CHALLENGE IN SOUTH ASIA: PEACE, REGIONAL COOPERATION AND DEVELOPMENT

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INTRODUCTION:

MEGA DEATH OR PEACE AND DEVELOPMENT

South Asia is at a conjunctural moment in its history. There is growing awareness today of the tremendous human and natural resource potential that can be harnessed for overcoming poverty. There is a recognition of the possibility of articulating through regional cooperation the richness of its civilizational content as well as of its resources to become an influential voice in the new world that is taking shape. Yet, at the same time, there is growing evidence of the undermining of this potential through continued danger of inter-state war on the one hand and unsustainable development strategies on the other.

Can we grasp this moment and together devise a new path which will enable South Asia to enter the 21st century in peace, prosperity and with a new flowering of the rich civilizations that it encompasses? The time has come for moving out of the narrow confines of a mind set that takes military muscle rather than well being of its people as the emblem of state power; and which regards an adversarial relationship with the neighbour rather than regional cooperation as an expression of national commitment.

There is also an urgent need to move out of the narrow confines of a conceptual approach that takes GNP growth within centralized state structures as the emblem of development, the credit worthiness for new loans as a measure of economic health, and which regards people as passive recipients of the drops that are supposed to trickle down from such a process. As we glance back at the last four decades of South Asian development experience, generations of poor, mutilated by malnutrition, come into sharp focus. At the same time the image of once verdant slopes of our northern mountains, and the fertile fields that nestled at their feet, begins to fade. A childhood image that is lost within a single generation at the onset of deforestation, salinization and desertification - processes unleashed by a growth mechanism that is guided by the hidden hand of the market, rather than the aspiration of our peoples to sustain life across generations. Yet even as the human and natural resource base is getting undermined, governments in South Asian countries are groaning under mounting debt burdens arising mainly from the rising expenditures of centralized state apparatuses, and ill conceived policies imposed by international financial institutions.

The irony of increasingly sophisticated military apparatuses in South Asia together with continued poverty of the majority of the people and mounting debt burden has been given a devastating demension in the case of India and Pakistan: This is the danger of war arising out of the long standing Kashmir dispute. The prospect of war of course has an added horror in view of the fact that each country is accusing the other of having a nuclear capability.

It can be argued that continued increases in military expenditure are unsustainable both in terms of their effects on the budget deficit as well as in terms of escalating tensions leading to a mass holocaust. As the largest country in the region it may be worth its while for India to adopt a long term perspective towards the Kashmir issue. If India were to take the initiative in resolving the Kashmir issue according to the wishes of the people of Kashmir it would constitute the best investment in the long term security of India and of the region. Such a gesture by India would change the perceptions of its smaller neighbours that it seeks hegemony in the region and thereby establish a lasting basis of durable peace based on the equality of sovereign states seeking cooperation rather than conflict in the fulfillment of their national aspirations. Equally important would be the peace dividend that India and Pakistan could reap following a resolution of the Kashmir issue in terms of redirecting a large proportion of their existing military expenditure for the prosperity of their people. Rising military expenditure induced largely by continued existence of the Kashmir issue does not increase in net terms the security of their States. This is simply because an increase in military expenditure by one country leads to a similar response by other. This is clear from the fact that between 1973 and 1988 India's defence expenditure increased from US $ 2.83 billion to US $ 8.8 billion annually. Similarly, in the same period, there was an acceleration of military expenditure in Pakistan's case (although at lower level) from US $ 0.9 billion to US $ 2.5 billion annualy. While national security may not necessarily be enhanced by an arms race it is clearly endangered by the intensification of domestic poverty that results from it and fncreased social polarization associated with the perpetuation of poverty. Today, as the armies of the two countries face each other across the borders it is clear that war will have no victors. It may be time therefore to think of the imperatives of durable peace and sustainable development.

As we now look towards the future, an urgent need is felt today, for a new approach to development. A perspective within which people in their diverse locations can live in peace and acquire control over the decisions that affect their immediate existence; in which the autonomy of communities and states can be sought from the tentacles of an international financial system that is serving as a conduit for transferring real resources out of the fragile resource base of the poor; a perspective within which production and economic growth is conducted to sustain life rather than serving to undermine it. In short, the question is, can we achieve a sustainable relationship between man, nature and growth?

PART 1

POVERTY FINANCIAL CRISIS AND RESOURCE DEPLETION IN SOUTH ASIA

The traditional paradox of South Asia, that of a resource rich region inhabited by poor people has been given a new dimension as a result of the development strategies pursued in the post independence period. The particular form of economic growth initiated by post colonial elites in this region is such that the very resource potential which could have been harnessed to overcome poverty is instead being rapidly eroded. (The form of this growth process is disucssed in Section-2). We will indicate first, how the people of South Asia remain deprived of basic necessities even after forty years of independence, and that the particular mechanism of economic growth in operation in this region may well be increasing poverty rather than reducing it; Second we will examine comparative data for the countries of South Asia to show a remarkably similar statistical profile of changes in economic structure and the emerging financial crisis. Third, we will provide summary evidence of the considerable potential in terms of human, land, energy and mineral resources. Finally, we will indicate recent evidence to show that in many cases this resource potential is being rapidly eroded as the result of ill conceived development strategies.

In contrast to the deprivation of the people, the state apparatuses are spending so much on themselves that a financial crisis is emerging. As national indebtedness reaches intolerably high levels, the governments have nothing to show for it to the people except burgeoning bureaucratic and military establishments.

1. Economic Growth, Financial Crisis and Poverty in South Asia.

The mechanism of economic growth in South Asian countries has been such that while poverty increases, the crisis in economic structure manifests itself increasingly in the form of a financial crisis. 1 This is a form which has more immediate repercussions for the establishment than the distant image of a people in pain. If we look at Table 2 we find a remarkably similar profile of changes in the key economic indicators in the countries of South Asia. While the percentage of people below the poverty line remains high, the budget deficit increases rapidly, as does the deficit in the balance of payments. For example, in India the budget deficit as a percentage of total government revenue increases from 29.9 percent in 1976 to 48.9 percent in 1986; similarly, Pakistan's increases from 38.1 percent to 53.9 percent, over the same period; Sri Lanka's figure for budget deficit as a percentage of government revenue already very high at 54.3 percent in 1976 increases further to 55 percent by 1986.

There is a similar sharp rise in the balance of trade deficit in these countries. For example, over the period 1970 to 1984, the trade deficit increased from US $ 131 million to US $ 4102 million in India; in Pakistan from US $ 538 million to US$ 3750 million; in Sri Lanka from US$ 353 million to US$1698 million; and in Bangladesh from US$ 426 million to US$1690 million.

The rapidly rising budget and balance of trade deficits have induced such a rapid increase in debt, that the debt servicing burden is becoming intolerably heavy.

Table 1 shows, for example, that ratio of debt service to export earnings from goods and services (debt service ratio), has increased from 15.7 percent to 21.4 percent over the period 1972 to 1985 in the case of India; in Pakistan from 19 percent to 32 percent; and in Sri Lanka from 22 percent to 27.6 percent. Bangladesh, the only exception has a debt service ratio that remains roughly the same at about 18 percent.

The level of debt servicing in these countries is so high that a substantial reverse resource flow is beginning to take place. For example, Table 1 shows that debt service as a percentage of gross disbursements has increased rapidly in South Asian countries. During the period 1975 to 1985 this ratio has increased from 43.3 percent to 51.5 percent in India; from 23.4 percent to 87 percent in Pakistan; and form 52 percent to 73.4 percent in Sri Lanka.

While resources are flowing out, the domestic economic structures are exhibiting increasing capital intensity. This is indicated in Table 1 which shows that the capital intensity of manufacturing increased from 41 percent to 45 percent in the Indian Economy over the period 1975 to 1985; in Pakistan it increased from 24 percent to 28 percent over the same period; and from 24 percent to 35 percent in the case of Bangladesh. These changes indicate a declining employment generation capability of these economies, for given growth rates of GNP. As the data shows, even at current levels of GNP, intolerably high deficits are being generated. It is unlikely therefore that the declining employment elasticity with respect to output in South Asian economies, can be compensated by accelerating growth in GNP in an attempt to increase employment. Given the present structure of South Asian economies there seems to be a tendency for increasing unemployment.

Let us now consider the evidence on diet and health. Table 9 presents data on malnu-

TABLE 1
SOUTH ASIAN ECONOMIES COMPARED

Country	(1) Growth rate of GDP (Percent)			(2) Structure of Production (percent of GDP)				(3) Poverty (% Below Poverty Line) f	(4) Capital Intensity of Manufacture (% of Value g Added)		(5) Balance of Trade Defict (Million of US $)		(6) Budget Deficit as (a % of Total Government Revenue)		(7) Expenditure On Public Administration (as a % of Total Govt Expenditure		(8) Debt Service Ratio (% Export of Goods and Service)		(9) Reverse Flow of Resources Debt Service Gross Disbursement	
				Manufacturing		Services														
	a Period	b Period	c Period	d 1965	d 1985	e 1965	e 1985	1975	1975	1985	1970	1984	1976	1986	1972	1986	1972	1985	1975	1985
India	3.37		5.0	15	17	31	41	46	41	45	-131	-4101.8	29.9	48.9	59.9	64.3	m 15.7	m 21.4	n 43.3	n 51.5
Pakistan	6.42	4.34	6.66	14	20	40	47	43	24	28	-538	-3750	i 38.1	53.9	73.1	58.0	19	32.0	23.4	87*
Sri Lanka	5.0	2.9	5.4	17	15	51	46	14	24	23	-353	-1697.6	j 54.3	k 55.0	40.8	68.8	22	l 27.6	p 52.0	73.4
Bangladesh	-0.3	4.1	-	5	8	36	36	64	24	35	h -426	-1690	-	-	31	l N.A	18	17.0		17.0

NOTES:
1. a: India (1975/76 to 1980/81), Pakistan (1960 to 1969), Sri lanka (1960 to 1970), Bangladesh (1970 to 1975)
b: Pakistan (1973 to 1977), Sri Lanka (1970 to 1977), Bangladesh (1975 to 1984)
c: India (1981/82 to 1985/86), Pakistan (1977 to 1988).
2. d: Manufacturing includes all branches of production activity (food processing, textile and clothing, chemicals, etc.) and excludes construction, electricity, gas and water.
e: Service include all forms of trading and commerce.

NOTES *Contd on page 30*

TABLE 2

SOCIAL INDICATORS FOR SOUTH ASIA

Country	(1) Income distribution (Percentage share of household income by percentile groups of Households)					(2) Poverty (% below line (1975)	(3) Sanitation Percent population with access to Sanitation Services			(4) Drinking water Percent of population with access to safe drinking water			(5) Reported Malaria Cases 1984 Total Number	(6) No. of death from selected Vaccine-Preventable diseases early 1980s (thousands)		
	Year	Lowest 20%	Middle 60%	Highest 20%	Highest 10%		Total	Urban	Rural	Total	Urban	Rural		Tetanus	Measles	Whooping Cough
India	1975-76	7.0	43.6	49.4	33.6	46	8	30	1	55	80	47	2,023,462	298	782	189
Pakistan	1985-86	6.53	46.80	45.60	30.4	43	20	53	6	40	78	24	73,996	132	163	66
Sri Lanka	1980-81	5.8	44.5	49.8	34.7	14	67	80	63	37	76	26	149,470	n.a.	n.a.	n.a.
Bangladesh	1981-82	6.6	48.1	45.3	29.5	64	4	21	2	41	29	43	31,787	1198	173	69

Country	(7) Population per Physician		(8) Population Per Hospital bed	(9) Infant Mortality rate (age under 1)		(10) Child death rate (age 1-4)		(11) Primary School enrollment Rate (No. enrolled in school as % of age group)		(12) Secondary School enrollment Rate (No. enrolled in school as % of age group)		Year	(13) Vocational Enrollment (% of Secondary School Enrollment)
	1965	1981	1981-82	1965	1985	1965	1985	1965	1984	1965	1985		
India	4,880	3,700	634	151	89	23	11	74	90	27	34	1975	0.7
Pakistan	3,480*	2,910	1,737	149	115	23	16	40	42	12	15	1978	1.3
Sri Lanka	5,600	7,460	350	63	36	6	2	93	103	35	61	1976	0.4
Bangladesh	8,400	9,700	4,545	153	123	24	18	49	62	13	19	1976	0.5

* Note: Figure refers to year 1980, obtained from:
Ayub Qutub Walking lightly: A Conservationist Viewpoint on Human Settlement in GOP CIDA.
IUCN report on 1986 Pakistan Workshop: Towards a National Conservation Strategy for Pakistan p. 352.

Source: for Social Indicators for South Asia.

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trition in South Asia as well as comparative data for other regions. Table 9 shows that 50 percent of South Asia's population is living below the poverty line, if we use as the criterion of poverty, a calorific consumption equal to 90 percent of the FAO/WHO requirement for an active working life. The criterion for acute poverty is 80 percent of the FAO/WHO norm. The calorific intake in this definition is not enough to prevent stunted growth and serious health risk. As much as 21 percent of the population of South Asia falls below even this line of abject poverty. Not only is almost half the population of South Asia suffering from diet deficiency, but it appears that the number of people in this category are increasing over time. Over the period 1970 to 1980, there was a 38 percent increase in the number of people in South Asia who were unable to consume 90 percent of the FAO/WHO calorific requirement. The increase in the number of people was even greater in the category of acute poverty, i.e., (80 percent of the FAO/WHO norm), (the increase being 47 percent). In both categories, not only was there an increase in the number of people but an increase in the percentage of the population below the poverty line (the change in the percentage share of population being 0.03 to 0.02 respectively, see Table 9).

The state of health of the majority of the population of South Asia can be judged by the fact that 68 percent of the population in the region does not have access over safe drinking water. Consequently, a large number of people are dying due to water borne diseases such as Cholera, Typhoid, Dysentery, etc. In Pakistan, for example, 40 percent of all deaths are due to water borne diseases. Similarly, infant mortality rates in South Asia are amongst the highest in the world. 2 For the region, as a whole, the infant mortality rate is 99.2. This is high even when compared to the industrial economies where the average is 9. (See Table 8).

In a situation where a large proportion of the population of South Asia is subject to serious health problems due to inadequate diet, and where the frequency of disease is compounded by 68 percent of the population being without safe drinking water, the gross inadequacy of medical facilities intensifies the suffering of the people. Thus, for example, the population per physician in South Asia is as high as 10,508. This is almost twice as high as in developing countries as a whole and about twenty times the figure in the industrial market economies. (See Table 8).

The evidence presented in this section suggests that even after forty years of economic growth in the post colonial period, the majority of the people of South Asia not only remain deprived of basic necessities, but that poverty, malnutrition, and unemployment are increasing. In contrast to the deprivation of the people, the state apparatuses are spending so much on themselves that a financial crisis is emerging. As national indebtedness reaches intolerably high levels, the governments have nothing to show for it to the people except burgeoning bureaucratic and military establishments.

2. Major Features of the Process of Economic Growth in South Asia

The evidence presented in the preceding Section 1 shows that inspite of differences in economic structures and resources, South Asian economies have a remarkably similar profile with respect to the changes that are occurring over time. While levels of poverty continue to remain high the capacity of the economy to deal with it appears to be deterio-

TABLE 3

HUMAN RESOURCE POTENTIAL (SOUTH ASIA) a

Country	*Total Population (all ages)*	*Scientists, Engineers and Technicians engaged in R & D Early 1980's*	*Population in working age Group (16-64 years) Percentages*
India	781.4 million (Mid 19860 b	56527 c, d, e	56
Pakistan	99.2 million (mid 1986) b	11620 f	53
Sri Lanka	16.1 milion (mid 1986) b	10997 (1977) g, h,	62
South Asia as % of the developing countries	28.0%	20.1%	
South Asia as % of World	21.8%	2.4%	

Notes:
(a) India, Pakistan, Sri Lanka, Nepal and Bangladesh.
(b) Figures obtained from World Development Report, 1988, table 1, Basic Indicators.
(c) Including auxiliary personnel.
(d) Including technicians.
(e) Data relate to R & D activities concentrated mainly in Government financed research establishment, Social sciences and humanities in the higher education and general services sectors are excluded.
(g) Data relate to numbers economically active.
(h) For 1972.

rating. This is indicated by declining employment elasticity with respect to GNP growth, and rapidly rising budget and balance of payments deficits. This points to the similarity of some of the features of the growth mechanism in operation in South Asian countries. These features will be described in summary form in the present Section.

At a formal level the development strategies in South Asia have varied both across countries as well as across different periods in their post independence history. 3 Yet, there are certain important characteristics of the growth process which have been common to all South Asian countries. These are:

(i) The growth process occurred within the framework of highly centralized state structures. This, in turn, had two implications. First, even where (and in periods when) democracy functioned, the people could not participate in the daily decisions that affected their immediate economic, social and ecological environment. Second, the large bureaucracy and military establishment could claim a dominant share of government funds.

(ii) The growth process was based on a highly unequal distribution of productive assets, and therefore induced poverty and inequality in income distribution together with large import expenditures on luxury consumer goods.

(iii) The government revenue was drawn from a narrow tax base. At the same time, the centralized nature of the state structure induced a rapid increase in nonproductive expenditure. There was little government revenue left over for poverty alleviation programmes, or the construction of social and economic infrastructure for a rapidly growing population. The administrative and defence expenditures of the governments were so high that in many cases they were obliged to engage in both domestic and foreign borrowing to finance nonproductive expenditure. In such a situation the budget deficits grew unabated. Soon, the debt servicing on loans incurred to finance these deficits became a major element in the deficit itself. This ushered in the phenomenon of reverse transfer of resources whereby an increasing percentage of gross aid disbursements went into debt servicing.

(iv) The reverse flow of resources was induced not only by pressures originating on the budgetary side, but also by pressures on the balance of trade. These arose out of the fact that in most of the countries of South Asia the export structure was oriented towards primary commodities whose terms of trade were declining with respect to manufactured imports. Growth of export earnings in South Asia were further restricted by the protracted recession in the post 1973 period, in the advanced industrial countries and the imposition of quota and tariff restrictions on Third World exports to these countries.

(v) Since the pattern of demand was based on an unequal income distribution, during the growth process, demand become concentrated in relatively expensive goods requiring capital intensive production techniques. Moreover, in a number of countries in South Asia, economic growth involved using imported technologies. Since these technologies are designed according to factor endowments in the advanced industrial countries, they tend to be relatively capital intensive. Even where efficient technology choices exist, entrepreneurs in South Asia often prefer the more capital intensive technique because of control over the production process it enables, in a situation where labour-management tensions are endemic. At the same time, with the onset of the Green Revolution and the problem of "bunched" labour demand at peak seasons, there was a tendency for increasing mechanization even in agriculture which was traditionally expected to bear the brunt of labour absorption.4

The tendency of growing automation in both industry and agriculture resulted in declining employment coefficients with respect to output. Thus, while the labour force in South Asia was growing rapidly, employment generation for given growth rates was declining. In such a situation one would expect unemployment to increase over time.

3. The Resource Potential of South Asia

Table 3 to 8 provide evidence of the human and natural resource potential of South Asia, in comparative perspective. As Table 3 shows South Asia has 20.1 percent of all scientists, engineers and technicians who are engaged in research and development, in the developing countries of the world.5 This points to the considerable potential for creating new knowledge and of using it for economic and social development. In terms of enrollment in higher education, South Asia has an average 410 persons per 100,000 of the population, compared to 168 per 100,000 in China.6 Even though the quality of higher education in many cases is poor, South Asia is adding to its reservoir of University graduates at a much faster pace than China, but a much slower pace than South Korea. (The latter of course has a much smaller population base). In terms of the labour force also South Asia has a huge potential, having 40.2 percent of the working age population of all developing countries.7

Table 4 presents regional and comparative data for land resources and the potential

TABLE 4

LAND RESOURCES IN SOUTH ASIA 1985

	Cultivable b Land (Percent)	*Cereal Production c (Percent)*
South Asia Asia d	57.5	51.1
South Asia Developing Countries	25.4	23.3
South Asia World	13.8	11.7
Developing Countries World	54.2	50.2

Actual cereal output in South Asia (Thousands of Metric tons)	215,792
Potential output of Cereals in South Asia e (Thousands of Metric tons)	1,147,972

Notes:
(a) India, Pakistan, Sri Lanka, Nepal and Bangladesh
(b) Arable land and land under permanent crops.
(c) Wheat, rice, paddy, coarse grains, maize, barley.
(d) Excludes China but includes Japan.
(e) Estimated by taking the yield per hectare of South Korea (5852 Kg/hectare) and multiplying by the total cultivable land in South Asia (20.31.09 thousand hectares).

Source:
FAO Production Year Book Volume 40, Rome 1987 Table 1 and 15.

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3. f: The estimates are calculated from World Bank data for each country using the same poverty Line: The income per head accruing to the forty fifth quartile of the Indian population is Rs. 15 per capita at constant 1960-61 prices, adjusted by the consumer price index for agricultural labourers. This income is estimated to afford 2250 calories per person per day, and is defined as the poverty line.

4. g: The following industries were defined as capital intensive (International standard industrial classification ISIC 351 (Industrial Chemicals), 352 (other chemicals), 356 (Plastic products), 362 (glass and glass products), 369 (other metal non-mineral products), 371 (Iron and steel), 381 (Metal products), 384 (Transport equipment), 385 (professional and scientific equipment).

5. h: 1972-3.

6. i: 1979.
   j: 1978.
   k: 1985.

7. l: 1986.

8. m: For India the debt servicing ratio is based on the debt servicing on all loans (official and commercial).

9. n: For India's reverse flow calculation, only official flows are considered. Here the debt servicing figure for official Loans is taken as is the figure of gross loan disbursements.
   *: For Pakistan the 1986 figure is used. Gross disbursements are exclusive of aid to Afghan regfugees.
   p: 1978.

Source: For South Asian Economies compared.

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