

INDIA PAKISTAN PEACE AND REGIONAL ECONOMIC COOPERATION

By

Dr. Akmal Hussain

Paper published in the monthly Seminar, New Delhi
545 Annual January 2005

INDIA PAKISTAN PEACE AND REGIONAL ECONOMIC COOPERATION¹

By

Dr. Akmal Hussain

We may be at a conjunctural moment in recent South Asian history when both people and governments are seeking to make a break from the past by replacing conflict with cooperation. The states of India and Pakistan are engaged in a peace dialogue to achieve a lasting peace through the resolution of the Kashmir dispute and a simultaneous process of economic cooperation. The citizens of South Asia can perhaps catalyze this process by giving it both direction and depth. This requires specific initiatives for making the peace dividend palpable to the people. Equally important is the need to bring to bear our shared civilizational heritage to bring the peace process to fruition.

This article reaches out to friends and fellow South Asians across the border, to actualize our shared humanity in the institutions of civil society and the conduct of governance. Let us combine our love and analytical reasoning for a future of peace and economic well-being for the people of South Asia.

The stunning electoral success of the Congress Party and its allies in India against the incumbent BJP last May 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. There is an ongoing debate on whether recent economic growth in India and

¹ Note: An earlier version of this paper was published as an article, Akmal Hussain: South Asia: Moving Forward, The Friday Times, 15th Anniversary Edition, 25 June – 1 July 2004, Lahore.

Pakistan has significantly reduced poverty². It is clear however that for *rapid* poverty reduction, high GDP growth will have to be combined with *restructuring* growth so as to enhance its impact on poverty reduction. The policy challenge therefore for both Prime Minister Manmohan Singh and Prime Minister Shaukat Aziz is to redesign their respective economic strategies so as to achieve a sustained high GDP growth, and at the same time achieve rapid progress in employment creation and poverty reduction. In this context it may be time to consider how a new economic policy is linked with a rapid peace process. In this article we will first indicate the economic logic of replacing conflict with peace. We will then specify the practical policy actions that can be undertaken to bring the peace dividend to the people.

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

² For India, see for example, the brilliant paper by Abhijit Sen, which convincingly argues that contrary to received wisdom there has been no significant reduction in poverty during the high economic growth period of the 1990s, see: Abhijit Sen, *Poverty and Inequality in India: Getting closer to the Truth*, paper presented at the World Bank Workshop on Equity and Development in South Asia, December 7-8, 2004, New Delhi.

For Pakistan, see for example:

Akmal Hussain:

- (i) Institutions, Economic Structure and Poverty in Pakistan, *South Asia Economic Journal*, Volume 5, Number 1, January-June 2004, SAGE Publications, New Delhi, 2004.
- (ii) Poverty reduction figure is fudged, *Daily Times*, June 14, 2004.
- (iii) Questioning the official truth, *Daily Times*, June 16, 2004.

Ashfaque H. Khan: Poverty reduction figures are not fudged, *Daily Times*, June 15, 2004.

S.M. Naseem: Have we really broken the begging bowl? *The Daily Dawn*, November 29, 2004.

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 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. Recent 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 Asia³. Lower levels of governance variables leads to increased cost of investment and hence lower economic growth rates for given levels of investment⁴. 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

³ See: Faisal Bari and Ali Cheema, Towards a Common Investment Strategy for South Asia, Report submitted to the South Asia Centre for Policy Studies (SACEPS), May 2003.

⁴ Akmal Hussain: Institutions, Economic Structure and Poverty in Pakistan, op.cit.

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 fisheries⁵. 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 growth⁶.

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

⁵ Akmal Hussain: A Medium Term Strategy of Economic Revival, paper presented to the President's Economic Advisory Board, 1999. Published version titled: A Policy for Pro-poor Growth by Akmal Hussain, in UNDP (Pakistan), Towards Pro Poor Growth Policies in Pakistan, 2003.

⁶ Ibid.

national grids of the countries of the region. India, Pakistan and Bangladesh should, also cooperate closely in establishing gas pipelines in South Asia for transporting gas from Iran, Qatar and Turkmenistan and even Myanmar. Specifically the ongoing official negotiations on transporting oil and gas from Iran through Pakistan to India should be brought to an early and successful conclusion. To strengthen the mutual inter dependence between India and Pakistan the recent proposal by Mr. Manishanker Iyer⁷ for transporting diesel fuel from Panipat to Lahore should also be taken up quickly.

- (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.

⁷ This proposal was made by H.E. Mr. Manishanker Iyer, during his key note address at the SACEPS seminar on Regional Cooperation in South Asia in New Delhi, 31st August 2004. Also see Akmal Hussain: A New Beginning in the Peace Process, Daily Times, September 28, 2004.

- (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 skill training, credit and 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 selected districts in 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 Foundation⁸

There is an unacceptably high prevalence of disease particularly amongst the lower income groups in the countries of South Asia. Recent research has shown that poor health is a major trigger that pushes people into poverty⁹. 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 I have proposed that a SAARC health foundation may be instituted as a private-public partnership with the following objectives. It

⁸ For a more detailed discussion of this concept, see: Akmal Hussain, South Asia Health Foundation, A Concept Note, 8th November 2004. Note presented to the South Asia Centre for Policy Studies.

⁹ Akmal Hussain, et.al., UNDP, Pakistan National Human Development Report, 2003, Oxford University Press, Karachi 2003.

can be financed primarily by the private sector, with contributions by regional governments and multi lateral donor agencies:

- (i) To establish reproductive health care clinics in selected low income districts in each of the countries 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.
- (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.