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**Clouds over economic resurgence in India and South Asia:
Politics of (mis) Governance, Domestic and External Security Threats**

T.N. Srinivasan

Yong Pung How Chair Professor, LKY School of Public Policy, National University of
Singapore

Samuel C .Park Jr. Professor of Economics and Professor of International and Area
Studies, Yale University

It is a great honour and a privilege to be invited to participate in this important convention. Let me thank Ambassador Pillai for the invitation.

In my presentation I would like to touch on four topics or issues. First, I want to look at the economic resurgence of South Asia since 1980s and more broadly since its independence from colonial rule from a historical perspective and in comparison with China. Second, I would look at the problem of governance, or more provocatively of misgovernance in the region. Third, in looking forward into the future, I would like to raise long standing as well as recent issues of internal and external security in the region. In particular I would like to place the external security issues in the context of the increasing economic and military power of China and also of nuclear power in its civilian and military aspects. Fourth and finally I would like to the potential role of South Asian Diaspora in fostering cooperation than conflict in the regions as well as contributing to the region's economic and social development.

Let me begin with a historical perspective drawing on the work of the economic historian, late Angus Maddison and also of the Nobel Laureate and economic historian Robert Fogel of Chicago – Table 1¹. Early in the nineteenth century in 1820, the dominant world economic powers (and also manufacturing giants, as another historian Bairoch documents) were India and China. The two together accounted for nearly half of world's GDP. China's per capita income was higher than India's by about 12 percent then. Fifty years later in 1870, as the first wave of globalization was gathering steam, their share had fallen to 30 percent. China's per capita income had fallen to India's, which had remained unchanged between 1820 and 1870.

1 Tables 1-8 are at the end of the text.

Thus in the early years of the industrial revolution and globalization both not only did not share its fruits but lost ground significantly relative to Great Britain, the pioneer of industrial revolution and others. By 1913 as the outbreak of the First World War ended the first wave, India's per capita income had grown by 26 percent while China's had grown only by 4 percent. In my view India benefited from the internal peace and tranquility of direct rule by the British Crown since 1853 and naturally did better than China experienced the Boxer Rebellion, Opium Wars and colonial impositions.

The truly remarkable features of the first wave and its international context were eloquently described by John Maynard Keynes. I quote:

“What an extraordinary episode in the economic progress of man that age was which came to an end in August, 1914! The greater part of the population, it is true, worked hard and lived at a low standard of comfort, yet were, to all appearances, reasonably contented with this lot. But escape was possible, for any man of capacity or character at all exceeding the average, into the middle and upper classes, for whom life offered, at a low cost and with the least trouble, conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages. The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any

quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could despatch his servant to the neighboring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice” (Keynes, John Maynard,(1920) The Economic Consequences of the Peace, New York : Harcourt, Brace and Howe, pp 11-!2.

Keynes noted the absence of passports and visas coming in the way of free movement of people, of any barriers to the movement of capital and implicitly of exchange rate uncertainty under automatic adjustments of trade imbalances by gold

movements under the then system of the Gold Standard. The state of the world in 2011 is nowhere near the one described by Keynes that fell apart in August 1913! Of course Keynes' world of 1913 was one of colonial domination of Africa and Asia. Much of Latin American had not been free of colonial domination for very long. Keynes was writing from the perspective of an upper class Englishman. But the majority of the global population was very poor then. Yet the prospect he saw for the poor to climb out of poverty in his world was real.

The period (1918 – 1938) between the two World Wars was disastrous for the World economy with its great depression and collapse of World Trade and Capital flows. Both China and India were adversely affected, China more so than India. In 1950, India's per capita income was more than a third higher than China's, a year after communists under Mao's leadership took over. The entire Mao era was spent in just catching up with India at an enormous cost of human lives in famine and disruptions of the Great Leap Forward and the Cultural Revolution. Only after Deng Tsiao Ping's assumption of power and his introduction of revolutionary changes in 1978, did China begin to grow rapidly and surpassed India's per capita income. Running the clock forward Maddison projects China's per capita income to be double that of India's and for the two together to account for a third of World's GDP, in 2030.. Robert Fogel, another economic historian and a Nobel Laureate projects that by 2040, China and India together would again account or a half of World's GDP. China's per capita income by then would be more than three times India's. If these projections are realized, as they appear likely to even earlier than 2040, by mid twenty first century China and India would be just regaining what they had more than two and a half centuries earlier. The

implications of this and in particular of China's growth outstripping that of the rest including India and South Asia for global geopolitics and security are enormous.

The step-up in and acceleration of the annual rate of growth in China came after Deng Tsiao Ping opened China to the World Economy and let market forces play a greater role within China in 1978.. In India also the 1980s saw a hesitant break in the insulation of the domestic markets from the world economy and from rigid controls on its private sector that prevailed during the three decades earlier. A more systemic and broad based break came after the reforms of 1991. The growth record since 1990 of both countries is seen in Tables 2 and 2B.

To put this growth record in perspective, it must be noted that South Asia and China are still poor with per capita incomes less than \$5000 in 2009 at Purchasing Power Parity (PPP) Exchange rates (Table 3). The shares of population living below a modest international poverty line of \$1.25 per day at PPP exchange rates of 1995 in the mid 2000s are still high except in China and Sri Lanka (Table 4). Although Table 4 does not show it, the shares had fallen from even higher levels in the 1980s and earlier. A clear association between economic reforms, growth acceleration and poverty reduction is seen from Tables 2A - 4. Also the fact that although China with its conscious use of external opening, including its accession to the World Trade Organization (WTO) in 2001 as a member, managed to expand its exports most rapidly and also attracted significantly larger amounts of foreign direct investment. In fact even in the two decades prior to its accession to WTO China had gained a large share of North American and European markets for labour intensive manufacturers, while India's share declined or stagnated. India and other South Asian Countries are now

catching up as Tables 5 and 6 show. The fact that South Asia's export growth rates since 2006 are about the same as East Asia's is very encouraging.

The two economic clouds that could adversely affect the growth performance in the future are the incipient inflation (Table 7) and fiscal imbalances (Table 8¹) in South Asia. China is also experiencing inflation but its fiscal situation is very much better compared to South Asia. It is also evident from all the tables that there is significant heterogeneity in performance across South Asia arising from economic, historical, political and social contexts. This makes it more likely that the possibility of their convergence in performance once policy reforms across South Asia are instituted would take a long time.

Let me turn to governance. Currently a major issue is administrative and political corruption in China, India and elsewhere. Governance in general and corruption in particular are complex and deep issues with a long history. In India several investigations into various allegations of corruption by established investigative agencies are currently proceeding. Civil society groups are clamouring for the creation of yet another institution, Lokpal, independent of executive and the judiciary to investigate and punish those found guilty of corruption and other unacceptable behavior by the executive and judiciary. India's apex judicial agency, the Supreme Court, is taking cognizance of instances ostensibly of mis-governance through its suo motu powers. In its judgments on the so called Public Interest litigations alleging corruption the Court has assumed the role of supervising the investigations into the allegations. Although there is widespread popular support for the involvement of the judiciary in the

investigations and for the institution of Lokpal in my view this is dangerous judicial activism from a long run perspective. In effect the judiciary is taken on the roles of the prosecutor, jury and judge all by itself. The creation of Lokpal as proposed by the Civil Society groups raises serious constitutional issues. I view corruption as the result of the failure of the political and social processes in India's democracy. It is unlikely to be solved in the long run except through these two processes.

China has recognized the problem of corruption in the governing party and has addressed instances of corruption through executions of senior officials involved. Leaving aside my abhorrence of capital punishment let me say in China also that corruption is not just an instance of misbehavior by an individual or individuals but a failure of social and political process. The problem cannot be solved by executing a few without any semblance of due process, but only by political and social reforms. In rest of South Asia also long run solution lies in reforming political and social processes. In particular a system of rule of law and incorruptible economic, political and administrative institutions that function efficiently and are not dependent on accidents of their being run by exceptional individuals for their efficiency and honesty have to be developed.

There is also the deeper issue whether or not the extent corruption is the outcome of both the state playing a dominant role in the economy and the extent of discretion in decision making that government officials were allowed to have. For example the Indian Constitution allowed great discretion to the executive without enough checks and balances to ensure that the executive exercised it in the interests of the society. India's founding fathers who extensively debated and adopted the constitution in 1950 had participated in the struggle for India's independence from

British Colonial rule under the leadership of Mahatma Gandhi. They were themselves incorruptible and did not anticipate that their future successors who would be administering the institutions that they were setting up in the constitution might not be incorruptible. Had they anticipated it perhaps they would have allowed less discretion to the executive and instituted greater checks and balances. In designing the judicial system they surely could not have imagined the extent of judicial activism at present in part as a response to corruption in the executive and legislative. The founding fathers in India opted for a parliamentary system over the presidential system of the American constitution; I do not wish to imply that the system of clear separation of powers among executive, judiciary and legislature and of the mutual checks and balances between them could be applied in a literal sense to India's Parliamentary system. Still the need for their analogues in India has become painfully obvious now. Amending to the Indian Constitution to accomplish it is impossible without a broad agreement across the political spectrum at the centre and the state. I do not see one emerging in the near future.

Be that it may, corruption is by no means new – in fact, in fourth century B.C, Kautilya in his Sanskrit treatise on statecraft, called Arthashastra recognized corruption and had advocated that civil (royal) servants be paid adequately so that they are not tempted by bribes. Simplistic approaches to this ancient scourge are unlikely to succeed.

Turning now to security threats in South Asia, many countries of the region are facing, organized violent domestic insurgencies. The respect for human rights both of protesters and of the police/military in the region is virtually non-existent. The recently concluded separatist conflict between of the minority Tamils against the Sri Lankan

government is a prime example of gross violation of human rights by the separatists and the victorious Sri Lankan army. There are many such instances including that of Indian Security forces and protestors including separatists in Kashmir.

In addition to domestic insurgencies there are cross-border disputes/conflicts of South Asian Countries and their neighbours. The China-India border dispute that led to a limited war between the two in 1962 is yet to be resolved. India-Pakistan dispute over Kashmir is another example. Moreover the use of non-state groups, to engage in covert activities inside the borders of neighbours and creating dissident groups to engage in armed conflict with their governments are also evident in the region. Some of the internal dissidence arises from long standing grievances about lack of voice and participation of as well as outright social, economic and political discrimination of dissident groups (e.g. India's scheduled tribes). Clearly if the internal and cross-border security issues fester and are not resolved soon, South Asia's recent success accelerated economic growth and poverty reduction cannot be sustained.

Let me conclude with a few words on South Asian Diaspora. First of all, it is useful to recognize that the Diaspora is heterogeneous in its composition. Some are descendents of South Asian workers from South Asia who migrated to various parts of British Empire centuries ago and more recently to West Asian oil exporting countries. At the other end of the spectrum are the skilled migrants from South Asia induced in part by the abolition of the nationality-based quota for immigration into the United States by an education-skill based quota system. Recently highly skilled information technology and managerial professionals have joined the earlier stream of doctors to migrate from South Asia. The issue of the contribution that the more recent migrants from South Asia

to the development of the countries of origin and of the social consequences of temporary migration of males on their spouses left at home countries again is complex issues. To take just one example relating to the investment of savings of migrants, the relatively less skilled workers save and remit a significant part of their savings to the families they left behind in their home countries. The direction of remittances (i.e. countries of their origin) and their recipients (i.e. their families) are clear. It is also the case that often the families invest their remittances in part for acquiring land and for building houses. There are also instances where the return migrants spend lavishly on building houses which they are unable to maintain later. On the other hand, the skilled migrants not only earn and save more than the unskilled ones, but also have many opportunities for investment of their savings other than in their countries of origin. Unless they realize a comparable risk adjusted rate of return they are less likely to invest in their home countries. I need not elaborate further the complexity of the issues involved. Moreover the migrants remit to their families in foreign exchange. Whether or not the governments of countries of residence of families are able to mobilize these flows and even more importantly whether they use the mobilized resources for socially productive purposes are separate issues.

My last point is about mobilizing the South Asian Diaspora to cooperate and work jointly for the benefit of South Asia as a whole, including influencing host governments and legislatures to adopt policies and laws favouring South Asia. In my view this is an extremely hard task. South Asians speaking the same mother tongue (e.g. Bengali, Punjabi, Tamil, Telugu, Urdu etc) and from the same cultural background from neighbouring border regions of two South Asian countries in particular, and South

Asians more generally do interact and cooperate with each other in socio-cultural-religious matters without letting the conflicts in South Asia come in the way of such cooperation. But the conflicts as well as conflicts of interests across South Asia do come in the way of collective efforts abroad for the development of Asia. One should not naively project from the enormous influence and successful efforts of the Jewish Diaspora in the United States and Western Europe in helping Israel that South Asian Diaspora Organizations formed to promote South Asian Interests could potentially have. In my view, constraints South Asian development is overwhelmingly domestic. Even if a well-intentioned and successful South Asian Diaspora could be formed, unless the domestic political, economic and social constraints are overcome such an external effort will have very modest benefits. Of course, this does not mean that the more successful members of the Diaspora could not contribute to the development of their home countries – in fact many have done so and their efforts should continue. This convention by highlighting their successes and their examples is timely and would contribute to replicating them in a much larger scale. Indeed this convention showcases the significant potential of such efforts for South Asia's development.

Table 1

Economic Growth Since 1820: GDP per capita in US Dollars at Purchasing Power Parity Exchange Rates of 1990.

	China	Share I World GDP	India	Share in World GDP	World
1820	600	32.9	533	16	667
1870	530	17.1	533	12.1	-
1913	552	-	673	-	-
1950	448	4.6	619	4.2	2111
1973	839	-	853	-	4091
1990	1871	-	1309	-	-
2003	4803	15.2	2160	5.5	6447
2008*	6010	11.4	2930	4.8	10415
2030	15763	23.1	7089	10.4	11814
2040**	85000	40	24000	12	35382

*Sources: Maddison (2007); *World Bank (2010a) figures are Gross*

National Income, Purchasing parity of 2005; and Fogel (2007),

Purchasing Power Parity of 2000.

TABLE 2A

	GDP(Avg, annual % growth)		Agriculture (Avg.annual % growth)		Industry (Avg. annual % growth)		Manufacturing (Avg. annual %growth)		Services (Avg. Annual % growth)	
	1990-2000	2000-09	1990-2000	2000-09	1990-2000	2000-09	1990-2000	2000-09	1990-2000	1990-2000
Bangladesh	4.8	5.9	2.9	3.3	7.3	7.8	7.2	7.9	4.5	6.1
China	10.6	10.9	4.1	4.4	13.7	11.8	12.9	11.4	11.0	11.6
India	5.9	7.9	3.2	2.9	6.1	8.6	6.7	8.7	7.7	9.5
Nepal	4.9	3.7	2.5	3.1	7.1	2.8	8.9	1.0	6.2	4.1
Pakistan	3.8	5.2	4.4	3.5	4.1	6.8	3.8	8.7	4.4	5.9
Sri Lanka	5.3	5.5	1.8	2.8	6.9	5.5	8.1	4.4	5.7	6.2
South Asia	5.5	7.3	3.3	3.0	6.8	8.2	6.4	8.5	6.9	8.7

Table 2B Growth rate of GDP (% per year)							
	2006	2007	2008	2009	2010	2011	2012
East Asia	10.1	11.03	7.3	6.8	9.6	8.4	8.1
China, People's Rep. of	12.7	14.2	9.6	9.2	10.3	9.6	9.2
South Asia							
South Asia	9	8.8	6.3	7.1	7.9	7.5	8.1
Afghanistan	8.2	14.2	3.4	20.4	8.2	8	8.5
Bangladesh	6.6	6.4	6.2	5.7	5.8	6.3	6.7
Bhutan	7.8	12.6	10.8	5.7	7	7.5	8
India	9.7	9.2	6.7	8	8.6	8.2	8.8
Maldives	18	7.2	6.2	-2.3	4.8	5	5
Nepal	3.7	2.8	5.8	3.8	4	3.8	4
Pakistan	5.8	6.8	3.7	1.2	4.1	2.5	3.7
Sri Lanka	7.7	6.8	6	3.5	7.6	8	8

Table

e 3

	Population (2009) In millions	PPP(GNI)(per capita income) (2009) In dollars
Bangladesh	162	1550
China	1331	6890
India	1155	3280
Nepal	29	1180
Pakistan	170	2680
Sri Lanka	20	4720
South Asia	1568	2972

Table 4

	Year	Population below International Poverty Line (% of Population Below \$1.25)
Bangladesh	2005	49.6
China	2005	15.9
India	2005	41.6
Nepal	2004	55.1
Pakistan	2006	22.6
Sri Lanka	2007	7.0

Table 5 Growth rate of merchandise exports (% per year)							
	2006	2007	2008	2009	2010	2011	2012
East Asia	20	19.2	13.1	-16.2	30.1	15.7	14.7
China, People's Rep. Of	27.2	25.8	17.6	-16.1	31.4	19.8	18
South Asia							
South Asia	20.6	24.5	14.1	-6.3	26.2	24.1	19.2
Afghanistan	0.9	1.3	18.9	12.8	6.9	5.4	14
Bangladesh	21.5	15.8	17.4	10.1	4.2	21	22
Bhutan	47.2	83.7	4.4	-13.8	5.5	-	-
India	22.6	28.9	13.7	-7.4	31.6	26.7	19.5
Maldives	39.4	1.2	45.2	-49	6.5	-	-
Nepal	2.4	2.6	9.3	-4.7	-6.3	-	-
Pakistan	14.3	4.4	18.2	-6.4	2.9	1.7	15
Sri Lanka	8.5	11	6.2	-12.7	17.3	16	16

Table 6 Foreign direct investment (US\$ million)					
	2006	2007	2008	2009	2010
East Asia					
China, People's Rep. Of	72,715	83,521	108,312	94,065	105,735
South Asia					
Afghanistan	238	243	300	201	220
Bangladesh	743	793	748	961	636
Bhutan	6	73	30	15	11
India	7,693	15,893	19,816	35,600	27,600
Maldives	64	91	135	112	164
Nepal	-6	5	5	24	38
Pakistan	3,521	5,140	5,410	3,720	2,151
Sri Lanka	451	548	691	384	500

Table 7 Inflation (% per year)							
	2006	2007	2008	2009	2010	2011	2012
East Asia	1.6	4	5.5	-0.1	3.1	4.3	3.9
China, People's Rep. of	1.5	4.8	5.9	-0.7	3.3	4.6	4.2
South Asia							
South Asia	5.7	5.7	9.5	4.3	9.3	8.7	7.3
Afghanistan	5.1	13	26.8	-12.2	8.2	9.8	9.1
Bangladesh	7.2	7.2	9.9	6.7	7.3	8	8.5
Bhutan	4.9	5.2	6.4	7.1	4.7	8	7.5
India	5.2	5	8.7	2.1	9.2	7.8	6.5
Maldives	3.5	7.4	12.3	4	4.5	8	7
Nepal	8	6.4	7.7	13.2	10.5	10	8
Pakistan	7.9	7.8	12	20.8	11.7	16	13
Sri Lanka	10	15.8	22.6	3.4	5.9	8	7.5

Table 8 Fiscal balance of central government (% of GDP)					
	2006	2007	2008	2009	2010
East Asia					
China, People's Rep. Of	-0.8	0.6	-0.4	-2.9	-2.1
South Asia					
Afghanistan	-2.9	-1.8	-3.7	-1.2	-0.2
Bangladesh	-3.2	-3.2	-4.7	-3.9	-4.5
Bhutan	-0.8	0.6	0.8	1.9	-6.3
India	-5.3	-4.1	-8.5	-9.5	-8.1
Maldives	-6.8	-4.7	-16.9	-30.9	-16.4
Nepal	-1.6	-1.8	-2.1	-3.3	-2
Pakistan	-4.3	-4.4	-7.6	-5.3	-6.3
Sri Lanka	-7	-6.9	-7	-9.9	-8