

South Asia 2060

Envisioning Regional Futures

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### Growth vs. Equity

What is unavoidable is the region's struggle to shake off chronic poverty and deprivation. Nearly half the world's poor live in South Asia. No other part of Asia harbors such magnitudes of income poverty. Adverse effects of the latter manifesting through limited access to basic needs and earning opportunities for poor households are accentuated by polarizations between incomes with the poorest quarter of the population accounting for barely a tenth of total income as against almost half by the richest. The region's development history, till now, offers little hope of income distribution becoming more egalitarian as poor governance impedes equitable growth. Governance will constrain India in its quest for growth with a "human face." Even if India races ahead of the rest of the region with higher GDP growth, it will probably continue to struggle with poverty and income inequality given its large additions to population – a phenomenon expected to be witnessed elsewhere in the region too. The contrast between better and worse-offs will presumably be sharper in South Asia compared to the East and Southeast, and most of West Asia.

Managing trade-offs between growth and equity will dominate policy agendas of South Asian economies as they proceed on their chaotic journeys to raise GDP growth. Absence of effective distributive mechanisms will handicap efforts for making economic growth inclusive and people-oriented. As more people fall off the growth bandwagon and social vulnerabilities increase, the political economy will become more active. History suggests that the political economy is more likely to revolve around agendas of specific interest groups rather than core concerns of people. Civil society activism in South Asia has occasionally assumed counterproductive postures by resisting development without advocating feasible alternatives. Industrialization resulting in displacement of marginal livelihoods based on forestry and primary resources has been heavily agitated against. Notwithstanding strong humanitarian foundations, the agitation has failed to suggest development strategies that industrialize without displacement. Over time, such agitations have become more agenda-driven than concern-driven. The interplay of interests between civil society, political community, business, judiciary and bureaucracy in South Asia, has created a complex web of responses that often overlook core concerns of people and restrain them from achieving their full economic potential.

Managing people, potential and politics in a harmonious manner will determine South Asia's economic outlook in the years to come. The challenges in this regard are substantive. Recent history does not offer much scope for optimism. Most complications, however, can be addressed if the region resorts to deployment of a fourth "P": pragmatism. Stakeholders must respond pragmatically to the region's concerns for securing gainful outcomes. Economic managements in East and Southeast Asia are good examples of such pragmatic approaches. Lessons picked up from the neighborhood can lead South Asia to a brighter economic future.

## Chapter 19

# GLOBALIZATION AND SOUTH ASIA

*Sanjoy Chakravorty*

South Asia has the highest density of futurists in the world – we call them astrologers. Their methodology for making predictions involves stars and planets and generous doses of credulity. Since I don't have access to their methods, I will have to attempt this exercise using what I know: some core principles and a theory about understanding long-term change.

First, if we begin from a limited understanding of globalization – that it is primarily an economic and cultural phenomenon, that too of recent vintage – then we won't get very far, certainly not to 2060. It is necessary, for sure, to pay attention to economics and culture, and I will do so in this essay. But, I believe, it is necessary to begin by thinking of globalization in terms of ideologies and institutions that create the framework of interactions at a global scale. In this sense, globalization has existed from the time global interaction has been possible; what has changed is the intensity and nature of the interactions, which in turn have been guided by ideologies and institutions.

Second, there is a serious problem with extrapolation. It assumes that the rate and direction of change follows a linear logic. This is similar to a core problem in evolution: is it incremental (an accumulation of minute changes over a very long time) or is it discontinuous (there are accumulated minute changes, no doubt, but there are periods of dramatic and large change)? I suggest that the latter (known as the "punctuated equilibrium" thesis) is the appropriate metaphor for history and social analysis. To put it simply, history (and the future) is not linear, but an accumulation of small changes interspersed periodically with "turning points."

Third, in looking for a theory of long-term historical change, I believe we should seriously consider the Hegelian possibility of thesis and antithesis (counterthesis in this essay), which argues that any dominant ideology or institution has unresolved contradictions, which over time, force adaptations to and perhaps replace the dominant ideology. One doesn't have to be a Marxian (or believe in the inevitable collapse of capitalism under the weight of its contradictions) to acknowledge the explanatory power of Hegelian dialectic. It is the bedrock principle of long-term theories that try to explain the rise and fall of great ideas and powers (in this context, Zakaria's 2009 work has special relevance to South Asia). In short, we are far from having reached the

Hollywood and Bollywood). Second, there is the spread of niche and "exotic" cultural products from distant or remote locations to all places that can afford to consume these products (Sufi music and Bhangra, yoga and tandoori, for example). There is an intense debate over the effects of these two forces – totalization by American big brand dominance and obliteration of local identities and products on the one hand, versus increasing diversity of consumer tastes and localization of global brands and products.

If we use the extrapolation method – that is, draw a straight line from now to 2060 – we would expect to see continuation and intensification of the key elements of economic and cultural globalization today: further lowering of the cost of transportation and communication led by technological improvements and investments in enabling infrastructure, continued slicing of value chains and intense competition by nations to move up different value chains, increasing dominance of big consumer brands simultaneously with the increasing emergence of niche products and increasing diversity of taste and preference (the best known work on value chains is by Gary Gereffi 2005 and his associates).

The nations of South Asia will necessarily have to be engaged in all three elements. The national states will have to keep tariffs low, allow the entry of products manufactured elsewhere and create or assist in the creation of infrastructure to enable ever more rapid transportation and communication. This will require massive investments in transportation corridors and hubs (road, rail, airports, ports) and telecommunication (satellites, cell phone towers, fiber optic cables). Private firms (often with the assistance of the state) will seek to embed themselves deeper into existing value chains and, at the same time, try to move up those chains. Textiles and garments is one large globalized sector where the South Asian presence is already significant (Bangladesh, India, Pakistan and Sri Lanka are all players) and is likely to remain so. Information technology (ICT) and related services is another large sector that is globalized but where India has a clear advantage among the South Asian nations. The others will try to enter this sector, possibly successfully, because other than market size (which may not create much of an advantage in ICT) there is little in India that the other nations do not possess – an English-educated and technology-literate class of young workers. India's market size advantage is likely to become useful in penetrating global markets for higher-end products like cars and televisions.

South Asians are as brand-conscious as any other people. Hence big global brands will continue to be successful in penetrating consumer markets all over the region. Clothing and accessories, personal grooming and hygiene, and consumer electronics are all sectors where global brands will become larger in South Asia. Global firms will continue to try to penetrate large service industries, especially banking and insurance, and increasingly health and education. They are more likely to be successful (as they already have been) in the former than the latter. South Asian firms will, at the same time, try to penetrate developed nation markets for products that require a human touch – food, artisanal and crafted material, and low technology manufacturing – to best utilize their comparative advantage in labor costs. They will also attempt to create overseas markets for unique local products (in food, art, music, clothing, etc.) by capitalizing on

diversifying tastes, not only in the traditional markets of Western Europe and North America, but also perhaps in the emerging markets of East Asia and Central Europe.

How successful will the individual nations in the region be in integrating with the global market? That, of course, is the 64 crore rupee question. If present trends continue one would have to conclude that at least in the short term India has the pole position. Its economy has been growing rapidly in recent years and trade (especially in services) has been growing at two to three times that rate. Pakistan appears to be undergoing a serious crisis of governance and it is possible that right now economic and trade issues aren't of primary importance. Sri Lanka has a relatively small economy but it may be better positioned at the present moment to be a participant in economic globalization than Bangladesh and Nepal, both also with small economies and less stable politics.

But even if the rosiest economic globalization dreams work out – that is, each of these nations experiences strong and robust growth of trade and GDP – there are serious structural problems that will have to be dealt with. Some of these issues are independent of economic growth. The most pressing of these is demography. Though population growth rates have slowed across the region, the demographic momentum of a young population will lead to overall increases in the range of 40 to 50 percent by 2060. India's population, for example, is expected to reach 1.5 billion by 2040. It can be argued that economic globalization is necessary to generate sufficient economic growth to handle the basic needs of this enormous population growth – but the population growth is more or less guaranteed; globalization and economic growth aren't.

Another emergent issue that is more directly tied to globalization is the problem of regional inequality. There is sufficient evidence and there are good explanations for the evidence that globalization is not space-neutral either between or within nations. Some places – usually coastal and metropolitan regions – are heavily favored. Hence economic globalization is associated with large increases in inequality between subnational regions inside globalizing nations. We have seen this in China, where a "hard" state can manage discontent more effectively than the "soft" states of South Asia. It is difficult to imagine that any of these nations can "manage" a situation where the leading regions are 10 times richer on average than the lagging ones, a situation India appears to be headed toward in the next two decades.

### Challenges Ahead

Finally, let us return to the framework I set up at the beginning of this piece. If globalization is the thesis, what, if any, is the counterthesis? Should we assume that because there is consensus among the leadership of the economic powers of the world that globalization and trade are good and desirable and global governance institutions (IMF, WTO) are geared primarily toward the promotion of trade and globalization, there is no resistance, or that the resistance is so ineffective (students throwing coffee cups in Seattle) as to be laughable? Has history ended because the Soviet system collapsed and therefore there is no possible challenge to the prevailing order of markets and trade? Is this form of globalization "natural," inevitable, and unstoppable?

I have identified some of the challenges in the earlier sections: nonstate actors who are globalized themselves, violent subnationalism or ethnonationalism as an organizing principle for disaffected “others,” demographic forces, regional inequality and other forms of inequality I have not been able to discuss. These are significant challenges, but primarily at the regional level. These are unlikely to challenge globalization in the nations that are most globalized and that therefore are the leaders of globalization – that is, the most developed nations of North America and Western Europe.

No, the fundamental challenge to globalization is embedded within its own ideology of market based, energy-intensive production, consumption and trade. That challenge is climate change. The economic model at the heart of globalization is based on productivity growth, which in turn is based on technological change and increasing energy use. It is now clear that this model has generated environmental externalities that have not been priced appropriately. Fossil fuels have been and continue to be overconsumed. If the challenge of climate change is to be met then the economic model we all take for granted will also have to change.

Let us remember that economic globalization is fundamentally caused by improved (energy-intensive) transportation and communication technologies. This is what has shrunk the globe and made more interactions and trade possible between distant places. Among the many things this has enabled is the transfer of polluting production processes from the First to the Third World. That has certainly improved the local environments in the First World, but, to the extent that global production has increased, global pollution has also increased.

The official position of South Asian nations is, to put it crudely, an assertion of a right to pollute. That may be understandable from the perspective of historic injustices and exploitations and the current standards of low average development. But if the Himalayan glaciers are truly melting, and if the river system that is the life source of the Subcontinent is endangered, if the ocean levels are truly rising and vast coastal regions are in danger of being inundated, it is difficult to see how long that official position can be maintained. (For a good brief discussion of the possible water-related problems associated with climate change see Schell 2010.)

Ultimately, however, the contours of climate change will not be determined by official policy in South Asia, but by some combination of technological change in energy production (the “magic bullet” that may not exist) and reduced energy consumption. And those changes will determine the contours of economic globalization, working, as now, through institutions of global governance. I believe those contours are going to be very different from what we take for granted today. In one scenario, the new “low-carbon” global system will be achieved through technological change; in a second scenario it will be achieved through large reductions in consumption; and in a third scenario it will not be achieved at all. Whichever scenario unfolds, I have little doubt that the counterthesis to today’s model of globalization will have become the new thesis in 2060, and South Asia, for better or worse, will have to play by the rules of that new thesis.

## Chapter 20

### TRADE RELATIONS: SOME PREDICTIONS AND LESSONS

*Pradeep S. Mehta and Niru Yadav*

While home to about 20 percent of the world’s population and 40 percent of the world’s poor, South Asia accounts for only about 3 percent of both global gross domestic product (GDP) and total world trade. The states of the region have followed a long history of protectionism with inward looking policies that curtailed the region’s economic growth as well as its trade flows, both within and outside the region. Unilateral liberalization initiatives started in the 1990s and worked towards accelerating growth – raising trade and investment flows in the region and as a result South Asia’s growth rate over the last decade has exceeded the average in developing countries. Likewise, the region’s export and import growth has been quite robust at 9.1 and 4.1 percent respectively in 2012 against 7.0 and 6.2 percent in developing countries (UNCTAD 2012).

At the outset, references to regional trade in South Asia need to account for the diversity and varied priorities of the different member states of the South Asian Association for Regional Cooperation (SAARC): India is a major emerging economy with substantial economic and political clout not only in South Asia but also in the world; Pakistan, Sri Lanka, Bhutan and Maldives are developing nations, while Afghanistan, Bangladesh and Nepal are least developed member states. Additionally, while Sri Lanka and the Maldives are small island states, Afghanistan, Bhutan and Nepal are landlocked nations. Evidence on trade complementarities among South Asian countries is rather mixed. Given that the members are on different rungs on the development ladder, their structural composition and trade baskets do not completely overlap. Exploiting this diversity and seeking complementarities in trading structures would be the key to increasing intraregional trade. Above all, addressing political challenges and nontariff barriers are crucial for increasing regional integration through trade.

This piece seeks to provide an overview on current trends in regional trade, identify major challenges to regional integration through trade and suggest possible ways forward. The first section of the paper looks at trade flow trends in South Asia,