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## South Asia's Public Policy Choices in a Fluid World<sup>1</sup>

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### Executive Summary

I shall begin this paper with a short biographical note. I do this in order to explain why I have focused so much attention on the importance of history for understanding why people and nations behave in certain ways. Beliefs take a long time to form, but once they are firmly embedded in a society's culture, history and social norms, it takes equally long to shake them off. By beliefs, I do not mean religious affiliations. My concern is with all beliefs – economic, political and social. Today, South Asia is a highly fractured society in part because of the way the area's history has unfolded, causing people in the region to harden their attitudes towards one another. It is my contention that unless the people of South Asia begin to look at each other differently, they will not attain for themselves what has become possible by way of the enormous changes occurring around them. The restructuring of the global economic, financial, industrial and trading systems have opened enormous opportunities for the countries of South Asia. To exploit them, the countries have to learn to work together. However, history comes in the way. To cast off the burden it imposes on the societies of South Asia, it is necessary first to understand how it has affected the making of public policy in the region.

This is why a brief reference to how I was trained and the influences I have operated under during my professional life are relevant. I have been persuaded to use several disciplines to view the positions of nations at certain periods in their histories and how they have evolved over time. During my academic life which took me deep into many disciplines, I learnt to view the world not from the perspective of one discipline but from that of several that overlapped at the margins – from the perspective of economics, history, economic history and political science. During my formative years, I was deeply influenced by three teachers – Sir Roy Harrod, Alexander Gerschenkron and Samuel P. Huntington.

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<sup>1</sup> This paper is a chapter in a forthcoming book by Mr Shahid Javed Burki on the proposed title of "Can Regionalism work for South Asia?"

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approach. Every world region has its peculiarities, and among the different parts of the emerging world, there are some similarities among the various regions but also many disparities. These need to be kept in view by the states in the region as they design their future. South Asia is much more densely populated than all other parts of the emerging world. For the region, population can be an asset or a burden depending upon the public policy choices its governments make. South Asia's colonial experience has left the countries with good working knowledge of English, which is the language of the 'flat world' that has emerged because of globalisation. Its location on the fringes of the world that has exceptional hydro-carbon resources has created opportunities for an increasingly energy-short world.

With the correct choices, South Asia could add a couple of points to the medium- and long-term rates of economic growth of the region. This is not a trivial increase. In fact, it could reduce the incidence of poverty in the region by 20 percent.

## A Bit of Biography to Set the Stage for Analysis

I started my academic life in Physics and Mathematics but switched to Economics when I went to Oxford University as a Rhodes Scholar. By then, I had already joined the Civil Service of Pakistan (CSP), a powerful component of Pakistan's governing structure in the first quarter century of the country's existence as an independent state.<sup>3</sup> Given that my future was now in government service and in the part of the government that had begun to deal with the development of a backward economy, I was advised by Sir Roy Harrod to switch to Economics. Sir Roy, who was once a close associate of John Maynard Keynes and was his biographer,<sup>4</sup> was an influential economist at Oxford. His advice mattered. He had made a contribution to growth economics by developing what came to be known as the Harrod-Domar model. This model in turn popularised the notion of the Incremental Capital Output Ratio (ICOR). This was the proportion of gross domestic product (GDP) that needed to be invested in the economy in order to produce one percent increase in national output. One important result of looking at development from this perspective was to recognise that the ICOR could be lowered if the economies became more efficient in the use of resources. The quality of governance mattered. I will use one example from South Asia's economic history to illustrate this important point. There was an impression in the 1970s and 1980s that India was condemned to doing things inefficiently because of its history and colonial legacy. This led the economist Raj Krishna to coin the phrase the 'Hindu rate of growth'. This was about 3 to 3.5 percent per year in GDP, only slightly more than the rate of increase in population. This was one reason why the incidence of poverty continued to increase in India, reaching 40 percent of the population by the mid-1980s, 40 years after the country achieved independence from colonial rule. India's Prime Minister Jawaharlal Nehru's 'tryst with destiny' seemed not to be working for a significant number of Indians. What could be done to address the problem?

By that time, empiricists among economists, watching the successes and failures of the processes of economic development initiated in many parts of the world, had reached a number of important conclusions. Economic growth, they had concluded, required not only the accumulation of capital and the movement of workers from the less to the more productive parts of the economy. There was also the need to make economies more efficient and the workers, through human development, more productive. In spite of the skepticism expressed by people such as Nassim Nicholas Taleb,<sup>5</sup> it was good to look at history to inform the making of public policy.

After graduating from Oxford in 1963, I went back to Pakistan and to the CSP and spent almost four years working as a sub-divisional administrator, as a deputy commissioner, as the administrator of a large American-funded rural development programme, and as the

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<sup>3</sup> Professor Tan Tai Yong has argued in his work on the Punjab that the governing process "which developed in sharp contrast to, and because of, the failure of political institutions, was the increasing concentration of state power in the hand of the Punjabi-dominated bureaucracy army". This had happened because of the importance the British rulers had given to the Punjab as a recruiting ground for their army. "As British recruitment policies came to be informed by the 'martial races' doctrine, only a select group from the Punjab mainly Sikhs, Muslims, and to a lesser extent, Dogras and Hindu Jats were eligible for recruitment, while all other groups of Punjabis not considered of sufficient 'martial' were automatically excluded". Tai Yong Tan and Gyanesh Kudaisya, *The Aftermath of Partition in South Asia*, Routledge Studies in the Modern History of Asia, London, 2000, pp. 205-207.

<sup>4</sup> Roy Harrod, *The Life of John Maynard Keynes*, London, Macmillan, 1951.

<sup>5</sup> Nassim Nicholas Taleb, *Black Swan: The Impact of the Highly Improbable*, New York, Random House, 2007.

administrator of a foreign-assisted aid programme in West Pakistan. In these varied tasks, I recognised how wise Sir Roy had been in advising me to leave Physics for Economics. In these jobs, I began to appreciate not only on how economies work but also how governments make policies and how these policies could be distorted or mutated by powerful interests operating in the society. Pure economics needed a dose of political economy to understand the constraints under which policymakers work. They cannot bring about economic change and development without factoring in the obstacles they must overcome, put in their way by those who prefer the status quo. I applied this approach to economic history to a study of the evolution of the Pakistani economy in the first of the several books I have written on the country.<sup>6</sup>

In 1967, I left Pakistan for Harvard University for advanced studies in Economics. At Harvard, while studying Economic History, a requirement for PhD in Economics, I fell under the spell of Alexander Gerschenkron, the Dean of economic historians in the United States. Gerschenkron was pleased with the way I was applying his thesis on economic backwardness<sup>7</sup> to the development of Pakistan, in particular to the development of the Punjab. He invited me, along with six other students, to attend his Economics History Workshop where I wrote two long papers tracing the interest the British administration had shown in developing central Punjab and upper Sindh as the granaries for the food deficit provinces in the north-eastern parts of their Indian empire. My main argument was that the enormous amount of investment the British administration made in developing agriculture in this part of their domain was not done for the purpose of what economists began to call ‘development’. Although some revisionist historians such as Niall Ferguson have begun to suggest that some colonialists did develop the areas over which they governed,<sup>8</sup> the British motive in investing in agriculture in central Punjab and upper Sindh was entirely aimed at serving their colonial interests.

Troubled by the calculation that repeated famines in India’s northeast could lead to a serious challenge to their rule – they were then recovering from what they were to later call the *Indian Mutiny of 1857* – the British administration looked for reliable ways to provide food supplies for the perennially food-short provinces in India’s northeast. The British government’s strategic interests also included the provision of employment opportunities to the people in the areas they tapped for recruitment to the military. They were also anxious to find employment for the hordes of Sikh soldiers who were now out of work following the disbanding of the Sikh Army. Large scale labour intensive works in the public sector such as building a vast irrigation system and an elaborate network of roads served this purpose well. These three strategic aims combined to lend focus to the development of agriculture, irrigation and communication systems in the Punjab and Sindh. One largely unintended consequence of this approach was to closely knit the north-western provinces economically with those in the north-east. This was done through trade. These links were to be severed when the British partitioned their Indian empire into two independent states – India and Pakistan.

After concluding my graduate studies at Harvard, I was invited by Samuel Huntington to join a group of half a dozen scholars drawn from various disciplines – I was the only economist in

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<sup>6</sup> Shahid Javed Burki, *Pakistan Under Bhutto, 1971-77*, London, Macmillan, 1980.

<sup>7</sup> Alexander Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays*, Cambridge, Mass. Belknap Press of Harvard University, 1962.

<sup>8</sup> Niall Ferguson, *Empire: The rise and demise of the British world order and the lessons for global power*, London, Allen Lane, 2004.

the group – to study first how changes were occurring in the various parts of what was then called the developing world and to draw lessons for the making of public policy. There was recognition among development practitioners that the state had an important role to play in accelerating the pace of economic growth and distributing incremental income more widely among different segments of the population. Huntington's earlier book, *Political Order in Changing Societies* had deeply influenced thinking on development.<sup>9</sup> By the time I was working with Huntington, the highly acclaimed Ayub Khan's model of economic growth in Pakistan during what the regime had labelled the 'decade of development' had collapsed and the military regime had been successfully challenged by those who believed that the model had delivered a great deal of inequality in both asset and income distribution in the country.

### **The Areas of Concentration for the Making of Public Policy in South Asia**

This brief biographical sketch, I thought, would help readers understand the approach I have taken in this paper. This paper brings together several strands of thinking in dealing with the current situation in South Asia, in particular mainland South Asia. This area has yet to develop a regional identity against strong national interests. I argue that that approach will hurt the region since it will miss the opportunity created by the rapidly changing global economic and trading systems to carve out a place for itself. It has been difficult for the South Asian countries to act that way largely because of their difficult collective history. There are lessons to be learnt from other regions. Will the South Asians be able to bring about change on their own or will they need some catalyst from outside the region?

At this time, the global economy is being reshaped, mostly because of the severe recession that began in the United States in August 2007 and has lasted for more than two years. While this was the longest lasting economic downturn in recent history, it is not the only reason why the global economy has gone through a massive structural change over the last couple of decades. The change started with the beginning of the process generally referred to as 'globalisation'. Now, with the world in a deep economic crisis which may last for another year or two, questions were being raised about the viability of capitalism as the way of managing national and global economies. It is my belief that what really need to change are not the basic foundations of capitalism but their interpretation. This was the case particularly in defining the role of the modern state – in what way should the state work to oversee the national economy and what are the various ways the states across the world should come together to oversee the rapidly changing global economy? The South Asian state has always been actively engaged in economic management but often in ways that were not productive or efficient for the economies of the area. There is an urgent need for the South Asian nations to redefine the role of the state; to have it become a guide and facilitator rather than a direct participant in microeconomic decision-making.

There are other significant changes occurring in the way the world is shaped. After emerging as the world's largest economy in the 20<sup>th</sup> century and its leader in the second half of the century, the United States has begun to lose ground to some of the emerging economies, most of which are in Asia. This process will continue for a number of structural reasons, including some extraordinary demographic changes that are already having a deep impact on what are sometimes called post-industrial societies. It is important to pay special attention to demography as a determinant of economic, political and social change. The role of demographic change in economic progress has been largely ignored in economic writing.

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<sup>9</sup> Samuel P. Huntington, *Political Order in Changing Societies*, New Haven, Ct., Yale University Press, 1968.

Partly as a result of demographic developments – some of them because of the ageing of populations in the developed world,<sup>10</sup> and some because of the movement of a large number of people across international borders<sup>11</sup> – we are now witnessing the emergence of a multipolar world. China will certainly be one of the new poles. Will India, with the world's second largest population, which will become the world's largest in the next two to three decades, be one of the poles in this world or will it need to work with the countries of South Asia to play this role? What will the 'post-American' world look like? My calculation is that the political and economic worlds will split three ways – the 'G2' made up of the United States and China; the second tier powers, including India, each with its own sphere of influence; and then the remaining countries.<sup>12</sup>

One of the assumptions about the shape of the global economy was that individual countries will be able to work with one another without too many constraints on various kinds of contact among them. That was the meaning of 'globalisation', which did not happen. Over the last two to three decades, a multi-layered world has emerged in which regional associations have begun to lend mass to the smaller economies so that they can deal more effectively with those that have a greater weight in the global economic system. The most successful example of this, of course, was the European Union that started half a century ago as a trading system to oversee trade in steel and coal among the major economies of continental Europe. It is now a union of 27 states, some of whom have abandoned their national currencies in favour of a common currency called the Euro. While the Association of Southeast Asian Nations has evolved into a more ambitious arrangement than was originally conceived, it is still working its way towards a customs union. Trading arrangements need not be between the economies at about the same stage of development. The North American Free Trade Area (NAFTA) is among two very rich economies – Canada and the United States – and Mexico, a relatively less developed economy. The European Union, in seeking expansion, has brought in a number of East European countries that have some way to go before they can achieve the standard of living of most West European countries.

South Asia is one of the few regions in the world where regionalism has not worked. It has, at best, made a weak attempt at regional integration. The reason South Asians have made little advance in this area is their failure to submerge national in favour of regional interests. Some institutions exist, including the South Asian Free Trade Area (SAFTA), which was formally launched on 1 July 2006, six months late because of Pakistan's failure to ratify in time the treaty aimed at establishing this trading community. One conclusion that emerges from the study of successful regional trading arrangements is that the chances of success are greater when the initial impulse originates with the largest country or large countries in the region. This is the reason why the European Union and the NAFTA have done well. The slow progress by the SAFTA is in part due to the fact that the initial push came from Bangladesh, the area's relatively smaller economy. For the SAFTA to succeed, both India and Pakistan will need to take an active interest in advancing the concept of free trade in the region. It is interesting – and disappointing – that the trade policy for 2009-12, issued by Islamabad in

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<sup>10</sup> These have begun to draw attention of analysts in the West. Recently *The Economist* devoted an entire "survey" to the issue of aging. See the magazine's "A slow burning fuse: A special report on ageing populations", June 27, 2009.

<sup>11</sup> This is another subject drawing academic as well as policy interest. See of instance the special issue of the magazine, *Current History's* special issue on international migration, February 2009.

<sup>12</sup> See Shahid Javed Burki, *The rise of China: How it will impact the world*, Institute of South Asian Studies Insights No. 80, 6 August 2009.

July 2009, makes no reference to the SAFTA. This is just one example of the low priority that the large South Asian states attach to regional economic and trade integration.

One reason South Asia has not been able to evolve as a region is that history weighs heavily on the countries in the area. There has been a great deal of intra-regional strife. However, history has also played a role in developing a South Asian narrative that encompasses a number of areas of human endeavour, including culture, sports, politics and economics. How can the positive aspects of the South Asian historical experience be used to mould a better future for the countries in the region? How can the negative aspects, especially inter-state conflicts that have been such a prominent feature of the recent history of South Asia, be overcome? What role can formal institutional arrangements for regional integration play in this context? These are all important questions and the answers to them are to be found in the way history is taught in the region's countries and in the way history informs the making of public policy with respect to education as well as approaches made towards other countries.

Could South Asia perhaps be in the process of turning the corner? Some recent developments in the region – three elections in Bangladesh, Pakistan and India respectively, all held within the space of 16 months – and the decision by policymakers in Sri Lanka and Pakistan to deal with insurgencies – in the case of Sri Lanka based on ethnicity and in the case of Pakistan based on religious fundamentalism – may have created an environment in which the countries can create a better future for themselves. While it is not easy to impose one particular narrative on the way 1.5 billion people expressed themselves at the polling stations in the three countries, the elections were good indications of what the main priorities of the people in the region are. It is clear that the people are interested in seeing governments work towards improving the welfare of the citizenry rather than spending the resources of the state on imposing certain religious beliefs. That said, there are powerful minorities that believe otherwise. In Pakistan, in particular, Islamic extremism has gained strength to the point that it has begun to challenge the state. This is why the insurgency in Pakistan needs a detailed study which traces the history of extremism in the country and analyses how the rise of *jihadism* has interfered with the country's political development. What happens to the war between the Pakistani state and the extremists will have consequences not only for Pakistan but for all of South Asia. It could also deeply impact what Huntington called the 'clash of civilisations'.<sup>13</sup> The usual narrative concerning the approach towards Islamic insurgency is usually told in terms of the changes in strategies and military successes. It needs a much broader treatment including the way it is impacting many aspects of life in the affected societies. Pakistan offers a good case study for examining the insurgency from this perspective.

South Asia has two options – it could pursue national interests or it could work as a region with the countries in the area prepared to step back a little from including only narrow national interests in their economic strategies. South Asia could do so much better by adopting a regional approach. Every world region has its peculiarities, and among the different parts of the emerging world, there are some similarities among the various regions but also many disparities. These need to be kept in view by the states in the region as they design their future. South Asia is much more densely populated than all other parts of the emerging world. For the region, population can be an asset or a burden depending upon public policy choices the region's governments make. South Asia's colonial experience has

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<sup>13</sup> Samuel Huntington, *The Clash of Civilizations and the Remaking of the World Order*, New York, Simon & Schuster, 1998.

left the countries with good working knowledge of English which is the language of the 'flat world' that has emerged because of globalisation.<sup>14</sup> Its location on the fringes of the world that has exceptional hydro-carbon resources has created opportunities for an increasingly energy-short world.

In August 2009, China and India agreed to study the glaciers that are the most dominant feature of the geography along their common border. These glaciers provide 40 percent of the total amount of fresh water that runs through the world's river systems. Is global warming going to hurt this flow? Most climate scientists believe that that is indeed the case. China and India are skeptical, particularly in the light of the demands the global community is placing upon them that would result in constraining their pace of economic development. Should the two pay the price now in order to protect the welfare of their future generations? The two countries have agreed to work together to find an answer to this question. Another 'G2' has thus been created, aimed at finding an answer to a question of critical importance for the future of these two countries. However, should this investigation and the public policy choices that will flow from it not also involve other countries that lie in the way of these rivers? Not only will China and India be affected by the likely consequences of global warming, so will be Bangladesh, Bhutan, Nepal, Pakistan and possibly Afghanistan. In fact, Bangladesh has the most to worry about the seemingly worsening climate situation. Global warming has created problems for the region, the scope of which differs from other parts of the world. What should be the locus of decision-making given the dangers that exist in this area? Should the countries act together or separately, and if they are to act together, what kind of institutional mechanism should be used to achieve a set of common objectives?

There are ways of using some quantification to estimate the economic impact if South Asia were to act as a region rather than as a collection of countries that happen to occupy the same geographic space. Given the situation of South Asia today, what does the future look like? Economists like to develop scenarios to supply answers to questions such as these. What could we posit for South Asia, say, in the next 10 to 15 years? It is possible to develop a series of non-technical scenarios for this purpose. In the 'base case', we could assume that inter-state conflict will continue to define the South Asian landscape. If that turns out to be the case, how will the region look like economically? On the other hand, if the South Asians can get to work together, what kind of future could they produce for themselves by, for instance, the year 2020? One way of finding an answer to this question is to make a number of heroic assumptions about the impact of a number of policy variables on growth. These include an effort to bring about closer economic and trade integration among the countries of the area, cooperation in the area of defence in order to spare more resources for development, a joint approach towards the menace of terrorism, greater investment in human development, and making greater use of geography and location to promote development. With the correct choices, South Asia could add a couple of points to the medium- and long-term rates of economic growth of the region. This is not a trivial increase. This could reduce the incidence of poverty in the region by 20 percent.

Public policy choices in South Asia should take full cognisance of the region's endowments, geography and position in the world. However, it should also recognise the enormous burden of history that has weighed down the region. It needs to be recognised that this weight should be lifted. Lifting it may help the region to focus more resources on development than, for

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<sup>14</sup> The term is borrowed from Thomas L. Friedman who popularised it in his best selling work, *The World is Flat: A Brief History of the Twenty-first Century*, New York, Farrar, Strauss and Giroux, 2002.



example, on defence and on increasing the reach of the naval forces. It appears that for a variety of reasons, the South Asian nations are embarking on an expensive arms race in which very large sums of money are likely to be spent on developing the nuclear arsenal, increasing the capacity and accuracy of missiles, and putting submarines out in the high seas. India has already announced the intention to launch a shipbuilding programme that will add a hundred new and sophisticated war machines to its rapidly expanding flotilla. While this build-up may be in response to the large commitment of resources by China for increasing its capacity to command the oceans, it will have an impact on other countries of South Asia. Without the region working together to define its defence priorities, the Indian moves will lead to additional resource commitment by Pakistan, possibly even by Bangladesh. As Iftekhar Ahmed Chowdhury, my colleague at the Institute of South Asian Studies, puts it succinctly, “in a few decades, many steel fish with missile teeth will be prowling the Asian waters”. Maritime security analysts see this phenomenon as an Asian penchant for classical notions of power, as symbolised by earlier theorists of sea power such as Alfred Thayer Mahan, just when the West is gripped with post-modern fascination for norms and institutions”.<sup>15</sup> South Asia should perhaps follow the West.

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<sup>15</sup> Iftekhar Ahmed Chowdhury, “Between the devil and the deep blue sea”, *The Business Times*, 6 August 2009.