



CONCEPT Paper

Background

South Asia has emerged as one of the fastest growing regions in the world with an average rate of growth of 8 per cent sustained over the past five years. The region's macroeconomic resilience is also widely acknowledged. Aided by various national and regional cooperation initiatives, the region is also focusing on improving access to education, health, nutrition and basic amenities like safe drinking water and sanitation, which pose serious developmental challenges. And, while they are striving to realise their developmental potential, the countries of the South Asian region remain committed to achieving inclusive growth. However, for sustaining this dynamism, the region has to mobilize resources for development of both physical and social infrastructure.

It needs to be emphasised that the developmental challenges facing the South Asian region are so formidable that while national level policy initiatives are necessary, they may not be sufficient to address them. Recognising this, and the fact they have shared history, cultural and linguistic similarities, countries in the region have engaged themselves in furthering integration of their economies.

Meeting the above-mentioned challenges was in any case a daunting task for the South Asian countries, what has compounded it is the new context of global financial and economic meltdown.

Problems in the U.S. mortgage market set in motion the biggest financial crisis which, in turn, has resulted in the sharpest downturn of the global economy since the Great Depression. As per the latest estimates provided by the IMF, global GDP is expected to shrink by 1.3 per cent in 2009, which revises the earlier estimates upwards by 0.01 per cent. But more importantly, IMF predicts that the U.S. and the UK suffer GDP declines of 2.9 per cent and 4.5 per cent respectively. International trade too is likely to experience the sharpest decline in several decades.

Unemployment, which was already a problem in the developed world, is expected to follow a similar trend in the export-dependent economies especially in East Asia, as developed countries experience the recession and global investors retreat from emerging markets. Consequently, total private capital flows to developing countries dropped in 2008 (World Bank, Global Development Finance, 2009).

Impact of Global Economic Meltdown on South Asia

The global economic downturn hit South Asia at a time when it had barely recovered from severe terms of trade shock resulting from the global food and fuel price hikes. The food and fuel price shocks had badly affected South Asia, with cumulative income loss ranging from 34 percent of 2002 GDP for Maldives to 8 percent for Bangladesh. Current account and fiscal balances worsened sharply and inflation surged to unprecedented levels (World Bank, 2009).

But notwithstanding the above-mentioned, South Asia has remained among the least affected regions, with growth rates declining from 8.6% recorded earlier to 6.8% in 2007. India's growth slowed during 2008: its GDP grew at around 7.1% for the year, which was well below the 9% growth rate registered in recent years. In Pakistan, a large fiscal deficit triggered a balance-of-payments crisis that required stabilization support from the International Monetary Fund. Growth in Bangladesh, Bhutan, Maldives, and Sri Lanka moderated, too. (ADB, Asian Development Outlook, 2009).

There are several other dimensions of the global meltdown that range over a whole spectrum of financial and real economies. The responses to the crisis, like the Declarations G-20 countries need to be analysed from the point of view of their implications for developing countries. More importantly, the implications of these global developments on the process of regional integration in South Asia have to be assessed, in our view, Specifically, the regional integration process in South Asia requires a timely assessment in the context of the global economic slowdown and responses thus far.

South Asian Economic Integration and Development

South Asian Association of Regional Cooperation (SAARC) has come a long way in giving effect to regional economic and development cooperation projects, that too against severe constraints. The ongoing implementation of various flagship regional cooperation projects like the implementation of SAFTA Treaty, South Asian University, SAARC Development Fund and the SAARC Food Bank are but pointers to SAARC's emergence as a dynamic economic grouping.

The South Asian region has moved ahead in broadening the scope of trade cooperation in recent times, especially with the implementation of the SAFTA Treaty. Besides tariff reduction commitments, SAARC countries have also made forward movement in terms of reducing the sensitive lists, tackling non-tariff barriers (NTBs) and granting special and differential treatment to the LDCs. Additionally, these countries have also initiated steps for enhanced customs cooperation and harmonisation of standards, among others initiatives. To realise the full potential of trade in services in the region a draft agreement on trade in services is under finalisation.

Intra-regional trade in South Asia has begun to grow and has doubled over the past five years. It is time that the region takes adequate cognizance of the economics of neighbourhood just as different regions across the world have adopted the strategy of regional economic integration to exploit their synergies for mutual benefit in a balanced and equitable manner.

It has been found that lesser developed and smaller countries in South Asia lack supply capabilities in tradable items that have demand in larger countries of the region and this often gets reflected in trade imbalances in favour of the latter. RIS analysis suggests that nearly three-fourths of intraregional trade potential remains to be exploited, and in this regard, SAFTA provides a huge window of opportunity. It may be argued that SAFTA can help in fostering balanced regional trade and a win-win economic outcome by assisting in creation of supply capabilities.

In order to exploit its full potential of regional economic integration, SAARC countries need to put SAFTA's implementation on a fast-track, which can be done by expand its scope through whittling down the negative lists and addressing market access limitations caused by non-tariff barriers. They also need to move on to expand the scope of integration to cover trade in services, investment facilitation and industrial cooperation, financial and monetary cooperation including integration of capital markets. SAARC countries should expeditiously move towards creating a South Asian Customs Union by 2015 and move further to the South Asian Economic Union by 2020. There is no gain saying that deepening of regional economic integration in South Asia would help countries the region to consolidate and sustain their growth momentum, tackle the scourge of poverty more effectively, besides strengthening the region's place in the global comity of nations. The above-mentioned steps have assumed greater importance in the wake of the global financial meltdown.

In nutshell, the South Asian countries can face the challenges within and without much more effectively through deeper regional economic integration. Towards this end, specific proposals for deepening cooperation in trade in goods and services, investment, strengthening transport infrastructure, telecommunication, trade facilitation, energy security and human development within the region for mutual benefit would have to be studied with more adept approach. In this regard, the regional social and cultural commonalities could be harnessed for addressing the social and cultural issues. And, for realising these goals, coordinated efforts would have to be made through the involvement of all stakeholders, the government, business, think-tanks and civil society organisations.

Thus, there is clearly a case for in-depth analysis and deliberations on a whole host issues including the reform of the global financial architecture; implications of the crisis for the South Asian economic integration and development; building a South Asian perspective on a more intensive and inclusive regional economic integration; mechanisms and time frame for deepening South Asian economic integration as a response to the crisis that includes areas of physical connectivity, social and cultural cooperation, among others.

This sets the backdrop in which the 2nd South Asia Economic Summit (SAES) is proposed to be organised on 10-12 December 2009 in New Delhi.

The event is also an effort to further build upon the tremendous success achieved by the 1st South Asian Economic Summit held on 28 July - 03 August 2008 at Colombo, the Report of which is annexed for ready reference.

Objectives

The main objectives of the 2nd SAES are:

- (i) Generate new thinking on South Asian economic integration and development, especially in the context of the global economic meltdown, with the help of new rigorous policy-oriented research
- (ii) Synthesise the cross-cutting views of the policy-makers, businesses and the academia, both from within the region and without
- (iii) Synergise the thinking on South Asian integration and to take the process further with think-tanks in the region

Agenda

As highlighted above the tentative agenda of the 2nd SAES proposes to cover the following and is enclosed:

- (a) Global Economic Crisis and Implications for South Asian Economic Integration and Development
- (b) Towards Intensive and Inclusive Model of Regional Economic Integration, including deepening of SAFTA
- (c) To analyse the recommendations of the SAARC meeting on global economic crisis
- (d) Increasing people to people exchange

Organizers

The 2nd SAES would be organized by RIS Organised by RIS mainly with the support of Ministry of External Affairs, Govt of India. Other collaborating institutions include IPS, Colombo, SAWTEE, Kathmandu, SACEPS, Kathmandu, UNDP RCC, Colombo, UNESCAP, Bangkok, ADB, Manila, FICCI.

There will be full media coverage of the event by the residential representatives of the South Asian media in Delhi. Cultural events will be organized in the evenings followed by receptions/dinner.

Participants

SAES would bring together scholars from various think-tanks and leaders of industry, particularly from the South Asian region.

Output

The Conference papers and proceedings will be brought out in the form of a book, published by a reputed international publisher.