

**Third South Asia Economic Summit on “Regional Economic Integration, Climate Change and Food Security Agenda for the Decade 2011-2020”**

*Session on:*

**Emerging Economic Outlook and Policy Challenges for South Asian Economies**

18 December 2010; 8:30-11:00 AM

Hyatt Regency

Kathmandu, Nepal

**Dr. Atiur Rahman**  
Governor, Bangladesh Bank

Asia's outstanding performance during the global financial crisis has not only pulled the region out of recession, but also helped steer the world economy toward recovery. South Asia is projected to grow at high rate of 7.8 percent in 2010 and 2011 (*according to Asian Development Outlook 2010 Update*), significantly above 2009 performance of 6.7 percent real GDP growth, underpinned by strong domestic demand. Sustainability of this rapid growth will require policies to boost consumption and investment. South Asia needs to continue efforts to rebalance sources of growth more toward domestic and regional demand, focusing on inclusive growth towards rapid eradication of still pervasive poverty.

Bangladesh economy weathered the global financial turmoil well owing to the absence of toxic assets in the domestic financial market and limited, regulated openness to short term external capital flows. Even during the crisis period, Bangladesh maintained firm footing on growth path, with real GDP growth rates of 5.74 percent and 5.83 percent respectively in FY 09 and FY 10. The growth target for FY 11 is 6.7 percent, quite attainable given strong turnaround in exports and healthy growth in agricultural and industrial output. During first quarter of current fiscal, export receipts and import payments increased by 30.0 percent and 37.0 percent respectively.

Closer regional cooperation in South Asia will greatly facilitate coping with the challenges of faster economic growth for rapid poverty eradication. A few of the issues of likely benefit from regional cooperation are as follows:

1. Manpower utilization:

The emerging outlook for the South Asian economies is bright, given their favorable demographics with large pools of cost competitive young manpower for output activities in labor markets within the region and elsewhere; these pools of young population also mean a robustly growing bases of domestic demand.

Challenges facing these economies in eradicating poverty and equipping their manpower pools with knowledge base and skills appropriate for the twenty first century global economy are also enormous. Sustained high fiscal outlays of social sector expenditure will remain necessary for human development and food security, in interventions targeted towards opening up blocked advancement opportunities for the less advantaged.

Possible benefits from South Asian regional co-operation in human development and optimal manpower utilization remain largely unexploited. The region's productivity can be higher with freer labor mobility and extensive intraregional outsourcing of intermediate stages in manufacturing and in business processes; optimally exploiting the diversity in comparative advantages across the region, expanding trade and employment in manufacturing and services. *Governments in South Asia can be proactive in fostering enabling environment for the private sector in locating and utilizing opportunities of intraregional outsourcing in output activities.*

## 2. South Asian intraregional trade:

Intraregional trade remains a minuscule part of overall external trade of the South Asian economies (excepting the landlocked ones), due mainly to low income levels limiting demand within the region. As indicated in the preceding section, export of final outputs from South Asia to the rest of the world can benefit from outsourcing of intermediate processing stages across the region. Apart from this, rising income levels and purchasing power in the faster growing economies in South Asia are imparting them capacity of absorbing more of the final outputs. *South Asia needs therefore be proactive in promoting intraregional trade, in both intermediate and finished outputs.* Liberalization of intraregional trade in South Asia is proceeding at snail's pace, mainly for fear of the adjustment cost burdens within individual economies that regional integration of output and trade activities will entail. *Greater gestures of generosity on the part of the larger, faster growing South Asian economies will be important in building support for and confidence in the integration processes in the region's smaller economies.*

## 3. Investment for expanding physical infrastructure and output capacity:

It is a major collective policy failing that South Asia's substantial savings in the form of foreign exchange reserves enrich financial centers in the West, while real sectors in economies in the region remain starved of investment in much needed physical infrastructure to support output growth. For a substantial thrust in growth and poverty eradication, *it is high time now for governments in South Asia to redeploy substantial parts of their foreign*

*exchange reserves into sovereign wealth funds actively investing in infrastructure and other real sector projects in the region.* The SAARC initiative of creating a regional investment fund has thus far proven feeble and disappointing, sovereign wealth funds of individual member countries would be much simpler to organize and activate fruitfully.

#### 4. Food security, climate change threat:

Food security in South Asia will hinge importantly on promoting output and maintaining openness to intraregional trade in essential food grains. *Intensifying co-operation in research and breeding of new higher yielding seed varieties capable of withstanding the climate change challenges should figure prominently in the agenda for food security.* Towards maintaining growth trend in food grain output, *the region needs to draw up adopt an integrated regional plan for water resources development and utilization, keeping in view the climate change threats and the needs in individual member countries.*

One simple approach to operationalizing the SAARC Food Bank idea would be to support member countries in maintaining their own buffer stocks of essential food grains, and to commit to openness in intraregional food grains trade at times of pressure in global markets.

Eradication of extreme poverty is a sine qua non for food security in terms of affordability; *poverty eradication must therefore be a high priority in South Asia.* The human development and socioeconomic growth initiatives must be inclusive; focusing on social empowerment of the disadvantaged population segments, opening up advancement opportunities for them. Co-operation and exchange of ideas and experiences in deepening social and financial inclusion merit being on the discussion agenda in regular South Asian regional co-operation platforms.

\*\*\*\*\*