

Economic Growth and Development in South Asia, With and Without Regional Cooperation

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I. Introduction

I intend to share with you some thoughts on the pattern of economic growth and development in South Asia and how it has been impacted by and has impacted on the degree of economic cooperation among the countries of the region, the prospects for which have recently generated considerable fond hope, though not enough robust hope. The backdrop of this discourse is the unfolding thaw in the political relations of the region's two largest economies which have slowly started to move towards a degree of sanity and sobriety, without as yet showing much promise of normality or rationality. The decision-makers in both countries still seem to be driven more by the compulsions of domestic politics rather than by the potentials of regional economics which could usher in an era of new prosperity and hope for around a third of humanity and half of the poor who inhabit this region.

Although there is a danger of raising the level of expectations about the on-going inter-governmental talks between India and Pakistan, which can result in serious disappointment as only modest results can be achieved in the face of existing ground realities and the limited vision of the political leadership in both countries, it is essential not to lose sight of the opportunities in store and to analyse the causes of those that have been missed in the past. The most serious impediment in achieving even a modest degree of improvement in the presently dismal state of Indo-Pakistan relationship is the high level of misunderstanding and misperceptions that the public opinion in each country has about the problems facing the other. The purpose of my talk this afternoon is to fathom the apprehensions and misperceptions that underlie Pakistan's apparent reluctance and lack of enthusiasm in tangoing with India in a South Asian development ensemble whose pace may be orchestrated largely by India's economic growth and dynamism. At the same time, I will try to put in a historical perspective India's apprehensions, especially in the past, about Pakistan's credibility as a South Asian team player. These apprehensions need to be overcome if the South Asian dream of ridding the region of its extreme poverty and becoming an economic power house is to be realised.

I shall use four basic building blocks to conceptualise my presentation. First I will survey the growth performance of South Asian countries, especially since the 1990s when serious efforts began to be made to promote regional cooperation in South Asia as a means of fostering its development and accelerating its growth.

The second building block is the historical legacy that links these countries and is often a source of discord than unity among them. The challenge for South Asian nations is not that they should forget that history but that they should develop an

understanding about the evolution of culture and society on the subcontinent through objective research and based on respect for various religious and social groups that have lived in it and have contributed to its development and splendour. The term “enlightened moderation” doesn’t need to be restricted to the relations between Western and Eastern cultures, but also needs to be applied to relations among various religions and cultures which thrive in South Asia. Even more importantly, history need not be viewed simply as a clash of religions and cultures, but needs to be interpreted in terms of its economic and social dimensions as well.

The third building block is the geopolitics of South Asian countries and their linkages with other regions, including those outside Asia. Geopolitics has played a major role in shaping regional and subregional alliances. Here again the challenge is to turn geopolitics into a vehicle of development, rather than rent-seeking.

The fourth and final building block is a look a contrafactual exercise to see “what might have been” if regional cooperation in South Asia had been more pro-active than it has been.

In a concluding section, I try to present the future possibilities of regional cooperation in South Asia and its likely impact on its growth and development.

II. Economic Growth in India and Pakistan

The Growth Race vs The Arms Race

In the beginning of the first half of the half-century of post-colonial development, the development race in Asia was pretty wide open, like a long-distance marathon. Countries just freed from the colonial yoke were beginning to prepare themselves to climb the peaks of development. South Asian countries which started a bit early in the race were generally considered to be ahead of others, some of whom were still engaged in civil wars and were recovering from the ravages of the Second World War and the Japanese occupation which had affected them directly.

The British did not want to fight a pitched battle before being driven home in the declining days of their Empire, although they left plenty of political land mines which India and Pakistan are struggling to clear more than half a century after they left. To be fair, they also left a considerable legacy of institutional and physical infrastructure which gave South Asia some edge in the development race. Unfortunately, except for the Army, which in the view of many, became overdeveloped in time, that legacy soon either fell into disrepair or became inadequate partly due to the short-sightedness of its political elite and partly as a result of rapid population growth. As a result, the head start that South Asia had was soon dissipated and South Asian nations started to recede towards the back of the pack in the development marathon.

By 1960s the South Asian nations seemed to have lost their concentration on development goals and became involved in the cold war and the arms race, which even more adversely affected their development. On the other hand, East and South-east Asia, whose chances of doing well in the beginning were discounted began to leap forward. Even more significantly, they started linking themselves both politically -- through ASEAN and later APEC – and economically, through what came to be known as the “flying geese” model of development, which enabled a lagging economy to replace the one ahead of it in terms of lower labour-intensity.¹

South Asian economies started their development journey, more or less as closed economies. The now much-maligned import-substitution strategy was practically the only option available at a time when they started to industrialize in an effort to raise per capita incomes of their population. Most of them, especially undivided Pakistan, were exporters of primary commodities, especially industrial raw materials and importers of industrial products. Some, like Sri Lanka, whose primary commodity exports were buoyant, continued to flourish without significant import-substituting industrialisation. India, which already had a modest industrial base even in colonial times, suffered as neighbouring countries raised their tariff walls to promote import-substitution. By the 1970s, the international environment was changing in favour of export-oriented, rather than import-substituting industrialisation.

The success of the East Asian Newly Industrialising Economies (NIEs) and later China in achieving double digit growth rates through export-led industrialisation, in which Foreign Direct Investment (FDI) played a key role, changed the Asian development paradigm and the world waited with baited breath the emergence of a new Asian tiger every few years. Unfortunately, a South Asian tiger never emerged and remained caged in the jungle of bureaucratic files and politicians’ rent-seeking activities. To extend the metaphor, a possible reason for the absence of South Asian tigers was that although South Asia’s geographical territory is much larger than of Southeast Asia and East Asia, there was much more freedom for the tigers in the latter to roam around. The differential in growth rates of the two sets of economies can partly be attributed to this freedom, which is akin to regional cooperation. Another special feature of the East and South East Asian countries was their pragmatic and deliberate combination of state action and the use of the market economy in a consistent manner through their development process. In South Asia, however, the pendulum between state intervention and private enterprise swung erratically midway during their development process. Whereas regional cooperation in East and Southeast Asia was driven largely by private enterprise, in South Asia the Governments played a much larger role in determining the terms of regional endearment.

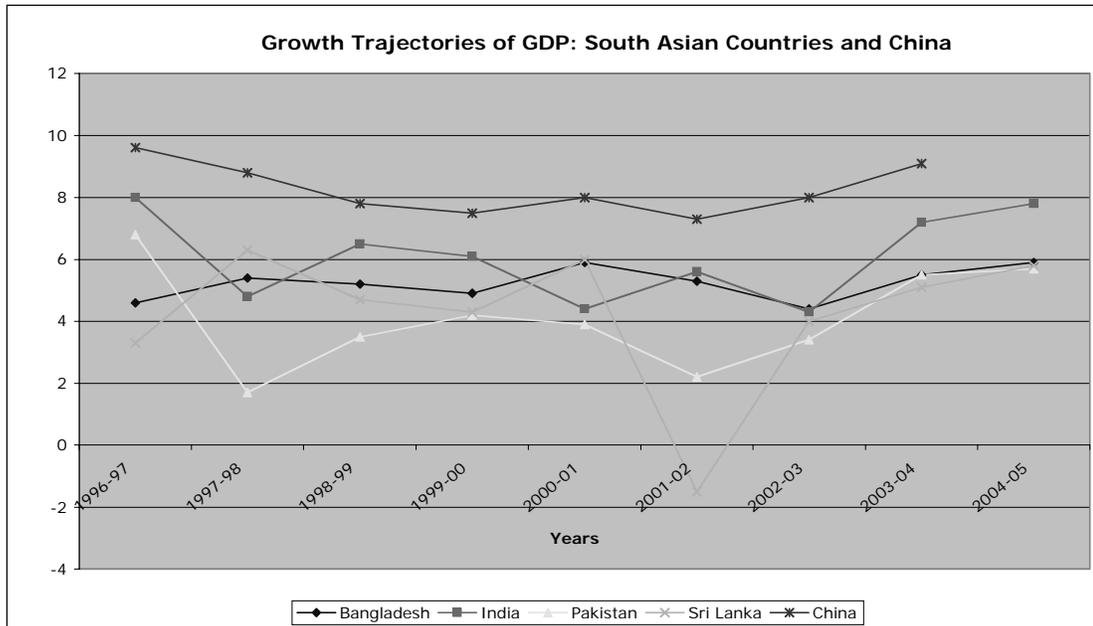
The relative performance of the economies of the three large and geographically contiguous countries, China, India and Pakistan, which have had a history of fluctuating relationships among them, has attracted considerable attention in recent

¹ Akamatsu, K., “A historical pattern of economic growth”, *The Developing Economies*, Preliminary Issue No.1 (1962)

years. While, at least since the late 1950s, Pakistan has enjoyed a long period of friendship and cooperation and India has had a rather bitter rivalry with China since 1962 until the recent thaw in Sino-Indian relations, both countries have envied the tremendous development in China, particularly its impressive and uninterrupted growth record for over two decades.

Pakistan and India have also been, apart from their debilitating political and military confrontation over the years, engaged in a see-saw tortoise-hare economic race, which the Indian tortoise seems to be winning in the home stretch. In 2003, for the first time in decades, India's per capita income overtook Pakistan's and India seems poised to leap forward. Pakistan's economic growth which was in a state of free fall in 2000, was stabilized after a three-year PRGF agreement with IMF, but has yet to resume its dynamic growth trajectory. The program has not had any significant impact on poverty reduction which rose sharply in the 1990s and has increased economic inequalities and social tensions. However, the growth experience of both India and Pakistan are qualitatively quite different from that of China and both South Asian countries have a long way to go, both in terms of the growth trajectory itself and the quality of growth generated by it.

The trajectories of growth of India and Pakistan have been markedly different. Pakistan's growth has mainly been in spurts, rather than following a steady path. The two periods of high growth, averaging over 6% in GDP and over 3% in GDP per capita terms, occurred in the 1960s and 1980's. In the 1970s and 1990s, the rate of GDP per capita growth was less than 1.5%, despite some lowering in the population growth rate in the 1990s. The Indian GDP per capita growth rate, though low, was fairly steady around 3%, with the exception of 1970's when it fell below 1%. After three decades of slow if perceptible progress (characterized as the period of "Hindu growth rate"), India's growth rate accelerated to 5-6 per cent in the late 1970s, and has apparently stayed there – though the more optimistic estimates believe it has passed the 7-8 per cent mark. The detailed history is a bit more complex with periods of thrust and retreat reflecting not only the uncertain nature of the weather (*Keynes described the Indian economy as a 'wager on the monsoon'.*) but also the impact of the Korean war boom in the early 1950s, and of the 'green revolution' in later 1960s, on the positive side and the bad harvests of the late 1950s, the financial crisis of 1991, and the reallocation of resources from development to defence in the early 1960s, as part of the reaction to the 1962 war with China. In contrast, the Chinese growth rate, which was already averaging 4% in the 1970s, rose to 7.8% in 1980s and 9.0% in the 1990s. China has thus consistently stayed in a higher growth trajectory, well above those of either India or Pakistan. (See Figure below).



Pakistan's predicament is far more serious than of India's, as it has failed to pay attention to the basic fundamentals of growth in the past five decades and has only sporadically responded to the challenges facing it. Its greater dependence on external flows has greatly diminished its domestic capacity to deal with its domestic problems. Its hare-like obsession with faster growth and leapfrogging has ironically resulted in its recent lack lustre performance. It needs a sustained period of attention and diversion of resources to sectors which have been neglected in the past and a greater effort to tax those who have benefited from the rent-seeking policies of the past. It also needs to pay heed to the unfinished agenda of development, especially land reforms and mobilization of domestic savings, as well as the nagging and unresolved issue of civilian supremacy over defence and security issues.

Although it is generally agreed that Pakistan's performance in social development has lagged behind other countries at the same level of per capita income, its structural economic weaknesses are less well-known.. Pakistan is stuck at the early stage of development where land is abundant relative to physical capital and ownership of the land is highly concentrated. Although the share of agriculture in GDP has declined from 50 per cent to 22 per cent, the percentage of labour force employed in agriculture is still high (close to half the labour force remains employed in agriculture). In the 1990s the share of mining and large-scale manufacturing in total employment fell from 12.88 per cent in 1990 to 10.55 percent in 2000. The large-scale manufacturing sector has not only declined as a percentage of GDP, a phenomenon called "deindustrialisation", the growth of manufacturing sector has been concentrated in a small subsector of industries, accounting for less than 10 per cent of the gross value added (GVA) generated in the large-scale manufacturing sector.

Since the 1970s India has been steadily liberalising its economy. This is evidenced by greater freedom to invest; more liberal access to foreign exchange; greater openness to foreign competition and investment, particularly after the financial crisis of 1991; and perhaps a greater willingness of the government to work with some private sector firms after the late 1970s (although the government worked with some business groups in the 1950s and 1960s.)

There has been a heated debate about the reasons for 'India shining' relate to what happened to growth, with two polarised views. The neo-liberal view is that the primary thrust came from liberalisation without which growth could not have been sustained, especially after 1991 the other, the neo-Nehruvian view is that the general fostering attitude of government continues to be a major factor, and that liberalisation played only a supporting role. However, as Dr. Manmohan Singh has told his economic advisers recently that "2004 is not 1991" and that decision-makers will need to take political ground realities into account and get adjusted to the demands of a coalition government, which is critically dependent upon the support of the Left parties.

A feature of India's recent growth is that it is concentrated in a few sectors and regions. Since the mid-1990s the information technology sector has experienced explosive growth; sales have increased twelvefold since 1995-96. This growth has had an impact, but IT accounts for less than 3 per cent of national income Thus it might explain 0.2-0.3 per cent of the annual growth. Among other sectors, growth in consumer durables consumption and production has been disproportionate Automobile sales are up 12 times, scooters six times, and commercial vehicle sales have doubled since 1981. Even bicycle sales have more than doubled. Middle class housing has expanded significantly, though figures on the housing construction sector are not readily available. Interestingly, per capita availability of cotton cloth stagnated while the availability of man-made fibre doubled. The bulk of the growth has been in industries producing for the domestic market, though exports have remained buoyant. Thus the main beneficiary of the resurgence in Indian growth has been the affluent middle classes, with some trickle down to the lower middle class as well. But the wider, bulkier underclass of rural workers and low-productivity urban-informal sector workers, seem to have shared little of the luster of "India shining". In contrast, in Pakistan, where the degree of exclusion of the underclass is greater and the income inequality much higher, the slowdown in growth in recent years has affected the poor much more and the poverty incidence seems to have increased, despite some acceleration in the growth rate in the last two years.

III. The Historical Legacy

How does the pace and pattern of growth impinge on regional cooperation in South Asia. Two historical facts need to be recognised in this regard. First, that prior to 1947, South Asia, particularly, the Indian subcontinent, was already an integrated economic region. However, there was little growth during the pre-independence period .

Second, prior to the establishment of SAARC in 1985, there was little enthusiasm in India about regional cooperation. SAARC was initiated by smaller countries, especially Bangladesh, to benefit from the possibilities of regional economic cooperation as evidenced by the success of ASEAN.

The complex nature of regional co-operation in South Asia, which has been highlighted by the snail's pace at which it has moved since it was formally put on the table over two decades ago, makes it essential to take a longer look at history. The tortured history of the relationships – derived from the many versions of its narrative – among the peoples and states which have formed part of the sub-continent and its distorted memories have continued to vitiate the process of emergence of a viable fabric of regional co-operation.

1. Pre-Colonial Era

One of the great tragedies of social science research in Pakistan has been the almost total neglect of its past history. A person visiting it from another planet with access to readily available historical literature on Pakistan, might well wonder what happened to the country's heritage between the fifth and second half of the twentieth century. There is precious little that the visitor would find to enlighten him about what happened during this period as an explanation of how we have arrived at the present state of our historical journey after the ancestors of some of its present inhabitants embraced Islam 1500 years ago. In India, things are considerably better at least in terms of the volume of historical research, although it also remains obsessed with the religious orientation of the majority of its people. However, there seems to be a resurgence of interest in historical research and an attempt to understand its past as a guide to the future aspirations of its people. Academics like Amartya Sen and Eric Hobsbawm draw large crowds in metropolitan centres lecturing on history and relating it to the solution of the social and economic problems facing the country and the world at large.²

Although the history of the subcontinent is very long, the events pertinent to the current discussion are the various interactions of the sub-continental economies and cultures dating back to over a millennium. Unfortunately, so far the focus on these interactions have been largely on their political and religious aspects, while the economic and developmental aspects have largely been neglected and have begun to be explored only recently. A deeper understanding of these interactions is likely to lead to a more profound perception of the possibilities and impediments to regional cooperation in South Asia.

² The late Hamza Alavi, who died a year ago, was among the few Pakistani social scientists who realised the importance of historical research and devoted much of his time in the last decade of his life was devoted to doing work on it. Unfortunately, a major project of his for engaging prominent historians on Indian and Pakistan in a dialogue to refocus historical research away from the narrow vantage point of 1947, could not progress because of the sudden deterioration of Indo-Pakistan relations and his own failing health. I humbly dedicate this lecture to Hamza's memory.

The two defining episodes of this era are the various Muslim incursions from the North in the first half of the millennium, beginning with the raids of Mahmud Ghaznavi and ending with the decline of the Mughal empire and the various Western imperialist attacks on the subcontinent heralded by the arrival of the British, French, Dutch and Portuguese maritime commercial interests in the second half of the millennium and ending with the demise of the colonial rule and the establishment of two independent nation states, India and Pakistan.

Contemporary discussions of the historical evolution of globalization have concentrated on the international movement of capital from the metropolis to the periphery in the transformation of the global economy through increased international independence based on the Ricardian principle of comparative advantage. However, the much more nuanced process of integration of the Indian subcontinent with the world economy through the interventions of the two major interactive episodes (the Muslim and the Western) mentioned earlier, have received much less attention as sub-themes of globalisation and regionalisation in the subcontinent. For instance, the period from 1000 AD to 1300 AD saw an upward swing of the economy of Gujrat the area which was partly as a result of the opening up of the trade with West Asia and the interest that the ruling Chaulukyas took in promoting such trade. This was the period of the immediate aftermath of the most intensive invasions by Mahmoud Ghaznavi including the alleged twelve attacks on the temple in Somnath. Trade provided impetus to agricultural improvements through systems of irrigation in the drought-prone hinterland. Road links between rural areas and markets were established which not only reduced transportation costs but also provided better administration and security. The success of maritime trade was also enhanced by the presence of extraordinarily wealthy ship-owning merchants, often known as *nakhudas or nauvittakas*, coming from diverse national origins, such as Persian, Arab, Jewish and Indian and located in such diverse places as Hormuz, Siraf, Aden and Mangalore. They commanded the seas and defied the pirates who were a menace to the trade.³ The period from the ninth to the fifteenth century A.D. was one in which Western India enjoyed a conspicuously wealthy trade with ports along the Arabian Sea and the Persian Gulf. According to visiting traders, the land was rich in its resources and its merchants traded widely.⁴ Marco Polo comments in the nineteenth century that the people of Somanatha lived by trade and that the trade in horses from Hormuz was very valuable. Horses of quality were not bred in India and were imported from Central Asia via the north-western passes or by sea from the Persian Gulf. The commercial centres of Gujrat became closely linked with the hinterland and internal trade, along with maritime trade with West Asia and overland trade through Central Asia, contributed to the creation of wealth, making Gujrat a truly globalised economy.⁵

³ Chakravarti, R. "Nakhudas and Nauvittakas: Ship-owning Merchants in Coastal Western India", *Journal of the Economic and Social History of the Orient*, 2000, 43,1, pp. 34-64.

⁴ Janaki, V. A., *Gujarat as the Arabs Knew It*, Baroda, 1969

⁵ Abu-Lughoud, J.: *Before European Hegemony, The World System AD1250-1350*.

Contrary to popular perceptions, trade introduced flexibility in relations between different religious groups. Hindu merchants had mosques constructed for their trading partners in Hormuz. Even if it was motivated to enhance commercial profit, the underlying spirit of solidarity was impressive. The accommodative and obliging environment towards Muslim merchants induced many of them, especially those from the Sunni dissident Bohra and Khoja communities to settle down permanently in Gujrat, where they have been peacefully living and carrying their business for almost a thousand years, until shaken by the partition and the recent riots in Ahmedabad. The Arab interest shifted from dominance in the initial phase to participation and active involvement in the local economy in the later phase. At the same time, Indian merchants had bases in the entrepots of the Gulf and merchants from there visited India.

Unfortunately, both Muslims and Hindus (and their protagonists in contemporary India and Pakistan) have grossly failed to realize the economic and social significance of this evolutionary process of the formation of a regional economy and have painted it purely as a struggle for the supremacy of one religion over the other. The raid of the temple in Somnath by Mahmud Ghaznavi in 1026 AD has often been exaggeratedly treated as a “foundational event” of the Hindu-Muslim divide and has been celebrated in Persian (not Arabic) as “epics of conquest” and in Hindi (not Sanskrit) as “epics of resistance”.⁶ In fact, detailed research of different sources spanning the period since the occurrence of the event has shown that these conventional interpretations “obscure and deny the nuances” and tend to perceive the event “largely in terms of relationships between courts and the antagonisms between Hindus and Muslims”.⁷ The encounter was, in fact, much more complex and multi-layered and evolved over a period of centuries, much more through mutual respect and tolerance for, and often an implicit adoption of, each other’s cultural values, history and modes of behaviour, than through a state of permanent armed conflict among indigenous and alien communities, as is often brought out in chauvinistic versions of history in both countries. As pointed out by the leading historian of medieval India, Romila Thapar, “That societies and cultures frequently mould the religions that they choose to follow and that every religion has a historical root in the society where it has a following and that its evolution draws upon multiple religions and societies was a perspective unfamiliar to historians until recent times.” That is a perspective not only historians, but also economists and other social scientists need to acquire and disseminate if real peace and regional cooperation is to gain a firm founding. Insistence on purist and textual interpretations of religions does great injustice not only to the societies which adopt them, but also to the religions themselves and their resilience over centuries.

⁶ Ahmed, Aziz, “Epic and Counter-Epic in Medieval India”, *Journal of the American Oriental Society*, 1963, 83, pp. 470-76.

⁷ Thapar, Romila, *Somantaha, The Many Voices of a History*, Penguin, India, New Delhi, 2004

2. The Colonial Interlude

The debate about the effects of the British colonial rule in India continues to rage and perceptions about its legacy, both positive and negative, have changed over time. In the present age of globalisation, one of the perceived benefits is the facility with which a large section of its population has acquired command over the English language, which has helped it to access the benefits of modernisation, technological progress and better integration with the outside world. Earlier, bleaker perceptions had focused on the possibility of India having been robbed of the opportunity of an incipient Industrial Revolution through the destruction of a wide range of industries⁸.

The colonial occupation of the subcontinent, spanning over two centuries, was “the complete but complex integration and enmeshing of the colony with the world capitalist system in a subordinate or subservient position”.⁹ The colonial legacy largely conditioned the evolution of economic policies by the two successor states after independence, especially in regard to the opening up of the economy to the outside world. Indian industry and markets were extensively exploited by British foreign direct investment and the nascent Indian capitalist class was subject to serious economic and political constraints which subverted its growth¹⁰. The colonial strategy of enclave-focused development also neglected the development of many of the areas, particularly those that later became part of Pakistan. The colonial industrial structure was primarily created for utilising the natural resource base of the Indian economy for the purpose of promoting the British industries and providing them with the vast Indian market. These factors militated against not only the welcoming of foreign direct investment in the post-independence era, but also provided a strong rationale for across the board import-substitution in both India and Pakistan. The de facto customs union that existed between India and Pakistan also suddenly collapsed in the wake of Pakistan’s decision not to devalue its currency in sync with the British pound and the Indian rupee in 1949, both countries preferring aggressive nationalism to economic rationality¹¹. The rest, one may say, is history.

⁸ Irfan Habib (Ed.), *The Mysore Sultans State and Diplomacy under Tipu Sultan: Documents and Essays* Tulika Books, New Delhi, 2001, sheds some new light on the subject and questions the received historical wisdom that “with the death of Mughal empire the middle ages in India ended and the modern age began”.

⁹ Chandra, Bipin, *The Colonial Legacy*, in Jalan, Bimal (Ed.), *The Indian Economy, Problems and Prospects*,

(Revised Edition), Penguin, 2004

¹⁰ Bagchi, Amiya Kumar, *The Other Side of Foreign Investment by Imperial Powers. Transfer of Surplus from Colonies*, *Economic and Political Weekly*, 8 June, 2002

¹¹ See Hasan Pervez, *Pakistan’s Economy at the Crossroads*, O.U.P., Karachi, 1998, pp. 110-113, for a critical appraisal of the motivations for the Pakistani decision. His concluding comment on the subject has considerable relevance to the present state of Indo-Pakistan relations. “Unfortunately, for Pakistan the emotive appeal of non-economic factors has at critical junctures often outweighed the cold economic calculus.”(p.113).

The colonial legacy proved even more harmful in fanning the fires of communalism and in exacerbating the hatred among Hindus and Muslims, which continued to sour the relationship between India and Pakistan, although the purpose of creating the two states was primarily to defuse that animosity and to allow the two communities to live peacefully. Returning to the Somnath episode, the way in which it was used by the British to revive an almost forgotten historical event, eight centuries after it had occurred, illustrates how the colonialists used it to serve their own ends of prolonging their reign and sowing the seeds of discord which continued to produce bitter harvests long after they have left. The linking of Somnath with Babri Masjid through a BJP rath yatra in 1990, the destruction of the Babri mosque in 1992, sparking communal riots all over the subcontinent and culminating in the Gujrat pogroms of 2002 were echoes of Governor-General Lord Ellenborough's 1842 Proclamation to dig deep into by then 800-year old Somnath Temple affair. However, the motivations of this Proclamation were far more sordid than appeared on the surface. Ostensibly trying to right the wrong perceived to have been perpetrated by Muslim invaders and triggered by the need to force the return of the missing gates of the temple allegedly taken as a trophy and found in Afghanistan, the Proclamation was really intended to provide the seal of dualistic determinism to the Hindu-Muslim divide, which was nurtured by the communal politics of the 1920s and subsequent years. Before leaving India, the British had prepared the ground for the reconstruction of the Somnath Temple and an influential British historian had stated: 'It is the sacred duty of new and reascent India to reconsecrate Somnatha and try to restore its former glory and splendour'. Among the prominent Indian nationalists, K. M. Munshi, argued forcefully for the reconstruction of the Somanth temple which was completed soon after independence. " .. for a thousand years Mahmud's destruction of the shrine has been burnt into the sub-conscious of the [Hindu] race, as an unforgettable national disaster.'

It is essential that the cobwebs of these collective memories, constructed on false historiography, are removed in both communities and countries and attention is shifted to more relevant and pressing social and economic needs that they have suffered from a common colonial legacy.

The Proclamation also provided a pretext to the British invasion of and hegemony over Afghanistan, as it was beginning to be realised that the real danger to the British was the shifting of the centre of gravity of geopolitics to Central Asia with Afghanistan as the epicentre and with the possible connivance of Czarist Russia. Historical research was also veering from emphasising the main motivation of Mahmud Ghaznavi's attacks as a religious enterprise to that of plundering India to finance the Central Asian empire.

Ironically, Muslims became their own worst enemies by exaggerating the Ghaznavid plunder and sacrilege of Somnath in their zeal to establish the superiority of their religion and in their disdain against idolatry, Since there were no authentic accounts available from Hindu sources to corroborate those by Muslim historians or narrators, which are often contradictory, the latter not only gained currency and credibility, but were embellished further by Hindus to strengthen the perception of Muslim religious

intolerance and persecution.¹² A vicious circle of false claim and its further embellishment by the aggrieved to exaggerate the undeniable and indefensible event provided a powerful instrument to widen the Hindu-Muslim divide, whenever it proved convenient to those benefiting from it.

History and memory need to be recovered by both Hindus and Muslims, as well as by India and Pakistan in a constructive way and not to distort and telescope unrelated events to create divisive communal, sectarian and ethnic hatreds. Perhaps, the initiative will have to be taken by scholars and academics of both countries to disabuse the historiography of the subcontinent at least of some of the blatant untruths which have continued to poison the minds of ordinary people and have stood in the way of genuine reconciliation and regional cooperation..

IV. The Geopolitics of Regional Cooperation

Geopolitics has played a pivotal role in South Asian development and regional cooperation . In the first five years of its existence, Pakistan was divided into two geographical segments separated by a thousand miles of Indian territory. India was a much more compact and governable, if linguistically and culturally a more diverse, geographical entity, except for Kashmir whose borders with Pakistan became the source of a festering dispute soon after independence. Pakistan's eastern half and India's northliest state required massive troop movements and eyeball to eyeball confrontation along these borders. External alliances became a hostage to these abnormal geographic situations, with India and Pakistan cozying up to rival cold war camps, albeit with a distance. The situation became even more complicated after the Sino-Indian border dispute and the Sino-Soviet ideological split. This further precluded any meaningful economic interaction involving the two major South Asian countries in a bilateral or regional framework. This was clearly to the detriment of economic growth of both countries, particularly to Pakistan's eastern wing, which eventually became independent and revived its trade and economic links with India.

In the post-Bangladesh period, Pakistan's geographic position became even more salient after the Soviet invasion of Afghanistan and the US military support to the Mujahideens, both directly and through the Pakistani Government. Pakistan became an enviable geo-strategic location at the cross-roads of the subcontinent, the Persian Gulf, and Central Asia. Pakistan's military rulers have become deft at putting geography to maximum political use in the short-run, an ability which has outsmarted the politicians and has kept the Army in saddle, despite military fiascos. The thin strip of territory on Pakistan's border with Afghanistan became a highly strategic piece of real estate for the West, which allowed Pakistan to leverage its economic and political influence, especially over the United States. Its importance has become further enhanced since 9/11. However, extracting political benefits from geography has yielded diminishing returns since the end of the Cold War and has only barely helped

¹²Munshi, K. M.: *Somantha – The Shrine Eternal*, p. 58:'.

avoid an economic catastrophe. The events of September 11 have blunted the instruments used by the Pakistani state to achieve political goals, both at home and abroad – permissiveness towards, if not overt support of, religious fundamentalism and covert violence. The strategic importance of Pakistan's geo-political location will be further eroded once the United States has achieved its currently perceived goals and has decided to withdraw from the region.

Pakistan's preoccupation with its strategic and geopolitical assets has resulted in putting the effective development and utilization of its vast natural and human assets on a back burner. As Professor Stephen Cohen has remarked in his recent book, "In summary, the human material is there to turn Pakistan into a modern state, but it has been systematically squandered for three generations by an elite persuaded that Pakistan's critical strategic location would be enough to get through difficult times. Now, the distant future has arrived, with Pakistan unequipped to face a fast-changing world while coping with mounting domestic problems".¹³ The temptation to cash in on this strategic asset once again after the 9/11 events was too great for any Government to resist. But it is unlikely to be a viable long-run strategy of development or modernisation, "enlightened" or otherwise.

As the South Asian region's big brother, overseeing its large land and coastal borders – whose vulnerability to tsunami, in addition to gunboats, was demonstrated recently, India's use of geopolitics to achieve political and economic objectives, is more problematic and costly. Its ambitions to be a world, not merely a regional, power may seem justifiable to itself and its increasing number of admirers in the West, but many in South Asia would consider this as premature and counterproductive to regional cooperation. It would be much more in the interest of India and South Asia, if India concentrated more on its growing economic muscles, coping with its vast social and economic problems, further strengthening its democratic polity and showing greater magnanimity in its relations with neighbours – all of which would add to its credentials as a world power and would help transform the region it is most closely identified with. India's recognition as a world power would then become a formality, rather than a controversy.

In the new era of globalization which South Asian countries seem keen to benefit from, geopolitics still plays a useful role in their growth and development. The present thaw in Indo-Pakistan relations which is now almost a year old, did not occur suddenly, but began through a gradual realization that trade and investment, rather than arms race and military confrontation, are the ways to go for both. Pakistani ruling circles are beginning to realize that the country has the geographical advantage to become a "bridge state" that will link the Subcontinent, the Gulf and Central Asia in beneficial flows of trade, commerce and energy, rather than being preoccupied with blocking the door to India's entry into that region or using it as a leverage to force the solution of the Kashmir problem. This thinking was reflected in a meeting of Pakistani diplomats convened in Islamabad in mid 2003, six months ahead of the 12th

¹³ Cohen, Stephen Pihilip, *The Idea of Pakistan*, Brookings Institution Press, 2004, p.299

SAARC Summit in Islamabad and was forcefully articulated by Pakistan's UN Representative, Munir Akram, who reportedly declared that opening road and rail links as well as transit trade with India would significantly expand Pakistan's strategic options. The Indian side has constantly commended to Pakistan the use of the "China model", where New Delhi and Beijing have dramatically expanded their economic cooperation while continuing to manage and minimise their huge political differences. While the two countries have agreed to adopt a long-term view on most other disputes, Pakistan seems eager to get the Kashmir issue resolved presumably within the term of the present Government.

Trade was not an element of the national strategy in South Asia; the limited foreign exchange requirements were met by external economic assistance. In the case of Pakistan, massive aid flowed from the strategic alliances it carved out with the United States and China, mainly because of its geographic location. Although in recent years Pakistan has tried to reduce its dependence on foreign borrowing and has made some efforts to raise its export targets, its trade/GDP ratio has stagnated at around 35 percent, while the same ratio has risen significantly for all SAARC member countries between 1985 and 2001, with India's ratio doubling from 14.08 percent in 1985-87 to 29.79 percent in 2000-2001. (See Table below)

Table: Proportion of Trade in GDP of South Asian Countries

Country Year	(In Per cent)						
	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
1985-87	24.26	61.25	14.08	60.26	31.91	34.01	61.87
1990-92	19.83	75.05	18.78	88.51	36.28	37.45	68.42
1996-98	30.47	76.15	25.45	167.08	59.59	36.40	79.17
2000-2001	35.50	89.47	29.79	168.94	55.06	35.84	85.42

Source: *South Asia Development and Cooperation Report, 2004*, RIS, New Delhi

Nearly a decade ago, when India launched its economic reforms, geopolitics began to be given a back seat to economics and commerce by New Delhi's South Block. Trade began to be valued more in New Delhi than aid. The former Indian Finance Minister, Jaswant Singh announced he will not accept foreign aid that comes in small doses. The former External Affairs Minister, Yashwant Sinha, negotiated free trade agreements with regions as far apart as Latin America, Africa and South East Asia. Pakistan, where the Foreign Office still rules the roost over external economic relations in which it reflexively follows India's lead, belatedly sent its President and Prime Minister on a similar mission recently. The search for capital, technology and markets has become an important component of Indian diplomacy over the last decade. This explains India's keenness to form a South Asian trading bloc and a South Asian Economic Community and even a common currency – although there it may be jumping the gun a bit.

This was not so, a couple of decades earlier. Anecdotal evidence suggests that Mrs. Gandhi had opposed the formation of SAARC on the apprehension that it was nothing but an attempt by the smaller countries of the region to “gang up” against India, possibly under the instigation of an unfriendly Pakistan. It was not until later, by when India had decisively changed gears of its external economic policy in favour of a more export-oriented growth, that it developed its fondness for SAARC and took some tentative measures to woo the other countries to expand the scope of the organisation beyond its limited initial agenda, which included promoting exchange of visits, information and experience-activities.. However, Pakistan, which was always apprehensive about India taking a leading role in the region in view of its past wars and the unsettled Kashmir dispute, continued to show its lack of enthusiasm about collaborating with India on South Asian economic issues. Its main interest in participating in SAARC was, apart from gaining the goodwill of the smaller countries, was to use it as a forum to embarrass India on Kashmir. Economically, it was more interested in cultivating its relationship with the Middle East and Gulf countries, which had become a vital source of trade, remittance, foreign assistance and subventional oil supplies. It also used the “Islamic card” to have closer relationship with Iran, Turkey and Central Asian Republics in “ECO”, an organisation which had fallen into disuse after the overthrow of the Shah in Iran. Pakistan has been lukewarm toward SAFTA and SAPTA and has continued to drag its feet on the issue of MFN to India. Although, the official version has been that Pakistan would change its stance only after the Kashmir issue was solved or at least some progress made in that direction, the real reasons are economic and its apprehension that India as the strident economic power in the region will sweep its markets and result in a massive trade deficit and perhaps in de-industrialisation of its already fragile economy.

Other smaller countries also share the apprehension that India being the largest economy in the region, is likely to receive a disproportionately high share of any gain accruing from regional cooperation. These fears are not without substance, but are often exaggerated by those industries and sectors in the economy who are likely to lose, while the potential beneficiaries, by far the more dynamic elements in the economy who have been denied patronage and access to resources, have little voice in policy formulation. The main thing to recognize is that while there are likely to be both gainers and losers from increased trade with India and other countries, the country is itself unlikely to be a loser, even if its bilateral trade balance with one or some of the countries worsens and can be dispelled by giving adequate safeguards for any adverse effects caused to the national economy of smaller countries. For unless a country is grossly inefficient, growing trade is an increasing and not a zero sum game, in which both trading partners can gain.

Increased and diversified trade with new trading markets under the MFN or other concessional trade regimes, will no doubt, give rise to the need for some restructuring of the domestic economy and refashioning of comparative advantage. This is going to be inevitable for Pakistan whose comparative advantage has been frozen since its early nationalization in the 1950s and 1960 in favour of a few basic and unspecialised commodities. This pattern of comparative advantage is likely to crumble under the

weight of more liberalised trade mandated by the WTO. To try to resist such restructuring on the plea that our industries will be swamped by Indian goods is counter productive. India does, after all, not have a high competitive edge compared to other countries we will be opening our trade to. Under the pressure of competition, Pakistan may acquire a better competitive edge and be forced to develop market niches in other countries including India, which its industrialists have not had any motivation for doing because of a captive domestic market and assured markets in low quality exports.

III. THE COUNTERFACTUAL REALM

The half-a-century or more of political tensions, including three full-scale wars and a near-miss nuclear showdown, between India and Pakistan have resulted in rather dissimilar patterns and pace of development. What would have been the economic and social outcome if the two countries had not adopted such a belligerent and isolationist stance towards each other and had engaged in a modicum of cooperation and interaction conducive to making South Asia a more economically integrated and dynamic region than it is today? In other words, what have been the opportunities these countries have missed in reaching a higher development trajectory, which could be attributed to lack of regional cooperation?

South Asia's record of achievements in the economic field are not unimpressive, given the large population inhabiting the region and the low levels of economic and social development it achieved before independence. Despite high population growth rates, they have achieved significant increases in per capita incomes. However, a comparison with the performance of East Asia and China shows that the region has performed far below its potential. Even within South Asia the performance has been very uneven, both in economic growth and human development. Regional cooperation – through exchange of experience and learning by doing – could enhance the productivity of lagging countries. The inadequacy of investment (as a percentage of GDP), especially in the case of Pakistan and lower efficiency of investments in India, underinvestment in social sectors and inadequacy of physical infrastructure especially as the region accelerates its growth rate and tries to attract Foreign Direct Investment, are examples of some of the areas in which regional cooperation could have made a positive difference. The region could well have avoided many of these problems if it had not suffered from continuing political tensions and arms race that have hemorrhaged its resources.

The Governor of Pakistan's central bank, Dr Ishrat Husain, in a conference in U.S. last year speculated on Pakistan's "missed opportunities", especially as a result of "neglect of human development".¹⁴ If proper attention was given to human development and 100% literacy achieved, it would have doubled Pakistan's per capita

¹⁴ Hussain, Ishrat, Keynote address at the Conference on Islamization and the Pakistani Economy, Woodrow Wilson Center, Washington, D.C., 27 January, 2004, www.sbp.pk/speeches.

income to \$1000 and its exports would have been \$100 billion, instead of “the paltry \$12 billion” at present. Dr. Hussain, however, ascribes “both fundamental structural and institutional problems, as well as “poor governance” and “frequent changes in political regimes”. He does not mention the heavy burden of defence expenditure, which results in lower expenditure on social development or the curtailment of trade with India as a possible source of these “missed opportunities”. If India and Pakistan had developed trade, economic and industrial interdependence, as, for example, Malaysia and Singapore did, the outcomes would surely have been very different indeed. But that may be too far-fetched a contrafactual to reckon with. A more realistic contrafactual could be derived from the recent revival of trade relationship between China and India, which has reportedly increased to \$10 billion.

The arms race between India and Pakistan is both a consequence and cause of the differential between the rate of GDP growth in the two countries, as well as the commitment to regional cooperation. If this differential increases in India’s favour, Pakistan would find itself unable to keep up with India in the arms race unless it diverts more resources away from economic and social sectors. Although Pakistan’s military is in the driver’s seat and has in the past vetoed any civilian proclivity towards regional cooperation, this attitude seems to be changing especially in such areas as allowing the building of the gas pipeline to India from Central Asia and Iran and attracting Foreign Direct Investment and may soften its present attitude towards a more liberalised trade with India, with adequate safe guards.

Except for India and Pakistan, the expenditure on defence in South Asia has generally been moderate in the past. Before the Tamil Insurgency in Sri Lanka twenty years ago, it used to be joked that a journalist asked a prominent political figure about the size of his country’s army, to which he replied, “ we had one, but he died last year”. Of course, now things are different and the Sri Lankan army has been well-equipped to fight the Tamil tigers. The country’s defence expenditure as a percentage of GDP at 3.9% percent in 2001 was lower than Pakistan’s (4.6%) but considerably higher than India’s (2.5%) in the same year, but thrice as high as of the two more populous least developed countries of SAARC, Bangladesh and Nepal. Sri Lanka’s deployment of soldiers per 1000 population was also the region’s highest (6.1) followed by Pakistan (4.6), Nepal (2), India (1.18) and Bangladesh (0.98). SAARC countries’ total annual defence expenditure in 2001 at 1993 prices was \$17.20 billion (the figure would be at least 10% higher in real terms today and almost double in current prices). If even a fraction of this expenditure could be reduced, it could give a considerable boost to the achievement of social and economic goals in the region¹⁵.

The higher burden of defence expenditure by India, Pakistan and Sri Lanka translates into their reduced ability to fund other public services. The share of defence in the central government expenditure of these countries in 2001 was 14.0, 23.0 and 14.7 percent, respectively, while for Bangladesh and Nepal, it is 11.2 and 6.5 per cent only.

¹⁵ The figures in this paragraph are based on *Human Development in South Asia, 2003*, O.U.P., Karachi, 2004

It is also no accident that the smaller and poorer SAARC countries spend a higher percentage of GDP on health than India and Pakistan. The latter two spent only 0.9 per cent of their GDP on public health expenditure, whereas Bangladesh and Nepal spend 1.5 and 1.6 percent respectively. As noted by Jean Dreze recently, Bangladesh's human development record now compares more favourably than India's in many fields, in contrast to the situation some ten years ago.¹⁶ In its ambition to become a world power and in pursuit of an elitist development strategy, India has gone back on its commitment made in 1947 that it would spend 12% of its GDP on public health expenditure. Even in the best years it has not gone above 3%. The infant mortality rate in Bangladesh which was higher (151) than in India (144) and Pakistan (139) in 1960, is now lower (51) than in the latter two countries (67) and (84) respectively. India also has the dubious distinction of having the highest number of tuberculosis cases in the world. Bangladesh's success is largely the result of greater activism by the NGOs in the social sector.

The neglect of social and human development can cost a country dearly in terms of long-term development objectives. Empirical studies show that whereas there is a weak relationship between economic development and rates of improvements in vital measures of development like education, life expectancy, child mortality and gender equality, there is a strong positive relationship between key social characteristics and the attainment of development defined in the broader sense of the term. One study found that a 10% increase in the female literacy rate reduced child mortality by an equal percentage. Taking developing countries as a whole, gains in female education in the 1960-90 period might have accounted for as much as a 38% decline in infant mortality and a 58% drop in the total illiteracy rate. On the other hand, despite the low level of GDP per capita in Sri Lanka, life expectancy there is as high as 73 years and infant mortality as low as 14.

Apart from the peace dividend in terms of a reduction of arms race between India and Pakistan, there is also a possibility of an "internal peace dividend" which India and Pakistan can reap by promoting greater tolerance among various religious and ethnic communities. Both countries face serious law and order problems arising from religious and sectarian violence and ethnic strife. Both countries have frequently accused each other's intelligence agencies (RAW and ISI) as being implicated in such violence on their soil. A normalisation of relations between the two countries can better enable them to deal with the problem of religious fundamentalism and the fighting of proxy wars on their territories.

¹⁶ Jean Dreze, Bangladesh shows the way, *Hindu*, 17 September, 2004

V. SAARC : THE WAY FORWARD

South Asia accounts for nearly 21% of the total world population. However, its share in the global GDP is less than 2%. The region is home to the world's 400m poor, which means nearly 30% of the region's population lives below the poverty line. All Saarc countries have a rather low ranking on the human development index (HDI), which according to the latest report of the UNDP is: The Maldives (84), Sri Lanka (96), India (127), Bhutan (134), Bangladesh (138), Nepal (140) and Pakistan (142). The HDI ranking is based on achievements in terms of life expectancy, education and real income. The low HDI ranking reflects poorly on these vital indicators in the region.

Trade is an instrument of development. However, Saarc's trade performance is also disappointing. The combined trade of all member countries makes up less than 2% of the total world trade. The region accounts for 1.3% of world exports, 1% of global tourism receipts and 1% of global FDI inflows. The share of South Asia in total Asian exports and imports is merely 3.6% and 4.7%, respectively. The share of India, South Asia's largest economy, in Asian exports and imports is 3% and 3.9% respectively, while that of Pakistan, the region's second largest economy, is 0.6% and 0.8%, respectively.

Not only is global trade volume of Saarc member countries small, intra-region trade is also low. Intra-Saarc trade in fact accounts for only 3.5% of the total trade in the region. India accounts for 65-70% of the total regional trade, however, its trade with other Saarc countries constitutes less than 3% of its global trade. Of this, Indian exports to the region are nearly 4% of its total exports, while imports are less than 1% of its global imports.

Pakistan's share in total South Asian trade is nearly 15%. As in case of India, intra-Saarc trade of Pakistan is very low. The country's exports to the region are nearly 3% of its global exports, and imports are nearly 2% of its global imports. No Saarc nation is Pakistan's major trade partner.

India and Pakistan being the largest trading nations in South Asia, intra-Saarc trade depends in large measures on their bilateral trade, which, however, is very low. From 1996 to 2003, average annual trade between the two countries has been around \$253m. Of this, the average share of Pakistani exports is \$80m and that of Indian exports is \$173m. India-Pakistan trade is about 1% of their global trade. Pakistan's exports to India are 0.70% of its global exports while its imports from India are 1.38% of its global imports. Indian exports to Pakistan are 0.37% of its global exports, while its imports from Pakistan constitute merely 1.38% of its global imports.

Low trade volume between the two countries, however, does not mean that there is lack of demand for each other's goods as both countries have an informal trade of about \$3bn.

The poor trade performance of Saarc stands in marked contrast with that of the neighbouring regional alliance--Association of South East Asian Nations (Asean). Asean accounts for merely 8.4% of the total world population. However, its share in total world trade is more than 7%. Asean's contribution to Asia's total exports and imports is 24.78% and 28.2%, respectively. Intra-Asean trade accounts for nearly 30% of the global trade of the 10-member countries.

Clearly SAARC has not yet delivered on its promise. In order to fulfil the high aspirations of its peoples SAARC will need a new strategic vision. It will have to change its ways and its structure and will have to make commensurate efforts to revitalize itself. SAARC's new vision, could be seen as a bridge between East Asia, rich in its human resources and technology and West and Central Asia, rich in natural resources and finance. The SAARC region's massive human population and educated elites could complement the needs of both the other regions, with India overseeing the Eastern flank and Pakistan providing the linkage to West and Central Asia. This will help realize the dream of the Asian century alluded to by the Pakistani President at the last SAARC Summit. It will also avoid the counterproductive competition between India and Pakistan in their respective regions of influence, which has often been a mutual diplomatic irritant between the two countries. This vision will present a win-win, non-zero-sum situation for all concerned. The only downside this vision may entail is the possible fear of smaller SAARC countries that a collusion between India and Pakistan – the reverse of the present situation and far from probable – may result in some detriment to them.

India is keen to acquire an access to Central Asia, through Pakistan if possible, through more circuitous routes, if necessary. It is significant that recently India, Iran, Oman and Russia signed a treaty to construct a 'north-south transport corridor that would allow, when completed, shipping of goods from India's western coast to Europe via Iran and Caspian Sea ports of Russia¹⁷. The transit of merchandise would be faster by 15 to 20 days and cheaper by 15 to 20 per cent as compared to the traditional route through Suez Canal. Azerbaijan, a central Asian state, and several south Asian nations including Singapore have expressed their willingness to join the 'north-south' transport system. The Russian parliament has cleared the treaty by a unanimous vote for ratification and president Putin has put his signature of affirmation on it. Russia is planning to invite foreign direct investments of as much as 15 billion dollars for modernisation of the existing facilities and building a new cargo terminal at Olya on the Caspian Sea. Afghanistan's reconstruction provides another "window of opportunity" for peaceful collaboration among South Asian countries.

For realising this new strategic vision, SAARC will have to considerably broaden its agenda from its present limited focus. Poverty alleviation, social development and trade liberalisation can and should remain the core issues. Among other relevant topics to be included in the SAARC agenda can be Information Technology, Infrastructure

¹⁷ Sau, Ranjit, Musharraf's Quest for a 'Progressive and Dynamic' Pakistan, *Economic and Political Weekly*, May 4, 2002

for Regional Integration, Rural Development, Intra-industrial trade, international migration and the role of South Asian diaspora in promoting the region's development. India, which is now recognized as a leading force in IT, can be more forthcoming in sharing its experience with other countries and in helping to reduce the digital divide, both globally and regionally. Pakistan, Bangladesh and India have interesting national experiences to share with the rest of the region in the fields of rural development, decentralization, participation of women and micro-credit schemes.

Among other opportunities for collaboration between India and Pakistan, in particular, and South Asian countries, in general, a number of issues relating to globalisation, where collective efforts may prove more effective than individual country efforts. In particular, the WTO issues and the ending of MFA provided considerable opportunities for active engagement both by Governments and private sectors. Another area in which South Asian countries have a vital interest is the issue of labour migration, which could substantially benefit the poor. So far, the West has imposed an unequal bargain, in which developing countries must open their markets to foreign investment and products while being unable to export labour or many categories of products to the developed world. This is not just unfair but irrational as well, especially given the greying of populations in Europe, Japan and North America. In the next 10 years, South Asian countries must take the lead in pushing for easier international labour migration norms and protecting the interests of migrant workers.

Regional cooperation in South Asia is essential for accelerating the growth and reducing poverty in the region. The elitist pattern of development in both India and Pakistan has further stood in the way of developing complementarities between the two economies. Unless these elites realise that the self-serving pattern of development they have chosen is unsustainable and needs to be changed through greater inclusiveness and deployment of public expenditures to socially more useful purposes, such as health, there is unlikely to be any real motivation for them to take regional cooperation seriously.