

# **CATALYZING REGIONAL COOPERATION IN SOUTH ASIA: GROWTH, POVERTY AND PEACE**

By

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The stunning electoral success of the Congress Party in India against the incumbent BJP has demonstrated that what matters for the people of a country is not just the level of GDP growth but the way it is distributed between the rich and the poor. I have been arguing this in my published work during the last three years in the Pakistani context, and now we have learned the lesson from the voice of the people of India. As both Prime Minister Manmohan Singh and Prime Minister Shaukat Aziz move forward in redesigning their economic strategy so as to achieve both a higher GDP growth as well as a palpable improvement in the material conditions of the poor, it may be time to consider how a rapid peace process can help in this endeavour. In this article we will first indicate the economic logic of replacing conflict with peace at this historic juncture. We will then specify the practical policy actions that can be undertaken to translate this rationality into reality.

## **I. The Strategic Dimension**

South Asia stands today at the cusp of history: Between a past, darkened by poverty, disease, illiteracy and conflict, and a bright future, when the great potential of its human and natural resources, and the shared humanity of its diverse cultures can be actualized. The global environment provides a historically unprecedented scale of private capital flows, trade opportunities, information and technology, which if utilized can dramatically transform the material conditions of life of the countries of South Asia. Within the globalized economy the emergence of a number of regional economic blocs in the continents of Asia, Africa and America, demonstrates that the economic and social welfare of any country is advanced far more if it interacts within the global economy as

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part of a regional bloc, rather than individually. An integrated regional economy accelerates economic growth of member countries through the advantages of geographic proximity, economies of scale in production and infrastructure. At the same time member countries enjoy better leverage in dealing with the global system of finance, investment, trade and institutions. A regional bloc also provides a stabilizing cushion to member countries from the destabilizing fluctuations in the global economy.

For South Asian countries, moving towards regional economic integration provides an opportunity for rapidly accelerating economic growth through increased foreign direct investment from rest of the world, lowering energy costs through power trading, improving the quality and connectivity of infrastructure, increased intra-SAARC trade and the negotiation of better terms for common interests with the WTO.

An examination of the economic growth performance of South Asian countries shows that economic growth is far below its potential and still sharply lower than the growth rates prevailing for example in South East Asia. Our research has shown that much of the difference in the growth performance of South East Asia compared to South Asia is attributable to much higher rates of investment in the former. Apart from this, poorer performance of governance variables in South Asia such as economic regulatory systems, fiscal and judicial systems, are important factors in the relatively poor growth performance of South Asia compared to South East Asia. Lower levels of governance variables leads to increased cost of investment and hence lower economic growth rates for given levels of investment. Increasing investment and accelerating economic growth in South Asia through regional cooperation would therefore play an important role in improving the standard of living of the people in the region. In this context policies should be initiated for facilitating joint venture investment projects, developing infrastructure and increasing the efficiency of investment by providing incentives for technology transfers and firm level R & D associated with foreign direct investment.

A rapid improvement in the material conditions of the people of South Asia requires not only a faster economic growth rate but also a restructuring of growth so as to make it pro poor. This requires providing the institutional basis and economic incentives

for changing the composition of investment towards those sectors which generate relatively more employment and which enable increased productivity and incomes of the poor. These sectors include the construction sector, small-scale industries, and milk, fruits, flowers and vegetables and marine fisheries. Regional infrastructure for transportation, technical services and skill development could enable new growth centers at the regional level for the production and export of the goods and services in these sectors. The increased weight of the output of these sectors in total GDP would enable not only a faster economic growth rate for given levels of investment but also a more equitable growth.

## **II. Some Specific Policy Actions**

Apart from implementing the decision at the Islamabad SAARC Summit to establish a South Asian Free Trade Area, three broad areas for deepening economic cooperation can be identified for purposes of specific policy action:

1. Energy Cooperation within South Asia
2. Increased Investment for Accelerating Economic Growth
3. Restructuring Growth for Faster Poverty Reduction

Specific policy actions for each of the above three areas, are as follows:

### **1. Energy Cooperation within South Asia**

- (a) In the context of developing energy markets of these resources, power trading in the region calls for establishment of high voltage interconnections between the national grids of the countries of the region. India, Pakistan and Bangladesh should, also, cooperate closely in establishing a gas pipeline for transporting gas from Iran, Qatar and Turkmenistan and even Myanmar.
- (b) The precondition to create a competitive power market is to allow freedom to generators to produce electricity and distributors to sell in the market. In this context joint developing, trading and sharing of energy should be pursued.

## **2. Increasing Investment within South Asia through joint venture projects**

The key joint venture projects that can be undertaken to increase investment and growth in the region are as follows:

- (a) Facilitating private sector joint projects in building a network of motorways and railways at international quality standards through out South Asia. These modern road and rail networks would connect all the major commercial centers, towns and cities of SAARC countries with each other and with the economies of Central Asia, West Asia and East Asia.
- (b) Facilitating regional and global joint venture projects for developing new ports along both the western and eastern seaboard of South Asia, and at the same time up-grading existing ports to the highest international standards.
- (c) Facilitating regional investment projects in building a network of airports, together with cold storages and warehouses that could stimulate not only tourism but also export of perishable commodities such as milk, meat, fish, fruits and vegetables.
- (d) Facilitating regional joint venture projects for building dams to utilize the huge untapped potential for energy and irrigation in the mountain ranges of South Asia. These dams of course should be designed and located strictly in accordance with the existing international treaties such as the Indus Basin Treaty.
- (e) Facilitating regional joint venture projects for improving the irrigation efficiency of the networks of canals and watercourses in South Asia.

## **3. Restructuring Growth for Rapid Poverty Reduction**

- (a) Generating Employment and Incomes for the Poor

Economic growth must not only be accelerated but restructured in such a way that its capacity to alleviate poverty is enhanced for given growth rates of GDP. In this

context of achieving pro poor growth, three sets of measures can be undertaken at the country as well as the regional levels:

- (i) Joint venture projects need to be undertaken to rapidly accelerate the growth of those sub sectors in agriculture and industry respectively which have relatively higher employment elasticities and which can increase the productivity and hence put more income into the hands of the poor. These sub sectors include production and regional export of high value added agricultural products such as milk, vegetables, fruits, flowers and marine fisheries.
- (ii) Regional network of support institutions in the private sector can be facilitated for enabling small scale industries located in regional growth nodes, with specialized facilities such as heat treatment, forging, quality control systems and provision of marketing facilities in both the country specific and regional economies.
- (iii) A SAARC Fund for vocational training may be established. The purpose of this Fund would be to help establish a network of high quality vocational training institutes for the poor. Improved training in market demanded skills would enable a shift of the labour force from low skill sector to higher skill sectors and thereby increase the productivity and income earning capability of the poor. It would at the same time generate higher growth for given levels of investment by increasing factor productivity.

(b) SAARC Educational Foundation

A SAARC Educational Foundation in South Asia may be created on the basis of contributions by individual SAARC member countries and more substantially by multi lateral donor agencies. The purpose of this Foundation would be to create a network of high schools at an international standard in every Tehsil (at least one

in each Tehsil) of each of the countries of South Asia. These SAARC schools could act as role models and set the standards for both the private sector and the individual governments to follow.

(c) SAARC Health Foundation

There is an unacceptably high prevalence of disease particularly amongst the lower income groups in the countries of South Asia. Research has shown that poor health is a major trigger that pushes people into poverty. Therefore taking urgent measures at the regional levels for both preventive and curative health institutions would be an essential part of poverty alleviation and human development. In this context a SAARC health foundation can be instituted with the following objectives. It can be financed by multi-lateral donor agencies as well as national and international institutions for humanitarian assistance:

- (i) To establish maternity clinics in each tehsil (at least one in each tehsil) of South Asia for providing pre-natal and post natal care to mothers. This could be an important factor in improving the health of mothers and ensuring improved outcomes of pregnancy in terms of the health and productivity of the next generation. The network of tehsil maternity clinics can act as a catalyst for mobilizing additional support from local donors to expand the network within the tehsil.
- (ii) Establishing high quality model hospitals (one in each district of each country of South Asia). These hospitals in terms of their quality of medical care could set the standards for others in the private and public sectors to follow.
- (iii) SAARC district extension services for sanitation and provision of drinking water at the community level. These centers could provide to NGOs, private sector and community organizations information regarding the available low cost measures that can be taken at the village and mohalla levels for improved hygiene in the home and

access over clean drinking water. The rich corpus of experience of different communities in the South Asian region who have tried on an experimental basis to provide sanitation and clean drinking water can be accessed and made available in a usable form to village and mohalla levels community organizations.

## **Conclusion**

In this article we have set out the economic logic of regional cooperation in South Asia and the specific policy actions that can be taken to improve employment, health and education of the deprived sections of South Asian societies. However the prerequisite for such a process to begin is a change in the governmental mindset. There is an urgent need today for moving out of a mindset that regards an adversarial relationship with a neighbouring country as the emblem of patriotism, affluence of the few at the expense of the many, as the hallmark of development, individual greed as the basis of public action, and mutual demonization as the basis of inter state relations. We have arrived at the end of the epoch when we could hope to conduct our social, economic and political life on the basis of such a mindset. If the people of South Asia as a whole are to actualize their potential for development, a sustained and rapid peace process between India and Pakistan is the need of the hour.