

**LAUNCH OF 2009 REPORT OF HUMAN DEVELOPMENT IN SOUTH ASIA
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Keynote Address

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Honourable Chair, Begum Khadija Haq, Ladies and Gentlemen,

HUMAN DEVELOPMENT IN SOUTH ASIA
on
Trade and Human Development in South Asia

- ❖ Thirteenth Report since 1997. Every Year without fail, diverse subjects covered ranging from the Challenge of Human Development, Education, Governance, Globalization, Agriculture, Health, Human Security, Poverty and Technology
- ❖ Represents a collective effort by economists of the region from India, Bangladesh and Pakistan
- ❖ Six Chapter report, focusing on theories and concepts and their application to trade in agriculture, manufacturing and services, along with a review of Regional Trade in South Asia and presentation of policies for harnessing trade for human development.

OVERVIEW

- The Report focuses in the South Asia context on
 - The contentious issues of agricultural trade
 - The limited gains from trade in manufacturing
 - The unfulfilled promise of service trade

It emphasizes the two-way link: trade – human development; human development – trade. The benefits and constraints of intra-regional within South Asia are also explored.

AGRICULTURE

The report makes the important statement that:

- First, labour-intensive crop production has been replaced by capital-intensive techniques.
- Second, cheap imports have been introduced into the market.
- Third, there has been a shift from food crops to cash crops.
- Trade liberalization has had negative consequences for South Asian agriculture and thereby impacted adversely on rural poverty. Liberalization of agricultural trade has proceeded further in Pakistan, as the recent debate on sugar imports demonstrates.

Consequently there has generally been deterioration in food security, especially in India and more recently in Pakistan.

The failure of the Doha negotiations has implied that developed countries continue to heavily subsidize their agriculture, making production of developing countries less competitive. The subsidy to farmers in EU and USA and Japan at over \$1 billion per day is four times the ODA given to developing countries.

MANUFACTURING

Most South Asian countries made a transition from policies of import substitution to export promotion in the 90s and tariff walls have been substantially scaled down. However, the gains from trade liberalization for the region have been limited – as the region contributes only 1.5 per cent of world exports; manufacturing imports have grown faster than manufactured exports. WHY?

Bulk of South Asia's manufactured exports lack both sophistication and diversification. Around 85% consist of resource-based or labour intensive goods. Textiles and food products dominate exports. Apart from problems arising from WTO agreements, there are several domestic constraints to growth in manufacturing trade, including lack of adequately skilled work force due to chronic under-investment in education and human development, repeated energy crisis, infrastructural bottlenecks and unfavourable investment and business climate.

SERVICES

This is the most dynamic sector in South Asia today, accounting for 53% of the regional GDP. Indian service exports, in particular, are large.

Trade in services is a relatively recent phenomenon, following GATS. South Asia has opened up its service sector to foreign participation in areas like banking, insurance, telecommunications, etc.

Certain segments have shown exceptional dynamism. ICT exports are particularly important for India due to its relatively skilled workforce. Positive impact of selective human development. Tourism is a big source of foreign exchange for Nepal and Maldives. Labour migration has implied large inflows of remittances in virtually all countries of the region.

There have been negative fall outs. ICT activities have sharpened the urban-rural divide. Tourism has affected the environment. Labour migration has implied a brain drain in some key areas.

The biggest constraint is that GATS has been unsuccessful at liberalizing the movement of people, particularly unskilled and semi-skilled labour, from developing to developed countries.

INTRA-REGIONAL TRADE IN SOUTH ASIA

Intra-regional trade remains very low in South Asia. It accounts for only 6% of the region's total exports and 4% of total imports. Total value of \$30 billion with India having a surplus of \$7 billion and other's record deficits. Intra-regional trade in ASEAN has a share of 25%.

Studies indicate that more than half of South Asia's intra-regional potential remains untapped both in terms of trade diversion and trade creation. The region lacks integrated production networks based on individual country comparative advantages.

SAFTA was signed in 2004 and will be full operational in 2016. However, it is beginning to be superseded by bilateral agreements such as India-Sri-Lanka FTA and the India-Nepal FTA.

Intra-regional trade continues to be limited by a number of factors: political mistrust and hostilities, similar export baskets limit trade possibilities; inadequate transportation links; non-Tariff Barriers especially by India.

RECENT REPORT OF PANEL OF ECONOMISTS

RECOMMENDATIONS:

In order to boost extra-and intra-regional trade the Report makes the following recommendations:

1. Need to examine whether premature trade liberalization has seriously affected the industrialization and agricultural development process of South Asia. Whether dependence on exports to developed countries has increased vulnerability to global financial crisis.
2. Need for the region to explore new markets in East Asia and the Middle East.
3. South Asia needs to be wary of signing North-South Regional Trade Agreements (RTAs) as these agreements include WTO-plus requirements such as stricter labour, environmental and health standards. South-South agreements may be more favourable.
4. For development of intra-regional trade need for improvement in trade-related infrastructure.
5. Invest more in human development to develop the capacity for export of high-value products and services.

PANEL OF ECONOMISTS:

There is a need to exploit the huge potential offered by regional trade, and thereby build strong constituencies for peace, through first considering the granting of MFN status to India and abandoning the positive list approach. [MFN status means no discriminatory

treatment against the country. It gets the same treatment as all others]. There should be mutual understanding on opening up and improvement in transportation routes and reduction in NTBs (especially by India) along with facilitation of movement of people.

The diversion of Pakistan's imports to India of products like pharmaceuticals, engineering goods, chemicals etc., could have a salutary effect on prices and improve the BOP while conferring welfare gains on the people. SBP estimates that the savings are current volume of imports due to trade diversion to India could be as much as \$1.5 billion.
