

# Fifth South Asia Economic Summit (SAES-V)

Islamabad, Pakistan

17<sup>th</sup> – 19<sup>th</sup> September 2012

*Making Growth Inclusive and Sustainable in South Asia*

Concept Note

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Sustainable Development Policy Institute - Pakistan

## Background

At the time of writing of this concept note four key developments are taking place on the global front. First we are being reminded that the effects of global financial crisis are here to stay for a little longer. This has been validated by the Euro zone crisis that has already started to impact South Asia. Second is 17th Conference of the Parties of the United Nations Framework Convention on Climate Change held at Durban which is now being vowed as an important step towards combating global climate change. The third development is regional in nature carrying significant importance for South Asia's future. The 17<sup>th</sup> Summit of the heads of South Asian Association for Regional Cooperation (SAARC) was held in Maldives and witnessed signing of some important agreements between member states. Finally and most concerning of all that economic growth in the South Asian region has been projected to decline at least for the next two quarters. We briefly discuss these four developments below in order to set in sequence the priorities for the next South Asia Economic Summit.

The origins of the Euro zone crisis were varied for the member countries. All sort of problems collided to make a plethora of challenges for the governments – who now had to deal with toxic financial assets, ballooning budget deficits and restructuring of debt. But going forward some key challenges remain, for example how to rebalance demand within a single currency block? A question which has forced economic managers to rethink how member countries should be selected to form a currency union. Whatever the current state of crisis it has certainly started to impact the South Asian economies. India and Bangladesh have officially reported the status on cancelled export orders. Pakistan is fearing that migrant workers in EU may be laid off in big numbers which in turn may result in a decline in future remittance inflows. Afghanistan has indicated that aid flows from EU may be slashed on account of already high budget deficits being faced by leading member states including France, Italy, and Spain.

The global financial crisis had put the climate change agenda on the backburner due to the developed countries envisaging a downward pressure on (restoration of) economic growth in case climate change commitments were observed. The restructuring of economy into a low carbon mode will imply reduction of output and employment growth in agriculture sub-sectors such as crops, forestry and may be livestock. The Durban talks however led to an important intellectual breakthrough towards resurrecting the climate change negotiations. The Durban Platform for Enhanced Action aims at bringing all greenhouse-gas emitting countries under a common legal regime by 2015. This legal understanding will bind these countries to cut emissions by 2020. A group has been put in place to provide proposals on the financing of Global Climate Fund that is planned to provide \$100 billion annually by 2020 to poor countries. Some decisions were also taken with regards to the manner in which carbon offsets should be

allocated under the Clean Development Mechanism to carbon capture and storage projects. Finally in the interest of capacity building of developing countries a Climate Technology Center and Network will be established which will ensure systematic transfer of technology.

There have been interesting developments at the regional front during the past few months. The 17<sup>th</sup> SAARC Summit held in Maldives ended on an upbeat note. Several agreements were signed which included the SAARC agreement on Rapid Response to Natural Disasters, the SAARC agreement on Multilateral Arrangement on Recognition of Conformity Assessment, the SAARC Seed Bank Agreement and the SAARC Agreement on Implementation of Regional Standards.

A strong resolve was exhibited to continue efforts towards finalizing framework for improving connectivity through rail and sea which will ultimately also result in a regional railways agreement. It was decided that by the end of next year formalization of Indian Ocean Cargo, Motor Vehicle agreement and Passenger Ferry Service will also be completed. A demo run of a Bangladesh-India-Nepal container train will soon be initiated. Increased interest was indicated towards inter-governmental agreement for energy cooperation and regional power exchange.

While the usual emphasis on the implementation of South Asian Free Trade Area (SAFTA) was reiterated, it was highlighted that there are significant barriers to intra-regional trade which are hurting producers as well as consumers in the region. A focused effort is required to slash the number of items under sensitive lists, harmonize standards and customs processes, and eliminate non-tariff barriers.

In view of the above mentioned two largest countries in the SAARC region came forward with positive steps in order to prove their seriousness towards the regional cooperation agenda. Pakistan announced that it was ready to provide most favored nation status to India and will also reduce its sensitive list by 20 percent and allow tariff concessions on further 233 items under SAFTA by February 2012. India also announced that its sensitive list for LDCs will now be limited to 25 items.

Going forward the key challenge faced by several South Asian economies will be to restore and sustain economic growth and put it on an inclusive path. In the wake of Euro zone crisis, international and national projections indicate a downward pressure on growth in SAARC member countries. In India the high interest rates which were maintained to tame inflation have resulted in discouraging investment and have particularly hurt the performance of industrial sector. The Indian economy is exposed to the troubles facing European financial sector which in turn has also put the Indian currency under pressure.

In case of Bangladesh growth in the real sector has been cradled through market access to readymade garments and rising inflow of remittances. However growth in foreign direct

investment, move towards value addition in exports and diversification in overall structure of growth has been slow to come by due to issues related to security, governance, tax structure and vulnerability to natural disasters. These factors threaten the sustainability of growth in the longer term and will also pose challenges to policy objectives related to poverty and inequality improvements.

A similar story in Pakistan suggests that growth will remain depressed on account of energy crisis facing the industrial sector. Furthermore the negative repercussions of war on terror are thought to keep foreign and domestic investment growth at low levels. The country has benefitted on account of remittances and rising export prices – a trend which is forecasted to saturate in the coming days. To add to these difficulties the country has been facing floods on recurrent basis which have caused loss of agricultural activity and displacement of substantial number of people in Punjab and Sindh.

Finally most of these economies are dependent on proceeds from Diaspora, bilateral inflows of foreign assistance, export receipts from commodity based items – all of which are prone to volatility in the wake of Euro zone crisis, lack of consensus on global initiatives on trade, investment and climate change, war on terror, and increased political instability in several SAARC member countries. These and other issues that arise from decades-old political differences in this region require a collective solution. There has never been a more important time to consider a regional approach towards common objectives of inclusive and sustainable growth which can in amalgam with micro-level interventions lead to welfare improvement for the people of South Asia.

## **Making Growth Inclusive and Sustainable**

On the economic front, while South Asian networks have worked at length over issues related to relaxation in trade barriers there are many facets of cooperation that remain unexplored. It is important to question the pattern of growth in South Asia if this region is to give a human face to economic growth. While the real GDP growth trends have been on an upward trend, it seems that this has been accompanied by rising food insecurity, commodity market bubbles, rent-seeking activities, regular occurrence of climate change led natural disasters, crime and related social evils.

The rhetoric and to some extent policy practice of inclusive growth has traditionally involved actors which include regulators, civil service, entrepreneurs and civil society organizations (CSOs). However stronger input from two constituencies is still required. These are members of academia and communities at the micro level. While CSOs claim to represent the wider society

however holistic representation of communities is excluded due to barriers related to language, culture and accessibility.

A new insight into inclusive growth is desired which can start by taking account of demographic trends in South Asia, analyze future production, trade and employment patterns. The focus on job creation will be extremely necessary and this need not come from South Asian countries competing in western markets. A greater level of aggregate demand can be leveraged through cooperation with in South Asia. The key sectors to consider here are services such as wholesale and retail, banking and finance, transport and communications, education and health services etc. Finally South Asia has been one of the worst hit due to climatic changes. It is now common to witness recurrent melting of glaciers, floods, earthquakes and region-specific changes which have adversely impacted the eco-system. The fast growth of urbanization in South Asia has not only posed pressures on municipal services but led to environmental and health issues particularly in slum areas.

The unprecedented rise in remittances from abroad has been in the literature claimed to have boosted rural productivity, farm output and led to smoothening of consumption in lower middle and low income households in South Asia. While the origin, source and composition of these remittances in many countries has come under critique however the developing economies have ignored these views attaching greater importance to overall balance of payments security. Recent research in South Asia is now starting to point towards some evidence of 'Dutch disease' owing to rising remittance inflows.

It will be an opportunity for participants in this year's SAES to take a stock of the situation keeping the following new and upcoming development priorities under consideration.

**Beyond Millennium Development Goals (MDGs):** The Human Development Report 2011 explains at length how the business-as-usual approach towards pressing issues related to production, trade and environment are increasingly making the world and unsustainable place.<sup>1</sup> The report also recognized that power structures and gender inequalities in development countries dictate the access to most basic services. In this context Rio+20 and its follow up will shape a new beyond-MDGs agenda. Any new discourse should focus on the increased value of accountability and democratic processes and community-led approach to development. There is a need to see how institutions in developing economies can be made more inclusive so that due attention can be given to women, minorities and marginalized groups.

**Post-Global Financial Crisis:** The experiences of global financial crisis have shaken the intellectual foundations of capitalism. While the world has gone a long way from ending slavery

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<sup>1</sup> UNDP (2011) Human Development Report 2011 – Sustainability and Equality: A Better Future for All. Washington DC.

and towards achieving freedom and basic rights. However it is still not clear what shape will a 'well-behaved capitalist' paradigm take. Leading economists have advised that regulatory environments in sectors such as banking and finance should evolve with the markets. This will require a global effort towards understanding the nature of speculative bubbles and the actors that leverage these bubbles. This is not restricted to banking and finance but also for sectoral markets such as oil and gas. An additional challenge will now be to reform the global commodities market operations. The bitter experiences of 2007-08 have shown how global food shortages can lead to serious implications for food security, health and nutrition. All in all there is now a need to think towards 'sustainable capitalism'.

**Non-traditional security threats:** While spread of free market, deregulation of trade and investment, and greater people to people cross-border interaction has increased mobility and allowed people to exercise basic socio-economic rights, however this has given rise to several forms of non-traditional security threats. These include (but are not limited to), a) governance, security and justice, b) food security and livelihoods, c) conflict-led and disaster-led migrations, d) health epidemics, e) cross-border and in-country terrorism, and f) environmental security. One of the key pre-requisites of inclusive growth are regular efforts to ensure peace and enforcing legal contracts in a manner that provides security of assets and profits. Sense of belonging, faith in community and security lessen brain drain and bring more harmony in economic players at all tiers. While the medium term development plans (sometimes referred to five year development plans) in South Asian countries have mostly focused on accumulation of physical capital, the mention of human capital has only appeared a decade back. However the more concerning aspect is that plan and policy formulators still have not given due importance to social capital.

**Basic Infrastructure and Social Services:** A resource constraint in the public sector and rising costs of building and maintaining infrastructure (partly due to rising commodities prices) have led to competing demands on otherwise public goods. While the rich and influential manage to gain access to such needs through their privileged channels, there are many who get left behind in the process of economic growth or when growth falls apart. It is these challenges that provide a case for regional cooperation for poverty reduction. A matter of great interest for all South Asian countries is cooperation in energy and water sectors. Such a cooperation can create internal economies of scale in the region and also lead to benefits that originate from country-specific specialization in these sectors. In case of social sectors there is a growing body of literature that points towards how inequality in education continues to keep societies poor. It is important to question as to who are the students that manage to reach university level education in South Asia and how current structure of higher education continues to strengthen 'elite capture' of all forms of national resources.

**Connectivity:** South Asia's dream of a seamless border still remains to be fulfilled. The key areas that require further work revolve around easing of procedures that could facilitate movement of goods and people. In case of the former customs and quality standards procedures need greater harmony. In case of latter simple procedural difficulties such as visa issues are holding back aspirations of the people of South Asia. The lack of connectivity is no more limited to road, railways, aviation and port networks in South Asia (which have greatly improved over the past few years) but calls for a deeper understanding between governments to have conducive procedures in place.

**Engaging youth and Diaspora:** Given the youth bulge it is an ideal opportunity for this region to ride on the energetic and creative productivity of youth in South Asia. This region needs to look towards countries such as Israel, Malaysia, China and Australia who have put in place formal plans and strategies to leverage youth-led innovations. The other player now playing an increasingly important role in economic development of this region are the expatriates. SAES should contemplate on out of the box solutions where by the Diaspora of this region can be steered to take a mentoring role (similar to China).

## The South Asia Economic Summit (SAES) Initiative

While there have been instances in South Asian history when the governments of SAARC member countries found themselves in a political deadlock, however a significant development in the region has been the rise of civil society organizations, many of whom have culminated in to think tanks of global repute.

These organizations help to keep the national governments on track as regards the multifarious nature of issues involving regional cooperation. Many of such issues go well beyond politics and economics and include concerns like food security and livelihoods, climate change induced natural disasters, migration, connectivity of people and places, energy and water cooperation etc.

In the same spirit SAES was launched in 2008 with the objective of bringing together leading academics, practitioners of public policy, members of business community and related stock holders to discuss regional approach to issues of mutual concern and also to learn from home grown solutions to common predicaments that can be replicated elsewhere in South Asia. Over the past four years it will not be an exaggeration to say that this event has become the 'South Asian Davos' following the example of World Economic Forum at Davos. A brief summary of previous summits is given below:

Events	Location/Date	Themes
First South Asia Economic Summit	Colombo/28 <sup>th</sup> July to 3 <sup>rd</sup> August 2008	Economic Integration in South Asia: SAFTA and Beyond
Second South Asia Economic Summit	New Delhi/10-12 <sup>th</sup> December 2009	South Asia in the context of Global Financial Meltdown
Third South Asia Economic Summit	Kathmandu/17-19 <sup>th</sup> December 2010	Regional Economic Integration, Climate Change and Food Security: Agenda for the Decade 2011-2020
Fourth South Asia Economic Summit	Dhaka/22-23 <sup>rd</sup> October 2011	Global Recovery, New Risks and Sustainable Growth: Repositioning South Asia

It is now proposed to organize SAES-V in a manner that its observations and recommendations can be framed for the 18<sup>th</sup> SAARC Summit to be held in Nepal. Many of the participants of SAES-V will be actively involved (through the auspices of national governments) in the negotiation process that will take the SAARC agenda forward. This year SAES secretariat (Sustainable Development Policy Institute – Pakistan) will make a focused effort to involve politicians and civil servants from member countries besides have a number of experts already involved in Track-I and Track-II level of South Asian development agenda.

The civil society think tanks from South Asia who participate every year in organizing the event include Sustainable Development Policy Institute (Pakistan), Institute of Policy Studies (Sri Lanka), Research and Information System for Developing Countries (India), South Asia Watch on Trade, Economics and Environment (Nepal), Center for Policy Dialogue (Dhaka). Besides these several other think tanks in the region will collaborate with SDPI in bringing together ideas and research of mutual interest.

## Themes under SAES-V

In order to give economic growth process in South Asia a human face the broad theme of SAES-V to be held in September 2012 will be 'Making Growth Inclusive and Sustainable in South Asia'. Within this broad sphere of thinking the following sub-themes are proposed:

- Macroeconomic stability and responses to internal and external shocks
- Revisiting the trade barriers in SAARC region
- Connectivity between people and places



- Regional cooperation for energy and water security
- Future prospects of migration and remittance flows to South Asia
- Climate change, natural disasters, food security and livelihoods
- Poverty and inequality impact of growth policies in South Asia
- Growing urbanization and rising middle class in South Asia
- Regional options for inclusive entrepreneurship and innovation
- Women and youth engagement in South Asia

## Organizing SAES-V

The Fifth South Asian Economist Summit will be held in Islamabad in September 2012. The summit will be organized by SDPI in collaboration with its regional partner think tanks from SAARC member countries.

SDPI is one of the premier non-governmental, non-profit, and oldest policy think tank in Pakistan – seeks to catalyze a transition towards sustainable development, defined as the enhancement of peace, social justice and well-being, within and across generations in Pakistan and the world. SDPI conducts empirical research not only for developing recommendations for improving environmental, livelihood, governance, and trans-boundary issues but to also foster conducive environments where change can occur. It is actively working on societal transformation and an active partner of “Track II diplomacy” with India. SDPI’s initiative “Imagine a New South Asia” has gone a long way to bring likeminded organizations – with their focus on people centered development and peace- into a viable network.

One of the strengths of SDPI is its institutional partnership and collaboration with local as well as international universities for various research and policy outreach assignments. Among others, SDPI is a partner of GC University Lahore (conducting joint research on sustainability sciences); FC University Lahore (conducting joint research on public policy and governance); University of Agriculture, Faisalabad (conducting joint research on livelihoods, food security, and natural resources management); Arid Agriculture University Rawalpindi (conducting joint research on rural economy); University of Peshawar (conducting joint research on environmental sustainability); and SZABIST University Islamabad (conducting joint research on gender studies). SDPI researchers not only conduct joint research with academicians of above mentioned universities but they also serve as members of supervisory committees for postgraduate students; members of Board of Studies of these universities; and members of Academic Councils. This is a two way partnership and various faculty members of these universities serve as visiting research fellows at SDPI. Additionally, SDPI also offers regular internship programs to students of partner institutes.

It is envisaged that around 150 participants will attend this summit including 45 foreign dignitaries from SAARC member countries. The concept note in its current form stands flexible where by co-organizers as well as development partners can add any themes of pressing importance. SDPI remains open to adding further panels to its tentative program given below.

While the proceedings of the summit will be collated and submitted for information and record of member governments as well as for consideration during 18<sup>th</sup> SAARC Summit, however in terms of producing tangible knowledge products it is envisaged that most speakers will be requested to write dedicated papers for their panel for which SDPI will provide a modest honorarium. These papers after some post-summit revisions will then be compiled in book form. SDPI's web TV (SDTV) will prepare recordings of all sessions to be placed on a dedicated website. All sessions will be live-streamed on internet for viewers abroad.

## Tentative Program

<b>Day 1</b>	
Inaugural Session	
Refreshments	
Plenary-I: State of growth and sustainable development in South Asia	
Lunch	
Concurrent Sessions	
A1: Challenges confronting investment, savings and economic growth in South Asia	A2: Expediting liberalization of trade in goods and services in South Asia
Refreshments	
A3: Reforms for transport connectivity across South Asia	A4: The role of non-state actors in promoting people-to-people interaction in South Asia
<b>Day 2</b>	
Plenary-II Impact of external economic shocks and South Asia's response	
Refreshments	
A5: Regional cooperation for energy security	A6: Internal Migration, urbanization and rising middle class: learning from South Asian case studies
Lunch	
A7: Challenges posed by scarcity of water resources and options for a regional solution	A8: Challenges faced by South Asian migrants abroad: Implications for Remittance inflows
<b>Day 3</b>	
A9: Post-Durban state of climate change negotiations: South Asian perspective	A10: Availability, accessibility and demand for food: options for South Asian cooperation
Refreshments	
A11: Regional options for promotion of	A12: Regional options for engagement of

entrepreneurship and innovation	women and youth in development process
Lunch	
Plenary-III: Challenges confronting SAARC and options for a collective response	
Closing session	