

South Asia in the New World Order

The role of regional cooperation

Shahid Javed Burki



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South Asia in the New World Order

Rapid changes have taken place in the structure of the global economy, and this book looks at how South Asia can take advantage of these changes. The author argues that the developing global economy will be more complex than originally thought, that instead of a bipolar model with two countries, the United States and China, at the centre, it will be multipolar with eight centres of economic activity, including India.

The book goes on to suggest that in the context of such a model, there should be regional cooperation between India and its immediate neighbouring countries for South Asia to advance as an economic region. It argues that South Asia will need to look at its history, and that changes in attitudes, particularly in India and Pakistan, are necessary. The possible benefits to the region, in terms of increases in the rates of economic growth if the regional approach is adopted, are discussed. The book presents a useful contribution to studies in South Asia, as well as Asian Economics.

Shahid Javed Burki is a professional economist. He was previously Finance Minister of Pakistan and Vice President of the World Bank.

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Shahid Javed Burki

**The book is dedicated to my grand children,
Shaafi, Leila and Nafees**

**“Only the young can live in the future,
and only the old can live in the past”
Will Durant, *The Story of Philosophy***

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January, 2011
Shahid Javed Burki
Potomac, Md., USA.

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1 Prologue

I will begin this work – a book spread over eight chapters, including the Prologue – with a short biographical note. It is appropriate to say a few words about my academic background and work experience before launching a study that draws upon several disciplines. This will explain why in this work 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 learned and get embedded in cultures and social norms it takes equally long to shake them. By beliefs I don't mean religious affiliations. My concern is with all beliefs, economic, political and social. Under the British, mainland South Asia acquired a certain amount of homogeneity. Although it retained many religions, languages and cultures it was given one political system and essentially one economy. This is why certain modern historians – Niall Ferguson among them¹ – credit the almost two century-long stay in this part of the world by the British with a number of achievements. One of them is “nation building”. However, the nation the British built succumbed to fissiparous tendencies, the strongest of which was Muslim nationalism as promoted by Mohammad Ali Jinnah, Pakistan's founding father. Jinnah was able to successfully argue for his “two nations theory” – the notion that India was inhabited by not one but two nations, one Hindu and the other Muslim – on the basis of which he achieved the partition of British India into two states. India and Pakistan were thus born in August 1947. A quarter century later Pakistan split into two parts, the present day Pakistan and Bangladesh. The break-up of Pakistan showed that ethnicity could melt the glue of religion as the basis of nationhood.

Today South Asia is a highly fractured society in part because of the way the area's troubled history has hardened some of the attitudes the various peoples of the area have developed towards one another. It is my contention in this work that unless the peoples of South Asia begin to look at each other differently, they will not attain for themselves a position that could be theirs in a rapidly changing global economy and the political structure that

2 Prologue

supports it. To understand today's South Asia, therefore, requires some acquaintance, however passing, with a number of disciplines including anthropology, economics, history, political science and sociology.

This is why a brief reference to how I was trained and the influences under which I have operated 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 margin – 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.

I started my academic life in physics and mathematics, but switched to economics when I went to the University of Oxford 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.² 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 also his biographer³, 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 popularized the notion of the Incremental Capital Ratio (ICOR) – the proportion of gross domestic product (GDP) that needed to be invested in order to produce a one-per cent increase in national output. In other words economic growth was the result not only of capital accumulation but also of the efficiency with which it was used. 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 the administrator of a large American-funded rural development program, and as the administrator of foreign-assisted aid programs in West Pakistan. In these varied jobs I recognized how wise Sir Roy had been in advising me to leave physics for economics.

In 1967 I left Pakistan for Harvard University for advanced studies in economics. At Harvard, while studying economic history – a requirement for a Ph.D. in economics, I became a close associate 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 backwardness⁴ to the development of Pakistan, in particular to the development of the Punjab. He invited me, along with six other

students, to attend the Economics History workshop, where I wrote two long papers tracing the interest the British administration had shown in developing the Punjab and upper Sindh as the granaries for the food deficit provinces in the north-eastern parts of their Indian empire.

From Harvard I went to the World Bank in 1974, entering the institution as a senior economist in a department headed by Mahbubul Haq, the Pakistani economist who had become a close adviser of Robert McNamara, the institution's president. Haq had convinced McNamara that economic growth alone would not help the poor in the developing world. The state would need to intervene directly to aid the economically and socially disadvantaged. The World Bank should be prepared to help those countries that were prepared to develop programs and projects that aided the poor. I worked with Robert McNamara as the Secretary of the Policy Review Committee that he chaired. The committee was responsible for reviewing, approving and enforcing the policies the institution pursued in different parts of the world. Much of the policy work at that time was concerned with reaching the poor.⁵

After spending several years in the economic policy wing of the Bank, I was assigned to lead the World Bank's operations in China (later also in Mongolia) from 1987 and 1994. It was during this period that China laid the basis for achieving spectacular growth in its economy in the 1990s and beyond. The World Bank was closely associated with this process, bringing the knowledge of modern economic processes and practices to the senior leadership that only knew Soviet Union-style central planning. It was also in that period that China dealt with what it still calls the Tiananmen Square incident but the West refers to as the Tiananmen Square massacre – an operation by the Chinese army to clear the famous public square of tens of thousands of students and workers who had held the senior leadership virtual hostages in their Zhongnanhai compound. Hundreds of people were killed, which led to the imposition of sanctions by the G7, the group of the world's richest states. The sanctions included constraints on the flow of finance to the country. The World Bank was supposed to follow, but I demurred on the grounds that as a development institution it must not be motivated by political considerations. The Tiananmen Square incident lent support to the view advanced by Samuel Huntington that rapid economic development not supported by political institution building can lead to chaos.⁶

From my position in China, I went on to lead the World Bank's program in all of Latin America. I was the World Bank's Vice President in charge of Latin America and the Caribbean from 1994 to 1999, a period during which a number of countries in the region faced economic crises. Some of these were the consequence of the policies adopted by them. This was the time

4 Prologue

when a group of economists working in various institutions located in Washington had advanced a view that supported economic openness and a limited role for the state in economic management as the best way of promoting the development of what were now being called “emerging economies”. This would lead to their faster integration into the global economic system. This point of view came to be known as “The Washington Consensus”⁷. Some of the advocated policies contributed to a series of economic and financial crises in several Latin American countries, which I had to manage for the World Bank. In an important book Joseph Stiglitz, who worked at the Bank as the institution’s Chief Economist while I was in charge of Latin America, laid the blame on the Consensus for many of the problems that the Latin Americans had to deal with in the 1990s at a heavy cost to their economies.⁸

This brief biographical sketch, I think, will help readers to understand the approach I have taken in this work. This work brings together several strands of thinking in dealing with the current situation in South Asia – in particular the mainland of South Asia – which has yet to develop a regional identity as against strong national interests. I argue that that approach will hurt the region since it will miss the opportunity to carve out a place for itself within the rapidly changing global economic trading system. Why it has been difficult for the South Asian countries to act that way is largely down to 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?

I set out eight themes in Chapter Two and weave them together to provide the analytical underpinning of this work. I suggest that to understand what and where South Asia is today, we must first look at its formative phase, a period of about a decade, when the British Raj in India ended and was being replaced by two self-governing new states, India and Pakistan. This settling-in period led to long-standing rivalry between the two states. While the rest of Asia was becoming a part of the “rise of the rest”, South Asia remained absorbed in its own quarrels. I then discuss three developments that are reshaping the global economy – profound demographic changes, globalization and a redefined role of the state. I begin to develop one of the main messages of the book – the role India could play in shaping South Asia’s economic future. However, if for political reasons India could (or would not) perform this role, the region may seek the involvement of another state as a catalyst. I conclude the chapter on a more hopeful note by suggesting that a number of recent – mostly positive – developments may have set the stage for South Asia to occupy the space it deserves in the new global economic order.

Chapter Three looks at the way the global economy is being reshaped, mostly because of the severe recession that began in the United States in

August 2008 and lasted for more than a year. 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 “globalization”. The deep recession in 2008–09 raised a number of questions about the viability of capitalism as the way of managing national and global economies. I will suggest in this chapter that what the world really needs are not changes in the basic foundations of capitalism, but in their interpretation. This was the case, in particular, in defining the role of the modern state: in what way should the state work to oversee the national economy and in what ways should the states across the world come together to oversee the rapidly changing global economy?

After emerging as the world’s largest economy in the 20th 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 these are in Asia. This process will continue for a number of structural reasons including some extraordinary demographic changes, a subject to which I keep returning in the book. The role of demographic change in economic progress has been largely ignored in economic writings. Partly as a result of demographic developments, we are now witnessing the emergence of a multi-polar world. Will India, with the world’s second largest population, 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-America” world look like? These questions are also raised in Chapter Three and I will attempt to provide some answers to them.

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 also has 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 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? I will attempt some answers to these questions in Chapter Four.

Could South Asia perhaps be in the process of turning the corner? This is the subject of Chapter Five. 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 the policymakers in Sri Lanka and Pakistan to deal with insurgencies (in the case of Sri Lanka based on ethnicity, 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 have expressed themselves by taking the journey to the polling stations in three countries, the elections were good indications of the main priorities of the people in the region. It is clear that the people are interested in seeing the governments work towards improving their welfare 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, Islamist extremism has gained strength to the point that it has begun to challenge the state. I will briefly trace the history of extremism in the country and spend some space on analysing how the rise of *jihadism* has interfered with the country's economic, political and social 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 the political scientist Samuel Huntington called the "clash of civilizations".⁹

One of the assumptions about the shape of the global economy was that individual countries would be able to work with one another without too many constraints on various kinds of contacts among them. That was the meaning of "globalization". That 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. This is the subject of Chapter Six. 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 why the 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 Asia Free Trade Area (SAFTA) which was formally launched on 1 July 2006, six months late because of the failure of Pakistan to ratify in time the treaty aimed at establishing this trading community. For 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 July 2009 makes no reference to SAFTA.

South Asia has two options: it could pursue narrow national interests or it could work as a region with the countries in the area prepared to step forward and devise ways of working as a cohesive and well-integrated region. In Chapter Seven I will suggest why South Asia could do so much better by adopting a regional approach, and become a part of the multi-layered world that is coming into being. Every world region has its peculiarities. Among the different parts of the emerging world there are some