

**Keynote Address**

**by**

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**at**

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**at**

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Shri Sudhir Devare, DG ICWA,  
Professor Swaran Singh,  
Distinguished participants,  
Ladies and Gentlemen.

Thank you for giving me the honour of speaking at the inaugural session of the Asian Relations Conference (III) on “Transforming South Asia; Imperatives for Action”. You have an impressive list of participants and speakers and a full and extensive agenda. I am sure that your conference will contribute meaningfully to the transformation that South Asia is undergoing.

I thought that I would speak about the present situation in South Asia, in terms of the economy and political and security issues, and of what the way forward might be.

### **1. The Present Situation**

We in South Asia tend to be modest (which is a good thing) and to underestimate ourselves (which is not such a good thing) when we speak of South Asian integration and the present situation in the sub-region. We often speak of the South Asian paradox that a region which has so many cultural and other affinities should be so lacking in integration and connectivity. My own view is the minority view. Many of you have heard me say before that there is more to what is happening in South Asia than is described by the (now traditional) narrative of pessimism of which we South Asians ourselves are the major retailers.

That narrative goes something like this: South Asia is one of the least integrated regions of the world, with itself and with the rest of the world. It is also one of the regions most beset with irreconcilable political and security issues and disputes. With 22% of the world’s population it has only 6-7% of the world’s GDP. Intra-regional trade accounts for only about 6% of its own total foreign trade. It is resource poor with only 8.3% of global water resources, and so on and so forth.

All of which might be true but it misses the point that reality is far more complex, that empirical performance by South Asia, particularly in the last five years, has shown us how to deal with these limitations; and, that we have a moment in history which we should seize if we wish to transform South Asia.

Let us first look at the South Asian economies. South Asia has emerged as one of the fastest growing sub-regions in the world with an average rate of growth of 8% sustained over the past five years. Intra-regional trade within South Asia has begun to grow and has doubled over the past five years. We are therefore at a point where it is increasingly evident to all the countries in South Asia that there are substantial costs to not moving

forward by lowering tariffs, minimising sensitive lists, and tackling non-tariff barriers. Each government has taken significant actions in the recent past. India has reduced the sensitive list under SAFTA in a dramatic fashion last year for LDCs. As a result, I am told that Bangladesh's exports to India will cross the \$ 1 billion mark in a twelve month period in July for the first time in history. The India-Sri Lanka FTA has already quadrupled trade between the two countries, and we are now working to improve it. Pakistan has decided to grant India Most Favoured Nation treatment, gradually moving to a negative list system. I could cite bilateral and multilateral examples of positive steps taken recently by each of the countries in the region.

When we speak of South Asia as the least integrated region in terms of trade, we ignore the wide variation in our experiences. The fact is that intra-regional trade as a proportion of total trade varies widely for the countries in South Asia. For Nepal it is as high as 60.5%, for Sri Lanka 18.9%, for Pakistan 6.6% and for India only 2.7%. But this variation also tells us how great the potential is, and why intra-regional trade is growing faster than South Asia's trade with the rest of the world.

The other caveat that we should bear in mind is the fact that official figures certainly underestimate the real magnitude of trade that is taking place between South Asian countries, whether clandestinely or through third countries. Anecdotal evidence suggests that the real figure for India-Pakistan trade could be almost three times greater than the official trade figures of almost \$ 3 billion. It is an open secret that most India-Bangladesh trade is not reflected in the official figures. South Asia has the dubious distinction of a relatively high level of informal trade flows unrecorded and unreflected in official trade statistics. This suggests that natural complementarities do exist between South Asian economies and have already been identified and acted upon.

Several years ago in 1999 RIS carried out a study of the costs of non-cooperation in SAARC. They found that in 1994 Sri Lanka and Pakistan imported many items at higher unit values than would have prevailed if they had imported them from within SAARC, paying on an average twice what they would have paid in South Asia, and losing \$ 266 million in the case of Sri Lanka and \$ 511 million in the case of Pakistan. (Incidentally, these were relatively high values at that time.) If anything the costs of not doing business with each other have risen since then. Products are being exported by countries in the region to the rest of the world but not to other countries in the region! But it is heartening that there is a much wider realisation of these costs within the region. It is probably time that we updated the study today.

The other opportunity comes for the fact that as our economies have diversified and become sophisticated in the last decade similarities in production structures across countries could also offer opportunities for intra-industry trade. Several sectors such as processed foods, rubber products, plastics, pharmaceuticals, textiles, apparel and light

engineering goods are amenable to this kind of trade. If the governments are successful in removing non-tariff and other barriers, this sort of trade should flourish in the region.

As for the nay-sayers' argument that South Asia is resource poor and doomed to poverty and even conflict over resources, we also have our strengths. We are population rich, and have a healthy demographic profile which should last well into the 21<sup>st</sup> century, giving us the markets and the demand we need to keep growing. And despite these constraints we have maintained a healthy growth momentum in the recent past.

## **2. Politics and Security**

But all this economics ignores the real political and security issues that enable outsiders to call this one of the most dangerous places on earth, I sense you saying to yourselves. We may have got the economics right recently, but can we get the politics right?

Perhaps, would be my answer. South Asia has more than its fair share of issues with insurgencies, radicalism, terrorism, and extremism. But none of these issues has prevented this from being one of the fastest growing sub-regions in the world in the last decade, and outperforming other sub-regions. But it is an open question whether we in South Asia have the institutions and habits of working together to address the real issues of political instability and the security challenges that we face. This is not to question anyone's sincerity. The great advance that we have made in the last decade is in the common realisation throughout the region that we all need a peaceful environment to concentrate on what really matters, seeking to provide security and prosperity to our citizens. Those who argue otherwise are a small minority in all our countries. But there are serious questions about the capacity of state structures and their ability to deal with terrorism and extremism in some cases. And vestiges of zero-sum thinking on political and security issues remain influential in some circles.

Empirically speaking, there has been an improvement in the security situation in important parts of South Asia. The elimination of the LTTE's armed forces in Sri Lanka, Bangladesh's successful actions against terrorists and extremist elements in the last three years, and Nepal's steady progress in its double transition to multi-party democracy and mainstreaming the Maoists are some practical examples.

But overall one would have to conclude that our politics have lagged behind our economics.

## **3. The Way Forward**

There are two possible ways of dealing with this imbalance between our economics and our politics.

One would be to directly attack the laggard sector, politics and security issues, head on. But these issues which divide us have done so for a long time and there are reasons why they have done so.

Let me tell you a story about the other way.

When Chanakya/Kautilya first met Chandragupta Maurya in Taxila around 330 BCE, Chandragupta had just failed in his fifth or sixth attempt to overthrow the Nanda dynasty by a coup in their capital Pataliputra in Magadha/Bihar and fled to the North West. Kautilya then asked him, when you eat a hot dish of rice do you plunge your fingers into the centre or do you start at the cool fringes. Chandragupta changed his strategy to the indirect approach and the rest is history.

I think we should learn the same lesson and should build the economic and other links that we can, while attempting to resolve the political and security issues that divide us.

This does not mean that we ignore the political and security issues. In fact it means the opposite. It certainly means that we must not let political differences and fears stop the processes of South Asian integration. At the same time states in the sub-region must begin to meaningfully address and resolve the political issues and disputes that divide them. Speaking personally I would go further. It may be time for those of you who are scholars and intellectuals to start considering cooperative security frameworks and architectures for this sub-region, and what conditions would be necessary to make them successful. There are a host of issues such as terrorism, maritime security and cyber security which require cooperative solutions and which bear consideration by groups like yours.

In meantime, we should also move forward much more rapidly on the connectivity, including energy and grid connectivity, tourism, people to people, trade and economic links that can make such a major contribution to improving our future.

I am confident that if we do so we will be able to transform South Asia. I am old enough to remember South Asia as it was. Some of us were called “basket cases” and have proven those prophets false. Others told us that we should forever remain hewers of wood and drawers of water. They too have been proved wrong. Just in my lifetime the sub-region has undergone a transformation of its economy, society and polity that is unparalleled in its own long history for its range, depth and speed. What has happened, and what continues to happen, is nothing short of a revolution in the lives and aspirations of our peoples. Our societies and polities have shown the ability to work with unprecedented change. Given our record, I am sure that we can transform South Asia, working together.

I trust that your exhaustive agenda will give you a chance to consider these and other ideas for the transformation of South Asia.

I wish you every success in your deliberations.