

**KEYNOTE ADDRESS BY MINISTER OF TRADE AND INDUSTRY LIM HNG
KIANG AT THE 3rd INTERNATIONAL CONFERENCE ON SOUTH ASIA
“SOCIO-POLITICAL AND ECONOMIC CHALLENGES IN SOUTH ASIA”**

Chairman Gopinath Pillai,

Distinguished Guests,

Ladies and Gentlemen

Introduction

I am honoured to address this distinguished audience at the 3rd Conference on South Asia organized by ISAS.

South Asia is a diverse region comprising 8 different countries¹. Together, they account for more than one-fifth of the world population. Each country has its own distinct culture, its own rich and proud history. Indeed, it would be a grave mistake to treat the entire region as one geo-political entity. For us to successfully engage South Asia, we need to understand not only each as an individual country, but also its relationship to others, both within and outside the region.

I am thus heartened by the today's presence of speakers and panelists from both the academic and non-academic fields. I am sure they will offer us diverse and interesting views on developments within the South Asia, and the region's relations with the world.

A Promising South Asian Performance

South Asian economies have been widely reported in international press and fora for their outstanding economic performance in the past five years. The region had grown at an impressive average rate of 6 percent per annum for the past decade, higher than the world's average of 4 percent². In 2006, India led the region with a remarkable GDP growth of 9.4 percent, while countries like Sri Lanka, Pakistan and Bangladesh also achieved growths of above 6 percent.

This robust economic growth has improved the living conditions of millions in the region. Poverty rates in India, Pakistan, Bangladesh and Nepal have declined

¹ This follows the World Bank's classification, and includes Afghanistan, India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan and the Maldives. Some other classification may include Myanmar (for historical reasons), while the UN include Iran as part of *Southern Asia*.

² Source: World Bank, IMF

steadily over the past decade³. The region also achieved great strides in providing education and healthcare services to their population. According to the World Bank, Bangladesh has already attained universal primary enrolment and gender parity in secondary education. Both Bangladesh and Nepal are also on track to reduce child mortality rates by two-thirds by 2015⁴.

It is also encouraging that reforms in South Asia, which have taken a slow but steady trajectory, are finally bearing fruit. Sri Lanka and Bangladesh embarked on a series of economic reforms beginning from the late 1970s while India opened up her markets in 1991 by reducing government controls on foreign trade and investment, privatizing its state owned industries, and reforming its labour laws. Pakistan, too, embarked on its own privatization path, beginning with the banking sector, in 2001.

South Asia's growth is all the more remarkable when we consider that it was achieved amid daunting domestic challenges. Amidst a vibrant, and at times turbulent political arena, South Asian governments had successfully improved their countries' infrastructure and provided their citizens with higher levels of healthcare and education. Good infrastructure and a skilled workforce are the necessary fundamentals for long term economic growth.

These fundamentals, together with the governments' commitment to domestic reforms, attracted the inflow of foreign capital that resulted in the region's sustained economic growth over the past decades.

Potential for South Asia to Grow Remains Promising

Yet there still remains tremendous potential for growth. With a combined domestic market of some 1.4 billion people and a young, educated and driven workforce, economists the world over remain highly optimistic about the region.

The recent Organisation for Economic Co-operation and Development's (OECD) Economic Survey of India⁵ concluded that India could achieve its target of double-digit GDP growth by 2011 if it continues to pursue aggressive reforms. It also noted that real incomes could rise annually on a sustainable basis to double real incomes in a decade.

³ Poverty rates of India, Bangladesh and Nepal decreased by 7%, 9% and 11%, respectively, in the 1990s; poverty rate of Pakistan decreased 5% in first 2000 – 2005. Source: World Bank SAR Regional Strategy Update, Jan 2007 – “A chance to eliminate poverty: Scaling up development assistance in South Asia”.

⁴ World Bank SAR Regional Strategy Update, Jan 2007 – “A chance to eliminate poverty: Scaling up development assistance in South Asia”.

⁵ The survey was first made public on 9 Oct 2007. It assessed that India is capable of hitting 10% GDP growth by 2011, and that its real income could rise by 7% annually on a sustainable basis if India continues with its reforms.

Similarly, the IMF expects the economies of Sri Lanka, Pakistan and Bangladesh to each expand by more than 6 percent annually till 2008. Nepal's economy is also expected to grow by 4.5 percent next year⁶.

Challenges for South Asia Today

To realize its full economic potential and achieve sustainable growth, the South Asian economies need to tackle three key challenges.

First, South Asia needs to reduce poverty among the general population. This must be translated into more equitable distribution of wealth among the population. Inequality reflects distortions in the economy which give rise to unequal power relations and social tensions. These, in turn, will destabilise the social fabric of a country. This will not only dampen future growth but also possibly undo what had been achieved in the past decades.

Second, the region needs good governance and the efficient implementation of policies. The World Economic Forum Global Competitiveness Report 2006/07 highlights the need for 'Soft Infrastructure', such as quality financial system, rule of law, and a system of good political and corporate governance, in order for countries to achieve economic growth in the long run. It also means cutting down on the level of bureaucracy involved. Reuters recently reported⁷ that it took around 35 days to obtain a business licence in the financial hub of Mumbai. The same report showed that a similar licence in Australia could be obtained in just 2 days.

Third, it needs to continually upgrade its infrastructure. Improvements in infrastructure were one of the reasons why the region managed to achieve the high levels of economic growth over the past decades. However, despite these improvements, South Asia is still behind in terms of providing quality infrastructure such as roads, power and ports. The Asian Development Bank has cautioned that this infrastructural bottleneck, if not resolved, could become an obstacle to sustaining high growth⁸.

These three key challenges are not new. I am sure the economies in the region are facing them head on. Judging by what the world has seen over the past decade, I am convinced that each South Asia country can and will find its own unique set of solutions to these challenges.

Integrating with the Larger Asian Architecture

⁶ Source: IMF World Economic Outlook Database, April 2007.

⁷ Surojit Gupta and Sumeet Chatterjee: 'Bureaucracy thrives in booming India' – Wed, 10 Oct 07, IST Reuters.

⁸ South Asia Economic Report, Oct 2006.

Beyond domestic economic policies, the region needs to also look outwards and ride on the growth of the external economy. On this topic, I believe another important component for sustained growth is South Asia's integration with the larger Asian architecture.

Asia is a dynamic region with vast opportunities. With irrepressible economic giants, namely India and China, fast emerging markets such as Vietnam, and the traditional powerhouses of Japan, Taiwan and Korea, Asia is set to make a big impact on world economy in the coming decades. In order to benefit from Asia's rise and a market of more than half the world's population, South Asia will need to build strong linkages to the greater region and improve its integration with Asia. This will provide a bigger market, and with free trade, will allow South Asia to grow a larger economic pie and provide a better livelihood for everyone. At the same time, Asia must set aside its legacy of historical conflicts. Today I believe there is political will among Asian leaders to create a stable and environment for growth.

Central to South Asia's integration into a larger Asia will be its relations not only with each other, but also with ASEAN and East Asia. Historically, the world economy depended on Asia's intricate trade routes in which South Asia was a key link. South Asia's ancient Silk route with East Asia brought silk and gems from Asia to the West. Its maritime trading linkages with Southeast Asia formed the backbone of the spice trade for centuries.

Yet South Asia is presently one of the least integrated regions in the world. The annual Globalization Index⁹ compiled by AT Kearney measures how well a country is connected with the rest of the world in economic, political and technological terms. And South Asia has been ranked near the bottom for the last few years.

Within the region, the efforts of the South Asian Association for Regional Cooperation (SAARC) to integrate have been marred by complex inter-state tensions and the presence of a dominant power, India. The South Asian Free Trade Agreement (SAFTA) which came into force on 1 Jan 2006, may potentially boost trade but it remains to be seen if South Asian countries can overcome their political obstacles.

Looking to South and East Asia, trade has picked up, driven by the growing interdependence between India and China in recent years. Total trade between India and China surged to US\$72 bn in 2006. However, this figure still pales in comparison to ASEAN's trade with East Asia, which is 5 times that of India and

⁹ The annual Globalization Index by AT Kearney which measures how well a country is connected with the rest of the world in terms of trade pacts, investments, and participation in international associations, among others.

China¹⁰. South Asia's trade with ASEAN is also low, at one-tenth of ASEAN's trade with East Asia.

There are encouraging signs though of South Asia's increasing integration with Asia. One important platform has been free trade agreements (FTAs). FTAs promote trade and investments by allowing local and foreign businesses to benefit from a more liberalized and certain business environment. But they are also an important political tool for diplomacy and conflict mitigation. FTAs can be a stabilizing force in the region by creating greater interdependence.

Bilaterally, South Asian countries have stepped up free trade agreements, with India and Pakistan leading the pack. In 2005, India and Singapore concluded the Comprehensive Economic Cooperation Agreement (CECA), India's first comprehensive FTA with another country. I believe CECA is a good example of benefits brought about by a tighter economic integration.

Within a year that CECA was concluded, trade between India and Singapore has grown by more than 20 percent to reach US\$13.3 billion¹¹ in 2006, making Singapore India's 12th largest trading partner. Investments have also seen remarkable growth. Singapore is now host to more than 2800 Indian companies!

The process of entering into the CECA has greatly enhanced the bilateral relations between both countries. The environment of confidence and trust created has translated into increased numbers of business and tourist exchanges in both directions. I would say there has been a rediscovery of our relationship, in business and in culture, with India in the last few years sparked by CECA process and it's a relationship that will grow deeper and stronger.

Moving on, India has since launched FTA negotiations with Thailand, South Korea, Japan and the Gulf Cooperation Council. Meanwhile Singapore is also in the process of finalizing an FTA with Pakistan.

Looking further regional FTAs can bridge the divides between South Asia and the other regions. The landmark ASEAN-India FTA when completed will represent a big step forward towards greater integration between the two regions. India was ASEAN's eighth largest trading partner in 2005 with total trade standing at more than US\$23 bn. But ASEAN firmly believes the AIFTA will boost the trade between these two regional economies further by 10-15% annually. Not only that, AIFTA would be a key building block in the formation of a wider Pan-Asian framework, involving other Asian partners like China, Japan and South Korea. This improved regionalism may in turn play a mediating role in South Asia's own intra-regional conflicts.

¹⁰ Trade between ASEAN and East Asia reached US\$351bn in 2005.

¹¹ Bilateral trade between Singapore and India was recorded at S\$19.9bn in 2006.

On the larger world stage, South Asia could also play a bigger role in the multilateral fora. In the World Trade Organisation, India has emerged as a leading voice in the Doha Round. However, as WTO members¹² that collectively represent almost a quarter of the world's population, we hope that South Asia can project a progressive voice and play a more active role towards lowering barriers to protected industries. I, personally, hope to see South Asia "punch above its weight" in these fora.

Conclusion

South Asian economies have many strengths – a strong domestic market, world class businesses, and talent in research and innovation. There are boundless complementarities and synergies to be found with East and Southeast Asia.

However, South Asia's immense potential for growth has to be anchored by stability and sound domestic economic policies. Only then can they maximise the vast opportunities provided by a tighter integration with the wider Asian architecture and beyond.

Various Asian leaders and especially Prime Minister Manmohan Singh of India, have spoken of an 'Asian Economic Community'. Encompassing ASEAN, East Asia and South Asia, this community is envisaged to be an integrated market linked by roads, air and shipping services.

More than that, it will support a confluence of people, ideas and capital. Singapore too shares this vision of a peaceful, prosperous Asia with open borders. Of course the path to an Asian Economic Community will not be an easy one. But I am optimistic, as I believe that the building blocks are already in place.

I wish you all a fruitful Conference.

¹² Among the 8 South Asian countries, all are WTO members except for Afghanistan and Bhutan, both of which are observers.