

**INDEPENDENT GROUP ON SOUTH ASIAN  
COOPERATION  
(IGSAC - II)**

**SAARC:  
MOVING TOWARDS CORE AREAS OF COOPERATION**

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The contents of this Report represent the personal views of the members of the IGSAC and not of the Institutions to which they are affiliated. Participation in the discussions by all persons listed was in their personal capacity.

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## PREFACE

IGSAC (Independent Group for South Asian Cooperation) was founded on 10th December 1990 when its seven original members met in Kathmandu to exchange views on the general condition of political uncertainty, economic impoverishment, as also, ethnic violence and other social disorders prevailing in our countries, at a time when historic and largely creative change is sweeping vast areas of the globe. As independent citizens of South Asia, we feel concerned over the fate of our region and its role in a changing world. Our deeper concern is for the future well-being and progress of our people, should the present situation be allowed to persist.

It is our considered view that multi-dimensional co-operation among our countries can make a major contribution to solving our pressing problems, and help reverse the prevailing negative trends in the region. Our region is yet to evolve a framework for sustainable development in South Asia. We fear that without extensive region-wide co-operation, poverty, hunger and unrest will continue to mar the lives of our large and growing populations, particularly the youth.

Most of IGSAC's members were directly associated with various phases of SAARC's growth; others have observed with keen interest the Association's progress since its inception in 1984. All of us share a feeling of dismay at its painfully slow progress. We urge SAARC to rise to the challenges of our times and grapple with the hard issues of meaningful cooperation which alone can bring prosperity and strength to the region.

SAARC is a source of hope for the region; and as an Independent Group we want to see the SAARC process reinforced and deepened. We also want to see its scope enhanced, in keeping with the far-reaching changes transforming other regions of the world.

The *Male Summit* had invited concerned citizens and groups to play a role in promoting SAARC spirit by outlining policy choices and formulating regional programmes and projects. This report is in response to that invitation from our region's leaders.

We view the seven sovereign, independent states as constituents of a South Asian Community, which has existed for centuries. It should be the aim of South Asia's statesmen to build this age-old community into a modern Economic Community for South Asia. Towards that end, we propose urgent action in five specific areas: Poverty, Food, Trade, Payments and the imaginative mobilization of the massive global surpluses that have emerged recently.

What we propose here is but an outline of a basic initial programme of action, which will need to be elaborated and expanded. Furthermore, additional dimensions of the goal of an Economic Community of South Asia (ECSA) will need to be defined. We shall feel sufficiently rewarded if the summit is able to give thought to a framework of ideas we have put together in the report.

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IGSAC's particular appreciation is due to the Governments of the seven South Asian countries for encouraging this effort by concerned citizens of South Asia, and to their senior officials who were good enough to give the benefit of their views to IGSAC Members. Special mention needs to be made of the opportunities given to IGSAC for a wide-ranging discussion of SAARC'S future role and prospects by H.E. Mr. K. P. Bhattarai, Prime Minister of Nepal, in December 1990, soon after IGSAC was founded and by H. E. Begum Khaleda Zia, Prime Minister of Bangladesh at IGSAC's concluding session in September 1991.

The Royal Government of Bhutan and, in particular, the Bhutanese Foreign Ministry under the leadership of H. E. Lyonpo Dawa Tsering, made possible the holding of IGSAC third meeting in Bhutan.

The Secretary-General of SAARC, H. E. Mr. K. K. Bhargawa interacted with IGSAC in his personal capacity on several occasions and along with his secretariat colleagues contributed valuable insights about the official SAARC process to IGSAC's deliberations.

The United Nations University South Asian Perspectives Project (UNU/SAPP) organized the first exploratory meeting in Kathmandu, in December 1990, in collaboration with the Institute for Integrated Development Studies in Nepal. The International Development Research Centre of Canada through its South Asian representative Mr. Vijay Pande provided the funds to the UNU/SAPP for this meeting. Dr. Ponna Wignaraja, of UNU/SAPP, who is also a member of IGSAC, prepared the three proposals for the South Asian Fund, the Poverty Commission and the Payments Union. CIDA Canada supported

the development of these three preliminary proposals through their Capacity Building for Management for Change Programme (CIDA/MFCP).

The World Institute of Development Economic Research (UNU/WIDER) has prepared the proposal on Food as a Human Right at IGSAC's request. The WIDER preparatory Team on this proposal consisting of Messrs Lal Jayawardene; Siddique Rahman Osmani, Sudhir Anand, V. K. Ramachandran and Ms. Madhuri Swarminathan, was led by Professor Amartya Sen, Lamont University Professor at Harvard University. Ms. Vandana Shiva of the Research Foundation for Natural Resource Policy, India and Mr. Ganeshan Wignaraja of Oxford University submitted papers for discussion on environmental issues and Industrialization strategies respectively, but were unable to participate in the meetings.

The Bangladesh Institute of International and Strategic Studies helped organize the final IGSAC meeting in Dhaka in September 1991.

IGSAC would not have been possible without the generous assistance of the UNDP Regional Bureau for Asia and the Pacific and the support of its country offices in South Asia, particularly New Delhi, Colombo, Thimpu and Dhaka. Mr. K. G. Singh, Assistant Administrator of UNDP, took keen personal interest in IGSAC's work and participated in its meetings in India, Bhutan and Bangladesh.

## **EXECUTIVE SUMMARY**

### **SAARC: MOVING TOWARDS CORE AREAS OF COOPERATION**

#### **I. The South Asian Community**

Drawing upon the Region's common history, common **ecosystem** and shared fundamental values, the authors believe that South Asian countries constitute an age-old **Civilizational** Community, which provides a basis for extensive regional cooperation. They recommend that this sense of Community should be built upon for the region's collective benefit by creating a modern Economic Community of South Asia (**ECSA**).

#### **II. South Asia: A Region in Crisis**

The authors are of the view that the development models pursued by South Asian countries so far have proved inadequate to the Region's needs. In addition to generating dependence on outside resources, they perpetuate poverty and give rise to interrelated economic, social and political conflicts within and between South Asian countries. Adverse internal trends are becoming unmanageable, and external trends are pushing South Asia into a debt trap and on to the margins of the world economy and international politics.

#### **III. Elements of a Sustainable Development Strategy for South Asia**

They recommend a comprehensive Sustainable Development Strategy, as a more viable answer to the Region's needs. An outline of such a strategy is provided. They believe it can help overcome the crises of poverty, endemic hunger, indebtedness, ethnic and other social conflicts. A Sustainable Development Strategy would have to move simultaneously on two fronts: First, an industrial strategy combining new science-based rural industries with an urban industrial base having a dominant labour-intensive orientation. Secondly, poverty alleviation strategies based on mobilization of local resources and people's participation. The proposed industrial base could enhance the

possibilities of regional cooperation through the location of its different elements in different countries.

#### **IV. Agenda for Immediate Action**

With the strong imperatives for regional cooperation which leave no choice for South Asian countries but to move into the core areas of cooperation, the following agenda for immediate action is recommended for consideration at the Colombo Summit in 1991.

- (a) South Asia is in a deep "poverty trap," with nearly half a billion very poor. There is no way our countries can get out of it by more welfare programmes or by "delivering" fragmented inputs to the poor as in the past. Hence the need for clarifying both the conceptual and the operational facets of a new mobilization strategy with people's participation as suggested by IGSAC. Therefore, the establishment of a High Level Independent Commission on Poverty Alleviation in South Asia is proposed to examine inter alia the available studies on poverty and the positive and negative experiences of poverty alleviation programmes and experiments carried out over the past four decades. The analysis will help identify critical elements of an effective strategy for poverty alleviation under varying **socio-political** circumstances.
- (b) Famine and hunger have been striking and continuing features of South Asian history, despite the fact that South Asia, as a whole is a food surplus region and had great potential for enhancing this potential. It is no accident that notable breakthroughs in the analysis and empirical study of famine and endemic hunger have been made by South Asian thinkers and economists. The Independent Group for South Asian Cooperation (**IGSAC**) considers that the concept of food as a human right is central to the political, economic and social aspirations of all the peoples of South Asia. In consonance with a global trend, **IGSAC** proposes the recognition of "Food as a Human Right" by the **SAARC** countries. The **realization** of that right necessitates major policy interventions in the correlated areas of production and distribution, of education, health and environment, which need to be further identified.

- (c) The establishment preferably before 1996, of a South Asian Free Trade Area of comprehensive coverage is recommended as a matter of the **utmost** priority. An opening up in trade will expand production and employment in all countries, bring down costs of living and help reap the benefits of a larger market. The authors propose drastic reductions in, if not elimination of, non-tariff barriers and the lowering of tariffs to the lowest level in any **SAARC** country within 5 years. **Complementaries** in Trade can be reinforced by selectively locating industries in the seven **SAARC** countries. To enable South Asian countries to negotiate **interregional** trade and industrial cooperation and also their entry into and participation in the global economic system, on more **favourable** terms, a **SAARC** group for **harmonizing** international economic negotiations is proposed.
- (d) To further facilitate **intra-regional** trade and building on the experience of the Asian Clearing Union, the authors recommend the establishment of a South Asian Payments Union (**SAPU**) to be managed by the Central Banks of the Region. **SAPU** will not only facilitate **intra-regional** trade expansion, but also **rationalize** use of short-term surpluses available within the region and begin to control the massive **outflow** of funds from the region.
- (e) The authors propose the establishment of a South Asian Development Fund initiated by **SAARC** countries with their own contributions. This fund could then **organize** a major **mobilization** of global surpluses for South Asia's **industrialization**, the implementation of a poverty alleviation strategy and for trade and balance of payments support. Additionally, it will provide finance for multi-country development projects.

This proposal is complementary to, but **quite different** from the one made at the Male Summit for a "Fund for Regional Projects" to be managed by the development banks of the region for identifying joint ventures between our **countries**. The South Asian Fund would enhance the region's capacity to take full advantage of the surpluses generated particularly in other parts of Asia and collectively address this issue.

## THE SOUTH ASIAN COMMUNITY

An irreversible trend, on the part of sovereign nations, located in contiguous regions, to interact with each other at an increasing frequency for the exchange of material and cultural values, is perhaps the most remarkable feature of the world of the second half of the 20th century. This is due largely to the fact that conventional concepts of nationhood and sovereignty are no longer able to provide satisfactory answers to the complex problems which confront nations throughout the world.

Recent developments among the nations of Europe, which plunged humanity repeatedly in devastating wars over the past century, merely represent the high point of a profound global trend towards increasing regional association between sovereign nations. Elsewhere in the world, too, in South-East Asia, in the North American Continent in Europe, within the Pacific Region, and increasingly among the Nations of Africa and Latin America - the weaving of closer economic and cultural ties between sovereign nations located in proximity to each other is a part of the merging global reality. These regional associations are crystallizing without adversely affecting the status of nations concerned or their political or economic relations outside the larger global entity. South Asia can remain isolated from these new historic trends in regional co-operation only at peril to the future of its peoples.

### **The Indivisible Eco-System**

The geographical characteristics of the region compel attention. It is bounded on the north by the Himalayas, one of the highest mountain ranges of the world, which taper off towards the northwest to the Karakoram, the Sulaiman and the Kirthar ranges. To the northeast, the Himalayas execute an arc towards the east and the southeast to mark off the eastern frontier of modern Bangladesh from Burma. The vast expanse of the Indian Ocean, with the Arabian Sea to its northwest and the Bay of Bengal to its northeast, sets off the southern limits of the Region. From the snow-covered peaks, the Himalayas descend precipitously through a series of terraced valleys to the fertile plains of the Indus, the Ganga, and the Brahmaputra, which feature among the largest alluvial soil

systems of the world. These features help define the identity of the South Asian Region comprising seven sovereign and independent Nations - Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Within the region, there are no insurmountable geographical barriers to hinder the flow of ideas, people, knowledge, technological advances and artistic and cultural movements from one end of the subcontinent to the other.

Few regions in the world display such deep environmental coherence and inter-relatedness as South Asia, the diversity of its **eco-niches**, its cultures and the modes of livelihood of its people notwithstanding. The countries share common rivers, mountain systems, oceans and common ecological cycles. The state boundaries that divide us as peoples cannot divide our indivisible environment. Floods and drought arising from resource degradation and hydrological instability in the Himalayas, or rising sea levels due to the greenhouse effect, or cyclones and other disasters are environmental problems that do not respect national boundaries. These problems have a direct impact on the survival of millions of poor people in our heavily populated countries, who depend directly on nature and its resources for their livelihood. Neither the problems of environmental degradation nor the wise use of the available resource base can be satisfactorily **addressed** through piecemeal, national efforts. Collective region-wide **endeavours** are indispensable not only for the prevention and management of natural resource erosion and disasters but also, and more importantly, for the wise use of the national resource base, the full **mobilization** of the region's ecological diversity and abundance, for sustainable development.

The **distinctive** ecological characteristics of South Asia have played a seminal role in the evolution of our human communities through the millennia. In the prehistoric and **proto-historical** periods, these communities would appear to have evolved independently in different parts of the region. Yet, they shared the environment in which they grew and the easy flow of ideas and experiences between them infused their cultures with an underlying sense of unity and kinship.

## **Common History and Culture**

Beginning with the Second millennium B.C., periodic migrations of tribal communities from Afghanistan, and Central Asia, to the fertile **riverine**, plains of North India became a factor of considerable significance to the region's socioeconomic evolution. The social and intellectual horizons of the South Asian communities were constantly expanding to accommodate new spiritual values and new mechanisms of social **organization** and economic production. No less important than migrations from outside were the migrations from one part of South Asia to another. The history of these internal migrations, with few exceptions is largely a matter of conjecture. But, clearly, this constant movement of peoples, technologies and values conferred great social resilience upon the communities of South Asia; at the same **time**, it gave them an unrivalled ability to reach out to novel ideas and technologies of production and integrate themselves into the world.

The existence of a very substantial cluster of decentralized agricultural communities across the plains of the Indus and the **Ganga** and elsewhere in the fertile valleys of South Asia gave rise to local polities and **sub-regional** States within the Region. A clan of a dominant warrior elite, which controlled rights over land and appropriated the agricultural surplus, provided the basis of the local polity. At the next stage, social **conflict** and warfare between local polities led to the emergence of regional States by the middle of the first millennium B.C. At both these levels of polities, power could either be focussed on a **chieftain** figure; or it was distributed in a dominant kinship group or lineage as a whole, or it oscillated between the former and the **latter**. Thus both the monarchical and the republican models were available as alternative systems of governance within the local or the regional polities of the period. With the passage of time, however, the monarchical principle became the dominant form of **macro-political organization** and by the third century B.C. we witness, for the first time, the emergence of a subcontinental polity in South Asia under **Chandragupta Maurya**. At the micro level, in the Region's numerous villages, communities and tribal groups continued to exercise a substantial measure of self-rule through village **Panchayats** and tribal councils. Perhaps, this tradition of democratic local governance rooted deep in the Region's remote past,

more than anything else, is responsible for the widespread, popular preference for modern democracy in the entire region.

As regards the moral ordering of the society in ancient times, the warrior elite, which controlled political power and property in land, possessed a dominant status. However, the priestly classes, which upheld the position of this elite through moral and ritual activity, also enjoyed a status of equal **honour**, as the instruments of a sacred social design. Society was thus sustained through two superior classes - one priestly and the other military - whose **counterpoised** roles and power underpinned the social system. Below these two noble orders came the mercantile, **artisanal** and peasant classes, and below these latter stood those who performed lowly social roles and were denied any formal position within society.

In course of time, as the growth of agriculture widened the productive base of society, the shamans and practitioners of folk rituals blossomed out into a reflective intelligentsia and priestly specialists, whose world-view was eloquently reflected in the seminal texts of **brahmanical** Hinduism, namely, the Vedic **Samhitas**, the Epics, the Upanishads, the **Bhagavad Gita** and the Vedanta **Sutras**.

From time to time the region witnessed the rise of heterodox **spiritual trends**. In the early period, particularly noteworthy is the **sramanic** tradition. In contrast to the **brahmanical** elite, which **legitimized** the power of the ruling classes, the **sramanas** were ascetics who moved in the interstices of rural settlements, and offered to the rich and poor alike a **worldview** which differed radically from that of the **Brahmanas**. The **sramanic** tradition produced a number of spiritual leaders: the two best known are the Jain preceptor, **Mahavira**, and **Gautama** Buddha, the founder of the Buddhism.

By the middle of the first millennium B.C., the agricultural revolution had transformed the valley of the **Ganga** and other parts of South Asia. The social life of the time was marked by unprecedented material wealth, rigid caste divisions, affluent and indulgent life styles, a general deterioration in moral standards and a turning away from the age-old spiritual values. At such a time of dramatic change in the material and spiritual moorings

of the Region, the Buddha heralded the world's first revolution against the prevailing social inequalities and injustice. The Buddha's message of human brotherhood **emphasized** tolerance and compassion in human dealings: his personal example of the nobility and worth of simple, austere living went a long way in creating a region-wide caring and sharing society, distinguished by its deep humanitarian concerns. The Buddha's **worldview** and his teachings, which exercised profound influence on the communities of South Asia of the time, continue to provide moral sustenance to large sections of the populations within and beyond the **Region to this-day**.

The most striking religious feature of the region was the absence of a single or dominant spiritual community organized around a unitary text and embodying spiritual truth in its ultimate expression. A tolerant and liberal spiritual outlook prevailed across the length and breadth of South Asia which held profound consequences for the Region's subsequent development.

The mediaeval centuries constitute another period of substantial change in the material and spiritual features of the human communities of South Asia. The period, which commenced with the beginning of the second millennium AD witnessed a further expansion in the agricultural **economy** as new techniques of **production reached out to the Region**. Fresh migrations from West and Central Asia, which brought with them a new faith - Islam - also brought new technologies of warfare, political **organization** and economic production. These are responsible for some basic transformation in the Region's material life.

The cultural and spiritual changes accompanying the Islamic moral order, **however**, were to have an even more far-reaching impact upon the Region's society.

In the moral domain, perhaps the most pervasive influence was exercised by the Muslim Sufi divines, who held out a vision of God as a loving and compassionate Being to high and low alike. This Vision exercised great fascination for the less privileged orders within the existing society. Indeed, within a span of a few centuries, **Sufi** hospices dotted the rural landscape of South Asia and drew substantial cultivating and **artisanal**

communities into Islam's embrace. The **Sufi's** thus exercised a decisive influence over the lower orders of Hindu society.

An even more interesting feature of mediaeval South Asia is the dialogue between **Sufism** and **Bhakti**. Both the **Sufi Pir** and the **Bhakti Sant** were immersed in the contemplation of a loving and compassionate God. This experience created a bond between them, which has been sensitively captured in mediaeval miniatures portraying conversations between saintly men drawn from Hinduism and Islam. What probably emerged from such dialogues - and this is pure conjecture - was a heightened "Self-Realization" through the contemplation of the "Other". More important, the dialogue generated mutual tolerance, which sentiment reached out to the lay followers of the two religions. This liberal interplay of different moral systems in a plural spiritual milieu further strengthened the base of the Region's existing cultural ethos marked by a simple, almost austere life style, a certain spiritual leaning, tolerance and compassion and the acceptance of diversity as a necessary and enriching attribute of unity.

### **Subordination and Fragmentation of South Asian Economy**

Despite the tensions which led to the disintegration of the **Mughal** Empire, its rural society had achieved an unmistakable growth in agricultural productivity, accompanied by the emergence of a rich peasantry and a flourishing mercantile economy resting upon craft industries and well-articulated markets underpinned by mechanisms of credit transfers and money flows. Whether the economy of the **18th** century India had accumulated sufficient potential for industrialization within it is, however, debatable. For there is as yet little evidence of a capacity to transform artisans and craftsman into innovative engineers and other technical personnel and of the flow of accumulated rural capital into entrepreneurial activity and technological innovation. The region had certainly approached the stage of "**protoindustrialization**", a stage of development prior to **industrialization** that may or may not actually lead to **industrialization**.

Actually, South Asia did not present the picture of one single integrated economy but of a conglomerate of several loosely linked regional economies. Some of these - Gujarat and

Bengal, for example - had reached the stage of "proto-industrialization." Whether these regional economies were capable of undergoing a full-fledged capitalist transformation is a question to which no categorical answer can be given. Possibly, the evolution over time of the region's denominational educational systems on broad secular lines with a fusion of the scientific elements of the old Indian and Islamic learning, would have given rise to an indigenous industrial revolution. Such a revolution would have further strengthened the sense of unity underlying the region's ethnic, linguistic and cultural multiplicity by creating the dynamic complementarities which have characterized the growth of trade and industry in other regions of the world. But the process was arrested by the establishment of British dominion over South Asia, in the 18th Century, which changed the Region dramatically.

During the colonial era, the economy of South Asia was brought into subordinate relationship with the economy of Great Britain, which ensured the diversion of surpluses from the former to the latter. The social engineering of the colonial era led to the emergence of new classes within South Asia. The landed aristocrats, rich peasants, plantation owners, who sprang to life at this juncture provided substantial support to the colonial regime and to the developing economy of Britain. Not only was the economy frozen into an agrarian pattern for the ensuing centuries, the agrarian changes initiated under imperial rule impoverished the rural classes, who were actually engaged in tilling the land. This new phenomenon was to reduce an erstwhile comparatively prosperous self-reliant population to pervasive poverty. No less tragic was the breakup of the artisanal and craft industries, which undermined the "proto-industrialization" achieved in some parts of South Asia prior to British rule. As a result, substantial regression in the region's overall economy ensued. The process prejudiced the closer intraregional economic integration which might have accompanied subsequent stages of industrialization.

A more positive response to colonial social engineering lay in the emergence of a new, region-wide intelligentsia which reinforced the age-old sense of community among the region's peoples. South Asia's nationalist leaders, drawn from this class developed a common programme of social and economic transformation. In the first instance, they

sought liberation from the political hegemony of Europe. Next, they strove to establish representative institutions and modern Nation States in the place of the fragile political systems of the past. Over and above this, they looked to the **modernization** of the economy as an essential objective. Last but not the least, the nationalist leaders attempted to redefine the moral and spiritual values they had inherited from their forbears. The turmoil of the struggle for independence in the Region ended in the emergence of several independent and sovereign states, which fact of history is not to be contemplated in sorrow or dismay. Earlier turmoils of South Asia's history had also witnessed a flowering of diversity and pluralism in the Region without impairing its awareness of a common **civilizational** inheritance and a common destiny. This latter will assert itself and it is to be hoped that the governments of our countries will, in the interests of the peoples for whose well-being they are responsible, heed the call of history and the dictates of the Region's geographic and other circumstances.

### **The Common Ordeal**

Four decades after the end of colonial rule, South Asia is, again, in the midst of a crisis that threatens not only some of the existing State structures but the very fabric of society. In virtually all our countries, there is growing polarization of society along ethnic, linguistic or religious lines, which undermines the social values through which diverse communities had lived together in a pluralistic society over the millennia. The highly centralized structures of political power seem to have the effect of circumscribing, quite unnecessarily, the age-old spirit of autonomy which gave the Region's communities unusual resilience and powers of survival. The development process, intended to **modernize** economies and to alleviate poverty only seems to make poverty endemic and to accentuate interpersonal and interregional disparities. It is causing rapid erosion of the ecological environment thereby endangering the very potential for development.

The solutions to the multiple crises lie in developing region-wide approaches to problems which are essentially regional in scope and character. The first essential is for the states to come together in an effort to reconstruct the age-old regionwide consciousness and create politico-economic institutions to fit today's circumstances for viable regional

co-operation **for the** benefit of all the peoples of South Asia. This South Asian consciousness needs to be based on selected common values which can be identified and reinforced.

Over the centuries, the continuous interaction between diverse peoples and cultures has inculcated two apparently contradictory sets of personality traits in the region. First, there is a deep-rooted posture of tolerance, a highly evolved humanism and an ethos in which any particular linguistic, religious or ethnic group can tolerate, appreciate and absorb the creative elements of another. Second, there is a tendency to displace this humanist perspective under the sway of fear, intolerance and aggression. Though this **latter** trait has dominated the behaviour of some of our governments, the first set of traits continues to be manifested in the literature and arts of the region and in the attitude and life-styles of the common people all over the region. Diversity - linguistic, ethnic, cultural - is the common feature of our lives and therefore, hardly something to be feared. The efforts to **centralize** state structures and state powers are also a manifestation of the sway of fear and mistrust in interstate relations. A loosening of these **structures** would not in any real sense be a threat to the integrity of the States. It **might**, on the other hand, strengthen national identities through an enhanced sense of freedom and also at the same time reinforce the age-old sense of belonging to a larger **civilizational** community. This is the kind of process that has been at work in Europe.

### **The Common Future**

As for development, a careful consideration of the natural resource base in the South Asian region suggests that if these resources were collectively exploited at a regional level, each of the independent States within the region would benefit from the enterprise.

A powerful material, moral and cultural basis for co-operation exists: the task facing the Region's governments is one of dismantling the artificially created political and other barriers to cooperation by keeping the **civilizational** perspective and the ethic of tolerance in the forefront in formulating policies. The task of establishing stable State structures

within countries should go hand in hand with attempts to achieve multi-faceted regional cooperation.

The creation, in 1985, of the South Asian Association for Regional Cooperation (SAARC), was a belated but welcome step in this direction. Within the member countries, the event was hailed with enthusiasm by the people, though governments have tended to move forward, if at all, by slow, different steps. Unlike some other regional bodies the founding of SAARC was welcomed by the superpowers as well as by other nations, big and small. The fact that all SAARC Nations are members of the Non-Aligned Movement endows them, in some measure, with a shared outlook on the larger world community. SAARC meetings can provide the much-needed fora for deliberations on matters of common interest, even contentious bilateral matters, thereby displacing mutual fear and suspicion with friendship and cordiality.

A community of history, civilization and tradition, of shared language and literatures, of cultural values, and of institutions dedicated to common ends has existed in the region for centuries. The task that awaits South Asia's statesman is one of reactivating that Community and enlarging its scope to fit the ethos and requirements of modern times. The highest priority should go to the mapping out of a collective strategy for the development of the Nations of South Asia as constituents of an integrated region. They can forge ahead rapidly only if they open up to each other, and devise terms of economic co-operation and an encompassing association which can benefit them severally at the same time as they benefit them collectively.

The urgings of a common heritage of history, culture and tradition apart, the logic geography and the compulsions of a common environment, which conditions our development possibilities, dictate this course. The continued pursuit by our countries of the separate paths followed hitherto will only condemn them to endemic poverty and the attendant evils of unrest, conflict and instability and confine this region, which has contributed so richly to human civilization in the past, to the margins of the modern world.

We, therefore, call for the revival and restructuring modern times, of the age-old South Asian Community.

## **SOUTH ASIA: A REGION IN CRISIS**

In recent years, especially over the decade of the eighties, a widespread perception has emerged that South Asian countries are falling behind in the development process. The perception is reinforced when the performance of South Asian economies is compared with the developments in other regions of Asia. East and South East Asian countries are on a fast growth track and their economies are being transformed rapidly, West Asian economies, characterized by massive petro-dollar surpluses, have seen massive construction booms and structural transformations over the past two decades. South Asian countries which, in the middle of this century were seen to be ahead of other Asian developing countries, are today seen more and more as being caught in a low growth, poverty reproduction syndrome and unable to overcome their economic and social problems. The seven SAARC countries have witnessed some economic growth and development over the past decades. Yet, it is also true that this has been uneven and at the present time, a series of crises have overtaken them. These crises are aggravated by adverse global trends. Some of the more critical of these problems and trends are discussed below.

### **A. Internal Problems**

#### **(a) Poverty Reproduction**

All the seven countries of the region suffer, in varying degrees, from chronic and dehumanizing poverty. More than half of the world's poor live in South Asia. Worse still, the incidence of poverty has expanded rather than contracted over the past decades. In 1978, the average per capita income of SAARC countries was a mere \$ 152 which was 1.58 percent of the US per capita income of \$ 9590 in that year. In 1987, the South Asian per capita income, though slightly higher than in 1978 at \$ 212 was reduced to 1.41 percent of US per capita income. Even when compared to our neighbours in Southeast Asia, the per capita income in SAARC countries was only 11.25 percent of the ASEAN per capita income in 1987. What is more, it had declined since 1978 when it was 13.24 percent of ASEAN incomes. These figures do not reveal the full extent of poverty in

South Asia. The incomes and consumption levels are highly skewed and it is clear from available evidence that the upper income defiles have a highly **disproportioned** access to resources. Thus, in India, in 1989, nearly 35 percent of the total population lived below the 'poverty line' where, it is officially accepted, that they do not have access to bare minimum needs of living. In Pakistan the proportion below the poverty line is similar and in Bangladesh the proportion is far greater and is around 65%.

Per capita incomes only tell a part of the story. The caloric consumption per capita in Bangladesh in 1986 was only 1927 per day which was substantially below the level required for maintenance of reasonable health. The energy consumption per capita in South Asia was 183 kilograms of oil equivalent per year in 1987 as compared to 477 in South Asia and 7265 in the USA.

Other social statistics like availability of doctors and medicines, sanitary levels, literacy rates and infant mortality tell the same **rather depressing** story that poverty is widespread and aggravating in the region. Millions continue to live in uninhabitable hovels, without drinking water and other basic amenities; millions more spend their lives without the protection and comfort of a dwelling of any kind at all. Whatever indicators are used the idea of catching up with the industrial countries is a mirage and the conclusion is inescapable that the 'growth model" being currently pursued is by itself insufficient even in its own terms to achieve this end.

### **(b) Slow Economic Growth**

The South Asian region missed out on **the** growth booms of the fifties and sixties. In these two post-war decades all other developing countries in Asia, especially East Asia recorded double-digit growth rates. These high rates of economic growth have continued to elude the countries in the region even during the seventies and the eighties. The region could not take advantage of the massive expansion in world trade and commerce which has occurred during the past four decades and the inward looking policies followed in most (if not all) **SAARC** member countries implied that the industrial expansion and growth in the region had to depend almost exclusively on the slowly rising domestic

demand. While such a strategy has had many benefits whether it provided the required dynamism to the growth processes in our economies is an open question.

As a result of the relatively slower industrial growth in the last two decades the structure of the national product in our countries has remained relatively unchanged. Agriculture continues to dominate all the economies and still accounts for nearly 40 percent of GNP. By contrast, the share of agriculture in the ASEAN economies has come down to about 20 percent over the past three decades. During the eighties India and Pakistan have shown industrial growth rates of around 8 percent: but Nepal experienced a negative growth rate in industrial output during the same period. Sri Lanka and Bangladesh had industrial growth rates of 4.9 and 5.1 percent respectively between 1985 and 1989. In comparison, the industrial rate of growth during 1987 and 1988 in Thailand was 12.0 and 12.8 percent; in Singapore 10.4 and 13.3 percent and in Malaysia it was 6.2 and 11.8 percent respectively. The inability to raise industrial growth combined with high population growth rates has meant that South Asian countries continue to be in a low productivity - low income trap in which the living standards of **the majority** of their populations continue to stagnate at bare subsistence levels.

Between 1975 and 1983, the growth rate of GNP per capita in South Asia was 1.4 percent, while it was 5.1 percent in East Asian developing economies. During 1973-80 the growth rates in the two regions were 2.0 and 4.6 percent per **annum**; and in the first half of the eighties (1980-85) these were 2.9 and 6.4 percent. Even in the latter years of the previous decade, the growth rate of per capita incomes in East Asian developing economies continued to be substantially higher than those achieved in South Asia. In 1988 and 1989, for example, the average rate of growth of gross domestic product in the six South Asian countries (excluding Bhutan for which data are not available) was 6.7 and 4.2 percent respectively. The five ASEAN countries (Thailand, Malaysia, Singapore, Philippines and Indonesia) had in contrast, an average growth rate of 8.7 and 8.0 percent in their gross domestic product in the same two years. Clearly, the South Asian region has lagged behind in economic performance as compared to other developing countries in Asia.

This slow rate of economic growth, has prevented our economies from addressing some of the more fundamental problems of poverty, inadequate nutrition, health and social welfare. While economic growth alone is not sufficient to ensure the elimination of poverty and **dehumanization** from the countries, and the existence of sensitive and participatory political formations is an essential condition for these issues to be addressed in any society, it should be **emphasized** that with the best will in the world, poverty and **dehumanizing** material deprivation cannot be eliminated without achieving the required growth in national income and per capita output. In South Asia's development, slow economic growth presents a serious handicap to human development.

### **(c) Uneven Economic Development**

All of the South Asian countries are **characterized** by the presence of marked dualism in their economies. In almost every country of South Asia, vast disparities between different regions and between different strata of the population within the same region can be observed. Some of the metropolises of the region are better linked to the developed parts of the world than to their own hinterlands. These linkages with the highly **industrialized** world are not connected to economic flow alone but extend to cultural and social aspects as well. 'Enclaves' of modern industry and urban living have continued to characterize the countries for many decades. Regional imbalances are also easily **recognized**. In India, the western states have pulled ahead of the three eastern states of Bihar, Bengal and Orissa. The per capita incomes in Punjab, Maharashtra and Gujarat are far higher than in the three eastern states. The northeastern States of Assam, Tripura, Nagaland etc. have a substantially lower level of industrial output per capita than the national average. In Pakistan, the greater prosperity of the Punjab when compared to other provinces **such as NWFP**, Sind and Baluchistan is well **recognized**. Metropolises like Karachi and Lahore, with extensive **commercialization** and industrial activities, are qualitatively different from the rest of the country. These imbalances create serious social and political tensions and conflicts and also retard economic progress.

### **(d) Population Pressure**

Whatever the region's economic achievement over the past four decades has been whittled away by the inexorable rise in population growth in all South Asian Countries. High rates of population growth have made South Asia the world's most densely populated region. The population density globally is about 39 persons per square kilometre, whereas in Bangladesh it is 800, in Sri Lanka 266 and India 252. With more than 2/5th of the world's population already in these seven countries and the average rate of growth of population at 2.2 percent, the region will account for almost a quarter of the world's population by 2010.

This rapid increase in population in recent decades has resulted in a worsening of the dependent population ratio in South Asia. The ratio of population in the dependent age group (i.e. between 0 - 15 and 60 years and above) in South Asian countries is as high as 95.4 percent in Bangladesh, 90.1 percent in Pakistan and 82.7 percent in Nepal. In comparison, it is only 64.7 percent globally and as low as 11.7 in the USA. Even in comparison to other developing countries in Asia, the South Asian condition emerges to be fairly adverse in this regard. The adverse dependency ratio also implies that there is an insufficiency of human resources to be able to raise per capita income standards in the region to approximate those of industrial countries. This is becoming increasingly true of other resources as well.

With more than the population of Australia being added to the region every day, it is almost impossible to rapidly raise per capita incomes of the population at large to levels attained by industrialized countries. Despite technological breakthrough in agriculture and industry, even the minimum needs of this rising population are becoming increasingly difficult to be provided; through the current development strategies being pursued. This calls for bold and fresh thinking on development itself and also for measures to curb population growth.

#### **(e) Natural Resource Erosion**

The region has witnessed an extensive erosion of its natural resource base. The most pronounced aspect of this erosion is evident in deforestation of an area which once had

one of the largest covers of tropical forest. The worst degradation has occurred in the natural forests in the northern parts of the region, in the tribal belt on the western borders and in the **riverine** forests and plains of the Indus river. Deforestation has also contributed to the breakdown of the fragile Himalayan **eco-system** resulting in silting up of **riverbeds**, and flooding of vast tracts downstream. With rising populations and increasing pressure on **eco-systems**, the worst scenarios of a complete ecological disaster are already being conjured up. This has to be avoided at all costs and the **eco-system** of the subcontinent restored.

The region has also seen some of the worst natural disasters, some of which, like the annual floods, are directly linked to the pressure on the **eco-system**. In Bangladesh, devastating floods have occurred in almost every year since 1987. These have, on occasions, been combined with cyclones, and have caused extensive loss of life and property. The Maldives suffers from extensive sea erosion. A worsening cycle of floods, and natural disasters have **characterized** the region in the past few years. Erosion of valuable topsoil, devastation of standing crops and extensive damage to life and property have been some of the consequences.

**(f) High Defence Expenditures**

Maintenance of the security, integrity and sovereignty of their countries is among the foremost responsibilities of governments. For this purpose they maintain armed forces. This is the case everywhere and South Asian countries are no exception to the rule. However, in developing economies, **characterized** by shortages of financial resources, it is vitally important to ensure that defence expenditures are kept within reasonable limits so that they do not constitute an unacceptable drain on available resources causing disruption of the development process itself. The **SAARC** countries are diverting considerable portions of their public expenditures for defence and, at least in the case of the region's larger countries, this has added substantially to their debt-burden and resulted in slowing down of growth, puffing economic and social security at risk without enhancing military security in any real sense.

As a whole the region spent 16.3 percent of its total public expenditure on defence in 1972. In 1987, the figure rose to 19.9 percent.. In comparison, the Middle Income Economies devoted only 11.8 percent of their total expenditure to defence in 1987. In the same year, in Europe, West Asia and North Africa, the share of defence expenditure in total expenditure was 14.9 percent. In quantitative terms, the defence outlays of South Asian countries may not be high in comparison with those in countries of comparable size in Europe and elsewhere, but our fragile economies cannot absorb the drain. They must, therefore, consult together to establish security norms in relation to one another in order to reduce defence expenditures without in any way impairing defence preparedness in relation to factors external to the Region. They should agree, as a first step, to freeze defence expenditures at current levels while these consultations proceed. This internal "peace dividend" within the South Asian Region could then be applied to sustainable social and economic developments.

**(g) Social Polarization and Conflicts**

The societies in most SAARC countries are composite in nature, comprising several cultural, ethnic and linguistic groups. State structures, political systems and systems of governance have yet to be evolved to take cognizance of this plurality and cultural diversity. In recent years, resort to violence and terrorism to resolve some of the differences between these groups has become almost commonplace. Armed militancy is being witnessed in Sri Lanka, India and Pakistan. The resolution of the issue of cultural pluralism which is at the root of these conflicts is not yet in sight in most cases. The Tamil militancy in Sri Lanka, the Punjab and Kashmir terrorist activity combined with drug trafficking in India, the anti-mohajir violence in Karachi. the tensions in Sind and Baluchistan have seriously affected development processes in the region. Even more importantly, perhaps, they have led to a weakening of the trust amongst the countries of the region and thereby further aggravated the tensions in this area.

In many cases, conflicts and militancy are the result of four factors. These are, the inability of the economies of the region to grow fast enough to satisfy the awakened aspirations of their people. Second, the uneven development in each country has led some

ethnic and cultural groups to believe that they have been marginalised from the process of development and that the benefits of economic growth have been denied to them. On the other hand, regions such as the Punjab in India and Karachi in Pakistan are witnessing violent conflicts in economically surplus conditions. Third, most of the countries have seen gradual erosion of the credibility of the State and other political institutions in the eyes of our peoples. The State, enjoying a degree of relative autonomy in each of the countries, had played a mediatory role in the early years and attempted to reconcile these conflicts. Having been born out of the freedom struggle, the State started with high credibility and legitimacy to mediate between groups and social formations. However, these capabilities and credentials have been lost over the years as the State itself resorted increasingly either to populism in some countries or to totalitarianism and repressive action in others. Consequently, social groups with conflicting interests or with interests which were at variance with the mainstream now feel impelled to seek to establish their entitlements, including in regard to material gains, by violent methods. And last but not least, large-scale unemployment all over the region has given rise to much disenchantment and frustration among the youth not only with the governments and their policies but with the whole development process which has failed to generate appropriate education and employment opportunities.

As recent events in Europe and Africa have demonstrated, this is a dangerous trend which may well result in further fragmentation of the communities in our region. That must be avoided. The absence of economic dynamism and a value framework based on equity and social justice for all, are often the causes of the emergence of such violent, parochial and narrow sentiments. A vibrant and growing economy which offers sufficient employment and income opportunities and a just society committed to a broad framework of democracy has both far lower possibilities for such social conflicts, as well as, an expanded capacity for absorbing and alleviating the tensions before they become unmanageable.

## **B. Adverse Global Trends**

### **(a) Marginalization of South Asia in the Global Economy**

The world situation has changed quite dramatically over the past four decades. The international scene of the nineties and the commercial and political status of individual countries have undergone a sea change over these four decades and specially since the latter half of the seventies. South Asian countries have not fared very well in these changes and their position today in the international community is qualitatively different and even weaker than it was at the beginning of the fifties.

At the threshold of the fifties, the South Asian countries had, in their struggle for freedom from colonial rule, shown to the world a new path for achieving a community's emancipation. Non-use of force to achieve Independence had triumphed and this had inspired millions across the globe. The Asian Relations Conference of 1947 attended by representatives of more than 40 nations symbolized South Asia's preeminent position amongst the developing countries. The philosophy of non-alignment and the strategy for economic development based on the principles of mixed economy were also path breaking advances, held in esteem by all developing nations. In the context of the global economy, South Asian countries had more than 3 percent share in world trade. They dominated the trade flows emanating from Asia. Industry in South Asia and commercial links of the region with the rest of the world were more developed than in any other developing part of Asia. The subcontinent had symbolized, in many ways, the future potential of developing countries and commanded the respect of the industrialized nations.

This preeminent position had greatly eroded over the last four decades. The subcontinent's size, its share in world population and its ancient civilization notwithstanding, the process of its marginalization, have been under way simultaneously in both the economic and political realms. Yet, it appears that the loss of economic position, in relative terms, as a result of the subcontinent lagging behind in the process of economic development has been the primary factor. The crisis of slow growth was discussed earlier. South Asia's share in world trade has consistently declined over forty years. In 1989, the seven countries had a share of merely 0.89 percent in global exports and accounted for 1.16 percent of total world imports. Even more unfortunate is the

decline in the region's share in total exports from non-oil exporting developing countries. This is a consequence of the emergence of the powerful and rapidly growing exporting economies of the four East Asian developing countries. The recent spurt in exports from the ASEAN economies, specially Thailand, Malaysia and Indonesia, will further erode the position of South Asian economies in global trade flows. South Asia neither had a vigorous export oriented development strategy nor a deep enough strategy of import substitution nor a meaningful mix of the two.

**(b) Reverse Flow of Resources**

This marginalization is reflected also in the decline in official development aid flows in recent years as the African countries and China have cut into the subcontinent's claim on official aid. Private foreign investment has also been declining. As aid and private foreign investment declines, the region's growing debt-burden continues to increase, resulting in substantial net outflows of resources from South Asia to the world's rich countries (see table annexed). Decline in the creditworthiness of our countries combined with other uncertainties is resulting in the diversion of investable surpluses to other seemingly more promising regions, e.g., ASEAN, East Asia and East Europe.

Even the receipts from tourism, which was thought to be a means of quick foreign exchange earnings, have been declining in recent years. This decline in tourist receipts has been true for all SAARC countries, except Maldives, and is due largely to the increasing incidence of violence and socio-political uncertainties which have come to characterize the region in the past few years.

**(c) Increasing Protectionism**

The global economic environment, both in economic and political terms, is not as conducive as earlier, for countries now attempting to fashion a greater role for themselves in the international arena. The eighties have seen a resurgence of an acute protectionist sentiment in most highly industrialized economies. This is true specially in areas and

sectors where South Asian countries have developed a comparative advantage, like textiles, garments, metal-based products, agricultural produce and labour-intensive services. The highly industrialized market economies have not taken any steps to improve market access in these sectors for exports from developing countries: indeed they have taken steps which have reduced even existing market access. Instead they are linking up the whole issue of market access for goods to the question of opening up of developing country markets to capital-intensive services like banking, insurance, tourism and telecommunication and to enforcing an unprecedentedly strict regime in protection of intellectual property whose linkage with trade has yet to be established. The multilateral trading system created under the aegis of the GATT is today under threat as the highly industrialized country members are unable to resolve their differences in areas such as services, agriculture and trade-related investment measures. The ongoing Uruguay Round is in danger of being aborted. Such an eventuality would imply the end of a rule based multilateral global trading system with mutually acceptable "rules of the game." The alternative, where the stronger countries would be free to push their interests without reference to any set of agreed rules, would be disastrous to newly emerging exporters of South Asia.

**(d) Emergence of Regional Blocs**

Already, the process of formation of free trade areas and of entering into bilateral trade agreements in the industrial west has had an unfavourable impact on the global trading environment. The emergence of the US Canada free trade area and of the US-Israel free trade zone has already apparently weakened US commitment to the successful outcome of the Uruguay Round. The prospects of a North American free trade area with its subsequent extension to Latin America is again beset with problems for the developing countries of South Asia.

The expansion of the European Community and the emergence of the European Common Market in 1992 may result in Europe behaving increasingly as a self-sufficient economic entity and the creation of "fortress Europe." At any rate the European Community's attention and resources are likely to be engaged fully in the integration and development

of the East European countries in the coming years. The strengthening of the ASEAN bloc will also have adverse trade impact on South Asia. Already, nearly 40 percent of world trade is confined to within the trading blocs and represents intra-free trade area trading activity. With the emergence of new trading arrangements and further strengthening of the existing ones, the South Asian countries could well find that the avenues for their exports are getting severely restricted. In such a scenario, the progress of South Asian regional cooperation becomes crucial to the future of our countries.

*Annexure*  
**SAARC: MAJOR INDICATORS**

(in millions of US\$)

	REAL	GDP		OFFICIAL		TRANS-	FOREIGN	PRIVATE	CAPITAL
	GROWTH <sup>1</sup>	TDS <sup>2</sup>	EDT/ GDP <sup>3</sup>	NET	CREDIT	FERS DEBT	EXCHANGE RESERVES	FLOWS <sup>4</sup>	(NET) <sup>5</sup>
<b>Bangladesh</b>									
1985	3.7	214.20	39.0	653.0	653.0	0.0	336.5	-23.6	
1986	4.4	271.7	48.0	613.2	613.2	0.0	4.9.1	47.7	
1987	4.1	314.1	51.4	714.6	714.6	0.0	843.1	-7.4	
1988	2.8	343.4	50.0	804.8	804.8	0.0	1046.1	-30.0	
1989	2.5	321.7	48.7	589.1	589.1	-0.1	501.5	39.0	
1990	6.2	384.0	47.5	-	-	-	628.7	-	
<b>Bhutan</b>									
1985	3.2	0.0	4.6	-	-	-	50.3	0.0	
1986	10.0	0.2	9.5	-	-	-	61.00	0.0	
1987	19.4	0.5	14.6	-	-	-	74.9	0.0	
1988	3.2	1.3	14.1	-	-	-	94.1	21.8	
1989	4.3	4.3	29.4	-	-	-	98.5	-1.6	
1990	-	5.5	-	-	-	-	86.0	-2.8	
<b>India</b>									
1985	6.2	2845.8	16.8	357.0	368.5	-11.5	6420.4	379.4	
1986	4.7	4338.9	19.9	428.3	431.5	-32.0	6395.7	482.4	
1987	4.5	4212.2	19.9	390.8	393.1	-2.3	6453.6	-8.6	
1988	9.5	4746.6	20.0	486.5	488.8	-2.2	4899.3	121.1	
1989	5.0	5171.5	22.9	-	-	-	3858.6	192.2	
1990	4.1	5550.1	22.6	-	-	-	1521.0	-2212.7	
<b>Maldives</b>									
1985	13.8	9.5	128.2	3.6	3.6	0.0	4.6	-3.3	
1986	8.6	13.1	93.5	4.0	4.0	0.0	6.9	0.7	
1987	9.4	7.3	98.2	9.4	9.4	0.0	8.2	-1.9	
1988	8.6	9.7	78.1	10.7	10.7	0.0	21.6	-2.8	
1989	2.3	9.8	64.8	18.8	18.8	0.0	24.8	-4.1	
1990	9.7	6.7	61.3	-	-	-	24.4	0.0	
<b>Nepal</b>									
1985	6.1	15.2	22.7	81.0	81.0	0.0	56.0	4.0	
1986	4.3	26.9	33.2	69.8	69.8	0.0	86.7	13.4	
1987	3.9	31.3	34.2	73.1	73.1	0.0	178.2	34.8	
1988	7.8	38.6	35.4	60.1	60.1	-0.1	220.3	43.4	
1989	2.3	55.2	42.8	48.0	48.0	0.0	211.6	18.2	
1990	2.0	59.6	53.4	-	-	-	295.3	-16.9	

Notes:

<sup>1</sup> GDP: 1987 constant price; local currency

<sup>2</sup> TDS: Total debt service

<sup>3</sup> EDT: Total external debit (disbursed only)

<sup>4</sup> Foreign Exchange Reserves: Foreign exchange + SDR + Fund Position

<sup>5</sup> Private Capital Flows (net): Foreign borrowing from private creditors + foreign direct investment + foreign portfolio investment - (amortization + interest)

Source: World Bank Database (BESD)

	REAL GROWTH <sup>4</sup>	GDP		OFFICIAL		TRANS- FERS DEBT	FOREIGN EXCHANGE RESERVES	PRIVATE FLOWS <sup>4</sup>	CAPITAL (NET) <sup>5</sup>
		TDS <sup>5</sup>	EDT/ GDP <sup>6</sup>	NET	CREDIT				
Pakistan									
1985	7.3	1116.6	38.2	379.3	393.8	-14.5	807.5	15.2	
1986	5.6	1176.6	43.0	495.6	504.6	-8.9	709.1	189.1	
1987	6.3	1301.2	47.3	433.9	447.6	-13.6	501.9	315.6	
1988	7.9	1473.0	42.7	630.9	652.6	-21.7	394.6	76.4	
1989	2.9	1500.3	44.5	519.2	519.2	19.0	520.5	100.8	
1990	7.3	1741.4	44.9	-	-	-	295.9	-	
Sri Lanka									
1985	9.8	243.3	51.7	177.2	177.2	0.0	451.2	-10.9	
1986	4.4	283.7	57.0	176.9	176.9	0.0	352.6	-32.4	
1987	0.7	361.0	65.5	179.9	179.9	0.0	279.1	-69.4	
1988	2.7	356.3	67.7	206.1	206.1	0.0	221.9	-103.1	
1989	2.1	314.2	66.7	187.3	187.3	0.0	244.2	-67.2	
1990	6.3	351.1	62.4	-	-	-	422.9	-	

Notes:

<sup>4</sup> GDP: 1987 constant price; local currency

<sup>5</sup> TDS: Total debt service

<sup>6</sup> EDT: Total external debit (disbursed only)

<sup>4</sup> Foreign Exchange Reserves: Foreign exchange + SDR + Fund Position

<sup>5</sup> Private Capital Flows (net): Foreign borrowing from private creditors + foreign direct investment + foreign portfolio investment - (amortization + interest)

Source: World Bank Database (BESD)

# ELEMENTS OF A SUSTAINABLE DEVELOPMENT STRATEGY FOR SOUTH ASIA

## **I. The Concept**

To overcome the multi-faceted crises that South Asian countries are facing, so that South Asia can enter into the global system on terms that not only would not compound its internal difficulties but also permit it to progress towards a better life for all its people, it is essential that these countries systematically pursue a new strategy of sustainable development. The development strategies followed hitherto are, basically, imitations of the strategies of the advanced industrial societies. The failure of these "models" of economic development to benefit the large numbers in South Asia, shows that in South Asia's different historical and sociological framework the ideological driving forces which worked in the industrialized societies, do not offer a viable road to the accumulation process. Hence, the need to search for alternative driving forces for accumulation which can sustain itself, even in a somewhat narrower conception.

It seems necessary that South Asian countries adopt a development strategy, which combines human development, growth, equity and technological change with a wiser and more creative use of local resources and knowledge. In such a strategy, the people, locally available resources and knowledge systems become critical instruments in the transition. Imported capital and technology, the factors in short supply, can be supplementary. Further the new pathway does not have to be reflected in a single "replicable" model to replace the old, as each SAARC country would have its own socio-cultural specificity and will have to chart its own social transition. In this transition all countries, however, will need to pursue basically a two-pronged strategy which will permit them to maintain the gains from past attempts at modernization and industrialization, with appropriate damage limitation and make a direct attack on poverty in all its manifestations where the poor themselves are the subjects and not the objects of the process.

In the beginning, these two prongs of the strategy may have some contradictions, but over time they can be harmonized. Regional cooperation can reinforce national efforts.

This kind of Regional cooperation will also permit South Asian countries to adjust to the global system on more favourable terms.

Recent studies by South Asian scholars confirm that human development, growth and equity need not be trade-offs in the South Asian socio-cultural setting. Studies by International Commissions of enquiry such as the South Commission have endorsed the concept of people centred development, wise resource use and building technological capability in a step by step manner by widening the availability of technological choices. The 1990 UNDP Report on the concept of Human Development demonstrates that it is possible to achieve a high level of human development and quality of life at even lower levels of income. In the same year the World Bank in its Report on Poverty has drawn attention to the importance of participation by the poor in poverty alleviation and their contribution to development. It also drew attention to several successful micro-level people's movements and experiments in South Asia, which have gone from small beginnings to larger scale increasing income savings and assets of the poor. In these experiments poor people's creativity, local resources and local knowledge are critical elements. The U.N. World Environment Conference and the Brundtland Commission have created the awareness of the need for the wiser use of natural resources.

Taking into account all these studies and reports, we, set out some of the elements of a Sustainable Development strategy for South Asia.

## **II. Elements of the Strategy**

A sustainable development approach in South Asia should combine three critical dimensions within an interrelated effort:

- (a) **A Major, Poverty Alleviation Drive**, which provides at least the minimum economic and human conditions of existence to the bottom 40 percent of the people who have so far been left out of the economic growth process. This effort needs to be based on a participatory local accumulation process. It will initially

- require surpluses particularly from rural areas to the reinvested locally and greater use of local knowledge and natural resources, and generate wage goods for the modern sector.
- (b) **An Industrialization or Modernization Drive** that enables the South Asian economies to develop an industrial base, and an independent technological change capability. Through such an industrial base, both domestic and regional needs can be met to a large extent from indigenous production and the structure of exports from South Asia can be shifted towards manufactured goods. Such an industrial strategy would need to as far as possible, be decentralized and labour intensive.
  - (c) **A Broad-Fronted Conservation Programme** that links land use practices, social forestry, and an environmentally gentle trajectory of technical change, pattern of production and social organization. In the implementation of such a programme both the modern industrial sector and grass roots participatory poverty alleviation programmes would be non-predatory on nature. The former through the generation of science based conservation technologies and production related biotechnologies and the latter through development of grass roots social organizations by means of which community-based environmental conservation and environmentally sound production could be undertaken.

### **III. Elements of Sustainable Development**

#### **A. Poverty Alleviation**

A development strategy in which the process of growth generates poverty or neglects a significant portion of the population is neither efficient nor sustainable. Recent growth in South Asia has both neglected the poor, and added to them. The causal mechanisms that generate poverty across the diverse economies of South Asia, have been essentially similar. Rural poverty has been generated by the superimposition of technical changes, **commercialization**, and adverse state policies on a highly skewed structure of asset distribution. High-yielding varieties (**HYV**) of crops have increased regional inequalities in income, **favouring** better-irrigated areas. In some countries, the increased profitability

per hectare has created a powerful incentive for landlords to evict share tenants to prevent the latter from sharing in the increased profits.

Large-scale **mechanization**, often **subsidized** by state pricing policy, has enabled the widespread eviction of tenants and created a large and growing landless rural population. In some of the countries, agricultural **mechanization** has also resulted in a net displacement of **labour**, increasing farm unemployment. The increased monetization of inputs and outputs has disadvantaged small farmers and tenants who are caught in a classic poverty trap of low inputs, low outputs, no investable surplus, and therefore a repeated cycle of low inputs and assets. The low level of state provision of rural physical infrastructure, and social services, like education, health, drinking water, sanitation, and energy has resulted in the lowest access for the poor to these basic necessities. The rural rich can at least buy substitutes available in the private sector, unlike the poor.

**Urban poverty** is triggered by rural unemployment and **pauperization** on the one hand, and a slow rate of growth of an increasing capital-intensive manufacturing sector on the other. Low rural employment and income push a large surplus **labour** force into urban areas. Slow rates of growth in the manufacturing sector and rapidly increasing capital **labour** ratios from uncritical adoption of technologies imported from **labour** ' short highly **industrialized** countries, do not allow sufficient absorption of these migrants. This surplus **labour** is therefore forced into informal activities in the service and trading sectors. These informal sectors **trap labour** in low levels of productivity, employment, and income, and high levels of exploitation of their value added by middlemen and the formal sector. Again, the low levels of provision of urban infrastructure and social **services**, relative to the high rate of **urbanization**, result in lowest access **for** the poor to housing, water, health and education.

These causal mechanisms that generate poverty allow the identification of a target group and a process for their poverty alleviation. The target group is the rural and urban populations whose income are unaffected by growth, or even 23 adversely affected by

it. **The suggested** process of poverty alleviation consists of both a micro effort, and supportive macro/state actions and resource inputs.

At the micro level, successful **Participatory Development** (the process is described below) would increase the production capacity and productivity of the community by generating a wider technological choice through integrating indigenous knowledge systems with modern scientific technological systems.

At the macro level the State would provide large-scale infrastructure, e.g. roads, electricity and increased access of the **organized** communities to institutional credit. It would also provide facilities for education and skills training and **channelize** continuous information flows into the community through local institutions. To help various communities, a State committed to poverty alleviation would also provide the necessary supportive legislation.

### **Participatory Development**

For poverty alleviation, no longer can reliance be placed merely on charitable welfare programme or 'delivering" some fragmented inputs to the poor. The participatory approach to development, in its broadest sense is a process involving the participation of the poor at the **village/mohalla** level to build their human, natural and economic base for breaking out of the -poverty nexus. It specifically aims at achieving a capital accumulation process at the **micro** terrain based on the progressive development of group **organization** and awareness creation and the better use of local knowledge valuated scientifically and wise use of local resources, supplemented by external inputs selectively introduced.

The concept has three key elements:

- (a) the **Process** whose moving. force, is the growth of consciousness, of group identity and the **realization** in practice of the creative potential of the poor;

- (b) **Empowerment** which is a reconstructing of their group identity by raising consciousness, by imparting new **Sikhs** to the poor and by upgrading their knowledge base and assets. All this progressively imparts to them a new power over the economic and social forces that fashion their lives. Thus empowered, the poor, instead of being passive objects of the process that reproduces their poverty, become initiators of interventions that progressively improve their economic and social conditions. In other words they become the subjects and not merely the objects of the process.
- (c) **Participation:** the power to break the vicious circle of poverty exercised by the poor themselves through **participation**, within an **organization**, in a series of activities not through their representatives but through the direct involvement of each member of the group or **organization**, from the stage of project identification and formulation to implementation and evaluation. Decisions are collectively taken in open meetings of ordinary members at the **village/mohalla level organization**, and work responsibilities assigned on issues such as income generation activities, savings funds, conservation practices in **Jand** use, infrastructure construction and asset creation and social development.

Collective actions for specific objectives such as a small irrigation project, fertilizer manufacture through organic waste, clean drinking water provision, health or primary education or production activities can be the entry points for a micro-level capital accumulation -process at the local level, 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.

### **The Necessary Conditions for Initiating and Sustaining the Process**

In most cases participatory development cannot begin spontaneously, given the deep-rooted dependency relations of the poor on both local elites as well as the national government. Two pre-conditions are necessary:

- (a) A **Catalyst**, committed and possessing the will to work with the **poors** often needed to initiate the process. He/she helps the community to articulate their felt needs, and to initially persuade an atomized set of people to constitute themselves into an **organization** of their own. Once village level activities get initiated by such people's **organizations**, the catalysts help in pinpointing bottlenecks and calling-in expertise from outside. They also help forge links with formal credit and other support institutions.
- (b) **A support system at the macro level** for training the cadres of catalysts, for providing the initial financial support, for overcoming bottlenecks to project implementation, for **organization** skill training, marketing and other vital functions.

In the creation of the **agro** support system, care should be taken to ensure that the identity of the actors at the village level and of the participatory process itself is not allowed to be submerged. The powerful bureaucracies of South Asian countries, designed for top-down development, have to be differently oriented so that they constitute a sensitive support system which facilitates but does not negate or take over participatory development.

The **process of participatory development** has to start with small homogeneous groups. Divisions among the poor based on caste, communal and **ethnicity** and other aspects of **social polarization** have to be identified and a degree of unity among the poor established.

## **B. Conservation of the Environment**

Development cannot be durable without conservation of the natural resource base. Equally, environmental conservation cannot succeed without development. Owing to overuse of resources, but more importantly their misuse or inappropriate/ inefficient use, the degradation of the natural resource base and environmental pollution in South Asia is pervasive, diverse and rooted in complex causes. Some problems like soil erosion are

insidious; others like contaminated water supplies are immediately life threatening; some require amelioration, others preventive action; some can be solved by, direct investment; others require changes in institutional arrangements and societal values.

The immensity of the problems is such that South Asia's sustainable development will be an **intergenerational** task of substantial magnitude. With variations for local priorities, South Asian countries should improve the efficiency of land and water use, embark on major reforestation programmes, conserve **biodiversity**, develop renewable energy sources, recycle waste etc. as part of the effort at limiting the damage on past environmentally unsound development strategies, as well as, for wise use of its national resource base.

The critical nature of these interventions is self-evident. To give one example, maintenance of top soils in **croplands** is essential for expanding food production and the future food security of the region, yet soils are being depleted all over South Asia by erosion, waterlogging, **salinity**, alkalinity, and organic matter depletion. Nature takes 100 to 400 years to generate 10 millimeters of topsoil under ideal conditions of vegetation cover, yet bare soil can be eroded in one flash storm. The short-term solution of applying chemical fertilizers is yielding diminishing returns, yet the market will not force long-term investment in soil conservation while the farmer is hungry. Fortunately, soils can be regenerated while being used more intensively. A reorientation of government policies to focus on continuous plant cover, **inter-cropping**, leguminous plants, and recycling of organic matter, can provide the start for an upward spiral to agricultural **sustainability** in South Asia.

The region's current economic policies are oriented to current productivity and deleterious, to long-term **sustainability**. Prime examples are support to pesticide use, thermal power generation without control of sulphur emissions, and treatment of forest as source of revenue from timber alone. Environmental legislation in South Asia is fragmented and not backed by quantitative standards capable of objective and equitable enforcement. Most importantly, post-colonial legislation must **recognize** the rights of communities as a whole to manage common properties and resources. There is little

research in all the various aspects of conservation and re-generation of the environment, especially in conventional low-tech as well as high-tech biotechnologies.

Environmental education is virtually non-existent. Our governments must pay greater attention to the relationship between high growth of population and environmental degradation. The current forces on the tools of family planning (i.e. contraceptive services) has failed to result in a quick enough reduction in the fertility rate. A shift to understanding the motivations for family size is warranted and for developing integrated population environment programmes that influence these goals. Further, without involving women in environmental management, neither conservation nor population objectives can be met. Finally, the traditional knowledge systems on a better man nature relationship has to be given greater scientific validity and the results have to be widely disseminated through both the formal and non-formal education schemes.

Implementation of the proposed conservation and resource use programme will require a thorough review of current government policies and institutions. Their implementation would also need to be supported by cross-sectoral programmes. The following major policy review and support programmes are recommended:

- (1) Re-orienting economic policies to incorporate sustainability criteria.
- (2) Formulation and implementing environmental legislation.
- (3) Focussing R&D on conservation issues and bringing out the peoples' knowledge system on man nature relations.
- (4) Generating mass awareness of environmental issues.
- (5) Infusing environmental knowledge into education.
- (6) Enabling grass root institutions to manage common resource.
- (7) Integrating population and environmental programmes.
- (8) Involving women in environment/development.

### **C. Agrarian Transformation**

A sustainable development strategy implies a major transformation of the agrarian sector from its current **trajectories** of development. The crisis in the agrarian sectors of the South Asia is caused by three fundamental instabilities.

- (a) The relationship between man and man **has become so biased in favour** of better-endowed regions and classes that it will be untenable in the long run.
- (b) The relationship between man and nature **haibedome** unstable. The present rate of exhaustion of the environment will not permit continuation of even existing growth rates in agriculture, leave alone higher ones. changes:
- (c) The relationship between the agrarian sector and the rest of the economy is also **jeopardized** by the lower growth of income, infrastructure, and technical change in the agrarian sector.

Removal of these instabilities will require the following minimal conditions of changes:

Generation of a high rate of growth of agricultural output and income. On the output side, the agricultural sector provides food, exports, wage goods, consumption, and production inputs for the rest of the economy. The agricultural sector provides a market for the rest of the economy. The agrarian sector poses a major constraint on growth in the rest of the economy. Conversely the restoration of balanced growth between agriculture and the rest of the economy will fuel growth.

Increase in Output and income growth has to be based on:

- (i) Ensuring output and input prices that generate a rate of return in agriculture approximate to that prevailing in the rest of the economy.
- (ii) A high rate of growth of yields, cropping intensities, and cultivated area.

Change in yields, cropping patterns, cropping intensities, and cultivated area has to be based on promoting investment in:

- (i) Introduction Of **biotechnology**, which raises yields per scarce resource i.e. water.

- (ii) Introduction of **bio-diversity** to introduce environmentally sustainable cropping **patterns**.
- (iii) Altering agricultural input prices to reduce the **capital/labour** ratios of mechanical technology. This will be critical for generating more on farm employment for tenants and landless **labour**.
- (iv) Environmentally benign practices. There is a critical need to restore and maintain the soil, water and organic matter cycles.
- (v) **Improved water management** and higher irrigation efficiencies to conserve use of the scarce resources, water.
- (vi) Giving scientific validation to the knowledge people have on all these issues.

Total output and income can be increased significantly by reducing income differentials between regions. This requires increasing the factor **endowmpnts** of less-developed regions of irrigation, infrastructure and markets. The increase in output from the marginal increase in investment will be higher in less-developed regions compared to more-developed regions.

Total output and income can also be increased significantly by decreasing the insecurity of income of small farmers and tenants. This requires increasing the factory endowments of less-developed regions of irrigation, infrastructure and markets. The increase in output from the marginal increase in investment will be higher in less-developed regions compared to more-developed regions

Total output and income can also be increased significantly by decreasing the insecurity of income of small farmers and tenants. This requires improving **their access to:**

- (i) Production credit to raise output.
- (ii) Asset creation to generate growth of production capacity.
- (iii) Crop insurance to reduce risk aversion and income fluctuation.
- (iv) More efficient input and output markets to reduce unequal exchange in transaction.

Radical increase in the rate of growth of technical change, which requires a continuous flow of agronomic skills and information through a **localized** participatory development scheme.

A final point about the need for such an agricultural transformation is the fact that famine and hunger **have** been a striking feature of South Asian history including contemporary **historic**. Yet South **Asia, as** a whole has demonstrated the capacity to produce food surpluses, export food and build significant food reserves. The potential for further increases in food production is considerable. Today, with the concept of food as a Human right having gained almost universal acceptance and being central to the political, economic and social aspirations of all the peoples of South Asia, there is an imperative that as part of a sustainable development strategy a food system should be put in place which enables every man, woman and child in South Asia to eat a nutritious diet now. This means further increasing production not only of food grains, but also items of supplementary food in keeping with traditional food habits and distributing it both through the market, through food entitlement schemes and otherwise.

An increase in total income also requires increasing the employment and income of landless rural **labour**. This can be achieved through participatory development schemes to increase non-crop activities in the rural sector, such as **milk** production and processing, poultry, livestock, and fisheries etc. Rural small market town **industrialization** will aid the process substantially.

Missing one para

### **New Science-based Rural Industries**

The demographic profile which prevails in South Asia just cannot provide anything like the requisite productive. employment for the rural population from agriculture and agriculture-related activities alone. There is, therefore, a pressing need to provide non-farm employment on a massive scale. The traditional response, reflected in relying

on a combination of cottage and traditional village industries on the one hand and public works programmes like road-building, canal building, and **mini-hydel** projects on the other, is by no means enough. The powerful new capacity offered by **Biotechnology** for new science-based rural **industrialization** should be exploited. It would, of course, need to be adapted to diverse **eco-systems** arid, semi-arid and forest in consonance with the core criteria of sustainable development: social equity, ecological **sustainability** and economic viability.

### **Rural Energy**

The rural areas in South Asia typically consume only 10% of the commercial energy consumed in the countries involved i.e. in the form of coal, oil and oil derivatives and conventional grid-supplied electricity from central generation plants. Only around 50% of the total energy consumed in the countries of the region is commercial. Around 80% of the remaining 50% of non-commercial fuels are consumed in the rural areas and take the form of firewood, and animal and crop wastes. The effect this has had on our forest resources is too well known to be repeated. If we try and imitate the highly **industrialized** countries of today in lifestyles and patterns of human settlements (super high density **urbanization**) and energy-intensive agriculture and industry, we just will not be able to produce from fossil fuels or even nuclear energy, the amount of energy needed for the "plateau populations" projected to be achieved around 2020 AD. Besides, the effects of such a level of energy production on the environment would be disastrous. A **sustainable** development strategy requires that a transition be made to major dependence on renewable energy sources such as solar, both thermal and photovoltaic, biomass-based systems **incro/mini-hydel** systems and hybrid systems composed of combinations thereof.

### **D. Industrialization**

If the South Asian Region is to achieve self-sustained industrial growth, if it is to provide employment to the growing urban population, if it is to overcome the problem of aid **dependence**, if it is to become internationally competitive in manufactured exports, then it is essential to establish a heavy industrial base with a domestic technological change

capability. Such an industrial base would include an interactive structure of energy generation, heavy and light engineering, chemical industries, transportation and communication industries and science intensive industries, such as the ones based on electronics and **biotechnology**.

Such an industrial base could have two sets of linkage:

- (i) Provision of efficient technologies for conservation, manufactured exports, and the provision of specially designed equipment for local industry that could make **mechanization** less **labour displacing** than imported equipment.
- (ii) Linkages with the small-scale grass roots sector: the heavy industrial base could develop cost-effective equipment for small-scale industries in the rural sector, and also contract out small components manufacture to these rural industries thereby accelerating rural **industrialization**.

An important element of the **industrialization** effort would be the initiation of a small-scale rural industrialization drive (to produce farm implements and process food etc.) side by side with establishing a heavy industrial base. Such a rural industrialization effort would not only increase the **labour** absorption capability of the rural sector, accelerate employment and provide cheap manufactured goods **for the poor, but** also lower the overall investment requirements for output growth.

The initiative to establish such an industrial base in South Asia could open up new possibilities of co-operation amongst South Asian countries, as different elements of the industrial base could be located in different countries, and for some period the various sub-sectors of these industries could generate both demand for each other, as well as, dynamic external economies.

## **E. The Role of Technology**

All sectors of the economy use Technology and all segments of society are influenced and affected by it. Moreover, technology acts as an interface between production **and** employment, as well as between the economic system and the **eco-system**. Therefore,

effective social control over technology is a *sine qua non* for **realizing** the New Development Strategy. To steer the development process, a country must be able to choose appropriate products and technologies and **organize** their supply. Such *supply* may, in turn, be by means of an **inclinigenwis** design and development effort or by purchase from abroad, followed by adaptation and modification to suit our conditions.

The **harmonization** of social, economic and ecological objectives can be achieved only by a careful **re-definition** of goals (the demand side) and means (the supply side). Technology comes in on both sides through appropriate **production processes**. This in turn requires that we treat technology as a **multi-dimensional** universe - capital and **labour** of the economist. Which dimensions are pertinent is a matter for consideration case by case.

Important as the choice between **existing** products and production processes the search for new appropriate products and processes/technologies, is even more important. Such products should meet the basic needs of the whole of the population and be produced out of the domain of resources capable of being **utilized** on a sustainable basis.

The real challenge is not in the application of the natural sciences and technologies based on them to improve levels of living, particularly in the rural areas of South Asia: it is in fashioning the alternative development pattern and path based on **sustainable** discussed earlier and in designing and Implementing social engineering of a kind and on a scale which would enable **realization** of such sustainable development in South Asia.

#### **IV. Institutional Mechanisms for Transition To Sustainable Development**

If poverty is to be alleviated, if the life support systems are to be saved from threshold levels of damage, and if the economic independence and sovereignty of the nation states of South Asia is to be strengthened, the sustainable development process outlined above should become a critical national objective and special efforts undertaken to **catalyze** and sustain the process.

New institutions will need to be created, new innovative approaches deployed, and new capacities have to be built for managing the change. The social base needed for the task, comprising a modernizing elite with a sound vision of the future, a large and diverse middle class willing to work with all sections of society for overcoming poverty and building a strong self-reliant economic base, and a socially mobilized poor willing to support an equitable, modernizing effort to build self-reliant economies, already exists in a nascent form in all States of the region. The evolution of sustainable development regimes in our countries should not, therefore, pose insurmountable problems.

But national efforts alone may not prove sufficient. South Asian countries are confronted with similar problems and they share a common integrated environment. In harnessing their resources for sustainable development they have to contend with more or less similar domestic conditions and the same generally unfavourable international climate. All this strengthens the compulsions for cooperation among them to co-ordinate the planning and implementation of their new policies in the overall framework of a loosely linked regional development regime. Nationalist governments of the countries combine with their commitment to protect the sovereign identity of their states an awareness of the Region's overall Civilizational identity: forging such a regime should not, therefore, face insurmountable obstacles. To begin with, a regional machinery for joint planning, especially of projects and programmes of significance to the industrialization modernization thrust, poverty alleviation and adjustment to the global system should be created.

By the year 2000, the region's rural areas will have a population of 1000 million or more. The present 2% per year rate of inflow of rural migrants to towns<sup>32</sup> and cities only transfers poverty from rural to urban areas. Employment and minimum social amenities must be generated in rural areas to enable the vast majority of this population to achieve improved levels of living on the land. New patterns of land use and human settlement, through an integral approach to both rural and urban development, are needed for the purpose. The object should be to realise a common continuum of human settlements and productive relationships having one single focus - the biological, social, economic and cultural well-being and dignity of the whole population - and with the village or clusters

of villages as the basic unit a pattern of **decentralized** development and participatory democracy has to be designed.

At the core of this scenario of the future are three major aspects of development strategy which need to be properly **institutionalized**:

1. **Life-Styles** While retaining individuality and cultural diversity to a great extent, there is need for a consensus on desirable and undesirable consumption standards, use and distribution of natural resources, including a new definition of what constitutes "a resource," and norms of minimal and maximal in incomes and wealth. Consumer societies of the western type are neither necessary nor desirable for sustainable development.

2. **Organization of Space and Human Settlement Patterns**

There is need to move away from considering "rural" and "urban" as separate entities, and to think and act in terms of a continuing structure of city, town and country side. A unique opportunity exists developing such a social continuum in which, while on the one hand the romantic utopian dream of village self-sufficiency **Is** rejected, on the other the catastrophe of a few huge metropolises draining the resources of the countryside -towards which reality we seem to be rushing headlong and at great speed today - is avoided. We need to plan instead for a populace of around 1.3 billion in the second quarter of the next century distributed among a few thousand regions **local cities** each clustering around a ,medium size" town.

3. **Production System, Resource Use and Technology**

Such a structuring of space will need to be supported by a corresponding continuum of production structures and of technologies, **relevant** to each of them. Pluralism and diversity of technologies will have to be at the heart of the strategy. Of particular importance, is the creation of sustainable amounts of employment in rural industries, to

support the work force which cannot find productive employment in agriculture. This **trial** Industry, will, however, have to be very different from the traditional ones based almost entirely on upgraded **artisanal** production, or **agro-based** industries as typified for example by the efforts of the **KVIC** in India for almost three decades and the District Industry **Centres** over the last. one decade. We will need to ' design, through R&D, a whole range of new science-based "modern" industries, drawing on biomass already available and newly **generatable** on the resources of the Commons - the Forests and the Oceans and Coastal Areas and, progressively as our educational levels in rural areas build up, on information-based industries.

**What** is necessary is a new **tech-economic** model for our society, which is designed and **realized** through a planned approach, pursued with determination, creativity and professional expertise. The enormity of the task is obvious. What is more, it will have to be sustained over not just one decade but, perhaps, 5 or 6 decades. If these elements of the transition to a sustainable development strategy are to be **operationalized**, it will call for concurrent action on, at least, Intellectual Processes, Planning Policy, **Co-ordination** Processes of social change, a Consultative and Negotiating Process and on Institutional Mechanisms **for making the transition**. Each of these dimensions will need to be **explored** in depth by **SAARC** as a whole.

## IMPERATIVES FOR REGIONAL CO-OPERATION IN SOUTH ASIA

As stated earlier, the South Asian Region is **characterized** by a common **civilizational** heritage, nurtured over the centuries. The integrated ecological and natural resource system shared by our countries is **symbolized** by the Himalayan, **riverine**, ocean and solar resources'. This common heritage and resource base provide the historical and material basis for regional co-operation in South Asia.

However, today, we are all facing pressing and critical problems which make this co-operation an imperative undertaking - not just an option. The people of our region must, at this historical stage, make a **clean break** with the most damaging legacy of the colonial era; namely, the process of fragmentation and disintegration of a society which was, until the onset of colonialism, in the process of evolving a unique and united identity, transcending its rich diversity of race, religion, language and culture. The multiple **socio-economic** crises discussed earlier and the spectre of perpetual poverty looming over our people are the end result of the fragmentation coupled to constant feuding among our countries. To undo this legacy requires that the process be reversed and the nations and peoples in this region get together in a **co-operative** venture to build their own future. It also requires that the interactions between the nations and peoples of the region, each equal to the other in all respects, are no more mediated through institutions, practices and procedures laid down by outsiders. This **co-operative** undertaking to take the destiny of this region securely and exclusively into our own collective hands must be seen as a necessary condition for overcoming our colonial legacy.

It is evident that a major effort is now required to pull the region out of its crises, revised some of the past processes and set it on the road to a prosperous and just society. For this, determined national efforts are indispensable, but the nature of the problems is such that national efforts alone will not suffice. Regional **co-operation** is of vital importance in the **endeavour** to overcome the problems which defy or transcend frontiers. For example, ethnic tensions in one country spill over or in other ways generate ill effects in another, giving rise to a spiral of ill will and embitterment which harms both. For some of the

issues, the **veq** basis of the crisis may be greatly weakened if there is adequate mutual consultation and cooperation between the nations concerned.

The protection and reinforcement of the region's environment and natural resource base is of prime importance to the development of the economies generally and to the overriding task of eliminating the **scourge of poverty**, in particular. National actions simply cannot ensure protection of our environment, which is an integrated region-wide system. The impact of events and actions in any of the nations is felt on the region as a whole. If the ecological balance is to be maintained and optimal use of the region's resources is to be ensured, cooperative **endeavours** are essential.

A **co-operative** approach is also required to successfully tackle the biggest challenge **facing the** nations ' of South Asia viz. the challenge of controlling the population growth. The borders of the countries are so porous and cultural and ethnic practices so common that any individual effort at population control is bound to be defeated by cross-country movements of people. Moreover, the social, religious and ethnic practices of the people in the region cut across national boundaries. Thus, population control measures can be improved and their efficiency increased by learning from each other's experiences I and through the implementation of parallel policies.

The question of poverty is inextricably linked with that of population growth and vice-versa. The approaches to poverty alleviation adopted in individual -countries could again benefit from cross'-country experiences. Poverty in the region has many common causes and features and the poor have no option but to move to wherever there is relatively greater prosperity. The **nations** must get together to address the poverty question or, as demonstrated by past experience, it will not **be effectively** addressed at all.

The combined economies of the seven nations offer a domestic market of more than one billion for South Asian agriculture and industry. This domestic demand base must be activated if South Asian productive capacities are to take advantage of the economies of scale and become internationally **competitive**. Without the emergence of a common -South Asian market where goods and factors move freely across national borders, the industrial capabilities of the industrial countries, in particular, will remain constrained by

lack of domestic demand and will consequently be unable to achieve international competitiveness. Regional co-operation, leading to the formation of a free trade area and a common market, will make a significant contribution to South Asian development avoiding a future of always-remaining second grade economies.

Today, South Asia faces the unpalatable prospect of being completely marginalised in the international community. This is true of every country, including India, which despite its size has been a steady erosion in its economic and political standing in the international arena. Such a prospect is unfortunate, especially for a region which has one of the most ancient and rich civilizations and which must exert its natural role for peace and co-operation in the world. The experience of ASEAN in recent years has demonstrated that by coming together this process of marginalization can be reversed. South Asian nations can through a process of regional co-operation, create an identity for themselves which will once again command the world's attention and respect.

Some in South Asia are sceptical about the possibilities of trade diversion within the Region but such views are based on a static perception of South Asian economies with their existing narrow production base and trade patterns. In a dynamic concept these economies should engage in an industrialization process that expands and diversifies their manufacturing sector: then, many new complementarities will emerge. The experience of the industrialized countries of Europe and North America has shown that the manufacturing sector has a large number of sub-sectors, and different countries industrializing simultaneously can achieve mutually beneficial specialization in various sub-sectors and reinforce complementarity.

At the moment, imports of food and textiles which account for most of the total imports in SAARC countries, except India, are subject to very high rates of duties, severe quota restrictions and in some cases outright bans. An opening up of trade even in the relatively limited basket of goods currently produced in SAARC countries can lead to cheaper imports (or increased exports) which, in future, will decelerate inflation, and increase real incomes for our countries, provided, that trade is promoted with adequate sensitivity to the need for developing infant industries with a long-term potential for the

region, and the gains from trade are equitably distributed. For example, transport and machinery sector constitutes, 31% of total imports of Pakistan. On the other hand; transport and machinery constitute a substantial proportion (over 10%) of India's exports. Similarly Pakistan imports almost 2 million tonnes of food grains at high prices, including expensive transportation, while India next door has a food export capability. Trade in these two items alone can significantly increase the productivity of investments in the two countries (India, through improved capacity utilization, and Pakistan through reduced incremental capital-output ratios). Similarly, food imports from India, by Pakistan can play an important role in slowing down inflation, given the fact that food constitutes a substantial weight in the-price index of the middle classes and the poor.

The emergence of regional economic blocs, their growing barriers and protectionism and other international trends adversely affect our economies and our development processes have been noted. However, the world economy is not a monolith and competition, differences and disagreements exist between industrial countries and between regional economic groupings. While no one country in South Asia, on its own, has adequate leverage, a South Asian Economic grouping, energetically pursuing co-operation in trade, agriculture and industry within its own large regional market, will have sufficient leverage to obtain a better deal or access to the financial and product markets of industrialized countries. Whatever our political disagreements and other quarrels in South Asia, in the matter of economic survival of each one of our countries and of the region as a whole, we have but one choice: for sheer survival we must forge the closest possible co-ordination and co-operation in the region in all matters pertaining to trade, industry and socio-economic development in general. In furtherance of this objective, we propose, in the two following sections a development strategy and five proposals which we believe will set our region on the course to the goal of a dynamic community which will not exclude co-operation in social and political fields, where too our countries face several similar, and in many cases common, problems. We are conscious of the strong nationalist feelings prevailing in our countries and of the pride they take in their separate, independent identities. This is not something new and in the subcontinent's long history, one single polity has emerged only very rarely and yet, throughout that chequered history, the consciousness of a common Civilizational identity and a sense of common

destiny, was all pervasive among the region's people. In this regard too, the situation is no different today.

What is contemplated is a South Asian Community of independent states, equal in their sovereignty and autonomy of decision-making, working closely together for the well-being of all of South Asia's people who cherish and nurture a common kinship transcending the multiplicity of their ethnicities, languages, religions and cultures. Finally, it must be stated explicitly that regional co-operation cannot become, either directly or indirectly, the basis for a hegemonic presence of any one country. It is imperative that trust be created and strengthened amongst all sovereign nations of the region on the basis that each one is an equal partner in this endeavour. The large nations in the region - Bangladesh, India and Pakistan in particular - have to ensure this: their most significant contribution to regional co-operation will be to build this trust.

## **AN AGENDA FOR IMMEDIATE ACTION**

### **ESTABLISHMENT OF AN INDEPENDENT SOUTH ASIAN COMMISSION ON POVERTY ALLEVIATION**

#### **Introduction**

This proposal is a response to the second prong of the sustainable development strategy outlined in the report. The transition to the sustainable development strategy requires that mass poverty in South Asia, which is both endemic and reproducing itself, be alleviated in a reasonable time-frame through the adoption of innovative approaches which have a material basis on the ground.

No longer can the vast backlog of poverty in South Asia nor the basic needs of over half a billion persons be taken care of merely through charity and social welfare programme, reliance on the "growth and redistribution" approach, the "delivery" of inputs and services approaches, or the purely technocratic interventions, which have been tried over the past forty years. All these are marginal reforms within the dominant model of economic development and the "trickle down" of benefits to the poor, that was expected to follow. Mere paternalism, or putting a "safety net" under the poor, or "adjusting with a human face" may buy a little time, at best, but do not address the dynamics of poverty creation or the causes of poverty reproduction, or the **polarization** of people in the South Asian context.

#### **Towards a **Mobilization** Strategy at the Micro Terrain**

While the conventional development strategies have created "miracles" such as the Green Revolution or in industry in some **SAARC** countries, they have had little significant impact on poverty of the large numbers in South Asia. In fact some of these strategies are responsible for the erosion of the natural resources base and the reverse flow of financial resources from South Asia to the global system. As against this somewhat bleak picture of the performance of conventional macrodevelopment strategies in working out

solutions to the problems of the poor, there are positive experiences of **mobilization** efforts of the people themselves at the **grassroots** level from which several lessons have been **learnt** for poverty alleviation. In the past ten years particularly it has been demonstrated that when the poor are **organized** and actively participate in development, as **Subjects** rather than as passive objects of the process, they are able to move out of, **i** condition of **dehumanization** and bare survival, to position of systematic economic strength. They have proved capable of increasing savings and engaging in income generating and other community activities, which not only enhance their economic conditions and dignity, but also lead to improved social aspects such as health and nutrition. This reflects a new accumulation process which is visible at the microterrain and which helps to take the poor beyond survival and **dehumanization to-a** reasonable stage of human development, even at low levels of income.

Several grass roots experiments demonstrate the capacity of the poor to use their own creativity, local resources and knowledge for capital accumulation, generating savings asset creation, and social development. A series of innovative experiments in poverty alleviation which are now emerging in South Asia, involve larger and larger numbers of the poor. They show that the poor do not view their lives in a fragmented manner separating the economic from non-economic aspects. They do not focus on economic inputs or credit in isolation, but view these elements as part of a total process. For instance, when credit has been made available with sensitivity at the right time, with social **mobilization**, with awareness creation and **organization** of the poor in advance of the extension of credit, it has played a significant role, along with several other elements to moving people out of poverty. These processes of moving people out of poverty have either arisen spontaneously or have been **catalyzed**. Whatever the impulse they do represent a **mobilization** approach to poverty alleviation.

The wide variety of micro-level participatory development experiments in South Asia represent a positive new factor and provide a range of experiences. They are neither homogeneous nor based on a common ideology. Thus, it is necessary to make a distinction between a "seed" and a "bubble." A "seed" of change can be identified with broad values and criteria such as equality of access of the poor to economic resources,

real participation, ending of division between mental and manual labour, use of knowledge appropriate to the process and equal rights political social and cultural, for all. This list can be added to with additional values such as local orientation, self-management, solidarity and innovativeness. A "bubble" on the other hand is a soft process and is unlikely to last for a variety of reasons. Bubbles may be too dependent on external financial resources. It may have been catalyzed by an NGO which is more bureaucratic and top down than even a pre-determined Government or donor delivered programme. However some "bubbles" could also be changed and transformed into harder programmes through additional sensitization of the actors and introducing new trained facilitators/catalysts into the soft process with a view to hardening them. The essential point about a "seed" is that it is an outcome of a process of mobilization, conscientisation and organization - in that order - which leads to poverty alleviation at the level of the economic and social life of the community.

### **Lessons for a Strategic Option**

There are three basic lessons from these experiences on the ground, from which a bold macro-strategy for poverty alleviation in South Asia can be designed.

- (a) People are South Asia's greatest asset, though the majority of them are poor. Policy making for them must start with the people as subjects of the process and be on the premise that the poor have creativity and knowledge, though prevailing conditions inhibit this creativity and knowledge from contributing to sustainable development. There are also vast untapped and unutilized national resources which can be effectively used by the poor in this type of micro-activities. By mobilizing this creativity and knowledge, and utilizing these unutilized, mainly local resources, to the fullest, an additional accumulation process is possible at the base of the economy. This can complement other accumulation processes located in the more organized sectors of the economy.

The informal sector in all South Asian countries has enormous potential for generating savings, asset creation, income growth and productive work. The

benefits that such processes can bring to the poor are considerable. Yet, such sources of self-reliance and autonomous growth for the poor remain relatively dormant or suppressed. The poor may not always be able to initiate this **mobilization** process spontaneously by themselves, individually. Therefore, a sensitive catalyst may often be required to help them **organize** themselves to overcome the limitations of being alone, and to build up sustainable joint and **co-operative** actions and institutions. This cannot be done in a bureaucratic or prescriptive manner. The process must be one of social **praxis**, an action reflection action process in which the poor **participate**.

- (b) The experiments which are on the ground in South Asia show that where a sensitive and flexible government, or banking institution, or an **NGO** or donor has provided sensitive support to these innovative experiments, they have been able to involve and benefit larger numbers. Without the imposition of their ideologies and fragmented or rigid procedures, the supporting institution can reinforce these grass roots participatory processes among the poor and permit small experiments to be carefully nurtured and multiplied under different **socio-political** circumstances. This sensitive support also can create conditions for the experiments to be deepened.

The operative word here is "sensitive" support. Not all government interventions on behalf of the poor are necessarily "sensitive". Likewise some **NGO** activities may be very detrimental to people's experiments by being too top down. Many banks and donors also need to change and adopt new norms if they are to reinforce these people's experiments. A "sensitive" support system is an essential prerequisite for alleviating mass poverty in South Asia. But the States and regions have to be committed to poverty alleviation and provide the "political" space for participatory development processes to thrive. The historical circumstances are such that they may not have any choice but to support this strategic option.

- (c) These participatory experiments can also multiply when they are backed by a new social movement, drawing on the new social energies that are released. A special study that was initiated by **IFIDA and UNICEF in collaboration with a number**

of South Asian institutions **working with poor women showed a** positive equation between gender equity and poverty alleviation. The study was also a pioneering effort to look at the question of the double burden women face within the dominant development paradigm. Over the past decade the women's movements in South Asia have helped to focus unambiguously on the important role poor women play in development, without themselves adequately benefiting from the process. This women's movement also **catalyzed** a number of experiments bringing women out of poverty, using mainly their creative energies.

With the knowledge that poor women had a great deal of creative energy that was suppressed or dormant was **mobilized** for human development, this study attempted to look at the role of the poor women in a sustainable development strategy. It examined several experiments in South Asia, where poor women as subjects in the process had **organized** themselves primarily in informal sector **activities for** micro-level development actions and had gone beyond survival to build new **organizations** and savings systems to sustain the process. As the process evolved many of their immediate social problems were also alleviated. This change in their economic and social condition was brought about through the methodology of participatory development. The process identified was very different from the conventional process where poor women are seen as the objects of process, and merely receive credit and other inputs "delivered" from outside in the name of "Women in Development" programmes, with little or no participation, awareness creation or empowerment through **organization**.

In South Asia, where this innovative approach to poverty alleviation through **organization** of poor women and their empowerment has gone beyond experimentation, it was possible to identify the essential elements in the total process. It was also found that the methodology, processes, and **organizations** with appropriate adaptation could be used for initiating, expanding or multiplying similar poverty alleviating processes elsewhere.

This is only one concrete illustrative example of one category of the poor in **South** Asia breaking out of the poverty trap. There are other examples of the landless, youth groups, **tribals** etc. bringing about similar transformations in their lives. As a result of examining

the intellectual underpinnings and methodologies adopted in these processes under varying **socio-political** conditions, South Asian scholars are now able to refine further the concept of people centered development, where growth, equity and human development are not trade-offs. The process of **mobilizing** people with their participation was seen as the primary mechanism for accumulation in South Asian context.

### **Proposal for the Establishment of an Independent South Asian Commission (Study Group) on Poverty Alleviation**

The strategy for poverty alleviation outlined above is not based on a prior **theorizing** and has a material basis of experience on the ground. The theoretical underpinnings are still rudimentary and the approach is still at the periphery of mainstream thinking and action on poverty alleviation. It needs to be brought to **centre** stage. Hence, the proposal to establish an Independent South Asian Commission on Poverty Alleviation, broadly on the lines of the recently concluded South Commission.

Its functions would be to:

- (i) Assess the studies that are available on the dynamics of poverty creation and causes of poverty reproduction in South Asia.
- (ii) Examine the positive and negative experiences with past attempts at poverty alleviation and indicate what went wrong.
- (iii) Draw the hard positive lessons from the "successful" experiences on the ground, where the poor have been the subject and not merely the objects of the process and provide the theoretical underpinnings for a coherent strategic option, including the conceptual framework and operational methodology. While the theoretical underpinnings would for most part provide the framework for action at the micro-terrain, the macro-policy issues and links between the macro/micro need as far as possible to be identified, keeping in mind cultural specificities and differing **socio-political** circumstances within countries.
- (iv) Identify the role of Governments and other support institutions that could provide a "sensitive" support system, for real participatory development, where human development, growth and equity are not trade-offs.

- (v) Indicate the follow-up implementation strategy and capacity building that would be required, at all levels for initiating, supporting and managing the change.

The commission will be composed of 15 South Asian members functioning in their personal capacity. The composition will have appropriate geographical distribution and include women, youth and committed representatives of the poor. The criteria for selection will be commitment and identity with the strategic option. The Commission shall have a Chairperson and a Member/Secretary and will be supported by a small Study Team. The Report of the Commission should be completed within one year of its establishment.

The Report will be submitted to the 1993 Summit of Heads of **State/Governments** of **SAARC countries**, for their consideration. **SAARC** Governments are **expected to provide** a token contribution to **the expenses of the** Commission, with the major part to be raised from other appropriate sources, keeping in mind the **Independent nature of the Commission**

## **FOOD AS A HUMAN RIGHT IN SOUTH ASIA\***

### **Introduction**

We live in a stage of world history in which the production of food is more than adequate to protect humankind from hunger; that hunger, starvation and famine still persist despite increased food production and surpluses, represents a colossal Failure of public action. Today, the right to be free from hunger and undernourishment is widely **recognized** as a universal human right, and it is imperative that the governments of the South Asian region **recognize** and uphold this right and commit themselves to it-- **realization**.

Hunger has been a leading issue in the modern political history of South Asia, and winning freedom from famine and hunger was an important theme of the national movements in the countries of the region. To take an example from the pre- Independence period, A. K. **Fazlul** Huq, a distinguished statesman, leader of the **Krishak Praja** Party and Premier of Bengal, declared that the politics of the region should be guided by a fundamental commitment to ensuring basic subsistence, encapsulated in the slogan of a **dal-bhat** political programme.

The recognition of this right to be free from hunger and **undemutritioa** entails the recognition of a set of interrelated rights, including the right to food, the right to health care and the right to education. To illustrate: without access to health care and education, mere access to food cannot ensue freedom from parasitic disease and **undernutrition**.

An important distinction must be made between two forms of occurrence of the hunger problem, that of famine and that of chronic hunger, The problem of famine - which involves mass starvation and a sharp increase in mortality - has been, historically, a recurring problem of the region. In recent years, successes have been achieved in the task of eliminating famines in South Asia. These successes must be consolidated and the region must be made famine-proof, which requires eliminating the threat of famine.

Eliminating the threat of famine, however, is not enough. Endemic hunger and deprivation typically kill many more people than famines do, and this has been shown to be as true of South Asia as elsewhere. Chronic hunger, which is **characterized** by sustained and persistent nutritional deprivation, exists on an enormous scale in the South Asian region, even where famines have disappeared.

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- *At the request of IGSAC and in line with the conceptual framework of IGSAC the UNU World Institute of Development Economic Research contributed the above proposal by its Hunger and Poverty Group Of leading South Asian economists and scientists led by Professor Amartya Sen. IGSAC endorses this proposal*

Only a commitment in practice to ending chronic hunger can give meaning to a political commitment to the right to be free from hunger and undernourishment.

### **Social Policies for ensuring Freedom from Hunger**

A practical commitment to ensuring freedom from hunger requires diverse forms of public action at the local, national and regional levels. The paragraphs that follow list some of the most important of them.

The growth of production and productivity in agriculture is an important component of the solution of the hunger problem, and a great deal remains to be done in the region in this field. An enlightened policy of agricultural production will seek to benefit from recent advances in the biological sciences, introducing new farming practices in a contextually-sensitive way to **local farming** systems; it will seek to combat the great disparities that exist in agriculture, animal husbandry, forestry and fisheries as between different **agro-ecological** zones of the South Asian region and to combat economic disparities between different classes of the producer population. The goals of establishing an agricultural production system that is ecologically sustainable and of establishing an agricultural production system that ensures enhanced production on the-basis of scientific methods of farming must not be seen as conflicting; the two must be integral - and non-antagonistic - components of programmes of agricultural transformation.

It is essential that the region maintain Stocks and reserves of food that are **sufficient**, first, to cope with sudden - shortfalls in production and, secondly, to provide food for public distribution system.

Famines occur when classes of people lose their entitlement to food drastically. History and economic analysis has shown that, in the short run, a **viable** and effective way of preventing mass starvation and death is to ensure **income-generating** wage employment to populations that are at risk. Over the long run, an effective system of famine prevention is one that builds safeguards against the sudden collapse of entitlements among the people.

Turning from the problem of famine to that of chronic hunger, combating chronic hunger requires that public action be deployed on several fronts.

- (a) Programmes for enhancing incomes among the poor are essential to guaranteeing access to food. Incomes must be enhanced. by creating wage **employers**, particularly during slack seasons;
  - by extending public systems of **subsidized** food grain distribution, particularly in rural areas and in areas of town and **cities** where the poor live;
  - by providing productive assets to the poor; and
  - by means of ensuring such basic necessities as housing to the poor and destitute (and special disaster-proof housing for people of the cyclone prone and flood-prone areas of the region).
  
- (b) For many people, the proximate cause of undernourishment is not so much a lack of food as it is the absence of medical facilities and proper environmental hygiene. Any set of social policies for ensuring the right not to be undernourished must include measures to improve environmental hygiene (especially by providing all people with clean water and with facilities for the sanitary disposal of waste), to control epidemic disease and to provide basic health care to the population at large.
  
- (c) Education plays a crucial role in achieving the goal of ending avoidable hunger and illness. Education makes people more knowledgeable of scientific Nutrition and health practices, and, no less important, it makes people conscious and assertive of their rights. In recognition of the instrumental role -of education as well as its intrinsic importance to human beings, governments must commit themselves to the goals of achieving mass literacy, of making school education compulsory by law, of providing

educational facilities for all, and of abolishing child labour. The abolition of child labour will, of course, have a direct impact on the health and nutritional status of children; the historical record also shows that the abolition of child labour is essential for achieving the goal of universal education.

There is an important lesson to be had from the striking fact that no famine has ever occurred in a country that had a democratic political system, an active opposition and a relatively free, adversarial, press: it is that freedom from hunger and undernutrition cannot be achieved without constant public pressure, from the news media, from mass organizations of the people, from political opponents of governments in power and, in general, from alert and politically conscious citizens. And it is worth emphasizing that this freedom cannot be achieved in situations of violent caste or communal oppression and conflict (or of conflict between people of different linguistic groups); such conflicts and violence disrupt social and economic life and most often result in the destruction of the entitlements of the poor.

In almost every part of the South Asian region, women (including girls) receive less food, less education, less health care and fewer benefits from systems of social security and income support than men (and boys). The discriminatory nature of social arrangements in the region is most strikingly illustrated by the fact that the rates of survival of women are much lower than those of men. A simple summary measure of survival is the ratio of 1.05 to 1.06 in Japan, North America and Europe, the ratios are 0.91 in Pakistan, 0.93 in India .46

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and Maldives, 0.94 in Bangladesh, Bhutan and Nepal, and 0.96 in Sri Lanka. The struggle against socio-economic, political, cultural and legal discrimination against women and girls must be fought and fought successfully if freedom from hunger and undernutrition for all people is to be won.

## **Commitments and Policies**

Historically, the South Asian region has been particularly prone to the ravages of famine despite increased food production surpasses in the contemporary period, it is home to most of the world's hungry and undernourished. Hunger and **undernutrition** in South Asia constitute a wholly avoidable tragedy and the time has come to make a break with the past.

Guaranteeing the right to be free from hunger and **undernutrition** requires the common resolve of the people and governments of South Asia. In policy terms, such a common resolve calls for enlightened and imaginative public action at the national and regional levels. At the national level, it requires a common regional commitment by each member state to:

- **create** wage employment as an effective anti-Famine **weaDon** in times of crisis and also as a source of regular income support;
- guarantee environmental hygiene and basic health care;
- radically transform agricultural productivity and ensure ecological **sustainability**;
- maintain **adequate stocks**; and reserves of food;
- extend systems of **subsidized food grain** distribution to the entire vulnerable population;
- provide productive, assets to the poor; ensure universal literacy;
- combat; social, political and economic discrimination against women; and
- protect the freedom of the news media and of public expression.

At the regional level, member states must be committed to co-operation and to mutual aid in times of crisis. For example, it is possible **to extend the scope and** function of the existing regional food reserve system in such a **way that it is no** longer treated as a source of relief only of last resort. An imaginative regional food security system would enhance the role of common food reserves as insurance and commerce between against entitlement crises and would also promote trade member states.

While regional co-operation geared to promoting the right to be free from hunger in South Asia has, so far, largely focussed on collective food security arrangements, there are many other directions in which such co-operation can be fruitfully developed. For instance, regional co-operation can play a vital role in reducing the risks of armed conflicts and arms races, which have been major causes of hunger and famine throughout the history of the world (including South Asia). Solving regional conflicts and extending the domain of co-operation in **SAARC** have to be integral parts of any programme to eliminate hunger and famines in South Asia.

## **SOUTH ASIAN FREE TRADE AREA**

If the imperatives for regional co-operation in South Asia are accepted, **SAARC** must review the present agenda and quickly move into some concrete areas of economic co-operation starting in the trades. The whole experiment at regional co-operation will lose its **raison detre** if this co-operation does not extend to areas of economic activity where it would make a positive impact on the material well-being of the people. One of the principal factors for slow progress hitherto has been the conscious decision by **SAARC** members to exclude economic and core areas from the agenda for co-operation and confine it to soft or peripheral areas. This has been corrected at the Male summit of 1990, with a call from the Heads of State/Governments for moving into core areas of co-operation.

In order that the **SAARC** process becomes meaningful to and attracts the attention of the people of this region, the member states must declare and demonstrate their commitment to the establishment of a South Asian Economic Community. This should be a time bound programme with the Community coming into existence by the end of the century. South Asian Economic Community (**SAEC**) could be **visualized** as "the association of nations located in proximity of each other; fully aware and conscious of each other's sovereign parity; bound together by age-old ties of history and culture; united in their resolve to reach the goal of free trade and expanded investment and financial flows across national borders; and imbued with a collective concern and resolve to protect and improve the common environment."

It is proposed as a first step that **SAARC** outline for itself a sequential process of economic reforms which starts with the formation of regional tariff and trade bloc and the establishment of a payment union, and goes on to the taking up of joint positions in the ongoing multilateral negotiations.

- i) **Co-operation in the External Sector in the context of -multilateral Negotiations**

Such co-operation could yield tangible benefits as it may help member countries to secure improved terms in their negotiations with countries and institutions outside the region. It may be appropriate to note here that the group of highly industrialized countries today negotiate on the basis of joint understanding arrived at in the G-7 and that the ASEAN countries and Latin Americans have also developed processes of consultation amongst themselves. Although some form of informal consultation may already be taking place amongst the representatives of SAARC countries in New York or Geneva, it is important to give a formal shape to and institutionalize the process. For only then will the international community be forced to take note of the development and respond to it. This, in turn, will positively influence the process of economic co-operation in the region.

**Adopt effective measures for exchange** of trade information including the setting up of a regional network of trade and technology information centres.

Formulation of two SAARC groups is suggested in this context. First a SAARC Group on International Economic Negotiations (SGIEN) which would be relevant for the ongoing Uruguay Round and other major issues of common concern. The second group could be a Group on International Environment Issues (GIEI). This group would consult and deal with the region's position on the ongoing consultation for the Montreal Protocol and other issues related to the environment including the-1992 United Nations Conference on Environment and Development (UNCED) in Brazil.

In addition, a tradition of annual consultation of SAARC Finance Ministers and Central Bank Governors could also be initiated to coincide with the annual Board of Governors meeting of the World Bank and the International Monetary Fund in Washington D.C. The working principle for such groups would be that they meet and consult together on every issue which requires national positions to be taken expressed at different fora, and that they strive to reach unified positions.

**ii. Co-operation for Expansion of Intra-SAARC Trade**

**Acceptance** of the goal of one Community entails a move in the direction of augmented flow and expansion of trade between the member states. At the present juncture, the member nations may focus on the need to arrive at a time bound programme for the reduction, if not elimination, of non-tariff barriers and the lowering of tariffs for trade between **SAARC** nations. A first major step in this direction has been taken at the **SAARC** Meeting on "Trade, manufactures and Services" in July, 1991, and their recommendations have been endorsed by the **SAARC** Council of Ministers. Such a consensus and commitment was necessary even at this late date to start the process of greater co-operation in trade in a region which has a potential market of 1 billion people.

Among the recommendations already endorsed and being proposed to the next Summit are:

- (a) In the process of adopting a more liberal trade regime by member countries allow for maximum accommodation of each other's needs for the redirection and promotion of trade within the region as a priority goal.
- (b) Accord to each other **MFN** status and freeze non-tariff barriers at Current levels a must and a beginning point thereafter continue to examine at regional and bilateral meetings possible roll backs.
- (c) Accept the principle of regional preference for joint ventures and technology transfer projects.
- (d) Adopt effective measures for exchange of trade information including the setting up of a regional network of trade and technology information centres.
- (e) **Co-operate** in the expansion of infrastructure, both physical and institutional, to promote trade.

The work of several South Asian scholars in the area of **import export** structures and **trade** expansion, trade channels, marketing and distribution systems, credit facilities etc. reinforces the conclusion that there is considerable potential for closer trade co-operation in South Asia. Negotiations should not be constrained by existing statistical information. Border trade flows in the informal sector show further potential, once a free trade area is created.

One of the studies of a Macro-econometric model on regional trade and economic co-operation published by the **Pakistan** Institute of Development Economics, estimates prototype econometric models for Pakistan, India Bangladesh and Sri Lanka, Which are then linked through foreign-trade equations to explore possibilities of fruitful economic co-operation among these four countries. Policy simulations, carried out to highlight the pay-off of specific policies in terms of the stated objective, show that given a policy decision by these countries to **cooperate** in economic matters, the prospects of extending **intra**regional trade are by no means small. The study shows that both the GNP and total trade are positively and **favourably** affected by appropriate **regionally oriented** policies. More studies of this kind need to be undertaken and the other three **SAARC** countries should be included as well. The results should be fed into the official **SAARC** discussions.

The **SAARC** members should announce a five year time-frame within which the non-tariff barriers would be removed and the tariff levels brought down to the lowest prevalent in any member country. Such an agreement would set the stage **for rapid** movement in the process of further economic co-operation in **SAARC**. **The** declaration of such a goal would require the establishment of a continuing high level **SAARC** group for free trade and co-operation to work out further details. To reinforce the **complementarities** in trade, industrial locations would also need to be negotiated between the countries so that every country gets its share of industrial capacity.

## **SOUTH ASIAN PAYMENTS UNION**

**In the** decades preceding Independence, South Asia, by and large, had an integrated economy and monetary system. They were both **dependent** on the metropolitan power, but had a large measure of integration. Reserves were maintained in Sterling and there was a common unit of currency, managed by the Bank of England. These arrangements were disrupted by Independence and separate currency authorities, reserve systems etc. emerged. In 1974, however, **recognizing** the need for even an elementary regional clearing arrangement, the Asian Clearing Union (**ACU**) was **established**. The **ACU** was intended to cover the whole of the Asian Region and not only **SAARC**. Five **SAARC** Members (India, Pakistan, Sri Lanka, Bangladesh and Nepal) joined **ACU**.

### **The Asian Clearing Union**

The **ACU** was an elementary form of **regional** co-operation to ensure that part of the regional surpluses would be kept within the region, with transfers of financial resources from surplus to deficit countries. These transfers would partially finance an expansion of **intra-regional** trade and reduce the leakage's into the global system. While the **SAARC** countries mentioned above have joined the **ACU** along with Iran and Burma, the more developed countries in Asia, like Japan and **the Asian NICs** are outside of it. The inclusion of Iran gave benefits to the **SAARC** members in the form of deferred payments for oil. Bhutan and Maldives are not yet members of **ACU**, but the **SAARC** Technical Committee on trade, Manufactures and Services has urged them to join.

In 1988, the current members exchanged more than 80% of the **trade** between their countries through the **ACU**. The **ACU** operations reduced to some small extent the complete dependence of these countries for external funding and resulted in some saving in the use of scarce foreign exchange. It also reduced the cost of transactions. But recorded **intra ACU** trade is still small, compared with their combined world trade. It increased from 4.2% in 1976 to 5.7% in 1988. This of course excludes some bilateral transactions such as those between India and Nepal and between Pakistan and Iran. It also excludes a great deal of the payments on informal border trade.

The **ACU** is managed by the Central Banks of the member countries, with the Governors of these Banks on the Board of Management. This institution has todate provided 14 years of experience in the most elementary form of monetary and financial co-operation. The "Asian Monetary Unit" is used by the countries for accounting purposes, as a common unit of account. This unit is not issued by the Monetary Authorities of the countries and is not legal tender.

The potential exists, however, in the **SAARC** context for exploring the possibilities for establishing a full fledged South Asian Payments Union also to be managed by the Governors of the Central Banks of the Region as part of New capacity building for closer regional co-operation. The **SAARC** Technical Group on Trade, Manufactures and Services has also felt the need for a more sophisticated regional payments arrangement in order to promote greater regional trade and cooperation. More importantly, sophisticated payments union is urgently required also for ensuring that the reverse flow of resources from the South Asian Region is stemmed and negotiations with the global financial system and the IMF etc. can be better **coordinated** among **SAARC** countries.

In moving from the Asian Clearing Union to a **SAARC** Payments Union, it should be noted that this is still in the area of a "soft" union and is nowhere near creating a South Asian Central Bank or a common currency. In the Payments Union, some joint decision-making and **harmonization** of strategies in the monetary area are implied, but on fiscal and budgetary matters powers would remain limited to recommendations to national Governments. In making the transition the issue of the composition of the membership needs to be sorted out and related to **SAARC** membership.

### **Preliminary Proposal for a **SAARC** Payments Union (SPU)**

The proposal outlined here seeks to take the successfully operating Asian Clearing Union concept a step further towards the objective of strengthening trade and payments co-operation among the members of **SAARC**. Under this scheme, members will agree to subscribe a mutually agreed percentage of their foreign exchange reserves into a central

pool. This will be supplemented by a further subscription in national currency, equivalent to a mutually determined multiple of the subscribed foreign currency. These funds will be vested in a new **organization** to be called the **SAARC Payments Union -(SPU)** to be managed by the Governors of Central Banks or Monetary Authority, as the case may be.

The foreign currency deposits will be drawn upon to settle **intra-SAARC** payments deficits on the basis of criteria to be determined. The subscriptions in national currency will remain uncalled except when the Payments Union is required to liquidate its liabilities. For this purpose, each member Central Bank will guarantee the convertibility of the national currency subscription into internationally accepted currency.

### **SAARC Units of Accounts (SAACU)**

The Executive Board of the **SAARC Payments Union (SPU)** will be empowered to issue **SAARC** units of accounts (**SAACU**) to multiple value of the foreign currency pool. The ratio may be changed from time to time in accordance with the exigencies of **intra-SAARC** trade and ' payments. To illustrate, if the pool of foreign currency amounts to US \$ 1000 million, **SAACUs** to the value of US \$ 10,000 million could be issued, i.e. a ratio of 1: 10.

The foreign currency deposits in the **SPU** pool and the **SAACUs** could be borrowed by members according to a pre-determined Quota and used to settle **intra-SAARC** trade and payments deficits. The Executive Board shall determine the period for which borrowings may remain outstanding and the interest rate that **may** be charged.

The foreign currency deposits in the **SPU** will earn interest and such interest shall be credited to each member's account at periodic intervals to be determined by the Executive Board. The Executive Board shall also determine the modalities for investing the funds in the currency pool. If any member opts out of the scheme, it shall be entitled to its contribution, together with accumulated interest.

The scheme may be operated in four stages:

**Stage I :**Intra-SAARC deficits will be settled by recourse to each member's Quota in the currency pool, supplemented by drawings on its national foreign exchange reserves, where necessary.

**Stage 11 :**Intra-SAARC deficits will be settled by part recourse to each member Quota in the currency pool and part recourse to its Quota of SAACU and national foreign exchange reserves.

**Stage III :**Intra-SAARC deficits will be settled by major recourse to SAACU supplemented by drawings on each member's Quota in the currency pool and national foreign exchange reserves. Real Effective Exchange Rates of Members will be flexibly managed to reflect changes in price competitiveness.

**Stage IV :** When investment projects that are promoted with bilateral financial assistance from non-SAARC 'countries involve counterpart, expenditure in one or more SAARC members, the recipient may have the right to draw on all or part. of its quota in SAACU, to make purchases. These drawings shall be repaid in accordance with arrangements to be determined by the Board of Directors of the Payments Union.

The SAARC Payments Union will work in close co-operation with the proposed South Asian Fund proposed in the next section and the SPU's resources can be replenished by the Fund, when the need arises. When a decision is taken by SAARC Governments to make the transition to SPU a detailed, institutional framework and operational guidelines will need to be worked out.

## **SOUTH ASIAN DEVELOPMENT FUND**

If the strong compulsion for closer economic co-operation among South Asian Countries is to be **operationalized** and a viable **SAARC** regional grouping is to **materialize**, new regional financial institutions and diversified instruments are essential prerequisites.

At the 1990 **SAARC Summit in the Maldives one such** institution was agreed on. It was envisaged that a **SAARC** Regional Fund would be established and it would be managed by the National Development Banks in the Region for financing joint ventures between countries. In effect this **SAARC** Fund would operate as an apex 'Regional Development Bank' and function through partner national development banks. The **SAARC** Secretariat had also proposed another Fund for financing Technical Co-operation activities within the region. This fund would in effect be attached to the **SAARC** Secretariat and function as its 'Technical Cooperation Programme'. The Fund proposed here goes beyond the two institutions proposed at the Maldives Summit and can, in fact, complement them. It is conceptually a more complex institution and would handle a much larger volume of funds.

### **The Context : International Financial Flows**

The **1950s** and the **60s**.

There is a variety of development needs within South Asia and several sources of funds are available to be **mobilized** to meet these needs. Substantial current account surpluses have been generated internationally in the immediate post World War II period. But neither the quantity nor quality of the surpluses transferred to South Asian countries have been sufficient to **meet** their development needs. The magnitude of the problems these countries were faced with at the end of **colonial** rule required massive injections of external finance to ensure even the narrower growth objective implicit in the economic development paradigm adopted by these countries. The development **strategy** adopted by South Asian countries was, indeed, premised on a massive inflow of external capital, the factor in short supply, for **modernization** and **industrialization**. The shortfall in capital

transfers did not permit the strategy to be realized even on its own terms. One of the major constraints in capital inflows was the structure of financial institutions - national and international - and the instruments the), used, both for mobilizing external financial resources and absorbing them productively.

In the 1950s and 1960s, it was assumed that the global arrangements made at **Bretton Woods** for managing the world economy in the interest of all groups of countries would facilitate the process of transferring global surpluses from where they existed to where they were most needed. But, as the South Commission Report states, the industrialized countries, which were the main architects of the system were more preoccupied with what they perceived as the shortcomings of the pre-war system of international ' economic relations. There was a lack of concern for the real interests of the poor countries, and interests of these countries were treated as secondary. South Asia was no exception, even with its large numbers who even at that time were very poor. The primary interest of the IMF was to stabilize exchange rates and encourage world trade and that of the World Bank to reconstruct the war devastated European and Japanese economies. These institutions were controlled by the industrialized countries through a system of weighted voting. Institutions such as the Special United Nations Fund for Economic Development (SUNFED) and the International Trade Organization (I TO), which may have worked in the interest of the poor countries, were still-born.

In the late 1950s and 1960s, the Bretton Woods institutions contributed to post war recovery and what came to be known as the "Golden Years" for industrialized countries. New arms of these institutions were added, such as the IDA and IFC to the World Bank, Regional Development Banks, such as the Asian Development Bank, in the mould of the World Bank, were established. As a consequence, there were some increased flows of capital to South Asian countries. ODA on concessional terms also showed some increase. However, this flow, fell far short of what was required for a major effort at industrialization and modernization, whose benefits were expected to trickle down to the poor.

## **The 1970s**

While there were many reasons for the failure of the model, the inadequate **Transfer** of capital was fundamental, though ineffective policy environments, poorly developed institutional and financial markets and infrastructure, also contributed to the **problem**. By the mid **1970s**, globally, private capital flows soon overtook ODA. In so far as these reflected the growth of **transnational** corporations, the benefits to South Asian countries were mixed. The Pearson Commission and the UN General Assembly resolution 2626 of 24 October, 1970 attempted to ensure that official development assistance from **industrialized** countries to less developed countries would be of the order of 0.7 of the **GNR**. The evidence shows that despite these exhortations, in 1986-1987 the average percentage of ODA was no more than 0.35 percent. This was no more than it was in the **1970s**. Only a few smaller European countries (Sweden, the Netherlands, Denmark and Norway) provided a larger percentage and two of the richest, were providing substantially less. In 1987, the United States was providing 0.2% and Japan 0.31 %.

In the **1970s**, now large surpluses accumulated in the current **accounts** of a number of oil-exporting countries. There were also corresponding deficits in oilimporting countries, including those in South Asia. Despite the support given to OPEC countries by South Asian countries in their oil **price strategy in International fora and in the discussions** on a New International **Economic Order, South Asia** derived very little direct benefit from this surplus. **Large amounts of these** surpluses were deposited in the Western commercial banking system and recycled to industrial countries. Some part of it was lent to Newly **Industrialized** Countries, but the manner in which it was lent and borrowed were mainly responsible for the 'debt crisis'. Speculative operations by Western Commercial Banks and the spill over to industrial markets created additional problems for poor countries. South Asia was partly insulated from this phenomenon at the beginning by more conservative management of its external debt. But the situation today is that substantial reverse flows of capital are taking place from South Asia to the **industrialized** world. Neither the World Bank nor the IMF, nor leading Central Banks in the region fully **recognized** these dangers, early enough.

The fact that South Asia was also less vulnerable to this phenomenon in the beginning, because it had some indirect benefits from expansion of economic activity in the **Middle East** as a result of remittances from migrant **labour**, added to this complacency. The recent Gulf crisis has exposed the heightened vulnerability of this heavy dependence on migrant remittances by South Asian countries. Several economic and social consequences have also surfaced as a result of this migration.

When the OPEC surplus was generated and following the World Food Conference of 1974, the International Fund for Agricultural Development (**IFAD**) was established in 1977. This new International Financial Institution was intended to channel a part of the OPEC surplus -exclusively to the poor **irl** poor countries, and had the specific innovative mandate of agricultural development, poverty alleviation and nutritional improvement. To this extent it was expected to function differently from the earlier global International Financial Institutions and Regional Development Banks such as the **IBRD** and **ADB**. **IFAD** had some small success in this regard, with a few carefully identified \*projects": but, again, neither in terms the quantum of finance channelled to South Asia from OPEC countries, nor in its quantitative or qualitative impact on poverty and malnutrition has it significantly achieved its unique objectives. It is an interesting, but still a marginal International Financial Institution as far as South Asia is concerned.

### **The 1980s and Beyond**

According to some estimates there was a net inflow of external resources to South Asia. This included **repatriation** of earnings of migrants to the Middle East and excluded "black money" outflows. However, in the **1980s**, the reverse flows of resources from South Asia to the international financial system became clearly marked (Annex 1). The total external debt, including borrowing from the IMF and other short-term debt of **SAARC** countries as a percentage of GDP had made a quantum leap (the only exception being Maldives).

As the reverse flow of funds from South Asian countries to **industrialized** countries continued and the debt stock grew, the World Bank, the Asian Development Bank and the International Monetary Fund imposed adjustment policies on these countries as a

condition for further lending and underwriting their creditworthiness. These policies focus on cutting government expenditure and growth of money supply, reductions in barriers to imports and devaluation of the currency. While these policies had some positive impact on **balance-of-payments** particularly in the short run, they were formulated in narrow financial terms and did not assess the full development impact. They also had adverse impact on the poorest segments of society, with further **polarization** and consequential social turmoil within countries. The ideological orientation which underlay these strategies also prevented the formulation of a more **complex and** coherent strategic response to the multi-faceted crisis facing South Asia today. Such a strategy had to go beyond adjustment to an iniquitous world order: it had to ensure growth with equity and human development, where these elements were not trade-offs. This meant maintaining the gains from **industrialization** and **modernization** with appropriate damage limitation, poverty alleviation through mass **mobilization** and participatory development at the micro terrain, involving more effective use of local resources and knowledge. Such a complex development strategy has to be systematically evolved and cannot be confined to narrow ideological orientations or be based merely on accumulation processes pertaining to **industrialized** countries.

Further, for this more complex strategy to be implemented the adjustment and **liberalization** strategies advocated by the World Bank and IMF and provision of marginal funding by themselves are insufficient. Three additional pre-conditions are required. The first is a major increase in domestic savings. Secondly, the keeping of available domestic surpluses within the South Asian Region. Thirdly, a massive flow of external resources, with new norms, so that there would be a major net inflow of capital not merely to effect the reverse flow, but also to supplement the local resources for development in wider human terms. For all this, new financial institutional arrangements and capacity building is essential, not only for **mobilizing** external surpluses but also for ensuring effective absorptive capacity internally.

In regard to the first, some South Asian countries have demonstrated that at low levels of income a high domestic savings rate is possible. These savings rates would need to be increased and sustained, as well as, channelled into productive investment. Distortions in

capital markets will need to be rectified. Governments of the region would need to become net savers and capital flight abroad would need to be stopped. **Internal** financial institutions and the banking system would need major reforms. It would also be necessary to ensure that the surpluses generated by each country were not frittered away either nationally or regionally. It **was the recognition of the** regional dimension that first led to several South Asian countries joining the Asian Clearing Union. There is the need now to move towards a Payments Union.

To reverse the paradoxical situation of where South Asian countries were joining other groups of developing countries in transferring resources to the outside world instead of being net recipients of capital flows, they would need to systematically tap the larger new surpluses that were being generated internationally. Japan, South Korea, Taiwan, Germany and several European countries had current account surpluses of US \$ 145 billion per year in 1986. These have increased considerably since. Finding the appropriate institutional arrangements in South Asia for **mobilizing** these surpluses for the benefit of the South Asian region is a major problem that needs to be urgently addressed by **SAARC** countries.

Likewise, the nexus between disarmament and development has a direct bearing on opening up the possibilities for additional new surpluses in the "peace dividend." The thaw in the cold war alone, could release approximately 75% of the US \$ 800 billion being spent on European defence arrangements. While a greater part of these savings would undoubtedly go towards rebuilding Eastern Europe, a part of it could be diverted to South Asia. **Chanelling** even a small part of this "Peace dividend" to South Asian development, could reinforce a regional "peace dividend" which could result from **defusion** of tensions and the arms race, within the South Asian region itself. To these possibilities could be added resources of South Asian nationals living abroad, as well as, capital from countries like Hong Kong in search of new opportunities.

As in the case of the OPEC countries and other surpluses that have been generated globally since World War 11, if the **SAARC** Governments do not develop new regional financial institutions and greater capacities for **mobilizing** collectively and directing a

part of these surpluses to solving some of their pressing development problems in the Region, they will either be *re-cycled* to industrial countries or wasted in increased consumerism for the few and escalation of the arms race. Bilateral negotiations are no substitute for a collective effort as well. The two could be made complementary.

### **Concept of Multi-faceted South Asian Development Fund**

In the years to come South Asia's requirements of development and trade finance would be best served by the establishment of a South Asian Development Fund. Admittedly, there are already a number of international institutions whose mandates separately cover activities envisaged for such a Fund. However, it is also true to say that significant gaps still exist in the international and regional financial infrastructure. Both the need and the **rationale for the** establishment of new institutional arrangements, especially at the regional level is clearly evident. In any event the existing separate institutions only **make fragmented responses** and the need of the time is for a well *coordinated* response.

The commitment made by the Japanese Prime Minister recently to channel 20% of Japanese ODA to South Asia is a historical moment *for SAARC*. At 59 is .6~ present, 20% of ODA is of the order of 2 billion **US dollars and may not** be extraordinarily large, but a clear signal has been given by the Japanese. Further, on the back of Japanese ODA would flow other forms of Japanese capital and also capital from other surplus countries. The immediate response of *SAARC* Governments to this proposal was to apply for this "aid" with their respective "shopping" lists of projects. Thus tying themselves to the conventional bilateral aid relationship of the *50s* and *60s*, this time with Japan, instead of the USA and Western Europe. The argument here is that a collective approach could complement a purely bilateral approach and reinforce it. At the same time a much, larger political and economic dividend could be reaped.

The *Development* Fund by necessity would be a fully fledged apex regional financial institution with a wide mandate, and should not merely replicate the role of existing multilateral financial institutions such as the *ADB* and World Bank in South Asia. It would also need to be at the cutting edge of issues **which the World Bank and IMF**

need to but do not address together. In this sense it would, in addition, provide for strategic thinking on regional, economic and social concerns and permit **harmonization** of strategies by **SAARC** countries in relation to global negotiating issues.

While the chief concern and prime objective of the Development Fund would be poverty alleviation and broad based industrial development, its range of activities would include: lending for development with a strong emphasis on comprehensive human resources development (health, education, training and employment and rural **infrastructural** development; financing o ' f industrial and agricultural development with an emphasis on joint ventures; support of **intra** regional and extra-regional trade through the provision of finance for **export** credit and commodity **stabilization**; and support to existing regional institutions. It should be able to undertake the very large regional infrastructure and environmental programmes, which the purely project-oriented development banks cannot undertake.

The activities of the new institution would complement those of the Fund for joint ventures and projects proposed at the Male Summit to be managed by the development banks of the region. Similarly, it would complement the Fund proposed by the **SAARC** if it is established, in support of the Secretariat's technical co-operation activities within the region. Likewise, it would also be able to provide short-term resources to a South Asian Payments Union when necessary.

During the development Fund's operations, a great deal of learning from successful development experience on the ground, macro as well as micro, refining and **demystifying** of existing theories and concepts of development, **operationalizing** new concepts, building new national and regional capacities and technological capability, will need to be undertaken. All this would need to have cultural relevance. The complex negotiating process itself will have to be addressed by this new institution.

The Scope of the operation of the proposed fund would need to be examined in the light of the realistic assessment of the volume and source of finance available from outside the region and the potential for **mobilizing** complementary finance from **SAARC** member

countries. SAARC Member countries would have to invest in the ft -rid in order to ensure control with different categories of equity etc. securing external funding would depend on collective negotiating ability.

This realistic assessment would, however, need to be informed by a bold new vision and an in-depth understanding of the deep crisis into which South Asian economies are sliding. It may even require a new social contract to be carefully negotiated between SAARC countries, and the external surplus countries mentioned earlier, in particular Japan. Such a social contract has to be worked out not only in terms of mutuality of immediate economic interests, but would also be a political contract, as was the Bretton Woods or Marshal Plan for Europe. The scope should also reflect on the rationale for the establishment of the European Reconstruction Bank to take care of the deep crisis in Eastern Europe. The negotiating process would have to ensure that the balance of advantage would be in South Asia's favour, particularly in the short term. This is not an institution to be controlled by donors as in the case of ADB. Control would need to be in South Asian hands. The Development Fund, if established only on the basis of current realities, internal and external, would only have a marginal impact. A well thought through partnership arrangement based on the longer term mutuality of interest between South Asia and Japan has to be negotiated. The timing is right for such a collective approach by SAARC Governments to Japan. Similar contracts could be worked out with Germany, the Nordic group and with other donor countries. A separate arrangement will need to be worked out with South Asia's non-resident nationals abroad, to permit their participation also in such a Fund, if it is so denied. The Fund could have several "windows" to accommodate different regional needs.

Once established, the operationalization of the Development Fund would need to be carried out on a gradual, step by step basis to ensure maximum efficiency and effectiveness. Serious negotiations between SAARC representatives and potential external contributors should be initiated immediately and within an agreed time-frame. However, further progress is crucially linked to the launching of a well organized and sustained process of technical preparation and negotiation within SAARC on the

establishment of the Fund, its **scope** of activities, its methods of operation and its potential sources of finance. All these would need to be the subject of a Feasibility Study.

