaningful land reforms, especially in Pakistan. There is an urgent need to computerise the land recording system and simplify land sale procedures.

In addition to availability of land and water, agricultural productivity can be enhanced by ensuring timely provision of farm inputs, such as quality seeds, fertilisers, machinery, pesticides and other farm-related services. For this the existing markets need to be expanded or village sales centres should be established. These sales centres could serve an additional purpose of disseminating new technology by providing training and guidance to farmers for improved technology.

Credit is a significant factor of production that determines farmers' ability to cultivate new crop. There is an urgent need to develop credit guarantee scheme for small and marginalised farmers, and simplify the lending procedures. Strategic lending to farmers associated with livestock, dairy and fisheries sectors, and those for development purposes like water conservation and infrastructure development should be encouraged.

Improve Food Procurement, Storage and Distribution

Post-harvest losses due to weak food procurement, storage and distribution systems significantly undermine agricultural produce. Therefore, any improvement in production and productivity has to be balanced by improving post-harvest handling of products. This would involve, for example in Pakistan:

- Setting up a pricing policy for food procurement to ensure reasonable returns to farmers;
- Ensuring a centralised administrative control (provincial/federal) regarding food procurement and distribution;

- Improving storage capacity of government godowns;
- Developing trade strategy to ensure timely exports and imports during surplus and deficit. In this regard government should build the capacity to understand the food supply and demand factors of basic commodities. It should be able to adopt a forecasting mechanism to understand food supply and foresee its demand. This would enable government and policymakers to be proactive in preventing crisis rather than act when the crisis has already hit;
- Minimising the role of cartels/hoardings/smuggling network through strengthening the Competition Commission of Pakistan and other legal and administrative bodies.

Developing a Pro-Poor Growth Strategy and Ensuring Social Safety Nets for Poor

Any effort to improve food security situation in South Asia depends on policies to reduce poverty. For this, it is extremely important that poor are made part of the growth process and policies should specifically target their increased participation. Such a strategy would involve:

- Promoting non-farm employment by increasing public and private investment in physical and social infrastructure like building roads, and education and health facilities. Diversification of livelihood in rural economy through farm and non-farm employment opportunities is extremely vital to ensure their food security;
- Enhancing human development through improving education and health facilities;
- Equitable distribution of land and provision of state land to poor landless farmers;
- Extending agriculture credit and finances to small farmers;
- Promoting farm research results to poor farmers for efficient use of land.

Policies to Ensure Food Security

Policies to protect consumers, particularly vulnerable groups, in times of high inflation and to give incentives to producers to increase production in difficult times, a series of measures are used by governments that can be put together in three main groups³:

- Consumer-oriented measures that provide direct support to consumers and vulnerable groups in the form of food subsidies, social safety nets, tax reductions and price controls, among others;
- Producer-oriented measures that provide support to farmers to increase production using input subsidies, producer price support, etc;
- Trade-oriented measures that use import tariffs, export bans, etc. to reduce prices and/or increase domestic supply.

A chart (see Annex) prepared by the Food and Agriculture Organization the United Nations (FAO) shows that each South Asian country is using these measures to ensure food access, availability and nutrition support of the vulnerable population. For

³See FAO (2011).

example, on consumer-oriented measures, Bangladesh has several programmes such as food assistance, strategic food reserve, price control and employment programme. On producer-oriented measures, Bangladesh has seven programmes including input distribution, seed improvement, input price control, credit distribution to farmer, insurance schemes, infrastructures and new land policy. Bangladesh also has a few trade-oriented measures.

Are these Policies being Effective in Ensuring Food Security?

For many years, South Asian governments have been supporting various measures to increase food production as a policy goal to achieve self-sufficiency in food. These countries also have put in place many social safety net programmes. Some additional measures, mostly trade-oriented, were put in place as response to the food security crisis of 2008. At that time these were thought to be short-term measures to be more or less withdrawn when the crisis was over. But now in 2011 the crisis not only still persists, but has become more severe in nature. So it seems these policies would stay in the medium to long-term, and would have more development orientation than before.

On the policies to protect the consumers, safety net programmes are essential for government's food security strategy to protect food and income of the poor. Over the past two years, South Asian governments have reinforced their existing food assistance policies and have been improving their targeting to the very poor households. School feeding programme was significant in India and Nepal. The use of cash transfers has increased over the past two years. Food reserve stocks were used during the period of supply constraints. Price controls were used in most countries to protect the vulnerable people from inflation.

The need for safety net programmes is recognised by all countries. But these programmes need to be broadened and targeted according to the magnitude and the need of each country. In Pakistan, there is a need for better targeting, more coordination with all the implementing agencies, and improvement in accountability. In India, on the other hand, there is a call for a universal programme of public food distribution system that caters to all the deprived population in India.

On the policies to support the producers, many countries subsidised seeds, fertilisers and other input prices, removed import duties on food where needed, used insurance schemes for crops and livestock, extended irrigation facilities, and constructed storage facilities.

Regarding the trade-oriented policies, during 2009-10, India, Pakistan and Nepal put in place additional food import facilitation measures to replenish domestic stock. There was also export facilitation process aimed at supporting national production.

So the SAARC (South Asian Association for Regional Cooperation) countries have been trying to protect their consumers, especially the vulnerable ones, from the ongoing food insecurity by pursuing some protective measures. Without these measures, the situation of the ordinary citizens of South Asia would have been much worse. Of course,

many of these programmes/policies need to be reoriented to make them more sensitive to the needs and concerns of the population they are supposed to serve. Additionally, the governance of these programmes has to be improved.

What are the Policy Options for the SAARC Region in order to Achieve Food Security for All People in SAARC?

Building on the policy proposals of previous South Asia Economic Summits, as well as research done by various South Asian institutions, the following suggestions are offered:

- **Effective implementation of SAARC Food Bank.** Over the years, SAARC has introduced various initiatives to address the food security issue in South Asia. The establishment of the Food Security Reserve in 1988 was one of the first initiatives of SAARC. Operational and procedural issues stood in the way of its success. In 2007, SAARC Food Bank was established with the objective of providing support to national food security efforts and addressing regional food shortages through collective action. However, SAARC Food Bank is yet to be operational with adequate reserve. The reserve must be raised to a level that could effectively address regional food emergencies. The challenge for SAARC leaders is to implement this initiative with better coordination and cooperation among the member countries.
- **Foster intra-regional trade in food.** This is already a goal under the South Asian Free Trade Area (SAFTA). But once again this laudable goal is not receiving adequate policy attention of the member states. In 2009, SAARC intra-regional agriculture and food exports were 12.8 per cent and 17.2 per cent of the region's total global exports of agriculture and food; and intra-regional imports of agriculture and food were 8.5 per cent and 15.6 per cent of the total global imports. Export restrictions by surplus countries and tariff barriers by importing countries limit trade in food which should be considered as a humanitarian issue, and not a trade issue. The member countries must consider seriously to remove food export bans and to reduce import tariffs on food during a crisis. SAARC member countries also need to address the issue of speed and efficiency of food movements from surplus to deficit areas across the region, particularly during an emergency. This will require more efficient and widespread regional transportation and storage facilities.
- **Take bold initiative in resolving water sharing disputes between member states.** Rivers that flow through South Asia are the lifeline of the region's food security. But it has become a bone of contention among a few countries. Increasing drought and flood and huge water wastage have the potential to create a major water crisis in the region. SAARC must encourage collaboration among its members in water sharing, building dams, joint hydro-electric projects and watershed management. A regional centre for water management could also be contemplated.
- **Encourage collaborative research to improve productivity and production.** An exchange of research and technology, along with increased investments in research and development, among the SAARC member countries could be facilitated by the existing SAARC Agricultural Information Centre, based in Dhaka.

- **'Right to Food' legislation.** There is an urgent need for all countries of SAARC to enact the food security legislation. Such a piece of legislation is already under discussion in the Indian Parliament. If this is seen as a collective objective of the SAARC Summit, then this will have a better chance of getting accepted by the leaders and parliaments of other countries as well.

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Annex: Policies in Response to Rising Food Prices in South Asia: October 2008-July 2010

Measures	Bangladesh	India	Nepal	Pakistan	Sri Lanka
Consumer-oriented Measures					
Food assistance					
School feeding					
Cash transfers					
Strategic food reserve					
Price control					
Removal of value added tax (VAT)					
Employment programmes					
Nutrition and health assistance					
Producer-oriented Measures					
Input subsidies					
Input distribution					
Seed improvement					
Input price control					
Taxes on agricultural inputs					
Finance/credit					
Insurance schemes					
Institutions					
Asset/infrastructures					
New land policies					
Employment					
Knowledge and extension					
Trade-oriented Measures					
Import tariff reduced/decreased					
Export tax removed/decreased					
Export quota and ban					
a) Ban lifted/quota expanded					
b) Ban or quota imposed					
Export subsidies					
Export promotion					
Trade agreement					

Source: FAO (2011).

Food Price Volatility and Uncertainty: The Case of Nepal

Bishwambher Pyakuryal*

When the United Nation's Food and Agriculture Organization (FAO) was established in 1945, there was a visible global concern about food security. The food crisis of the early 1970s in Bangladesh, the first World Food Conference in 1974, the 1985 famine in Ethiopia, and the 2008 cyclone destroying rice crop and causing famine in Myanmar are some of the global events that necessitated professional discourse on food security at national and global levels.

In 1974, Bangladesh suffered from a false food crisis induced by an anticipated food shortage, due to bad weather, severe flooding and increased rural unemployment. The country saw a casualty toll of more than a million people even at a time when Bangladesh saw high rice production. This was one of the reasons for convening the World Food Conference in 1974 in response to Bangladesh's famine.¹ The official goal of the Conference, according to FAO, was "eradication of hunger, food insecurity and malnutrition within a decade." Although all nations across the globe have put in lots of effort to achieve such goal, it did not happen in reality. One point of satisfaction is, however, that there has been significant value addition in the concept of food security since the World Food Conference of 1974 to date. It is widely acknowledged that food security does not only concern the availability of adequate foodgrains, but also the stability of food supplies, and 'access' and 'entitlement.' Global concerns for access and entitlement have been in prominence after a series of writings from Amartya Sen. The mission towards these goals can be achieved if the countries develop clear ideas on examining these issues by addressing the case for capital adequacy/inadequacy, timely policy responses; strengthening the existing institutions, and reforming the governance. These are the factors that are neglected often times by most governments.

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¹<https://ushistory20thc.wikispaces.com/World+Food+Crisis>

Price Volatility

In general terms, the variations in agricultural food prices over time are due to agricultural price volatility. The aim of any policy responses to safeguard the most vulnerable section of people is to mitigate and manage the risks associated with price volatility of agricultural food products without creating any distortions in the market. The serious problem facing Nepal is not the regular market behaviour, but the higher degree of unpredictability of food prices. This has been the case for most of the developing economies.

The prices of essential consumption goods, such as rice, corn, wheat and milk are unpredictable as Nepal produces much less than the demand, and these prices are dictated by mainly international fuel prices and high transportation costs. Even during the global economic downturn when domestic demand was low and oil prices in international market were not very high, the Nepalese government did not take any measure to reduce the oil price. As a result, the cost burden was shifted to the consumers in the form of higher food prices, causing a steep inflation, and a decline in the value of money and purchasing power. This, in turn, deteriorated the living cost status of the fixed salaried employees and wage earners.

Nepal's country reports from various sources show that cereal stocks have fallen by one-third since 2000; the FAO estimates show an additional 9 per cent contraction in food stocks (Ali and Eidelman 2011). In Nepal, the demand for fruits and vegetables is much higher than the growth in the domestic markets. Particularly, since 2000 onwards there has been a trend of decreasing export and increasing import of cereals and fruits and vegetables. The agricultural market is exposed to speculative operations. International food prices are spiking again for the second time in three years. In March 2011, the food index remained 36 per cent above the level a year earlier.

Supply-side shortfall of food production, rise in demand beyond expectation and reduction in the level of stocks are the factors responsible for price rise, which threatens the revival of 2008 food price crisis and its consequences for the poor. In fact, the reduced production of foodgrains all over the Asia was a major reason for the decline in the global grain stock during that period. Estimated global grain stocks, from 30-35 per cent in the 1980s and 1990s, had come down to 20 per cent after 2003. Under such circumstances, one can expect heightened risks in the food security situation, as the producers and traders also avoid taking financial risks. The result – supply of food becomes even more constricted.

Supply Uncertainty

The available literature for the supply uncertainties show some of the key questions that need to be addressed. These include:

- What are the fluctuations and uncertainties in the food supply in a given economy?
- What are they caused by? How do people cope with them?

- Is there any pattern for regular orders for the farms?
- How many products should the farm have in the stock?
- Will the supplier deliver the requested goods on time and according to the demanded specifications?

By 2050, the world's population is expected to have reached to about 9 billion and the demand for food to have increased by about 70 to 100 per cent. This shows the likely pressure in commodity prices in the near future. In recent years, there is already a tight supply-demand balance. The growth rate of agricultural production cannot keep pace with the demand. Increased volatility around the world will be felt once more (FAO *et al.* 2011).

Proficient supply chain management is recommended for reduction/elimination of uncertainties and improve the performance of the chain. The identification of elements that cause uncertainty and the scheme for the improvements are needed to be addressed. The results of a recently conducted case study suggested that reduction of uncertainties can improve service levels significantly. The findings recommended that availability of real-time information systems is required for ensuring efficient and effective supply chain management.

Similarities in the Global Food Price Situation in 2008 and 2011

Both similarities and differences can be observed in the global food price situations of 2008 and 2011. Even the developed nations experienced political problems due to economic instability caused by high global food price in 2007 and the first and second quarters of 2008. After 2008, prices fell to the level of the recesses during late-2000s, but eventually increased again during 2009, 2010 and in early 2011.²

The similarities stated by the International Monetary Fund (IMF) include: (a) global grain stocks remaining at a low level; (b) higher oil prices affecting agricultural commodity prices; (c) depreciation of the Dollar in 2008 against most currencies leading to larger increase of USD-denominated food prices; and (d) financial investment in agricultural commodities remaining high.

Differences in the Global Food Price Situation in 2008 and 2011

World Bank's lead economist of Poverty Reduction and Equity Group states, that one crucial difference between the recent and the 2008 food crisis is a more moderate increase in the global price of rice. The specific differences include: (a) recent international price increases are more widespread across agricultural commodities than in 2008; (b) weather-induced production shortfalls; and (c) policy responses have further raised the amplitude of the grain price spikes in 2011. The factors that contribute to the increased volatility of commodity prices include population, income growth, changing diets, trade policy, oil prices and macroeconomic policy.

²http://e..wikipedia.org/wiki/2007%E2%80%932008_world_food_price_crisis

The differences can be recorded by addressing emerging policy issues and externality created by unpredictable global political economic factors.

Factors Responsible for Food Crisis

With regard to food security, the key global constraints have been the inadequacy of funds to purchase agricultural inputs that would make farmers productive; the use of crops for ethanol production; climate change and unpredictable weather conditions; and decline in productivity and average annual growth of population that exceed demand. In Nepal, ensuring adequate and nutritious food has been a problem. The government report reveals that nearly half of Nepal's children under the age of five suffer from malnutrition. Infants' health is linked to mothers' welfare. It is widely acknowledged that extra attention should be given to the women before and during pregnancy, and in the first two years of an infant's life (Jolly 2010).

Globally, significant food crisis was experienced in 2007-08, and the trend continued till early 2011. Prices of rice were low in Nepal's domestic market during early 2011 largely because of a satisfactory harvest. Nepal's agriculture is rain-fed, and therefore, it is likely to be a temporary phenomenon. According to the World Food Programme (WFP), around 3.7 million Nepalese are food insecure; severity of malnutrition is also very high. In the remote drought-prone mountainous areas, three out of five children are said to be underweight. The worrying factor is also external, which includes export controls, biofuel production, high oil prices and poor harvests. At the domestic level, poor policy responses by the government have worked as disincentives for the farmers.

There has been a big question on environmentally sustainable land usage in Nepal. There is a huge gap in the agricultural productivity within different ecological divisions of the country. Increasing agricultural productivity and technological innovations have not been very satisfactory because of inadequate resources and the governments' policy priorities. The visible constraints in Nepal's food security regime include: small farm size; use of low quality inputs and traditional technology; removal of subsidies and poor institutional support services; high cost of production; limited access to year-round irrigation facility; lack of access to marketing and credit facilities; and under-investment due to low return of land and labour. Price volatility under this scenario is likely to damage the prospects for agricultural innovation.

Impact of Food Insecurity Situation

The level of impact depends on country-specific conditions. The immediate impact will be a significant number of additional people in poverty. The rise in food price has created economic, social and political instability. In Nepal, the impact was felt in terms of reduced investment in agriculture, followed by the reduction in productivity and reduced economic growth. The current rise in food price can be expected to further widen inequality, which is already a problem over the period of three consecutive Living Standard Surveys. The global commodity price volatility, especially for food items, has affected the efforts of respective governments in South Asia to narrow down income inequality despite the satisfactory decline in the incidence of poverty.

Asian Development Bank (ADB) has warned that four countries in South Asia – Nepal, Afghanistan, India and Bangladesh – will suffer from falling crop yields due to severe climatic factors, such as glacier retreat, floods and droughts. Per capita calorie availability is suspected to fall below 2000 levels, which means more and more children will be malnourished and 1.6 billion people in South Asia will be threatened by water and food insecurity. Several studies have revealed that malnutrition lowers productivity, and can have severe lifelong effects, particularly for children. The high food price is creating difficulties in the ability of poor households to meet non-food expenses, such as education and healthcare. According to an ADB study, yields of irrigated crops – maize, wheat and paddy – will go down by 17 per cent, 12 per cent and 10 per cent respectively, if current impact of climate change persists until 2050 in South Asia.

In many countries, food scarcity and high prices have been the cause for social unrest. Nepal also could not remain an exception. During Maoists' insurgency, high food prices had become a political as well as socioeconomic issue to draw people's attention in justifying the cause for people's war.

High oil price and food price hike have a strong and positive relationship. In 2007, according to International Food for Agricultural Development (IFAD), the total cost of food imports for low-income food-deficit countries was 24 per cent higher than in 2006, rising to USD 107 billion.³

In the past, FAO in its several documents showed *if the ... price volatility and liquidity conditions prevail in 2008/09, plantings and output could be affected to such an extent that a new price surge might take place in 2009/10, unleashing even more severe food crises...* Food Outlook (2008) is close to reality to what has been happening beginning from 2008 through 2011.

As the detailed report on the impact of the food crisis of 2011 is yet to come, it is difficult to make precise estimates. FAO (2008) shows, 75 million additional numbers were below the hunger threshold due to the high prices in 2007, and another 40 million in 2008, with a total of 963 million undernourished people. This crisis lowered the wage rate of poor workers and led to rising unemployment by further aggravating their livelihood.

In Nepal, except in formal speeches by the leaders, public policy has failed to regulate domestic markets through trade policy in the open border with India. Consumer subsidies, social safety nets, price surveillance and competition policy have not worked. According to WFP, the country already suffers from low and almost stagnant agricultural productivity.

The shortfall in domestic production/productivity is the major factor for food insufficiency in case of Nepal. The productivity is one of the lowest in South Asia.⁴ The use of chemical fertiliser in Nepal is only 31 kg/ha. As a result, the annual productivity

³www.ifad.org/operations/food/ceb.htm

⁴During the 1960s, crop yields in Nepal were 198 per cent higher than in India, 111 per cent higher than in Bangladesh, 212 per cent higher than in Pakistan, and 108 per cent higher than in Sri Lanka.

of cereals is merely 2.2 MT/ha. The average amount of food deficit is 47 kg per capita in mountain regions and 32 kg in the hills (Pyakuryal *et al.* 2010).

Conclusion

Domestic and export subsidies provided to better-off farmers in developed countries have driven poor farmers off the land. Mandatory tariff ceilings in the poor countries have limited the scope for safeguarding and fostering domestic production even in the 'to be competitive' special products. The developing countries should equivocally advocate, if necessary, to raise tariffs in the case of import surges. However, this is only an interim arrangement to help farmers absorb shocks from global food market volatility.

The World Bank has proposed *Nepal Food Price Crisis Response Program* to mitigate the impact of rising food prices. It also aims at implementing social safety net measures to maintain access to food among poor households in food-insecure districts. ADB's short-term response is reducing immediate negative impact and stimulating food production. Policy reforms to increase productivity, widen market access, and improve business environment should be the medium and long-term measures.

Some initiatives such as the *Cereal Systems Initiative for South Asia* (CSISA) have been taken by International Rice Research Institute (IRRI) to boost South Asian food security through crop development. The aim of such initiative is to increase an additional 5 million tonnes of grain and income of about 6 million farmers by at least USD 350 per year. At a time when an additional 70 million people are facing the food insecurity situation who are mostly in South Asian sub-continent and Sub-Saharan Africa (Raja 2006), the policies of international organisations need to be harmonised.

Studies completed for Nepal show that trade liberalisation improved several indicators of food security, especially a rise in per capita food availability. The impact has, however, been markedly asymmetric across regions – the remote areas in the hills and mountains have not benefited from policy openness, while the terai region has reaped most of the benefits (Pyakuryal *et al.* 2010). This is where policy intervention is recommended. Also, in Nepal, budgetary allocation for agriculture research is declining and agricultural commercialisation is superseded by the political goal of land redistribution; the future of poor farmers is being destroyed by the government's pro-poor farmer's policy itself. Purchasing new cereal varieties with higher productivity potential and managing sustainable technologies could help increase crop productivity. But this is not possible by the poor farmers under the existing political-economic scenario. Therefore, such lofty dreams have always been confined in the policy document of the respective governments and development partners.

The emphasis, at present, should be on harmonising projects assisted by development partners including multilateral institutions according to the new and revised agricultural policy, linking remote regions with domestically accessible markets, and effective integration of domestic food markets with international markets.

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Agricultural Research and Technology Development under SAARC

Uttam Deb*

Introduction

Agriculture is the most important sector in South Asia which contributes about one-fifth of the total GDP of South Asia and employs three-fourth of total labour force. Agricultural population constitutes two-third of total population in South Asia. Over the last five decades South Asian agriculture has continuously grew with some ups and downs mainly caused by the weather condition. Increased production has enhanced food security both in terms of availability and consumption. It is widely agreed that increased production is essential for reducing hunger and ensuring food security for all. Major factor for increased production in South Asia was increase in yield through development and diffusion of modern agricultural technologies. FAO (2002) reported that yield increase contributed 80 per cent to growth in crop production in South Asia during 1961-1999, while expansion in crop area through increase in arable land and increased cropping intensity accounted for 20 per cent of crop output growth. The study also projected that role of yield would also be crucially important in the future. According to the study, increase in yield would contribute 81 per cent to the growth in crop production during 1997/99-2030 period.

The South Asian Association for Regional Cooperation (SAARC) has always been committed to the development of regional agriculture through cooperation. Recently, *SAARC Agriculture Vision 2020* has been developed. It has identified the major challenges for agriculture in the region: raise and sustain agriculture growth; ensure food and nutrition security; to face the challenge of climate change; adjust to changes in energy scenario; maintain bio-safety and bio-security; make sustainable use of natural resources; and protect biodiversity. The document has rightly mentioned that

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new opportunities lie in trade, marketing, bio-technology, shifting demand preferences in domestic and global market, technology sharing, resource-sharing and investments in research, extension and infrastructure. It has rightly observed that SAARC countries need to develop science-based strategy for collective response to challenges and opportunities and global shocks. To that end, on a priority basis, a consensus is to be arrived at on identified areas for cooperation in agriculture; and then form partnership and institutional mechanisms to operationalise regional cooperation. Concrete areas for cooperation and action in agriculture sector within the existing SAARC arrangements should be put in place with focused strategy.

The present paper focuses on the need for establishment of a SAARC Variety Release System to promote agricultural development and fulfill its vision for agriculture. After this introductory section, concept and importance of a Regional Variety Release System in South Asia are discussed. And then conclusions are made in the last section.

Regional Variety Release System in South Asia: Concept and Importance

For agricultural development in South Asia, SAARC countries are engaged in exchange of germplasm and breeding materials, conduct of multi-location trial for various crops, and enhancing productivity of rice and wheat breeding programmes.

International research centres (such as International Rice Research Institute (IRRI), International Maize and Wheat Improvement Center (CIMMYT), International Crops Research Institute for the Semi-Arid Tropics (ICRISAT)) have conducted trials on advanced lines and enhanced germplasm for rice, wheat, maize, chickpea, groundnut and other crop. A large number of improved varieties have been developed, released through sow trials which are widely cultivated by farmers in different countries of South Asia. Swarna, a popular rice variety in Bangladesh, was developed in India. Pajam was also the product of multi-country cooperation. New rice varieties with submergence tolerance such as Swarna sub 1 and BR11 sub 1 have been developed with genes from rice in Orissa (India). Rice variety BR11, developed by Bangladesh Rice Research Institute (BRRI) has also been cultivated in India and in terai region in Nepal. All improved varieties of chickpea and groundnut released in Bangladesh are bred by ICRISAT. There are plenty of examples of improved technology development through international collaboration. With the advancement in molecular marker assisted breeding and wider use of biotechnology tools for development of varieties and hybrids, it will be more in future.

Applicability of improved varieties developed in one country and then subsequently been released in other countries of South Asia is not a matter of chance or luck. South Asian countries share common agro-ecological zones (AEZs). These zones are defined on the basis of combination of soil, landform and climatic characteristics. Food and Agriculture Organization (FAO) in collaboration with national systems has developed AEZs for South Asian countries. Both climatic and edaphic requirements of crops and on the management systems under which the crops are grown, are considered in zoning. Each zone has a similar combination of constraints and potentials for land use, and serves as a focus for the targeting of recommendations designed to improve

the existing land use situation, either through increasing production or by limiting land degradation.

South Asia has six major agro-ecoregions: (i) Hot Arid, (ii) Semi-Arid, (iii) Irrigated Sub-Humid, (iv) High Rainfall Humid, (v) Sub-Humid to Humid Coastal, and (vi) Sub-Humid to Cold Arid Mountain. Characteristics of these agro-ecoregions along with their share to the net sown area (NSA) and total value of agricultural production (VAP) is provided in Table 1. Map 1 shows the distribution of different AEZs in a map of South Asia. Within each AEZs, there are also clearly defined sub-regions. International research institutes and forums use these AEZs for defining their research priorities. Enhanced germplasm materials developed by international institutes in collaboration with national systems are then tested in each of the countries. Multi-location testing and adaptation trials and variety releases are done by individual country. This process requires a lot of time. Very often release of a variety takes seven to eight years after the crop breeding is completed. By the time the variety reach to the farmers 10 years are already consumed in this process. It has implication for cost of research, opportunity cost for delay in harvesting potential benefit. This time may be reduced significantly. A new policy for variety release in India has adopted a rule to release improved variety after two years of trial if it is developed through molecular marker assisted breeding techniques. It is because the science itself is able to ensure consistency and homogeneity in the new cultivars without many years of trial. Thus, for some varieties and hybrids farmers can get benefit within three years instead of waiting for 10 long years if we can develop a system of varietal trail and release.

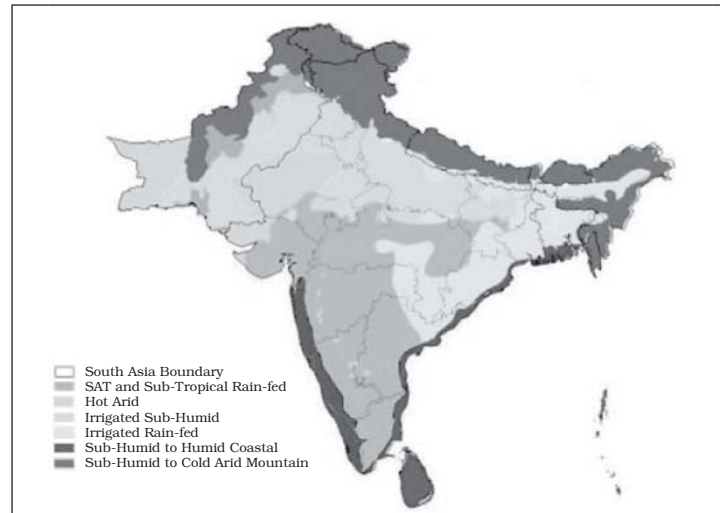
SAARC Regional Variety Release System will require conducting multi-location adaptation trails within same AEZs with a view to cultivate in the same region of any country in South Asia. Coordinated trials are currently being conducted within country. Only difference will be coordinating it on a South Asia basis instead of within country basis. SAARC Agriculture Centre can facilitate this process.

Table 1: Agro-Ecoregions of South Asia and Their Characteristics

Agro-Ecoregion	Regional Coverage	Share in the Total (%)	
		NSA	VAP
Hot Arid	Desert of India and Pakistan; arid and plateau regions of Beluchistan in Pakistan	7.30	2.91
Semi-Arid	Rain-fed Peninsular and west India; rain-fed regions of Pakistan (Punjab and Sindh); part of Sri Lanka	38.10	25.40
Irrigated Sub-Humid	Irrigated regions of Northwest India (upper Indo-gangetic Plains) and irrigated regions of Pakistan (Punjab and Sindh); part of terai region of Nepal	19.00	28.59
High Rainfall Humid	Eastern India (irrigated or lower Indo-gangetic region, and rain-fed or eastern Plateau region); Bangladesh; part of terai region of Nepal	26.40	26.63
Sub-Humid to Humid Coastal	Coastal regions of India and Bangladesh; part of Sri Lanka; Maldives	5.80	10.36
Sub-Humid to Cold Arid Mountain	Hill and mountain region of India, Nepal and Pakistan; Bhutan	3.40	6.11

Source: Mruthyunjaya *et al.* (2003).

Map 1: Agro-Ecoregions of South Asia



Source: Mruthyunjaya *et al.* (2003).

Conclusion

Development of a Regional Variety Release System in South Asia will enormously benefit farmers and countries through speedy release of suitable varieties and hybrids without sacrificing bio-safety and bio-security protocols. It will minimise risks, and enhance social benefit and returns to public investment in the region. Effective establishment of such a system will require identification of locations for variety testing, designation of research institutes from each country to conduct trials, harmonisation of seed policies for testing, registration and release. SAARC Agriculture Centre can facilitate this process and the existing agricultural research institutes in different countries can coordinate trials for different crops with broader regional mandates. Finally, it will have to be implemented with public-private-NGO partnership.

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SAARC's Water Future: From Beggar-My-Neighbour to Grand Opportunity

B G Verghese*

There have been many wasted years in harnessing the immense potential of the Ganga-Brahmaputra-Barak basin on account of internal political stalemates in one or other country, on account of instability, intra-regional conflicts and mistrust.

The exception is Indo-Bhutanese cooperation on a 60:40 grant-loan basis. However, the grants have been ploughed back. Water resource development has given a huge human resource development and revenue boost to Bhutan, and its energy output and per capita income have risen. Price revisions have raised the tariff for Bhutanese energy from 27 P to Re 1.5-2 per unit. Installed capacity is now 1,500 MW (mega watt) with a target of 10,000 MW by 2020. This is mutually beneficial. There is some cost for India as Indian plants must back down in the flush season to absorb Bhutanese power.

There is potential for augmentation of river flows downstream from Bhutan. There is also acceptance of the need to encourage power sales from Bhutan to Bangladesh and Nepal. India should not be a monopoly buyer of Bhutanese power, and the Himalayan Kingdom would be more reassured in further promoting hydro development if it had multiple buyers. This has now been agreed upon.

In regard to Bangladesh, the 1996 Farakka Accord was a major breakthrough, but floundered in mistrust. India was charged with not releasing water, and fears were later expressed by Bangladesh and Nepal regarding a proposed plan to interlink rivers, a concept that was still in the early stages of translation into a programme of action, with the stipulation that only India's peninsular rivers would be considered for diversion in the first instance, leaving all Himalayan waters untouched pending consultations with the co-riparians. The projected Tipaimukh multipurpose dam (1,500 MW) on the Barak

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in Manipur followed as yet another bone of contention. However, the Joint Rivers Commission, a mechanism set up for joint consultation and dispute resolution, has long been dormant.

Fortunately, efforts were initiated in due course to repair the damage. The two Foreign Ministers reached an understanding in December 2010, and this was consolidated with Sheikh Hasina's visit to Delhi. A Teesta Agreement, whose broad contours had been defined, was most unfortunately aborted on the eve of the Indian Prime Minister's ensuing visit to Dhaka on account of certain last minute misunderstandings in West Bengal. But efforts are on to secure an internal accord in India as soon as possible. Nonetheless, agreement was reached on a basin-wise approach to future developments, the wheeling of Bhutanese power through India to Bangladesh, and the development of an Indo-Bangladesh power grid.

Other problems remain. Bangladesh is still unable to utilise Farakka releases through the Gorai to service its Southwest region, a geomorphological handicap that Dhaka is striving internally to overcome. India could also profitably learn from Bangladesh's flood simulation models, and needs to coordinate flood forecasting and management measures with its neighbour.

Although the idea was earlier discarded as a distraction by critics, there is potential for the Brahmaputra-Ganga diversion within Bangladesh as an augmentation device. In order to allay fears of this being a possible lever to regulate downstream flows, India should be willing to enter joint surveys, construction and management protocols for upstream water projects in India, which uniformly commands the high ground as in the case of Tipaimukh, the Jogighopa Barrage and other projects. Bangladesh had earlier expressed interest in cost-benefit sharing in the construction of the Kosi High Dam in Nepal, with a navigation canal from the dam to the Ganga. This is the principle on which future cooperation should be envisaged.

In order to achieve this outcome, the present trust deficit will need to be overcome. This may appear to be easier said than done. Yet any calculation of the opportunity cost of delay and/or denial of mutual and regional cooperation will show that a huge price has been paid, a powerful multiplier in generating jobs and incomes lost and many useful trade-offs foregone.

Fortunately, matters are moving forward. A boundary agreement has been reached, enclaves exchanged, the Ashuganj river route opened, and power exchange is on the cards. These successes must be reinforced.

Turning to Nepal, the Mahakali Agreement was a landmark framework agreement, and laid down cost-benefit sharing and other principles for all aspects of Indo-Nepal water cooperation. But Nepal got locked into past grievances and was thereafter bogged down in domestic politics. There are now divided opinions on large versus small projects and the whole issue of how the proposed federal units are finally formed under the new constitution could have a bearing on optimal basin management.

Heavy power cuts impede Nepal's development. Indian public-private partnership (PPP) projects (e.g. Upper Karnali) are facing problems. Work on the Mahakali project and the Kosi detailed project reports are virtually at a standstill. However, India remains willing to assist Nepal to mutual advantage.

Hydro projects in the Himalaya also constitute a potent area of development mechanism that offers a huge bonus that simply does not seem to enter cost-benefit calculations. Even before any concrete is laid, infrastructures such as roads and townships must be built and lines of communication established. The administration advances into wilderness areas and some medical, educational and work facilities take root. Capacity building commences. Connectivity creates market access and sequestered new valleys are able to exploit their agricultural, horticultural and tourism potential to narrow regional disparities and foster inclusive growth. Newer modes of stakeholder participation, compensation and resettlement, where necessary, also offer stimulus to development and empowerment. These are real benefits and should not to be scoffed at.

The World Bank has just completed, and is about to unveil a *Ganges Basin Model Study* that challenges conventional wisdom and points to new avenues and opportunities that countries in the basin will need to consider both jointly and separately. India in particular, must learn to share data, both at home and externally, so that meaningful debate and discussion can be held. 'New' issues regarding ecology, flows, pollution, navigation, sanitation and demand-side management can no more be ignored by urbanising and industrialising regions.

India faces massive opposition about dams from environmentalists and those likely to be displaced on what are fast becoming ideological grounds. Many projects have been cancelled at advanced stages of construction, as in Sikkim and the upper Ganga, on the ground that rivers, lakes and forests are sacred and dams are even otherwise anti-people. Small may be beautiful but not always efficient. Likewise, big is not necessarily bad. The right balance must be struck. Water and power are essential for life and development, and if delivery falls behind population growth and the rising expectations of increasingly empowered people from the hitherto exploited and voiceless under mass, can lead to social and political upheavals.

Moving to the more arid northwest, the Indus Treaty of 1960 was something of a triumph – an immediate even if sub-optimal crisis solution that enabled two estranged neighbours, India and Pakistan, to stave off conflict. The Treaty has worked well, and there are few international agreements that boast a better record after having survived repeated wars. Section VII of the Indus Water Treaty on 'Future Cooperation' should now be activated to secure optimisation of benefits. The Treaty is currently under strain as Pakistan has politicised the water issue for internal reasons. There is no evidence of the repeated charge of India 'stealing' water or using dams to create famine or floods in Pakistan. The Pakistan Foreign Minister has publicly repudiated this thesis.

Dr Manmohan Singh has hinted at India's willingness to work on the 'Future Cooperation' clause of the Indus Water Treaty, which would lock into the Manmohan-

Musharraf formula of making boundaries in Jammu and Kashmir irrelevant in an informal, evolving confederal arrangement.

There is no doubt that both sides of the Indus basin are facing increasing water stress, something aggravated and complicated by poor water management. The uncertainties of climate change have already manifested in aberrant weather, increased sediment flows, melting glaciers, enhanced debris dam hazards, and a changing hydrology. Global moisture circulations are being impacted, especially in the Indus basin, by damage done to the Tibetan rangelands to the north. This has been a result of faulty herding and cropping practices introduced by the Chinese that vitiated the natural balance, and caused temperature-humidity changes that caused the permafrost to melt, and therefore affected circulation patterns. Correctives have now been applied but the damage has already been done.

What emerges is the need for India, Pakistan and China to join hands with the international community to fill in a yawning global meteorological, glaciological, hydrological and sediment measurement gap that is most manifest in the Hindu Kush-Karakoram-Himalayan-Tibet region. Climate change does not respect boundaries and treaties. We must therefore all cooperate or suffer the consequences together.

The International Centre for Integrated Mountain Development (ICIMOD) in Kathmandu might usefully be activated to play a nodal role in this endeavour. The South Asian Association for Regional Cooperation (SAARC) should also take this matter on board.

India is assisting Afghanistan in some water projects such as the Salma dam in the western region, and is willing to assist in projects in the Kabul basin within Afghanistan, ideally in collaboration with Pakistan. India is also doing a detailed project report on a Chindwin cascade in Myanmar (1,200-1,500 MW) and is working on a road-waterway multimodal Kaladan corridor from Mizoram to Sitwe (formerly Akyab) Port.

Meanwhile, reports of an imminent or even near-term northward diversion of the 'Brahmaputra' by China are misleading and exaggerated. *Tibet's Water Plan to Save China* by Li Lang provides an executive summary of the concept and the proposed links and alignments and financial and ecological costs are discussed. Old guard 'Reds' favour this grandiose idea, but current managers and technocrats dismiss it with scorn and derision as a dangerous pipe-dream.

Thus far, only a 450 MW run-of-river project is under construction on the Tsangpo at Zangmu, 100 km west of the commencement of the Great Bend. China is entitled to divert water for its own uses in Tibet within reasonable limits and is so far doing no more than that. The notion that huge water resource projects can be built clandestinely overnight is bizarre. These are easily detected from satellite images. Other plans may be on the drawing board, but to get hysterical over any supposed current 'diversion' is absurd.

Even for the term 'Brahmaputra' as used in the diversion debate, the word 'diversion' is a misnomer. The Tsangpo becomes the Siang in Arunachal, and Brahmaputra River

is only formed below Sadiya in Assam, where the Siang (or Dihing) is joined by the Luhit, Dibang and Noa Dihang. Further, only 30 per cent of the Tsangpo's runoff comes from Tibet. The remaining discharge is generated south of the Himalaya, in India and Bhutan.

Following the early global 'oil shock' in the 1980s, the Electric Power Development corporation of Japan did a desktop study of the power potential of the Lower Tsangpo and especially at the giant U-bend it takes as it turns north, swivels around Namcha Barwa, and then flows south towards India, dropping 7,500 feet in the process. The study was done on behalf of the Global Infrastructure Fund Research Foundation in Tokyo, set up by leading world economies in order to pump-prime the global economy. A huge energy potential was revealed in the cascade with the U-bend itself holding out a potential of 48,000 to 54,000 MW in two alternative Himalayan tunnel drops from the Tibet to Assam.

Rather than be mesmerised by a 'Brahmaputra diversion' red-herring, India, Bangladesh, Bhutan, ASEAN (Association of Southeast Asian Nations), Japan, UNESCAP (United Nations Economic and Social Commission for Asia and the Pacific), ADB (Asian Development Bank) and The World Bank should invite China to join in surveying the possibility of harnessing the U-bend from Tibet to India as a clean energy project to feed into an (eastern) SAARC-Greater Mekong Region-China power grid.

A more environment-friendly alternative to a concrete U-bend dam has been proposed in the form of an inflatable rubber-plastic balloon barrier by a Canadian company. This could be rolled out, inflated and anchored and removed at will. It would entail a smaller ecological impact and could be accomplished at a far lower cost. All of this needs careful study.

Paul Jones, a petro-geologist working with the World Bank some time back (1967-97), hypothesised a huge, fresh water storehouse in seven very deep aquifers underlying Uttar Pradesh and Bihar (north of the Ganga from Faizabad to Purnea), parts of the Nepal Terai, the Bengal Basin adjacent to Comilla in West Bengal, and in eastern Bangladesh. This was supposedly formed as the Himalaya was uplifted from the Tethys Sea in successive glacial ages in consequence of the Gondwana Plate thrusting north under the Eurasian Plate in a giant tectonic upheaval. It is argued that these aquifers, about 1,500-3,000 metres deep, consist of fresh, unmineralised water and are under artesian pressure so as not to require expensive pumping.

We need to explore this as a SAARC programme through a test drilling programme. Indian Oil and Natural Gas Commission petro-drilling core samples taken from the terai and preserved in Dehradun confirm seven deep water horizons. The aquifers in the Bhabbar tract along the Indo-Nepal terai also offer positive evidence of artesian pressure. These are sufficiently promising indicators to undertake exploratory drilling to confirm the other parameters hypothesised.

In view of the urgent need for measuring climate change impacts, it is vital to refine and expand disaster forecasting and management systems on a regional-cum-global basis, as discussed above.

An international Siachen Peace Park for Glacier and Climate Studies stretching from the Karakoram Pass to K2, including Shaksgam (currently under Chinese control), could be a most valuable global facility. China and India, with space capabilities, could establish remote, high altitude platforms to provide real-time data on weather patterns, glacial behaviour and geological parameters through automatic satellite interrogation of data generated from a series of instrumented arrays placed along the High Himalaya-Karakoram. This could also convert the world's highest battlefield of the Siachen Glacier into an international scientific laboratory and weather station that bring three warring partners, India, Pakistan and China, together in the service of mankind.

The obvious conclusion from this narrative is that beggar-my-neighbour policies must end. A far better future beckons SAARC if we had the wit and wisdom to seize the opportunity.

Water Resources in the SAARC Region: Some Thoughts

Md Khairul Islam*

Preamble

Globally, and in South Asia, the domestic water use as a proportion of total water use is nominal; around 5 per cent only. Despite this, demand of water in agriculture and industry is increasing in an enormous pace in South Asian countries because of rapid economic growth as well as increasing food demand for the growing population. This has created further pressure and imbalance for the availability of water for domestic and drinking use, and has jeopardised water security for a majority of the population. On the other hand, environmental and social issues related to water management are increasingly becoming an area of concern. Although water policies and strategies of the South Asian countries emphasised on increased use of surface water as opposed to ground water, all the South Asian countries heavily rely on ground water for drinking water. Use of surface water for drinking as well as any other economic purpose immediately brings issues of trans-boundary water issues. Cross-border water sharing remains a highly contentious issue. Ongoing negotiations on water sharing issues often get stuck because of lack of political commitment from the participating countries as well as widespread mistrust. On the other hand, discussion is yet to be initiated for a number of trans-boundary rivers.

Significant research and analyses have been carried out at Track II level regarding possibilities and constraints of augmentation and optimisation of integrated use of water resources of Ganga basin between India, Bangladesh and Nepal. The problem of flood control in lower riparian countries is another important issue that has been discussed at Track II level. Bangladesh-India Joint Communiqué (2010) also calls for expeditious conclusion of an agreement on Teesta River and launching of discussions on other common rivers. Such discussions need to be initiated for cross-border rivers in other South Asian countries as well. This paper seeks to frame an agenda for the upcoming SAARC Summit towards improved management of water resources in the region.

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Possibilities and Politics

Water sharing issue is one of the major elements of regional geopolitics in South Asia where trans-boundary rivers link countries that are unequal in size and power. As Siwakoti (2011) noted, "India's trans-boundary riparian policies affect four countries – Pakistan, Nepal, Bhutan and Bangladesh – on three river systems – the Indus, the Ganga and the Brahmaputra-Mehgna." He further pointed out that China's riparian policies affect nine countries to the south – Pakistan, India, Nepal, Bangladesh, Myanmar, Laos, Thailand, Cambodia and Vietnam – on five river systems – the Indus, the Ganga, the Brahmaputra, the Salween and the Mekong. These two countries are the biggest water consumers in the region. They overshadow their small neighbours economically and politically to feed their rapid pace of industrial and agricultural growth.

The power imbalance among these countries make it difficult to find a win-win solution, but a common basin-wide approach to water sector cooperation is probably the most appropriate approach to deal with this geopolitical imbalance, and to some extent, protect the rights of the smaller and less powerful countries. If designed scientifically and on the basis of benefit sharing mechanisms, a basin-wide approach could help reduce flood, increase irrigation throughout the region, reduce salinity which has emerged as one of the greatest problems resulted by climate change, and water security in general.

However, widespread mistrust between and among countries for quite reasonable grounds is one of the major impediments towards initiating such a process. In the current state, even the engagement of civil society organisations (CSOs) and the intellectuals of the upper riparian countries on issues like water sharing in their respective countries are not perceived to be enough to bring any change in the lower riparian countries.

It is therefore recognised that robust Track II processes such as the Abu Dhabi dialogue could be a quite powerful way of building trust and positive attitudes. However, there is no easy way to build trust where mutual interests are involved, and elements of geopolitical issues play a major role to construct mistrust. The Ganges Strategic Basin Assessment has provided solid data and evidence to challenge orthodoxy and historically held assertions. However, it needs to be widely disseminated at the level of 'general knowledge.'

Glory and Gloomy

Although this region is on track in providing access to safe water, some countries are experiencing reverse trends in recent years. Water table depletion in the cities and towns due to over and uncontrolled extraction, and rapid spread of arsenic contamination in groundwater has put the domestic water security in the South Asian region in crisis. Bangladesh, for example, reached to over 97 per cent safe water coverage; however, recent data suggests that about 15 per cent people are at risk of drinking arsenic-contaminated water. Arsenic has been detected in some parts of India and Nepal too, and shows an increasing spread.

On the other hand, the coastal belts of a number of South Asian countries (Bangladesh, India, Sri Lanka) are facing increasing saline intrusion that threatens water security of a large number of population in those countries. Effects of climate change accelerate this and contribute to make the situation even worse. All these factors push people increasingly dependent on surface water sources for their domestic usages. However, unsafe sanitation becomes the major source of surface water pollution. South Asia region is off track in ensuring improved sanitation except Sri Lanka and Maldives. Currently, over 600 million people defecate in open in South Asia; and pollute surface water. Health outcome of access to safe water is therefore not fully harnessed in South Asia, resulting high prevalence of diarrhoea and other water-borne diseases; and contributing to malnutrition.

Reality and Recommendations

Improved management of water resources in the region is an agenda that should not be overlooked by the South Asian Association for Regional Cooperation (SAARC) for long.

- SAARC should look at generating common data and evidence as a way of building trust and allowing win-win solutions to be explored. SAARC could look at how to build trust and collaboration between states through already existing work processes and less-contentious areas.
- South Asian Conference on Sanitation (SACOSAN) and Inter Country Working Group can be expanded to increase the access of drinking water and hygiene.
- Joint monitoring and sharing ground water data focusing drinking water should be arranged.
- Regional collaboration can be initiated in the areas of rain water harvesting and waste water treatment and controlling river pollution and salvaging them (Ganges experience).
- Formulation and application of Water Act, ensuring water quality and balancing unprecedented growth of bottle water is required in South Asia.
- CSOs in India and Nepal are expected to engage more in public domain on the issue of water sharing; utilise Right to Information Act where dearth of information hinders meaningful discussion at national, regional and global levels.

Some notable recent initiatives are out of SAARC banner; South Asian regional cooperation and SAARC process may not be the same. SAARC's mandate is not clear if it would entertain bilateral issue or sub-set of countries within SAARC. Hence, we should not over rely on SAARC, and be mindful of its capacity.

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A Regional Outlook for Climate Finance in South Asia

Fahmida Khatun*

It is now well recognised that impacts of climate change will have significant economic costs on the affected countries. Cost of inaction will also be enormous compared to the cost of mitigation and adaptation. Though there is controversy about the cost estimates due to the uncertainty on the magnitude of the problem, most studies indicate that the economic cost of climate change is very high. According to the Stern Review (Stern 2007), the cost of inaction is 5 per cent of global gross domestic product (GDP) each year and the upper case estimate is 20 per cent of GDP or even more. Poor countries will face in excess of 10 per cent of GDP with 5-6 degree celsius warming by the end of the century. On the other hand, Nordhaus (2006) has estimated that due to 3 degree celsius increase in temperature and precipitation there will be a cost equivalent to 3 per cent of global GDP.

It is important to note here that some of the damages due to climate change are either irreversible or only partly reversible. This means that once the damage is done, we cannot get back the original environment and natural resources. For example, extinction of species, loss of ice sheets and loss of unique cultures cannot be reversed. Some of the impacts such as on agricultural production, infrastructure, water resources, energy, health and migration are partly reversible if adaptation policies are undertaken.

However, the cost of adaptation to the impact of climate change can be very large. There are various estimates on the cost of adaptation. These costs will multiply a few hundred times due to delayed measures. The cost of adaptation can shift from USD 3 billion to USD 400 billion per year within a span of 20-30 years, depending on the assumptions of impact and the time horizon of undertaking adaptation measures (Table 1). Similarly, the cost of mitigation varies from USD 1 billion to USD 400 billion per year depending

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on the assumptions and time span of the mitigation measures (Table 2). Mitigation measures are required to cut or minimise the green house gas (GHG) emission that causes global warming. In South Asia none of the countries are significant emitters of GHG, except India. Hence, most countries actually have to develop adaptation policies and need resources for that. India has to take both mitigation and adaptation measures. Estimates show that total annual cost for adaptation ranges from USD 10 billion to about USD 18 billion in South Asia depending on the wettest or driest weather and the time horizon for adaptation (Table 3).

Table 1: Cost of Adaptation (Billion USD per Year)

Report	2010-12	2010-15	2010-20	2020	2030	Assumption
European Commission (2009)	3-4			13-30		In 2005 prices (USD 1.25 to 1 Euro exchange rate), total net additional ('incremental') costs, assuming successful agreement - 30 per cent reduction for developed countries by 2020 compared to 1990, and NAMAs by developing countries
World Bank (2006)		9-41				450 ppm (parts per million) stabilisation; information gathered from secondary data
Stern Review (2006)		4-37				450 ppm stabilisation
UNDP HDR (2007)		83-105				450 ppm stabilisation; information gathered from secondary data
UNFCCC (2007)					28-67	
World Bank Group (2010)					70-100	In 2005 prices, average annual costs between 2010 and 2050. Additional public sector (budgetary) costs imposed by CC, not costs incurred by private agents
Project Catalyst (2009)			13-25			Assumes 450 stabilisation; exchange: rate USD 1.25 to 1 Euro
G77+China* (2009)				200-400		*Estimate includes both adaptation and mitigation; proposed at: 0.5 per cent to 1 per cent of gross national product (GNP)
African Group (2009)				>67		Estimate based on the Program for Adaptation Action under the AWG-LCA
Oxfam (2007)	>50					Based on World Bank (2006), plus extrapolation of costs from NAPAs and NGO projects

Source: www.climatefundupdate.org

Table 2: Cost of Mitigation (Billion USD per Year)

Report	2010-12	2010-15	2010-20	2020	2030	Assumption
European Commission (2009)	1.25			118		In 2005 prices (exchange rate: USD 1.25 to 1 Euro), total net additional ('incremental') costs, assuming successful agreement – 30 per cent reduction for developed countries by 2020 compared to 1990, and NAMAs by developing countries
McKinsey& Company (2009)			81-113			Using exchange rate: USD 1.25 to 1 Euro, includes technological research and development
Pacific Northwest National Lab (2008)					139	Taken from World Bank (2009)
UNFCCC (2007)					92-97	In 2005, USD
Project Catalyst (2009)			69-100			450 ppm stabilisation; exchange rate: USD 1.25 to 1 Euro
G77+China* (2009)				200-400		*Estimate includes both adaptation and mitigation; proposed at: 0.5 per cent to 1 per cent of GNP
African Group (2009)				200		0.5 per cent of GDP of Annex II Parties
Oxfam (2007)				100		Costs necessary to reach 40 per cent below 1990 emission levels by 2020

Source: www.climatefundupdate.org

Table 3: Financial Needs for Adaptation in South Asia

Component	2010-19	2020-29	2030-39	2040-49
National Centre for Atmospheric Research (NCAR): Wettest Scenario				
Total annual costs (billion USD)	10.1	12.7	13.5	14.3
Share of GDP (%)	0.20	0.16	0.12	0.09
Commonwealth Scientific and Industrial Research Organization (CSIRO): Driest Scenario				
Total annual costs (billion USD)	11.9	17.5	17.7	15.3
Share of GDP (%)	0.23	0.25	0.17	0.09

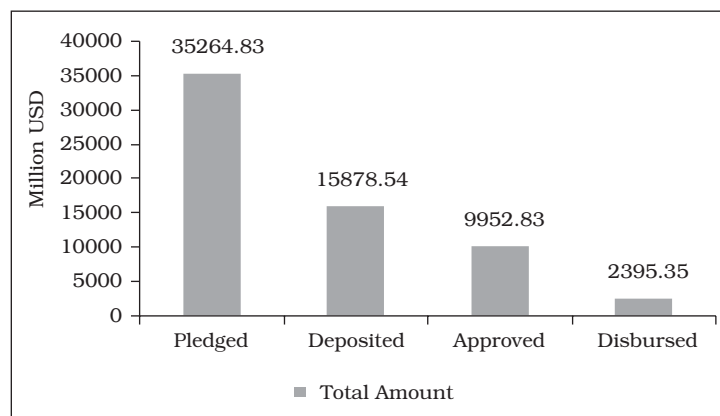
Source: World Bank Group (2010).

How resources will be mobilised to bear these huge costs is a valid question. There are two broad mechanisms of financing climate change. These are direct contributions from developed country governments and market mechanisms. The first mechanism is preferred by developing countries, while the second mechanism is preferred by developed countries. Direct contributions can be bilateral and multilateral. Of the multilaterals, the United Nations Framework Convention on Climate Change (UNFCCC), the World Bank, United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD), European Commission (EC), United Nations Development Programme (UNDP), etc. are the

important sources of climate funds. In the sixteenth session of the Conference of Parties (COP-16) of the UNFCCC, held in Cancun, Mexico in December 2010, a decision was taken to establish a Green Climate Fund (GCF) under the UNFCCC. The objective, governing structure, sources and uses of funds, working method and functions of the GCF are currently being debated and discussed with a view to finalise the modalities of GCF during the run up to the COP-17 which was held in December 2011 in Durban, South Africa.

There are several issues related to these climate funds. A major concern is that whether these funds will be new and additional, and whether these will be accessible to developing and least developed countries easily. Second, there are also questions whether these funds will benefit the recipient countries or the donor countries. In many cases, funds are not for country-driven projects. Third, most of the South Asian countries do not have the opportunity to actively participate during the preparatory phases of climate funds. A fourth concern is the size of the funds and the actual disbursement of funds. It is observed that there is a large gap between the pledged and disbursed amount. Data show that as of April 2011 the share of disbursed amount as percentage of total pledged is only 6.79 per cent (Figure 1). A disaggregation of climate funds also indicates that the allocation for adaptation is far too less compared to mitigation. While there is not much commitment by developed countries in cutting down GHG emission, the allocation pattern of climate fund is a reflection of bias towards these countries.

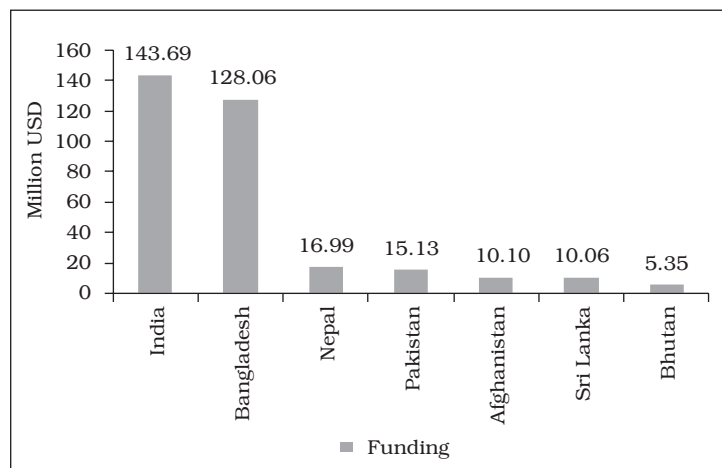
Figure 1: Climate Fund Pledged, Deposited, Approved and Disbursed



Source: www.climatefundupdate.org

As a regional approach on financing climate change, South Asia can focus on full and effective implementation of commitments by countries and various multilateral sources. Though there are differences in interests in terms of dealing with issues on climate change, the South Asian Association for Regional Cooperation (SAARC) as a regional body can raise collective voice for pressuring the release of pledged fund by developed countries. The member states can also share new knowledge and innovative technology amongst themselves. Apart from multilateral funds, South Asia should seek funds from

Figure 2: Climate Finance in South Asia



Source: www.climatefundupdate.org

bilateral sources as the process of such funds is easier. South Asia is a potential carbon market because of its low emission. Hence, they should develop new projects under Clean Development Mechanism (CDM). There is, however, need for capacity building to develop projects under CDM, which can be organised jointly.

Climate finance opens new windows of opportunities for both developing and least developed countries of South Asia. It creates the opportunity not only for adaptation, and but also for greening their economic growth strategy through the use of new climate-friendly technologies. However, South Asian countries have to be mindful of the newly hyped concept of 'green economy' by developed countries, which may be used as trade protectionism or for imposing conditionality of aid and debt relief. Green economy initiative, if followed without taking into consideration the concerns related to equity and justice in the poor countries of South Asia, will jeopardise the long-term sustainable development of these countries. Concerns arise, particularly in view of the apprehension of dumping obsolete and old technologies by developed countries to poor countries in the name of helping them to adopt green growth strategy. Transfer and diffusion of environmentally sound technologies is a key element of any effective international response to the global climate change challenge and one of the pillars of the UNFCCC. In the case of technology transfer, main issues on the table are technology financing, research and development, including intellectual property rights and institutional arrangements. Technology transfer under Article 66.2 of the Trade Related Intellectual Property Right (TRIPS) agreement of the World Trade Organization (WTO) has been a long-standing demand of developing and least developed countries. South Asian countries may promote this demand jointly. South Asian least developed countries (LDCs) can also demand LDC fund under UNFCCC for joint projects. In addition to external sources, national initiatives to develop dedicated climate funds will reflect the commitment of countries towards tackling the problem. Bangladesh and India have already created climate funds, while Sri Lanka is in the process to develop such a fund. Other countries in the region can emulate this practice to address their climate-related problems.

Finally, accountability and governance of climate funds at the national level are critically important. Experience tells us that the issue is not only how to mobilise resources, but also how to utilise them efficiently in a transparent and accountable manner. The issue is also about the adequacy, predictability, timeliness, harmonisation and appropriateness of funds. To this end, governance of climate funds is also necessary at the international level as much as it is needed at national levels.

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www.climatefundupdate.org

Requirements of a Robust Climate Financing in South Asia

Tirthankar Mandal*

Countries' quest to achieve robust economic growth in a fossil fuel-dependent production paradigm has resulted in an unsustainable accumulation of greenhouse gases (GHGs) in the atmosphere. This phenomenon threatens humankind with irreversible climatic changes in the future. Policymakers worldwide have to devise emission reduction plans without affecting the economic performances of countries; developing countries must reduce emissions along with meeting development goals manifested in the form of ensuring a decent quality of life. Developing countries would, therefore, require additional resources and support from developed countries, which are bound by the United Nations Framework Convention on Climate Change (UNFCCC) to provide such support as part of their commitment towards ensuring fair global effort-sharing. In this regard, providing financial resources to developing countries for adaptation and mitigation actions forms the core of the support mechanism as identified and agreed by all countries. According to Sir Nicholas Stern (2006), climate change is an economic problem and there will be huge economic loss if proper mitigation and adaptation actions are not undertaken. The cost of inaction is projected as 20 per cent of the current global gross domestic product (GDP); meaningful climate change mitigation and adaptation actions would add one per cent to the global GDP. The world cannot any longer choose between economic growth and protecting itself from climate change impacts; it must act now. Despite the strong promise of such benefits from adaptation and mitigation actions, a global agreement on such support and effort-sharing mechanism is yet to develop. This has become more difficult as developed countries that are supposed to financially support developing country climate actions have themselves been facing economic loss and budgetary constraints over the past few years. This means the resources available for support have been shrinking, and in many cases, dried up substantially. Developing countries have therefore been

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undertaking climate actions with their own resources or striving for other sources of finance, such as private sector or development bank investment. Such finances have played an important role in climate finance negotiations of late, but developed countries have attempted to substitute their own commitment of support with these options. The fundamental basis of support under the UNFCCC has been the generation of additional and new resources for climate actions in developing countries apart from what they are supposed to be already doing.

The current debate on climate finance emanates from the lack of understanding of what qualifies for climate finance, or more narrowly, climate action. The absence of an internationally accepted definition of climate finance has resulted in ambiguity in identifying programmes and actions to be qualified for climate financing, which is important for assessing both support and demand of finance for climate actions. This has led to differences between developed and developing countries. Progress in the negotiations has therefore been slow, and a trust deficit has been created between countries. This is because developing countries seek support for climate actions that must be new, and additional to existing development support. However, as 'climate finance' is not clearly defined, the existing funds for support may be diverted. In our analysis, climate finance would broadly consist of the following:

- Financial flows from developed to developing countries for mitigation and adaptation activities, including research and development and capacity building, as well as broader efforts that enable the transition to low-carbon, climate-resilient development.
- Financial flows from developing to developing countries for climate actions mentioned above (South-South cooperation).
- Financial flows from developed to developed countries for climate actions mentioned above (North-North cooperation).
- Domestic financial flows for climate actions in developed and developing countries of the world.
- Incremental cost and investment capital; understanding the incremental cost in a climate action would help determine the additional part of resources required.

Based on the broad contours of climate finance, the current analysis focuses on finance needs from the South Asian perspective and the challenges South Asian countries face in accessing international financial resources.

Importance of Climate Finance for South Asia

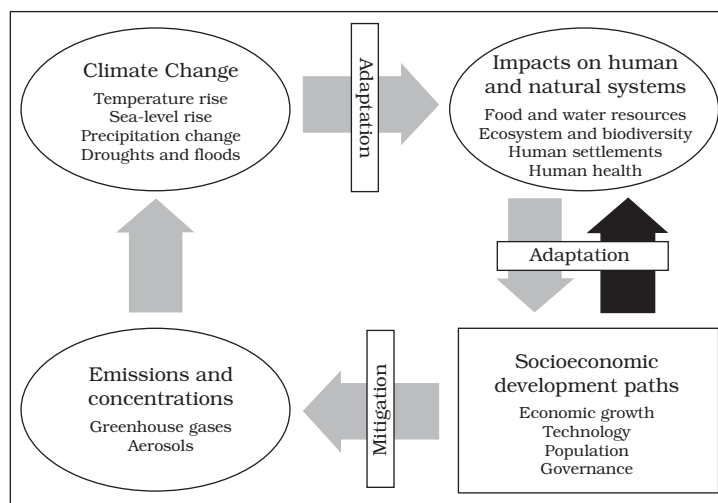
The rationale for international financing for climate actions has been guided by Agenda 21 of the Rio Summit in 1992. In South Asia, this climate finance support would consist of new actions that address the adverse effects of climate change in addition to existing actions required to tackle impacts that deepened due to the climate crisis.¹

¹Climate change impacts vary between regions. For South Asia, these impacts are identified as sea level rise, Himalayan glacier melting, loss of biodiversity, inundation of coastal regions, saline intrusion in low-lying agricultural lands, etc. These will indirectly cause loss of lives and livelihoods in the region.

Economic growth, poverty alleviation and social welfare are overriding priorities for South Asia. Many South Asian intellectuals claim that ensuring improvements in these areas would result in making the region climate-resilient, and hence, additional resources must be earmarked from climate finance for such actions. This implies that the South Asia region as a whole should get due support from the international community in sharing effort, both regionally and nationally. It also implies that the region should advocate that the fund is directly accessible, the fund generated in each time scale is predictable, the funds are generated automatically, and that the scale of resources generated are in place internationally.

According to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC 2007), the South Asian region is a hotspot for major extreme climate events; due to these, a huge loss of economic, human and natural resources is predicted. The combined effect of such losses renders the region a highly vulnerable one. As we have seen, addressing these vulnerabilities would require integrated policy making at the regional and sub-regional levels covering the region's mitigation and adaptation needs. Figure 1 lays down the inter-connectedness between mitigation and adaptation actions and their relationship with other socioeconomic parameters in policy making. Financial support for climate action would, therefore, mean mainstreaming climate change aspects into the planning and policy making sphere.

Figure 1: Climate Change Adaptation and Mitigation Process



Source: IPCC Expert Meeting Report on Joint Session of Adaptation and Mitigation Responses, 2010; accessed from Joint IPCC Workshop of Working Group II and III on Socioeconomic Scenarios for Climate Change Impact and Response Assessments (WoSES).

Climate Finance Requirement Estimates

Many academic and non-academic estimates are that a substantial amount of finance is required for enhanced climate-friendly actions for mitigation and adaptation worldwide; the consensus is that developed countries primarily responsible for most historical GHG emission must provide this finance. To ensure that the emission

reduction burden is distributed fairly among the parties, the UNFCCC mandates Annex I parties to undertake the obligation of providing finance for climate actions in developing countries. During the past two decades, finance has been required for a variety of climate actions and has depended on various fund generation methods. Apart from fund generation, the other concerns for countries have been the size and governance of funds. Indeed, all these three components are interlinked. Further, for a robust climate finance framework, countries need to reform the existing finance mechanism so that the climate finance structure can fit into the existing system. Under the current scenario, G77+China group members from the region have been laying emphasis on establishing the right architecture for the Green Climate Fund (GCF), which will then ensure that the right principles of governance are embedded into it and appropriate equity is maintained.

Tables 1 and 2 shows the substantial resources needed to meet the climate change worldwide.

Table 1: Sources for Funding Adaptation Costs (Billion USD per Year)

Report	2010-2012	2010-2015	2010-2020	2020	2030
European Commission (2009)	3-4			13-30	
World Bank (2006)		9-41			
Stern Review (2006)		4-37			
UNDP HDR (2007)		83-105			
UNFCCC (2007)					28-67
World Bank Economics of Adaptation to Climate Change (EACC) (2010)					70-100
Project Catalyst (2009)			13-25		
G77+China (2009)				200-400	
African Group (2009)				>67	
Oxfam (2007)	>50				

Source: www.climatefundsupdate.org

Table 2: Sources for Funding Mitigation Costs (Billion USD per Year)

Report	2010-2012	2010-2015	2010-2020	2020	2030
European Commission (2009)	1.25			118	
McKinsey&Co (2009)			81-113		
Pacific Northwest National Lab (2008)					139
UNFCCC (2007)					92-97
Project Catalyst (2009)			69-100		
G77+China (2009)				200-400	
African Group (2009)				200	
Oxfam				100	

Source: www.climatefundsupdate.org

Estimates on regional needs for funds are linked to the degree of climate change impact on the region. According to the IPCC methodology, the impacts are going to be felt in different sectors. The region is going to be undertaking mostly adaptation activities to counteract the immediate effects of climate change. Table 3 shows the estimated economic costs of adaptation for different sectors identified by the IPCC.

Table 3: Sectoral Costs of Adaptation (Per Year until 2050)

Sector	Average Annual Cost 2005 (Billion USD)
Agriculture	1.7
Fisheries	0.8
Flood protection	4.0
Human health	0.3
Coastal zones	1.9
Extreme weather events	2.0-3.7
Infrastructure	4.0-7.5

Source: Overseas Development Institute (ODI).

Clearly, these funds are estimated to be new and additional to the existing support to the countries of the regions as part of official development assistance (ODA), other bilateral and multilateral sources and development bank funding. However, developed countries have lately been trying to rename the existing support to developing countries as climate finance support to meet their 2009 Copenhagen Summit pledges.

Much climate finance literature notes that developing countries need to differentiate between climate finance and development finance. As adaptation needs and development actions can rarely be differentiated clearly, there is a risk that development aid might be diverted in the name of climate finance in creating climate resilience for its use in agricultural and coastal areas and the water sector, infrastructure (although adaptation costs range from low to high), and many other social sectors. This would mean that the total funding available for undertaking development action is reduced. Such a situation would actually ensure a distorted scenario for the global support to climate actions and would minimise the benefits emanating out of timely climate actions.

Analysis of Currently Available Funding

The main sources of funding for climate actions for the region as a whole have been UNFCCC-constituted special funds and some bilateral support. Table 4 indicates the amounts countries demanded from the multilateral sources and the amounts they received. Importantly, the bigger countries have larger success ratios between the funds demanded and actual receipt.

Table 4: Climate Funding in South Asia*(Million USD)*

Country	Approved Funding	Actual Received
India	143.69	141.66
Bangladesh	128.06	18.06
Pakistan	15.13	8.38
Sri Lanka	10.06	5.70
Bhutan	5.35	3.65
Nepal	16.99	3.17
Afghanistan	10.01	4.24

Source: www.climatefundsupdate.org

Overall, there is a mismatch between the funds approved and the funds received for the countries in the region, with the exception of India. The countries are mostly beneficiaries of UNFCCC special funds. India receives funds from the Global Environment Facility (GEF) Trust fund for undertaking various mitigation activities, while other countries receive most of their funds from the Least Developed Countries Fund (LDCF), which is for adaptation. Furthermore, the presence of development banks like the World Bank and Asian Development Bank (ADB) is felt palpably. For example, the second highest funding for various climate actions in India comes from the World Bank, which provides most of Afghanistan's funding too. In Sri Lanka, the ADB is putting in substantial amounts over and above UNFCCC special funds.

Although South Asian countries have been receiving money from international sources for different types of actions, their leaders have felt the need for dedicated funding sources for coordinated actions within the region, and have attempted to develop and re-energise the SAARC Development Fund (SDF) for regional efforts. The SDF established a secretariat in Thimphu in 2010 and undertook its first few activities in renewable energy development. Furthermore, India declared during the 2008 Summit the establishment of the SAARC Climate Change Endowment Fund for undertaking more cooperative climate change actions. However, the success of these funds hinges on their regular replenishment.

To avoid irregular and/or inadequate replenishment of funds, and hence, their failure, countries must generate funds through assessed contribution according to the SAARC Charter. In addition, the institutional components of the expenses should be borne by the country hosting the secretariat, and the resources generated from member contribution should be used for programmatic actions. Regional centres formed as part of the Thimphu Declaration must also follow this criterion. Therefore, what we observe as part of the current financing status for the region is a reflection of the limited availability of money for climate actions unless the countries find multiple sources of resource generation. Multilateral funding windows still form a substantial part of the funding sources, but their ratio of receipt of funds to approval is poor due to administrative and logistical issues. Therefore, the issue of direct access and governance of the multilateral funds is crucial – even little resources will be used efficiently only then.

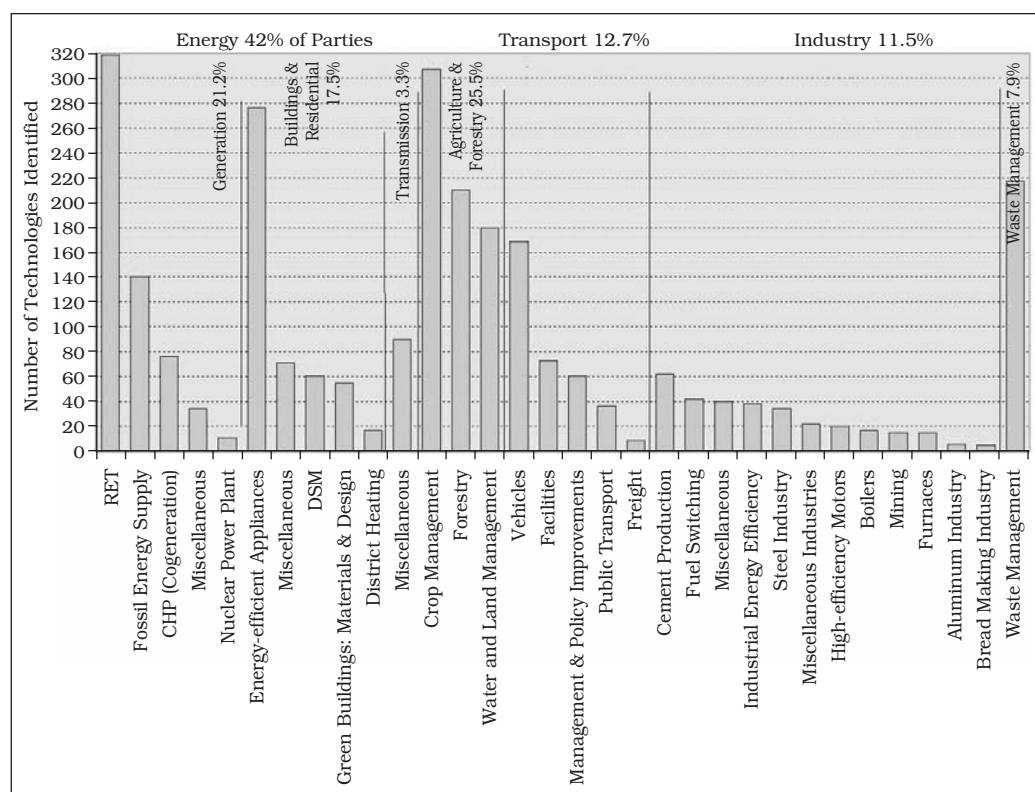
Types of Climate Action and Funding Support Needed

The South Asia region is identified as one of the most vulnerable regions of the world, which has been also substantiated by the 2007 IPCC AR4. Ever since, various efforts have been taken to develop a coherent climate action strategy. The region is now politically represented as SAARC in the UNFCCC, and has 'Observer State' status. While this is not a huge step forward for enhanced climate change action, it has made some definitive changes over the past couple of years, starting from the 2008 Dhaka Declaration. Regional activities include enhanced adaptation action because immediate action is needed to build a climate-secure future. Until today, majority of the climate support coming to region are mainly in the form of the mitigation activities (Heinrich Böll Foundation and ODI 2010). Of the resources allocated for Asia for climate change action,

24 per cent (USD 119 million) has come to India. The total resources made available for climate change work in India until 2009 amounts to USD 172 million in mitigation and USD 5 million in adaptation. The amount includes total international support and various investments in the country (Heinrich Böll Foundation and ODI 2010). Countries like Bangladesh, Sri Lanka and Bhutan have received minimal amounts.

The 2009 UNFCCC report identifies the various activities required, demands and needs as reported by the countries. The distribution of projects shows that the key areas identified by the parties include energy supply, energy efficiency, public transport and residential accommodation. The energy sector is the priority for most developing countries. In South Asia, financing will be needed for securing basic energy supply to the majority of the population for the next couple of decades. Development goals are closely linked to energy access. Therefore, energy provisioning will automatically mean upliftment of the people. This is reflected by the demands made by the parties in terms of activities (see Figures 2 and 3).

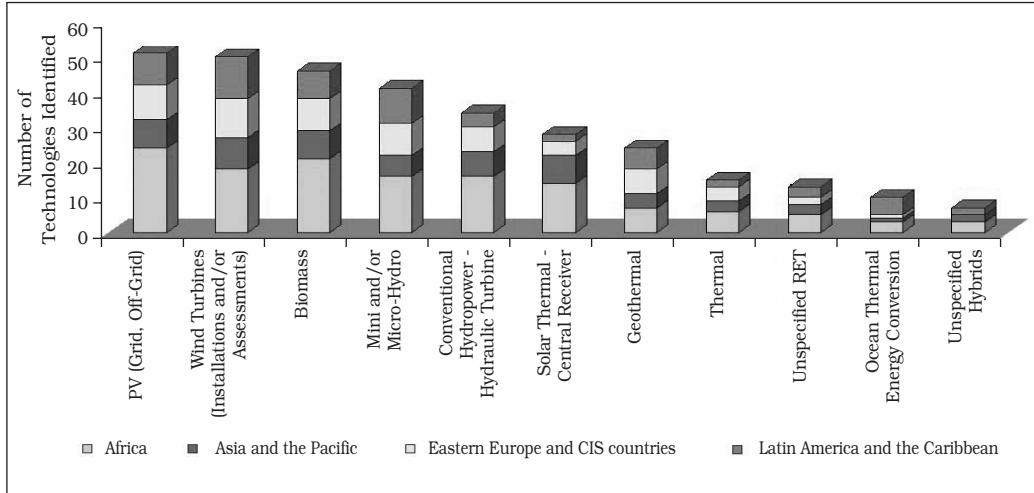
Figure 2: Mitigation Technology Needs Submitted to the UNFCCC



Source: <http://unfccc.int/resource/docs/2009/sbsta/eng/inf01.pdf>

Note: RET: Renewable energy technologies; CHP: Combined heat and power; DSM: Demand side management.

Figure 3: Distribution of Renewable Energy Needs

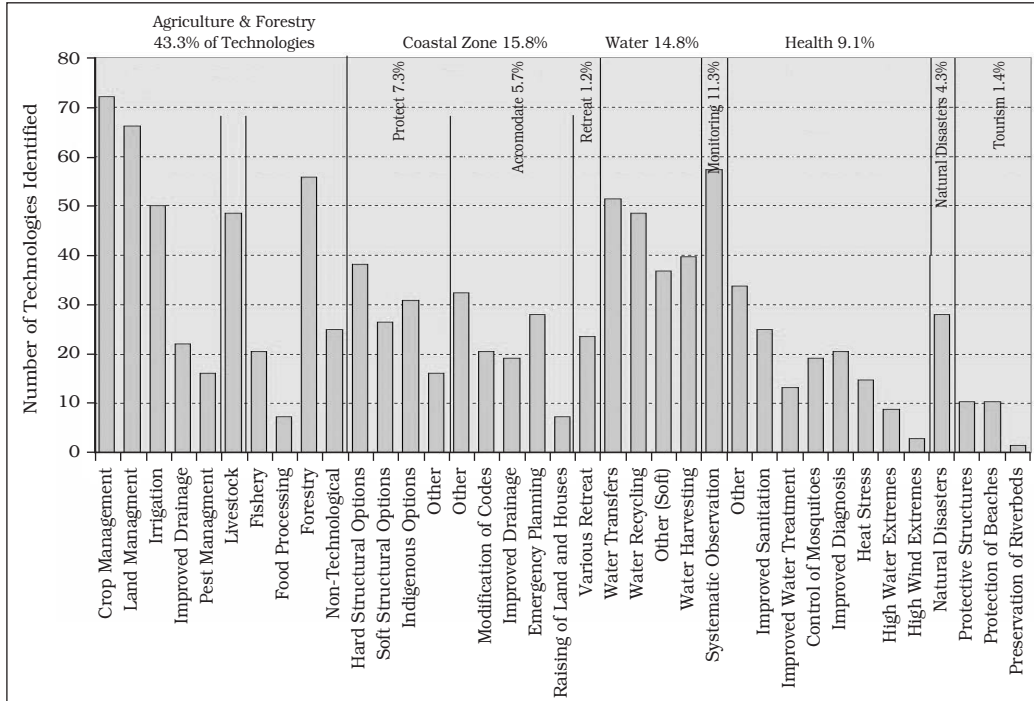


Source: <http://unfccc.int/resource/docs/2009/sbsta/eng/inf01.pdf>

Note: PV: Solar photovoltaic; CIS: Commonwealth of Independent States.

Adaptation activities will run into various types of resource management issues. Water and coastline management, protection against the rising sea level, sustainable agricultural practices and biodiversity protection are needed immediately. Furthermore,

Figure 4: Adaptation Needs Submitted to the UNFCCC



Source: <http://unfccc.int/resource/docs/2009/sbsta/eng/inf01.pdf>

a large majority of people in South Asia live along the coastline; therefore, flooding entails the risk of relocation and geopolitical tension. An analysis by the requirement of adaptation support depicts that coastal zone management and agricultural security form the top priority of issues (Figure 4). Multilateral and regional development banks have been undertaking specific adaptation activities in South Asia. The World Bank and the ADB are the major players; there is some bilateral aid too.

Principles of Climate Financing Mechanism: Meeting the Requirements of the Climate Action

The global climate community agrees that climate finance must be public, obligatory and predictable, impose no conditionality on developing countries, new and additional to existing financial commitments, channelled through a financial architecture under the authority of the UNFCCC, and that it should not generate external debt.

Many of these points are also enshrined in the *Kyoto Protocol* and in follow-up ministerial agreements; for example, the *Bali Action Plan* sets out that funding must be adequate, sustainable, predictable and additional.

Adequate

There are different estimates of the climate financing required as a range of assumptions is used to make projections and the need depends on the overall emissions reduction deal. Developed countries must financially compensate developing countries for the historic and ongoing impacts of GHG emissions (adaptation) and invest in low-carbon development strategies (mitigation) in developing countries. The World Bank, for example, estimates that annual mitigation costs in developing countries could reach USD 140-175 billion by 2030, and that annual adaptation costs could reach USD 30-100 billion by 2030. This makes for an annual total of USD 170-275 billion in 20 years, a level that should be built rapidly from here on. The sources of climate finance must be additional to the ODA, as specified in the UNFCCC. This additionality should be measured against the UN pledge of 0.7 per cent of gross national income (GNI) and not the existing ODA, which for all except four rich country governments are below the pledged level, and in many cases far below. The four countries that currently provide above the UN-pledged amount should also be encouraged to provide more.

North-to-South climate finance should exclude financial flows from carbon offsets sales. Carbon offsets let richer countries continue to pollute while compensating impoverished countries for enacting efficiency measures. If offsets are allowed to continue, they will be counted as contributions to Northern emissions reductions; therefore, they should not be counted towards their financing goals either (this is commonly known as double counting).

The sources of climate finance have to be diversified, as it is unlikely that a single source will provide the funding required. Therefore, proposals are adjudged adequate if they can provide over USD 30 billion per year for developing country climate finance

(regardless of the amount raised for other purposes) or if they combine well with other major proposals to provide some additional contribution. Contribution of the financing mechanisms should be judged as net of the transactions costs for collecting the money and policing the instrument.

Predictable

Finance flows must be predictable so that governments and civil society organisations (CSOs) can make the most use of them. Recipients need predictability to plan and to build programmes and systems that require regular payments on staff and other fixed costs. Predictability requires that the revenue contribution cannot easily be evaded, and that it is constant and does not decrease. Comprehensive sector or country coverage will prevent companies from moving their operations to get around the ban. Predictability is most likely to be achieved through non-discretionary flows not subject to revision or cuts by national governments when producing their budgets. An internationally agreed and levied tax is, for example, more predictable than a nationally implemented tax that could be either reduced or redirected unilaterally by a government facing a budget squeeze and strong domestic lobbies. Predictability, thus, takes into account revenue generation and its targeting to climate finance for developing countries.

Public

Northern governments are responsible for raising funds to meet climate finance obligations and obtain reparations from Northern private corporations and international institutions they can influence. Climate finance should not depend on direct private contribution or investment or be used as instruments or an arena for promotion and expansion of private profit. Mechanisms that involve carbon market speculation should be excluded (because it runs counter to the equitable allocation of emissions rights), while taxation can be included (on specific forms of transport, for example).

Equitable

Developed countries are responsible for the global climatic mess through centuries of unsustainable and unregulated fossil fuel-based growth. This has severely limited the atmospheric space left for countries of the global South to develop and caused severe climate impacts; impoverished people in the South are the worst affected. As part of reparations for this climate debt, finance must flow from the countries and people most responsible for the climate problem to those suffering from it. Governments have agreed to respect the principles of 'responsibility' and 'capability', but there are open debates about how to interpret these and about their relative importance. There are several independent initiatives to propose equitable arrangements to determine financial obligations.²

²See, for example, initial work on a Greenhouse Development Rights Framework at www.ecoequity.org; www.jubileesouth.org/journal/carbon.htm; and Oxfam (2007).

These approaches recognise the need for a climate regime to bring global emissions rapidly under control while allowing the developing world to scale up energy services to fight poverty. People under a certain 'development threshold' are not expected to share climate transition costs. All populations above this threshold must ration their carbon use based on a 'fair shares' formula that takes into account historical cumulative emissions and with the aim of keeping the warming as far below 1.5-2 degrees celsius as possible.

Simple and Accountable

Revenue raising mechanisms should be simple and accountable so that all can easily see how much money is being generated, from what sources, and how enforcement is being undertaken. Publishing accurate, comprehensive and timely data using common definitions is important for easy aggregation and analysis. All documents and data should be published; a very narrow set of exceptions may be allowed for personal or other, purely internal information. There must also be an appeal mechanism for citizens who are denied information.

Principles of Climate Fund Governance

The key concepts of financing and governance of climate funds for climate actions are power, accountability and responsibility as part of the governance structure to provide effectiveness and legitimacy to the climate finance mechanism. According to a 2010 World Resources Institute (WRI) report, the three inter-related features overlap so that a proper legitimate and effective structure is established (see Box 1). Climate governance aims to ensure a democratic structure to balance power, accountability and responsibility between climate finance contributors and recipients. This is primarily because the climate finance mechanism is looked upon as a compensation mechanism for historical contributors to atmospheric GHG concentration for natural resource overexploitation, and thereby, acquisition of carbon space, part of the global commons. These polluters are the ones who have the highest responsibility to pay as compensation.

The key message is that an effective climate governance structure must ensure direct access to and democratic distribution of funds. This gives legitimacy and effectiveness to the finance mechanism under the Climate Fund. In 2010, the WRI evaluated the existing funds under the multilateral gateways for climate change actions worldwide and found the balance of power in favour of contributors for most funds analysed. This needs to be shifted, and that shift is possible only if enough safeguards and accountability are established – through the features mentioned above. Greater developing country representation and representative governance ensuring recipient ownership will ensure effective resource utilisation and best address the climate change problem. One of the major problems of any international financing mechanism is inclusion of voices at the base of the pyramid. This can be resolved through the proposed climate finance mechanism. Furthermore, sustainability and compensatory funding will be key to an effective finance mechanism. The other important challenge to effectiveness is ensuring that the governance structure manages huge funds efficiently, and that it has minimal formality and a one-window approach. Current discussions on

Box 1: Governance Features in Finance Mechanism

Power: The capacity – both formal and informal – to determine outcomes

- How will the financial mechanism's governance structure distribute voice and vote between and among contributors and recipients?
- What role will the UNFCCC's institutions, including the Conference of the Parties, play in guiding the financial mechanism?
- To what extent will contributors be able to determine funding priorities by placing conditions on the resource mobilisation and allocation process?
- How influential will the secretariat and management staff of the financial mechanism be in determining project design and selection?
- Will advisory groups, civil society observers and local communities play a role in determining how the financial mechanism operates?

Responsibility: The exercise of power for its intended purpose

- Are the financial mechanism's standards, programme priorities, and eligibility criteria strong enough to ensure that its resources are invested fairly and effectively?
- How do cost-sharing formulas (e.g. incremental, marginal, transformative costs) allocate responsibilities between contributor and recipient countries, and between the financial mechanisms and recipient countries?
- To what extent are national institutions and local civil society entrusted with ensuring the effective design and implementation of investments?

Accountability: The standards and systems that ensure power is exercised responsibly

- How does the financial mechanism measure, evaluate and incentivise results?
- Are effective environmental and social safeguards in place to ensure the investments do no harm?
- How are fiduciary duties and financial management standards supported and enforced?
- Are grievance and inspection mechanisms in place to ensure that standards are followed?

Source: Tirpak *et al.* (2010).

the financial mechanism have been perceived as a fight for control over the Green Climate Fund. The negotiating strategy of developing countries in this regard is based on the assumption that control over fund governance would give them decision making power, and hence ensure direct access to funds. During the COP-16 at Cancun, South Asian countries identified direct access to funds as their central demand in a joint submission about the financial mechanism. The current arrangement through the GEF has been unable to provide such direct access, and the huge administrative and logistical issues involved in funds transfer have rendered it ineffective. South Asian countries look towards the replication of the Adaptation Fund board governance structure in the current discussion on GCF. During the October 2011 meeting of the Transitional Committee of the Green Climate Fund, South Asian countries³ emphasised the need for Fund operationalisation and reiterated the need for agreeing on it at Durban (COP-18).

For South Asian countries, the governance issue is important because it will determine the efficient usage of the available money. As there is no clarity currently on the ways

³South Asian countries are part of the G-77+China group and various other sub-groups of the UNFCCC. As part of these sub-groups, the respective South Asian countries have agreed on the need to conclude and operationalise the architecture of the Fund at Durban.

and means of fund generation or its scale, it is necessary that developing countries have control over fund governance to ensure fair and equitable disbursement based on developing country needs. To ensure this, countries like India have demanded that a commitment-based support mechanism be built for developed countries.

Suggestions for a Robust Finance Mechanism in the Region

It is very much clear from the above discussion that the provisioning of climate finance has to be done urgently and in line with the principles outlined above. According to the Article 4.5 of the Convention, financing has been looked after as the responsibility to be met by the Annex I countries (i.e. developed) under the convention. This would in essence mean that the finance regime proposed under the UNFCCC has to shift the balance of power towards recipients in the governance and decision making of managing the funds. In a world becoming increasingly difficult due to ensuing economic crisis and economic uncertainty, the real problem has been to generate the amount of finance that would ensure that climate actions are being funded adequately, and there is no diversion of developmental finance to the climate change. Keeping this in mind the countries in 2010 at Cancun have proposed the need to generate funds through assessed contribution from its mechanism amounting to 1.5 per cent of the GDP of the developed countries. This proposal, however, did meet with lots of disagreements, and ultimately did not receive the popular support.

From the sources viewpoint, the international climate funds need to consider various possible sources of finance for global climate actions. Various options have been put forward in this regard; however, the principle of common but differentiated responsibility (CBDR) has to be respected in all these issues. While financial transaction taxes (FTT) and special drawing rights (SDR) for climate finance and bunker fuel levy have been identified as possible sources of funds, none has won political support at UNFCCC negotiations. Reports on SDR becoming a vehicle to generate new resources have been doing the rounds within CSOs globally. In one of the most famous opinion-building exercises, George Soros identified SDRs as a major source of funds that could infuse USD 100 billion into the system for climate actions. This was supported by the then International Monetary Fund (IMF) Chief during the January 2010 World Economic Forum (WEF) meeting. However, control of this fund was not made clear at the WEF, and this was a major reason for its subsequent lukewarm response. Emerging economies like China, India and Brazil have been demanding a shift and restructuring of the governance mechanism of IMF and World Bank. The recent allocation of USD 250 billion of SDRs has been used as per the 2009 G-20 suggestion. This was the impetus for parties to claim parallel usage of SDR for climate actions. The main reason for reconsidering this option is the control of money and its relationship with the UNFCCC in terms of climate financing. In the current scheme of affairs, the only donor country from South Asia is India. The major problem that will be faced with the current governance structure of the SDR money is that the voting structure is determined by the amount of contribution, and not by democratic structure. Historically, the IMF money for restructuring regional economies has involved strict conditionalities on national governments. If the SDR money comes to the region for climate support, the cloud of conditionalities looms large over the region.

The FTT and bank transaction taxes are seen as major alternatives for climate finance. The European Union (EU) recently began imposing taxes on financial transactions. This will reduce financial speculation and reduce the velocity of money used mostly for stock market investments and speculation. This sort of tax has some merit, although the Government of India disagrees. The FTTs would reduce the speculation in the markets and mobilise investments in greenfield projects, which would ensure global financial stability. However, such a financing regime would face major difficulty in regulation. Stock exchanges are currently ruled by national regulations. However, the regulatory authority has to be carefully designed in the case of the proposed FTTs to avoid complications.

The current focus of generation of funds has been on the implementation of the emissions trading mechanism on the bunkers fuel (e.g. aviation sector and shipping). This was first proposed by the EU under their Emission Trading Scheme (ETS). A large group of countries have opposed the idea of imposing the aviation ETS scheme on the grounds that the scheme does not meet the requirements of CBDR because all the countries are being treated at par, and that there is no distinction between developed and developing countries. In a way, the ETS, if implemented, would mean that developing countries would be paying for the climate actions of the EU. A very important point that is often not identified in the current discourse of ETS debate is that, the opposition of ETS mechanism in aviation is often seen as indication of lack of interest to undertake climate action. However, in actual sense, the problem is that the ETS is not clear on how the money is going to be utilised by the EU. The lack of clarity on equivalent measures that would ensure a country could be waived off the ETS mechanism if it undertakes similar measures, are yet to be established. However, the think tanks from the region working on climate finance have been proposing that it would be good to implement the no-net-incidence under the proposed scheme to fulfill the requirements of the CBDR. Another suggestion that was put forward is the call to put the total revenue generated from the aviation ETS by EU to the GCF as its contribution. There has been no consensus among the EU states in this regard. Had there been any progress on the proposed demands by the South Asian, the ETS could be an important tool for generating finance for the climate action.

There is a need for the SAARC Development Fund to be aligned with the internationally established Green Climate Finance mechanism. In future, most of the international and multilateral support is going to be directed through regional entities. SAARC is one of the few institutions that has a well-established governance and is functional. This could be a real opportunity for the region to jumpstart the action on climate change through SDF in future. In the light of the current nationally situated climate change funds, a regional mechanism of this sort would be important as it could take on the cross-border climate actions with ease and involving the stakeholders.

South Asian countries should develop a coherent SAARC-level climate agenda. This would set the tone of climate actions by identifying priority areas and immediate action-specific information. A medium and long-term SAARC Work Programme on Climate Change will ensure that various climate-related issues are addressed and effective fund utilisation plans are developed.

The recent declaration on SAARC-level activities has identified major areas of research and ground actions on climate change. However, funds have been allocated ad hoc; a discussion on developing sustainable climate action funds is required and can form part of the agenda of the SAARC Environment Ministers' next rounds of meetings.

The role of civil society has been an important source of capacity building and innovative ideas on development issues. Under the climate change regime, CSOs from SAARC region have to play a pragmatic role. As the region is unique in having almost all the major physiographic regions of the world, effective roadmap building will ensure that all issues pertaining to the decision making pyramid's base have been resolved.

Finally, climate financing in South Asia needs a development orientation under which adaptation issues are given due importance and addressed. The staggering difference in the money available for adaptation and mitigation across the world shows that it is important to focus on adaptation programmes for the region. It would ensure that equity issues and development objectives are properly addressed through climate finance.

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Migration and Remittances in South Asia in the Wake of Emerging Global Challenges

S M Turab Hussain*

Introduction

The last decade saw three major events which fundamentally altered the global political and economic landscape. The first and arguably the most significant was 9/11 which created a huge gulf between the West and the Middle East, further widened by the occupation of both Iraq and Afghanistan by North Atlantic Treaty Organization (NATO) forces. The second major event was the Financial Crisis which has beleaguered the economies of both the United States and Europe, and threatens to engulf the world through contagion effects. Finally, the recent wave of protests in the Middle East against years of autocratic rule blossomed into an Arab Spring with Egypt, Tunisia and more recently Libya winning their freedom. Many neighbouring countries are still in the midst of violent protests and struggle against dictatorial regimes. The states which are currently stable, such as Saudi Arab and the Gulf countries, look anxiously at the fast changing political map of the Middle East, uncertain of their own political future.

These historic events can potentially have serious ramification on both migration and remittances to South Asia – a region which has most of its large migrant population in both the West and the Middle East of Asia. The motivation behind this paper stems from the apparent resilience of remittance flows to South Asia in the wake of these shocks. The paper explores the reasons behind the unabated upward trajectory of remittances in the region with a special focus on Pakistan – a country which had a remittance triggered boom and bust cycle in the last decade. It also presents strategies in context to migration and remittances which could help the region cope better with the changing topography of the global political and economic landscape.

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Remittance Dependency in South Asia

The importance of migration and remittance in the economies of South Asia cannot be overstated. The degree of remittance dependence of the region is clear from Table 1. South Asia has the highest remittance to gross domestic product (GDP) ratio in the world, where remittances now far exceed other financial flows such as official development assistance (ODA) and foreign direct investment (FDI). What is clearly evident from the data of the last decade is that in spite of the major events mentioned above, remittances remained a major and a relatively stable financial flow into the region.

Table 1: Changes in Remittance Dependency in South Asia

(in Per cent)

Country	Re/GDP 2000	Re/GDP 2009	Re/Exports 2000	Re/Exports 2009	Re/ODI+FDI 2000	Re/ODI+FDI 2009
Bangladesh	4.0	12.0	28.6	64.7	136.0	542.0
India	3.0	4.0	23.1	18.1	259.8	129.8
Nepal	2.0	23.0	-	150.0	28.7	334.0
Pakistan	1.0	5.0	10.0	42.8	106.6	170.3
Sri Lanka	7.0	8.0	16.7	33.3	260.2	238.8

Source: World Development Indicators (WDI) and Global Development Finance (GDF).

In South Asia, the major increase in migration and remittances came in the early 1970s. Following the oil boom in the Middle East¹, a large number of skilled and semi-skilled migrants from India, Bangladesh and Pakistan filled the growing labour demand in the oil-exporting countries. This resulted in an unprecedented surge in remittances into the region which tended to fluctuate in tandem with movements in oil prices. This upward trend in remittances was augmented in the 1990s by financial liberalisation reforms across South Asia pushing India, Pakistan and Bangladesh in the top ten remittance recipient countries of the world. The other major destinations of South Asian emigrants are the Organisation for Economic Co-operation and Development (OECD) countries, in particular the USA and UK, and East Asia. However, in contrast to the Gulf, migration from South Asia to the OECD has been more of the high skilled/highly qualified category, which is dominated by migrants from Indian origin (Oda 2004).

Motivated by the increasing importance of remittances in the economies of South Asia, numerous studies have investigated the effect of remittance on growth and poverty in the region. Theoretical explanations behind the motives to remit have ranged from strategic self-interest to familial altruism, and in most instances migration decisions are analysed from the perspective of the family rather than the individual.² Remittances within this broad framework have been shown to smooth income and consumption (Lipton 1980), are considered a source of both insurance and credit for risk averse and

¹These are primarily the Gulf Cooperation Council (GCC) countries comprising Bahrain, Qatar, Kuwait, Oman, Saudi Arab and the United Arab Emirates (UAE).

²In the 1980s, contribution to the literature on migration by Stark (1991), Lucas (2003) and Banerjee (1983) shifted the focus of analysis from the Harris and Todaro (1970) type individual decision making framework to a family level approach. This came to be known as the New Economics of Labour Migration (NELM).

credit rationed poor households (Stark 1991), and are used for both physical and human capital investments in the home country (Adams 1998; Batzlen 2000). However, the link between remittances, growth and poverty across developing countries is tenuous and the empirical evidence on this remains fairly contentious.³ As the scope of this paper is on the impact of the major global events on migration and remittances with special focus on economies of South Asia, the following discussion remains centered on these events.

Post 9/11 Remittance Surge in Pakistan: Boon or Bane?

The tragic events of 9/11 marked a major shift in the security paradigm of the USA. Greater international scrutiny on informal transfers of money through the *hawala* and *hundi* system made migrants switch over to formal channels of remittance partly explaining the precipitous rise in official remittances following that time. Moreover, there was a large transfer of savings by people of Pakistani origin living in the USA to Pakistan, which was perhaps triggered by a general uncertainty prevailing in the Muslim community during post 9/11. So large were these transfers that the share of remittances from the Gulf countries came down from 67.9 per cent to 45.5 per cent in the course of one year. All this accompanied by the rescheduling of Pakistan's debt payments resulted in an unprecedented rise in capital inflows into the country during 2001-02 (Oda 2004; also see Table 2).

These remittances and repatriated savings made their way into a burgeoning commercial banking sector, the stock market and a highly lucrative real estate market causing a bubble in both markets. Exchange rate appreciation and low interest rates on consumer lending in turn fueled a consumption boom in Pakistan.⁴ Imports of luxury items increased manifold, while exports lagged behind as a result of the appreciated exchange rate and sluggish manufacturing sector growth. What transpired was a classical case of 'Dutch disease' caused by large inflows of capital which by appreciating the exchange rate hurt the competitiveness of Pakistan's exports significantly. Despite the pressure on the exchange rate to depreciate, the State Bank of Pakistan kept the rate stable and overvalued further widening the gap in the balance of trade (see Table 2). The economy during this period (2002-2006) grew at an impressive average rate of 6-7 per cent. Poverty also fell from 31 per cent to 22 per cent in this period giving credence to the 'trickle down' theory. This substantial reduction in poverty, however, was due to the large proportion of the poor clustered around the poverty line making the head count rate in the country very sensitive to changes in economic growth (Nabi 2010).

³The ambiguity between remittances and economic growth is exemplified by a study conducted in 2009 by Barjas *et al.* which used panel data from 84 countries in the period 1970-2004. The study found no robust and significant impact of remittance on long-term growth and also found a negative relationship between the two variables.

⁴"The KSE 100, which is the benchmark of Karachi Stock Exchange (KSE), increased from 1247 points immediately prior to the 9/11 attacks to over 150000 points in early 2008... Meanwhile, annual sales of automobiles increased from slightly under 35,000 in 1999 to more than 180,000 in 2006-07." Excerpt from Oda (2009).

Table 2: Remittances and the Boom and Bust Cycle in Pakistan

Component	2000	2001	2002	2003	2004	2005	2006	2007	2008
Remittance (Billion USD)	1.0	1.0	4.0	4.0	4.0	4.0	5.0	6.0	7.0
GDP growth (%)	4.0	2.0	3.0	5.0	7.0	8.0	6.0	6.0	2.0
Consumption per capita growth (%)	-2.0	-2.0	-1.0	-1.0	8.0	11.0	-1.0	3.0	-4.0
Trade balance (Billion USD)	-1.0	0.0	0.0	1.0	1.0	-4.0	-11.0	-11.0	-18.0
Manufacturing value added growth (%)	2.0	9.0	4.0	7.0	14.0	16.0	9.0	8.0	5.0

Source: World Development Indicators (WDI).

This consumption-led growth, however, was fragile and unsustainable, and turned out to be more of a 'mirage than a miracle' (Nabi 2010). As soon as international oil prices rose in 2007 and the country's political and security situation deteriorated, this growth spurt came to a sudden stop, and the short-lived boom gave way to a painful bust characterised by a plummeting growth rate of GDP, unmanageable external and internal deficits, and rising inflation and unemployment. Throughout this period, when other short-term and long-term capital flows had dried up, remittances kept their momentum and contributed to financing the current account deficit, keeping the economy afloat albeit at a much lower equilibrium growth rate.

The central lesson from this boom and bust tale is that remittance flows alone cannot be viewed as the panacea for all that ails an economy. The lack of sustainability of Pakistan's growth rate was essentially due to structural reasons accompanied with chronic fiscal mismanagement. As mentioned earlier, consumption grew at a phenomenal rate while investment in manufacturing remained relatively sluggish.⁵ Although there was impressive growth in services during this period, brought about mainly by increased FDI in both financial and telecommunication sectors, this was evidently not enough to sustain growth (Nabi 2010). Furthermore, an abysmally low tax to GDP ratio of around 9 per cent along with misallocation of budgetary resources towards unproductive expenditures and a proliferation of non-targeted subsidies worsened the fiscal balance contributing to the eventual bust. Therefore, remittances alone cannot be expected to sustain economic growth and reduce poverty unless accompanied with strategic public policy interventions which are designed to facilitate manufacturing and export growth, and provide social infrastructure and targeted subsidies/social safety nets to the poor.

Remittances can arguably have more 'bang for the buck' if these are directed in the economy, through appropriate incentives, into capital investment and in the financing of social and physical infrastructure the main bottlenecks facing the manufacturing

⁵There was a spike in growth of large-scale manufacturing, which lasted only two years from 2004 to 2006. Also, the construction sector benefited in these years from the real estate and housing boom contributing nominally to the growth in manufacturing during the period.

sector of Pakistan. Venture capital schemes and information on investment opportunities for the expatriate community in the USA and Europe are ways by which remittances can be channelised towards more productive outcomes. Innovative financial tools can also help leverage migration and remittances for development goals. Issuance of expatriate or diaspora bonds by the government is an effective instrument to raise revenue at a lower cost for critical physical infrastructure investments and social sector projects such as transport, energy, health and education. This has been done quite effectively to tap expatriate savings by Greece, Israel and India.

Global Financial Crisis and Middle East Political Instability: Impact on Migration and Remittances in South Asia

The financial crisis, which hit the western economies four years ago, has reduced GDP growth rates across Europe and the USA by 2-3 per cent and unemployment in most of the OECD countries is at a record high.⁶ The large fiscal stimulus in USA and Europe has not had the expected effects in terms of stimulating aggregate demand, employment and growth. With the world economy increasingly integrated through trade and capital flows, the effect of this crisis has sent shock waves and ripples across the globe.

For the large South Asian diaspora in the USA, Europe and the Middle East, this global economic downturn continues to present an imminent threat to incomes and employment. Also, with high unemployment in the USA and European labour markets, there has been a palpable increase in right wing political rhetoric against immigration, putting pressure on governments to tighten immigration controls, and introduce greater selectivity in immigration policies.

With the financial crisis still looming large over the developed world, the recent years saw the eruption of a major pro-democracy movement in the Middle East, which in a short span of six months resulted in the ouster of long standing dictatorial regimes in Tunisia, Egypt, and most recently in Libya. This wave of political unrest has spread to Syria, Bahrain and Yemen, and threatens the Kingdom of Saudi Arabia as well as the other Gulf countries. The full impact of this political upheaval on the fate of the large migrant community of South Asia is yet to unfold – although Bangladesh in the recent past saw a major repatriation of 30,000 migrants from Libya, thus becoming the first South Asian country to be directly affected by the Middle East crisis.

Under such adverse and unpredictable economic and political circumstances, the expectation remains that migration and remittances in South Asia might be negatively impacted over the medium to long-run. However, till now remittances have proven to be remarkably resilient in almost all South Asian countries throughout the global financial crisis and more recently during the political unrest in the Middle East (Table 3). In fact, in the case of Pakistan, remittances have registered a substantial increase during this time, reaching a record high of USD 1 billion in a single month during March 2011. Following are some reasons behind this seemingly anomalous persistence of remittance flows.

⁶According to the International Monetary Fund (IMF) forecasts, unemployment in the Euro area would remain more than 9.6 per cent in 2011-12.

Table 3: Resilience of Remittances to South Asia during the Financial Crises*(Billion USD)*

Country	2005	2006	2007 Financial Crisis	2008	2009	2010
Bangladesh	4.0	5.0	7.0	9.0	11.0	11.0
India	22.0	28.0	37.0	50.0	49.0	54.0
Nepal	1.0	1.0	2.0	3.0	3.0	3.0
Pakistan	4.0	5.0	6.0	7.0	9.0	10.0
Sri Lanka	2.0	2.0	3.0	3.0	3.0	4.0

Source: World Development Indicators (WDI) and Global Development Finance (GDF).

The most compelling argument behind the stability of remittances is that the stock of existing migrants in the destination countries has not fallen. Although new migration flows fell significantly, the net flow of migrants remained positive. As remittances are dependent on the stock of migrants, they are likely to be persistent over time (Mohapatra *et al.* 2010). Therefore, it might be too early to expect a fall in stock of migrants in the host countries, which could cause a decline in remittances to South Asia.

Secondly, most of South Asian migration has been to the Gulf countries (GCC) a region relatively less affected by both the economic and political crisis, thus explaining the stability in remittance flows.⁷ In fact, as a consequence of the recent increase in oil prices and enhanced economic activity in the Gulf, remittances to South Asia grew at 8.2 per cent and 7.4 per cent respectively in 2010. Also, the fiscal stimulus provided in Saudi Arab, the USA and Europe in the wake of the financial crisis might have provided a cushion to migrant employment and income, thus consequently buffering any fall in remittances.

Pakistan during the last eight years has seen remittances increase to USD 10 billion per annum, and within the region has had the highest inflows during the global crisis. A paper by Kock and Sun (2011) posits compelling explanations behind this counter intuitive surge in remittances to Pakistan even during this period of political and economic insecurity. These hypotheses or probable explanations are empirically verified by the authors using data from 1997 to 2008.

According to the paper, the movement of Pakistani migrants from a crisis-hit UAE to an economically-secure Saudi Arab helped offset a potential fall in remittances. Even though the number of Pakistani migrants in the UAE came down by almost 43 per cent, remittance per migrant in the UAE outstripped those from Saudi Arab during this period; this, according to the authors of the paper, is mainly because of laid off migrants from UAE who brought their accumulated savings back to Pakistan. The paper also finds that an increase in the share of skilled Pakistani migrant (60 per cent) in the past 20 years has contributed significantly to explaining the sustained upward trajectory of remittances over time.

⁷There are of course exceptions to this, such as the UAE and Bahrain. The UAE was hit hard due to the financial crisis which caused a real estate collapse, while Bahrain has had periodic spates of intense political instability since last year.

Increased remittances to Pakistan in this period can also be explained by familial consumption smoothing and insurance motives of migration and remittances. Remittances rose substantially from USD 7.4 billion in 2008 to almost USD 10 billion in 2010 in response to both worsening economic conditions in the country and the devastating floods that inundated large swathes of land along the Indus affecting millions of poor households. Finally, remittances in Pakistan registered an increase because of efforts made by the government to minimise the transaction costs of remittance transfers incentivising a shift to formal channels (MoF 2011).⁸

The central lesson which can be drawn for South Asia from these crises is that diversity in the destination of migrants and a higher share of skilled migrants are integral in ensuring both security and magnitude of remittance inflows to the destination country. Public policy thus should be designed to provide a wide range of skills independent of the specific labour market conditions or requirements in major migrant destinations. This would give flexibility to labour, and would diversify potential employment options which might be both internal and external.

Also, as the economic and political situation in the OECD and Middle East countries remains fluid, it would be difficult to predict the long-term migration trends and remittance projections for South Asia. The unpredictability of emigration prospects along with the demographic change taking place in the region, where one-third of the population is below the age of 20, poses a serious economic and social challenge. South Asian countries have to create new vents for growth to ensure employment opportunities for a possible influx of return migrants and to absorb the growing number of youth entering the labour force every year. These numbers would increase substantially if there is deterioration in migration prospects globally.

The most important vent for growth in South Asia is arguably greater regional integration, the success of which crucially depends on the two largest economies, India and Pakistan. Improved economic and political relations would not only benefit the two countries, but also would have positive spillover effects across South Asia. The geo-strategic location of Pakistan, connecting the region to the world's production power house, China to the north, and the markets and natural resources of Central Asia to the West, can only be exploited to its full economic potential by South Asia if trade between India and Pakistan is liberalised. Opening up of trade between India and Pakistan would necessarily pave the way for improvements in political relationship. This will gradually lead to a deeper economic integration of the region in the future entailing movement of capital and labour, thus bringing the region closer to the vision of the South Asian Association for Regional Cooperation (SAARC) peace, stability and prosperity of South Asia.

⁸Higher inflows from the UAE and UK seem to be the result of bilateral arrangements of the State Bank of Pakistan and commercial banks with foreign entities under Pakistan Remittance Initiative (PRI). The PRI schemes such as Xpress Money and Interbank Fund Transfer Facility, by lowering costs of fund transfer, have played an important role in increasing remittances.

Conclusion

This paper looked at the effects of major events in the last decade have had on South Asian migration and remittances. The impact of 9/11 was analysed from the perspective of Pakistan and the main conclusion drawn was that a sudden increase in remittances can cause an economic boom, however, to sustain it requires prudent macroeconomic management and strategic public policy initiatives. In the absence of employment and export generating real growth, remittances can only partly serve to stabilise the current account deficit of the country keeping it at a low equilibrium growth path as is the case of Pakistan today. Also, remittances can be effectively channelised for public sector project finance through the issuance of diaspora bonds and can be directed through schemes like venture capital towards greater entrepreneurship and investment in an economy.

Finally, the paper analysed the anomalous resilience of remittance flows to South Asia in the wake of global financial crisis and the brewing Middle Eastern political turmoil. The fact that remittances are dependent on the stock of migrants and not the flow, the impact at least in the short-term might not be felt from a net fall in migration.

In the case of Pakistan, improvement in worker skills over the past 20 years and movement of labour from an economically unstable UAE to relatively more stable Saudi Arab partly explains the continued rise in remittance flows during the past 3-4 years. The recent floods and economic slowdown are also factors behind the surge in remittances, which are in most instances motivated by familial altruism, insurance and consumption smoothing of origin households.

Given the unpredictability of future migration and remittance patterns, the recommendations for the region are policies which focus on skill acquisition and regional employment generation. The latter objective can be achieved by invigorating the economic integration of South Asia in general, and Pakistan and India in particular, which has the potential to put the region on a much higher growth and development trajectory.

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South Asian Regional Collaboration on Protection of Migrant Rights

Tasneem Siddiqui*

Labour migration is an integral part of current global development. Evidences are emerging from Asia, Africa and Latin America that migration contributes to reduction of poverty and social and economic development (Ratha *et al.* 2011). South Asia has experienced remarkable social and economic advancement since the 1980s. Among others, short-term labour migrants and diaspora population of South Asia played an important role in achieving such development. Among the developing countries India receives the highest remittances. In 2009 it also received additional USD 31 billion as savings deposit of its diaspora.¹ Bangladesh and Pakistan also belong to top ten remittance receiving countries. One-third to one-half of overall reduction of headcount poverty from 42 per cent to 31 per cent in Nepal in 2004 has been attributed to labour migration to the Gulf.

While migration has significantly contributed to the economies of South Asia they pose enormous challenges for those who migrate as well as to individual countries. Many of the challenges require multilateral intervention but South Asian countries have so far attempted to resolve those nationally and bilaterally. This paper identifies some of the important challenges of short-term contract migration where South Asia can pursue common solutions under the auspices of South Asian Association for Regional Cooperation (SAARC). The paper is based on secondary sources.

The paper is divided in five sections. The second section presents the global context of migration and sets South Asia in that scenario. The third section highlights the challenges that South Asian countries face in governing labour migration. The fourth

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¹This contributed 8 per cent of the country's domestic savings and 2 per cent of gross domestic product (GDP) (Srivastava *et al.* 2011).

section presents basic features of migration governance of South Asian countries and their participation in global initiatives of migration governance. The same section analyses lack of use of SAARC in the multilateral forums. The concluding section identifies some major areas in labour migration which can be immediately placed before the SAARC Secretariat to be pursued regionally in global forums.

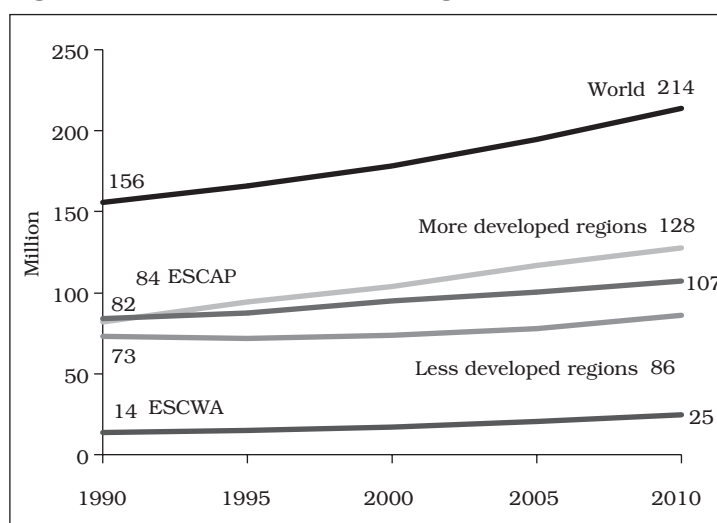
Labour Migration: Global and South Asian Trends

Global Trends

Growth

Over the last 30 years, the number of international migrants has more than doubled. In 1980, 99 million people were living outside their country of origin. In 2005 it became 195 million (UNDESA 2008). In 2010, the figure reached 214 million people (Figure 1). Timothy and Sasikumar (2012) observed that with only 0.2 percentage point increased in the share of global population, the stock of international migrants seems to be relatively stable.

Figure 1: Growth of International Migrants



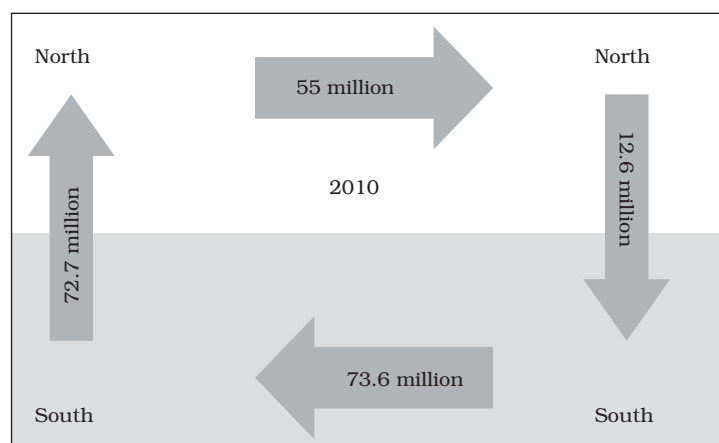
Source: <http://www.unescap.org/sdd/meetings/beirut-June2011/Henning-ESCWA-migration-bet-ESCAP-ESCWA-regions.pdf>

Migrants by Origin and Destination

The regional spread of international migrant stock shows that in 2010, Europe hosted almost 70 million international migrants, one-third of the global total. Asia (61 million) followed by North America (50 million) were in the second and third positions in terms of international migration stock. An important phenomenon of global migration is that South-South migration is almost as common as South-North migration (Figure 2). In

2011, about 73.6 million international migrants who were born in the South were residing in the South.²

Figure 2: International Migrant Stock by Origin and Destination: 2011



Source: <http://www.unescap.org/sdd/meetings/beirut-June2011/Henning-ESCWA-migration-bet-ESCAP-ESCWA-regions.pdf>

Female Migration

As Table 1 and Figure 3 show women constituted just under half (49 per cent) of all international migrants in 2010 (UNDESA 2011). Significant share of women in international migration has been noted since 1960s (Zlotnik 2003). The stock of international female migrants is estimated to be 105 million in 2010.

In 2010, female migration from Europe and Oceania constituted the highest percentage (52.4), and Asia represented the lowest percentage (44.6). Nonetheless, over the last decade, growth rate of female migrants compared to male, is higher in Asia. Since the 1980s Asian women constituted the majority of migrant workers in countries such as the Philippines, Indonesia and Sri Lanka.

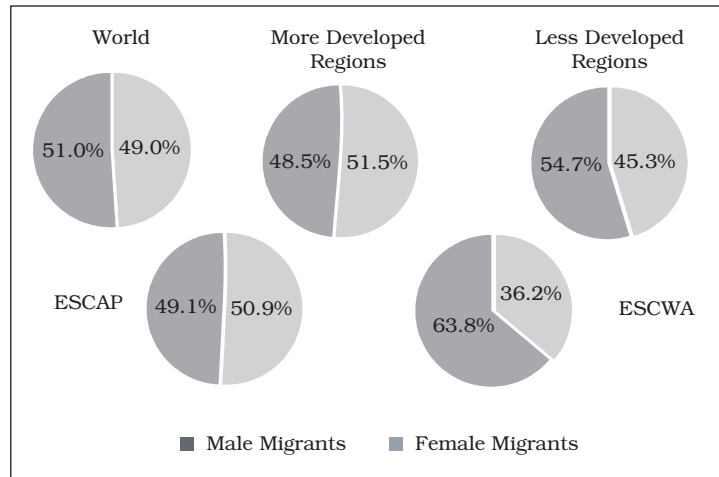
Table 1: Women Migrants as Percentage of International Migrants

Region	1990	1995	2000	2005	2010
Africa	46.2	47.1	46.7	46.7	46.8
Asia	45.4	45.3	45.7	45.0	44.6
Europe	52.7	52.4	52.8	52.5	52.3
Latin America & the Caribbean	49.7	49.9	50.0	50.1	50.1
North America	51.1	50.8	50.5	50.4	50.1
Oceania	49.1	49.7	50.2	50.7	51.2
World	49.1	49.3	49.4	49.2	49.0

Source: <http://esa.un.org/migration/>

²The term 'North' refers to the more developed regions, and the term 'South' refers to developing countries. The more developed regions include Europe and North America, Australia, New Zealand and Japan.

Figure 3: International Female Migrant Stocks

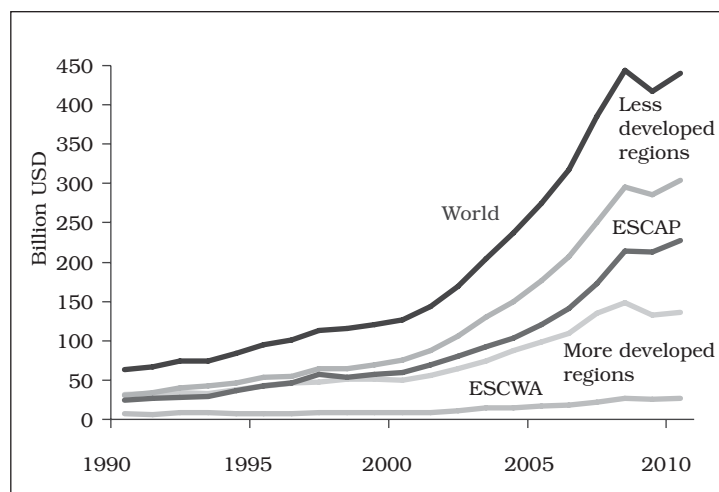


Source: <http://www.unescap.org/sdd/meetings/beirut-June2011/Henning-ESCWA-migration-bet-ESCAP-ESCWA-regions.pdf>

Remittances

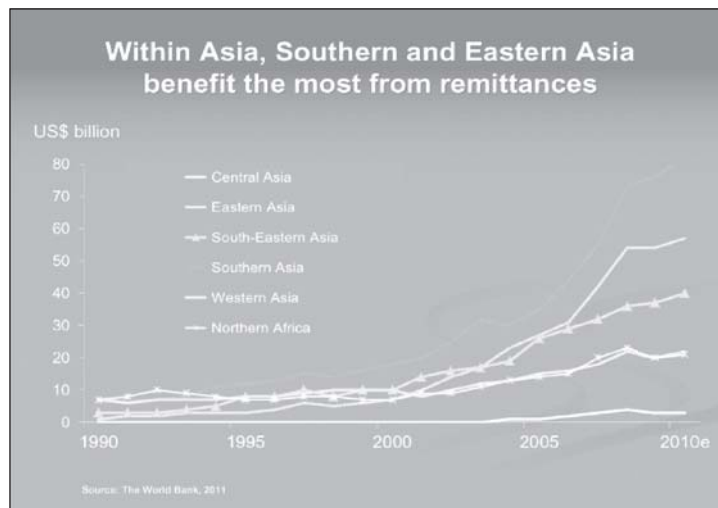
In 2010, estimated USD 440 billion remittances were sent by the migrants to different parts of the world. Of the total flow, estimated USD 325 billion remittances were received by developing countries in that year. It is estimated that in 2011 it has reached to USD 372 billion. This is an increase of 12.1 per cent over 2010. Worldwide remittance flows, including those to high-income countries, reached USD 501 billion in 2011, and is expected to increase to USD 615 billion by 2014.

Figure 4: Global Remittance Flows in Various Regions



Source: Henning (2011).

Figure 5: Remittance Flows in the Asian Region



Source: Henning (2011).

In 2011, India received highest amount of remittance among the developing countries (USD 64 billion). China received USD 62 billion and the Philippines USD 23 billion. Other large Asian recipients include Egypt, Pakistan, Bangladesh, Vietnam and Lebanon. In many Asian countries remittances are equivalent to a significant portion of GDP. Saudi Arab is the second largest remittance source country.

The South Asian Scenario

Number of Migrants

South Asia includes some of the major labour-sending countries of the world. These are India, Pakistan, Bangladesh, Nepal and Sri Lanka. Afghanistan has also gradually joined in the market.

It is difficult to compare annual short-term contract labour migration flow of South Asian countries as these countries do not follow similar data maintenance system. For example, India only records information of low skilled workers migration to 17 countries. Again, workers who studied more than grade 10 do not require clearance from the government agencies. This means information on a large number of migrants is missing from the Indian dataset. Pakistan, Bangladesh, Nepal and Sri Lanka record information of all migrants who go abroad as short-term contract workers. Information on international migration from Afghanistan, Bhutan and Maldives are almost non-existent.

Since early 1970s, 3.5 million Indian workers have migrated for work to 17 Gulf countries. In 2010 around 0.64 million workers received emigration clearance (Thimothy and Sasikumar 2012). The total stock of Bangladeshi labour migrants from 1976 to 2011 stands at about 7.7 million. In 2011, about 0.57 million workers emigrated for work from Bangladesh. The total stock of Pakistani labour migrants in

2007 was around 4.67 million.³ In 2009, 0.25 million workers went abroad from Sri Lanka with overseas job. In 2010 the total migration stock of the country stood at 3 million (Thimothy and Sasikumar 2012). In 2009, 0.25 million workers went on overseas job form Nepal (NIDS (2010)).

Number of Female Migrants

In general female migration from South Asia is low compared to total flow from each country. Sri Lanka is the only exception. In 2006, 52 per cent of Sri Lankan migrants were women. At one point of time 90 per cent of its migrant workers used to be women. In 2009 only 4.7 per cent of Nepali migrants were women. In 2006 and 2005 0.04 per cent and 0.05 per cent of Pakistani and Indian migrants recorded were women. Up to 1990s less than 1 per cent Bangladeshi overseas workers were women. In 2011, it became 5.38 per cent.

Countries of Destination

44 per cent of Indian workers migrated to Saudi Arab, followed by 20 per cent to the UAE. In 2011, 49.77 percent Bangladeshi workers went to United Arab Emirates (UAE) and 23.8 per cent went to Oman. In the past, Saudi Arabia was the destination of 60-70 per cent of the Bangladeshi workers. In 2011, it dropped to a meagre 2.65 per cent. In 2007 48.6 per cent of the total labour migrants of Pakistan went to the UAE, followed by Saudi Arab (29.5 per cent). The majority of male migrants from Nepal go to Qatar followed by Saudi Arab.

It is interesting to observe that labour markets of these countries do not remain static. South Asian countries compete and undercut each other for accessing the short-term labour markets. India and Pakistan used to be the forerunners as labour-senders to the Gulf. Later Bangladesh entered the market by offering lower wages. In the early 1980s, when Sri Lanka wanted to enter it was difficult for it to capture the male migrant markets. Therefore, strategically it chose the female labour market. Nepal only entered the market since the late 1990s. It drastically undercut the Bangladeshi workers by offering even lower wage. The receiving countries also like to rotate its labour intake among the source countries for their own benefit.

Sectors of Employment

During early 1970s all categories of workers, professional, skilled and lowly skilled migrated to the Middle East. Over the years demand for highly skilled workers reduced due to development of indigenous workforce and national policy for employing own citizens. Now most migrants are semi-skilled and lowly skilled.

Semi-skilled and lowly skilled workers find jobs in construction, manufacturing, maintenance, agriculture and services sectors. There are of course country-specific variations. In Malaysia they work in plantations. Along with a few in professional

³Data of Government of Pakistan, 2009.

category, South Asian women mostly participate in garments manufacturing industries and domestic work.

Remittances

India, Bangladesh, Pakistan belong to top 10 remittances receiving countries among the developing ones. For Bangladesh it is the highest foreign exchange earning sector. According to World Bank, remittance contributed 6 per cent reduction of poverty in Bangladesh (World Bank 2006). In Nepal it reduced headcount poverty by 11 per cent in 2004. In Sri Lanka, children of remittance receiving families have higher birth weight.

Challenges of Labour Migration

Workers from different South Asian countries are not treated equally in the countries of destination. Therefore, there exist country-specific challenges. Yet one finds a host of common problems which are faced by migrants in the destination countries. In this section some common problems are identified which the South Asian workers face. High cost of migration, exploitation during recruitment, contract substitution, poor wage, long working hours, non-payment of wage and overtime, lack of provision for holidays, and restrictions on movements, abuses at the workplace, lack of social protection and collective bargaining are important areas in this respect.

High Costs of Migration

In recent multilateral forums, high cost of migration has been identified by some origin and destination countries as one of the major hindrances in ensuring protection to migrant workers (GFMD 2011; Abu Dhabi Process 2008; Colombo Process 2011). Cost of migration is indeed very high for South Asian countries as well. Table 2 gives a comparative statement of cost of migration from India, Pakistan, Bangladesh, Nepal and Sri Lanka. It shows that in almost all the cases actual costs incurred by migrants are two to three times higher than what is prescribed by respective governments. Migration from Sri Lanka to the Middle East is the only exception. The highest cost of migration is reported from Bangladesh. To provide a deeper understanding of complexities of migration cost, a case study of Bangladesh is presented in the subsequent discussion.

Table 2: Country-wise Migration Cost for Low-Skilled Migrants

Country	Destination	Cost in USD (Government)	Cost in USD (Actual)
India	Middle East	646.024	1180.66-1737.43
Pakistan	Middle East	523.895	931.37
	Malaysia	523.895	2328.42
Bangladesh	Middle East	1142.080	2991.16-3263.09
	Malaysia	1142.080	2447.31-2991.16
	Singapore	1142.080	3535.01
Nepal	Middle East	973.574	1398.60
	Malaysia	1118.880	1146.85-1260.15
Sri Lanka	Middle East	775.405	729.368-775.405
	Malaysia	775.405	1094.05

Source: RMMRU (2008).

Cost of Migration: The Bangladesh Case

Afsar's research (2009) based on 60 interviews of returnee workers showed that the average cost of male migration was USD 1,980, and for female it was USD 857. Household remittance survey 2009 of the International Organization for Migration (IOM) indicates that migrants on an average spent USD 2,738 when they migrate to the Middle East. IOM study also indicate that cost of migration varied from country to country. To go to Saudi Arab and UAE migrants spent USD 2,740 on an average. For Kuwait, Qatar and Oman it was USD 2,397, whereas cost for Bahrain was USD 3,082. RMMRU's survey of 10,000 Bangladeshis workers repatriated from Libya (2011) found that 74 per cent of them paid between USD 2,740 to USD 4,110 as migration cost.

According to Siddiqui (2011) the cost of male migration for Saudi Arabia reached its highest peak in 2011 and ranges from USD 4,000-5,400. Migration cost for UAE, Oman and Libya again ranges from USD 2,700-3,400. In case of Bahrain and Qatar it is around USD 2,700.⁴ Compared to male migration, cost for female migration is much less. According to a government functionary, in case of UAE the cost for women migrants varies from USD 270-950, in case of Lebanon it varies from USD 400-1,000.

The cost also varies on the basis of type of visa available to individual migrant. Currently Bangladeshi workers migrate to Gulf Cooperation Council (GCC) states by obtaining four types of visa. These are *Aqama* or work permit, free visa, *Umra* visa in case of Saudi Arab and visit visa, particularly in case of UAE. The average cost of migration on free visa stood at USD 2,264. Fixed job contract visa costs at USD 1,407 and *Umra* visa costs a migrant USD 1,262.

Cost of migration varies significantly on the basis of skill category. Unskilled workers pay more compared to skilled workers. According to the Bangladesh Association for International Recruiting Agencies (BAIRA) a skilled migrant pays 30 per cent less compared to an unskilled worker.

Exploitation of Kafil System

Since the 1950s labour migration is managed in Gulf countries under the *Kafala* system. Individual countries have some variations of this system. Nonetheless in this system demand for bringing any overseas workers has to be placed before the concerned ministry by the employers who are known as *Kafils* (sponsors). The *Kafala* system arrived from the Beduin principles of hospitality that sets obligation in the treatment and protection of foreign guest (Khan and Harroff-Tavel 2011). *Kafils* are supposed to assume full economic and legal responsibility for the employee during the contract period. They are meant to pay the placement fee, if any, to government, air ticket of the workers, commission to the recruiting agency if they avail their service, and cost of medical check up. But large numbers of *Kafils* have transformed the system into

⁴Saudi Arab is a sought after destination as there is prospect of employment for a longer period. Although not all of them, but a section of the migrant can stay back and renew their contract once the initial contract is over. If the employer is willing a migrant can stay with the employer for his/her whole work life; of course through renewal of work permit at a regular interval by certain cost to the government.

an avenue to earn money. In Saudi Arab, an Arab citizen can employ eight persons in his house as driver, gardener, cook, etc. Sub-agents of South Asian recruiting agencies and migrants of South Asia buy or manage such visa from Arab citizens, then sell them back home. As per the system a worker cannot change his/her *Kafil*.

Visa Trading in Destination Countries

In most of the Gulf countries the Ministries of Labour, issues employment permit. Work visas issued by the governments on many occasions end up in the markets. The recruiting agencies/large-scale brokers of the destination countries book those job visas with partial payment of placement fees. Once the booking is made, based on the paper signed between the authorities and recruiting agents, the latter usually sells the visas at a higher price to the next tier of intermediaries in the destination countries. The recruiting agent or the broker immediately makes huge profit and from that he makes full payment to the authority. The second tier of intermediary who could be a local of other nationality, then sells those visas to the highest bidding recruiting agencies in the country of origin. There is evidence of third and fourth tiers of intermediaries. They also buy some of the visas from the market. They sell these visas to individual workers, i.e. relatives, neighbours, friends, etc. Some of the migrants have turned themselves into recruiters for extra income. All the tiers make some profit from visa selling. At the end, these costs have to be borne by migrants.

Shah (2008) provides some evidences on the practice of visa trading in some of the GCC countries. She quoted the Saudi Minister of Labour, who acknowledged that 70 per cent of the visas issued by the government are sold in the black market and his government was determined to crack down on this. The Bahraini Minister of Labour and Social Affairs regretted that the practice of visa trading has plagued the Bahraini job market for the last 20 years. As early as 1997 the Kuwait Human Development Report identified the presence of visa trading as one of the factors that promoted the influx of foreign workers in Kuwait and advocated for curbing the practice.

Exploitation in the Process of Recruitment

In all the South Asian countries elaborate formal systems of labour recruitment exist. This involves concerned ministry, line agency, public and private recruiting agents. The recruiting agents are supposed to collect job offers from the countries of destination and submit attested Demand Letter, Power of Attorney and Contract Paper to their concerned ministries for selection of workers. The concerned government authority then issues permission for the recruiting agents to select worker. However, almost all recruiting agencies are based in the cities. In this situation they recruit from rural areas through a host of agents and sub-agents. In Nepal, India, Sri Lanka and Bangladesh thousands of intermediaries have emerged in different migration-porne areas. These informal agents perform three most important functions of labour recruitment, i.e. provide information on migration opportunities, recruit workers and conduct financial transactions. The operation of recruitment at the grassroots is generally conducted verbally and payments are made without receipt. This has created a situation where both recruiting agents and/or their sub-agents can commit fraud and evade

responsibility. In this process a good number of those who wish to migrate are cheated, and lose much of their assets while processing migration for overseas employment.

Contract Substitution in Destination

Contract substitution is another right curtailing measure practiced by some employers. In this case the workers are made to sign a second contract with reduced wage, living and working conditions once they reach the country of destination. On some occasions, workers are given a different job than that stipulated in the contract. In Malaysia some of the workers end up working on plantations while their original contracts were to work in factories. In Saudi Arab workers are often hired as cooks and security guards, and are then sent to work as agricultural labourer. Because of extreme hardships, a good number flee these jobs to seek other types of employment. As they desert jobs for which they had obtained visas, they become undocumented workers, vulnerable to other forms of exploitation including jail and deportation.

Work Condition

Although there exists country-wise wage differentials, there is a trend of paying less than minimum wage to the workers of all South Asian countries. Women are paid less than men in similar type of work in the garments sectors of UAE, Kuwait, Qatar and Bahrain. In Sri Lanka, 20 per cent complaints received by conciliation division of Sri Lanka Bureau of Foreign Employment (SLBFE) is related to non-payment of wages (Dias and Jayasundere 2004). The Nepali workers in Hong Kong working in manufacturing receive only 60 per cent of their salary (HKD 2,000) stipulated by the law (Dhital 2004). Studies on Bahrain, Kuwait, Lebanon and UAE show that average working hours of domestic workers per week is over 100 hours which is more than double of standard 40-48 hours per week (ILO 2004). ILO highlights that 50 per cent domestic workers in Kuwait, Bahrain and UAE alleged physical, verbal or sexual abuses (ILO 2004).

Visa Tied with Job

To reduce the scope of job change, the employers withhold all forms of documentation such as job contract, travel documents and passports from the migrant workers. In their negotiations with the origin countries, the receiving countries ensure that the occupational mobility of the labourers is minimal. Under such circumstances the workers' power to negotiate in the labour market become restricted. Workers who do not have documents in his or her possession have major problems to seek legal redress when conditions of contracts are not honoured by employers.

Restrictions on Movements

Lack of possession of documents also curtails workers' rights to move freely in the places of employment. Particularly in Malaysia, workers are harassed routinely by the law enforcement agencies. They are under pressure to produce identification documents whenever demanded. Movement of domestic workers in Bahrain, Kuwait, Lebanon and UAE is strictly controlled. These included lack of access to telephone, receiving and sending correspondence, and social isolation from other domestic workers or friends.

Lack of Social Protection and Absence of Social Dialogue

Unskilled and semi-skilled workers have little possibility of benefitting from social protection measures in the country of residence, as these measures are not covered by their contracts. Efforts to ensure the enforcement of these measures in the country of destination pose a major challenge for the countries of origin.

Social dialogue is a process of interaction between employer and employee for the purpose of resolving disputes and differences. Trade union is one such organisation. Except Saudi Arab, other destination countries of migrant workers in the Middle East, Southeast and East Asia allow trade union activities. But migrant workers are not allowed to be member of trade unions, and hence, formal mechanism for negotiation is fully absent for both men and women migrant workers.

National and Global Initiatives: South Asian Experience

National Initiatives

Major labour-sending South Asian countries have undertaken various measures at the state level to protect their workers. Legal reforms, institutional capacity building, ensuring protection in destination through labour attachés, awareness campaign are some important steps in this regard.

Legal framework pursued by most of South Asian countries to regulate the migration sector is similar. India, Sri Lanka, Bangladesh and Pakistan reformed their emigration laws once in the 1980s, and again after 2005. Almost all the major labour-sending countries framed comprehensive national policies on migration, established separate ministries to govern migration. Each country initiated several institutional measures to protect their workers. Pre-departure skill and awareness trainings, online registration, introduction of Biometric finger printing, immigration clearance through issuance of smart card, insurance, pension scheme, migration finance loan, establishment of wage earners' welfare fund through subscription of migrant workers, establishment of Migrants Bank are some innovative initiatives. In South Asia, civil society also plays an important role in establishing rights of migrants. Awareness campaign, legal aid, policy advocacy are some of the major areas of civil society intervention.⁵

International Initiatives

Since the inception of International Labour Organization (ILO), international migrant workers constituted one of its important stakeholders. It framed Conventions (Number 97 and 143) pertaining to the migrant workers and developed a Multilateral Framework on Labour Migration (2005). UN General Assembly adopted Convention on protection of rights of all migrant workers and their family members in 1990. In December 2003

⁵Establishment of community-based institution – the Migrants Rights Protection Committees at the grassroots by a Bangladeshi civil society body Refugee and Migratory Movements Research Unit (RMMRU) has been termed by the Global Forum on Migration and Development (GFMD) as one of the global best practice in linking migrants with information available services.

upon encouragement of UN Secretary General Kofi Annan, a core group of states established the Global Commission on International Migration to formulate global response to international migration issue. Based on in-depth research, high level dialogue and consultations of the commission, in 2005 the UN Global Forum on Migration and Development (GFMD) was initiated. Since 2006 this Forum has organised five global dialogues on international labour migration. More than 160 destination and origin countries, including civil society representatives participate in these events. Important issues such as irregular migration, cost of labour migration, incorporation of migration into national development strategies, institutional capacity building for migration governance are some of the issues discussed in this forum.

The Global Migration Group (GMG) was initially established in 2003 as Geneva Migration Group. Now it has 16 inter-agency heads as members. Its aim is to promote the wider application of all relevant international and regional instruments and norms relating to migration, and to encourage the adoption of more coherent, comprehensive and better coordinated approaches on the issue of international migration. Colombo Process is established in 2003 and managed by IOM. It is a regional consultative process of countries of origin to share experience and promote dialogue with destination countries. Till today it has organised three consultative meetings. In January 2008, UAE convened another forum known as the Abu Dhabi Dialogue. Aim of this process is to develop partnership and framework for a comprehensive approach to manage the entire cycle of temporary contractual mobility that fosters mutual interest of countries of origin and destination.

Sub-Regional Cooperation: Role of SAARC

South Asian countries participate actively in all the above forums but unfortunately as individual countries. These countries are yet to develop any common agenda under the regional framework of SAARC. SAARC Social Charter does not recognise labour as a distinctive group and makes no commitment to respect international standards.

ASEAN, the Southeast Asian regional economic entity has issued a declaration on promotion and protection of rights of migrant workers. There are considerable tensions among South Asian countries regarding cross-border population movements. This acts as hindrance in the process of development of a South Asian discourse on migration. In 2007 South Asia Centre for Policy Studies (SACEPS) proposed the establishment of SAARC task force on migration which could review patterns of migration (Khatri 2007).

Conclusion and Recommendations

The paper demonstrates that short-term contract migration from South Asia is an important livelihood strategy particularly of skilled, semi-skilled and lowly skilled workers. It also makes significant contribution to the national economies of these countries. South Asian countries face similar problems in migration governance. Each of the countries has attempted to address the problems in their own way. They also participate in different global forums on migration. However, they are yet to organise themselves as labour origin countries with common interest under SAARC. The author

firmly believes that all the South Asian countries will gain if they can develop collective bargaining mechanism under SAARC. SAARC can initiate dialogue for development of common stands among its member countries by selecting few important issues. In the following some issues have been suggested.

- Under the SAARC initiative South Asian countries can jointly enhance their knowledge in areas of labour market trends, skills profiles, policies on migration and developmental outcome of remittance.
- South Asian countries can share experiences in migration governance, and take lessons from each other's innovation in different areas of migration governance.
- In order to reduce high cost under the auspices of SAARC South Asian countries can develop a common stand and collectively inform the governments of GCC countries about the ill effect of visa trading and how the placement fees, air fare and medical test charges are being transferred to the shoulders of poor migrants by the intermediaries of GCC and origin countries.
- SAARC in collaboration with other origin and destination countries can commission in-depth empirical study to develop clear understanding of operation of intermediaries in both ends.
- South Asian countries also need to collaborate with each other and attempt to bring an agreement on common minimum standards of wage, overtime, holiday, accommodation and health.
- SAARC may be used as the platform of South Asian countries to work together to encourage practice of multilateral negotiations with the destination countries instead of bilateral ones on issues such as cost, entitlements and wage.
- The civil society of South Asia in collaboration with global civil society forum such as Migrants Forum in Asia and Migrants Rights International can mount a global campaign against the system of visa trading. They can campaign for re-establishing the previous system of payment of plane fare and placement fees by the employers.
- SAARC can consider commissioning collaborative research of scholars of GCC states and South Asian countries to develop recommendations which hold the interests of both origin and destination countries as well as those of the migrants and the employers.
- National data on migration is collated differently by state agencies of various SAARC countries. A common data generating format can be developed under SAARC initiative to obtain consistency and standardisation in migration data.

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Strengthening Democracy and Human Rights: Role of the Non-State Actors

Ahmed Saleem*

It may be true that it was during the 17th century that the now familiar term of 'human rights' entered in the modern language. And, although, there has been no time in the history of mankind that man did not do everything in his power to ensure respect and dignity of human being, it was on the 10 December 1948, that the United Nations Universal Declaration of Human Rights universally reaffirmed the rights of man. Since then, democracies have flourished not because it is a perfect system to rule over mankind, but because no other system protects the rights of human beings as much as it does. This is what British Prime Minister Winston Churchill said in the House of Commons on 11 November 1947, on democracy. "No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of government except all those other forms that have been tried from time to time." The reason why it also said that democracy and human rights are two sides of the same coin is because one could not survive without the other. In spite of these, human rights violations occur on a daily basis all over the world, and at the same time, the world never stops looking for ways and means of protecting human rights.

Non-state actors, who are also known as non-governmental civil society organisations (NGO/CSO), particularly democracy and human rights groups, are obviously vital partners for decision makers, as they are best placed to know population's needs in terms of development. They contribute essential education, networking, mobilisation, and communication efforts to help their fellow citizens prepare for, and undertake, their countries' transitions to democracy, and to help meet the challenges of consolidating and deepening democracy where transitions have occurred.

Basically, the NGOs have been advocacy and campaigning organisations, delivering social services which governments are unable, or sometimes unwilling, to provide. This

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function of NGOs can be found in almost all democratic countries where NGOs work closely with their governments as partners or contractors. More and more, the NGOs in developing countries or countries in transition receive funds from their governments or donors or their members, and perform as service providers. Even though they have been providing services independently from governments, cooperation with governments in providing direct services became more common during the last few decades. This is mainly due to the increasing tendency of governments to encourage NGOs to get engaged in providing services on behalf of governments for several reasons. Interestingly, NGO activities are, to some extent, seen as a guaranteed way of promoting democracy, civil society and active citizenship. Due to their commitment to non-profit methods, NGOs give governments an approval of 'good' policy when governments work with them sincerely. Since NGOs promote and utilise volunteerism, they can be more cost-effective than governments. Government funding channelled through NGOs for the last two decades may not be the sole reason why NGOs have grown in numbers worldwide, but is surely one of the main factors that contribute to this trend in many developing countries. Very important monitoring, criticising and advocating roles of NGOs may be found in countries where governments abuse their power to press down individual freedom and rights. This happens more in countries which have just emerged from long periods of military or other forms of dictatorships.

The problem, however, is that an increasing number of non-democratic governments have passed new legislation, or have taken strong new measures, to close the civil society space, making it difficult, and in some cases near impossible, for democracy and human rights organisations to carry out their work. These laws are precisely to prevent NGOs from contributing to democratic reforms and transition. In many countries, including some in South Asia, several new 'NGO laws,' restriction on press and access to the internet, and barriers to free expression and assembly violate long-standing, widely-accepted principles rooted in international law, that ought to inform proper government-civil society relations in a democracy.

Who are the Non-State Actors?

CSOs, which constitute a major grouping among non-state actors, in all their diversity, include very experienced actors in development cooperation and play a key role as independent and autonomous structures voicing the concerns and needs of communities and citizens. They are community-based organisations which provide unique knowledge and insights, bridging the gap between authorities and the grassroots level and ensuring real ownership, participation and empowerment of communities.

Social partners, including trade unions, promote better working conditions and play a leading role in the prevention of social injustice, and the promotion of social and economic equity. By virtue of their political and social contacts, independent political foundations may have an added value in serving as an interface between the state and non-state levels, and in helping to create a political, legal and administrative framework which is conducive to local authority participation.

Youth organisations may be open and enthusiastic about innovative ideas aiming at poverty reduction. They are an important arena for fostering advocacy and encouraging young people to develop democratic values such as transparency, tolerance and accountability, as well as democratic leadership skills. Academic institutions may engage in research of key development issues on the basis of which organisations development advocacy campaigns and influence public opinion in favour of development policies.

It is now widely believed that there are many NGOs that campaign against human rights – far right nationalist movements and organisations, extremist religious groups, insurgents and terrorist groups, and so on. NGOs are challenged to contest the human rights and democracy field not only with authoritarian governments, but also extremist NGOs that support authoritarianism. So, NGOs play diverse roles and can seek to influence events for good or bad. Almost all genuine non-state actors or NGOs are rights activists who pursue activities to relieve the human suffering and promote the human rights and interests of the poor, protect the environment, provide basic social services to needy people, and undertake social development. They are also being perceived as the power vehicle of change and development across the world.

Globally, the champions of human rights have most often been citizens, individual groups and associations – not governments or its officials – although the primary duty and responsibility of promoting and protecting human rights and fundamental freedoms lies with the state. Likewise, it is the responsibility of the national human rights institutions to monitor the actions of governments and pressure them to act according to human rights principles. There are many other areas in which civil society or non-state actors play a major role in the development of the society and the country. One very crucial area is the national and local judiciary, legislatures and electoral bodies which play an indispensable role in protecting and promoting human rights. They are crucial because of their role in helping to establish anti-discriminatory practices and achieve socioeconomic, political and cultural equity.

An important role in assisting victims of human rights violations is also played by human rights defenders, who serve as a crucial link between victims and the state. These NGOs can perform a vital role in the promotion of human rights, democracy and the role of law as an integral component of a strong civil society. They can publicise cases where no effective remedy exists, advocate adequate and effective solutions, point victims to existing remedies, and assist them in finding their way through the national legal system. They can also assist victims in the redress of violations, through counselling, economic and other assistance. Their advocacy role on behalf of victims also contributes to the prevention of human rights violations.

Finally, an important role of identifying areas where there are no effective remedies for human rights violations lies with the national human rights institutions who occupy a space between the state and non-state. They are state institutions but independent of government, so also a part of the civil society. They are a reflection of the pluralism that exists within societies. They operate like NGOs in many respects, as one may say, but they are constrained by their establishing law as to what they do and how they do it, which NGOs are not.

It is with this background, that the United Nations too has recognised the crucial role of the civil society in shaping opinions on matters relating to human rights protection and enforcement of human rights. "Principles relating to the status of national institutions for the promotion and protection of human rights", or better known in the human rights world as just 'Paris Principles', that lays down the criteria for the establishment of fully autonomous national human rights institutions in countries, have reiterated the need for governments to extend strong and unwavering support to these institutions and to work closely with them to promote human rights. Truly speaking, the national human rights institutions may not be a genuine NGO or a non-state actor, but its responsibilities are the same as those.

That is why there should be a strong working relationship between the national human rights institutions and the civil society, who has the best understanding of the public. It is this strong relationship that can best undertake the monitoring and advocacy work to ensure that citizens have access to remedies and to develop strategies to address human rights violations for which no effective remedies may exist, either in law or in practice. With their overview of the national situation, expertise and independence, national human rights institutions can identify gaps in protection and propose solutions. That is precisely why the international community has recognised the need to prevent national human rights institutions from becoming a façade to hide state violations of human rights and fundamental freedoms. But these institutions can best perform their difficult responsibilities and achieve their goals only if concerned governments are willing to work honestly with them and cooperate rather than deliberately damage their reputation in the eyes of the public.

Truly independent national human rights institutions play a vital role in identifying protection gaps in national human rights systems. The importance of participating states establishing independent institutions has been recognised worldwide. As part of their role in receiving, investigation and seeking to resolve complaints of human rights violations, these institutions can form partnerships with NGOs and assist in establishing links between NGOs and state institutions while maintaining their own independence. National human rights institutions also play an important role in the creation of networks between NGOs and other non-state actors. They have an advocacy role in promoting and protecting human rights through seeking to resolve violations. Their involvement in human rights issues may take many forms such as monitoring places of detention, monitoring trials and working to prevent torture and providing assistance to complaints. In some countries, these national institutions have the authority to bring or assist in the determination of cases of constitutional importance before the courts. Likewise, only true independent national human rights institutions will be able to identify areas where national human rights systems provide ineffective protection. That, in very general terms, is what these institutions or non-state actors are all about.

Human Rights Commission of the Maldives (HRCM)

At this point, the author would like to share some of his personal experiences of working in the first ever truly independent commission established in the Maldives at a time when the country was in transition from an authoritative, or as some believe, an

imperfect democratic system, to a genuine democracy, after one of the most turbulent periods in the history of the country. The Human Rights Commission of the Maldives (HRCM) was established on 10 December 2003, when the country was still under undemocratic rule more than five years before the country's first democratic constitutions came into force. One can only imagine the enormity of challenges faced by the HRCM not only in creating awareness about human rights and democracy itself to a population that has never had even the slightest chance of talking about human rights, but also vigorously telling and constantly reminding the government to abide by democratic principles and respect human rights promised by it – something unthinkable at that period of the country's history. The HRCM was both a result of the transition towards democracy at a very early stage, and one of the promoters of the transition – and then a guarantor that the transition would in fact be completed and that the new system would be based firmly on human rights.

Some may wonder why a small country like the Maldives did take such a giant step after years of undemocratic rule. Several things did contribute to it. Most important of them all was the uprising in the main jail – which resulted in brutal killing several inmates by the army – the incidence which began the real democratic movement in earnest. This was followed by mass pro-democracy demonstrations especially in the capital of Malé, which was in total chaos as the police itself had lost absolute control. It took a few days before the government was able to bring order to the streets of Malé. That was the real beginning of the democratic moment.

HRCM's accountability was huge in the sense that the public, which finally now has some hope of democracy in the country, was holding the HRCM accountable in ensuring that the government would no longer commit any crimes contrary to democratic rule and human rights standards.

For instance, in August 2004, after the government announced its intention to democratise the country, the democratic movement, which was led by the Maldivian Democratic Party (MDP), who are now in power, planned a big rally at one of the main squares in Malé, mainly due to frustrations with the slow pace of democratisation that had been promised earlier. Almost 200 people were arrested and taken to jails and detention centres, blind folded and in handcuffs behind their back. The HRCM visited all these centres and daringly criticised the government for the way the police and army had handled the demonstrators and the inhuman manner in which they were taken away in boats on the sea, and called for their immediate release. The government denied it, and the pro-government activists and media called the members of the HRCM traitors. There was blackout for the HRCM press releases, calling for the release of the detained. But the HRCM made a big impact in the human rights activists' circles. Pro-democratic organisations and the international community praised HRCM's actions, and called on the government to respect the urge of the HRCM. Nothing happened immediately; however, it took more than a month for those arrested to be released.

Functioning of the Commission

The role of the members of a commission is extremely important in order to establish a credible national human rights institutions. As for the members of the Maldivian

Commission, all nine of them had a really rough and dangerous time. Among the members were some of the very few human rights lawyers in the country, social workers, doctors, academia and NGO representatives. They were all appointed by the President under a Special Decree until an autonomous HRCM is established as soon as possible.

Some of the members were verbally threatened. Anonymous phone calls would warn them not to criticise the government, and would call the HRCM and the members too sympathetic to the opposition. Everything was done in the pro-government press to defame the members and the HRCM. In a country where criticising the government is unimaginable and was seen as a crime at that time, the HRCM was the first not only to criticise the government, but also to encourage the people, so far fearful of criticising the government, that it is alright to criticise it. Thinking back, the author now realises that it was a huge risk to deliberately antagonise the government, but otherwise Maldives surely would never have chosen the path to genuine democracy that quickly, whatever problems the country, as a young democracy, may be going through now.

It is the quality of the members that really make or break the Commission. Even if legislation says a commission is independent, the single most critical issue in the effectiveness of a national human rights institution is genuine independence itself. Because, the commission never really becomes independent until and unless the members are genuinely independent. At the same time, they must be committed to upholding boldly the principles of human rights, prepared to perform their duties compassionately and without fear from anyone, including the government. It really becomes independent in the eyes of a suspicious public only because of what the members do and say individually and collectively. This is extremely important if any human rights are to create a reputation as a genuinely independent institution.

Members of the commission are usually assigned with various roles and it is important for them all to show leadership and initiative in fulfilling their respective roles in order to create a credible commission. While it is also important for them to function as members of the commission harmoniously and in a manner that the public believes is truly independent.

Engaging with the State

In a democracy, the parliament is a sacred institution because that is where all laws are made. Likewise, the human rights commission itself is created as a result of a legislation approved by the parliament. But the opposition forgets its responsibility once the institution is created. It does not remember its obligation to regularly monitor the activities of the HRCM, and hold it responsible in creating a culture of democracy and human rights in the country. And to make it more difficult, very few in the parliament actually understand what human rights are and its indispensability to democracy. How does then one expect them to make laws that are compatible with to human rights standards? The parliamentarians are powerful people and they do not admit their lack of understanding of human rights. So, it should be the responsibility of the HRC to ensure that the members of the *majlis* too are sensitive to and familiar with human rights. This is one of the most difficult challenges an independent human rights commission could face.

All governments, be it in Europe, Africa or in South Asia, say they are democratic and respect human rights. But that is not true most of the time, especially in our part of the world. Even if a government comes in democratically, it does not always follow democratic rules and respect for human rights. An opposition is prepared to work with the commission or institution on everything related to human rights as long as the HRC is doing its legal job of criticising the government. But once the opposition becomes the government, it is a totally different story. It not only does everything to discredit the HRC but reject the commission's findings and refuses to abide by the commission's decisions without realising even once that working with the HRC only favours the interest of the governments as its human rights profile is given a boost internationally and regionally.

The author himself was labeled as a traitor and sympathetic to the opposition by the former government but the same thing kept happening until the last day of his work in the Human Rights Commission during the present government. This happens mostly when government ministries and institutions, with whom the HRC is expected to work closely, to ensure human rights standards, are staffed by people, who are either activists or are totally unaware of the role the HRC is expected to play in strengthening democracy. The same people are completely unacquainted with the responsibilities of the HRC and the indispensable role they are expected to play with the HRC whether they like it or not. It is really interesting to find how politics change people. People who applauded the HRC and its members when they were in the opposition, kept criticising and accusing whenever there was a decision of the HRC criticising any action of the government that in the view of the HRC, violates human rights. Even friends and relatives, who used to praise for the HRCM's work during the previous government under an imperfect democracy, would now label them as members of the opposition, when the HRC kept doing exactly the same thing that was done during the time of the previous government, in an imperfect democratic system. Bottomline is that the HRCM like an NGO who get criticised by whoever is the government of the day for doing and saying the same things!

Most people in the Maldives are of the view that it is the responsibility of the HRCM to provide rights to the people. But it is not so. According to Article 18 of the Maldivian constitution, it is the responsibility of the state or government to ensure the rights of the people. That is why the Paris Principles have called on states to establish independent commissions on human rights, so that they, as a watch-dog, continue to watch over the government's role in providing and ensuring the people with their rights. Whenever the government fails to honour its commitment to the people according to the constitution, it is the responsibility of the HRC to bring it to the attention of the government and also the people so that the government quickly revises its course of actions. But those in the government who do not understand human rights and the role of the HRCM itself, constantly keep harassing the Commission and deliberately discrediting it with the view to weaken it or destroy its image. With various programmes run by the HRCM with the intention of creating awareness among the people about human rights, is paying off. This is also gradually changing the views of government officials who are sometimes unwilling to work with the HRCM, that it is the obligation of the government to uphold the rights of the people and not the HRCM.

Ministry of Justice and the justice system as a whole is extremely important in the work of the HRC because that is where everyone finally gets justice and human rights. That is why it is so important to ensure that the courts and judges are familiar with the concept of human rights. But it is not easy to convince the Ministry of Justice or the Judiciary about their indispensable role in creating a culture in which human rights is respected, without appearing to antagonise them. Why? Because they feel they are very important people, they hate to be educated or lectured on human rights, as they feel they already know quite a lot. Be it as it may, it is still the responsibility of the HRC to ensure that there is a dialogue between the Commission and the Ministry of Justice and the Judiciary. In the Maldives, there have been instances where the HRCM has taken the unlikely initiative of filing cases against the courts themselves because the HRCM felt some cases filed were unnecessarily delayed in the courts. But since justice delayed is justice denied, it is something that the HRCM must do at any cost – whatever the circumstances. As judiciary is such an indispensable part of democracy, the HRC must find ways and means of working with it.

One other institution without which an HRC could not possibly function is the Police. But it is brutally difficult to work with them, especially in a country where there has not been any notion of democracy and human rights. Initially, for instance, whenever there was an assembly of even a few people, the police would forcefully disperse it not only peacefully but, if necessary, using brutal force and tear-gassing the crowd. This was a common recurrence during the days the HRCM was created, and one can only imagine the difficulty with which the HRCM had to perform its duties. The opposition too deliberately planned such gatherings precisely to get the police to violate human rights standards and create publicity not only for themselves, but also internationally and regionally. There were times when the HRCM had to bring to the commission both the injured and police officers who injured them or tear-gassed them in trying to find solutions to many such incidences.

This was the time HRCM and the police in the Maldives did not see eye-to-eye in anything. They felt that mistreating people, arbitrary arrests and violating the rights of suspects were within their rights. The police would forcefully break demonstrations and handle demonstrators with brute force and try to justify it by saying that they were against the government. This is something no HRC should accept. The Commission in the Maldives have had to confront the police in very difficult circumstances during very difficult times in its entire history. In most cases, the government would naturally side with the police, but the Commission never gave in and pursued the matter until it finally achieved its goal.

But now, almost three years after democracy came to the Maldives on 7 August 2008, things are different. HRCM has a healthy dialogue with the Police and conduct workshops and seminars to the police force. The police force itself gives the HRCM credit for changing its attitude, and feels that they succeed more by respecting the rights of suspected criminals rather than abusing them and violating their rights. This is a positive change from an institution that was at the helm of abusing the rights of the people just a few years ago.

Promotion of Development and Democracy: Experiences of Selected Non-State Actors in South Asia

Arif A Waqif*

Introduction

The paper begins by briefly outlining the role of non-state actors (civil society organisations (CSOs)/non-government organisation (NGOs)) and growth-led poverty alleviation at selected regional levels. It then describes major development and democracy promoting activities of selected national and regional non-state actors with which the author has been directly or indirectly associated, and outlines some experiences, perspectives and some critical issues. It ends by summarising some of the general experiences and observations on issues related to the Non-State Actor-State-Corporate interface.

Role of Non-State Actors in Development and Democracy

In 1991, the SAARC's Independent South Asian Commission for Poverty Alleviation (ISACPA) presented its report to the Dhaka Summit. The Commission was chaired by a Former Prime Minister of Nepal, the Deputy Chairman being a very senior development administrator from Sri Lanka. It had members from all the SAARC countries. One of its major recommendations was the concept of 'walking on two legs' for poverty alleviation in the region. One leg is that of the market for promoting market-led growth, benefits of which can be expected to trickle down to the poor. But this will not be enough to bring about inclusive growth and development. Hence, the other leg has to be that of government and civil society organisations (non-state actors).

Various studies on the East Asian Miracle also brought out that the 'invisible hand' of the market has to be guided by the 'visible arm' of the government, and we may

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add, supported by the 'nimble fingers' of the non-state actors, especially in the South Asian region.

The first priority of South Asian governments, with the possible exception of Bhutan, has been to promote higher economic growth in terms of gross domestic product (GDP). It is generally assumed that such growth will not only provide higher revenues to the government for development and other programmes, but its beneficial effects will also ultimately 'trickle down' to the poorer sections of the population. However, many economists like Nobel Laureates Amartya Sen and Joseph Stiglitz, Gunnar Myrdal, Brahmananda, Vakil and Adisheshiah (from India) and others have pointed out that inclusive development cannot be guaranteed under a high growth regime or 'growth fetishism.' For example, Sri Lanka has been able to achieve the highest Human Development Index with lower growth rates than other countries in South Asia.

It is, therefore, important to ask the following questions:

- (a) Do higher growth rates come from higher growth in, say, private transport, fast moving consumer ('white') goods, privatised education and health, etc., or from higher growth in 'wage' goods, public transport, public education and health, etc.?
- (b) Do higher GDP growth rates enable the poorer sections of the population to get higher incomes and wages from the goods and services they can produce, and to lower prices and greater quantities of goods, especially of food and other 'basic needs', and services they consume?

These observations apart, while conceptualising and strategising inclusive development and poverty alleviation, broader issues need to be kept in mind: (a) absolute measurable poverty verses perceived relative deprivation; and (b) the society's cultural, economic and political environment.

With this background we discuss below how some selected national and regional non-state actors are helping to promote inclusive development and democracy at the grassroots in South Asia.

Centre for World Solidarity, Secunderabad, Andhra Pradesh, India

Organisation

The German-funded Action for World Solidarity had been promoting grassroots development in India since 1960s-1970s. Centre for World Solidarity (CWS) was set up in the early 1980s as an autonomous and completely Indian managed non-state actor, with an Indian economist as its Founder-Convenor, however, it is still dependent on funds from Germany and the rest of Europe.

CWS's driving vision is to promote rights-based inclusive, democratic and participatory rural grassroots development. This is combined with an emphasis and focus on empowerment of marginalised and disadvantaged sections (women, lower castes and tribals, marginal farmers, agricultural labourers, children, minorities, etc.) for locally

sustainable and eco-friendly (resource-conserving and non-chemical) local management and development of natural resources like water, soil, forests, crops, etc. through community involvement.

The author has been associated with CWS for some 14 years, initially as an impact evaluator of its programmes, then as a Trustee and Chairman of its personnel and finance committees for several years, as a visitor to several of its grassroots activities, and as a participant in its recent e-debates on trade and development. From these the author has learned a great deal about management and internal politics of a large NGO.

CWS, with professional and support staff of about 60 at its headquarters, provides financial, professional, technical and training assistance to some 160 grassroots organisations, 20 local networks and 18 independent fellows in rural areas in five Indian states – Andhra Pradesh, Tamil Nadu, Bihar, Orissa and Jharkhand. Its Board of Trustees includes several academics and representatives from selected partner organisations. The Trustee meetings are open to all professional staff at the headquarters. The management committees like personnel, finance, etc. and its five state-level resource centres also have representatives from selected partners, apart from local staff as observers.

A few years ago, CWS converted its task-specific 'desks' into autonomous solidarity institutions like Centre for People's Forestry, Centre for Sustainable Agriculture and Dalits' (lower social castes) Forum. It also organised an international group, Knowledge in Civil Society, with representatives of several non-state actors, academics, administrators and policymakers. The basic vision of this group is to make science and technology development more people-friendly and democratic.

The Experiences

The author's most interesting and enjoyable experiences have been while participating in the National Annual Consultative Meetings, and meetings of the state-level resource centres, and with other local partners. The accommodations and meals provided to all are modest. All the participants, presenters, panellists, etc. sit on the floor. As there are often multilingual sub-groups, presenters have to give time for translation. Each session begins with a song in the local language by a participant from the floor, followed by translation. All have to buss their own dishes to the kitchen.

The author once visited a self-help group in a remote tribal area. The president of the group was an illiterate grand-motherly lady, who presented a brief on their activities. When she was asked why the other members of the executive committee did not speak, she said: "I was like them two years ago. Come back two years from now and they won't let me talk!"

In another self-help group, a man got his sister to borrow a few thousand rupees for investment in a small plot of land, because his wife was against this investment. The wife turned out to be right, and the man could not pay back the loan. Since neither the

wife nor the sister could pay the amount, the group asked the man to contribute some equivalent manual work for the village.

In another village, a Muslim woman wanted the local *maulavis* to allow women to pray in a separate section of the mosque. When refused, the woman set up a separate prayer hall for women with the help of members of her organisation.

During a visit to the tsunami-hit areas in Tamil Nadu, the author learned that the local CWS partners had focused their efforts on restoring the productivity of saline covered agricultural lands involving the farmers and their families, as adequate national and international help was available for the adversely affected fishermen and their families.

Major Challenges and Issues

There are more general challenges of trying to ensure that the visions, policies and financial, human resource and other management practices of the partners adhere to those of CWS, government regulations, and the expectations of the donors. But, more specifically, one major issue is that the Founder-Convenor of CWS, as a self-proclaimed power centre, is reluctant to step aside, and let the Board of Trustees and other CWS committees and staff function democratically.

Another issue which has cropped up recently is that of pressures arising from sub-regionalism within the states, e.g. the Telengana issue in Andhra Pradesh. There is an unjustifiable and divisive perception among some that only functionaries from the sub-regions can ensure their development.

Although CWS has done commendable work in promoting rural grassroots development and democracy, there is inadequate social marketing and publicity of its activities within the country. This restricts its access to Indian financial resources, except from state governments for specific projects. This results in over-reliance on contributions mostly from the European Union (EU) countries, though these funds come with a great deal of autonomy for CWS.

CWS does not adequately inform and spread awareness within the rural population about deriving benefits from state and central government programmes, and rural-developmental implications of globalisation, liberalisation and privatisation.

Consumer Unity & Trust Society (CUTS), Jaipur, India & South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu, Nepal

Organisation

CUTS was set up in the early 1980s, with the primary focus on protection, empowerment and advocacy for the rights of consumers and farmers. In the mid-1980s and later, it organised several workshops on these themes. It brought out many publications on these concerns in the South Asian (SAARC) context as well. Since the

foundation of World Trade Organization (WTO), it has been very active in India, several developing countries in Asia and Africa, and in Geneva, highlighting the developing countries' concerns at government and WTO levels. During the last few years, it pioneered an international e-debate on benefits and pitfalls of 'free trade.' Academics like Jagdish Bhagwati and many others from the developed and developing world (including the author), WTO and government officials and civil society representatives from all over the world actively participated in this debate. Based on this debate, CUTS recently released a book *The Great Debate*, highlighting the emerging issues of trade-led growth and poverty alleviation.

In 1994, CUTS organised SAWTEE, as a network of concerned non-state actors in five South Asian countries. SAWTEE's basic vision is to make globalisation work for the poor in the region. Strategically, it helps, through its partner organisations, to enable and empower the poor in the region to derive benefits from the changing regional and international economic and trade environments. Apart from strengthening and expanding its regional network, it conducts workshops and brings out an informative biannual newsletter, and publications on contemporary developmental issues in South Asia.

Experiences and Critical Issues

The author has been associated with CUTS and SAWTEE as a participant and later as research referee and contributor to some of their publications over the years, and more recently as a participant in its lively global e-debate on trade and development. Some critical issues based on this experience follow.

CUTS' original vision/mission was to focus on grassroots welfare issues of consumers and farmers. But during the last 20 years or so, its focus has shifted to international trade issues, especially focused on WTO and more recently on the fate of Doha Development Round. The original grassroots vision and mission have become somewhat tangential and diluted.

CUTS, unlike CWS, has sought and gained a great deal of visibility in international and national official and academic forums. This has enabled CUTS and its founder to have access to decision makers at highest levels, and funds from international sources. While this can be a positive point, it is not clear how it contributes to the welfare of common consumers and farmers.

Not unlike CWS, the Founder Secretary-General of CUTS continues to dominate all its professional and publicity activities. Though he has assembled competent professional support, it is not evident if a 'second-in-command' is being groomed.

In contrast, SAWTEE is doing a commendable job in highlighting grassroots developmental issues in South Asia through its non-state actor networks, publications and workshops. Its organisational structure does not appear to be person-specific, as its management seems more democratic and flexible.

South Asia Alliance for Poverty Eradication (SAAPE), Kathmandu, Nepal & South Asian Feminist Network (SANGAT), New Delhi

The author's association with SAAPE and SANGAT has been through several CWS trustees actively involved in them.

SAPEE is a network of several non-state actors in five South Asian countries. Its basic objective is to lobby through the civil society window with the EU for poverty eradication and grassroots development in South Asia. It interacts frequently with members of the European Parliament, the European Community administrators and South Asian politicians and development administrators to advocate and promote food security, employment and labour rights in the region. A recent SAPEE-CWS workshop, for example, discussed the various developmental issues emerging from the EU's Common Agricultural Policy and agricultural subsidies in the EU on biodiversity and related adverse impacts on agriculture in South Asia.

SANGAT is a network of non-state actors in South Asian countries, including Afghanistan, Myanmar, Iran, Iraq and Central Asian states. Its basic mission is to develop and train women activists to focus on food security, forest management and other women-related issues.

Experiences and Observations on Non-State Actors-State-Corporate Relations

Experiences

In 2006, the author had organised a workshop for NGO managers in South Asia in Hyderabad, India. Participants came from all but one SAARC countries. Eight Pakistanis were not given the Indian visa, because NGO representatives from Pakistan were required to get individual security clearance from the Home Ministry of India.

The India Consul General's office in Chittagong, Bangladesh asked if the above workshop was being organised with the permission of SAARC. The visa to the Bangladeshi participants from Chittagong was issued after the office was informed that the Association of Management Development Institutions in South Asia (AMDISA), where the author was based, was a SAARC-recognised apex regional body.

In an earlier instance, four officers and businessmen from Pakistan were given the Indian visa to participate in another workshop organised by the author in Hyderabad. But a few days before its commencement, a query was received from the SAARC Division in the Indian Ministry of External Affairs whether the Division had been informed in advance, and its permission obtained. The Joint Secretary was satisfied when informed that visas had already been issued for the participants from Pakistan by the Indian High Commission in Islamabad.

Observations

- Point of mentioning the above instances is that very often joint South Asian activities, especially by the non-state actors, are predominantly influenced by foreign policy and domestic security considerations at the Foreign Affairs and Home Ministries. To help promote multisectoral cooperative regional development, all important economic, sectoral and developmental ministries in South Asian countries could have SAARC research centre cells/divisions.
- The silver lining, however, is that in recent years many economic and sectoral ministries across the region are increasingly in direct interactions with each other. This apart, more interactions at the civil society levels are taking place through SAARC-recognised apex regional bodies (non-state actors) like SAARC Law, AMDISA and several others. There are also interactions through other regional non-state actors like SAWTEE, SAAPE, SANGAT, as mentioned above, among others.
- It may not be an over statement that there is generally mutual suspicion between non-state actors and state bodies. However, actors like CWS, CUTS are able to access government support and funding. But non-government initiatives continue to depend disproportionately on foreign funding, as they are in particular reluctant (perhaps rightly) to draw funding from the corporate sector. But in the author's experience and perceptions, corporates would welcome the opportunity to work with non-state actors, with a desire to contribute to grassroots development as well as to improve their social image.
- Non-state actors, state and corporate sectors need to overcome mutual misgivings to work jointly and cooperatively toward promoting allround development.
- National and regional policy making processes need to institutionalise regular interactions with representatives of national and regional non-state actors, as in the EU. Even WTO has started interacting with selected non-state actors.

Thus there is a need to work toward synergising the developmental intentions and resources of national and regional non-state actors, SAARC agencies, national governments and the corporate sectors to work toward promoting allround inclusive and democratic development at the grassroots level.

Role of Non-State Actors in Promoting Development in South Asia

Anura Ekanayake*

Introduction

Any discussion of non-state actors and their role must begin with an operational definition of the term 'non-state actors.' It is important to note here that non-state actors have no legal status or personality under international law, and that makes the definition somewhat difficult. At the same time, it should also be noted that a UN resolution in 2010 invited non-state actors to the UN Summit process on the Millennium Development Goals (MDGs). This signals an emerging policy shift where non-state actors are getting some international recognition. Business chambers are also included, among others, in emerging definitions for non-state actors (see Cotonou Agreement 2003, and 2010 revision) of European Union (EU).

For the purposes of this paper, only those entities, including business chambers, that privately promote public good one way or the other while operating within the legal framework of the jurisdictions concerned are covered. The term public good is given the widest possible interpretation to include various aspects of development, including the preservation/conservation of the environment and aspects of democracy, including human rights.

The approach taken in this paper is to focus on the role of non-state actors purely on economic development of South Asia. This approach is partly, if not wholly, dictated by reasons of comparative advantage of the author as a representative of the business community. Such an approach may also be justified by the classical Aristotelian view that the growth of the middle class is a pre-requisite for the growth of democracy. There is little doubt that middle class growth is still in the stage of infancy in much of South

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Asia. The more recent, but equally well known Maslov's hierarchy of human needs, where people tend to focus first on their basic sustenance and then move towards the satisfaction of higher needs, also supports this Aristotelian position. There is no doubt that with speedy economic growth, the middle class will grow rapidly, and thereby strengthen the forces towards greater and better governance and democracy in South Asia. Yet the top priority at this stage has to be on economic development. Such an approach needs not be in conflict with primarily governance and democracy-oriented approaches of many non-state actors as economic growth will inevitably increase the size and strength of the middle class, and provide fertile grounds for democracy and the attendant values to thrive.

In the following sections of this paper the growth outlook of the world and its implications to South Asia are discussed briefly. This is followed by a brief exploration of the possibility of India becoming a growth generator to which the rest of the South Asia may plug-in. Finally, the barriers for such a plug-in are examined and a possible way forward is proposed. In this way forward, non-state actors are given a significant role. To perform this role non-state actors of the private sector (e.g. business chambers) and other civil society organisations (CSOs) have to work in concert, if not in collaboration. At present the advocacy for economic integration including increased intra-regional trade is primarily taken up by business chambers from the part of non-state actors. A lead role in this regard is played by economic think tanks of South Asia, many of which are connected with the state one way or the other, and therefore, may not strictly fall within the definition of non-state actors.

At the outset, it has to be recognised that, historically, most relationships between the private sector and other CSOs have been antagonistic. While this has begun to change in some instances with some highly publicised collaborative efforts in the arena of sustainable development (see Murphy and Bendall 1999) traces of the traditional mistrust between the private sector and other non-state actors remain to date. It should also be acknowledged that mistrust and the resulting discomfort in collaboration on a wider front come from both sides of the divide (see Bernstein 2010, for example, for a pro-business perspective).

Growth Outlook

The post 2008-09 global recovery was uneven and volatile, and the observers began to talk of a twin track growth where the emerging economies, particularly those of Asia, were growing at a much faster rate than the developed economies. Although highlighted only recently, this twin track growth has not been a new trend. During the last three decades, the share of the world gross domestic product (GDP) of developing Asia increased from about one-tenth to one-third. During this period, the decadal GDP growth rates of developing Asia have been above 7 per cent, a rate significantly higher than the rest of the world. During the same period, the share of the world GDP of the industrialised countries has declined from about 55 per cent to 40 per cent (ADB 2011b). This track record alone provides a very strong basis to expect the continuation of this trend well into future.

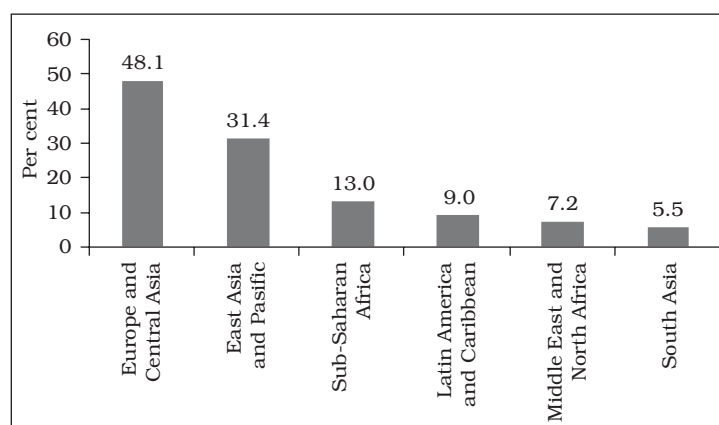
Olivier Blanchard in his foreword to the IMF *World Economic Outlook* of October 2010 stated, inter alia, that achieving a strong balanced and sustained world recovery requires two fundamental and difficult rebalancing acts. They are internal rebalancing where private demand takes the lead from fiscal stimulus to sustain growth and external rebalancing where advanced economies rely more on exports than domestic demand and emerging market economies rely more on domestic demand than exports to drive growth. ADB (2011a) asserted that "South-South links are creating new drivers of aggregate demand that are likely to foster a more resilient and balanced growth of the world economy." This powerful and inevitable process has also been called a 'shifting the centre of gravity of the world economy to Asia' (Kharas 2010).

Dependence of SAARC Region on Exports to Developed Countries

That international trade and economic growth are positively correlated, albeit subject to certain pre-requisites, such as appropriate education, property rights and institutions, is widely accepted (see, for example, Anderson and Babula 2008). It follows then that South Asia must engage more in trade, in addition to other measures to grow and develop faster. The global economic scenario described in the previous section clearly shows that continuing the traditional high dependence on trade with United States and EU does not offer much scope for trade to fuel further growth in South Asia.

The current reality is that there is very little intra-regional trade in South Asia compared to the other geographies (Figure 1). Intra-regional trade in South Asian Association for Regional Cooperation (SAARC) countries is only about 5 per cent of the total, compared to 25 per cent in Association of Southeast Asia Nations (ASEAN), and 67 per cent in EU (Table 1). This is not surprising considering that intra-regional trade costs of SAARC are higher than those of SAARC with the United States and EU (Duval and Utoktham 2011). The poor performance of SAARC in this respect is even more striking when taking note of the fact that ASEAN and EU came into being more or less at the same time.

Figure 1: Intra-Regional Trade in Different Geographies relative to GDP



Source: World Development Indicators (WDI) Database.

Table 1: Intra-Regional Trade in SAARC, ASEAN and EU

Regional Platform	Number of Member		Trade Liberalisation	
	Original	Current	Significant Dates	Intra-Regional Trade in 2005 (%)
SAARC	7	8	SAPTA: 1993 SAFTA: 2005	4.0-5.0
ASEAN	5	10	AFTA: 1992	25.0
EU	6	27	Single market launched in 1992	66.6

Similarities in trade profiles of SAARC countries, tariff barriers, non-tariff barriers, and high trade costs have been identified to be among the reasons for this low volume of intra-SAARC trade. Among the trade costs are transportation costs, information costs, use of different currencies, inadequate trade facilitation, language barriers and local distribution costs. In addition, geopolitical tensions arising from concerns such as ethnicity, border disputes, separatist demands, terrorism and subversive activities, communalism, religious problems, etc. have further compounded the economic factors and delayed reforms. The protectionist interests of various industries and/or sectors of business have often been the cover for resulting delayed tactics employed by the politicians and bureaucrats (Ekanayake 2010).

India can be the Growth Generator

Perhaps the most exciting prospect for increased intra-regional trade in South Asia and the resulting economic growth is the increasing demand generated by the spectacular increase of the Indian middle class. Indian middle class is expected to grow from 50 million in 2007 to over 250 million in 2016, and over 500 million in 2025 (NCAER 2011; Beinhocker *et al.* 2007). According to one estimate, India could be the world's largest middle class consumer market by 2030, surpassing both China and the United States. Further, between now and 2039, India could add over one billion people to the global middle class (Kharas 2011). With India overtaking China as the most populous nation, much of the aforesaid Asian expansion will take place in South Asia led by India.

Catering to the needs of the rapidly growing middle class in South Asia is likely to be where the most attractive manufacturing and trading opportunities for the South Asian economies will lie. These will include fast moving consumer goods (FMCG) as well as consumer durables (CD), including the so called 'white' goods. It must be noted, however, that the South Asian middle class consumption will not exactly replicate those of the West, yet the sheer number of the people getting into the middle class will boost the total demand. The fact that global brands and their media footprint will exert a powerful influence on the choices of the middle class consumers cannot be ignored. South Asian businesses looking forward to get a share of FMCG and CD sectors will have to get their act together very fast in developing strong brands, products and pricing strategies which appeal to the target market.

As is well known, the transition of economies with a large middle class is also associated with a sharp increase in the demand for services. These will include, inter

alia, healthcare, education, leisure and entertainment, including tourism, banking and other financial services. In the services arena, South Asia is well placed to operate in a highly cost-effective manner leveraging on their strength in the information technology (IT) (in India and Sri Lanka, in particular).

The story of the rise of the 'Factory of Asia,' led by China, where the Asian countries source intermediate inputs from outside the region and parts from within the region to be assembled and exported to the developed economies, is now well known. In this Factory of Asia, China has played the role of Asia's assembly plant generating growth impulses all over East and Southeast Asia via integrated trade links (ADB 2011b). Given its large population, continuing demographic dividend and the demonstrated potential to leap frog in technological terms, India has the potential to replicate China's role of being the assembly plant of Asia initially to South Asia, and thereafter build on that experience to export more and more to the East.

The growth path proposed here for South Asia is one of gathering initial momentum by plugging into the Indian growth generator to serve the rapidly growing domestic middle class, and thereafter export further East. In reality, however, there will be a degree of overlapping, as markets do not necessarily develop in an orderly and sequential manner.

The opportunity for smaller South Asian economies to 'plug into the Indian growth generator', thus, with great benefit, is being widely discussed within the business circles. Regional economic integration has been in the SAARC agenda for a long time. Yet the progress has been painfully slow. On 6 January 2004, the South Asian countries signed the South Asian Free Trade Area (SAFTA). The first organised private sector deliberation on the case for regional integration took place in November 2005, in New Delhi at a SAARC Business Conclave. Since then, many such deliberations have taken place at various fora including four South Asia Economic Summits the last of which was held in Dhaka in October 2011. Yet meaningful integration remains an elusive goal.

Barriers to 'Plug-In'

There are many barriers at present for such a plug-in of other South Asian economies to this Indian growth generator. At the background are tensions arising from concerns, such as ethnicity, border disputes, separatist demands, terrorism and subversive activities, communalism, religious problems, and so on, to make any kind of regionalisation very difficult (see Bhatta 2004, Ekanayake 2010). It is of interest to note that all these barriers are of a cultural and political in nature than those of business and economics.

One purely economic barrier, however, is the persistent call for protectionism by vested interests. The Indian Finance Minister Pranab Mukherjee observed in November 2009 that the 'protectionist voices and mutual suspicion' appear to stand in the way of a domestic consensus on a Comprehensive Economic Partnership Agreement between India and Sri Lanka. The same applies to varying degrees for the rest of South Asia.

The vested interests for continued protectionism are often manifested in the form of heightened nationalism. The well known quote of Samuel Johnson, the English writer in 1775, that "Patriotism is the last refuge of a scoundrel", perhaps is of relevance here. It is easy to appeal to notions of patriotism among poverty stricken and poorly educated people in developing countries, and unleash powerful political forces in opposition of any kind of economic reforms. This is perhaps even more significant in South Asia than in other developing regions where all countries are functioning democracies.

Another barrier is the fact that non-state actors are divided and separated, depending on their individual agendas. The mutual suspicion between those of the business community and others referred to earlier is also of relevance here.

Possible Way Forward

The call for South Asian economic integration as an important and essential part of the development effort requires a greater and wider support of the non-state actors. It must soon become a point of view emerging from a wide front rather one coming from sections of the business community and some economic think tanks. Some business chambers too may be hesitant to take a position depending on the power of the protectionist interests among their constituents. Given that many non-state actors at present do not have the required information or the expertise to analyse and interpret business and economic data, business chambers have to play a lead role in building up the critical mass of opinion in favour of regional integration. The traditional mistrust between the business community and many non-state actors has to be overcome by working together perhaps on other less contentious areas initially, such as environmental sustainability and corporate social responsibility.

Business chamber approaches can be leveraged on the work of the economic think tanks as they are likely to have greater credibility as being independent points of view. Analyses and interpretations of business chambers themselves may be seen as the views of those with vested interests.

A culture of evidence-based policy advocacy has to be developed as against the traditional ideology-based policy positions of some non-state actors. This requires 'the evidence' to be disseminated in ever widening circles and a culture of debating the evidence to arrive at policy conclusions. Interested non-state actors have to mobilise the media as appropriate.

Finally, a sense of urgency is required for South Asian economies to make use of the emerging window of opportunity of satisfying the imminent explosion in the demand of the Indian middle class for goods and services before it is fully used up by the developed economies both in the West and the East. At the same time, continuing procrastination and the resulting delays will merely prolong the suffering of the poverty-stricken people in South Asia.

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Fourth
South Asia
Economic Summit

ANNEXES

Concept Note of the Conference

1. Background

As the global economy crawls through a faltering recovery process, the South Asian economies are waking up to the emerging realities of international markets. Admittedly, South Asia withstood the fall-outs of the recent global economic and financial crisis relatively well. The key factors which insulated the region during the crisis included limited integration with international financial markets, sustained flow of remittances from expatriate workers, and resilience of some key export-oriented sectors. Countries in the region with sound macroeconomic fundamentals weathered the global shocks better. It is to be recalled that most of these countries devised national policy responses at a relatively early stage of the global economic crisis. Nonetheless, the South Asian countries did experience some slowdown in economic growth, suffered large terms of trade losses, and had to confront growing pressure on their fiscal and external balances.

Now, as it leaves behind the immediate consequences of the global crisis, the region is experiencing a set of new risks along with the traditional structural problems and the prevalent widespread poverty. These risks include increasing volatility in the global food prices, rising petroleum and other commodity prices, crisis of public finance in the developed countries, competitive devaluation of major currencies, and growing uncertainties in the host countries of the migrant workers from this region. Furthermore, most of the countries in South Asia are experiencing unpredictable and adverse weather, with greater frequency, linked possibly to the impact of global climate change. Thus, the quest for a path to sustainable growth for the region has acquired new relevance and importance.

The experience of the recent global economic crisis and the slowdown in the developed economies, brought to the fore, once again, the need to rebalance the demand for accelerated economic growth in the region. This rebalancing of demand ought to take

place, at least in part, through greater exploitation of domestic market opportunities, and by greater access to regional markets. The prospect of greater opportunity to cater to regional demand appears to be more possible in view of the sustained high economic growth rate recorded by Asian countries, particularly by the largest economy in the South Asia region, India.

Regrettably, regional integration in South Asia has attained only limited success on the ground. The state of regional cooperation remains in a state of suspended animation, notwithstanding the fact that the South Asian Association for Regional Cooperation (SAARC) is now more than two and half decades old. It may be pointed out here that while trade openness continues to increase among the South Asian economies, intra-regional trade is still less than 5 per cent of total global trade of the regional countries. Flow of intra-regional investment also remains quite negligible. At the same time, informal trade in goods and services in the region appears to be on the rise. In spite of the South Asian Free Trade Area (SAFTA) a number of countries are trying their best to circumvent the stalling regional process by engaging in bilateral free trade agreements.

It is also no secret that the efforts to foster regional cooperation in South Asia are fraught with political animosity and indifference. However, certain high level interactions among regional leaders in the recent times give us reasons to be hopeful and feel enthusiastic. This is epitomised by the Joint Communiqué announced by the Prime Ministers of Bangladesh and India during the former's visit to India in February 2010 when agreement was reached to undertake important initiatives to foster bilateral cooperation between India and Bangladesh.

Thus, in order to actualise the potentials of regional cooperation with a view to facilitate structural progress of their economies, and to address the new developmental risks, the South Asian countries will have to gear up their initiatives for necessary policy reforms and institution building in the coming days. To this end, there is a serious need to reflect on how the South Asian economies are going to reposition themselves collectively in the changing global environment so as to attain political cohesion and inclusive economic growth. It is in this context that challenges in the areas of promotion of trade and investment, ensuring food and energy security, sustaining flow of foreign remittances, improving transport connectivity, managing water resources, and broadening the space for the civil society in the process of development have to be addressed, with efficacy and effectiveness, drawing on fresh thoughts and new initiatives.

2. South Asia Economic Summit (SAES) Initiative

Since SAFTA came into force in 2006, new hopes have been raised regarding the possibility of greater economic cooperation within the region. According to the Agreement, in an increasingly globalised world, South Asia is expected to emerge as a free trade area by 2016. Through a number of other SAARC initiatives, endeavours have been put in motion to move the regional agenda from 'soft' to 'hard' issues of cooperation. Importantly, these efforts at the governmental and inter-governmental levels have been welcome and enthusiastically supported by the private sector,

business interests, non-government development organisations (NGOs), media and civil society in general.

It is in this context that the South Asia Economic Summit (SAES) was conceived and launched in 2008. SAES originated from an initiative by a number of civil society think tanks in South Asia which command excellent reputation as leading centres of excellence in the region, and were working closely with policymakers and providing policy advice to their respective governments. The four initiating institutions were Institute of Policy Studies of Sri Lanka (IPS), Colombo; Research and Information System for Developing Countries (RIS), New Delhi, India; South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu, Nepal; and our Centre, the Centre for Policy Dialogue (CPD), Dhaka, Bangladesh. There is a rich heritage of research, analysis and dialogue on issues relating to regional cooperation in the non-official domain in South Asia, which is often called the Track II initiative. However, one of the distinctive departures of SAES was to seek to improve the interface between Track I and Track II by promoting engagements between non-state actors and high level policymakers and international development partners.

The objective of SAES is to create a platform for in-depth discussion, where leading thinkers, intellectuals and scholars, policymakers, private sector and other stakeholders would be able to conduct interactive discussion on emerging issues, and the opportunities and challenges facing South Asia in a fast changing world. Recommendations originating from this initiative would feed into the official SAARC process which involves regular engagements and meetings at the level of Heads of Governments of the SAARC countries. The forum would also contribute to wider dissemination of ideas to advance the cause of regional integration among various stakeholders in the region. The idea was to gradually move towards a *South Asian Davos* kind of event.

The First South Asia Economic Summit (SAES I) was convened in Colombo during 28 July-3 August 2008, with the main theme being *Economic Integration in South Asia: SAFTA and Beyond*. SAES I focused on improving connectivity in the region through transport, energy and trade facilitation; broadening economic integration through fast tracking of goods liberalisation under the SAFTA; and promoting cooperation in the areas of services, investment and tourism. The idea was to discuss modalities to attain the SAARC Development Goals (SDGs).

Building on the outcomes of SAES I and in the backdrop of a then-ongoing global food crisis, the Second SAES was held in New Delhi during 10-12 December 2009. The central theme of the SAES II was *South Asia in the Context of Global Financial Meltdown*. Inspired by new thinking on economic integration and development, emanating from the debates on global economic crisis, the meeting revisited a number of regional cooperation issues. Emphasis was put on undertaking rigorous policy-oriented research, synthesis of cross-cutting views of the policymakers and other stakeholders, and creating synergies from collective vision of South Asian think tanks.

The Third Summit (SAES III) was held during 17-19 December 2010 in Kathmandu. The core theme of the Summit was *Regional Economic Integration, Climate Change and*

Food Security: Agenda for the Decade 2011-2020. The broad objective of the SAES III was to generate a medium-term perspective by identifying and prioritising pertinent trade, socioeconomic and climate change issues of concern and interest to South Asia, and to examine the implementation status of SAARC commitments with regard to these issues. The meeting further discussed the special needs of the least developed countries (LDCs) and other vulnerable economies of the region, and suggested measures for their meaningful integration into the regional economy.

In continuation of the above described process, the Fourth SAES (SAES IV) is scheduled to be convened in Dhaka on 22-23 October 2011. Some of the issues discussed during the earlier SAES events have attained a degree of maturity in view of subsequent developments: transit, connectivity and trade are examples. There is a need to revisit those issues in light of what needs to be done further. Some of the other issues such as energy and food security have assumed added importance in view of very recent developments in domestic and global arena. These also need to be discussed and debated keeping in view the new urgencies. The post-crisis global context once again reemphasises the need for taking stock of what is happening, what are the implications of those for South Asia, and how best to strategise keeping in view the interests of South Asian countries. Since SAES IV will be organised on the eve of the Seventeenth SAARC Summit which is to take place in Maldives during 9-11 November 2011, it is hoped that recommendations originating from SAES discussion, in the presence of policymakers, will be able to make important contribution.

3. Theme of SAES IV: Cross-Cutting and Thematic Issues

The overarching theme of the SAES IV would be *Global Recovery, New Risks and Sustainable Growth: Repositioning South Asia*. Within this broad theme, the Summit will focus on a set of cross-cutting issues and a cluster of thematic issues.

The three cross-cutting issues to be discussed at the Summit will be the following:

- a. Current Phase of Global Recovery and Implications for South Asia
- b. Towards an Inclusive Growth in South Asia: Role of Regional Cooperation
- c. Delivering on South Asian Dream: The Political Challenge

The thematic cluster would include the following eight issues:

- i. Food Security in South Asia: What should be the Policy Initiatives in view of Supply Uncertainty and Price Volatility?
- ii. Acceleration of Trade and Investment in South Asia: Where are the Current Obstacles?
- iii. Transport Connectivity in South Asia and Beyond: Current Status and the Next Steps
- iv. Regional Approach to Energy Security in South Asia: Assessing the Progress
- v. Managing International Migration and Flow of Remittances: Recent Global Developments and Implications for South Asia

- vi. Managing the Water Resources in the SAARC Region: What are the Possible Win-Win Solutions?
- vii. Addressing Implications of Climate Change within a Regional Framework: What are the Recent Initiatives?
- viii. Role of Non-State Actors in the Development and Democracy in South Asia: Recent Trends

3.1 Cross-Cutting Issues

a. Current Phase of Global Recovery and Implications for South Asia

All evidence suggests that the global economy will grow at a slower pace in 2011 and 2012 compared to 2010. Whilst South Asian economies are projected to grow at higher rates, their growth prospect will depend to a great extent on how they are able to address the emerging strains in their respective macroeconomy, while keeping up the public and private investment momentum. From this perspective, issues relating to accommodative monetary policy, inflation control, fiscal consolidation, enhancing domestic resource mobilisation, improving effectiveness of public expenditures, exchange rate management, broadening of social security measures, etc. will demand greater attention in the coming days. A number of these domestic economic issues will be conditioned by developments in the international arena and global markets. A global projection suggests that South Asian countries will face increasing competition for export markets and also markets for remittance income. Foreign direct investment (FDI) may favour India, but not necessarily others. Access to foreign aid is also likely to be constrained. Rise of China in the post-crisis global economy may broaden business opportunities for the South Asian economies; however, at the same time China's ascendancy may create new risks and challenges for the regional countries.

How the South Asian economies are going to adjust to and confront these emerging challenges while addressing their own domestic challenges? Can the regional economies think of a collective approach in this regard? What are the thoughts of the international development partners in this connection? What are the implications of the rise of China in the post-crisis global economy? These will be some of the questions that will be asked and addressed in the plenaries.

b. Towards an Inclusive Growth in South Asia: Role of Regional Cooperation

Despite the recent impressive economic growth, rise in production, employment and productivity, South Asia remains home to the largest concentration of income-poor people across the globe. This has been compounded by the growth of inequality and the widening of social disparities in every country regardless of the pace of growth and poverty reduction. The success of poverty alleviation in South Asia through growth sustaining policy reforms, complemented by safety nets for vulnerable groups, is rather limited. Attaining the goal of a truly inclusive growth in South Asia will be a challenge.

A number of initiatives have been undertaken under the SAARC Framework including establishment of a three-tier mechanism to deal with poverty reduction at regional

level – preparation of *SAARC Plan of Action on Poverty Alleviation*, declaration of 2006-2015 as the *SAARC Decade for Poverty Alleviation*, and preparation of regional poverty profile. SAARC Secretariat was mandated to play a proactive role as the focal point for implementing various measures including strengthening SAARC institutions related to poverty alleviation.

Can one think of alternate strategies and models for poverty reduction and income inequality in South Asia? To what extent national policies impede developing a regional approach in this regard? How does one assess the role of SAARC in ameliorating poverty in the region? What should be done next? Some of the key issues in this context will be discussed in relevant sessions of the SAES IV.

c. Delivering on South Asian Dream: The Political Challenge

Notwithstanding many favourable characteristics of being developed under a single identity, South Asian countries are widely segmented with respect to their visions, goals and targets. Ethnic similarity, closeness in culture, common origin of languages, same historical lineage – all these turned out to be inadequate for promoting the notion of one South Asian society. This has possibly happened only because of wide differences in political perspectives across the region. Bilateral relationships have often dominated the regional policy debate and environment. Indeed, the presence of SAARC, as a collective entity is not strongly evident in the global stage even after twenty-six years of its existence.

How does one deepen political understanding in South Asia to strengthen regional bondages? Is there any way of insulating the regional economic cooperation from political tensions? What potential roles are there for the parliamentarians, business leaders, media persons and civil society activists to address the issue of promoting a regional identity?

3.2 Thematic Issues

i. Food Security in South Asia: What should be the Policy Initiatives in view of Supply Uncertainty and Price Volatility?

Global food market will continue to be characterised by the rise of global demand for foodgrains and uncertainty in global food production. As is known, in recent years, there has been significant rise in the prices of cereals, edible oils and meat. Global production of foodgrains is also likely to get disrupted (due to various natural calamities). Consequently, rising food prices have been fuelling inflation all over the world, and have touched South Asian economies as well. Thus, food security in South Asian countries, particularly for the net food importing countries, is likely to come under increased pressure in the coming years. SAARC countries are taking various measures to address the emergent situation (e.g. reduced taxes, increased supply, restricted exports, controlled prices, subsidies to consumers, cash transfers, getting food aid, feeding programmes, and food for works programmes). But will these be sufficient to ensure food security for individual countries and at regional level?

Towards improving food security, a number of goals have been mentioned in the SAARC Development Goals for 2007-2012: e.g. *eradication of hunger poverty* (Goal 1), and *providing adequate nutrition and dietary improvement for the poor* (Goal 4). However, in terms of effective actions, success is rather limited. SAARC Food Bank, a proposal currently in the process of discussion at the Ministerial level, needs to be expedited for immediate implementation. The session will be discussing the above mentioned and other related issues.

ii. Acceleration of Trade and Investment in South Asia: Where are the Current Obstacles?

South Asian economies are relatively open in terms of trade and investment flows. Yet the sad state of intra-regional trade and investment reflects the inability to maximise the gains from the SAFTA which has been in operation since 2006. The outcome of sub-regional initiatives such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is yet to make any noticeable contribution to enhance trade. Rise of bilateralism bypassing SAFTA is a growing trend among the South Asian countries. Bilateral economic partnership/trade agreements between India-Sri Lanka, India-Bhutan and India-Nepal have been in place for quite some time. The signing of South Asian Framework Agreement on Services (SAFAS) is also likely to open new avenues of trade, but here also, concrete initiatives will need to be taken to realise the potential benefits.

The bottlenecks for promotion of intra-regional flow of goods, services and capital are well known. Despite attempts to revisit the sensitive lists under the SAFTA accord, major products with export interest of member countries are still trading with non-preferential, Most Favoured Nation (MFN) duties. Non-tariff barrier in intra-regional trade is a major constraining factor, but the progress here has been slow. Compliance with sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) requirements remains a thorny issue. Agreement on Service Trade, signed during the Sixteenth SAARC Summit, will bring in new challenges. India-EU Economic Partnership Agreement, India-ASEAN FTA, India-Mercosur Economic Partnership Agreement, etc. are likely to have important implications for other regional countries. There is a need to capture those and articulate how regional countries can strategise in view of these developments.

Business communities in South Asia have been voicing their concern with regard to bottlenecks in intra-regional trade and investment such as poor infrastructure for cross-border movement of goods and lack of appropriate trade facilitation, bottlenecks that discourage intra-regional investment. A number of sectors have been identified (such as manufacturing textile machineries, gas exploration, fertiliser, electrical goods, newsprint, etc. between Bangladesh and India) where there are significant opportunities for intra-regional investment. Given the state of knowledge and interests of regional trade and investment, the session will address the question as to why South Asian private sectors and investors are not forthcoming in this context.

iii. Transport Connectivity in South Asia and Beyond: Current Status and the Next Steps

Trade and investment in South Asia suffer because of high transaction costs which have been rising over time. Cross-border trading procedures are complex and create rent-seeking economies. SAARC study on *Regional Multimodal Transport Study* (2007) and ADB study on *BIMSTEC Transport Infrastructure and Logistic Study* (2008) have identified a number of constraints in regional connectivity, such as poor quality of roads for movement of high axle-load trucks, and poor rail connectivity within the landlocked countries. The Bhutan Summit in 2010 once again underscored the importance of development of transport connectivity and transit facilities, especially for landlocked countries. Bangladesh-India Joint Communiqué (2010) has signalled opening up transport connectivity between Bangladesh, Bhutan, India and Nepal. SAARC *Regional Multimodal Transport Study (SRMTS)*, BIMSTEC *Transport Infrastructure and Logistics (BTILS)*, the *Asian Highway Network* and the *Trans-Asian Railway Network* have been identified as strategically important key regional transport projects. The session will discuss the next steps for developing efficient transport connectivity within South Asia and beyond in the context of deepening Asian level connectivity.

iv. Regional Approach to Energy Security in South Asia: Assessing the Progress

Energy demand in South Asia has soared because of growing demand for urban and middle-income consumers, as well as for industrial, commercial and transport sectors. It is projected that energy consumption of each of the economies of South Asia will grow steadily in the near term, ranging from 7-13 per cent. South Asia is heavily depended on imported energy, although it has huge potential of oil, gas, coal, hydro and renewable energy resources. India has an oil reserve of 5,576 million tonnes, followed by Pakistan (3,600 million tonnes). South Asia also has a huge gas reserve, ranging from 120 billion cubic metres (bcm) in Afghanistan to 7,985 bcm in Pakistan. Total hydropower potential resources in Bhutan, Nepal and other regional countries are estimated to be to the tune of 437,000 MW, of which only 9 per cent has been exploited till now. There are also substantial reserves of coal in different parts of the region. Gas is being imported by pipeline by India and Pakistan from Central Asian countries. India and Sri Lanka plan to develop large-scale renewable energy plants through biomass, wind energy and hydropower resources.

Under the SAARC initiatives, a number of initiatives have been undertaken in the above connection including strengthening of the SAARC Energy Centre, establishment of a South Asia Infrastructure Development Financial Institution, building of strategic petroleum reserve, establishment of a regional electricity grid and a regional gas grid. The session will take note of the current state of play with regard to regional energy cooperation, will discuss modalities towards an integrated energy network in the region, and suggest further steps to realise the potentials.

v. Managing International Migration and Flow of Remittances: Recent Global Developments and Implications for South Asia

South Asia is one of the major labour-exporting regions in the world – over 26.7 million immigrants are from South Asia which is about 12.4 per cent of world migrant population in 2010. A major part of these emigrants work in non-OECD countries (34.2 per cent of the total immigrants of the region), particularly in the Middle East and North African countries. Remittance flow to South Asian countries was USD 82.6 billion in 2010, which accounted for 18.8 per cent of total global flow of remittances. However, South Asia is yet to tap the growing opportunities in developed and developing countries, particularly for young, female and skilled workers. It has been argued that these opportunities are likely to change in the next decades because of the transformation of scale, reach and complexity, growing demographic disparities, environmental changes, new global political and economic dynamics, technological revolutions, and development of social networks. Furthermore, South Asia is likely to be the most affected region in the backdrop of the growing unrest in the Middle East and North Africa.

In the Colombo Process meeting held in Dhaka during 19-21 April 2011, four South Asian countries explored possible avenues of collaboration and potential institutionalisation in response to emergencies that concern overseas workers. Ongoing initiatives to tackle emergency needs and further actions that need to be devised may come up in the discussion during the upcoming SAARC Summit. Can South Asian countries forge a common stand with regard to migration (i.e. host country policies, refraining from race to the bottom, common stance in the WTO-GATS, etc.)? The session will reflect on the ways and means for pursuing collaborative actions in this regard.

vi. Managing the Water Resources in the SAARC Region: What are the Possible Win-Win Solutions?

Management of water resources in South Asian countries is getting difficult because of increasing demand for water in irrigation, industrial and domestic uses. Increased environmental and social concerns related to water management are getting louder. Cross-border water sharing remains a highly contentious issue. Ongoing negotiations on water sharing issues often get stuck because of lack of political commitment from the participating countries. Indeed, for a number of cross-border rivers, discussion is yet to be initiated even. Significant research and analysis have been carried out at Track II level regarding possibilities and constraints of augmentation and optimisation of integrated use of water resources of Ganga basin between India, Bangladesh and Nepal. The problem of flood control in lower riparian countries is another important issue that has been discussed at Track II level. Bangladesh-India Joint Communiqué (2010) also calls for expeditious conclusion of an agreement on Teesta River and launching of discussions on other common rivers. Such discussions need to be initiated for cross-border rivers in other South Asian countries as well. The session will seek to frame an agenda for the upcoming SAARC Summit towards improved management of water resources in the region.

vii. Addressing Implications of Climate Change within a Regional Framework: What are the Recent Initiatives?

Adverse effects of climate change on human lives, livelihoods and population of South Asia, particularly in island states, low-lying regions and long coastlines are becoming increasingly evident. *SAARC Statement on Climate Change*, published in December 2009 reiterated the concerns and demands of South Asian countries in this regard. The *Thimphu Statement on Climate Change* has adopted a sixteen-point joint initiative including establishment of an inter-governmental expert group to develop clear policy directions, commissioning a study on climate risks in the region, promoting green technology, planting ten million trees by 2015, and commissioning of a SAARC Inter-governmental Climate-related Disasters Initiative on the integration of Climate Change Adaptation (CCA) with Disaster Risk Reduction (DRR). However, global initiatives such as COP 15 and COP 16 have put forward initiatives which do not have appropriate relevance to the demands of SAARC countries. South Asian countries need to seriously monitor the ongoing discussion on setting modalities as regards the use of Green Climate Fund.

It is often argued that adaptation exercises relating to fallouts of climate change are best addressed in a regional framework. The session will review current initiatives in this regard and propose measures to strengthen regional initiatives towards collective action.

viii. Role of Non-State Actors in the Development and Democracy in South Asia: Recent Trends

Nation building in South Asia for a long time has taken place through both state-centric and participation of non-state actors in political, economic, social, environmental, governance and other areas. Notwithstanding its significant contribution to promotion of democracy and development, role of the non-state actors including that of the private development agencies has tended to be challenged by the state through various means. This often reflects a competitive, not a collaborative, relationship between the state and the non-state actors, creating impediments to the development process. Such trends are becoming increasingly visible in a number of South Asian countries, notwithstanding their democratic credentials. The session will essentially address the issues relating to protection of the space for civil society's activism with a view to protect and promote socioeconomic, cultural and political rights of the citizens in South Asian countries.

4. Delivery of SAES IV

Date and Venue. The Fourth South Asia Economic Summit will be held in Dhaka on 22-23 October 2011 (Saturday and Sunday). The meeting will take place at the Ruposhi Bangla Hotel (former Dhaka Sheraton Hotel).

Organisers and Partnerships. The Centre for Policy Dialogue (CPD), Dhaka <www.cpd.org.bd> is going to be the host organiser for the Summit. In organising the Fourth SAES, CPD hopes to draw on its earlier rich experience in organising regional

and international events in Dhaka. Mention may be made here of a number of such events organised by the CPD including the LDC Conference in Dhaka prior to the WTO Cancun (2003) and Hong Kong (2005) Ministerial Meetings, and the recently held Dhaka International Dialogue prior to the UN LDC IV (November 2010). CPD has also successfully organised a series of Indo-Bangladesh dialogues spanning over a decade (1995-2007), and has also convened two BCIM Forums (a sub-regional initiative to foster cooperation among Bangladesh, China, India and Myanmar) of which CPD is the Bangladesh focal point.

The other associates of the SAES initiative, namely the RIS, New Delhi <www.ris.org.in>; SAWTEE, Kathmandu <www.sawtee.org>; and IPS, Colombo <www.ips.lk> are the co-organisers of the event. In organising the SAES IV, South Asia Centre for Policy Studies (SACEPS), Kathmandu <www.saceps.org> and Sustainable Development Policy Institute (SDPI), Islamabad <www.sdpi.org> have also been invited to join the team.

SAES has traditionally enjoyed support of a number of international and regional development agencies in organising the first three Summits. The generous support of the United Nations Development Programme (UNDP), the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP), Asian Development Bank (ADB), and the Commonwealth Secretariat may be recalled in this context. In organising SAES IV it is hoped that all these partner organisations will make substantive contribution in the preparation and delivery of the event. Furthermore, Oxfam Novib, Friedrich-Ebert-Stiftung (FES) and a number of bilateral donors such as Norway and Canada will extend their support for the event.

Relevant trade bodies including the SAARC Chamber of Commerce and Industries (SCCI) and national federations will be invited to be partners in the organisation of SAES IV. The SAARC Secretariat will be kept fully engaged in organisation and delivery of SAES IV. Cooperation will be sought from the Ministry of Foreign Affairs, Government of Bangladesh. Collaborative links will be forged with relevant international and regional development partners.

Format. Besides the Inaugural and Closing sessions, there will be three plenaries and eight sessions (four parallel sessions with two sessions running simultaneously). The issues to be discussed at the plenaries and parallel sessions have been elaborated above.

Each of the sessions will be conducted in an interactive fashion. Four/five panelists will initiate discussion highlighting different aspects of the issues identified for the session. Substantive time will be allocated for interactive dialogue based on floor interventions. The Chair of the session will summarise the key thoughts at the end of each session. For informed dialogue, attempts will be made to circulate resource documents among the participants.

Inaugural Session will be a public event with participation of high level policymakers and other policy actors. The Closing Session will discuss the final outcome of the Summit.

The national and international print and electronic media are expected to be present in all the sessions of the event.

Participation. Participants of the Summit will comprise of stakeholders who are actively involved in Track I and Track II of the South Asian development discourse. A total of about 80 participants including 50-60 overseas guests will be invited to attend the event. Participants will include ministers, members of parliament, high level government officials, experts, business leaders, development activists, and media representatives from all over the South Asia. Representatives of international and regional development partners and agencies who have been working on relevant issues in the context of South Asia will also be invited to share their findings and recommendations.

There is a high possibility that a number of ministers from Sri Lanka, Nepal, Bhutan, Maldives and Bangladesh as well as the Secretary General of SAARC will attend the Summit. The Hon'ble Prime Minister of Bangladesh or her representative will be requested to inaugurate SAES IV.

Outcome and Follow-Up. An outcome document will be prepared containing the summary of the major issues discussed and the key recommendations put forward by the participants of the Summit. The outcome will be fed into the preparatory process including Ministerial discussions during the run up to the Seventeenth SAARC Summit to be held in Maldives on 9-11 November 2011.

Centre for Policy Dialogue (CPD)
Dhaka, 27 June 2011

Recommendations of the Conference

Background

The Fourth South Asia Economic Summit (SAES IV) was organised on 22-23 October 2011 in Dhaka, in continuation of the three earlier SAES events held in Colombo, New Delhi and Kathmandu. The overarching theme of the SAES IV was *Global Recovery, New Risks and Sustainable Growth: Repositioning South Asia*. Within this broad theme, the event also focused on a set of cross-cutting issues and a cluster of thematic issues.

A major objective of the SAES initiative was to advance the cause of regional integration in South Asia through discussion and deliberations by key stakeholders on issues of interest and concern to countries and people of the region. The vision of the SAES initiative was to gradually evolve into a *South Asian Davos*.

Centre for Policy Dialogue (CPD) organised the SAES IV jointly with Institute of Policy Studies of Sri Lanka (IPS), Colombo; Research and Information System for Developing Countries (RIS), New Delhi; South Asia Centre for Policy Studies (SACEPS), Kathmandu; South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu; and Sustainable Development Policy Institute (SDPI), Islamabad. Partners of SAES IV included Asian Development Bank (ADB), Manila; Canadian International Development Agency (CIDA), Dhaka; Commonwealth Secretariat, London; United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP), Bangkok; Friedrich-Ebert-Stiftung (FES), New Delhi; Oxfam Novib; The Royal Norwegian Embassy, Dhaka; and Asia-Pacific Regional Centre, United Nations Development Programme (UNDP), Bangkok. In hosting this event, CPD has drawn on the capacity building support under the Think Tank Initiative (TTI) of which CPD became an awardee through a globally competitive process in 2010.

About 85 overseas participants including ministers from SAARC countries and high level policymakers, concerned government officials, leading experts and academics,

trade and industry leaders, non-government development policy activists, and representatives of multilateral institutions from the region and beyond participated at the Summit. They were joined by a select set of Bangladeshi participants. They included leading experts, high level policymakers, development practitioners, diplomats and representatives of the development partner community in Bangladesh.

The present section, whilst not exhaustive, attempts to capture a summary of the deliberations and recommendations put forward by the participants at the various plenaries and sessions of the SAES IV.

This summary was forwarded to the appropriate focal points of the preparatory process of the Seventeenth SAARC Summit which was scheduled to be held in Addu City, Maldives on 9-11 November 2011.

1. Overview

a. Global Crisis

- South Asia has shown remarkable resilience in the face of the recent global financial crisis. There was general agreement that the experience of South Asian region has been an exception from the perspective of navigating the adverse impacts of the global recession.
- Reasons informing the region's fast recovery from the crisis were:
 - Sound and flexible economic policies;
 - Balanced growth strategy;
 - Trade patterns; and
 - High domestic demand.
- The South Asian region was being adversely affected by the current global downturn and was likely to face new challenges from a possible double-dip recession.
- An ESCAP study showed that due to the global financial and economic crisis an additional 19 million people in 2008, and 42 million people in 2009, remained in poverty.
- As distinct from the previous crisis, it will be difficult for the regional countries to come up with response mechanisms in view of the current global situation, because of the following reasons:
 - Limited fiscal space;
 - Most of the countries have implemented austerity measures;
 - High levels of public debt compared to pre-crisis times; and
 - Most developed countries are experiencing inflationary pressure along with rising interest rates.
- Volatility in foreign exchange rates poses threat to stable economic policy making in South Asian countries.
- The impact of a double-dip recession will be felt differently by the different South Asian countries because of the heterogeneity in their respective vulnerabilities.

- Human cost of crisis will be perceived; the poor will be hit the hardest by the crisis due to:
 - Fewer buffers;
 - Restricted access to private and public health facilities;
 - Increased food prices;
 - High possibility of falling into vicious cycles of poverty;
 - Fall in real wages (it is hard for real wage levels, once they fall, to recover and move up; particularly poor people usually find it difficult to recover lost wages).
- Economic downturns tend to have faster adverse social impacts, but positive impacts at the time of economic upturns tend to be slower.

b. New Risks and Challenges

- Current challenges facing the region include, but are not limited to, the issue of food security, price hike (especially that of food items), and adverse climate impact.
- South Asia is especially vulnerable to climate change because of its unique geographic location and high concentration of poor people.
- Upward trend in food prices and its volatility are transmitted to the domestic markets leading to adverse impact on food consumption, and social and political stability. This has, indeed, resulted in food insecurity. Hence, failure to ensure national level food security in each of the member countries of the SAARC is a major challenge which requires not only individual, but also collective efforts, given the heterogeneity among members in terms of food production and availability situation.
- High and volatile food prices have slowed the rate of poverty reduction in the region. Women and children are the worst victims in this case.
- Depressed regions are becoming increasingly visible in the region. This is closely associated with conflicts and landlockedness situation of countries in the region.
- Political power asymmetry, growing heterogeneity, conflict and insecurity (food, climate, etc.), and trust gap between nations are emerging as key concerns in the context of regional integration and cooperation.

c. Role of Regional Cooperation as a Solution and Response

- Regional cooperation holds immense possibilities towards enhancing trade which is at a very low level at present.
- There is a need to move beyond bilateral charters and communiqués to trilateral and multilateral understandings with regard to critically important issues of cross-border nature within South Asia.
- Issues of disaster management and climate change should be treated as a regional issue, rather than national ones. It is beyond the capability of an individual country to tackle such problems, particularly in the context of South Asia. Thus, there is a need for multi-country initiatives.

d. Role of Regional Cooperation towards an Inclusive Growth in South Asia

- South Asia has 47 per cent of the global poor, but only 14.9 per cent of the global GDP (in purchasing power parity (PPP) terms). With inclusive growth, there is an emerging optimism in the region that elimination of poverty is possible within our life time. Services led growth cannot help achieve this goal if the sector is not tradable.
- Economic growth in the region has created political space as governments acquired the capacity to afford targeted measures.
- Spending on social protection in the region is one of the lowest in the world. Expenditure on health in South Asia was the lowest, even lower than the Sub-Saharan Africa. Access to various services, such as health, education and finance is of critical importance for sustainable poverty reduction in South Asian region.
- Implementation of social protection programmes under the SAARC for poverty reduction has thus far been less than satisfactory. Marginalised population needs to be involved in implementation and monitoring of programmes related to social protection. More emphasis should be given to rural areas where majority of the SAARC population still live.
- Stimulating non-farm rural economy should be emphasised.
- Infrastructure financing is difficult in the region due to the regulated nature of the market. Measures should be taken to address this.
- Establishing political justice is a must to ensure inclusive growth.
- Inherent structure of South Asian societies does not support inclusive growth. Consequently, policies pursued by the regional countries should take cognisance of different aspects such as ethnicity, religion and gender. Economic growth needs to be restructured towards reducing poverty and inequality at a faster pace.

2. Priority Areas of Cooperation

a. Food Security

- South Asia has made good progress in increasing food supply to match the increase in demand from the growing population and income growth-induced food demand. India and Pakistan are now self-sufficient in rice. Indeed, they have become major rice exporters. All other SAARC countries continue to depend on imports to meet their domestic demand for both rice and wheat.
- Modern agricultural technologies contributed to about 80 per cent of increased food production in the region, while 20 per cent of additional food production was the outcome of more intensive crop production and cultivation of additional fallow lands.
- Pace of growth in foodgrains production in South Asia has slowed down in recent years (except in Bangladesh) due to slowing down of technological progress for the irrigated ecosystem, slow expansion of irrigation infrastructure, and more erratic monsoon rains due to climate change.

- Dependence on imports for food availability has become more risky due to tightness in the international market for food, monopolistic behaviour of major food exporting countries, and diversion of agricultural products to the expanding bio-fuel industry.
- Change in climatic variables has adversely affected food production in South Asia.
- Upward trends in the prices of fertiliser, diesel and wage rates are likely to lead to increased cost of food production. Profitability will be a big factor affecting growth. Input subsidy and price support schemes have put a heavy burden on the government budget. On the other hand, rationalisation of subsidy may further increase the cost of food production in the region.
- Demand for food has been increasing due to population growth and rise in income.
- Ensuring adequate nutrition and dietary improvement for the poor is important for poverty reduction.
- Social safety net programmes contributed positively towards food consumption of the poor and vulnerable groups. However, there is scope for improvement in the operation of these programmes through better targeting and distribution, and regular monitoring.
- Small and marginal farmers are deprived of institutional credit and have no access to knowledge for technological advancement.
- Cooperation in the areas of agricultural research and technological development under the ambit of SAARC is rather limited.
- Areas of cooperation under SAARC will need to include: (a) exchange of germplasm and breeding materials of livestock and fishery; (b) exchange of prototypes of farm tools and equipments; (c) multi-location trial for various crops; (d) improvement of livestock through exchange of animals, frozen semen and vaccine; and (e) enhancement of rice productivity and wheat-breeding programmes.

b. Climate Change

- Given the cross-sectoral and cross-border nature of impacts of climate change, it is important to promote regional cooperation to address the emerging common threats.
- South Asia is one of the least cooperating regions, from the perspective of addressing climate change. Though there have been some recent regional initiatives in this area, most of these are in collaborative research, whereas actions on the ground have been rather limited.
- Individual countries of the region are taking initiatives in view to combat climate change by developing national action plans and raising climate funds.
- Undertaking effective adaptation measures poses many policy challenges. Responses need to be developed in the face of uncertainties with regard to the timing, location and severity of climate impacts.
- Till now, climate policies look into the issue only from the perspective of disaster management; however, the spectrum of the issue is much wider involving food security, infrastructure, trade, health, and many cross-sectoral issues.
- Looking into the future, the scale of these impacts will be contingent upon global mitigation efforts to be undertaken over the next few decades. Delayed or limited

emission stabilisation will necessitate considerably greater investment in risk management and climate change adaptation.

- Vulnerable countries need resources to adapt to climate change. Indeed, some resources are being made available from various multilateral sources. However, governance issues in connection with administration of climate-related funds are also extremely important and key to the success of these initiatives.

c. Connectivity

- Connectivity with energy-rich regions of Asia (West and East Asia) could play an important role in making the 21st century a truly Asian Century.
- Existing physical linkage and connectivity among South Asian countries are very poor.
- Although a number of projects have been identified for implementation under the aegis of the SAARC Regional Multimodal Transport System (SRMTS), progress has tended to remain rather insignificant till now.
- Funding is a major issue in implementing hardware and software connectivity facilities to the extent required.
- The road condition of Bangladesh lacks capacity to carry heavy traffic, particularly the transit traffic which is expected to come from India, Nepal and/or Bhutan. Hence, road routes should not be the preferred option where rail or maritime routes are available.
- State of air connectivity among the countries of South Asia is characterised by restrictive aviation policies resulting in limited number of economically viable routes.
- Political commitment is imperative for implementation of transport connectivity among the South Asian countries. Present level of connectivity reflects a restrictive policy regime. The prevailing mindset in South Asia has often acted as an impediment to expanded connectivity.
- Bangladesh should enjoy part of the benefit that will be acquired by India due to transit facilities through Bangladesh territory.
- Road transport dominates regional transport system, but the strategy may need to be revisited in view of economic justification.
- Differences in rail connection, i.e. broad gauge and meter gauge remain a major stumbling block in realising physical connectivity among SAARC member countries.
- Along with interaction between governments, closer people-to-people and business-to-business communications need to be emphasised.
- Whilst SAARC Secretariat is actively pursuing issues of regional connectivity, success till now has been limited.

d. Energy Security

- Energy pricing and access are major problems along with supply-side issues.
- Mismatches between endowments of and demand for energy resources at country level within the region create an opportunity for inter-regional energy trade.

- Timing of regional cooperation is important. Now is the appropriate time.
- Apart from political and security perspectives, national policies and political mindsets, absence of adequate infrastructure, poor operational efficiency, lack of credit worthiness of utilities, and ownership structures of utilities and regulatory capacity also play a negative role that discourage regional cooperation in energy.
- Energy sector challenges include rapid growth in energy demand, lack of adequate access to energy, and vulnerability to external price shocks, lack of investment in infrastructure, weak policy and regulatory environment.
- Some favourable factors conducive to regional trade in energy have also emerged. These include change in the political mindsets that give precedence to developmental needs, increasingly strong role of the private sector, inception of independent regulatory bodies, sectoral reforms, and growing interest in regional level discussions.
- The potential for hydropower has to be explored further in order to reduce the demand-supply gap.

e. Water Resource Management

- Basin-wide planning strategy is the right approach towards water management in the region.
- Basin-wide approach, if designed scientifically and through benefit sharing, can help reduce flooding, increase irrigation in the region, and reduce salinity.
- Population growth along with social and demographic changes and climate change in the region will affect water management and water sharing.
- Climate change will further complicate the issue of water sharing and management as changes in climatic parameters may cause flood and increase soil salinity.
- Key problems in water sharing and management were identified as follows:
 - An emphasis on perceived political expediency and gain rather than an economic benefit;
 - Lack of trust and confidence among countries;
 - Decisions taken by political leaders are not communicated properly to the officials responsible for implementing them.
- Time-bound regional initiatives are needed towards development and management of water resources within the region.

f. Acceleration of Trade

- Enhanced intra-regional trade can significantly improve peace and stability in the region.
- South Asian economies are relatively open in terms of trade and investment flows.
- Despite an increase in recent times, inter-regional trade has remained low and far from realising its potential levels.
- Potential gains from the South Asian Free Trade Area (SAFTA) have tended to remain largely untapped.

- Even though South Asian countries are exporting similar commodities, at disaggregated level, products are actually different in nature. For example, Bangladesh exports low-end readymade garments (RMG), while Sri Lanka exports higher-end RMG products. Within the region this creates an opportunity for trade.
- Market forces are a better mechanism to enhance trade. There is a need to promote and strengthen these forces.
- Whilst most focus has been put on reduction of tariff rates, SAARC officials have not given due importance to non-tariff barriers in intra-regional trade which are major constraining factors; time-bound targets should be set by SAARC Ministers for their elimination.
- Visa for businessmen from the region should be made easy.
- Trust gap among the business communities of different countries often hinders trade, and needs to be addressed through more regular interaction.

g. Acceleration of Investment

- Low levels of flow of intra-regional investment in South Asian region is one of the results of low level of intra-regional trade among the countries.
- Other than infrastructural bottlenecks, South Asia also suffers from cultural, political, ethnical and communal bottlenecks.
- SAARC Secretariat is yet to sign the investment protocol even though this has been on the agenda for quite a protracted period.
- Energy, tourism, infrastructure, information and communication technology (ICT), textiles and garments, and financial services are potential sectors for investment.
- Along with interaction between governments, closer people-to-people and business-to-business communication needs to be emphasised. Visa-free movement of people could contribute significantly towards regional cooperation, and a move towards such a regime should be encouraged.

3. Role of Non-State Actors

Major Observations

- Non-state actors are important partners for the decision makers. They have the comparative advantage of being aware of society's needs, being closer to the grassroots. Since non-state actors promote and use volunteerism, they can be more cost-effective than the governments in certain areas related to promoting regional cooperation.
- A significant shift has taken place in government-civil society interaction towards the better. Governments of the region are now more responsive than ever to demands coming from citizens.
- In many countries, including some in South Asia, several new 'NGO laws' restrict press freedom and access to the internet, and impose barriers to free expression and assembly which violate long-standing, widely-accepted principles of citizens' rights rooted in international laws.

- Non-state actors' main role is to scrutinise the government and hold it accountable for its actions.
- The opposition often reneges its responsibility once an independent watchdog such as the National Human Rights Institution is created. It fails to comply with its obligation to regularly monitor the activities of the institution, and hold it responsible in creating a culture of democracy and human rights in the country.
- There are good examples with regard to the role that national human rights institution could play. Various programmes run by the national institution in the Maldives, with the intention of creating awareness among the people about human rights, are success stories. The institution in the Maldives works closely with the Ministry of Justice.
- The strategy of the Centre for World Solidarity (CWS) in India includes open meetings, training, capacity developments on focused areas, multilingual publications, posters, etc. The CWS has witnessed success in empowering elderly women in particular, and gender empowerment in general.
- Often state entrusts non-state actors to provide services, but in the SAARC region they do not usually participate in the decision making process.
- When it comes to making the government accountable or ensuring pluralism/ participation, non-state actors are confronted with the question of legitimacy from the state.

Recommendations

- The SAARC Secretariat should play a proactive role in promoting mutually beneficial relationship between the national human rights institutions and the civil society. In this process, as part of their role in investigating and seeking to resolve complaints in the areas of human rights violations, these institutions could form partnerships with NGOs. They could also assist in establishing links between NGOs and state institutions while maintaining their own independence.
- The SAARC Secretariat should work in close cooperation with the Ministry of Justice and law enforcement agencies. This will enable the respective national Human Rights Commissions to successfully discharge their mandates.
- The SAARC Secretariat should provide platforms for economic think tanks whereby they could provide and share research data, and most importantly, build coalitions with trade chambers.
- The SAARC Secretariat may work out an agenda of common interests to allow building support base with other non-state actors in the development sector.
- The SAARC Secretariat should work closely with non-state actors to help them shed their suspicion and competitive stance, and become more cooperative for promoting the regional integration agenda.
- The SAARC Secretariat could assume the role of a guardian in helping to remove the prevailing mutual suspicion and competition between the non-state actors and nation states.

- The SAARC Secretariat should encourage institutionalisation of national and regional policy processes to promote regular interactions from representatives of non-state actors around the region.
- The SAARC Secretariat's support is needed to activate sectoral SAARC cells in various ministries in the member countries.
- The SAARC Secretariat should establish mechanisms to facilitate, and where needed, strengthen interaction among ministries and officials, and professional organisations (SAARC-law, AMDISA).

4. Recommendations for the Seventeenth SAARC Summit

a. Food Security

- For effective implementation of SAARC Food Bank, trigger mechanisms should be made more clear, price fixation policies should be revised, and operational procedures should be simplified.
- Establish regional adaptation trials and variety/breed release systems in South Asia under the ambit of SAARC.
- Establish SAARC Gene Bank to preserve valuable germplasm resources with a view to foster agricultural technology development in the region.
- Establish common vaccination system against livestock diseases.
- Set common standards for sanitary and phytosanitary (SPS) and facilitate the quarantine procedure to ensure food safety and bio-safety.
- Develop joint projects for technology exchange with specific targets for exchange of germplasm, varieties and breeds, crop husbandry practices, animal husbandry practices, fisheries management techniques, water and natural resource management techniques, and post-harvest and processing technologies.

b. Climate Change

- Develop a joint project under the SAARC for adaptation to climate change in agriculture. The project should have four specific focuses:
 - Develop technologies suitable for drought-prone, submerged and saline areas;
 - Promote climate resilient crops, e.g. ground nut, chick peas and other pulses in drought-prone regions instead of highly subsidised irrigation;
 - Undertake long-term weather forecasting; and
 - Disseminate climate impact-related information widely through partnership with the regional media.
- SAARC countries should develop projects under Clean Development Mechanism (CDM).
- SAARC members should ask for new and additional funds needed for various multilateral initiatives. Countries should also scrutinise the governance and administration of global funds for climate change.

- SAARC Secretariat should put emphasis on technology transfer in the SAARC countries. Research should be encouraged in the region for cheaper and accessible technology.
- SAARC should expedite the implementation of the *Thimphu Statement on Climate Change*. To translate the 16-points into actions, it will be necessary to promote country ownership, knowledge, and institutional and financial capacity. SAARC Secretariat can take a lead in this regard.
- SAARC leaders should engage the private sectors, NGOs, civil society organisations and other related stakeholders in the climate change initiatives.
- SAARC members need to share knowledge, good practices and achievements within the region. SAARC Secretariat can take the lead in this regard by promoting region-wise sharing events.
- There is a need to promote regional cooperation in the areas of science and technology development. SAARC members should encourage freer movement of scientists to facilitate information and expertise exchange.

c. Connectivity

- SAARC should encourage more analyses and dialogues to examine the status and possibilities of greater transport connectivity among South Asian countries.
- SAARC members need to move beyond bilateral charters and communiqués to trilateral and multilateral understandings within South Asia to promote greater multimodal connectivity. SAARC needs to take lessons from other regional agreements. Regional transit agreements such as in the Association of Southeast Asian Nations (ASEAN) and the Greater Mekong Subregion (GMS) should be closely examined with a view to promoting connectivity in South Asia.
- There should be a dedicated fund for restoration of various rail, road and maritime routes in the region. The SAARC Secretariat could play a vital role in motivating the member countries towards this objective.
- Given the current state of affairs with regard to air connectivity in the region, and limited number of economically viable routes among South Asian countries, designing of a more liberal South Asian air services connectivity framework will need special attention. This will play an important role not only in promoting business and tourism, but also fostering people-to-people connectivity in the SAARC region.
- Visa-free movement of people can contribute towards more meaningful regional cooperation. SAARC should aim to gradually move towards a visa-free regime. To start with –
 - Diplomats may be allowed to move without any visa requirement within the region;
 - In the second stage, short-term business travels may be allowed without visa requirement.

d. Energy Security

- SAARC Secretariat should take measures to move the energy agenda forward by taking concrete steps to realise its various initiatives in this area. These include

SAARC initiative on the Energy Ring Concept (2005), SAARC Regional Energy Trade Study (SRETS), SAME Taskforce (2008), Template on Technical and Commercial Aspects of Electricity Grid Inter-connections (2009), discussion on efficiency, conservation and development of labeling (2010).

- SAARC should ensure the implementation of the identified short-term projects.
- Develop a SAARC Regional Energy Trade and Cooperation Agreement.
- SAARC should establish a comprehensive and reliable energy database which will give access to regional stakeholders.
- SAARC should develop a regional trade treaty similar to the Energy Charter Treaty.

e. Water Resource Management

- A bottom-up approach is needed which would promote greater interaction between border provinces with similar agricultural practices.
- SAARC should encourage cooperation among research institutions in the region, especially among agricultural institutions.
- SAARC should take initiatives to disseminate the result of the *Ganges Strategic Basin Assessment* which has come up with solid data and evidence with regard to regional water resources.
- A 'Rivers Authority' should be set up to carry out joint research and monitoring of water-related issues.
- Basin-wide approach should be pursued with regard to management and utilisation of water resources in the Ganges/Brahmaputra/Barak rivers basin.
- SAARC needs to set up an institution to monitor and provide objective analysis regarding water availability and use. It is expected that the institute will maintain user friendly database and make that data accessible to all.
- SAARC should organise regular media briefing on the status and progress of various measures taken by the SAARC in the area of promoting water cooperation.

f. Acceleration of Trade

- An early phase-out of the SAFTA negative lists by the developing countries of the region should be encouraged by the SAARC.
- SAARC countries should give priority to resolving non-tariff barriers. Each SAARC Summit should set a target to address particular non-tariff barriers which the member country officials will have to report on in the subsequent Summit.
- Operationalise South Asian Regional Standards Organization (SARSO) in a speedy manner and ensure that it receives the needed technical and human resource support.
- Mutual Recognition Agreements should be seen as an instrument to reduce non-tariff barriers in the SAARC. Lessons from other Regional Trade Arrangements (RTAs) such as ASEAN may be considered in this regard.
- Harmonisation of standards needs to be ensured. Measures by importing countries should include point of entry and audit of export inspection system, as well as authentic certificates.

- Agreement on equivalence of SPS measures does not require duplication or sameness of measures, but the acceptance of alternative measures that meet an importing partner's appropriate level of sanitary or phytosanitary protection.
- SAARC should see to it that member countries commit not to resort to export bans in their trade with other members.
- India particularly may like to take up initiatives to establish laboratories across borders, through foreign direct investment (FDI), to address the mutual recognition problems.
- Committee of Experts should include representatives from private sectors.
- A regional investment fund should be created for infrastructure development particularly to facilitate cross-border movement of goods and intra-regional investment.
- Border *haats* may be operationalised under SAARC and its scale of operation should be enhanced.
- SAARC should promote establishment of SAARC Investment Zones in each member countries.
- Some of the SAARC countries such as India have the capacity to provide a substantial amount of farm subsidies. Least developed countries (LDCs) need special assistance in view of this (e.g. setting up a LDC Integration Fund) to create a level playing field.
- Sub-regional cooperation in trade-related areas should be allowed under SAARC as in the European Union (EU).

g. Acceleration of Investment

- SAARC should work against bilateral restrictions on investment by individual countries.
- SAARC should encourage policymakers in individual SAARC countries to promote joint venture investment in other countries of the region; forming of companies working in multiple countries of the region should be promoted.
- The Rules of Origin provisions under the SAFTA ought to be simplified.
- To promote intra-regional investment in the SAARC region following initiatives should be considered:
 - Establishment of a SAARC Investment Park
 - Establishment of SAARC Security and Exchange Commission
 - Deepening of cooperation among banks operating in the region
 - Creation of a fund for regional investment
 - Promotion of trade in local currency
 - Scope for capital account convertibility for intra-regional investment.
- SAARC Secretariat needs to be equipped with appropriate capacity to monitor data on flow of intra-regional trade and investment on a regular and continuing basis.

- It was noted that an effective competition regime is part of the enabling and predictable legal environment to promote investment and regulate the market to curb anti-competitive behaviour.
- SAARC Secretariat should encourage member states to enact and implement Competition Policy, Competition Laws and Economic Regulatory Laws as a strategy to foster intra-regional investment flows. Furthermore, trade integration within the region will also need cooperation among the competition and regulatory authorities to work together to learn from each other and to check cross-border market abuses.
- Majority of the South Asian population lives in the rural areas. Development of agriculture sector should be seen as a key policy variable to address the issue of improving the standard of living of the vast majority of South Asia's population. SAARC should promote investment in the agriculture sector by helping countries mobilise the needed funds.
- The SAARC Development Fund (SDF) needs to be operationalised. Funding of the SDF has remained problematic. More funds need to be mobilised from multilateral donor agencies. There is also a need to focus on individual programmes under the SDF.

h. Migration

- Migration needs to be incorporated in the agenda of the Seventeenth SAARC Summit. It deserves the highest priority within the SAARC official process.
- SAARC Secretariat should advocate initiation of working visa among the countries of the region.
- Best practices of each South Asian country need to be discussed at the SAARC Summit so that these are replicated by the other countries of the region.
- SAARC countries should take regional initiative to reduce the cost of migration from the region to global market.
- Wages in the Middle Eastern countries and Malaysia have not increased significantly during the past few years. SAARC has to come up with a way to discuss and highlight this issue with the countries of these regions. A strategy to develop a minimum wage standard for the region could be developed at the Seventeenth SAARC Summit.
- Under the aegis of SAARC, South Asian countries need to carry out extensive negotiations with the labour receiving countries with regard to addressing the legal and regulatory concerns of the regional countries.
- SAARC should advocate signing of an international convention by the receiving countries.
- SAARC Secretariat needs to encourage all countries of the region to focus on developing appropriate mechanisms to ensure remittance flow through formal channels.

5. Reforming SAARC

- SAARC Secretariat needs to further strengthen its role as an institution to foster and promote the interests of the common people in the region.

- SAARC should pursue more vigorously the implementation of various initiatives pertaining to already agreed agendas (e.g. SAARC Food Bank).
- SAARC needs to be more expeditious in addressing the conflicts and disputes on various issues among members (including in such areas as trade, energy).
- SAARC should be more active in helping countries to deal with the adverse impacts of the global crisis.
- SAARC should encourage greater role and participation of civil society in the SAARC process. Consultations with civil society need to be held regularly, particularly before SAARC Summits.
- SAARC should proactively pursue India to uphold regional interests in global forums such as the G-20.
- SAARC should emerge as a 'regional group' in global negotiations such as the World Trade Organization (WTO) and Conference of the Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC).
- SAARC should position itself strongly in inter-regional forums (SAARC-ASEAN).
- Sub-regional negotiations may be allowed in SAARC as in the EU.
- Level of engagement of youth is low in South Asia. SAARC Charter needs to put emphasis on youth and youth empowerment. SAARC should encourage initiatives in the region whereby youth are more actively involved in the regional policy making process.
- Identification and quantification of the cost of non-cooperation is important. A comprehensive study needs to be carried out.

6. Setting the Right Politics

- South Asia has witnessed an exponential growth of civil society organisations, social networks and social movements over the past two decades. However, unlike SAARC, civil society in South Asia is not a unified entity and remains an amalgam of stakeholders whose contribution to South Asian community varies accordingly. There is a need for closer and more proactive engagement among civil society groups in the SAARC region.
- SAARC is facing pressure from the private sector to remove barriers in order to allow market integration. The imbalance of private sector's participation over formal trade negotiations will need to be corrected through pressure from the grassroots.
- Though the SAARC vision is a challenging task, the geo-political and economic situation in the contemporary world suggests that without the supporting backbones of democracy in operate to its fullest potential – be it national, regional or international – the true wealth and benefits will not reach the nation states.
- The ethnic similarity, closeness in culture, common origin of languages and historical lineage which once formed the South Asian identity, are now becoming more fragmented in the face of postmodernism. SAARC should strive to strengthen forces that underpin the commonness of countries and people in the region.
- The SAARC Secretariat should be proactive in promoting Track-II initiatives with a view to providing civil society organisations with a common regional platform to

allow exchange of information in order to accelerate the prospects of realising the South Asian dream.

- Nation states of South Asia need to underscore the democratic ethos in regional cooperation in order that their citizens benefit through trade and institutional cooperation.
- The principle of 'mutual recognition' (as is the case in the EU), i.e. individual country needs are different from its neighbours, should be the guiding principle of discussion in SAARC.
- The SAARC Secretariat should raise awareness about and empower the South Asia Forum (SAF), mooted at the Sixteenth SAARC Summit in Thimphu in April 2010. The SAF should be representative and meaningful in order to promote the widest possible civil society participation in the SAARC.
- SAARC Secretariat should take the lead to explore the possibility of introducing South Asian passports for promoting a true South Asian regional identity.
- Economic structure and risks faced by the South Asian countries are very similar, and hence, they face similar types of challenges. SAARC Secretariat should promote learning about best practices in the region.
- Given the present political scenario in the South Asian region, all sessions of the SAES IV, including transport and connectivity, energy, trade, water resources, food security, climate change and investment put emphasis on the importance of regional integration and the need for greater political will to overcome the existing bottlenecks. SAARC Secretariat should provide leadership to overcome the prevailing challenges in this regard. SAARC Secretariat should support realisation of this genuine demand.
- All over the world, manifested by the Arab spring, and in South Asia, civil society is increasingly demanding the improvement in quality of politics and governance.
- Parliamentarians need to be more actively engaged and involved in regional issues and affairs.
- Without inclusive policies in the individual member countries, there will be no inclusive South Asia.
- Political will of SAARC leaders and a sense of South Asian belongingness were crucial to achieving inclusive growth in South Asia.

Programme Schedule of the Conference

DAY 1: Saturday 22 October 2011

9.00 am-10.30 am	Inaugural Session <i>Venue: Ballroom</i>
Welcome Remarks	
<i>Professor Mustafizur Rahman</i> Executive Director Centre for Policy Dialogue (CPD), Bangladesh	
Introductory Statements	
<i>Ms Sarah Hees</i> Project Director Friedrich-Ebert-Stiftung (FES), India	
<i>Dr Nagesh Kumar</i> Chief Economist, UN-ESCAP, Bangkok and Director, ESCAP Sub-Regional Office for South and South-West Asia, New Delhi	
<i>Mr Neal Walker</i> UN Resident Coordinator and UNDP Resident Representative in Bangladesh	
<i>Ambassador Edwin Laurent</i> Adviser & Head, International Trade & Regional Co-operation Economic Affairs Division, Commonwealth Secretariat, London	
Video Statement	
<i>Uz. Fathimath Dhiyana Saeed</i> Hon'ble SAARC Secretary General Kathmandu, Nepal	

<p>Special Addresses</p> <p><i>Dr Sham L Bathija</i> Hon'ble Senior Advisor Minister for Economic Affairs to the President of Afghanistan</p> <p><i>Dr Sarath Amunugama</i> Hon'ble Senior Minister for International Monetary Cooperation Government of Sri Lanka</p> <p><i>Mr Ibrahim Hussain Zaki</i> Hon'ble Special Envoy of the President of the Maldives and Former SAARC Secretary General</p>
<p>Remarks from the Chief Guest</p> <p><i>Mr A M A Muhith, MP</i> Hon'ble Minister for Finance Government of Bangladesh</p>
<p>Launching of Books on South Asian Economy</p> <ul style="list-style-type: none"> • <i>South Asia Human Development Report 2010</i>. Mahbub ul Haq Human Development Centre, Lahore • <i>Migration, Remittances and Development in South Asia</i>. Institute of Policy Studies of Sri Lanka (IPS), Colombo • <i>Potential Supply Chains in the Textiles and Clothing Sector in South Asia: An Exploratory Study</i>. UNCTAD. Commonwealth Secretariat and Centre for WTO Studies, New Delhi
<p>Concluding Remarks from the Chair</p> <p><i>Professor Rehman Sobhan</i> Chairman Centre for Policy Dialogue (CPD), Bangladesh</p>

11.00 am-1.30 pm	Plenary I: Current Phase of Global Recovery and Implications for South Asia <i>Venue: Ballroom</i>
Chair	<i>Dr Debapriya Bhattacharya</i> Distinguished Fellow Centre for Policy Dialogue (CPD), Bangladesh
Panelists	<i>Dr Nagesh Kumar</i> Chief Economist, UN-ESCAP, Bangkok and Director, ESCAP Sub-Regional Office for South and South-West Asia, New Delhi <i>Dr Kalpana Kochhar</i> Chief Economist, South Asia Region, The World Bank, Washington, D.C. <i>Dr Ashfaque Hasan Khan</i> Principal and Dean, Department of Economics, NUST Business School, Pakistan and Former Economic Advisor, Ministry of Finance, Pakistan <i>Dr Mohan Man Sainju</i> Chairperson Institute for Integrated Development Studies (IIDS), Nepal <i>Professor Wahiduddin Mahmud</i> Former Finance Advisor to the Caretaker Government Bangladesh
Open Discussion	
Guest of Honour	<i>Sir Fazle Hasan Abed</i> Member, CPD Board of Trustees and Chairperson, BRAC, Bangladesh
Chief Guest	<i>Dr Sarath Amunugama</i> Hon'ble Senior Minister for International Monetary Cooperation Government of Sri Lanka
Summing up by the Chair	

DAY 1: Afternoon Parallel Sessions 2.30 pm-4.30 pm

Parallel Session I <i>Venue: Bakul</i>	Parallel Session II <i>Venue: Marble Room</i>	Parallel Session III <i>Venue: Ballroom</i>
Acceleration of Trade in South Asia: Where are the Current Obstacles?	Food Security in South Asia: What should be the Policy Initiatives in view of Supply Uncertainty and Price Volatility?	Managing International Migration and Flow of Remittances: Recent Global Developments and Implications for South Asia
Chair <i>Dr Biswajit Dhar</i> Director General Research and Information System for Developing Countries (RIS), India	Chair <i>Dr Abid Suleri</i> Executive Director Sustainable Development Policy Institute (SDPI), Pakistan	Chair <i>Ambassador Farooq Sobhan</i> President Bangladesh Enterprise Institute (BEI), Bangladesh
Speakers <i>Dr M Abdur Razzaque</i> Economic Adviser Economic Affairs Division Commonwealth Secretariat, London <i>Professor Dr Ajitava Raychaudhuri</i> Department of Economics Jadavpur University, India <i>Dr Nisha Taneja</i> Professor Indian Council for Research on International Economic Relations (ICRIER), India <i>Mr A Matin Chowdhury</i> Former Chairman Bangladesh Textiles Mills Association (BTMA), Bangladesh <i>Dr Sachin Chaturvedi</i> Senior Fellow Research and Information System for Developing Countries (RIS), India <i>Mr Hamid Mahmood</i> Director (Advocacy and Outreach) Global Research Insight for Development, Pakistan	Speakers <i>Dr Aynul Hasan</i> Chief; <i>Mr Clovis Freire</i> Economic Affairs Officer; and <i>Dr M Hussain Malik</i> Economic Affairs Officer; Development Policy Section, UN-ESCAP, Bangkok <i>Dr Mahabub Hossain</i> Executive Director BRAC, Bangladesh <i>Ms Khadija Haq</i> President Mahbul ul Haq Human Development Centre, Pakistan <i>Professor Dr Bishwambher Pyakuryal</i> Chairman Nepal Economic Association, Nepal <i>Professor S Mahendra Dev</i> Director (Vice Chancellor) Indira Gandhi Institute of Development Research (IGIDR), India	Speakers <i>Dr Tasneem Siddiqui</i> Professor Department of Political Science and Chairman, Refugee and Migratory Movements Research Unit (RMMRU), University of Dhaka, Bangladesh <i>Dr Ganesh Gurung</i> Founding Chairperson Nepal Institute of Development Studies (NIDS) and Former Member of National Planning Commission, Government of Nepal <i>Dr Dushni Weerakon</i> Deputy Director and Fellow Institute of Policy Studies of Sri Lanka (IPS) <i>Dr S M Turab Hussain</i> Assistant Professor and Acting Head, Department of Economics Lahore University of Management Sciences, Pakistan <i>Dr Selim Raihan</i> Associate Professor Department of Economics University of Dhaka, Bangladesh

Parallel Session I <i>Venue: Bakul</i>	Parallel Session II <i>Venue: Marble Room</i>	Parallel Session III <i>Venue: Ballroom</i>
<p><i>Mr M Shahidul Islam</i> Independent Consultant, Singapore</p> <p><i>Mr Puspa Sharma</i> Programme Coordinator South Asia Watch on Trade, Economics and Environment (SAWTEE), Nepal</p>	<p><i>Mr Biplove Choudhary</i> Programme Specialist, Inclusive Growth and Poverty Reduction Team Asia-Pacific Regional Centre, UNDP, Bangkok</p> <p><i>Dr Uttam Deb</i> Principal Scientist-Economics (Village Level Studies) International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), India</p>	
Open Discussion	Open Discussion	
Summing up by the Chair	Summing up by the Chair	

DAY 2: Sunday 23 October 2011

9.00 am-11.15 am	Plenary II: Towards an Inclusive Growth in South Asia: Role of Regional Cooperation <i>Venue: Ballroom</i>
Chair	
	<p><i>Mr M Syeduzzaman</i> Member, CPD Board of Trustees and Former Finance Minister, Bangladesh</p>
Panelists	
	<p><i>Dr Atiur Rahman</i> Governor Bangladesh Bank</p> <p><i>Dr Saman Kelegama</i> Executive Director Institute of Policy Studies of Sri Lanka (IPS)</p> <p><i>Dr Shekhar Shah</i> Director-General National Council for Applied Economic Research (NCAER), India</p> <p><i>Dr Lyonpo Om Pradhan</i> Chairman, Druk Holding & Investments and Former Minister for Trade and Industries, Bhutan</p> <p><i>Dr Vaqar Ahmed</i> Research Fellow, Sustainable Development Policy Institute (SDPI) and Former Advisor to the Planning Commission of Pakistan</p>

Open Discussion
Guest of Honour
<i>Dr Sham L Bathija</i> Hon'ble Senior Advisor Minister for Economic Affairs to the President of Afghanistan
Chief Guest
<i>Lt Col (Retd) Muhammad Faruk Khan, psc, MP</i> Hon'ble Minister for Commerce Government of Bangladesh
Summing up by the Chair

DAY 2: Morning Parallel Sessions 11.30 am-1.30 pm

Parallel Session IV <i>Venue: Marble Room</i>	Parallel Session V <i>Venue: Bakul</i>	Parallel Session VI <i>Venue: Ballroom</i>
Transport Connectivity in South Asia and Beyond: Current Status and the Next Steps	Addressing Implications of Climate Change within a Regional Framework: What are the Recent Initiatives?	Regional Approach to Energy Security in South Asia: Assessing the Progress
Chair	Chair	Chair
<i>Dr M Rahmatullah</i> Former Director (Transport) UNESCAP and Transport Policy Advisor, Planning Commission, Bangladesh	<i>Dr Posh Raj Pandey</i> Executive Chairman South Asia Watch on Trade, Economics and Environment (SAWTEE), Nepal	<i>Ambassador Dr Humayun Khan</i> Former Foreign Secretary of Pakistan and Former Director, Commonwealth Foundation, Pakistan
Speakers	Speakers	Speakers
<i>Mr K L Thapar</i> Chairman Asian Institute of Transport Development (AITD), India <i>Mr Kanak Mani Dixit</i> Chief Editor Himal (South Asian) Kathmandu, Nepal <i>Mr Salman Zaheer</i> Program Director Regional Integration, South Asia Region, The World Bank <i>Dr Amita Batra</i> Associate Professor Centre for South, Central, Southeast Asian & South-West Pacific Studies Jawaharlal Nehru University, India	<i>Dr A Atiq Rahman</i> Executive Director; <i>Dr Golam Rabbani</i> Research Fellow Bangladesh Centre for Advanced Studies (BCAS) <i>Dr Jagadish Chandra Pokharel</i> Former Vice Chairman National Planning Commission Government of Nepal <i>Dr Fahmida Khatun</i> Head of Research Centre for Policy Dialogue (CPD), Bangladesh	<i>Dr M Asaduzzaman</i> Research Director Bangladesh Institute of Development Studies (BIDS) <i>Ms Lydia Powell</i> Head Centre for Resources Management Observer Research Foundation (ORF), India <i>Dr Herath Gunatilake</i> Principal Energy Economist South Asia Department, Asian Development Bank (ADB), Manila

Parallel Session IV <i>Venue: Marble Room</i>	Parallel Session V <i>Venue: Bakul</i>	Parallel Session VI <i>Venue: Ballroom</i>
<p><i>Mr Anushka Wijesinha</i> Research Officer Institute of Policy Studies of Sri Lanka (IPS)</p> <p><i>Mr Ghulam Samad</i> Senior Research Economist Pakistan Institute of Development Economics (PIDE), Pakistan</p> <p><i>Dr Prabir De</i> Fellow Research and Information System for Developing Countries (RIS), India</p>	<p><i>Mr Tirthankar Mandal</i> Programme Coordinator Climate Policy, Climate Action Network South Asia, India</p> <p><i>Mr Mahesh Sugathan</i> Programme Coordinator International Centre for Trade and Sustainable Development (ICTSD), Geneva</p> <p><i>Ms Priyangi Jayasinghe</i> Manager, Research Munasinghe Institute for Development Studies (MIND), Sri Lanka</p>	<p><i>Engineer Arshad H Abbasi</i> Adviser (Energy & Water) Sustainable Development Policy Institute (SDPI) and Former Director, Planning Commission of Pakistan, Pakistan</p> <p><i>Mr Kencho Dorji</i> Chief Engineer (Head of Plant) Tala Hydropower Plant Druk Green Power Corporation, Bhutan</p> <p><i>Mr Nitya Nanda</i> Fellow The Energy and Resources Institute (TERI), India</p>
Open Discussion	Open Discussion	Open Discussion
Summing up by the Chair	Summing up by the Chair	Summing up by the Chair

DAY 2: Afternoon Parallel Sessions 2.30 pm-4.30 pm

Parallel Session VII <i>Venue: Marble Room</i>	Parallel Session VIII <i>Venue: Bakul</i>	Parallel Session IX <i>Venue: Ballroom</i>
Acceleration of Investment in South Asia: Where are the Current Obstacles?	Managing the Water Resources in the SAARC Region: What are the Possible Win-Win Solutions?	Role of Non-State Actors in the Development and Democracy in South Asia: Recent Trends
Chair	Chair	Chair
<p><i>Mr Annisul Huq</i> President SAARC Chamber of Commerce and Industry and Former President, FBCCI, Bangladesh</p>	<p><i>Mr B G Verghese</i> Chairperson & Treasurer Commonwealth Human Rights Initiative, India</p>	<p><i>Dr Khalida Ghaus</i> Managing Director Social Policy and Development Center, Pakistan</p>
Speakers	Speakers	Speakers
<p><i>Shri Mahesh Kumar Saharia</i> Former President Calcutta Chamber of Commerce and Chairman, Saharia Group of Industries & Plantations</p>	<p><i>Dr Qazi Kholiquzzaman Ahmad</i> Chairman Palli Karma-Sahayak Foundation (PKSF), Bangladesh</p> <p><i>Dr Ainun Nishat</i> Vice Chancellor BRAC University, Bangladesh</p>	<p><i>Professor Arif A Waqif</i> Academic Advisor and Doctoral Supervisor Jawaharlal Nehru Institute of Advanced Studies, Jawaharlal Nehru Technical University, Hyderabad, India</p> <p><i>Mr Ahmed Saleem</i> Former President Human Rights Commission of the Maldives</p>

Parallel Session VII <i>Venue: Marble Room</i>	Parallel Session VIII <i>Venue: Bakul</i>	Parallel Session IX <i>Venue: Ballroom</i>
<p><i>Mr Abdul Matlub Ahmad</i> President India-Bangladesh Chamber of Commerce and Industry (IBCCI), Bangladesh</p> <p><i>Mr Pradeep Kumar Shrestha</i> Vice President SAARC Chamber of Commerce and Industries, Nepal</p> <p><i>Mr Pradeep S Mehta</i> Secretary General Consumer Unity & Trust Society (CUTS), India</p> <p><i>Dr Mia Mikic</i> Coordinator Trade Policy Section ARTNeT, UN-ESCAP, Bangkok</p> <p><i>Mr Shahid Hussain</i> Chief Executive Officer Tri-Pack Films Limited, Pakistan</p> <p><i>Dr Shahid Ahmed</i> Associate Professor Department of Economics Jamia Millia Islamia, India</p> <p><i>Dr Khondaker Golam Moazzem</i> Senior Research Fellow Centre for Policy Dialogue (CPD), Bangladesh</p>	<p><i>Mr Choida Jamtsho</i> Member of Parliament National Assembly of Bhutan</p> <p><i>Mr Tridivesh Maini</i> Associate Fellow Observer Research Foundation (ORF), India</p> <p><i>Dr Md Khairul Islam</i> Country Representative WaterAid in Bangladesh</p>	<p><i>Ambassador Sumith Nakandala</i> Director General Economic Affairs Division Ministry of Foreign Affairs, Sri Lanka</p> <p><i>Dr Anura Ekanayake</i> Former Chairman The Ceylon Chamber of Commerce, Sri Lanka</p> <p><i>Ms Khushi Kabir</i> Member CPD Board of Trustees and Coordinator, Nijera Kori, Bangladesh</p>
Open Discussion	Open Discussion	Open Discussion
Summing up by the Chair	Summing up by the Chair	Summing up by the Chair

5.00 pm-7.00 pm	Plenary III: Delivering on South Asian Dream: The Political Challenge <i>Venue: Ballroom</i>
Chair	
<i>Professor Rehman Sobhan</i> Chairman Centre for Policy Dialogue (CPD), Bangladesh	
Panelists	
<i>Mr Syed Babar Ali</i> Co-chair, South Asia Centre for Policy Studies (SACEPS) and Pro-Chancellor, Lahore University of Management Sciences, Pakistan	
<i>Professor Muchkund Dubey</i> President Council for Social Development, India	
<i>Dr Bhekh Bahadur Thapa</i> Former Minister of Foreign Affairs and Former Minister of Finance, Nepal	
<i>Ms Arifa Khalid Parvez</i> Member, Provincial Assembly Punjab, Pakistan	
<i>Mr Asoka Gunawardena</i> Executive Governor Marga Institute, Sri Lanka	
Open Discussion	
Guest of Honour	
<i>Mr Ibrahim Hussain Zaki</i> Hon'ble Special Envoy of the President of the Maldives and Former SAARC Secretary General	
Chief Guest	
<i>Professor Dr Gowher Rizvi</i> Hon'ble International Affairs Advisor to the Prime Minister Government of Bangladesh	
7.00 pm-7.30 pm	Closing <i>Venue: Ballroom</i>
Chair	
<i>Professor Rehman Sobhan</i> Chairman Centre for Policy Dialogue (CPD), Bangladesh	
Summary of the Proceedings	
<i>Dr Debapriya Bhattacharya</i> Distinguished Fellow Centre for Policy Dialogue (CPD), Bangladesh	
Vote of Thanks	
<i>Professor Mustafizur Rahman</i> Executive Director Centre for Policy Dialogue (CPD), Bangladesh	
Statement by the Organiser of SAES V	

Participants of the Conference

List of Overseas Participants and Resource Persons

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**Food Security in South Asia:
 What should be the Policy Initiatives in view of
 Supply Uncertainty and Price Volatility?**

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Parallel Session III
**Managing International Migration and Flow of Remittances:
 Recent Global Developments and Implications for South Asia**

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Parallel Session IV

**Transport Connectivity in South Asia and Beyond:
Current Status and the Next Steps**

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Parallel Session V

**Addressing Implications of Climate Change within a Regional Framework:
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Parallel Session VI

**Regional Approach to Energy Security in South Asia:
Assessing the Progress**

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Parallel Session VII
**Acceleration of Investment in South Asia:
Where are the Current Obstacles?**

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Parallel Session VIII
**Managing the Water Resources in the SAARC Region:
What are the Possible Win-Win Solutions?**

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Parallel Session IX

**Role of Non-State Actors in the Development and
Democracy in South Asia: Recent Trends**

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Titles of Presentations Not Included in the Volume

About 50 presentations were made throughout the three plenary sessions and nine parallel sessions of SAES IV. Regrettably, not all authors were able to submit full versions of their papers. However, given their importance and considering the interest of readers, following is a list of those presentations that could not be accommodated in this volume. These presentations can be accessed from the following link: <http://www.cpd.org.bd/saesiv/sessions.asp>

Global Economic Turmoil and Implications for South Asia: Short and Medium-term Challenges

Dr Nagesh Kumar, Chief Economist, UN-ESCAP, Bangkok and Director, ESCAP Sub-Regional Office for South and South-West Asia, New Delhi

South Asia: Successes and Challenges

Dr Kalpana Kochhar, Chief Economist, South Asia Region, The World Bank

Current Phase of Global Economic Recovery and Implications for South Asia

Dr Wahiduddin Mahmud, Former Finance Advisor to the Caretaker Government

South Asia and Trade of Safe and Quality Foods

Dr Sachin Chaturvedi, Senior Fellow, Research and Information System for Developing Countries (RIS), India

Towards an Inclusive Growth in South Asia: Role of Regional Cooperation

Mr Abdul Matlub Ahmad, President, India-Bangladesh Chamber of Commerce and Industry (IBCCI), Bangladesh

Competition Policy, Legislation and Investment Issues in South Asia

Mr Pradeep S Mehta, Secretary General, Consumer Unity & Trust Society (CUTS), India

"Acceleration of Investment in South Asia: Where are the Current Obstacles?": Missing Links?

Dr Mia Mikic, Coordinator, Trade Policy Section, ARTNeT, UN-ESCAP, Bangkok

From Segmentation to Integration: Regional Cooperation in Energy in South Asia

Dr M Asaduzzaman, Research Director, Bangladesh Institute of Development Studies (BIDS)

Energy Security in South Asia: The Role of Regional Cooperation

Dr Herath Gunatilake, Principal Energy Economist, South Asia Department, Asian Development Bank (ADB), Manila

Energy Security in South Asia: Need for Consistent and Sustainable Approach

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Transport Connectivity in South Asia and Beyond

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Managing International Migration and Flow of Remittances: Recent Global Developments and Implications for South Asia

Dr Ganesh Gurung, Founding Chairperson, Nepal Institute of Development Studies (NIDS) and Former Member of National Planning Commission, Government of Nepal

Managing Migration and Remittances: A Sri Lankan Perspective

Dr Dushni Weerakon, Deputy Director and Fellow, Institute of Policy Studies of Sri Lanka (IPS)

Is Win-Win Solution Possible?: Bangladesh Perspective

Dr Ainun Nishat, Vice Chancellor, BRAC University, Bangladesh

Managing the Water Resources in the SAARC Region: What are the Possible Win-Win Solutions?

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Addressing Implications of Climate Change within a Regional Framework: What are the Recent Initiatives?

Dr A Atiq Rahman, Executive Director; and *Dr Golam Rabbani*, Research Fellow, Bangladesh Centre for Advanced Studies (BCAS)

Addressing Implications of Climate Change within a Regional Framework: Recent Initiatives

Dr Jagadish Chandra Pokharel, Former Vice Chairman, National Planning Commission, Government of Nepal

Ensuring Benefits to South Asia in the Green Technology Sector: Role of Domestic, Trade and Technology Policies

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Climate Change & Sustainable South Asia

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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.

Organiser



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