

**THE LAKSHMAN KADIRGAMAR INSTITUTE**  
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**Growth Prospects in South Asia: Challenges and Opportunities**

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I am deeply grateful to the Lakshman Kadirgamar Institute of International Relations and Strategic Studies for inviting me to deliver this lecture. In particular, I thank Mrs. Kadirgamar who prevailed upon me to find a date for this lecture amidst my rather chaotic schedule. Her persuasion, persistence and patience, I am told, are well known. I am sure that many of you who know her better will agree with me when I say that her qualities can move mountains.

As a fitting tribute to Mr Lakshman Kadirgamar, the Sri Lanka Institute of Strategic Studies was re-christened in August 2006 as the Lakshman Kadirgamar Institute of International Relations and Strategic Studies and given a broader mandate. The objectives of the Institute encompass the vision of Mr Kadirgamar, the most important feature of which is that Sri Lanka should regain its historic internal harmony by embracing its multi-cultural and multi-ethnic character. Mr Kadirgamar himself was a product of Sri Lanka's unique character. He was a Tamil; he was born in the Jaffna region; he was a Christian; he celebrated Vesak, the full moon day on which Lord Buddha was born; he read literature at Oxford; he was called to the Bar from the Inner Temple in the United Kingdom; and he practised law at the Judicial Committee of the Privy Council. From international civil servant to foreign minister, he held many offices with great distinction.

India regarded Mr Kadirgamar as a statesman who devoted many years of his life – especially his years as foreign minister – to bring peace to this tortured nation. Under the most adverse conditions, he carried out his duties as a public servant in the

manner that he played cricket. And how did he play cricket? To recall his words, "I played without helmet and thigh guards, on matting wickets that were full of holes and stones, and I had my share of broken bones to show for it." None could break his spirit as a cricketer and none could break his spirit as a public servant imbued with the high ideals of a statesman.

It is a little over two years since Mr Kadirgamar was assassinated. I pay my tribute to this great Tamil and great son of Sri Lanka, and I am honoured to deliver this lecture instituted in his memory.

## **The Asian Resurgence**

The Asian continent is the cynosure of all eyes. The countries of Asia – except a few – emerged in the middle of the 20<sup>th</sup> century from long periods of colonial rule. In the initial years they struggled to find their feet and establish suitable models of governance. It was only a matter of time before one or more countries of Asia would burst on the economic scene and capture the attention of the world. And it happened in the 1980s when Singapore, South Korea, Malaysia and Thailand emerged as tiger economies. At the end of the 80s, the question on everyone's lips was whether and when the countries of South Asia would accept the challenge of growth.

South Asia is home to 1470 million people living in eight countries. India is the largest in terms of population and size. The smallest population is in the Maldives and the smallest in size is also the Maldives. The people of the sub continent speak 415 languages, belong to several races and faiths, and have many identities that they cherish. The countries of South Asia also follow different models of governance: without being judgemental, I would simply recall the fact that some of these models have failed. Such failure has consequences for the growth and prosperity of South Asia.

According to the *Asian Development Outlook 2007*, growth in South Asia since 2003 has averaged 7.5 per cent a year. In 2006, South Asia's GDP grew by 8.7 per cent, with India recording the highest growth among the large economies and the Maldives recording the highest growth among the small economies. On practically every measure, 2006 was a good year for South Asia. The current account deficit was 2.1 percent of GDP, thanks largely to workers' remittances; exports grew at 18.8 per cent and imports, even more impressively, at 24.9 percent. Foreign exchange reserves increased and real effective exchange rates were stable.

The *Outlook* rated the region's prospects in 2007 as "bright due to strong domestic demand and investment."

The growth story has continued in 2007, although one forecast made by the *Outlook* has turned out to be wrong. It was predicted that world prices of oil and other commodities were likely to fall. What has happened is the exact opposite. However, another prediction has proved to be more than correct, and that is the prediction that the region will attract large capital flows. I am not fond of predictions but I would not mind if I could find some one who could predict which of the predictions will turn out to be true!

### **Growth is an Imperative**

The lesson we should draw from our past history is that nothing can be taken for granted, including growth. We must work hard for growth, we must do the right things and we must avoid doing the wrong things. Even when we do the right things, it is not always that the right consequences will follow because we are a part of the global economy and we will be affected by the ups and downs in the global economy.

For South Asia, growth is an imperative. It is the best antidote to poverty – and I refer to not only income poverty but also poverty as measured by many human development indicators. According to the UNDP's *Human Development Report 2004*, 31.4 per cent of all South Asians were below the poverty line which was defined as having an income of less than US\$ 1 a day.

The human development index for South Asia in 2003 stood at 0.587. Life expectancy at birth was 63; female literacy rate was 45 per cent; and the gross enrolment ratio was 57 per cent. The infant mortality rate was 63 per 1000 live births. 46 per cent of children under the age of 5 years were underweight and, by inference, undernourished. Of the total population, 14.8 per cent did not have access to safe water and 64.8 per cent did not have access to sanitation.

South Asia remains a region where there is still an unacceptably high level of poverty and deprivation. Despite its impressive rate of growth in recent years there are, in India, nearly 250 million people who are below the poverty line. Pakistan struggles with a high fertility rate, a low gross enrolment ratio and a low gender-related development index. Nearly one half of the population of Bangladesh is below the income poverty line and it has the lowest rank among South Asian countries on the human development index. Nepal has the lowest GDP per capita and the

lowest ratio of population with access to sanitation. Sri Lanka has the lowest public expenditure on education as a proportion of GDP but the highest defence expenditure per capita. Bhutan has the largest proportion of the population without access to safe water and the highest proportion of children, aged 10 to 14 years, in the labour force. The Maldives has the highest fertility rate and the highest rate of growth of population but produces no cereals and is heavily dependent on food imports. We do not yet have reliable data on Afghanistan.

Thus, the challenges that face South Asia are enormous. The answer to these challenges is faster and more inclusive growth.

### **Governance is the Key**

What compounds these challenges is the shadow of political uncertainty that has fallen over most of the sub-continent. It appears to me that the countries of South Asia, barring India, have still not resolved the fundamental question of the model of governance that is suited to each of them; consequently, the political institutions in these countries have not yet taken firm roots. While change is unavoidable and there can be no quarrel with occasional experimentation, a state of constant flux or political turbulence is hardly conducive to rapid economic growth. In fact, absent democracy, whatever growth that may be achieved in short spells may turn out to be iniquitous growth and may exacerbate the social and economic disparities in the society.

In multi-cultural and plural societies, there is no model of governance better suited to reflect and respond to the needs and aspirations of the people than democracy. Furthermore, it is not democracy at one level alone that will assure social and political stability. While there should be a strong central or federal government for the country as a whole, it is equally important that the political system recognizes the geographical or linguistic or ethnic divisions among the people and creates political institutions that will accommodate these differences and give voice and representation to all sections of the people.

### **India – a Connecting Thread**

India is conscious of its role and responsibility in South Asia. India is the largest country in the sub-continent. In recent years, it has recorded the fastest rate of growth among the large economies. Given its size, location and rate of growth, India is at the very

centre – in many senses of the word -- of the region. According to one view, India is a connecting thread. India's desire is that all its neighbours -- as well as India -- should seize the opportunity of becoming prosperous countries in a prosperous region.

India is aware of the asymmetry between India and each of its South Asian neighbours and has addressed the issue with candour and boldness. It has done so through bilateral agreements as well as through the South Asian Association for Regional Cooperation (SAARC). Some examples are the grant of MFN status to Pakistan despite the fact that this has not been reciprocated by Pakistan so far; the open trade borders with Nepal and Bhutan; the special tariff concessions offered to Bangladesh; and the India Sri Lanka Free Trade Agreement. India has also taken a forward-looking position on SAFTA.

## **Regional Integration**

Regional integration has many advantages as other regions such as Europe, East Asia and Latin America have discovered. It enables the countries of the region to pool their resources and act in concert to address common problems. It multiplies the attractiveness of the region to other countries as well as enhances the capacity of the region to enter new markets. Regional trading arrangements are often described as building blocks for a rule-based world trade order; in practice, however, regional blocs are driven by their self interest and adopt tough bargaining positions with countries that trade with them. A regional bloc, rather than an individual country, has a greater chance of securing better deals with another regional bloc.

It is an irony of the development trajectories pursued by South Asian countries that while each one of them has made significant progress in integrating its economy with the world's, integration within the South Asian region remains stunted. The tariff and non-tariff barriers between the countries of the region are still too high. Trade facilitation between the countries is still poor. There is insufficient coordinated action to prevent smuggling, especially of fake currency, drugs and arms. There is no concerted effort so far to stamp out money laundering. SAARC does not act as a regional bloc in dealing with other countries or other regional blocs, and each member country has pursued an independent line in its bilateral and multilateral dealings. For instance, SAARC does not have a SAARC position in the WTO or the IMF. In the negotiations in the Doha Round, there is no SAARC negotiating stance as

compared to the stance of the European Union or NAFTA or the CAIRNS Group.

Intra-regional trade among the South Asian countries is barely 5 per cent, which is the lowest rate among practically all regional groups in the world. NAFTA's intra-regional trade amounts to 52 per cent of the group's total trade. In the case of the European Union, the proportion is higher at 55 per cent. Even in nearby ASEAN, intra-regional trade accounts for 21.4 per cent of all trade. Low proportion of intra-regional trade, limited cross border investments, restricted cross border movement of people and low levels of connectivity make the region not a forward-looking regional bloc but a cluster of inward looking member-countries.

### **Growth-enhancing Opportunities**

It is a matter of some concern that South Asia is unwilling to address even non-controversial growth-enhancing issues such as telephone connectivity and travel. Telephone tariffs between the countries of the region are still high. Travel costs are also high. Instead of being a more connected region, the story so far has revealed a South Asia that is perhaps the least integrated region in the world. If South Asia should become a dynamic regional bloc in the larger process of globalization, the region cannot remain disconnected within itself.

The 14<sup>th</sup> SAARC Summit earlier this year took note of the significant step of the ratification of the SAFTA agreement by all member-countries. SAFTA is important not only to promote intra-regional trade but also to usher in new areas of cooperation in services and investments. There are a number of common problems which are beyond the purview of trade. These include issues such as the constraints of land-locked countries, high transaction costs, inadequate investments, visa restrictions and lack of many professional services. There are also other emerging issues such as energy shortages, disaster management, diseases and epidemics, and climate change. These and other issues can be more effectively addressed if the countries of South Asia showed greater political will and the determination to act as a regional group rather than as discrete countries taking separate roads.

### **The Theme of Connectivity**

Ladies and Gentlemen! You will recall that at the 14<sup>th</sup> SAARC Summit the Prime Minister of India, Dr Manmohan Singh, unfolded

his vision by placing before the Summit the theme of connectivity. He said, and I quote,

*"Connectivity – physical, economic and of the mind, enabling us to use fully our geographical and resource endowments, has historically been the key to our region's peace and prosperity. South Asia has flourished most when connected to itself and the rest of the world."*

In other regions of the world, member-countries are pressing ahead with bold projects such as trans-regional highways, trade corridors and energy pipelines. Despite the fact that the countries of South Asia have greater commonality, it is unfortunate that they have not made a beginning in the direction of greater connectivity. Consider the power and impact of a trans-regional highway or an energy pipeline upon the economies and the lives of the people of the region. Consider also the fact that the region is home to many places of antiquity, historicity and heritage, including Buddhist sites: a culturally sensitive and socially inclusive tourism can catalyze economic growth. In my view, the theme of connectivity needs to be taken up with utmost seriousness. The countries of South Asia should immediately explore the possibilities of establishing more air links, telecom corridors, tourism circuits and energy grids.

The countries of South Asia also need to pool their resources through collaboration in regional projects, including in areas such as infrastructure, poverty alleviation, public health and disaster management. At the 14<sup>th</sup> SAARC Summit, member-countries brought into operation the SAARC Development Fund. India has also launched the SAARC tele-medicine project. We should, as early as possible, establish a South Asian University to bring high quality education to all countries in the region. The abundant human resources in South Asia are the most valuable resource base of this region and its expansion as well as enhancement will act as a powerful trigger for rapid economic development.

### **Development Cooperation between India and Sri Lanka**

Let me conclude this lecture with a special reference to the development cooperation between India and Sri Lanka. I may again recall the Free Trade Agreement between the two countries. The economic partnership between India and Sri Lanka could serve as a benchmark for similar partnerships between India and the other countries of South Asia.

Sri Lanka is India's largest trading partner in South Asia. Bilateral trade between the two countries, at the end of March

2007, stood at US\$ 2726 million. I may point out that trade turn over has quadrupled in the last six years. In fact, during the period of six years, Sri Lanka's exports to India have increased ten-fold.

There is also a surge in bilateral investments. Businesses from India have invested in Sri Lanka in sectors such as petroleum, cement, hospitality and transport. We hear every day of growing interest among Indian investors in emerging sectors such as telecom, energy and infrastructure. Equally, it is a cause of great satisfaction that efforts are being made by Sri Lankan business persons to invest in India. There have been significant beginnings in biscuits, beverages and garments. India welcomes the new model of partnership emerging between India and Sri Lanka that is based on a healthy two-way movement of goods, services and capital.

We have also witnessed strong growth in service industries such as shipping, tourism, logistics, banking and insurance. 70 per cent of the calls at Colombo port are from India. Four Indian banks and one Indian insurance company are operating in Sri Lanka. Four airlines from India operate services to Sri Lanka, even while Sri Lankan Airlines remains the dominant player operating about 95 flights a week to India and earning nearly 50 per cent of its profits from its Indian operations. It is not a matter of surprise that 21 per cent of all tourist arrivals in Sri Lanka are from India.

Sri Lanka and India are working together towards greater development cooperation especially in the area of infrastructure. Indian companies have undertaken several projects in Sri Lanka including refurbishment of the Southern Railway corridor. Nearly 50 per cent of the development assistance to the SAARC region provided by India flows to Sri Lanka. There are also small projects for capacity building in education, health and agriculture.

The success of the Free Trade Agreement has encouraged the two countries to begin negotiations on a Comprehensive Economic Partnership Agreement that will expand cooperation beyond trade and goods. I am happy to note that the negotiations are at an advanced stage and it is likely that a draft agreement could be reached very soon.

## **Peace and Stability**

In order to make full use of these opportunities, it is necessary that there is an environment of peace, stability and security in Sri Lanka. India is committed to the unity, sovereignty and territorial integrity of Sri Lanka. India has made this clear on

every occasion; at the same time India has emphasized that the ethnic conflict in Sri Lanka, arising out of a sense of discrimination and a sense of negation of cultural, linguistic and human rights, should be resolved through a negotiated political settlement that includes a credible devolution of powers. Senseless acts of terror on the one side or planned operations by the armed forces on the other side will only result in more death and destruction. Neither side can finally prevail over the other through conflict. Peace must be forged at the negotiating table and the peace agreement must win a vote of confidence from the people. Witness the happy conclusion reached in Northern Ireland after years of strife. The continuation of the armed conflict in Sri Lanka will deepen the divisions in Sri Lankan society and will make a negotiated settlement more difficult. It will also have an adverse impact on the economy, evidence of which is already noticed.

### **South Asia must seize the Opportunity**

It is now generally acknowledged that South Asia, given its recent economic performance, can match East Asia's growth rates. Sound macroeconomic policies can attract huge investments to the region. Capital, joining hands with the abundant and talented human resources of the region, can turn the region into a veritable economic powerhouse.

I shall leave you with a question: will South Asia, inspired by the broad and humanising vision of leaders like Mr Lakshman Kadirgamar, keep its tryst with destiny?

Thank you for your courtesy and patience.