

# ISAS Insights

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## Singapore Symposium 2012 Papers-1 Pakistan Should Go Asian<sup>1</sup>

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### Abstract

*Given Pakistan's current chaotic situation in both politics and economics, it would be rather presumptuous to suggest that the country could act as the glue for binding different parts of Asia, a large continent which is now on the move. Several analysts have suggested that the 21<sup>st</sup> century will be the Asian century; that the extraordinary combination of demography, the role of the state, and recent economic history will take Asia forward. The 19<sup>th</sup> century was the century of Europe and the 20<sup>th</sup> that of America. This was now the turn of Asia. According to this line of thinking, Asia could, in the not too distant future, overtake both Europe and America in terms of the respective sizes of the economies of these three continents. There is enough dynamism in Asia for several scholars to be comfortable with the thought that such a repositioning of the continental economies is inevitable. However, the pace of change could be quicker and the result more definite if the various Asian countries, large and small, could work together and become a*

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<sup>1</sup> The paper by Mr Shahid Javed Burki is based on his comments during the second session of panel discussion at the Singapore Symposium, organised by the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore, and Aspen Institute India in New Delhi on 12 July 2012. The session was chaired by Ambassador See Chak Mun, Adjunct Senior Fellow, ISAS, and Senior Adviser, Ministry of Foreign Affairs, Singapore.

<sup>2</sup> Mr Shahid Javed Burki is Visiting Senior Research Fellow at ISAS, and he can be contacted at [sjburki@yahoo.com](mailto:sjburki@yahoo.com). The views expressed in this paper are those of the author and do not necessarily reflect those of ISAS. During a professional career spanning over half a century, Mr Burki has held a number of senior positions in Pakistan and at the World Bank. He was the Director of China Operations at the World Bank from 1987 to 1994 and the Vice President of Latin America and the Caribbean Region at the World Bank from 1994 to 1999. On leave of absence from the Bank he was Pakistan's Finance Minister, 1996-97.

*well-connected economic entity with strong inter-country links. Such an outcome could become possible if there is the political will to act on the part of Asia's large countries. In this context Pakistan's role could be critical even when its own economy is very weak at this time.*

### **Pakistan's Delicate Economic Situation**

In terms of the economic well-being of its citizens, Pakistan today is the poorest performing economy in South Asia. It is not doing well when its performance is measured in terms of variety of economic and social indicators. It has had a declining rate of growth for almost 50 years. The trend started in 1965 when Pakistan fought a brief war with India over the issue of Kashmir. That led to a sharp decline in external capital flows on which Pakistan was dependent for maintaining a reasonable rate of investment. But punctuating this declining growth trend were a few spurts, each lasting about three to four years. All of these occurred during military rule and all were associated with large foreign capital flows. A significant proportion of external finance received by Pakistan came from the United States.

The military leaders were able to access foreign aid since it was consequent upon subscribing to America's strategic interests in the area around Pakistan. They had greater degrees of freedom, than the civilian leaders, to work with foreign governments. They did not feel they needed to be constrained by public opinion. As can be gauged from Pakistan's difficulties with the United States in 2011-12, a democratic government has to take people's views into account while fashioning foreign policy. As a recent survey by the Washington-based Pew Research Center revealed, a very large proportion of people – 74 per cent of those surveyed – in Pakistan view the United States unfavourably. The proportion is larger than for most other Asian countries.<sup>3</sup>

Pakistan's current economic downturn has been extremely severe, lasting longer than any other in its history. It has lasted five years and is likely to persist for a while. One way of dealing with this situation is to completely reorient the country's approach to economic development. The country needs to focus more on developing strong links with the Asian nations in its neighbourhood rather than continue to seek a close relationship with the United States. For some time now, Pakistan has been attempting to negotiate a free trade arrangement, FTA, with the United States. That is an impractical approach since Washington has signed FTAs with mostly small nations such as Panama. These countries could be given tariff-free access since they did not pose much threat to America's domestic industry. For a large country such as Pakistan with one large sector – textiles – the path to an FTA will be slow and will not be particularly rewarding. Instead this may be a good moment to think about "going Asian".

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<sup>3</sup> Pew Research Center, Pew Global Attitudes Project, "74 % call America an enemy", Washington DC, 17 June 2012.

## Several Asias

Some analysts have suggested that rather than one Asia there were, in fact, two Asias, one dominated by China, the other by India. The question was whether the two Asias would converge and become a loosely-bound economic entity or diverge – each part going its own separate way, developing separate economic and political systems and pursuing different goals. There were just too many systemic differences between these two parts of Asia for them to bind together. The state systems in the two anchor economies, China and India, were so different that their working together within a common policy framework would not be a practical proposition. It was further emphasised that China was a highly centralised state. In India's evolving political system, federating states possessed considerable autonomy, a trend that was weakening the centre. Political systems were also different. China was able to orchestrate regime change in a fairly orderly manner; a process in which it was actually engaged now for more than a year and which will reach a well-choreographed finale in the spring of 2013. However, the transfer of power in India occurred through elections and the formation of governing coalitions and was not always a smooth process. The two countries were headed in quite different directions. Divergence was the more likely outcome. So ran the argument.

It is perhaps more realistic to think in terms of not one or two Asias but about four rather different parts. Such a division of a geographic entity, which many would like to see turn into one cohesive economic system, complicates the thinking about the future. But, as I will presently argue, it makes it more practical and easier to handle in terms of the making of public policy.

The four Asias include the two that have China and India at their respective centres. But two more need to be added: Central Asia and the Middle East. Bringing them in also brings in Pakistan, since that country occupies an extraordinary geographic space. It is in Pakistan that South and Central Asias meet. It is through that country that India should be able to trade and engage in commercial activities with the resource-rich countries in Central Asia and the Middle East. And it is also through that country that increasingly energy-deficient China could gain an easier access to the enormously rich energy sources around the Persian Gulf. How can these four parts of a continent act in concert to ensure that the larger entity, the Asian continent, could become a dominant player in the global economy? Before answering that question, a slight detour needs to be taken to bring in geopolitics.

That China and India will exercise greater political and economic influences on the countries that lie on their peripheries can no longer be disputed. In that respect, most of East Asia and most of South Asia are well within the spheres of influence respectively of Beijing and New Delhi. But there is one problem with this evolving structure. Washington at this point is not inclined to surrender any space entirely to Beijing. The Chinese on their part are not inclined to seek a

monopoly for themselves any time soon. In the longer term, both sides will learn to accommodate each other's interests. But it is in the two other parts of Asia where there is no dominant political player to keep order – the word 'order' being used in a broad rather than a narrow sense – that political jockeying for appropriate positioning is underway. The old "great game" is once again being played. As was the case in the one enacted more than a century ago, the game may have an uncertain end. However, the large Asian countries can prevent such a situation from developing by acting on their own, rather than following the strategic interests of outside powers.

In the resource-rich Central Asia, there are strong interests on the part of three large powers – the United States, China and Russia. Each would like to, if not altogether dominate this geographic space, be in a position to retain influence over it in the making of public policy. In the Middle East, as a result of the "Arab Spring", the old grand bargain has broken down. That bargain was centred on the understanding that the region's autocrats would be left in place if they did not disturb the flow of oil to the West by keeping the vital sea lanes open to international shipping, and did not threaten the security of the state of Israel. As the results of the recent elections in Egypt demonstrate, the new political order that is emerging will have a very different set of objectives. Nationalism, tinged in some instances by Islamism, will be the driving force in many Middle Eastern states. For many, Turkey will be the model most likely to be followed. Similarly, the Asian countries themselves could do a great deal to create an economic order that serves their purpose. This is where Pakistan enters the picture.

Given its geographic position, it is through Pakistan that a number of links that might bring Asia together could run. For the moment, the economic integration of Asia is happening, in bits and pieces. There are a number of trading arrangements in place involving several different groups of countries. There is the Association of Southeast Asian Nations (ASEAN) but it has thrown out tentacles to bring in other countries into its orbit. There are now several ASEAN-Plus configurations in place. The South Asian Free Trade Agreement (SAFTA) has only now begun to show some signs of life – indeed, after the decision by Islamabad and New Delhi to concentrate on economic and trade issues rather than keep their focus on hard-to-resolve problems. There is the Shanghai Cooperation Organisation (SCO) in which China is attempting to tie the countries of Central Asia to itself in some kind of a trading and security arrangement. And then, there are numerous bilateral arrangements between different countries. Examples of these are: China-Pakistan, India-Sri Lanka, Pakistan-Sri-Lanka, India-Bangladesh and so forth. All this sounds perplexing, but it is the right way to proceed. It may not be a good idea to over-design a regional arrangement as the Europeans did decades ago. They – and the world – are now paying a price for quickly pushing ahead with that model of regional arrangement. For Asia, a multi-step approach aimed at regional connectivity would be a much better proposition.

## **Steps towards Regional Connectivity**

The first of these steps would be to bring Pakistan back into South Asia in the economic sense. Those who remember their history would recall that the area that is now Pakistan was an integral part of what was British India. Then, Pakistan exported three-fourths of its food and commodity surpluses to India, getting in return about the same proportion of imports from the other side of the border. And then, politics intervened, and with it came suspicion particularly on the Pakistani side of the border about perceived Indian intentions towards the neighbour. Following the trade embargo imposed by India in 1949, trade between the two countries dried up. Pakistan turned its back on India and started looking towards the West. The distant United States became its largest trading partner, defying what trade economists call the “gravity model of trade”. India adopted what some analysts call the ‘Look East’ policy. The first step, therefore, would be to bring Pakistan back to South Asia and breathe new life into SAFTA. The process has begun but there should be full commitment from both sides to maintain the momentum. There are groups on both sides of the India-Pakistan divide that have an interest in derailing the process. They must not be allowed to succeed.

The second step should be to open the Pakistani space for use by India to trade with Afghanistan and beyond. Once again, there is movement here; a transit agreement involving passage through Pakistan is in the works for India to exchange goods and commodities with land-locked Afghanistan. Such an agreement should not come with too many strings attached. The movement of transport equipment through the Pakistani territory should be as unconstrained as possible. India should also be able to use the Pakistani space for trade with China, in particular with that country’s western provinces that lie on the other side of the famed Karakoram Highway that links Pakistan and China through a formidable mountain range.

The third step would be to link the various Asian countries through a network of oil and gas pipelines, complete with an electricity grid, so that energy begins to flow from the energy-surplus to the energy-deficit countries. Some work has been done in this context. A gas pipeline is being constructed on the Iranian side of the border to eventually link it with Pakistan. The so-called Iran-Pakistan-India (IPI) pipeline was meant to extend to India; but New Delhi has, for the time being, opted out of the arrangement. Another pipeline, the TAPI, connecting Turkmenistan in Central Asia with Pakistan and India through Afghanistan, is under consideration. It has received the support of the Asian Development Bank and an expression of interest from the World Bank. The Chinese have long been interested in connecting their western provinces with the gas-rich countries in the Middle East by a pipeline that will cross the length of the Pakistani territory. The private sector in India is planning to lay an oil pipeline from a new refinery located in Batinda in the Indian state of Punjab with the Pakistani province of Punjab. This will provide gasoline and other refined products to Pakistan.

## **Financing Intra-Regional Connectivity**

It would take a great deal of investment to develop these routes of international commerce. Pakistan does not have the means to do this but it can be done with the help of private finance and private technology. There is precedence for this, and that could be followed. In the 1960s, after India and Pakistan signed the Indus Water Treaty, a massive construction programme was launched to build link-canals among the rivers that were assigned to Pakistan as a part of the settlement. This was an expensive and technically challenging programme. It was successfully implemented over a period of 10 years by a consortium of donors led by the World Bank. Such a programme – this time focused on creating a regional network to facilitate trade – could be launched. And it should have much greater involvement of private enterprise. This is where Singapore enters the picture. It has the banking sector and other instruments of finance to establish financial consortia to implement such a project. It could mobilise construction companies from East Asian countries to undertake large and inter-country projects. A city-state such as Singapore may well become the headquarters of a large consortium to handle these infrastructure projects.

In so far as the financing of such an investment programme is concerned, there are several possibilities. The traditional sources would be the two multilateral development banks, the World Bank and the Asian Development Bank. To this two more could be added. The BRICS countries – Brazil, Russia, India, China and South Africa – are now working at the possibility of setting up a development bank of their own which would be capitalised by them from their large external reserves. Large inter-country infrastructure construction projects would be a good starting point for the proposed BRICS bank.

The other possible source of finance is the South Asian Diaspora that now has about 40 million people dispersed in three continents. They could be encouraged to join this effort. They have the finance and the expertise to make a contribution. While no firm estimates are available, the South Asian Diaspora probably has a total annual income of US\$ 2 trillion and a savings rate of probably US\$ 500 billion a year. The asset base is probably of the order of US\$ 5 trillion. Some of these savings could go into projects such as intra-regional connectivity projects. The South Asian Diaspora should be encouraged to set up shop in Singapore, where its members already have a presence, and begin work on inter-country and intra-country regional infrastructure development projects.

## **Conclusion**

What is emerging over time is an Asian continent with its several parts loosely linked together initially through commerce. In this endeavour, Pakistan, given its location, could be a central player. But, for it to perform that role, it will need to steady its economy, improve the quality of governance, reverse the tide of Islamic extremism, and get closer to the countries in Asia to its east and southeast. These may seem difficult goals to reach, but the countries in Pakistan's neighbourhood could be helpful in this regard. To do so is in their interest.

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