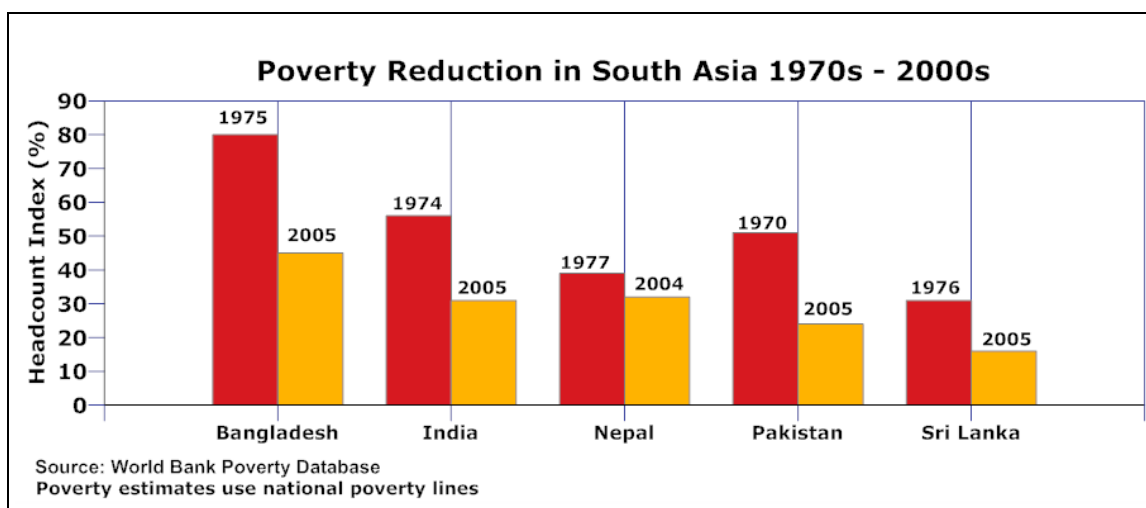


## Can Regional Cooperation End Poverty in South Asia?

### Can South Asia achieve both high and inclusive growth?

During the 1990s, South Asia's economies grew rapidly at an average of 6 percent annually. This accelerated to 6.5 percent during 2000-2007, with India approaching near double-digit growth. In comparison, from 1960 to 1980, South Asia grew at only 3.7 percent per year.

South Asia's prospects changed in the 1980s as it adopted pro-growth policies. It opened up markets to international competition, replaced the public sector with the private sector as the engine of growth, and improved macroeconomic management. The results were impressive.



*“Rapid growth has been instrumental in reducing poverty in South Asia,”* said **Sadiq Ahmed, Acting Chief Economist, South Asia Region, World Bank.** *“Poverty has come down sharply in all countries. Progress has also improved human development and social indicators.”*

But while there is much to celebrate, growth has been accompanied by rising inequality. *“There is a growing imbalance between regions within the countries and among the countries,”* cautioned **Ahmed.**

South Asia faces two major challenges: First, can the region grow even faster? And second, can the growth be inclusive? The strongest indicator of inclusive growth is poverty reduction. The recent high growth, indeed, reduced poverty levels in South Asia.

## Lagging Regions: Poor and Vulnerable

**Ahmed**, however, thinks that poverty reduction is likely to be complicated in future. *“The growth is increasingly concentrated in some regions - the **leading regions**, while poverty is concentrated in other regions - the **lagging regions**,”* said **Ahmed**. This phenomenon is manifested both at country level and regional level.

According to **Ahmed**, the lagging regions share a number of common vulnerabilities, apart from being poor. **First** and foremost is the vulnerability to natural disasters. South Asia has lost a significant amount of its GDP because of natural disasters and this impact is particularly harmful because of the region’s high population density. It is also the poor who are affected the most.

A **second** and related vulnerability is access to water. An estimated 400 million people, many of whom are poor, directly or indirectly depend on the water flows of the three mighty rivers of Indus-Ganges-Brahmaputra for their livelihood. Frequent water shortages and intermittent floods create serious challenges to maintaining the income level of these large numbers of poor people.

A **third** vulnerability is exposure to conflict and violence. It is not accidental that border regions are more prone to conflict and violence than other parts of South Asian countries. Indeed cross-border conflicts in South Asia are both a cause and effect of lack of cooperation. Again, the poor suffer most the consequences of these conflicts.

### South Asia’s two key assets:

**Ejaz Ghani, Economic Advisor for South Asia Region, World Bank** said: *“South Asia has yet to take advantage of its two key assets, **demography and geography**, in order to achieve high levels of growth.”* He noted South Asia’s young labor force, which can be leveraged to take advantage of globalization in providing a large and potentially competitive labor force.

*“South Asia’s geography also has the potential to accelerate growth,”* added **Ghani**. It has the highest population density in the world, and the second largest proportion of population living in the border areas after Europe. High population density and better access to markets can benefit growth by allowing South Asia to take advantage of agglomeration economies.

*“Despite this benefit of geography South Asia’s true growth potential has not been realized due to the lack of market integration within countries and across countries,”* said **Ghani**.

South Asia accounts for only 3 percent of the world surface area, but it sustains a “whopping” 20 percent of the world population, nearly 1.5 billion people. It has the highest population density in the world, yet it has one of the lowest urbanization rates.

## Ending Poverty: Is regional cooperation the answer?

Cooperation can be a powerful tool for increasing growth, reducing the gap between leading and lagging regions, and reducing vulnerabilities for the poor. By focusing on the income of the poor both through the growth mechanism and by reducing vulnerability, regional cooperation can be helpful in lowering income inequality.

**Ahmed** said: “*South Asia has the potential to accelerate growth and reduce poverty, if the region could exploit four underutilized spatial features of the region: geography, transportation, mobility, and scale economies.*”

Regional cooperation, **Ahmed** said, can facilitate this process.

- **First**, South Asia is densely populated, with a significant proportion of the population living close to the borders between countries. Regional integration initiatives will unlock the growth benefit of geography and support income convergence across regions and countries. Regional trade is more sensitive to transport costs, scale economies and factor mobility than global trade.
- **Second**, South Asia suffers from high trade and transportation costs compared to other regions because of border restrictions and poor transport. The cost of trading across borders is high compared to other regions. The quality of transport infrastructure, especially the highway networks, in South Asia is poor.
- **Third**, factor mobility, and in particular migration rate, is low in South Asia. At the official level the restrictions on labor mobility between countries is huge. Within countries, labor mobility is also limited. Increased agricultural productivity will help to re-allocate labor and capital from the lower value activities (agriculture) to high value activities (manufacturing and services sectors) and support growth.
- **Fourth**, South Asian companies are disproportionately small. They are unable to reap the benefits of scale economies because of labor and regulatory restrictions which prevent them from growing. The policy changes aimed at taking advantage of the interactions between geography, transportation, factor mobility, and scale economies will lift growth not only in the lagging regions but also support higher growth rates at the country level and across South Asia.

“*Regional cooperation will support higher growth, especially in the lagging regions, by reducing trade and transport barriers thereby promoting trade, facilitating mobility, reducing transport cost, and supporting agglomeration benefits,*” said **Ghani**. The current global financial crisis may slow down the recent high economic growth in the region. **But the crisis has also reinforced the need for more cooperation in the region.**

## Benefits: For all or only for some?

**Ahmed** cautioned: “*Growth benefits of market integration are likely to be large but unequal.*” India, a large country, with a big home market, can get by with more restrictive borders, since the size of its economy and population provides the incentive to importers and exporters to overcome these barriers. It is the small, land locked countries like Afghanistan, Bhutan, and Nepal, which will benefit most from improved access to the markets of others.

Small countries depend more on openness to overcome the disadvantage of size: small population, small markets, and inability to take advantage of agglomeration and scale economies. Even within India, the peculiar geography that isolates the seven North-Eastern states from mainland India with the location of Bangladesh in-between suggests that market integration requires trade and transit arrangements with neighbors to benefit all regions that are lagging and isolated from the growth centers.

### **Can climate change bring the Region together?**

South Asia’s poor would probably gain most from regional cooperation in water and climate. The melting of Himalayan glaciers leading to the disastrous prospect of reduced water availability in the South Asian rivers, the frequency of floods and cyclones, and the evidence of rising sea level have given South Asia “*an opportunity for collective action for managing changing climate to reduce vulnerability and poverty over the longer-term,*” said **Ahmed**.

Finding solutions for flood control, irrigation and river transport will require cooperation with upstream countries. Thus, cross-border cooperation on water between India, Bangladesh, and Nepal offers the only long-term solution to flood mitigation.

### **The way forward:**

“*The potential benefits of economic cooperation are obvious,*” said **Ahmed**. “*The experience of East Asia is illustrative of the potential gains from more and better cooperation.*” While such examples are abound, the actual experience with cooperation in South Asia so far has been rather dismal.

### **What are the key constraining factors?**

“*Foremost among the constraints is the prevalence of a number of regional disputes,*” said Ahmed. Long standing conflict between India and Pakistan, recent security issues between Afghanistan-Pakistan and India-Bangladesh border issues have prevented the region benefiting from market integration. Ahmed pointed out that the peace dividends from resolving regional conflicts through cooperation can be a huge boost for poverty reduction in South Asia.

Second is the lack of good analysis and information in the public domain about the benefits of regional cooperation, which has reinforced unfounded populist negative perceptions that cooperation will simply result in greater domination of India in the

region. Internal political interests along nationalistic, religious and ethnic lines have substantially complicated policy making that involve cross-border cooperation.

*“The way the South Asian countries approach international cooperation has been seriously flawed,”* said **Ahmed**. *“It should not be seen as a bilateral politically-driven agenda but rather as a cross-boundary commercial investment.”*

There has been some positive movement towards better understanding in the region. *“The last two SAARC meetings have succeeded in bringing the countries much closer than ever before and the countries are taking significant actions to realize these benefits,”* said **Ahmed**.

*”It is not realistic to expect that all political and social conflicts will be resolved before meaningful cooperation can happen,”* cautioned **Ahmed**. *“Economic cooperation can indeed be a catalyst for resolving political and social conflicts.”*

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