TOWARDS A STRONGER, DYNAMIC & INCLUSIVE SOUTH ASIA

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Motivation of the 6th South Asia Economic Summit, Colombo 2013

The South Asia Economic Summit (SAES), launched in 2008, is the premier regional platform for dialogue and debate on socio-economic issues facing South Asia. Each year, the Summit tackles the critical issues, develops new insights, and generates ideas on policy priorities for the region’s decision-makers.

It brings together the top personalities in this region from academia, government, civil society, private sector, and media. The Summit has been held in a different South Asian capital each year.

This year’s Summit, the 6th edition, is hosted by the Institute of Policy Studies of Sri Lanka (IPS), the country’s apex think tank. In a ground-breaking effort to demonstrating a commitment to environmental sustainability, the Summit is an internationally certified CarbonNeutral® Event.

In previous years, the SAES has been concerned mostly with issues of regional cooperation, as well as with regional approaches to dealing with such issues as food and energy security. While recognizing the importance of regional cooperation in strengthening South Asia and positioning it as a better integrated region, the 6th SAES in Colombo offers a new focus. It is motivated by the idea that faster, inclusive and sustainable growth in South Asia depends not only on collective regional action but, equally, on efforts made by South Asian countries to address the constraints to growth and unleash inclusive growth opportunities at a country level.
Consequently, this Summit will centre around four key issues – what we are terming ‘The Big Four’:

- **Harnessing Human Capital Potential**
- **Managing Water Resources, Food Security and Climate Change**
- **Addressing Intra-Country Growth Disparities**
- **Building Competitiveness of the Private Sector**

Each of these features a sub-set of themes which will form the basis of parallel session discussions at the Summit. These four broad themes have been selected on the basis of their relevance to growth concerns in South Asian economies. While certainly not an exhaustive list, they are, nevertheless, issues which have either been discussed insufficiently at previous Summits (such as the importance of private-sector development), or which seek to offer fresh perspective on familiar subjects (such as climate change).

The purpose of the 6th South Asia Economic Summit is thus to highlight the significance of these issues, and to discuss ways in which the South Asian economies may begin – both individually and collectively – to address them, thereby best positioning the region to achieve sustained and inclusive growth in the future and usher in an era of greater prosperity for its people.

**Summit Format and Content**

Each of the 4 main themes highlighted earlier will feature as a **Plenary Session**. First, there will be an anchor presentation on each theme taking an overarching view on the theme. IPS has commissioned four institutes (from among the SAES partners) to each prepare an anchor background research paper on each theme. This will form the basis for the lead presentation during the plenary session of that theme. Prior to the Summit, all participants will be sent an executive summary of each paper. This will be followed by an **Expert Panel discussion** featuring eminent experts which is carefully moderated by a selected moderator/chair, with the aim of generating a lively debate and incisive exchange of ideas.

The Summit will also feature 12 parallel sessions – 3 for each of the ‘Big Four’. Each of these 3 sub-themes will feature up to 6 discussants who will take forward in more detail the ideas exchanged in the plenary and delve deeper into the particular sub-theme, together with the audience.

This will be different to the usual “presenter-discussant” format. All panelists will deliver their expert views/comments based on a set of specific question areas which they have identified in advance, followed by an extended period of time for Q&A engagement between the panelists and the audience. In this year’s Summit, we encourage resource persons to bring in new ideas and put forward a new agenda for action.

As the material contained in this Concept Note will highlight, the governments of individual South Asian economies face a number of daunting challenges. Equally, however, they possess a number of opportunities and tools for overcoming them – or, at the very least, for mitigating their adverse effects. One of the most important tools in this respect is regional cooperation. The need for South Asian governments to act individually in order to address the problems specific to their economies is strongly coupled with a need for these governments to act in concert to alleviate obstacles to regional growth. The 6th SAES seeks to provide the knowledge inputs to enrich these policy and planning efforts.
Theme I (Plenary 1): Harnessing Human Capital Potential in South Asia

Future economic growth in South Asia will rely heavily on individual states’ ability to harness the various opportunities presented by human capital. These include the demographic dividend, the allocation of its growing labour-force into productive employment (both domestically and overseas), and the existence of a large and widespread diaspora, an important source of remittance revenue and knowledge transfer.

Parallel 1A: “Youth Bulge”
Reaping the Demographic Dividend

Due to changes in the demographic structure of the South Asian population over time the region will, by 2020, have the youngest population in the world. These changes have important implications for growth through such channels as a swell in the labour force, increased female labour-force participation as fertility rates continue to fall, and higher physical and human capital accumulation due to increased savings.

In fact, it is projected that South Asia’s working-age population will grow by an average of 18 million people per year for the next twenty years, reaching the peak of its working-age to non-working-age ratio in 2040. All South Asian states except Sri Lanka have the potential to benefit from this demographic dividend, with the ratio of working-age to non-working-age people rising significantly faster between 2005 and 2050 than it did between 1960 and 2005. By contrast, Sri Lanka – having missed making use of the demographic dividend – now faces the problem of an ageing population.

The existence of the demographic dividend in South Asia necessitates a policy focus on supporting the specific needs of a working-age population, specifically in a manner that would aid in converting demographic changes into economic growth. Health, education and vocational skills training are areas of particular importance in this regard. Of equal significance is creating productive employment opportunities for this growing labour-force in order to avoid the socio-political unrest that could arise from widespread unemployment and consequent poverty in the region.

Speakers in this Parallel Session will tackle the following question areas:

1. In your view, overall, how will the changing demographic structure influence a change in your country’s economy as a whole?
2. In your view, what is the most important implication of the changing demographic structure for your country’s growth and for the South Asian region as whole?
3. What are the specific needs of an expanding working-age population in your country, in terms of converting demographic changes into an economic dividend?
4. What are the implications of the demographic dividend on health and education sectors in South Asia?
5. What changes in health and education policies of your country are required to make maximum use of this demographic dividend?
6. In contrast to other South Asian countries, what are the specific needs in Sri Lanka where the demographic dividend is waning?
7. How will the demographic dividend influence a change in the economic structure and employment in productive sectors in your country and South Asia as a whole?
8. As India’s middle class reaches record levels in the coming decade, what spillover effects would occur for its South Asian neighbours - in which sectors do you see these benefits arising?

Parallel 1B: “Working for Growth”
Creating Productive Employment

The growth benefits of the demographic dividend cannot be fully enjoyed unless the extra workers generated by the demographic transition are productively employed. Youth unemployment is a growing issue in South Asia, particularly among first-time job-seekers and, increasingly as regional education levels improve, among graduates. Consequently, government policy among the South Asian states must prioritise the creation of productive employment domestically.

Two alternative paths remain open in this respect: a ‘low road’ approach, which consists of expanding low-wage jobs in order to absorb the excess labour, and a ‘high road’ approach, which seeks to develop more highly-skilled forms of employment in the services, industrial and agricultural sectors. While the latter is plainly the more desirable option, it is also more difficult to implement, a fact that governments must consider during the process of reframing labour regulations. Policies aimed at developing South Asia’s burgeoning services sector could prove particularly useful in this regard, as the sector’s growing need for high-skilled workers supports a ‘high road’ approach to job creation.

The promotion of entrepreneurship is also a key factor in ensuring productive job creation in South Asia. A World Bank study finds that entrepreneurship is particularly significant for job creation in economically lagging regions. It improves allocative efficiency and firm competition, supports innovation and promotes trade growth through product variety. It is also useful in aiding the transition from informal- to formal-sector activity. Consequently, a policy focus on entrepreneurial development is an important element of the drive towards productive job creation.

While strong regional growth since the 1980s has enabled South Asia to provide more and better-quality jobs for the members of its labour-force thus far, the challenge of providing such employment for an average of 18 million new labour-market entrants each year over the next two decades remains a daunting one. Efforts to improve labour productivity through physical capital deepening, and through re-allocating excess agricultural labour into high-productivity industries such as manufacturing and services, will prove important in ensuring that the region’s growing labour force is productively employed.

Speakers in this Parallel Session will tackle the following question areas:
1. In view of the expanding working age population, what are the challenges in ensuring this group is productively employed? And what are the policy measures to address it?
2. How big of a problem is youth unemployment in your country, and what are the factors driving it?
3. Are there any policy measures in your country which are aiming to tackle 1 and 2 above?
4. What reforms in labour regulations in your country are required to address the challenge of job creation?
5. How do you think the tertiary education sector should be improved to cope with a greater demand for more highly-skilled labour?
6. What is the role of the services in absorbing more high-skilled workers into the labour force?
7. Which highly-skilled sectors do you think South Asian economies should focus on developing with regards to generating domestic employment?
8. What do you believe are the most significant obstacles to nurturing a rich entrepreneurial environment within South Asia, particularly in the smaller and less-developed countries?
9. What are the current efforts being taken by your country in promoting entrepreneurship?
10. What efforts is your country taking to improve labour productivity?

Parallel 1C: “Migrant Dilemmas”
Labour Migration and the South Asian Diaspora

Just as South Asia’s population grows younger, the populations of many developing countries are ageing. A consequence of this ‘demographic divergence’ will be labour shortages in the developed world, which Western Europe is already facing. One way of achieving productive employment is thus to facilitate migration in the face of growing global disparities in labour-force size. There is, consequently, a need to liberalize labour and migration policy in order to support such labour movements. South Asia is, already, a highly mobile region, with approximately 24 million (or 1.5 per cent of the regional population) residing outside of their country of birth in 2011. Migration occurs both intra- and inter-regionally. A study conducted in 2011 revealed that 43 per cent of South Asian migrants relocate regionally, while 35 per cent live in the Middle East and 20 per cent reside in OECD countries.

Consequently, migrant remittances are an important source of revenue for South Asian states; in 2006, for instance, remittances were four times larger than ODA to the region. Furthermore, countries such as India and Israel have used diaspora bonds as a method of attracting foreign capital.

Nevertheless, a large proportion of migrants currently are unskilled. The current changes in global demographics present an opportunity to expand the migration of skilled workers. There remains a persistent fear that this would induce an economic loss, as such migrants may offer meagre or no returns to the economy which expended resources for their education and training. Equally, however, there is an increasing awareness that such migration can induce ‘brain gain’ rather than ‘brain drain’ if opportunities are appropriately exploited, through knowledge and technology transfers, fostering ‘transnational networks’ or strategic links between regional and foreign markets, and the engagement of surplus workers in productive economic activity. The fact that South Asia’s diaspora is the most widely dispersed in the world significantly enhances the region’s ability to benefit from such opportunities. This diaspora played an invaluable role in the formation of India’s IT and information services sectors, for instance.

Speakers in this Parallel Session will tackle the following question areas:
1. How important a place does migration receive in your country’s policy arena as an alternative means of promoting productive employment?
There are some South Asian countries – like Sri Lanka and Bangladesh – renowned for labour migration. What are the implications of the demographic dividend in these countries on international labour migration?

What future do you see for seamless labour migration between South Asian countries?

Is your country looking towards increasing skilled labour migration as opposed to unskilled migration?

How can your country/the region work towardss ensuring that skilled migration results in more ‘brain gain’ rather than ‘brain drain’?

Does your country currently have strong links with your diaspora; have they in anyway contributed significantly to the country’s economic development?

What steps need to be taken to ensure that the maximum involvement of the diaspora in the national economy?

Can you elaborate on how the Indian diaspora played an invaluable role in the formation of India’s IT and information services sectors? What lessons can be learnt from this for the rest of the region?

Theme 2 (Plenary 2): Managing Water Resources, Food Security and Climate Change in South Asia

While climate change is rapidly becoming a pressing concern for every region of the world, South Asia’s geography, high poverty levels and population density have rendered it especially vulnerable to these effects. South Asia is a region that is likely to be one of the hardest hit by climate change, along with devastating natural disasters. Thus, as climate change increases the frequency and intensity of such disasters, the region is left particularly exposed to their ill effects.

As the region’s greenhouse gas emissions are negligible relative to the global total, however, its ability to mitigate climate change is severely limited. Instead, an important policy priority for South Asian states is to take measures to moderate the effects of climate change. These include a particular focus on food security, social protection for those most vulnerable to weather-related shocks, and improved water management.

Parallel 2A: “Growing Green”
Towards a Greener Growth Path in South Asia

Rapid economic growth is likely to be a feature of South Asia for decades to come. Simultaneously, the region is in a highly vulnerable position in terms of environment, natural resources and global climate change. Decision makers in all the countries are compelled to rethink about current strategies for growth. Income growth indifferent to environmental losses is no more considered a legitimate path for growth. Hence, it needs to be green growth.
Shifting to a greener growth path poses immense challenges. It requires reordering current priorities, adopting innovative policies and strategies across multiple sectors of economies, identifying ways for financing green growth strategies, measuring and assessing growth outcomes using ‘green accounting’ systems and many other path breaking changes. The overall aim of green growth is to build resilience at local, national and regional levels while ensuring the successful integration with the global economy.

Transition towards a green economy calls for regional and international cooperation. South Asia is a region with high level of heterogeneity. Hence cooperation for green growth implies finding a balance in common interests without nullifying the gains from diversity. Options to incentivize greener economic practices while discouraging “brown” ones, therefore, have to be selected upon careful consideration about opportunities for mutual gain.

**Speakers in this Parallel Session will tackle the following question areas:**

1. What are the key areas that South Asian countries should focus on in transferring from a brown to a green economic growth path? i.e., forestry, agriculture, tourism, energy, infrastructure and transportation.
2. What are the main challenges to be faced by South Asian countries in pursuing the green growth agenda?
3. How the secure channels for accessing technology and innovation to steer countries to greener growth can be established?
4. What mechanisms can ensure sustainable financing of greener growth?
5. How regional and global corporation can be harnessed to transfer and share greener technologies and innovations in South Asian countries?
6. What can be done to strengthen the South Asian countries’ efforts to access greener technologies, innovations and finances in order to promote green growth?

**Parallel 2B: “Flowing Across Borders”**

**Political Economy of Water Sharing**

Another regional challenge compounded by climate change is water management. All of the South Asian states currently face water shortages and a water security crisis. Future estimates show no alleviation of this problem. Rather, average water availability per capita has decreased by 70 per cent since the 1950s, and remains on a downward trajectory. According to estimates, 2.5 billion South Asians will be affected by water stress and scarcity by 2050.

Managing conflicting national claims over water resources is a major challenge, as many bodies of water – notably, several rivers – are located across state borders. Bangladesh, Bhutan, India, Nepal and Pakistan share 20 major rivers, for instance. Cross-border disputes between the countries of the Indus River Basin as well as the Ganges-Brahmaputra-Meghna River Basin have been somewhat alleviated through a series of bilateral treaties, but problems and trans-national suspicions in this regard remain nevertheless.

Contestations over water resources also occur at an intra-country level, resulting in social cleavages and disruptions to developmental processes. These frequently are stratified along class lines, with disputes between rich farmers and smallholders being a particularly common manifestation of the issue.
There is thus clearly a need for improved mediation and dispute settlement processes, at the level of both communities and countries, in order to address more effectively the political economy issues of water security that currently plague the region. While efforts are already being made to cope with the various challenges posed by climate change to countries in the region, a report by the UNDP observes that the capacity to adapt to these regional environmental challenges varies widely at both an inter- and intra-country level. Adaptability is, moreover, severely constrained by a lack of access to technology, information and skills, infrastructure and adequate institutions. Consequently, the success of such efforts has been limited.

**Speakers in this Parallel Session will tackle the following question areas:**

1. How critical are the challenges related to water shortages and water security issues for the people of your country, and also the development and security of the region?
2. How has your country dealt with conflicts over water resources that occur at an intra-country level? What more needs to be done to resolve such conflicts?
3. How effective have bilateral treaties which your country is party to been in settling cross-border disputes (between the countries of the Indus River Basin as well as the Ganges-Brahmaputra-Meghna River Basin)?
4. What, in your opinion, are the key stumbling blocks to closer cooperation among countries in South Asia in settling cross-border water disputes?
5. What are the dispute settlement mechanisms that exist in South Asia to address issues related to water sharing, both at the level of communities and countries? Have they been successful?
6. What are your recommendations on strengthening regional cooperation on water sharing to resolve water security issues in the region?

**Parallel 2C: “Secure Sustenance”**

**Meeting the Food Security Challenge**

Food insecurity has long been identified as a major development challenge for all South Asian countries – South Asia alone is estimated to have more than one third of food insecure people in the developing countries of the world” (von Braun, 2007). Much attention has been devoted to the need to control and manage high food price volatility, as its burden falls disproportionately on the poor. The need for more effective cooperation at a regional level has also been identified. However, success in these two areas has so far been limited. At the 15th SAARC Summit (2008) countries signed the “Colombo Declaration on Food Security” in which they recognized the urgency of implementing the SAARC Food Bank and regional Seed Bank. These are important steps towards ensuring food security, but require further support from member states in order to be realised.

Food security in South Asian context is closely related to other major issues of trade, intellectual property rights and climate change. A controversial issue receiving increased attention in the recent past is the linkage between trade and climate change. On one hand, it has been argued that trade itself can be damaging to the
environment, thereby affecting climate change and its socio-economic implications. On the other hand, it is argued that trade can work as a means of introduction and diffusion of which would aid in dealing with the adverse implications of climate change. Another contentious issue is intellectual property rights. South Asian countries should look at the steps needed to be taken to ensure that intellectual property does not become a barrier in meeting the challenge of food security, for instance, exploring options like competition law and policy to enhance access to technologies and transfer of technology.

*Speakers in this Parallel Session will tackle the following question areas:*

1. How far have South Asian states implemented the SAARC Declaration on Food Security of 2008?
2. What needs to be done for an efficient and proper implementation of the SAARC Food Bank and Seed Bank?
3. To what extent will the development or transfer of new technology for food production and utilization help South Asian countries to address food insecurity issues?
4. Are South Asian countries ready to adopt new technologies related to food production for its people? For instance, Bio-technology, Biotech food, climate friendly technologies, etc.
5. What factors hinder the acquisition of new technologies that ensure food security? For instance, lack of properly built Intellectual Property Rights system, under investments in R&D, etc.
6. What is the role that greater trade openness in the region plays in ensuring food security, especially through channels like bio-technology products?
7. Are countries in South Asia ready to accept “climate ready genes”?
8. What are the critical global developments related to food production and technology embodied in it that South Asian countries need to be mindful of, in ensuring food security for its citizens?

**Theme 3 (Plenary 3): Addressing Intra-Country Growth Disparities in South Asia**

Despite having achieved steady growth in recent years, and also despite favourable growth projections for the region over the next decade, the South Asian growth experience has not been inclusive. A positive effect of growth has been that South Asia’s middle-class has grown at an average rate of 12 per cent per annum over the last decade. Simultaneously, however, more than 1.1 billion people in the region lived on less than $2 a day in 2008. Although the poverty rate has fallen over time, the region remains home to over 40 per cent of the world’s poor. The extent of intra-country growth disparities thus remains a significant challenge for South Asia.

**Parallel 3A: “Better Cities”**

*Managing Urbanization Inclusively*

Growth at low levels of income in the South Asian states has not translated sufficiently into a movement of workers from rural and traditional sectors (such as agriculture) into manufacturing. Rather, growth has been led largely by a flourishing services sector, which primarily employs high-skilled workers, while the share of employment in manufacturing, which provides opportunities for low-skilled workers, remains low and stagnant.
But, the infrastructure and highly-trained workforce required by the services sector remains deficient in rural South Asia. Consequently, growth has been concentrated in urban centres, while a large proportion of the rural population remains employed in agrarian activity, and often benefits little from growth. With the services sector growing far more rapidly than the agricultural, a danger of this state of affairs is that, as the output share of agriculture declines, its employment share would become disproportionately large. The result of this is a labour force which remains predominantly agricultural and rural, while a small proportion of the population – that which is urban and more highly-skilled – enjoys the benefits of growth and integration with the global economy.

All of this comes at a time when many South Asian countries are facing new realities with regard to rapid urbanization, which itself comes with new challenges – infrastructure, public services, etc. Some estimates posit that by the middle of the 21st century, nearly half of all South Asians will live in cities.

Speakers in this Parallel Session will tackle the following question areas:

1. What are the key drivers of the rural vs. urban disparities in your country and to what extent is it affecting development outcomes and overall prosperity of the country?
2. What are the key drivers of reducing disparities, in terms of infrastructure, employment schemes, poverty alleviation programmes, etc.?
3. Rapid urbanization will be a feature of many South Asian countries’ growth in the future. What are the new challenges arising from this, and what are the policy imperatives to manage it inclusively?
4. Are public services and infrastructure keeping up with the trends of urbanization?
5. How is the changing economic structure in your country (growing services sector, attempts to promote non-agricultural employment in rural areas, etc) influencing the urbanization process?
6. In managing urbanization inclusively, what are the challenges from governance structures at different levels (central vs. local, etc)?
7. What is the role of the government, private sector, and civil society in reducing the rural vs. urban disparities and managing urbanization inclusively?
8. What are the imperatives for research and knowledge-creation in informing better policy-making to tackle the challenges of urbanization?

Parallel 3B: “Mind the Gap”

Addressing Gender Disparities in Development

Another failure of growth in South Asia has been its inability to alleviate gender disparities. Despite rising female labour-force participation driven by the demographic transition, the share of female employment in total regional employment is among the lowest in the world. Furthermore, women are significantly overrepresented in the informal sector, which consists predominantly of low-skilled and poorly remunerated employment.

In terms of gender disparities in health and education outcomes, South Asia fares the worst of all regions in the world. Girls are significantly less likely to receive treatment for common childhood diseases, and the female disadvantage in educational enrolment is high, particularly in the 11-15 age
These disparities are particularly marked in Pakistan and certain Indian states. Importantly, these disparities have been found to be unrelated to income levels, a result which suggests that the problem cannot be eliminated merely through sustaining economic growth in the region.

Speakers in this Parallel Session will tackle the following question areas:
1. What are the key drivers of gender inequality in human development outcomes (e.g., health and education) in your country?
2. What progress, over time, has your country and the region made in tackling these?
3. How is the changing economic landscape of South Asian countries influencing these gender disparities?
4. How do these gender disparities affect inclusive growth and overall economic progress in your country?
5. What do you see as the most significant challenges in ensuring women play a stronger role in economic growth in your country and the region as a whole (for instance, improving female labour force participation)? And what should the policy priorities be?
6. What are the specific vulnerabilities arising for women in South Asia (for instance, due to greater economic informality and less access to formal social security), and what should the focus be in designing public policies to address these?
7. What interesting initiatives are being undertaken in your country and/or elsewhere in the region to address gender-related disparities?
8. How can we help South Asian policymakers better understand what needs to be done to address gender disparities in the region?

Parallel 3C: “Finding the Money”
Mobilising Finances to Address Disparities

The alleviation of such disparities is thus an important challenge for South Asian governments. There is a significant need for tax revenue to be directed towards programmes and policies with this objective. For instance, funding rural social infrastructure provision, as well as improving economic infrastructure for the purpose of supporting small and medium enterprises in rural regions, are important measures in attempting to lower both rural-urban and gender disparities. South Asian states, however, collect exceptionally low levels of tax revenue; the average is approximately 10-15 per cent of GDP, compared to 20 per cent for comparable developing states. Reformation of tax structures, laws and institutional arrangements should therefore be a priority in the struggle against intra-country growth disparities in South Asia.

Meanwhile, growth in South Asia is accompanied by increasing infrastructure needs, particularly in rural regions, where existing infrastructure is severely limited. It is estimated that the increased infrastructure needs resulting from a 7.5 per cent growth in regional GDP would require investment of about 5 per cent of regional GDP in order to be met. This suggests an annual financing gap of approximately US$ 60 billion. Developing public-private partnerships (PPPs) and securing funding through multilateral sources are two important ways in which this gap may be narrowed. An ADB report highlights the fact that sector policies and the regulatory framework in South Asian are currently not PPP-friendly, and that the market has neither the capacity nor the instruments to meet the long-term equity and debt financing required by infrastructure projects. These constraints need to be addressed in order to solve the region’s infrastructure dilemma.
Speakers in this Parallel Session will tackle the following question areas:

1. How significant are public financing challenges in your country and how is it affecting the capacity of the state to address disparities?
2. To what extent is the landscape of concessionary aid/ODA changing in your country and how is it likely to affect the financing of development?
3. To what extent is domestic revenue mobilization (i.e., taxation) considered a policy priority in financing development needs and what initiatives are underway in this area?
4. What are the key drivers of low revenue collection in your country and what needs to be done about it?
5. What can be learnt from other developing countries which are placing a renewed focus on domestic revenue mobilization as a key part of their development strategy?
6. What is the role of regional financing mechanisms, like the SAARC Development Fund, in addressing disparities and how can it be strengthened to serve South Asian states?
7. To what extent are Public-Private Partnerships prevalent in your country as a model for financing key infrastructure services?
8. What are the policy priorities in attracting private investment to fill the infrastructure gap and how can governance frameworks in South Asian countries be better geared to promoting PPPs?

Theme 4 (Plenary 4): Building Competitiveness of the Private Sector in South Asia

The private sector is an important engine of growth for the economies of South Asia. Given the prevailing imperative to reap a demographic dividend by generating productive employment opportunities for its growing labour-force, providing support for private sector development is a particularly urgent objective. It is also one which involves two distinct areas of focus. The first of these centres around efforts to support domestic private-sector activity. This involves a high priority for small and medium enterprise development. The second is concerned with facilitating private-sector trade. Measures to deal with murky protectionism and improve regional trade linkages feature strongly here. Furthermore, success in both of these areas will rely on states’ ability to remove important constraints to private sector development. Key among these in South Asia is a shortage of energy. Consequently, a third strand of discussion in this section will focus on ways of overcoming this particular impediment to growth.

Parallel 4A: “Strengthening the Small”
Inclusive Private Sector Development through Small and Medium Enterprises

Like many countries, SMEs make up a significant proportion of South Asian private sector. The growth of the private sector in South Asian countries can only be inclusive is there are strong efforts to support SME development. Governments need to refocus attention on SMEs and identify better policies and strategies to address gaps in finance, technical and managerial competencies, market linkages, and export competitiveness, etc. Strengthening the South Asian SME sector will be an important element in greater employment creation for people in the region. Best practices and policy options from within the region need to be shared. Meanwhile, South Asia can learn much from successful SME development strategies adopted in neighbouring countries, for instance the Philippines, Malaysia, Thailand and others in the ASEAN region.
Speakers in this Parallel Session will tackle the following question areas:

1. What are the most significant obstacles for SME development in your country, and broader South Asia?
2. To what extent do aggregated indicators on a country’s business climate (for instance, by international agencies) capture the specific challenges faced by SMEs in South Asia?
3. What are the critical success factors in strengthening the SME sector to take a stronger role in economic growth, regional trade integration, and broader globalization?
4. What should government policy priorities be in SME development and are there successful government initiatives in your country that other South Asian countries would find useful?
5. What is the role of chambers of commerce and other non-governmental bodies in promoting inclusive private sector development through SMEs?
6. What can South Asian policymakers learn from neighbouring regions like ASEAN, who have embarked on strong SME development initiatives (particularly Philippines, Malaysia, and Thailand)?
7. Given that the importance of the SME sector is common to all South Asian countries, can SAARC embark on a regional process of SME development, similar to the ‘ASEAN Policy Blueprint for SME Development (2004-2014)’?
8. What are the research and knowledge gaps that exist, and need tackling, in order to provide South Asian policymakers with better advice on strengthening the SME sector?

Parallel 4B: “Made in South Asia”

Global and Regional Competitiveness of South Asian Enterprises

The growth in South Asian exports evidenced since the 1990s has been driven largely by a quantity expansion through relative cost reduction, rather than through relative improvements in quality. Furthermore, this expansion has been heavily concentrated in natural resource-intensive and labour-intensive sectors, rather than in technology-intensive sectors. This raises important questions in terms of sustainability: it is unclear whether such a quantity-led expansion will continue to sustain growth in the face of worsening terms of trade and increased protectionism by the developed economies which constitute the primary markets for South Asian exports. Furthermore, as wages rise, technologies change and skill requirements become more demanding, it is likely that labour-intensive industry in South Asia will become less competitive.

Indeed, a general shift in the nature of global competition, from an emphasis on low costs and prices to an increased focus on quality, flexibility, reliability and networking means that South Asian firms need to reconfigure their competition strategies in a manner that allows them to position themselves favourably amid the mêlée of these changes. The ability to remain competitive in the context of rapid global technological progress now depends, to a great extent, on
the ability to absorb these technological advances into manufacturing and services production, as well as to effect a structural shift into more technology-intensive industry. The South Asian states lag considerably behind their South East Asian neighbours in this regard.

The threat to competition of such a structural shift creates an increasing need for South Asian governments to develop a clear and effective competition policy. Such policy should focus on generating dynamic, rather than static, productive efficiency, for the purpose of supporting long-term growth. This involves identifying an optimal level of competition: one which prevents resource inefficiency at a microeconomic level but, equally, one which is not so high as to deter private investment. Furthermore, most South Asian states lack suitable regulatory bodies for fostering fair competition in markets. Efforts to develop such agencies – after the manner of India’s Fair Trade Commission, for instance – are thus to be desired.

The vertical integration of key input markets is another important factor in maintaining competitiveness, both in agriculture and manufacturing. This is of particular importance to the development of regional supply chains which, currently, are inadequately formed in South Asia, especially when compared to other regions. The new emerging opportunity is in global production sharing, where firms plug in to parts and components value chains through global and regional production networks. However, getting the right incentives and policy regime has an important impact on whether South Asian firms can latch on to such networks.

Speakers in this Parallel Session will tackle the following question areas:

1. What is your assessment of the key drivers of competitiveness for enterprises in your country?
2. Are South Asian enterprises integrating strongly with regional and global supply chains?
3. What are the key constraints to greater competitiveness of enterprises in your country and South Asia as a whole?
4. How can enterprises in your country, and the wider region, leverage on existing regional trade arrangements like SAFTA and SATIS? And which elements of these arrangements need to be strengthened to benefit enterprises more?
5. What should the main policy priorities be in creating the right environment for these enterprises to compete better globally and create more global brands from the region?
6. What future do you see for vertical integration of industries within South Asia? Which sectors do you think are most likely to benefit from this?
7. Which emerging regions, and countries, should South Asian enterprises really focus on for closer trade and investment linkages? East Asia? Latin America? Africa?
8. What are the priorities for South Asian enterprises to make a stronger shift towards technology-intensity and move up the value chain?

Parallel 4C: “Making Trade Easier”

Tackling Tariff and Non-Tariff Issues, and Improving Trade Facilitation

With intra-regional trade stagnant at around 5% of total trade volume of countries of the region, much lower than better integrated regions like ASEAN, there is extensive evidence to suggest that by breaking down barriers to trade, South Asia has much to gain. Whilst tariff levels in South Asia have gradually tapered down in-line with global trends, tariff levels in comparisons with other regional groupings are still at the higher-end of the spectrum especially in light of the large sensitive lists submitted under the South Asia Free Trade Agreement (SAFTA).
Whilst some progress is being made on the tariff-front under SAFTA, various forms of non-tariff barriers (NTBs) to trade are increasingly becoming more visible, which in consequence is leading to increased trade costs and posing serious market access implications South Asian exports both within and outside the region. Weak trade facilitation measures, especially pertaining to the facilitation of trade within the region in particular is also leading to unwarranted increases in easily avoidable trade costs, thus hampering the regions ability to fully harness the large unexploited intra-regional trade potential which exists. The countries of the region must work both individually and collectively to address the threat posed by the proliferation of NTBs as well as address weaknesses in trade facilitation. Moving from inefficient and cumbersome to well-functioning and futuristic customs and border procedures needs to be reiterated. These areas are critical to enhancing the competitiveness of the South Asian private sector. This session will discuss existing knowledge and explore new evidence and put forward a strong agenda for action.

Speakers in this Parallel Session will tackle the following question areas:

1. What is your view of South Asia's progress in reducing tariff levels, unilaterally as well as through regional arrangements like SAFTA?
2. To what extent do the current regional agreements provide the impetus to improving trade integration among South Asian economies by addressing these issues, and where are they falling short?
3. How has the recent performance of your country and the regional as a whole been with regard to improving trade facilitation? What political economy factors are influencing this performance?
4. What are the institutional weaknesses in your country that need to be tackled in order to move faster on addressing barriers to greater trade in this region?
5. What are the key regional actions that can be taken in addressing issues related to trade facilitation to enhance trade integration in South Asia?
6. What are some of the global developments, and indeed developments in regions like ASEAN, which South Asia must look at in terms of overcoming NTBs and trade facilitation constraints?
7. How can South Asian researchers and the private sector play a stronger role in pushing their countries to overcome these barriers?
8. What are the imperatives in moving towards well-functioning and futuristic customs and border procedures in South Asian countries?
Appendix: The South Asia Economic Summit (SAES) Initiative

A lack of civil society engagement in economic policy-making processes has been a limiting factor to growth and regional integration in South Asia. The South Asia Economic Summit (SAES) was launched in 2008 as an attempt to remedy this state of affairs. SAES was initiated by a regionally-based group of five civil society think-tanks, namely, the Institute for Policy Studies (IPS) in Sri Lanka, the Research and Information System for Developing Countries (RIS) in India, the South Asia Watch on Trade, Economics and Environment (SAWTEE) in Nepal, the Centre for Policy Dialogue (CPD) in Bangladesh, and the Sustainable Development Policy Institute (SDPI) in Pakistan.

SAES aims to provide a colloquium for regional stakeholders including academics, policymakers and private-sector representatives, at which issues concerning key growth opportunities and challenges experienced by the economies of South Asia constitute the central focus. In this sense, it follows the example of the World Economic Forum held annually in Davos, albeit it at a regional rather than a global level. SAES provides an opportunity to discuss cooperative solutions to issues of regional scope, as well as to share ideas for policy-making in a manner that draws usefully on the past experience of individual states.

It is envisioned that the policy recommendations which emerge from each Summit would inform the direction of official SAARC processes, as well as those of individual governments in the region. A wide dissemination of these outcomes among regional stakeholders is also one of the aims of this forum.

The topics discussed at the SAES are many and varied, although certain key issues recur. These include trade facilitation, food security, investment, transportation, energy and water management, and climate change. Importantly, past Summits have laid particular emphasis on the role of regional cooperation and integration in addressing these challenges. The major themes of previous Summits are as follows:

1st SAES, Colombo – *Economic Integration in South Asia: SAFTA and Beyond*

2nd SAES, New Delhi – *South Asia in the Context of the Global Financial Meltdown*

3rd SAES, Katmandu – *Regional Economic Integration, Climate Change and Food Security: Agenda for the Decade 2011-2020*

4th SAES, Dhaka – *Global Recovery, New Risks and Sustainable Growth – Repositioning South Asia*

5th SAES, Islamabad – *Making Growth Inclusive and Sustainable in South Asia*
Citations

18 A. Singh, Competition Policy, Development and Developing Countries, South Centre Publications, 1999.