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STRENGTHENING COOPERATION IN THE SAARC REGION

Abstract

Inter-state relations in South Asia are characterized by tensions and acerbity, which in turn, lead to economic and social failures of different dimensions - rising unemployment, growing desperation among the youths and resulting political turmoils. The trend needs to be reversed immediately. The theme of the paper is that the right kind of economic cooperation even now could just about make the difference between viability and growth in a globalised world, and economic exclusion and spiralling descent towards state failure. One way to do this would be to create a Joint Infrastructure Development Authority under SAARC to which all the SAARC countries would provide seed capital in proportion to their size and GNP. This authority could be entrusted with the task of preparing feasibility reports for existing and proposed regional infrastructure projects, finding international investors, determining the share of each of the concerned countries in its share capital, the tariffs to be charged for the services or products supplied to the beneficiaries, and do whatever else is required to implement the project. A parallel organisation to be created by SAARC, could administer the infrastructure facilities so

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created, much as the original Common Market Secretariat in Brussels did in the sixties and seventies.

I. Introduction

Over the past five decades relations between the principal countries of South Asia -- Pakistan, India Bangladesh, Nepal and Sri Lanka -- have been marked by a level of acerbity that is not to be found in any other part of the world. To be more precise, it is the relations of each of the four smaller countries with India that have been strained to varying degrees at various points of time. The fact that all of them (except Sri Lanka) share long land borders with India but not with each other, may be part of the explanation. Another probable cause of friction is the fact that four of the five countries were carved out of the British empire, which was to all intents and purposes a single economic zone and a single administered territory till 1947. The breakup of this empire, like the breakup of the Ottoman empire a quarter of a century earlier and the breakup of the Russian Empire in 1992, created problems that continue to bedevil us till today.

This tension and acerbity has led to beggar-thy-neighbour economic policies that now pose a threat to their security from an altogether different side – that of economic failure and social upheaval. The trigger for such an upheaval will most likely be rising unemployment, growing desperation among the youth and resulting political turmoil. The turmoil will feed upon the all-pervasive poverty of the region and will morally legitimise violence against the state and against individuals and families seen as allied to the State. This process -- a degeneration born out of despair -- is already far advanced in Nepal, in some pockets of India and among select social and age groups in Bangladesh and Pakistan.

The trend needs to be reversed and we do not have much time to do it. This paper does not have any instant solutions to offer. But its theme is that the right kind of economic cooperation even now could just about make the difference between viability and growth in a globalised world, and economic exclusion and spiralling descent towards state failure.

The SAARC countries are part of a single land mass, belonging to a single agro-climatic zone and with a shared ecological and hydrological system. Our wellbeing is, therefore, also interconnected. We can help each others' development by cooperating with each other to conserve and exploit and develop our natural resources. We can only hurt each other, as we have been doing for the past five decades, if we ignore, or resent, our interconnectedness and continue to frame policies and projects in isolation of each other. So, if the ultimate goal of all development policies is to improve the quality of life of our people, especially of the poor, what is needed is to create a sustaining framework of macro-level cooperation. It is in this spirit that I present this paper. Its main thrust is that all the countries of South Asia need to look out for the well being of each other. This has to be done at two levels. First, we can and should plan and execute projects from which more than one country benefits, on a regional basis. But second and equally important we can lean from each others' success and failure in tackling poverty in our own countries. All of us have some thing to teach and learn from others. We can do so only if we develop the necessary trust, respect and humility towards each other.

Struggling to be Viable

A quick glance at the structure of the five economies shows remarkable similarities. First, even after forty years of planned attempts to break the grip of poverty, four of the five countries – those of the subcontinent -- are among the very poorest in the world. According to a World Bank ranking of the per capita Gross National Products of 133 countries, Nepal was the ninth poorest country in the world in 1991; Bangladesh was the 13th poorest; India the 27th, and Pakistan the 35th. Sri Lanka was marginally better off at 48th. In the past decade, India, with a six percent growth rate has almost certainly moved up while Pakistan with a 4.4 percent average has probably moved down. But these minor changes cannot hide the fact that the South Asian subcontinent is collectively one of the poorest parts of the world.

South Asia is also the most populous single region of the world, with a combined population of 1197.2 million in 1995. This more or less equalled the estimated population of China at that time (1200 million) but in the past seven years South Asia has almost certainly forged ahead.

With the exception of Sri Lanka, the larger countries of South Asia are also among the most miserable in the world. Bangladesh ranked 146th among 174 countries in the UNDP's Human Development Index for 1998, Nepal ranked 144th, Pakistan 135th and India 128th. Only Sri Lanka, with its long standing human development-oriented approach to economic planning, stood halfway up the ladder at 84th.

When one looks at the economies of the South Asian countries, and especially of the largest three among them, one is struck not by the differences between them but by their similarities. All of them have slow growth of GDP – all are neck deep in domestic and foreign debt; all have chronic fiscal deficits and all suffer from a severe unemployment crisis[1]. All have high real interest rates and low rates of investment. And all of them have a seriously adverse balance of trade and external payments.

The return of military rule in 1999 was not responsible for the decline in Pakistan's economy. What it failed to do was to check a deterioration that had been going on through most of the nineties and had possibly begun even earlier. Its GDP, which had grown at an average rate of 4.9 percent between 1988 and 1999, grew by 3.2 percent in 1999-2000 and 2000-2001, and was expected to grow by 3.5 percent in 2001-2002. This was barely above the rate of growth of population. Thus till 2003-4, per capita income grew at below 0.5 percent per annum.

After a brief four-year spurt to 7.5 percent between 1993 and 1997, India's growth rate too declined to approximately five percent per annum[2]. The similarity strengthens in the past three years which have seen a steady decline in the rate of growth of GDP in both countries. Bangladesh too has grown slowly in the nineties, with an average growth of about 4.5 percent per annum.

Another bleak feature that all the countries share is that in all of them the State is virtually bankrupt. Pakistan is worst off in this regard. Its public debt is 106 percent of its GDP; servicing this debt swallows 75 percent of its current revenues. These current revenues

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[1] According to the CIA factbook on Bangladesh the unemployment rate is 35 percent of the workforce. It is not clear how this estimate has been obtained or what definition of unemployment has been used, but no matter how it has been calculated it reveals the seriousness of the unemployment crisis in Bangladesh.

[2] Official figures place this at 5.8 percent, between 1997 and 2001 but these need to be adjusted to deduct the salary increase awarded to civil servants in 1997.

are among the lowest in even the developing countries - 11.5 percent of its GDP against 16 percent for the central government in India. The high public debt is a product of persistent fiscal deficits that have forced the central government to borrow from the banking system to square its accounts. The central government's fiscal deficit has ranged between 5.5 to 7.3 percent throughout the nineties. In its attempt to keep the deficit under control the government has cut back its social spending till there is nothing left to cut. As a proportion of GDP this has come down from 9.4 percent in 1980-81 to 3.4 percent in 1999-2000.

Perhaps most serious of all is Pakistan's inability to prevent the public debt from continuing to grow. The cost of debt servicing, and that of general administration now add up to just about 100 percent of its current federal revenues. Thus even after cutting all social spending to the bone, it is forced to borrow year after year to meet its military spending. In the second half of the nineties virtually the entire defence spending, amounting to around one third of current revenues and 27 to 28 percent of expenditure, has been financed by public borrowing. Since it is not feasible for Pakistan to cut its military spending drastically, it is squarely in a debt trap.

Indians often point to Pakistan's economic plight as one of the principal reasons why it could turn into a possible failed state. But India's plight is only better in degree and not in kind. By 2001-2002 the combined debt of the central and state governments had climbed to 85 percent of the GDP, of which the State governments had accumulated fully one third, largely by simply ignoring the Constitution of India[3]. The central government was teetering on the edge of a debt trap. Its interest payments swallowed 51 percent of

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[3] Ministry of Finance : *Economic Survey 2001-2002*.

the total revenue. Another 21 percent went into salaries and pensions and 26 percent on defence. These three irreducible items, over which the government has no control, account for 98 percent of all revenues. This means that all, literally all, of its budgetary support to its own and the state government plans, to centrally sponsored schemes, and to specific state schemes such as rural electrification, comes from borrowed money. Most of this is revenue expenditure, i.e money being used to maintain capital assets and not add to them. It, therefore, counts as consumption and not investment. It cannot be reduced without allowing the capital assets built up in past decades to turn into derelict ruins. Worst of all, with the combined fiscal deficit of the Centre and the States running at over ten percent -- almost twice the growth of GDP -- the ratio of national debt and debt servicing to GDP is bound to keep rising.

Bangladesh too has a rising, and unmanageably high public debt, and has run up a string of high fiscal deficits in the nineties. In 2000 its fiscal deficit was $2.1 billion or about 7 percent of GDP.

Another shared feature is the slenderness of their foreign exchange reserves and the precariousness of the external account. Pakistan's external balance is admittedly far more precarious than India's. In 1999 when it had $1 billion to 1.5 billion worth of foreign exchange reserves, its annual repayment obligations amounted to $6 billion. Gen. Musharraf was, however, able to get his creditors to reschedule Pakistan's debt and to obtain humanitarian aid from the World Bank and the Asian Development Bank. This accommodation amounted to almost $16 billion in the first 17 months of his rule. This enabled Pakistan to stay solvent. But it was on a very, very short leash, and the IMF was demanding sharp and increasing cuts in its military budget.

Awareness that the economy was heading for a dead end at home, and that so long as Pakistan remained on such a short leash it would enjoy virtually no sovereignty, may have been why Gen. Musharraf decided to change his policies so drastically after September 11. A recent assessment of his achievements by a Pakistani economist, Dr. Asad Sayeed[4], suggests that the policy turn around has undoubtedly brought a measure of relief in the latter respect. The massive debt rescheduling that followed Pakistan's about face on Afghanistan and Al Qaeda, reduced its annual repayment obligations from around \$6 billion to \$1 billion. In addition, Pakistan benefited from a generous inflow of developmental aid. As a result its foreign exchange reserves went up from the precarious \$1-1.5 billion of the 1998-2001 period, to over \$3 billion.[5] But this is still a very slender reserve.

In the case of Bangladesh the trade imbalance was \$2.2 billion in 2000 AD. This amounted to over 7 percent of its GDP and 36 percent of it exports[6]. While this was a vast improvement over the early nineties, it too was far from satisfactory.

By contrast India's foreign exchange reserves rose by \$11 billion in 2001-2002, to \$53 billion, which was sufficient to pay for eleven months' exports. The rise accelerated after that till at the end of March 2004 when they stood at \$117 billion. But a good part of this money was speculative, drawn in by India's bounding share market, and the appreciation of the rupee against the dollar. When the

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[4] Asad Sayeed: "Is the Economy Turning Around?" *Dawn* Friday 26 April 2002.

[5] Pakistan's official figures gave its reserves as \$5 billion at the end of March 2002. But of this \$2 billion was the product of a change in the methodology of calculation. These reserves now include about \$2 billion of foreign exchange held by Pakistan's commercial banks. Sayeed: *op. cit*.

[6] CIA Factbook on Bangladesh.

government unexpectedly changed in May 2004 the flow reversed itself and the rupee lost stood at Rs. 3 billion (more than six percent) of its value in two months.

India's reserves have not been built up by surpluses on the current account but by foreign exchange inflows on the capital account. The bulk of these inflows consists of deposits by non-resident Indians and portfolio investment in the Indian share and securities market by foreign portfolio investors. This puts severe restraints on India's freedom to make policy and especially to take unconventional steps to revive the economy, such as resorting to deficit financing to boost investment.

When per capita income stagnates, the powerful start preying upon the weak. Not surprisingly income inequality has worsened and the proportion of those below the poverty line has risen. In Pakistan, in June 2001, it stood at 40.1 percent. In absolute terms, 56 million Pakistanis were living below the poverty line. This was 15 million more than two years earlier[7]. India has, however fared better, with the proportion of people below the poverty line falling from 38 percent in 1982 to 26-7 percent in 1997

Yet another indicator of Pakistan's deteriorating economy that India too shares is a rise in unemployment. According to Pakistan's Labour Force Survey, the rate of unemployment (probably defined, to exclude all categories of underemployment) rose from 6.8 percent in 1998-end to 7.8 percent . This meant an absolute increase of 800,000 in two years. In India while the number of persons in the employable age groups rose by 2.4 to 2.6 percent per annum in the nineties the number of new jobs has grown by only 0.98 percent per

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[7] Sayeed: *op. cit*

annum[8]. The steepest fall has been in the number of new jobs created in the organised sector, which has grown by only 0.6 percent a year. Even this figure is deceptive because it hides the fact that most of the deterioration has taken place in the last five years. Job growth has declined sharply from over one percent per annum, almost entirely in the private sector during 1993to1997 to 0.11 percent in 1998, 0.04 percent in 1999, minus 0.15 percent in 2000 and minus 0.38 percent in 2001. Overall some 670,000 aspirants to such jobs have failed to find them every year since 1998. By 2001, approximately 2.7 million more educated aspirants had joined the ranks of the unemployed during the tenure of the NDA government.

Like India, Pakistan is also facing a severe decline in real investment. This is largely because it too has very high real rates of interest. With investment in the doldrums there can be neither an increase in the rate of growth of GDP nor an increase in the rate of growth of unemployment. Pakistan already has a serious unemployment problem which probably lies at the root of the drift of large numbers of its youth into militant Islamic private armies. This situation is likely to grow worse and not better. In such circumstances controlling the rise of Islamic militancy, as Gen. Musharraf has promised to do, will be an uphill task. The sputtering insurgencies in Kashmir, Manipur and Tripura, and the extortionate activities of pseudo-insurgent groups in Assam and Andhra Pradesh can be traced to the desperation of educated jobless youth. (In Kashmir admittedly this is only a part of the problem, but an important part).

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[8] Govt. Of India, Ministry of Finance: *Economic Survey of India-2001-2002*.

Locked in Chronic Stagnation

The structural imbalances described above are not unconnected. A high fiscal deficit forces the government to borrow from the banking system to square its accounts. This borrowing tends to restrict the supply of credit available to the private sector. The immediate result is a rise in the nominal rate of interest. This makes borrowing to finance new investment more expensive. It also brings down the price of shares in the secondary market as people decide to shift a part of their money to bank deposits or government securities. That makes it more difficult to raise equity capital for investment. The higher overall cost of investment, whether financed by loans or equity capital, makes producers postpone investment and modernisation plans. Since the government also cuts down its own investment in order to reduce its fiscal deficit, the overall result is a steady decline in investment. This slows down the growth of consumer demand. The slowdown is reflected in a decline in inflation – something that India, Pakistan and Bangladesh have all experienced in the past three years. But that pushes up the real rate of interest because the high government borrowing prevents nominal interest rates from coming down. The rise in real rate of interest pushes investment down further. In the case of India the high real rate of interest has also drawn in a large amount of foreign portfolio investment and led to a somewhat overvalued exchange rate.

I do not wish to overstate the similarities in the experience of the five countries during the nineties. To begin with my analysis is anything but exhaustive. Secondly, there are a great many differences in our experiences too. For instance, Bangladesh has had far greater success in turning itself into an export led, outward looking economy than either India or Pakistan. Its exports now account for only a little under 20 percent of its GDP. By the same token Sri Lanka's human development record remains impressive despite the extreme stress the country has been under for decades, and is totally at variance with that of the Indian subcontinent. Nepal's problems are *sui generis* and the blame for a good part of them rests with India's trade policies towards the Kingdom in the four and a half decades till 1995. With literally all of its rivers flowing into India and all of its valleys running north to South, Nepal needed completely free and unrestricted access to the Indian plains, and therefore, by definition to Indian markets for it economy to thrive. Instead till 1990, and in effect, till 1995 India closed it borders to any Nepalese products that did not have an 80 percent indigenous raw materials content. Consequently, Nepal could not industrialise, for all it could export to India was agricultural products, Yak skin and wool, raw jute, some semiprecious gems and jewellery, a few very simple manufactures out of these materials and, believe it or not, ice. It was able to export ice across the border at Gorakhpur because the water used to make it was 100 percent Nepalese!

However, after discounting for these individual variations the conclusion is inescapable that to a greater or lesser extent all of the countries of South Asia are locked in a vicious cycle of slow growth, virtually amounting to economic stagnation. This stagnation has made poverty endemic, and saddled all countries with mounting unemployment and what is almost as pernicious, underemployment. These unemployed youths are the prime source of political instability in each country for they have become the seedbeds of insurgency. India's case has already been mentioned. The Maoists in Nepal, the sectarian Islamist private armies in Pakistan, and the LTTE, JVP and, earlier, other Tamil insurgent groups, are drawn from among the ranks of the unemployed. The leaders and the elite among the cadres are invariably drawn from the educated unemployed.

Bangladesh and Nepal have bought time by exporting some of their unemployed to India. At a conservative estimate there are more than 12 million Nepalis and a similar number of Bangladeshis are living in India. Sporadic attempts to repatriate the latter have not only been completely ineffective but have also generated a great deal of ill feeling between India and its neighbours. But this solution may no longer be available. With the steady shrinkage of jobs in the organised sector of the Indian economy, and a consequent overspill into the unorganised sector, there may soon be no more jobs for Bangladeshis and Nepalis to fill.

The Threat from Globalisation

Globalisation has added a new dimension to the threat that all the South Asian countries face. This is the threat of economic exclusion from the new networks of trade, transnational investment and consequent economic interdependence that are rapidly being built up across the world. The threat of economic exclusion is very real. Globalisation means different things to different people but economic globalisation, which is arguably the base of all other forms of globalisation, is being driven almost entirely by international investment—both FDI and large-scale financial investment. This investment has bound countries together in a network of interdependence such that around 40 percent of international trade now takes place between branches of the transnational corporations and another 30 percent takes place between them and long term, stable partners in the developing countries.

But the flow of international investment is highly skewed. In the mid-nineties, just 10 out of some 130 developing countries accounted for 72 percent of the total foreign investment flows from the indusrialised to the developing countries. Large parts of the world are being left out of the brave new world that is being created around us. Most of Sub Saharan Africa and huge swathe of Asia from the eastern littoral of the Mediterranean till Afghanistan gets virtually no foreign investment. Parts of Latin America and a few countries in eastern Asia also receive little or no foreign investment. But by far the largest single region in danger of getting excluded is South Asia. The pitifully small inflow of foreign capital into the region bears witness to its very limited integration with the global market for manufactures. Most of the little foreign direct investment the region has received has come to India, but the bulk of this, in turn, has come to exploit the domestic market and not to use India as a production base for supplying the global market.

The two greatest hurdles to faster economic growth not just of output but also of employment are the lack of capital and the lack of foreign exchange. A third hurdle, which is closely associated with the first, is the lack of technology and modern management skills. Integration into the world production and marketing chain offers a stable, sustainable solution to all three problems. Economic exclusion, by contrast, will complete the task of making all the countries of South Asia ungovernable.

Enhancing Economic Security

The two most often cited reasons for investors' lack of interest in South Asia are the political turbulence of the region, and its primitive infrastructure. The former is a legacy of history and cannot be simply willed away. What South Asia needs is an economic strategy that will insulate its economic development from its politics. What is more, it should, ideally do so in a way that improves its primitive infrastructure. Some such idea underlies the creation of SAARC, the South Asian Association for Regional Cooperation. But SAARC has not thought through the political economy of such cooperation sufficiently carefully to identify what needs to be done, what is feasible and what is not.

Most of the efforts of the member countries in SAARC have been directed towards creating a South Asian Free Trade Area (SAFTA). It has been assumed that a free trade area organised along the lines of ASEAN, would offer a large market for potential investors, and increase the attractiveness of the area as a whole to foreign investors. It is also assumed that the larger market would benefit industrialists and exporters within the region. In 1998, the SAARC countries set 2003 as the deadline for creating SAFTA and committed themselves to creating a preferential tariff region (SAPTA) even earlier. But in practice, movement towards even SAPTA has been very slow. Most of the tariff concessions have been offered unilaterally by India. Even these have been slow in taking shape.

It is the writer's contention that SAARC's emphasis on creating a free trade area is misplaced. The experience of the other free trade areas has shown that trade among its members proves beneficial only when it is closely linked to and grows out of investment. Capital moves from a capital-rich member country to a capital poor country to take advantage of the low wages in the latter in order to produce for the entire Free Trade Area and the world market as a whole. This leads to the rapid industrialisation of the poorer countries, an increase in consumer welfare for all and an improvement in the competitive power of the concerned enterprises in the world market. Within the European Union such trade generating investment flows have gone from the richer and bigger countries to Spain, Portugal, Ireland and more recently, Greece. In ASEAN the search for low wage production bases is what motivated the incorporation of first Vietnam and then Myanmar into the Association. The creation of the North American Free Trade Area (NAFTA) has led to an increase in investment by American firms in Mexico and Canada to produce goods, components and raw materials for the American and the world markets.

In SAARC, by contrast, not only are there no capital-rich countries or enterprises in search of low wage production platforms in other countries, but inter-country investment is barred, or at any rate severely inhibited, by the prickly, somewhat dog-in-the-manger nationalism that all countries of the region display towards one another. That leaves only trade. And trade between countries at the same level of development can be employment displacing. The very least that true free trade would do is to force some industries in each country to shrink, perhaps wither away, under the impact of imports, while others expand as they take over markets in other member countries of the FTA. Even when an industry does not wither away, there is a great deal of turmoil within it as some of the products become uneconomical and others thrive. This leads to product specialisation, expensive fresh investment and retraining of the work force. In the long run when all the changes in industrial structure have been completed the entire region may emerge industrially much stronger than before. But there is a great deal of transitional dislocation and considerable uncertainty about the final outcome. This deters countries from making the effort. Unwillingness to do away with trade barriers is not, therefore, irrational. Beyond a point the immediate cost of dislocation and the discount on future gains because of their uncertainty makes the change not worth the risk.

Joint Infrastructure Development

By far the most promising area of economic cooperation is one that has been almost completely neglected so far. This is the joint development of the economic infrastructure of the region in order to make it more attractive destination for foreign direct investment. If the South Asian countries can find a way to develop their infrastructure jointly, they will at one stroke remove both the hurdles that discourage foreign investment today. They will demonstrate that they are capable of keeping heir political disagreements insulated from their economic policies, and they will modernise the infrastructure of the region and make it an economically attractive destination for investment.

The political vivisection of what was one economic region, and the subsequent development of prickly nationalism and strained political relations between all the countries so created, and India, is one of the main reasons why South Asia has some of the least developed infrastructure in the world. Even a short checklist of the projects that have been proposed and vetoed for one reason or another, quickly develops into a litany of missed opportunities.

In the west, not only is Pakistan not prepared to sell India any gas from its Sui Gas fields, but it has so far turned a cold shoulder to proposals to allow an oil and gas pipeline from Central Asia via Afghanistan and Pakistan to serve India in addition to Pakistan. This despite the fact that not allowing it to do so would greatly reduce, perhaps destroy, the economic viability of the project .

In the east, Bangladesh's Prime Minister Begum Zia is under tremendous domestic pressure not to sell any gas from its gas fields to India, but to keep it 'bottled up' inside the earth till Bangladesh can make use of it in its own downstream industries. However, the consortium of American companies which proposes to develop the gas fields, has told the government that they will become unviable if some of the gas is not sold to India. So great is the pressure on Begum Zia that on April 23rd at the international conference centre at Dhaka she told newspersons that the question of selling Bangladesh's gas to any other country would only arise after there was a good estimate of the reserves and after every other way of utilising the gas within Bangladesh, including the option of keeping it in the ground for later use, had been thoroughly examined.

In the central region Nepal sits on the greatest hydroelectric potential in the world but fifty years of discussions with India on how to utilise it has yielded very belatedly one sole and highly controversial project agreement.

The other river system with awesome hydroelectric potential is the Brahmaputra. The complete inability of India and Bangladesh to agree on a single project that could meet their joint needs, because of dog-in-the-manger nationalism ensures not only that this project is not even discussed but that the Brahmaputra continues to flood one third of the arable land in Bangladesh in every other year.

An alternative proposed by India, that would greatly ameliorate the flooding caused by the Brahmaputra and at the same time recharge the Ganges as it flows into Bangladesh, is the oft proposed Ganga–Brahmaputra link canal. This canal can perform the functions of both irrigation and flood control because the Brahmaputra floods in May and June, at a time when the discharge of the Ganges is at its lowest point. Such a canal would enable Bangladesh to augment the supply of irrigation to its north-western districts while reducing the flooding of the northeastern districts. This project has been vetoed time and again by Bangladesh on the grounds that allowing India to control a canal that passes across Bangladesh and is vital to its agriculture would be detrimental to its national security.

Bangladesh has similarly vetoed repeated suggestions to allow India to develop a waterway to the north east up the Padma and the Brahmaputra and thus link the region, now land–locked and rife with terrorism and armed extortion, to Calcutta and the rest of the world.

Lastly, India is actively pursuing a rail link through Myanmar with Thailand, Malaysia and Singapore, i.e with ASEAN, but Bangladesh is not part of the plan because it is not willing to allow a rail link across its territory for India. There are scores of other projects that are technically feasible but have not even been thought of, because of the prickly nationalism that pervades South Asia.

This kind of negative nationalism makes economic security a victim of the search for political or military security. It thus replaces the threat of war or military coercion by a large neighbour with the threat of internal disruption, the breakdown of law and order, the rise of extremism, economic exclusion from the global production and marketing system, and eventually the failure of the state itself. Every step that the countries of South Asia can take away from this dire eventuality is one that none should spurn.

Pakistan would benefit economically from a pipeline to India because it would be able to garner transit charges for the oil and gas. Nepal would benefit immensely from the supply of hydropower and irrigation to India because it would get the royalties and a share of the electricity in perpetuity. Bangladesh would benefit in numerous ways from the many projects described above – foreign exchange from the sale of gas and the provision of transit rights on the Padma and Brahmaputra being the least of the gains. But the most important gain, as described at the beginning of this section, would be the change in the image of the region abroad and the increased inflow of foreign investment that would follow.

Bypassing Politics

It is this writer's belief that the fears that have been expressed in Bangladesh and Nepal that India would misuse the power it acquires over the territory or economy of its smaller neighbours through such joint projects is greatly exaggerated. The standing refutation of this fear is the Indus waters treaty of 1960. Although India is the upper riparian state in this treaty, and although India and Pakistan have fought three wars since it was signed, the release of water under the treaty has not been disrupted on even a single day. However, it would be too much to expect encrusted attitudes and fears to melt away overnight. That is why the collective effort of the countries of SAARC should be focused on creating instruments that would be able to attract foreign capital into such infrastructure projects while at the same time taking shielding them from the arbitrary influence or control of any one country.

One way to do this would be to create a Joint Infrastructure Development Authority under SAARC to which all the SAARC countries would provide seed capital in proportion to their size and GNP. This authority could be entrusted with the task of preparing feasibility reports for existing and proposed regional infrastructure projects, finding international investors, determining the share of each of the concerned countries in its share capital, the tariffs to be charged for the services or products supplied to the beneficiaries, and do whatever else is required to implement the project. It, or a parallel organisation also created by SAARC, could administer the infrastructure facilities so created, much as the original Common Market Secretariat in Brussels did in the sixties and seventies.