2. Contemporary Economic Priorities and South Asia

2.1. The Main Issues concerning the World Today

When we look at the world in the long-term framework of the twentieth century, it is clear that the post-war economic growth has been clearly unprecedented. The sustained growth during all the years of peace has brought about a number of structural changes in the world economy. As mentioned in the previous chapter, international relations in the post-Cold War era, are dictated more and more on the basis of trade and economic reciprocity. Though the political configurations remain in a flux and often fluctuate between uni-polarity and multi-polarity, the world is decidedly moving towards a multi-polar economic system wherein no single power alone can exercise hegemony on it. The major economic powers dominating the world economy in the eighties were the United States, Japan, and Europe (the European Community). In the nineties, these have been joined by China and a few newly industrialised nations like South Korea. Over the years, economic power itself has become multi-dimensional (i.e., GNP, size of foreign trade, population, technological capabilities, and control of strategic raw materials and natural resources). The energy sector remains at the centre of the world economy because of the nature of its markets and its profound impact on both the financial markets and macro-economic management policies. Of all sources of energy, oil retains its primacy as the lubricant of prosperity. The International Energy Outlook, released by the US Department of Energy in June 1995 has projected that the global demand for oil will surge to 88.7 million barrels per day (MBPD) by 2010, as against the 1992 figures of 66.7. The survey added that within Asia, while Japanese oil consumption would rise only moderately, it would almost double in the rest of Asia by 2010. Indeed, from 1948 to 1972, the demand for oil tripled in the United States and rose 137-fold in Japan. Now, the same pattern is emerging in other Third World regions as well. Over the next two decades, Latin American demand for oil will jump 74 per cent. In a global survey of energy in 1991, China emerged as the largest oil producer with a capacity of 2.81 MBPD and consumption of 2.40 MBPD. In effect, China was a net exporter of oil and it was estimated that the country had reserves for the next 22.6 years. However, given the rate at which the Chinese economy has been growing in the early 1990s, it is felt that the existing oil reserves would be grossly insufficient for fulfilling future demands. And if West Asia/Persian Gulf continues to be the primary source of oil, the strategic importance of this region will be further accentuated. A politico-religious melt-down in Saudi Arabia or Kuwait could have far-reaching economic consequences as much as a China that feels cornered in a global energy field characterised by overwhelming US hegemony in the Gulf. These may be hypothetical situations at present, but need to be considered while assessing future global economic trends wherein the oil sector plays a major role. At the same time however, the technological capabilities embodied in human capital and the vitality of various institutions, whether market or state, also continue to be decisive factors in assessing a country's relative economic power and therefore, the degree of its influence on the global economy. All these therefore, are important components of the contemporary economic scenario across various parts of the globe.

Post-war growth, especially of the market economies, was facilitated by the "Bretton Woods" institutional framework, that is, the International Monetary Fund, World Bank, the General Agreement on Tariffs and Trade, and the UN system. This institutional framework enabled rapid post-war reconstruction and spectacular growth of world trade as well as of national economies.
This system underwent a decisive transformation in 1994, when the loose network of rules was augmented to include areas till then reserved as the sovereign space of national governments. The concurrent transfer of these rules to the formal supervisory jurisdiction of the World Trade Organisation (WTO) created the third in a triad of agencies - the other two being the World Bank and the International Monetary Fund - that will oversee the global economy into the foreseeable future. As of now, the WTO is responsible for administering multilateral trade agreements negotiated by its members, in particular the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS), and the Agreement on Trade-Related Intellectual Property Rights (TRIPs). Total world trade in goods, services, and intellectual property stood at US$ 5 trillion in 1995, of which services and intellectual property accounted for over $1 trillion. The WTO’s rules and principles establish a set of disciplines regarding the regulatory framework in which this exchange takes place. The basic underlying philosophy of the WTO is that open markets, non-discrimination, and global competition in international trade are conducive to the national welfare of all countries.

As regards individual countries themselves, the Americans have been the undisputed international economic leaders of the post-Cold War era, enjoying continuous expansion for the last six years wherein unemployment and inflation have both fallen to historically low levels, at below 5 and 3 per cent respectively. With the largest, most diversified, and technologically advanced economy in the world, the American list of achievements include a total GDP of more than $7 trillion and a per capita GDP of $27,500, the highest among industrial nations. Second to the United States is Japan, with a GDP of $2.7 trillion and a per capita GDP of $21,300, followed by Germany with a GDP of $1.45 trillion and a per capita GDP (West) of $21,000 (comparable to Japan). The figures for Russia are a GDP of $796 billion, with a per capita GDP of $5,300. China’s GDP is said to total slightly above $3 trillion with a per capita income of only $2,900 but a real growth rate of about 10 per cent.

At the same time however, various other countries have been recording disparate levels of economic growth since the beginning of this decade. The direct outcome of this has been the increasing economic distance between the developed and developing countries, whether measured in terms of per capita incomes or technological capabilities. This issue therefore, is one of the key concerns in designing institutional and other reforms in the global economy of the post-Cold War period. As it is, this world economy has witnessed a revolutionary change in the last few years in which the “three world” categorisation has become somewhat a thing of the past with the collapse of socialism in the East European countries and the breakdown of the Soviet Union itself. On the other hand, the integration process of European Community (EC) has gathered tremendous momentum in Western Europe and is increasingly asserting its global significance. Even as the jockeying for power among the larger members of the community (i.e., Germany, the United Kingdom and France) continues, the EC has emerged as the third largest trading member of the international community.

Another important consideration for the present global economy is the pace of technological change. Many observers have argued that we are in the midst of the "third industrial revolution" driven by informatics, genetics, new materials, and space technology. Not only is the pace of change rapid, but it is also likely to lead to shifts in economic leadership among countries. These shifts, coupled with the multi-polar nature of the world economy, will be reflected in considerable
instability in international financial markets. This implies greater exchange rate movements where real exchange rates move sharply within a short period and consequently, destabilise the world economy. Most of these technological developments are probably concentrated in the developed countries, and the rate of diffusion of the new technologies to the developing countries will depend on the technology policies adopted by the developed world. In a number of important technologies, the policies of many developed countries have been restrictive. Hence, it is not clear whether the technological distance between the developed and the developing countries will decrease in the forthcoming years.

Furthermore, almost all the national economies have become more open in the nineties. International exchanges in national economic activities are increasing and there is far greater interdependence among national economies. This is occurring not just in the goods sector, but in the services sector as well. For example, financial markets are now truly more globalised, and the volume of world trade in financial instruments in the capital markets is far ahead that of goods. This international movement of capital across national boundaries has increased the role of asset markets in the global economy, leading to further integration of national economies. Thanks to the communications revolution, there is now a greater convergence in consumer preferences, and the lure of new goods has become global. This will also affect the development patterns of developing countries and thus, the world trade in the coming years.

There are certain other significant issues facing the world economy in the nineties. One is solving the external debt crisis of the developing countries in a way that enhances their growth. Another pertains to meeting global environmental concerns like global warming, ozone layer depletion, and the control of nuclear and other hazardous wastes. Then there is the question of transnationals. The role of transnationals has increased tremendously during the past two decades or so. Take-overs and mergers of companies across national boundaries have also multiplied. Within the multilateral institutional framework, the operations of transnationals have been the powerhouse of the world trade and investment flows. However, there are a number of negative features of the operations of transnationals like restrictive business practices, transfer pricing, and their blatant political role in several developing countries. Further, it is also said to be leading to growing cartelisation of world trade, that is, an increasingly fewer number of actors dominating the underlying economic process. Consequently, the transnationals will have an even greater say in the global economy, whether in manufactures, services, or communications. These economic agents have little respect for national boundaries and national objectives, especially of the developing economies. This will also reduce the power of the interstate organisations. In other words, the market will increasingly dominate the state and since market failures occur frequently, this development does not augur too well.

And finally, the fluctuating trade relations between the major global actors are an important feature of the post-Cold War era, and need to be constantly monitored. With the end of the Cold War, the world's top industrial powers are turning their invisible eyes and ears on each other to get ahead in the war of global economics. Many military allies of the United States have now become economic rivals. Former CIA director, William Webster was quoted in 1991 as saying that "economic security is a part of our national defence". His nominated successor Robert Gates, told the US Senators that "some of our allies in the Cold War are now at times, serious adversaries in the global market place". In fact, many officials in Washington believe that
liberalisation of the world economy could lead to new national security risks. This is because the US as the only remaining superpower, is highly dependent on Japanese and European capital to finance its trade and fiscal deficits. Yet, the American administration has been plagued by a host of trade-related conflicts with Japan and China. The US leadership has been repeatedly trying to persuade Japan to accept numerical targets that would reduce its growing merchandise trade surplus with America. The troubled US-Japan relations have often faced critical phases, with Washington occasionally threatening punitive tariff on Japanese exports into the United States. The Americans believe that Japan often engages in unfair trade practices, seeking to restrict US exports into Japan through a range of non-tariff barriers. For instance, American car manufacturers are believed to be unable to enter the Japanese automobile industry in a big way because of an unholy nexus between Japanese car-makers and their local dealers to keep out foreign competition. Therefore, the US is pressing for greater access to car dealerships in Japan to tap the Japanese market. Whether it is cars, auto parts, or other American products, Washington wants Tokyo to help correct recurring US trade deficit with Japan, estimated in 1995 at about $60 billion. Japan, however, cries foul because it would amount to "managed" trade and hence violative of free trade principles. As a major power of its own reckoning until being finally hit by the recent Southeast Asian financial crisis, Japan has so far been in no mood to submit to American dictates. Coupled with contradictory arguments from both sides, it is no wonder that Japan and the US are unable to reach any sustainable agreement on trade. The American foreign policy is also believed to be based on a long-term self-interest: "the need for an expanding world trade and commerce, to maintain expansion at home, more so, when Japan is usurping a fair portion of the US exports in durables and high-tech exports". 

Similarly, the trade war between the US and China has continued over the past few years, though in varying degrees of intensity. In fact, an American report of July 1995 strongly asserted that "US-Chinese trade relations are terrible and likely to get worse". Since then, China's mounting trade surplus with the U.S. has been clouding its economic image in America. According to U.S. data, America will run a $60 billion trade deficit with China in 1998. That's widened from $50 billion in 1997 and $40 billion in 1996. The Chinese have had a long-standing grievance against the US about the latter blocking Chinese entry into the World Trade Organisation (WTO) as a founder-member. In 1995, the US and China narrowly averted a major trade war over the issue of intellectual property rights before reaching some sort of an agreement. As of now, China does not look ready to make the final concessions that Washington is demanding before it supports China's entry into the WTO; these include opening China's service sector to U.S. firms and exposing its hidden subsidies to state-owned enterprises. China wants WTO membership to insulate its exports from rising protectionism in the West, but is still manoeuvring for the best terms. As a result, the June 1998 summit between Clinton and Zemin has done little to resolve the WTO issue. It may be mentioned here that most of the developing countries have also been at loggerheads with the economic elites over the trade-related aspects of intellectual property rights, since they feel that these aspects will create enormous difficulties in obtaining the latest technology from industrialised nations. Indeed, another peculiar aspect of the contemporary international scenario is that the aforesaid major economic powers have often put aside their differences in order to tackle an issue of common interest - which may or may not favour other lesser players.
Very often therefore, one finds major strategic alliances and partnerships between economic giants that are at other times, at conflict with each other! For instance, the American administration cannot really afford to antagonise China economically because it often needs Chinese support on various politico-security issues, at both the regional and the global levels. The US requires China's co-operation at least to the extent of not casting its veto against its moves in the UN Security Council. Chinese support to America and its allies regarding the permanent extension of the Non-Proliferation Treaty is a good example here. Additional impetus comes from the fear of losing ground in the lucrative Chinese market to European competitors whose governments habitually wait (this is true of the trade negotiations with Japan, too) for the American battering-ram to provide openings. To quote an example, in early 1996, following a mild and temporary US embargo, an enraged Beijing trumpeted a billion dollar deal with France's Airbus Industries, Boeing's rival, sending American aviation industry into a depression. 11 Little wonder then, that China retains its most favoured nation (MNF) status year after year and literally forces America to delink trade and human rights issue despite Clinton's periodic criticism of China's human rights record! Even less surprising therefore is the fact that the October 1997 trip of the Chinese President to the US was adjudged a resounding success in terms of further cementing Sino-American trade ties. And that it was followed up by an equally trumpeted visit by Clinton to China in June 1998, the first such visit by an American President since 1989. Thus, even as profound difference keep buffeting China-U.S. relations, the leaders of both countries are more determined than ever, to come together on a common politico-economic plank and to build up what they call 'a strategic partnership'. 12

Japan, too is finding it increasingly necessary to forge closer ties with America and its allies. The other global elites also expect Japan to contribute more openly to international security through finance, personnel and technology. Such endeavours are being gradually initiated by the hitherto "sleeping partner of the US". 13 A Japanese trade official summed up the situation by remarking that "It is not desirable for the US to be at odds with either Japan or China. It is not good for the Asia-Pacific region or the World Trade Organisation at large". 14 Moreover, the consequences of a full-fledged trade war among the world economic powers would be too awful to contemplate. For instance, the Japanese could shut down the US auto industry, which is dependent on some Japanese parts. By dumping the US Treasury bonds they have bought heavily, the Japanese could also drive up American interest rates disastrously. In retaliation, the US, by clamping down hard on the $119 billion of Japanese exports every year, could drastically deepen Japan's current economic woes. 15 These spectres would, and often do, push these economic powers to find amicable solutions and even work collectively for increasing their share in the global markets. Furthermore, these powers are always keen to establish and promote their vested interests in the lesser-developed parts of the world. This is due to the tremendous potential in the lesser developed countries for providing free markets, abundant raw materials, and cheap labour facilities. For example, countries in the Asia Pacific-Indian Ocean region accounted for about 39 per cent of the world trade in 1991, and 47 per cent of the world's output in the same year. 16 Hence, unleashing the untapped potential of such nations is a major uniting force for the otherwise global economic rivals.

A major challenge for these industrialised big-wigs is to collectively sustain an open, market-oriented world trade and financial order. Further, they are expected to integrate into such an order, those countries that are turning from state controls toward market capitalism. As it is, America
and its allies are worried that Third World debt problems could lead to political instability in some countries, threatening pro-American regimes which provide unimpeded access to natural resources for the industrialised North. There is also concern that a liberalised international economy will make business transactions easier for those involved in the international drugs, arms, technology-transfer and nuclear deals. All these issues constitute a major part of the world economic scenario. Further, on their part, the global economic powers justify their so-called hegemony over formulation of contemporary economic priorities by stating that these issues have been identified in response to the welfare demands of entire mankind. In the present circumstances therefore, the issues of poverty, unemployment, inflation, economic disparities, over-population, agricultural stagnation and unplanned industrialisation are also placed high on the global agenda.

Indeed, these problems continue to plague the world economy even more persistently than before. In its Trade and Development Report of 1994, the United Nations Conference on Trade and Development (UNCTAD) had voiced serious concern over the continued poor show of the world economy in recent years and warned that it is emerging from recession at "a much slower rate than is normal for a cyclical recovery and even below the sustainable long-term growth rate". The UN body also said that adjustments in monetary policy in advanced countries alone would not solve the "persistent inadequacies in the pace and pattern of demand creation". Calling into question the consensus on macro-economic policies widely evident within leading-multilateral development and monetary institutions like the IMF and the World Bank, the Report commented on the continued neglect of the importance of effective demand. The persistent deficiency of global demand has sparked off the "mistaken and mercantile notion" that countries should seek growth by improving their overall competitiveness vis-à-vis other countries. While one country could improve its global competitiveness and growth performance, that is not possible for all the countries taken together. Global demand deficiency is a recipe for waste, unemployment, depressed commodity prices and conflicts among nations. 17

The Report further stated that with its freedom of manoeuvre with regard to other industrialised countries that are no longer constrained by political imperatives of the Cold War, the United States seemed poised to pursue policies to strengthen and defend its own global economic position. The US industry has been regaining competitiveness globally due to high productivity growth and a relatively cheap dollar. Now that the Cold War is over, it is said that Washington is reaffirming to the world that "in foreign policy, the business of America is business". As former Secretary of State, Warren Christopher remarked in early 1995 that "I make no apologies for putting economics at the top of our foreign policy agenda". 18

As regards the other economic giant and America's foremost trade rival, the UNCTAD Report had warned in 1994 itself that unless Japan offsets its tendency towards under-consumption and reduced its dependence on exports, its unemployment rate might rise to reach US levels within the next few years. This would also lead to other related economic problems. As it is, Japan has been facing several economic crises of varying intensities over the past few years such as closed markets, high prices and officious, meddling government bureaucracy. Nonetheless, Japan recorded the fastest industrial expansion in both 1993-94 and 1996, consequently retaining its status of the world's second most powerful economic giant. Japan also managed to brave the regional crisis that hit most East Asian economies in mid-1997, either by alienating itself from
the situation or as one report pointed out, outright ignoring its own shortcomings and impending
doom. 19 But on June 12, 1998, the Japanese government finally conceded that the world’s
second largest economy has sunk into a recession - the first one it has acknowledged in 23 years
and the worst in the post-war era. Simultaneously, the Japanese authorities have also expressed
concern that their plummeting currency could pose a serious challenge for the global economy
that is still trying to recover from the shock of East Asia’s recent slide. Officials said that the
economy had contracted 1.3 per cent in the first three months of 1998 from the previous quarter -
a stunning annual rate of 5.3 per cent. Such dismal performance, weaker than most economists
had expected, underscored the risk that a recession in an economic giant like Japan - with an
economy twice the size of the rest of the Asian economies put together - could further damage
conditions around Asia and spread the economic virus from Asia to the United States and Europe.
20 It now remains to be seen how far these ominous predictions will come true and to what
extent will they disrupt the global economic scenario.

The latest UNCTAD Report of 1997 is not unduly heartening either. It explains how the big story
of the world economy since the early 1980s has been the unleashing of market forces. The
deregulation of domestic markets and their opening up to international competition have become
universal features. The ‘invisible hand’ now operates globally with fewer countervailing
pressures from governments than for decades. Many commentators are optimistic about the
prospects for faster growth and for convergence of incomes and living standards which greater
global competition should bring. However, there is also another big story. Since the early 1980s,
the world economy has been characterised by rising inequality and extremely slow growth.
Despite the success in reducing inflation almost everywhere, expectations of faster growth have
not been fulfilled so far. Since the beginning of the 1990s, world output growth has averaged
about 2 per cent, compared to the roughly 3 per cent attained during the turbulent years of the
1980s. Since the economic recovery started in 1993, in no year has world output growth exceeded
3 per cent, 1996 included. Furthermore, much of the global economic growth until early 1997 has
been due to East Asia, where expansion was fast and stable. Latin America and Africa have been
the poorest performers in this regard. World trade is also found to have registered a sharp
decrease over the past two years, primarily due to a weakening of non-oil commodity prices.
Income gaps between North and South have also continued to widen. In 1965, the average per
capita income of the G7 countries was 20 times that of the world’s poorest seven. By 1995, it was
39 times as much! Polarisation among countries has also been accompanied by increasing income
inequalities within countries. In more than half of the developing countries, the richest 20 per cent
today receive over 50 per cent of the national income. Those at the bottom have failed to see real
gains in living standards, and in some cases have had to endure only losses. In many countries,
the per capita income of the poorest 20 per cent now averages less than one-tenth that of the
richest 20 per cent. 21

According to the UNDP’s Human Development Report of 1997, more than a quarter of the
developing world’s people still live in poverty as measured by the human poverty index of the
organisation. About a third - 1.3 billion people - live on incomes of less than $1 a day. Taken
together, South Asia, East Asia, Southeast Asia and the Pacific have more than 950 million of the
total people who are income poor. Sub-Saharan Africa has the highest proportion of people living
in acute poverty. In Latin America and the Caribbean, income poverty is more pervasive than
human poverty - affecting 100 million people - and it still continues to grow. Furthermore,
Eastern Europe and the countries of the Commonwealth of Independent States (IS) have seen the greatest deterioration in the past decade. Income poverty has spread from a small part of their population to about a third - 120 million people below a poverty line of $4 a day. Even in the industrialised countries, more than 100 million people live below the income poverty line, set at half the individual median income. Thirty-seven million are jobless. Within these broad groups, women, children and the aged continue to be the hardest hit. And some of the most ominous signs for the future include the continuing conflict in 30 countries, most of them in Africa; slowing advance in key areas such as nutrition; and the rise of new global threats such as HIV/AIDS which demand diversion of massive chunks of the global economy in order to face/fight them. Nonetheless, there have been a few positive developments on the international economic scenario which ought to be elaborated under this section. First, the ending of the Cold War has opened the possibility of releasing resources that can be made available for making a successful transition, particularly in the developing and the socialist countries. The peace dividend may boost the global savings and investment. Second, the new technological revolution can give both the pioneers and the late-comers more options to accelerate their growth rates. Third, the coming soft oil markets of the 1990s can also boost the world economy. Finally, the economies of East Asia, India and China can provide momentum to the world economy.

It is hoped that the Chinese economy will achieve growth acceleration in the next few years due to its internal cohesiveness and proven ability to pursue clear objectives with pragmatic economic policies. Indeed, since 1996, China has been caught in the throes of achieving quick economic growth to catch up with the West. Wide-ranging reforms announced in early 1994 were implemented in 1995 and 1996. "Kai ge" (economic reform) and "Kai Fang" (opening up) have now become the country's new buzzword. Capitalism is being used to bolster socialism and pragmatism is the new state ideology. In the fifteen years since China's economic liberalisation was institutionalised, its GNP has grown at an annual average rate of nine per cent. There was a brief setback after the Tiananmen Square incident of 1989, but in recent years China's growth has been racing at an average of 13 per cent. Besides, being an immense country with a population of around 1.2 billion, any dramatic transformation in its economy will certainly go beyond its borders. It will also determine China's security and foreign policy in the future, affecting in particular the Asia-Pacific region. In recent months, China has boosted its economic status by pitching in to stem Asia's financial troubles by keeping the renminbi firm. America and its allies have now started viewing China not only as a market but as 'an island of stability', in the words of U.S. Treasury Secretary, Robert Rubin.

In South Asia, India is believed to inhere tremendous economic potential. Despite the recent economic sanctions imposed against by America and some other major global powers on India following its nuclear tests of May 1998, most analysts feel that this is only a temporary setback to India's economic progress. It is opined that the quantum and pace of foreign direct investment in India will prove more responsive to New Delhi's economic policies at the ground level than to any other factor. As regards East Asia, John Naisbitt in his "Mega Trends 2000" has identified ten mega-trends of the millennium leading to the twenty-first century - among other things, these also include the growing economic clout of the countries of the Pacific Rim. Deservedly therefore, an in-depth analysis of economic developments in South Asia and the dynamic nature of the Southeast Asian countries follows next.
2.2. South Asia's Compatibility with these Issues

The Asian continent has been the most dynamic area during the past three decades and a major engine of global economic growth. During the 1980s, a period when Latin America and Africa barely grew at all, Asia's economic growth averaged 7.5 per cent. Including Japan, the group now produces almost a fifth of the world's national product and accounted for 18 per cent of world trade in the beginning of this decade. It is hardly surprising therefore that the US and other major global economic powers have been increasingly interested in the Southeast Asian region. Against this backdrop, which will be discussed in detail in the next section, it becomes necessary to evaluate South Asia's contribution to the Asian success story. As obvious from the earlier statement, all the economic prowess of the continent has been more or less concentrated in the Southeastern countries, collectively and better known as the members of the Association of South East Asian Nations (ASEAN). Even a cursory glance reveals that no two neighbouring regions are as diverse as Southeast and South Asia.

Viewed from either the global or the regional perspective, South Asia provides a disappointing picture in every social, economic and political context. This is due to the fact that South Asia is almost perpetually plagued by conflicts and crises, either at the state or the inter-state level. Practically every South Asian country experiences internal conflicts based on myopic considerations of caste, class, community, language, ethnicity, religion and the like. These exploitative forces disrupt the national unity and integrity of the affected states. Moreover, preoccupation with domestic problems renders these states highly vulnerable to external threats and interferences which also challenge their sovereignty. The cumulative outcome of all this is a greater tendency of South Asian states to engage in inter-state regional conflicts with each other. To quote an example, discontent and frustration among certain sections of the Indian population over the effectiveness of governmental order and welfare measures has adversely affected the legitimacy of the Indian polity. This emboldens subversive forces both within and outside the country to exploit the national inadequacies. As a result, the internal crises of the country often find external manifestations as inter-state regional conflicts. One of the causes of the conflict with Pakistan has been the disillusionment of Kashmiri Muslims with socio-economic and political policies of the central government and hence, their support to Pakistani terrorist activities in the Kashmir valley. Likewise, India's problems with Sri Lanka are an external projection of the frustrations of certain Tamilians in the southern parts of India. Such trends are indeed, shameful in view of the fact that following the end of the Cold War and the collapse of the Soviet Union, political commentators had started assuming that India would rise to be the most powerful actor in the Indian Ocean region (refer to Sandy Gordon's arguments in "India's Rise to Power in the Twentieth Century and Beyond"). India, in contrast, is now perceived to be burdened by political chaos, economic crisis and regional instability. Far from being a new power in the Indian Ocean region, it is feared that the country is in the danger of breaking up!

Taken collectively, though the governments of India, Pakistan, Bangladesh, Sri Lanka and Nepal have been making efforts to improve their socio-economic conditions through democratic means, these attempts have been often frustrated against the background of colonial rule and societies behest by extraordinary religious, ethnic, and linguistic complexity. Among the issues related to welfare, the most important concerns of South Asia include limiting population growth, raising literacy levels, and addressing environmental degradation. South Asia today contains 20 per cent
of the world's population. At present levels of growth, the most recent World Bank projections for the year 2025 put India's population at 1.3 billion, Pakistan's at 244 million, Bangladesh's at 180 million, Nepal's at 38 million, and Sri Lanka's at 24 million. These high rates of population growth threaten to undermine the benefits of economic development as well as advances in agricultural productivity, and place massive pressures on the land and its resources. With a substantial population living below the poverty line in most of the South Asian countries (one-third, in the case of India) and with extremely low Physical Quality of Life Indices (39 for a well-established democracy like India), none of these nations can really afford added detriments to their overall growth and progress. In fact, the South Asian region contains more people living in absolute poverty than any other region of the world. In terms of providing for these people, the nations of the region are required "to run in order to stand still!" The migration of the landless into cities exacerbates urban environmental problems and creates opportunities for socio-political unrest. Moreover, the movement of people across the subcontinent's borders in search of food and employment causes friction within and between the regional neighbours. Further, despite some improvements in the past four decades, the literacy rates remain disappointingly low throughout most of South Asia, especially for females and in the rural areas. The overall adult literacy rate for India is an estimated 48 per cent, for Pakistan and Bangladesh about 35 per cent, and for Nepal 26 per cent. High illiteracy rates stifle family-planning efforts, limit farmers' ability to utilise technological improvements, and reduce labour efficiency in the general manufacturing sector. Only Sri Lanka has achieved solid success in improving literacy, with literacy rates close to 90 per cent.

According to a 1997 Report of the Human Development Centre, South Asia is fast emerging as the poorest, the most illiterate, the most malnourished, the least gender-sensitive - indeed, the most deprived region in the world today. And yet it continues to make more investment in arms than in education and health of its people. The per capita GNP of South Asia ($309 in 1993) is lower than any other region in the world. To reiterate a statement made above, nearly 40 per cent of the world's poor live in South Asia. While the region contains 22 per cent of the world's population, it produces only 1.3 per cent of the world's income! The adult literacy rate (48 per cent) in South Asia is now the lowest in the world. Its share (46 per cent) of the world's total illiterate population is twice as high as its share of the world's total population. There are more children out of school in South Asia than in the rest of the world, and two-thirds of this wasted generation is female. According to a recent UNICEF study, the worst-affected region for malnourished children is South Asia, not Sub-Saharan Africa! Half the children in South Asia are underweight, compared to 30 per cent in Sub-Saharan Africa, despite the much higher GNP growth rate and a more robust increase in food production in South Asia. Furthermore, South Asia's Gender-Equality Measure (GEM), prepared by UNDP's Human Development Reports to reflect economic and political opportunities open to women compared to men, shows the lowest value (0.235) among all the regions in the world. South Asia is also the only region that defies the global biological norm, with only 94 women for every 100 men (instead of 106 women to 100 men as in the rest of the world), so that 74 million women are simply 'missing'! The extent of human deprivation in South Asia is also colossal. About 260 million people lack access to even rudimentary health facilities; 337 million lack safe drinking water; 830 million have no access to basic sanitation facilities; and over 400 million people go hungry each day. Despite all this, South Asia is also one of the most militarised regions in the world. The widespread human deprivation contrasts sharply with large armies, modern weapons, and expanding military budgets in the
region. Indeed, two of the largest armies in the world are in South Asia and it is also the only region where military spending (as a proportion of GNP) has gone up since 1987; it declined substantially in all other parts of the world after the end of the Cold War. 28

Environmental degradation in South Asia is analogous to the region's population problem apart from having several negative socio-economic and politico-security implications. The dependence of the poor regions of South Asia on their natural resource base, such as soil, water, forests and fisheries is self-evident. And yet, environmental abuse is rampant here to unbelievable degree. Deforestation (a particular problem in Sri Lanka and Nepal), soil erosion, droughts (as in Bangladesh and certain parts of India), floods (as frequently experienced in Bangladesh due to siltation of rivers and channels), and urban pollution (New Delhi, the capital of India being the third most polluted city in the world today and even hitherto clean environs like those of Nepal becoming increasingly polluted) have often undermined economic growth, depleted food supplies and caused socio-political instability in South Asia. As per statistics, the region is also losing a considerable amount of productive land due to water-logging and salinity. In India alone, over three million hectares are believed to be affected by salinity and up to 8.5 million hectares by water-logging. Nearly five million acres of forests are cut down each year in South Asia, with only feeble efforts at reforestation. Fresh water resources are being depleted at a rapid rate - by as much as one-third in Pakistan during the 1980s. Moreover, such problems also have "spill-over" ramifications for the region (like aggravating global warming and depletion of the ozone layer). And most of these environmental problems finally link up with the desperate poverty of people in South Asia; for want of any viable alternatives for sustaining their livelihoods, they have no choice but to denude and destroy the very land, forests and water resources that they live on - little realising that these resources are not ever-lasting! 29

Furthermore, South Asia is an area of tremendous political complexities. Certain South Asian states like Pakistan and Bangladesh have been largely ruled by authoritarian, military rulers. In fact, the former has had the dubious distinction of being labelled as a "Garrison state" due to its lengthy trysts with military regimes. Even today, though Pakistan claims to be a democracy, in reality there are irreconcilable differences between the democratically-elected Prime Minister and the President who is backed by the military-bureaucratic junta. As in the case of Bangladesh, Pakistan's military intelligence agencies (like the dreaded ISI) reportedly exercise a crucial influence over the country's national and international affairs. The 1996 military upheavals in Bangladesh just prior to the crucial parliamentary elections, which were expected to end the country's long-running political crisis, can also be quoted to cite the complex struggle between democratic and undemocratic forces in the region. The election of democratic governments in South Asia had accompanied raised expectations by citizens of the region for a better life (related to the imperative of welfare). Hence, failure by elected governments to deliver economic and social benefits sought by the citizens has repeatedly undermined the faith in democracy (and subsequently the legitimacy of the system) in South Asia. In Nepal, for example, it has been felt that the new, democratically elected government is not producing any better results than the old royal regime, and that corruption is widespread and growing. Besides, ethnic and religious conflicts are posing major threats to the democratic governments of the region. In addition to creating law and order problems, increased human rights violations, and a heavy reliance on security forces (all indicators of dysfunctionality of the order imperative), such conflicts divert the attention and resources of governments from urgent socio-economic needs, undermining their
ability to satisfy the demands of the electorates (that is, again the question of legitimacy). In South Asia, the problem of civil violence has in recent years emerged as a more serious security issue than the problem of inter-state warfare. India has been variously preoccupied with quelling conflicts in the states of Punjab (due to the separatist demands of the often-violent Akali community), Kashmir (an issue which remains contentious between India and Pakistan, and has certain religious, ethnic, psychological and economic underpinnings) and the North east (stemming from ethnic and regional movements in Assam, Nagaland, Mizoram, Tripura, etc.) The law and order situation is insecure in most of the rural areas and the Indian government spends nearly $9 million per day to maintain about half a million security forces in Kashmir alone! Moreover, the Indian government announced a huge increase of 21 per cent in the country's defence spending for 1990-91.

Similarly, Sri Lanka's democracy remains overshadowed by the Tamil-Sinhalese ethnic conflict and frequent outbursts of Sinhalese militancy. These conflicts have stymied the government's economic reform efforts and polarised political debate. In Pakistan, the society faces sporadic bursts of violence emanating from ethnic, sectarian and religious differences in its diverse community. For instance, the conflict in the Sindh province between ethnic Sindhis and those residents who migrated from India following partition has made the province, specially its capital, Karachi, ungovernable. Conservative religious elements are also very powerful in Pakistan, leading to tensions and conflicts over religious fundamentalism, which has also played a major role in sustaining the Indo-Pakistan altercations over Kashmir. Religious orthodoxy is evident in Bangladeshi society as well, manifesting itself in attacks on women's groups, prominent non-governmental organisations (Bangladesh Rural Advancement Committee and the Grameen Bank), and the intellectuals (like Taslima Nasrin). In Sri Lanka, religious chauvinism, intensified by the corrosive effects of years of civil war, is powerful and erodes the tolerance that is imperative for maintaining the country's democracy. All this can largely be attributed to the fact that political and governing institutions in most of the South Asian countries are weak, while the political parties themselves lack vigour, organisation, discipline, and commitment. The condition can be best summed up in the words of J.K. Galbraith when he sought to explain the Indian polity as "a functional anarchy"! Further details of such socio-economic and political imbalances are also provided in the 1995 Report of the Commission on Global Governance.

The above-mentioned factors have only served to aggravate tensions and conflicts in South Asia, thereby further retarding the economic development (through lack of adequate welfare facilities) in the region. This was succinctly put by the former Indian Prime Minister, P.V. Narasimha Rao while addressing a large gathering in home-town Andhra Pradesh in early 1995: "No one will give us loans if there is instability. Only a stable government will have creditworthiness". But taken individually, each of the South Asian states suffers from some kind of instability and consequently, projects varying intensities of human deprivation. In India, 291 million adults are still illiterate and 45 million children were out of primary schools in 1995 alone. 44% of the total population lives in absolute poverty and nearly one-third of the world's poor live in India! About 135 million people are denied access to primary health care, 226 million are without safe drinking water, and 640 million have to make do without basic sanitation facilities. Though crude death rate has been halved from 21 per 1000 in 1960 to 10 in 1994, infant mortality is still widespread, particularly targeting the female child. The per capita food production increased by 23% between 1980 and 1993 but there are still 62 million malnourished children under the age of five. And
nearly one-third of the children under 16 are forced into child labour. In the face of all this, India was ranked first in arms imports but 147 in per capita income between 1988 and 1992.

Likewise, Pakistan's social and human indicators also make very dismal reading. In the context of development, the governments in Pakistan are said to be up against a crisis that has four features: wide-spread poverty; rapid and unplanned urbanisation; rising debt; and rapid erosion of the natural resource base. Over two-thirds of Pakistan's adult population is illiterate and there are 740,000 child deaths a year, half of them linked to malnutrition. Pakistan is also experiencing one of the fastest rates of urbanisation in the developing world which may result in the urban population exceeding the rural by the turn of the century. At the same time, the population growth rate at around 3% per annum is the highest in South Asia. According to long-term UN projections, Pakistan will emerge as the third most populous country in the world by the year 2050. Already, 36 million of the population live in absolute poverty. More than half of the cultivable land in the holdings of 50 acres and above, is in the hands of big landlords, thereby encouraging the rich-poor divide to further widen. Despite enjoying the privilege of an elected female Prime Minister for a few years, the status of women in Pakistan is very low. Apart from being subjected to subjugation through several orthodox customs and traditions, female mortality is disproportionately high in Pakistani society. And against 100 males, only 16 females are economically active - the lowest ratio in the SAARC region. Likewise, the share of women in Parliament is also the lowest in South Asia. While the overall state of human development is poor, widespread regional disparities make the situation even worse. For instance, the adult literacy rate ranges from 17 per cent in rural Baluchistan to 50 per cent in urban Punjab, and 52 per cent in urban Sindh. The female literacy rate in rural NWFP is only 5.4 per cent, and lower still at 3.2 per cent in rural Baluchistan, compared to 41.3 per cent in urban Sindh. Overall, urban Sindh has the highest Human Development Index (0.537), comparable to Zimbabwe, but rural Baluchistan has the lowest HDI (0.388), at par with Zaire. These regional disparities also indicate that the task of national integration in Pakistan is difficult since it requires both a major investment in accelerating the pace of human development as well as ensuring a special emphasis on less developed regions, particularly in rural areas. At the same time, the treasury is worse off than broke - it owes roughly $30 billion to domestic creditors and another $30 billion abroad. Graft is so shameless that Transparency International, the German-based monitoring group, has named Pakistan as one of the five most corrupt countries in the world. 31

Bangladesh is the youngest state in South Asia. And yet, it has already undergone a number of political vicissitudes, social upheavals, natural disasters and economic crises. Indeed, the country has been fraught with political crises and instability ever since its inception! The state has been too divided over issues of ideology and national identity to enforce its authority impartially; the structures of state authority such as the police force, the intelligence branch and to an extent, the judiciary, have been weakened by political interference; and civilian institutions such as educational establishments have constantly faced unwarranted intervention of unscrupulous political elements. The latter tendency has led to periodic unrest and other forms of political violence, further exacerbated by the struggle between the forces of religious extremism and secular liberalism. All this has been contributing collectively to a crisis of governance in Bangladesh. As regards the overall indicators of human development, 52% of the Bangla population survives below the absolute poverty line and nearly two-thirds of all adults are illiterate. There is only one doctor for every 12,500 people and two-thirds of all under-five deaths
are attributable to malnutrition. 50% of the infants are born underweight, against the average of 19% in developing countries. According to a 1996 UNICEF Report, the proportion of malnourished children in India and Bangladesh is said to be significantly higher than even the poorest countries of Sub-Saharan Africa! The population density of 800 persons per sq. km. in Bangladesh exceeds that of all major countries. It even surpasses the density that would result if the entire population of the world moved into the territory of the United States! And yet, military holdings (total military equipment of all descriptions) have gone up by 122% in less than a decade. This is truly appalling in view of the fact that the most tenacious problem in Bangladesh is that of mobilising sufficient resources for human development and using them effectively.

Campaigning in early 1996, the Awami League leader Sheikh Hasina Wajed asked Bangladeshis to forgive past governments' mistakes and put their faith in her. She promised to reform the economy and eliminate rampant corruption and lawlessness. That June, the Awami League won a slim majority over the ruling Bangladesh nationalist Party - its first since Hasina's father, the nation's founder and president, Sheikh Mujibur Rahman, was killed in 1975 by a group of army officers. The result came as a relief after more than a year of economic and political paralysis caused by League-led strikes and an election boycott. At last, many believed, impoverished Bangladesh would have the stability to develop economically and to exploit resources such as its abundant natural gas. But all these turned out to be false hopes.

According to a June 1998 report, the corruption, violence and political infighting that defined previous governments have only escalated. Government-backed thugs extort from local businessmen, intimidate judges and threaten political opponents; public dissent is quickly snuffed out; and the incidence of human rights abuses is increasing. As a result, Bangladeshis and the country's international backers have begun to cry foul, putting foreign investment, international aid and even the survival of the present government into question. Although foreign investment continues to pour in, analysts say it could be much greater if the government could quell instability and carry out the desperately needed reforms. Many potential investors are said to have backed out of Bangladesh due to the bureaucracy, corruption and a lack of basic infrastructure. For now, donors continue to give a 'benefit of doubt' to government promises of further reforms, the European Commission's ambassador to Dhaka, Michael Drury, said recently. But when the World Bank-led consortium meets later in 1998, he added, 'a cosmetic dress up' will not be accepted. So far, the World Bank, which normally pledges around $2 billion annually in fresh aid, has made no promises for 1998-99. This is worrisome for Bangla authorities in view of the fact that according to the government's 1998-99 budget, released in early June 1998, 56% of developmental projects are slated to be paid for through $3 billion in aid. However, unless the ruling elite makes amends vis-à-vis ensuring stability and growth in the coming months, the country's future continues to look bleak.

Nepal is one of the least developed countries in the world, with an extremely low income and very poor human development indicators. 74% of its population is illiterate and over 40% of the population lives below the poverty line. About four-fifths of the total population is deprived of basic sanitation and more than half has no access to potable water. Stunting occurs in two-thirds of all children in Nepal. Though the earned income share of women in Nepal is 26%, one of the highest in the SAARC region, ironically, Nepal is also one of the only two countries in the world where males live longer than females! Furthermore, despite a vigorous growth rate, the current level of per capita income is only $190, the lowest in South Asia. And finally, there are more
soldiers (35) per doctor in Nepal than in any other country in the region. Some of these problems can be explained due to the fact that despite Nepal’s commendable democratic transition, the reality is that a small minority still exercises a virtual monopoly over the highest positions of power and profit. Moreover, following the recent political confusion in Nepal, it has been aptly remarked that democracy in this world’s sole Hindu kingdom has turned out to be such a multi-party menage that popular mandate has little to do with the governments formed by elected legislators. Thus, human development in such a situation is both erratic and highly selective. 34

Sri Lanka poses a baffling dilemma. Its human development indicators are among the highest in the world, often surpassing those achieved in the more prosperous regions of the developing world, and sometimes even the human progress made in the industrial nations. Currently, Sri Lanka has a population growth of 1.5 per cent compared to the average of 2.3 per cent for South Asia; its adult literacy rate at 90 per cent is one of the highest in the developing world; basic health facilities are available to 93 per cent of the population; and life expectancy at 72 is 11 years longer than the South Asian average of 61 years. These impressive figures are a result of a conscious policy effort of successive governments to invest in social development over the past five decades. And yet, a substantial part of the population is dissatisfied and the country is being systematically ravaged by never-ending ethnic tensions. The simmering tensions between the Tamils and the Sinhalese which began in the 1950s, exploded into open violence in the 1980s and have turned the country into an ungovernable mess ever since. Much of this stems from the serious imbalance between economic growth and human development in Sri Lanka during its formative years. The earlier governments also made the fatal mistake of extending certain social benefits to society on a discriminatory basis and not addressing the grievances of the minorities seriously enough. These mistakes have still not been rectified and it seems that it will take a long time for future governments to effectively tackle this malaise. Recent reports have repeatedly suggested that Ms. Kumaratunga has lost much of her shine insofar as her peace proposals to end the bloody ethnic war in the island have remained just a package. Meanwhile, attacks by the LTTE at soft targets in the capital city have turned Colombo into a citizens’ nightmare - security checks, road blocks and arrests of minorities have disgruntled the Tamils and eroded much of the goodwill the President once commanded. No wonder then, that an average citizen of Sri Lanka had little to rejoice when the country celebrated fifty years of its independence on February 4, 1998. 35

The relatively insignificant states of Bhutan and Maldives present a mixed bag of successes. After several experiments, recent years have seen Bhutan being relatively peacefully governed by a monarch who is assisted by a National Assembly of elected representatives of the people. The country also takes great pride in its self-imposed isolationist policy (implemented until the early 1960s), which enabled it to keep intact a unique cultural heritage and a substantial degree of political independence. Nonetheless, given its size and geographical considerations, Bhutan has had to accept a great deal of policy influence from both India and China, the former exercising greater control than the latter. Though there is a dearth of credible empirical data on Bhutan’s socio-economic development, the following points are noteworthy for the purpose of this research. Though two-thirds of the population enjoys access to some form of health services, Bhutan’s crude death rate of 15 per 1000 is the highest in the region. The population growth rate and the infant mortality rate are also the highest in South Asia. And in real terms (in PPP$), the GDP per capita of $790 is the lowest in the region. Furthermore, although more than two-fifths of
the female population is economically active, only 19% of girls are enrolled in primary schools. Taken collectively, males and females receive an average of 6 and 2.4 months of total schooling respectively - the lowest ratios in the SAARC region. All in all, ranked 159 out of 174 countries on the Human Development Index ladder, Bhutan comes across as a rather poor and underdeveloped country.

Maldives is considered the most homogenous state in South Asia in cultural terms. A common religion (Islam) and a common language (Divehi) have provided a strong national identity and cultural distinctiveness to the country. Added to this was the historical tradition of a fairly continuous authority structure. The current president has been at the helm of affairs for the last eighteen years, having been elected four times. This provides considerable political stability which has also fostered greater human development than in most other countries of the region. Its adult literacy stands at an amazing 93%, the highest in South Asia, with no gender disparity. Per capita income, at $820, is also the highest in South Asia and the Maldives government spends nearly 7 per cent of its GNP on promoting education. The main concern for this relatively prosperous island-state therefore is how to diversify its sources of income and how to protect itself from any ecological disaster. There is also scope for betterment of living conditions in certain spheres. For instance, only 4% of rural households have access to sanitation facilities in Maldives and according to a 1984 survey, there was only one doctor available for 20,300 people. More importantly, Maldives is expected to experience the largest annual population growth rate in the region, 3.2% per annum between 1993 and 2000.

Apart from intra-state crises, most South Asian states are also at conflict with each other. The tension between India and Pakistan has been escalating over the past few years due to inability of both nations to amicably resolve the Kashmir problem. Since early 1993, relations have been irrevocably soured following Pakistan's induction of Afghan mercenaries, open instigation of militancy and a shrill campaign on human rights in the Kashmir valley (refer to a 1994 US report on Kashmir aptly titled "The Kashmir Connection"). With the recent introduction of the nuclear element in the traditional Indo-Pak rivalry, an even more complex and highly volatile scenario has been created with the potential of blowing up into a globally-threatening nuclear war (more details in the next chapter). As regards the other neighbours, relations between India and Sri Lanka have also not improved much despite the withdrawal of the Indian Peace Keeping Force following the breakdown of the 1987 Indo-Sri Lankan accord, and the hectic democratic efforts of Sri Lankan President Ms. Chandrika Kumaratunga for restoring peace on the island. Both countries continue to view each other with suspicion regarding the LTTE crisis, while Sri Lanka battles alone against the increased hostility of the Tamil tigers. The latter is disrupting the stability of the island with wide connotations for the entire region (the annual report of the US State Department on major terrorist groups had for the first time in 1995, included the LTTE as well). Strains also persist in Indo-Bangladesh relations due to persisting disputes like the Ganga water sharing problem (the Farakka barrage issue), the problem of migration from the Chittagong Hill Tracts, and the demarcation of boundaries involving fertile islands and enclaves. The Indo-Nepalese relations have also been occasionally strained over the form of government operating in Nepal (the communists had assumed power in Nepal on an anti-India plank), and certain trade-related and transit problems (for instance, the trade blockade of 1989). Moreover, it has been said that bureaucracy and procedural stringency on the part of Indian authorities is hampering Indo-Nepal trade ventures. It must also be mentioned here that the controversy between Nepal and
Bhutan on the Nepalese refugees in Bhutan as well the usage of Nepal by extremist and secessionist elements from North-east India are some other problems which could assume significant dimensions in the coming years. There are no major disputes between India and the states of Bhutan and Maldives. Yet, within the Maldives itself, there are certain internal political pressures stemming from the peculiar political situation where a President has been in power for a long time. 37

Moreover, there have always been certain psychological misgivings on the part of the smaller states about their all-powerful neighbour, India. These have often been reflected in the bickering in the South Asian Association for Regional Co-operation (SAARC) meetings (as in the case of the July 1995 meeting of SAARC parliamentarians and speakers in New Delhi, where Nepal and Bangladesh joined hands with Pakistan to create squabbles) and the ganging up of the South Asian states against several suggestions pertaining to the region, made by India. This is in the face of the fact that closer economic ties are considered the one and only hope for sustaining SAARC, and consequently regional co-operation efforts in South Asia, in the coming years.

Increasing regionalization of world trade and the fluidity of the emerging global system has increased trade within each trade bloc and those countries which do not belong to any trade bloc are likely to be the losers. 38 This alone provides a strong rationale for sustaining SAARC vis-à-vis the future trade prospects of South Asia. Among the SAARC countries, India happens to have a dominating feature in the economic scenario as its population accounts for 77 per cent, followed by Bangladesh (10.2 per cent), Pakistan (9.8 per cent), Nepal (1.7 per cent), and Sri Lanka (1.6 per cent). Once again, India's hegemony is a lurking fear in the minds of other SAARC members. Hence, they are generally hesitant to commit themselves for co-operation in hard-core economic areas. Attempts to use SAARC as a platform from which to launch joint industrial or manufacturing ventures threaten the smaller states with further integration into India, while India itself remains reluctant to allow access to what is still an essentially protected domestic market. Pakistan has continued to restrict Indian trade because of strategic considerations, especially involving investments by private Indian firms, which might displace Pakistani firms from lucrative markets, or more problematically, from emergent third markets in Central Asia. Moreover, most of the SAARC countries continue to remain primarily agricultural in nature and depend upon the developed world for their exports and imports of both manufactured as well as semi-manufactured products. The resources of the governments in SAARC countries are almost perpetually under severe strain in view of the ever-increasing need for social amenities for the expanding populace. This also cuts into the funds originally allocated to various developmental projects. No wonder then that lack of adequate financial resources is considered one of the major constraints in transforming the work of technical committees and other SAARC bodies into more effective action. 39

One of the key outcomes of the Eighth SAARC summit that concluded in New Delhi on May 4, 1995 was an agreement among the seven member states-India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan and the Maldives - to initiate the South Asian Preferential Trade Agreement (SAPTA). Since 1993, Bangladesh, Sri Lanka and Nepal had been pushing hard for the formalization of SAPTA, essentially a framework in which members would accord a certain set of goods and commodities entry into their countries under preferential rates of import duties. But until 1995, the members couldn't even agree on the set of goods for this agreement! Finally
however, the agreement came into effect from December 7, 1995 after Pakistan and Bangladesh also endorsed it. After the signing of SAPTA, a pertinent remark was made by the then-Sri Lankan Foreign Minister, Lakshman Kadirgamar as "SAPTA is a good beginning, but it is not enough". More than anything else, this sums up SAARC and, ironically, SAPTA. Nobody expects political problems among member countries to disappear in a hurry. "Politics and infrastructure are the major roadblocks to SAPTA's success", feels C.D. Wadhwa, economist at the Centre of Policy Research. And because of this, SAPTA is unlikely to immediately yield the situation to which it was loosely modelled, an economic self-help area like the Association of South Asian Nations (ASEAN), earlier a regional geo-political minefield but 25 years later, a six-nation group with loose trade and economic ties that have often helped smooth ruffled political feathers. The former Indian Prime Minister Narasimha Rao had waxed eloquent about the possibility of SAPTA evolving into SAFTA (South Asian Free Trade Agreement) but most economists privately believed that SAARC could never achieve its full potential unless major political differences between members are settled. A major part of the problem in implementing the economic agenda stems from the near perennial Indo-Pakistan tension, which almost all officials are agreed upon. Members have identified 226 items for tariff reduction, but the future will definitely depend upon the course of Indo-Pakistan relations. Pakistan, for instance, has not yet granted the most-favoured nation status to India. On the other hand, Pakistanis complain about inordinate delays in getting clearances from India. Despite liberalisation and deregulation, businessmen in Pakistan feel compelled to follow the current political line. In Indo-Pakistan relations, economics clearly follows and is bonded to politics. Hence, if the Pakistani position is that Indo-Pakistan relations cannot improve until the Kashmir issue is resolved, then any encouragement of trade would be seen as a sell-out and tantamount to repudiating the governing national interest. Such sentiments also prevail in India but fortunately, to a much lesser extent. In May 1994, a group of very eminent Pakistani and Indian businessmen met informally at Delhi within the framework of a broad Indo-Pakistani dialogue, and deliberated on the prospects of trade, economic co-operation, joint ventures in third countries (such as Bangladesh), and adopting a common stance on issues of mutual interest such as environment, human rights, technology transfers, etc. Both sides concluded that they had not really been pressing their respective governments for encouraging Indo-Pak trade and economic co-operation. 40 This opinion, that a lot more can be achieved by way of economic co-operation if only other difference are put aside, persists even today though the increased Indo-Pak tensions following the nuclear developments in the subcontinent have put a damper on the forthcoming (Tenth) SAARC Summit at Colombo. Many experts opine that the nuclear tests conducted by both India and Pakistan in May 1998 have dealt another blow, maybe a death blow to the already tottering group of the world's seven poorest nations. It is felt that the possible escalation of a nuclear arms race in the subcontinent could not have come at a worse time. This is because at long last, the seven SAARC members were in the process of getting their act together to break down tariff barriers and promote smoother trade among themselves. Today, doubts about economic co-operation have increased manifold as the region faces a very real threat of a nuclear flash-point. The smaller neighbours are especially worried about the escalating tensions as explained by a diplomat from Maldives, 'As neighbours we are naturally concerned. India and Pakistan at peace with each other acts as a great stabiliser for the region'. Added a Nepali diplomat, 'Unless there is a dramatic change in relations between India and Pakistan, SAFTA is unlikely to be in place. At this rate, neither India nor Pakistan will be ready for abolition of trade barriers....I don't see anything happening unless the two countries decide to bury the hatchet'. 41
Thus, there are a whole string of issues that still require sorting out through concerted and collective efforts. Perhaps it was in realisation of this fact that at the Ninth SAARC Summit held in Maldives in May 1997, it was unanimously decided to work towards a ‘SAARC Agenda for 2000 and Beyond’, a framework that would spell out the socio-economic targets that must be met by SAARC members by the year 2000. This action plan now remains the last hope for the rejuvenation of the SAARC. 42 The growing emphasis on economic co-operation is significant in view of the fact that intra-regional trade among SAARC countries, as a percentage of their total world trade, is presently a low 3.4 per cent. This is because of trade policies pursued in these countries, which along with sour political relationships, have tended to discourage co-operation within the region. Furthermore, the SAARC Survey of Development and Co-operation, published by the Research and Information System (RIS) points out the skewed nature of the distribution of imports by South Asian countries from their own region. For instance, India was dependent on South Asian supplies to the extent of 0.43 per cent of its total imports, while Nepal's dependence was as high as 17.6 per cent. Besides, the share of India's exports in intra-South Asian trade was 60 per cent in 1993. As the pattern of trade stands today, India and Pakistan are the only countries to have a surplus of trade with the other countries in the region. The other five countries have large trade deficits, which are increasing over time. Where are they going to find the funds to finance these large deficits is anybody's guess. The following table shows the comparative figures of intra-regional trade in other important economic regions of the world. 43

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<th>Region</th>
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The above observations also serve to strengthen the premises of Kolodziej's "OWL theory of International Relations", taken as a part of testing the hypothesis proposed in the first chapter. The smooth conduct of international relations, indeed, depends upon the functionality of the imperatives of order, welfare and legitimacy. The quest for these imperatives has been severely hampered in South Asia due to the persistence of conflicts and crises, at both the intra- and interstate levels. In fact, one can go a step further and delineate the circular nature of Kolodziej's theoretical premises. This is because not only do conflicts distort the "OWL concerns", the converse also holds true. This can again be proved in the case of South Asia which seems to have been caught in a frustrating bind of conflicts creating disorder/economic deprivation/illegitimacy of the regime; and vice versa. For example, lack of attention towards the economic development of the North-eastern states of India has led to separatist and secessionist movements therein. The latter, in turn, contribute towards a drain of the country's economic resources which could have been put to a more constructive usage in the very first place. Further, in today's era of transnationalism and interdependence, the dysfunctional "OWL imperatives" of one state can create similarly related problems for another. No wonder then, that South Asia has been described by Rajni Kothari as a "loveless hothouse where member states feed on each other's fears". 44 It is also widely held that South Asia is unlikely to emerge as a significantly more stable region
for some years to come. The fractured and highly complex entities that comprise the region need to undergo substantial political, economic and social change at a time of considerable global flux.

In response to all these inter-related problems which directly or indirectly affect the economic structure, the governments in South Asia have realised that insular, state-run economies have not achieved the levels of growth needed to catapult their large populations out of poverty. Instead these policies isolated their countries and denied them the benefits of international trade and investment. While isolationism may have seemed an attractive course, political and business leaders across the region now acknowledge the need to integrate into the global economy. Further, South Asian governments have recognised that improving their economies must be their foremost priority to ensure stability at home. They have largely accepted that their inward-looking, centrally planned economic policies have failed, while the countries that have prospered around the globe are those with dynamic private sectors. Taking these realities into account, leaders in the subcontinent have begun to institute economic policies that reduce the public sector's role in the economy, decrease state regulation of private industry and embrace the global economy by encouraging foreign investment and promoting exports. Although nations are coming closer, the barriers of outmoded attitudes, obsolete procedures and antiquated systems still need to be pulled down in this part of the world. It is in this context that India had to change and dismantle its outmoded economic and political thinking. The world may be getting along very well without India, but the time has come when India can no longer prosper without integrating with the rest of the world. It was aptly stated by the Committee on Trade Policies, 1984 that "What happens in India does not affect the world economy significantly, but what happens in the world economy does affect India". Now that globalisation and integration are widely accepted, India's compatibility with the economic systems of other major countries is of paramount importance. It is beyond doubt that only if such a congruence is attained will the flow of financial, manpower, technological and information resources be free and unimpeded. Arguably, world trade today is more free than at any time in the recent past (though high tariffs and non-tariff barriers are still visible). If the Indian economy is to develop and grow, it must mesh with the global economy. This can only be possible if India's policies and attitudes match international standards.

In response to such observations, the former Indian Prime Minister P.V. Narasimha Rao had announced just weeks after his election in June 1991, a surprising series of policies that shook the Indian economy to the roots. Despite efforts towards liberalisation in the seventies and the eighties, the degree of openness achieved was far from adequate, and India's trade regime remained more or less inward-looking. Some efforts at liberalisation were also made in the mid-eighties by the former Prime Minister Rajiv Gandhi, but they did not bear the desired results. The most genuine and successful efforts however, are credited to the pragmatic leadership of Rao and his Finance Minister, Manmohan Singh in the early nineties. The government devalued the rupee, abolished most industrial licenses and offered automatic approval for foreign investments and technology agreements in priority sectors. American and Indian business leaders praised these initiatives. Since then, the Indian government implemented additional liberalisation policies. The rupee has been made almost fully convertible, tariffs have been reduced, capital markets have been increasingly opened, and import license requirements have been removed for most items. The government has attempted to reduce the budget deficit and to raise foreign exchange reserves, which had been dangerously But despite the impressive beginning, India's reforms
process is said to have slowed down in recent times. Underlying political and economic problems threaten to limit the impact of the new policies and the continuation of reform's quick pace. The financial scandal that rocked India's stock markets in 1992 provided ammunition to opponents of reform who had warned of the dangers of deregulation and reliance on the private sector. Close to the end of his term as India's chief reformer, the former Finance Minister found many items on his agenda unresolved, even untouched. Even in mid-1996, in the midst of the liberalisation fervour, many experts admitted that India's private sector is still hacked and state monopolies in areas such as the financial and infrastructure sectors persist. In short, it was felt that the process of economic liberalisation in India has, and ill continue to be, hamstrung by political factors.

"Despite the dramatic changes, investors continue to be unhappy with India because they face screening of proposed investments, political interference, entrenched bureaucracy, and unclear regulatory environment", was the comment made by the director of the Asia Business Centre at the Commerce Department, Washington in June 1995. Further, the failure to effect timely changes in the legal framework to keep pace with the reform process initiated over five years ago, has also stood in the way of larger flow of domestic and foreign investment, according to the Associated Chamber of Commerce and Industry of India. Even if the reforms are completed, their success will depend crucially on the capability of the Indian economy in the medium to long term, to achieve export buoyancy so that it can meet its debt obligations as well as provide the ongoing technological modernisation and upgrading needs. The current recession in the world economy and the emerging protectionism, however, are not very conducive to high export growth.

The country also continues to face certain other economic challenges. As mentioned earlier, India houses 20 per cent of the world population but its share in the global output is only 1.1 per cent. The GDP of Rs. 500,000 crores at market prices gives a per capita income of only Rs. 5000 per annum. The economy grew out of the low growth syndrome during the eighties and achieved on an average 5.5 per cent growth rate. Agricultural output and industrial development has been just about average. The trade and fiscal deficits have been widening in recent years. As it is, the economic growth of the country has slowed down since 1993 due to restrictions on imports, lost markets in the former Soviet Union and high interest rates, and is barely recovering. Exports have not expanded at rates predicted by the government, while imports have grown, and maintaining the budget deficit at a level agreeable to the International Monetary Fund is a constant struggle.

India's trade deficit during 1995-96 swelled to $4,538 billion - more than double the deficit of $2.027 billion in the previous financial year.

Moreover as always, the country's leaders cannot be credited with having solved any of the basic problems such as abysmal poverty, inflation, unemployment, agricultural neglect, etc. For instance, the inequalities in income are such that the richest 20 per cent take 41.4 per cent of the total income, while the poorest 40 per cent only 20.4 per cent of the total income distributed in Indian society! Further, India’s debt is presently the third largest in the world, just behind Brazil and Mexico. Its international debt is 317 per cent of its exports, a dubious distinction of being the second worst in the world after Argentina. At an estimated $ 99.04 billion in March 1995, the external debt is the highest ever recorded. Further, the debt is at an alarming 36 per cent of the country's GNP. This does not appear large, till one realises that the only large and highly populous country like India is China which accounts for a significantly lower 19 per cent debt/GNP score. Indonesia does not have to worry because it is thinly populated and has huge
exportable surpluses in the form of oil reserves. The following table highlights the grimness of India's international debt situation, particularly when compared with other major countries of the world.  48

Table 2.2 : India's Debt, International Comparisons

<table>
<thead>
<tr>
<th>Country</th>
<th>Debt ($ bn)</th>
<th>Debt/Exports (%)</th>
<th>Debt/GNP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>132</td>
<td>307</td>
<td>28</td>
</tr>
<tr>
<td>Mexico</td>
<td>118</td>
<td>189</td>
<td>37</td>
</tr>
<tr>
<td>India</td>
<td>92</td>
<td>317</td>
<td>36</td>
</tr>
<tr>
<td>Indonesia</td>
<td>90</td>
<td>222</td>
<td>67</td>
</tr>
<tr>
<td>China</td>
<td>84</td>
<td>85</td>
<td>19</td>
</tr>
<tr>
<td>Russia</td>
<td>83</td>
<td>152</td>
<td>19</td>
</tr>
<tr>
<td>Argentina</td>
<td>74</td>
<td>438</td>
<td>31</td>
</tr>
<tr>
<td>Korea</td>
<td>47</td>
<td>48</td>
<td>14</td>
</tr>
<tr>
<td>Thailand</td>
<td>46</td>
<td>94</td>
<td>38</td>
</tr>
<tr>
<td>Philippines</td>
<td>35</td>
<td>194</td>
<td>64</td>
</tr>
<tr>
<td>Pakistan</td>
<td>26</td>
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<td>49</td>
</tr>
<tr>
<td>Malaysia</td>
<td>23</td>
<td>44</td>
<td>38</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>7</td>
<td>179</td>
<td>68</td>
</tr>
</tbody>
</table>

(Source : CMIE, India's Balance of Trade, May 1995)

The crux of all such economic problems seems to be India's population explosion. The unchecked addition of about 20 million people every year to a large multi-ethnic, multi-lingual and multi-religious country portends dangers which need to be dealt with on a war-footing. India does have the potential to become one of the leading economic powers of the world. But its burgeoning population and consequential problems like poverty, hunger, and social injustice are a serious hindrance to the realisation of that potential. A related aspect of this is that while the country's population has trebled since 1947, its production base has not kept pace. There are nearly 400 million poor in India and the lowest 40 per cent of households have a per capita income of no more than $125 and a little over one-sixth share of the GNP. The reasons for this are well-known: deep-rooted traditional beliefs and lack of education, high child mortality rate motivating parents to have more children, for more children mean more income, the stigma against the girl-child and the suppressed, secondary role of women, and in certain communities, religious orthodoxy prohibiting family planning.  49 Indeed, the country's biggest failure has been in terms of lack of human development. Out of the world's one billion illiterates, India alone has 350 million. This is when the state may not be able to provide even the most basic facilities like for instance, drinking water, to nearly 200 million people. There are no sanitation facilities for 500 million people both in the urban and the rural areas. Despite the fact that India has achieved a higher growth rate of more than 5 per cent since the eighties, this alone is not enough to translate into higher levels of human development.  50 India's Physical Quality of Life Index at 39 in the last decade has been amongst the lowest in the world. In the Human Development Report of 1997, India was ranked 138, only one step higher than Pakistan, in terms of what the Indian government has been able to provide by way of education, health care, safe drinking water, and essential
family planning services. Bangladesh, Nepal and Bhutan followed at positions 144, 154 and 155 respectively in this shameful category of ‘Countries with Low Human Development’. 51

With regard to the success of the economic reforms in India, experts have always been at loggerheads with governmental sources about the accuracy of reports on the country’s economic scenario as presented by the latter. For instance, in the Interim Budget and Economic Survey of 1996-97, while the finance ministry attempted to highlight the success of the reforms, most economists across India were less optimistic. And rightly so, because since 1996, widespread inflation and a sharp decline in agricultural output have made it impossible to maintain the country’s GDP growth rate at the previous figure of 8.2 per cent. Noted economist, Professor Arun Ghosh, who is also a former member of the Indian Planning Commission has sharply criticised economic figures quoted by successive governments as a "propaganda ploy" while "the overall fragility of the economy is very worrying". There are a number of reasons for this anxiety including the very large revenue gap, the excessive dependence on short-term external borrowings and poor inflow of foreign direct investments (FDI). Moreover, the investment in infrastructure is said to have come to a standstill with no major power project being cleared. This implies that there will soon be serious power shortages affecting industrial production and economic growth. This is one of the most crucial and yet, most neglected are of the economy which ought to have been tackled with greater concern following the Enron controversy of 1996 and the consequent disenchantment of foreign investors with India's power sector. Disinvestment in the public sector has also failed to yield the required resources. Furthermore, India's share in the total world exports, at 0.7 per cent is so low that it can grow several-fold without causing many ripples. Even if Indian exports grow at 15 per cent per annum and world trade has a sustained growth of 5 per cent, India's share in world exports will be hardly 7 per cent in 2020. Its share in world output will double during the period even though it will remain low, less than 2.5 per cent in nominal terms and 10 per cent when corrected for purchasing power. 52

Most recently too, the central message from the evidence presented in Economic Survey 1997-98 is one that the present government has again chosen not to emphasise! The harsh reality is that India’s post-reform economic boom has indeed petered out, having lasted for just three years, until 1995-96. The loss of momentum was first reflected in a deceleration in industrial growth in 1996-97. In the subsequent year (1997-98), not only did the recession in industry intensify, but growth in the agricultural sector continued to register a fall. And according to advance estimates made by the Central Statistical Organisation (CSO), the country’s GDP grew by just 5 per cent in 1997-98 as compared with 7.5 per cent in 1996-97. The current low growth situation in India is said to be particularly disconcerting because it has been accompanied by a sharp rise in the trade deficit in the balance of payments from $2.3 billion in 1994-95 to $5.7 billion in 1996-97 and $6.8 billion in 1997-98. Despite government statements to the contrary, the problem is likely to intensify in view of the recent economic sanctions slapped onto India by some major global lending bodies and other countries following the country’s foray into the nuclear club. The US sanctions are potentially most threatening. Besides aid cuts, they can directly affect investment as US government agencies can block up to $14 billion in pending loans and guarantees to US companies investing in India. The Indian government however, is trying to woo all foreign investors with the lure of core projects, easier investment and market access. Since mid-July and almost a month after the nuclear explosions, the US administration is believed to have somewhat
softened its stance towards both India and Pakistan, and is seeking authority from the Congress to waive some of the earlier-announced sanctions. 53

If India has to effectively integrate with the rest of the world, its diverse and pressing economic problems must be tackled immediately and resolutely. This is essential to attract foreign interest in terms of investment and economic collaborations in the region. Traditionally, India had never been a favourite destination for US and other foreign investors. Though India's exports to the EC have grown in the post-liberalisation period, yet the fact remains that India contribute no more than 0.4 per cent to total EC imports. It shared only 0.07 per cent of the American foreign direct investment stock in 1990 which increased to 0.98 per cent in 1992. In recent years, the US has become an important foreign investor in India. After Malaysia and the Philippines, India gives the highest rate of return on US foreign investment in the manufacturing sector. Consequently therefore, the US has lately emerged as India's largest investor and trading partner. There has been tremendous investment by American companies in India, particularly in 1993, which include major American corporations like Ford, General Electric, Coca Cola, IBM, Morgan Stanley, General Motors, and Unisys. The US investment in India has increased from $22.38 million in 1986 to $1135.41 million in 1993. In a major break from the past, trade emerged as a major plank in Indo-US ties throughout 1994. The trade also pushed past $9 billion in 1995 - a growth of more than 20 per cent from the previous year. Moreover, 20 per cent of all Indian exports come to the United States, and the US is the largest source of commercial technology for India. 54 Despite all these impressive figure, it has been made very clear to the Indian authorities that all foreign investors have a distinct preference for regions with developed infrastructure, political stability and social amity. Even within India, such regions are still limited in number to include a handful of states like Maharashtra (whose reputation was somewhat sullied by the Enron controversy created by the anti-liberalisation state government of 1996), Delhi, West Bengal and Tamil Nadu. 55 Further, the US continues to be unhappy with what it considers as "unjust" and "inequitable" trade barriers. It finds India's tariff rates high, which continues to remain a contentious issue. Other areas of friction include quantitative restrictions imposed through a licensing regime, procurement policies, copyright infringements, and import licensing which are said to have rendered the Indian economy "highly protectionist". The US believes that it would be able to sell much more in India were it not for such restrictions. As the self-appointed leader of the GATT movement, the Americans are also found to be pressing India for greater market access, particularly in the field of textiles and consumer goods. The latter include computer hardware systems, white goods, automobiles, and consumer electronics, all of which are of long-term interest to American business. 56 Similarly, the French are also believed to be waiting for a renewed enthusiasm for reforms in India and since early 1995, the Confederation of French Industries and Services has been expressing its desire in investing in the infrastructure sectors of India. Likewise, Germany has shown a keen interest in negotiating a zero-tariff agreement with India for trade in chemicals and pharmaceuticals, which promises to go much beyond the scope of trade liberalisation achieved even by the multilateral World Trade Organisation (WTO) pact. In fact, chemicals and pharmaceuticals account for as much as 16 per cent of India's total exports to Germany. And the German industry, which has had a traditional presence in India, is now taking a greater interest in India's liberalised economy. Similarly the British too, have shown tremendous interest in the changing Indian economic environment and are seeking to promote Britain's financial services industries here, without relating Indo-British trade to any social clauses whatsoever. And finally, Japan is aiming to be the biggest investor in India by the year 2000,
provided it is thoroughly convinced of the pace of reforms in India. So far, only a handful of Japanese companies such as Sony, Honda, Suzuki and Toyota have invested in India. But according to Masaya Miyoshi, president of a forum of leading Japanese business and industry figures, "India could emerge as a major focus for Japan's industrialists as its economy recovers from near-stagnant economic growth, and is now looking for potentially dynamic foreign markets to invest in". 57

With reference to these trends, it must be realised that foreign direct investment plays a vital role in the development process of a Third World country. It has the potential of making a contribution to development through transfer of financial resources, technologies and improved management techniques. It facilitates the exports of developing countries and generates employment as well as foreign exchange for the host country. India as such, has many advantages to attract foreign investment. A large domestic market, skilled labour and relatively stable democratic government. The existence of a large private sector and protection for foreign investment are the other inducements. 58 There is no reason then, why the Indian economic record should continue to remain dismal even as the country embraces liberalisation and a free market economy.

In the light of these observations, it would be appropriate for India to step up efforts to tackle the current post-reforms economic slack. As also to simultaneously work out strategies that can effectively overcome the basic endemic problems of Indian society. In this context, it would be useful to consider some of the opinions expressed by the population interviewed during a survey conducted in 1997, the year when India completed fifty years of its independent existence. According to 47 per cent of those questioned, the quality of life in India has remained the same over the past fifty years. And for a shameful 23 per cent, it has only become worse than ever before! 59 In the light of such public opinion, it becomes even more crucial that progress at the topmost levels must necessarily be accompanied by strengthening of the foundation upon which the Indian economy is precariously balanced. Even the World Bank has repeatedly warned the Indian authorities that incomplete reforms and neglect of the basic economic issues would hamper long-term growth and severely retard the welfare of the country in the coming years. Likewise, the IMF’s World Economic Outlook (WEO) released in April 1998, also declared that Indian reforms are wearing off and that ‘to put India on a sustainable growth path, stronger efforts are needed to reduce the large-fiscal deficit, liberalise foreign trade and investment, alleviate infrastructure bottlenecks, deregulate domestic products markets, and reform the financial and enterprise sectors’. 60 The leaders of the country would be well-advised to pay heed to such warnings before it is too late.

Months before India initiated its reforms, neighbouring Pakistan had already begun to restructure its economy. Immediately after assuming office during his first term in November 1990, Prime Minister Nawaz Sharif announced a bold series of reforms to reduce government involvement in the economy, to privatise public sector companies and to encourage private sector growth. The government also opened most sectors to foreign investors and reduced financial and bureaucratic obstacles to businesses. It also strived to attract greater foreign inflows of capital, technology and jobs to invigorate Pakistan's economy. While these reforms were appreciated, the economy continued to face several immediate financial and political hurdles. The budget deficit consumed a significant portion of GDP due to heavy defense spending and debt repayment, coupled with an
inability to slash spending. This also threatened future loans from international lenders. The trade deficit has since widened and foreign exchange reserves have dropped. Most importantly, Pakistan's political instability has been the biggest obstacle to effective economic reform. Plagued by serious problems of legitimacy, the previous government led by Benazir Bhutto was unable to continue with the economic reform process at its initial pace. Moreover, the interim government periods and the times of acute political uncertainty in recent years have often seen a complete neglect of the country's economy. The constant military threat to various governments, growing domestic social imbalances in the form of violent sectarian riots, and an unhealthy obsession with aggravating the Kashmir issue also loom menacingly over Pakistan's economic future. As mentioned earlier, a pre-condition of economic growth is political stability and an ability to focus attention and resources on issues of development. But these basic pre-requisites are totally lacking in Pakistan's domestic environment. There are also certain structural weaknesses which continue to inhibit Pakistan's prospects for sustained growth such as policy imposed price distortions in industry, and low savings and investment rates, ranging between 12 per cent and 16 per cent of GNP, respectively. As elaborated earlier, Pakistan's high population growth and poor record in human resource and social development are also serious impediments to the pace of economic development, equitable income distribution and pursuit of export-led industrialisation. The country is also likely to face serious labour market difficulties in the future if the foundation for sustained growth and employment opportunities is not strengthened. According to the World Bank Annual Report 1997, the inability to cut the fiscal deficit substantially, the consequent double-digit inflation and the widening current account deficit continue to impede Pakistan's economic growth and poverty reduction efforts.

US companies, currently leading the foreign investors in Pakistan, are said to have benefited somewhat from improved customs procedures and decreased government regulations, as well as the ability to hold dollar accounts, to expand investments and to own 100 per cent equity in direct investment. Nonetheless, a lot more remains to be done and it is generally felt that greater international commerce with Pakistan would help cement the economic reforms and create a more prosperous state that could play a larger role in the global economy. For Pakistan, this also is essential from the viewpoint of having a greater say in framing the contemporary global economic priorities.

Sri Lanka, Bangladesh and Nepal have also made halting attempts to participate in the regional trend toward liberalised economies over the past few years. Their policies have been characterised by reduced government regulation, efforts to strengthen the financial sectors, increased infrastructure investment, encouragement of foreign investment and export promotion. More so than in India and Pakistan, these governments have maintained strong state presence in certain sectors and plan to keep a "mixed economy" to supplement their still developing private sectors. An overview of the economic conditions of these countries is given below.

Sri Lanka is a striking case of an economy which was well ahead of other developing countries in the 1950s but could not maintain its position over time. In the 1950s, Sri Lanka's per capita income was about half of Japan's or Malaysia's and much higher than that of Korea's or Thailand's. The living standards of its population in terms of life expectancy at birth, school enrolment ratio, literacy and infant mortality rates, were among the highest in the developing world. Four decades later, the country's per capita income is less than 5 per cent that of Japan,
less than a fifth of Malaysia, and well below those of South Korea and Thailand. In addition to slow growth, the country has been confronted with a large fiscal deficit, a difficult balance of payments position, and serious political disturbances that the government sees as resulting mostly from increasing poverty and chronic unemployment. The overall economic scenario improved slightly in the late seventies when the government initiated its attempts at liberalisation. However, there has again been a substantial deterioration in economic performance in the recent past. In contrast with the unprecedented growth after 1977, output growth slowed to 4 per cent in 1986 and less than 3 per cent in 1987-89. Unemployment also rose to 16 per cent of the labour force, and large-scale macro-economic imbalances continue. Chronically high fiscal deficits have pushed up interest payments on the government debt to 5 per cent of GDP. Inflation has escalated from less than 2 per cent in 1985 to over 15 per cent throughout this decade. In 1996, continued civil strife and poor weather conditions lowered the Sri Lankan GDP growth to 3.7 per cent, a trend that has not yet been reversed even as peace and socio-ethnic stability continues to elude this war-torn island. Calculating the effects of civil war on Sri Lanka’s economy is notoriously difficult, since it is hard to attribute trends within the economy to one or two variables, especially in an economy that is as open as Sri Lanka’s. However, since 1990, unemployment has been rising in the country, particularly among the urban youth who are then prone to joining militant organisations. The high budget deficits have also led to soaring domestic interest rates and have discouraged investment because local firms and businesses are unable to borrow the large sums of money needed to start new projects. Multinationals think twice before investing in areas where conditions are bordering upon civil war. The number of joint ventures declined rapidly during the 1980s, and the civil disturbances since 1983 are said to have cut as much as 1 per cent off the annual growth rate of the country in recent years. 62

The pace of economic growth has been rather slow in Bangladesh as well. The rate of per capita income growth achieved during 1973-93 was only 5 per cent which, while commendable, did not do much to alleviate mass poverty. Job creation has also been painfully slow and unemployment is extremely high among the educated youth, which in turn contributes towards social unrest and tension in the country. Despite recent attempts at industrialisation, Bangladesh remains predominantly an agrarian economy. The country experienced an increase in food production, from 11 million tons in 1970 to 20 million tons in 1992 - an impressive performance, specially in the face of several devastating floods, cyclones and tidal waves that periodically plague the little country. As per the 1996 figures, Bangladesh’s GDP growth stood at 5.5 per cent. But this figure is far from satisfactory for rejuvenating the Bangla economy which is all but shattered following the long periods of political impasse in recent years. Furthermore, the World Bank has repeatedly warned its government that a poor disbursement performance has now placed the country, a major beneficiary, in a highly disadvantageous position for future allocations from this financial body. Government officials have also been advised to revitalise previous open market and liberalisation policies as well as to pursue more realistic fiscal and monetary policies. It has also been opined that Bangladesh can make fairly rapid progress if only it invest more liberally and carefully in its human capital. Lacking other natural resources and threatened by ecological degradation, its main resource is its people. Thus, more attention need to be paid to this aspect of economic resurrection. 63

Apart from a general economic deprivation, Bangladesh has also been crippled by several disputes with its powerful neighbour, India, which only serve to worsen the situation. Within the
regional context of SAARC, Bangladesh has often sided with other South Asian states with regard to their misgivings about India. And by insisting on multi-lateral ties for a long time, Bangladesh has attempted to use the collective strength of the smaller states to counter India's so-called hegemonic tendencies. Some of this behaviour also stems from the insecurity of the Bangladeshi psyche. The observations made by Ashis Bose can be quoted in this regard "Bangladesh obviously has a higher level of misery: a population density of 665 per square kilometre against India's 237, an annual growth rate of 3.1 percent which is fifty percent higher than India's, and per capita income of US $ 144 compared to India's US $ 253". These stark imbalances have also aggravated the problems between India and Bangladesh. The Bangladeshis believe that the cordial relations of the early years have been obliterated primarily due to glaring asymmetry in the economic and political status of the two countries. The level of trade between India and Bangladesh has always been low because their economies do not complement each other in resource availability, the structure and content of production, and the supply of services. Moreover, there is a strong element of competitiveness between these two countries. For example, both countries compete for their jute products in UK, Japan and the EC. They also compete for their textiles in the EC and USA. Furthermore, the problem of smuggling along the Indo-Bangladesh borders has added an element of animosity in the trade relations of both neighbours. The bane of smuggling had been initially influenced by two factors. First, the maintenance of parity between the Bangladeshi Taka and the Indian Rupee during the early years. Secondly, due to the provisions of border trade in India's trade agreement with Bangladesh in 1972, the latter got caught in an acute inflationary spiral which made the parity between the two currencies quite unrealistic. Jute producers bordering India found easy accessible market in India. Although they sold at a lower price in India, they more than made up for this loss by importing essential consumer goods which fetched attractive premium in Bangladesh. These trends vitiated the objectives of the Indo-Bangladesh trade agreements of 1972 and 1973. Presently, the Bangladeshi Taka has been made more realistic following the devaluation of this currency. However, the Wage Earner's Scheme currently in operation in Bangladesh enables its traders to import liberally many luxury consumer items into Bangladesh, some of which find easy access to the Indian markets.

In a somewhat similar vein, the Farakka Barrage dispute can also be examined. The Farakka issue is part of the overall problem of sharing of water resources carried by the three major river-systems of the Ganga, Brahmaputra, and the Indus by the countries of South Asia. It remains an unresolved issue between India and Bangladesh, thereby suspending related welfare projects of its overwhelming population in mid-air. Bangladesh has also been involved in frequent border and boundary disputes with India. The problem of demarcation of maritime boundaries arose in 1974 and persists till today. The first dispute arose when the Bangladeshi government entered into agreements with six foreign oil companies granting them oil and natural gas exploration rights in the coastal areas of the Bay of Bengal. India objected to this venture which led to sharp differences between the countries with regard to defining their Exclusive Economic Zones (EEZ). Since then, negotiations have been going on between India and Bangladesh to resolve the dilemma of overlapping maritime boundary claims. But both countries continue to differ over the principles of demarcating the maritime boundaries, which in turn, has given rise to other disputes in the conduct of their bilateral relations.
As elaborated in the preceding pages, Nepal is one of the poorest countries in the world. Its per capita income is estimated at about US $190 (1993), the eighth lowest in the world. Social indicators also remain well below the average for South Asia. The population density in respect of arable land (590 persons per sq. km.) is one of the highest in the world and farmers have been increasingly forced to cultivate the marginal lands and forests. Various factors have impeded Nepal's development such as its geographical constraints, institutional weaknesses, inappropriate economic policies, and centuries of self-imposed isolation. Moreover Nepal too, has been facing several trade-related disputes with its land-locked neighbour, India which further retard its economy. Trade and transit impasses have led to a total disruption of Nepal's economic activities in recent years. Besides, Nepal is heavily reliant on external aid and its official foreign debt of about US $1.3 billion in 1989, has been rising alarmingly since then. At present, the total debt incurred by Nepal constitutes a whopping 50 per cent of its GDP. The GDP annual growth rate itself has been a meagre 4.6 per cent in 1993 and a somewhat improved 6 per cent in 1996. As declared by the UNDP, Nepal indeed has a long way to go in restructuring its political system and in accelerating the pace of its economic growth and human development.

As in India and Pakistan, greater foreign investment or trade would prove to be a boon to the economies of these smaller countries and contribute to their growth and stability. The US government, for starters, has made some efforts to develop commercial ties in these countries. In 1991, the US-Bangladesh bilateral investment treaty was concluded. In 1992, the US and Sri Lankan governments signed bilateral tax and investment treaties as well as an intellectual property rights agreement. And in Nepal, the US embassy has made it a priority to make several American companies aware of specific business opportunities, particularly in major infrastructure projects. In order to sustain the interest of the US and its allies in these countries, it has now become crucial for the latter to provide better economic environments and incentives by whole-heartedly pursuing the reforms and other rejuvenative policies.

Foreign direct investment in South Asia as a whole rose from $0.5 billion per year during 1990-92 to $2.6 billion in 1996. But at 0.5 per cent of the region's GDP, far lower than any other regions, this underscores sizeable unexploited opportunities on the part of investors. And even after the rapid growth of the early 1990s, South Asia still generates only 1 per cent of world trade, and its exports per capita are six times lower than the average for developing countries. Undoubtedly, these figures can improve substantially - through a total revamping of the economies of South Asia as well as through lessons that can be learnt from the more successful experiences in this regard, of the neighbouring Southeast Asian countries. It is to the latter, therefore, that we now turn our attention.

2.3. Areas of Overlap and Common Concern with Southeast Asia

The term Southeast Asia came into vogue during the Second World War. The British Southeast Asia Command (SEAC) which was established in 1943, covered Ceylon, Burma, Siam, Malaya and Sumatra. Later, it was enlarged on 15 August, 1945, to include the whole of the present Southeast Asia. Except for Thailand, the whole of Southeast Asia has undergone western colonial system of government and economy, the legacies of which are still visible. Burdened with high population growth rates, most of these countries inherited the problems of state boundaries from their erstwhile rulers, which often created tensions in the region. Indeed, many Southeast Asian
countries are still grappling with the problem of integrating various groups of minorities into the national mainstream. In the spheres of urbanisation, freedom of the press, literacy rate and interest articulation by associated groups, in all the countries are still considered to be notoriously low. The economies of this region are also very diverse in their resource endowment patterns, and contain some of the most affluent of all less-developed countries as well as some of the poorest. In the production of output, there has been more competitiveness than complementarity, and this has been further accentuated in the aftermath of political independence, as each country strives to gain in self-sufficient economic growth. Moreover, Southeast Asia is basically known only as a supplier of raw materials to the rest of the world since it has a large agricultural sector and a small manufacturing sector. In the past decades therefore, the genuine concern of the Southeast Asian economies has been whether they will ever “get out of the history of economic exploitation started with colonial rule and appearing in its more modern form, under the guise of the multinational corporations”. Despite these drawbacks, there has also always been a strong trend in favour of regional co-operation among the countries comprising Southeast Asia. With the convergence of regional aims and national goals, the establishment of the Association of Southeast Asia (ASA) on 31 July 1961, at Bangkok, was the first Asian effort towards regionalism. This was followed by the formation of the Economic and Social Council for Asia and the Pacific (ESCAP) and the Colombo Plan, finally culminating in the ASEAN. The latter is the subsequent focus of this section of the chapter.

The recent turbulences in Southeast Asia notwithstanding, it is an undisputable fact that the most significant structural change in the post-Cold War era has been the shifting of the centre of gravity of the global economy towards the Pacific basin. It has already been mentioned in the first chapter that the United States presently holds the number one position in the global economic ranking. Hence it would be pertinent to add here that though the United States still has a trade surplus with Western Europe, America's Pacific trade surpassed Atlantic trade for the first time in the mid-1970s. Moreover, most of the other industrialised countries of the world have also been increasingly attentive to the Pacific area, and consequently, evolved a complementary set of economic relations with the economies to its west and south. Until the economic crisis of mid-1997, the Pacific basin, including Japan and the Asian NICs, could boast of economic growth rates that surpassed the rest of the world figures. And as recent events have proved yet again, trends in the Pacific region greatly influence the future of socio-economic and political interactions across the entire globe. The emergence and growth of the ASEAN has been the most unprecedented feature of this part of the world.

The Association of Southeast Asian Nations (ASEAN) was established on August 8, 1967 in Bangkok, Thailand with the signing of the Bangkok Declaration. The main purpose for setting up this body was to promote closer economic co-operation among the five original member-countries, viz. Malaysia, Indonesia, Philippines, Thailand and Singapore. Brunei became the sixth member of ASEAN in January 1984 and Vietnam joined in July 1995. Laos and Myanmar were admitted into the ASEAN in July 1997.

The three main objectives of the ASEAN have been: to promote the economic, social and cultural development of the region through co-operative programmes; to safeguard the political and economic stability of the region against big power rivalry; and to serve as a forum for the resolution of intra-regional differences. However, there was not much momentum in this venture
for almost a decade since its inception. But the Bali Summit of February 1976 was a turning point in integrational activities and since then, there has been no looking back. In 1989, the Asia-Pacific Economic Co-operation (APEC) was founded as an inter-governmental forum to discuss economic issues, primarily due to the initiative of the ASEAN members. It now has 18 members stretching from New Zealand and Australia to the United States and Canada. Most APEC members have high levels of trade orientation. Of the 18 economies, 13 have export to GDP ratios of 20 per cent or more. APEC members as a group accounted for 40 per cent of world exports in 1992. They also account for 38 per cent of world population, 52 per cent of world GDP, and 42 per cent of global international reserves. APEC also has some of the world's major foreign investors (the US and Japan) and major recipients (China and ASEAN countries, in addition to the US). Its dominant role in the world economy, the members' trade and investment linkages, the fact that the US, Japan and several fast growing economies are in APEC, and the recent parleys among them to increase economic co-operation have brought APEC into sharp focus. None of the South Asian states however, have been granted membership of this prestigious organisation and India, in particular, has been making repeated efforts to become a part of APEC. This fact also strengthens the propositions of this research that Southeast Asian countries have greater global standing than those of neighbouring South Asia.

Furthermore in January 1992, a summit meeting of the Heads of States and of Governments of the ASEAN countries adopted the 'Singapore Declaration' which provided for increased economic and political co-operation between the ASEAN Member states. This declaration was actually a reaction to the emergence of regional trading powers: ASEAN, disturbed by the EU’s Internal Market and by NAFTA, decided to set up its own free trade zone with a common customs tariff within the next fifteen years (by 2003 A.D.). The main goal in establishing the ASEAN Free Trade Area (AFTA) is to increase the growth of ASEAN markets by cutting customs tariffs on selected goods in the industrial, agricultural and services sectors. In order to do so, the member countries also signed the Agreement on Common Effective Preferential Tariff (CEPT) Scheme in 1992, which has since helped to slash intra-regional trade tariffs throughout the ASEAN significantly. Acutely aware of the low levels of intra-ASEAN trade, the CEPT has proved to be a major instrument of the ASEAN member-states for promoting trade and investment within the region. The strengthening of the concept of AFTA has also boosted ASEAN’s trade with other important regional economic bodies across the globe. For instance, trade between the ASEAN countries and the European Union (EU) was worth over ECU 72 billion in the year 1995 alone. More importantly, trade between these two leading economic groupings has quadrupled since 1987.

All through the eighties and until early 1997, rapid growth and industrialisation leapt like a brushfire from Japan to the "four tigers" - Singapore, Taiwan, Hong Kong and South Korea - then to Thailand, Indonesia, and Malaysia, and finally to China, which now has the fastest growing economy in the world and the second-largest GDP in the region (after Japan). In fact, the World Bank has described China, Taiwan and Hong Kong a "fourth growth pole" in the world economy, next to North America, Europe and Japan. This is also evident in the tremendous economic integration taking place within Greater China on the one hand, and between China, Hong Kong and Taiwan on the other hand. The attention, resources and energy that corporations in all sectors from all over the world have devoted to East Asia is far from surprising. The extraordinary transformation of the key East Asian economies in a generation from
underdeveloped, poverty-burdened countries to burgeoning, vibrant markets has truly been without parallel in recent world history. Recall what the region looked like in the 1950s, and the transformation becomes even more unbelievable. Japan was recovering from a devastating war and came to be patronised by the west only as a country that could turn out cheap transistor radios. Communist insurgencies scarred not just Vietnam and Laos but the Malay Peninsula and Indonesia as well. Hong Kong was flooded with penniless immigrants from China; Singapore was better known for gin slings than for its economic zeal; Bangkok was a romantic city of canals and oriental charm. Since then, there has been a steady change as economic development cascaded through the region. Countries that were once natural bases for low-cost, low-skilled labour, such as Malaysia and Thailand, now seek value-added industry and technology transfer. Other countries, considered virtually off the map in terms of development, are now the focus for adventurous businessmen. East Asia had always been important as a manufacturing base for export, but now it is has also become a vital market for manufactured goods. Increasing prosperity throughout the region has created a vast middle class market, hungry for branded consumer goods and the trappings of a consumption-led society. Apart from competing globally, East Asian companies have also developed regional skills and networks that make them potent local players and potentially valuable allies for western entrants. 79

Little wonder then that year after year, the ASEAN countries have displayed increased productivity and output in agriculture, high growth-rate in export of manufactured goods, high growth-rate of physical capital with high rate of domestic savings, high growth of human capital, and high growth-rate of productivity in general. Most of these growths were attributed to the government’s interventionist policies aimed at accumulation of physical and human capital; allocation of capital to highly productive areas and adoption of advanced technology to increase productivity. With factories sprouting, exports booming and governments turning more progressive, Asia’s emerging countries looked like the world’s best money-making opportunities into the next century. The average growth rate for the Asia and Pacific region in 1995 was 7.8 per cent as against a world growth average of only 2.6 per cent. The ASEAN region showed a growth rate of 8 per cent in 1995, up from 7.9 per cent in 1994, largely due to the improved economic performance of the Philippines and Vietnam. The growth rate for this region was about 7.6 per cent in 1996, with individual country growth rates ranging between 7 and 10 per cent. 80

The next table (given overleaf) shows the growth rate of GDP of the Pacific countries. Despite some variation, the aggregate growth-rate is impressive when compared with other developed countries. 81
Table 2.3: Growth Rate of GDP (per cent per annum)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>United States</td>
<td>-</td>
<td>0.8</td>
<td>-1.2</td>
</tr>
<tr>
<td>EC</td>
<td>-</td>
<td>2.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Japan</td>
<td>-</td>
<td>4.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>7.2</td>
<td>4.2</td>
<td>5.0</td>
</tr>
<tr>
<td>S. Korea</td>
<td>9.9</td>
<td>8.4</td>
<td>4.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>6.3</td>
<td>6.7</td>
<td>5.8</td>
</tr>
<tr>
<td>Taiwan, China</td>
<td>8.5</td>
<td>7.2</td>
<td>6.6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.5</td>
<td>6.6</td>
<td>5.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5.2</td>
<td>8.7</td>
<td>8.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.0</td>
<td>-0.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>7.8</td>
<td>8.2</td>
<td>7.5</td>
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</table>

Taken individually, the following country-wise profile emerges: While Brunei enjoys a high income level thanks to a rich energy endowment for a small population of 300,000, Singapore comes first in terms of industrialisation. During the more than two decades of Lee Kuan Yew's leadership, the island-state of Singapore emerged as one of the top twenty trading countries in the world. This is a remarkable achievement considering it has a population of less than three million and a land area of 641 sq. km., with no natural resources either on-shore or off-shore. Its large trading volume is entirely due to its policy framework and efficient manpower utilisation. As also its initiative to harness technology to gain the maximum benefit. The infrastructural facilities include super-efficient air and sea-ports, equipped with artificial intelligence driven management systems such as Port Net and Trade Net which allows for clearing trade documentation on an international scale. Further, its Trade Development Board is not a restrictive bureaucratic body but is a facilitating agent par excellence. The international dimension to Singapore's trading activity can be gauged from the fact that 30-40 per cent of the exports are actually re-exports. This figure alone was close to S $59 billion in 1994, which outstrips India's global exports for the same period. Singapore's total trade was S $216 billion in 1991. It went up to S $304 billion in 1994. Its exports have been steadily around 46-48 per cent of the total trade, rising from S $102 billion in 1991 to S $147 billion in 1994. In 1995, as per the official projected growth rates, Singapore's economy grew at about 8 per cent. According to the department of statistics, Monetary Authority of Singapore, the GNP per capita was US $20,414 in 1994, one of the highest in the world. This was a remarkable improvement from the GNP per capita of US $434 in 1960 and 528 in 1965. Unemployment rates stood at a meagre 2.6 per cent in 1994, as opposed to 13.2 in 1960 and 8.7 in 1965. According to the Singaporean ministry of education, the literacy rate in 1994 was a staggering 91.3 per cent while in 1970 it was 72.2 per cent. In terms of health, education and other welfare indicators, Singapore has continually surpassed all its South-east Asian neighbours. Given these remarkable developments, there was also a tremendous surge in Japanese investment in the country in recent years, followed by large-scale negotiations with several other global economic giants, particularly America which already provides Singapore's biggest export market. 82
Then there is Malaysia which prospered almost throughout the regime of its Prime Minister, Mahathir Mohammad. Apart from being the proponent of the famous phrase ‘Look East’, the list of his economic achievements since 1981 has been long and creditable: A real GDP growth rate of 8 per cent plus for the past seven years, growth in services and manufacturing, and industrial production which haven't dropped below 8 per cent and 10 per cent a year respectively since 1991. A per capita GDP of $8630, much higher than that of Indonesia, Thailand and the Philippines, and almost seven times that of India's. A country of 19 million with exports in 1994 of $58 billion, topping India's by two and a half times. An unemployment rate of 3 per cent - economically considered as zero. All this sums up to what has been apparent since the early 1990s that except for Singapore and oil-awash Brunei, Malaysia is undoubtedly one of the most vibrant economy of the region. 83

With its sights set on becoming one of the engines of Southeast Asia's economic growth, Indonesia has also been throwing off its reputation as a protected market with worrying restrictions on foreign investors. Indonesia has been one of the poorest countries with a per capita GNP of US$ 600 and with the largest population (181 million) in the region. While less economically developed, it has always regarded itself as the political leader of the ASEAN. It would not be an exaggeration to say that due to the unilateral policy change of Indonesia towards import liberalisation, the ASEAN Summit of 1992 could consequently adopt the plan to build an ASEAN Free Trade Area (AFTA). It is hardly amazing then that the republic of 13,000 islands and over 300 languages now offers not only low production costs, rich natural resources and a large consumer market, but also the benefits of a deregulation package introduced in June 1994. Consequently at the so-called "Golden Triangle" at the heart of Jakarta's business district, glass-fronted skyscrapers appeared almost overnight, and the city's hotels were filled with potential investors swift to come and see the country for themselves. And they brought business with them. After the slump in FDI approvals in 1993, the foreign investment in 1994 topped $15 billion and continued to increase almost every other month until early 1996. Indonesia also maintained GDP growth rates at an average of more than 6 per cent over the past twenty-five years. Further, unlike China, it had managed to keep inflation below 10 per cent at all times. A lot of Southeast Asian and Japanese firms (including Sony) have also invested liberally in Indonesia. In 1995 alone, Indonesia attracted foreign investment commitments of US $29 billion, almost double the previous year's total investments. 84

Similarly, after years of high inflation, protectionism and debt problems, the climate changed in the Philippines in the early 1990s. In the months following his election in 1992, President Fidel Ramos made major efforts in removing long-standing trade and investment restrictions to help restore investor confidence and lead his country into the next century. Initial signs were promising. Economic growth in 1994 was 4.8 per cent and the FDI flows up to 195 per cent throughout 1993-94. These gains were not been lost on the country's traditional providers of financial support. The IMF revived long-stalled discussions on a new economic programme and approved a medium-term credit worth nearly $685 million in June 1994. This was done to promote a growth-oriented programme designed to propel the economy towards double-digit annual growth rates before the turn of this century. Subsequently, the Paris Club of official creditors and the World Bank also pledged substantial financial aid to Philippines through 1995. Consequently, several efforts have been made by the country's leadership to substantially reduce the large fiscal deficits, interest rates, and inflation. 85
Thailand must rank as one of the quietest success stories of Southeast Asia. With steady, if less spectacular, growth rates than some of its neighbours, it overtook Indonesia and the Philippines on the road to industrialisation. With a more enlightened leadership and a complex political system, Thailand managed to waste less in corruption and to rely more on technocratic skills. By the late 1980s, Japan had helped Thailand to emerge as one of the leading NICs of the region. The profile of Thai trade in the past three decades has also been remarkably constant. Japan, of course, remains the main trade partner, followed by America, Western Europe and other ASEAN members.

Burma also emerged as a hot-spot for investors in the early 1990s despite the military junta and concerns about human rights abuse and narcotics. Foreign direct investment mushroomed by more than ten times since 1992, when economic reforms began in earnest, to $2.6 billion in 1994. GDP growth was 6 per cent in 1996, and expected to rise significantly. The showcase investment was a $1 billion natural-gas pipeline, built by France and America in partnership. When it opened in 1997, it promised to bring in $400 million annually, enough to wipe out Burma's current-account deficit. A major spokesman for a major Japanese trading company remarked, "There is great potential of economic growth and we don't want to be late for the bus! The location of Myanmar could make a great base for distribution and transportation. It can connect China with other countries in Indo-china as well as Singapore". 86

Thus until the mid-nineties, the ASEAN economies grew rapidly (except for the Philippines) - thereby earning the title of "High Performing Asian Economies" from the World Bank. But following the so-called 'great Southeast Asian currency slide' beginning in the summer of 1997, the entire region has been plunged into a deep economic crisis. The currency catastrophe that began in Thailand, spread to the entire Southeast Asia, sending stock markets crashing and lowering profits for all companies that had invested in the region. A whole lot of complex theories have emerged to explain the problem and several gloomy predictions for the region have followed ever since. According to an interview with Kawai Masahiro, the World Bank's chief economist for East Asia, the region is likely to recover in three to five years though it won't be to the growth rates of the past ten years or so. Singapore, the least affected by the crisis, is likely to experience a drop in its growth rate of 7.8 per cent in 1997, to 2-3 per cent in 1998. In the Philippines, the growth rate of 5.1 per cent in 1997 is likely to fall to 1-2 per cent in 1998. Malaysia, with a growth rate of 7.8 per cent in 1997, may experience zero or even negative growth in the months to come. Some other countries like Indonesia are said to have been even worse-hit while financial restructuring is badly needed in hitherto prospering economies like South Korea. Most economists have also lowered their 1998 growth forecasts for several major Southeast Asian countries as the effects of the currency turmoil in the region still reverberate. 87 It now remains to be seen how the ASEAN members, famous for their tenacity and co-operation in times of regional jeopardy, will overcome this economic blow, perhaps one of the most serious one dealt to them in history.

The events of recent months could also lead to new strategic alliances and power configurations in the region. For instance, America's early muted response to the Southeast Asian financial crisis - there was no Mexico-style bailout offer or other substantial pledges of aid - created much resentment against the superpower in the region and was seen as a step towards nudging the ASEAN members closer to Japan and China. As was echoed in the sentiments expressed by
Karim Raslan, a Malaysian political commentator and corporate lawyer in Kuala Lumpur, ‘Americans mustn’t forget that the Asia-Pacific region is their largest trading partner. You do not neglect a part of the world which is your largest trading partner’. On its part, America has already made considerable contributions to the region through the IMF, but these are always accompanied by relentless pounding on the need for painful economic reforms. U.S. Treasury Secretary, Robert Rubin made it clear in early October 1997 itself that the U.S. policy towards the Southeast Asian crisis was not likely to change any time soon. He offered support for these troubled economies but added that ‘The countries themselves have to establish sound policy regimes’. Washington’s muted response contrasts sharply with moves by other Asian countries to help out, both with cash up front and soothing symbolic gestures. Both Japan and China have made enormous financial concessions to the region since the intensity of the crisis hit home. Even within the ASEAN grouping, the better-off countries such as Singapore have made generous contributions towards the more seriously affected members. 88 Thus, even in the midst of such an unprecedented economic crisis, the ASEAN once again demonstrated its ability to survive, primarily through mutual co-operation and assistance.

According to recent reports on the world economy, it has been said that even as Russia and Latin America are beginning to crumble under their respective financial woes, there are more hopeful signs form most parts of Southeast Asia. Although in terms of the American dollar, Asian exports have stagnated or even fallen over the past year, in terms of volume the performance is far stronger. In South Korea, Thailand and even Indonesia, all of which suffered big currency devaluations, the volume of exports has risen by 20-30% over the past one year. This suggests that those much-criticised devaluations are doing just what they were meant to. Indeed, the increase in export volume is roughly the same as Mexico’s in the year following its devaluation at the end of 1994 - and the world economy was then much stronger. At the macro-economic level, rising export volumes are expected to help to prop up output and jobs in Southeast Asia. J.P. Morgan, an American bank, reckons that this could lay the foundation for recovery next year; it forecasts modest growth of around 2.5% in both Thailand and South Korea in 1999, after a fall in output of around 6% this year. Already the export recovery, combined with a sharp cut in imports as domestic demand has slumped, has brought about a huge improvement in some current-account balances of the Southeast Asian economies. The dramatic turnaround in trade balances, combined with loans from the International Monetary Fund (IMF) and a cautious resumption of private capital inflows has also allowed some governments to start rebuilding foreign reserves. South Korea’s, for example, have risen from a low of $5 billion in mid-December 1997 to a record high of $41 billion in June 1998. Thanks to such factors, some currencies in Southeast Asia now appear to be stabilising. At the same time, lower interest rates and stronger exports suggest that the worst pain may be over in many parts of the region. Thus, the resilience of Southeast Asia in economic terms has been proven yet again. 89

Like other regions of the world, South Asia too can learn from the mistakes that led to this stunning Southeast Asian financial meltdown. But on several other scores, South Asia has a lot of catching up to do if it wants to even remotely emulate the previous successes of the ASEAN members. The subsequent pages highlight the stark contrast between these two neighbours, based on pre-1997 statistics - which, though not entirely up-to-date, do recount the East Asian miracle at its best.
To elaborate the differences, some of the salient features of the economies of ASEAN and South Asian countries are discussed here. While the population of South Asia is about 3.4 times that of ASEAN, the latter's GDP is about 11 per cent higher than that of the former. This, of course, is reflected in the much higher per capita GNP levels of the ASEAN countries. Even the highest per capita GNP among the South Asian countries that of Pakistan at US $350 -is only two-thirds of the lowest per capita GNP among the ASEAN countries - that of Indonesia at US $530. Moreover, growth rates, whether of real GNP or of GNP per capita, of the South Asian countries are much lower than those of ASEAN, thus implying a widening of income differentials in absolute terms. Further, there has been a much greater level of participation in international trade and much greater export orientation by the ASEAN countries compared to South Asia. For instance, in 1981, ASEAN's shares of world exports and imports were 3.64 and 3.75 per cent respectively; while the corresponding figures for South Asia were only 0.69 and 1.32 per cent respectively. South Asia also inheres more regional trade imbalances and adverse terms of trade than ASEAN. Substantially higher foreign investments in ASEAN as compared to South Asia have also alleviated the balance of payments and deficit problems of the former. This also explains a part of the hypothesis of this research which contends that South Asia has a significantly more conflictual environment than ASEAN which reduces the interest of global powers in South Asia and as a consequence, leads them to the more conducive politico-economic circumstances of neighbouring ASEAN countries.

As far as trade is concerned, the ASEAN market is of greater importance to South Asian countries than vice versa. Among the countries of South Asia, India and Pakistan together account for three-quarters of total South Asian exports to ASEAN. Even among the ASEAN countries, the South Asian market is of some importance to Singapore and Malaysia because between them, they account for 85 per cent of total ASEAN exports to South Asia. As far as imports are concerned, those from ASEAN are of moderate importance to South Asia but South Asian imports are of negligible importance to ASEAN. The trade balance, which was generally in favour of South Asian countries in the early seventies, is now substantially in ASEAN's favour, especially Singapore. Energy, cooking oil and several manufactured items dominate ASEAN's exports to South Asia and hence, it is necessary for the latter to improve ties with ASEAN. Among the South Asian countries, only India, and among the ASEAN countries, only Singapore have substantial investment in joint ventures in the countries of the other region. Sri Lanka, and to a considerably smaller extent, Pakistan, also have some equity investments in ASEAN. A major portion of India's global investments are in the ASEAN region in a wide range of areas such as computers, cement, textiles, paper and pulp, office furniture, precision tools and so on. Indian joint ventures however, have had their share of problems in ASEAN, particularly in Malaysia and Indonesia. The more open environment of ASEAN demands different business strategies from the relatively less open South Asian environment. Moreover, in Indian joint ventures, the Indian partners are usually found to have a minority share. While in both regions the role of government has been quite extensive, it would appear that the approach of the ASEAN governments has been more technocratic and result- oriented than in the case of South Asia. Other significant relations consist of manpower and tourist flows between the two regions and the operation of financial institutions. All this suggests that economic relations between ASEAN and South Asia are multi-faceted and generally in the favour of the former. Since it is South Asia that has a substantial current account deficit with ASEAN, it is these countries which would need to make the greater effort to understand and adapt to the business environment of ASEAN. While
there are some signs that this is being done, the success of South Asian countries is far from satisfactory. It also appears that ASEAN firms need to make greater attempts to adapt to the South Asian domestic environment, specially if greater number of joint-ventures are contemplated in the future. Problems of adjustment are also aggravated by inadequate, and relatively expensive shipping and other infrastructural services between the two regions. This is even more relevant when perishable goods are involved. The efficiency of infrastructure within many South Asian countries also needs to be improved and brought up to ASEAN standards.

As regards other indicators of general well-being, by 1992, life expectancy in East and Southeast Asia, and the Pacific region was nearly 85 per cent that in most industrial countries. Infant mortality in East Asia declined by 70 per cent in 1960-92 from 146 per thousand live births to 42. During the same period of time, fertility rates declined more in East and Southeast Asia than in the rest of the world. Again during 1960-91, the tertiary enrolment ratio in Southeast Asia and the Pacific quadrupled - from 4 per cent in 1960 to 16.1 per cent in 1991. This can be contrasted with the 380 million people in South Asia who are still illiterate. As it is, South Asia's adult illiteracy is lower than that of any other region of the world. At 43 per cent, the share of women in the labour force in East Asia is much higher than that in other industrial countries. The 19 per cent female representation in parliaments in East Asia is 1.6 times higher than that in the industrialised world. Whereas in South Asia, there are fewer women per 100 men than in any other region of the world, defying the natural sex ratio. Out of the existing female population in South Asia, about two-thirds of adult women are illiterate and it is also the only region in the world where female life expectancy is lower than male life expectancy. In Southeast Asia and the Pacific between 1965 and 1991, energy use per US $100 of GDP declined by three-fourths, from 137 kilograms of oil equivalent to 37 kilograms only. In the past twenty-five years, according to the World Bank, average living standards in East Asia and the Pacific have nearly quadrupled. This can again be contrasted with the South Asian scenario wherein about 300 million people do not have enough to eat, 280 million lack access to safe water, and more than 800 million have no access to even basic sanitation. South Asia is also home to more than 560 million poor people, nearly half the world's poor population! Whereas in Southeast Asia, since 1968, the number of people living in poverty has fallen by more than 1 per cent a year, while the region's population has expanded by 2 per cent annually. Today, only 10 per cent of East Asia's people have inadequate nutrition and shelter.

The table on the following page also reveals in a nutshell, the vast gap in patterns of development in the two regions.
Table 2.4: South Asia Compared with East Asia, 1993

<table>
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<tr>
<th>General Indicators</th>
<th>South Asia</th>
<th>East Asia (excl. China)</th>
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<tr>
<td>GDP per capita (PPP $)</td>
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<tr>
<td>Life expectancy (years)</td>
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<td>71</td>
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<tr>
<td>Adult literacy (%)</td>
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<td>98</td>
</tr>
<tr>
<td>Infant mortality rate</td>
<td>85</td>
<td>18</td>
</tr>
<tr>
<td>Public expenditure on health (as % of GDP)</td>
<td>1.4</td>
<td>2.3</td>
</tr>
<tr>
<td>Public expenditure on education (as % of GNP)</td>
<td>3.4</td>
<td>4.3</td>
</tr>
<tr>
<td>Military spending (as % of combined expenditure on health and education)</td>
<td>72</td>
<td>49</td>
</tr>
<tr>
<td>Population growth rate</td>
<td>2.1</td>
<td>1.5</td>
</tr>
<tr>
<td>GNP per capita growth rate</td>
<td>2.9</td>
<td>7.5</td>
</tr>
</tbody>
</table>

A country-wise comparative tabulation also follows as: 94

Table 2.5: Country-wise Comparison of Indicators of Progress in South Asia and Southeast Asia

<table>
<thead>
<tr>
<th>1995 Indicators</th>
<th>Percent w/access to safe drinking water</th>
<th>Infant deaths per 1,000 births</th>
<th>Adult Illiteracy (Male/Female)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>83%</td>
<td>79</td>
<td>74%/51%</td>
</tr>
<tr>
<td>India</td>
<td>63</td>
<td>68</td>
<td>62/35</td>
</tr>
<tr>
<td>Pakistan</td>
<td>60</td>
<td>90</td>
<td>76/50</td>
</tr>
<tr>
<td>China</td>
<td>83</td>
<td>34</td>
<td>27/10</td>
</tr>
<tr>
<td>Indonesia</td>
<td>63</td>
<td>51</td>
<td>22/10</td>
</tr>
<tr>
<td>Philippines</td>
<td>84</td>
<td>39</td>
<td>6/5</td>
</tr>
<tr>
<td>Thailand</td>
<td>81</td>
<td>35</td>
<td>8/**</td>
</tr>
<tr>
<td>Malaysia</td>
<td>90</td>
<td>12</td>
<td>22/11</td>
</tr>
<tr>
<td>Japan</td>
<td>95</td>
<td>4</td>
<td>*<em>/</em></td>
</tr>
</tbody>
</table>

Continuing in this vein, a comparative analysis of the GDPs of India and the Southeast Asian countries follows overleaf. 95
Table 2.6: Comparative GDP rates of India and Southeast Asian countries (in per cent)

<table>
<thead>
<tr>
<th>Country</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>4.3</td>
<td>5.0</td>
</tr>
<tr>
<td>China</td>
<td>11.3</td>
<td>9.9</td>
</tr>
<tr>
<td>Singapore</td>
<td>10.2</td>
<td>8.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>8.8</td>
<td>8.5</td>
</tr>
<tr>
<td>Thailand</td>
<td>8.1</td>
<td>8.5</td>
</tr>
<tr>
<td>South Korea</td>
<td>7.9</td>
<td>7.4</td>
</tr>
<tr>
<td>Taiwan</td>
<td>6.2</td>
<td>6.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>6.3</td>
<td>6.2</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>5.7</td>
<td>6.0</td>
</tr>
</tbody>
</table>

These figures can also be compared with America's GDP of 4.0 per cent in 1994 and 2.7 per cent in 1995 respectively.

Though China falls outside the official scope of the ASEAN and Southeast Asia in general, it would be useful to include it briefly in this section as well. For the simple reason that with over a billion people and the world's highest growth rates, China simply cannot be ignored. From the specific viewpoint of this research, a comparison of China and India is logical since both these countries are said to share so much in common - geographical vastness, overpopulation, agricultural base, almost similar economic development paradigms, etc.

Following a brief period of isolation after the Tiananmen Square incident, there have been significant improvements in living standards and industrialisation in China. In fact, thousands of foreign firms have been scrambling to gain a foothold in China since the early 1990s - despite some of the persisting political uncertainties. In 1993 alone, foreign firms invested over $11 billion in the once-secluded economy of the People's Republic. This compares with only about $12 billion foreign investment in the entire previous decade! Since former leader Deng Xiaoping first launched China on the road to reform in 1978, its economy has been growing at roughly 9 per cent per year. China's foreign trade stood at $40 billion in 1980 when Xiaoping asked all the departments, provinces and economic arenas to quadruple production by the turn of the century. This quadrupling target was crossed nine years ahead of schedule when in 1991, China's foreign trade reached $165.5 billion. Says economist Lawrence B. Krause in a report issued by the Pacific Economic Co-operative Council, "Even Australia and the United States find China the fastest growing market of any size". The German Business Association has also identified China and Vietnam as the most promising economies in Asia. 96

Furthermore, a brief comparison of the developmental efforts of China and India follows. While the former started economic reforms in 1978, the latter initiated them in 1991, after witnessing serious macro-economic imbalances. The current Chinese foreign trade figure is $250 a year of which India shares only one billion. The following table highlights certain other contrasts between China and India. 97
China and India collectively accommodate about 37.4 per cent of the world population on 9.6 per cent of the world mass. They generate 3.3 per cent of the global GDP and their exports and imports together constitute about 2.5 per cent of the global exports and imports. However, the table given above clearly indicates that China has performed much better than India in terms of economic development. Hence, India would be well-advised to learn from the Chinese experience, specially since both countries share so many similarities.

The arguments put forward in this chapter show that South Asia inheres several economic problems causing neglect of the welfare of its immense populace. This fact is inextricably connected with inadequate levels of order, and legitimacy in the countries comprising this region. The persistence of economic crises and half-hearted attempts at development and reforms, have created misgivings on the part of the global economic powers as regards the viability of South Asia. The fragility of South Asia has also contrasted sharply with the robust progress made by the neighbouring region composed of ASEAN members and other Pacific countries. Subsequently, the economic powers have tended to devote greater attention by way of investments (and other forms of approval) to Southeast Asia. Similar trends are also seen in the security issues concerning the global elites, South Asia and Southeast Asia. These are tackled in detail in the next chapter.

Table 2.6: Indicators of Development in China and India

<table>
<thead>
<tr>
<th>Development Indicators</th>
<th>China</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (mid-1993), million</td>
<td>1178.4</td>
<td>898.2</td>
</tr>
<tr>
<td>Population growth (1980-93), average annual % growth</td>
<td>1.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Adult literacy (1992), %</td>
<td>79.3</td>
<td>49.9</td>
</tr>
<tr>
<td>Female literacy</td>
<td>62.0</td>
<td>34.0</td>
</tr>
<tr>
<td>Total labour force (1993), million</td>
<td>707.0</td>
<td>341.0</td>
</tr>
<tr>
<td>People in poverty in rural areas (1990), %</td>
<td>12.0</td>
<td>49.0</td>
</tr>
<tr>
<td>Income, GNP per capita (1993), dollars</td>
<td>490.0</td>
<td>300.0</td>
</tr>
<tr>
<td>Income growth (1980-93), avg. annual % of GNP per capita</td>
<td>8.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Agricultural growth rate (1980-93), avg. annual %</td>
<td>5.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Industrial growth rate (1980-93), avg. annual %</td>
<td>11.5</td>
<td>6.2</td>
</tr>
<tr>
<td>Inflation (1980-93), avg. annual % rate</td>
<td>7.0</td>
<td>8.7</td>
</tr>
<tr>
<td>Exports (1993), million dollars</td>
<td>91,774.0</td>
<td>21,553.0</td>
</tr>
<tr>
<td>Exports growth (1980-93), avg. annual % growth rate</td>
<td>11.5</td>
<td>7.7</td>
</tr>
<tr>
<td>External debt as % of GNP (1993)</td>
<td>18.0</td>
<td>29.1</td>
</tr>
<tr>
<td>Net FDI (1993), million dollars</td>
<td>25,800.0</td>
<td>273.0</td>
</tr>
</tbody>
</table>
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