

ISAS Insights

No. 322 – 29 March 2016

Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
<http://southasiandiaspora.org>



South Asia and the Rapidly Changing world – IV

The Imperative of Managing the Consequence of Global Change for South Asia

The author advocates regional economic integration as the best means open to the South Asian states to cope with the raging changes in the global economic and political domains.

Shahid Javed Burki¹

South Asia's policy makers, focused on domestic affairs, have not paid much attention to the changes that are taking place in the global system. By not developing an understanding of the nature and scope of change they are losing out. There are ways of bringing global change to the doorstep of the policy makers by emphasising that, in this age of globalisation, when one place stirs it sends ripples that get picked up even in those parts that are very distant from the epicentre. No country and no people can live in isolation even if that happens to be their preference.

¹ Mr Shahid Javed Burki is Visiting Senior Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at sjburki@gmail.com. The author, not ISAS, is liable for the facts cited and opinions expressed in this paper.

What connects the various sections of humanity are several types of flows – flows of capital, of goods and commodities; transfer of information and knowledge; and the movement of people across international borders. While the objective of public policy making should be to factor in global change it can be done with two very different approaches. Policy makers can choose to optimize national interest or they can search for ways to maximize public welfare.

National interest and public welfare are not always overlapping objectives. The pursuit of one can do tremendous amount of damage to the other. This is the main lesson we should draw from the history of the exceptionally bloody contests witnessed in the first half of the 20th century. We are seeing this again in the beginning decades of the present century, as the rise of religious extremism continues to take a heavy human and economic toll in many parts of the world. Preferring human welfare to national interest, therefore, must be the most important objective that policy makers must pursue. This is the first step in the logic that policy makers should follow as they come to terms with the rapid changes that are taking place in the world.

The second and third steps in the logic-chain are related to the processes that should be used towards achieving this goal. Economists and other social scientists who have worked in the area of game theory recognise that stable equilibrium cannot be reached by each contestant seeking the best outcome for herself, himself or itself. The search for an equilibrium may mean that the contestants settle for not achieving the best outcome they want but the second best. This approach has come to be called the “Nash equilibrium” named after the Princeton economist John Nash who belatedly won the Nobel Prize in his subject after recovering from an attack of schizophrenia.

The third part in the logic also comes from Nash. He suggested that while the equilibrium achieved by pursuing the second-best may satisfy the contestants at the time it is achieved, it need not endure for all time to come. It should be seen as one part of a dynamic process.

One state of equilibrium may be succeeded by another. This way the contestants remain engaged with one another over time.

There are a number of instances where this approach is being tested in world affairs. Take, for instance, the problem Britain currently faces by continuing to remain a part of the European Union. There are many in that country who find the dictates from Brussels difficult to accept, as the reach of the capital of the European Union continues to increase. The British do not wish to lose their sovereignty to the European Union in matters of social and financial policy. The London financial centre, constrained by the regulatory framework developed by Brussels, may lose some of its lustre. This is not acceptable to the British authorities. Also, Britain's service-sector-oriented economy is attracting a lot of migrants from the less-developed parts of Europe. Before the new-comers are able to settle down, they become entitled to the support that the government provides to its own out-of-work labour. This is something that London is not prepared to do.

The group in Britain that calls itself "Eurosceptics" would like to leave the European Union. However, an equally politically-and-economically-strong group wants Britain to remain in the European Union. Faced by these difficult choices, Britain's Prime Minister David Cameron has opted for the second-best outcome. He has renegotiated the terms of Britain's membership but will test the agreement he has reached by holding a domestic referendum.

The South Asian history has an even more interesting example of the successful working of the Nash equilibrium. Midwifed by the World Bank, Pakistan and India agreed to the Indus Water Treaty. Signed in 1960, the two governments agreed to split the rivers of the system into two parts. The western rivers (the Indus, the Jhelum and the Chenab) went to Pakistan while the eastern rivers (the Ravi, the Beas and the Sutlej) were assigned to India. This was obviously the result of the two countries going for the second-best. India, controlling most of the head-works that supplied water to the canals that irrigated large parts of Pakistan, could have turned most of its neighbouring Pakistan into a desert. Pakistan threatened to go to war if that was India's preferred option. The Indus Water

Treaty is also a good example of a state-dynamic of the Nash equilibrium. The agreement allowed for changes if the situation on the ground changed. The same approach of negotiations could be used for resolving other differences between the two countries. If this approach is followed by the nations of South Asia, they will be able to protect themselves from, as well as take advantage of, the changes occurring now in the world around them.

The world in its current shape could be headed towards the intensification of a number of inter-country conflicts. These are taking both bilateral and multi-country dimensions. The United States-China and the United States-Russia relations are developing towards greater confrontation than cooperation. Washington is attempting to inject India into the first of these two bilateral relationships. The main focus of these rivalries is the regional presence of these major powers – the United States in Europe and Asia; Russia in Europe and Asia; China in Asia and Africa; and India mostly in Asia.

How should South Asia react to these developments? Central to answering this question is the enduring struggle between India and Pakistan. The historian Stanley Wolpert has titled his book on the last days of the British Raj in India, *Shameful Flight*.² Had the colonial masters not made a hurried exit, they might have managed to retain the political unity of the South Asian sub-continent. Ayesha Jalal, another historian, has presented a hypothesis that takes a contrarian view with regard to the general perceptions of Pakistani historians as the basis of the country's establishment. In her book, *The Sole Spokesman*, she maintains that the demand for the establishment of an independent Muslim state was a bargaining position used by Pakistan's founding father, who wanted to secure better political rights for the Muslim community in independent India.³ However, as argued by the political scientist Subrata Kumar Mitra, the Hindu leadership came to the conclusion that accepting

² Stanley Wolpert, *Shameful Exit: The Last Days of the British Empire in India*, New York: Oxford University Press, 2009.

³ Ayesha Jalal, *The Sole Spokesman: Jinnah, the Muslim League and the Demand for Pakistan*, New York, Cambridge University Press, 1994.

the demand for Pakistan would be advantageous for it, as it would make it possible to develop political institutions unencumbered with Muslim rights.⁴

Pakistan became independent but its initial existence as two parts that were separated by a thousands of miles of India's territory, was found to be impractical for building one-nation. After less than a quarter century, East Pakistan separated and became the independent state of Bangladesh. Had South Asia remained a unified political entity, it might have performed economically better than it has actually done so far. This is one of those "what if questions" that are easier to ask but difficult to answer.

One way of looking at South Asia's economic performance is to compare it with that of China, another large Asian country with a landmass roughly comparable to that of South Asia. China has an area of 9.5 million square kilometres and a population in 2015 of 1.38 billion. China is much-less densely populated than South Asia. It has 144 persons per square kilometre compared to South Asia's 262 persons. As economists who work on the phenomenon of urban conglomerations suggest, higher densities contribute positively to economic growth. That should have helped South Asia in growing its economy.

South Asia also had a better agricultural endowment, to begin with. It had more cultivable and irrigated land per capita of the population than China. Much of the Chinese larger landmass is made up of mountains and deserts. South Asia had more water available for irrigation than China. Notwithstanding these advantages China's performance compared to that of South Asia has been spectacular. In the period beginning with the opening of the economy in 1980 to 2010, the Chinese national income expanded 32-fold, while that of South Asia increased only eight-fold. In today's prices, China's GDP was estimated at US\$ 325 billion in 1980 compared with South Asia's US\$ 205 billion. China's per capita income was US\$ 356 then. It increased twenty-fold in the 35-year period since then. South Asia's income per capita increase was much more modest. China, in other words, has gone a great deal further than the South Asian sub-continent. Why?

⁴ Subrata Kumar Mitra, *Politics in India: Structure, Process and Policy*, New Delhi, Oxford University Press, 2014.

There are a number of answers to the questions posed above. China and South Asia followed very different economic models. Although China has remained a Communist state, it has allowed a fair amount of space to the private sector. Private entrepreneurs are expected to work within the framework prescribed by the state. At first Beijing focused on the export sector, identifying for the entrepreneurs working in both the private and public parts of the economy those areas of production and the markets which they should focus on. South Asia, followed a different approach developed initially by Jawaharlal Nehru, India's first Prime Minister who governed the country for 17 uninterrupted years, from 1947 until his death in 1964. He was impressed by the Soviet Union's model of development. He was convinced that by "putting the state on the commanding heights of the economy" – a phrase Lenin had used to describe his own approach towards accelerating the rate of economic growth and distributing its output more equitably among the country's citizens – India could make up the time lost during centuries of exploitation by the country's colonial masters. As a part of this approach, the Indian state made massive amounts of investments in producing capital goods for the domestic economy.

A different version of the Nehruvian state was put in place in Pakistan by Zulfikar Ali Bhutto who took over the reins of government after the emergence of Bangladesh. While Nehru created a strong governmental presence in the economy, with the state investing heavily in the capital goods industry, Bhutto chose the path of expropriation. His government nationalised large-scale industries, financial institutions and commercial enterprises. In the process he killed private entrepreneurship which during the eleven years of rule by Field Marshal Ayub Khan (1958-1969) had turned Pakistan into the fastest growing developing economy.⁵ This may not be obvious, but in many ways, the South Asian state was more intrusive than the state in China.

⁵ There are many works on the performance of the Pakistani economy during the period of Ayub Khan. Representative of this large body of literature is Gustav F. Papanek, *Pakistan's Development: Social Goals and Private Incentives*, Cambridge, Mass. Harvard University Press, 1967.

Another difference between China and South Asia was the former's emphasis on developing its human resources. Mao Zedong, the founder of the Chinese Communist state, provided universal primary education and health-care to all citizens. He also liberated women from years of servitude. South Asia has done poorly in terms of developing its large human resources.

One other major difference between China and South Asia was the former's willingness to work with its neighbours. This did not happen in South Asia, in part because of the intense rivalry between India and Pakistan. In 1947, when the British left the sub-continent, most of Pakistani exports and most of its imports went to or came from India. Now in 2016, India is a very minor trading partner for Pakistan. For India, Pakistan is an even smaller player.

Also, China and South Asia have very different political systems. In China decisions by a one-party-dominated state can be taken quickly. By now the three major countries of South Asia have reasonably well-established democratic systems where policy making is slow and cumbersome. The suggestion is not that South Asia should move in China's political direction. Instead it should refine its political system so that important economic decisions can be taken quickly and do not get stuck in the quagmire of vested interests indulging in endless give-and-take.

By far the most important area where the South Asians need to move is in terms of closer economic cooperation. The aim should be regional economic integration. Only then will the South Asian sub-continent be able to take advantage of the enormous change taking place in the structure of the global economy and the world's political makeup.

One theme that runs through this analysis of the sources of global change is that there is as strong a likelihood of all manner of possible conflicts among nations and people. There are international institutions that could have played a role in resolving these conflicts. But the changes that are underway have reduced the competence of institutions such as the United Nations system and the Bretton Woods structure. The latter, made up of the International

Monetary Fund (IMF) and the World Bank Group (WBG), has been unable to fully accommodate in their decision-making processes the rapidly-growing economies such as China and India. These two are now two of the three largest economies in the world. Having become impatient with the slow response to its desire to play a large role in international policy making, the Chinese have decided to go on their own. They have set up their multilateral development bank, the Asian Infrastructure Investment Bank. Headed by a Chinese and much of its capital being provided by Beijing, the AIIB will become a competitor to the World Bank and the Asian Development Bank. Washington tried hard to stop the establishment of the AIIB but did not succeed in keeping its close allies out of the institution. Britain and several other European nations became the institution's founding members. China is also collaborating with a group of nations identified as the BRICS. This group, made up of Brazil, Russia, India, China and South Africa, has also decided to set up financial and development institutions that will better serve their interests.

Most telling are China's efforts to partner with Pakistan and Tajikistan to create a joint counterterrorism mechanism. This is an effort to bolster security in parts of Central Asia and South Asia. On 29 February 2016, China and Tajikistan established a joint counterterrorism centre in Dushanbe. A day later, Beijing proposed a joint counterterrorism mechanism with Afghanistan, Pakistan and Tajikistan. It is also working with Pakistan to create a 1,000-man force dedicated to ensuring the security of China's investments in the US\$ 45-billion programme it has launched in Pakistan under the China-Pakistan Economic Corridor (CPEC). All these efforts will create a multilateral security framework in which China is the leading actor. How will all this be viewed by other world powers?

According to a Stafford commentary, "other foreign powers in the region would have mixed feelings about China's more assertive posture. On the one hand, Russia, India and the United States would welcome the security gains that could come from additional counterterrorism operations. The common perception of China as a free rider that pursues its own economic goals while others bear the burden of providing security would also be weakened. But on the other hand, these countries would view China's intentions with suspicion, interpreting the initiative as an attempt by Beijing to increase its own influence

at their own expense...Russia for its part would see China's expanding security role in Tajikistan as a direct threat to its own position in the region which has already been undermined by Beijing's growing economic footprint. India would also be apprehensive of Beijing's enhanced cooperation with hostile neighbor, Pakistan. New Delhi has long sought to deny Islamabad the strategic depth that greater influence in Afghanistan and Tajikistan would bring, the very thing China and Pakistan would be pursuing through their cooperation. Additionally, India does not want Pakistan to be able to use its burgeoning partnership with China to block New Delhi's access to Central Asia. And the United States would be uneasy at the prospect of China dominating Central and South Asian security in the long run".⁶

Many countries and regions in the world are going through changes that are unprecedented in history. Some of these will aid with economic development but not all of them are positive. Several of them are producing extraordinary stresses and strains in the region of South Asia. The institutions established soon after the conclusion of the Second World War developed well for a quarter century but then were unable to keep up with the pace of global change. This has meant that change is occurring without institutional mechanisms for managing it. In so far as South Asia is concerned, it would be much more productive for the region to face the future as a region rather than a group of countries with separate and often-conflicting interests. The nations in the area should develop a regional approach to global change by submerging their conflicts, some of which have endured over a long time. This can be done by conducting negotiations within a regional framework that would encourage the pursuit of "second best" outcomes that would strengthen regional cooperation.

.

⁶ Stratford, "China's security ambitions in South and Central Asia," March 18, 2016.