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South Asia's Economic Changes and Diaspora Groups

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Abstract

The paper looks at the flow of ideas from the South Asian Diaspora groups to their original homelands. This is occurring in the areas of economic management and political change. As a result of the interaction of the Diaspora groups and the countries from which they came, a profound structural change is occurring in the South Asian societies. The business community will do well to recognise both the pace and direction of change that is taking place. A new set of opportunities, not fully understood, has arisen, waiting to be grasped.

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For more than four decades the South Asian countries adopted a home-grown model of economic management and development. This model was influenced by the thinking of Jawaharlal Nehru, who was India's first Prime Minister and served in that position for 17 years. Under his direction the state was put on the commanding heights of the economy. What India developed as the economic model was also adopted by several countries in the neighbourhood. The result was the opposite of what was expected to be achieved. The state, instead of lifting the economy, weighed it down by its dominating presence. It also did little to reduce the incidence of poverty.

The break in this model came in the early 1990s when half a dozen members of the Indian Diaspora, having learnt their trade living and working abroad, picked up a great deal of what was incorporated in the Washington Consensus set of policies that advocated the state's withdrawal and its replacement by private enterprise. Accordingly, the state was brought down from the Nehruvian heights, and private enterprise was allowed to climb up the economic hill and take its place. Now a quarter century later, a new generation of expatriates is providing the intellectual capital to apply another twist to the structure of the Indian economy. The same kind of transformation is under way in neighbouring Pakistan.

When the first South Asian Diaspora Convention was held, under the auspices of the Institute of South Asian Studies (ISAS) in Singapore, the South Asian economy had come out of the global slowdown almost unscratched. India, the sub-continent's premier economy, saw some slowdown, but it was not as significant as was the case for its partners in the BRICS (Brazil, Russia, India, China and South Africa) club. The situation is very different just over two years later. There is a loss of momentum that was built up over a period of couple of decades. In the two-year period between 2011 and 2013, the South Asian rate of GDP growth has declined by as much as three percentage points a year. This slowdown has little to do with the world outside the sub-continent's borders. It is the result entirely of internal factors. It was India that led the way up; it is India that is leading the way down. To reverse the new trend, the South Asians will have to rethink the growth model that has guided their policy makers for more than two decades. At the centre of this model were 'three emphases': Greater role for the private sector; greater integration of the sub-continent's economies with the industrial world; and rapid industrialisation as the driver of growth. All these need to be rethought and possibly reversed. In all three the members of the Diaspora groups could play active roles.

As already indicated, by pushing the state off the commanding heights of the economy, the South Asians, starting with both India and Pakistan in 1991, and followed soon after by Bangladesh, gave private enterprise a freer hand than it ever had in their economies. Not unexpectedly this change in the orientation of public policy quickened the pace of development. In the words of Gurucharan Das, the most articulate advocate of ‘new India’, the series of reforms aimed at doing away with what was called the ‘license raj’ – an excessive control of the state in most economic matters – awakened India.² The rate of growth of the Indian economy jumped from three to 3.5 per cent – the rate the Indian economist K N Raj had labelled the Hindu rate of growth – to nine to 9.5 per cent. This almost three-fold increase in the rate of economic expansion placed India in an entirely different class of nations. In terms of the increase in GDP, India began to resemble China. In the famous words of President Barack Obama during his visit to India in November 2010, India was not a rising power any more, it had already risen. This euphoria had lasted for about a decade, and then the Indian economy began to stumble.

While a great deal will be written in the future to investigate the circumstances that led to India’s sudden loss of economic momentum by 2012-13, some things seem already clear. The Indian expansion was fuelled by the extraordinary growth of a few sectors of the economy and of a few locations in the country. Indian economic expansion was not what the ‘economic left’ had begun to call ‘inclusive growth’. By allowing private enterprise to lead the way, the Indian leadership lost sight of the main objective of economic development: to relieve human misery and alleviate mass poverty. As a result of the model adopted by the Indian government in the early-1990s, income disparities have widened. Some people have benefitted a great deal while many others have fallen way behind. The same is true of the Indian states, and the same situation can be seen in other countries of South Asia. In an important book, *Red Tape*, anthropologist Akhil Gupta, who teaches at the University of California, Los Angeles, has offered an insightful diagnosis of the problem India – and the rest of South Asia – faces. He assigns the rigid and hide-bound bureaucracy the blame for keeping millions of Indians in poverty while the country was making important economic strides.³

² Gurucharan Das, *India Unbound: The Social and Economic Revolution from Independence to the Global Age*, New Anchor, 2002.

³ Akhil Gupta, *Red Tape: Bureaucracy, Structural Violence and Poverty in India*, London, Duke University Book, 2012.

Pakistan, South Asia's other large economy, suffered from an entirely different set of problems. The country's economic performance touched a number of new lows during this five-year period. At this time the economy was in deep recession. For the last six years the rate of GDP growth has averaged three per cent, not high enough to provide productive employment to the work force that is also growing at three per cent a year. The International Monetary Fund has estimated that the economy must expand by at least seven per cent a year to fully absorb the new entrants into the workforce. The inability to accommodate the new comers to the labour force will result in more stresses in an already fragile society. The tax-to-GDP ratio has fallen to a record low; at less than nine per cent of GDP. It is one of the lowest among emerging nations. With such a low rate, the government is unable to invest in creating the needed infrastructure and improving the state of human development. Most worrying is the sharp decline in both public and private investment. At about 11 per cent of GDP and with the incremental capital output ratio (ICOR) of about four – the proportion of GDP that needs to be invested to produce one percentage point increase in national output – Pakistan cannot make its GDP rise by more than 2.5 to three per cent a year. Also troubling is the continuous decline in the country's share in international trade. In other words, Pakistan faces a grim economic future unless the many structural problems the country faces are addressed by the makers of public policy with some seriousness.

What is clear is that the political establishment in South Asia cannot continue with 'business as usual'. It needs a new development paradigm that brings the state back into economic management – not to climb the commanding heights as it did under the influence of Jawaharlal Nehru, but to provide for the less advantaged segments of the population. In designing the new paradigm, several influential voices from the South Asian Diaspora groups have begun to be heard. Of many of these is Amartya Sen, the Nobel Prize winning economist originally from India, who is advocating an increased role for the Indian state at all levels – central as well as at the state and local levels. His book, *'An Uncertain Glory'*, co-authored with Jean Dreze, argues that there have been major failures in India to foster participatory growth and to make good use of public resources generated by economic growth to enhance living conditions.⁴

The new paradigm that is needed is the one that provides care for the poor, the dispossessed and the vulnerable. Attempts are being made in many parts of South Asia to use the state for

⁴ Amartya Sen and Jean Dreze, *'An Uncertain Glory'*, Princeton, New Jersey, Princeton University Press, 2013.

that purpose. But the schemes that are being funded with generous amounts are borrowed from colonial times when a highly rule-bound bureaucracy was meant to aid the poor without involving the intended beneficiaries in the process. Other approaches have been developed that produce greater success, and some of these were the outcome of the work of the South Asians working in several multilateral and bilateral development agencies and think tanks. One example of this is the income support fund that provides cash to the needy rather than items of food. The programmes that do the latter are subject to enormous graft. According to some assessments, as much as 80 per cent of the amount spent by the government does not reach the intended beneficiaries. The income support programmes, developed by the World Bank and tried with some success in Latin America and the Middle East, identify the deserving by mapping poverty, selecting from censuses and surveys the attributes that make so many people vulnerable to the circumstances over which they have no control. With this information at hand, the state makes direct deposits in the bank accounts maintained by the poor. In most cases these happen to be poor women. The state functionaries who would be involved in the traditional food distribution programmes would be kept out.

The South Asian Diaspora community, in other words, by working abroad in various development organisations, has gained good understanding of the process of broad-based economic progress. By bringing this experience and knowledge to their homeland, the Diaspora members can (some are already do) introduce new development paradigms in their original homelands.

Diaspora Groups and South Asian Political Culture

The South Asian Diaspora has begun to influence the countries of their origin in one other important way. The impact on the area's economies is not the only contribution the overseas South Asians are making to the sub-continent. It has been suggested by the author that the Diaspora groups have contributed significantly to increasing the size of the middle class. They have also brought new political thinking and social values to the region's large and growing middle class. It can be argued – as the sociologist Riaz Hassan has done in his work – that the Diaspora groups' influence on their old homelands has created two types of middle classes. He calls them the 'vernacular' and the 'cosmopolitan', with the former more under the influence of those communities that were formed in the Middle East and the latter under

the influence of those living in the West.⁵ In both cases, the middle class has expanded its political presence. This was done by forcing the old establishment to surrender a bit of the area it had traditionally occupied. With the lower middle class now asserting itself in politics with greater energy, there is a noticeable decline in old clientele-based politics. This was clearly evident in the May 2013 elections in Pakistan.

As a result of the rise of the middle class, the political systems of South Asia are now less vulnerable to non-democratic moves – contrary to what had happened in both Bangladesh and Pakistan on several occasions – and also to extremism. The latter conclusions are hard to argue, particularly in the case of Pakistan, which continues to experience considerable violence perpetrated by several extremist elements. Some of these have received financial support from the residents of the more conservative Arab states that are now home to millions of Pakistani workers. One example of the damage they are doing is the bombing of a Christian church in Peshawar on 22 September 2013 that resulted in the death of more than 80 people. That notwithstanding, it is unlikely that the extremists will expand their influence, let alone capture the institutions of the state as some have begun to fear. Riaz Hassan has reached the same conclusion based on extensive field research. “The overall weight of evidence suggests that religious piety appears to be associated with a decline in support for militant Islamic movements. A large majority of Muslims do not belong to any radical militant Islamic group. In fact, most of the respondents (to the survey questionnaire used by the author to test various hypotheses) approved of moderate political and social movements for democratic and tolerant societies and political cultures. The declining support for radical and militant groups is paradoxically further radicalising these movements and transforming them into more violent and secretive organisations. The ruthlessness of their violence reflects a desire to gain public attention and is symptomatic of their desperation”.⁶

In fact, the middle class in Muslim South Asia will emulate the behaviour of those in such large Muslim countries as Egypt and Turkey. In the case of the former, it was the middle-class youth that first drove an autocratic government from power and then rebelled against a government that used what it saw as its democratic mandate to institute a system that would have advanced the role of Islam in politics. The Muslim Brotherhood government went well beyond what the middle class was prepared to accept. Likewise the middle class youth in

⁵ Professor Riaz Hassan’s conversation with the author.

⁶ Riaz Hassan, ‘Faithlines: Muslim Conceptions of Islam and Society’, London, Oxford University Press, p. 234.

Turkey was successful in exercising the same moderating influence on the expressed preferences of that country's ruling party that had deep Islamic roots. The same moderating presence can be expected from the middle class in South Asia's Muslim countries; and this will be the result, to some considerable extent, of the influence of the Diaspora groups.

Emergence of the Middle Class: A New Dynamic

“More generally, values shift and demand for socio-political change rises as more individuals move up into the middle class”, write the authors of the *Global Trends*, 2013. “Historically the rise of a middle class has led to populism and dictatorships as well pressures for democracy. The value of US\$ 12,000 GDP per capita income is sometimes considered the level above which democracies do not revert to authoritarian systems”. Also, “with the expansion of the middle class, income inequalities – which have been a striking characteristic of the rising developing states – may begin to lessen in the developing world”.⁷

Will the South Asian Diaspora continue to contribute to the sub-continent's economic, political and social development? The answer is ‘yes’ even if no additional large-scale migration takes place. The current South Asia Diaspora groups, even with no addition to their numbers through migration, will continue to increase at the rate of 1.5 per cent a year – the rate of natural increase corresponding to those in what were once their homelands. And, their economic base will continue to expand as will their per capita income. The latter will happen as the members of the Diaspora move up the economic scale in their adopted countries.

In so far as new migration is concerned, there are two contributing factors working in opposite directions. For much of today's rich world, there will be significant decline in the rate of fertility resulting in reductions in the size of its population. On the other hand, most developing nations in Asia and Africa will continue to see large increases in their populations. Some global demographic balancing would be of advantage to both groups of countries. The poor will benefit from an increase in the size of their Diaspora groups; the rich will be rewarded, despite a slowdown in the aging of their populations, with the infusion of young people by way of immigration. But there is an opposing factor: the growing anti-

⁷ United States National Intelligence Council, ‘*Global Trends*’, 230, Washington DC, 11.

immigration sentiment in many rich countries. In his new book *'Exodus'*, the economist Paul Collier addresses the question: How much new migration is beneficial and for whom?⁸

He answers the question from three perspectives: The migrants, the countries of their origin, and the countries to which they move. The migrants clearly benefit. If they do not, they would go back home. After they move, the migrants “productivity rockets upwards”, writes Collier, because they are “escaping from countries with dysfunctional social models”. Workers from the developing world, using not very different skills but by operating in a very different environment, are able to see an increase in their productivity and hence in their incomes. However, Collier believes that continued mass immigration threatens the cultural cohesion of rich countries. “A large unabsorbed Diaspora may cling to the cultural norms that made its country of origin dysfunctional and spread them to the host country”. Collier, writing from Britain, must have had in mind the perverse behaviour of some of the Muslim youth settled with their families in his country. They failed to assimilate even after generations spent in the host country. Some of them resent the culture of the adopted land so much that they have used violence as a form of expression. According to a review of the Collier book by the magazine, *The Economist*, “furthermore when a society becomes too heterogeneous, its people may be unwilling to pay for a generous welfare state. Support for redistribution dwindles if tax payers think the benefits will be for people unlike them.”⁹ For a good example of this kind of response, we may look no further than the shutdown of the US government on 1 October 2013, the start of that country’s new fiscal year. The shutdown lasted for 16 days and did some serious damage to the US economy. The American political right is obsessed with what it sees as the cost to the society resulting from the welfare demands of the segments of the society they find undeserving of any state support that uses tax dollars. These segments of people include the new class of migrants. This is the class that will benefit from the Affordable Care Act, also known as Obamacare. The right sees it as a giant welfare programme for the poor who can’t afford health insurance unless it is subsidised by the state. In light of developments such as these, it may no longer be possible for the worker-surplus countries to send many more people to today’s rich world.

⁸ Paul Collier, *'Exodus: Migration, New Migration is Changing Our World,'*, London Oxford University Press, 2013.

⁹ The Economist, 'Migration: The Mobile Masses', 28 September 2013,

This paper has attempted to advance our understanding of the still-expanding South Asian Diaspora groups and how they are influencing their old homelands. Much of the traditional work in this area has concentrated on the impact of the large amounts of money remitted by the millions of South Asians who have moved to other countries in search of jobs, increased incomes, and sometimes also in search of the better social conditions available outside their home countries. However, even when the impact of remittances is studied, it is done in a relatively narrow context – how the money sent back by the workers labouring in foreign lands has eased the financial constraints under which most countries of their origin operate and how these flows help alleviate poverty.

The paper shifts the focus of attention to the interplay between two sets of middle classes. One set is in the Diaspora groups and the other is in their original homelands. The influence of the former on the latter will increase as the middle classes in the labour-exporting countries expand, as the contacts between those in South Asia and those in the Diaspora groups grow, and as the political and economic systems mature. Much of the increase in the size of the middle class is occurring at the lower end of the income distribution scale. Liberated from the need to produce themselves most of what they need to consume, the new entrants to the ranks of the middle class are creating new demands that the business community has as yet not fully understood. This requires a major shift in the pattern of domestic production and distribution and in the development of the infrastructure needed to bring about this change. The middle-class rise is already changing the business landscape in South Asia. This was noticed by the magazine *The Economist* in a story about the evolving Indian economy. “India’s villages and towns, far from the gaze of foreigners and urban elite, have been on a tear”, wrote the magazine in its issue of 28 September 2013. “It means people can turn their energy to starting businesses and escaping subsistence farming. Poultry production is booming, as it has become easier to get chickens to market. Villagers eat more processed food – India’s artery-clogging pudding *gulab jamun*, now comes in packets, made in small factories in nearby towns”.¹⁰

This is also the conclusion reached by the McKinsey Global Institute in its work on the rise of the Indian middle class. Three-quarters of India’s (projected) consumer market in 2025 doesn’t exist today – about 52.6 trillion rupees a year in future purchases will be up for grabs. Also, India’s rapid upward mobility means that many of India’s households will be new

¹⁰ *The Economist*, ‘India’s informal economy: Hidden value’, 28 September, 2013, p. 34.

consumers, enjoying significant discretionary consumption in the organised economy for the first time in their lives. The rise of the middle class will transform the world of business in India. “Incumbent (companies) and challengers alike face a sea change. India’s incumbents, mostly domestic companies, will start with many advantages: Existing relationships with customers, an understanding of their needs, and recognised brands. The incumbents also have established distributional channels – very important in a country of vast geography and limited infrastructure”.¹¹

One major conclusion that emerges from the analysis offered in this paper is that, in looking at the impact of the South Asian Diaspora groups, it is important to go beyond the flow of finance from these groups. The impact should be understood in terms of how these groups are helping to reshape the societies from which they originally came. The paper examines in some detail how the resources that are flowing back from the Diaspora groups have resulted in vastly expanding the size of the middle class. This is particularly the case for those in the middle class who are at the lower end of the income distribution scale. The increase in the size of this group and the increase in its aggregate income are changing the structure of demand which in turn is creating new opportunities for the businesses operating in the sub-continent.

Conclusion

A large number of subjects have been discussed at the Second Diaspora Convention and a number of new ideas explored. This paper has focused on three aspects. The first concerns the role the Diaspora communities have already played and will continue to play in creating a new economic class in South Asia – the middle class. The second is the contribution the expatriate community is making to the thinking on economic and social development. This thinking has already fetched one Nobel Prize in economics to one member of the Diaspora group – to Amartya Sen, an exceptionally talented economist, originally from India. The third covers a totally unexplored area of analytical work on the South Asian Diaspora groups. What has been largely ignored, in both academic and policy research is the nature and consequences of the interaction between the two middle classes, one among the Diaspora

¹¹ Eric D. Beinhocker, Diana Farrell, and Adil S. Zainulbhai, ‘Tracking the growth of the Indian middle class’, *The McKinsey Quarterly*, No. 3, 2007, pp. 59-60.

groups and the other in the populations of the countries from which the members of the expatriate communities actually came. Both areas should be of particular interest as the South Asians begin to re-examine their economic, political and social future.

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