

**Poverty, Growth and Governance in  
South Asia**  
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**INTRODUCTION**

South Asia today stands suspended between hope of a better life, and fear of a cataclysmic death. The hope emanates from the tremendous human and natural resource potential, the richness and variety of its civilizations. The fear arises from the fact that South Asia is not only the poorest region in the world, but also one where the probability of an accidental nuclear war is perhaps greater than in any other region of the world.

Governments in South Asia have primarily pursued national security through increasingly destructive military apparatuses, rather than seek *citizens'* security through actualizing their creative potential. For example South Asia currently spends US\$14 billion annual on the military. Military expenditures by India and Pakistan have been growing at an average annual rate (in nominal terms) of about 12 per cent. The human opportunity cost of this expenditure can be judged by the fact that half the military expenditure of South Asia for one year could have provided primary school education to 119 million children for one year provided safe drinking water for two years to about 200 million people currently denied this facility and provided essential medicines to 117 million people for two years who have no access to any health facility at present.<sup>1</sup>

After fifty years of economic development we find that increasing numbers of people are suffering from hunger, illiteracy and preventable diseases. Children who embody our future are in a far worse condition. The majority are suffering from malnutrition, with 99 out of every 1000 children born dying before the age of one. Out of those who survive the one-year barrier, millions die of water borne and preventable diseases; almost half the school age children do not get the opportunity of even primary education. Out of those too poor to go to school, million of children are engaged in labour. Many are maimed, blinded, and struck with lung diseases and brain

deformities related with poisonous emissions, and physical hazards at work places.<sup>2</sup> We are witnessing a massacre of the innocents. That in spite of this fact, South Asian governments are directing increasing resources to building weapons of mass destruction, raises the problematique of governance.

This chapter attempts to examine South Asia's poverty and locates its roots in the structure of the economy and of governance in South Asia. It is divided into three main sections with Section I analysing the profile of poverty in South Asia in the context of the economic growth process. Section II explores the relationship between persistent poverty, macroeconomic policy and the nature of Governance. Section III proposes the outline of an approach to overcoming poverty in terms of a new perspective on governance, which involves the building of grassroots institutions on the one hand and restructuring the macroeconomic growth process on the other.

## **POVERTY AND ECONOMIC GROWTH**

South Asian economic growth rates have been low compared. For example, to the ASEAN countries, and It can be argued that accelerated GDP growth rates in South Asian countries could contribute to alleviating poverty, as they did in the case of South East Asia Yet, the pace at which GDP growth reduces poverty, and indeed whether it is reduced at all, depends not just on the magnitude but on the Structure of economic growth. Thus, for example if higher economic growth of the kind that occurred during the "Green Revolution" in the late 1960s is associated with tenant eviction (in the Pakistan case)<sup>3</sup>, labour displacing mechanization (in both Pakistan and some states of India)<sup>4</sup> and soil depletion owing to over-use of soils<sup>5</sup> then such growth could accentuate rather than alleviate poverty.

In the case of India there has been considerable debate about whether the incidence of poverty in rural India increased or decreased during the "Green Revolution period. Studies by Bardhan<sup>6</sup> and Rajaraman<sup>7</sup> respectively, estimate that the proportion of rural population living below the poverty line increased during this period. By contrast Minhas<sup>8</sup> estimates that the proportion of rural population below the poverty line declined significantly during the same period.<sup>9</sup> Even though estimates of poverty trends in India based on consumption data

are debatable yet related evidence on growing proletarianisation of the peasantry, declining employment elasticities associated with labour displacing mechanization and falling rural real wages suggest, that Poverty during the Green Revolution period may have increased.<sup>10</sup> Thus, as Vaidyanathan points out “one cannot take for granted that moderate improvement in growth per se will make a significant difference (to poverty) unless effective steps are taken to prevent worsening of the distribution of operational holdings (whether due to land transfer or resumption of land by owners for self-cultivation) and to arrest the pace of labour displacing mechanization”.

In this section we will present a brief profile of poverty in South Asia and then indicate the adverse structural features of economic growth in some of the South Asian countries that inhibit the capacity of GDP growth to alleviate poverty.

### **Poverty Profile of South Asia<sup>12</sup>**

South Asia has the highest incidence of poverty not only in terms of absolute numbers but also as a percentage of the population compared to any other regional group of countries in the world. Thus, in South Asia, as much as 43 percent of the population lives in absolute poverty,<sup>13</sup>

Compared to 14 percent in East Asia (excluding China), 24 percent in Latin America and 39 per cent in Sub-Saharan Africa (see Table 1).

**Table 1: Percentage of Population in Absolute Poverty South Asia Compared to other Regions.**

<b>Region</b>	<b>Per cent Population in Poverty</b>
South Asia	43
East Asia (excluding China)	14
Latin America and Caribbean	24
Sub-Saharan Africa	39

*Source: Human Development in South Asia, 1998.*

*Note: Poverty is defined as less than US\$1 per day per person based on 1985 PPS.*

As economic growth in most South Asian countries accelerated during the 1980s, and targeted programmes for the poor were adopted, the percentage of population in absolute poverty (on a dollar a day per person basis) has declined in recent years (although at differing rates) in all South Asian countries except Nepal. In India, for example, the percentage of population in absolute poverty has declined from 53 in 1970 to 35 in 1993: In Pakistan from 40 in 1965 to 30 in 1995: and in Bangladesh from 70 in 1973 to 46 in 1995. In Nepal, however, there has been an increase in the percentage of population in absolute poverty from 36 in 1976 to 45 in 1996.

There are three important aspects of the overall profile of economic deprivation in South Asia that has important implications for the quality of “human capital” in the future, and hence for growth policy:

1. Malnourished children as a percentage of total population are much greater in each of the South Asian countries compared to the percentage of their populations in poverty per se. As Table 2 shows, for example, in India malnourished children as a percentage of population is as much as 53 compared to the overall poverty figure of 35; similarly in Pakistan the incidence of child malnutrition is 38 per cent compared to the overall poverty figure of 29 percent. Bangladesh which has the highest incidence of child malnutrition, at 67 per cent, has a poverty incidence of 46 per cent: in Sri Lanka the incidence of child malnutrition is 38 per cent compared to a poverty incidence of 22 per cent. The overall weighted average in South Asia for the incidence of child malnutrition is 53 per cent compared to a poverty incidence of 35 per cent.

2. The percentage of children dropping out before grade 5 in South Asia is much higher than the average for all developing countries: The weighted average for South Asia is 41 per cent compared to 31 per cent for all developing countries. While in some South Asian countries the figure is very high (Pakistan 52 per cent, Bangladesh 55 per cent, Nepal 48 per cent), in others it is commendably low (Sri Lanka 8 per cent, Maldives 7 per cent). India, at 37 per cent is lower than the average for South Asia but is still higher than the average for all developing countries (see Table 2).

3. The percentage of population deprived of basic services such as access to safe drinking water, health and sanitation in some

of the South Asian countries is also quite high. For example, the percentage of population without access to safe drinking water is 37 in India, 40 in Pakistan, 52 in Nepal and 43 in Sri Lanka. In the case of access to health services, Pakistan, Bangladesh and Bhutan have 35 to 55 per cent of their populations deprived of this service, while India and Sri Lanka appear to be doing much better with figures of 15 per cent and 7 per cent respectively (see Table 2). The percentage of population deprived of sanitation facilities is also high, even by developing country standards in the case of Pakistan, Bangladesh, Sri Lanka, Bhutan and the Maldives where the figure ranges from 47 to 76. India is slightly below the South Asian average at 29, while Sri Lanka appears to be doing well at 18.

The fact that even after 50 years of Independence such a large proportion of the population is deprived of basic necessities while military and bureaucratic apparatuses have grown, shows that states in South Asia have failed to focus on a fundamental feature of nation building: Enabling the citizens to be well-fed, healthy and educated.

Governments in South Asia have neglected so far their Primary obligation to allocate the required resources, help build the necessary grassroots institutions, and restructure the growth process for overcoming absolute poverty deprivation of the people.



**Table 2: South Asian Countries: Comparative Poverty and Deprivation Profile**

	India	Pakistan	Bangladesh	Nepal	Srilanka	Bhutan	Maldives	South Asia Weighted Average	Developing Countries
1 Percentage of Population in Poverty (1995)	35	29	46	45	22	N.a	N.a.	35	N.a.
2 Malnourished Children under 5 as percentage of Total population (1995)	53	38	67	49	38	38	39	53	31
3 Percentage of population without access to Safe Water (1995)	37	40	17	52	43	42	49	36	29
4 Percentage of Population without access to Health Services (1995)	15	45	55	N.a	7	35	25	22	20
5 Gross Enrolment Ration, age 6-23, percent, (1994)	56	38	39	55	66	31	71	52	56
6 Percentage of Children Dropping Out before Grade 5 (1991)	37	52	55	48	8	27	7	41	31
7 Percentage of Population without Sanitation	29	47	48	18	63	70	76	33	42
8 HDI (1994)	0.446	0.445	0.368	0.347	0.711	0.338	0.611	0.440	0.576

*Source:* Human Development in South Asia, 1998, Human Development Center, OUP, Karachi 1998 (Various Tables).

## **The Structure of Economic Growth and Poverty**

In spite of higher GDP growth rates, the pace of poverty reduction has been low. For example, in India over two decades (1970 to 1993), poverty declined from 53 per cent to 35 percent (18 percentage points). By contrast, in Indonesia<sup>14</sup> over one decade (1972 to 1984), poverty declined from 5 percent to 17 percent (41 percentage points).

The fact that this difference is not simply due to India's relatively lower GDP growth is indicated by a comparison between Pakistan and Indonesia, which have GDP growth rates close to each other: Pakistan in three decades (1962—92) could reduce the percentage of its population from 40 in 1962 to 22 in 1992, while Indonesia reduced it from 58 to 17 in just one decade (1972—84). These examples suggest that the structure of the economic growth process in South Asia may constrain its capacity to reduce poverty over time.

In spite of considerable variations across South Asian countries, and between regions within these countries, it can be argued that, the major structural factors in South Asian economies which may constrain the ability of GDP growth to reduce poverty, particularly that of poor women,<sup>15</sup> are:

1. The unequal distribution of assets in both agriculture and industry with respect to income groups as well as gender.
2. The structure of output is concentrated towards low value added products, particularly in the export sector, thereby resulting in low labour productivity and labour income per unit of labour time.
3. The sectoral distribution of the labour force is concentrated in low productivity sectors with relatively low skill levels of the labour force in given occupations.

## **MACROECONOMIC POLICY, GOVERNANCE AND POVERTY**

### **IMF Structural Adjustment Programmes and Poverty**

Regardless of the economic and political Imperatives of adopting IMF structural adjustment programmes, the

macroeconomic policies associated with such programmes adopted in varying forms by South Asian countries have, by and large, had an adverse impact on poverty and income distribution. In the pursuit of these programmes South Asian countries have undertaken three sets of policy measures each of which as the ensuing analysis shows, has served to accentuate poverty:

1. Liberalization of imports and withdrawal of subsidies from domestically produced goods and services. This has lowered the prices of imported consumer goods relative to the prices of domestically produced goods. This tendency has been accentuated by distortion in the tariff structure under which, in many cases, the import duties on finished consumer goods have fallen more sharply than on imported industrial raw materials and intermediate goods. Consequently, imported consumer goods have become relatively cheaper, thereby, crowding out domestically produced goods. This has been a significant factor in slowing down growth of the domestic manufacturing sector, and in increasing unemployment.

Subsidy withdrawal under IMF conditionality In South Asia has occurred In the case of food, fertilizers, irrigation water and utilities such as gas and electricity. Since these goods and services constitute a relatively larger proportion of expenditure by the lower Income groups, there has been a greater impact on the real incomes of the poor relative to the rich. Moreover, small and subsistence farmers who have no marketable surplus find that their production costs increase (following subsidy withdrawal on fertilizers, Irrigation water and pesticides), while they enjoy no compensatory gain from increased prices of food grain (following subsidy withdrawal on wheat).

Interestingly, while prices of goods and services, which have a greater weight in the poor man's basket, have increased, the prices of imported goods Consumed by the rich have fallen. This is another factor in accentuating the inequality in income distribution. .

2. The second policy conditionality of the IMP structural adjustment programmes pursued In South Asia. Is exchange rate devaluation This has accelerated inflation to the extent that domestically manufactured goods depend on imported Inputs and hence suffer increasing cost per unit, following devaluation. Higher inflation rates have relatively great impact on the poor

and marginalised who have fewer resources to fall back on compared to the rich. Another factor in accentuating inequality in income, distribution following inflation is that with monopolistic market structures, manufacturers can pass on the increased cost of living through increasing the prices of goods they manufacture. By contrast, poorly organized workers are unable to negotiate wage increases at the same pace as inflation.

3. The third element in the IMF policy programme is a constriction of the money supply. This is inherently recessionary interest rates rise and credit available for private sector investment declines. At the same time, reduction in public sector expenditure associated with reducing the fiscal deficit dampens aggregate demand.

In Pakistan the growth of money supply fell from 46.5 per cent during the period 1984—87 (the pre-structural adjustment period) to 40.6 per cent during 1988-91 (the post-adjustment period). The *raison d'être* of the reduction in money supply was to reduce inflation. Yet the inflation rate far from falling actually increased from 4.7 per cent in the pre adjustment period to 9.5 per cent in the post-adjustment period.<sup>16</sup> This is because of the persistence of structural imbalances that underlie Pakistan's inflation rate (such as slow growth of food output, deteriorating infrastructure, and slow growth in domestically produced industrial inputs and machinery).

The Indian experience also shows that attempts at reducing inflation through a tight money policy and reduction in the fiscal deficit under the IMF economic stabilization program have not succeeded. Professor Deepak Nayyar in a brilliant analysis of the economic liberalization experience in India shows that in spite of initiating a macroeconomic stabilisation programme in mid-1991, the inflation rate actually increased during 1991—95.<sup>17</sup> He argues that during this period, despite the fact that there were good harvests and no exogenous shocks, the economic stabilisation policies failed to bring down the inflation rate, the highest in the history of independent India. Professor Nayyar proposes that the positive impact of the policy of money supply contraction on inflation, may have been dampened by the “real disproportionalities underlying the inflationary pressures...”<sup>18</sup> Similarly, in Pakistan's case there is evidence to suggest that the institutional constraints to output growth of essential commodities have resulted in accelerated

inflation, and reduced real incomes of wage workers and self-employed in both rural and urban areas.<sup>19</sup>

In the case of India Professor Nayyar has shown that the prices of the basket of essential commodities during the period 1991-95 (when the structural adjustment programme was being implemented) rose at a rate unprecedented since Independence: Prices of food grains rose by 90 per cent during the period, the prices of primary food articles by 77 per cent, and the prices of manufactured food products by 62 per cent. He argues that in a period where real per capita income remained stagnant, such high Inflation rates in basic necessities may have been a significant factor in increasing poverty.<sup>20</sup>

While the policy of contraction of the money supply under the IMF programme failed to reduce inflation, It slowed down GDP growth.<sup>21</sup> In Pakistan's case high interest rates combined with a dampening of aggregate demand induced by a sharp reduction in development expenditure, served to slow down GDP growth, particularly the large scale manufacturing sector. Thus for example GDP growth fell from 6.2 per cent during 1985—88 to less than 3 per cent in 1996-97. Growth of the large-scale manufacturing sector declined from 8.3 per cent in the mid-1980s to negative growth in 1996—97. This sharp slow down in growth of the large-scale manufacturing sector would be expected to increase unemployment. The tendency towards increasing unemployment is accentuated by the fact that In Pakistan the elasticity of employment with respect to out has been declining during the 1990s.<sup>22</sup>

This means that for given growth rates of output, employment generation in the manufacturing sector is declining. As output growth in this sector has decline, clearly the downward pressure on employment has been intensified. It is not surprising therefore that the growth rate of employment in this sector has declined from 12.7 per cent in 1986-87 to - 4.2 percent in 1993-94.

It appears that the macroeconomic stabilisation program adopted in both India and Pakistan under IMF auspices has served to slow down GDP growth, accelerate inflation and accentuate Poverty and unemployment.

### **Governance and Poverty**

It can be argued that the adverse impact of the structural adjustment program on the poor was exacerbated by the institutional context within which the program was applied. The fact that in spite of a sharp reduction in development expenditure and in the growth of the money supply, the fiscal deficit and interest rate could not be reduced was rooted in four failures of governance: (a) failure to recover bank dues from loan defaulters by public sector banks; (b) failure to stem the fiscal hemorrhage resulting from continuing large losses of public sector corporations; (c) failure to drastically reduce non-development expenditure of the government; and (d) failure to broaden the tax base to bring a much larger number of income earners into the net.

Such failures have occurred in varying degrees in South Asian countries and are rooted in the peculiar nature of governance in these countries. In the prevalent political culture policy support of socially influential individuals and groups is to some extent acquired and maintained through Patronage in which resources and employment decisions under the direct or indirect command of the state are siphoned off to such individuals and groups. Market criteria and merit in the operations of public sector corporations and banks are often ignored when governance is practiced in a context where traditional patron-client relations, *biradries* and *sifaarish* continue to be important factors in mobilizing political support.

### **Governance Military Spending and Poverty**

South Asia is the poorest and yet the most militarized region in the world.<sup>23</sup> The arms race between India and Pakistan (with these two countries accounting for 93 per cent of total military expenditure in South Asia) is primarily responsible for this cruel irony. India ranked by the World Bank at 142 in terms of per capita income, ranks first in the world in terms of arms imports. Pakistan is not far behind, being ranked 119 in terms of per capita income, and tenth in the world in terms of arms imports. What is even more significant is that while global military spending declined by 37 per cent during the period 1987—94, military spending in South Asia increased by 12 per cent.<sup>24</sup>

These military expenditures, whose scale is unprecedented in the developing world, are being done in the name of achieving

“National Security” In a situation where 53 per cent of the children in South Asia are malnourished and 36 per cent of the population deprived of safe drinking water, the logic of such large and growing military expenditures needs to be questioned. The trade-offs between military expenditures and the provision of basic services are worth considering. For example, a modern submarine with associated support systems costs US\$ 300 million, which would be enough to provide safe drinking water to 60 million people. The issue that arises is whether national security can be sustainable when achieved at such heavy cost to citizens’ security.

A deadly dimension has been added to the India-Pakistan arms race, by the nuclear tests conducted first by India and then by Pakistan in May 1998. There are three features of the India-Pakistan strategic nuclear environment which imply a high probability of an accidental nuclear war and as a consequence make nuclear deterrence unstable: (a) The flying time of nuclear missiles between India and Pakistan is less than five minutes. (b) Press reports suggest that neither country may have adequate surveillance and failsafe mechanisms. (c) The unresolved Kashmir dispute which fuels tensions between the two Countries and makes Susceptible to disinformation about each other’s intentions The India military engage in the Kargil area of Kashmir during June 1999 is a case in Point it demonstrates the invalidity of the Conventional wisdom that in the presence of a nuclear deterrent both countries would have enhanced security, The Kargil conflict quickly escalated to a point when according to a number of politicians India and Pakistan came to the brink of a nuclear war.

The presence of these factors makes the probability of an accidental nuclear war higher than in any other region on earth. To the extent that this is so, the concepts of deterrence and national security through nuclear Weapons in South Asia become questionable.

Recent estimates suggest that even in a limited nuclear exchange between India and Pakistan with their existing nuclear Capabilities over 100 million people would die and many hundreds of millions more would subsequently suffer from radiation related illnesses. Under these circumstances the threat to citizens’ security in South Asia as a result of pursuing the arms race, has become Incalculably greater than before

Moreover, given the high rate of obsolescence of nuclear weapons the resource cost of a nuclear arms race will accelerate the diversion of resources from development to weapons of mass destruction. Consequently while it is certain that poverty would be accentuated, and human security undermined the achievement of 'National Security' in India and Pakistan through such means would remain questionable.

If poverty is to be overcome and indeed, if life itself is to survive in South Asia, then a new mindset in the conduct of governance may be necessary. There is a need to get out of the strait-jacket of what may be called a nuclearised imagination. Notions of power based on the capacity for mass destruction and a sense of insecurity fuelled by demonised perceptions of each other's identities. The new mindset of government would be drawn from the wellsprings of love, universal humanism and the desire for a creative interplay amongst culturally diverse people. These wellsprings irrigate the respective civilizations in South Asia. Only within this radically different psychic perspective of governance would it be possible to resolve outstanding territorial disputes, achieve nuclear disarmament and reap the peace dividend for the peoples of South Asian countries.

### **OVERCOMING POVERTY THROUGH PARTICIPATORY DEVELOPMENT AND PRO-POOR ECONOMIC GROWTH**

Overcoming poverty in South Asia would require a two pronged approach:

1. Building a network of institutions at the village and *mohalla* level to actualise the potential of the poor through Participatory Development.
2. Restructure the economic growth process through a set of macroeconomic policies designed to provide employment to the poor, and to direct credit, technical training and infrastructure to poor communities so as to achieve a sustainable increase in their income and savings. Restructuring the growth process is necessary to enhance its capacity to alleviate poverty. At the same time as village/mohalla level organizations of the poor are created, together with skill training, credit and

technical support, a localized capital accumulation process begins. This would contribute to accelerating the growth and making it more equitable.

During the last decade a number of successful initiatives In Participatory Development have been undertaken in South Asian countries. These include the Agha Khan Rural Support Program (AKRSP), National Rural Support Program, PIEDAR and the recently established Punjab Rural Support Program. In Pakistan. BRAC and Grameen Bank in Bangladesh; the UNDP Poverty Alleviation Program in India. Sri Lanka and Nepal. These success stories suggest that it may be possible to achieve scale and have a significant direct Impact on poverty through social mobilisation at the village level, and provision of training, technical support and credit through carefully structured support organizations, using the methodology of Participatory Development.

### **The Concept of Participatory Development**

Participatory development in its broadest sense is a process, which Involves the Participation of the poor, at the village / mohalla level, to build their human, natural and economic resource base for breaking out of the poverty nexus. It specifically aims at achieving a localised capital accumulation process based on the progressive development of group identity, skill development and local resource generation.

At this level of generalisation the concept has three key elements:

- (a) *Process*: it Is a process whose moving forces are the growth of cons and group identity, and the realisation, in practice of the creative potential of the poor.
- (b) *Empowerment*: The process of reconstructing a group Identity, of raising consciousness of acquiring new skills and of upgrading their knowledge base, Progressively Imparts to the poor a new power over the economic and social forces that fashion their daily lives. It is through this power that the poor shift out of the perception of being passive victims of the process that perpetuates their poverty. They become the active forces in initiating

- Interventions that progressively improve their economic and social condition, and help Overcome poverty.
- (c) *Participation.* The acquisition of the power to break the vicious circle of poverty is based on participation within an organization in a Series of projects This participation Is not through representatives who act on their behalf but rather, the actual involvement of each member of the organisation in project identification formulation, implementation and evaluation It Is in the Open meetings of ordinary member at the village/mo level orgarlisa that decisions are collectively taken, and work responsibilities assigned on issues such as income generation projects, savings funds, conservation practices in land use, Infrastructure construction and asset Creation.

### **The Dynamics of Participatory Development**

The process of participatory development proceeds through a dynamic interaction between the achievement of specific objectives for improving the resource position of the local community and the sense of community identity. Collective actions for specific objectives such as a small irrigation project fertilizer manufacture through organic waste, clean drinking water provision, or production activities such as fruit processing, can be an entry point for a localized capital accumulation process leading to group savings schemes, reinvestment and asset creation. The dynamics of participatory development are based on the possibility that with the achievement of such specific objectives for an improved resource position, the community would acquire greater self-confidence and strengthen its group Identity.

### **Restructuring Economic Growth for Poverty Alleviation**

At the macroeconomic level three initiatives involving Government, the private sector and foreign investors would be required to restructure economic growth in South Asia, so as to enhance its capacity to reduce poverty:

1. Accelerate GDP growth rate from the current 3 per cent to 5 per cent range to the 7 per cent to 10 per cent range In South Asian countries. This implies a sequenced set of policy

measures designed to achieve the following intermediate objectives:

- (a) Reduce the fiscal deficit by a sharp reduction in non productive government expenditure, privatizing those public sector corporations which are a drain on the public exchequer, recovering bad loans and broadening the base of direct taxation.
- (b) Tariff rationalization so as to remove the implicit disincentives to the private sector to invest in manufacturing, particularly exports.
- (c) Once the fiscal and balance of payments deficits have been brought to safe levels, a major drive to build infrastructure should be undertaken by developing a partnership between government, private sector and foreign capital. Development of improved Infrastructure would not only stimulate GDP growth through an injection of aggregate demand in the economic but since it involves labour technologies would accelerate employment generation and improved income distribution in favour of the workers.

2. Enable the work force to shift from low Value added sub-sectors to high value added Sub-sectors in both industry and agriculture. This requires improving the skill level of the work force through trade specific training of technicians and If this can be achieved it would increase the share of labour in national income, thereby, enhancing the poverty reduction capability of economic growth.

3. Through institutional support training and credit accelerate the growth of small scale industries, which have a higher employment generation and output growth capability per unit of Investment than the large manufacturing sector. As the composition of total investment shifts in favour of small-scale industries, not only would GDP growth be accelerated for given levels of investment but it would also enhance its capacity to reduce poverty.

## **CONCLUSION**

In this chapter we have examined the profile of poverty in South Asia, to indicate that not only is the Incidence of absolute

poverty higher than in any other region of the world but that the number of people deprived of basic services such as safe drinking water, health and sanitation is even greater than those in poverty. This has significant Implications for economic policy with respect to improving the quality of human capital for economic growth.

We have argued that the Structures of the South Asian economy and of governance may be Perpetuating poverty. The analysis in this context shows how the Structure of the South Asian economy constrains the poverty reduction capability of economic growth. At the same time, the analysis proposes that the nature of govern currently being practised in South Asia precludes certain resource allocation and economic policy Initiatives (such as a drastic reduction in non-productive government expenditure, recovery of bad loans, and broadening of the tax base), that are necessary for economic stability, growth and poverty alleviation.

The IMF structural adjustment programme was examined to show how It has not only tended to worsen income distribution, and add to the burden of the poor, but may have served to slow down GDP growth Itself, given the peculiar institutional and governance framework in which the programme was adopted.

The chapter proposes a two pronged Initiative for poverty alleviation: Institution building for participatory development at the grassroots level, and policies for restructuring economic growth at the macroeconomic level so as to both accelerate economic growth and make it a more potent Instrument of poverty reduction.

Finally, the issue of poverty and citizens' security is counterposed to the prevailing concepts of national security. South Asia while being the poorest, is also the most militarized region in the world. Massive resources are being taken away from the enterprise of overcoming poverty towards building military apparatuses with a view to achieving greater national security. Two questions were explored in this context:

1. In a situation where increasing numbers of people are being impoverished with associated Intensification of internal social conflict, can the attempt at achieving "national security" be sustained at the expense of citizens' security?
2. The pursuit of "deterrence" through nuclear arms becomes particularly problematic in a situation where neither India nor

Pakistan may have adequate failsafe systems and where the short flying time of nuclear missiles and the tensions of the outstanding Kashmir dispute make an accidental nuclear war in South Asia more probable than in any other region of the world. The chapter argues that if the people of South Asia are to survive, let alone overcome poverty, the governments of the region would have to move out of the narrow mindset of power drawn from the capacity for mass annihilation. The nuclearised imagination would have to be replaced by a humane imagination. The sensibility of love and the creative interplay of diverse cultures that lies deep within the well springs of the respective civilizations of South Asia would have to be brought to bear in the practice of governance poverty is to be overcome and life is to survive in South Asia.

#### NOTES

1. Estimated on the basis of data provided in Haq. Mahbubi *Human Development in South Asia*, 1997, Karachi: Oxford University Press, 1997.
2. For an analysis of hazards faced by working children in Pakistan, based on a field survey, see Hussain, Akmal, "Child Workers in Construction and Related Industries Geneva: IU) Mimeo. Later published in the Lahore Journal of Economic 2: 2, July-December 1997.
3. See Hussain, Akmal, impact of Agricultural Growth on Changes in the Agrarian Structure of Pakistan. With special reference to the Punjab," Sussex University D. Phil Thesis, 1980.
4. (i) McInerney. J. D. And Donaldson, G. F., The Consequences of Farm Tractors in Pakistan, World Bank Staff Working Paper No. 210, February 1975.  
(ii) In a study by Ahluwalia, of the six states in India which recorded a significant trend rise in per capita agricultural output between 1956 and 1973, after removing the effect of inter state

variations in per capita agricultural output. There was a trend increase in the incidence of poverty in more than half the states. Labour displacing mechanisation was identified as one of the factors behind this rising poverty trend. See Ahiuwalia, M.S., Rural Poverty in India 1956-57 to 1973-74, reproduced in World Bank Staff Working Paper No. 279, Washington D.C., 1978.

- (iii) In a number of states including Punjab, Haryana, during the period 1972 to 1978, total labour input declined in absolute terms in spite of a rise in production, Sec Vaidyanathan A., Pattern of Labour Use in Rural India: A Study of Regional and Temporal Variations Madras institute of Development Studies, 1986,
5. For a discussion on soil depletion due to over-use of soils in the Indian case see Shiva, Vandana and for the Pakistan case see Hussain, Akmal:
    - (i) Vandana Shiva, Staying Alive, London: Zed Books, 1990, Chapter
    - (ii) Akmal Hussain "Agriculture Growth and Employment in Pakistan's Rural Sector: Policies for Institutional Change." LW, Mimeo, March 1999.
  6. Bardhan. P.R.. "On the. Incidence of Poverty in Rural India during the Sixties," Economic and Political Weekly, February 1973.
  7. Rajaraman, Indira, "Poverty, Inequality and Economic Growth In the Punjab 1960-61 to 1970-71." Journal of Development Studies, 2: 4, 1973.
  8. Minhas, B.S., "Rural Poverty, Land Distribution and Development Strategy Indian Economic Review. Apr11 1970.
  9. These divergent estimates are due to the fact that Bardhan and Rajarman use NSS data for estimating both

the mean rural per capita consumption and the distribution of rural population around the mean, while Minhas uses Central Statistical Office data (CSOI for estimating the mean and NSS data for the distribution of rural population.

10. On declining employment elasticities in crop production see:  
(i) Bartsch, W. A.. Employment and Technology Choice in Asian Agriculture, Geneva: 1W, 1977; (ii) Sinha, J.N.. Employment in Agriculture In the Draft Plan 1978-83, Economic and Political Weekly, 1979.  
For a discussion on the Increasing importance of rural wage labour and declining rural wages during the Green Revolution period see A. Vaidyanathan, A., "Agricultural Development and Rural Poverty" In Lucas, Robert and Papanek, Gustar, eds., The Indian Economy, Oxford University Press, 1988.
11. Vaidyanathan. A., op. cit., p. 84.
12. The data source used In this section is the Report of Human Development In South Asian, 1998. By Haq. Mahbubul and Haq, Khadjia. The Human Development Centre, Karachi: Oxford University Press, 1998.
13. Report of Human Development in South Asia. 1998, op. cit.
14. World Bank Report No. 3902-Pak
15. For a pioneering study on how lack of access over land rights constrains overall agricultural growth and perpetuates poverty amongst women, see Agarwal, Bina, A Field of One's Own. New Delhi: Oxford University Press. 1997. For a more detailed discussion on these issues, in the context of Pakistan see Amjad, R. And Kemal. A.R, Macroeconomic Policies and their impact on Poverty Alleviation in Pakistan. ILO/ARTEP. Miemo, 1997. For South Asia as a whole, see Report of the South Asian Commission on Poverty Alleviation. November 1992.

16. "Overcoming Poverty Report of the Task Force on Poverty Eradication. May 1997.
17. Nayyar, Deepak, Economic Liberalization in India: Experience and Lessons. Calcutta: Centre for Studies in Social Sciences, 1996.
18. Nayyar, Deepak. Op cit p. 23.
19. Amjad, R and Kemal, A.R., Macroeconomic Policies and their Impact on Poverty, op. cit.
20. Nayyar, Deepak, op. cit.
21. Development expenditure as a percentage of GNP, fell from over 6 per cent in the 1980s to 3.2 per cent in 1997-98
22. ILO, SAAT, Mimeo, December 1997.
23. South Asia contains 40 per cent of the world's poor and yet has an annual military expenditure of US dollars 14 billion. See Haq, Mahbubul, Human Development in South Asia 1997, op. cit.
24. Ibid.
25. Newsweek, June 8, 1998, p. 17.
26. For a discussion of the Methodology of Participatory Development, see Hussain, Akmal, Poverty Alleviation, in Pakistan, op. cit. Also see, Wignaraja, P., Hussain, A., Sethi, H And Wignaraja, G., Participatory Development: The Lessons from South Asian Experience Karachi: Oxford University Press, 1991.
27. See Hussain, Akmal, Poverty Alleviation in Pakistan, op. cit.