



## RAPPORTEURS REPORT

# Prospects for Stability and Growth in South Asia November 6-7, 2012



# Inaugural Session & Session I: Political Stability in South Asia: Challenges and Opportunities

Chairperson : Amb. Leela K. Ponappa

S. D. Muni	H.E. Mr. Fuwad Thowfeek	Amb. Nyunt Maung Shein	Sushant Sareen	Mr. Waliullah Rahmani
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The two-day conference was the sixth in the series of annual South Asia conferences that IDSA has been holding since 2007. Distinguished scholars, experts, journalists, diplomats from Afghanistan, Bangladesh, Bhutan, Nepal, Pakistan, Maldives, Myanmar, Sri Lanka participated in the conference.

In the inaugural session, [Dr Arvind Gupta, Director General, IDSA, welcomed the guests](#) and spoke about the numerous geopolitical and economic challenges confronting the South Asian region. As the US is in the process of revising its policy towards China and Asia and the withdrawal of international forces is going to be completed by 2014, the region may be in the throes of political uncertainty. He held that in an interconnected world, developments in the neighbouring regions of West, East and South East Asia would naturally influence developments in South Asia and therefore was a need to study the developments critically and assess their impact on stability and growth in South Asian countries. Referring to the vast youth population in the region he argued that it should be treated as a demographic dividend. He emphasized the need to harness the vast human potential for peace, prosperity and stability in the region, which would be the key to the future of South Asian stability.

[Delivering the keynote address, Shri Pallam Raju](#), Hon'ble Minister for Human Resource Development, said that India was emerging as “an economic power house” in South Asia and “all countries in the region have an opportunity to link up with the Indian economy and improve their own prospects of growth”.

Highlighting how countries like Sri Lanka, Bhutan and Bangladesh have already benefited from deepening their economic cooperation with India, Shri Raju hoped that the “the trust deficit” which comes in the way of cooperation would yield to “a climate of change and the positive side of growing together with India would be appreciated”. He insisted that there was enormous potential of intra-regional trade and investment which must not be left untapped.

Hailing the ‘democratic moment’ that the South Asian region has witnessed, the minister urged the South Asian nations not to be complacent and “work towards reinforcing the processes of change by building more

capable institutions, improving governance, tackling the problem of corruption, reaching out to the vulnerable sections of the society and strengthening the feedback loops.”

The minister said that “Think South Asia”, should be the motto for all of us to connect with one another and build bridges across artificial divides that inhibit the process of regional integration, and added that the “Initiatives taken by the SAARC forum provide excellent frameworks for cooperation.”

Further, throwing light on the global financial crisis that is also casting its shadow in the South Asian region, the minister urged the regional community to “institutionalize regional efforts for cooperation at various levels” to combat the situation. “The finance ministers and the central bank governors should come together and discuss the crisis at the earliest,” he stated.

Instead of wasting their energies on mutual differences, the South Asian states need to focus on the region’s rich “human and natural resources” and its “demographic dividend” in the form of its vast youth population and use them for strengthening the foundations of democracy and ensuring transparent governance and inclusive development, concluded the minister.

Shri Pallam Raju also released two publications on South Asia that are edited by IDSA scholars - ‘[Cooperative Security Frame work for South Asia](#)’, by Dr Nihar Nayak and ‘[India’s neighbourhood: The Armies of South Asia](#)’, by Dr Vishal Chandra.

In the first session of the conference, Prof SD Muni, Senior Visiting Fellow at IDSA, critiqued the very idea of stability and said that sometimes it might mean regime stability, which may not be welcome. He analysed the situation prevailing in most of the countries in the region and said that they were all affected by political uncertainty and fractured political consensus. The issues that led to conflicts in different states remained unaddressed. Therefore, he held, South Asia would continue to be haunted by instability in the days to come.

Other delegates from Myanmar, Maldives and Afghanistan highlighted the ongoing process of democratisation in their countries and identified the challenges they are confronted with. The common problems of lack of strong institutions, poor governance, corruption, irresponsible media and corrosive role of religion in politics were brought into focus by the speakers. Dwelling on Pakistan, Sushant Sarin, argued that an interventionist judiciary, a well-entrenched army and immature opposition and above all a partisan media would pose a critical challenge to consolidation of democracy in Pakistan. Chairing the session, Ambassador Leela Ponappa moderated the discussions and argued that there was a need to redefine south Asia to bring in other countries and regions into the ambit of the discussion.

## Session II: Political Stability in South Asia: Challenges and Opportunities

Chairperson : Prof. Satish Kumar

Prof. Ranjith  
Bandara

H.E. Mr. Dago  
Tshering

Dr. E. Sridharan

Dr. Smruti  
Pattanaik

Mr. Prashant Jha

The session was chaired by Prof. Satish Kumar. He started by asserting that instability does hamper growth. All countries of south Asia are trying to move towards democracy depending upon local conditions. He underlined the need for the countries of the region to imbibe certain principles and values— respect for personal freedom and pluralism, devolution of power, etc.— to strengthen the process of democratisation in different states in the region.

Prof. Ranjith Bandara from Sri Lanka focussed on “Regional Disparity-Challenges of post-Civil War Development in Sri Lanka”. He stressed the multi-ethnic character of the Sri Lankan society. He used different indicators to analyse the economic situation in Sri Lanka. He held that Sri Lankan achievement was noteworthy in comparison to other developing countries. Among three sectors of Sri Lankan economy— Urban, Rural and Estate— poverty was maximum in the estate sector.

Talking of developmental efforts being undertaken in Sri Lanka he said that government was giving priority to infrastructural development at the provincial level to attract investment, improve accessibility to markets, create new employment opportunities and alleviate poverty. The government has started programmes with multiple objectives. Government is running growth centre development programmes centred around five growth hubs, i.e., education, commerce, airport, port and tourism. He concluded by saying that regional disparity is an important issue in Sri Lanka but the government is alive to this issue and it has a sound approach to deal with this.

The next speaker Amb. Dago Tshering from Bhutan presented a paper on transition “From Monarchy to Democracy in Bhutan.” He talked of shared cultural and value system of south Asia and the popular desire for democracy and democratic process. Democracy is not easy to nurture, yet Bhutan he held, had largely succeeded in democratising its political system. Bhutan had realised the importance of representative governance quite early and the Bhutanese king had managed to have councillors as far back as 1953. Bhutan has chosen not to be confused by the debates over ‘democratic principles’ and democracy has come naturally to the people of Bhutan. He said that for Bhutan Gross National Happiness (GNH) was more important than Gross National Product (GNP). Bhutan lays emphasis on environmental protection. The Bhutanese constitution requires that the country must have 60 percent forest cover. The government has also declared Bhutan to be carbon neutral country. The constitution also lays stress on preservation of Mahayana Buddhism and good governance for the people.

Democracy has empowered the people of Bhutan. The transition to democracy took place during the reign of the 4th king. Bhutan now believes that the destinies of Bhutan people must be left to themselves. The democratisation process in Bhutan has moved forward without any problem. The Election Commission is operating in a smooth manner. The Parliamentary experiment in Bhutan has been a resounding success. The democracy has bright future in Bhutan because people are committed to constitutional monarchy.

Dr. E. Sridharan presented a paper on “Challenges to Political Stability in India.” He focussed on instability emerging from the nature of coalition governments. He pointed out that since 1996 India has not had any one-party government. This poses a challenge to the stability of the government as any coalition partner can withdraw support any time. In India, in recent times, there have been minority governments as well as minority coalitions. In spite of poverty and extreme heterogeneity India is having a stable democracy. Indian system emphasises on power sharing. The idea of Indian nation is based on pluralism. The practice of politics has been accommodative. The coalition politics is remarkably inclusive. Though coalition governments have reinforced power sharing structure of Indian democracy, coalition governments tend to get unstable when they are hit by economic downturn. India has had successful coalition governments at the time of high economic growth but it remains to be seen how things are being managed during a period of economic crisis.

Dr. Smruti Pattanaik presented a paper on “Challenges to Democracy and Pluralism in Bangladesh.” She pointed out that democracy cannot function without pluralism. She mentioned that the 5th Constitutional amendment introduced Bangladeshi nationalism and 8th amendment made Islam as state religion and these developments run counter to the spirit of pluralism. She held that the judiciary of Bangladesh was quite politicised and the legislature of the country was hardly being used by the political parties as a forum for constructive debate. The two leading political parties are yet to come to a consensus on what should be the arrangement to hold the next parliamentary elections. The Election Commission in Bangladesh is very weak. Institutions in Bangladesh are not functioning well largely because there is no dialogue among political parties. Military has tried to gain greater role in the affairs of the state in the name of strengthening democracy. However, she held that there was a consensus in Bangladesh not to allow military takeover anymore and there was lot of space for democracy to survive.

The paper presented by Prashant Jha focussed on “Nepal’s Quest for a Constitutional Settlement.” He dwelt on the transformation of Maoist Party from an insurgent force to a political party and the problems associated with the constitution making process. He said that the Maoists read the elections result as endorsement of their agenda, which made other parties suspicious about their political intent. The Maoists and Nepali Congress were signatories to the 12-point agreement but they have not been able to come together to share power between themselves. There was a long and protracted debate on integration of Maoist combatants. Some of the Maoist leaders— especially Prachanda and Baburam Bhattarai— endorse the idea of federalism and cooperation with India whereas the split-away group wants People’s Republic and considers India as a principal enemy. Now there is assertion of the marginalised groups in Nepal. The core question is which model the constituent assembly would adopt as far as the federal issue is concerned. Presently, there is a political and constitutional deadlock in Nepal over the issue. Most important question is who would lead the government which will be tasked with the job of holding the next elections. He ended by making a prediction that no one political party would dominate next constituent assembly and even the chances of next constituent assembly throwing up a constitution is bleak.

In the question answer session Prof. Ijaz Nabi from Pakistan asked how Nepal despite political instability has managed to do well in several social indicators. He also wanted to know why India facilitated agreement with Maoists. Answering this Mr Jha said that remittances were the required safety valve for Nepal, and India helped Maoists to come to mainstream politics when it realised that they were a major force in Nepalese politics.

Another question was asked by Amb. Yogendra Kumar who wanted to know how coalition politics was going to play out in India during a period of economic downturn. Dr. Sridharan answered this by saying that coalition government may remain stable but it could be paralysed by not taking any policy decisions.

Prof Satish Kumar rounded up the discussion by saying that despite the challenges the countries in the region seemed to move towards greater democracy and this was a welcome trend.

## Session III: Economic Growth in South Asia: Problems and Prospects

Chairperson : Amb. Rajiv Sikri

Prof. Bishwambher  
Pyakuryal

Dr. Anura Ekanayake

Prof. C.P.  
Chandrasekhar

Mr. Mohammad  
Sulaiman Akbari

The theme of the third session of the 6th South Asia Conference 2012 was “Economic Growth in South Asia: Problems and Prospects”. Economic issues in Nepal, Sri Lanka, Pakistan and India were discussed during this session. Brief overview of the papers presented during the session is as follows:

Prof. Bishwambher Pyakuryal from Nepal presented his paper on *Economic Growth in Nepal-Need for Economic Reforms*. Mr. Pyakuryal pointed out that Nepal was experiencing political uncertainties and economic instability and argued that in Nepal, there was a negative relationship between the two. The country is being run through ordinances. The issue of raising the income levels of the people and narrowing down income inequality to facilitate inclusive growth has become a distant dream. The need therefore, according to him, is developing a consensus-based economic model which is difficult under prolonged period of political instability and economic uncertainties. He held that mere empowerment of the local governments in the new constitution would not solve Nepal’s problem, as a high degree of horizontal imbalances exists among the proposed 11 provinces under the new federal structure. Therefore, he suggested that only through a consensual model of broad-based inclusive growth could bring stability and growth to Nepal.

Dr. Anura Ekanayake from Sri Lanka characterised the armed conflict in Sri Lanka as a phenomenon related to the youth of Sri Lanka of all communities rather than as an ethnic phenomenon. He outlined the fact that the youth rebellion in Sri Lanka both in the Northern and Southern provinces originated more or less at the same time in late 1960s. However, the Southern revolt, which has been depicted as class and caste movement, ended in 1989 and the Northern revolt, which has been described primarily as an ethnic phenomenon, continued for another 20 years ending in 2009. While he did not deny the fact that the Tamil community in Sri Lanka had a wide range of specific grievances, he was sceptical whether they could be attributed as necessary and sufficient conditions for such a long drawn out armed conflict. He tried to explain the Sri Lankan youth revolt, both in the North and South, by applying the theory of revolt in general. He argued that economic policies over the years did not aim at job creation and as a result, both in the North and East as well as in the South hundreds and thousands of educated pre-dominantly rural youth were left unemployed with no early prospects of finding any job. Thus the unemployment pushed the youth all around to rebellion, the disastrous language policies, discriminatory rules for university admission and restrictions in public sector employment drove the Tamil youth towards secessionism. The speaker pointed out that the longevity and the severity of the two revolts in Sri Lanka could be explained by their organisational, military and financial feasibility. According to him the Southern revolt failed because the level of military and financial feasibility of the Southern rebels was far less than that of their Northern counterparts. A peaceful way forward, to him, therefore, must effectively address the challenge of youth unemployment and meeting their aspirations.

Professor Ijaz Nabi in his presentation on *Pakistan’s Regional Trade Strategy and Pakistan-India Bilateral trade*, argued that a new growth vent in Pakistan, required tapping into lucrative external markets, in a manner that would create multiple entre-ports for growth. In this regard, Professor Nabi gave historical account of how Pakistan in the past played an important role as a connector of markets in the East with markets in the West and North, which resulted in economic prosperity and cultural richness. The speaker

considered this as important given the growing wealth of the independent Central Asian economies, energy rich Iran, rapid economic growth of Western China and increasing globalisation of India's economy. He argued that sustained economic improvements in this type of a regional hub can occur when it would transit from being a transportation hub for goods and energy, into a manufacturing hub that would provide growth nodes, create high productivity, high-wage jobs in multiple regional contexts. He also argued that both Pakistan and India needed to take a strategic, regional approach in managing the recent developments in bilateral trade, to prevent future disruptions and thus maximise the growth enhancing consequences of regional trade. He emphasised the need for intra-industry trade which would interlock the potential of industries in both the countries and make the process of bilateral engagement irreversible.

Prof. CP Chandrasekhar's in his presentation on *India's Growth Story: Is this a turning point* argued that after a quick post-crisis recovery, GDP growth in India has slowed down considerably, raising doubts on the sustainability of the high-growth trajectory (primarily led by services) the country shifted to after 2003. He identified the sources of growth during the last decade, and the reasons why these stimuli had lost their strength more recently. He argued that if there was a growth slowdown there was a real danger of increased insolvency in the Indian financial sector. Government needed to feed the market and boost investor confidence to keep growth going. However, that growth had social implications. The speaker concluded by saying that the danger of social instability might add to the danger of economic and financial instability.

The paper presentation was followed by general discussion. Following conclusion can be drawn from the general discussions:

- One of the major problems in improving trade relations between India and Pakistan is Pakistan's hesitation to give Most Favoured Nation status to India.
- South Asia is the most un-integrated region in the world. The region is challenged by a number of armed conflicts. Until and unless there is greater integration leading to inclusive growth and economic prosperity, armed conflicts will continue to disturb the region.
- The region is also one of the most diverse regions in the world. The unwillingness on the part of the countries of the region to recognise the inherent diversity creates challenge for regional cooperation.
- Fear for Indian hegemony is one of the biggest challenges to the regional cooperation. However, India's approach to regional cooperation has changed dramatically in last couple of decades and this has to be recognised by its neighbours.



## Session IV: Economic Growth in South Asia: Problems and Prospects

Chairperson : Amb. I.P. Khosla

Professor Bazlul  
Haque Khondker

Professor Ijaz Nabi

Mr. Bandhu Ibrahim  
Saleem

Mr. Tenzing Lamsang

The fourth session of the sixth South Asia Conference focussed on “Economic Growth in South Asia: Problems and Prospects”. The session was chaired by Ambassador I.P.Khosla. Presentations for this session included economic growth narratives from Bangladesh, Bhutan, Maldives and Afghanistan.

Professor Bazlul Haque Khondker, a Professor at the Dhaka University gave an overview of the status of economic indicators in Bangladesh. He said that Bangladesh was performing reasonably well, despite the pace of growth not being very smooth. He dwelt on two phases of Bangladesh’s economic trajectory, one from 1973-1990, where in growth was subdued with the economy largely inward looking and state controlled, and the post-1990 phase which has witnessed reforms in trade and banking. He attributed growth to expanding labour force and strong private sector amongst others. Categorizing the growth in sectors of manufacturing, service and agriculture, he stated that the main challenge was modernizing the manufacturing and service industry. Gleaning out the strategies of Bangladesh’s economic growth, he spoke about increasing export of the manufacturing sector; capacity-building to enhance supply side capacity; improving trade and transit facility; and strengthening regional and international trade. He highlighted the inadequate infrastructure, dismal FDI, unsatisfactory revenue mobilization, political uncertainty and governance issues as challenges to the greater economic growth in Bangladesh.

Mr. Bandhu Ibrahim Saleem, from Maldives –in his presentation on “Sustaining Economic Growth and stability in Maldives”, analysed different phases of growth and decline of the Maldivian economy and offered an overview of performance of different sectors including tourism and fisheries. He also talked about problems related to the Maldivian environmental friendly fishing practices— especially Tuna harvesting in the Indian ocean. He pointed out that the Maldivian government’s allocation of 1.5% of the total budget to the political parties and its low revenue generation capacity in the face of high expenditures was a real problem for Maldivian economy. At a broader level, he talked about excessive welfare; poor resource utilization; growing debt; and inadequate governance mechanisms as primary challenges to Maldives’ growth story. He shed light economic areas where in other SAARC countries could play a pivotal role, which included areas like infrastructure development; diversification of revenue generating activities; agriculture techniques; and strengthening good governance.

Mr. Mohammad Sulaiman Akbari in his presentation brought out the challenges and prospects of economic growth in Afghanistan. He started his presentation by saying that Afghanistan was undergoing a three-tier transition— political, economic and military— and this would continue beyond 2014. The presentation underscored the achievements of Afghanistan in the last decade in the economic and social sectors— per capita income increased five fold; reasonable growth in the banking sector with reduction in fiscal deficit from 60 to 40 per cent; increased participation of women in all spheres of public life; increased accessibility of health care to rural areas amongst others. He attributed the Afghan growth prospects to an open market policy embraced by Afghanistan in 2004; role of the private sector; foreign aid and increased trade. On the downside, the presentation also dwelt on challenges including, political uncertainty; focus on logistics rather than on industrialization that would hinder economic growth. To mitigate these challenges, Mr. Mohammad recommended that it was absolutely necessary to provide an impetus to agriculture; optimise

utilisation of natural resources; initiate administrative reforms; capacity building and investment in infrastructure.

Mr. Tenzing Lamsang deliberated on the “Strategy of Sustainable Growth in Bhutan- Role of Regional Cooperation”. He commenced his presentation with a brief outline of Bhutan’s economic history. He analysed the development in the region in the 1950s that led to Bhutan to get out of its earlier policy of isolation and the rapid economic transitions that followed. During 1961-1981, India sponsored Bhutan’s five year plans entirely (it currently sponsors 30 per cent of the five year plans), which gave considerable momentum to Bhutan’s development. Mr. Tenzing explained in detail about the hydropower cooperation between Bhutan and India, which is a win-win situation wherein both countries benefit. He further, stated that it could be a blueprint for cooperation for the rest of South Asia. Talking about the challenges to growth and measuring economic growth in Bhutan; he talked about the complexity in measuring Gross National Happiness; lack of involvement of the private sector; the credit crisis and the need to diversify the economy beyond hydropower.

The floor opened up for questions and comments, post the presentation. Important points made during this session included:

- Economic growth that caters to generation of employment; regional equity; and earned reserves would contribute to greater stability.
- As long as economic concerns are viewed from the national security paradigm based on territorial interests, economic growth opportunities cannot be seized.
- For greater Indian investment in infrastructure development in Bangladesh settlement of transit issues are pertinent.
- Business- politics nexus; absence of good governance along with inefficient government spending in Maldives has stunted its growth potential.
- A triangular approach of India- Afghanistan- Pakistan trade relations has been held hostage to India-Pakistan tensions. Problems of corruption are the effect that has been caused by the prevailing salary structure; weak institutions and monitoring capacities in Afghanistan. Introducing alternative agriculture tools and techniques to Afghan farmers will be a solution to poppy cultivation in the country.
- With unresolved border issues between China and Bhutan, prospects of increased trade between China and Bhutan is bleak. For ensuring growth that feeds into the country’s stability, Bhutan government has taken steps toward spreading of development and urbanization opportunities across different regions in Bhutan.

## Session V: Sustaining Stability and Growth in South Asia: The Way Forward

Amb. Satish Chandra		
Dr. Arvind Gupta	Dr. Sanjaya Baru	Amb. Sheel Kant Sharma

The session was chaired by Amb. Satish Chandra. He started by pointing out that the subtext throughout this conference is about the relationship between stability and growth and how they are interconnected. He added that growth is a result of many factors of which stability is a major component and that without political stability or a cooperative approach, it would be difficult to achieve any growth.

Dr. Arvind Gupta, Director General IDSA spoke on “Political Stability in South Asia: Towards a Cooperative Approach”. He said that even though the story of economic successes of South Asian countries had been mentioned throughout the conference, it was important to remember that all of them were struggling presently due to the many impediments to growth. This is the challenge that South Asia faces and if these challenges— politicisation, the presence of a culture of violence, corruption, unemployment etc.— are not tackled efficiently, they would hinder stability and growth.

He stated that even though the SAARC was set up in 1985, there had not been much progress and one major disappointment was the lack of regional integration. The issue of trust deficit is a critical challenge that needs to be urgently addressed. It is impossible to move forward without giving regional cooperation high priority. He considered it important to evolve a South Asian identity as a precursor to regional cooperation and this is where the institution of SAARC could play an important role.

The next speaker Dr. Sanjay Baru, Director for Geo-economics and Strategy at the International Institute of Strategic Studies, London presented a paper on “India’s Role in the Economic Reintegration of the Indian Sub-continent”. He emphasised the need for modern infrastructure connectivity and regarded it as the starting point for regional reintegration.

Talking of the importance of a single market, Dr. Baru regretted its absence in South Asia. This, he pointed out, was a challenge to the region as the people did not think of ourselves as a unified region. The region, with the support of the governments, needs to put in place affordable economic infrastructure, which would encourage people-to-people movement and also take up issues like management of water. He also reiterated the need for free movement of people and linking of capitals as necessary steps for regional cooperation.

Amb. Sheel Kant Sharma presented a paper on “SAARC and the South Asian Stability and Growth: Potential and Promise”. He pointed out that SAARC, which was in its 28th year, could be an instrument of stability in the region where security-centric mindsets are dominating. The 1.6 billions of South Asia must have a stronger SAARC to meet these challenges.

Following a graphic account of what SAARC stands for and how it has been functioning and what it has achieved, he spoke of active regionalism and strongly asserted that local interests cannot be ignored. His concluding remarks highlighted the important message of the session that the region does not give SAARC the importance it deserves.

In the concluding remarks for the session, the Chair Amb. Chandra laid down six important facts as having emerged from the session:

- There is a link between political stability and growth.
- India can and should play a major role in the reintegration of the sub-continent; it can contribute to the greater good of the region
- SAARC is the best institutional arrangement for promoting regional cooperation in the region but that we need to have a re-look at SAARC so that certain structure can be reformed or revised
- SAARC \secretariat should be strengthened.
- Countries may have their differences and may also persist in having them but that we need to cooperate wherever possible. Each country ought to have a vested interest in the stability and the growth of the countries in the region
- The security element cannot be brushed aside. Cooperation will increase greatly if ideally all countries are mindful of the interests of all the countries and if these countries do not do anything to destabilise one another.