

PEACE, POVERTY AND ECONOMIC GROWTH IN SOUTH ASIA: A POLICY FRAMEWORK

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South Asia stands today at the cusp of history: Between a past, darkened by poverty, disease, illiteracy and conflict, and a bright future, when the great potential of its human and natural resources, and the shared humanity of its diverse cultures can be actualized. The global environment provides a historically unprecedented scale of private capital flows, trade opportunities, information and technology, which if utilized can dramatically transform the material conditions of life of the countries of South Asia. By contrast if this opportunity of building a better future is not utilized, economic growth rates in South Asia will remain below potential, and the citizens will continue to be subjected to continuing mass poverty and a high risk of inter-state conflict leading to a nuclear holocaust. Never before in history was the choice between life and comprehensive destruction so stark as it is today. The question is can we grasp this moment and together devise a new path towards peace, rapid economic growth and the overcoming of poverty within a decade.

In this paper we will briefly indicate (Section I) the economic logic of regional cooperation in South Asia. In Section II we will discuss the poverty profile of South Asia in the context of the relationship between poverty and economic growth. In Section III the relationship between governance and poverty will be examined in terms of the relationship between the practice of power in Pakistan and economic policy. In Section IV we will identify a policy framework for achieving through regional cooperation a higher economic growth process that is restructured to enhance its capacity for poverty reduction.

I. The Logic of Regional Cooperation

Within the globalized economy the emergence of a number of regional economic blocs in the continents of Asia, Africa and America, demonstrates that the economic and social welfare of any country is advanced far more if it interacts within the global economy as

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

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

An examination of the economic growth performance of South Asian countries shows that economic growth is far below its potential and still sharply lower than the growth rates prevailing for example in South East Asia. Recent research has shown that much of the difference in the growth performance of South East Asia compared to South Asia is attributable to much higher rates of investment in the former¹. Apart from this, poorer performance of governance variables in South Asia such as economic regulatory systems, fiscal and judicial systems, are important factors in the relatively poor growth performance of South Asia compared to South East Asia. Lower levels of governance variables lead to increased cost of investment and hence lower economic growth rates for given levels of investment². Increasing investment and accelerating economic growth in South Asia through regional cooperation would therefore play an important role in improving the standard of living of the people in the region. In this context policies should be initiated for: (a) facilitating joint venture investment projects, (b) developing infrastructure, and (c) increasing the efficiency of investment by providing incentives for technology transfers and firm level R & D associated with foreign direct investment.

¹ For a detailed analysis of this issue see, Faisal Bari and Ali Cheema, Towards a Common Investment Strategy for South Asia, Report of the SACEPS Task Force on Investment Cooperation in South Asia, 2003.

² Ibid.

II. Poverty and Economic Growth in South Asia

South Asian economic growth rates over the last two decades have been low compared to, for example, ASEAN countries (except India in recent years). It can be argued that accelerated GDP growth rates sustained over a protracted period could substantially reduce poverty as in the case of South East Asia. Yet the *pace* at which GDP growth reduces poverty, and indeed whether it is reduced at all, depends not just on the magnitude but on the *structure* of economic growth. Thus, for example if higher economic growth of the kind that occurred during the “Green Revolution” in the late 1960s is associated with tenant eviction (in the Pakistan case)³, labour displacing mechanisation (in both Pakistan and some states of India)⁴ and soil depletion due to over-use of soils⁵, then such growth could accentuate rather than alleviate poverty.

In the case of India there has been considerable debate about whether the incidence of poverty in rural India increased or decreased during the “Green Revolution” period.

³ See Akmal Hussain: Impact of Agricultural Growth on Changes in the Agrarian Structure of Pakistan, with special reference to the Punjab. D.Phil Thesis, Sussex University, 1980.

⁴ (i) J.D. McInerney and G.F. Donaldson: The Consequences of Farm Tractors in Pakistan, World Bank Staff Working Paper No. 210, February 1975.

(ii) In a study by Ahluwalia, of the six states in India which recorded a significant trend rise in per capita agricultural output between 1956 and 1973, after removing the effect of inter state variations in per capita agricultural output, there was a trend increase in the incidence of poverty in more than half the states. Labour displacing mechanisation was identified as one of the factors behind this rising poverty trend. See: M.S. Ahluwalia: Rural Poverty in India 1956-57 to 1973-74, reproduced in World Bank Staff Working Paper 279, Washington, D.C, 1978.

(iii) In a number of states including Punjab Haryana, during the period 1972 to 1978, total labour input declined in absolute terms inspite of a rise in production. See: A Vaidyanathan: Pattern of Labour Use in Rural India: A study of Regional and Temporal Variations (Madras Institute of Development Studies, 1986).

⁵ For a discussion on soil depletion due to over-use of soils in the Indian Case See Vandana Shiva, and for the Pakistan case see Akmal Hussain:

(i) Vandana Shiva: Staying Alive, Chapter 5, Zed Books, London, 1990.

(ii) Akmal Hussain: Agriculture Growth and Employment in Pakistan’s Rural Sector: Policies for Institutional change: ILO, Mimeo, March 1999.

Studies by Bardhan⁶ and Rajarman⁷ respectively, estimate that the proportion of rural population living below the poverty line increased during this period. By contrast Minhas⁸ estimates that the proportion of rural population below the poverty line declined significantly during the same period⁹. Even though estimates of poverty trends in India based on consumption data are debatable, yet related evidence on growing proletarianization of the peasantry, declining employment elasticities associated with labour displacing mechanization and falling rural real wages suggest that poverty during the Green Revolution period may have increased¹⁰. Thus, as Vaidyanathan points out “one cannot take for granted that moderate improvements in growth per se will make a significant difference (to poverty) unless effective steps are taken to prevent worsening of the distribution of operational holdings (whether due to land transfer or resumption of land by owners for self-cultivation) and to arrest the pace of labour displacing mechanisation.”¹¹

In spite of considerable variations across South Asian countries, and between regions within these countries, it can be argued that the major structural factors which may

⁶ P.K. Bardhan: On the Incidence of Poverty in Rural India during the Sixties, Economic and Political Weekly, (Bombay), February 1973.

⁷ Indira Rajarman: Poverty Inequality and Economic Growth in the Punjab 1960-61 to 1970-71, Journal of Development Studies 2, No.4, 1973.

⁸ B.S. Minhas: Rural Poverty, Land Distribution and Development Strategy, Indian Economic Review, April 1970.

⁹ These divergent estimates are due to the fact that Bardhan and Rajarman use NSS data for estimating both the mean rural per capita consumption and the distribution of rural population around the mean, while Minhas uses Central Statistical Office data (CSO) for estimating the mean and NSS data for the distribution of rural population.

¹⁰ On declining employment elasticities in crop production see: (i) W.A. Bartsch: Employment and Technology Choice in Asian Agriculture. Geneva: ILO, 1977, (ii) J.N. Sinha: Employment in Agriculture in the Draft Plan 1978-83, Economic and Political Weekly, 1979.

For a discussion on the increasing importance of rural wage labour and declining rural wages during the Green Revolution period See: A Vaidyanathan: Agricultural Development and Rural Poverty, in: Robert Lucas and Gustar Papanek (eds.): The Indian Economy OUP, 1988.

¹¹ A. Vaidyanathan, op.cit. Page 84.

constrain the ability of GDP growth to reduce poverty, particularly that of poor women¹², are:

- i) The unequal distribution of assets in both agriculture and industry both with respect to income groups as well as gender.
- ii) The structure of output is concentrated towards low value added products, particularly in the export sector, thereby resulting in low labour productivity and labour income per unit of labour time.
- iii) The sectoral distribution of the labour force is concentrated in low productivity sectors with relatively low skill levels of the labour force in given occupations.
- iv) Poor quality and inadequate coverage of both economic and social infrastructure is a major factor in both constraining overall GDP growth as well as intensifying poverty.

In order to simultaneously accelerate GDP growth and enhance its poverty reduction capability, these structural features of the South Asian economies would have to be addressed in the design of the growth strategy, as indicated in Section IV of this paper.

III. Macroeconomic Policy, Power and Poverty¹³

In this section we will briefly discuss how the IMF Structural Adjustment Programs adopted to varying degrees by South Asian governments during the last two decades have had an adverse impact on poverty and income distribution in the region. The adverse

¹² For a pioneering study on how lack of access over land rights constrains overall agricultural growth and perpetuates poverty amongst women, see Bina Agarwal: *A Field of One's Own*, Oxford University Press, New Delhi, 1997.

For a more detailed discussion on these issues, in the context of Pakistan, see R. Amjad and A.R. Kemal: *Macroeconomic Policies and their Impact on Poverty Alleviation in Pakistan*, Mimeo 1997, ILO/ARTEP.

For South Asia as a whole, see Report of the South Asian Commission on Poverty Alleviation, November 1992.

¹³ This section is based on the author's earlier paper titled: *Poverty, Growth and Governance in South Asia*, published in: V.A. Pai Panandiker (ed), *Problems of Governance in South Asia*, Konark Publishers Pvt Ltd, New Delhi, 2000.

impact of these IMF programs on the poor was exacerbated by the institutional context of governance within which these programs were applied.

III.1 IMF Structural Adjustment Programs and Poverty

Regardless of the economic and political imperatives of adopting IMF Structural Adjustment programs, South Asian countries have undertaken three sets of policy measures each of which as the ensuing analysis shows, have served to accentuate poverty:

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

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

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

2. The second policy conditionality of the IMF structural adjustment programs pursued in South Asia, is exchange rate devaluation. This has accelerated inflation to the extent that domestically manufactured goods depend on imported inputs and hence suffer increasing cost per unit, following devaluation. Higher inflation rates have relatively greater impact on the poor and marginalized who have fewer resources to fall back on compared to the rich. Another factor in accentuating inequality in income distribution following inflation is that with monopolistic market structures, manufacturers can pass on the increased cost of living through increasing the prices of goods they manufacture. By contrast, poorly organized workers are unable to negotiate wage increases at the same pace as inflation.

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

In Pakistan the growth of money supply fell from 46.5 percent during the period 1984-87 (the pre-structural adjustment period) to 40.6 percent during 1988-91 (the post-adjustment period). The *raison d'être* of the reduction in money supply was to reduce inflation. Yet the inflation rate far from falling, actually increased from 4.7 percent in the pre-adjustment period to 9.5 percent in the post-adjustment period.¹⁴ This is because of the persistence of structural imbalances that underlie Pakistan's inflation rate (such as slow growth of food output, deteriorating infrastructure, and slow growth in domestically produced industrial inputs and machinery).

The Indian experience also shows that attempts at reducing inflation through a tight money policy and reduction in the fiscal deficit under the IMF economic stabilization program have not succeeded. Professor Deepak Nayyar in a brilliant analysis of the economic liberalization experience in India shows that in spite of initiating a macroeconomic stabilization program in mid-1991, the inflation rate actually increased

¹⁴ Overcoming Poverty: Report of the Task Force on Poverty Eradication, May 1997.

during 1991-95.¹⁵ He argues that during this period, despite the fact that there were good harvests and no exogenous shocks, the economic stabilization policies failed to bring down the inflation rate, the highest in the history of independent India. Professor Nayyar proposes that the positive impact of the policy of money supply contraction on inflation, may have been dampened by the “real dis-proportionalities underlying the inflationary pressures...”¹⁶ Similarly, in Pakistan’s case there is evidence to suggest that the institutional constraints to output growth of essential commodities has resulted in accelerated inflation, and reduced real incomes of wage workers and self-employed in both rural and urban areas.¹⁷

In the case of India, Professor Nayyar has shown that the prices of the basket of essential commodities during the period 1991-95 (when the Structural Adjustment Program was being implemented) rose at a rate unprecedented since independence: Prices of food grains rose by 90 percent during the period, the prices of primary food articles by 77 percent, and the prices of manufactured food products by 62 percent. He argues that in a period where real per capita income remained stagnant, such high inflation rates in basic necessities may have been a significant factor in increasing poverty.¹⁸

While the policy of contraction of the money supply under the IMF program failed to reduce inflation, it slowed down GDP growth.¹⁹ In Pakistan’s case high interest rates combined with a dampening of aggregate demand induced by a sharp reduction in development expenditure, served to slow down GDP growth, particularly the large scale manufacturing sector. Thus for example, GDP growth fell from 6.2 percent during 1985-88 to less than 3 percent in 1996-97. Growth of the large-scale manufacturing

¹⁵ Deepak Nayyar: *Economic Liberalization in India: Analytics, Experience and Lessons*, Centre for Studies in Social Sciences, Calcutta, 1996.

¹⁶ Deepak Nayyar, *op cit.* Page 23.

¹⁷ R. Amjad and A.R. Kemal: *Macroeconomic Policies and their Impact on Poverty.* *Op. Cit.*

¹⁸ Deepak Nayyar, *op. cit.*

¹⁹ Development expenditure as a percentage of GNP, fell from over 6 percent in the 1980’s to 3.2 percent in 1997-98.

sector declined from 8.3 percent in the mid-1980's to negative growth in 1996-97. This sharp slow down in growth of the large-scale manufacturing sector would be expected to increase unemployment. The tendency towards increasing unemployment is accentuated by the fact that in Pakistan, the elasticity of employment with respect to output has been declining during the 1990's.²⁰

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

It appears that the macroeconomic stabilization programs adopted in both India and Pakistan under IMF auspices have served to slow down GDP growth, accelerate inflation and accentuate poverty and unemployment.

III.2 Power and Poverty

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

Such failures have occurred in varying degrees in South Asian countries, and are rooted in the peculiar nature of governance in these countries. In the prevalent political culture

²⁰ ILO, SAAT, Mimeo, December 1997.

political support of socially influential individuals and groups is to some extent acquired and maintained through patronage in which resources and employment decisions under the direct or indirect command of the state are siphoned off to such individuals and groups. Market criteria and merit in the operations of public sector corporations and banks are often ignored when governance is practiced in a context where traditional patron client relations, biraderis and sifaarish continue to be important factors in mobilizing political support.

IV. Pro Poor Growth through Regional Cooperation

In this section we will first outline the conceptual framework for pro poor growth and then suggest a set of specific measures for actualizing pro poor growth through regional cooperation.

IV.1 The Elements of Pro Poor Growth

Pro poor growth in South Asia would require a two-pronged approach:

- (a) Building a network of institutions at the village and mohalla level to actualize the potential of the poor through Participatory Development. This process would be reinforced by directing credit, technical training and infrastructure to poor communities so as to achieve a sustainable increase in their incomes and savings²¹.
- (b) Restructure the economic growth process through a set of macroeconomic initiatives designed to simultaneously increase the employment elasticity of economic growth and induce higher GDP growth for given levels of investment. The broad areas in which these initiatives could be taken through private-public partnership at the country and regional levels, are as follows:

²¹ For a discussion of the Methodology of Participatory Development, See Akmal Hussain: Poverty Alleviation in Pakistan, Vanguard Books, Lahore 1994.

Also see, P. Wignaraja, A. Hussain, H. Sethi and G. Wignaraja: Participatory Development: The Lessons from South Asian Experience, Oxford University Press, Karachi, 1991.

- (i) Economic infrastructure projects such as the development of irrigation, roads, railways and ports, which have high employment elasticities.
- (ii) Projects for enlarging the coverage and quality of education, health, hygienic drinking water and sanitation facilities.
- (iii) Enable the work force to shift from low value added sub-sectors to high value added sub-sectors in both industry and agriculture. This requires improving the skill level of the work force through trade specific training of technicians. If this can be achieved, it would increase the share of labour in national income, thereby, enhancing the poverty reduction capability of economic growth²².
- (iv) Through institutional support, training and credit accelerate the growth of small-scale industries, which have a higher employment generation and output growth capability per unit of investment than the large-scale manufacturing sector. As the composition of total investment shifts in favour of small-scale industries, not only would GDP growth be accelerated for given levels of investment, but it would also enhance its capacity to reduce poverty²³.

Restructuring the economic growth process through such macro economic initiatives would be necessary to enhance the capacity of growth for poverty reduction. At the same time facilitating the growth of autonomous organizations of the poor together with skill training, credit and technical support could begin a localized capital accumulation process. This would contribute to accelerating the growth as well as making it more equitable.

IV.2 Some Specific Policies for Pro Poor Growth through Regional Cooperation

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

1. Energy Cooperation within South Asia

²² For a detailed discussion of this policy proposal, see Akmal Hussain, *Employment Generation, Poverty Alleviation and Growth in Pakistan's Rural Sector: Policies for Institutional Change*, Report prepared for the International Labour Organization, Country Employment Policy Review (CEPR): Pakistan, March 1999.

²³ For a detailed discussion on the specific policies for restructuring growth for greater poverty reduction in the Pakistan case, see: Akmal Hussain et.al: *Poverty, Growth and Governance*, UNDP, Pakistan National Human Development Report, 2003, Oxford University Press, Karachi 2003.

2. Increased Investment for Accelerating Economic Growth
3. Restructuring Growth for Faster Poverty Reduction

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

IV.2.1. Energy Cooperation within South Asia

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

IV.2.2 Increasing Investment within South Asia through joint venture projects

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

- (a) Facilitating private sector joint projects in building a network of motorways and railways at international quality standards through out South Asia. These modern road and rail networks would connect all the major commercial centers, towns and cities of SAARC countries with each other and with the economies of Central Asia, West Asia and East Asia.
- (b) Facilitating regional and global joint venture projects for developing new ports along both the western and eastern seaboard of South Asia, and at the same time up-grading existing ports to the highest international standards.
- (c) Facilitating regional investment projects in building a network of airports, together with cold storages and warehouses that could stimulate not only

tourism but also export of perishable commodities such as milk, meat, fish, fruits and vegetables.

- (d) Facilitating regional joint venture projects for building dams to utilize the huge untapped potential for energy and irrigation in the mountain ranges of South Asia. These dams of course should be designed and located strictly in accordance with the existing international treaties such as the Indus Basin Treaty.
- (e) Facilitating regional joint venture projects for improving the irrigation efficiency of the networks of canals and watercourses in South Asia.

IV.2.3 *Restructuring Growth for Rapid Poverty Reduction*

- (a) Generating Employment and Incomes for the Poor

Economic growth must not only be accelerated but restructured in such a way that its capacity to alleviate poverty is enhanced for given growth rates of GDP. In this context of achieving pro poor growth, three sets of measures can be undertaken at the country as well as the regional levels:

- (i) Joint venture projects need to be undertaken to rapidly accelerate the growth of those sub sectors in agriculture and industry respectively which have relatively higher employment elasticities and which can increase the productivity and hence put more income into the hands of the poor. These sub sectors include production and regional export of high value added agricultural products such as milk, vegetables, fruits, flowers and marine fisheries.
- (ii) Regional network of support institutions in the private sector can be facilitated for enabling small scale industries located in regional growth nodes, with specialized facilities such as heat treatment, forging, quality control systems and provision of marketing facilities in both the country specific and regional economies.

(iii) A SAARC Fund for vocational training may be established. The purpose of this Fund would be to help establish a network of high quality vocational training institutes for the poor. Improved training in market demanded skills would enable a shift of the labour force from low skill sector to higher skill sectors and thereby increase the productivity and income earning capability of the poor. It would at the same time generate higher growth for given levels of investment by increasing factor productivity.

(b) SAARC Educational Foundation

A SAARC Educational Foundation in South Asia may be created on the basis of contributions by individual SAARC member countries and more substantially by multi lateral donor agencies. The purpose of this Foundation would be to create a network of high schools at an international standard in every Tehsil (at least one in each Tehsil) of each of the countries of South Asia. These SAARC schools could act as role models and set the standards for both the private sector and the individual governments to follow.

(c) SAARC Health Foundation

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

- (i) To establish maternity clinics in each tehsil (at least one in each tehsil) of South Asia for providing pre-natal and post natal care to mothers. This could be an important factor in improving the health of mothers and ensuring improved outcomes of pregnancy in terms of the health and productivity of the next generation. The network of tehsil

maternity clinics can act as a catalyst for mobilizing additional support from local donors to expand the network within the tehsil.

- (ii) Establishing high quality model hospitals (one in each district of each country of South Asia). These hospitals in terms of their quality of medical care could set the standards for others in the private and public sectors to follow.
- (iii) SAARC district extension services for sanitation and provision of drinking water at the community level. These centers could provide to NGOs, private sector and community organizations information regarding the available low cost measures that can be taken at the village and mohalla levels for improved hygiene in the home and access over clean drinking water. The rich corpus of experience of different communities in the South Asian region who have tried on an experimental basis to provide sanitation and clean drinking water can be accessed and made available in a usable form to village and mohalla levels community organizations.

Conclusion

In this paper we have analyzed the relationship between poverty and economic growth and indicated how the practice of power and associated macro economic policies in the past have impacted poverty. We have argued that in future the challenge is not only to achieve a sustained high economic growth rate but also to restructure it so as to achieve a faster reduction of poverty. We have shown how regional cooperation in South Asia can help in meeting this challenge. In this context we have proposed a number of specific policy actions that can be undertaken at the regional level. However the prerequisite for such a process to begin is a change in the governmental mindset. There is an urgent need today for moving out of a mindset that regards an adversarial relationship with a neighbouring country as the emblem of patriotism, affluence of the few at the expense of the many, as the hallmark of development, individual greed as the basis of public action, and mutual demonization as the basis of inter state relations. We have arrived at the end of the epoch when we could hope to conduct our social, economic and political life on the

basis of such a mindset. If the people of South Asia as a whole are to actualize their potential for development, a sustained and rapid peace process between India and Pakistan is the need of the hour.

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