

# Preface

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South Asia has attracted global attention because it has experienced rapid GDP growth since 1980, averaging nearly 6 percent per annum. Yet, it faces many challenges. There are two faces of South Asia. The first South Asia is dynamic, growing rapidly, highly urbanized, and is benefiting from global integration. The second South Asia is largely agricultural, land-locked, exhibits high poverty, suffers from many conflicts, and is lagging. The divergence between the two faces of South Asia is on the rise. Many policy and institutional constraints contribute to this dichotomy. One important constraint is regional conflict that has made South Asia one of the least integrated regions of the world. While progress has been made in reducing trade barriers with the rest of the world, intraregional trade is a mere 5 percent of total official trade as compared with over 50 percent in East Asia. Capital flows through legal channels are negligible, transit arrangements are cumbersome and expensive, and the physical connectivity is limited and restrictive. Additionally, lack of effective cooperation has constrained progress on a range of public goods including climate change, water management, HIV/AIDS control and disaster management.

The cost of weak regional cooperation tends to hurt the poor more than the other segment of the population. Two of the poorest South Asian countries are Afghanistan and Nepal; both are land locked. Several lagging regions in the larger South Asian countries of Bangladesh, India and Pakistan are located in the border areas and suffer from lack of market integration. Over 500 million people, most of them very poor, live in the Indus and the Ganges–Brahmaputra river basins. These great basins are shared by six nations and are characterized by almost no cooperation and, instead, marked political sensitivity and tension. Several attempts to promote cooperation have failed. Climate change is predicted to have serious impacts on the monsoon, on river flows, and on the rising sea level, with increased incidence of floods and droughts in areas where current

shocks already regularly and severely affect the lives and livelihoods of large numbers of people.

In addition to policy and institutional reforms aimed at removing domestic constraints to growth and job creation, market integration and regional cooperation ought to be key elements of a regional strategy for removing the dichotomy between the two faces of South Asia and eliminating poverty over the longer term. South Asia needs two types of market integration—providing countries, especially the land-locked ones, with a broader access to regional and global markets; and integrating the lagging regions within each country with the growth centers without regard to boundaries. The geography of South Asia is such that both types of market integration will require regional cooperation. After Europe, South Asia has the second largest number of cities in the border region. Most countries share a common border with India.

The unique geography of South Asia—distance and density—has the potential to raise growth through increased trade. South Asia has the highest population density in the world. Distance of cities from the border is low. These features naturally propel trade between countries, but presently this is hindered by policy barriers. For example, currently at US\$1 billion, trade between India and Pakistan could jump to US\$9 billion if trade restrictions are removed. Similarly, estimates suggest that intraregional trade in South Asia could increase from US\$5 billion to US\$20 billion if restrictions on trading with neighbors are removed.

The benefits of scale economies could be even bigger, particularly to the small land-locked countries. As in Africa, the smaller countries in South Asia do not have the necessary scale economies to invest in infrastructure (energy, telecom, transport). Regional market integration could provide the benefit of scale economies to the smaller countries to invest in infrastructure. Nepal, for example, could double its GDP if it could export hydro-based electricity to India, an energy thirsty country.

Benefits of cooperation on water and climate would be immense. From the Himalayas, where glacier melt is already changing water flows in ways that remain to be fully understood, to the coastal floodplains of Bangladesh and Pakistan, South Asian countries need to adapt to climate change. This can provide the much-needed trigger for opening a dialogue on regional water cooperation. For example, cross-border cooperation on water between India, Bangladesh, and Nepal offers the only long-term solution to flood mitigation, and would benefit over 400 million people.

The benefits of regional cooperation for South Asia are obvious. Yet a range of political constraints prevent cooperation from happening.

The political dynamics will need to change as the opportunity cost of non-cooperation for South Asia's poor is large. A part of this change will come from leadership from the civil society in terms of much more informed knowledge and debate of the underlying opportunities, issues, and constraints.

The objective of the First South Asia Economic Summit was to provide a forum for this public debate on economic cooperation in South Asia. The South Asia Economic Summit was held in Colombo during 28–30 August, 2008, as a follow-up to the 15th SAARC Heads of State Summit, also held in Colombo. This was organized by the Institute of Policy Studies, Sri Lanka, and the Federation of Chambers of Commerce and Industry of Sri Lanka in partnership with RIS (Research and Information Systems, New Delhi, India), SACEPS (South Asia Center for Policy Studies, Kathmandu, Nepal), SAWTEE (South Asia Watch on Trade, Economics, and Environment, Kathmandu, Nepal), World Bank, Commonwealth Secretariat, UNDP-RCC (United Nations Development Program-Regional Center of Colombo), and Asian Development Bank. The Conference brought together academics, private sector, civil society, and policy makers from Afghanistan, Bhutan, Bangladesh, Pakistan, India, Nepal, Maldives, and Sri Lanka.

This book draws selectively from the range of papers and presentations made at the Economic Summit. In selecting the papers, we looked at both the quality and direct relevance to the theme of this collected volume. We also thought it useful to include a few hitherto unpublished papers that were prepared for another conference on regional cooperation sponsored by the World Bank. These concern the private sector's perspectives on cooperation. The Colombo Summit did not have a large participation from the private sector and as such the other conference papers helped meet this gap and thereby enrich the story on regional cooperation presented in this book.

The book is organized into three parts. Part I talks about the imperative for cooperation in terms of the development context of why cooperation is necessary for South Asia. Part II then looks in some depth at a number of specific areas of options and opportunities for cooperation, including trade, trade facilitation, transport, financial and food crises, migration, and tourism. Part III provides the private sector's perspectives on regional cooperation based on contributions from business leaders of Bangladesh, India, Pakistan, and Sri Lanka. Finally, Part IV deals with a number of political economy issues relating to distribution of gains from cooperation

among participating countries and how to make SAARC more effective in implementing agreed programs.

We would like to convey our special thanks to all the sponsoring institutions for their support in making this Summit successful. We would also like to thank all the individual authors for their contributions to the book. Thanks are due also to Marjorie Kingston (World Bank) and Sharmini De Silva (IPS) for their help in processing the book.

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