ISAS Working Paper

No. 79 – Date: 30 July 2009

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The South Asian Way: A Non-Conventional Approach to the Making of Economic Policies[1]

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Executive Summary

In order to quicken the pace of economic growth and social development, policymakers in South Asia need to go beyond the conventional production function approach. According to that approach, capital accumulation and application of labour to more productive activities increase the rate of economic growth. The process goes on for as long as backward economies have labour surpluses. This is still the case in South Asia where the majority of the population lives in the countryside, mostly engaged in low productivity economic activities. The study of economic progress not only in developing countries, but also in developed countries, led to the realisation by some economists that knowledge was also a major contributor to growth. They brought it into the production function as an endogenous factor rather that keeping it out as an exogenous contributor. However, knowledge accumulation meant educating the work force and also providing skills needed by modernising economies. This is one of the many roles the state must play but has neglected in South Asia.

Evidence also began to accumulate that trade also contributed to economic growth, not just by expanding the markets as Adam Smith emphasised, or encouraging countries to apply their energies to the areas in which they had comparative advantage as David Ricardo theorised. Trade was also important to facilitate the flow of capital and knowledge across national boundaries. By focusing on trade, countries could also shed highly nationalistic approaches to policymaking in favour of those that encouraged regional integration. The governments in South Asia have not used trade as driver of growth or worked on expanding the markets for their producers through regional integration.

Given these developments in theory and practice, the countries in South Asia need to seriously rethink their economic strategies. They need to focus much more on the development of their large human resource. South Asia has one of the youngest populations in the world. They also need to concentrate on building the state so that it can facilitate the

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[1] This paper is a chapter in a forthcoming book by Mr Shahid Javed Burki on the proposed title of "Can Regionalism work for South Asia?".

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process of development rather than managing it by the direct ownership of economic assets. The South Asian governments also need to take advantage of their geographic location since the area is surrounded by the countries that have high levels of economic growth as well as abundant supplies of energy. There is, in other words, the need to rethink the South Asian model of economic growth.

Introduction

What lies in South Asia's future? This question is not easy to answer since the region is beset with a number of seemingly intractable problems. Depending on how it deals with the various economic, political and social problems it faces, South Asia can go in a number of different ways. It could make rapid economic progress as India has done in recent years. By virtue of its size in the region and also because of the remarkable performance of the economy over a couple of decades – from the mid-1980s to 2008 – India will have a major role in determining South Asia's future. How could the Indian experience be shared by other countries in the region? Is the Indian growth model replicable and could India help in spreading its model of economic growth to other places in the area? Or is India likely to go alone, leaving the countries in its neighbourhood to their own devices? One of the arguments advanced in this work is that 'going alone' is not a viable option for India. Turning its back on the other countries in the region in the early 2000s resulted in a much more unstable South Asia. Instability touched economic, political and social developments. India could also be impacted. The obvious way for it to proceed is to find a way to work with other regional states.

For the last several years, South Asia has performed well. The increase in its gross domestic product (GDP) has averaged close to seven percent a year and income per head of the population has increased by nearly five percent. However, these are simple averages that hide a number of disturbing facts. The growth numbers are spectacular since India, by far the largest economy of the region, has performed spectacularly well – its GDP increased at a rate of almost nine percent a year in this period. This is the kind of GDP increase that has become the norm in East Asia. Pakistan, the region's second largest economy and Bangladesh, the third largest did not do as well. Both saw increases of averaging five to six percent a year. The attainment of high rates of economic growth and their sustainability will depend on a number of factors, some of which will be discussed in this paper.

In discussing South Asia's economic and social future, I will not take the standard line by suggesting how much capital needs to be accumulated and how it should be allocated among the more productive sectors of the economy in order to realise a high rate of economic growth. This is the standard production function approach to economic development. According to it, income growth is a function of capital accumulation and the number of people put to work. Increasing either results in growth in the economy. For economies in their early stages of development, there is no limit to growth on the labour side of the equation. What limits the rate of growth is the availability of capital. Several decades ago Arthur Lewis, the West Indian economist, presented his model of growth in labour surplus economies in which there is abundant labour available in the countryside. This labour is engaged mostly in low productive work. By transferring it to non-agricultural or non-rural activities in the urban part of the economy, the overall productivity of the economy and its rate of growth increases. This model runs its course once agriculture has surrendered the surplus labour to non-agricultural activities.[3] All South Asian economies are still in this phase of development.

Having recognised capital as a binding constraint on growth, the first generation of development economists began to work on how it could be overcome. It was widely accepted

[3] Arthur Lewis, "Economic Development with Unlimited Supply of Labor", *Manchester School of Economics and Social Studies*, Vol. 22, No 127, pp. 139-91 and pp. 139-91. Professor Lewis was awarded the Nobel Prize in Economics for his work.

that backward economies were too poor to save much – to generate, in other words, resources from within to accelerate the rate of growth. This led to the emphasis on government-to-government development assistance being made available as outright grants or at low rates of interest. There was much interest in developing the world's backward economies as the United States and the Soviet Union began to compete for the hearts and minds of the people living in these countries. New and innovative ways were found for raising additional capital for development. For instance, after much debate, a new institution was added to the International Bank for Reconstruction and Development (IBRD). The IBRD itself was created in 1944 as a part of the post-World War II system of international economic management. The debate was on the location of the institution. Developing countries wanted it as part of the United Nations system; the donor countries, pressed for its creation as an affiliate of the IBRD. That's where the International Development Association (IDA) went and the IBRD was transformed into the World Bank group by acquiring a new institution committed to aiding the poor.[4]

Several countries that had adopted Communism as the governing economic ideology chose an entirely different approach to capital accumulation and its allocation. They chose not to rely on external capital flows and turned entirely inwards, squeezing resources from within the economy. This meant sacrificing current consumption in order to generate growth and thus improving the living standards of the generations in the future. The resources thus accumulated were placed at the disposal of the state for allocating it to the sectors the state believed would maximise growth. China's Mao Zedong believed that he could accelerate the transformation of the economy by undertaking programmes such as the 'Great Leap Forward' launched by him in 1958. These turned out to be extremely expensive in terms of human cost without quickening the pace of economic change.

Later some economists – initially Robert Solow of the Massachusetts Institute of Technology (MIT), United States, followed by several others – constructed production functions based on the data available in developed countries. This was the application of empiricism to advance theories based mostly on institution. Solow found that for the United States a combination of capital and labour did not explain the increases in quantum of output as these inputs increased. He came up with what he called the 'X' factor which was outside the production function – or, in the language of mathematical economics was an exogenous element in the growth equation. Still later, economists such as Robert Lucas and Paul Romer introduced knowledge into the production function, thus making it endogenous – a part of the growth equation. According to this way of thinking, it needed more than a combination of labour and capital to explain output increases; knowledge was also a critical variable. Some economists have expanded the definition of capital to include what they call social capital – how people in a society interact with one another.[5]

Instead of focusing on these standard variables to suggest how growth in South Asia could be quickened, I will concentrate on how the region could use some of the advantages it has over other developing countries and how they could be exploited to ensure a better economic future for the area's large population. In this context, I will pay particular attention to five contributors to positive economic change: ideas about development that evolved in different countries of the region and then through a process akin to osmosis crossed the borders; the

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4 In 1985, I led a team of World Bank staff to write a report on the first 25 years of IDA, 1960-85. See The World bank, *IDA in Retrospect: The First twenty-Five Years,* Washington DC, The World Bank, 1985.

5 David Warsch, *Knowledge and the Wealth of Nations,* New York, W. W. Norton, 2006 is a good summary of the way the original exogenous model of economic growth became endogenous.

role the state can play; demographic change and how it opens the windows of opportunity that could be exploited for development; location and geography; and expanding the markets through the formation regional organisations as determinants of growth. These determinants of growth are factors additional to those that figure in standard production functions.

The Flow of Ideas across National Borders

The movement of goods and people across borders can be blocked by the use of administrative fiat. This is difficult to do in the case of ideas. That has happened in South Asia. The region has erected all kinds of barriers to inhibit the movement of people and to discourage trade. This is not just the case for the way India and Pakistan have managed their joint borders. There is not as much trade among the other countries of the region as the gravity model of trade will have us believe. According to the model, trade is determined by two things: the masses of the trading partners and the distances among them. The size of India and the fact that it shares borders with all countries of the region save Afghanistan and the Maldives, should have meant that the country would be the dominant player in the pattern of international trade for the region. That has not happened; the gravity model has not worked for South Asia. Politics and bureaucratic hurdles – and to some extent protectionist instincts of the policymakers – have come in the way. India should be the main destination of exports for the countries of the region and also the origin of a significant proportion of their imports. This is not the case for Bangladesh, Pakistan and Sri Lanka. The only countries where this is true are the landlocked Bhutan and Nepal. For them the trade links are the consequence of their geography, not necessarily the product of public policy.

The South Asian countries, on the other hand, have looked across their borders and learnt a great deal from one another. Most of this learning was done by watching what was happening in the other countries. There was little formal exchange of ideas by policymakers – even by think tanks. The forums from where such exchanges could have been made simply did not exist. This was certainly the case with India and Pakistan. There are some links between Bangladesh and India but even these are sporadic and relatively infrequent. There are no such links, for example, between Pakistan and Bangladesh, between Pakistan and Sri Lanka or between Afghanistan and the rest of South Asia.

In the domain of ideas, although India has been the main exporter, Bangladesh has also been fairly active. Pakistan also briefly played that role when, during the presidency of Field Marshal Ayub Khan, it had begun to be taken seriously as the model of economic success. This was the line taken by the experts drawn from Harvard University's Development Advisory Service (DAS) who had helped with the development of the Pakistani approach to economic progress. Some of the books they wrote were read with a great deal of interest by the development community.[6] Pakistan, it appeared, had managed to find a cure to a disease that the Swedish economist Gunar Myrdal called the prevalence of the 'soft state' in South Asia.[7] This was the state that neither had the political will nor the bureaucratic competence to deal with the strong vested interests that were not keen to see structural changes take place in their societies. Under Ayub Khan, the Pakistani state was given the task of determining the direction of economic change and was provided the instruments for achieving its goals.

[6] Of the many books the DAS advisors wrote the most comprehensive and also the most influential was by Gustav F. Papanek, *Pakistan's Development: Social Goals, Private Incentives*, Cambridge, M A. Harvard University Press, 1967.

[7] Gunar Myrdal, *The Asian Drama: An Inquiry into the Poverty of Nations*, New York, Pantheon, 1967.

Initially the main idea imported from India was the use of central planning to allocate capital among the users favoured by the state. Jawaharlal Nehru, the first Indian prime minister who remained in that position for 17 uninterrupted years, was enamoured of the Soviet style of centralised planning. He had bought the Soviet belief that the only way time could be compressed for converting an agrarian society into an industrialised one was by allowing the state to manage the economy. This was done in Moscow by nationalising all economic assets owned by the private sector. This included land – agricultural as well as urban. In borrowing the Soviet style centralised planning Nehru did not go that far; he did not nationalise private property. However, he did put the Indian state on the "commanding heights of the economy".

What the phrase meant was that the state had the right and the duty to control and guide the private sector – to determine how much it would invest, where it would invest, what and how much it would produce, how it would obtain the inputs required for production, and how would labour be compensated and what would be the conditions under which the workers would work. Thus was ushered in the 'License Raj' in India. What it actually meant for the Indian private sector was described in vivid detail by Gurcharan Das, one of the senior executives of Procter & Gamble, a transnational corporation that had large operations in India.[8] Das' book appeared after the 'Raj' was dismantled by then Finance Minister Manmohan Singh.

Pakistan borrowed the idea of central planning from India and stared work on the First Year Plan for the period 1955-60. The document could not be produced for the reason that politics got in the way. It was only in 1958 that the plan's draft was produced but it was no longer consequential since the period covered by it was almost over. However, the military government that was in place at that time empowered the Planning Commission to begin serious work on the Second Five Year Plan for the period 1960-65. This was done and the plan began to be vigorously implemented. It was a great success in terms of producing an unprecedented rate of growth in the economy. Although the idea of centralised planning came from India, the strategy Pakistan adopted was not Indian in origin. In Pakistan, the government wished to focus on igniting growth in the economy and placing its faith in the 'trickle down effect' for helping the less advantaged segments of the society. Accent was on growth, not on poverty alleviation or on improving the distribution of income.[9] There was a different set of objectives in India. There the constitution obliged the planners to focus on the poor. It directed that "the ownership and control of the material resources [should be] to serve the common good" and that "the operation of the economic system does not result in the concentration of wealth and means of production to the common predicament". There were no such constraints on the Pakistani planners.

The government headed by Ayub Khan also bought some aspects of the licensing system from India but it was less rigorous than the one the Indians had operated. Pakistan allowed much greater space to the private sector than the Indians did. The Indians also used the financial sector to direct credit into the favoured sectors of the economy. The same approach

[8] Gurcharan Das, *India Unbound*, New Delhi, Anchor Books, 2002.

[9] The Pakistani model was described by its principal author who was the Chief Economist of the Planning Commission when the Second Five Year Plan was written. See Mahbub ul Haq, *The Strategy of Economic Planning: A Case Study of Pakistan*, Karachi, Oxford University Press, 1967. Haq did a summersault in 1968 just as his book hit the bookstands. In a speech that was to change the shape of Pakistan's political structure and the structure of its economy he argued that most of the benefits from the growth during Ayub Khan's "decade of development" were captured by 22 industrial and financial households. The speech, referred to as the "22 families speech", helped Zulfikar Ali Bhutto to gain mass following for his Pakistan People's Party.

was followed by the Pakistani government which, like the Indians, created what were then called the development finance corporations. Some of these were established with the help of the World Bank which was then in favour of using state owned financial enterprises to allocate capital. The Pakistan Industrial Credit and Investment Corporation (PICIC) was patterned after the corporation of the same name in India, the Industrial Credit and Investment Corporation. However, Pakistan, encouraged by the World Bank, went much further in this direction. The Industrial Development Bank of Pakistan and the Agricultural Development of Pakistan were aided by the World Bank. The former helped medium-sized industries with capital while the PICIC's operations were confined to large industrial enterprises.

It was only after Zulfikar Ali Bhutto assumed power that the private sector came to be tightly regulated. Bhutto in that sense was a 'Nehruvian'. However, he went a step further. Nehru had eschewed nationalisation as a way of increasing the presence of the state in the economy, preferring to do it by expanding investment in industry by the public sector. Bhutto, on the other hand, resorted to wholesale takeover of private assets by the government. The two-year nationalisation spree by the government in 1972-74 changed the structure of the Pakistani economy in a fundamental way. The Bhutto administration also invested heavily in large scale industries, once again following the Indian approach in the period before the opening up of the economy to a greater role by the private sector.

Bangladesh has also significantly contributed to development practices in South Asia. The country gained independence in January 1972. Creating a new state from scratch is a formidable enterprise as the Pakistanis had discovered in 1947, the year their country won independence.[10] However, there was one important difference between the formative years of Pakistan and Bangladesh. Pakistan in 1947 did not have a middle class of any significant size. It was economically polarised between the rich – mostly landlords – and the poor. On the other hand, by the time of its independence, Bangladesh has a large presence of the middle class, the *bhadralok*, which was able to profoundly influence the direction of development and economic change.[11]

The other difference was the way the emergence of the two countries was treated by international community. While Pakistan received little help from the international community for the reason that the world's richer countries had not yet learned to get engaged in those that were backward but hoped to develop, this was not the case when Bangladesh was born. By the early 1970s, development economics was a relatively mature discipline. A number of development institutions – in particular the World Bank – had gained a great deal of experience in helping poor countries with development. They were now able to learn from what they had done in the Third World. At the time of Pakistan's birth, development economics was simply a collection of concepts formulated by those who believed that poor countries could not entirely depend on traditional economics to guide them towards development. A quarter-century later, at the time of Bangladesh's birth, empiricism had entered development economics in a significant way, replacing intuition as the way for developing the discipline.

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[10] The detailed discussions on the pressures on Pakistan at the time of its birth and how these shaped the country's economy for years to come are in Chapter Five of the book on "History's Many Burdens".

[11] I am indebted to my colleague at ISAS, Dr Iftekhar Chowdhury, for this point. See his Working Paper on "The Roots of Bangladeshi National Identity: Their Impact on State Behaviour", ISAS Working Paper 63, 10 June 2009 – Accessed at http://www.isasnus.org/events/workingpapers/62.pdf.

The provision in the Indian constitution about the state's responsibility for caring for the poor did not lead to the development of human capital as one way of achieving that objective. Under Nehru, the Indian government interpreted that provision as an allowance for expanding the state's role in managing the economy and using it to provide employment opportunities for the poor. Over time the state sector was to be burdened with a large workforce it did not need and could not afford. At the same time the private sector was also obliged to play a role in creating employment for the poor. Draconian labour laws were put on the books that resulted in constraining the private sector rather than helping the poor.

Sri Lanka was the first country in South Asia to recognise the importance of human development for alleviating poverty. Under the enlightened leadership of the people who had guided the country towards independence from colonial rule, such as Don Stephen Senanayake, a Cambridge University-educated Anglican Sinhalese,[12] and supported by a group of economists with socialist leanings, such as Deshamanya Gamani Corea, the Sri Lankan state invested heavily in education and primary health care. It was this line of thinking that came to be called the "basic needs approach to development" at the institutions such as the International Labour Organization and the World Bank.[13]

In the early 1970s, development practice had begun to emphasise the development of human resource as an important determinant of growth. As discussed above, Sri Lanka had taken the lead in developing an approach for using the state to improve human capital. In devising its own growth strategy, Dhaka focused on both the role of the state as well as the development of human resource. However, there was one problem - the state was weak at that time having been created from the ashes left behind by the conflict with West Pakistan. Under these circumstances, it allowed a great deal of space to non-government organisations (NGOs). There was also concern in development circles about the quality of governance offered by the state in poor countries. There was greater faith in the efficiency and effectiveness of NGOs. Bangladesh offered a good opportunity of testing these ideas. The performance of two NGOs – Bangladesh Rehabilitation Assistance Committee (BRAC) and Grameen – provided ample evidence that the trust placed in them was justified. BRAC was founded by Fazal Hasan Abed in February 1972, a month after Bangladesh gained independence. Its original mission was to aid the refugees who had left for India to escape the horrors of the civil war. To begin with, funding mostly came from donors but over the years the organisation has been able to diversify the sources of support, including generating resources from its own operations.

In 1973, BRAC's mission was widened to focus on long-term sustainable poverty reduction. According to the organisation, "over the course of our evolution, BRAC has established itself as a pioneer in recognising and tackling the different dimensions of poverty. Our unique and holistic approach to poverty alleviation and empowerment of the poor encompasses a range of core programmes in economic and social development, health, education, human rights and legal services". The NGO has grown in size. According to its website in 2009, it employed 127,337 persons, with 61 percent women. It now covers most of Bangladesh – it

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12 Ishtiaq Ahmed, *State and Ethnicity in Contemporary South Asia*, London, Printer Publishers, 1998, p. 249.

13 Supported by Professor Paul Streeten and Mahbub ul Haq, I implemented an ambitious analytical program at the World Bank in 1977-81 aimed at providing the basic needs concept an operational meaning. The findings of this work were summarised in Paul Street, Shahid Javed Burki, Mahbub ul Haq, Norman Hick and Frances Stewart in *First Things First: Meeting the Basic Needs*, New York, Oxford University Press, 1980. The group's findings were also the ground on which the World Bank put forward a strategy for poverty alleviation in the first World Development Report (WDR) the institution was to publish on the subject. The WDR appeared in 1980. The World Bank has continued the practice of updating its thinking in a World Development Report devoted to the subject and published at the start of every decade.

has operations in 64 districts and 78 percent of the total number of villages. Of the many contributions to development practice made by BRAC, two were particularly significant. The first was the focus on the absolute or chronically poor, identifying them and tailoring programmes to meet their needs. In January 2002, it introduced its "Challenging the Frontier of Poverty Reduction – Targeting the Ultra Poor" programme. The second was the use of microfinance for helping women, particularly those who were also the heads of households. The successes achieved by the organisation persuaded the development community to invite it to other poor countries. It now operates in a number of Asian and African countries and counts 110 million people as its clients.

Grameen Bank pioneered the concept of micro-finance in poor countries and provided the development community with a model for bringing the disadvantaged into the formal part of the economy. Founded in 1976 by Professor Muhammad Yunus, who was then the head of the Rural Economics programme at Chittagong University, Grameen (the word in *Bangla* means 'rural' or 'village') used the community as the collateral for providing credit to the poor. There was a belief that the community would not allow an individual to default if he (mostly in the way Grameen developed its operations) had obtained a loan. The community would use pressure as well as moral suasion directed at the individuals who had become borrowers to retain its own creditworthiness. The concept was tested as a pilot in Jobra village near Chittagong in 1976-79. It was initially supported by the country's central bank. Now Grameen Bank is owned by the rural poor who hold 90 percent of the capital of the institution while the government owns the rest. In 2006, the Bank and its founder were awarded the Nobel Peace Prize.

The work of BRAC as well as Grameen influenced other countries in South Asia. A number of NGOs in these places have modelled themselves on these two organisations. Even the governments have used the experiences of these NGOs to reach the poor in their countries and lift women out of poverty and backwardness.

In the early 1990s, both India and Pakistan changed the way they looked at the state as a player in the field of economics. The move in that direction was made earlier by Bangladesh. Later, India and Pakistan adopted a series of measures to reduce the presence of the state in the economy. Both economies were opened to the outside world, the Pakistani more than the Indian. Pakistan allowed a much easier entry of foreign enterprises in Pakistan than was done by the Indians. Foreign investors could hold 100 percent of equity in the firms they established and could also repatriate 100 percent of the profits. In these respects, the policymakers did not borrow from each other but followed what was being advocated by development economists working in a number of Washington-based institutions. Some of the members of the Manmohan Singh team that instituted reforms in India had worked at the World Bank and had participated in the development of the thinking that came to be known as *The Washington Consensus*.[14] Sartaj Aziz, then Finance Minister of Pakistan, had also worked in a multilateral agency (in his case the Rome-based International Fund for Agricultural Development) and was familiar with the thinking in development circles.

Later, in the early 2000s, there was a significant amount of borrowing from India by the government of President Pervez Musharraf, as it gave even more space to the private sector. However, there was a difference. The Indians, while encouraging private enterprise, retained a fair amount of government oversight of the private sector. This was not done in Pakistan.

[14] This is discussed in greater detail in Chapter Two of my forthcoming book.

The Reserve Bank of India, the Indian central bank, was much more independent of government influence than was the case with the State Bank of Pakistan.

Through this method of learning by doing, either in the country itself or by looking at the experience of other countries in the region, the South Asians have developed a way of their own for using the state as a promoter of economic growth and facilitator of economic and social change. As shown above, this was not done by pursuing a particular design but by experimentation. The evolution towards the South Asian model was gradual, sometimes halting.

The Role of the State and the South Asian Way

One conclusion from the quick overview in the previous section of the evolution of development thinking over the last six decades is clear. Several generations of policymakers in South Asia have learnt from each other's experience and have developed what can be called the "South Asian way of managing the domestic economies". While the South Asians may not have traded much with one another they have been active in learning from each other's experiences. If this were to be recognised explicitly it could perhaps help to improve cooperation in other fields as well.

At this time there is a South Asian way of managing the economy which makes the state play a role markedly different from the one in the eastern part of the continent. In East Asia, as we have noted earlier in this work, the state was much more actively involved in promoting economic development and in ensuring that the area's economies were well integrated in the global economic system. It chose the 'winners' on which the economy should concentrate its resources in the public as well as the private sectors, provided access to capital for those willing to take risks to produce what were believed to be the winners for the economy, and provided help in finding the selected manufactures a place in international markets. The state also invested in developing the human skills needed to successfully manufacture the winners as well as doing research and development (R&D). There was considerable continuity in the state's role in East Asia. In South Asia, on the other hand, the role of the state has been constantly evolving. Those who had influence on determining the state's role did a great amount of learning from the history of their own countries as well as the experiences of other countries in the region.

After trying a number of different roles for the state, governments in South Asia seem to have settled on the following four as legitimate areas for their involvement in economic management. These included sharing the commanding heights of the economy with the private sector; allowing NGOs considerable operational space in the areas where the state, for whatever reason, was weak; taking some responsibility for assisting the less advantaged segments of the population and regions of the country; and allowing greater autonomy of operation to the governments at the sub-national level. We will briefly discuss each of the following four areas:

The first aspect worth noting in the evolving role of the state is its relations with private enterprise. Once it was seen that operating from the commanding heights of the economy did little good, the state climbed down and began to share the role of leadership with the private sector. It did not, however, step out of the way as much as the state did in the Anglo-Saxon world, or under the influence of *The Washington Consensus* set of policies, as it did in Latin America. The state was prepared to allow a much greater role to the private sector, starting with the process of economic reforms that began in the mid-1980s in India and in the early 1990s in Pakistan. The state pulled back but the question of how far it should recede remains unanswered. The Bharatiya Janata Party (BJP) in India, under the greater influence of the private sector than the Congress Party, its main competitor on the national scene, was prepared to allow much greater space to private enterprise. However, the occasional over-reach by the private sector raised the question of whether the state had pulled too far back. The latest episode in this context was the revelation in the spring of 2009 that the owners-cum-managers of Satyam, a highly regarded firm operating in the information technology sector, had indulged in a number of illegal activities to enrich themselves at the expense of the shareholders. The episode brought the state's role in regulating the private sector back into focus.[15] Similarly, the state in Pakistan under President Musharraf, allowed much space to the private sector without strengthening the regulatory system. This has created a widespread impression in the country of collusion among the large producers in sectors such as automobile and cement manufacture.

The South Asian state has been much more accommodating of efforts by the NGOs in development. This was, in part, due to the region's preference for representative forms of democracy for governance. However, even in those countries where democracy was not always the preferred option – as was often the case in Pakistan where the military governed for 32 out of the last 50 years – the state was willing to give space to the NGOs. These organisations have been active in mostly those areas where the state lacked the competence or the political will to operate. In the countries with weak political institutions – as is the case with most of South Asia, with the exception of India – NGOs have also begun to work closely with institution-based politics.

How effective the civil society can be in pushing the often reluctant elites to open the political system was demonstrated vividly by what has come to be called the 'lawyers' movement' in Pakistan. This movement is an interesting case study of the important role that the civil society is playing in the political development of South Asia. In March 2007, President Musharraf tried to force Iftikhar Muhammad Chaudhry, Chief Justice of the Supreme Court, to resign. Chaudhry resisted but was removed by the use of procedures that deviated significantly from allowed practice. This led to the launch of a movement by the legal community and lawyers in their black coats took to the streets. As the agitation gathered momentum, the General panicked and, on 3 November 2007, carried out what Pakistan's contemporary historians have begun to call Musharraf's second *coup d'état*, the first being the 12 October 1999, to overthrow of the government of Prime Minister Nawaz Sharif.[16]

Using the often employed devise of the Provisional Constitutional Order (PCO), the President removed the Chief Justice once again. He had in the meantime been restored to his position by the court. The lawyers' movement was joined by mainstream political parties and the general was forced to pull back. The PCO was withdrawn and general elections to select the next national assembly were ordered. They were held in February in which the political party that had supported Musharraf's rule for more than eight years was trounced. Six months later, the general, having been threatened impeachment, resigned to be replaced by Asif Ali Zardari, the chairman of the Pakistan People's Party, the largest party in the country.

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15 For a detailed overview of the Satyam affair see the *Financial Times*.

16 The circumstances that led to the first coup are described by Pervez Musharraf in his autobiography, *In the Line of Fire: A Memoir*, New York, Simon and Schuster, 2006.

The main conclusion to be drawn from the case is that the South Asian people have now gained enough political maturity to know that their demand for having a voice in the political system can no longer be denied. Having gained that voice in one the more authoritarian states, they have begun to ask for an active role by the state in meeting their basic needs. One of the roles the state is now reserving for itself is to provide support to the less advantaged segments of the population. The care for the poor was a major preoccupation of the founding fathers of modern India. As discussed above, they built it into the country's constitution. Decades before this approach became the standard prescription for the development of backward societies and economies, the Sri Lankan state was active in improving human development as a way of helping the poor. For more than a quarter-century this did not become the explicit concern of the state in Pakistan. It was only after the arrival of Zulfikar Ali Bhutto and his Pakistan People's Party on the political scene, that poverty alleviation and improving income distribution became the explicit policy of the state.

Bangladesh's struggle for independence was led by a party – the Awami League – that was under the influence of a number of development economists who were wedded to the idea of using the state for social purposes, in particular for poverty alleviation.[17] However, all these pledges and experience aimed at helping the poor notwithstanding, the state in South Asia is still struggling to find a way for reaching the poor. After winning the elections of 2004, the Congress Party instituted programmes aimed at helping the rural people who had voted overwhelmingly for the party over the coalition led by the BJP. The BJP's 'Shining India' slogan did not impress the rural poor. In Pakistan, a succession of administrations have put in place various programmes for aiding the poor including the introduction of *zakat* as a tax on the rich, the proceeds from which are distributed to the poor. In addition, a Poverty Fund, run by a private enterprise in association with the government, begun in the late-1990s and an income transfer programme called the *Baitul Maal* was launched at about the same time.

Finally, albeit reluctantly, the South Asian state has also gone some distance to allow the governments at the sub-national levels to exert some authority in financial and economic matters. This happened in India as a consequence of political expediency as the mainstream political parties had to share power with a host of smaller parties with roots in the states. In Pakistan this happened because of the need for a series of military rulers to gain legitimacy for their intervention in politics. Both Bangladesh and Sri Lanka, because of their physical size, remain relatively more centralised. Development thinking has also moved in the direction of favouring greater decentralisation. For instance, the World Bank in its World Development Report for 1999-2000 noted that "localisation – the growing economic and political power of cities, provinces and other sub-national entities – will be one of the most important new trends in the 21st century."[18]

While there is a distinct way in which the state in South Asia has been operating, its precise role continues to evolve. In this context, a number of questions remain unanswered. Two of these are significant. One, will the state be able to focus public policy on using some of the unique endowments of the region for the purpose of development? What would be the rewards of this approach is a subject addressed in the final chapter of my forthcoming book.

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[17] One of these economists, Rehman Sobhan, had done a significant amount of pioneering work on the provision of basic needs to the poor in the population. See Rehman Sobhan, *Basic Democracies, Works Programme, and Rural Development in East Pakistan*, and Rehman Sobhan, *Public Enterprise in an Intermediate Regime: A study of the Political Economy of Bangladesh.*

[18] The World Bank, *World Development Report, 1999-2000: Entering the 21st Century*, New York, Oxford University Press, 1999.

And will the states manage to throw away the accumulated burden of history to concentrate their attention on inter-regional cooperation?

Declines in Fertility and Windows of Economic Opportunity

Economists have yet to fully recognise the important impact demographic changes play in economic development – both in retarding and promoting it. If population has figured in their work, it has done so mostly as an inhibitor rather than a promoter of growth. This was the focus of much attention in the earlier phase of development thinking when high rates of population growth were seen as hurting the prospects of many developing countries. In the early post-World War II period, as health and hygiene improved in developing countries, there was an immediate impact on the rate of population increase. Mortality rates declined rapidly. In India the death rate fell from 42 per 1,000 at the start of the century to 15 per thousand by the early 1970s. There were similar changes in other parts of South Asia.

For decades this decline was not compensated by reductions in the rate of fertility. There was a belief among many economists that the strong male preference and high rates of infant mortality was the reason why parents chose to have large families. Most developing country parents wish to have at least two sons to survive to adulthood and that meant having six to eight children. However, the families did not seem to notice that declines in the rates of mortality had increased the probability of survival for boys. Inertia and hard-to-break habits made them opt for large families. With the families not reacting on their own, there was a broad consensus that the state had to intervene to reduce family size.

Population explosion became a great worry for development economists. Governments – in particular those in the already crowded South Asia – were encouraged to adopt family planning programmes. The World Bank created a new department to aid this effort in the developing world. Many countries took the advice offered by the Bank and other development institutions. In the mid-1960s, President Ayub Khan in Pakistan ignored the objections of the religious parties and launched an ambitious Family Planning Programme and appointed Enver Adil, a civil servant known for his energy and dynamism, to head the effort. Foreign assistance came pouring into the programme.

Across the border in India, the state's intervention in controlling the rate of population growth became even more intense. Sanjay Gandhi, the son of Prime Minister Indira Gandhi and her principal advisor, took the lead in the effort. According Vinod Mehta, his biographer, "family planning was…a herculean effort, the solving of which everybody acknowledged, if the nation hoped to survive let alone prosper. Family planning became the lynchpin of Sanjay Gandhi's Emergency activities".[19] Male sterilisation was the preferred method and considerable pressure – in fact coercion – was applied on men who had families of reasonable size to adopt it.

It is hard to say whether these programmes worked or whether the declines in the rates of fertility happened because of other factors. Be that as it may, there have been significant declines in the rates of fertility in the developing world including the countries of South Asia. Fertility will continue to decline but at different rates in different parts of the region. In South Asia, the process began in Sri Lanka several decades ago. It started in India in the 1980s, in particular in the states in the south of the country where the level of human development was

[19] Vinod Mehta, *The Sanjay Story*, New Delhi, Vikas, 1978.

relatively high, the rates of economic growth were better than in other parts of the country, and that had high rates of emigration. It started in Bangladesh at about the same time as India but for different reasons. The rapid development of the garments industry resulted in the improvement of the social and economic status of women. Women entered the workforce, had sources of income not dependent on their husbands or fathers and also began to look for opportunities to acquire education. Husbands no longer had the decisive say in determining the size of the family. The move towards fertility decline has also begun in Pakistan. The trend became perceptible in the early 2000s but still has a way to go before Pakistan catches up with other countries in the South Asian region. Fertility rates are still high in Afghanistan, a trend seen in other countries experiencing conflict. For obvious reasons a feeling of insecurity leads families to seek larger sizes. The United Nations has factored these changes in fertility through determining the sizes of the population around the globe. These projections are shown in Tables 1 and 2.

According to the United Nations projections, there will be significant declines in the rates of fertility in all the large countries of South Asia. The sharpest decline will be in Bangladesh, maintaining the recent trends. The rate of population growth will drop by 1.42 percentage points, from a 1.68 rate of increase at the beginning of the 21st century to 0.26 percent by the middle of the century. The country will add 82 million to its population, increasing from 141 million people in 2000 to 222 million by 2025. The drop in the rate of growth in the Indian population will be equally significant. It will decline by 1.37 percentage points from 1.62 at the beginning of the 21st century to only 0.25 percent by 2050. That notwithstanding, India will still add another 517 million people to its population of 1.043 billion in 2000, reaching 1.614 billion in 2050. India will overtake China in terms of the size of its population between 2025 and 2030. By 2050, it will have close to 200 million more people than China. The Chinese population stops growing some time between 2030 and 2035; after which the rate of growth becomes negative and the size of the population starts to decline. The Chinese population is expected to peak in 2030, reaching 1.462 billion. In the following twenty years, the population will decline by 45 million people.

Although the decline in the rate of growth of Pakistan’s population will not be as significant as in other large South Asian countries, it will also see a decline of 1.22 percentage points between 2000 and 2050. The size of the population will increase from 148 million in 2000 to 335 million in 2050, an increase of 187 million. In other words, the population will double in size. Looking at these numbers in a different way highlights the kind of demographic shifts we will witness in South Asia. The three most populous countries will see their combined population increase from 1.33 billion to 2.17 billion, an increase of 839 million. The share of Pakistan in this increase will be large – 22.3 percent. Consequently, whereas in 2000 Pakistan’s share in the combined population was 11.3 percent; 50 years later, this will grow to 15.4 percent, an increase of 4.3 percentage points.

Table 1: Population growth rate (medium variant) of selected countries and region, 1950-2050 (percentages)

	Brazil	Bangladesh	China	India	Indonesia	Pakistan	Philippines	United States	Japan	Russia	Europe
1950-1955	3.06	2.11	1.87	1.79	1.67	1.55	2.99	1.62	1.45	1.63	1
1955-1960	2.91	2.22	1.53	1.95	2.08	1.84	3.06	1.7	0.91	1.47	0.98
1960-1965	2.96	2.36	2.07	2.06	2.22	2.13	3.09	1.36	1.02	1.11	0.96
1965-1970	2.59	2.54	2.61	2.14	2.35	2.58	2.94	0.98	1.26	0.57	0.68
1970-1975	2.38	2.67	2.21	2.21	2.32	2.86	2.79	0.9	1.33	0.58	0.6
1975-1980	2.35	2.68	1.48	2.3	2.2	2.96	2.7	0.92	0.91	0.65	0.49
1980-1985	2.26	2.61	1.42	2.24	2.04	3.48	2.69	0.95	0.69	0.69	0.4
1985-1990	1.88	2.32	1.62	2.14	1.77	3.27	2.52	1.15	0.37	0.62	0.39
1990-1995	1.56	2.05	1.17	2.01	1.53	2.38	2.28	1.2	0.36	0.06	0.18
1995-2000	1.49	1.89	0.9	1.79	1.39	2.55	2.09	1.23	0.2	-0.25	-0.02
2000-2005	1.32	1.68	0.7	1.62	1.31	2.26	1.92	1.01	0.12	-0.48	0.08
2005-2010	0.98	1.42	0.63	1.43	1.18	2.16	1.82	0.96	-0.07	-0.4	0.09
2010-2015	0.75	1.27	0.61	1.27	0.98	2.13	1.66	0.9	-0.19	-0.34	0.03
2015-2020	0.6	1.15	0.5	1.1	0.81	1.92	1.51	0.82	-0.34	-0.38	-0.03
2020-2025	0.45	0.99	0.31	0.92	0.7	1.7	1.34	0.71	-0.47	-0.46	-0.1
2025-2030	0.31	0.82	0.13	0.73	0.61	1.52	1.18	0.62	-0.57	-0.53	-0.16
2030-2035	0.2	0.65	0	0.58	0.5	1.37	1.02	0.53	-0.64	-0.55	-0.2
2035-2040	0.08	0.51	-0.1	0.48	0.37	1.24	0.87	0.46	-0.7	-0.52	-0.22
2040-2045	-0.02	0.39	-0.2	0.37	0.23	1.1	0.74	0.4	-0.75	-0.51	-0.24
2045-2050	-0.13	0.26	-0.33	0.25	0.1	0.94	0.6	0.36	-0.79	-0.51	-0.26

Source: World Population Prospects, the United Nations.

Table 2: Size of populations in selected countries and regions, 1950-2050 (in thousands)

	Bangladesh	China	India	Indonesia	Brazil	Pakistan	Russia	United States	Japan	Europe
1950	43595	544951	371857	77152	53975	41177	102702	157813	82824	547460
1955	48442	598226	406661	83856	62887	44499	111402	171152	89047	575466
1960	54138	645927	448314	93058	72744	48778	119906	186326	93189	604464
1965	60931	716270	496934	103978	84331	54267	126749	199453	98052	634191
1970	69178	815951	552964	116921	95991	61750	130392	209464	104448	656197
1975	79049	911167	617432	131329	108127	71238	134233	219108	111619	676207
1980	90397	980929	692637	146582	121618	82609	138655	229469	116794	693113
1985	102993	1053219	774775	162348	136149	98309	143541	240612	120908	706988
1990	115632	1142090	862162	177385	149570	115776	148065	254865	123191	720989
1995	128086	1210969	953148	191501	161692	130397	148497	270648	125442	727361
2000	140767	1266954	1042590	205280	174174	148132	146670	287842	126706	726568
2005	153122	1312253	1130618	219210	186075	165816	143170	302741	127449	729421
2010	164425	1354146	1214464	232517	195423	184753	140367	317641	126995	732759
2015	175217	1395998	1294192	244191	202866	205504	137983	332334	125791	734000
2020	185552	1431155	1367225	254218	209051	226187	135406	346153	123664	732952
2025	195012	1453140	1431272	263287	213802	246286	132345	358735	120793	729264
2030	203214	1462468	1484598	271485	217146	265690	128864	369981	117424	723373
2035	209929	1462351	1527879	278382	219302	284561	125387	379999	113733	716190
2040	215339	1455055	1564763	283503	220141	302801	122148	388907	109804	708489
2045	219589	1440289	1593852	286717	219956	319891	119098	396766	105740	700191
2050	222495	1417045	1613800	288110	218512	335195	116097	403932	101659	691048

Source: The United Nations, *World Population Prospects*.

One important consequence of this declining trend in the rates of fertility is that it will create a window of opportunity that will last a few decades during which the number of active workers would far outnumber those who are dependent on them. During this time the states do not need to carry the burden of caring for those who cannot be looked after by the working members of the families. Table 3 provides estimates of the duration during which the window will remain open. Since the declines in the rates of fertility are slower than other countries that have gone through the same kind of transition, the periods of opportunity available to the South Asians is much longer. For India, it will remain open for sixty years, from 1975 to about 2035 when the number of people reaching the working age will begin to decline. Using the same methodology as applied by the World Bank for determining the time over which the windows will remain open for Pakistan, it appears that the duration for the country will be 50 years. The window opened in 1995 and will not close until 2045.

Table 3: Windows of demographic opportunities

Country	Period of Demographic Transition	Span for the Window (Years)
Japan	1955-1995	40
Italy	1975-1995	20
China	1965-2007	42
Chile	1970-2015	45
India	1975-2035	60
Bolivia	1995-2040	45
Afghanistan	2007-?	?
Bangladesh	1975-2025	50
Pakistan	1995-2045	50

Source: World Bank, *World Development Report*, 1997, p. 7; Author's calculations for Bangladesh and Pakistan.

Could South Asia build a future for itself and create a significant space in the evolving global economy by concentrating on the development of, for instance, modern services in which countries with large and young population have a comparative advantage? Another set of numbers helps us to answer this question. This is on the median age of the population. Pakistan has by far the youngest population of all large countries, not just in the region but worldwide. As population growth rates increase, the median age of the population – meaning the age at which the number of young is the same as the number of older people – begins to decline. This is what has happened in Pakistan. The median age in 1950 was 24.2 years. By 1990 it had dropped to only 18.2 years, a decline of five years. The population had become much younger. The median age in 1990 was almost three years less than that of India which was 21.1 years and almost the same as that of Bangladesh, which was 18.2 years.

The rapid demographic transition that has occurred in some parts of South Asia saw significant increases in the median age. Between 1990 and 2005, it increased by 1.8 years in Pakistan, by two years in India and by an impressive 4.4 years in Bangladesh. If the changing character of the economies of today's rich countries is any guide, much of the future growth in the global economy will come from services. These are labour intensive to produce and provide and some of the more modern ones need highly developed skills.

Table 4: Median age of populations in large countries (years)

	Bangladesh	Brazil	China	India	Indonesia	Pakistan	Philippines	Russia	Japan	United States	Europe
1950	20.5	19.2	23.9	21.3	20	24.2	18.2	25	22.3	30	29.7
1955	19.7	18.9	22.5	20.6	20.2	22.9	17.5	26.5	23.6	30.2	30.1
1960	19	18.6	21.8	20	20	21.8	17	27.4	25.5	29.6	30.7
1965	18.2	18.2	20.4	19.4	19.5	21	16.9	28.5	27.3	28.4	31.1
1970	17.7	18.6	19.7	19.2	18.9	19.8	17.1	30.6	28.9	28.2	31.8
1975	17.4	19.4	20.6	19.7	18.9	18.9	17.6	30.8	30.4	28.8	32.1
1980	17.3	20.3	22.1	20.2	19.4	18.3	18.1	31.3	32.6	30.1	32.7
1985	17.4	21.3	23.6	20.6	20.3	18.3	18.7	32.1	35.1	31.5	33.7
1990	18.1	22.5	25	21.1	21.7	18.2	19.3	33.3	37.4	32.8	34.8
1995	19.3	23.9	27.2	21.7	23.2	18.3	19.9	35	39.6	34	36.1
2000	20.8	25.3	29.6	22.6	24.8	19	20.9	36.5	41.4	35.1	37.6
2005	22.5	27	32.1	23.7	26.5	20	22	37.3	43.1	36	38.9
2010	24.5	29	34.2	25	28.2	21.3	23.2	38.1	44.7	36.6	40.2
2015	26.5	31.3	35.6	26.5	30.1	22.5	24.5	38.9	46.6	37.2	41.5
2020	28.4	33.6	37.1	28.1	32	23.7	26	40	48.6	37.9	42.7
2025	30.4	35.8	38.9	29.9	33.8	25	27.5	41.7	50.6	38.7	44
2030	32.3	37.9	41.1	31.7	35.4	26.4	29	43.5	52.2	39.5	45.3
2035	34.3	39.9	42.8	33.5	37	27.9	30.4	45.3	53.5	40.3	46.4
2040	36.2	41.9	44.1	35.3	38.5	29.4	32	45.5	54.4	40.8	46.9
2045	37.8	43.8	44.9	36.9	39.9	31.1	33.5	44.5	54.9	41.2	46.8
2050	39.2	45.6	45.2	38.4	41.1	32.7	35	44	55.1	41.7	46.6

Source: The United Nations, *World Population Prospects*.

Both the state and the private sector will need to invest in the youth to draw the most benefit from the windows of opportunity that are now available in all South Asian countries. Those that have serious resource constraints – as is the case in Pakistan – the private sector will need to play a more active role. However, equipping the workforce with the right kinds of skills will not only help the domestic economies to improve their productivity. It could also supply services for export, something that India has achieved in an impressive way.

Developing the Human Resource

This means investing in education, an area in which South Asia has not done particularly well. For some reason, the states in South Asia paid very little attention to developing human resources including through education and skill development. Unless this bias disappears from the making of public policy, South Asia will not be able to benefit from the opportunities being created in the global economy for developing countries. The countries of the region will need to give attention to the youth in their population, particularly to those in the age group of 12 to 24 years. This holds particularly true for Pakistan in which the situation has regressed, and this point shall be discussed later.

There are some areas of noticeable success in South Asia in terms of youth development but it is believed that these were mostly accidents made in terms of public policy choices. They were not the consequences of a well-thought development strategy. Two examples are worth noting. The first is the development of highly developed skills of a small segment of the population of India, particularly in the county's south-western states. The ground for this was laid by the choice made by Jawaharlal Nehru in the late 1950s. At that time, the Americans offered technical assistance to both India and Pakistan to help them with economic development. Jawaharlal Nehru requested help with setting up institutes of technology patterned on the MIT. Ayub Khan in Pakistan asked for assistance in improving the capacity of the Planning Commission at the centre and the Planning and Development Departments in Dhaka and Lahore, the capitals of the country's two provinces.

Nehru's choice laid the foundations of the world renowned institutions of technology in India. Once these institutes started to produce well-trained graduates, the Indian economy, growing at the 'Hindu rate of growth', did not have the capacity to absorb all of them. Many of the unemployed headed towards the United States which, at that time, did not have very restrictive immigration policies. The Indian scientists and engineers climbed the corporate ladder in many high-technology firms in the United States. They were in the position to introduce India to their firms. This was important for many firms that were struggling to find a way out of the problem that was not foreseen when some of the older computer programmes were written. These programmes, with not much memory available at that time had economised in indicating time (date and years) embedded in them.

As the new millennium approached there was considerable fear that the older programmes would not be able to handle the transition. Also, some of the older programmes were written in the languages that were still being used in India but had been replaced by newer versions. This came to be known as the year 2000 crisis, Y2K for short. The crisis offered an opportunity for those who had stayed behind to provide their services to keep computer programmes working in the United States. This laid the basis of the development of the outsourcing industry in India, a story well told by the American journalist in his bestselling book, *The World is Flat*.[20]

The other example of a success in human resource development is from Bangladesh. As already discussed earlier in the context of the remarkable demographic change in Bangladesh, the country has done well in terms of educating its women. This too was the consequence of the coming together of a number of positive developments. One of the legacies of the country's union with Pakistan was the decision by the textile importers to split their quotas evenly between Bangladesh and Pakistan. However, there was no textile industry in Bangladesh. With a large quota now at its disposal, Dhaka invited those countries that faced quota restrictions to invest in the country. This 'quota hopping' resulted in the rapid development of the garment industry, which increased the demand for female labour. This, in turn, created opportunities for women to be employed outside their homes and also for female education. Bangladesh today has one of the highest ratios among poor countries of female enrolment in educational institutions and of women's participation in the workforce. Luck, however, was not on Pakistan's side. In fact some of the developments in the country created an environment which discouraged education. One of them was the growing influence of Wahabi Islam that paid almost no attention to education in modern sciences and was openly hostile to the idea of educating women.

In its *World Development Report* for the year 2007, the World Bank identified five phases for the development of a human being – for a person to become a contributor to the full extent of his or her potential. The phases are continuing to learn, starting to work, developing a healthy life style, starting a family and exercising citizenship. The government has a role in each phase. A "youth lens on policies affecting the five phases would help to focus on three directions: expanding opportunities, enhancing capabilities, and providing second chances…To mobilise the economic and political resources to stimulate such reforms, countries must resolve three issues: better coordination and integration with national policy, stronger voice and evaluation", wrote the Bank.[21]

The World Bank's analysis, supported by an expanding literature on the subject, provides a perspective from which to evaluate the performance of South Asia and to point to some areas where significant changes in the direction of public policy are required. One study attributes more than 40 percent of higher growth in East Asia over Latin America in 1965-90 to the faster growth of its working age population and better policies for trade and human development. South Asia has had a high rate of population growth over the last several decades. Although rates of fertility are declining – more in Bangladesh, India and Sri Lanka than in Afghanistan and Pakistan – because of demographic inertia, the working population will continue to increase for several more decades. The region, therefore, has one of the three determinants of growth that propelled the East Asian economies forward.

The second determinant is absent in South Asia; the countries in the region have not made an effort to increase their share of international trade. That could happen but it would require a significant structural change in the economies of the region. The third area is the one that holds the most promise – to take a large slice in international trade and services by developing the region's large populations to contribute to the development of this part of the

[20] Thomas L. Freidman, *The World is Flat: A Brief History of the Twenty-First Century*, New York, Farrar, Straus and Giroux, 2005.

[21] The World Bank, *World Development Report, 2007, Development and the Next Generation*, Washington DC, 2007.

economy. The emphasis on investing in the next generation for promoting development would be timely for the countries of South Asia, since most of them now have windows of demographic opportunities that have opened up in recent years.

Of the several South Asian countries, Afghanistan and Pakistan are by far the most underdeveloped in terms of preparing the next generation for economic uplift. As is the case in other parts of South Asia, the state in these two countries has largely ignored the development of education and skill development. Compared to the countries in East Asia, government's investment at about 2.5 percent of the GDP is about one-third as much. This has to be increased significantly if the next generation is not to be wasted. In addition to investing a very small amount in education and skill, Pakistan has introduced another distortion in the educational system. As indicated earlier, the arrival of conservative Islam in the country has introduced another obstacle that has to be overcome for preparing the youth for the modern sectors of the economy – the sectors which provide the most attractive opportunities to the countries with large and young populations.

The progressive Islamisation of the country since the presidency of General Zia ul-Haq (1977-88) has contributed to the further underdevelopment of the education sector. Under Zia, *madrassa* education was encouraged. This was not an entirely new feature of education for the Muslim communities in South Asia where most parents seek hybrid education, combining both religious and non-religious components. These are usually followed simultaneously. In a comparative study of religious education in Bangladesh and Pakistan, educationist Mathew Nelson finds that in Pakistan "the so-called non-religious side of this education – for example in government and non-elite private schools – tends to be associated with a particular understanding of religion, one that remains persistently apprehensive about the treatment of and, in many ways, even the acknowledgement of religious, sectarian, ethnic, and linguistic diversity".[22] This approach to education is not conducive to producing the type of workforce needed by the modern components of the service sector. Students graduating from the institutions that provide this kind of environment will not be able to function in the ethos that prevails among the workforces in the service sector.

The state in South Asia, therefore, has to give greater attention to the development of the area's large human resource in order to benefit from the opportunities that have become available because of demographic changes worldwide. The attention it has paid has been sporadic and without a strategy aimed at using the abundant human resource for accelerating the pace of development, as well as modernising the societies. If successes came – as they did to a limited extent in Bangladesh and in parts of India – they were the cause of historical accidents rather than the product of a well-thought public policy.

Migration: Past Patterns, Present Trends and Future Prospects

Migration has been an important aspect of life in many parts of South Asia. Even though Hinduism discouraged travel, the followers of the faith have shown a remarkable capacity to search for opportunities outside the country's borders. Today, India has more than 20 million people living and working abroad[23] – a subject to which we will return later in this paper. Migration takes many forms. It can be voluntary or involuntary; it can be over short distances, as in the movement from village to an adjacent town, or from the countryside to the

[22] Mathew Nelson, "Religious Education in Non-Religious Schools: A Contemporary Study of Pakistan and Bangladesh", *Commonwealth and Comparative Politics*, Vol. 46, No. 3, July 2008, p. 271.

[23] Khalid Koser, "Why migration matter", C*urrent History*, Vol. 108, No. 717, pp. 147-153.

large cities some distance away; it can be beyond the country's borders; or, finally, it can be for short periods of time or can be permanent.

The pace of urbanisation will continue at its present brisk pace but with one important difference. In the first 50 years after the South Asian countries emerged from colonial rule, internal migration was directed towards large cities. Some of these cities – Chennai, Dhaka, Karachi, Kolkata, Mumbai, and New Delhi – became megacities, with populations of more than ten million people, within a few decades. This trend is expected to change. A significant part of urban growth will occur in the smaller cities of the region which are expanding along highways and coalescing near cross-roads and coastlines. As South Asia invests in improving its highways – a process that began in Pakistan in the 1990s with the construction of the Lahore-Islamabad Motorway which has now been extended to Peshawar in the north and Faisalabad in the west – and picks up pace in India with the work on the Golden Qualilateral – new population growth centres will emerge. By the year 2025, South Asia may have a billion people living in urban areas, most of them in 200 or so cities strung along the two highway systems being developed in India and Pakistan. The changes in the pattern of migration suggest enormous consequences, economic, political and social.

Not only will the pattern of urbanisation change in South Asia, there will also be inter-state, inter-provincial and inter-district migrations. This will imply the movement of people out of the economically-distressed areas towards those that are advancing economically at a much higher pace. This has already happened in all the states of continental South Asia. There have already been important political consequences of these moves. The most vivid example of this is Karachi. The city expanded rapidly in size after being chosen as the first capital of the new state of Pakistan. The construction boom that followed and lasted for a decade and a half attracted workers from other parts of the country, particularly the North West Frontier Province and northern Punjab. Consequently within a couple of decades, Karachi grew from a city of a quarter million people in 1972 to five million in 1972, a twenty-fold increase in 25 years. This was one of the highest rates of growth of any major urban centre in the world. Mumbai is another example of a South Asian city that grew in size by attracting migrants from all over the less developed parts of the country in particular those that, like the state of Bihar, had a tradition of migration.

Karachi's political travails are well known. They can be traced to migration – to the arrival of a million and a half refugees from India soon after independence in 1947. These migrants – they began to call themselves the *muhajirs* (refugees) – were to constitute themselves into a political force in the 1980s when they began to fear that the political and economic power they had accumulated soon after their arrival in the city was slipping away. Initially the Muhajir Qaumi Mahaz (the National Refugee Front), later rechristened as the Muhajir Qaumi Movement (MQM), a change in nomenclature that suggested less militancy than implied by the earlier name, was to become a potent political force in the country. Much of the violence for which Karachi earned a well deserved reputation was between the MQM and the Pakhtuns who arrived later as unskilled construction and service sector workers. The waves of migration that Pakistan received from the two Afghan wars in the 1980s and the one that is still underway swelled the ranks of the Pakhtuns in Karachi. Karachi is now the world's largest Pakhtun city.

Some of the periodic violence in Mumbai can also be traced to migration as the city became more diversified ethnically and religiously. A large number of the city's natives turned to fundamentalism in the form of a Hindu revivalist movement that openly and aggressively challenged the migrants, a significant number of whom were Muslims. A highly lucid account of how these forces clashed in Mumbai and affected its economic life, growth and performance is to be found in Seku Mehta's *Maximum City*.[24]

Economic policies influence the movement of people. A good example of this is the highly restrictive labour laws that are a legacy of the License Raj in India but remain on the books in spite of the opening of the economy in the 1990s and the early 2000s. These laws inhibit the movement of people across state borders and are thus getting in the way of enterprises in the modern sectors of the economy that have begun to experience shortages of skilled workers. If the labour laws were to be relaxed, there is no doubt that a significant number of workers will move from the crowded parts of the country in the northeast where the rates of economic progress have been relatively slow. The result of this will be the mingling of the very different cultures and languages of the north-eastern and south-western parts of the country. This is bound to produce important political and social consequences of the type already seen in some of the large cities of South Asia.

Finally there is the movement of people across national borders, a tradition that goes back to the 18th and 19th centuries when labour was recruited from what was becoming British India. Workers from India went to many parts of the world, in particular East Asia, the West Indies and East and South Africa. These resulted in the formation of Indian colonies in these areas. Although there was only a trickle of Indian migrants to Britain in the colonial period, this turned into a large surge in the period immediately following the Second World War. The British, having suffered large losses of young people during the war, needed workers and these were available from what was still their Indian colony. Workers were also required to rebuild the industry. There was, consequently, a large movement of people from what was to become Bangladesh and also from India and Pakistan. This migration became the base on which the three communities built their diasporas in Britain. There are now some six million people from South Asia in Britain, the largest foreign community in the country.

Two new South Asian diasporas were formed in the world, one in North America and the other in the Middle East. There were major differences in the economic and social backgrounds of the people who migrated to these two places. The Middle East went through a construction boom that lasted for a decade and a half – from the mid-1970s when the oil prices quadrupled to the beginning of the 1990s, when the United States went to war with Iraq. The construction workers needed for this boom came mostly from Pakistan's northern areas. Later there was a new wave of migration to provide for the service sector in the oil-exporting countries and a large number of these came from Bangladesh and India. Later still, professionals were provided mostly by India to the rapidly developing modern sectors of the economy – in particular banking and finance. While the construction workers returned to their home countries, skilled and unskilled workers in the service sector have stayed on.

There are about 10 million workers from South Asia in this part of the world. The third largest South Asian diaspora is in Canada and the United States. It is made up largely of professionals – computer scientists from India, engineers, economists, physicians from both India and Pakistan. The South Asians in North America number about four million – two and half million from India and about a million from Pakistan. These are by far the richest South Asian diasporas in the world with an average per capita income of more than the American

[24] Seku Mehta, *Maximum City: Bombay, Lost and Found*, New York, Vintage, 2005.

average. The total income of the South Asians in this part of the world is US$250 billion – 17 percent of the combined GDP of South Asia.

Conventional wisdom treats migration as a drain on the domestic economy, particularly when it involves well-educated and skilled people. This would seem to be the case since the education and training of the people involves considerable expense and social cost for the economy and the society. The benefits of this investment accrue to the countries that receive the migrants and not to those from where they come. This, however, is a static view of the situation. As revealed by South Asia's recent history pertaining to the movement of people, migrants provide a great deal of benefits to their home countries. As shown by India's experience with the people it calls non-resident Indians (NRIs), the migrants not only provide a large and reliable source of external finance for the homeland. They are also a source of technical and managerial expertise that is usually scarce in the home country. The NRIs have also become important contributors to the development of venture capitalism in the country. They have also been actively involved in setting up world class businesses and technical schools in India. The management school in Hyderabad that quickly gained international recognition owes a great deal to the efforts of the NRIs.

The Bangladeshi and Pakistan diasporas have also provided aid to their homelands. In the case of the former, worker remittances are an important source of external finance. The money the country receives from this source is the largest 'export' item in its balance of payments after the earnings from the sale of ready-made garments. For Pakistan – more reliant on external finance for domestic investment – remittances have been an important and reliable source. This is the case in particular since 9/11 when the authorities in the United States and other western countries became vigilant in terms of the sources used for transmitting money across the borders. This was done since investigations had shown that *hundi* and *hawala* were the conduits used by terrorist groups to finance their activities.[25] Over the last few years, the United States has become the largest source of remittances for Pakistan, overtaking Saudi Arabia.

There is a life cycle associated with the diasporas.[26] When they are formed, their members use their savings to establish themselves in their new place of work and residence. Remittances per worker are relatively low; they are essentially limited to assisting members of the family in their homeland to satisfy their urgent needs. The exception to this is when the workers move temporarily and without their families, as was the case with the migrant construction workers who went to the Middle East in the period from 1975 to 1990. In that case remittances started flowing back almost as soon as the workers began work on the construction sites. The second phase in terms of remittances begins when the migrants feel they are secure in their new homeland. They then begin to transmit larger amounts of money, mostly to help the family members in their home country. The third phase involves the migrants more fully in organised charity. This is now the situation with respect to the Pakistani diaspora in the United States which is now active in supporting charitable causes at home. As Adil Najam has pointed out in his pioneering work on the Pakistani communities in the United States, the Pakistanis living abroad are one of the largest contributors of charitable

[25] See, for instance, the Government of the United States, *The Report of the 9/11 Commission*, Washington D. C., 2003.

[26] This point was developed by me in Shahid Javed Burki, *Changing Perceptions, Altered Reality: Pakistan's Economy Under Musharraf, 1999-2006,* Karachi, Oxford University Press, 2007.

dollars per capita in the world.[27] The fourth phase begins when the diasporas have established themselves well and have created assets that provide a reliable stream of income to them. It is at this stage that the members of the diasporas begin to think about making investments in the homeland. This is the stage reached by the NRIs with the Pakistani diasporas not far behind.

By pulling together the various strands of analysis presented above, we can begin to see the contours of public policy that would turn the large, young and still increasing populations in South Asia into economic assets rather than social and economic burdens. Because of the declines in the rates of fertility that are now perceptible in South Asian countries, there are windows of demographic opportunity available that would turn people into important determinants of economic growth and modernisation. These windows will stay open for about half a century. Once they close, a very different type of demographic dynamics will come into play. During this time, public policy needs to be shaped so that it fully reflects the demographic situation in different parts of South Asia. However, there are more similarities than differences between these situations. For several decades to come, the Lewisian model of surplus workers from the countryside feeding the non-agricultural sectors with the labour they need will continue to apply. The state's role in this process is minimal. It should not get in the way of this movement.

However, the state should work with the private sector to equip the youth with the education and skills they need to participate productively in the modern sectors of the economy. No South Asian state – not even India, with significantly higher rates of domestic savings – has the resources to do this in the public sector. What is required is partnership between the public and private sectors, with each sector playing the roles in which it has an advantage. In this context, the government needs to ensure at least three things: that the teachers employed in public institutions are well-trained; that the textbooks do not send wrong messages to the students; and adequate physical facilities are available to public institutions. The private sector needs to ensure that even when educational institutions are being run on a for-profit basis, they should adhere to a minimum standard of instruction. A regulatory system is required in which both the public and private sectors have roles.

If the state fails to use the demographic window of opportunity that has become available in all South Asian countries, the cost could be enormous. This has been the Pakistani experience over the last three decades, since the advent of the rule by General Zia ul-Haq, the country's third military president. He encouraged the Islamisation of education in the country, insisting upon the incorporation of Islamic studies in the curriculum. However, the textbooks used for this purpose gave the students grounding in Wahabi Islam, which was not the mainstream religion in the country. This was to profoundly affect the development of the *jihadi* culture among some segments of the Pakistani society.[28] The state, in other words, must bring modernisation to these populations and not inculcate in them the attitudes and patterns of behaviour that render the young misfits in the world.

[27] Adil Najam, *Pakistanis in America: Portrait of a Giving Community*, Global Equity Initiative, Harvard University, 2007.

[28] Sometimes fiction provides a better source for appreciating the consequences of certain public policies for the society at large. For the Zia period a good source is the novel by Muhammad Hanif. See *The case of Exploding Mangoes*, London,

Location and Geography

Economic geography is a relatively new discipline. Like all new and evolving endeavours of human thought, this too does not have well-established contours and frontiers. It is finding its ways as it develops the tools of analysis and insights that are pertinent for its application. The discipline covers location – what the particular geography of an economy implies for its future development. The economy itself can be that of a rural area; a town; a large city; a nation-state; or a well integrated multi-state regional economic or trading association. Economic geographers claim that the same set of principles apply to these different locations. If they did not, then they would not have a discipline. These principles relate to density – both of the economy and the people that inhabit a particular economic space – distance and development. One of the important principles of the new discipline is that with development, economic and population densities increase. According to a 2009 report by the World Bank that focused on economic geography, "density goes from smoothly spread out to quite uneven as a country develops. Urbanisation is thus synonymous with a tendency toward greater agglomeration within a country. A country's urban share is a good proxy for the proportion of its population living in areas of high density and, therefore, for the 'bumpiness' in its economic geography".[29]

Applying the concepts of economic geography to South Asia, we should begin with the location of nation-states. In several respects, South Asia is different from other world regions. At its heart is a large country that shares borders with almost all the states in the area. India has common borders with Bangladesh, Bhutan, Nepal and Pakistan. Only a narrow strip of water separates it from the island state of Sri Lanka. If we use the SAARC definition of South Asia, then only Afghanistan and the Maldives are some distance from India. Three of the eight countries of the region – Afghanistan, Bhutan and Nepal – are landlocked with access to the sea either through India or Pakistan. Pakistan, the second largest country in the region – both in terms of the size of its population and the size of its economy – has as many physical borders as India – Afghanistan, China, India and Iran in its case and Bangladesh, Bhutan, Nepal and Pakistan in the case of India. Unfortunately a number of these borders are difficult – thick, in terms of economic geography. The thinning of these borders would bring many economic rewards.

The two largest South Asian economies that are seriously deficient in energy has produced frequent brown-outs and mandated load shedding. These have brought discomfort to the affected populations and damaged the economies. And yet the two countries are located within easy distance of the world's largest reserves of oil and gas. Both India and Pakistan share borders with countries that have large deposits of gas available. However, largely for political reasons Pakistan has failed to tap Iran and India has been unable to reach an agreement with Bangladesh for the supply of natural gas.

The Iran-Pakistan-India pipeline is an interesting case study in geopolitics. Negotiations for building the 2,600-kilometre pipeline began in 1994 with the goal of supplying 60 million cubic metres of gas daily, eventually increasing to 150 million cubic metres. The project was to cost US$7.6 billion. India imports 70 percent of its oil and gas. While Pakistan is still self-sufficient in natural gas, it is likely to face serious shortages of this fuel in the near future. The Indians pulled out of the project ostensibly because, in their view, Pakistan was

[29] The World Bank, *World Development Report, Geography in Motion*, New York, Oxford University Press, 2009.

demanding an unreasonable fee for transmitting the gas. Many observers believed that the Americans had pushed India into taking that decision. In early June, the *Financial Times* reported that the Iranians had succeeded in interesting Russia's Gazprom in investing in the project, building the 900 kilometres of pipeline passing through the Pakistani territory. "Analysts say Gazprom is interested partly because it seeks a way to channel Iranian gas away from Russia's traditional markets in Europe."[30] The Iranians have already completed the pipeline to their border with Pakistan. If the pipeline does become operational, Pakistan will have three of its four borders providing the country with important economic returns.

Politics has come in the way of using location for economic advantage. Some of the countries in the region have been unwilling to grant transit rights through their territories for conducting inter-country trade. One example of this is Pakistan's refusal to permit the flow of goods and commodities from India to Afghanistan beyond the countries of Central Asia. This is what the country is doing even though the transit of Indian goods through the Pakistani territory will bring it high rewards. In addition to the transit fees Pakistan will be able to charge, it will also create a large number of jobs in the service sector. Pakistan will be able to put to use the spare capacity it has in the motorway system that was built at a great cost to the country. Using it for transit would help to pay for the cost.

Bangladesh has also been reluctant to grant transit rights to the Indians to reach the seven states in the country's northeast, forcing New Delhi to use the narrow strip of land called the 'chicken neck' around it. The Bangladeshis desire for access to Nepal so that the Nepalese could use their port for trade rather than be forced into using the crowded Indian port of Kolkata in West Bengal.

Returning to urban agglomeration, South Asia is likely to see significant changes in the distribution of its population in the next few decades. Table 5 provides some revealing insights into the development of the large cities in the region. Thirty years ago, South Asia's large cities were not very big compared to other urban centres in the world. Kolkata, then the largest in the region was ranked 9th in the world. Mumbai, the second largest, was the 15th. In 2007, the South Asian cities made remarkable strides in the league of world's mega cities. Of the world's ten largest cities, South Asia had four. By 2025, half of the largest ten will be in South Asia. Most remarkably, Dhaka will have 22 million people by that time, ranking number four in the world. Mumbai with more than 26 million people will be the largest South Asian city and the second largest in the world.

While these are significant changes in the distribution of population, what will be even more important is the extraordinary growth of secondary cities, a fact we have already looked into in the context of the discussion of demography. As indicated above, we expect some 200 cities with an average size of four million people to develop into major economic centres strung along the new network of highways being built in India and Pakistan.

[30] Anna Fifield, "Gazprom linked to Pakistan pipeline by Iran", *Financial Times*, 12 June 2009, p. 16.

Table 5: Urban Agglomeration

	Population (millions)			Rank			Average annual rate of change (percent)		Population residing in agglomeration, 2007, as percentage of	
Urban Agglomeration	**1975**	**2007**	**2025**	**1975**	**2007**	**2025**	**2005-2010**	**2020-2025**	**Total population**	**Urban population**
Mumbai (India)	7.1	19.0	26.4	15	4	2	2.0	1.9	1.6	5.6
Delhi (India)	4.4	15.9	22.5	23	6	3	2.5	1.9	1.4	4.7
Dhaka (Bangladesh)	2.2	13.5	22.0	65	9	4	3.3	2.5	8.5	32.0
Kolkata (India)	7.9	14.8	20.6	9	8	8	1.7	1.9	1.3	4.3
Karachi (Pakistan)	4.0	12.1	19.1	26	12	10	2.4	2.4	7.4	20.7
Lahore (Pakistan)	2.4	6.6	10.5	56	38	24	2.5	2.5	4.0	11.2
Chennai (India)	3.6	7.2	10.1	34	35	26	1.8	2.0	0.6	2.1
Bangalore (India)	2.1	6.8	9.7	67	36	31	2.2	2.0	0.6	2.0
Hyderabad (India)	2.1	6.4	9.1	70	40	36	2.0	2.0	0.5	1.9
Chittagong (Bangladesh)	1.0	4.5	7.6	174	56	46	3.6	2.7	2.9	10.7

Source: Department of Economic and Social Affairs , Population Division, the United Nations.

Conclusion

The aim of this paper was to demonstrate that, in addition to using what are now regarded as the standard determinants of economic growth and change, the South Asian states would also do well to factor in other variables into the development equation. Capital accumulation and its allocation to the more productive users will remain important factors of growth. Following the work done by economists such as Robert Lucas and Paul Romer, the state must also give appropriate consideration to improving the economy's knowledge base. This would involve the development of both ordinary and sophisticated skills as well as R&D. However, there are other considerations that must inform the making of public policy. We have focused in particular upon the need to learn from both country and regional experiences. That, as discussed at some length in this paper, has happened to some extent in South Asia but not on a systematic basis. At the same time, the South Asian states must continue to evolve in the direction in which they have been going by not interfering with the working of the private sector but keeping a watch over it; by surrendering more power to the governments at the sub-national levels; and by giving a high priority to organising the countries in the region so that they actively support each other's development.

We gave considerable attention to demographic change in South Asia. This is the second place in this paper where we have focused on demography as an important contributor to economic change. The first place where this was discussed was with reference to the developed world where the recent declines in the rates of fertility have already resulted in reductions in population sizes. This has introduced a new dynamic in the economic equation. One argument advanced in this paper is that these two different demographic experiences in the developed and developing world will interact with one another through migration from developing to developed countries and outsourcing of work from the developed to the developing world. There is resistance to these trends in rich countries; in the case of the former for cultural reasons and in the case of the latter for economic reasons. Ultimately, however, sheer economic sense will prevail. This is the first time in human history that populations in some parts of the world are declining not because of war, disease and pestilence but because of the changes in human behaviour. Wars end, cures can be found to deal with diseases, and pests can be eliminated. However, it is very difficult for human behaviour to change. There is no prospect of changing fertility behaviour in developed countries. Gradually, there will be recognition that economies and societies will retain dynamism in rich countries only by interacting with the world's poorer parts.

We have given some, albeit passing, attention to geography as a determinant of economic change and development while recognising that the discipline of economic geography is still in its infancy. Through interpreting geography to include not only the location of countries but also the distribution of populations within individual countries, we have drawn two important conclusions that the area's policymakers would do well to keep in mind while designing the economic futures of the nations for which they have responsibility. The first is that mostly for political reasons, the countries have not taken advantage of their geographic location. They have been unable to shed the burden of history which stands in the way of drawing full advantage from location. What is required is a thinning, rather than thickening, of the borders. The second important conclusion is that we will see a new trend in the distribution of urban populations in two South Asian countries – India and Pakistan. While the major cities will continue to grow even in these two countries, there will be an even greater increase in the population living in the secondary cities. Factoring in their growth into the development equation will mean the adoption of a different growth model from those followed in the past.

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